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Role of Government in Economic Development

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SUMMARY

The primary objective of the Government is to foster public welfare in the country. It acts as an instrument of economic growth through implementing fiscal policy that changes spending and tax rates or monetary policy that regulates the money supply and regulates the use of credit. The major developmental challenge for India is inclusive growth. Growth has unambiguously minimized poverty and increased human condition of India. But the gains of the middle and rich classes were greater than the gains which went to the poorer sections of society.

INTRODUCTION

Government provides the legal and social structure, maintains competition, provides public goods and services, provides national security, employment and social welfare, corrects externalities, and stabilizes the economy. The government also offers measures that help promote market and policy functioning to correct situations when the market fails. It may slow or accelerate the rate of growth of the economy in the process causing the level of prices and employment to increase or decrease. In addition, directing the overall rate of economic activity, seeking to sustain stable growth, high job rates, and price stability.

Government Role in Economic Development By 2020

The Indian economy's recession has bottomed out and the government has taken measures in the recent budget to improve spending ability in the rural sector, infrastructure development and inviting foreign investment would boost growth, said by state bank managing director of India Honorable Dinesh Khara. The survey forecasts real GDP growth at 5 per cent in financial year 20 with the assumption that growth rates in financial year 21 will raise to 6-6.5 per cent. The deceleration in GDP growth can be understood as part of a slowing growth cycle. Finance Minister Honorable Nirmala Sitharaman announced the issuance of government bonds in foreign currency in the 2019-2020 budget speech. The measure can have a positive effect and send stimulus to a credit starved and slowing economy.

Functions of State

Defensive Function:

This primary function of the State includes the protection against external aggression and the enforcement of law and order, as these two are vital for economic growth.

Administrative Function:

Establishment of administrative structures and agencies for the administration and control of the various departments in the country.

To Provide Social Security:

Insurance for accident protection, aid to the poor, the disabled and the unemployed promotional of natural and human resources by providing education, medical services, accommodation, public parks, museums and sports grounds.

Economic Functions:

Analyze, discover & make optimal use of natural resources. Make development sustainable by maintaining economic stability. Reduce income inequalities by reducing the disparity between rich and poor and by ensuring greater socio-justice. Stimulate economic growth through the arrangement of required raw materials, machinery and international assistance & development plans.

How the State Accelerates the Economic Growth

Direct Role

Ensuring Economic Stability & Full Employment

State interference in developing countries that have free market economies is a necessity. It is achieved in underdeveloped nations by addressing poverty and unemployment and achieving higher living standards.

Comprehensive Planning

By investing through comprehensive state economic planning, it is possible to break the circle of undeveloped equilibrium and check economic forces.

Control over Market Forces

While it is possible to achieve a high investment rate and economic growth. The state interferes with the functioning of economic forces within the system to examine systemic imbalances.

Provision of Social and Economic Overheads

Since there is no immediate return on capital, private companies do not like investing in basic services such as rail, road transport, telecommunications, electricity, posts, harbors, bridges, schools, research institutes, etc. Therefore, it is the state responsibility to invest in these overheads and support the country's rapid economic development.

Agricultural Development

It is the statutory duty to implement productivity movement programs for land reforms, consolidation of holdings, electrification, minor irrigation programs & frame such a national agricultural policy that will ensure fair prices for farmers crop on our own markets and abroad. It must be for the state as 68 per cent of people depend on agriculture in countries like India and contribute 37 per cent to their national income.

Industrial Development

The state should survey its natural resources, formulate a proper policy for their exploitation and development, and also establish industries to make utilization in the most profitable manner. Make a national monetary and fiscal policy to govern and monitor both private and public enterprises, and to stimulate and direct them towards the country's industrialization.

The Entrepreneurial Function

The state will carry out planning, programming and entrepreneurship functions in underdeveloped countries. Reduce economic indivisibilities and discontinuities, resolve diseconomies scale, have impact values and counteract some other powers that emerge to suppress the country's economic growth.

Control of Monopoly

The state adopts various controls, to offer benefits to the people, India's government took MRTP's (Monopolies and Restrictive Trade Practices) policy to act to regulate the market from the hands of a few monopolists, and also to avoid customers, manipulation. In addition, the state also adopts social monopoly such as Indian railway, post & telegraph to provide a bit of relief for the popular mass.

Indirect Role

In spite of several direct roles, the government also plays different indirect roles for the rapid economic development of the country.

Fiscal Policy

All public revenue and expenditure related government policies, i.e., taxes and subsidies, are related to fiscal policies. By effectively implementing these policies the state aims to increase the country's economic growth. Helps fulfill the following functions:

- Controlling inflation
- Enhancing capital formation
- Maintaining income and capital equal
- To stabilize market

Monetary Policy

With the aid of this policy, the Government and the Central Bank control the money market. In India, Reserve Bank of India (RBI) tries to control and regulate the money supply along with all commercial banks. During the time of inflation, i.e. excessive price level increase, government with the support of RBI checks the money supply and credit formation. On the other hand, money supply decreases during deflationary conditions.

Price Measures

The state principal objective is to protect the common mass from the exploitation of private entrepreneurs. In this regard, the state often adopts price controls for critical commodities and services through price ceiling and price flooring policies.

International Trade Policy

"Trade is the engine of economic development," according to Simon Kuznets. The government controls and regulates trade policies by enforcing tariffs, quotas, duties etc. The main purpose of trade policies to control exports and imports in order to enhance the balance of payment (BOP) situations and to increase foreign reserves stocks. All the above steps, i.e., both direct and indirect functions, are carried out by the government in order to achieve economic growth and to establish the Welfare State concept.

CONCLUSION

From the above, the government plays with various direct and indirect roles for the rapid development of the country. i.e. Economic stability, agriculture and industrial development through direct roles and fiscal and monetary policy through indirect role. The challenge to the growth and development of India is to bring a larger proportion of the Indian population into its middle class, well served by markets and competition. This project requires the Indian state to play an active role and will seek support from its society.

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