CHAPTER-II

ROLE OF GOVERNMENT IN ECONOMIC DEVELOPMENT

Introduction :

Indian economy was backward at the time of commencement of the Indian planning. In this context, Government has a role to promote economic development. Hence, it is worth seeing the role of Government in economic development.

Classical economists denied Government intervention in economic activities and gave stress on Laissez Faire policy. They argued that economy should be free from Governments restrictions. State should play a part only in the works like protection and justice.

But modern economists ~~argues~~ argue that Government should not remain neutral in economic activities. Government should have built road, rail and should start basic and heavy industries. A particular type of stagnation in underdeveloped country can be avoided by the systematic efforts of the Government.

Role of Government in Economic Development :

It is now universally recognised that in order to overcome the regidities inherent in an underdeveloped country, the Government must play a positive role. Underdeveloped country suffer from some deeply rooted problems. Private enterpreneurs cannot solve these problems. Hence Government intervention is necessary in specific activities. There is necessity of economic and social reforms. The need of education rail, roads, basic and heavy industries, power and social services, etc. cannot be fulfilled by private entrepreneurs. Production, distribution and consumption needs some limitations. Further, underdeveloped country suffer from problems like social and economic inequalities, low saving and investment, low per-capita income caused by growing population etc. Hence, Government can interfer to solve these problems. Government action is, therefore, indispensable for the economic development of such countries. Following points discusses the role of Government.

1) (a) Government can fulfil some collective wants like protection, flood control, public health and sanitation, anti-draught measures and public gardens etc.

(b) Only Government can start risky undertakings like creation of automic energy and space research etc. No private person can do it.

(c) Government starts and run some industries on 'No loss, no profit' principle for the public good or social welfare.

2) Social and health programmes like control of population, eradication of diseases, hospitals and health

centres, remedies on pollution, drainage and slum area programme etc. are tackled only by Government. Such type of social and public health activities increase productivity of the masses.

3) Economic development is impossible unless there are education facilities. As a Myrdal says, "To start on national development programme while living the population largely illiterate seems to be futile". Education increase productivity, ability and mobility of labour. Primary secondary and higher education provides mechanics, electricians, artisians, doctors, teachers, agricultural assistants etc. They adds to the effective labour supply skill and productivity. "Programmes of education harness the energies of people, develope the nation and resources of every part of the country. It helps to enjoy something more or to understand something better."[1] Hence, Government starts educational activities.

4) There are some agricultural problems in under-developed country. Agriculture require some constructional changes to increase its productivity. Government can apply some legislations to change agricultural construction. Agricultural finance, market imperfections, labour problems, etc. require~~s~~ Government intervention.

5) Government can try to increase the factors of production. Creation of banking facilities, labour training and proper use of land, etc., increase the productivity of factors of production.

6) Sometimes, Government starts some industries in partnership with private entrepreneurs and give incentive to the production. Government own some industries and some are left free for private entrepreneurs. Government activities like loan facilities, help of mechanical and technical know how efforts of expert promotion, provision of raw material etc. gives incentive of production to the private entrepreneurs.

Above all, there are some indirect function of Government for the economic development of the underdeveoped country.

Government can use its fiscal measures to increase investment, to maintain economic stability and bring about redistribution of national income. Fiscal tools like taxation, borrowing, and deficit financing etc. can be employed to augment capital formation. Fiscal policy can aim at increasing savings and investment in the economy. In under-developed country, where monetary policy is ineffective due to the existance of underdeveloped capital and money market, fiscal policy may be relied upon and monetary policy can be an adjunct to fiscal policy. Fiscal policy again, plays an important role in development plans of underdeveloped countries. Under planning, a balance has to be achieved both in real and monetary terms. In other words, a fiscal plans has to be matched by financial plans. "The implimentation of the financial plans and achievement of balance in real and money terms obviously will have to rely largely on fiscal measures."[2]

Thus, the role of Government in underdeveloped country is important one. But, unlimited intervention of Government in economic and social activities is objectionable. Vast intervention of Government creats delays everywhere. Government may become dictator and limitations falls on the liberty of the people. Therefore, limited intervention of the Government in economic activities is accepted on the ground that, mass liberty, democracy and social and cultural values are protected.

R E F E R E N C E S

1) G.O.I., Third Five Year Plan, p. 183.

2) Raja J. Chelliah, "Fiscal Policy in Underdeveloped Countries", p. 123.