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WHAT SHOULD BE THE ROLE OF THE GOVERNMENT POLICY IN ECONOMIC GROWTH STIMULATION?

The majority of those who were in power during 1990s saw only one possible alternative to Russian economic reforms: total liberalization. The IMF and the World Bank officials who proposed in the late 1980s the number of prescriptions later called as the "Washington Consensus" also thought that the remedy for the countries of Latin America, Africa and Eastern Europe will be a free market economy where the government has to perform only these limited functions: maintaining fiscal discipline, low taxes and a free exchange rate regime, keeping the economy open for foreign direct investments as well for the world trade, conducting privatization and deregulation policies and protecting property rights. However, after the 2008 World Economic Crisis the Washington Consensus was agreed to be dead. In 2011 D. Strauss-Kahn, the managing director of the IMF said: "This all came crashing down with the crisis. The Washington consensus in now behind us". Now it is also clear that reforms of the 1990s did make the Russian economy open but they have not created a set of industries that can be competitive on the world market. We argue that mere liberal reforms are not enough to foster economic growth. The thing that is missing in the current political and economic agenda is the role of government policy in economic development stimulation.

Now economic growth is seen as the key objective for any country. For example, the "G20" in 2014 sets as the main priority for its members "to promote stronger economic growth and employment outcomes". Despite this, the history of economic growth is quite short: only about two centuries ago it became possible to talk about a sustainable rise in GDP in Europe. However, since those times a lot of research has been done to reveal the factors that determine economic growth. According to the neoclassical school, it is technical progress and population

growth rates that are responsible for long-term growth. Later on, scientists came back to the classical idea of A. Smith and paid special attention to the world trade as a factor that contributes to the rise in GDP.

But in the 1990s it was apparent that neither traditional factors, not foreign trade can explain why some countries are showing a boom in production, while others remain poor. Scientists agreed that the economic miracle of four Asian countries (South Korea, Singapore, Malaysia and Hong Kong) can not be attributed to the simple capital and labor accumulation. As well as innovations were not enough to build a model of Asian economic growth.

An institutional revolution appeared to become very helpful in explaining the differences in economic growth rates between countries. An American economist D. North (1981, 1990, and 1997) began a new tradition in economic thought where institutes were seen as the key element of economic development. An institution can be explained as "a system of elements that makes a certain behavior possible and regular and that creates motivation for such a kind of behavior". Thus starting from the 1990s not only purely economic phenomena became a focus of economics but different aspects of social life (cultural, political, religious, etc.). By the date economists have revealed more than four dozens of institutional factors that have a positive correlation with economic growth. Among those factors we would like to stress the following: 1) the level of democracy; 2) political instability; 3) indexes of political rights and freedom; 4) a government system; 5) property rights; 6) trust and 7) social mobility. The institutional revolution had two major implications. First, it stressed again that economic growth is a difficult phenomena that is determined by a large number of factors, some of them are not discovered yet. Second, it made the government a key actor since only the state is able to change some of the institutions that are crucial for economic growth.

Despite one could think that the institutional revolution has made the history of the research on economic growth factors complete – he is mistaken. In 2000s scientists tend to be more agreed upon the fact that it is the government policy that

also plays a crucial role in economic growth. Researchers returned back to the case of Asian countries and saw that the state activity was a driving force of their development, especially in South Korean and Hong Kong.

That is why having made the government policy a focus of scientific studies, now economists are trying to address the following question: what should be a perfect state policy of growth stimulation? An answer seems to be “none”. There is evidence that each country at a certain level of development needs a certain type of economic policy. These policies, that can not be the same for all countries, should combine both institutions creation and selective economic measures.

In this essay we will keep the question about institutions uncovered but will focus on the problem of selective measures. In our research called “The State Policies of Growth Stimulation at Different Stages of Economic Development: the Experience of South Korea” we build a model of the government policy that would fit the needs of an emerging state on each level of its development. The model can be described as follows.

The first stage is called “the beginning of modernization”. At this level of development a country should create an industrial basis for the future economic growth. Here so-called “import externality” is crucial. A country that imports machines and technologies accumulates both capital and knowledge fostering economic growth. Thus, the optimal state policy will be to support importers. The government can use such instruments as subsidies to importers, overvalued real exchange rate, the restriction on ultimate good import, etc.

Next, when the national market becomes too small for domestic production, major companies become interested in foreign trade. Here comes the phase of “an export oriented growth”. At this stage what is important is “export externality”. In order to succeed abroad companies start adopt innovative strategies. That is why the state policy should promote export. The set of support policies can be undervalued exchange rate or subsidies and cheap loans to the main exporters. Moreover, the government should start to decentralize the economy since it is not

only the state but the foreign market as well that is affecting the national production.

On the stage that is called “a developed market” the government continues decentralization and tries to make the economy less concentrated. As the latter is dominated by the large companies it is crucial to conduct policies that support small and medium firms (SMEs). To foster SMEs development is crucial at least for two reasons: 1) for the reason of economy diversification and 2) for the reason of innovations stimulations.

On the last stage of “a developed market” the state can stay less active. It performs those policies that the Washington Consensus prescribed and intervenes the economy only in the time of crisis.

In our research we are testing the economy of South Korea using this model. Korea was chosen as least for two reasons. First, the Republic of Korea has shown an unprecedented success starting from around 67$ per capita in 1953 and ending up with about 23000$ today. Secondly, as South Korea literally grew up on the dashes, the stages of its development can be clearly seen and analyzed.

During our research we have shown that South Korean experience proves the theory of stages where a country should chose a certain policy according to the level of economic development in order to stimulate growth. It seems to us that the main problem for Russia as well as for some other developing countries, our policies usually do not fit the stage of our economic development. Thus, for example, not having implemented the policies of the first phase in the 1990s we hurried up to enter the second one.

To sum up, the government policy as a key factor of economic development is far away from being well studied. That is why inter alia we can see lots of failures of developing countries in economic growth stimulation.