Journal Global Values, Vol. IX, No. 1, 2018, ISSN: (P) 0976-9447, (e) 2454-8391, Impact Factor 3.8741 *(ICRJIFR)*

UGC Approved Journal No. 63651

Role of Government in Economic Development

Sulakshna*, Sachin Singh**

** & ** RGNF UGC, Deptt. of Economics,*

Monad university, Hapur, U.P. India

Absctract

The purpose of the study is to identify the Role of Government in Economic Development. In modern times, the state has to play a vital and ever-expanding role to accelerate process of economic growth. Most of the countries are struggling hard to get rid of poverty and to attain higher living standards. In an underdeveloped economy, there is a circular constellation of forces tending to act and react upon one another, in such a way as to keep a poor country in a stationary state of under-development equilibrium. The vicious circle of under-developed equilibrium can be broken only by a comprehensive government planning of the process of economic development. The major emphasis of this paper are an Government measures to promote economic development and provision of economic and social overheads, provision of financial facilities and the direct participation and indirect measures.

Keywords: *Economic and social overheads, Reforms, Land reforms, Public sector, and Private sector.*

Reference to this paper should be made as follows:

Sulakshna*,
Sachin Singh**

Role of Government in Economic Development,

Journal Global Values, Vol. IX, No.1, Article No. 2, pp.7-14

http://anubooks.com/?page_id=285

Sulakshna, Sachin Singh***

Introduction

State participation in economic activity can hardly be a matter of disagreement, free play of economic forces, even in highly developed capital 1st countries, has often meant large unemployment and instability of the system. Hence, there is a considerable dilution of the laissez-faire principle and the governments are now called upon to intervene in economic fields which were considered sacrosanct. In these advanced countries, State intervention has been involved to ensure economic stability and full employment of productive resource of the community. Here it is obvious that a high rate of investment and growth of output cannot be attained in an under-developed country simply as a result of the functioning of the market forces. Even the operation of these forces is hindered by the existence of and structural disequilibria. Economic development is not a spontaneous or automatic process. On the contrary, it is evident that there are automatic forces within the system rending to keep it moored to a low level. Thus, if an under-developed country does not wish to remain caught up in a vicious circle of poverty, government must interfere with the market forces to break that circle.

In the initial phase, the process of development in an under-developed country is held up primarily by the lack of the social and economic overhead such as school, technical colleges and research institution, hospitals and railways, roads, ports, harbours and bridges. Provision of these overheads requires very large investment. Such investments will lead to the creation of external economies, which in their turn; will provide incentives for the expansion of private enterprise in the field of industry as well as agriculture. Private enterprise will not undertake investments in social overheads, because the returns from them in the form of an increase in the supply of technical skills and higher standards of education and health can be realised only over a long period. Also, it will accrue to the whole society rather than to those entrepreneurs who incur the necessary large expenditure on the creation of such costly social overheads. Therefore, investment in them is not profitable from the standpoint of the private entrepreneurs, howsoever productive it may be from the broader interest of the society .This indicates the need for direct participating of the government by way of investment in social overheads, so that the rate of development he quickened.

Investments in economic overheads require huge outlays of capital which are usually beyond the capacity of private enterprise. Besides, the returns from such investments are quite uncertain and take very long to accrue. Private enterprise is generally interested in quick returns and will seldom be prepared to wait so long. Nor can private enterprise easily mobilise resources for building up all these overheads.

The State is in a far better position to find the necessary resources through taxation; borrowing and deficit-financing sources not open private enterprise. Thus, private enterprise lacks the capacity to undertake large-scale and comprehensive development programme. Not only has that it also lacked the necessary approach to development.

The role of government in development is further highlighted by the fact that under developed countries suffer from a serious deficiency of all types of resources and skills, while the need for them is so great. In these circumstances, what is needed in a wise and efficient allocation of limited resources. This only the state is best fitted to do through central planning, according to a scheme of priorities well suited to the country's condition and needs. Until the country has attained the stage of self- sustained growth, the government must make determined and conscious efforts to push the economy through the take off period of development. Besides, the conditions in the underdeveloped countries are not conductive to rapid economic growth. The tendency towards the formation of monopolistic organisation under the free enterprise system, the unpreparedness and reluctance on the part of entrepreneurs to make investments in schemes of collective value, the lack attention to the long-run problems of the economy and too much concentration on the immediate prospects of profits, the absence of integration among the various sectors of the economy and the possibility of adverse arising, from uncoordinated economic decisions, constitute the major defects of the private enterprise system. A decisive role by the government called to rectify these defects and to overcome obstacles to economic growth.

- **Government Measures to Promote Economic Development**

In view of the peculiar circumstances in which politically, socially and economically the under developed countries are placed, there is not only a great urgency about economic development but also an infinitely much greater effort is required to generate, infinitely the forces of economic growth. This effort is obviously beyond private enterprise in such countries. Owing to adverse political, economic and social factors, these countries have been for long in a state of economic stagnation. They are now becoming, pain-fully aware of the widening disparity between their economic condition and that of the advanced countries, which are getting richer everyday whereas they are caught up in the -vicious circle of poverty. This necessary skates a comprehensive set of measures to be adopted by the government not only to rouse them up from the state of economic slumber but to sec them march quickly on the road of development.

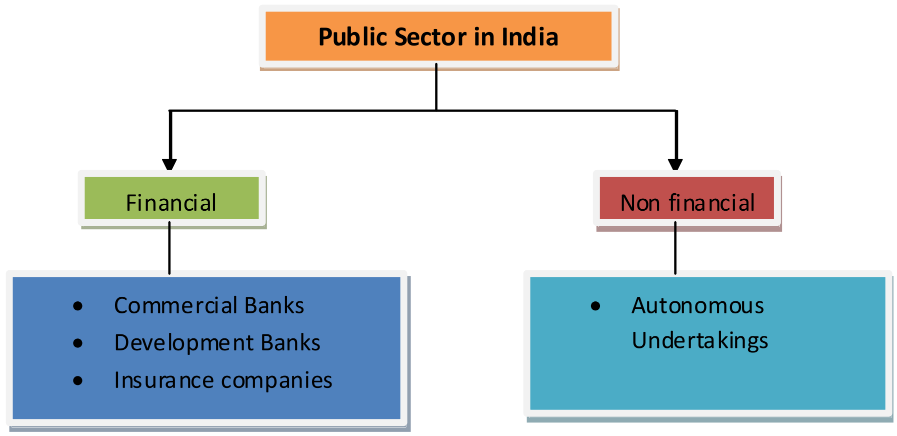
The following are the principal measures, which are necessary for the government of an under-developed country to take in order to accelerate the process of economic growth.

- **Provision of Economic and Social Overheads:**

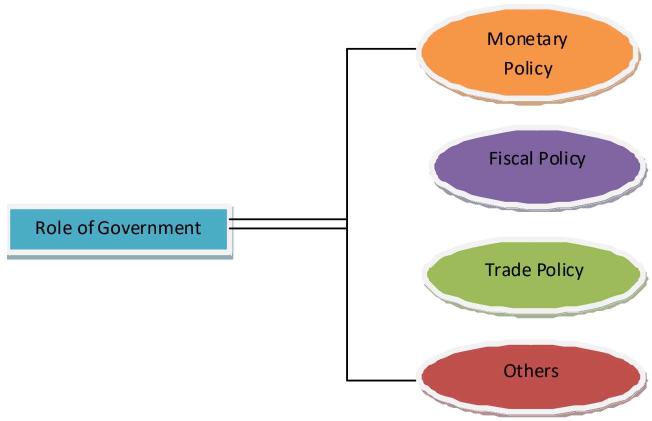
If economic growth is to be accelerated, it is necessary for the government to provide an adequate measure economic and social overhead facilities also called the overhead capital and services or infrastructure. Economic infrastructure includes transport facilities, e.g., railways, roads, harbours, airfields, etc., means of communications, e.g., postal, telegraph and telephone facilities, electric and even atomic energy, irrigation facilities, etc. The social overheads or infrastructure consists of educational institutions (schools, colleges and universities) both for general educational and technical training, public health, and medical aid facilities, housing, water supply and other welfare schemes. "The availability of adequate overhead facilities brings about external economies to other industries, lowers their capital coefficient and by thus improving the efficiency of general investment, makes possible a more rapid rate of economic growth". The under-developed countries are woefully suffering from the lack of such facilities on account of which their rate of growth has been slow and tardy. Only the government can have the ability and willingness to make investments in these directions, where the private investor cannot hope to get any tangible return, and remove a big hurdle in the way of economic growth. Actually, the governments in under-developed countries are making large investments in the provision of overhead facilities. Of total public investment (1950-59), they have ranged from 54 per cent in Ceylon (now Sri Lanka), 56 per cent in India, 66 per cent in Burma and 72 per cent in Thailand.

- **Provision of Financial Facilities:**

Finance is the crux of the problem of development. We know that the under-developed countries suffer from scarcity of capital which is the greatest handicap in their economic growth. No doubt that their savings are meagre but even the meagre savings are not available for economic development. To mobilise these savings, a sound banking system is essential and other financial institutions are required to canalise these savings into investments and supply the credit needs of trade and industry, The government is to see that appropriate financial institutions are set up to meet the requirements of the entrepreneurs.



In India, for instance, the government took steps to reform the banking system and put it on a sound footing, fourteen major commercial banks were nationalised in 1969. In the agricultural sector to meet the short-term credit needs of the farmers, cooperative societies were set up and, for long-term credit, land mortgage banks or land development banks have been organised. Two funds were set up—National Agricultural Credit (Long-term) Operations Fund and National Agricultural Credit (Stabilisation) Fund. The former is meant to give long-term loans to State Governments to enable them to buy shares of cooperatives and to grant medium-term loans to co-operatives and long-term loans to land development banks and the latter fund to give medium-term loans to State Co-operative Banks to enable them to convert short-term loans into medium-term loans. Agricultural Refinance Corporation was set up to serve as a refinancing agency for agricultural credit and to give assistance for reclamation of land, development of special crops, mechanical farming and development of animal husbandry dairy farming, poultry, etc. Small Farmers Developments Agencies (S.F.D.A's) were established and Marginal Farmers and Agricultural Labour (M.F.A.L.) schemes were taken up. Agro-Indus-tries Corporations have also been set up to give loans for the purchase of tractors and agricultural machinery. In 1984 the government set up an open agriculture finance institution that is "the National Bank of Agriculture and Rural Development" (NABARD). The agriculture refinance corporation was merged with NABARD.



In the industrial sector too, financial and other institutions were established to promote industrial development. To assist the small scale and cottage industries several boards were set up such as the Cottage Industries Board, All India Handicrafts Board, Central Marketing Organisation, Inventions Promotion Board, State Financial Corporations, and National Small Industries, Corporation etc. For the large-scale industries were set up the Industrial Finance Corporation of India and the Industrial Development Bank, Of India. Unit Trust of India was created to promote investment. National Industrial Development Corporation was established to grant special loans for the rehabilitation and modernisation of cotton textile milk and jute mills. Industrial Credit and Investment Corporation was set up to assist the creations expansion and modernisation of industrial enterprises in the private sector. For re-lending facilities Refinance Corporation for Industry was set up. Export Credit and Guarantee Corporation was created to insure against export risks, Financial and political, and to furnish guarantees to banks to assist exporters to secure liberal credit facilities. This gives some idea as to what a government in an under-developed country can do in the matter of provision of financial facilities.

- **Institutional Changes:**

Out-model institutions and legal and social structure too stands in the way of economic development of the under-developed countries. Lot of reform and reorganisation is essential to initiate and accelerate the process of growth. These institutional changes include land reforms like the abolition of the feudal system, tenancy reform to give security to the tenants and fix fair rent payable by them, ceilings on land holdings community development projects in the rural areas to promote self-reliance and local leadership, etc. In the sphere of trade and industry, government encourages small industries and regulates and controls the big corporations to prevent the creation at monopolies. To improve labour efficiency, technical institutions are set up, social security schemes are introduced and housing schemes and welfare activities are undertaken. Producer's co-operatives are set up.

The state also regulates relations between labour and capital to maintain industrial peace by means of labour legislation to increase output and minimise losses. The government also promotes marketing to enable the producers to get a fair price for the products.

These measures accelerate economic growth by improving the organisation of production and build -mu up non-material or intangible capital which assists productive effort as much as material capital.

- **Direct Participation:**

In addition to the measures mentioned above, the governments in underdeveloped countries directly participate in economic enterprises to assist private enterprise or to set for them a model to follow. In pursuance of the Industrial Policy Resolutions 1948 and 1956, the Government of India has set up huge public undertakings in diverse fields like the steel plants, heavy electrical, heavy engineering machine tools fertilizers, oil refineries, antibiotics, etc. The profits of these undertakings are available for use in economic development plans. The government mainly confines itself to basic, heavy and key industries which help other industries, whereas the private sector operates in manufacturing and consumption goods industries.

- **Indirect Measures:**

Besides promoting economic development directly as explained above, the governments of under-developed countries promote economic growth of their countries indirectly too. The indirect measures relate to the adoption of economic policies which may be conducive to economic growth. These policies mainly are: monetary policy, fiscal policy and commercial policy. The objective of monetary policy is to control and regulate credit to ensure growth with stability. Credit is liberalised to help industrial and business enterprise, but when it is felt that too easy monetary conditions are hampering growth, credit curbs are applied to check speculation and inflation. As for fiscal policy, taxation is used as an instrument for checking consumption, increasing savings and for preventing investment in undesirable channels and canalising them into desired directions so that economic growth is accelerated and not slowed down. Commercial policy is so designed as to check undesirable imports and promote exports. Foreign exchange dealings are regulated and exchange control instituted to prevent balance of payments position getting out of hand.

Conclusion

Thus, the government in an under-developed country has a vital role to play in stepping up its rate of growth directly by participation in economic activity, by providing economic and social overhead capital or building the necessary infrastructure, by creating financial institutions and by moulding the social structure and adapting the legal framework to the tasks of development and indirectly by pursuing suitable monetary, fiscal and trade policies.

References

1. Toma, S.-G., Grigore, A.-M., and Marinescu, P., *Economic Development and* Entrepreneurship.Procedia Economics and Finance, 2014. 8: **p. 436-443.**

2. Naudé, W. A., *Entrepreneurship and economic development: Theory, evidence and policy. 2013*, IZA Discussion Paper.

3. Shuo, L., *Study on the function of government in the innovation and development process for SMEs in China.2014.*

4. Dewett, K.K. Modern Economic Theory, S. Chand & company LTD, 2009.

5. "State Wise Data" (PDF). Government of India. 29 February 2016. Retrieved 11 December 2016.