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RETHINKING THE ROLE OF GOVERNMENT IN THE ECONOMY OF THE 21ST CENTURY:
ANALYSIS BASED ON TRADITIONAL STATE PROGRAMS

The paper offers the author’s view of the new role of the government in the economy of the
21st century, which is due to the fact that the former and current models of cooperation between
the government and the market are unable to overcome regular “market failures” and “government
failures”. After reviewing the modern literature and relying on Richard Thaler’s economic theory of
“behavioral nudges”, the author critically considers the possibility of replacing a part of state social
programs with alternative sources programs. The author has come to a conclusion that the state
should be considered as a subject with greater autonomy than it has today and that performs certain
functions as well as uses the financial resources available to it. In the near future, other tools besides
taxes and government budget expenditures will be of greater significance; they are regulation tools,
first of all. It is much closer to the role the 20th century government had. However, this role will be
of a different kind. Nevertheless, regulation will be aimed at helping people and ensuring their right
without forcing services.

Keywords: role of the government; new role; state programs; public inquiries; service state;
service-oriented state; self-regulation.

Problem statement. In the economic sciences and the science of public
administration, the issue of role of the government in the economy of its country is
and probably will be the most rampant one. What are the political and ideological
boundaries of this role? What can and should the government do, and what can
and should the market, people and communities do? Which tools should be used
and how?

The government uses various regulation tools and mechanisms to fulfill its
functions. They are using state assets while being their owner, taxes, subsidies
for some activities and social groups, etc. Governments borrow and lend on behalf
of their people, regulate people’s and companies’ activities, create money and use
profit from money issuance. The government allows or prohibits some activities,
confirms professional qualification of people performing certain functions, such as
doctors, air pilots and lawyers. Although the government functions are considered
necessary and valuable, some of them raise numerous doubts as they may seem
needless or even such that harm some people given the low accountability of
public officers and quality of their work. Some of the functions could be delegated
to the market, which can provide the same services at lower prices with the right
control. What should the government become like then?

Review of recent papers. Following the tradition, the authors of modern
economic textbooks [20; 27; 28] point out that government intervention in the
economy can be justified in case of “market failures”, which are in fact rather
common. The theories in the 20th century evolved around this very rule. It is possible
that they increased government expenditures every year in any country guided
by this principle, since new “market failures” were discovered all the time [30].
However, even though this principle is true, it does not work in some cases. For example: 1) it does not take into account the impact of current government intervention on the future situation in private markets [11]; 2) this principle considers a “market failure” as a static state rather than a result of inertia or dynamics of changes caused by the government impact; 3) “market failures” are defined purely in a technical way on the basis of their existence, though for many people they may have a broader sense and survival possibilities; 4) it does not take into account that government intervention in the economic activity and attempts to replace a market often result in occurrence of government monopoly in the field or area the government intervenes in.

The purpose of this paper is to theoretically substantiate the approach to further rethinking of the new role of government in the economy of the 21st century using the method of rethinking of traditional government programs for social security.

Statement of basic materials. If we keep applying the logic of “market failures”, we should admit that the need in government regulation will not be constant [35]. Private markets grow and change continually, even if their government regulation remains the same, and that allows markets to meet the needs of an increasing number of people. Consequently, it requires changing in the forms of government intervention as well, which may result in inequality that is greater than that, as most people think, the government must eliminate. On the one hand, today, the competitive market is similar to a live “ecosystem” with constant and imperfect internal processes of self-regulation and adaptation. It must be acknowledged that digital technologies, new governance methods, mutual integration of economies and other changes significantly influenced the ability of markets to meet the needs of people and businesses. On the other hand, having become more flexible and complex, markets also became less just - the weak will get less, while the strong will get even more new opportunities. This means that if the government decides to define new justice beacons, in terms of higher social standards, on markets and will stop replacing them with itself due to the above-mentioned “market failures”, such a government will be able to make less efforts for raising taxes and more of them for providing services. This refers to public services, defense, law enforcement and some other public goods only the government can provide. The society just will not entrust these functions with anyone else. However, even in that case the issue of what a just market is will not be solved completely - as most people are informed differently and stereotyped in terms of their attitude to the government, they can still consider the outcomes of even the most effective market unjust at least in respect to them. This is the very reason why the government is still regulating markets even in the most liberal economies, raising huge taxes and then financing hundreds of state programs.

Almost all the 20th century, especially 1980s and 1990s, were a time of soaring government expenditures in almost all areas - from pensions and unemployment security to the nuclear arms race. It should be noted that most of those new obligations were related to certain social groups as a whole, not only to the poor. That being said, in the beginning of the 20th century, the government spent almost nothing on such programs. Consequently, in many countries, the government replaced markets and private activity with itself reasoning that it was for the sake of public interest protection. As a result, people started treating it as a common thing the government is obliged to do. By taking away from one person and giving
to another, the government at least made that another person loyal, which was backed by propaganda and falsifying information at different stages of its analysis and public sharing.

People usually see only benefits from large government expenditures, but they do not think about the price it all takes, which is high taxes, populism and irresponsibility of politicians, ineffective state programs, state statistics manipulations, etc. Using free or almost free government services, people by default think that they are in an advantageous position and the government is obliged to provide these services to them. The behavioral economics has proved [3] how hard it is to refuse something given by the government “for free” without thinking of the true price of such “free” goods.

In the last decades, especially while getting over the economic crises of 2008–2009 and 2020, the government has been undertaking more and more functions and obligations, for which purpose it needs more financial resources than before. That is why rates of main taxes went up with a jump and it still was not enough. Besides taxes, the government gets the required resources through the state debt as well (bonds, credits and macro aid from the International Monetary Fund). Moreover, it is a common global trend now that tax systems are being reformed towards introducing new productive taxes easily administrated by the government (progressive income tax, value added tax and unified social tax), which is encouraged by currently popular liberal sentiments. One can recall Joe Biden’s intention to cancel Donald Trump’s reduction of taxes [6] in the midst of 2020 pandemic.

What is making the government to rethink its role in economy? First of all, it is two points, which are not always taken into account [29], but are easy-to-understand for politicians. First, ordinary people are often short-sighted and therefore easily controlled by political leaders. Traditionally, people rely on someone stronger and more organized – they usually do nothing to protect themselves from economic risks by, for example, saving for their pension on their own, having “smart savings” in case of illness or unemployment, etc. Second, it is thought that private organizations, including charitable and religious ones, cannot meet people’s material needs, even if they wanted to, since the government is considered to be better at this. It has been strengthening the wide paternalistic and much more diverse role of the government in economy for centuries. We are witnessing this now as well. Multiply grown taxes distributed among state programs have essentially turned the state into a large insurance company and a social intermediary for its citizens. Citizens pay insurance premiums in the form of high taxes of this, in fact, insurance company, and get free or subsided government services in return.

However, due to the above-mentioned reasons, people poorly understand the connection between taxes paid (price) and services used (benefits), and it creates a stable illusion that they use free public services or services with zero expenditures. For some people, for example, entrepreneurs, this connection has been and still is very close and deliberate, while for most people it is not obvious.

Can the government play any other role in the future economy? Definitely, yes. However, Kenneth Arrow said that it is wrong to narrow all collective actions down to the state’s actions [3]. Whole nations and communities (for example, people of China, the medieval Holy Roman Empire, Kievan Rus, etc.) had been for centuries practicing what the government then took upon itself - people insured themselves against economic risks by paying more attention to family relations,
having bigger families, saving part of their income in times when thrift was considered an important virtue as well as by spontaneously creating collective networks of mutual aid. It is strange how in the modern society a good credit rating is considered a more valuable asset than having no debts.

There are many works of different historians and sociologists that show how people used to create their own private mutual aid programs by themselves, which provided quite a proper (given low income at that time) social assistance in a number of areas. Such programs preceded the period when the state started building up its programs of massive intervention in economy. Almost 200 years ago, when visiting America, French aristocrat and scientist Alexis de Tocqueville paid special attention to what an important role voluntary associations played in the American society: churches, local groups, fellowships and civil organizations on their own did things for themselves that other communities only waited from their governments and elites to do [37, p. 3]. In case volunteer actions do not allow meeting the needs, the government gets an excuse for intervention [24]. Other authors mentioned similar initiatives in Sweden [22, p. 9], where before the government started its intervention, trade unions and other workers’ organizations created mutual aid associations with voluntary membership, as well as in Germany [23], and Italy [21].

When state programs began to emerge, their private analogues started to be gradually replaced, sometimes even using statutory bans. The main reason of this is competition for having influence in the country as well as for justifying one’s right to raise more taxes. In time, people have realized that if the government undertook the responsibility for providing medical services and social protection, they are no longer required to provide help to others. Today, being in the midst of COVID-19 pandemic, we can see a global challenge and a threat to all mankind in it as state medical systems in different countries cannot handle the effect and aftermath of the coronavirus, while state pension and other social protection systems experience great shortage of resources. These problems cannot be solved using old methods anymore. It should be admitted that as the state programs have built up, the common average guarantees of social protection have grown as well, while there is now less social, mutual responsibility among people, and a part of former social capital (i.e. social relations ties and trust) has been destroyed. Ariely has pointed out that people perform social activities more effectively, if they follow social norms rather than implement state programs [2].

Let us conduct a logical experiment: what happens if they cancel numerous state programs of social assistance, financing of which requires high taxes? We will disregard any political risks and protests, problems of many years of transition period, cultural and behavioral traditions, social “apocalypse” risks, etc.

Thus, cancelling the above-mentioned state programs will definitely lead to a massive reduction of government expenditures, which will result in reduced taxes as well - the further, the more. This in turn will result in increased actual and expected (i.e. after taxing) income of all working people. Higher income will allow and the need not satisfied by the government will force many of them to use more resources to buy at the domestic market and, probably, external markets some economic risk protection services (pensions, allowances) they used to get from the government, and in fact, purchased for the taxes paid. We can safely assume that the market will be able to provide most of those services.

However, many people (e.g. the disabled and the elderly) may be not able to pay for and regularly use such services. All this caused these groups being in the
spotlight – justice is important for everyone, regardless of their welfare. In this case, the government has two options:

1) not to intervene allowing people to decide what to do with their money at their own discretion, while placing a burden of caring about the elderly and those who live below the poverty line on their families as well as on local communities, like they did before the beginning of the 20th century. In this situation, the government either takes most people as concerned citizens or accepts that people will take all the responsibility, in which case even the moral right of the government to ask for more taxes will be minimized. The absolute freedom of citizens (to be responsible or irresponsible) will be kept [13]. The only principle that can be applied in this case is the following “golden rule”: “I will not stand in your way if you do not stand in mine, and I am solely responsible for my actions” [25]. That would be a strict world conservative economists and medieval protestant philosophers as well as may US citizens would like to see. However, such a model has not been implemented anywhere in the world yet;

2) or impose some restrictions to the use of such additional income (money saved from paying taxes) to achieve the same goals in terms of social justice using other, indirect methods, as if state programs were used. This is neither more nor less than new regulation that additionally controls the government’s responsibility in respect of the market in order to guarantee that service providers observe the socially acceptable rules and markets function as effectively and transparently as possible. In this case, the government chooses the “paternalistic approach” while encouraging or even demanding from people to buy services directly on the market using their own resources (or, if highly needed, using resources the poorest people get from the government or public organizations). It also provides some protection against economic risks and poverty, which used to be ensured by taxes paid. In this case, the government does not change the goal of its intervention in economy, but only the means to achieve it. According to the findings of behavioral economics research [2; 7; 32; 31], some people act irrationally having the absolute freedom of choice. Moreover, many people would not mind being slightly “nudged” [5] to some decisions and actions in the spirit of “libertarian paternalism” [24] seeing that without being guided or forced by someone, they will make dangerous or wrong decisions, while putting up with their personal freedom being curtailed. Therefore, you can make people act more rationally, if you nudge or force them to do so.

The strategy of behavioral “nudging” is not new in public administration. Thus, governments of many countries have been applying it for a long time now demanding from their citizens to buy vehicle insurance and to have their vehicles inspected, to install fire alarm in houses and offices, to fasten seatbelts (or to put crash helmets on), not to use mobile phones when driving, not to smoke in public places, to pay more for cigarettes, to get vaccinated, to live in inspected buildings, to go to school until certain age, to drop litter in special containers, to save money on special pension accounts, etc. [14; 8]. All of the above are examples of the government’s paternalistic approach in the areas, where it does not have to incur expenditures from its budget. That is, the paternalistic approach to solving certain problems is often used as an alternative to state programs, which required budgetary funding before.

There is no doubt that if the government refuses its quasi-monopoly in some areas (pensions, health care and education), private businesses will soon find alternatives in the age of globalization and digital technologies, which happened after the government had refused the monopoly of air transportation, alcohol
production, wire communication and other services. Some of these services may be rendered by foreign providers and at lower prices. It is evidenced by an increasing number of the so-called “Skype-Zoomers” [16] working remotely during the COVID-19 pandemic and minimizing their personal contacts with the outer world.

However, it is already time for governments to define their own, a different behavior model. It should be characterized by more effective actions, for example, prevention of monopolistic collusions and control over greater transparency of service providers, a clearer motivation for expenditure substantiation, which relates, first of all, to state corporations and their unreasonably high salaries. The modern scientific literature offers two most promising models of the future role of government in the 21st century. They are:

– playmaker model, which includes mechanisms for shaping the society’s stances and value systems of a strong state [1; 10, p. 179–181];
– model of service (or service-oriented) state [36; 26; 15; 9; 17].

They do not contradict each other form the ideological point of view – they criticize old approaches to implementing state power, lay emphasis on a “plainer world” (non-hierarchic), but build a concept of future changes in public administration somewhat differently taking into account the historical and cultural traditions of countries, where such changes are expected (for short, the “western” and the “eastern” ones). Without considering in detail such theoretical state models, we should note that scientists, including supporters of the above two models, admit that digital technologies and radical political events change markets, both domestic and international. As a result, markets are no longer heavily controlled by the government, engage millions of new users and become more effective. However, the government having no control over markets is out of the question - we believe that full self-regulation of markets is not possible yet.

Regulation of services, for example, of some financial services and transactions with distributed ledger virtual assets [19], should cover international markets as well. Development of private alternatives does not mean that the government will become a passive onlooker relying on the “invisible hand of the market”. On the contrary, the government needs a new role and new political arguments and tools for it. For example, people need guarantees that the information they have access to is true, they also need it to be easier to access and of better quality in order to make right decisions. People need accessible tools for transparent accounting of rights and property, which will make this property more liquid, give it “a second wind” and create a new concept of circulation of such property for pledges, investments, etc. People need a greater exercise of their right to use and manage information, which can be ensured by using digital assets [18] and blockchain-based information platforms. It is known that this aspect of the government’s regulatory function was paid little attention to in the past. All the regulatory attention was focused on “market failures” before, i.e. on replacing private with governmental, and now it has to focus on adjusting markets themselves: without making the current functioning rules more complicated, but, on the contrary, making them clearer and easier at least through having no intermediaries, achieve more transparency and accuracy of the information about them.

New government strategies are also required for disadvantaged groups and those who cannot work. How to guarantee them simple social security solutions and finance, which will allow them to easily get vital services on the market that they used to get from the government for free or almost for free? It can be achieved
by using various vouchers, “smart” contracts and prepaid blockchain-based cards like, for example, in modern Finland [12, p. 144-151]. Therefore, instead of rendering expensive universal services accessible to all people with any income, the government will start providing targeted financial help (probably, from special-purpose funds).

Lastly, the government may return to the previously utopian idea of “universal basic income” to try to make people have equal opportunities of learning and mastering professions as well as to enhance the working motivation. Some mechanisms of ensuring such an income are being discussed in the world (for example, royalty interest in Alaska [33], non-repayable government subsidy for two thousand unemployed in Finland [34]). We believe that infinite resources for this lie in re-evaluation of intellectual property in every country and giving it a new value, but that is a different paradigm of public administration.

Conclusions. There are no perfect conditions in the real world, when a delegated right (from people to the state) is exercised fully for the benefit of those who delegated it, and flawless self-regulation mechanisms harmonize interests of the society and economic agents. For this reason, the state should be considered as a subject with greater autonomy than it has today, which performs certain functions and uses financial resources allocated to it. Without keeping to any theoretical model of future state, it should be noted that in the near future, other tools besides taxes and government budget expenditures will be of greater significance; they are regulation tools, first of all. It is much closer to the role the 20th century government had. However, this role will be of a different kind. Given the above, it will hardly be possible to quickly and significantly reduce government expenditures without any political disruptions. Nevertheless, regulation will be aimed at helping people and ensuring their right without forcing services rather than some privileged groups of entrepreneurs or corrupted politicians having extra benefits. However, there are no certain predictions now about which role of the government will become successful not only from the ideological, political and socioeconomic points of view, but from the point of view of security. One should also realize the following: survival of market economies, emergence and development of new markets, the efficiency of which will facilitate solving numerous global problems, depend on how the role of government changes.

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ПЕРЕОСМИСЛЕННЯ РОЛІ УРЯДУ В ЕКОНОМІЦІ 21 СТОЛІТТЯ: АНАЛІЗ НА ОСНОВІ ТРАДИЦІЙНИХ ДЕРЖАВНИХ ПРОГРАМ

Стаття пропонує авторський погляд на нову роль держави в економіці 21 століття, що викликано незадатністю колишніх і нинішніх моделей взаємодії держави і ринку долати регулярні “провали ринку” і “провали держави”. Мета статті – теоретично обґрунтувати підхід до подальшого переосмислення нової сучасної ролі держави, використовуючи прийом перегляду традиційних державних програм в сфері соціального забезпечення. В основу статті покладено припущення, що навіть в умовах почастішання “провалів ринку” роль і межі державного регулювання не будуть незмінними, при цьому визнається, що приватні ринки безперервно розвиваються і відносно швидко змінюються, що дозволяє їм задовольняти все більшого числа людей. В результаті огляду сучасної літератури і ґрунтуючись на економічній теорії Річарда Талера про “поведінкові підштовхування”, автор критично переоцінює можливість заміни частини державних соціальних програм на програми з альтернативних джерел. Автор приходить до висновків, що державу потрібно розглядати як суб’єкт із більшим ступенем автономії, ніж є сьогодні, та який виконує задані функції, а також може замінити частину фінансових ресурсів на інші інструменти, які дають більш ефективні результати.

Ключові слова: роль держави; нова роль; державні програми; суспільні запити; сервісна держава; сервісно-орієнтована держава; саморегулювання.

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