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## **Unit 3 □ Political Environment**

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### **3.0 Introduction**

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In primitive societies there was barter - goods exchanged for goods. Then society came to possess some of the characteristics of modern economy— private property, division of labour, market, money and enterprise. But in those days there was no well-defined political philosophy nor any political institution except monarchy to guide and protect the interest of business. Good monarchs gave protection and encouragement to business.

With gradual perfection in the technique of production, the organization of production increased in size and complexity. Division of labour developed to the point at which it involved the establishment of private exchange and the extension of private property from consumable to productive goods. The economic system became more and more impersonal. Production and exchange came to be guided by the invisible forces of demand and supply.

Plato and then his disciple Aristotle dreamt of an ideal State designed to ensure 'good life' for the free citizens only within a 'city state' While both Plato and Aristotle justified slavery, Aristotle, the first analytical economist, held that 'incentive' is the prime inducement behind development of new ideas and business ventures. He was also ethical at the same time. While appreciating the role of money as a medium of exchange only; he was vehemently opposed to the idea of amassing wealth and earning usurious income.

Christ claimed to speak to, and for, all men. Universal brotherhood in Christianity and human dignity for all led people look upon the institution, that is, Church as the unifying force in society. Thus, with the advent of Christianity came a total change in the attitude towards business that ultimately influenced the growth of merchant capitalism. However, gradually there developed rule of aristocracy around the institution of the Church. Mercantilism demanded a State strong enough to protect the trading interest and break down of the medieval barriers to commercial expansion. Yet they also sought protection of monopolies as an essential basis of State power.

The forces that added prominence to commerce freed men's mind from the fetters of accepted belief. The need for expanded commerce and new empirical rationalism led to the development of new ideas for tacking with scientific experiments and solutions of every problem business and society were facing. Freedom of thought, acquisition of property by industry and reason came to be recognized with utmost respect. The development of new scientific ideas and their application in industry for large scale production to meet the growing need of the expanded market led to the emergence of industrial capitalism in the middle of the seventeenth century.

In the development of industrial capitalism restrictive regulations of the Monarchic State, developed around the Church, appeared as the main hurdle. However, under the socio-economic pressure and development of political philosophy many of the restrictive regulations of domestic industry were abolished in England after the middle of the seventeenth century. Thus, the decline of State intervention went hand in hand with the decline of monopoly power. It may be mentioned here that monopoly power had developed with State patronage during the mercantilist era in England, the example of which are Merchang Adventurers like the East India Company. Ultimately Adam Smith, though two of his books, Wealth of Nationa and Theory of Moral Sentiments, dealt the final blow to overriding authority of State by pleading for least State intervention. Human conduct according to Smith, was naturally actuated by six motives: self love, sympahy, the desire to be free, a sense of propriety, a habit of labour, and the propensity to truck, barter, and

exchange one thing for another. Given these springs of conduct, each man is naturally the best judge of his own interest and should therefore be left free to pursue it in his own way.

Adam Smith provided the philosophical foundation of laissez-faire capitalism that paved the way for industrial revolution in England. But by the end of the nineteenth century, in the wake of socio-political problems created by industrial development without any regulatory role of State, economic philosophers came to look upon the State for playing some role in regulating and supplementing the activities of private business. This was followed by nationalization of industries and the emergence of State regulation over business in England and other countries of Europe (and after the Great Depression of the 1930s in USA). The developing countries opted for more active role of State following the success of economic totalitarianism in East Europe. Keynes's General Theory also helped the process, for he strongly advocated for State participation in the economy. Even in the globalised environment of today the State is looked upon to play its role according to the needs of the countries concerned.

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### **3.1 Nature of Political Environment**

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Political environment of a country, is the political atmosphere generated by the factors emanating from the political system. This system includes the party in power and its political philosophy, the opposition (if any) and its philosophy, degree of stability of the government, and the relationship between the three agents of the government (the legislature, the executive and the judiciary). The political environment should be such as helps and not hinders business growth. What is important is that the political system of the country should be efficient and dynamic, besides being stable. However, stability, though an important requirement, by itself will not guarantee economic prosperity. Dynamism and efficiency of the political system ensures the system's alertness to the needs and aspirations of the people. Frequent changes of government create political instability, not liked by foreign investors.

Economically developed countries of today owe their development to the existence of a responsive, stable and honest government in their respective countries. In all the countries of Western Europe and North America as well as in Japan the early emphasis was on the development of a responsible and stable government that created the atmosphere of innovation and investment in these countries. People's desire to innovate and invest depend upon the sense of security and appreciation of the society for those activities, the atmosphere for which is provided by the stability and quality of governance.

It is difficult to say which type of government promotes business most, the dictatorial or the democratic. Although there is one-party rule (party dictatorship) in China, it has registered the highest rate of economic growth in the 1990s and attracted more foreign capital than many democratic countries in the early 21st century.

As between democracy and totalitarianism the choice is apparently difficult because there are examples where countries under both the system did well. But, under totalitarian system the tempo of development becomes slow after a certain period. Democracies, in contrast, guarantee peoples' participation and thus ensure perpetuity of the system with stability, security, dynamism, and purposefulness. Public opinion is a guiding factor in democracy, but not much in a totalitarian regime, where not free market but State dictates and determines what goods and services would be produced and how.

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## **3.2 Political Institutions**

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The political system in India is based upon three vital institutions-parliamentary democracy, multiple party system and public opinion. The sovereignty of a State is in the government. The government has three organs - the legislature, the executive and the judiciary.

### **3.2.1 Legislature**

The legislature is the primary and the most important pillar of democracy, for elected representatives of people constitute legislatures. The elected representatives acting as mirrors of public opinion formulate economic and business policies for the country, make laws for their implementation and prescribes penalties for their violation. Laws are enacted in legislatures through majority vote.

The influence of legislature on business is considerable. It decides such vital aspects as the types of business activities the country should have, who and how they should be owned, and their modes of operation. The majority party controls the legislature. If, their laws are not liked by people, people may vote a different party to power in the next election.

### **3.3.2 Executive**

The term 'government' in a narrow sense means the executive, comprising the ministry, assisted by appointed civil servants of different grades. The chief function of the executive is to enforce/implement the laws passed by the legislature. Business laws regulate business activities in social interest.

The Constitution of India provided for a federal set-up, with jurisdiction divided between the centre and the constituent States. Certain subjects were Central subjects, certain were State Subjects, and the rest formed Concurrent Subjects on which both the Centre and the States could pass laws. Both sets of government have laws, some promoting and some regulating business activity. The sources of revenue also are different for the two levels of government.

Relationship between the government and business : Government-business relationship

is a two-way phenomenon. On the one hand business has some responsibilities to the government and on the other hand government too has some responsibilities to business.

Business firms should obey the laws of the land. Such laws and regulations may pervade the entire gamut of a business enterprise. By obeying the laws and regulations a business unit like a good citizen serves society and at the same time looks to government for support, sustenance, and guidance. Business also plays a vital role in helping the government to rule the country. Important responsibilities of business towards government are given below :

- (a) **Tax payment** : taxes paid by the business enterprises constitute a major source of revenue for a government. Firms are required to pay regular taxes on their sales, income and also deduct tax on incomes received by employees and remit the collection to the government.
- (b) **Voluntary programmes** : business firms cooperate with government by providing voluntary services to society, such as, setting up educational institutions and hospitals, providing recreational facilities, encouraging and helping sports and cultural activities.
- (c) **Political activities** : experienced business leaders or their associations (Chambers of Commerce) can help and guide the government in the formulation of economic policies for the development of the country. Participation of successful businessmen in politics can be found in different countries of the world, including India.

Responsibilities of government to business: Governments, representing people, have the power and resources to decide, shape, guide and control business activities for the benefit of society. Being democratically elected and having accepted the mixed economy, the government of India is clear about the role it has to play and the responsibilities it has to discharge towards business. Specifically, the government's responsibilities towards business are the following :

- (a) **Enactment and enforcement of laws** : Government establishes and enforces laws and regulations under which business functions. The government enacts laws and regulations covering many aspects of business (e.g. the Companies Act). Government is responsible for providing the 'rules of the game', which make the business system function smoothly and help maintain competition, or if monopolies develop, regulates them or supplement them by government operations.
- (b) **Maintaining law and order** : It is the prime responsibility of the government to maintain law and order for protecting life and property. No business of any kind can survive and prosper without security. This duty of the ruler has been recognized since early times. The police maintain internal order, whilst the military give protection against foreign aggression.

- (c) **Money and credit :** With the transition from barter to a money economy at present the government provides a system of money and credit by means of which transactions are done. It is also the responsibility of the government to regulate money and credit by means of an appropriate monetary policy. Notes and coins are everywhere issued by the government.
- (d) **Economic Development :** In both socialist and non-socialist countries governments have the ultimate responsibility for helping the attainment of a high level of economic development with minimum unemployment and environment destruction, and small inequality of income and wealth distribution between individuals, regions and classes. In low-income countries the government should ensure a minimum level of education, healthcare and food security for every citizen, as emphasized by Amartya Sen, the Nobel Prize winner. In a socialist State practically all aspects of development are taken up by the government on the principles chalked out by a planning commission (as in the erstwhile Soviet Union). In a mixed economy like India development has been led by the public sector with the private sector playing the second fiddle. Since 1991 the development initiative has been placed upon private enterprise.
- (e) **Transfer of technology :** Governments in many countries, as in India, own and finance institutions engaged in research. Products of these researches, particularly those related to industry and business, are made available to interested business houses for raising their competitive power. Apart from this, the government of India also encourages research by business houses by providing substantial relief in Income Tax on expenditures incurred by them on industry-related research.
- (f) **Tariffs and quotas :** To protect business from foreign competition the government uses tariffs and quotas. Similarly, to encourage the development of domestic industries the government grants, incentives and subsidies. In India much of the industrial development since independence has taken place behind protective tariff. But since 1991 protection is being withdrawn from many industries of India in a regime of globalisation.

### 3.2.3 Judiciary

The third organ of the government is the Judiciary. Judiciary is the final authority that reviews and examines the way in which the laws have been implemented. Any body aggrieved by any action of the Executive can appeal to the appropriate level of the judiciary for review and redressal of his grievances. Executive sees to it that the exercise of authority conforms to the general rules laid down by the legislature and also that it is in conformity with the customs and traditions of the country. Judiciary may declare an action/order of the Executive ultra vires. In fact, judiciary is the authority to which people look upon for enforcement of their rights in the democracy. In enforcing the rule of law Judiciary exercises two types of functions :

- (i) Judicial review-the authority of the courts to rule on the constitutionality of laws and
- (ii) The power of the courts to settle legal disputes through proper interpretation of laws.

In the case of judicial review, the Judiciary gets activated when the legislature passes laws that are repugnant to the Constitution and when the executive implements the enactment approved by the legislature in a manner opposed to the requirements of the legislation. In other words, the court of justice protects the citizens from unlawful Acts passed by the legislature and arbitrary acts indulged in by the Executive.

It is this power of the Judiciary to settle legal disputes that affects business and citizens for good or ill. All disputes between employer and employee, the business and the public, the customers, the government or any other business and the vice-versa are often referred to courts for settlement.

The judicial pronouncements have far-reaching consequences on business. The consequences may be intense and severe because (i) judicial errors do occur sometimes (ii) possibility of wrong assessment of penalty, (iii) Judges pronounce conflicting verdicts on the same or similar disputes and (iv) there is a lot of confusion and ambiguity in laws relating to industries.

In spite of some criticisms, it may be stated that the Indian Judiciary is impartial and competent. Judiciary, along with other players the Indian political system, has to date reached a stage where they are discharging their designated functions in a manner that enshrines the fundamental values of democracy. It protects the constitutional rights of citizens in countries like India and the USA.

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### **3.3 Role of State in Economic Development**

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The doctrine of laissez-faire, which was developed in the late seventeenth and early eighteenth centuries, held that the government should limit itself to the maintenance of law and order and that State interference in industry and commerce should be kept to the minimum. It was argued in favour of laissez-faire policy that it would promote individual freedom, the best use of economic resources and high economic growth and employment. The doctrine reached its zenith in the late nineteenth century, but lost its influence thereafter particularly in the depressed 1930s.

Towards the beginning of twentieth century, there emerged a strong movement of the working class in the East European countries and gradually the concept of State capitalism or totalitarian regime in some of those countries. But, in general, State capitalism was not

considered an effective solution to the drawbacks of the free enterprise economy. With neither laissez-faire nor State capitalism considered conducive to optimum economic growth, there gradually came to emerge a general opinion in favour of a system that combines the advantages of both the systems. In fact, there has been a tendency in the free enterprise economies to increase government regulation of the market. Thus, since the early days of twentieth century large scale nationalization of industries and State intervention in the provision of social security to workers started in England and some other countries of Europe.

The Great Depression of nineteen thirties proved beyond doubt that businessmen, left free without any State control over them cannot save themselves or workers or the economy. Further, it become proved that the “invisible hand” of the market, as visualized by Adam Smith, could not always keep the economy in a state of full-employment equilibrium. The New Deal programme, initiated in USA for stimulating economic recovery after the Great Depression, for the first time paved the way for extensive government participation in economic activity in America.

J. M. Keynes of England strongly advocated in favour of the stabilizing role of government in predominantly market economies through variation in the cost and availability of credit, progressive taxation, government investment through public works and other means of pump-priming. Keynesian support for compensatory fiscal policy where public investment would fill up the short fall in private investment for maintaining income and employment at high levels was based on the concept of the welfare state, not socialism.

The disintegration of colonial rule after the Second World War led to the emergence of independent nations in Asia, Africa and Latin America. Most of these countries were impressed by the success of socialist central planning in East Europe (e.g. erstwhile USSR). Many of them adopted planning for developing their economies. Thus, India initiated an era of planning after Independence in 1951 with her first 5-year Plan. The public or government sector has all along played the leading role in India until 1991 when, a new Economic Policy was adopted for reducing government role and increasing the role of private enterprise.

Thus, in the post World War II scenario there emerged three distinct economic system in the world. In the first place, the capitalist system with some role for the State. Secondly, the totalitarian system based upon socialism, and thirdly, the mixed economies with large State control and investment under parliamentary democracy. The socialist systems crumbled down in East Europe. In China, a communist country, the political system is one-party dictatorship, but the economic system is semi-capitalistic with increasing exposure to globalisation and private enterprise. But there is no country now where the State performs only police functions. The State controls the economy, the degree of control varying from country to country. Without State initiative economic development would not have been possible in the less developed countries, including India.



### 3.3.1 Roles of Government in the Economy

The roles the government play in the economies of countries under different political philosophies can be studied under the following three distinct heads:

- (i) the role as regulator
- (ii) the role as promoter
- (iii) the role as entrepreneur.

#### ● **The role of regulator:**

The government regulates a large part of the economy of even most of the non-centrally planned economies. As Marshall Dimock remarks, taken together, the activities of the government cut across all the broad categories of economic activities, namely, entry into business, conduct of business, business results and relationships.

First, the government may determine the conditions under which persons or associations may enter into certain lines of business (through granting of charter, franchise or license, or permitting any entity to use public facilities or resources). This the government does in accordance with laws relating to partnerships, companies and cooperatives.

Second, the government may regulate or assist the conduct of economic ventures in many ways. These include controls that lay down general standards and prohibitions that are necessary for fulfillment of the objectives of the government with respect to economic development. Similarly, the government may also assist some industries to develop to providing different incentives and relief.

Third, public control may extend to the results of business operation as in the limitation of public-utility profits, ceiling on dividends and the imposition of excess-profits taxes on business generally.

Finally, the government may also control the relationship between the various classes in the economy, the purpose being to settle conflicts of interests or of rights and to prevent an undue concentration of economic power in few hands or regions. Examples include prohibition of interlocking of directors among companies, abolition of certain kinds of holding companies, and the regulation of industrial relations.

#### **The role of regulator of the economy is discharged in two different ways :**

- (i) Through Direct controls; and
- (ii) Through Indirect controls.

The direct administrative or physical controls are drastic in nature. The distinguishing characteristic of direct controls is their discretionary nature. They can be applied selectively

from firm to firm and industry-to-industry, at the discretion of the State. Till the adoption of the policy of liberalization of the Indian economy there existed direct State control over industries through licensing and price controls.

The indirect controls are usually exercised through various fiscal and monetary incentives and disincentives (penalties). Certain activities may be encouraged or discouraged through monetary and fiscal disincentives. For instance, a high import duty may discourage imports, while fiscal and monetary incentives may encourage the development of export-oriented industries (as in India).

Planning is also a part of regulation, for, as in India, it has determined how much of the total investment during a particular plan period would be shared between the public and the private sectors.

### ● **The role of promoter:**

The promotional role played by the government is very important in underdeveloped countries. In these countries, where the infrastructural facilities for development are very inadequate and entrepreneurial risk-taking is scarce, the promotional role of the government assumes special significance. The State in such situations assumes direct responsibility for building up and strengthening the necessary infrastructure for economic development, such as, power, transport, finance and marketing facilities.

In many developing countries, including India, the State has played a very important role in the development of infrastructure for industrial and agricultural development. The State has also promoted economic growth by encouraging and promoting research (e.g. the Green Revolution).

### ● **The role of entrepreneur :**

As an entrepreneur the State has played a participative role in many countries. The State has started ventures of its own, which, after their success, have been handed over to private hands. Some enterprises have been retained by the State, as in India. The State has set up financial institutions to fill up the gaps in the financial system. Only in England the State had no part to play in the industrial revolution which laid the foundation of development in the 18th and 19th centuries.

In the former Soviet Union, practically all resources (factors of production) except labour were under State ownership and control. So the State was virtually the only entrepreneur. It decided, through its planning Commission, which goods and services would be produced and how. Accordingly resources used to be allocated between different sectors. How many units of a good would be produced was determined not by any market demand but by the State. The market mechanism virtually did not exist.

A perfectly socialist system is virtually a single entrepreneur system. As there was no question of sustaining loss through market sale, the risk element was absent. The risk

question of risk would arise only when goods of such a country would have to be sold in foreign markets for importing such goods as could not be produced at home.

In Indian a system of mixed economy has been adopted where State determines the priorities and aims to realize them through five-year plans jointly with the private sector. Thus in India, as in many other developing countries, both the State and the private sector have important roles to play in economic growth according to the objectives and priorities outlined by the State.

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### **3.4 Economic implications of the Constitution of India**

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Business environment in modern India is largely an outcome of the activities of the government as regulator, promoter and entrepreneur :

The constitution of India provided the basic guidelines for direction of economic development and business activities in the country. The Constitution incorporated a number of matters that are immensely significant for economic and business activities. The socio-economic and political objectives of the Indian republic and the basic guiding principles of functioning of State have been clearly laid down in the Preamble to the Constitution, the Fundamental Rights and the Directive Principles of State Policy. The Constitution also earmarked the economic powers and responsibilities of the union government and the state governments.

The economic responsibility bestowed upon the State by the Constitution of India is so enormous that it called for massive government participation in the functioning of the economy. In order to ensure the discharge of the functions properly, a number of amendments had to be introduced to the Constitution from time to time.

Further, a number of economic laws were passed concerning each and every aspect of economic and business activities of people for realizing the socio-economic and political objectives enshrined in the constitution of India.

#### **3.4.1 The Preamble**

WE, THE PEOPLE OF INDIA, having solemnly resolved to constitute Indian into a SOVEREIGN DEMOCRATIC REPUBLIC to secure to all its citizens :

JUSTICE, social, economic and political;

LIBERTY of thought, expression, belief, faith and worship;

EQUALITY of status and of opportunity'

and to promote among all

FRATERNITY, assuring the dignity of the individual and the unity and integrity of the Nation.

IN OUR CONSTITUTENT ASSEMBLY this twentieth day of November 1949, do HERBY ADOPT, ENACT AND GIVE TO PURSELVES THIS CONSTITUTION. Thus the Preamble to the Constitution of India lays down that attainment of social, economic and political justice; and equality of status and opportunity should be among the most important basic guiding principles of the functioning of the State. The insertion of the words socialist and secular in 1976 by an amendment of the Constitution further signifies the resolve of the State to ensure to all its citizens economic, social and political equality irrespective of caste, religion etc. Preamble itself is not legislation, but it guides the State in enacting and interpreting laws, traditions and customs and resolving all ambiguities. At present India is a sovereign socialistic secular democratic republic. The governmental move towards privitization since 1991 perhaps necessitates declention of the term 'socialistic'.

### **3.4.2 The Fundamental Rights**

It can be claimed that the Constitution of India offers to all its citizens, individually and collectively, the best fruits of democracy and those basic freedom and conditions of life that alone make life significant, forwrd looking and productive. Without certain basic rights humans cannot think and act independently for developing their body and soul.

The incorporation of fundamental rights implies constrained government. It aims at preventing the government and the legislature from becoming totalitatian. These rights are similar to the rights included in the American Constitution.

The Fundamental Rights enumerated in the Constitution of India are :

1. Right to Equality;
2. Right to freedom;
3. Right against Exploitation;
4. Right to freedom of Religion;
5. Cultural and Educational Rights; and
6. Right to Constitutional Remedies.

The Fundamental Rights have immense economic significance. The Right to Equality, signifying equality of opportunity, prohibits discrimination against any citizen on the grounds of religion, race, caste, sex or place of birth in providing or making available economic and other benefits.

The Right to Freedom guarantees the citizens the right to practice any profession, carry on any occupation, trade or business. This provides unique opportunity to citizens to set up business and pursue economic activities of his choice.

The Right against Exploitation gives people the right of a free citizen. It prohibits traffic in human beings and begging and other forms of forced labour. Any contravention of this provision shall be an offence punishable in accordance with law. This right provides scope to people for becoming more productive through the use of his own labour for work of his own choice.

Right to Freedom of Religion is very conducive to the economic progress of a country like India where people of different religions live from ancient times. No economic progress can take place in a country where people are divided into fighting religious and ethnic groups.

Cultural and Educational Rights give people the opportunity of self-development through the acquisition of skill and competence. Every country requires skilled manpower for economic progress. In fact, in the era of global competition the requirement of skill and competence is increasing day by day. Hence, the Right to Culture and Educational citizen is a fundamental requirement of economic progress with human capital development.

Right to Constitutional Remedies is the ultimate right of every citizen to redressal of all grievances in accordance with the provisions of the Constitution of India. Every law of the country has to be in conformity with the rights provided to citizens by the Constitution of the country. Hence any alleged violation of any one of these rights has to be judged with reference to the Constitution. The Supreme Court is the ultimate sentinel of these rights.

### **3.4.3 The Directive Principles of State Policy**

The Directive Principle of State policy is a unique feature of the Constitution of India, not to be found in any country's constitution. The Directive Principles are in the nature of directions to the legislature and the executive that they should exercise their authority in such a manner as to ensure due respect for and observance of these principles. Although these directives are not justifiable in courts, the Courts cannot altogether avoid taking cognizance of them. They are the imperative basis of State policy and the Constitution directs the State to apply these principles in making laws.

The Directive Principles that are economically very significant are mentioned below:

1. The State shall try to promote the welfare of people by securing and protecting as effectively as it may a social order in which justice (social, economic and political) shall form a part in all the institutions of economic life.
2. The State shall, in particular, strive to minimize the inequalities in income and endeavour to eliminate inequalities in status, facilities and opportunities not only among individuals but also amongst groups of people residing in different areas or engaged in different vocations.
3. The State shall, in particular, direct its policy towards securing.

- (i) that the citizens, men and women equally, have the right to an adequate means of livelihood;
  - (ii) that the ownership and control of material resources of the community are so distributed as best of subserve the common good;
  - (iii) that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment;
  - (iv) that there is equal pay for equal work for men and women;
  - (v) that the health and strength of workers, men and women, and the tender age of children are not abused, and that citizens are not forced by economic necessity to enter a vocation unsuited to their age and strength;
  - (vi) that children are given opportunities and facilities to develop in a healthy manner and in condition of freedom and dignity, and that childhood and youth are protected against exploitation and against moral and material abandonment.
4. The State shall secure that the operation of the legal system promotes justice, on a basis of equal opportunity, and shall, in particular, provide for legal aid, by suitable legislation or in any other way, to ensure that opportunities for securing justice are not denied to any citizen by reason of economic or other disabilities. (The right to employment was a basic right in the constitution of the erstwhile USSR.)
  5. The State shall, within the limits of its economic capacity and development, make effective provision for securing the right to work, to education and to public assistance in cases of unemployment, old age, sickness and disablement, and in other cases of underserved want.
  6. The State shall make provision for securing just and humane conditions of work and for maternity relief.
  7. The State shall endeavour to secure, by suitable legislation or in any other way, to all workers— a living wage, conditions of work enduring a decent standard of life —, the State shall endeavour to promote cottage industries on individual or co-operative basis in rural areas.
  8. The State shall take steps, by suitable legislation or in any other way, to secure participation of workers in the management of undertakings, establishments or other organizations engaged in industry.
  9. The State shall endeavour to organize agriculture and animal husbandry on modern and scientific lines and shall, in particular, take steps for preserving and improving the breeds, and prohibiting slaughter of cows and calves and other milch and draught cattle.
  10. The State shall endeavour to protect and improve the natural environment and protect forest and wild life of the country.

These Directive Principles make quite clear how important is the economic responsibility bestowed on the State by the Constitution of India. Through Constitutional amendments, new directives have been added to provide greater socialist orientation to development.

There have been many occasions when the Directive Principles and Fundamental Rights came in conflict with each other. In the early days, the Supreme Court held that the Fundamental Rights were sacrosanct part of the Constitution and nothing, including the Directive Principles, could override them. But the view that the Fundamental Rights should be subordinate to Directive Principles gained ground in later years. The Directive Principles of State Policy enunciated in the Constitution of India, thus, provide government responsibility in functioning of the economy. If they were all implemented, India would have been virtually a socialist State by now.

#### **3.4.4 Division of Power**

The Constitution of India distributes the items for legislation among three lists: (1) the Union List, (2) the State List and (3) the Concurrent List. The respective jurisdictions of the Union and the States and their mutual relations are clearly defined. Both the Union and the States can legislate on items in the Concurrent List. Enacted made by Union on any item in the Concurrent List gets priority over that of enacted by the State. This clear division of power between the Union and the States gave authority to governments at both the levels to legislate on matters of national interests respectively.

#### **3.4.5 Rise and Fall of State Control over Economy in India**

The brief account of the economic significance of the Constitution and the Directive Principles given above makes it abundantly clear that the State has to shoulder a heavy responsibility for development with social justice. The government has been very active in playing all the three important economic roles in the interest of the country. But any responsibility has to be supported by appropriate authority. The authority was derived by the State from different legislations passed from time to time effecting different aspects of economic and social life of people of the country. The regulatory framework has undergone changes after 1991 in the economic regime era.

The major legislations include the Industries (Development & Regulation) Act 1951, The Companies Act 1956, the now repealed Capital Issue Control Act 1949, the Securities Contracts (Regulation) Act 1956, erstwhile Monopolies and Restrictive Trade Practices Act, 1969 (replaced now by the Competition Act), The Essential Commodities Act, 1955, the now repealed Foreign Exchange Regulation Act, 1973, the Consumer Protection Act, 1986, the Sick Industrial Companies Act, 1985, the Securities Exchange Board of India Act, 1992 the Foreign Exchange Maintenance Act, the Information Technology Act 2000, the Securitisation Act 2002, Competition Act 2002 etc.

There are also require a good number of labour laws to regulate the employer-employee relations, working conditions, wages, bonus, labour welfare and social security.

The banking sector of the country has been brought under the effective control of the Reserve Bank of India by the Banking Companies Act 1949 and subsequent amendments of the Act. Further, to serve the objectives of the New Economic Policy 1991, the government introduced the Policy of Liberalisation of the Financial Sector of the country on the basis of the Report of the Narsimham Committee.

Indirect controls have also been playing their part to serve the national development goals. The various quantitative and qualitative monetary weapons have been deployed from time to time to regulate the monetary conditions mainly to control prices. A number of fiscal and monetary incentives have been offered to encourage the growth of priority sectors like the export-oriented industries and small industries and agriculture. The Industrial Policy announced by the government in 1956 and 1991 provided the basis and direction of economic development of the country. The first four decades of independence were years of State control, import substitution and protectionism. But in 1991 India decided to move away from State control and ownership and to re-enter the global economy.

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### 3.5 Summary

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The political environment of country, created by the interplay of political institutions, political ideas and the policies and operations of government influences business policies and operations and thereby economic growth. This influence of the political environment upon the economy has been felt since early times. People eulogised good monarchs like Solomon and Haroon-el-Rashid.

In fact, in India the State plays all the three roles the State can play in the economic development of a country within the bounds of democracy. For discharging the responsibilities the State drew authority from wide range of laws passed from time to time touching each and every aspect of social, economic and political life of the people.

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### 3.6 Exercise

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**Essay type questions :**

1. What do you understand by the political environment of a country? Discuss the nature of political environment.
2. Give an account of the evolution of political thoughts about the state's economic role since the ancient days.
3. Discuss the role of the State in economic development.



4. State and explain the different roles the government can play in the economic development of nations.
5. State and explain the economic implication of Fundamental Rights in the Constitution of India.
6. Mention the Directive Principles of State Policy of the Constitution of India than influence the economic and business activities of the citizens.

**Short answer type questions :**

1. State the principal functions of three organs of government.
2. Are the Directive Principles superior to the Fundamental Rights?
3. Explain the role played by the government of India in the economic development of the country.
4. Mention the Preamble to the Constitution of India.
5. State the Division of Power in the Indian federation.

**Objective type questions :**

Select the correct answer :

1. Political stability of a country
  - (a) is essential for innovations to take place
  - (b) is not essential for innovations to take place
  - (c) discourages innovations
  - (d) none of the above.
2. Economically developed countries of today owe their development to
  - (a) totalitarian governments
  - (b) responsive governments
  - (c) democratic governments
  - (d) no governance.
3. Aristotle was in favour of
  - (a) using money for usury
  - (b) as a medium of exchange in business

- (c) for storing as wealth
  - (d) none of the above.
4. Government exercises the role of regulator in economic development
    - (a) through direct control
    - (b) through indirect control
    - (c) through both direct and indirect control
    - (d) none of the above.
  5. In India the government performs
    - (a) only the role of regulator
    - (b) only the role of promoter
    - (c) only the role of entrepreneur
    - (d) all the three roles.
  6. Directive Principles of State Policy in the Constituent of India are
    - (a) legally enforceable
    - (b) equal to Fundamental Rights
    - (c) legislatures and executives are bound to obey Directive Principles
    - (d) in no way relevant to executive actions.

**Answer : 1(a), 2.(b), 3. (b), 4. (c), 5(d), 6(d).**

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### **3.7 References**

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