1.3.1 Market Based Approach

Under conditions of well developed perfectly competitive markets, resources are used optimally by minimising the costs and maximising profits. Price signals, including the profits, serve as incentive to investment for achieving faster growth. Therefore, ideally, perfectly functioning markets without any intervention are seen as a strategy for faster accumulation and growth. But, in the post-II world war era, when most of the former colonies which became independent and embarked upon the process of development, these countries faced serious gaps in markets as they were underdeveloped in many of these economies. The absence of markets was particularly conspicuous in the ‘subsistence segments’. There were several areas of development of public goods for which there was no market but there was a pressing public need. Therefore, most of these underdeveloped countries turned to the state as an essential requirement for development process.

1.3.2 Role of State and Planning

Early writers on development emphasised the need for a major role for the state in the production process. In underdeveloped countries with subsistence agriculture, weak industrialisation, poor infrastructure, vast underemployment, low income, savings and investment, the need was for a big push in investment. With low savings and poor state of development of markets, there was neither incentive nor ability for the private sector to undertake the investment role. Hence, the need arose for the state to intervene for planned investment in a big way spread not only over industry and infrastructure sectors, but also in transforming subsistence agriculture to higher productivity agriculture by investing in irrigation infrastructure, agricultural Research and development, as also in the agricultural extension services. Thus, in India for instance, at least up to 1991, the public sector, assumed growing importance for providing accelerated growth in core sectors of the economy. These core sectors included railways, power, telecommunications, roads and shipping, and investing though moderately, in the social sectors like education and health. The protagonists for state intervention were pessimistic about the market’s ability to deliver the desired economic change in key sectors, which in their view could be achieved through planned mobilisation and allocation of resources to the public sector.

More recently, however, public sector has fallen out of policy grace on the grounds of state intervention generating red-tapism, corruption (rent-seeking), inefficiency and losses. Based on these arguments, there has been a tendency towards reducing the role of the state. There are still those who argue that state’s role should not be minimal particularly in the areas of health, education, infrastructure, and providing the right environment for entrepreneurial activity to flourish.