

Agencies of Development

Today balanced development is seen as economic growth coupled with human development, sustainable development and social progress. To attain all these facets of development, it is required to tap and track and capitalize on endogenous resources. It also demands to concentrate on support for those groups who can best foster integration and coordination of local institutions and associations. Micro planning is the need of the day. For these, promotion of entrepreneurial culture, planning to develop a system of services and identifying the most vulnerable social groups and tracing out their poverty traps are some of the important challenges, the agencies of development have to address to. In this unit the role of the various agencies in the process of development are estimated, their strength is located and challenges faced by them are analyzed.

3.2. State as an Agency of development

The role of the state has been considered as pivotal in the process of development across the globe. This role has evolved from a long period, particularly following World War II. The state has always reigned supreme over the market till the period of globalization. It was estimated highly as a proactive agent of development for a few decades. The volume and quality of development depended on the efficiency and efficacy of the state agency.

3.2.1 Emergence of the State's Role in the Process of Development

Ideological currents like Fascism, Marxism and Keynesianism asserted the need of state intervention to ensure proper development for the people and society. The three decades following the end of Second World War and the period of decolonization and the building of new nation states somewhat demanded the state intervention as the key agent to promote development of the nations and to expedite the reconstruction work that was going on in the war devastated European countries. Not only there was the demand for state intervention, but the state became the ultimate designer and driver of all development plans and programmes and tried to make it reach all sections of the population to ensure not only growth, but social justice. These changing roles of the state have had an impact on developing countries.

3.2.2. Decline of the State Intervention in Development

For many newly independent developing countries in the 1950s and 1960s, much faith abounded in the role of the state as an agent of development. It was against the notion of the role of market forces enshrined in the invisible hand of Adam Smith. With the apparent lack of economic success of Latin America and in Africa, along with the collapse of the Soviet Union, in the 1980s and 1990s, there was a gradual decline in the faith on state as an agency of development. There was a shift in the stress from state to market. At this juncture, nations started to experiment with market as a forceful drive for development. The market substituted the state as an agency of development in the post globalization period.

3.2.3. The Revival of the State Intervention in Development: The Emerging Debate

However, the market also could not achieve full success in accelerating the process of development. The market could not give equal access to all. Inequalities were triggered under the market. This negated smooth development. So again there was a worldwide debate whether to roll back to the same type of state intervention or to bring some reformation in state operational mechanism to ensure balanced development.

3.2.4. The State as the Facilitator

When the role of the state is in question, two important propositions come to the fore front. They are the state's role as a mere facilitator and the second one is the state's role as a direct interventionist. The neoclassical economists always give priority to the market over the state. To them the market can not only promote rapid economic growth, but can vigorously, ensure social progress. Thus, the market can promote the twin targets of development that is economic growth followed by social progress. To the neoclassical economists when individuals and firms are allowed to operate freely in an economy characterized by perfect competition, the 'invisible hand' of the market is able to determine the optimum allocation of a country's resources. Together with this, it is assumed that the market is able to achieve optimal social welfare because, as individuals and firms maximize their own self-interest (profits), they will unintentionally maximize social welfare by generating employment,

and taxes to fund the provision of social services. On the other hand, government intervention in the economy is viewed as inefficient not only because of bureaucratic blockages, but also because of its tendency to distort market prices and cause misallocation of scarce economic resources. Therefore, in this view, there should be a “rollback” and a “retreat” of the state in economic affairs. Under this scenario, the state is expected to play only a facilitative role in economic development. With this argument the centrality of the role of the state is lost and the state is seen as a mere supplementing agency when and where needed.

As a facilitator, the state is expected to make provision of a ‘business-friendly’ and ‘enabling’ environment for the private sector. Within this framework, the private sector’s role is to determine the pace and direction of a country’s development, while the state only acts when the market fails. Here the role of the state is arrested and made very limited. The state has to withdraw itself from the productive roles and focus on distributive roles. This distributive role again is confined to the distribution of essential services. These include the provision of public services such as defence, education, health and infrastructure, setting up the required legal and institutional framework for the protection of private property; promotion of R&D for technological development, support of the financial sector through the work of the central bank; environmental protection.

3.2.5. The State as Direct Interventionist

The “Direct Interventionist State” is associated particularly with the economic development of the some East Asian countries, particularly Singapore, South Korea and Taiwan. In these countries the visible hand of the state was creatively and innovatively combined with the invisible hand of the market in order to achieve the required development. This approach was motivated by the belief that “Markets and governments are both imperfect systems; that both are unavoidable forces of reality; that the operation of each is powerfully influenced by the existence of the other; and that both are processes unfolding in real time.” Thus, for these countries, the traditional dichotomy between governments and markets loses its meaning. When the state plays an interventionist role it is said to be an entrepreneurial state. Here the role of

the state becomes central to the development of the economy and society. The state intervention in development can be noted through its attempts at making the optimum utilization of its physical and natural resources. As the physical resources of the nations are state owned in character, the state plays a catalyst role in making the rational use of these resources. This ensures sustainable development which is the call of the day. If the resources are left to the hands of the market forces or private ownership, their depletion becomes faster and sustainable development becomes impossible.

The state takes the onus of identifying the key industries that appear as the engines of economic growth. The state takes a pioneering role in studying the global economic trends. It makes a judicious decision to transit from low delivering to high delivering industries without much labour displacement. For example, in state driven development economies, the state plays a significant role in moving from low-tech manufacturing where comparative advantage is based on natural resources to high-tech manufacturing in areas such as information technology, biotechnology, robotics, microelectronics and laser technology, where comparative advantage is based on created human resources.

The state as an agent of development plays a major role in investment. It makes huge financial investments to train people with skill, education and knowledge. The state as a development promoter tries for strengthening its human capital by adequate capacity building. This takes the form of:

- (i) expanding formal technical and vocational training;
- (i) industrial training in which government encourages firms to train their employees by subsidizing the cost of training or allowing training expenses to be amortised for tax purposes and
- (ii) Setting up collaborative training with foreign governments and manufacturers who were technology or market leaders in their fields.

These contribute towards generating qualified citizens, with the availability skills and equipping citizens with work ethics. The state ensures that the benefits of jobs created accrue mostly to the common citizens. As a result,

problems of unemployment, poverty and income inequality are addressed. The state also plays a significant role as a protector of the interests of the citizens. It aims at ensuring distributive justice and human rights. Through its well designed legislations it creates social security for the workers. It tries to avoid exploitation of the labour force which is very common under the market system to maximize profit. Thus social progress is well ensured through the direct intervention of the state.

The state provides incentives in the form of subsidies and tax exemptions in order to encourage both citizens and foreign investors to develop the identified industries.

The state intervenes extensively in order to “pick winners” and direct the market to achieve the desired development. As a result, the state creates industries which might not have emerged in the absence of government intervention.

The state decides the price, production and exercises control on distribution. It allows the common man to avail, access and afford for the products.

Finally, the state plays an entrepreneurial role. This state entrepreneurship takes the form of exploring for opportunities in world markets for setting up strategic industries that have the potential for future growth and aiding the private sector to exploit them. In cases where the private sector is not forthcoming, the state actually takes a deliberate step to set up public corporations and state investments to take advantage of emerging opportunities.

3.2.6. Globalization and the Recession of the State from the Process of development

However, it is worth noting that, as the forces of globalisation moved the world towards the market economy, the essential conditions for a market economy emerged in many countries. With the rise of the market economy, the state increasingly moved from being “interventionist” in nature to playing a “facilitative” role, of creating a market friendly environment for the operation of the private sector. Nevertheless, a creative and innovative mixing of the state and market still continues in many countries. For a developing country, facilitating and directing the market mechanism by the state is felt

essential for successful economic development.

In the post globalization perspective, the role of the state in development is gradually sinking. It is becoming more “facilitative” in nature, in which case the private sector sets the pace and direction of economic development while the state plays the subordinate follower position. This is generally the position played by states with a neoclassical ideological inclination. However, it is noted that the facilitative role of the state benefits a microscopic minority while the direct interventionist role of the state is delivering for the large majority. When the state plays the facilitative role, there is economic growth without much social progress. There is poverty amidst plenty. So, the direct interventionist role of the state is desirable to make development pro people and inclusive in character. But the state has to give up the traditional vices like excessive bureaucratization to make develop