

DISSERTATION TITLE: THE ROLE OF THE STATE
ACCORDING TO THE CLASSICS AND THE NEO-CLASSICS

by

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Introduction

People obey the authority because it is a universal belief that it is the right thing to do and the authority had been granted its power to the state. The state had evolved and changes over time from feudalism to capitalism and from capitalism, to liberalism and socialism as we have seen today. More importantly, the role of the state always one of the main topics that had been taken seriously by many schools of thoughts for discussion from generation to generation in different time, place, and circumstances.

According to the definition, a state is a territory delimited by borders and governed by the law which is specific to it.

From this perspective, we can come up with a question about the important role of the state in a country, scilicet, what are the main roles of the state in society and economy?

To answer this question, we are going to express the role of the state according to the Classical Economy in the first chapter. Then in the second part, we are going to see the role of the state according to the Neo-Classical Economy point of view.

Chapter I: The Role of The State According to The Classical Economy

In the Classical Economy, the main categories of the state had been considered as two types such as the gendarme state introduced by Adam Smith and the welfare state stated by Karl Marx.

The gendarme state is the term introduced by Adam Smith described as the liberal current and could not interfere directly to the economy but it could provide its services that aim to maintain the public order and accomplishment of sovereign missions.

This was explained by Smith that there are some conditions that the state could take into account in order to execute its services such as providing national defence to protect the country from being attacked by other nations. Moreover, the state needs to protect individuals within securing justice. Furthermore, the state shall step in any specific business that enterprises could not earn any profit. Plus, the state needs to build necessary public infrastructures to ensure the means of doing economic activities are reliable and efficient. Besides, the state also needs to make sure that the competition in the market is fair and square. Other than this, it also needs to levy customs duty on imported goods or products that could express the negative affect on the goods in the country. Last but not least interest rate is also a must that the state must be held accountable.

The welfare state is the name stated by Karl Marx described as the interventionist current that aims to extend the scope of the state in the economy and society in order to maintain social order and redistribution of wealth.

In order to achieve these objectives, Karl Marx explained several tools such as fighting against social inequality, maintain social order, distribute a share of wealth equally and bring social justice to society. The role of the welfare state is to be dominant in the field of economy and society in order to give ultimate power to the state to fight against social inequalities in order

to bring the equality to every individual in the society. Moreover, ensuring social order that the state needs to secure a society that remains sufficiently stable to establish coordinated productive and cultural activity. Besides, social justice needs to be focused intensively by the state to assist and give all people in society a fair amount of equality, opportunity, dignity, education, and material resources. Redistribute wealth, the state needs to accomplish by distributing the amounts of wealth that one gets what ones deserve by working for it by her share of labour contributed to the market economy.

The gendarme state and the welfare state that proposed by the two classical economists described the role of the state in two different ways in which interfere indirectly and directly in the economy respectively. However, the ideas proposed by Adam Smith were appeared more favourable to the Neo-Classical Economy and were developed further by many Neo-Classical economists.

Chapter II: The Role of The State According to The Neo-Classical Economy

Neo-Classical School of Thoughts proposed that the role of the state should be framed in accomplishing market equilibrium and allowing optimal functioning of the free market.

In order to reach the market equilibrium, Walras which is one of the main economists in Neo-Classical School suggested that the state doesn't have to interfere in the market economy in order to set the price due to the belief that supply creates its own demand which following the general market equilibrium theory. He also in favour of the homo-economicus for the function of the free market because it enables the right price to be set on the market and also in a balance between buyers and sellers' satisfaction and maximize each and every economic agents' utilities.

However, in order to ensure optimal functioning of the free market, there are several tools that the state could follow such as through regulating the market economy, make sure the rules of the game are equal, and promote free competition. Walras proposed that the role of the state consists mainly in regulating the market economy by fighting against monopolies and directly managing natural monopolies that required high infrastructural costs. He added that state doesn't have to correct natural inequalities but just shifting it on making the rules of the game equalized to everyone. On the other hand, Marshall is in favour of laissez-faire, so he asked the state to promote the free competition in the market because he believes that only the strongest player can survive in the business which in turn could maximize the allocation of resources and optimize everyone utilities.

All in all, the Neo-Classical Economy is inspired by the Classical current and mainly influenced by Adam Smith are not strictly opposed to the state intervention but they believed that it is necessary to limit the level of state intervention to the regulation of the market and other means of necessary strategic tools that support the aim of pursuing equilibrium on the market and optimize the functionality of the free market.