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ROLE OF STATE IN INDIAN ECONOMY : IN THE AGE OF REFORMS

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In the 1950s development economists in general advocated an interventionist policy and laid great stress on the role of the state. Massive effort needed for accelerating the growth of poor economics and correcting large inequalities provided the rationale for a larger role of state. Early mainstream development economists highlighted the structural rigidities and it was characterized by trade pessimism and emphasized import substitution, central planning and advocated reliance on foreign aid. This was the time when India embarked on Planning for promoting the development of economy. The experience of Soviet planning and economic management in industrial countries during the period of depression and war time mobilization of resources has also contributed to the crystalisation of the idea that the state through public sector has to play a large role and this obviously has its influence on the development strategy adopted by India in the 1950s.

As the first plan put 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".[1] With this attitude the government decided to play an important role in economy through public sector as reflected widely in Industrial Policy 1956. The second five year plan stated 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 plan further emphasized: "The public sector has to expand rapidly. It has not only to initiate developments which the private sector is either unwilling or unable to undertake, it has to play the dominant role in shaping the entire pattern of investment in the economy, whether it makes the investment directly or whether these are made by the private sector. The private sector has to play its part within the framework of the comprehensive plan accepted by the community". Outlining the strategy of development, the second plan further stated: "The use of modern technology requires large scale production and a unified control and allocation of resources in certain major lines of activity. These include exploitation of minerals and basic and capital good industries which are major determinants of the rate of growth of the economy. The responsibility for new developments in these fields must be undertaken in the main by the state, and the existing units have to fall in line with the emerging pattern...... In a growing economy which gets increasingly diversified there is scope for both the public and the private sector to expand simultaneously, but it is inevitable, if development is to proceed at the pace envisaged and to contribute effectively to the attainment of the larger social ends in view, that the public sector must grow not only absolutely but also relatively to the private sector."[2]

In our over-enthusiasm for expanding the public sector, the Government nationalized the Imperial Bank of India and named it as the State Bank of India, (1955) Life Insurance was nationalized as Life Insurance Corporation of India (1956). A momentous decision which was hailed all over the country in 1969 was the nationalization of 14 major commercial banks. The Government decided to take over coal-mines and established Coal India Ltd. Soon after 113 sick mills of the private textile sector were taken over by the public sector. The government further expanded public sector in telecommunication and thus continued to enlarge the scope of public sector.

Growth of Investment in Central Government Enterprises

As on Mar. 31	No. of Units	Total Investment (Rs. Crore)

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1951	05	29
1961	47	950
1980	179	18150
1990	244	99330

Source : Govt. of India, Public Enterprise Survey (2001-2002)

It was said that the government should undertake activities that would compensate for market failure as perceived as the inability of market to optimally allocate resources over time, that is for investment because of the 'myopic' nature of market. However four decade of development experience shown that there can be 'government failure' as well as 'market failure' and that the critical issue is not so much the presence or absence of state intervention but the extent and quality of the intervention. For it we should examine the outcome of such a policy of assigning a predominant role to the state in economic development. In the first place under the policy of state laid development the number of public enterprises multiplied both at the central and state levels and they penetrated into areas not intended for them and the financial failure of these enterprises placed a heavy burden on the exchequer. The ratio of net profit to capital employed reached absysmally or abnormally low level. Second, bureaucratic controls and regulations in the context of licencing became a stumbling block to industrial expansion. An inward looking policy that was followed for long is supposed to have led to inefficiency and loss of productivity and competitiveness, which inturn affected the export performance. On the whole the industrial performance was sought to be influenced through restrictions on market behaviour and what emerged as a result was a system of 'command capitalism' as opposed to 'market socialism'. Third, the achievement with regard to poverty alleviation has not been very satisfactory. Finally the performance in term of the growth of economy has been very disappointing. According to Bhagwati, "Not merely did India's weak performance in increasing national income and per capita income fall below her own aspirations. It also put India behind many developing countries in this race, and way behind the super performers of the Far East".[3]

Bhagwati attributed the dismal performance to three major groups of factors, all of which refer to state activism.[4]

1. Extensive bureaucratic controls over production, investment and trade.
2. Inward looking trade and investment policies.
3. A substancial public sector, going well beyond the conventional confine of public utilities and infrastructure.

Keeping in view these type of analysis and to face the problem of 1990-91 crisis the New Economic Policy, introduced in July 1991, comprises the various policy measures and changes. Disinvestment is also an integral part of NEP which started again a debate on role of state in Indian Economy. There is common thread running through all these measures including disinvestments. The objective is to improve the efficiency of the system. It is sometimes made that NEP makes a total shift towards reliance on the market. Nothing can be further from truth than this. The Eighth fiveyear plan envisages that of the total investment to be made during the plan period, the public sector accord for 45.2%. Infact in the important infrastructure of power, transport and communication, the share of the public sector investment will be dominant. However if the public sector is truly to play its role it needs to improve its efficiency and productivity and generate the necessary surpluses were originally envisages. It is only an efficient public enterprise system that can enable to government to meet its social obligations.

The changing role of the state is fully reflected in the Eight FYP which mentioned that, the planning in India will be 'indicative' increasingly.[5] An outstanding example of indicative planning in our country in a long measure exist in planning for agriculture. This is the sector whose millions for farmer takes their independent decisions. However where self-sufficiency in food grains set as a goal, the government went about creating conditions in which the farmer would take such decisions in their own interest which would help in achieving the targets. This is successful example of policy influencing private behaviour to achieve public goals.

In order to give some correctness to the changing role of the public sector, the Eighth FYP has identified the principles governing public sector.

These are:

1. The public sector should make investments only in those areas where investment is of main infrastructural nature and where private sector is not likely to

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come forth to an adequate extent within a reasonable time perspective.

2. The public sector must withdraw from the areas where no public purpose is served by its presence.

3. The principles of market economy should be accepted as the main operative principle by all public sector enterprises unless the commodities and services produced and distributed are specifically for the poorest in the society.

After that we shaw a major shift in the role of state in the Indian economy, in the form of increasing importance of social sector in the Government spending.

Total Expenditure of Govt. (Centre and) States on Social Services
(As % of total expenditure)

Items	1986-87	1990-91	2000-01	2007-08 (B.E)
Social Services	18.9	20.3	22.0	22.5
Education	8.6	10.4	11.0	10.2
Health	3.0	3.2	4.7	5.0
Others	7.2	6.6	6.3	7.3

Source : Economic Survey : 2003-04 and 2007-08

Plan Outlay by Heads of Developments
(Centre, State and Union Territories as % of total plan outlay)

Plan / Heads	6th 1980-85	7th 1985-90	8th 1992-97	9th 1997-2002	10th 2002-07	11th 2007-2012
Social Services	14.4	16.0	18.2	21.3	22.8	30.2
1. Education	2.6	3.5	4.5	6.1	N.A.	N.A.
2. Health and family welfare.	2.9	3.1	3.2	4.3	N.A.	N.A.
3. Housing and Urban Dev.	2.6	2.2	2.4	2.0	N.A.	N.A.
4. Other	6.3	7.1	8.0	8.9	N.A.	N.A.

Source: Economic Survey,2007-08

Redefining The Role of the State:

In economy like India where there the 26% of the population is below poverty line and untouched by the market mechanism. The state, has therefore to play a positive role in employment generation for the poor and to promote their social welfare. According to Hanumant Rao 'It is often said that markets bypass the poor and the under privileged and that they can not participate in the market-driven development. This is not an accurate statement. The poor and the under privileged are very much driven into the market. The child labour and bonded labour are participating in the market but at very unequal and unfavourable terms .... Therefore, it has rightly been said that the market can be good servant when it is intelligently utilized but a bad master when it is allowed to have a free day."[6].

The Promotional role of the state in providing rural infrastructure and extend credit to the poor at low rates interest can become an effective instrument in poverty removal.

The second role of the state is to provide infrastructure-economic as well as social infrastructure.

The third area which needs state intervention is macro economic management of the economy. In this the government can intervene in a variety of ways, more especially for such sections of the population which are not covered by the market mechanism. The World Bank study "The East Asian Miracle" (1993) about eight highly performing economies of Asia states: "In most of these economies, in one form or another,

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government intervened – systematically and through multiple channels to faster development, and in some cases the development of specific industries".[7]

Another area which needs state intervention is the reform of public sector. The government has intervened by signing MOUs (Memorandums of Understandings) but has not intervened honestly and effectively. The state has to act decisively in this regard and innovate measures to link wages with productivity.[8]

Because markets believe in the survival of the fittest state intervention should, therefore, be in the favour of weaker sections of the society. In this context the role of state must change in favour of unfittest. World Development Report (1999-2000) stated that, "Government play a vital role in development, but there is no simple set of rules that tells them what to do." [9]

The question that is relevant is not to use the state on the market, but to use state and the market and strike a balance, which fulfils the three objectives outlined by Keynes, "The political problem of mankind is to combine three things: economic efficiency, social justice and individual liberty," Both the market and the state have to be harnessed in the fulfillment of these objectives.[10]

Thus we can say in concluding that there is no case of downsizing the government but there is an emergence of different type of government.

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