

CHAPTER 4

GOVERNMENT POLICIES FOR BUSINESS GROWTH

MEANING OF PUBLIC POLICY

Definition of Public Policy	Policies concerned with the General Welfare & Development of Society
General Definition:- Every Nation defines its mode of governance through a number of policies. These policies are described as Public Policies. Thomas R. Dye:- "Public policy is whatever government chooses to do or not to do" Richard Rose:- "Public policy is not a decision, it is a course or pattern of activity".	- The Policies are concerned with the general welfare and development of the Society. In India, Policies have been formulated keeping in view the prime character of the Indian Constitution, socio-economic problems and the level of moral values of the society. - The government's efforts like creation of education and employment opportunities, national defence, economic progress and stabilisation, law and order issues, creation of new states, anti-pollution legislation etc. are the result of substantive policy formulation.
Corporate Policies should be aligned with Public Policies - Growth of businesses are vitally dependent on prevailing government policies. Legal processes, tax policies, trade restrictions, any country's financial reporting are characterized by government policies. - Be it startups or big companies, everyone is impacted by such policies. - In fact, all corporate houses need to align their corporate policies according to the set government policies of the host nations.	

POLICY FRAMEWORK IN INDIA - A HISTORICAL SKETCH

In India, a lot of discourses, researches and experiments on public policies used to take place in the age-old universities of Takshashila, Vaishali and Nalanda.

Policy Framed By	Public Policy About
Chanyaka guru of the emperor Chandragupta Maurya	"Arthashastra", a conceptual framework of state craft and public policy
Greek city states and Roman empire	centre of attraction
Ashoka the Great ruled Magadh	peace and harmony
Guptas	on taxes, trade and warfare

Delhi Sultanate Alauddin Khilji	a stringent tax reform
Akbar	land reforms (under the leadership of Todarmal)

POLICY IN THE CONTEMPORARY GLOBAL ECONOMIES

Policy based on nature of economy	India's economic reforms in the year 1992 (L.P.G. Policies)
Developed Economies like US, European Nations like Germany, France, Switzerland, Denmark, Sweden and Japan from Asia have clear cut policies on governance, economy, market, taxes and duties and military spending. Emerging Economies like Brazil, Russia, India, China and South Africa (commonly known as BRICS Nations) have slightly variant policies on governance, taxes, military spending, etc. Socialist and Communist States like China, North Korea, etc. set highly controlled Public Policies.	- Liberalization of economic policy refers to the gradual decrease in government command and control over the economic policies. - Privatization, in its purest form means transfer of government ownership to private hands. - Globalization refers to taking off restrictions in export and import of goods and services. It also covers the measures of lifting the trade barriers.

POLICY MODELS

Gabriel Almond's Theory	David Easton Model						
1. Idea of a political culture- how people choose to govern themselves 2. It is a set of processes that routinely converts Inputs into Outputs. 3.	1. Known as Feedback or the "Black Box Model". 2. Identifies many societal demands which are not initially included in the decisions and policies designed by the State. 3. In course of time, the Governments try to look for a feedback process towards Public Policy, known as Policy Reforms. 4. Example: Government of India brought in the GST law w.e.f. 01.07.2017. Many changes and operational amendments to the law have since been brought in, based on public demand.						
<table><tr><th>Input →</th><th>Process →</th><th>Output</th></tr><tr><td>demands or stresses placed by Society</td><td>Activities carried by a political system</td><td>Result in form of Govt. Policies, Public Policies, Programs, Decisions, etc</td></tr></table>	Input →	Process →	Output	demands or stresses placed by Society	Activities carried by a political system	Result in form of Govt. Policies, Public Policies, Programs, Decisions, etc	
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EXAMPLES OF PUBLIC POLICY

- Monetary Policy	- Fiscal Policy	- Taxation Policy
- Foreign Policy	- Import Policy	- Export Policy
- Reservation Policy	- Drug Policy	- Education Policy
Note:- Public Policies on monetary aspects, economy, market, taxes and duties, military spending, etc. are generally reflected in the Annual Budget of the Government.		

GOOD PUBLIC POLICY

Good Public Policy solves public problems effectively and efficiently, serves justice, supports democratic institutions and processes and encourages an active and empathic citizenship.

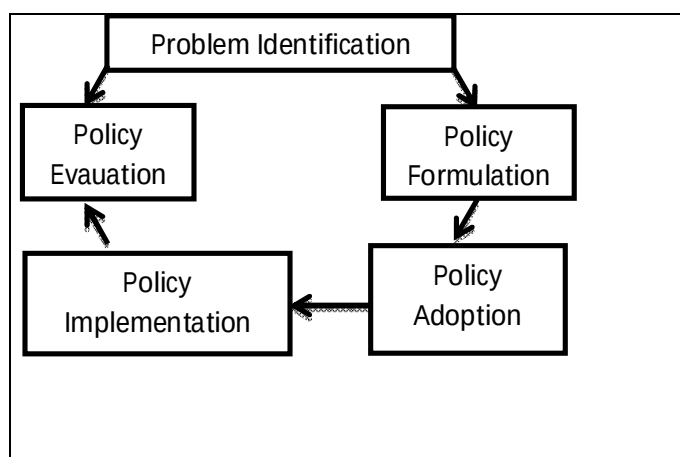
FEATURES OF PUBLIC POLICY

Goal Oriented	Policies are formulated and implemented, to attain certain objectives Example: Opening of bank accounts under Jan Dhan Yojna seeks to achieve "Financial Inclusion" Objective.
Result of Collective actions	Pattern or course of activity or the Government and its Agencies, in a collective sense than being as their discrete and segregated decisions. Example: The entire Legal System of India stands on collective actions viz, - Courts, Judges, Lawyers, police and forensic experts,
Multiple Factors	Public policies are influenced by a variety of factors including Public Opinion, social, cultural religious, political and Technological factors. This is more so in India which is a highly pluralistic society. Example: The policy of having Special Compartments for Ladies in trains arises from socio-cultural perspective.
Govt driven	That means what the Government actually decides or chooses to do for better administrative system. Example: All Citizens are provided with a Biometric Aadhaar Card. This is Government-driven.
Multiple Forms	Public Policy can take a variety of forms like Law, Ordinances, Court Decisions, Executive Orders, Decisions, Instructions, Circulars, etc. Examples: Reforms in Dowry Act, Divorce Act, Hindu Succession Law, etc. are all examples of Law and Amendments, due to socio-cultural factors.
Written Form	In India most of the Public Policies are written statements, and these are

	decided by Government and other Regulatory Bodies.
General Guidance	In almost all cases, public policy lays down general directives, rather than detailed instructions.
Positive and Negative	In a positive sense, Public Policy involves action to be taken on a particular problem. In the negative sense, Public Policy involves decisions by the Government regarding not taking any action on a particular issue.

PUBLIC POLICY MAKING PROCESS

Public Policy Process is dynamic and continuous in nature. It involves the circular flow of five inter-connected components, which is an iterative process.



LAW MAKING PROCESS

The Law making process in India involves:-

Step 1:	Pre-legislative phase which involves Problem identification (need for a new law or an amendment to an existing legislation) & Drafting of Proposed Legislation which presented to the Cabinet for approval.
Step 2:	Legislative phase which involves (after Cabinet approval) Passing of the bill (after Cabinet approval) by Firstly in Loksabha & then Rajyasabha. Speaker of the Lok Sabha or the Chairman of the Rajya Sabha can refer the Bill to the concerned Standing Committee for examination
Step 3:	Post-Legislative phase involves Copy of Bill (passed by both the Houses) is sent to Legislative Department of Ministry of Law and Justice for scrutiny then it is presented to the President for assent. President gives assent and the Bill is notified as an Act.

TYPE OF PUBLIC POLICY

There are various type of public policy

Restrictive Policies <u>curtail all benefits</u> in some particular issue. Example: Protective Custom Duties are imposed to protect Indian Products.
Regulative Policies regulate the activities of a particular sector of economy. Example- RBI, SEBI, IRDA
Facilitating Policies are those that facilitate an activity. Examples: (a) conducive policies towards the development of MSMEs (Micro- Small-Medium Enterprises), Start-ups, etc. (b) formation of the National Skills Development Corporation (NSDC).
Distributive Policies are meant for specific segments of society. Examples: Policies for people below poverty Line (BPL), Safety of Women, Adult Education Programme, Food Relief, Immunization Camps (Tikakaran camps), etc.

POST INDEPENDENCE PUBLIC POLICY IN INDIA

1. Post Independence Background	2. Models prevalent
Immediately after Independence in 1947, the Indian Economy was characterized by - (a) 47% of the population being below Poverty Line, (b) 72% of the Workforce was employed in Agriculture, but with low agriculture output, (c) Agriculture contributed to nearly 50% of the national income. (d) Low levels of Industrialisation, (e) Setback to available industries due to partition, (particularly in Cotton and Jute Sector), (f) High growth rate of Population, (g) low figure of National Income, (h) high poverty and unemployment, (i) slow economic progress, etc.	During the time of independence of India, the two major political thoughts / models were – (a) Capitalist Model of Government - characterized by a strong Private Sector, Individual Ownership, Freedom of Choice, Facilitating Role of Government to provide a smooth business and work environment - followed by the USA, and (b) Communist Model of Government - characterized by State Ownership of all Resources, strong public distribution system of food and other needs, minimal or no role of Private Sector - followed by the erstwhile Soviet Union. Note: Some Economies like Great Britain, France, Spain, Portugal, Germany, etc. followed a Capitalistic Model with the presence of several socialistic drives like Public Transport, Healthcare System.
3. Mixed Economic Policy	4. Features of Mixed Economic Policy in India

(a) The Government of India followed a mixed economic path - a mix of policies borrowed from both capitalistic and communist economic policies. (b) The major goal of the Mixed Economic Policy was socio-economic development and national integrity, which was in tune with the Constitution of India, framed and accepted in 1950.	(a) Planning Commission (Now, Niti Aayog)was established. (b) Regulatory and Promotional Policies were brought in by the 5-Year Plans. (c) Policies for Industrial and Agricultural Development were formulated. (d) Import Reduction, Export Promotion, Creation of Forex Reserves, Labour Intensive Industrialisation, Industrial Regulation and Licensing, etc. were some key aspects of this Policy. (e) Laws laid down what could be done or not done by Entrepreneurs, <i>e.g. what goods can be produced and by which sector, whether certain goods can be produced only by Government Agencies, how State Agencies themselves were to provide goods and services like electricity, transport, etc.</i> (f) Proper defence policies for maintaining National Integrity.
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ECONOMIC REFORMS

Triggers for Change in Policy	Economic Change Process
<u>(A) Internal Factors:-</u> (a) <i>High Rate</i> of direct and indirect taxation, (b) continuous losses of PSUs (c) Need for growth of the Private Sector, (d) Lower quality of Indian Products both locally and in export market, (e) Need for strengthening defence and infrastructure, (f) Huge Fiscal Deficits in the National Budgets, (g) High Inflation, and Low Reserve of Foreign Currency, (h) Adverse Balance of Payments Position, etc. <u>(B) External Factors:-</u> (a) Fall of the Soviet Union and the Communist Model of Governance,	(a) A massive change in Economic Policy was laid down in 1992. (b) Private Sector was given a priority. (c) Private Sector Banks were given licences to run Banking Operations. (d) Loss making PSUs were decided to be closed or divested (e) New Industrial Policy, 1991 opened up the Foreign Capital Inflow. The removal of restrictions on investment in projects helped many Business Sectors to expand. This change in policy also allowed increased access to foreign technology and funding on the other.

(b) Huge Debt Obligation due to borrowings from World Bank, Asian Development Bank, IMF, etc.	
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LIBERALIZATION & ITS IMPACT

Meaning of Liberalization	Impact of Liberalisation
It is the process of liberating/ simplifying the economy from unnecessary controls and restrictions on trade, industry, banking system, etc. of the country.	1. Rules of Foreign Trade become simpler which made easier for Indian Corporate Houses to do business abroad. 2. FERA was replaced with liberal FEMA Act, 1999. 3. Foreign Institutional Investors were permitted to invest in the Equity Shares quoted in the Indian Capital Markets. 4. Related Legislations were passed to ensure fair play in doing business, e.g. the Competition Act, the Information Technology Act, the Intellectual Property Act, etc.

PRIVATISATION & ITS EFFECT

In 1990s, there was a growing domestic consensus that state-owned PSUs were not generating adequate returns and were suffering from low efficiency, and the Government expected that privatization of these PSUs would lead to better outcomes.

Meaning of Privatisation	Effect of Privatisation						
It means the transfer of ownership and/ or management of an enterprise from the public sector to the private sector. It refers to the introduction of private control and ownership in public sector undertakings.	Positive and Negative Effects of Privatisation <table> <tr> <th>Positive Effects</th><th>Negative Effects</th></tr> <tr> <td>1. Expansion of market</td><td>1. Cut-throat competition</td></tr> <tr> <td>2. Growth of independent money market</td><td>2. Rise in monopoly</td></tr> </table>	Positive Effects	Negative Effects	1. Expansion of market	1. Cut-throat competition	2. Growth of independent money market	2. Rise in monopoly
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<u>Various ways of Privatisation: -</u>							

• Delegation: Government keeps hold of responsibility and private enterprise handles fully or partly the delivery of product and services. There is active involvement by Government. Such delegation may happen through contract, franchise, grants, etc. • Denationalization of a public enterprise by its complete sale to the private sector. For example, BALCO. was sold to Sterlite Industries. • Displacement: The Private Enterprise expands and gradually displaces the Government Entity. Deregulation facilitates privatisation if it enables Private Sector to challenge a Government Monopoly. Example: Government Monopoly through BSNL and MTNL has been displaced by the Private Sector Parties, National Organic Chemicals Ltd (NOCIL) has been displaced by the growth and expansion of Reliance Industries Ltd. • Divestiture, i.e., the sale of equity in full or part of a public sector undertaking to private sector.	3. Free flow of resources	3. Increase in inequalities
	4. Advancements in technology	4. Takeover of domestic firms
	5. Equilibrium in balance of payments	5. Removal of protection to domestic firms
	6. Development of infrastructure	6. Affect on national sovereignty
	7. Higher living standards	7. Adverse impact on the employee morale and generates fear of dislocation or termination
	8. International cooperation	
Note:- The effort of privatization was accepted by the Society with a lot of resistance during the inception of economic liberalization. There were no bidders for loss making PSUs while there were many takers for surplus making industries like Oil Drilling and Refinery Companies, Mineral Extracting Sectors like Steel Authority of India Limited, National Mineral Development Corporations etc.		

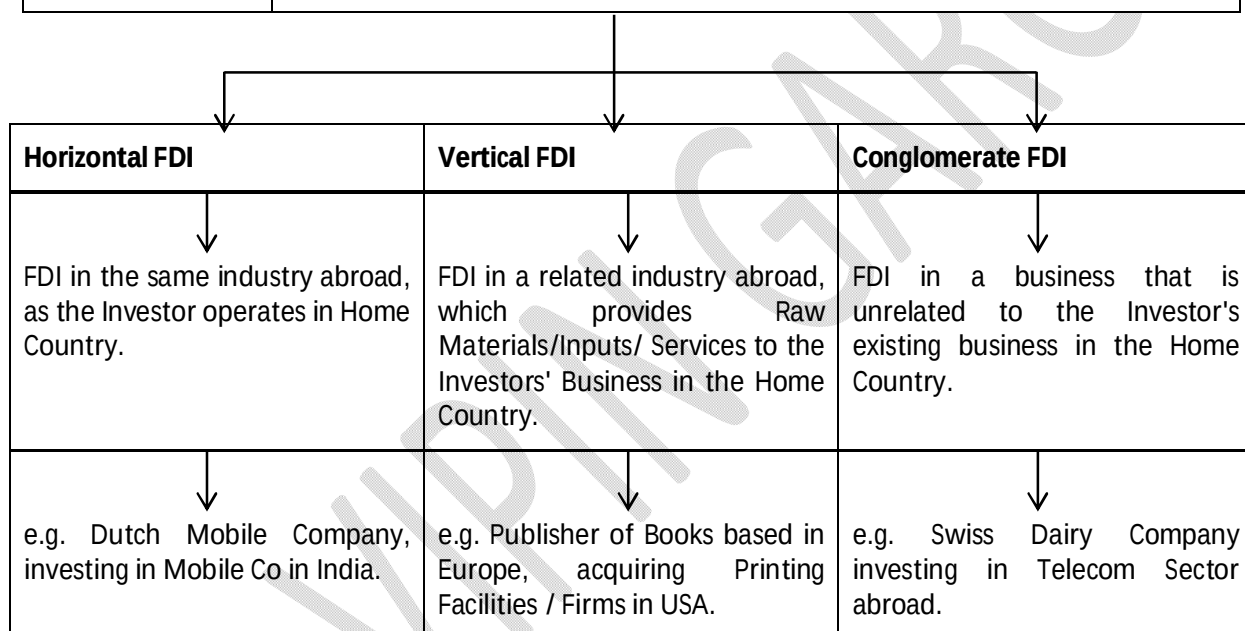
GLOBALIZATION & ITS IMPACT

Meaning of Globalization	Impact of Globalization
Globalization means reduction or removal of Government restrictions on the movement of goods and services, capital, technology and talent across national borders.	Globalization has made India a huge consumer market. There has been rapid increase in GDP and India's exports. India has emerged as one of the fastest growing economies in the world. Our foreign exchange reserves are now huge and there has been rapid increase in foreign direct investment (FDI).

FOREIGN DIRECT INVESTMENT (FDI)

1. Concept	(a) FDI is a process in which the Resident of one Country (i.e. Home Country) acquires ownership of an Asset in another Country (i.e. the Host Country). Such movement of capital involves ownership, control and management of the Asset in the Host Country. (b) Thus, FDIs are "real" investments in Factories, Assets, Land, Inventories, etc. and involve foreign ownership of production facilities.
2. Components	FDI has 3 components, - (a) Equity Capital, (b) Reinvested Earnings, and (c) Other Direct Capital in the form of intra-Company Loans between Direct Investors (Parent) and Affiliate Enterprises.
3. Who can be Foreign Direct Investors	(a) Individuals, (b) Private or Public Enterprises, incorporated or unincorporated, (c) Associated Groups of Individuals or Enterprises, (d) Governments or Government Agencies, (e) Estates, Trusts, or other organizations, or (f) Any combination of the above mentioned Entities.
4. Routes for FDI	An Indian Company can obtain FDI through - 1. Automatic Route - i.e. without any prior approval of the Government or RBI, or 2. Approval Route - i.e. with prior approval of the Government (Foreign Investment Promotion Board).
4. Aspects of FDI	• Permission for Foreign Direct Investment (FDI) is not uniform for all sectors. Some sectors are opened up for 100% and in some sectors, it is allowed only upto 26%, 49% or 51%. • Foreign Direct Investment (FDI) has always remained a bone of contention and FDI in multi-brand retail (51%-Approval Route), defense etc., are classic examples. • It's often felt that areas like Media and Defense could compromise on India's security interest and hence no FDI should be permitted. • In certain areas, the FDI limit has been capped, like the Insurance Business. • Where there is no approval through Automatic Route, the company concerned has to seek permission from Foreign Investment Promotion Board.
5. Prohibition	In India, Foreign Investment is prohibited in the following sectors - 1. Lottery Business including Government / Private Lottery, Online Lotteries, etc. 2. Gambling and Betting including Casinos, etc. 3. Chit Funds 4. Nidhi Company

	5. Trading in Transferable Development Rights (TDRs) 6. Real Estate Business or Construction of Farm Houses 7. Manufacturing of Cigars, Cheroots, Cigarillos and Cigarettes, of Tobacco or of Tobacco Substitutes 8. Activities / sectors not open to Private Sector Investment, e.g. Atomic Energy and Railway Operations (other than permitted activities). Note: Foreign Technology Collaboration in any form including licensing for franchise, trademark, brand name, management contract is also prohibited for Lottery Business and Gambling and Betting Activities.
5. Types of FDI	FDI may be categorized as under -



FOREIGN INSTITUTIONAL INVESTORS (FII)

- FIIs are large Foreign Groups with substantial investible funds.
- FIIs are registered abroad with a view to investing in other nations to invest in Equity Market, Hedge Funds, Pension Funds and Mutual Funds.
- FIIs have a strong research team which speculate to invest in a country with a possibility of strong return in Equity Market. So, these FIIs park their funds to fuel a bullish market and also engage in speculation activities.
- FIIs bring huge investments, but there is also a risk that they may leave a nation after off-loading their portfolios.
- Hence, Governments look for sustainable FDI Investment over FII Investment.