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Role of Banks in Innovation Development of Economy

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ABSTRACT

This paper examines the scientific method used to study numerous economic theories, including “neoclassical”, “monetarist”, “Keynesian”, “institutional”, & the idea of “financial intermediation”. The benefit of researching economic theory's application in the real world is understanding how it relates to banking activity. However, it does not provide a comprehensive historical analysis of all economic theories relating to the influence of the financial sector as well as its constituents on economic growth. The study of the relationship between advancements in the concept of financial intermediaries, the involvement of the banking industry, & trends in creation of “new paradigms” is highlighted by author. The article's goal is to examine the theoretical framework for determining banks' contributions to the financing of the economy's innovative development. The information used in research is based on scientific studies that were published as monographic studies and journal articles. These studies looked at how the government affected the “monetary system”, ‘interest rates”, “production”, “investment”, & “processes of the economy's reproduction”. Research approaches that take into consideration “dynamic functional relationship” between “current state of the whole”, development, & balancing of its “constituent elements” include logical generalisation, comparative analysis, and systems approach. The essay highlights how crucial it is to get banks to increase their involvement on the investment market. There is no widely acknowledged theory for identifying the position and function of bankers in the growth of a nation's economy, according to a critical study of development and research by eminent researchers. It has been determined that advocates of neoclassical theories of arbitration take the best positions with regard to defining the function of banks in reviving economic progress.

Keywords : Bank, Role, Economic Theories, Financing, Innovative Development, Economic Growth

I. INTRODUCTION

Increasing the “role of banks” in determining resources required to implement innovation strategy is a special task for the growth of the contemporary economy. New production capacity and the renewal of fixed assets are crucial for the domestic economy's innovative growth because they support worker productivity, resource conservation, and product competitiveness. Massive investments focused on innovation are needed to bring about these changes, provided there are adequate sources of funding. The challenges surrounding the growth of bank loans as just a source of funding for initiatives to modernise the real sector of economy are particularly significant in this regard.

The need to strengthen the role of bank credit poses the most challenges to realising the economy's full potential. As a result, banks and them are characterised by a lack of domestic enterprise resources, a slow rate of structural change, and ineffective government support. Associated with inadequate investment policies, a weak legal system, excessive credit risk, insufficient enterprise solvency, and underdeveloped innovation & investment infrastructure.

Problem Statement

Due to objective of attracting investment resources towards creative programmes and projects centred on important sectors of economic development, issue of energising the operations of commercial banks with in investment market has taken on a unique significance. A scientific foundation is necessary for the development as well as implementation of a successful financial and investment strategy of commercial banks in order for the banking sector to participate in the solution of the complex and multifaceted problem of the creation and growth of an entrepreneurial firm in any nation.

Determining the role of banks in processes that will take into account the current unique circumstances of global financial destabilisation as well as the goals of innovation process of economic development is necessary in order to achieve the aforementioned significant strategic goals of innovative development of domestic economy. the theoretical foundation for practical assessments of modern banks' influence, which established the goal of our study.

The study's goal is to examine the theoretical frameworks for determining banks' contributions to the financing of the economy's innovative development.

Result

It was able to get this conclusion after studying the economic literature: although experts have long debated the issue of where and how banks fit into the reproduction process, there is no consensus view. In our opinion, “neoclassical”, “Keynesian”, “institutional economic theories”, & “paradigms of financial intermediation” are finest ways to define the role of banks among the many various substitute theories that have a scientific approach to assessing “impact of banks” on “economic development”.

Role of banks in neoclassical economic theory

Study the process of functioning relations in the area of credit and monetary relations to learn more about the market equilibrium circumstances.

Fisher was an advocate of using monetary policy to control the investment cycle. Fisher (1930) attempted to construct an asset - based approach of the economy in his research study "The Theory of Interest," in which he regarded the fertility regulation as difference between “projected rate of investment” as well as “rate of interest”. Fisher underlined that in order to be an investment, the rate of return must inevitably be higher than the rate of interest.

Neoclassical education provisions have been impacted by significant elements like growing resource shortage issues, poor decisions, and knowledge asymmetry. The cost of acquiring quick and accurate information and the related credit risk have increased as a result of central banks' efforts to raise the money supply, which ensures the continuation of reproduction. Due to the aforementioned, banks were less willing to make loans for creative enterprises in the real economy.

Neoclassical proponents emphasise that changes in the money supply have a direct impact on aggregate demand and nominal GDP & believes the primary influence on the level of “production, employment, & prices” is the money supply. He identified fluctuations in solvent demand for goods and services as the primary cause of changes in economic activity since it was impossible to stabilise cash flows in the absence of comprehensive information about future growth.

Banks role in “Monetarist Economic Theory”

The next branch of economic theory is monetary theory, which establishes how banks contribute to economic growth. Theoretical investigation of the monetarists (Mill, 1848 (1909); to create unique actions (institutional measures) to lessen information hazards and credit market volatility Additionally, there is a need to enhance government spending on open market operations, which affect “banks' reserves & lending rates”.

According to “M. Friedman and other monetarists” 1968, central bank's power over the corporate sector is based on the comparatively high fraction of money that is kept in the money supply. He therefore placed a high value on administrative techniques for influencing bank lending behaviour and controlling the money supply. According to him, the suggested techniques ought to have an impact on how resources are allocated among the sectors supporting economic activity, enhancing the contribution of banks to creative economic development.

Role of Banks in Keynesian Economic Theory

He argued that basis of growth in the economy is a rise in amount of government investment & spending instead of the actions of commercial banks and financial institutions. Although proponents of Keynes' theory (Keynes, 1936 favoured the study of manufacturing processes in their research articles, they needed to play a crucial role in not given over Banks and their impact on reproductive processes.

Contrary to the neoclassicists, who in turn established the framework for economic development, advocates of Keynesian theory paid close attention to determining “function of the state in macroeconomics”. As a result, they did not discount the significance of exchange but instead established the production process's dominant role as the mechanism that adds value.

Keynesians outlined the unique function of the central bank and believed that government involvement in the “money market” can eventually assist control the interest rate. According to them, monetary policy should actively encourage economic growth by ensuring that there are enough funds in circulation and, as a result, lowering the interest rate as much as possible. Later, adherents of this view believed that while money is important, managing the economy through the use of money is not the best course of action.

Banks role in “institutional economic theory”

In their scholarly works, members of the organizational direction of financial theory identify new tendencies in the alteration of banks' roles in development and reproduction processes.

It should be emphasised that throughout the early phases of the theory of institutionalism's development, its proponents rejected the idea that banks might play a beneficial role in funding the economy. For instance, the institutionalist classics Veblen (1904), Commons (1934), and Galbraith (2008) evaluated bank capital as parasitic & disregarded the beneficial role that banks played in the economic regeneration processes. regeneration. . Under institutions, they first recognised the socio-psychological phenomena of people's lives and actions that depend on their habits & are grounded in legal acts; in other words, they looked at economy based on politics & law.

Neo-institutionalists later acknowledged the necessity and possibility of governmental influence over financial, credit, and monetary institutions (Kose, 1990). He used the categories of "consumption," "utility," & "alternative cost" to analyse banking industry.

Later, W. Under Michel's influence (Michel, 1913), representatives of institutionalism based on money, finance, & credit factors combined with “socio cultural issues” & taking into consideration the psychosocial factors, possible & necessary on the development of the economy, recognising the influence of the state. The basic principles of the theory have been analysed in relation to the growth of industry, the expansion of banks' influence on the financial system, globalisation, and the shifting economic conditions brought on by information and communication technologies. The realisation of "expanding role of banks in economic growth", which played most significant part in this, served as the foundation for the normative provisions of modern institutional-evolutionary theory.

He himself has become a capitalist par excellence... He is fundamentally an occurrence of development, yet only when no central power instructs the sociological phenomena. He allows him to carry out new combinations, the names of individuals to society. This is according to Schumpeter (Schumpeter, 1912), who explicitly linked banking institutions to the nature of market economies.

As a result, one of the basic pillars of current institutional-evolutionary theory is the recognition of the vital role banks can lend in economic development. The advantages of the proponents of this hypothesis, particularly J. Schumpeter examined a number of themes, one of which was the development of the market for bank products and services, which, in our judgement, in the United States has become a prerequisite for intensifying the involvement of banks in addressing the demands of the creative growth of the economy. These problems result from the shift from government monopoly to banking autonomy (Schumpeter, 1934).

Role of Banks in Financial Intermediation Concepts

To determine the function of banks in triggering the processes of "financial reproduction", a new theory of financial intermediation is developed at the turn of the twenty-first century. Core of this theory is to view the bank as a "development multiplier" (Hodgman, 1961)

The idea is founded on the multiplier effect, which is the phenomenon whereby deposits grow and expand as a result of loans being made, and by which investments rise as a result of the creation of numerous technical links. It should be emphasised that J. discussed the impact of the banking multiplier. Schumpeter in academic work. He underlined that banks generate fresh deposits and finance new loans simultaneously. Because financial systems are known to be fragile, the fact that every time a borrower receives "new loan from a bank", loan is issued through establishment of "new deposit" with "same amount" & on behalf of "same client", was regarded as a highly serious factor.

It should be noted that banks are viewed as intermediaries in allocation of "real savings" in contemporary neoclassical theories of intermediation. In this version, the lending process starts with depositors attracting bank deposits at "expense of real resources" from their prior collected savings & concludes with lenders offering loans to borrowers secured by comparable real resources. However, in practise, these institutions' financial middlemen do not operate. In order to increase the amount of funding for inventive needs of economic growth during the period of expansion, modern banks produce new money. However, banks also build up risks as a result of insufficient control of borrowing practises.

Researchers started paying increasing attention to "participation of banks" in funding around start of 21st century, under the effect of the growth of innovations based on information and communication technologies, globalisation, and the knowledge economy. For instance, various analysts have analysed the banking industry's contribution to funding innovation in studies. a. Hernández & R. In Minetti's work (Herrera & Minetti, 2007), impact of banks on innovation through financing is taken into account. The length of loan connections has a favourable impact on businesses' ability to innovate, according to the authors. For food goods, this effect is more significant than for technological advancements. The researchers also pointed out that banks only finance investments that facilitate the introduction of new technologies since they lack the specialised knowledge needed to develop and assess innovation.

In his academic writings, researcher E. Alemani et. All, 2013 underline the crucial part that the banking industry plays in development of “technical process innovation”. Intergovernmental banking controls predominantly fueled innovation activity. In the plane, other authors conducted their research.

In evaluating the effect of banking regulation on the level of technology risk, the authors of this study came to the conclusion that while it has no effect on investment in government firms or mature private firms, national and inter - governmental banking regulation significantly affects the level of technology risk for new private firms.

The definition of the boundaries and opportunities of bank presence in the business market is a crucial problem in the context of the stimulation of continuous innovation and the requirement for their financing. In his studies, T. Hellman (Hellman et.all 2008), a thorough examination of the bank's function as a venture investor was conducted. It has been established that banks focus on businesses that may later need banking services. As a result, banks have the chance to combine their banking and enterprise operations in a way that gives them an edge against venture firms. Using data analysis of specific businesses, this tendency was demonstrated: Companies with bank investments saw the biggest increase in lending, but those with venture funding from venture firms exhibited less mobility.

Conclusion

The results collected lead to the following conclusions.

1. The neoclassical school of its forebears' scientific works paid attention to the study of market equilibrium circumstances and the mechanisms of functional interactions in the sphere of exchange, which is why it was created under the conditions of the growth of the industrial-market economy. Instead, pay more attention to the transaction procedures.
2. The primary tool for deciding the degree of economic activity as well as the potential for financing innovation is monetary policy, according to monetarists.
3. The Keynesians believe that government support through a controlled system of relationships between the state & banks, stimulating investments, and encouraging creative credit facilities with low rates of interest all contribute to economic stability.
4. According to the institutional direction of economic theory, it is unlawful to prescribe the role of banks as intermediaries who passively carry out the technical function of monetary intermediation of exchange transactions in the financial market.
5. The ability of banks to influence the growth of the money supply in circulation, the promotion of economic growth, and assistance in helping the country's economy recover from effects of the financial crisis, which necessitates the possibility of enterprise investment with increased company participation in banking services at the local level, are some examples of how representatives of the principles of financial intermediation believe that banks' role is demonstrated.
6. The work of scientists-representatives of neoclassical theories of mediation, who best take into account the theoretical positions, which are used by our To identify good “areas of interaction between banks” & customers, develop fundamentally “new banking instruments” for investment, is revealed by an analysis of the content and features of each theory examined in the article.

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