"बेटी बचाओ, बेटी पढ़ाओ"

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Introduction

Economic development is generally believed to be dependent on the growth of real factors such as capital accumulation, technological progress, and increase in quality and skills of labour force. This view does not adequately stress the role of money in the process of economic development. It is said that money is a mere veil and intrinsically unimportant. What matters is the real goods and productive factors which money buys. However, this extreme view about the unimportance of money as such is no longer believed. Not only is money an important factor without which modern complex economic organisation is impossible, but it is also an important factor for promoting economic development. We discuss below the importance of money in the process of economic development.

In the economy today money performs several functions. Money serves as a standard of value in which other values are measured. Money is a store of value, that is, the means in which wealth can be held. It acts as a standard for deferred payments.

However, the most important function of money which distinguishes it from other goods is that it serves as a medium of exchange. That is, money is a means of payment for goods and services. It is this use of money that distinguishes a monetary economy from a barter economy. A monetary economy is one in which goods are sold for money and money is used to buy goods.

Money Promotes Productivity and Economic Growth:

Barter system was full of difficulties of exchanging goods and services between individuals. In the absence of easy exchange of goods and services the barter system worked as an obstacle to the division of labour and specialisation among individuals which is an important factor for increasing productivity and economic growth. Further, the process of economic growth leads to the expansion of production of goods and services and consequential rise in incomes of the people.

As a result, volume of transactions in the developing economy increases. This raises the demand for money to finance the increased transactions brought about by the expanded level of economic activity. Thus, the process of economic growth would be held in check if adequate supply of money is not forthcoming to meet the requirements of increase in the level of economic activity.

Money Promotes Investment:

From the viewpoint of development another important role of money lies in making the magnitude of investment independent of the current level of savings. In a barter system, the goods not consumed constitute the savings as well as investment. That is, investment is not different from current savings. The greater the current savings, the greater the investment. However, in a modern economy, this is not so. Whereas it is households which save in the form of money, it is the firms which invest money in capital goods.

Therefore, investment can differ from saving because investment activity is separated from the act of saving. More importantly, investment in a monetary economy can exceed the current level of savings. This excess of investment over savings is possible because new money can be created by the Government in the form of currency or by banks in the form of bank deposits. And this is what is important for the purpose of economic development.

In the developed countries in times of depression when idle productive capacity exists, the increase in investment made possible by creation of new money by the Government or banks would lead to the increase in aggregate demand for goods and services. In such times the supply of goods and services is elastic due to the existence of excess capacity. Therefore, increase in aggregate demand generated by the investment financed by created money brings about expansion in output of goods and services and thereby causes an increase in the level of employment.

In developing countries, the created money can play a useful role in promoting economic development. Rapid economic development can be achieved by stepping up the rate of investment or capital formation. But additional resources are required to increase the rate of investment. But in a country where a majority of the people are living at the bare subsistence level, voluntary savings, taxation.

Government borrowing cannot by themselves provide sufficient investible resources for development. The government therefore attempts to increase the volume of investible resources beyond what is possible on the basis of current level of savings through creating new money. The newly created money can be spent on investment projects both in the industrial and agricultural fields which would lead to the increase in output, income and employment.

Money and Investment in Quick-Yielding Projects:

It is widely believed that any increase in the supply of money in developing countries would lead to the rise in prices or to the emergence of inflationary pressures. However, this is not always true. A reasonable amount of newly created money helps the development of the economy by raising the level of investment. In the developing economies a lot of natural and human resources lie un-utilised and underutilized which can be employed for productive purposes.

If the newly created money is used for investment in those projects such as small irrigation works, land reclamation schemes, flood control and anti-soil erosion measures, cottage industries which yield quick returns, then the danger of inflation will not be there. These quick- yielding projects will increase the production of essential consumer goods in the short run and will therefore prevent the rise in prices.

Further, if development strategy is such that a higher priority is assigned to agriculture and other wage goods industries and further that organisational and institutional reforms are undertaken to provide all farmers with irrigation facilities, fertilizers and high- yielding varieties, agricultural output can be raised in the short period. In this framework, new money can be created to increase the level of investment without much adverse effect on prices.

Monetization and Economic Growth:

Further, as is well known, most underdeveloped countries have a large non-monetised (i.e. barter) sector where production is for the purpose of subsistence only. To break the subsistence nature of economic activity and thus generate new forces for economic growth, its monetisation is required. The introduction of money helps in bringing it in contact with the modern sector. This contact of the subsistence sector with the modern sector will lead to the expansion of its output.

In order to obtain the products of the modern industrial sector, the people engaged in the subsistence sector will make efforts to raise their output. Thus, a surplus of output over their self-consumption will be generated in this way which will ultimately break their subsistence nature.

It is supported by the past history of the developing countries. During the colonial period, the monetisation of the peasant sector led to the expansion in exports in exchange for the imported industrial products. This stepped up their agricultural development to a good extent. Similar to the growth of production for exports the introduction of money in the subsistence agricultural sector and its contact with the modern sector, would lead to the increase in marketable surplus of foodgrains and other agricultural products which is an important factor in economic development.

If some rise in agricultural prices occurs as a result of increase in investment financed by the created money, as is likely the case, it would serve as an incentive to produce more foodgrains and supply it the market. The rise in agricultural incomes will increase demand for industrial products and would therefore accelerate their growth.

Further, the monetisation of the subsistence sector will also help in raising the volume of savings. Monetisation will bring this sector in contact with the financial institutions such as commercial and cooperative banks and insurance companies.

The opportunities of earning more income through interest on saving will raise the propensity to save of the people in the present-day subsistence sector. If proper monetary policies are pursued, then instead of consuming or hoarding all their therefore incomes, these people can deposit a part of them in the financial intermediaries.