Role of the State in Economic Development

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Economic Planting in Underdeveloped Areas: Government and Business

THERE has been much controversy about the role of the State in economic development. While one view gives the State an entirely subordinate role, the other holds that it must play an active and even dominant part in the developmental process. Most of the participants in this controversy, to whichever view they might subscribe, all appear to agree on one matter. All of them insist that there is, in absolute terms, an optimal relationship between state and business. In other words, they all insist that there is an optimal relationship irrespective of time and place, though they of course differ amongst themselves regarding the character of this optimal relationship.

A more reasonable approach to this question would make this optimal relationship basically relative in character, dependent significantly upon the socio-economic conditions prevalent in the country concerned. This is the view adopted by the author of the present work, which is based on the Moorhouse J.K. Millar Lectures delivered by him at the Fordham University, New York.

Historical evidence shows that changes in socio-economic conditions have in fact brought about changes in the degree to which the State has undertaken economic functions quite independently of the attitude of the dominant ideology toward this question. One evidence of these changes is to be found in the increasingly important role that government has played in the richer countries of the West including the United States because of the growth in the number of wants that private enterprise can no longer satisfy.

IN U K AND JAPAN

It is generally believed, however, that whatever the role played by the State in the economies of the advanced countries today, it was private enterprise that played the crucial role in bringing about their rapid economic development at the time when these countries were at a stage of development at which the underdeveloped countries are at present. This is not, however, quite true. Difficulties arise in determining how far back in the history of the advanced countries one must go in order to find situations comparable to those existing in the underdeveloped countries today. In any case, in many of the advanced countries, the State has played a much larger part in promoting development during (i.e. initial stages than most people recognize. Except perhaps in Great Britain, where private enterprise played a large part in the provision even of social overhead facilities, the State has contributed substantially to the development of most advanced countries, not excluding the United States. Professor Mason's conclusion is that the relations of government to business at similar stages of development cover a very wide spectrum even in countries which can all be called capitalistic.

These differences in governmental-business relationships among countries at similar stages in their development are, according to Professor Mason, the resultant of many forces, both physical and historical. In Great Britain, private enterprise was so much more able and willing to undertake the tasks and essential for stimulating the process of economic development primarily because Britain was, on the eve of industrialization, substantially more developed economically than most other countries at this stage. In Japan, on the other hand, the Japanese Government played an active role not only in expanding resource availability, but also in exercising control over the direction of investment. The government's most important contribution in the area of social overhead was its attention to education. While noting these facts, Professor Mason points out that "a recitation of the activities of government in the promotion of economic development is apt to lead to an undervaluation of the contribution of private enterprise to the economic growth of Japan." Professor Mason explains that a substantial part of the success of the Japanese Government's active intervention in the field of industry is to be attributed to the fact it came on the scene at a late stage. The activities which fostered early industrialization in a country like Britain could have been successful only in an environment relatively free from government control.

AMERICAN EXPERIENCE

Regarding the American experience on this question, Professor Mason draws four main conclusions. First, government played a much larger role in early American economic development than was commonly supposed until recently or than is commonly assumed in business circles today. Second, public action was directed much more to expansion than to allocation and management. Third, initiative for public action came in the United States to a much greater extent from private business interests and local groups. Fourth, though the central government had at times a national development policy, it has never been a very consistent or persistent policy and few steps were taken to develop the governmental machine necessary to put a consistent policy into effect.

This review of historical experience supports Professor Mason's conclusion that the State has played widely different roles in the economic development of different countries. In turning to the position prevailing in the underdeveloped countries today, however, Professor Mason feels that there are special factors which allot a more significant role to the State than that played by it in the already advanced countries during the corresponding period of their growth. This in fact can be considered his main thesis. Of course, this thesis itself is by no means entirely new. Quite a number of western economists who swear by private enterprise in their own economies also worry about the need to support quite a measure of State action in the underdeveloped coun-
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tries. It is the set of arguments which Professor Mason marshals in support of his thesis which makes this volume interesting.

DIFFERENCE IN SOURCE OF FUNDS

Before analysing this thesis, however, it should be noted that Professor Mason appears to be in two minds about what he really intends to do in the present volume. In his Prefatory Note, he points out that anyone who discusses the role of government in economic development has a choice between either defending a thesis for or against the roles currently assumed by government or describing a situation. "The fact that I choose to describe and explain rather than to judge," he goes on to say, "does not mean that I have no views." Professor Mason does have his own views and it is his opinion "that in much of Southern Asia and the Middle East, governments are impelled by forces largely outside their control to undertake tasks beyond their competence." The discussion in the book strongly reflects this opinion of the author and as a result, at least in part, it reads as the defence of a thesis that special factors in the underdeveloped countries of today allot to the State a more significant role than that played by it in the development of the advanced countries. His explicit decision to restrict himself to a description rather than to a judgement has only the effect of making less effective and to some extent less clear his defence of what is obviously his thesis on his important question.

The main statement of Professor Mason's thesis is set out on pages 14 and 15 and may he summed up as follows:

First, the currently underdeveloped countries are in certain critical ways substantially behind as compared to the now advanced countries immediately prior to their rapid industrialisation. Yet, many of them have much stronger governmental service, and have well-developed transport and communications systems together with a limited economic sector in which modern techniques, organisation and methods of management are dominant.

Second, these underdeveloped countries are surrounded by countries in an advanced stage of development, thus making possible the borrowing of a highly productive technology adapted largely to large-scale organisation and at the same time creating an irresistible pressure for development.

Third, international migration can no longer function as an instrument for the transfer of technology and organisational techniques.

Fourth, the impact of the West on the underdeveloped countries during the nineteenth century has produced almost everywhere an antipathy to private enterprise.

Fifth, government directed development in the Soviet Union, China and earlier in Japan has had a demonstration effect on the peoples of the underdeveloped countries.

Finally, the difference in the sources of funds available for development favour public as against private investment. This last factor covers difference both in the domestic and the foreign sources of funds for economic development.

'CRITICAL MINIMUM EFFORT'

The case for Professor Mason's thesis as expounded above is supported by him by further arguments. The case for government directed development rest in part on the theory of "the big push" or "critical minimum effort." A spring into sustained growth is further supposed to require not only a big push but also a careful planning of expanded resource use. A proposition of general applicability to all currently underdeveloped countries is invoked to support the thesis. It is that "whereas the development of the techniques and forms of organisation that characterise an industrial economy may well have required a private initiative relatively unfettered by public controls, the transfer of the developed forms and techniques can be as well or better accomplished by government action."

It is fair to Professor Mason to mention that he notes at a number of points the factors which make it necessary to take such a thesis with a measure of caution. He points out for instance that while the drive for rapid industrialisation impels governments of many of the underdeveloped countries to undertake action on a wide front, they are not necessarily capable of doing so successfully. In fact, as he points out very clearly, many of the underdeveloped countries have not even succeeded in achieving a reasonable measure of law and order, which is the essential precondi-

tion for the achievement of rapid industrialisation. While many of these countries appear, again, to be going in for a substantial amount of planned economic development on the basis of state initiative, the extent to which state action is actually effective is much smaller than plans and policy statements might suggest.

Professor Mason also outlines some of the limitations on the transferability thesis which apparently supports the case for domination by the State in the process of economic development. He points out that this thesis treats the introduction of large-scale Western techniques not merely as an important element in, but as the essence of economic development. Selling, exporting and product and process adaptation and improvement are important elements in the development process at which the State may lend to be much less successful than it may be in large-scale production. Further, while the thesis may be at least partially true of some of the underdeveloped countries, it is hardly true of all.

The critical feature of the case for state action, however, is the widely prevalent acceptance of the need for state action amongst the people of the underdeveloped countries. This part of the thesis, put baldly, seems to suggest that state action for economic development is desirable because the people of the underdeveloped countries think that it is desirable. The fourth and fifth of the factors in favour of state action listed above amount in substance to an argument along these lines.

CRUCIAL QUESTION NEGLECTED

The main criticism of the present work is, however, that it bypasses or at any rate neglects the relatively more important question of what the nature of government action for economic development should be.

"What is needed," says the author, "is the implementation of a strategy of development, a strategy that will take into account the various indirect effects of investment inevitably neglected in the private calculus." Such a strategy must necessarily come from the state. The question at issue is the relative roles of the state and of private enterprise within such a strategy. Professor Mason's relatively cursory discussion of the state's role in expanding resource availability, controlling
resource allocation and under taking resource management does not help to throw light on this crucial question. It fails in particular to note that entrepreneurial ability must itself be considered as an important resource for economic development, expansion of which according to one view it should be the duty of the state to foster.

Professor Mason's summary of the experience of some of the advanced countries of the world during their process of development is highly useful. His brief review of economic planning in South and Southeast Asia with reference to the problem under consideration is illuminating. The excellent way in which he has disposed of the dogmatic belief in the supremacy of private enterprise and in the absolute character of the optimal relationship between the State and private enterprise is commendable. Even the case for state domination in the process of economic development in the currently underdeveloped countries is well set out. But, perhaps partly because of the indecision about whether he was presenting a case or describing a situation, he has failed to examine the most crucial issues involved in the basic problem of the relationships between the state and private enterprise in the economic development of the underdeveloped countries of the world.