

# Is a strong state a prerequisite or an obstacle to economic growth?

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**Abstract:** This essay will analyze the effects of a strong state on the economy. To begin with, it will focus on the positive effect of a strong state in dealing with sudden crises. In addition, the ability of a strong state to make consistent policies in directing an economy had also contributed to the economic growth. Then this essay will discuss the negative influence that a strong state had on economy—— the sacrificial of the economic growth to support other aspects like military.

## 1. Introduction

A state with the ‘higher capacity’ can be defined as a strong state (Ahmed, 2014). According to Weiss, ‘The ability of policy-making authorities to pursue domestic adjustment strategies that, in cooperation with organized economic groups, upgrade or transform the industrial economy’ (Weiss, 1998: 5). At operation level, the authorities of a strong state had ability to enforce any policies or laws to deal with economy. Nobody could resist them. This essay will analyze the effects of a strong state on the economy. To begin with, it will focus on the positive effect of a strong state in dealing with sudden crises. In addition, the ability of a strong state to direct an economy had also contributed to the economic growth. Then this essay will discuss the negative influence that a strong state had on economy—— the sacrificial of the economic growth to support other aspects like military.

## 2. Strong state as a prerequisite

A strong state could deal with crises better. During certain crises, the government could use strict policies to lead people to overcome the difficulties. In 1929, the Great Depression occurred, many countries in the world were harmed seriously. Among them, Germany suffered most because the German economy relied heavily on American loans. When American banks asked the German government to give back the money, German economy suffered great losses. From 1929 to 1932, the real GNP growth rates are all negative. The recorded unemployment number reached 6 million in January 1933, which is one fourth of German population. It has been estimated that in January 1933, the true number of unemployed was about 8 million (Whitfield, 2015). During the Great Depression, the Weimar Republic was a weak state as it couldn’t suppress the opposition. When Adolf Hitler took power, he made Germany a strong state by combining the power of the Chancellor and the President to himself and made the DNSAP the only legal party in Germany. He solved economic crisis by first investing money to build infrastructure like Autobahn. The investment led to an increasing state demand that created jobs.

Between 1932 and 1938 the state demand increased with an average annual rate of 26 percent; its share in GNP exploded in these years from 13.6 to 30.5 percent (Ritschl, 2002). Then, the Nazi Party introduced several price controls to control the inflation. Moreover, the New Plan was made to improve the balance of payment. Finally, Mefo Bill was created to achieve rearmament, which created many jobs that finally eliminates unemployment. In 1939, there was even labour shortage in Germany. Since 1933, German economy started to recover (Figure 1). Though Nazi Germany was an evil state, it’s also true that a strong state helped the economic growth at this time. Another example happened in the financial crisis from 2007 to 2009. During that crisis, most main economies suffered negative GDP growth.

Gross National Income in constant prices of 1936 and GNP deflator in German Reich  
 - computations based on data of Statistisches Bundesamt in Wirtschaft und Statistik 3/2009 -

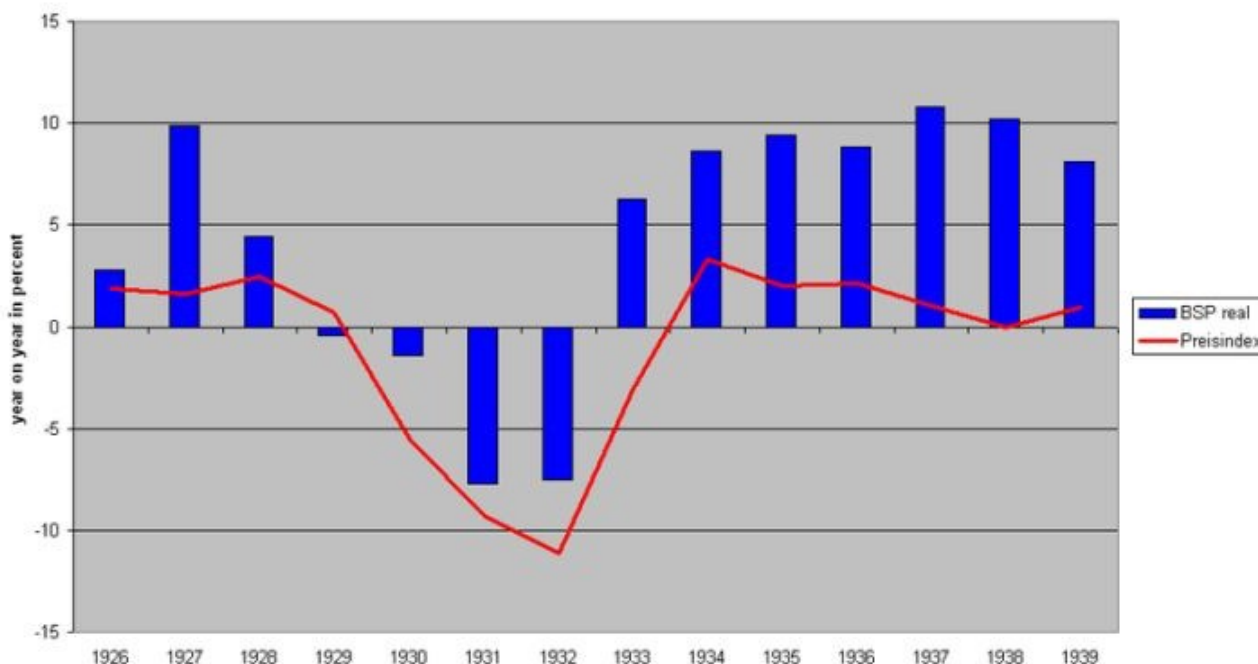


Figure 1 German economy started to recover

China, a strong state, still maintained a high GDP growth rate. In 2009, real GDP per capita growth rate is 8.9%, and this number rose to 10.1% in 2010. The reason why China could still maintain such high growth rate when the global economy is declining is the 4 trillion investment plan introduced at the end of 2008. Assume that the 4 trillion- yuan investment was given in 2009 and 2010 in average, which means 2 trillion yuan in each year, the pull effect on GDP in 2009 was 753 billion yuan, accounting for 2.7% of GDP in 2009. These two numbers rose to 1251.4 billion and 4.1%. The 4 trillion investment plan also created 9.9 million employment in 2009 and 17.8 billion employment in 2010. (Zhi, 2013). This plan finally saved the Chinese economy.

It's true that lots of countries introduced the investment plan by their governments, but only limited of them could invest so much money. For example, the US's plan of investing 700 billion dollars failed to be passed. Moreover, a strong state could deal with not only economic crises, but also crises caused by foreign intervention better. In 1853, four American battleships sailed to Japan. This event was called Perry Expedition or the Black Ship's Event. The result was that the Japanese government signed the unequal treaty with America to open the market in 1854. Not only US, but also Russia, Netherland, Britain forced Japan signed the unequal treaties. At that time, Japan was a weak state as Tokugawa Shogunate, the Japanese government, could not pursue domestic adjustment strategies, in cooperation with organized economic group, that upgrade or transform the economy. According to James Fulcher's word, 'The imperatives of internal inter- state competition produced local absolute states, but the international isolation of Japan made a national absolute state unnecessary'(Fulcher, 1988).

As the government could not satisfy people's wants to build a new institution, Samurais joined the line of the reformers overthrew the shogunate, returned the supreme state power to the Emperor, which formed a strong state. Thus, the Meiji Restoration began. (Yang, 2017). By first investing military industries, Japan started the process to build modern economy. In 1884, the total value of the capital of modern firms like factories and banks was 115,220,000 yen, while this number increased to 887,600,000 yen in 1903. In 20 years, the number grew 6.7 times. (Noro, 1955) This change clearly illustrated the success in economy. From these three examples, it can be seen that strong states could deal with crises better.

Additionally, the strong ability of policy-making authority ensures that its instructions that directed economy will be followed by all people. In a relatively weak state where government have

limited control like Afghanistan, it's impossible to enforce any policy because people in some regions will not listen to the central government. In strong states, the government could enforce policies to achieve economic growth like NIE or Four Asian Tigers except Hong Kong, which was not a state. This essay will choose Singapore as the example to represent these three nations. In Singapore, Lee Kuan Yew took power from 1959 to 1990. When he and his People's Action Party (PAP) had dominate power in Singapore, no other people could challenge his power. The Internal Security Act gave LKY power to suppress all oppositions, which made Singapore a strong state. After LKY took power, he made three strategic changes to economic structure. The first change was the change from import substitution economy to export oriented economy, focusing on shipbuilding, oil refining and electronic industry. The second change called 'the Second Industrial Revolution' was the replacement of labour intensive industry by capital intensive industry. The third change was the development of high-tech industry (Liang, 1991). These three changes could only be achieved so quickly in a strong state as it was not profitable in the short run. In order to promote the second change, the government made 3-year plan to raise workers' income.

The average income of Singapore workers increased 20% in 1979, 19% in 1980 and 18% in 1981. The increase in wages forced firms to give up labour intensive industries (Li, 2003). Finally, these three alterations proved to be very successful. When Singapore became independent in 1959, the GDP per capita is 428 US dollars. And when LKY resigned in 1990, GDP per capita is 12766 US dollars (Singapore Department of Statistics, 2016). Similarly, South Korea and Taiwan District achieved great economic progress when the government had total power to transform the economy. In these three countries, authorities all played a vital role in its economy, which confirmed that a strong state was a prerequisite for economic growth.

### **3. Strong state as an obstacle**

On the other hand, a strong state may also act as an obstacle to economic growth as the emphasis of the leaders of strong states may not be on the economic growth. Some leaders believed that military was much more important as it could strengthen the international position of that country and protect the country from possible foreign invasion. In strong state, leaders could transform the economy that sacrificed other industries to support military industries. This was not very easy to achieve in weak states as people will not be willing to sacrifice their living standard to support a strong army. The best example to illustrate this was the Soviet Union. The Soviet Union was totally a strong state as the government had total control of all organized economic group. During the Cold War, the military spending of the SU was unbelievable. In 1977, the total military spending estimated by western nations (the number published by the SU itself was unreliable) was 130 billion, which was 19.3% of its GNI at that year. At that time, the SU was not in war with any country. Its enemy, the US, spent only 11.1% of its GNI. However, this huge number of military spending was not helpful towards economy. The weapon produced was useful in neither production nor consumption. It was estimated that the military spending was one third of the money that ordinary people in SU could use for consumption (Chen, 1979).

Therefore, if less money was used in military, the consumption will increase a lot, which will finally lead to boom in economy. The same thing happened in North Korea. Due to some political reasons, it is very difficult to know the precise situation of the economy of North Korea. However, it is certain that the economy of North Korea was not good. As shown in Figure 2, it was bright in South Korea, while it was nearly all dark in North Korea. Both countries were strong states initially. South Korea achieved 'Miracle on the Han River' and its economy boomed when it was a strong state, while North Korea was left behind. The reason of the difference may be the difference in military spending. North Korea must build a strong army by itself, while South Korea got the help from US, so it can reduce the military spending a lot. (Global times, 2015) These two examples illustrate the huge military spending, which a strong state will be more likely to have, had negative influence on economic growth.

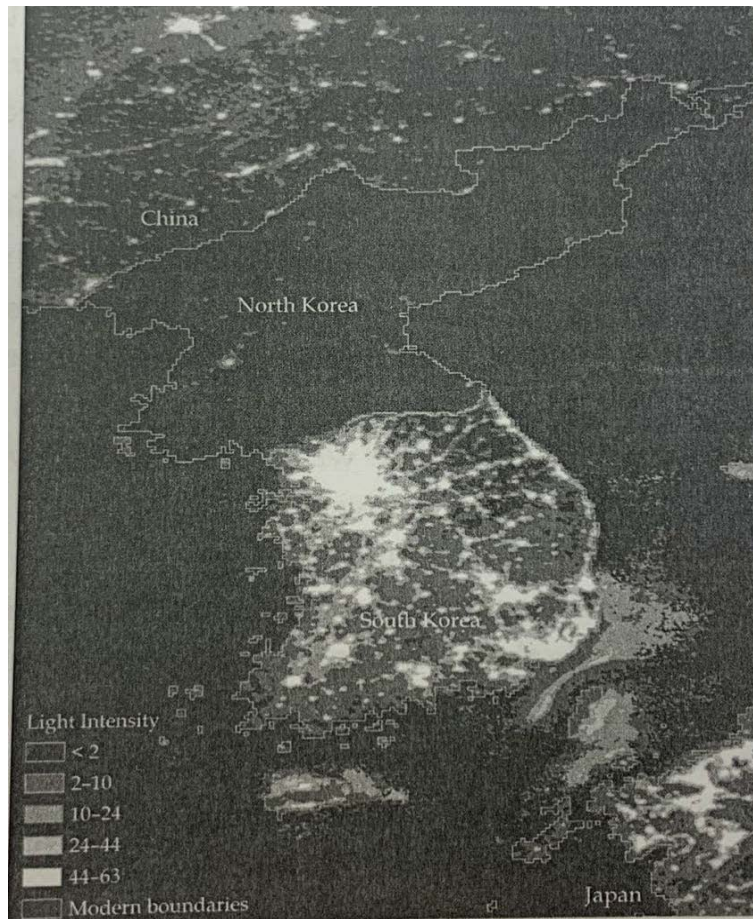


Figure 2 The economy of North Korea was not good than South Korea

#### 4. Conclusion

In conclusion, the better ability to deal with crises and the strong ability to dominate economy contributed to the economic growth in the strong state, and the sacrificial of national economy to support military was an obstacle.

Though the military was necessary for a country, a balance can be reached between military and economic growth. A suitable amount of military spending was beneficial for the economy as it could stimulate production temporarily like the example of Nazi Germany (Chen, 1979). The way to reach a balance between military and economy differs from each nation at different time. However, when this balance was achieved, it was of no doubt that a strong state was a prerequisite for economic growth, but not an obstacle.

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