FACULTY OF JURIDICAL SCIENCES

Lecture-25

Government & Business Interface

The roles of a government, in a mixed economy, is grouped into two categories, namely, regulatory roles and promotional or development roles.

The regulatory role of the government involves formulating and implementing various direct and indirect measures to monitor and regulate the economic activities of the private sector. These measures are required to prevent the socially restrictive activities of businesses and concentration of economic power and encourage private businesses to work towards the growth of the economy.

On the other hand, the promotional role of the government involves policies and measures taken for the progress of development infrastructure of an economy. The development infrastructure of an economy involves economic and social overhead capital that is necessary for the growth of industries and optimal utilization of resources. In addition, it is required to improve the production capacity of an economy. These activities, in a mixed economy, such as India, are performed by the government by implementing various developmental programs.

For example, in India, Five Year Plan is a form of program in which the government sets the goals to be achieved within five years and mentions the resources required to achieve those goals.

Let us discuss the regulatory and promotional roles of a government in detail.

Regulatory Measures:
As per the free market mechanism, the government intervention is prohibited for the growth of an economy. However, in a mixed economy, the government is responsible for making and implementing various regulatory measures.

The regulatory measures taken by a government include the following:
a. Industrial and licensing policies

b. Policies related to taxation

c. Monetary and credit policies

d. Policies related to income and wages

e. Technology and employment policies

f. Import and export policies

g. Foreign exchange policies

h. Industrial safety and environment policies

The regulatory measures used in a mixed economy restrict the working of the free market mechanism. This is because of the reason that these measures limit the functioning of market forces in an economy. In addition, the regulatory measures obstruct the automatic market functioning by altering the price structure.

This leads to in-optimal price structure, which further results in inequitable allocation of resources. These alternations in the price structure adversely affect the business decisions of the private sector. For example, the policy of minimum wages leads to a higher wage rate as compared to prevailing rate in the competitive market.

In such a case, private businesses hire less number of workers on the basis of their marginal productivity as compared to the number of workers hired in the absence of Minimum Wages Act, 1948. This results in the reduction of production and profit of private businesses. Similarly, when the government implements dear money policy and increases bank rates, the rate of credit taken by private businesses from banks also get reduced. The investment by private businesses can be affected by the level of profitability.

If the level of profitability is high, then the investment by the private sector would reduce and get confined to rate of interest only. In such a case, private businesses would have less inventories and labor.

In addition, they would not prefer to invest in any new plans and would transfer the replacement of capital goods to future. Such types of loss-making business decisions are the result of government dear credit policy.

Apart from this, the taxation policy of the government also has adverse effects on the private sector. For example, if the rate of taxes imposed by the government is very high, then the profit after tax of businesses would decrease.

This would further lead to decrease in investment and savings of businesses. However, the effect of taxation on private businesses is dependent on their ability to avoid or evade the tax burden.

Till now, we have discussed the adverse effects of government policies on private business decisions. However, it is a narrow analysis of measures and policies taken by the government.

The government policies should be analyzed by finding out the impact of its policies on the society as a whole. For example, the minimum wage policy of the government helps in bringing equality in income level and reducing labor exploitation.

Besides this, it also facilitates the growth of private businesses in various ways, which are as follows:

a. Increasing the total purchasing power of individuals in an economy that simultaneously increases the demand of goods and services by the individuals

b. Reducing the possibility of unnecessary conflicts between employees and organizations on account of wages

Similarly, the government policies, such as tight money and cheap credit, helps in making the economy more stable, which benefits both businesses and individuals. Although, high rate of tax imposed by the government on private businesses seems to a restriction in their growth.

However, the government compensates this restriction by increasing the aggregate demand and purchasing goods and services from the private sector. Therefore, government policies are equally beneficial for private businesses.

Promotional Roles:

The main promotional role of a government is to increase the social and economic overhead capital for the growth of an economy.

The economic overhead can be increased by building developmental structure, which includes:

a. Development and creation of transport and communication facilities

b. Construction of irrigation facilities, such as dams, canals, and tube wells

c. Production and appropriate distribution of electricity and various other resources of energy, such as coal and natural gas

d. Expansion of businesses having strategic importance

e. Development and implementation of advanced technology

On the other hand, social overhead depends on activities, such as investment in educational, health, community development, and housing programs. This helps in increasing the productivity and growth perspectives.

The infrastructure building helps private businesses by producing overheads socially and economically, which, in turn, increases the production and economic growth. The growth of the economy automatically results in the expansion of private businesses. In addition economic growth increases the size of market, which further increases the total demand for goods and services. This provides a major advantage to private businesses. Apart from this, economic and social overhead capital results in the creation of external economies and reduction in capital-output ratio and production cost.