CHAPTER II

RELATIONSHIP BETWEEN GOVERNMENT AND BUSINESS

The relationship between the business and the government of a country is determined by various factors such as the character of the country's government, the character of the ruling party, the attitude of bureaucracy towards business and the kind of private entrepreneurship that is available. Industrialization of India through the efforts of Indian businessmen is only a twentieth century phenomenon. Indian business class or at least the Gujarati business class is known more for its commercial and speculative interests rather than for its propensity to take risks in new ventures of productive activities. Due to the absence of large scale industrialization of the country by private efforts, the government of newly independent India was not prepared to rely entirely on the Indian business for the expansion of industries in the country. At the same time the government itself was not in a position to abolish private enterprise altogether and nationalize the industrial sector forthwith. Instead, it chose to expand gradually the public sector and control the private sector by means of various regulations etc. For the purpose of enabling the state to exercise control over the private sector, a number of regulatory laws were passed by the government in the post-Independence era.

As a result of these various acts, the state acquired vast regulatory and distributive capacities and became virtually the overriding structure that was to control the direction of economic development in India. The
The frequent appeals and supplications made by the organized business for mutual understanding between the private sector and the government may give an impression that Indian business at present is very much in a pitiable position. But in fact it is not exactly so. Due to the economic power that it wields, the business influences, to some extent at least, the policies of the ruling party. Secondly, the interaction of big business with the ruling elite aims at influencing...
its decisions, but because of the position that the non-ruling political elite and the administrative elite enjoy in the Indian political system and the role they are capable of playing in the decision-making process, attempts are made by business to influence them as well. The relations between the bureaucracy and the business are not today as detached as they were before independence. The increased economic prosperity of the leading Indian business concerns has made them possible to employ on its rolls high salaried personnel receiving salaries higher than the government officials at the top. These highly paid employees of the private business (among whom are included ex-government officers, economists, chartered accountants, managers etc) can now approach the civil servants from the positions of equal status. The businessmen may work with legislative and executive officials for the enactment of one officially proposed policy, perhaps with some modification to suit their interests. At the state level, pressure groups often play an important role in the formulation of legislation as specially on technical and complex matters, because state legislators lack the time and staff resources needed to cope with them. Very often, the private groups may become the actual formulator of policy.²

Another major factor is that non-elected public officials such as administrators, may act as representatives. Agencies often have

² In starting new project big industrialists often dominate over government to take decision in their favour.

well-developed relationships with particular interest groups and strive to represent the latter's interests in policy formation and administration. We have the unique example of the state government's joint venture i.e. the state going into business in conjunction with private sector entrepreneurs. Following the Gujarat example other states have also launched joint ventures. But the number of such ventures and particularly the businesslike manner in which they are managed are unique to this state and indicative of the entrepreneurial culture of Gujarat. If the development agencies in Gujarat like Gujarat Industrial Development Corporation, Gujarat Industrial Investment Corporation, Industrial Extension Bureau, Gujarat Small Industries Corporation, Gujarat State Financial Corporation etc. are able to give off their best and apply the spurt to the State's industrial development effort, the positive attitude of the state administration towards industrialization and the growth of the private sector - an anathema to most politicians and bureaucrats - is to a large extent responsible. It is a matter of some significance that the chief executives of all the industrial development agencies except Industrial Extension Bureau are IAS officers of the Gujarat cadre each of whom is a member of the board of directors of all the industrial development agencies, which facilitates inter-agency cooperation.

The department of agriculture is especially responsive to the interests of commercial farmers, the office of economic opportunity has viewed itself as the representative of the poor in the national administrative system.

In Gujarat there is a healthy rapport between government and industry which is reflected in the easy accessibility that businessmen have to top level bureaucracy and politicians. In this state a politician or a bureaucrat is not condemned, or becomes a target of suspicion if he allows easy access to a businessman. This easy accessibility that businessmen have to Gandhinagar (the state capital) has one very beneficial fallout, it acts as an effective check on the lower strata of the administration and minimises the petty corruption that is to be found in government secretariats all over the country.\(^5\)

The bureaucracy's attitude towards industry is reflected in the remarks of S.C. Shelat, the IAS trained Industries Commissioner, who had put in a four year stint as the chief executive of the GIIC and three years in GIDC. According to Shelat, "the office of the Industries Commissioner has two major functions," to execute the state government's industrial policy through the development agencies, and to co-ordinate the functions of all the industrial development agencies.\(^6\) "As the Industries Commissioner," he adds, "my job is to help formulate the industrial planning policy of the Industries, Mines and Power Ministry and to ensure the execution of these policies by the industrial development agencies and the business community."

\(^5\) Of late there are growing signs to the contrary and corruption at all levels of administration is now being widely talked about.

Because of the structure the lines of communication between government and industry are short and what one might term a business culture has been imbibed by the middle and upper levels of the bureaucracy which facilitates the understanding of each other's viewpoint by government and industry."

Mr. Sivagnanam, the powerful additional Chief Secretary of the Industry, Mines and Power Department put it more pithily. "It is part of the culture of this state that business is an honourable calling and is not looked down upon by the people or the representatives of the people. Consequently those of us in government believe in fair and open dealing with the business and industry and in minimising government interference with the industrial sector. This policy has benefited both industry and government - industry has grown impressively and we have a comparatively clearer administration in this state."7

Another factor seems especially important in making bargaining the dominant mode of decision-making in this state i.e. social pluralism. This means the presence of variety of partially autonomous groups - labour union, business organizations, farm organizations, civil rights groups and so on. Although partially autonomous, they are also interdependent and "must bargain with one another for protection and advantage." Groups that are underprivileged or dissatisfied with their current relationships with other groups in the economy may seek governmental assistance to improve their situation. The dominant group, the one

7 "The Gujarat Blue Print", Ibid, p. 5
that is able to achieve its goals satisfactorily by private action, has no incentive to bring government into the fray and usually will oppose government action as unnecessary and improper.

Advisory groups are another means by which groups may find the members included in policy administration. The existence of these advisory bodies provide big business with a regularised form of access to the policy process not afforded to most other groups concerned with the environment. As a means for guaranteeing the institutional participation by non-government groups in the administrative process, advisory committees are a commonplace feature in almost all governments.

Because of the discretion often vested in agencies by legislation, once an act is adopted the group struggle shifts from the legislative to the administrative arena. Given the operating discretion of many agencies, a group that can successfully influence agency action may have a substantial effect on the course and impact of public policies. Sometimes the relationship between a group and an agency may become so close as to lead to allegation that the group has 'captured' the agency.

At the time of formulation of each plan and also at various stages in its implementation, government holds discussions with the representatives of the major business organizations as also with representatives of important private sector undertakings. The committees listen to the suggestions made by these representatives and keeps them in mind.
while taking decisions to the direction, size and place of development in different sectors.

The Planning Commission itself appoints panels, advisory committees and study groups on various subjects at the time of formulating the Five Year Plan. These advisory bodies are expected to assist the Planning Commission in formulating schemes and programmes of development for the five year period of the plan.

While fixing the targets of production for various industries, the Planning Commission consults the representative business organizations also. Rather, the initiative is taken by the business organizations themselves by submitting memoranda to the Planning Commission. The memoranda contain the views of the organized sector of the industry concerned on each such issue as targets of production, allocation of resources, licensing policy etc. While submitting their memoranda, the business groups take the opportunity of personally discussing with the members of the Planning Commission the issues raised by them in their memoranda. Either through further meetings or through correspondence with the Planning Commission as also with the concerned ministries the discussions are pursued. The Planning Commission keeps these discussions in view at the time of the finalization of the Five Year Plan.

Thus business organizations get opportunities in various ways to put forth their suggestions to the Planning Commission and concerned ministries and departments, both as regards the broad features of
the plan as well as its details. But this type of consultation is not considered as satisfactory by the organized business. There is consultation no doubt, but what the business would like to have is collaboration, a joint endeavour where the planners and the business would come together more closely in formulating the plan. No doubt the business organizations formulate their views regarding different aspects of the plan and present them in the form of memoranda, booklets, resolutions etc. The government also assures the business delegations or the annual sessions of the business organizations that the views of the business would be taken into consideration at the time of finalising the plan. But nothing is certain. With its socialist objectives the ruling party seems to feel shy in giving a responsible place to the private business in the work of formulating the plan. There is a criticism from the leftist parties also against any suspicion of close collaboration between the planners and the organized business. At the time of the formulation of the second Five Year Plan, for example, the organized business had suggested that there should be a parity between the outlays for the public sector and the private sector. When the final report of the plan was published and it was found out that the suggestion of the business has been 'conceded' by the planners, the leftists took strong objection to this 'influence' of the capitalists on the planners. Under these circumstances to keep up its socialist image the ruling Congress Party.

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8 V.D. Devakar, _inid_ pp 5, p 260.
was not likely to move much in the direction of devising methods, whereby private sector could be intimately associated in the process of plan formulation.

The biases of the political culture are reinforced by the government's highly centralised structure of decision-making. That structure is dominated by political and bureaucratic elites who define the national interest and public policy in terms of ideology and the norms of rational calculation, paternalism and institutional mission. These considerations often take precedence over what are perceived to be the intrusive and potentially dangerous pressures from organised vested interests. Groups tend to respond to these attitudes by behaving in a negative or defensive way.  

Finally, group activity is held in check by a pattern of public policy which has concentrated vast powers in the hands of government officials. The commitment to planned economic development and the creation of a socialist pattern of society has given government the power to control and regulate both the internal affairs of groups and their external conduct. Groups are, therefore, naturally hesitant to alienate those who wield such vast power. So, far from being an outcome of interest group activity, public policy in general plays an important role in group mobilization and behaviour.  


10 ibid.
The pattern has somehow changed now in Gujarat. The government itself has become partner in the affairs of big industrialists of this state. In many cases we find the joint venture of the government with the private industrialists. Sometimes the government deliberately gives big projects to big industrialists due to their strong political linkages. The smaller industrialists of Surat, Jamnagar, Baroda are getting all concessions from the government by using abrupt means. But it is generally understood by the public that the government officials themselves are also sharing such profit whether it is in the case of land allotment, distribution of infrastructure, giving licenses, giving any project or supply of raw material. So government and business are now maintaining close relationship and in many respect government of Gujarat is practically running in a more business like manner than adopting a socialistic pattern of its own. The business and government relationship has taken a new shape. In old days the big industrialists like Kasturbhai Lalbhai, Amritlal Hargovindas, Sarabhai Chhotalal Kashiparekh used to send their secretaries to meet the ministers, now the industrialists themselves go to the ministers personally to discuss the business matters. On the other hand the ministers do sometimes drop into the house of big industrialists of Gujarat.

11 It has happened in the case of Jayakrishna Harivallabhdas in taking over the GSFL project along with the government of Gujarat.

12 The personal rapport bordering on social meeting between the Chief Minister of Gujarat and the new generation and breed of industrialists in the State point to this trend. So also, the dependence of the non-Gujarati businessmen and industrialist on the government and the latter's seemingly non-traditional encouragement also opens up some ground for further probing in the field.
This development in personal contact between the government officials and the big industrialists of Gujarat has helped the latter to get easy access to the government machinery and in that context they get enough scope to influence to the law-makers to turn a policy-decision in their favour.

It has often been pointed out that the system of controls has only served the interests of big business and that the fact that the assets of big business houses have increased considerably after independence itself proves that the government only serves to protect the interests of big business. It is true that their assets have increased and also that it is the big business that has profited the most from the system of controls, but to understand the working of the system one must not overlook two other facts: (a) that the assets of all big business houses have not increased in the same proportion, and (b) only those who 'succeeded' in influencing the decision-makers have benefited from the system. The interests of the ruling elite do not lie in increasing the economic resources of the economic elite. Rather, the public accountability of the ruling elite and the low legitimacy accorded to big business in Indian society make the former reluctant to identify its interests openly with those of the latter. True, one cannot ignore the needs of the former in view of its dependence on money even for its very survival.

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which depends on elections that are increasingly becoming costlier. This dependence on money which largely comes from the economic elites leave some scope for economic elites' bargaining with the ruling elite. Yet, the upper hand in the interaction is usually that of the ruling elite which enjoys the powers not only to 'reward' but also to 'punish' the economic elites for their behaviour. It is for this reason that the latter have to use various influence tactics to promote their interests.

Thus, it is not 'power' but the capacity to 'influence' (not always does power lead to influence) that determines the form that the interaction of big business with the ruling elite takes and it is this that determines the impact that such interaction may have on policy-decisions. The capacity to influence depends more on the attitudes of the latter than on the economic power of the former. The economic power of big business may give it some capacity to influence the attitudes of the ruling elite - but this capacity is limited, for the attitudes of the latter are determined by a number of factors - many of which emanate from the political environment itself and are, given the nature of the political system, usually beyond the control of the economic elites. Big business in Gujarat is not the 'doer' but it is dependent on actual 'decision-makers'.

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14 Kailash Kanoria, a well known industrialist who was believed to be a close friend of the Chief Minister Madhavsinh Solanki had to resign as Chairman of the Gujarat Textile Corporation when he protested against the central government's decision to nationalise 13 textile mills in Bombay. The Gujarat government unilaterally accepted his resignation.

*Times of India, Ahmedabad Edition, Oct 26, 1983*

15 Dally Arora, *ibid.* pp 27.
for getting things done. Despite the large amount of pressure that business is in a position to put on the decision-makers, it has failed to ensure the correlation of decisions with pressures. The role assigned to the communication function of interests in influencing the decision-makers seems a little exaggerated, if tested on the business interaction with the ruling elite and its impact on the policy outcomes of the system in India as a whole. Not that the communication have no role at all. As a matter of fact, communication of information has at times had a tremendous impact on the decision makers' choice of policies and the enactment of 'undesirable' policies has been prevented by the timely communication of such information. Yet it cannot be overlooked that the choice of policies was still the decision-maker's choice.

Thus it is not that there are no pressures flowing from different interests in, or that the government does not respond to any pressures. The fact remains, however, that it is not these inputs provided by various interests in the form of demands that determine the policy outputs of the system. Explicit communication of demands and pressurisation thereof does have some influence on the attitudes of the ruling elite; yet there is no cause and effect relationship between demands and the policy outcomes because the latter are not always the result of conversion of demands.