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Changing Role of the State in Indian Economy

KEYWORDS: state, market, changing role, redefining role

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ABSTRACT *This paper is an attempt to throw some light on the changing role of the state in India. It outlines how the role of the state in India has changed over the past few years and discusses the factors that have triggered these changes. Further, it studies those parameters that in recent years have taken a U-turn providing a larger role to the private sector. It also restructures the role of the Indian government and discusses what role the government should play in future in a market oriented economy. Finally the paper underlines that the government must supplement the working of the market rather that replace it.*

INTRODUCTION

The debate among the economists on the role that a government can usefully play by manipulating market forces has been going on since Adam Smith defined the working of 'Invisible Hand'. From Classical to Keynes, economists have assigned different roles to the state, though, varying in nature to a greater extent. For Classical economists Laissez-Faire policy free from government intervention maximizes the national income and for Keynes 'deliberate state action' is the remedy of secular stagnation. But an economically viable system requires neither 'government excess' nor 'market excess'. Rather blending of the two systems can enhance the productive capacity of an economy proving beneficial for the producers, consumers, traders and the labour force of the country. This fact has been expatiated in this paper by studying the changing role of the state in Indian economy.

This paper outlines how the role of the state in India has changed over the past few years and discusses the factors that have triggered these changes. Further, it studies those parameters that in recent years have taken a U-turn providing a larger role to the private sector. It also restructures the role of the Indian government and discusses what role the government should play in future in a market oriented economy. Finally the paper underlines that the government must supplement the working of the market rather that replace it.

ROLE OF THE STATE IN INDIA:BACKGROUND

India attained independence coupled with partition,violence and trauma of displacement. It was in that situation that it marched forward to ensure economic development and well being of the entire society. Immense endeavour required for stimulating growth potential and eradicating widespread poverty provided the rationale for a significant role of state. At this time in 1950's the policy maker's proposed an interventionist state policy to step up the rate of i nvestment and establish indigenous heavy industries to excogitate the foundation for self-sustaining growth strategy. An urge to herald Land reforms, raise the domestic savings rate, invest in those projects where private investment cannot step in and mobilisation of surplus labour in asset creating activities accorded leading role to the public sector. Also importance attached to 'social justice' enshrined in Directive Principles of State Policy in the constitution attributes another category where state intervention was deemed justifiable.

As the first plan puts it, "whether one thinks the problem of capital formation, or of the introduction of new techniques, or of the extension of social services, or of the overall realignment of productive forces and class relationships in society, one inevitably come to the conclusion that a rapid expansion of economic and social responsibilities of the state will alone be capable of satisfying the legitimate expectations of the people. This need not involve complete nationalization of means of production or elimination of private sector. It does however mean a progressive widening of the public sector and a reorientation of the private sector to the needs of a planned economy" (The First Five Year Plan, 1951-56, p. 28.) Accordingly, the second plan recognized that the state must play an enhanced role in the process of industrialization and embarked on 1956 Industrial Policy Resolution which postulates that, "The adoption of the socialist pattern of society as the national objective, as well as the need for planned and rapid development, required that all industries of basic and strategic importance, or in the nature of public utility services, should be in the public sector. Other industries which are essential and require investment on a scale which only the state, in the present circumstances, could provide have also to be in the public sector. The state has, therefore, to assume direct responsibility for the future development of industries over a wide area"(The Second Five Year Plan, 1956, p. 29.) According to Kapila(2011), "the first phase spanning roughly over the first three Five Year Plan periods was characterized by fairly sustained growth in per capita incomes, distinct acceleration in public sector investment and in the growth of industrial output. This phase was dominated by the growth-oriented development strategy" (p. 77).

CHANGING NOTIONS

In an attempt to reduce the concentration of economic power through expansion of public ownership of means of production the government undertook too many responsibilities, overextending its limited financial and administrative capacities. The outcome of extreme state intervention resulted in government failure. Also the economic environment was not so conducive due to the foreign exchange crisis of 1960's, severe droughts of 1965-66, exhaustive bureaucratic regulations and inward looking trade and investment policies. Very soon the Mahalanobis strategy of heavy industrialization created an adverse economic situation where excess capacities were observable in some industries. As rightly pointed out by Drèze and Sen (1995), "Four decades of allegedly 'interventionist' planning did little to make the country literate, provide a wide-based health service, achieve comprehensive land reforms, or end the rampant social inequalities that blight the material prospects of the underprivileged" (p. 28). With the emergence of Balance of Payment Crisis of 1991 the perception regarding the role of public sector changed dramatically. The Eighth Five Year Plan provided correctness to the changing role of the state by demanding revaluation of the planning methodology. In the wake of New Economic Policy, it was realized that centralized planning the way it was executed prior to 1990's had no role to play in market oriented economy. With this recognition the Eighth Plan stated that planning in India will be 'Indicative' in its entirety (Kapila, 2011). In the next two plans, the Ninth and the tenth, role of state underwent transformation from being a 'dictator' to a 'facilitator' for the private sector. After Liberalization, Privatization and Globalization the arena of the public sector shrunk, paving the way for private sector to enter into those areas earlier reserved for public sector enterprises (excluding some sectors which were still reserved for public sector). However, it was recognized that even in a market oriented economy the state has to perform an indispensable role not only as a facilitator but also as a provider of public utilities. In due recognition of this reality, in the Indian context, even after private sector assuming dominant role in many critical sectors, public sector plays and will continue to play a very important role in core areas, particularly social and physical infrastructure. (Bagchi, 2007)

NEED TO RESTRUCTRE THE ROLE OF STATE

According to Paul Valery, "If the state is strong, it will crush us; if it is weak, we will perish." Even Kaushik Basu argued, "Just as complete state control fails, leaving all decisions to markets results in grave inequalities". Therefore, the need is to develop complementarity between the public and the private sector so that by working together they promote the element of fair competition and eliminate the risk of both, government failure and market failure. In the present era, European Union, America and other western countries are considered the stronger economic players than they were twenty years back. In China, Multinational Companies are singing the tune of the government because the policy of the government is supporting the market rather intervening it. In the last few years it has been realized that deliberate interventionist policies of the state have widened the gap between development and underdevelopment, prosperity and poverty; it has become difficult to decipher where the role of government ends and where the role of industry begins. In due recognition of this reality, in Indian economy, the debate is not about the presence or absence of state intervention but the type and extent of intervention. Practically the role of the Indian government has been divided into four categories: i) Role of the government as a regulator, ii) Role of the government as a promoter, iii) Role of the government as an entrepreneur, iv) Role of the government as a planner. However, with changing economic situations the present roles are no longer tenable. To promote better distribution of income and improved allocation of resources, role of the state has to be redefined consistent with socio-economic objectives of the country. Restructured role of the government must act in accordance with the following three functions:

1. Minimal function
2. Intermediate function
3. Activist function

Under minimal function the government must address the market failure by proving public goods like defense, property rights and macroeconomic management; and improve the equity by promoting welfare programs for the poor. Under intermediate function government must provide basic education, environmental protection, and redistributive pension and unemployment benefits. Finally, under activist function government must develop a good redistributive policy so that whatever is produced even by the private sector can reach to the poor in a self-liquidating manner. Intervention of the government should just be confined to formulation of a plan and adoption of indirect controls. Government should deliver guidelines but not the directions, leaving it to the market to decide the future course of action. However, this is not to say that government possesses minimal role in promoting faster rate of growth. There are many core areas such as social sector and infrastructure where public sector investment has to increase because government alone has the ability to provide such services in a satisfactory manner. Also Government should not pull hand from the poverty alleviation programs and other welfare schemes because this will increase the gap between INDIA and BHARAT. But at the same time while adhering to a more active role, the government should check itself from becoming an ardent regulator in a way that restraints development. So, in order to satisfy the interests of all the sections of society the government must strike a balance with the market forces rather than replace it. Public Private Partnership is the best example that portrays complementarity between the two. Hence, it would not be too far wrong to say that the role of the government should not only be progressive but also non-regressive.

CONCLUSION

This paper has addressed the changing role of the state in Indian economy. It has highlighted the factors that believed state to be the only engine of growth in the early 1950's. But the result of state expansion led to the realization that not much fruits of development have been derived by enhanced role of the state. An all burgeoning state control may have seemed essential at a stage where market forces were not developed. But today India possesses a dynamic and vibrant private sector. In contrary to the private sector, the public sector is of less paramount importance. However it would be improper to underestimate the value of public sector completely. In present era, government has a vital role but a different one from that conceived in the past. The need of the hour is to enter into harmonious relation with the private enterprises. Private investment and Public control with transparency without causing hindrance should be the way forward. This is time the governments realize the reality, change economic approach and allocate scarce resources towards the leading sectors which have been left unattended in past years. This is time for course correction. Interestingly, according to Kaushik Basu, "To stick with one policy, unbendingly, is to make the same mistake of policy stubbornness that led India to its present predicament."

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