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## **Crisis and the role of Government**

### **ABSTRACT**

The paper addresses one of the questions indicated by in the IIPPE Political Economy of Institutions Working Group, the role of institutions and organisations in causing as well as overcoming the crisis. It begins to address the problem of a change in the role of government called for by current trends of structural transformation.

The economic crisis that started in the US sub-prime market is far from being concluded. After the financial crisis and the 2008-2009 recession, growth rates are modest in most industrialized economies and many elements of uncertainty persist. We can observe a tendency towards unqualified support by economists of different inclinations for a resumption of growth based on new technologies. These have, it is argued, the potential to reestablish expansion, therefore resolving both the debt problem and high and persistent rates of unemployment. However, this discourse says little about how growth would come about. Most ‘structural reforms’ have at their core cutting welfare and wages – which will tend to weaken the prospect of a strong recovery.

Leading technology sectors such as ICTs and Biotech show striking technological innovation, considerable market development, and widespread publicity. Both are definitely undergoing development. The point is that their potential for expansion is often predicated in the externalities they create and the possibility of increasing returns. It is however open to question whether this potential can be exploited by private incentives to investment only. For industrialized economies to move towards a full employment boom there must be changes in the agenda of government, or in the distribution of income, or both.

The paper argues that this change implies a re-thinking in the role of government and a new perspective for policy.