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## THE ROLE OF THE STATE IN THE 21st CENTURY<sup>135</sup>

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### **Abstract**

Due to geopolitical changes in the world, thinking primarily of the relationship between the USA and China, intensive changes in the domain of information technologies, which have led to changes in the way of work and life, the question of the role of the nation state in that context is justified. Today, the state and society are facing the putting of traditional values into a new concept, in which the notion of freedom and democracy is more widely observed. Properly understood democratic values should prevent the human rights and freedoms of all citizens from being endangered. What is characteristic of each state is the importance of its institutions, which can be formal or informal. While formal institutions can change almost "instantly", an example of this is a change in the law "overnight", informal ones are slowly changing, such as customs or religious beliefs. The question is whether the welfare state still has the significance that it had before in one society? It is known that the welfare state has been in crisis for a long time, that many of its characteristics have been called into question. Today, in addition to the nation-state and its institutions, other social actors are emerging, such as non-governmental organizations. Then, the relationship between the state and the market is quite complicated today, and the most important issue in that relationship is the economic freedoms of market actors. Depending on their percentage, it is determined which political and economic system will prevail in one country.

**Key words:** US-China relationship, institutions, welfare state, economic freedoms, liberalism

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## **INTRODUCTION**

In the first decade of the 20th century, great geoeconomic and geopolitical changes took place in the world. Some of the changes became clearly visible with the 2008 economic crisis. This paper will discuss one of the most noticeable changes, and that is the change in the balance of power between the United States and China, which have become mutual competitors. Another important change is the intensive digitization around the world. Then, the paper will talk about institutions, although it must be emphasized that the state is the most important formal institution. After the Second World War, the state had a mechanism for protecting the social rights of citizens. Until the end of the 20th century, the welfare state successfully performed its function, but the influence of the welfare state weakened with the flourishing of the new neoliberalism.

## **GEOPOLITICAL CHANGES IN THE WORLD AND DIGITALIZATION**

Former political opponents of the USA and China have become competitors for dominance on the international market. While the US model used to be more attractive to most developed countries, today China has taken the initiative and offered attractive investments, not wanting to interfere too much in the domestic policies of countries that accept its investments. However, the countries themselves must achieve institutional reforms that cannot be achieved "overnight", but through continuous work of several decades, in order to achieve goals such as the fight against corruption, freedom of the press and the realization of human rights. What needs to start immediately is to start economic growth in less developed countries, fight crime and reduce inequality. For now, neither the United States nor China has prepared a "package of advice" that it will offer to underdeveloped countries. In China itself, the development of infrastructure is extremely important, and that is what it advises and offers to other countries as tangible, visible and what remains for the future. For these reasons, many countries choose the Chinese approach because it offers money through the Belt and Road program, rather than advice, making visible improvements that make everyday life easier for locals. Also, China does not advocate interference in the internal affairs of the country whose economic development it encourages. For these reasons, if the United States wants to expand its influence in the world, it should have more attractive offers, ie behave more competitively,



also offering tangible goods such as improving the electricity network, water supply and sewerage systems, building roads and railways, investing in education, health, urban planning, wireless network improvement, and even modernization of production and processing. Thus, it creates a favorable infrastructure that can support the advancement of society in terms of science, education, technology and the reduction of inequalities. True, this was recently mentioned by US President Joe Biden, when he spoke about launching an infrastructure development project in Africa, Asia and South America. This is not unrealistic because the United States still has superior product quality compared to Chinese goods. In the United States, there is open talk of corporate taxation, public education, helping children, which is a different narrative from that advocated by US President Ronald Reagan and British Prime Minister Margaret Thatcher, who ruled the country from the 1970s until recently, until the world economic crisis in 2008. The rivalry between the USA and China, in terms of influence on the international scene, will be more and more pronounced in the next decade (Milanović 2021). In that decade, the world is waiting for recovery from the negative economic consequences of the COVID pandemic in the 19th decade, which the American Nobel laureate, economist Nouriel Roubini, called a "decade of stagflation". Stagflation is now mild, but there is a danger that it may be exacerbated by frequent negative shocks (Vojnović 2021). Although the dialogue between the United States and China is sometimes reminiscent of that of the Cold War, the one between the United States and the then Soviet Union in the twentieth century, this current dialogue of the twenty-first century, indicates that both countries are not giving up on the international economy. "He has to do something." Namely, both countries are working on the development of policies that should reduce income inequality in their own countries, but also in the world, despite disagreements over trade policies, intellectual property rights, and some strategic and military statuses of islands in the South China Sea. It must be emphasized that the growth of inequality in China was stimulated by profound structural changes during the transition from the communist mode of production to the capitalist one, as well as the urbanization of the country, ie. by transitioning from agriculture to industrial production and services. In China, inequality provoked numerous protests motivated by economic and social injustices, land expropriation, differences between urban and rural areas, and according to official Chinese data, in 2019,

about 300,000 cases of "disturbance of public order" were recorded<sup>136</sup>. China is increasing state intervention in the regional centers of western China, expanding high-speed trains, which facilitates the movement of the population from rural to urban areas and vice versa, although there is an aging population<sup>137</sup>. Then, China was saved from many controls, organizing monopolies and pressures from lobby groups representing technology giants that are slowing down changes in the United States. Both countries aim to establish control and order in those sectors that have economic and political power in their countries. At the same time, both believe that education should be competitive, attending the best schools is reserved only for the rich, and for these reasons social mobility in China is as low as in America. Both countries want to change such a situation, and it remains to be seen how successful they will be (Milanović 2021b).

Another major change that took place in the last decade of this century, although it has been developed intensively in the last six decades, has somehow suddenly become visible, and that is the development of information technologies with digitalization. The ubiquitous and visible to the naked eye development of information technologies has led to the application of digitalization in all spheres of life and work. Namely, with the outbreak of the COVID 19 pandemic, the implementation of work from home, electronic storage of documents, payment by electronic means, provision of banking services, purchase of goods over the Internet accelerated and increased. Digitization leads to the flexibility and efficiency of the company because thanks to it, new business models can be created. In science, the business world, but also in everyday life, with digitalization, information itself becomes even more important. Thus, Germany stated that its economy and society, thanks to digitalization, are going through a process of technological transformation, targeted financing of digital infrastructure expansion,

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<sup>136</sup>The expropriation of land enabled "many owners of construction companies to get rich, opened space for embezzlement at the level of local government and deprived farmers of property rights." (Milanović 2021b).

<sup>137</sup>The new slogan of the Chinese authorities is "Prosperity for all", which should promote the elimination of inequality caused by the deep transformations that Chinese society has gone through in the last four decades, as well as the achievement of high growth rates (Milanović 2021b). By the way, this slogan has already been seen in the case of Germany and its industrial renewal. Namely, when Germany initiated the modernization of its state and established a model of social-market economy, it proclaimed the mentioned slogan, as opposed to the slogan of the model of neoliberal economy "Tax for all". The slogan that refers to well-being for all, meant the reduction of income inequalities, equal opportunities for treatment and education, as well as the introduction of rules on the market, contracts and competition (Maksimović 2021, 71).

encouraging digital education, data control and the creation of a modern regulatory framework (Annual Economic Report 2016).

## **INSTITUTIONS, STATE AND LIBERALISM**

It is inevitable to talk about the importance of institutions nowadays, because each institution serves a specific purpose. "Efficient markets are structured by institutions that should have low transaction costs and give incentives to participants to compete through price and quality competition. This implies the separation of politics from the economy, as well as the rule of law" (Maksimović 2021, 19). The American economist Douglas North, divided the institutions into formal (constitution, laws and other positive legal regulations) that change faster and informal institutions that change more slowly (religion, culture, patterns of behavior, values, social behavior and mental models). Institutions determine the rules of the game in society and determine the way in which people organize relations in society economically, socially and politically (Maksimović 2021, 20-21). The supreme formal institution is the state, which makes rules and decisions for the entire community, but also exercises power over its community members, controls the defined territory and supervises the inhabitants<sup>138</sup>. Public policy is associated with cooperation and conflict, and it is conflict resolution that makes it dynamic and complex. A thorough scientific analysis of political life aims to understand and solve the problems of social life, through recognizing the causes of conflict, violence in society, so that such events can be prevented in the future. One of the important characteristics is sovereignty, which is expressed through the definition of the state as a fenced territory inhabited by a population that is obedient to one sovereign. There are many types of states. For example, a minimal state. Viewed through the prism of classical liberals, it provides individuals with freedom, but later it played a significant role in the regulation of economic life in the process of industrialization in the 19th century. In that period in Japan and Germany, the state played a developmental role and was thus called a "development state". Social democratic states influence the market in order to enable the restructuring of society, in order to respect the principles of justice, equality and social justice, eliminating the imbalances of the market economy. Thus, the developing and social

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<sup>138</sup>... The state is no one's collective property, which is secured as much as possible by either the liberal-democratic order or political unions." Thus, neither the territory nor the citizens are owned by the state, much less by individual governments that try to behave in this way. They can be imposed only by the force at their disposal (Gligorov 2021).

democratic state intervenes in economic life in order to support the private economy and the entire economic life. At that time, liberalism advocated the idea of the welfare state and its positive impact on all citizens, especially those endangered and marginalized sections of the population (Rai 2015). In the 20th century, a new division was made into totalitarian and democratic states. In totalitarian states, rule is based on repression, the abolition of civil society, the lack of democracy, the cult of personality of the ruler, visible censorship, and limited freedom of movement. An individual leader is a "master of the world" who has a small group of political elites who monopolize political power, not caring about the care of society and nature, in today's language, the environment. It seeks to control all spheres of social life (economy, education, private life and even the morals of citizens) and to change "the world and human nature". In that case, the state has absolute power and it mobilizes the entire population in order to achieve its goals (Totalitarianism, 2021). In democratic states, citizens have political rights, and can influence state policy, protests, organization of trade unions and various other interest groups, including political parties, are allowed. The administration has been developed and to that end, the state enforces laws and exercises power, imposes taxes, and over time takes on the role of organizer of public infrastructure and social security. Thus, the state is transformed into a welfare state, ie a political organization "that fulfills collective tasks and responds to the interests and needs of its citizens." Today, the welfare state is usually defined as a series of state programs that should correct market inequalities and "save" citizens from unforeseen life situations. In general, the welfare state includes those statutory or public de facto arrangements that absorb life risks such as illness, unemployment, old age and poverty, and through public programs provide or provide housing, education, social services and social protection to citizens." (Rai 2015, 23-25). There are organizations in it that contribute to public welfare, such as churches, professional organizations, trade unions and, finally, non-governmental organizations. After the Second World War, it became quite clear that observed through the scheme of evolution of civil, political and social rights, the welfare state was an institutional mechanism for ensuring the social rights of citizens. Class differences arise from other institutions, such as markets or property institutions, but also from various other factors such as education and the structure of the national economy. The last decades of the 20th century was marked by the emergence of the concept of citizenship, where it is insisted that citizens take on obligations for what they claim. There is no doubt that the welfare state has successfully mitigated the consequences of social inequality and minimized social risks over time,

while today, at the beginning of the 21st century, it insists on the institutions of morality and culture. What affects the welfare state today are: globalization (a reduction in social policy in the name of international competitiveness is required); structural changes in the economy and work (change in economic structure); change in age structure (demographic changes); and an increase in personal freedom, the occurrence of more divorces than before, an increase in domestic violence, a decrease in the income of the elderly, environmental issues (social change). A welfare state can only be established if the nation-state has opted for it (Rai 2015). Thanks to the welfare state, the European balance was maintained after the Second World War, and it was actually a point through which peace intersected in Europe, within European countries, but also between them<sup>139</sup>. Until the end of the eighth decade of the XX century, it was dominant in Europe, thanks to the strength and stability of the classical state as an institution, and then it was possible to make "corrections and upgrades" and thus lead the organization of society forward, making it a social state (Cvetićanin 2014). And just as the welfare state's reputation began to decline, economist Gunnar Myrdal received the novel's 1974 Peace Prize in Economics. He, along with his wife Alva Myrdal (Nobel Peace Prize in 1982), a sociologist, was actually active in the field of social policy in Sweden. It should be noted that in Sweden, the social democratic state was created in the 1930s, and the basic postulate was that welfare benefits both workers and the interest of capital. In their work, Gunar and Alva advocated for the investment of the employer and the state in workers and their children, because caring for children and investing in education will have positive effects on economic growth and labor productivity. For these reasons, they are not just a cost to the state and businesses. Thus, an integral part of the Scandinavian model of growth has become an item of social investment. Today, this is also known outside Scandinavia, because knowledge has become an element on which economies are based, it is an important factor in creating added value. Sometimes more important than capital. In fact, it has become a factor in adapting the welfare state to new social and economic risks known as changes in the economic, demographic and family structure. Scandinavian export competitiveness is achieved on the basis of product quality, and education and retraining are important in order to achieve product quality. People who invest in their skills in this model are rewarded, because the state protects the worker in case of job loss, because it wants to achieve a certain level of labor market

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<sup>139</sup>Through that, each of them tried to solve the biggest political, economic and social problems.

flexibility. The feedback is that workers invest even more in their education. This only confirms the fact that only an educated workforce is not cheap labor and that it is capable of using more technologically advanced production equipment and thus producing more competitive goods. In contrast, the traditional interpretation of the welfare state points to its basic goal, which is to reduce antagonisms between employers and workers, but also workers and shocks coming from the market. In that context, social policies are a political necessity, as well as an economic investment that should be on the border of price competitiveness and expenditure in order to achieve higher economic growth (Avlijaš 2019). A functional welfare state is a state in which citizens have confidence in it, have stable democracy, and in which, in addition to economic rights, social rights are also exercised.

According to Ursula Huws (2020), the welfare state fought against "great evils" in one society in the middle of the 20th century, namely unemployment (unemployment), illness (health insurance), scarcity (unemployment benefits, child allowances), ignorance (education) and training) and neglect. This was supposed to create a social safety net for all, and for the payment of taxes, income taxes, inheritance taxes, taxes on the purchase of luxury goods and other expenses to be proportional to income. Although not everything was ideally designed, it meant that the rich pay higher taxes than the poor. Today, that has changed, and less and less income comes from corporations and the rich, and more and more from value added tax and other taxes of the "poor" (Huws 2020). The question justifiably arises, where does the money that is invested in health, education and social services end up? The answer is that it ends up being the profit of private companies that provide subcontracted services, they charge rent and charge the costs of private financial initiative contracts, which regulate public-private partnerships, or manage nursing homes or private academies. In such conditions, are workers paid below the real cost of living? Namely, on the labor market, the standard model of employment is slowly disappearing, as well as the rights of workers and protection that were part of the model from the middle of the 20th century. Today, job seekers find it difficult to find employment, compensation for work, which is reduced on the slightest occasion, and due to the market turmoil, it is abolished. Can we then talk about workers' rights at all? In the period from 2016 to 2019, the number of adults working on online platforms doubled and increased from 4.7% to 9.6%. It is understandable that since the beginning of the COVID 19 pandemic, this percentage has increased, due to the introduced social distance, which was justified in the protection of employees who come into direct contact with customers. In order to modernize

the welfare state, a reform of public services, a reform of the composition of tax breaks is needed; a new employment law that would offer universal rights to all workers and the self-employed; it is necessary to raise the minimum wage; and new public services (supported by digitization and platform technologies) to ensure quality care for the elderly and those in need of home care, as well as gender equality (Huws 2020).

At the beginning of the 20th century, governments decided to provide social benefits in order to eliminate the danger of mass demonstrations of workers, which could lead to a violent change of government, thus ensuring a certain level of development of democracy<sup>140</sup>. With the monetary reform which was a significant segment in the introduction of the social market economy in Germany, with the regulation of market competition conditions and with the mitigation of the negative effects of the market for the individual, which suited the unions, there was economic and social stabilization. Thus, workers, employers and the state united around one goal, and that was economic progress on the one hand and a dense network of social assistance and unemployment benefits on the other. With globalization, competition has become more intense and the role of the welfare state has not been so prominent, although its importance could and should have been greater than before. However, the recent crises in the form of the influx of migrants and the COVID 19 pandemic have forced states to resort to some of the mechanisms of the welfare state and protect citizens with additional revenues, public works and similar measures to preserve social peace (and ruling parties) (Arbutina 2008). Globally, it can be said that the welfare state, despite difficulties and challenges, has managed to survive in most developed economies, and its biggest task in the future will be to preserve the environment<sup>141</sup>.

It is also important to emphasize the importance of (neo) liberalism in terms of defining the place and role of the state in modern society. When classical liberalism emerged as an ideology, it was the opposite of the aristocratic conservative hierarchy. Furthermore, the entire 18th, 19th and even 20th centuries were marked by liberal and anti-liberal struggles. Only after the Second World War, societies in Europe stabilized, through the synthesis of liberal and anti-liberal tendencies that found their synthesis in the welfare state (Cvetićanin 2014). Liberalism, as an order in the 19th century,

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<sup>140</sup>By the way, the advocate of social insurance, which is an important factor in the welfare state, is Otto von Bismarck, who thus wanted to strengthen the control of the working class through social insurance.

<sup>141</sup>“What connects and holds strong relations between the environment, the economy and society is the concept of sustainability.” (Maksimović 2020, 247).

implied a symbiosis of philosophy and economics as a view of the world, so that “natural law, private property and freedom of human action represent the foundation of a good society and provide potential for its development. The division of labor and the free market were to contribute to the most efficient economic outcome, and thus to the greatest possible prosperity of the community as a whole. Foreign trade based on absolute (Smith) and comparative advantages (Ricardo) allows the market to expand and thus contribute to prosperity.” (Vujačić & Petrović Vujačić 2014, 215). The need for the presence of the state and the legal framework for the free operation of the market (contractual relationship) was emphasized, as well as limiting the power of rulers and certain interest groups (monopolists). Thus, the state regulated the work of the market with positive regulations, while the free market limited the arbitrariness of the state. The notion of liberalism is transformed over time into neoliberalism in the twentieth century, which was first used by members of the Freiburg School (Ordoliberals) between the two world wars. Neo-liberalism had the characteristics of strong state intervention and social policy, as well as a regulated market, the regulation of monopolies, which is supposed to negatively affect competition. With the activities of the Chicago School and Adam Smith in Chile, the original concept changes and the intellectual roots of this concept are denied. Namely, the original proponents of this term are the mentioned Freiburg School and the activities of the Mont Pelerin Society (founded in 1947), and paradoxically, Friedrich Hayek and Milton Friedman are mentioned as recognizable advocates of the new neoliberal ideology. The main goal of liberal theorists is to limit the arbitrariness of rulers, and neoliberal theorists try to implement their ideas in conditions when the institutional state regulation of the economy and society is branched, and their goals were to reduce excessive state regulation in the economy<sup>142</sup>. The latest revival of the notion of liberalism is related to the Washington Consensus and the reforms of US President Ronald Reagan and British Prime Minister Margaret Thatcher. It is not uncommon for them to be mentioned in the context of the profound transformations in China and the transition in the former socialist countries. This new neoliberal concept implies the free market as the most efficient mechanism for allocating resources and property rights and the privatization of state-owned enterprises<sup>143</sup>. In addition,

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<sup>142</sup>Excessive market regulation was considered to hamper the creativity of the subjects.

<sup>143</sup>Only the privatization of state-owned enterprises, which was carried out carefully and systematically, could be considered a good privatization. Rapid privatization with poor estimates and at the same time 100% privatization of companies can be considered suspicious. For example, why would the state sell a company 100%, when it can sell a part and thus



this term is related to measures such as reduced price control and the abolition of state subsidies, only here the consumer is the bearer of demand. Also, the context of globalization is introduced, which offers state institutions a model of behavior that is more efficient. Thus, the reform of the public sector, in addition to customer orientation, implies the decentralization of government, but also the privatization of some public services and social protection systems. Thus, the reform of the economic sector and the economic system implies the privatization of state-owned enterprises, the deregulation of the economy and the liberalization of trade. Today, in the 21st century, the definition of neoliberalism includes ideology, way of governing and a set of social and economic reforms. Frequent criticisms directed at neoliberalism relate to the state's interference in the economic life of a country. However, when the state withdraws, space is left for political elites to manage economic resources. (Vujačić & Petrović Vujačić 2014, 217-221).

## CONCLUSION

The study of the state and social order was the preoccupation of many philosophers, lawyers, economists, from Plato and Aristotle, to Hegel, Weber and many others. Some of them advocated the organization of society through institutions, the rule of law and democracy, the reduction of inequality, but also the payment of taxes. In each country, socio-political and economic circumstances determine what the social protection policy of the population will be. The old forms of social protection related to the risks associated with industrial work, as well as how to compensate for income due to illness or unemployment. Today, new social protection policies mainly apply to children and the elderly, and the creation of equal opportunities in the labor market for all. In addition to the change in the age structure, there are also gender changes in the labor market, then the emergence of non-standard jobs, more and more jobs that are done electronically, which complicates and changes social policy. In the case of the labor market, the motivation of people to work is important. Although the big question remains, how do institutions, whether formal or informal, influence human behavior and motivation? What is the quality of institutions and are they capable of leading to the rule of law? The quality of institutions is certainly influenced by the quality of government, which should be able to develop a society, mobilize the working class, protect the weakest

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generate a part of the income, influence the management and direction of funds. It is well known in the profession that when a company is sold, the most important is the buyer who will fight for 51% ownership of the company, because he is the majority owner and the one who essentially manages the company.

sections of the population and provide human freedoms to all. Change in the world has always been and will always be, the only question left is how to successfully fight them, and the state will be the most important actor in the organization of society for a long time to come.

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