The role of the state in the development of economies: an evolutionary analysis that takes into account rationality inequalities

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Abstract: What roles in economies could and should the state (government) play, to help, and not do more harm then good? This question is of great general interest, yet still subject to controversies, with no analytically derived and generally agreed upon answer. In search of such an answer, this paper first observes that most of today's economists belong, consciously or not, to one of two categories – say L and R. The main controversies can then be found due to two disagreements between L and R: (1) over preferred economic outcomes; (2) over simplifications of analysis. Concerning (1), L emphasize the demand with preferences for lesser inequalities, while R emphasize the supply with preferences for higher output and higher growth (often with additional preferences for freedom as such). Both prefer low unemplyment, but L typically pay less attention to how the new jobs could be created and sustainably financed. Concerning (2), L's analysis focuses on market imperfections and assumes government perfect, whereas R's analysis does close to the opposite. As a result, L overestimate, and R underestimate, both the needs of the economy for government policies, and the government's abilities to provide them.

In standard economics, where personal preferences are sovereign and a broad range of simplifying assumptions are admitted, the disagreements between L and R can hardly be reduced. But there appear to be interesting non-standard ways, in which this can at least partly be done. This paper follows two of such ways, on which the author has previously done some work: (a) an evolutionary analysis in which personal preferences are constrained by requirements of evolutionary sustainability; (b) a resource-allocation analysis which admits rationality (in the sense of cognitive abilities) it to be unequally bounded, and thus includes it among the scarce resources that need to be allocated. Way (a) makes it possible to express the main disagreements in a formally unified way, as different values of the minimum and the maximum in the following proposition: *Each sustainable economy needs a government, but there is a minimum of what this must do, and a maximum of what it can do, not to jeopardize the economy's sustainablity*. Way (b) importantly enlarges the lists of both market and government imperfections, which makes it possible substantially to diminish the distance between the minimum and the maximum.