

## Role of the Indian Government in Business

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by *Sundar Sankaran*\*  
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Market plays multiple roles – the key perhaps being that *as transaction facilitator it is a barometer of the asset, which is traded*. Through its price discovery mechanism, it rewards “good” assets and penalizes others. The best recent example, as mentioned in one of my earlier articles, is Enron, where the market punished the company even before the government and courts could move.

What is the role of governments in the context of business?

- 1 The core role, obviously is maintaining an environment where markets can function in an organized manner. Arising out of this is maintaining law and order, helping people enjoy their rights, providing a mechanism for redressing grievances etc. Governments that play this role to perfection are viewed as “*well administered governments*”.
- 2 Governments that ensure basic levels of food, clothing and shelter for their subjects are “*governments with a human face*”. Not playing this role itself could be a source of law and order problems.
- 3 Governments can also play an active role in promoting business interests internationally. This is the sort of role the Chinese government has attempted. Or the role of the United States government vis a vis its domestic steel industry, Enron’s project in India etc. Business prefers such governments and calls them “*progressive governments*”.
- 4 Generally markets, rather than the government, are viewed as better judges of how resources should flow in the economy. At the same time, governments may like to influence the flow of resources in a particular way. Synergy between the government and markets can be ensured through –
  - a. **Clarity on policy** – both economic and political. The policy would be laid down, in general, by the government. Where specialization is required, the government can establish dedicated arms e.g. Securities and Exchange Board of India (SEBI), Insurance Regulatory & Development Authority (IRDA), Telecom Regulatory Authority of India (TRAI) etc. for deciding on policies, rules and regulations within their charter.
  - b. **Impartial implementation of policy** – This can be either by the dedicated arms of the nature mentioned earlier, or by a non-political bureaucracy.
  - c. **Clarity on difference between economic and political imperatives** – Business / markets need to have the flexibility to operate based on economic policy alone. Political policies and agendas would need to be met out of transparent dedicated resource flows.

*India needs a well-administered progressive government with a human face that is clear on the difference between economics and politics, and works within the ambit of a non-political institutional framework. What has it got?*

- 1 The central and state governments are largely failing in their core role, barring to some extent, a few states. Business and markets will logically move to the states where there is some semblance of the core role being played.
- 2 Governments, with an eye on political votes, aspire for "a human face". But find it more convenient to mix this obligation with roles in business and markets. Thus, we have governments that impose inflexible labour policies on business to cover for an inability to generate appropriate social security systems. We have governments that procure agricultural produce at artificially high prices, when they do not know what to do even with the existing produce that is rotting. Or what was seen with levy pricing in sugar.
- 3 When the software sector was doing well, the prevailing view was that this became possible because the Government forgot to play a role in the sector! The sector was dismayed when the government wanted to create a separate ministry for information technology. This should give an indication of the skepticism with which business views the government. Fortunately, the minister has been playing a role in information technology that would qualify to be called "progressive". Unfortunately we do not have too many such examples.
- 4 Governments find it more convenient to politicize the bureaucracy and dedicated arms that are expected to work impartially. A system that rewards loyalty to political masters is killing institutional mechanisms.
- 5 On a positive note, the progress in the divestment program indicates a willingness to change, at least in some sections of the government. *We hope to see lesser role of the government, and greater role for markets, in resource allocation decisions.*

Indian business would be happy to see governments promoting Indian business interests aggressively. The base level expectation is that they should at least be able to pursue their economic agenda, free of political imperatives, and in an environment where law and order prevails.

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market, resource allocation, barometer, price discovery, government, business, institution, court, bureaucracy, policy, economic, political,

Enron, US Government, Insurance Regulatory Development Authority, IRDA, Telecom Regulatory Authority of India, TRAI, Securities & Exchange Board of India, SEBI, Sundar Sankaran

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1. Clarity on policy

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2. Impartial implementation of policy

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3. Clarity on differences between economic and political imperatives.

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