

The impact of state intervention on economic development: the Brazilian and Malaysian experience

Benhergal Tayeb ^{1,*}, Tchiko Faouzi ²

¹ University of Mustapha Stambouli- Mascara (Algeria), t.benhergal@univ-mascara.dz

² University of Mustapha Stambouli- Mascara (Algeria), tchikofaouzi@yahoo.fr

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ABSTRACT

Development can be noticed as the enrichment of individuals' lives by expanding their horizons. Economic development requires a state that can create and regulate the appropriate conditions for development. This article presents the Brazilian experience, during the Lula de Silva era, which made Brazil among the world's economic superpowers. eighth place in 2008, seventh place in 2011. Fighting poverty through the " Bolsa Familia". Moreover the Malaysian experience through the New Economic Policy (NEP), which made the country the fourth largest economy in Southeast Asia, characterized by high standards of living. This has revived the debate about the state's role in development, both among theorists and even international institutions. The World Bank's 1997 report on world development came under the title "The State in the Changing World. For the majority of economists, sociologists or political scientists who have examined the importance of the role of the state in development. the problem is no longer whether the state should intervene or not?, but what is the nature of this intervention? and what are the administrative, economic or legal mechanisms for its action. What were the forms of this involvement, in which sectors? . How does the state relate to society and the market? What autonomy does it enjoy to play a positive economic role? Are the costs of these distortions greater than the increased benefits generated by this public / private cooperation?

1. Introduction

The development economy has evolved greatly since its emergence in the beginning of World War II. Development did not unfold as it was historically envisioned. And the paradoxes still challenge the traditional concept of development.

So, the definitions that spread after the Second World War and until the 1960s were dominated by the economic outlook and were closer to rapid economic growth than to the current concept of development. But the fifties and sixties witnessed developing countries. achieving growth rates close to the desired rate (United Nations Development 6%).

* Corresponding Author : Benhergal Tayeb

Nevertheless, the appearance of poverty, illiteracy, and disease did not disappear. The gap between the social classes expanded, and from here the concept of development changed after Latouche expressed this in what he called the concept explosion. And the transition to a new concept of development was carried out. Away from the predominance of the economic outlook with the beginning of the differentiation and distinction between the terms growth and development. Among the economic thinkers who moved this curve François Perroux, who believes that growth is the continuous increase over a period of time or several long periods of time (each one of these periods consists of several Quasi-original cycles) for the measurement index for a nation, the net gross product, the real meaning is not the rise in the real output of the individual. As for development, he defined it as a combination of mental and social changes for a static, which makes it capable of raising the GDP in a cumulative and sustainable manner. With the passage of time, the concept of development expanded to take on other social, political, cultural and environmental dimensions. It is possible to identify the main stages of development of the theory of development:

- Industrialization, Growth, and Modernization (1944-1961).
- Structural transformation (1960s).
- Strengthening the independence of developing economies (1970s).
- Macroeconomic Stability: The Washington Consensus (1980-2000)
- Development according to goals (2000 - present).

The World Bank indicated in the International Development Report for the year 1991 that the main challenge for development is to improve the quality of life, especially in poor countries. It does not include only an improvement in the level of income, but also goes beyond that to include improving the level of education, health and nutrition as well as maintaining a clean environment. Achieving equality among individuals in providing all opportunities, including expanding freedoms and strengthening capabilities. Which calls into question about the impact of state intervention in the process of economic development? Has the developmental state model proved its success in the process of economic development?.

2. The role of state in the economy development

The development agenda related to the neoclassical economic thought in the 1980s supported the non-interference of countries in the markets and considered state intervention as a disincentive to market activity and development. Therefore, development prescriptions in the 1980s in developing countries were related to the implementation of policies that provide for the minimum participation of states in development processes. Williamson compiled a ten-point list of economic liberalization-related reforms for developing countries in 1989. This list of economic reforms supports “structural adjustment programs” in developing countries which are referred to as the Washington Consensus .. However, the economic programs implemented under the Washington Consensus It did not result in positive changes in the economic performance of most developing countries. Since development challenges have remained unresolved in the developing world after the implementation of economic liberalization programs based on modern classical economic thought, the role of the state and institutions in the economic performance of the post-Washington consensus is being broadly strengthened to improve the economic conditions of developing countries.

The development state is defined as “states whose policy has focused on a sufficient degree of power, independence and the ability to form, pursue and encourage explicit development goals, whether through establishing and strengthening

the conditions and direction of economic growth or by directly organizing it, or changing the group for both (Babayev, 2015)

The economic development requires a state. It can create and regulate the right conditions for development. (Bolesta, 2007)

The Development Report, issued by the World Bank in 1997, was titled "The Important Role of the State in a Changing World". He stressed that the partnership between governments and citizens, cooperation between all segments of society, "good governance" and the ability of states to promote economic development and maintain official institutions are of the utmost importance for development. The report seeks to promote the idea of a "developmental state". With regard to the modern role of government, Stiglitz argues that "ideological debates must end; there must be agreement that while markets are the focus of the economy, governments must play an important role in recent years, Stiglitz has been deeply involved in controversy. The economic development of East Asia, Russia's transition. to a market economy, globalization, economic development, and a redefinition of the modern role of the state. Pivotal in influencing and managing the global economy.

When the state is absent, the market cannot organize itself because, as Joseph Stiglitz said, one of the facts on which the invisible hand is concerned is that it is hidden, which means that it does not exist at all. This function is essential for the state and it is necessary in order to solve the problem of market failure as well as external effects (les externalités) because the absence of control in the economy leads to imbalances in prices and employment. The 2008 global crisis was due to getting rid of market controls, as Stiglitz mentioned in his book "Free Fall: The United States, Free Markets and the Fall of the Global Economy" in 2008 in his analysis of the crisis. During negotiations to approve a plan ... for financial rescue, she addressed Nancy Pelosi, Speaker of the House of Representatives, then US President, said: "We are here today because no one was watching the market ..."

3. The Brazilia experience

The experience of Brazil is considered one of the pioneering experiences in the world. The Brazilian economy was able to jump in a short period to sixth place in the world and surpassed the British economy in 2013 and after it was an economy that was rejected by its access to loans from the International Monetary Fund in 2002 to a country to which the Fund owes fourteen One billion dollars, and this is during the eight years of President Lula de Silva's rule. In the historical context, the Brazilian miracle began with the development results achieved in the period between 1968 and 1974 after the 1964 coup against Goo Goulart, during which growth reached more than 11%. An increase in the minimum wage by 62% (€ 231 in 2010, benefiting 45 million people (employed and retired)) Increase in the income of 10% of the poorest class by 72% and the income of 10% of the richest class increased by 11%.

3.1. Brazil before 2003

After the 1964 coup, Brazil knew the emergence of a military dictatorship, and despite that, Brazil achieved a good performance in the economy, as the ruling regime at the time was concerned with developing the economy and political life. For this reason, the Military Council appointed a technocratic government headed by Delfim Netto, who chose a growth strategy for the manufacture of imbalanced import substitution by focusing on leading sectors such as the iron and steel sector, electronics and cars, (Mohamed, 2016) and after the impressive performance of the Brazilian economy from 1968 to 1973, the economy fell to a rate of 6% between 1974 and 1980 as a result of the oil crisis that raised oil prices, which affected Brazilian imports of oil as Brazil faced A severe debt crisis in the eighties due to the policy pursued by the military rulers.

During this period, Brazil paid attention to development through the establishment of the Federal Ministry of Planning and General Coordination in 1967 and the issuance of five-year plans for public investment programs (DavidJ & DavidJ, 2018), and after the transition to civil rule with President Jose Sarney in 1985, the transition to the capitalist economy was carried out, the governments confirmed the policy of economic production and launched the privatization process (as in Many third world countries) and the huge inflation that hit the country was confronted with the "riyal plan", which

included the launch of the riyal as a new currency whose value was set at \$ 1, and after this plan achieved positive results related to reducing the level of inflation until Brazil faced the crisis of the Asian Tigers in 1998, it decreased. The value of the currency, Brazil turned once again to the International Monetary Fund (FMI) (Hassan, 2012).

In parallel with these reforms in the economic field, the government embarked on a process of proposing state reform stipulated in the master plan for reforming the state apparatus announced in 1995, which is a plan inspired by the administrative reforms that were implemented in some OECD countries, especially Britain. (Enrique, 2003, p. 62)

The loan was agreed upon in exchange for reducing the currency exchange rate and reducing the volume of public spending, but Brazil was unable to repay the loan and the Brazilian economy was threatened with collapse, so President Cardoso's administration resorted to the International Monetary Fund. The American administration intervened in order for Brazil to obtain the loan, hoping to save the economies of South America. Under this agreement, Brazil obtained a loan of 30 billion dollars, But on the condition that the bulk of it was spent in 2003 after the coming of the president, which resulted from the elections in October 2002 (Hassan, 2012).

3.2. Brazil in the era of Lula de Silva

In 2003, a new president was elected in Brazil, and he was different from his predecessor, Cardoso - who was an academic - in that he had left Lula, as Brazilians call him, left school at a early age, and because of his profession. union struggle, the hopes of the workers were linked to its seizure of power when it was seen by the employers. The company was seen as left-wing and therefore panic reigned in the market, although its election platform was to give importance to export growth. the presidency in January 2003, the economic situation of Brazil was not good, because the inflation rate reached at the end of 2002 at the level of 12.5% and the average income of the Brazilian citizen decreased by 13.5% in La period from 1999 to October 2002.

But he pledged to respect the agreement signed with the International Monetary Fund with his predecessor Cardoso, and even went further when he set the target for a budget surplus of 4.25%, which is 0.5% higher than the conditions of the International Monetary Fund, and Lula de Silva pledged that his political priority is to overcome poverty and hunger that afflicted More than half of the Brazilian people (Lehman, 2008), "If every Brazilian at the end of my mandate could have eaten three times a day, I will have fulfilled my life's mission." (speetch, 2002).

From the beginning, Lula de Silva worked to calm the markets. Perhaps this is the reason behind his pursuit of the economic policy of his predecessor, Cardoso, and even exceeded it, as was evident in the voluntary increase in the ceiling of the budget surplus agreed upon with the International Monetary Fund before he came to power. He continued to reform the pension and tax system that had been launched in the previous presidential term, and these steps were reluctantly endured by Lula de Silva's Labor Party militants and by many within the government (except for the economic team) and were deemed inevitable in order to ensure stability.

The leftist president had to search for compatibility between stability and reassurance of investors and businessmen on the one hand, increasing the state's presence in social life, protecting local institutions (especially small ones) and providing better protection for the poor and workers with a better distribution of income, so the government tried to clarify the benefits that would accrue to the poor in case Achieving sustainable growth and economic stability.

In order to avoid the reaction of the left-wing currents that supported the position of Lula de Silva, an end to the privatization process and a contribution to the reforms launched by his predecessor, Cardoso, in order to build a new model for the state. Which governs the partnership between the public sector and the private sector in infrastructure projects.

So that the state determines the conditions and is based on project management and accomplishes some investments, and after the completion of the works, the private enterprises become the actual operator of services (roads, railways and metros), and the Fonds Public Fund guarantees them a minimum level of profitability (SallumJr, 2010).

In addition, in 2003 my sons Silva launched the Fome Zero Hunger Program, which is a multisectoral national strategy based on four pillars:

- Have access to basic food for everyone.
- Promoting family farming with the Promaf program established in 1996)

- Create income-generating activities and greater social participation
- The Bolsa Familia program, which is the most important in the fight against poverty, is directed to families, bolsa ascoa, and is directed to families (for children enrollment in schools and health care for children and pregnant women)

In favor of this program, and within ten 10 years, Brazil has made tremendous steps in fighting poverty. The rate of those living below the poverty line decreased by 43%, 32 million people joined the middle class, the extreme poverty rate moved from 9.7% to 4.3%, and the malnutrition rate decreased by 70%.

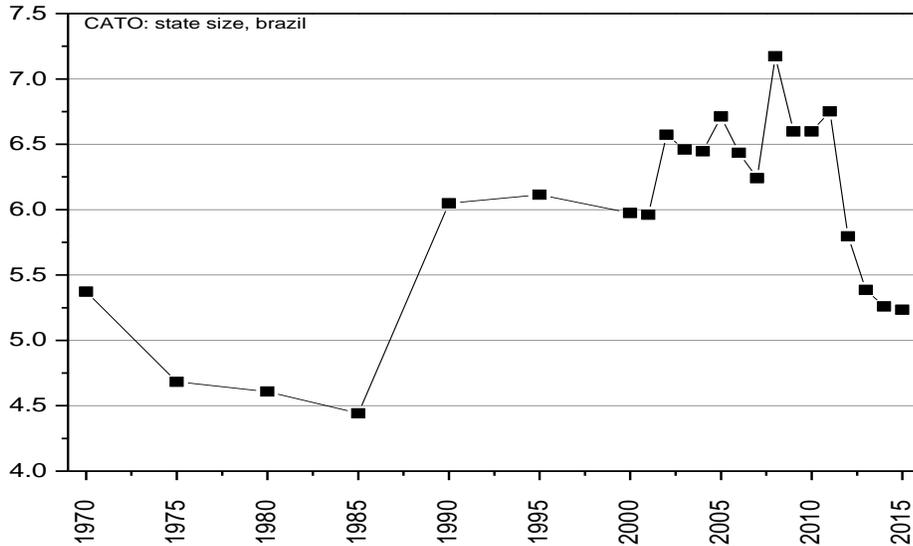
Despite the criticisms directed at the policy adopted by targeting the inflation rate, interest rates and public debt, the first three years from 2003 to 2005 bore very positive results, as the trade balance recorded a surplus since the first year that was sufficient to create a positive balance in the current account balance, and the debt volume ratio decreased. The year to GDP reached its lowest level since 1975 and at the end of 2005, the Lula de Silva government was able to prepay the IMF debts estimated at R \$ 15.45 billion due in 2007 (Marques & Nakatani, The economic policy of the Lula government:change or continuity?, 2007)

After his re-election to a second presidential term in 2006 and then maintaining all these programs, as it seemed that stability had been achieved, economic growth and public investment (especially in infrastructure) became a priority. Long within a new institutional framework: central authority for decision at the highest level, exemption of budget allocations from tax restrictions, clear efforts to attract private investors through concessions and partnerships between the public and private sector (PPP) The role of the state was increased through the National Bank for Economic Development (BNDES), whose mission was to expand investment, as the investments supported by BNDES represented 20% Of the total investment in Brazil for the period from 2009 to 2015. (Ferraz & Coutinho, 2019)., and the country, through BNDES, strengthened a group of companies and economic groups such as FIBRIA, JBS, Gerdan, Camrgo and Vale odeberecht. Depending on its need to unite the champion companies and directing an increasing volume of public resources to National economic groups, the goal of improving the international integration of Brazil The state funded acquisitions, internationalization projects, joint ventures and expansions. Latin American integration and economic development were linked to the active role of the state in the processes of internationalization of national capital (Filgueiras & Oliveira, 2013)

This policy achieved several results, including:

- Lifting 28 million people out of misery
- 16.6 million official jobs
- 39 million Brazilians enter the middle class (c), 52% of the population, in 2010

Figure1: State size, in Brazil for the period 1970-2015

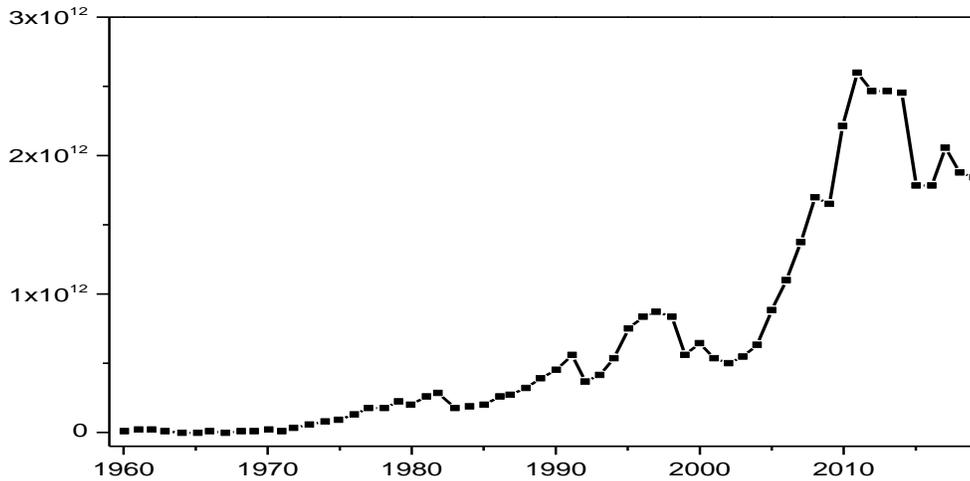


Source:world bank data.2019

This indicator summarizes several aspects relating to the size of the State: 1) the consumption of general government as a percentage of total consumption; 2) the importance of transfers and subsidies as a percentage of GDP; 3) the use of public investments rather than private investments; and 4) the marginal tax level. this indicator numbered from 0 to 10 the 0 signifies a very strong intervention or presence of the State very and the 10 signifies a minimal intervention of the State.

This information is constructed by the CATO Institute located in Washington. which is an organization created in the mid-1970s concerned with the defense of free enterprise.

Figure2: PIB par habitant lin Brazil (\$ US constant 2010)1969-2019.



Source:world bank data.2019

During the period 1960-2019, the lowest value was in 1990 (3 417,352USD). The index continued to increase until it reached the value (11 121,74USD), the highest recorded value. The change recorded between the first and the last year is 225%.and The annual average for the period 1960-2019, is 7,934.79USD.

With the presence of liberalism that led to a series of reforms, it greatly reduced the "pioneering" dimension of the state that prevailed during the national development stage. However, the state did not abandon its organizational capacity, so it preserved a great deal of its ability to effectively intervene in economic life. Despite the privatization that Brazil witnessed during this period, some important sectors, such as the electricity sector, remained subordinate to the public sector, and the state in other sectors retained the discretionary power. In the oil sector, for example, the state retained its power to grant concessions in mining areas, and it remained the largest shareholder in Petrobras. The state also maintained control of so-called "strategic" companies, such as the national manufacturer of medium and small aircraft. Embraer. And it enjoyed the right of veto against projects that are considered contrary to the interests of the state. Through the option of "golden participation" in the privatized companies. This criterion - which is the criterion of "strategic value" - has played a crucial role in the privatization process of public banks. In Brazil, community development banks (BCDs) are modern forms of solidarity financing in Brazil. They originate in the symbolic experience of a diamond bank in a poor suburb of Fortaleza. It is a popular and solidarity micro-credit system that seeks to build local solidarity economy networks in order to provide income and create job opportunities for the community.

4. The Malaysian Experience

Malaysia is an emerging country from Southeast Asia, and after getting rid of British colonialism in 1957 and due to income disparity between classes (Malay, Chinese, and Indian) riots broke out in May 1969 to be the starting point for the path of growth through the launch of politics NEP . Planning in Malaysia is a tool for economic policy and has been used in the wake of The Second World War was introduced by the British with the Draft Development Plan for Peninsular Malaysia (1950-1955).The contemporary history of the Malaysian economy is closely linked to the development of the state, itself the result of the launch of the NEP in 1970.This developmental role of the state engages the emerging small economy in academic and intellectual debates on the role of the state. the pivot was the World Bank report on the Asian miracle

4.1. Malaysia before the Mahathir era

The Malaysian state has successively implemented many economic policies The most striking thing is the adoption of NEP, .the new economic policy (1971-1990) by the National Operations Council, led by Prime Minister Attak Tun Abdul Razzaq, which is considered a long-term development strategy. the beginning was the first five-year plan from 1971-1975 by the Malaysian state in a powerfully interventionist policy . This marks the end of the postcolonial transition period and opens the way for vigorous growth and national development. The NEP includes four main sectors that are areas of state intervention, namely: (Lafaye de Micheaux, 2014)

- Agricultural, hunting and forestry policies.
- Manufacturing, mining and construction
- Improving urban and rural life
- Educational policies

4.2. Malaysia in the era of Mahathir

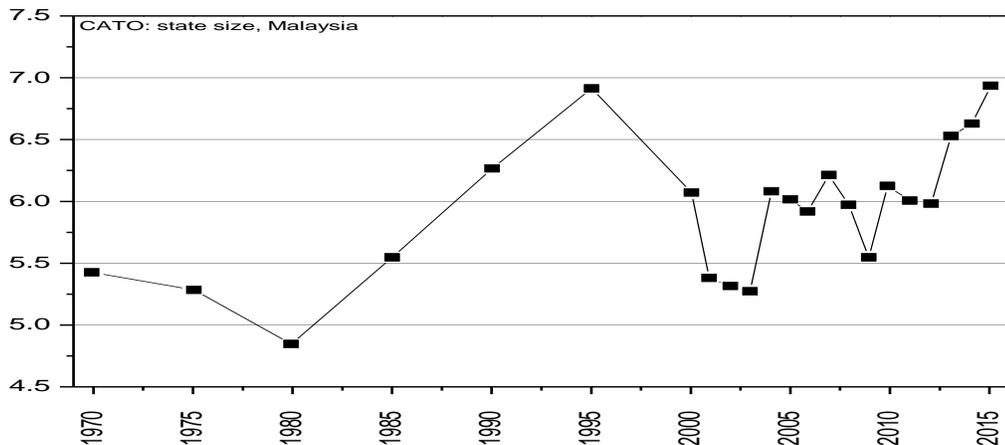
In its new development policy, wisdom sought to simulate the mechanisms of consultation in Japan between the government and businessmen, and this is reflected in the slogan of Prime Minister Muhammad Mahathir, "Follow the policy of the East." The official consultations began in 1991 when the government hosted industrial leaders to discuss the national budget with finance officials in a dialogue. On the budget, which he promoted with great publicity, and in the same year Mahathir created the highest advisory body, the Malaysian Business Center Malaysian Busnies Concil MBC, which included more than sixty members of the government, workers and industrialists and was chaired by the Prime Minister (Al-Suwaidi, Saif Al Shamsi, & translation, 1 st Edition 2000). The NEP included four five-year plans ending

in the year 1990 and aimed at eliminating poverty and reducing the differences between classes and customs, especially the indigenous Malay population of Bumtras, granting them many privileges in work and investment.

After assuming the position of Prime Minister in 1981, Mahathir wanted to change the face of Malaysia in a range of economic issues through the policy of "looking east", which not only meant efforts to emulate certain aspects of the Japanese and Korean miracles, especially the state's intervention to develop heavy industries, but also Efforts to establish sogsosha commercial agencies in the Japanese way as well as improving relations between the public and private sector (Malaysia incoproted malaysia and privatization due to some failures and after a great discussion about the "look east" campaign Mahathir explained that he was aiming to promote Malaysian economic development and industrialization. By adopting and realizing a Japanese-style work ethic, he emphasized that Japanese and Korean work discipline, work ethic and productivity were crucial to their economic miracles and thus must be emulated by Malaysians, especially Malay workers. (Sundaram, 2104).

Mahathir says that one of the reasons that compelled us to think about privatization is that the general demand for facilities and services has far exceeded our ability to provide them, especially the financial and human capabilities of the government, and waiting for them to be available to the government, will mean a delay in providing the necessary facilities and services and insufficient services impeding the development and economic development of the country. (Mahathir Mohamad.translated par AminAl-Ayoubi, 2014).The privatization process began with the privatization of the Communications Directorate, then the privatization of the North-South Highway, and extended to power generation facilities, water supply facilities, post offices, airlines and the automobile industry, some of which were partially privatized, such as the National Heart Institute. Only the administration was privatized, and some companies remained government-owned, such as the largest company, the National Petroleum Corporation, Bertonas, because it proved that a 100 percent government-owned company could do as well. (Mahathir Mohamad.translated par AminAl-Ayoubi, 2014).

Figure3: State size in Malaysia for the period 1970-2015

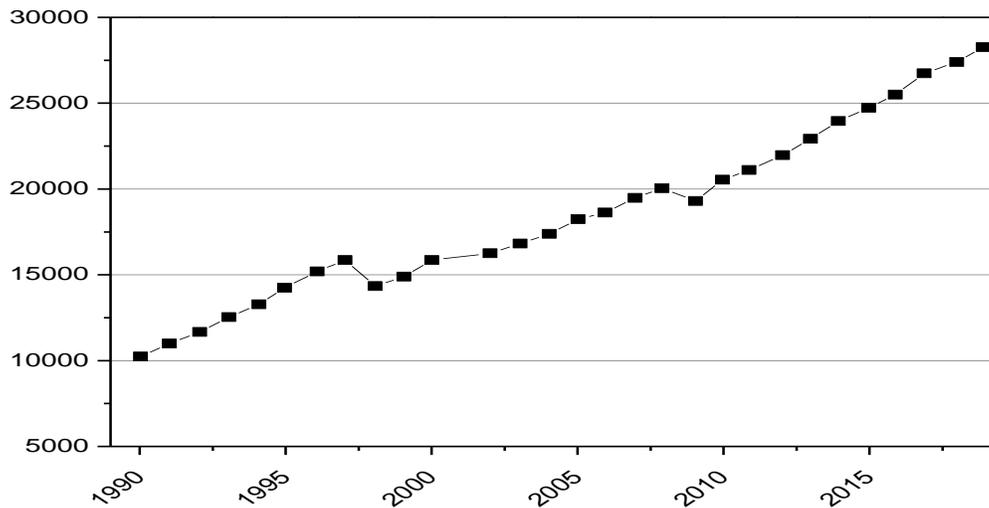


Source:world bank data.2019

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This information is constructed by the CATO Institute located in Washington. which is an organization created in the mid-1970s concerned with the defense of free enterprise

Figure4: PIB par habitant in Malaysia (\$ US constant 2010)1969-2019



Source:world bank data.2019

For the entire period 1990-2019, the lowest value was in 1990 (10,306,082). The index continued to increase until it reached the value (28,364,487) in 2019. This was the highest recorded value. The change recorded between the first and the last year is 175%.

5. Conclusion

The development models and experiences that some countries have known have shown that development needs the presence of the state that sets plans and programs, stimulates and encourages economic activity. The state's presence is more than necessary, especially in crises and market deficits. The state, not others, and from here emerged what is known as the developmental state. It is a state that places economic development as a top priority for government policy and is able to design effective tools to promote this goal. The tools will include establishing new formal institutions, weaving formal and informal networks of cooperation between citizens and officials, and exploiting new opportunities for trade and profitable production. Whether the state governs the market or takes advantage of new opportunities presented by the market depends on certain historical circumstances. One of the features of a successful developmental state is its ability to shift from market-oriented growth to state-directed growth, or vice versa, according to geopolitical

conditions, in addition to combining market and state. The degree and nature of the state's participation in economic activity varies according to circumstances. The existence of a state was associated with the development of developed countries, even if at the level of economic theory, the state should not interfere. But social protection policies have always been in place. Likewise, protectionist policies have always been protected by the countries of their nascent industries.

Depending on the level at which one looks, the interpretation of Malaysian reality differs. A case study for economists, it offers an example of economic development and modernization through industrialization, of controlled and sustainable growth leading to an exit from underdevelopment through a rebalancing of sectors and a positive anchoring in globalization. Participating in the Asian miracle for the World Bank, we find it among the countries illustrating the pattern of the developer state.

Finally, it is not because the developmentalist state model is important in the analysis of development policies. that the concept does not meet with serious criticism, in particular in the tendency towards the authoritarianism of the regimes. and corruption by the rapprochement made between business circles and the political world.

For the majority of economists, sociologists or political scientists who have examined the importance of the role of the state in development. the problem is no longer whether the state should intervene or not? ., but what is the nature of this intervention? and what are the administrative, economic or legal mechanisms for its action. What were the forms of this involvement, in which sectors? . How does the state relate to society and the market? What autonomy does it enjoy to play a positive economic role? Are the costs of these distortions greater than the increased benefits generated by this public / private cooperation?

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Mascara University.

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