INDIAN ECONOMIC ENVIRONMENT,401 MBA, IV semester, TOPIC- ROLES OF GOVERNMNT.

A) Promotional Roles of Government

The promotional role of government encompasses government efforts to provide adequate infrastructure and an environment conducive for business. Hence, this role is indirect in nature. The government provides various incentives and schemes for encouraging business activities, besides basic infrastructure like roads, airports, supply of water and power, bridges, communication and transportation system, banking and financial systems, industrial training centres, marketing network etc. It also coordinates the working of public, private joint and cooperative sector.

In promotional role, government does not intervene or regulates the working business. Some of activities performed under this role are:

- Maintenance of public utilities.
- Promote private and foreign investment.
- Provide trade incentives for promoting foreign trade.
- Match and control money supply with development requirements.
- To enable effective utilization of various resources.
- Encourage developmental attitude among various sectors.
- Encourage optimal utilization of various natural resources.
- Ensure equitable income distribution.
- Make economic resources productive and efficient.

In nutshell, promotional role of the government encompasses fiscal, budgetary and monetary incentives for expansion of business and priority sectors of the economy.

The direct and indirect measures used by the government from time to time to control and regulate the private sector are included under the regulatory role. It means, the regulatory roles include all direct and indirect policy measures which the government employs from time to time to control and regulate private business to prevent the growth of socially undesirable.

business activities, to prevent concentration of economic power and to direct private activities, to prevent concentration of economic prosperity, employment and social justice.

B) Regulatory Roles of Government.

The regulatory roles of the government are as follows, which has been dealt in detail under government response to market failure:

- To provide patent and subsidy, which provide direct benefit to the business firms.
- To make operating control or levy specific tax. These measures obstruct both the nature of the goods and services produced by the firms and the production processes used in the production of these goods and services.
- Direct regulation on monopoly to ensure enough output and restricts monopoly profit.
- Make provision of antitrust act to maintain the level of workable competition in the economy.

Rationale for Regulation

The decision-making regarding where to regulate and how to regulate are affected by political and economic considerations. The economic consideration is related to the cost and efficiency implications of various regulatory methods. From the viewpoint of efficiency, a particular regulation method or change is better to that extent till benefit exceeds cost. On the other hand, if political consideration will have to be taken into account in regulatory decision-making, equity or fairness should be given more attention than efficiency criteria. In political consideration one should look at the incidence or placement of regulation or the cost and benefit of regulation decision. There are economic and political reasons as to why the society should regulate.

a) Economic consideration

The economic reason has an important role in formulating regulatory policy. In fact, it is due to the market imperfection that the need of regulation in production and marketing activities is realized. If unregulated, the market activity itself creates inefficiency or waste or market failure. Market failures are of following types:

b) Political considerations

The political consideration has also great effect on the formulation of the regulatory policy. From political viewpoint there are two reasons for regulation.

- Preservation of consumer sovereignty.
- Limit concentration of economic and political power

C)Participative roles of the Government

Participative role or Entrepreneurial role of the government refers to government investment, capitalization and ownership of business. For example, at the start of Eighth Five Year Plan, the government investment increased to 1.18 Lakh crore in 237 operating units from Rs. 29 crores in merely five units in 1951. At the same time there were 11,000 state level enterprises with an estimated investment of Rs. 50,000 crores.

Participative role of the government comprises of:

- Making Investment in New Units: Government makes investments in industries which require heavy investments or whose development is in the interests of the nation.

- Acquiring Exiting Units: Government acquires sick units for their revival. In 1977, government introduced the merger scheme, with an objective of encouraging merger of sick industrial units with healthy. Under the scheme, healthy units absorbing sick units could set off the depreciation and accumulated losses against their tax liabilities.

- Nationalization: Certain industries have been reserved exclusively for the public sector.

Government investment is usually seen in the following industries under participative role.

- Industries involving high risk, like heavy and basic industries.
- Capital invective industries.
- Industries with low rate of return.
- Industries with long gestation period.
- Industries of national importance.

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