



FACULTY OF JURIDICAL SCIENCES

COURSE:BALLB

Semester –IV

SUBJECT: SOCIOLOGY-III

SUBJECT CODE: BAL-401

NAME OF FACULTY: DR.SHIV

KUMAR TRIPATHI

Lecture-38



Role of State in Economic Development

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1. Subject-Matter:

Today the state has emerged as an active participant in the process of economic development in many ways. The doctrine of laissez-faire is dead.

Now the government has started participating increasingly in the productive activities and through its monetary and fiscal policies are guiding the direction of economic activities. It also determines the distribution of goods and services in the economy.

The process of development in case of developed countries was spread over a long period but under-developed countries today have no time to wait and it is essential for them to cut short the period of development. In this case the government has an important role in the process of development.

These countries have remained stagnant and a positive government intervention is necessary to put them on the path of the growth. In order to reduce the various rigidities inherent in an under-developed country, the state must play the strategic role.

According to UN Study Group, "In addition to the functions, governments normally perform, there is a large borderland of functions which they ought to perform for the simple reason that they are important, and are not carried out sufficiently, by private effort. This borderland can exist in any country, but it is wider in under-developed countries, because private enterprise in the latter is more knowledgeable and more enterprising than in the former."

In under-developed countries planning is not limited to intervention but is regarded as a necessary condition for economic development. Since resources are scarce in under-developed countries, it becomes necessary to plan their distribution among various projects as well as plan their utilization in these projects.

Thus the under-developed countries cannot escape planning if they want to develop themselves in a reasonably short span of time which implies that time factor is very important.

The problems prevailing in the under-developed countries cannot be solved by private enterprises and thus the state action is necessary for the economic development of these countries.

It controls over production, distribution, consumption of commodities and to perform this the government has to devise physical controls and monetary and fiscal measures and these

measures are essential for reducing economic and social inequalities that are prevailing in under-developed countries.

“Breaking social chains, and creating a psychological, ideological, social and political situation propitious to economic development becomes the paramount duty of the state in such countries.”

The sphere of state action is very vast. It includes, “maintaining public services, influencing the use of resources, influencing the distribution of income, controlling the quantity of money, controlling fluctuations, ensuring full employment and influencing the level of investment.”

Thus the state has to shoulder heavy responsibilities in order to ensure rapid economic development in under-developed countries. This task can be performed by two types of measures i.e. (A) Direct and (B) Indirect.

2. Types of Measures:

(A) Direct Measures:

For the economic development of under-developed countries state has involved itself directly and performs certain vital functions which are enumerated below:

1. Organizational Changes:

The organizational changes play an important role in the process of economic development. It includes the expansion of the size of market and the organization of labour market. The state can develop the means of transport and communications for expanding the size of market because private enterprise cannot be capable of undertaking such schemes.

Moreover, the state can help the growth of agriculture and industries. The organization of the labour market also falls under the functions of government.

It increases the productivity of labour. The government helps in organizing labour by recognizing labour unions. It fixes working hours, payment of wages, establishes machinery for the settlement of labour disputes, provides for social securities measures etc.

This establishes relation between the employers and employees which increases efficiency of labour which in turn increases the production and reduces the cost.

The majority of people, who live in rural areas are engaged in agricultural operations for a fixed period. They are not aware of the employment opportunities in towns and industrial centres. The government can help them in getting jobs by opening information centres in rural areas. Thus the government can help in the mobility of labour.

The problem of urbanization arises, when the development labour moves from rural to urban areas and it is solved by the government. Such problems relate to housing, drinking water supply, electricity, slums, transport etc.

2. Social and Economic Overheads:

The main obstacle in the way of economic development of under-developed countries is the lack of economic overheads such as means of communications and transportations, ports, electricity irrigation etc. In industrially advanced countries, these facilities are provided by private enterprises.

But in under-developed countries the private enterprises are not interested to invest because the return is not fruitful and, moreover, such huge investments are beyond the capacity of private sector.

Besides this, there is dearth of entrepreneurial ability in under-developed countries and the entrepreneurs prefer to invest in trade, housing, gold, jewellery etc. where the rate of return is very high. Thus, it becomes the responsibility of state to provide these economic overheads in the under-developed countries.

It must also provide the education and training facilities and health services to accelerate the pace of economic development. Prof. Meier and Baldwin observes that the expansion of educational facilities and public health measures in under-developed countries reduces the obstacle to development.

3. Education:

Education plays an important role in the process of economic development.

According to Myrdal, "To start on a national development programme, while leaving the population largely illiterate seems to be futile. The educational facilities provided in under-developed countries increase their geographic and occupational mobility, raising their productivity and facilitating innovations. The quality of labour is very important for economic growth."

Unskilled workers even working for long hours result in low per capita income. It is through public education that the state can increase the effective labour supply and hence their productivity. There should be free and compulsory provision of primary education and the schools of secondary education should be opened.

Various training institutions should be opened to provide training to mechanics, electricians, artisans, nurses, teachers, etc.

Thus “Programme of education at the base of the effort to forge the bonds of common citizenship to harness the energies of the people and develop the nation and human resources of every part of the country.” Education is both a consumer and an investment service. Prof. Galbraith regards that investment in educating each and every man is directly productive.

He argues that, to rescue farmers and workers from illiteracy may certainly be a goal in itself, but it is also a first indispensable step to any form of agricultural progress. Education so viewed, becomes a highly productive form of investment.

He further concludes that, “something is both a consumer service and a source of productive capital for the society does not detract from its importance as an investment. Rather, it enhances that importance.” Thus education is the focal point of development.

4. Public Health and Family Planning:

The development and maintenance of public health services are important functions to be performed by the government. It is necessary that the health of people should be maintained to increase the efficiency and productivity of labour.

Public health measures generally include the improvement of environmental sanitation in both rural and urban areas, removal of Stagnant and polluted water, better disposal of sewage, control of communicable diseases, provision for medical and health services particularly in the field of maternity and child welfare, health and family planning education and the training of health and medical personnel and all this requires planned efforts on the part of public authorities.

Public health assumes greater significance in under-developed countries for its capacity to improve the composition of labour and raise its efficiency. But all the development efforts will be futile, if the growth of population is not checked.

Meier and Baldwin observe that the public health measures affect economic development in both ways.

They facilitate development by improving the qualitative composition of labour force. At the same time, they make need for development all the more urgent by increasing the size of population. Improvement in health will decline in death rate which in turn increases the population and it has adverse effect on economic growth.

The problem of poverty in under-developed countries cannot be checked, unless the rapid increase in population is checked. In highly advanced countries there is need to reduce the fertility rates. For this family planning clinics should be opened in rural areas, in industrial

end other backward areas. There should be incentives to encourage parents to have fewer children.

More emphasis should be laid on removing barriers to birth control, raising the marriageable age etc. The problem of population explosion can be avoided in under-developed countries if the family planning programme is adopted on governmental scale.

To include, Lewis quotes, One needs to put all the ingredients into this pie, to convert social leaders into seeing the dangers of a high birth rate, so that the taboos and religious sanctions turn against it, instead of favouring it; to raise standards to living and education rapidly, so that women find it convenient to have fewer children and to make widespread propaganda about birth control techniques.

Action is needed on all fronts simultaneously.

5. Changes in Institutional Frame Work:

Economic development cannot take place in static institutional frame work. The rigid institutional frame work is a positive hindrance in the path of development in UDC. Prof. Paul Streeten has rightly observed that, "The difference between economic growth in advanced countries... and development in so called developing countries is that in the former attitudes and institutions are by and large, adopted to a change and the society has innovations and progress built into the system, while into the latter attitudes and institutions and even policies are stubborn obstacles to development."

The people of a country must desire progress and their social, economic, legal and political institutions must be favourable to it but in UDC these conditions are largely absent and there is a great need of social and cultural revolution. UNO has rightly observed that, "**the people of a country must desire progress and their social economic, legal and political institutions must be favourable to it.**"

These conditions are largely absent in under-developed countries and in many of them a social and cultural revolution is needed. A United Nations Report observes in this connection that, "there is a sense in which rapid economic progress is impossible without painful adjustments.

Ancient philosophies have to be scrapped, old social institutions have to disintegrate, bonds of caste, creed and race have to be burst and large number of persons, who cannot keep up with progress, have to have their expectations of a comfortable life frustrated."

Economic change is not brought about by institutional changes alone. It is caused by both economic and non-economic factors. Thus, there must be a casual relationship between economic and the institutional changes or these changes may be independent of each other.

The government play an important role in changing the institutional structure in developing countries and creating conditions for evolution of new institutions. “New inventions may create new commodities or reduce the costs of producing old commodities.

New roads, new shipping routes or other improvements in communications may open up new opportunities for trade. War or inflation may create new demands. Foreigners may arrive in the country, bringing new trades, investing new capital or offering new changes of employment.”

Such new opportunities bring about changes in institution. The institutional changes can be brought about by the state in the form of land reforms, improvement in the laws of inheritance, regulation and control of monopolies, regulation for the control of money market, improvement in the distribution system etc.

According to Lewis, “Every government has to take an attitude on such questions as whether it favours large or small scale enterprise, competition or monopoly, private entrepreneurship, co-operatives or public co-operation and whether its attitude is to be backed by legislation and by administrative action. In addition to helping the evolution of suitable economic institutions, the government can also do a lot in moulding the social and political institutions of a country.”

6. Stepping up Rate of Investment:

The process of development is accelerated by increasing the rate of investment. The rate of savings in UDC is highly inadequate as compared to their investment requirements. Thus, it becomes essential for government to accelerate the rate of capital formation in these countries and the government can achieve this through taxation or inflation.

The socialist economies have also been able to save and invest a very high percentage of their national income because of their government’s active role in the field of capital formation.

7. Agricultural Development:

In UDC majority of people depend upon agriculture for their livelihood. Lack of irrigation and credit facilities are main hurdles in the way of economic development. If the agriculture remains backward, the other sectors of the economy cannot develop because agriculture is the basic industry and the other industries depends upon it for raw material.

Shriman Narayan has given the following main elements in the preparation of agricultural production plans at the village level:

(i) Full utilization of irrigation facilities, including maintenance of field channels in good conditions for the beneficiaries, repairs and maintenance of community irrigation works;

- (ii) Increase in the area under multiple cropping;
- (iii) Multiplication in the village of improved seed and its distribution to all cultivators;
- (iv) Supply of fertilizers;
- (v) Programmes for compost and green manure ;
- (vi) Adoption of improved agricultural practices e.g., soil conservation, contour bonding, dry farming, drainages, land reclamation, plant protection etc.;
- (vii) Programmes for new minor irrigation works to be undertaken in the village, both through community participation and on an individual basis;
- (viii) Programme for the introduction of improved agricultural implements;
- (ix) Programme for development of poultry, fish and dairy products;
- (x) Programme for increasing production of vegetables and fruits;
- (xi) Animal husbandry e.g., supply of stud bulls, establishment of artificial insemination centres and castration of scrub bulls etc. and
- (xii) Programme for the development of the village fuel plantations and pastures.

The success of the agricultural development programmes depends upon land reform measures taken by the government.

The main objectives of land reform measures according to IPC have been twofold:

- (i) To remove such impediments to increase in agricultural productivity as arise from the agrarian structure inherited from the past. This should help to create conditions for evolving as speedily as possible an agricultural economy with high levels of efficiency and productivity and
- (ii) To eliminate all elements of exploitation and social injustice within the agrarian system, to provide security for the tiller and assure equality of status and opportunity to all sections of all rural population.

Land reforms measures include:

- (1) Abolition of intermediaries;
- (2) Security of tenure as tenants;

- (3) Right to purchase land which tenants cultivate;
- (4) Compensation for permanent improvements made on land by tenants;
- (5) To limit the rent charged by landowners;
- (6) Fixation of ceilings on agricultural holdings; and
- (7) Consolidation of holdings.

Thus the agrarian policy of government consists of organisation of agriculture on co-operative lines, provisions of irrigation and credit facilities, establishment of subsidiary industries etc.

8. Industrial Development:

In LDC, the natural resources are under- developed or less developed. This is due to the fact that these countries remained under the colonial rule for a long period and their natural resources were mercilessly exploited for their selfish ends. After attaining their freedom there was no logic to leave the development of these resources in the hands of foreign dominating countries.

Furthermore, these poor countries lack in basic and key industries like iron, steel, cement, heavy engineering etc. The fact is that these industries required heavy capital investment, technical knowledge. These basic amenities are beyond the reach of private investors in these countries. In addition to this, private entrepreneur is totally reluctant to enter in these areas of production.

Therefore, it becomes the prime duty to start basic and key industries to boost the economic development of the country. Again these big industries need long gestation period. On the other hand no doubt these countries have some basic consumers goods industries are primitive and superstitious.

Few manufactures control the entire economic structure and industries are confined in a few big cities while rest of the country remains backward facing a number of problems.

It is therefore the urgent need of the hour is that the state should come forward and take measures to formulate and implement a judicious industrial policy. This industrial policy should focus on decentralisation of industries which may spread all over the country without any political interference.

A policy should be framed to promote exports which may substitute import which in turn will be helpful for rapid economic development. Special measures should be taken to

establish cottage and small scale industries in rural areas so that the local resources may be used. It must provide larger opportunities of employment to the rural folks.

In addition to this state should try to prevent the emergence of monopolistic organisations and concentration of wealth in few pockets. The state can go a long way in the growth of private industries by importing capital equipment machinery and technical knowhow and even raw materials.

It should also provide various facilities and concessions for the promotion of basic and key industries. They can provide cheap credit facilities, tax rebate, cheap power, water, transport facilities etc., specially to those who are engaged for consumer goods industries for domestic consumption.

9. Influencing the Use of Resources:

UDC are generally characterized by under-utilization and mis-utilization of resources. Hence the government must take measures to ensure proper utilization of resources. There is problem of conservation of natural resources like forests and minerals. They should not be allowed to be utilized in a wasteful manner.

Here the government is required to play a role influencing the use of scarce resources. There are also problems of proper land use, proper planning of towns and proper location of industries and it requires long term and comprehensive planning on the part of government.

10. Removal of Inequalities:

Another important function of state is the removal or at least reduction of inequalities both economic and social. There is a great social disparity between various groups of society due to the highly unequal distribution of income. In fact, the economic and social inequalities are closely related to each other.

The government must adopt appropriate measures for the equitable distribution of wealth. The government should impose progressive taxes on income and wealth and on luxury goods and benefit the poor through wise public expenditure policy.

Prof, Gunnar Myrdal has rightly remarked, "The usual argument that economic inequality by resulting in enriching the upper class being able to save more of their higher income has even less relevance in most UDC where landlord and other rich people are known to squander their income in conspicuous consumption and investments and sometimes in capital flight."

The policy declaration in all UDC stresses the need for greater equality and in particular in raising the standard of living. Social inequality is also increasing in these countries. Policy

measures should be taken in the interest of poor but most of them are not implemented or not put into practice and do not favour the poor.

It is very clear that only those inequalities are removed that arise from the institutions of the ownership of means of production and inheritance. The functional inequalities which arise from hard work, education, intelligence etc., have also important role in the process of development.

11. Optimum Allocation of Resources:

The UDC has the problem of optimum utilization of economic resources. In most of UDC natural resources are not only underutilized but mis-utilized. Conduct of a proper survey of natural resources and their proper exploitation is not possible without active participation of state.

The various economic policies should aim at proper balance in the rate of development of different sectors and in the rate of development of different industries in each sector.

To secure the balanced economic growth greater employment opportunities must be taken. The UDC not only lack in resources but are immobile also. The government should improve the mobility of factors of production by furnishing information about employment opportunities by setting employment exchanges and other appropriate institutions.

The ultimate aim of economic development is to create conditions of full employment of labour and other resources. The state must mould the attitude of people in right direction. They must adopt attitude to work, thrift and to other problems of development.

12. Maintenance of Peace and Security:

Peace and security are the two things which are essential for economic growth. Therefore, it becomes the responsibility of state to maintain law and order internally and to secure the country from external invasion. It will bring stability in economic system so as helpful in making bold decisions. A country involved in a prolonged war or internal strife cannot plan economic development in an effective manner.

13. Balanced Growth:

The development of UDC is unbalanced and lop sided. It is realised that the UDC must adopt the strategy of balanced growth but this cannot be achieved by an individual enterprise. It has to be planned in a systematic manner by the government.

The state ought to be a great innovator and industrial pioneer to bring about the desired change. Now a day's state is considered as an important agency promoting the balanced growth of the economy.

14. Self Reliance:

UDC are dependent on foreign trade for their development projects. In fact, foreign aid is beneficial at initial stages of development but the process cannot go endlessly. Sooner or later these countries stand on their own legs. Thus, self-reliance is must for these countries.

It should be looked upon not as an end but as means to attain economic development. This implies creating a strong industrial base. After a certain stage foreign aid becomes burden rather than help. Then it is better to remove it for success of economic development. The state has to play major role to achieve this objective.

(B) Indirect Measures:

In an indirect manner, the government can perform a vital function in providing the ever increasing needs of people.

1. Monetary Policy:

A proper monetary policy helps economic and industrial development by increasing the volume of scarce resources, raising the productivity of factor of production, improving the economic and social conditions and removing the various bottlenecks in the process of economic development. In developed countries control of money supply by the government is necessary as they had ensured the full employment.

But in UDC the unemployment is not due to cyclical fluctuations but is primarily the result of paucity of resources to put the people to work. This can be checked by creating additional resources through capital formation. In such countries monetary policy has to be utilized as an instrument of increases capital formation and diverting investment resources into desired channels.

2. Fiscal Policy:

Fiscal measures, through changes in government revenue and expenditure patterns have increasingly come to be regarded as a desirable as a desirable instrument of government policy in UDC. Taxation can be used for increasing savings by restricting consumption and directing investment in promoting channels and preventing it from going into undesired lines.

The direct investment to sociably desirable channels, stimulate private investment, promote distributive justice, avoid economic fluctuations and so on. Deficit financing can help in raising the rate of capital formation in UDC.

3. Price Policy:

Another important field of economic activity of government in LDC is regulation and control of prices. In the initial stage of economic development prices increase due to increased investment in the economy due to policy of deficit finance followed by the government.

Hence, it is essential for the government to evolve a suitable price policy and keep the prices of essential commodities under control.

4. Increase in Foreign Trade:

Foreign trade is there in a UDC but the size of foreign trade in terms of value and quantity is small. The government can promote exports, facilitate the import of goods necessary for promoting and accelerating economic growth and restrict the import of luxury goods.

Foreign exchange crisis in developing countries can be checked through proper exchange control measure adopted by the government so that scarce foreign exchange resources are conserved and properly utilized.

5. Strengthening of Public Sector:

Another vital role of the state economic development that encourages public sector for due social welfare of the common masses.

6. Economic Planning:

To come over various problems planned process of priorities has to be followed. Today the choice is not between planning and non-planning but between different degrees of planning. Therefore government watches that the economic resources are used for socially described beneficial projects. Public finance is used to secure balanced development in different projects.

They need capital for investment but UDC have the scarcity of funds and funds can be raised through deficit finance also. Therefore it is the prime duty of the government to watch whether these funds are invested in proper channels and there is no wastage of resources. More over they also watch that deficit finance should not have any inflationary impact of the economy.

7. Public Debt:

When government lacks internal resources, it uses external assistance to accelerate the pace of economic development of the country. In this regard government adopts certain measures.

3. Limitations:

It is clear that government plays an important role in promoting economic development in LDC.

In spite of this it has certain limitations:

1. The planning initiation and direction of economic development is not sufficient. There is no fault in the plans but the implementation is faulty and is found lacking in most under-developed countries.

2. In UDC, government machinery is generally corrupt and inefficient. The rapid expansion the role of state has resulted into corruption but it is dangerous in case of LDC where the standard of public morality is low.

3. The excessive state interference in economic life leads to dictatorship and consequently the economic freedom of people is lost.

4. There is limited capacity of government's administrative machinery to perform expanding development functions in developing countries. The government's administrative machinery is inadequate and under-developed.

Hence one cannot depend upon the government policy and programme in an efficient manner. While expanding the government enterprise the capacity and quality of administrative machinery must be taken into consideration.

5. There are many political pressures on the government which make impossible to concentrate on the most important economic activities. The priorities are distorted and public sector projects are selected not according to their economic feasibility but in order to please the various pressure groups.

6. The more and more responsibilities by the state adds to burden and cost of administration. The administrative machinery goes unwisely and public service swells so rapidly that it becomes impossible to get it properly trained and experienced persons to run the administration. The less tale

