Role of State in Economic Growth

Generally developing economies are characterized by low national and per capita income, vicious circle of poverty, chronic unemployment, starvation of masses, acute shortage of capital and weak infrastructure. These countries have remained stagnant and thereby a positive role of the state is necessary to put them on the path of rapid economic development.

— Eradication of poverty:

The vicious circle of poverty can be broken by state's intervention. As underdeveloped country cannot attain a high rate of investment and growth of output if it is left to the functioning of the market forces, the state has to intervene directly to initiate the process of economic development.

- Creation of Social and Economic Overheads:

Developing countries lack economic overheads such as means of communication and transportation, electricity and power, irrigation, gas, roads, ports etc. Investment in these sectors thus needs to be done by the state.

- Agricultural Development:

Agriculture is the major contributor to national income of a developing country and provides employment of the majority of people. But in most of these countries, agricultural productivity is low due to the existence of uneconomic holdings, fragmentation of land holdings, defective land tenure system, lack of adequate credit facilities, indebtness of the masses, obsolete technology of production, the absence of irrigation and banking facilities, low level of investment and over pressure of population on land. In these conditions the state has to undertake programmes for agricultural development including land reforms, productivity movements, consolidation of land holdings, electrification and minor irrigation programmes and formulate agricultural policies that ensures the farmers fair prices of their crops.

- Ensuring Optimum utilisation of Natural Resources

Underdeveloped countries have vast unexploited natural resources. It is the state which takes up programmes for optimum utilisation of these natural resources in the interest of the country.

- Role in Capital Formation:

Due to low savings and investments, the process of capital formation is very low in developing countries. The State can accelerate the rate of capital formation by launching attractive saving schemes, direct and indirect taxation, deficit financing and inflation etc.

- Role in Industrial Development:

The developing countries lack requisite capital, technology, enterpreneurship, skilled labour etc. In such countries, the private sector is primarily engaged in the manufacture of low domestic goods for domestic consumption. The State can play a vital role in the industrial development of a country by framing a suitable industrial policy.

- Removal of Income Inequalities:

Developing countries are characterised by wide disparities in the distribution of income and wealth. There exists a wide gap between the rich and the poor. The State must take appropriate measures to secure equitable distribution of wealth. The State can impose steeply progressive taxes on income and wealth and on luxury goods and benefit the poor through wise public expenditure.

Problems and Challenges of the State in Economic Development.

- Corrupt and Inefficient State machinery:
  The standard of public morality is low.

- Concentration power:
  The concentration of economic and political power in the state may lead to all sorts of corruption, favouritism, bureaucratic interference and nepotism.

- Political Pressure:
  In most of the developing countries, there are political pressures on the state which makes it impossible to concentrate on important economic activities.

- Interference in functioning of public Sector Units (PSUs):

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