# Economics and Social Infrastructure: It's Role in Economic Development

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## Abstract

Infrastructure is a prerequisite to proceed growth and development of any economy. For development of any economy formation of structure and base is required which is provided by infrastructure. It accumulates higher level of economic activities and thereby contributes to reducing regional economic disparity, reduction in poverty and unemployment and enhancing standard of living of the society as a whole. In this context role of economic and social infrastructure needs to be considered. If we would like to focus on sustainable development along with inclusive growth then it is necessary to explain economic and social infrastructure.

Greater access of the masses to economic and social infrastructure in form of transport, power, electricity telecommunication, irrigation, health and education services will lead to economic and social empowerment and ultimately inclusive growth.

In this context this paper wishes to examine role of economic and social infrastructure in economic growth and development.

**Keywords**: Social, economic infrastructure, economic growth, economic development.

**Introduction:** Since Independence the role of economic and social infrastructure has been extensively emphasized in India to proceed growth and development. The availability of infrastructure greatly contributes raising marginal productivity of other factors by enhancing its profitability, output, income and employment.

For sustainable development and inclusive growth of the economy in the long run, availability of social and economic infrastructure is a prerequisite. In short infrastructure is an driving force to proceed growth of an economy in a sustainable manner and more importantly to improve the quality of human life and thereby to raise standard of living and quality of human life which helps to raise human development index of an economy.

With respect to above mentioned reference this paper wishes to examine role of economic and social infrastructure in economic development.

World Development Report (1994) published by the World Bank under the title 'Infrastructure for Development ' rightly mentions that “the adequacy of infrastructure helps determine one country's success and another's failure in diversifying production, expanding trade, coping with population growth, reducing poverty or improving environmental conditions ".

Since World War II, the key role of infrastructure in regional development has been emphasized extensively through literature in economics on growth and development

[Giaoutzi,(1990)].Infrastructure proceeds economic growth by creating base for development. Economic growth of every sector plays an important role. To have sustainable development every sector of an economy should grow in an equitable manner. But every sector has its own requirements of infrastructure. If every sector is well equipped with sufficient social and economic infrastructure then no obstacles will be there in growth and development. But availability of infrastructure is limited by lack of capital, low level of investment etc. Most of the development theories in economics emphasized on lack of infrastructure as a basic factor responsible for low level of economic growth and development. Creation of infrastructure is basically considered to be a function of the Government sector. Private sector is least bother about investing in infrastructure or what is called as Social Overhead Capital for two reasons:
Firstly, infrastructure needs heavy and lumpy investment so private sector don't find it's profitable to do investments here.
Secondly, it has long gestation period that is time required to complete the project is very long so returns will get realised after long period. So private sector is not interested to do investments in SOC. If SOC is available then they will do investments in Directly Productive Activities (DPA)

"The foremost reference to the concept of infrastructure was given by the economist A. O. Hirschman(1958).He differentiated between Direct Productive Activities (DPA) and Social Overhead Capital (SOC).The SOC can be seen as Infrastructure and is usually defined as comprising 'those basic services without which primary, secondary and tertiary productive activities cannot function '
Hirschman (1958) says that Social Overhead Capital (SOC) and Directly Productive Activities (DPA) can't be expanded at one and the same time and some SOC investment is required as a prerequisite for DPA investment.
Hirschman strategy indicates that minimum level of SOC or Basic Infrastructure is always needed to induce Directly Productive Activities, otherwise it will be difficult for private sector to initiate investments in DPA. Due to lumpiness of investments for building infrastructure facilities and long gestation period (time required to complete the project) private sector is reluctant to initiate investments in SOC. So basically, these facilities (creating SOC) are required to be developed by the public sector.

In short adequate and efficient availability of infrastructure absolutely necessary to proceed growth and development of the economy. Availability of Economic and Social Infrastructure in different forms is a need of any economy to fulfil the criteria of development. In short, we can say that it is the core requirement of any development strategy. It helps in raising production as well as productivity, increasing level of output, employment, income and thereby raising standard of living of the masses, literacy level and so enrichment of quality of human life. Overall welfare of the society as a whole greatly influenced by availability of Economic and Social Infrastructure.

In this context would like to differentiate between Economic and Social Infrastructure.
Economic infrastructure is the one which has positive and encouraging impact on production and distribution in any economy. Its directly required for economic development. For e.g it includes transportation and communication services, energy, power, availability of irrigation services.

Social infrastructure consists of education, health, Sanitation and water supply, housing which helps in raising the quality of human life. As we know education enhances the quality of human life by broadening the human capabilities This is nothing but human infrastructure. So, term social infrastructure is used to those facilities which tend to improve the quality of human life and thus promote human capital formation (KhanN.A, 2004). AProf Schultz stated that expenditure on education and health contributes to increase in labour productivity by raising the quality of population and these yield a flow of returns in the future.(Gowda and Subramanya, 1997). Economist Lewis also focused on investments in health and education as it improves the quality of work and efficiency for optimum utilisation of natural resources.

Social infrastructure is, in fact, essential to promote better utilisation of economic infrastructure. Therefore, expenditure on social infrastructure should be regarded as an investment rather than as social consumption (Khan, N.A,2004).

In short, we can say that for overall welfare and human development, investment in the form of health and education are core factors to achieve sustainable economic development. The country spends adequate amount of expenditure on social infrastructure is considered to be a pathway to reach the stage of Inclusive Growth.
If we wish to include everyone in the growth process then there is no alternative but to do investments in social infrastructure.

Overall, it improves quality of human life which is the need of today's society. Myrdal, (1968), general weak health, under nutrition and wide spread prevalence of disease reduce the energy of the people in the underdeveloped countries and reduce their work efficiency . As pointed out by Prof Schultz provisions for good housing conditions, clean drinking water and sanitation all help in improving the general health standards.

The United Nations Development Programme has designed a HDI (Human Development Index) to judge human development by considering factors like life expectancy, educational attainment and per capita income, which is sufficient at a level provide the basic necessities of life. Thus concept of human development has four components: productivity, equity, sustainability and empowerment ( Human Development Report, 1995).
This discussion reflects that importance of infrastructure goes far beyond its impact on growth. It raises production and output as well as enriching the quality of human life. So, lack of infrastructure facilities is considered to be a major obstacle in the growth process and have negative impact on output, growth and overall efficiency of the economy. Inadequate infrastructure leads to inefficiency, backwardness, stagnancy of development, inequality in regional development, low level of employment.

In modern times role of Foreign Direct Investment(FDI)is inevitable to proceed growth process. It has very encouraging impact on growth in terms of technology, employment, regional development, raising employment opportunities, savings of valuable foreign exchange reserves etc. But to attract FDI, availability of efficient infrastructure is a prerequisite. A country with lack of infrastructure finds difficult to attract FDI.So thereby difficult to gain benefits of FDI.

Sufficient amount of FDI is considered to be important for developing countries to achieve higher level of economic growth.So, countries with efficient infrastructure finds it easy to attract FDI. So, in this respect availability of economic and social infrastructure is badly needed for any economy. Otherwise, there will be continuation vicious circle in the country.
So, Prof Ragner Nurkse pointed out that sufficient level of investment is necessary in under developed countries to break the vicious circle.

Dr Jeffrey Delmon, senior infrastructure specialist of The World Bank, begins his book indicating that, "Poor infrastructure impedes a nation's economic growth and international competitiveness [The World Bank (2006)].From the point of view of developing countries, we can say that availability of infrastructure has positive impact on reduction of poverty.Patra and Acharya (2011) examine the spatial disparities in infrastructural facilities across 16 major states in India and in turn analyses its impact on regional economic growth. Empirical evidence suggests that there is a positive relationship between Infrastructure Development Index and Per Capita Net State Domestic Product and negative relationship between Infrastructure Development Index & Poverty. Hence efforts should be directed to create more infrastructure facilities at the State level to raise the state domestic product and reduce the level of poverty and unemployment of the people concerned.

The availability of economic and social infrastructure has great desirable impact on reducing poverty and regional development. If job opportunities are available in backward regions, then the flow of migrants to overcrowded cities will automatically stop.To develop backward regions State should focus on creating Economic and Social Infrastructure so automatically industries will develop and employment opportunities will enhance in this region'sleading to positive impact on output, employment and growth of the economy.

In order to stimulate growth and reduce poverty, it is essential to improve the supply, quality and affordability of infrastructure services. The unmet demands are huge, and investments have not matched demands (The World Bank 2008).

Following table explains Index of Economic and Social Infrastructure and its positive impact on Poverty.

**Table**:

**Index of Social and Economic Infrastructure**

| States | Index of Infrastructure | Head Count Ratio Of poverty |
|---|---|---|
| Punjab | 185.5 | 9.2 |
| Kerala | 178.7 | 13.3 |
| Tamil Nadu | 149.1 | 22.9 |
| Haryana | 137.5 | 13.6 |
| Gujarat | 124.3 | 19.1 |
| Maharashtra | 112.8 | 29.6 |
| West Bengal | 111.3 | 28.6 |
| Karnataka | 104.9 | 20.9 |
| Andhra Pradesh | 103.3 | 11.2 |
| Uttar Pradesh | 101.2 | 33.4 |
| Bihar | 81.3 | 42.1 |
| Orissa | 81.0 | 46.8 |
| Assam | 77.7 | 22.3 |
| Madhya Pradesh | 76.8 | 36.9 |
| Rajasthan | 75.9 | 18.7 |

Source: **Human Development Report of India (2011) *"Towards Social Inclusion"***

The above table shows that States with higher infrastructure are having a low head count ratio of poverty. There is strong evidence that States with efficient availability of quality infrastructure, lower is the poverty level. It is well known fact apart from different measures since Independence to direct attack on poverty, still today we are facing problem of poverty in our country. " Poverty leads to Poverty".

If we planned creation of social and infrastructure in all the States systematically then will get solution to the problem of poverty. To attack on poverty, we need consolidated strategy of developing infrastructure basically with focus on backward regions. This will help in creating employment opportunities as well as raising income and purchasing power of weaker sections of the communities leading to Social Inclusion. So, investment in Education, Health, Transport and Communication, Irrigation, Banking, Power, Science and Technology is one inevitable.

**Conclusion:** In short to enhance efficiency, productivity and growth at every level of economic activity, across all sectors, well-functioning and qualitative infrastructure in the form of social and economic infrastructure is a prerequisite. It is well known fact that prosperity of any country is directly and indirectly related to an availability different type of infrastructure.

Acceleration in economic growth is difficult to achieve without a corresponding increase in the rate of investment in infrastructure. No doubt we are doing our best in developing qualitative and sustainable infrastructure in every sector of the economy. But its long-term process. Infrastructure is a rail on which the wheels of economic progress can proceed with sustained speed.Investing in economic and social infrastructure constitutes one of the main mechanisms to increase income, employment, productivity and consequently, the competitiveness of an economy.

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