

result of externalities provided by government involvement in the economy.⁵⁰ Thus, government investment may act as a complement to private investment, thereby increasing economic growth rates compared to what would occur in the absence of public investment.

For government intervention in the economy to be successful, it must enhance market opportunities for the private sector, taking care not to distort market signals. Schmitz argues that theories that stress cross-country differences in the incentives offered to entrepreneurs to expand business and adopt new technologies (lower tax rates, for example) may help to explain the differences in per capita growth rates.⁵¹ Proving this type of theory, however, remains the problem. There is also a more traditional role for the government in providing services and information that the market will not supply. Infrastructure is usually cited in this context, but it can go beyond this. In India, for example, the state disseminated techniques, provided credit and developed markets for small-scale cottage industries such as weaving.⁵² As Fishlow points out: "The heart of the matter is not simply taking the state out, but bringing the private sector, and civil society, back in more positively."⁵³

Levine and Renelt find little correlation between most policy variables and rates of economic growth. They conclude: "National policies appear to be a complex package, and future researchers may wish to focus on macroeconomic policy regimes and interactions among policies as opposed to the independent influence of any particular policy."⁵⁴ De Long and Summers echo this sentiment. Their research shows that much of the variation in growth rates between countries cannot be traced to macroeconomic policies, but must be attributed to structural and external factors. Bad macroeconomic policies can result in poor economic

⁵⁰Rati Ram, "Government Size and Economic Growth: A New Framework and Some Evidence from Cross-Section and Time-Series Data," *American Economic Review*, Vol. 76, No. 1 (March 1986), 191-203.

⁵¹Schmitz, op. cit., p. 32.

⁵²Datta-Chaudhuri, op. cit.

⁵³Albert Fishlow, "The Latin American State," *Journal of Economic Perspectives*, Vol. 4, No. 3 (Summer 1990), 61-74.

⁵⁴Levine and Renelt, op. cit., p. 960.