Role of government in developing economies

Technology, Development

As with many issues pertaining to globalization, concerns and hopes about International investment revolve In many ways around what governments may do. This means both what governments may do to regulate foreign investment, perhaps to make it less volatile, as well as actions government may take simply to get out of the way of the market, clearing the existing barriers to capital. Every government has got some alms to maintain the rate of GAP (gross domestic product) that having a stable economy. Here are some common aims of government which everyone country has to take care of : Keep Inflation under control

Inflation creates uncertainty and results In the fall In the value of money In terms of goods and services. Inflation also creates uncertainty. Therefore, the governments use macroeconomic policy instruments to keep inflation under control. Maintain a high level of employment High unemployment Is bad for the economy. Unemployment means resources are not being utilized properly. Therefore governments take measures to increase employment. Economic Growth If economy grows, people can enjoy higher standards of living. Therefore it is always an Important aim of government policies.

Redistribution of Income The market system sometimes allows the rich people to become richer and the poor people to become poorer. When the gap between the rich and the poor widens, the national indicators no longer reflect the situation of the average individuals. Maintaining a healthy balance of payment Balance of payment Is the difference between a country's exports and Imports. If increases in incomes result in increases in imports while there is no equivalent increases in export revenue, it will result in the balance of payment deficit. Sustained balance of payment deficit for many

years will lead to the country to come Indebted to the rest of the world. Demand-side policies: Macroeconomic policies undertaken by a government aimed at Increasing or decreasing Aggregate Demand (The total amount of goods and services demanded In the economy at a given overall price level and In a given time period) In the economy. Fiscal policy: Changes in government spending and/or taxation aimed at increasing or decreasing aggregate demand.

Changes In the level and composition of taxation and government spending can impact on the following variables in the economy: ; Aggregate demand (AD) and the level of economic activity. The pattern of resource allocation. The distribution of Income. FIFO Government will either increase its spending or reduce taxes (or both) in order to stimulate the aggregate demand. However, this might also lead to higher prices/ inflation in the economy. Contraction fiscal policy involves the reduction of government spending and increase taxes as a measure to control inflation/AD in the economy.

With reduced government spending, the AD will fall and thus reduce pressure on the economic resources and the average price level in the economy will come down. In this case the government can use contraction fiscal policy to control inflation and bring down the AD. An Monetary expansionary policy increases the total supply of money in the economy and is traditionally used to combat unemployment in a recession by lowering interest rates. This will shift the AD to the right and result in higher real output and more employment.

Monetary Contraction policy decreases the total money supply and involves raising interest rates in order to combat inflation. The result will be that investment will fall, and consumption will fall. All of these changes will shift the AD to the left. Supply-side policies: Macroeconomic policies taken by a government or central bank aimed at increasing productivity, lowering firms' costs, and increasing the level of aggregate supply in the economy. Reduction in income taxes: increases incentive to work since workers get to keep more of their hard earned wages Reduction in corporate taxes: increases incentive to invest in new capital.

An increase in the nation's capital stock increases potential output of the economy Reduction in trade union power: Unions fight for higher wages, which increases firms' sots. Lower wages will lower costs to firms and increase their ability to produce more output Reduction or elimination of minimum wages: Lower minimum wage will lower firms' Reduction in unemployment benefits: Generous benefits for the unemployed reduce the incentive to find work, reducing the supply of available labor. Deregulation: Burdensome regulations of business can increase costs for firms.

Appropriation: Transferring state-run firms to the private sector may lead to greater efficiency as firms compete to minimize costs and maximize profits Appropriation is the process of transferring state-owned businesses, which are controlled and run by the government, to the private sector. Essentially, appropriation transfers control from the public sector to the private sector. The term appropriation is also used to describe the transfer of public

services, such as waste management, to private firms. This process is also sometimes referred to as outsourcing.

Efficiency improvements - Another reason for propagating public businesses or industries is to gain efficiency improvements. It's no secret that, generally speaking, overspent don't do the best Job at running businesses. Under the control of the government businesses have little competition and have few incentives to reduce their costs and be efficient. Revenue - Probably the main reason governments like to privative is to gain revenue. When a government transfers state-owned businesses to the private sector they receive a large amount of money from the sale.

Increase in spending will stimulate the economy much faster than tax reductions. It is imperative to remember that government spending to stimulate a slow economy is not free. Eventually, the choice to increase spending leads to its consequences. Increasing government spending may be necessary in the short run in a slow economy, but it will lead to less investment spending by individuals and businesses as well as slower potential long-term growth. All government spending, even for necessary expenses like military equipment, needs to be viewed in this light.

Any money spent by the government must be accounted for either by increasing taxes, increasing debt, or reducing spending in some other area of the government. However, economic stimulation through tax reductions is more effective in the long ERM because tax reductions also stimulate investment, which government spending does not do. Fiscal policy is the plan by the government to influence the economy by using it as a

component in aggregate demand and using its ability to drain the economy through taxes.

The government uses three tools of fiscal policy to influence the economy. The tools are taxes, government spending and transfer payments. Taxes help the government influence the amount of goods and services purchased by the general public. Government spending refers to the purchase of goods and arrives by the government, and direct payments are payments from the government to the general public for benefits like unemployment and Social Security.

This may seem like an obvious statement, but the reality of the words needs to be considered. As a result, every household in America will have an increase in their disposable income. Each household will have more money. Basically, this is similar to a raise. Because the general public will have more money to spend, more Jobs will be created to keep up with the demand of products and services. A rise in consumption affects aggregate demand.