The Role of Government in Economy

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Abstract

The process of globalization intensified economic integration and interdependence among countries. As a result, a large portion of economic activities became vulnerable to the various determinants less controlled by national governments. Nowadays, in the time of financial and economic crisis, there is an ongoing discussion about the role of government in economy. In the good times there is obviously a general trend emphasizing reduced role of government in the economy and increased role of the market forces. However, sudden downturns, periods of economic instability and increased volatility on the financial markets usually intensifies the calls for higher involvement of government in economic processes emphasizing an importance of regulation, protection, stimulation, etc. The article analyses the role of the government and its behavior in a market economy, in its various stages of development, based on the knowledge of economic theories of individual economic schools, as well as its present needs.

Key words: government, economy, history of economic though

JEL Classification: B10, P16

1 Introduction

The history of economy is longer than the history of state. A modern state, which is usually associated with market-oriented economy, had gradually been created in the XV century. Ever since, the state has been an important institution and the part of the history of economy and its history has been the part of the social development history.

The state has always, at every stage of its development, been linked to the economy and interfering with it. The evolution and change of economy and society has triggered the change of state and its role. The roles of the state were adapted to the needs of economy and society. The history of economy provides us a clear example that the state in the Old and Middle Ages, although at times it shared its political power with the church, had been an irreplaceable institution in the economy progress and development.

Through the Middle Ages up to modern times, the state, despite its different socio-economic nature, has performed, either directly or indirectly, the role of economy development support. It fulfilled the above mentioned role in the past and performs it at present, too. Regardless to the form of social organization, the state performs its vital role in it.

Its legal, normative and legislative role is not denied, but widely recognized. The role of state and its parliament in legislation, the role of courts in making decisions and the executive power of the government are all well recognized. The juridical role of the state also covers the designation and enactment of rules for the functioning of the economy. In a market economy this is represented by rules of market impact and entities operating on it.

The ambiguity appears in the explanation of the economic role of the state, particularly, the state intervention in the economy. This role is mainly fulfilled by the government and the central bank. Within the integrating international political and economic groupings the intervention is also performed by the institutions concerned. Due to Slovak membership in the EU, ECB and other institutions of the community are also involved in the process.

Nowadays, when financial and economic crisis is of worldwide character, the more is written, said or thought in the context of control and management interventions executed by states or governments, as well as international and transnational integration groupings.

2 The State and its Role in the Development of Economy

Economy - economic theory, as an independent scientific discipline originated in the period of 15th to 17th century, late Middle Ages till early modern times. Economic thinking and acting, had, of course, existed before the emergence of economy as a separate scientific discipline. It is actually linked to the very existence of man and human society, but used to be the part of other sciences, mainly former philosophy and ethics.
The 15th up to 18th century represents the beginnings of capitalist economy and market economy emergence. The 15th and 16th century also represent the beginnings of a modern state and the science of it.

2.1 State in the Period and Learning of Mercantilism

Modern times, from the XV until the beginning of XVIII century include mercantilism. It is also the first economic doctrine which attempted to justify the market economy. This economic doctrine is, however, a justified economic policy of the state in the interest of commercial capital ideology and commercial traders rather than getting to know the economic theory. The theory of mercantilism – early and mature mercantilism, represents a period of almost three centuries, in which the feudal way of production disappeared and the capitalist one emerged. It was a period of origination and consolidation of centralist nation states, colonial expansion and the development of capitalist empires.

The theory of mercantilism and the economic policy based on it, pursued nationwide interests, increase of wealth and power of an emerging capitalist state. The nation wealth was associated with the economic and political power of the state.

The main economic roles of the state were:

- protect and promote emerging manufactories
- introduce and apply high import duties in order to protect national economy,
- to oversee the implementation of the ban on the exports of raw materials from the country,

- to assist in the implementation of new industries and
- support the establishment and development of foreign trade and its trading companies.

The followers of mercantilism brought their economic consideration and examination from the moral aspects of economy to its practical difficulties, represented by the interests of traders and the state. They separated economic thinking from philosophy and brought it closer to political and business needs and interests of the state. Their economic observation mainly focused on issues such as the wealth of the state, foreign trade, active trade balance, population growth, military power, as related to the wealth of the state.... The state, according to mercantilists, is the protector of economy and promoter of its development in the name of its own wealth growth. The state identified and implemented economic policies so that through foreign trade (high import duties) and money, which the state perceived as source of wealth, the money would come to the country and would not leave the state. The state promoted positive trade balance in the foreign trade. Early mercantilism expressed it in absolute terms, which meant achieving trade surplus virtually by ban on imports. Mature mercantilism perceived the active trade balance in its relative terms, which meant greater export than import.

The most important representatives of mercantilism and the advocates of action of strong state in the economy were W. Stafford in England, Antoine de Monchrétien and J.B. Colbert in France, Antonio Serra and J. Scaruffi in Italy.

Economic events of that period fully subordinated the interests of the state. This subordination had been significantly realized in the mercantile learning in the former, even a non-uniform Germany and Austria[1], entitled "cameralism" It was the doctrine of subordination of management of administration, banking, finance and existing fragmented economies, to the interests of the state. The support of power element of an emerging state was justified by the need of a great army. This, in turn, required population growth. The fiscal and public state interest justified the need for state tax increase along with the population growth. These interests were linked to the growth of demand for products and thus the growth of production. Cameralist doctrine actually included the entire management system, subordinated to the government. In the middle of 19th century the cameralist doctrine split into national economic theory, national economic policy and financial science. This had created better conditions for deeper economic thoughts in those territories. The main representatives of German and Austrian cameralism were G. Olbracht, J Becher and P. Hornigh. They were supporters of a powerful state and advocates of state controlled economy.

2.2 State in the Historical School of Economic Theory

The learning of the historical school found its application mainly in Germany. One of its reasons was the fact in that time Germany, delayed when compared to England or France, a unified national state had been created.

This is particularly the period of XVIII and XIX centuries, during which the development of Germany, compared to England or France, lagged and had its peculiarities Economic views, and policy of mercantilism based on them, as mentioned above, found its application in Germany mainly in its variety called cameralism. While highlighting the

[1] Austria was at that time the state department of the German Reich.

significant influence of state governed economy, cameralism continued in its existence for a longer time in Germany and Austria, within the historic school.

Such an economic thinking and learning emerged in that period mainly for two main reasons.
1. In that period, later than in France and in England, a unified German state came to existence, and the unification had to be supported by the economic policy of the state.
2. In that period German economy, virtually all manufacturing sectors, quite significantly lagged behind the economic level of England, but also France and this underdevelopment had to be overcome.

These two factors led to the economic thinking and learning of historical school of economics, with emphasis on strong influence of the state on its economy, to condemn and reject "economic liberalism", which at the time was professed by classical and post-classical economy and western European market economies.

Economic liberalism was considered, by the representatives of the school of economics, to be one of the major obstacles to industrialization and economic development of Germany. The historic economic school dominated economic thinking which resulted in the impact on economic policy in Germany for a long time, in fact, from 1840 until World War II.

Historical school of economics by its rejection of economic liberalism also rejected the economic egoism of the individual thus dignifying the interests of society as a whole. Historical school, in its older, respectively newer form, was mainly interested in the national economy and its enhancement. Its leaders not only agreed with the state's interference in the economy, but also supported and demanded its actions. The main task of the historical school of economics was the analysis of economic and social life of the society and on its basis the economic policy of the state to help the development of national economy.
The main representatives of the historical school in Germany were: B Hildebrand, K.Knies, G. von Schmoller, W. Sombart, M. Weber, …

2.3 State in the Learning of Classical Economics

Adam Smith (1723-1790), one of the main representatives of classical economics, lived at a time when states and economists in them largely believed that, particularly the rights of political control, but also the constant supervision of the state can save the company from bankruptcy and poverty, being the only possible way to maintain the balance in the economy. A. Smith opposed this view and explained the mechanism of social coordination in the national economy, which operates without continuous supervision of the government and even limits prescriptive state control mechanism. He explained that free market, even though it looks chaotic and irregular, is actually guided to produce the right amount and variety of goods by so called "invisible hand". If there is a lack of a certain kind of utility values of the goods, the price increases and motivates the manufacturers to produce more of those goods, thus the shortage on the market is resolved automatically and spontaneously, establishing the market balance. A. Smith, like Francis Bacon and Thomas Hobbes (16th and 17th century) believed that people are often inspired in their behavior by negative motives, but he assumed that competition on the free market works in favor of the society as a whole. A. Smith talks about the inherent nature and effort of the man from which a certain self-regulation in the market economy can be derived.

Classical economics, which since the middle 17th century became the defining and guiding economic theory for the functioning of market economies, was based on two principles:

- the principle of "Smith's invisible hand" as the basis for the functioning of the market mechanism and
- the "Say's law of the market", according to who, in a market economy, supply creates demand.

Both principles assumed that the market economy had enough internal forces for self-creation of equilibria.

The representatives of classical economics were supporters of free national economy, expressed as "laissez faire, laisssez passer" - let it be, let it continue and they promoted economic liberalism – freedom of an individual, property and enterprise.

Such an approach of classical economics meant the acknowledgement of normative and legislative role of the state, but the denial of long advocated, almost unlimited economic role of the state. The state, in a new perspective towards national economy, had been obliged to care only about the protection of private property, to set the rules for business activities and ensure their compliance.

In the condition of natural freedom and free competition, only the following responsibilities and tasks were attributed to the state:

- protection of the country to prevent external dangers,
- maintenance of justice in the country and protection of citizens against injustice maintaining and building of public facilities not interesting for private entrepreneurs, the ones that do not pay.

2.4 The State in Economic Thoughts of J. M. Keynes

The first half of the 19th century and the teachings of J.M. Keynes were the first that pointed out to the necessity of state intervention in the market economy. His teaching not only justified the reasons, but also recommended specific forms of state engagement, through economic policy, right into the national economy. Even before Keynes several influential personalities pointed out to the need to help the poor and unemployed by the state[2]. But this was more or less the social assistance to the poor, who had been in a difficult situation and did not manage it on their own. It was not the justification of the state intervention in the economy, arising from the nature of market economy mechanism.

The major reason for the state intervention in the economy, as seen by Keynes, was the fact that market mechanism, in the thirties of the 20th century, was unable to automatically generate steady-state economy, which meant returning from imbalance to balance. This way, the self-activity was denied of an invisible hand functioning, which also denied the validity of Say's law of market. Both the principles were the foundation for classical economics. The proof of the invisible hand failure was the economic crisis and relatively long economic depression of the thirties in the 20th century.

[2] The need for state intervention in the economy is required by Pope Leo XIII in his social encyclical "Rerum Novarum" of 15 May 1891. It says (page 71): "When protecting the rights of private persons, the state must in particular remember the powerless and the poor. The rich class, that is strong by itself, does not need protection. The class of proletarians that has no support in their property must apply for protection from the country. That is why the state must protect pensionary workers who belong to the amount of the poor…"

Say proved that any offer automatically creates demand. He assumed that the sum of the prices of products is determined by the amount of pensions - incomes (wage, profit, rent and interest) that arise even during the production and for which the goods and services are purchased. Based on the above explanation, there cannot be any overproduction, so cannot the imbalance in the economy.

The nullity of Say's Law was reasoned by Keynes and the fact that forces constituting the offer are not identical with the forces determining the demand. According to Keynes, the crucial factor is not production and its size, but the production and hence offer. On the other hand, the size of effective demand determines the size of production and thereby offer.
The economic role of the state, according to Keynes, should fulfill:

- allocative function - which means elimination of market mechanism inefficiencies resulting from imperfect competition, arising from external forces and the need to provide public goods. It is mainly the acceptance and monitoring of compliance with so called antitrust laws, and measures and regulations on the pollution and preserving of the environment... The purpose of the tasks arising from this function is to increase the efficiency of the economy,
- distribution function - its role is, if not eliminate, at least mitigate the inequalities created by market within the distribution of income. This role is fulfilled by the social policy of the state, e.g. progressive taxation, various transfer payments from the state budget in the field of education, health, culture, ...
- stabilization function - to mitigate the cyclical fluctuations of the economy and its development. It was first applied as anti-crisis, particularly as response to the economic depression in the years of 1929 - 1933 and in the second half of the 20th century as a counter-cyclical.

Classical economics, before and after Keynes, accepted only allocation function of the economic policy, as a result of imperfect competition and imperfection of the market mechanism. It was partially willing to accept the distribution function of the state and its government. J. M. Keynes and then either new ones or post Keynes ones recognized all three functions of the economic role of the state. But Keynes's teachings, especially his theory of effective demand, revealed the importance of stabilizing function. Its application has origins in the early 20th century, when due to the world's greatest economic crisis, the invisible hand of the market failed to return the economy of industrially developed states into the equilibrium state. Keynes's teachings ordered the market economy of that time, along with the invisible hand of the market, the action of the visible hand of the state[3].

Stabilization economic policy of state-government was implemented predominantly in these forms: fiscal, monetary, pension, foreign trade and monetary policy.
Fiscal policy uses public finances of the government - the state budget is used for macroeconomic stabilization (economic growth, employment, price stabilization, ...) and redistribution of the gross domestic product (built-in automatic stabilizers). J.M.Keynes attributed the crucial role to it.

[3] The state can also fail with its wrong decisions - not leading to an improvement in the efficiency of the economy, not reflecting the redistribution in favor of the socially disadvantaged, thereby sharpening social inequalities as well as with wrong decisions not contributing to economy stabilization. The failure of the state - government also occurs if its decision, though the right one, is inadequately (too early, too late) timed.

Monetary policy influences the economy stability with the amount of money circulated including the decisive role of the state's central bank.
Pension policy is a form of anti-inflation policy. The role of the state in it is to regulate the price and the income - wage level in the country.
Foreign trade policy is the state tool for regulation of foreign trade, export and import. The monetary policy of the state, and its central bank, respectively within the international economic integration in EU, and European Central Bank, regulates exchange rates, thus affecting the movement of goods, services and capital in relation to foreign countries.
The whole period of classical and neoclassical economics means that the state and its government should interfere as little as possible according to the principle: "enable the operation of market forces (the invisible hand) the most, and the application of state intervention (the visible hand) the least. The least intervention of the state in the economy means its intervention only in cases of market mechanism failure. Keynes and his theory followed by his teachings, indeed, did not ignore the justification of market mechanisms and market forces. On the contrary, they respected them, but did not attribute any importance to them, as they assumed there was not any at all. They claimed that these forces are not the only ones in market economy affecting the equilibrium and its balanced development.

2.5 State in the Teachings of Neoclassical Economics

Neoclassical economic theory, in the period of its renaissance in the seventies of the last century, rejected Keynes's teachings. The reason was that the state interventionist economic policy has led to growing inflation. Keynes's theory of the need for state intervention in the economy was, by neoclassical theory, acknowledged only as a specific phenomenon of the Great Depression of the thirties and not as a part of general economic theory. Keynes's teachings were replaced by a neoconservative concept originating in the theory of monetarism, supply economics and economics of rational expectations.

The return from Keynes's doctrine of state intervention in the economy to economic liberalism is represented by the period of neoclassical economics and its neoliberalism. Neoliberals consider the market mechanism to be the most perfect instrument in the functioning of the market economy. They place the emphasis on free competition as a reliable regulator of economic development and admit only such state intervention in the economy that regulates the money supply in order to create favorable conditions for free competition. The aim of such a policy is to ensure economic growth by increased investment activities of entrepreneurs.

The basic views of neoclassicism and its neoliberalism on the role of the state in the economy can be formulated as follows:

- state should create and protect the institutions that would be responsible for the development of economic activity and free movement of goods, services and capital,
- state should take action and check the measures taken against the distortions of free competition by the state and private monopolies,
- consider as justified only those interventions in the economy, which are forced by inflexibility of supply and demand, thus the return to equilibrium in the economy becomes difficult,
- refusal of state regulated pricing, market mechanism prices are justified, the relationship of supply and demand.

2.6 State in the Economic Theory of Ordoliberalism

One of manifestations of neo-liberalism in the economic theory after World War II in Germany became "ordoliberalism"[4]. It began in the forties of the 20th century in the works of W. Euken (Principles of National Economy 1939), W. Röpke (German issue 1947) ..... .

It represents German version of neoclassical economic thinking. Based on classical liberalism, it is marked by its own development and the German approach to its economy, also marked by World War II and its results. It expresses the immediate connection of state and its economic and legal system. It is based on the belief that social economic order as the order of economic system, cannot be left to its own evolutionary development, but must be ensured by the state and legal acts of its government.

Such an approach to the state deduced its economic policy, too. The policy should be aimed only at creating general framework conditions for the functioning of a market economy. The duty of the state is to create and establish such a legal order that would ensure basic economic freedom of individuals, protect their property rights and ensure the compliance with economic agreements.

3 State at Present

Neoliberal views on the role of the state in the economy prevail in the market economy. In every country with market economy the extent of state intervention in the economy is determined by the realization of social aspects in the states' economic policies.

But the reality is that since the second half of the last century, despite the prevalence of liberal views on the role of the state, the importance of state has not been reduced and state intervention in the economy is becoming more frequent.

Therefore, even at present, the main economic functions of the state in a market-oriented economy could be defined as follows:

- creation and maintaining of the legal system and of political and economic environment for free enterprise,
- based on the allocative function - ensuring microeconomic efficiency affecting the efficient use of public finances,
- macroeconomic regulation, providing a steady and efficient economic growth and development
- the redistribution function – economic ensuring of social policy, which largely affects the effective spending of public finances and thus the efficiency of the whole economy.

3.1 State in the Current Prevailing Economic Teaching

Current economic theory does not assume that in today's market economy there are only two extreme possibilities of creating a balance in the economy, namely: Smith's theory of the invisible hand and the market mechanism or Keynes theory of effective demand.

The economy is too complex system. It develops rapidly, the conditions for its internal and external balance creation change, and the economy management and economy policy of the state get adapted to the changes, too.

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[4] In ordoliberalism, the reality includes the relationship between social economic order (system) and law. The term "ordo" is the Latin word for order in the social system. In ordoliberalism the term refers to economic policy, "Wirtschaftsordung"

Current economic thinking and learning manifest themselves in several forms of neoclassical economics and neoliberalism, but cannot ignore the reality of present political and economic conditions of national economies and the world economy.
Current economic development promotes globalization and international economic and political integration processes. National economies have become part of them and got subordinated to them. Multinational forces and their financial, often anonymous capital subordinate national economy.

3.1.1 The period of globalization processes
The features of a global economy, from its creation as a united social - economic system in the 19^{th} century, have in the second half of the 20th century gained crucial importance. Globalization process in economy (but also in other areas e.g. politics, ..) got into a new level of quantity and quality, became faster and more extensive, especially after the events of 1989, which ended the centralized system of economic governance in the countries of Central and Eastern Europe and united it.

Globalization and universalization of economy had affected a wide variety of at that time existing institutions of both national and global nature. Neither the global institutions such as International Monetary Fund, World Bank, World Trade Organization (WTO), nor the national governments of the states and their central banks were prepared enough to encourage positives and negatives of globalization process, or to prevent the emergence and growth of its negatives. When formulating new tasks of a state within the globalization processes, one should be based on the nature of globalization itself.

A variety of definitions of globalization[5] - globalization process is distinguished, which differ not only formally but also in their content.
Let us mention some of them:
* globalization means a process of gradual concentration of the economy, respectively in the wider sense, concentration of the individual national economies into a small number of conglomerates. Such groupings then defy the control of national governments (8 p. 167). This perception does not precisely and strictly distinguish the globalization from international economic integration,
* the economic globalization is also understood as a process of formation of global technology and economic systems directly related to the increase of economic activities' effects and tighter linking of individual national economies. (8 p. 168) The process was named by French authors as "mondialisation",

- globalization, for some but not few economists, is the process by which the economy and economic problems get out of control of individual national governments.
- the views exist that are positively identified with the process of globalization. The reason is that by gradual degradation of national borders and empowering of international integration, multinational corporations and bodies, the production becomes less expensive. Foreign investors can transfer their investment quickly from one country to the one with a higher interest rate for them, or return on capital faster. This may also reduce social expenses as

[5] Category or term "globalization" has been approved in economic theory in the eighties of the 20th century and respected thenceforth

investors are able to avoid taxation upon which also the above mentioned expenses depend. (Stanek, 2005)

- globalization is conceived as a process by which the new forms of social and universal inequalities arise (Bauman 1998),
- the president of the World Economic Forum Klaus Schwab describes it as a process characterized by the following:
  - global economy is being built on strong regional communities,
  - global market is created with mega competition interfering with the individual national markets,
  - globalization is accompanied by the formation of molecular economy,
  - network economy is being formed , flexible networks of decentralized enterprises are interconnected with each other and are connected to one strategic, powerful and generally small in number headquarters,
  - the virtual economy comes into existence, the limitation of space and time is overcome and virtual corporations, teams and agencies are formed,
  - global economy enables real time and substantial acceleration of decision making processes (5 p. 168)
- there are also opinions that claim that globalization is a myth supported by those whose aim is to create worldwide unrestricted capitalism (Bourda 1997). For this group of views globalization is nothing else but the last stage of capitalism,
- globalization is the process that violates the balance between capital and labor, between the market and the state, between competition and solidarity, and only favors capital, market and competition.

The few definitions and characteristics of the process of economic globalization imply that the nation state gets into the background and loses its importance. Such an approach could most likely be accepted if only the role of control and regulation of economic behavior would be conducted and performed by a global institution. But there is none like this yet, respectively the impact and effectiveness of the institutions already existing is not sufficient for the globalization process and its negative aspects. That is why nation states, even in today's growing globalization, have their important role.

3.1.2 The Period of International Integration Processes

Globalization, as well as international integration processes affect the state in its tasks and actions. Both the processes as if somehow depreciated and denied the state's importance.

For at least two decades, some visionaries, political scientists, sociologists but also economists have been telling us that the state is losing its importance, and ceases gradually along with the national economy it represents.

In our opinion, the state and national economy express a mutual relationship, but these categories are not content identical. The state, as well as its national economy, change in their development. Globalization and international integration processes have created and are still creating new economic, social and political conditions for the states and their national economies. Nowadays, no state is truly a nation state, as it used to be before. The same being true for economy. If in not so distant past, the economy of state was also its national economy, it is not anymore these days. The economy of the state has no longer the nature of the state as the investors from other countries and transnational companies participate in it. The economy in the country is no longer its national economy. Neither the gross domestic product of the state is identical with its gross national product. Take, for example, Slovakia and its economy. Our statistics and statistics of Eurostat provide the data on companies in Slovakia, under foreign control, currently account for almost 50% of the added, newly created value. This means that Slovak gross domestic product (GDP) is only half of gross national product (GNP). And the economy in Slovakia is not only Slovak economy.

The international integration process, the European Union, is sometimes described as a nascent super state that will absorb the nation states which lose their identity and even sovereignty. The reality, however, is that not only states within international groupings, but also not membership ones, have no longer such economic or political sovereignty as they had let us say hundred years ago. The national economies are interconnected and thus dependent on each other. Certainly the level of dependence is not the same in the countries. For example, Slovakia with its openness and structure of economy is not only among the most open, but also the most dependent states in the world. The growth and development of Slovak economy is largely dependent on foreign demand for its products and services, namely the size of the value of its exports. Well, the greater the dependence, the lower the inherent sovereignty, both economic and political.

The member states of the EU including those in Euro zone, lose the elements of their old nonmember sovereignty, but gain new sovereignty elements from their membership in clusters. Each country should consider its gains and losses, not only in economy and politics but also in its identity and sovereignty when entering a certain international integration group.
When for example the current level of development of the European Union can be defined as "economic and monetary union", its features being free trade, tariffs on imports from nonmember countries, common market not only of goods and services, but also the free movement of capital and labor among member countries. It applies to variety of industry sectors, social, environmental or legislative issues.

Completion of "economic union" results in "monetary union" represented by common currency, the Euro. The European Union as an economic union is increasingly becoming a political union. To what extent should the EU be international, economic and political integration and what roles should it fulfill, is still the subject of discussions among its members. It should be noted, however, that the European Union as an international economic integration has always been, from the very beginning of its establishment, conceived, formed and constructed as a political project. It was established as certain political and economic counterweight to the United States. The economy, within the EU project, was conceived as its motor or driving force.

This also applies to present state, when the world is entering a new phase of multi polarity and global uncertainty. EU Member States, on one hand, have to cooperate in creating and maintaining strict rules for healthy development of their own economies and at the same time not to accept the increase of racism and nationalism, which threaten their democracy, stability and security. Currently, the EU Member States, on one hand, want to strengthen the position of the EU and the euro area, but also protect their own national economic and political interests and their sovereignty.
The process that is being implemented at present in order to reinforce the effect of EU integration, is actually federalization. Several member states, however, see this process as a

centralization, which should turn the EU in "a superstate", within which the member states would lose their economic and political sovereignty within .

Federalization of the EU does not mean centralization. Currently, the EU is not a centralized institution and should not become in the future, too. At present, the decisions are largely made by nation states. For example, the EU budget. Only one percent of the GDP of EU member states goes into it while the other ninety percent stay in national and regional budgets. The same applies to the EU budget distribution within sectors. Only twenty percent are the areas directly decided by the European Union. Distribution of other eighty percent is under control of nation states. This is the money for the following areas: social, defense, education, justice access, fiscal - budgetary, security, ...
Of course, certain areas like monetary policy and trade policy are managed centrally. In fact, even these are not carried out without the participation of national states. Decisions in these areas are taken by the European Council, which meets in Brussels, but whose members, the leaders of nation states, actually decide. Here, the only argument can arise on whether the representation of individual member states is equal and how their sovereignty is maintained.

4 Conclusions

The development of content state functions, as well as forms of its implementation, varies with the development of the state itself. In general, the opinion prevails that the instruments of state regulation should not interfere with market forces, but help their more effective performance. The discussion is still ongoing about the extent of a functioning market mechanism and the extent of government intervention in the economy.

The fact is that in globalization and integration processes of these days along with political unrest and economic uncertainty, the state intervention in the economy is growing, worldwide. Current financial and economic crisis has stopped the globalization of financial market, and it seems like greater state intervention and return to Keynes economic theory of effective demand are needed. In the financial sector there are many signs of recovery of approaches for the regulation of this trend. The assumption of the world’s increased moving towards the free movement of capital is challenged. Several major countries have introduced various forms of capital controls. Even the International Monetary Fund admitted that capital controls, under certain circumstances and conditions, are a legitimate part of the tools for management of capital movements.
If we were to approximate the economic thinking and learning of different economic schools to the present time, we could make the following conclusion.

Economic doctrine of A. Smith, the invisible hand of market mechanism and automatically self-functioning market mechanism have always been some kind of ideal. The conditions assumed for a perfect competition, have never fully been established within social and economic development and its increasingly moving away from them.

In certain conditions, particularly in periods of growth and development of the world economy and national economies, state intervention in the economy has been used to a limited extent, broadly in line with the teachings of neoclassical economic theory. The private enterprise activities were supported and stimulated primarily through the increase in money supply. If the economy in its cyclical developments has been in stages of decline and stagnation, also in accordance with Keynes economic theory, the creation of balance between the generated output and lack of its implementation, is in fact the support of effective demand. The theory of state intervention in the economy was not defined in an exact way in the neoclassical nor Keynesian economic theory.

The fact is, however, that real economic problems related to unbalanced state of economy always have specific content and form and are always resolved by the specific instruments of the state policy. These specific tools are used by the state along with the knowledge of economic theory of various schools and their orientation.

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