

# ROLE OF GOVERNMENT IN ENTERPRISE BUILDING (VOL. I)

Pocketbook Collection





# **Role of Government in Enterprise Building (Vol. I)**

Pocketbook Collection  
2011

Samriddhi, The Prosperity Foundation  
Kathmandu , Nepal

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# 1

## Introduction

As Nepal engages in the debate of restructuring the state mechanism to facilitate a prosperous future for its citizens through the Constituent Assembly, it has become imperative to discuss the role of government in an economy. The state through its body of institutions including the constitution, rules, regulations and executive institutions generally provides a framework whereby people can carry on their day to day lives. If applied equally to everyone in a just manner, rules and regulations tend to create a harmonious society where each individual and his freedom is protected and nurtured. In the meantime, it is also important to recognize the process of formation of rules and regulations and ensure participation of the people on whom the rules and regulations are going to be imposed upon. The Constituent Assembly as a process that Nepal has chosen is

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one way of achieving participation of people in developing a framework that will guide the people's lives in days to come.

There are several different opinions on the role of the government in people's lives. These opinions range from anarchist viewpoints where society is conceived without government (Kropotkin, n.d) to that of Communists who generally believe in total command and control of the people's lives by the dictatorship of the proletariat (Furtak, 1986). History has witnessed the application of variety of these different ideas, some at one extreme end of the spectrum and others a mixed approach inclining more towards one of these ideas. The concept of 'Welfare State' popularized by Bismarck, a German Statesman of 19th century, whereby the state is expected to play a key role in ensuring economic and social development through equitable distribution of wealth and equality of opportunities (Fay, 1950) remains the vision of many states around the world. This concept, also called the Nordic Model, is considered to have been well applied by Denmark and Norway (O'Hara, 1999).



## What does the evidence indicate ?

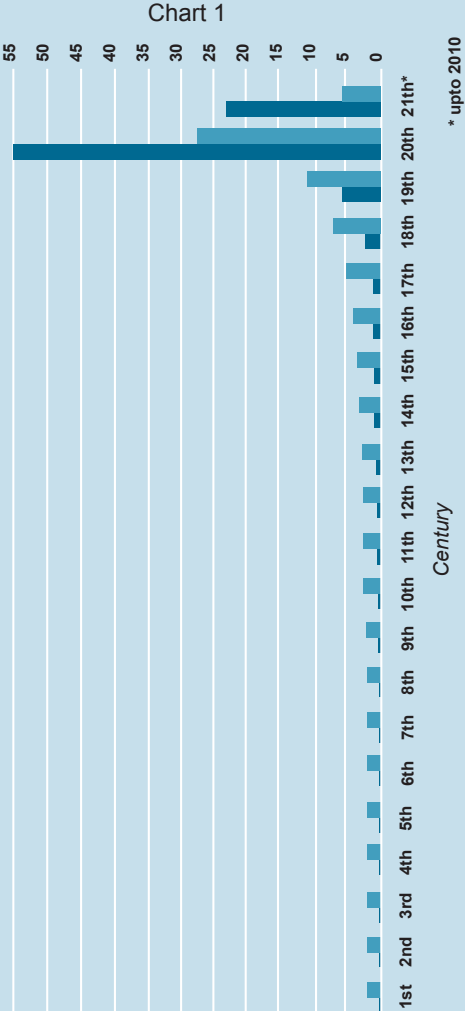
In the last two centuries, especially after the Industrial Revolution of the 18th and 19th century, the globe witnessed increase in wealth of people along with the rise in their life expectancy at a phenomenal rate. Chart 1 presented below shows the growth in life expectancy and economic output charted out from the 1st century to the 21st century (The Economist, 2011). Similarly, Chart 2 presents a decline in poverty levels charted out from 1981 to 2005 as put together by the World Bank (World Bank, 2008).

Despite hearing many popular slogans of increasing inequality (Sen, 2001; Wade, 2001) and how globalization has done more harm than good (Donatella, 2006; World Social Forum, 2001; Singh, 2000), evidence such as the ones presented by the charts below present a contrary picture where more and more people have had opportunities to improve their lives through increased wealth all over the world.

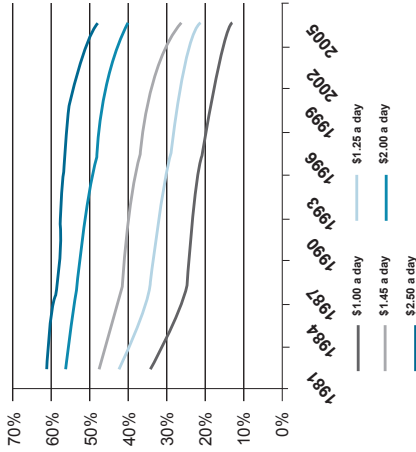
# When history was made

percentage of total :

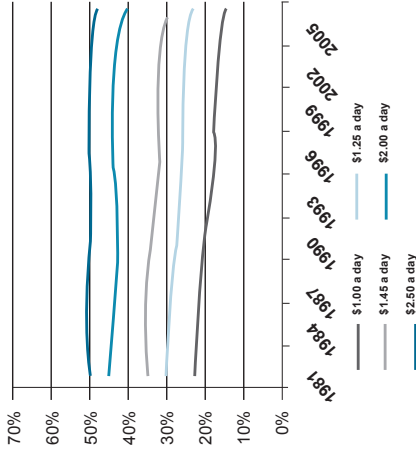
economic output (1990 s) years lived



Poverty levels over time  
world population (%)



Poverty levels over time  
excluding China



Source : World Bank Development Indicators 2008

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a large role to capital formation and technological advancement, which has led to increase in labor productivity thereby creating economic growth (Solow, 1957; Denison, 1967; Griliches and Jorgenson, 1966, Kuznet, 1965). While these are important analysis into growth, there has been more of an interest in recent years in analyzing policies that actually lead to increased capital formation, technological advancement and higher labor productivity. This leads us to the second and a very important question that this pocket book aims to discuss :

### ii. What kind of role should the government play in order to achieve economic growth?

Many countries over the past two centuries have tried to achieve economic growth using various models which define varying roles for the government to play in an economy. Experiments have ranged from total control of the economy to mixed model whereby government is also one of the key players in the economy along side the private

sector. The role of government in an economy is largely determined by popular political ideologies of the time.

Empirical studies concentrated on evidences collected from several growing transition economies also point out the importance of policies of economic liberalization in achieving high economic growth (de Mello et. all, 2001). At the same time, there are studies which also examine the role of size of government upon the economic growth of the country. According to these studies, big government size combined with weak governance often contributes negatively to economic growth. However, government expenditure in human capital development and infrastructure development often aid economic growth (Gray, Lane and Varoudakis, 2007; Gupta et. all, 2003; Hanushek and Dennis, 2000).

However, the role may vary from country to country depending on the unique characteristic of each country which includes elements like

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geography, demographics, level of infrastructure development, availability of resource etc.

The role of government in an economy is a subject that has gathered a huge range of perspective since the beginning of the evolution of the concept of government. Adelman (1999) argues that ‘there have been three phases in the dominant view concerning the optimal role of government development’. According to her, the three phases are:

### **a) Government as a Prime Mover Phase**

As Adelman explains, this phase is the first phase that lasted from 1940 to 1979 where “the government was assigned a primary, entrepreneurial role”. Coherent to this role of the government, economic development in this phase was seen as a growth process that requires the systematic reallocation of factors of production from a low-productivity, traditional technology, decreasing returns, mostly primary sector to a high-productivity, modern, increasing returns, mostly industrial sector. In this phase, Adelman further explains that “to remedy both the structural and coordination failures,

government would therefore have to engage in an active role: subsidize investment, coordinate investment activities, and undertake direct investment itself from the government budget, despite the, hopefully, mild inflationary pressures these actions would induce”.

### **b) Government as a Problem Phase**

This second phase, as Adelman states, lasted from 1979 to about 1996 where it was argued “that the main thing governments need to do to position an economy on an autonomous, sustained-growth path is to remove barriers to international trade in commodities”. Adelman further explains that this phase “started its life under the Reagan-Thatcher era of neo-liberalism”. In government as a problem phase, government was viewed as the problem rather than the solution to underdevelopment. It argued that “government interventions are not needed, as trade liberalization can induce development, provide for economies of scale and make industries internationally more competitive.” It also pointed out on various flaws and faults of the government and hence viewed it as a problem.

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Some of them as mentioned in Adelman (1999) were “governments are bloated; they are corrupt; they accept bribes for economic privileges generated by government interventions into the market; and they operate by distorting market-incentives in mostly unproductive, foolish and wasteful ways. Moreover, their discretionary interventions into markets, through regulation, tariffs, subsidies, and quotas, give rise to rent-seeking activities by private entrepreneurs, which absorb large fractions of GNP and leads to significant economic inefficiencies.” At this phase, in this view of government, to reach the end of rapid and efficient development, the role of government had to be reduced through liberalization. “Liberalizing domestic and international markets for both factors and products is the prescription of choice. Acts to promote the spread of markets and the rule of market incentives would improve the efficiency of the economy.”

### c) Rehabilitating Government

In this role of government, Adelman indicates that a dynamically “developmental governments play a significant role in investment, its finance,



human capital formation, acquisition of technology, institution-setting, and the promotion of policy and institutional reforms.” This notion is set on various examples such as the active role governments played in East Asia and some South Asian countries during the eighties in the economic development of their nations when the rest of the developing nations had poor economic performance. Adelman (1999) mentions that “the mixed success of LDCs with market-reforms during the eighties led international institutions to understand that it takes capable, committed governments to promote and manage successful reform, even market-oriented reform. Otherwise, reform efforts will flounder and be derailed or captured by special interest groups of actual or potential losers from reform.”

Hence, at different phases of economic history, the role of government in economic development has been diverse and different countries have adopted different ways of the government.



# 2

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“Thomas Hobbes (1651) described life without government as “nasty, brutish, and short” and argued that the law and order provided by government was a necessary component of civilized life ; on the other hand Rothbard (1973) provides an interesting argument that the private sector could more effectively undertake all of the functions” Gwartney, Holcombe & Lawson (1998). From a very long time, there has been considerable debate over the role of government in public life and the extent of that role. When it comes to matters of government’s role in an economy, it has ranged from being a direct service provider to owner of state enterprises to mere facilitator for market led economy. These roles and functions vary from country to country and in some cases, state to state in one country as well. In centrally planned economies, the government takes the central role and assumes authority in the allocation of resources and examples from

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worldwide has shown that such systems have not been able to prosper economically. On the other hand countries like Hong Kong, Singapore, New Zealand, Switzerland, Chile, United States, Canada, Australia, Mauritius, United Kingdom; the top ten countries in the Economic Freedom of the World:2010 Annual Report published by The Fraser Institute are all economically rich nations. These countries' economic prosperity is directly related to those countries free environment to do business where the role of government is limited to facilitation when it comes to doing business. The two figures below show that those countries with higher per-capita incomes are freer countries and also that more economic freedom in a country means higher economic growth rate.

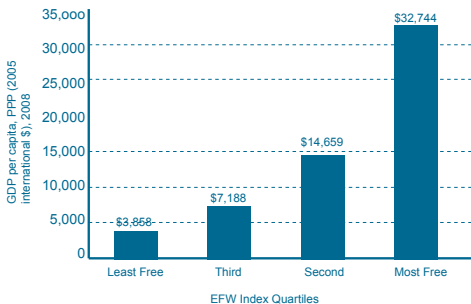
### **1. Economic Freedom and Income per Capita:**

Countries that have higher per-capita incomes are freer country.

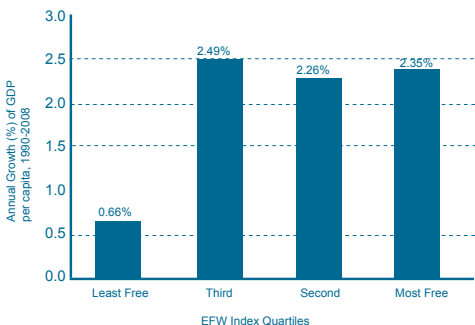
### **2. Economic Freedom and Economic Growth:**

more economic freedom in a country means higher economic growth rate.

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Source: Fraser Institute, *Economic Freedom of the World: 2010 Annual Report*

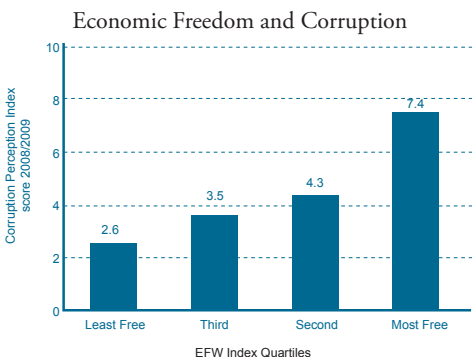


Source: Fraser Institute, *Economic Freedom of the World: 2010 Annual Report*

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Hence, from the two figures above it is evident that those countries where there is more economic freedom i.e. lesser role of the government in the economy are rich countries with high levels of GDP and growth rate. Thus, the facilitating role of government encourages prosperity of a nation.

Another interesting demonstration from the reports show the relationship between Economic Freedom and Corruption. Since the features of economic freedom were fewer regulations, taxes and tariffs, corruption was much less in economically free countries as shown in the figure below.



Sources: Fraser Institute, *Economic Freedom of the World: 2010 Annual Report*

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**Note:** “CPI Score relates to perceptions of the degree of corruption as seen by business people and country analysts, and ranges between 10 (highly clean) and 0 (highly corrupt).”

Governments in general have important roles to play in a growing economy such as enforcing contracts, creating a level playing field for all businesses by ensuring competition and steadfastly promoting the rule of law. However, when governments expand to assume responsibilities that range from providing unemployment benefits to being the main actor in running every sector of the economy, the trend is that they are generally inefficient more unproductive. Besides that, as the roles of government grow in an economy, rent seeking behavior and corruption rise. It is also important to notice that as much as the expectations of people from governments are immense, the government is not omnipotent. Public choice theory also indicates that like ordinary people, government and politicians also function on the basis of their self-interests. Besides, when governments centrally plan the economy of an entire nation, it not only stifles personal choice but it is also impossible to

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gather all the information required to make sound decisions.

Hence, in an economy, the role of government is most efficient when its effort are concentrated on doing what it is best at and in some cases, what only it can do. These roles are maintaining the Rule of Law, maintaining macroeconomic stability, enforcing contracts, promoting competition and setting minimum regulations. Some of these important roles of governments are explained in detail in the following sections.



# 3

## Components of Role of Government

The World Bank in 2008 published a report called 'The Growth Report' which took in the growth experiences of 13 high growth economies which managed to achieve 7 percent growth on an average over a period of 25 years. The report points out several policy measures taken by the governments of these economies which fostered growth in these countries. This report highlights the following policy ingredients which have managed to foster high growth: a) maintaining a stable macro economy which indicates control over inflation and sound debt management, b) Adapting policies for increased openness in trade of goods, services as well as in input markets like labor and capital flows, c) adapting technology and learning from existing knowledge, d) Fiscal prudence and sound fiscal and monetary policy formation, e) focus on development of infrastructure, f) commercialization of agriculture and gradual shift

to industrialization among others (The World Bank, 2008).

Some of the components in that report as mentioned above point out some of the facilitating roles the government. These roles were instrumental in helping those nations propel to a significant level of economic growth. In the following paragraphs, we will look upon few components in the facilitating roles of a government for the economic growth of a country.

### **1. Maintaining Macro Economic Stability**

One of the facilitating roles of the government in the economic growth of a country is maintaining Macro Economic Stability. In most countries, as the government is the main entity concerning the printing of money, monetary and fiscal policies are the main areas where the government needs to play a sound role in balancing the macro economic variables for economic growth. Monetary policy,

which includes a number of policies regarding the controls of a country's money supply, is a crucial one because if the money supply increases too quickly, high rates of inflation may occur. On the other hand, if the money supply is too slow, then there is likely to be a negative impact on growth. By controlling the money supply, policymakers can aim to achieve specific inflation, growth and employment outcomes.

In case of exchange rate policies whereby the value of the domestic currency relative to other currencies is determined, the aspects about how this value is set, whether it is fixed or allowed to move (float) has important implications for how a country fits into the international economy. Commonly, trade is conducted in one of the major international currencies such as the US dollar or the Euro. This means that the value of the domestic currency against these currencies (the exchange rate) matters. It influences how much imports cost, in real terms, and how expensive or not exports seem to be on the international market.

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Similarly, Fiscal policy includes policies related to both taxation and public expenditure. What and who is taxed, how, how often and at what rate influences entrepreneurial incentives and the investment climate. Also public expenditure patterns reflects the priorities of the governments, the fiscal space created (or constrained) by levels of tax, aid revenue and public borrowing.

Rodrik (2004) (as cited in Montiel & Servén, 2006) argued that “well-established property rights, market-oriented incentives, fiscal solvency, and price stability are first-order economic principles that are necessary conditions for rapid economic growth”. Some of these important conditions of rapid economic growth are ensured through sound Monetary Policy, Fiscal Policy and Exchange Rate Policy, the three main components of Macro Economic Stability. Montiel & Servén (2006) indicate that “from a macroeconomic policy viewpoint, stability requires the authorities to take a monetary and fiscal policy stance consistent with maintaining fiscal solvency at low inflation,

while leaving some scope to mitigate the impact of real and financial shocks on macroeconomic performance. Obviously, the first requirement imposes constraints on the magnitudes of both the primary deficit and its money financing, while the second refers to the profiles of monetary and fiscal policy over the business cycle”.

## **2. Maintaining Rule of Law for Enterprise Building**

Having a strong presence of Rule of Law is the necessary condition for enterprise building and economic growth. Some major aspects of Rule of Law in ensuring economic growths are Private Property Rights, enforcement of Contract Laws and dispute resolution and maintenance of Competitive Environment. “Defining property rights, preserving fair competition, fighting monopoly and enforcing contracts are all essential to economic development because they are necessary for establishing credible commitments among economic agents. Without the enforcement

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of contracts, economic agents cannot become motivated because they will always worry about opportunistic behavior of the other parties to the transaction” (Qian, Y., 2000). Hence, Rule of Law is instrumental in creating an environment where enterprise building can foster. Stolper, A. & Walker, M. (2007) highlight the functions Rule of Law serves in enterprise building as:

- Rule of Law ensures due process and predictability;
- Rule of Law protects entrepreneurship and small business development by establishing clear and objective rules for opening, operating and closing a business;
- Rule of Law imparts stability, certainty and clear legal boundaries for property rights;
- Rule of Law forces greater accountability of public officials;

Through these functions of Rule of law, it facilitates economic growth by creating more welcoming environment for the entrepreneurs where they will

be able to perceive risks before hand and mitigate it. Some of the legal frameworks existent in Nepal that facilitate the process of enterprise building are The Contract Act 1999, Arbitration Act 1999, The Competition Promotion and Market Protection Act, 2063 (2007), The Black Marketing and Certain Other Social Crimes and Punishment Act, 1975 etc. However, the effective enforcement of these legal frameworks are obstructed by weak judiciary, feeble enforcement institutions and mechanisms that result in making the process lengthy and expensive.

However, one important thing to note is that, the major role of the government in enterprise building is maintaining Rule of Law rather than acting as an economic agent itself. Hence, for enterprise building to take the country forward in the path of prosperity Rule of Law is one of the pre-requisites and it is the state's prime function to ensure it. For Rule of Law to prevail in a practical sense, the legal system must be able to define the laws clearly to avoid conflicts and keep it simple. Those laws must

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then be secured through access to a legal system which does not cost people their fortune both in terms of time and money. Only then will investors and entrepreneurs would be willing to invest their time, energy and money into efforts of enterprise building.

### **3. Liberalization**

One of the primary functions of a government that aspires for high level of economic growth is ensuring that markets are open and accessible for all. Removing statutory monopolies, de-licensing the industrial sector, ensuring free entry and exit in business, opening the country to foreign trade and investment, etc. are part of liberalizing an economy. Through these measures of liberalization, governments ensure a competitive environment for doing business. Competition in turn encourages industries to produce better good at cheaper rates for the consumers, specialize and come up with innovative products and services. Dornbusch (1999) argues that “the channels through which



trade liberalization could bring benefits are broadly these: improved resource allocation in line with social marginal costs and benefits; access to better technologies, inputs and intermediate goods; an economy better able to take advantage of economies of scale and scope; greater domestic competition; availability of favorable growth externalities, like the transfer of know-how; and a shakeup of industry that may create a Schumpeterian<sup>2</sup> environment especially conducive to growth.”

Starting from mid-1980s The Nepalese government with multilateral agencies like the IMF and the World Bank, embarked on the path of liberalization and privatization. Nepal's economy became more open and liberal with the legal frameworks created by various policies and acts such as the Industrial Policy 2049 (1992), Foreign Investment and Technology Transfer Act 2049 (1992), Companies Act 2063 (2006) and others. These policies were initiated with the objective of making it easier to do business in Nepal by removing hurdles to

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starting businesses and encouraging investment by both foreign and local investors. Other sectors such as taxation, foreign currency controls, and import restrictions were also reformed to accommodate private sector better during the period. With the implementation of such free, liberal and market oriented policies in the 90's, a very encouraging growth had been achieved for a certain number of years. According to ILO (2003), "the average annual growth rate of GDP increased from 4.8 percent to 5.2 during 1985-1996. Employment and value-addition in the manufacturing sector also grew. Manufacturing employment rose 36 percent in the first few years after the reforms, and the growth rate of manufacturing value added increased from 5.3 percent to 13 percent. Gross national savings improved from around eleven percent to over 16 percent during the decade." However, the growth could not be maintained owing the lack of strong structures to institutionalize the growth and the fact that Nepal was going through the Maoist insurgency. Political instability and uncertainty started with the toppling down of Nepali Congress's

government due to conflict within the party. The temporary tenure of the subsequent governments made them disoriented and weak which in turn promoted corruption, profiteering, racketing, nepotism and favoritism. The decade long civil war worsened the situation by compelling the government to focus on the insurgency and lose their focus on the economy.

Liberalization offers great economic development opportunities to a country, but active policies are needed to ensure those opportunities are taken up. This is the part where the facilitating role of government comes in. Coherence in policymaking for liberalization is also needed if fast and sustained economic growth is to be promoted.

While the degree of liberalization varies by sector and country, many developing countries have already liberalized many service sectors quite considerably.

## 4. Size of Government

Besides the facilitating roles of government in activities such as maintenance of Rule of Law, development of frameworks for macroeconomic stability, ensuring openness in trade etc., many governments in the world are also known for their welfare functions such as providing social services like health, education, pensions and various others. The increasing role of government in the public sphere has contributed to the size of governments around the world to grow. In analyzing and measuring the size of the government, The Fraser Institute in Canada which annually publishes the Economic Freedom of the World Index, takes into account these aspects - general government consumption spending as a percentage of total consumption, transfers and subsidies as a percentage of GDP, government enterprises and investment and top marginal tax rate. These four components measure the degree to which a country relies on personal choice and markets rather than government budgets and political decision making.

In analyzing the relationship between the size of the government and its relation to economic growth, Gwartney, Holcombe & Lawson (Fall 1998) argue that “expansion of government much beyond those core activities<sup>3</sup> will exert a negative impact on the economy” for four reasons. The authors explain that “first, the higher taxes and/or additional borrowing required to finance government expenditures impose an excess burden on the economy”. In the second case the authors argue that “as government grows, its productivity will decline. While in case of government expenditures that protect individuals and their property and provide for the smooth operation of a market economy may yield a high rate of return, channeling more into other activities will set in negative returns and economic growth will be retarded”. Third, the authors also point out that political process inhibits the entrepreneurship that drives economic growth. As the fourth reason, the authors point out that “as government grows, it invariably becomes more heavily involved in the redistribution of income and regulatory activism. In turn, these activities will encourage individuals

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to seek personal income via government favors rather than through production in exchange for income. As this happens, resources are shifted away from wealth creating activities toward the pursuit of wealth transfers. This shift will retard economic growth and lead to income levels well below the economy's potential.”

As governments assume more and more responsibilities in the economic and social sector, the size of governments naturally grow and it expands way beyond the facilitating role. There is much debate on whether the large increase in public spending has actually contributed to the improvement in the welfare of the majority of citizens, or whether the citizens would have been better off with less governmental services. However, when governments are too big, the productivity and efficiency in the activities carried out by the government are relatively low, compared to markets.

## **5. Regulations and Dealing with externalities**

Unlike popular belief, the concept of the minimal facilitating role of government does not exclude minimal regulations required to protect consumers and environment from harmful activities of business enterprises. Appropriate regulation is crucial to realize the benefits of liberalization such as to ensure competition between market players and avoid monopolies and for consumer protection. In terms of consumer protection, it entails aspects such as regulations to maintain quality of the services provided, to ensure sufficient provision of information on goods and services, to protect consumers from fraud (especially in the financial sector like Anti-Fraud regulations) and also to maintain financial stability and protect consumer savings from excessive risk-taking by financial institutions.

However, too much regulation can stifle the process of enterprise building and economic

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growth. License quotas, restrictions in entering and exit from the markets, non-realistic, out-dated and complicated standards etc. can be such barriers that come with regulations. Hence, regulations should be refined and adapted to the current market scenario.

Another aspect in which the government can play a facilitating role is dealing with externalities. Externalities are caused when effects of an action one party takes is incurred on another party who did not agree to the action causing the cost or benefit. For e.g. the sound coming out from my neighbor's dance party is a externality to me as it affected me but it was not prior agreed. If I enjoy the sounds, the not agreed for effect becomes a benefit and is a positive externality, whereas the opposite is a negative one. Issues such as environmental degradation fit the case of dealing with externalities.



# 4

## International Experiences

Historically, the concept of limited government has been viewed in contrast to the doctrine of the Divine Right of Kings which entitled the king, and by extension his entire government, to unlimited sovereignty over its subjects. The king could do what he wanted to do to whomever he wanted to it whenever he chose. Therefore, traditionally, proponents of limited government sought to limit the arbitrary powers of the King. Magna Carta remains one of the earliest examples of citizen's attempt to limit the powers of Kings. Originally issued in 1215 in England, Magna Carta included direct challenges to the then King's power and compelled King John of England to proclaim certain liberties, and accept that his will was not arbitrary.

The charter was an important part of the extensive historical process that led to the rule of constitutional

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law in the English speaking world, although it was “far from unique, either in content or form”. (Holt, 1965) Magna Carta was followed by The English Bill of Rights associated with the Glorious Revolution of 1688 in the series of attempts to limit the powers of Kings and governments. The drafting of Constitution of the United States in 1787 which was based on the concepts of limited government is considered a major milestone in the development of democracy and constitutional governments. The constitution of United States for the first time in the history of mankind created a government limited by the terms of the written document itself, by the election by the people of the legislators and the executive, and by the checks and balances through which the three branches of government limited each others’ power.

The modern concept of limited government can be understood in contrast to the authoritarian regimes with/or centrally planned economic systems. Centrally planned economies on the 20th century such as Soviet Russia, China before

1978 sought to have state's complete control over the economies activities of their citizens and these economic systems were accompanied by political authoritarianism which dominated every other aspects of lives of general people. Another form of big government is found in social democratic countries such as Sweden, Norway where state has undertaken the responsibility of social justice and equal distribution of wealth through state sponsored massive welfare programs ranging from health services to unemployment doles. The collapse of Soviet Russia and other member countries of the Soviet bloc in 1991 as well as significant transformation of economic systems from centrally planned to market-led in countries such as China, Vietnam make a compelling case for the need of less government intervention in economy. Even countries with massive state welfare programs are cutting down their welfare benefits owing to the tendency of such welfare programs to increase in cost and spending and become burdens to the governments.

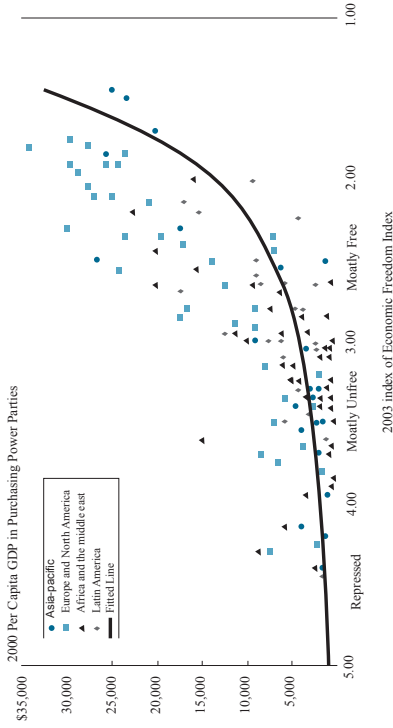
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During 1970s and 80s, Margaret Thatcher, the prime minister of United Kingdom and Ronald Reagan, the president of United States initiated campaigns to privatize previously state-owned enterprises. The success of these campaign was reverberated around the world with many countries initiating privatization and liberalization process of their own public enterprises. The privatization processes in these countries have been met with mixed results. Nepal liberalization and privatization process was initiated in mid-1980s with the help of International Monetary Fund and World Bank.

Fraser Institute, a Canadian think tank publishes an annual report called “Economic Freedom of the World” which ranks countries around the world in terms of the freedom enjoyed by the citizens of a country to engage in economic activities. Size of the government and the range of interventions in the economy are major aspects of the measurement. Following figure shows the correlation between economic freedom and per capita income:

In the social front also, the growing tendency around the globe is of limiting the power of governments by various mechanisms, mostly through the constitution itself. Following chart by Freedom House, which publishes an annual report assessing the degree of perceived democratic freedoms in each country, which is used in political science research, shows the increasing number of liberal democracies around the world since 1972:

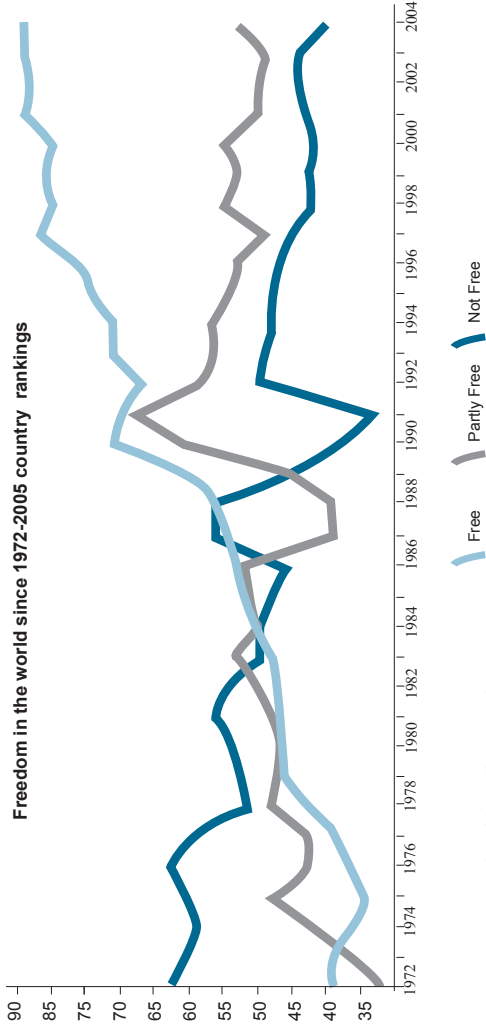
## Economic Freedom and Income



**Note:** Per capita GDP figures were not available for the following countries: Armenia, The Bahamas, Bosnia, Democratic Republic of Congo, Cuba, Djibouti, Iraq, North Korea, Kuwait, Lebanon, Libya, Malta, Oman, Qatar, Suriname, Taiwan, Tajikistan, United Arab Emirates, Yugoslavia, Per capita GDP figures are in current international dollars and are from 1999.

Source: *The World Bank, 2000 | World Development Indicators on CD-ROM.*

## Freedom in the world since 1972-2005 country rankings



Source: Freedom of the world 2006, Freedom House

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According to the Freedom House's annual report of 2009, there 89 countries around the world are free whereas 58 countries are partly free. 47 countries studied in the report didn't meet the criteria of a liberal democracy which include free and fair elections, private property rights, secured fundamental rights of the citizens, universal suffrage etc.

## Hong Kong

Hong Kong is among the freest economies in the world. For 14 consecutive years, Hong Kong has topped the Economic Freedom of the World index published by Fraser Institute, Canada. Open trading system, low taxes, sound money, minimal government regulation, and the rule of law are among the primary features of Hong Kong's political and economic system.

Hong Kong has followed small government, laissez-faire policies for decades, limiting government intervention in business. Nobel laureate economist Milton Friedman has credited



the minimal government intervention as one of the primary reasons for Hong Kong's success. (Friedman, 1998). Hong Kong's GDP per capita grew in real terms at an annual rate of 6.5% from 1965 to 1989, a consistent growth percentage over a span of almost 25 years. By 1990 Hong Kong's per capita income officially surpassed that of the ruling United Kingdom. (Rowley & Fitzgerald, 2000)

### **New Zealand**

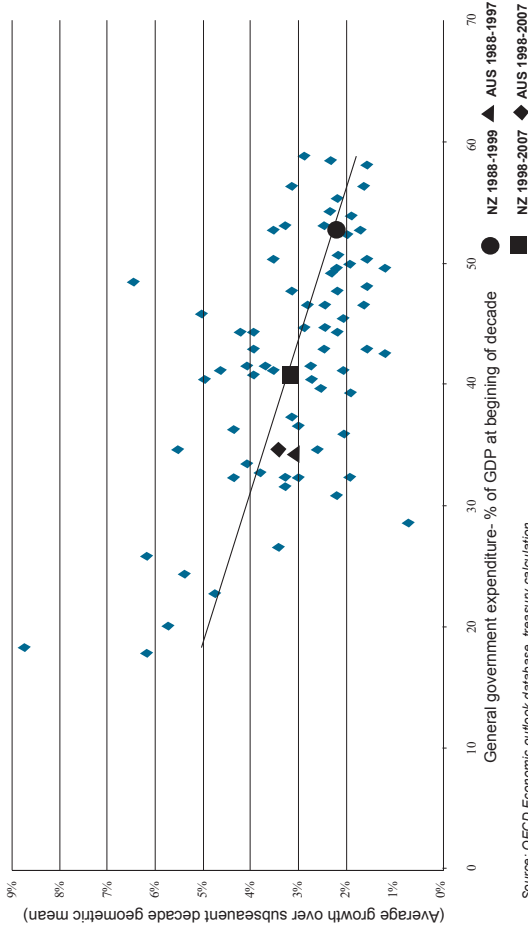
New Zealand is another example of a highly free market economy with least state intervention. New Zealand was ranked 3rd freest economy in the world by Fraser Institute in its Economic Freedom of the World Report 2010. New Zealand used to be a heavily regulated, protected welfare economy until 1970s.

Since 1984, the government of New Zealand has undertaken major economic restructuring, moving an agrarian economy dependent on concessionary British market access toward a more industrialized,

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free market, globally competitive economy. The government intervention in economy were significantly reduced starting from the budget of 1984. These economic reforms resulted in higher real incomes, broadened and deepened the technological capabilities of the industrial sector, highly competitive agricultural sector and low inflationary pressures. Inflation remains among the lowest in the industrial world. The per capita GDP of New Zealand is currently \$26, 966 (PPP) making it the 32nd richest country in the world in terms of per capita. (IMF, 2011)

Following chart shows the interrelation between the size of government and economic growth rates in New Zealand and Australia:



### United States

The Constitution of United States was among the earliest political doctrines to limit the powers of government, both in social and economic lives of its citizens. A central feature of the U.S. economy is the economic freedom afforded to the private sector by allowing the private sector to make the majority of economic decisions in determining the direction and scale of what the U.S. economy produces. (Miller, 2008) This is enhanced by relatively low levels of regulation and government involvement, (Anderson, 2006) as well as a court system that generally protects property rights and enforces contracts. The United States was ranked 6th freest economy in the world by Fraser Institute in its Economic Freedom of the World 2010.

The United States is the world's largest economy with a gross domestic product of \$14.527 trillion in 2010. (IMF, 2010) and one of the richest with per capita income of \$46,844. In the early years of American history, most political leaders were reluctant to involve the federal government too

heavily in the private sector, except in the area of transportation. In general, they accepted the concept of laissez-faire, a doctrine opposing government interference in the economy except to maintain law and order. However, since 1930s the government intervention in the economy has been increasing. Despite this, US remains one of the least government intervened economy in the world.



# 5

## Conclusion

Decade long civil war, political instability and frequent political transitions have rendered Nepalese government weak and ineffective although the extent of government's interference in general people's lives is immense. Despite the evidences of disappointing results of government planning and government's involvement in the economy, the dominant thought in our current political discourse is of a large and intervening government. As observed from the experiences of other countries around the world, opting for a large and intervening government could result in further deterioration of the already flailing economy.

A small but effective government could be the right solution for a poor economy like Nepal where wealth creation is more important for the time being than wealth distribution or a welfare state. A limited but effective government could tap on

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the entrepreneurial spirit of the Nepalese citizens by focusing on providing secure environment for their lives and properties, proving swift and impartial administration of justice and maintaining competitive and accessible markets. The major role of government in enterprise building is maintaining rule of law rather than acting as an economic agent itself. Continuing the liberalization, privatization attempts initiated in the early 1990s and focusing on enhancing security of lives and properties are some ways Nepal's governments could facilitate enterprise building in Nepal.



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## Notes

<sup>1</sup> Robert M. Solow, Speech delivered at the Nobel prize award accepting ceremony. Retrieved from [http://nobelprize.org/nobel\\_prizes/economics/laureates/1987/solow-lecture.html](http://nobelprize.org/nobel_prizes/economics/laureates/1987/solow-lecture.html)

<sup>2</sup> Schumpeterian growth is an economic theory named after the 20th century Austrian economist Joseph Schumpeter. Unlike modern economic growth theories, his approach explains growth by innovation and entrepreneurial spirit.

<sup>3</sup> The authors take the core functions as (1) activities that protect persons and their property from plunder, and (2) provision of a limited set of goods that for various reasons markets may find it difficult to provide



# Samriddhi, The Prosperity Foundation

## An introduction

Samriddhi, The Prosperity Foundation is an independent -- non-partisan, not-for-profit, research and educational, -- public policy institute based in Kathmandu, Nepal.

Following the April 2006 movement for democracy that marks the re-emergence of political freedom in Nepal, it has been established with the vision of “a free and prosperous Nepal where individuals can live a dignified life in a vibrant and democratic society with equal access to opportunities and respect for rule of law.”

Samriddhi operates with a three-tier approach to achieve its mission of promoting ideas of civil, political and economic freedom through public policy recommendations (based on independent research), educational programs and public participation. Samriddhi believes in the power of private entrepreneurs as a key to economic development and engages in fostering democracy and building a conducive environment for economic growth.

Following are some of the programs Samriddhi is currently engaged in:

### 01. Education and Training Programs

Education and Training Programs of Samriddhi, The Prosperity Foundation is largely about working with the youth to reinvent the entrepreneurial zeal among the young population of the nation. Most educational and training programs are with youth from undergraduate and graduate levels. One day workshops, residential programs, discussion programs, documentary features on issues related to entrepreneurship, public policies that affect the market and economy come under these programs. Some of Samriddhi's

regular programs on Education and Training are :

- a. Arthalaya – School of Economics and Entrepreneurship
- b. Neetishala – The Public Policy Discourse
- c. Docu-Talks- (Discussions on Documentaries related to entrepreneurship and livelihood)
- d. Internship opportunities for the youth

## **02. Research and Publication**

Samriddhi conducts research on several public policy issues. Its area of interest lies on research related to economics and political economy. Mostly, the research it conducts is related to studying the impact of policy on livelihood issues. Such researches are published by the organization in print and in website along with several other publications for e.g. a yearly handbook for entrepreneurs in Nepal titled ‘Towards Enterprise Building in Nepal’ and translated versions of international books relevant to promoting economic freedom in Nepal. Samriddhi has also been publishing a series of pocketbooks to educate and inform about the importance and roles of various fields like Rule of Law, Economic Freedom, etc. in promoting the private market to build a prosperous Nepal.

## **03. Public Outreach**

Public Outreach of Samriddhi involves hosting discussion programs on contemporary issues, organizing interaction programs that draw policy makers’ attention to alternative solution on issues, creating a platform for entrepreneurs to speak and network through talk programs and using national and international networks to bring people from relevant sectors with varied experiences to discuss on several global policy issues.

Besides this, Samriddhi is proud to be associated with



National Campaign for a Livable Nepal- Gari Khana Deu!! ([www.livablenepal.org](http://www.livablenepal.org)), which is an effort to raise voices to end the prevailing lawlessness and impunity in the country by advocating rule of law, safety of life and property and freedom to pursue livelihood and enterprises in Nepal as essential preconditions to a livable country. In addition to its programs, to encourage research and scholarship in the area of political economy, Samriddhi hosts a Political Economic Resource Center (PERC) in its office premises.

Few Programs under Public Outreach are:

- a. Policy Talkies
  - b. Last Thursdays with Entrepreneur (in collaboration with E4N)
  - c. Occasional Discussions
  - d. Campaigns (Democracy is...: A Peoples' Campaign)
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## Other Publications

1. Towards Enterprise Building in Nepal
2. Towards Enterprise Building in Nepal II
3. आर्थिक स्वतन्त्रता
4. उद्यमशीलता विकासमा बजारको भूमिका
5. Role of Rule of Law in Enterprise Building
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