UNIT 4 POLITICAL ENVIRONMENT

Structure

4.0 OBJECTIVES

After studying this Unit you should be able to

- explain the nature and significance of political environment;
- identify the critical elements of political environment;
- describe the nature of political system and the position of centre-state relations in India;
- evaluate the nature of social issues like secularism, minority rights, social disparities and reservations, etc.
- enumerate the relevant Constitutional provisions – Fundamental Rights and Directive Principles of State Policy;
- explain the various dimensions of government role in business in India;
- describe the changing role of Government vis-à-vis market economy; and
- outline the nature of administrative machinery in the Indian polity.

4.1 INTRODUCTION

In Unit 1 you learnt that the type of political system a country follows and the nature of ideology of the political party in power exert a lot of influence on the course of action and the strategies the business enterprises may adopt because the government plays an active role as planner, regulator and promoter of economic activity in every country. In this unit you will learn in detail about the significance of political environment for tlie business, its critical elements, tlie nature of state responses to some important social issues in India, and the Fundamental Rights and Directive Principles of State Policy as provided in the Indian Constitution. Besides, you will learn about the various dimensions of government's role in business in lndia, tlie changes in its regulatory activity in the post liberalisation era, and the administrative set-up for making policies and their implementation at tlie Central and tlie State levels.

4.2 NATURE AND SIGNIFICANCE OF POLITICAL ENVIRONMENT

Simply stated, political environment of business refers to tlie political conditions – factors and forces – which have a bearing on business activities. Such factors may include competing political ideologies, electoral majority of the party in power, strength of the parliamentary opposition parties, internal dissensions within the ruling party, insurgencies in border areas, as well as international power alignments and alliances. Ideological leanings of tlie ruling party or coalition of pal-ties at the centre (Federal level) and those of tlie ruling parties in the federating states often form tlie basis of Government policies impacting industry and trade. Political instability caused by the failure of law and order, recurring and widespread incidents of crime and violence are also traceable to political factors which constitute business risks and impinges on the predictability of business prospects. Obviously, political factors may have regional, national as well as global implications. Let us note a few examples of the impact of political factors on business environment in India.

Janta Party, which was in power at the Centre for three years after 1977, followed a strict policy of restricting the role of multinational corporations. Some of the ministers in tlie Government had strong socialist leanings. As a result, Coca Cola and IBM were forced to move out of lndia. This opened up a vast market for Indian soft-drink manufacturers and IT companies. Take another example. During December, 1992 and January, 1993, there were violent riots in different parts of India followed by serious law and order problems. These were caused by the Ayodhya-Babri Masjid episode on which political parties were sharply divided. Apart from apprehensions of political instability, the events disrupted transport, slowed down industrial production and exports. It was also reported that many potential foreign investors had deferred their decisions or revised their plans.

Regulatory policies of tlie Government with respect to industry and trade also come under political factors since political processes determine the composition of the Government based on the electoral platforms of the ruling and opposition parties. The prospects of many companies in India have been affected by changes in the regulatory policies of the Government many a time. For instance, large scale manufacturers of cycle tyres liad to close down their plants when production of cycle tyres was decided to be reserved for the small-scale sector. Likewise, the textile mills were required to modify production plans when Government extended fiscal protection and incentives to the power-loom sector. Again in the early 80's, some industries like telecommunication equipments and oil drilling rigs, which were earlier reserved foı the public sector, were decided to be opened to the private sector. Many companies seized the opportunities then to enter tliese markets. On the other hand, industrial growth in West Bengal was reported to have slackened due to tlie ideological leanings of tlie ruling left parties and militant trade unionism.

All business firms are affected, 'in a greater or lesser degree, by the government policies and programmes at central, state and local levels. The shift in the political weather arising from changes in the attitudes and preferences of political leaders offer result in changes in the government policies and programmes. The firms have to anticipate such changes, analyse their impact on the business with a view to predict the probable development, identify the opportunities and the risks involved, and effect the necessary changes in their own plans and strategies.

4.3 CRITICAL ELEMENTS OF POLITICAL ENVIRONMENT

There are several aspects of the political environment which may be regarded as its critical elements in relation to business. The more important of these elements are

1. Political system;
2. Political processes;
3. Stability of the political structure; and
4. Centre-State relations.

Let us consider these elements in the Indian context.

4.3.1 Political System

The Indian polity or political system is governed by the Constitution of India which was adopted by the Constituent Assembly in November, 1949 and came into force on 26th January, 1950. Under the Constitution, India has a parliamentary form of government and federal structure comprising at present 28 States and 7 Union Territories. President of India is the constitutional head of the Indian Union. But he has to act in accordance with the aid and advice of the Council of Ministers with Prime Minister as its head. The real executive power thus vests in the Council of Ministers which is collectively responsible to the elected members of the Lok Sabha (House of the People). Likewise, in the States, the Governor is the head of executive, but executive powers of governance vests in the Council of Ministers with Chief Minister as its head, and the Council of Ministers is collectively responsible to the State Legislative Assembly.

The supreme legislative body of the Indian Union is the Parliament consisting of two houses – the Lok Sabha (house of people) and Rajya Sabha (Council of States). Members of the Lok Sabha are chosen by direct election for a five year term on the basis of adult suffrage. Elections to the Rajya Sabha are indirect; Members representing states are elected by elected members of legislative assemblies of states. A few members are nominated by the President. One-third of the members retire every second year.

Like the Parliament, States have the legislative assemblies which are also elected bodies. There is direct election of members for a five year term from the territorial constituencies of the state. A few states, not all, have legislative councils (Vidhan Parishad) besides legislative assemblies (Vidhan Sabha). One-third of the members of Vidhan Parishads retire every second year. Their membership includes members elected by the legislative assemblies, members elected by local authorities municipalities, district boards etc., members representing teachers of secondary schools and registered graduates, and some members nominated by the Governor.

Union Territories are administered by the President acting through an Administrator appointed by him, designated as Lieutenant Governor or Chief Commissioner. The National Capital Territory of Delhi and the Union Territory of Pondicherry also have legislative assemblies and Councils of Ministers.

Local Government in urban areas consist of elected municipal bodies. Constitutional amendment effective from June, 1993 has provided for three types of municipalities, viz., Nagar Panchayats for areas in transition from a rural area to urban area, Municipal Councils for smaller urban areas, and Municipal Corporations for large urban areas. At the village level, Gram Sabha and Panchayats function as units of local self-government.

4.3.2 Political Processes

As a democratic republic, tlie Indian political system is governed by the electoral laws enacted by the Parliament, which supplement the Constitutional provisions for the setting up of the Election Commission of India as an independent authority. The electoral process essentially hinges on the functioning of political parties organized at the national, regional and state levels. There are some parties also organized at the local level. The law provides for registration of political parties by the Election Commission. A party so registered may be granted recognition as a national or state party. This requires fulfillment of certain criteria based on the party's poll performance in terms of percentage of votes polled by the candidates and the number elected to the Lok Sabha or State Assembly as the case may be. Nonetheless, the number of political parties has been on the rise in course of time. As of July, 2002, members of the Lok Sabha represented as many as 40 political parties. Some of the parties are state level ruling parties. Quite many of them however happen to be breakaway groups from state level or national level parties.

The concept of a secular state was adopted in the Indian Constitution in view of the religious diversity of the Indian Society. The Constitution, under Article 25 assures 'Freedom of conscience, and free profession, practice and propagation of religion'. The State or the government cannot aid one religion or give preference to one religion as against another. In view of the constitutional provision, secularism as an ideology does not figure in the electoral plans of the political parties. Socio-economic issues thus constitute the ideological differences with differences in emphasis and priorities of particular problems focused in the light of the interest of electorate. Some of the issues taken up by the parties have been : alleviation of poverty; problems of backward classes; generation of employment for the urban middle class; rural upliftment; subsidising agricultural inputs; Extending facilities for literacy, education, and health care; women's empowerment; infrastructure development ensuring adequate power and water supply; protection of small business and cottage industries against foreign incursion into the small sector; preserving India's cultural heritage.

In predominantly industrial areas where factory workers largely inhabit the constituency, issues bearing on shutdown and closure of factories, retrenchment of employees, and welfare amenities naturally become more important to focus in election campaigns. Educated urban constituencies are found to respond to national issues like the impact of economic reforms, causes leading to scams in security markets, increasing tax burden of the salaried class, housing problems, power shortage, supply of safe drinking water, unhygienic conditions due to growth of slum-dwelling population, etc. Middle-level business communities respond to electoral appeals based on their economic problems wliich may include introduction of VAT, rising cost of transportation due to spurt in diesel prices, or railway freight rates, dumping of cheaper foreign goods from neighbouring countries, etc. Above all, depending on the electorate and constituency, parties in opposition often resort to negative electioneering focusing on the ruling party's failure to deal with popular issues like alleviation of poverty, ignoring the farmers' hardships, neglecting the cause of backward classes, growing unemployment, and so on.

The political processes passed through distinct changes in the 90's when the dominant position of the Congress Party in Lok Sabha and many state assemblies was challenged by the emerging national and regional parties. As a result, political processes involving elections to the Parliament and state assemblies have often been contested by more than two opposition candidates against the ruling party candidate. This gave rise to uncertainty of outcomes. Often it has also led to no single party having a clear majority in the legislature. In view of this possibility, national parties have resorted to electoral alliances with regional parties to facilitate formation of coalition government after election. But even this strategy had failed to provide stable government at the centre after the Lok Sabha elections in 1996 as the Eleventh Lok Sabha constituted in May, 1996 was dissolved after one and a half year. Similarly, within a year after the Twelfth Lok Sabha was constituted in March 1998, it had to be dissolved in April, 1999.

However, when the Thirteenth Lok Sabha was constituted in October, 1999, a coalition government again came to power as National Democratic Alliance (NDA) led by BJP. The same thing happened in May, 2004 when tlie Fourteenth Lok Sabha was constituted, a coalition government came to power as United Progressive Alliance (UPA) led by the Congress Party.

Besides, instability in governance which occurred must liave caused policies and programmes to be hampered. If coalition governments at the centre and states are indicated by the current trend, it may not only pol-tend political instability but also cause policies and programmes liampered which has serious implications for the business.

4.3.3 Stability of the Political Structure

Any political structure based on democracy can have tlie benefits of stability depending on checks and balances between the executive, legislature and judiciary. In India, the executive power at the Centre and the states lies with tlie ministries/departments, secretariats and offices. The functionaries are accountable to the respective ministries, which in turn are responsible to the legislatures at the Union and State levels. Comptroller and Auditor General, wlio is appointed by the President, has the duty to report on the accounts of the Union and states. Tliese reports are submitted to tlie President and respective Governors and also placed before Parliament and State legislatures.

At times political stability has been disturbed by agitations of a section of people demanding autoiiomy and self-governing powers for themselves under local leadership. These agitations sometimes assumed the character of political movements based on linguistic, ethnic or sociological affinity of tlie inhabitants of a territory. So far, such developments have been met by Parliamentary enactments for reorganization of states. Towards that end, tlie Constitution was also required to be amended on several occasions. In recent years states of Uttaranchal, Jbarkhand and Chhattisgarh liave been carved out on tlie reorganization of the states of Uttar Pradesh, Bihar and Madhya Pradesh respectively. In a few cases, autonomous self-governing councils have been created to meet the agitation of local minority groups like Gorklias in West Bengal and Bodos in Assam.

4.3.4 Centre-State Relations

While framing the Constitution of India, the leaders did visualize the possibility of conflict of interest between the Union and federating states. Hence, the Constitution provided for distribution of powers between the Union and individual states which indicate the general predominance of Parliament in the legislative field. There is a three-fold enumeration of powers, viz., Union, State and Concurrent. The subjects included in tlie Union list are tlie ones on which only the Central Government make policies. Likewise, tlie subjects in the states list are left for the states and on tlie subjects included in the concurrent list, both the Central and the State governments can make policies. Though the state legislatures have exclusive powers over subjects listed in List II of tlie Seventh Schedule of the Constitution, and concurrent powers over subjects enumerated in List III, the residuary powers are vested in tlie Parliament. Otherwise, even in normal times, the Parliament can, under certain circumstances, assume legislative power with respect to a subject falling within the sphere exclusively reserved for the states.

Article 356 also provides for imposition of President's rule and dissolution of state assemblies in case of failure of constitutional machinery in the states. There were occasions when state assemblies were dissolved, where parties in power were different from the ruling party at the Centre. There have also been cases where Article *356* was applied due to the inability of the state government to maintain law and order, or to curb anti-national activities, or adopting a low profile or lukewarm attitude in the face of deteriorating law and order situation. Such ostensible grounds legitimized Central intervention in most cases. But differences in ideology and programmes between the Central and State ministries have been more potent causes underlying application of Article 356.

Centre-State fiscal relation is governed by constitutional provisions with respect to : (i) Distribution of financial powers between the Centre and states, and (ii) Mechanism of resource transfer from the Centre to the states.

Under division of financial powers, sources of tax revenue and non-tax resources are earmarked for the Centre and the states. But it does not reflect the appropriation of tax proceeds by the Union and states. Thus, there are – (a) taxes levied and collected by the Union, proceeds of which are shared with the states, (b) taxes and duties levied and collected by the Centre proceeds of which are assigned to the states, and (c) taxes and duties levied by the Centre but collected and appropriated by the states concerned (e.g., stamp duty).

The mechanism of resource transfer from the Centre to the states includes tax-sharing and proceeds of some taxes being assigned to the states as mentioned above. Besides, resource transfer consists of (a) provision of grants-in-aid to revenue by way of 'plan' grants and 'non-plan' grants, (b) loans, and (c) other transfers as special central assistance. Distribution of 'plan' assistance is based on recommendations made by the Planning Commission in consultation with the state governments. The criteria used for assistance are population, per capita income, performance, special problems, if any, etc. 'Non-plan' grants are made available to the states as recommended by the Finance Commission which is appointed by the President every five years as provided under Article 280 of the Constitution. It recommends the basis of tax-sharing between the Centre and the states, and the amounts of grants-in-aid and Central loans to the states. The relative share of different states are based on several criteria, viz., population (as an indicator of 'need'), collection of taxes (as an indicator of the state's contribution to the national treasury), and need for equalization among states for backwardness. Tax-effort and fiscal discipline are also taken as another criteria. A set of principles are generally followed while recommending grants-in-aid on revenue account like providing adequate resources for the states which did not get enough by way of tax devolution, equalizing the level of social services, assisting states in undertaking a public activity of national interest, etc.

As early as 1956 and since then, the Central Government has been concerned about the growing indebtedness of the states and sought the advice of Finance Commission to minimize the level of debt. Several measures have thus been recommended towards that end by successive Commissions, e.g., more frequent release of tax shares, consolidation of loans so that repayment may coincide with the release of Central grants and the time of floatation of loans, etc.

Check Your Progress A

1 State whether the following statements are True or False.

(a) President of India is constitutional head of the Indian Union but the real executive power vests in the Council of Ministers.
(b) One-third of the members of Lok Sabha retire every second year.
(c) Regulatory policies of the government with respect to industry and trade do not form part of the political factors.
(d) The Election Commission conducts Parliamentary elections as also elections to the state legislative assemblies.
(e) Stability of the political structure in India is ensured only due to the system of judicial review of legislative enactments.
(f) President's rule can be imposed and state assembly may be dissolved if there is failure of constitutional machinery in a state.

2 State any two socio-economic issues which may be focused by political parties in their election campaign where the electorate is

(a) predominantly rural ....
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(b) urban middle-class ....
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(c) industrial workers ....
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3 How does political instability affect industry and trade ?
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4 State the basis of tax-sharing between the Centre and the states.
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4.4 STATE AND SOCIAL PROCESS

In India, as in many other democratic states, the social processes are closely inter-linked with the role of the state. There are social issues which cannot be left unattended for all times, nor can there be political solutions to every such issue. For instance, the state in India could not have ignored such social issues as secularism, establishing an uniform civil code, rights of minority communities, social disparities, etc. Let us examine the nature of state responses to the social issues which are inherent in the social processes.

Secularism

Historically, India's cultural heritage provided a social milieu in which peaceful co-existence of different religious communities was not in doubt, and a formal constitutional provision separating the state from religion might not have been necessary. But in 1976, under the 42nd amendment of the Constitution, India was formally declared a secular state. This may be interpreted to mean that there is no state religion, and the state treats all religions as equal, no religion being treated as superior or inferior. The position needed to be formalized because the social life of religious communities had been deeply penetrated by the respective religions – Hinduism, Islam, Sikhism and Christianity. To be on the safe side and to avoid being dubbed partisan, the Government seems to have adopted the policy of being neutral and abolishing the political status of all minorities including religious minorities. This has actually meant adopting patronising as also restrictive roles with regard to all religions. However, with occasional inter-communal tensions in different parts of the country, the minority religious communities often perceive political leaders and policy-makers to be the leaders of respective religious communities, not national leaders. The state is thus open to criticism for promoting sectarian attitudes. It is often alleged by the majority community that state activities placate minority communities as vote banks, while some minority communities accuse the leaders of discriminatory treatment. The Government is also accused by the majority community for soft-pedaling social reforms.

Uniform Civil Code : Under sub-clause (b) of Article 25 of the Constitution, it is provided that nothing will prevent the state from making any law providing for social welfare or reform, or throwing open the Hindu religious institutions of public character to all classes and sections of Hindus.

The reference to Hindu religion under sub-clause (b) is explained to include persons professing the Buddhist, the Jain and the Sikh religion, and the reference to Hindu religious institutions is construed accordingly. Thus, Muslim and Christian religions and religious institutions fall outside the purview of legislations concerning social reforms including marriage reform. This has proved to be a hindrance to establishing a uniform civil code in India which, among other things, would confer equal rights to women. Muslim leaders express their opposition even to the possibility of any such legislation and project it to the masses as an encroachment on the sacred sphere of their religious life. This is perhaps a paradox of secularism which implies that the Government must not only be impartial among the religious communities but must also appear to be so. To that extent democratic values are not reflected in the social processes.

Minority Rights : In India, all religious communities and ethnic groups, except Hindus, are minorities. This categorization is based mainly on the numerical strength of the groups. There are constitutional provisions which guarantee the right of all religious communities to profess their religious beliefs. The state cannot discriminate against any citizen on the basis of race, religion, caste. Under Articles 15 and 16, no discrimination is permitted in places of public use and in respect of appointments to Government offices.

Under Article 25, freedom of profession and practice of religion is guaranteed to every citizen. Under Article 26, any religious denomination can establish and maintain institutions for religious or charitable purposes, manage its own affairs in matters of religion, own and acquire property as well as administer such property. However, the constitutional guarantees and safeguards with regard to minority rights have continued to pose certain problems. Minority institutions tend to overemphasize the cultural distinctiveness of particular communities and thus perpetuate the community's isolation. Also while asserting cultural rights, religious trusts tend to adopt a rigid stance so as to stall the course of social progress.

Social Disparities and Reservation : The Constitution recognized the existence of wide social disparities among the people in India and thus made special provisions for upliftment of the weaker sections through reservation of legislative seats and jobs for backward classes. The President of India announced in 1950 the lists of Scheduled Castes and Scheduled Tribes. Under clause 4 of Article 15 of the Constitution, it is further provided that the state could make any special provisions for the advancement of any socially and educationally backward classes as a category distinct from the scheduled castes and scheduled tribes. In the nature of things it was difficult to identify backward classes. Although caste has been traditionally regarded as an indicator of backwardness, caste and economic status cannot be said to have a definite correlation. Moreover, census data is not available about castes. The recommendation made by Kakasaheb Kalekar Commission (1955) based on caste as an indicator of backwardness, was not acceptable to the Government. Another report on backward classes (Mandal Commission Report) was published in 1981. Even though this report also mainly relied on the caste criterion, the Parliament did endorse it. However, the recommendations were not implemented. Meanwhile, state governments have provided for reservations for backward classes essentially following the caste basis. Reservation in jobs and admission to educational institutions has been made with a ceiling of 50% for SC, ST and backward classes.

It is worth noting that as early as 1962, the Supreme Court in a crucial judgment observed that exclusive reliance on caste for determination of backward class status was not justified. (Balanji Vs. State of Madras). Again in another case in 1981, Supreme

Court held that 50% ceiling of reservation could not be rigid. However, states have followed the caste criterion and the benefits extended to other backward classes have not been uniform in all the states.

4.5 CONSTITUTIONAL PROVISIONS RELEVANT TO THE POLITICAL PROCESS

Indian polity including the political process rests on the Indian Constitution which provides the basis on which the Central and State government may formulate and administer economic policies AND regulate citizen's rights. Of particular relevance are the Constitutional provisions relating to Fundamental Rights and the Directive Principles of State Policy.

4.5.1 Fundamental Rights

Articles 12 to 35 of Part III of the Constitution deal with Fundamental Rights which are aimed at protecting certain basic rights of citizens and restricting the powers of the legislature and Government. The Articles provide for six broad categories of rights which are enforceable in the Court of law. These are :

1 Right to equality including equality before law, prohibition of discrimination on grounds of religion, race, caste, sex or place of birth, and equality of opportunity in matters of employment;

2 Right to freedom of speech and expression, assembly, association or union, movement, residence, and right to practice any profession or occupation;

3 Right against exploitation, prohibiting all forms of forced labour, child labour and traffic in human beings;

4 Right to freedom of conscience and free profession, practice and propagation of religion;

5 Right of any section of citizens to conserve their culture, language or script and right of minorities to establish and administer educational institutions of their choice; and

6 Right to constitutional remedies for enforcement of Fundamental Rights.

While Article 16 ensures equality of opportunity to all citizens in public employment, it is subject to the condition that the State can make any provision for the reservation of appointments or posts in favour of any backward class which is not adequately represented in the services under the State. Again, under Article 19, while all the citizens have equal rights to practice any profession, or to carry on any occupation, trade or business, the exception provided is that the State can make any law imposing reasonable restrictions on the exercise of the right in the interest of the general public. The State can, in particular, make any law relating to (a) the professional or technical qualifications necessary for practicing any profession or carrying on any occupation, trade, business, industry or service, or (b) the carrying on by the State, or by a corporation owned or controlled by the State, of any trade, business, industry or service, to the complete or partial exclusion of citizens. Likewise, right to freedom of speech and expression, assembly, association, or union, etc., are subject to security of the State, friendly relations with foreign countries, public order, decency and morality

4.5.2 Directive Principles of State Policy

In Part IV of the Constitution are laid down the Directive Principles of State Policy which are intended to ensure that the executive and legislative wings of the State exercise their authority with due respect to the Principles. These Principles are not enforceable by the Court, but are nonetheless fundamental in the governance of the country, and the State has the duty to apply these Principles in making laws.

The economically significant principles under Articles 38 to 48

1 The State shall strive 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 part of all the institutions of national 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 –

   (a) that the citizens, men and women equally, have the right to an adequate means of livelihood;

   (b) that the ownership and control of the material resources of the community are so distributed as best to sub serve the common good;

   (c) that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment;

   (d) that there is equal pay for equal work for both men and women;

   (e) 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 or strength; and

   (f) that children are given opportunities and facilities to develop in healthy manner and in conditions of freedom and dignity, and that childhood and youth are protected against exploitation and moral and material abandonment.

4 The State shall ensure 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 of schemes 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.

5 The State shall take steps to organize village Panchayats and endow them with such powers and authority as may be necessary to enable them to function as units of self-government.

6 The State shall, within the limits of its economic capacity and development, make effective provisions 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 under-served wants.

7 The State shall make provision for securing just and humane conditions of work and for maternity relief.

8 The State shall endeavour to secure, by suitable legislation or economic organization or in any other way, to all workers – agricultural, industrial or otherwise – a living wage, conditions of work ensuring a decent standard of life and full enjoyment of leisure and social and cultural opportunities and, in particular, the State shall endeavour to promote cottage industries on an individual or cooperative basis in rural areas.

9 The State shall take steps, by suitable legislation or in any other way, to secure the participation of workers in the management of undertakings, establishments or other organizations engaged in any industry.

10 The State shall promote with special care the educational and economic interests of the weaker sections of the people, and, in particular, of the scheduled castes and scheduled tribes, and shall protect them from social injustice and all forms of exploitation.

11 The State shall regard the raising of the level of nutrition and the standard of living of its people and the improvement of public health as among its primary duties and, in particular, the State shall endeavour to bring about prohibition of the consumption, except for medicinal purposes, of intoxicating drinks and of drugs which are injurious to health.

12 The State shall endeavour to organize agriculture and animal husbandry on modern and scientific line and shall, in particular, take steps for preserving and improving the breeds, and prohibiting the slaughter of cows and calves and other mulch and draught cattle.

13 The State shall endeavour to protect and improve the environment and to safeguard the forests and wildlife of the country.

The wide-ranging scope of State intervention in the economy should be clear from the above. Indeed the scope has been enlarged over time by Constitutional amendments on several occasions, the first amendment of the Directive Principles having been made in 1951.

Although Fundamental Rights and Directive Principles may appear to be mutually complementary, they are not so. The difference lies mainly in their respective objectives and scope. The Fundamental Rights are primarily aimed at protecting citizens against excessive State action and assuring political freedom to the people. The Directive Principles, on the other hand, are aimed at securing social and economic justice by appropriate State action. The Fundamental Rights are justifiable, while the Directive Principles are not. But the Courts cannot altogether avoid taking cognizance of them. In other words, Directive Principles are no less important and, in a way, are binding on various organs of the State. Moreover, it is now established that Fundamental Rights are subordinate to the Directive Principles. To quote Justice Mathew, "In building up a just social order, it is sometimes imperative that the Fundamental Rights should be subordinated to Directive Principles. Economic goals have an uncontestable claim for priority over ideological ones on the ground that excellence comes only after existence. It is only if men existed that there can be Fundamental Rights."

Check Your Progress B

1 State briefly the problems which have stood in the way of establishing a uniform civil code in India.

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2 Enumerate the constitutional guarantees and safeguards protecting minority interests in India.

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3 State the exceptions to the Fundamental Rights mentioned below :

(a) Right to equality of opportunity in matters of employment.

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(b) Rights to practice any profession or occupation.

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(c) Right to freedom of speech and expression.

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4 In what respects are the Fundamental Rights different from the Directive Principles of State Policy ?

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4.6 ROLE OF GOVERNMENT

In traditional sense, the role of any government has been to maintain law and order, protect the nation from external aggression, provide social security exercise control over public activities, etc. These roles were in the context of providing basic infrastructure to business. But, in course of time, emphasis on planned economic development and various other circumstances prompted the Government to play an active role in promoting and regulating the business activities. In order to ensure that balanced economic development is planned within the constitutional framework, the public utilities and infrastructure facilities are duly built up, and the business is run on sound lines, the role of Government has assumed four dimensions as under :

- Regulatory Role,
- Promotional Role,
- Entrepreneurial Role, and
- Planning Role.

Their distinctive features notwithstanding, these roles are not exclusive to each other. There may be occasions when the Government becomes active in more than one way to serve national or sectoral objectives. For example, the planning and regulatory roles may be mutually complementary and so can be the entrepreneurial, planning and promotional roles. Let us now discuss the implications of each.

4.6.1 Regulatory Role

Government regulation of business, industry and trade generally refers to all measures and instrumentalities which are aimed at defining and laying down the limits of private enterprise. More specifically, Government may regulate business activities using direct (discretionary) measures and/or indirect (non-discretionary) measures.

Direct regulation refers to measures which are applicable at the discretion of administrative authorities like, for example, - fixation of maximum and minimum prices of commodities, industrial licensing, allocation of foreign exchange for imports , quantitative restrictions on imports and exports, rationing supplies and distribution of particular goods, etc. In many developing countries, Government regulation by way of direct controls has been used after the second world war for various reasons. For instance, industrial licensing has been practiced on the ground that the market mechanism was incapable of allocating scarce resources optimally, and that the State could ensure resources to be allocated in accordance with national priorities. It was believed that the resulting resource allocation would be socially optimal and desirable.

Similarly, reservation of products for exclusive manufacture in small-scale units is another example of direct control which has been used for decentralisation and employment generation.

Indirect measures of Government control involve application without any administrative discretion. These regulations may consist of legislative measures or rules laid down whereby private activities are automatically controlled. Whether, and to what extent, the measures apply to individuals or business firms do not depend upon discretionary powers of administration due to the specific content of legal provisions and rules. Typical examples of indirect regulation are fiscal and monetary controls which may include tax measures, hike in customs tariff, changing interest rates on bank deposits and loans, regulating money supply and credit creation, granting subsidies to particular industries, and so on.

Thus, the regulatory role of Government may include :

(a) laying down conditions under which private enterprise would be permitted to enter certain business fields or avail of public facilities and scarce resources, e.g., permitting entry into oil exploration on issue of licence.
(b) Regulating the conduct of business by laying down rules and standards of management, e.g., making provisions in law for regulating working, conditions in factories, fixing ceiling on managerial remuneration, etc.
(c) Controlling the accrual or disposal of income, e.g., levy of excess profits tax, ceiling on dividend distribution, etc.
(d) Regulating the relationship between different interest groups or segments in the economy so as to protect legal rights or resolve conflicts of interest or prevent undue concentration of economic power, e.g., check on inter-company investments, ceiling on acquisition of shares by NRIs or FIIS, legal enactment to protect consumer interests, etc.

It may be noted that government controls and regulations do not necessarily imply negative effects only. These may have positive implications as well. Thus, depending on their impact, government regulations may facilitate and/or restrict business activities. Measures aimed at encouraging, facilitating and inducing trade and industrial growth through tax concessions, subsidies, technical and financial assistance, easy credit, protection against foreign competition by way of tariff or non-tariff barriers on imports, etc. are positive regulations. The legislative or administrative measures, on the other hand, which are intended to restrict or limit private trade and industry, come in the category of negative regulations. These may include restrictions on private investment through industrial licensing or control of capital issues, raising taxes and duties, imposing price ceiling, rationing essential supplies, etc. However, it would not be correct to suggest that government regulations always have either positive or negative implications. There may be both positive and negative effects of certain measures. If, for example, imports are restricted by higher tariffs, profits of some industries may be adversely affected due to non-availability of essential ingredients. But it may have beneficial effect for producers of competing products.

You will learn more about the regulatory framework in India in Unit 5.

4.6.2 Promotional Role

Promotional role of Government has been of great significance in the developed countries and so also in the developing countries. According to Dimock, Governmental function in USA to assist and help develop industrial, labour, agricultural and consumer interests is quite large considering the totality of government activities. This view may be quite surprising. But as Dimock puts it, the surprise is a measure of the degree to which Americans "take for granted some of the most basic duties of the liberal government and fail to appreciate their value adequately". For a developing country the promotional role of government is obviously of greater significance. It may include :

(a) Initiating and promoting the develop~nenbf infrastructure to facilitate industrial and commercial activities by assuming the responsibility to provide and strengthen power supply, transport network, availability of financial resources, training institutions, R&D, guidance for promotional activities, and so on.
(b) Providing assistance for development of backward areas by way ofsubsidies, allocation of scarce resources, allotting land at concessional price, power and water supply at concessional rates, making available credit and finance at low interest, and marketing through specialized organisations.
(c) Providing fiscal and monetary incentives, facilities for insurance of business risks as well as information inputs for the developlnent of priority sectors.

You will learn about the industrial fiscal and monetary policies in detail in Unit 15.

4.6.3 Entrepreneurial Role

The entrepreneurial role of Government means that the government itself becomes the entrepreneur which implies its participation in economic activities through public ownership and management of industrial and commercial undertakings. The justification for this role may be found in developed as well as developing countries. Defence production, public utilities, passenger road transport, multi-purpose river-valley projects, railways, airlines operations and strategic industries have been areas of government engagement even in developed countries. Besides these activities, the Government in developing countries assumes the entrepreneurial role even in other areas:

(a) on account of the necessity of government to step in where private enterprise and private management are not conducive to public good, e.g., providing safe drinking water at affordable rates;
(b) to secure balanced develop~nenbf tlie economy;
(c) to promote capital intensive industries involving large investments which may not be attractive to private entrepreneurs due to low return in the short run; and
(d) to take over and manage private undertakings which become unprofitable but need to be revived and continued so as to prevent large-scale unemployment and waste of resources.

The Industrial Policy Resolution of 1948 had very clearly provided that the manufacture of arms and ammunition, the production and control of atomic energy, and the ownership and management of railways would be the exclusive monopoly of the Central Government and in six industries, viz., coal, iron and steel, aircraft manufacture, ship building, manufacture of telephone and wireless apparatus, and mineral ore, the new units would be set up in public sector. The Industrial Policy Resolution of 1956 had further analysed this role of government. I-lowever, the New Industrial Policy redefined this role of the government about which you will learn in Unit 15.

4.6.4 Planning Role

The planning role of the Government has been closely related with its regulatory role. In developing countries, the objective of planned economic development has been to secure optimum use of resources for rapid economic growth. Many states in Asia and Africa, free from colonial rule after the second world war, were inspired by the erstwhile Soviet model of centralized planning and control which evolved during the inter-war period. The ideological appeal of the welfare states of western countries also strengthened the idea of state planning. The basic argument in favour of Government's planning role was that exclusive dependence on the market mechanism and freedom of private enterprise has not been conducive to rapid economic development.

In the context of regulated development as a premise, the Government of India committed itself to the philosophy of democratic planning and indicative targetry. The continuing objectives of the first 40 years of planning ending with the Seventh Five Year Plan (1985-90) have been (i) a target increase in national income, (ii) securing higher levels of planned investment, (iii) reducing inequalities of income distribution, (iv) providing for additional employment, (v) alleviating critical bottlenecks with respect to agricultural production, (vi) manufacturing capacity for producer goods and balance of payments, and (vii) poverty alleviation.

The Eighth Five Year Plan (1992-97) was launched immediately after policy changes involving liberalization and globalization. An average annual growth rate in GDP of 6.8 percent was achieved during this plan period against *5.6* per cent envisaged in the plan. The Ninth Plan (1997-2002) targeted a GDP growth rate of 9 percent and emphasized several identified Basic Minimum Services (BMS) with a view to ensure complete coverage of the population, such as the provision of safe drinking water, primary health service facilities, universal primary education, etc. The major change in approach during this period has been quite logical in the light of economic reforms since 1991. Earlier economic planning envisaged a growing public sector with massive investments in basic and heavy industries. The emphasis on the public sector now has been less pronounced. The current thinking is that planning should increasingly be of an indicative nature. This has been reflected in the Approach Paper to the Tenth Plan (2002-2007). You will learn make about economic planning in India in Unit 14.

4.7 CHANGING ROLE OF GOVERNMENT VIS-A-VIS MARKET ECONOMY

By all accounts, the problems that confronted the Indian economy after independence were traceable to a vicious circle of poverty with low incomes leading to low levels of savings and investment. The national leaders recognized the need for a structural transformation in the system of production and distribution to secure a high rate of growth. It was believed that necessary changes could be brought about on the basis of coordinated state policies and state intervention in the economy. In that context, the Government of India adopted what may be called the philosophy of democratic planning for rapid industrial development. The system of 'mixed economy' emerged in the process as a compromise between free market economy and state intervention as it involved the co-existence of public and private enterprises.

Till the mid-So's, the Government's role increasingly tended towards regulation of the market economy through legal and administrative measures. The prevailing view during this period was that government should ensure allocation of resources for economic development according to planned national priorities and at the same time compensate for and correct market failures causing imbalances. The regulatory framework that emerged in the process included (i) a system of industrial licensing; (ii) control of capital issues of private sector corporates; (iii) reservation of industries for public sector and small-scale enterprises; (iv) ceiling on investments for expansion of capacity and creation of fresh capacity by large industrial houses, dominant undertakings and interconnected concerns; (v) import licensing to restrict imports; (vi) foreign exchange control including regulation of the flow of foreign capital, technology, foreign collaboration and joint ventures; and (vii) price control in specific product markets.

Changes in Government's regulatory policy were occasioned in the 80's by several disturbing developments like declining industrial growth rate, growing pressure of unemployment, poor performance of the public sector and declining average annual growth of national income in real terms. Attempt was therefore made to shift from discretionary quantitative controls to non-discretionary fiscal controls. As a whole, the policy changes were aimed at removal of constraints on growth and creating a more dynamic industrial environment. Measures were introduced relaxing licensing constraints on entry into priority sectors, generating growth through capacity reendorsement, allowing flexibility of industrial expansion through broad-banding, and raising the upper limit of the val ue'of assets of large industrial undertakings from Rs.20 croses to Rs.100 crores. A highly liberal import policy was announced in April, 1985 including liberal high-tech imports. It was assumed that increasing exports would take care of mounting deficits in the balance of trade in view of the export promotion measures. The assumption, however, proved to be unfounded.

The necessity of changing the regulatory policies arose again in July, 1991 after the general elections. The immediate problems were related to the growing fiscal deficits and mounting inflationary pressure, and growing imbalance in external payments position which led to huge borrowings at home and abroad. It was realized that direct controls and restraints over private investment had become counter-productive, The changes started with a downward revision of the exchange rate of rupee in relation to the US dollar, Pound sterling, Yen and other foreign currencies. It was a virtual devaluation of the rupee the purpose of which was to rectify the critical balance of payments problems. Simultaneously, the Government announced trade policy reforms involving relaxation of import restrictions, substantial reduction in tariff rates, decanalisation of many items of trade, and measures to give a thrust to exports.

Other policy measures, all aimed at liberalization of controls and market orientation of the economy, were introduced in quick succession. These included :

- Abolition of industrial licensing for all projects except for a short list of industries;
- Repeal of the Capital Issues (Control) Act in May, 1992 and subjecting corporate public issues to the guidelines issued by the Securities and Exchange Board of India (SEBI) set up under the SEBI Act, 1992, for investor protection;
- Removal of the threshold limit of assets of large and dominant undertakings, thus eliminating the requirement of prior approval of government for the establishment of new undertakings, expansion, merger, amalgamation and takeover of companies;
- Approval of direct foreign investment up to 51% foreign equity in high priority industries as also for trading companies primarily engaged in export activities;
- Reducing the number of industries reserved for the public sector to defence products, atomic energy, coal and lignite, mineral oils, railway transport and minerals specified in the Atomic Energy Order, 1953, and also providing for private participation in some of these sectors on a case by case basis;
- Automatic permission for foreign technology agreement in high priority industries subject to prescribed limits of lumpsum and annual loyalty payments;
- Opening the power sector as also the production, refining and marketing of oil and gas to domestic and foreign private investors; and
- Setting up a Disinvestment Commission for identifying public sector undertakings for equity disinvestment as well as for advising the government on modalities of disinvestment.

The changing role of the Government with respect to regulation of economic concentration and trade practices is reflected in the official policy in relation to large undertakings. By an amendment of the Monopolies and Restrictive Trade Practices Act in 1991, several of its provisions were omitted e.g., government clearance for substantial expansion, establishment of a new undertaking, merger, takeover: etc. As a result industrial undertakings were free to expand without any restriction. However, as regards regulation of monopolistic and unfair trade practices, Government could exercise its power under Sections 27 and 27A to order division of an undertaking or severance of interconnection between undertakings on the recommendation of the MRTP Commission.

A new law, the Competition Act, 2002, has been passed and received Presidential assent in January, 2003 to replace the MRTP Act. It is aimed at ensuring fair competition by prohibiting trade practices which cause adverse effect on competitive markets in India. For this purpose, a provision has been made in the Act for a quasi-judicial body, viz., Competition Commission of India. The Act has provided for repeal of the MRTP Act and dissolution of the MRTP Commission. All cases pending before the MRTP Commission, upon the Competition Act coming into effect, will be transferred to the Competition Commission of India except those relating to unfair trade practices which will be transferred to the relevant forum under the Consumer Protection Act. You will learn about the detailed provisions of these Acts in Unit 7.

Check Your Progress C

1 Distinguish between direct and indirect regulation of business by Government with examples.

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2 Explain the nature of promotional role of government with an example.

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3 Match the foltowing.

(a)	Research and Development	(i)	Entrepreneurial role
(b)	Public sector	(ii)	Planning role
(c)	Target increase in national income	(iii)	Regulatory role
(d)	Controlling disposals of corporate income	(iv)	The Competition Act
(e)	Prohibiting unfair trade practices	(v)	Promotional role

4 Briefly enumerate three important policy measures introduced by the Government of India in the early 90's.

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4.8 ADMINISTRATIVE MACHINERY

You know that the Indian Constitution has made clear distinction of powers between the Union and State governments for making polices at the Union and State levels. The issue gets translated into polices after being approved by the respective legislatures.

The Council of Ministers headed by the Prime Minister carries out the administrative functions of the Union Government as per the distribution of subjects. It is the duty of the Prime Minister, as a political executive of the Union, to communicate to the President all decisions of the Council of Ministers relating to administration of affairs of the Union and proposals for legislation. Most of the business of the Government is transacted in the ministries/departments, secretariats and offices. Each department is generally under the charge of a Secretary who, as a permanent executive, assists the Minister on policy matters and general administration,

The Union Government consists of a number of ministries/departments, their number and character varying from time to time. Besides, there are other agencies which take care of a number of aspects relating to policy making. The most important among these are the Planning Commission, the National Development Council, and the Finance Commission. The Planning Commission advises the governments, both Central and State, on the strategy, size, mobilisation and allocation of resources. The National Development Council prescribes guidelines for the five year plans including the assessment of resources for social and economic policies affecting national development, and provides the necessary framework therefor to the union and state governments. The Finance Commission, as you have learnt earlier, is concerned with distribution of tax proceeds between the union and states and suggests the principles for grants-in-and to the states. Then, there are committees of the Parliament which play an important role in policy making. Besides, there is the Department of Administrative Reforms and Public Grievances in the Ministry of Personnel, Public Grievances and Pensions which is the nodal agency of the Government of India for administrative reforms as well as redressal of public grievances relating to Central Government organizations in particular, and State governments and Union Territories administration in general. The Department provides management consultancy services to Central Government Ministries/Departments.

In State administration, the Council of Ministers with Chief Minister at its head is the highest policy making body. Ministers, who are members of the Council, are placed in charge of certain specified subjects (portfolios) leaving important matters to be placed before the Council. The Chief Minister assigns portfolios among ministers and plays a coordinating role in the functioning of the Council of Ministers. The entire bureaucracy of the State is also controlled by the Chief Minister as the political executive who approves the appointment of all senior officers including Secretaries, Addl./Joint/Deputy Secretaries, Heads of Departments and Chairman-cum-Managing Director of public sector undertakings. The Chief Minister is duly assisted by the Chief Secretary and the State Secretariat.

The Chief Secretary of every state has a unique position in the state administrative set up. All communication between the State Government and the Central Government as also other state governments is channelised through the Chief Secretary. He acts as the Chief Spokesman of the State Government and is expected to provide leadership to the State administrative machinery. Being the principal advisor to the Chief Minister, the Chief Secretary works out detailed administrative implications of the proposals made by the ministers. A cohesive plan of action is drawn on that basis.

The administrative machinery in every state centres round the directorates headed by the executive heads generally designated as directors. While the policy formulation is at the state headquarters (the Secretariat and Directorates), the execution of policy requires other agencies to be set up at the regional level and further down at the district level, block level and village level. The state is thus divided into territorial units or regions. A regional administrative set up is established between the state headquarters and the districts. The regional level officer has the main function of supervision and coordinator of the district level functionaries. The Divisional Commissioner is required to guide the district level officers as well as provide feedback and advice to the state headquarters. He has also to review rural development programmes, and inspect community development blocks and panchayat samiti offices. Above all he has direct responsibility as regards law and order in the division. He has well-defined powers in land revenue matters and also has authority to hear appeals.

It may be noted that the judiciary also plays an important role in policy making. It keeps check on the executives (both political and permanent, and the legislature.

Industry related Set-Up

Having learnt about the general framework of administration at the Central, State and Local levels, let us now have an idea about the administrative set-up relating to a few important issues relevant to industry and trade.

The system of industrial regulation which prevailed before 1991 was streamlined in 1973 Under this system, the pre-investment approvals in respect of letters of intent, industrial licensing, foreign collaboration, import of capital goods clearance, etc, were placed under the overall supervision and guidance of an inter-investment committee known as Projects Approval Board (PAB). The existing committees, viz., the Licensing Committee, Foreign Investment Board, Capital Goods Committee, and the Licensing-cum-MRTP Committee were to function as committees of PAB. To serve the PAB, a Secretariat for Industrial Approvals (SIA) was set up to function as a separate division in the Union Ministry of Industry and Civil supplies.

In the post liberalisation era, as stated earlier, licensing has been abolished for projects except for a short list of nine industries related to security and strategic concern and on account of social and over-riding environmental reasons. The threshold limits of assets of MRTP companies and dominant undertakings have been removed. The Capital Issues (Control) Act has been repealed. The Ministry of Industry has a different role now. One such role relates to the approval of Industrial Entrepreneurs Memoranda (IEMs) and Letters of Intent (LOIs) and the other relates to foreign investment. The Foreign Investment Promotion Council (FIPC) has been constituted for preparing project reports in selected thrust areas so as to facilitate the flow of foreign investment in the country, and the Foreign Investment Promotion Board (FIPB) has been set up for framing rules and regulations pertaining to foreign investment.

The problems of small-scale industries have also been a matter of serious concern for the industries ministry at the centre and in the states. Risk and equity capital have been made available to small industries from the Small Industries Development Corporation in the states. A National Equity Fund (NEF) was established by the Government of India in 1987-88, a scheme which specifically provided for assistance to the smaller among the small-scale units by way of seed capital in backward states. In August 1991, the scope of NEF was enhanced to cover the whole country except metropolitan areas to support expansion modernisation and technology upgradation. In October 1989, a statutory corporation was set up – the Small Industries Development Bank of India (SIDBI) – as a separate Apex Bank for providing assistance to SSIs. In 1995-96, a Technology Development and Modernisation Fund (TDMF) Scheme was launched to assist export-oriented units, to start with but was extended later to cover all small-scale units.

Industrial sickness is another major concern of the Ministry of Industries at the centre and in the sates. The BIFR, constituted by the Central Government in 1987 is a quasi judicial body which is empowered to look into all matters relating to industrial sickness. You will learn about its working in Unit 6.

Tlie Bureau of Industrial Costs and Process advises in Ministry of Industry in the determination of fair price and price fixation of Industrial products.

The Union Ministry of Commerce has been involved in import licensing through the controller of imports and Exports. Under the Import-Export Policy until 1991. It was also concerned with regulations pertaining to foreign exchange earnings and import promotion. By and large, import licensing and import regulations have been done away with after 1991. The functions of the Ministry of Commerce are now mainly centred round W. T. O. related issues.

Regulatory bodies has been set up for the Telecom and Insurance sectors, so hat the concerned industries have been mainly responsible for policy formulation in the respective areas. Thus, tlie Telecom Regulatory Authority of India (TRAI) has been engaged in the regulation of the Telecom services. In October, 200, the Development of Telecom Serviced (DTSO and the Department of Telecom Operations (DTO) – the two service providing departments were corporatised and a public sector company – Bharat Sanchar Nigam Limited (BSNL) has taken over all service providing functions of DTS and DTO likewise, the Insurance Regulatory and Development Authority (IRDA) has been set up after private sector participate in insurance business was opened up.

Tlie Ministry of Power has signed Memorandum of Agreement (MOA) with several State governments for power sector refers. These MOAs envisage unbundling of transmission and distribution and privatisaion of distribution in a time bound manner, electrification of villages, energy audit at all levels, and full support to the State Electricity Regulatory Commission (SERCs). In recuperate in Central Government has committed to provide technical and financial support.

A statement of environment pollution has been a matter of serious concern all over the world. The Ministry of Environmental and Forests is the regulatory authority under the Environment Protection Act, 1986. The monitoring and follow-up measures relating to tlie enforcement of pollution control measures are the responsibility of the central pollution control Board (CPCB and the State Pollution Control Boards (SPCBs).

As part of the reformist economic policy Governemnt policy toward PSUs consist disinvestment of government equity in PSUs to 26% or lower, if necessary Restructuring and reviving potential viable PSUS;and closing down PSUs which cannot be revived.

A thrust to the process of disinvestment in PSUs was provided earlier by the setting up of a Department of Disinvestment. However, the policy of disinvestmerit even profit making PSUs is pow being debated among coalition parties in the Central Government.

4.9 LET US SUM UP

The critical elements of political environment in India in relation to business consist of: (i) The nature of the political system, (ii) Political processes like operation of the party system and elections, (iii) Stability of the political structure, and (iv) Centre-State relation. Under the Constitution, India has a parliamentary form of government and federal structure comprising of states and Union Territories. President is the Constitutional head of the Government of India but he is to act in accordance with the aid and advice of the Council of Ministers with Prime Minister as its head. The real executive power vests with the Council of Ministers which is responsible to the elected members of the Lok Sabha. The supreme legislative body of the Indian Union is the Parliament consisting of the Lok Sabha and Rajya Sabha. Like the Parliament, State legislative assemblies are also elected bodies. Governor is the head of executive in the States but the power of governance vests in the Council of Ministers with Chief Minister as its head.

cio-Political Environment

As a democratic republic, the Indian political system is governed by electoral laws. The electoral process essentially hinges on the functioning of the political parties organized at the national, regional and state levels, The political structure derives its stability from the checks and balances between the executive, legislature and the judiciary. Centre-State relation is governed by the Constitutional provisions regarding distribution of legislative powers between the Union and individual states with general predominance of Parliament. Centre-State fiscal relations are also governed by the Constitutional provisions with respect to distrlbution of financial powers between the Centre and the States, and the mechanism of resource transfer from the Centre to the States,

Social processes give rise to social issues and the Slate is naturally required to respond to **the** issues like secularism, establishment of a uniform civil code, minority rights and social disparities.

Of particular relevance to political processes in India are the Constitutional provisions relating to Fundamental Rights and the Directive Principles of State Policy. Fundamental Rights are aimed at protecting certain basic rights of citizens and restricting the powers of the legislature and government. The Directive Principles are intended to ensure that the executive and legislative wings of the state exercise their authority with due respect to the Principles which include, among other things, promoting the welfare of people and minimizing income inequalities.

Broadly speaking, the role of Government vis-à-vis industry and trade may be distinguished for analytical purposes as the regulatory role, promotional role, entrepreneurial role and planning role. Of course, the role of government vis-à-vis market economy has changed over time and Is duly reflected in the economic policies adopted after independence in the 80's and early 90's. The philosophy of democratic planning for rapid industrial development prevailed during three decades after 1951 when the Government's role increasingly tended towards direct control over the market economy. Changes in policy became necessary in the 80's due to several disturbing outcomes. The necessity of changing regulatory policies arose again in July, 1991. Thereafter policy measures were all aimed at liberalization of controls and market orientation besides opening up the economy to global competition.

Regarding the administrative machinery In operation, the Council of Ministers with Prime Minister as its head carries out the administrative functions of the Union Government as per the distribution of subjects. While the Prime Minister is the political executive, the bureaucracy as the permanent executive, though not responsible to the parliament, has enormous role in policy and decision making. In State administration, the Council of Ministers with Chief Minister as Its head Is the highest policy making body. Function-wise, government at the state level consists of the Minister, Secretary and **the** executive head, known as Director. For purposes of revenue and general administration, the States are divided into divisions or ranges as a network of regional administration that functions below the state level but above the district level administration.

As for the administrative set-up relating to industrial regulations in India, the system as streamlined in 1973, had placed all matters relating to pre-investment approvals under the supervision of PAB which had its secretariat as a division in the Ministry of Industry In the post liberalisation erg, the role of the Ministry of Industry is concerned mainly with the approval of Industrial Entrepreneurs Memorandum and Letter of Intent and the proposals for foreign investment. Industrial sickness Is another major concern of the Ministry of Industry at the Centre as well as in the states. The Union Ministry of Commerce which has been involved in import licensing till 1991, is now primarily concerned with WTO related issues. Regulatory bodies like TRAI and IRDA have been set up for telecom and insurance sectors respectively. The enforcement of pollution control measures is the responsibility of the PCBs.

4.10 KEY WORDS

Directive Principles of State Policy : Fundamental principles laid down in the constitution to be followed by the government in governances and for making laws.

Fundamentals Rights : Basic rights of citizens as provided in the constitutions aimed at protecting them against state action and assurign political freedom to people.

Market Economy : Economy free from government controls and governed by market forces.

Mixed Economy : An economic system characterised by the co-existence of private and public sectors.

Restrictive Trade Practice : A Trade practice which has or may have the effect of preventing, distorting or restricting competition in any market.

Secularism : Neutrality to all religions, treating all regions equal.

Unfair Trade Practice : A trade practice which, for the purpose of promoting the sale, use or supply of goods or provision of any service, adopts unfair or deceptive practice like misleading advertisement or bargain sale etc.

VAT : Value added tax is a tax levied on addition to sales value, i.e., on difference between the price charged on sales and price paid on purchase. It is charged from customers at sales value but paid to the government after deducting the tax paid on related purchases.

4.11 ANSWERS TO CHECK YOUR PROGRESS

A 1 (a) True (b) False (c) False
(d) True (e) False (d) True

B 3
(a) The state can make any provision for reservation of appointments or posts in favour of any backward class.
(b) The state can make any law imposing reasonable restrictions on the exercise of the right in the interest of the general pubic.
(c) Right of freedom to speech and expression is subject to security of the state, friendly relations with foreign countries, public order, decency and morality.

C 3 (a) - (v) (b) - (i) (c) - (ii)
(d) - (iii) (e) - (iv) (f) - (vi)

4.12 TERMINAL QUESTIONS / EXERCISES

1 Explain the concept of political environment, and discuss how do the ideology of the political party in power and the political stability influence the business in a country.

2 (a) State the problems that have stood in the way of uniform civil code in India.
(b) Enumerate the constitutional guarantees and safeguards protecting minority interest in India.
(c) Explain the significance of government role as a planner in a developing country like India.

3 Distinguish between :

(a) Entrepreneurial and Promotional roles of government

(b) Direct and Indirect regulation of business

(c) Fundamental Rights and Directive Principles

4 Describe the economic significance of Principles under Articles 38 to 48 which have a bearing on business environment.

5 State the rationale behind government intervention in the Indian economy till the mid 90s, and outline its changed role in the post-liberalisation era.

6 Explain briefly the administrative set up in India at Central and State levels, and enumerate the changed role of the Ministry of Industry after of the abolition of industrial licensing.

Note : These questions will help you to understand the unit better. Try to write answers for them, but do not submit your answers to the university for assessment. These are for your practice only.

SOME USEFUL BOOKS

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