The role of government in growth

Hanie Hatami[1]
[1]*Department of Physics, Sharif University of Technology, Tehran, Iran*

INTRODUCTION

Growth or the developing economy is one of the most important topics presented in economics because economic growth increases the appropriate efficiency capabilities and welfare of the nation creates more opportunities and raises people's living standards over time, facilitating development. Does Sustainable growth critical to reducing poverty, financing social services, and maintaining economic dynamism? The reason is that launching a high-growth economy is a tool for governments to use the funds generated in budgeting for education, health and construction, which add value to the economy in the long run and promote long-term development and prosperity.
Therefore, economic growth is one of the main goals of governments around the world. Nevertheless, the specific function that the government should play in creating growth is still a matter of debate among economists and policymakers. In this article, we examine several key ways that governments can influence economic growth through fiscal, monetary, structural, etc. policies.

SCHOOLS OF THOUGHT ABOUT THE ROLE OF THE GOVERNMENT IN THE ECONOMY

In general, in economics, there are two schools of thought regarding the government's involvement in the economy: 1. The free market view argues for a minimal role or free economy for government, allowing market forces to drive growth through private enterprise and capitalist competition.
2. The opposite view supports a more active role, using government spending and government intervention in the economy to guide economic development and correct market failures. Today in countries both of these views are used so that they can use the open economy as well as the recommendations and budgets of the government in different fields as much as needed which leads to higher productivity.

FINANCIAL POLICIES

One of the main tools of governments to stimulate growth is fiscal policies. During periods of recession, governments can boost growth by cutting taxes to boost consumer demand and implementing stimulus spending on infrastructure, thereby creating jobs and income. On the contrary, in economies with high inflation, increasing taxes and through the same mechanism as before, cost containment can reduce inflation.
But we know that there is no free lunch in economics, which means that everything that has good things can also have bad things, and win-win economics does not happen. In the context of fiscal policy, too much government borrowing to finance stimulus can lead to unsustainable debt levels that act as a drag on growth in the long run. There is also a risk that these financings will be ineffective or misdirected. For example, in 2009 in the United States with the approval of the Recovery and Reinvestment Act, it did not help much to create sustainable value.

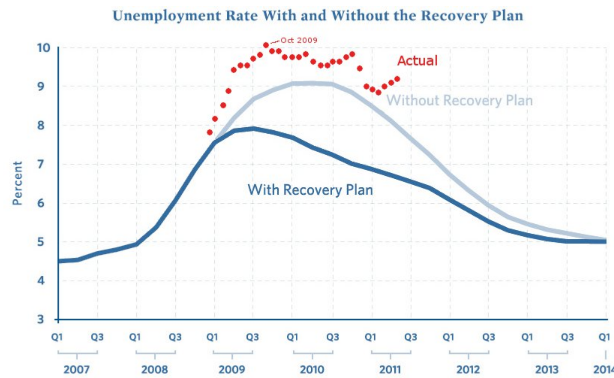

FIG. 1. Unemployment rate with reinvestment, expected unemployment rate without reinvestment, and actual unemployment rate in the United States.

MONETARY POLICIES

In addition to fiscal policies, governments can use monetary policy tools such as interest rates and money supply to accelerate economic growth. By lowering interest rates, central banks lower borrowing costs for companies and consumers and encourage investment and spending. Increasing money supply also increases liquidity and economic activity.

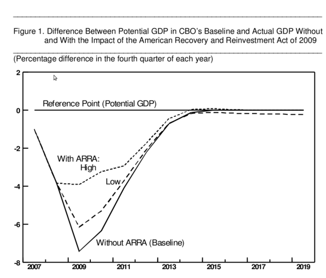

FIG. 2. CBO estimates the impact of the stimulus on the GDP.

However, low interest rates for too long can fuel inflation and asset bubbles for financial stability. Countries like Japan have struggled with a liquidity trap, where ultra-low interest rates have failed to stimulate enough lending and growth.
We should also note that government intervention can undermine central bank independence and lead to political monetary policies that prioritize short-term political goals over long-term economic stability and lead to misallocation of resources. This can destroy investors' confidence in the credibility and effectiveness of monetary policy and lead to increased uncertainty and volatility in financial markets.

PUBLIC INVESTMENTS

Governments can invest directly in economic inputs and boost growth by strengthening areas such as education, healthcare, research and development, and infrastructure. Investing in human capital through accessible quality education creates a skilled workforce that drives innovation and productivity gains. Public health initiatives increase the quality of work. And modern transportation networks, power grids, and digital infrastructure reduce labor and production costs.
Of course, it should be noted that public investment can destroy private investment by attracting resources and potentially stifling innovation and entrepreneurship. Also, government-managed projects may be prone to inefficiencies, red tape, and mismanagement that lead to increased costs, delays, and poor outcomes. Also, excessive public investment financed through borrowing may create a debt burden for future generations. Examples of these public investment inefficiencies include the long-delayed Berlin Brandenburg Airport construction project in Germany that far exceeded expected budget requirements, as well as the multibillion-dollar scandal in Malaysia where government officials looted public investment funds. They did, he pointed out.

FIG. 3. Berlin Brandenburg Airport construction project.

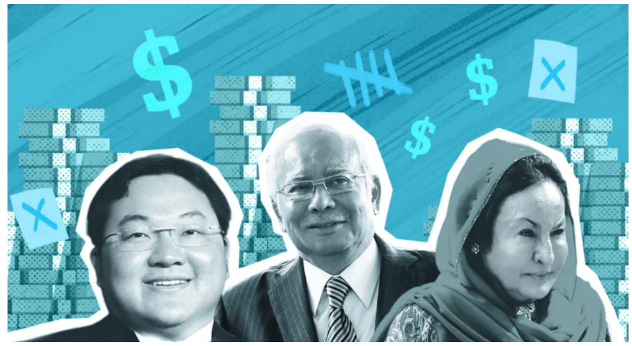

FIG. 4. Officials who looted public investment funds in Malaysia.

REGULATORY FRAMEWORKS

Beyond macroeconomic policies, the regulatory environment and structural policies implemented by governments can profoundly shape the incentives and business climate in ways that either boost or inhibit growth. To stimulate growth, governments can prioritize policies that reduce unnecessary red tape such as lengthy licensing processes, protect property rights, encourage competition, and create a level playing field for companies of all sizes. At the same time, certain provisions regarding environmental protection, worker safety, and guaranteeing contract components are very important.
The Dodd-Frank Act in the United States, enacted in response to the 2008 financial crisis, is one example of proactive regulatory intervention aimed at fostering stability and long-term growth.

OTHER TOOLS

Several other tools at the disposal of the government can affect economic growth, which we briefly state here: 1. Lowering barriers to trade and capital flows contributes to economic growth through increased specialization, competition, technology transfer and integration in global supply chains. At the same time, domestic industries adversely affected by import competition may lobby. Governments must carefully manage these tensions and ensure that business benefits are widely distributed.
2. Government support for innovation and research and development acts as a catalyst for economic growth by strengthening technological advances and increasing productivity.
3. In the era of environmental challenges, sustainable development has been raised as one of the vital aspects of growth. Governments are increasingly prioritizing green initiatives to mitigate climate change and promote long-term prosperity. The EU Green Deal is an example of a comprehensive approach to sustainability that aims to achieve the lowest carbon footprint by 2050 while boosting economic growth through investment in renewable energy, infrastructure and innovation.

FIG. 5. European Union Green Deal.

SUMMARY

As a result, governments have various policy tools at their disposal to influence economic growth. However, these measures can have positive or negative effects on growth depending on their design and implementation. By adopting a comprehensive approach that balances short-term requirements and long-term goals, governments can create an environment conducive to growth and development while avoiding potential pitfalls such as deficit spending, over-regulation, and protectionism.

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