

# Why State is Necessary for Economic Affairs?

When an economic system is being implemented the state should intervene in its affairs according to the manner in which the economic affairs accrue in the event of an economic system being inactive the government intervenes, in the economic affairs in diverse ways and at various levels, either through the central government, provincial councils or divisional councils. The state contributes in a number of ways in its intervention in economic affairs for this purpose.

1. By means of budgetary policy (taxes and expenses, fiscal policies)
2. Through the state's financial policy (interest, financial capital monopoly)
3. By various regulations
4. By state's lending policies
5. By direct state entrepreneurs life

By means of the state's intervention in the economic affairs, it impinges on the consumers' consumer pattern, producer's production pattern, savings investments, services supplies of the unemployed, etc. Under this intervention a state has the ability to organize an economy from the level it has existed, to the required form. Hence it becomes clear that the role of the state occupies an important place in the economy.

The economic affairs carried on by a state differ from the economic affairs of the private sector in several ways.

1. The operation of economic activities of the state at macro level (macro level)
2. Provision of social welfare
3. Spending of funds obtained through the economic system itself.
4. The enforcement of laws and regulations and acts in the implementation in other words whilst the state can enact laws, the private sector has to operate in accordance with the laws and regulations of the government
5. The resulting greater degree of inefficiency than in the private institutions, caused by the prolonged continuation of state institutions at a loss.

A state is important in economic affairs to the extent of the importance of the state's activities in that economic system. The operation of the

state sector in a country's economic system can be identified by number of indices.

1. As state income and state expenditure expressed as a percentage of gross national products.
2. On the basis of state contribution as a percentage of the total capital formation
3. On the basis of the percentage of the burden of the state out of total consumption.
4. On the basis of the proportion of state's employment of services act of the total employment of services.

In these percentages take a high value, the state sector bears a major share in such an economy, according to the way the economic policies of Sri Lanka had been implemented in the decade following '70 the state had taken a high percentage in economic activities. But with the onset of the liberal economic policies after 1978 the present

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private sector bears a high percentage contribution in regard to economic activities according to the taxonomies of economics systems state intervention who has been given diverse interpretations. Under this the state's intervention in a socialist economy should exist at a high level, in a capitalist economy at a lesser level and its intervention in a mixed economy at a general level. However the generally held opinion is that a minimum intervention of the state is necessary. In a state's involvement in a certain economy it does not operate at a uniform level, in the same way at all times. On economic system differs from time to time. In the face of these changes the operation of the state in that economy varies from time to time. At present in most countries of the world the state intervenes in the economy in alignment with the market system. However in a state's involvement the economy, welfare becomes a main factor but whether it is solely the accompaniment of welfare is a practical problem. Due to prevalent state of civil war in Sri Lanka, welfare expenditure has been reduced because of employment defense taxes, national insurance tax and obtaining of loans. Hence in the eighties, minimization welfare expenditure in Sri Lanka can be seen as a result of diverting the expenditure to other sectors.

The way how state intervention should occur in a certain economy is a matter subjected to various problems. The neo-classical think that state intervention should be minimal. The state should allow operation of free forces without its obstruction economic activities. That is to say that distribution of resources could be made efficient without state intervention. Under this hypothesis, when it is assumed that resources will be distributed at maximum efficiency under competitive conditions, though the fact of state intervention holds true, it would not be



Instead of daily ran banner headlines against State Banks, People's Bank still stand as a giant in the industry thanks to the strong customer loyalty it has built over the years as a state institution.

successful, if the distribution of resources does not occur at an efficient level. That means that while it is not possible to view practically the market situation under consideration, the hypotheses do not always hold true and at the same time of these activities do not occur efficiently, the fact of the state's minimal participation becomes problematic.

Regarding this, the economist, John Maynard Keynes, has put another opinion forward. That is there should be a considerable extent of state intervention in an economy or in other words for the organization of the market system there should be fiscal policy and state policy.

But these two opinions are defined from time to

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time while being subjected to controversy. Although it is said that the state should intervene because the market system is efficient, when we view the present situation, it can be seen that instead of an efficient distribution of resources, there is an inefficient distribution owing to state intervention. A large number of state institutions have been rendered inefficient in the implementation of the economic system under planning, through state intervention in Sri Lanka, because of increase in the burden of loan, decline in the margin of profit, rise of unemployment, inefficient distribution of resources and wastage of resources. Therefore in directing its own economic activities should conduct its own affairs, maintaining welfare activities at a high level in a more efficient manner at the implementation level.

The manner of intervention in economic activities should be done with great responsibility since a state spends its money from the taxes and revenue obtained from the people. It is essential that a state should maintain its laws and regulations according to the problems existing in its economy. That means a state should minimize its intervention to necessity.

#### **The necessity for a State to intervene in the economy**

A state intervenes in economic affairs in diverse ways according to the special features and the timely changes obtaining in the different economies. This may be discussed a long several objectives and purposes.

1. For the efficient distribution of resources.
2. For an equitable distribution of resources.
3. For economic stabilization, that is to minimize the fluctuations existing in the community.
4. For economic growth
5. For supply of public goods.

In the fulfillment of each of these purposes the implement in individual economies becomes divers. That means, after these necessities having been identified, even if these processes for fulfillment of objectives are implemented, it is important to study the manner of their practical implementation.

#### **Condition of efficiency**

It is not easy to see logically the consumer operating within a perfect competitive economy. Under a perfect competitive economy every level of the market operates well. Information flows well to every consumer. But in the real world everybody is not a logical consumer.

While there is no proper flow of information taking place sufficiency also can vary. There is practically no sufficient flow of information rurally the flow of information in urban areas occurs to a certain

Therefore when factor ownership is irregularly distributed the inequality of distribution goes up. The obtaining of production factors occurs in several ways. The government should be



Private Universities are common feature in higher education in many countries. In Sri Lanka, University education still perceived as a state responsibility.

extent. The decisions in their activities taken by the consumers as well as the producers who lack correct information are not correct. The purchase of goods at higher prices by the customer due to ignorance of the customer and excessive consumption can take place, while the profits obtained by the producer through the production factors may not be maximum. The state must educate the people by means of rules and regulations to correct the wrong decisions taken by the consumer on the basis of misleading advertisements. For instance the state can follow courses of action like "Pesticides are dangerous". Use with caution "Smoking is harmful to health".

#### **Distributors' Functions**

Alongside with how equitable the resources of a country are distributed another fact that should be focussed on is how equitably the resources of an economy are distributed within the economy. The manners in which income wealth and other resources are distributed with an economy are diverse. This may be considered under geographical regional rural and urban distribution, its distribution among various classes or various income levels and also various sectors namely estate rural and urban. The distribution of these factors, ownership in other words income property as well as all other resources having an earning capacity is considered. Besides things like property all the levels at which income can be obtained such as educational level, health level and the potential for increasing production are considered. It cannot be said that this will occur in a market system in a normal way. The income from certain factors will not be obtained equal to the marginal production value but it cannot be said that this will happen on all occasions. To a great extent the capital is obtained in excess and labours in obtained less.

encouraged to justify the prolonged occurrence of inadequate supply of labour by means of laws and regulations. For the purpose of correcting the unequal distribution, revenue should be obtained from high-income groups and distributed among the lower classes under the expenditure policy (transfer of relief) (subsidies). In addition to this the government can implement its income and expenditure policies in an indirect manner while it is possible to impose.

Indirectly a greater burden of taxes of higher income groups by levying higher taxes on imported luxury goods, unequal distribution can be reduced by imposing of limitation on property ownership and land policy. The fundamental cause of poverty faced by the modern world is the unequal distribution of income levels. This situation is commonly true both in developed countries and developing countries. As an example, when we consider on the basis of urban and rural a higher distribution of goods to schools, hospitals employment opportunities is obtained in the urban sector. The government can intervene indirectly under the circumstances by diverting the private sector to produce infrastructure facilities to regional areas.

It is difficult to implement conditions of equity and efficiency concurrently. When the condition of equity is fulfilled the condition of efficiency collapses. Therefore the government should implement its policies, having considered the social point of view and also both the condition of equity and efficiency.

#### **Stabilizing Objectives**

The government should intervene to minimize the fluctuations, in economic activities like levels of prices; national income unemployment

balance of a government can do this by fiscal and financial policies.

Any economy in the world can have booms and recessions. Under the market system this attains equilibrium naturally. But practically it cannot be so. The cyclic processes occurring in the market system through themselves adapt to the required form. But in the occurrence of free economic activities these stabilizing conditions may not arise in the necessary degree or may take long time. Because of this a government can act towards stabilization by balancing through expansionist policies. Subsidence and contractions policies (taxation) interest policies, rules and regulations, balancing and finance supply policies. The government implements its policies under its stabilizing policies in the direction counter to that towards which the economy is tending. However by the present time weaknesses can be seen in the conventional policies (expansionist and constructionist policies). While the responses of the government for the constructionist policies become less, there is more response for expansionist policies. In the same manner along with unemployment inflation also rises. There are no definite results from the economic techniques followed in this regard like bank loans. In the implementations of these policies in the economics there economics cannot organize their policies individually. Because of faulty flow of information due to external influence, especially for small economics, it is difficult to manage their economics properly. By the present the problems whether the government can manage its own economy as it requires and also the validity of the policies exist. Hence the validity of these policies vary from place to place. In our country an important place is given to our fiscal policies. The cause is that both our capital and financial market are small. We have mentioned before that through Keynes fiscal policy a big role can be played in the economy. But owing to the present contractions it cannot be implemented. That means although the intervention of a government is necessary, in spite of certain limitations it is necessary for a government to manage its economy.

#### For provision of Common Goods

The private sector does not offer itself to provide common goods. It does not supply the common goods due to the difficulties of deciding the quantity to be supplied and the inability to price

them. Their production factor costs also rise. Their special characteristic is that they are consumed collectively and also they cannot be eliminated from consumption. As common goods are different in form from goods of ordinary form the government should provide goods like these through indirect taxation. In the absence of these the government should direct the private sector to supply these by providing infra-structure facilities as an example of this the private sector has been persuaded to conduct television programs, broadcast programs etc at present.

#### Development objectives

It is the development countries that need government intervention through the development objective. This is broad in scope than economic development in that it encompasses a wide development in all sectors, social economic political, cultural development and so on. This is



Picketing launched by the teachers of the government schools.

a progress and development that takes place in a whole society. By means of this basic necessities, health, education alleviation of poverty as well as an increase in the national income results. It is difficult to think that a similar situation will occur through the private sector. Therefore the government should intervene to bring about development. The government should divert the available resources along different directions after planning. Directing an economy towards development through planning is subjected to controversy practically. There are many courses of action that a government can take to interest the private sector along development. Through government expenditure policy the private sector should be motivated apart from this, these policies can be implemented to manage the market. The devious of government polices towards development objectives vary in different economies. The government has to fulfil a large number of tasks until an economy reaches development level. According to the level of the

economy this rules differs from country to country, after the development perform an important role. However if this does not happen attention should be diverted to researched, diversion of resources to necessary sectors, diversion of the private sector to production and so on the burden of the role of governments of less development countries should be weighty in this respect. In the like manner ordering the foreign affairs to suit the economy for the purpose of transacting further with the external world and establishing foreign connections in a way that contributor to development in another tank to be along by the government.

However within the present globalization process a government cannot adjust its policies to suit its own economy as our policies have to be adopted to external activities it had not been possible to tend towards the necessary development. Especially the loans obtained under the loan policies have compelled us to act in a way to satisfy the lender rather than diverting us towards development objectives.

Hence, it is problematic whether development occurs practically even if the government implements its economic policies. Besides external influences it can be seen that political causes and selfish policies have made the operations of the governments of the world unpopular. Contemporarily it is said that the market system is more suitable but a hundred percent

operation of the market system is not suitable. Countries like Sri Lanka lack the background for doing so. There are instances where policies devoted for one objective are in conflict with other objectives as a result of this, each individual proposal is not implemented according to the form it is proposes. A government should operate according to the requirements of the economic system its special factors, claims and levels of development with proper planning of policies.

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