

# Government-business Relations: Summary of Theories and Construction of Prototype

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**Abstract-**This article reviews the existing research on the government-business relations (GBR), and summarizes the related works in the fields of economics, management, politics, sociology, etc. It then classifies the current contribution on GBR into three categories: pattern, nature and general relations. Finally, a model of GBR is proposed to vividly clarify its fundamental theories, meaning and intrinsic structure.

**Keywords-**Government-Business Relations; Theory Summary; Model Construction

## I. INTRODUCTION

Government-business relations (GBR) are studied in various fields, such as sociology, politics and economical sciences. Public management practice has demonstrated that national GBR can significantly influence the growth and trend of its national economy in different periods. Nowadays, in the context of globalization, each country is confronted with the challenges triggered by political transformation, economic development, social inequality and environmental deterioration. Accordingly, these countries will all have to adjust their GBR correspondently so as to adapt to the increasingly global and fierce competitive economy.

As the studying on GBR has been a constant academic interest, scholars of economics, management, politics or sociology have all studied and elaborated such relations from different perspectives. This article examines and summarizes the related research, and then groups such research into three types: pattern, nature and general relationship. A model of GBR is then proposed to vividly represent the fundamental meaning, level and structure of GBR.

## II. PATTERN OF GOVERNMENT-BUSINESS RELATIONS

Generally speaking, the pattern of GBR is determined by the nation's tradition (political and economic systems) and resource endowment. Every country has its unique GBR, and thus the research on the GBR pattern aims to summarize the experiences gained in the practice, and to provide guidance to the practice. These research works fall into the two following approaches.

The first one studies the patterns of GBR virtually coincided with the nation, which was represented by Masahi ko Aoki. Aoki adopts a comparative institutional approach, where he groups the government into four types

from two dimensions. The first dimension of his pattern is based on functional division of legislation, administration, and jurisdiction, and the second is based on the power division of decision-making and execution. Aoki's study focuses on three patterns, i.e., authoritative, interdependent relationship and regular interdependent relations, where these patterns are respectively modeled on several south Asian countries, Japan and America. [1]

From the perspective of economy, an American scholar, John Zysman, divides the industrial changes into three patterns: state-leading, business-leading, and third parties-negotiating. [2] Chinese scholars, Wei Jie and Zhao Junchao, from them, classify the world GBRs prior 1990s into three categories: traffic police-drivers (examples: Europe and America); brotherhood (example: East Asia); and father-son (example: Soviet Union). [3]

The second approach studies the patterns of GBR that are independent with the nations. Richard Rainwater, a politics professor of Rutgers from State University of New Jersey, compares the related systems and practice in America, England, Germany, Japan and EU. He then integrates other scholars' works, assorting the patterns of GBR into three types: corporate domination, pluralism, market capitalism and stakeholders. [4] Since each pattern is not correspondent with real country, it cannot be treated as a single choice when designing political and economical systems. Yet it is helpful in studying the meaning of interactive government and business relationship.

The above mentioned studies are in accordance with each nation's political and economic systems. They focus on a particular economic period, showing the government-business game patterns coinciding or not with real nations. These works have laid the foundation for the further research on GBR, while being a bit insufficient in examining the nature of GBR. Type 1 or Open Type fonts are preferred. Please embed symbol fonts, as well, for math, etc.

## III. NATURE OF GOVERNMENT-BUSINESS RELATIONS

To understand the nature of GBR is the premise for studying such relations. The primary functions of government and business relations necessarily lead to their association and interaction in certain fields, from which determines the nature of their relationship. Furthermore, in social development and economic operation, the association between government and business is

dominated by the former, which is the principle one. According to Chen Zhenming's classification of government functions by spheres, [5] this article argues that government's fundamental functions in politics, economy and society correspondingly determine that the nature of GBR, which includes political, economic and social relationships.

#### A. *Nature of Political Relation*

Despite the difference in governance structure, every government possesses at least one of the following political functions associated with business: construct and defense, national political, economic, legal and cultural environment; and connected with the making and maintaining of national political, economic, legal and cultural policy. As government and business represents two different political bodies, whose relations are described by Shi Xuehua as social political power and political obligations whose essence is interest relationship, this relationship is shaped in political engagement by centering on national power or public power system. [6] On the one hand, the nature of GBR is embodied as government dominated political system and property rights system to protect state interest. On the other hand, it is embodied into business's political activities, which directly or indirectly exert influence on a government to safeguard and seek its own interest.

#### B. *Nature of Economic Relation*

The nature of economic relation between government and business is determined by a government's economic function and its business function. In the market economy, the government mainly functions as a body to enhance efficiency, increase equality, and stimulate the stability and growth of macro economy, whereas business plays the role of production and transaction. In other words, government motivates competition through the following actions of promoting the perfection of market; of keeping a rein on business externality through control; of improving fairness through redistribution realized by taxation and expenditure; of ensuring macro-economic stability and growth through making and adjusting fiscal and monetary policy, which affects the business development directly or indirectly. These behaviors are described as inactive hand, supportive hand or robbery hand and helmsman, while business creates social wealth through its own production and transaction to strengthen the national power, whose behavior is compared to that of an oarsman.

#### C. *Nature of Social Relation*

Chinese government assigns its functions as economy regulation, market supervision, societal administration and public service. The latter two functions are social roles played by government. The social relationship between government and business includes: government fulfils social function, provides service to business and regulates business as well; while enjoying the service offered by government, business also must obey regulations and assume social responsibilities and obligations. For instance, a government will promote the improvement of education, science and technology, culture, and medical care. Business, for its part, can reap these benefits for an effective and sustainable development. Meanwhile, business is obliged to shoulder the social responsibilities,

to provide tax payment, legal employment, fair wage, and to restrain its own externality.

### IV. RESEARCH ON THE GENERAL RELATIONS BETWEEN GOVERNMENT AND BUSINESS

The above mentioned research on the nature of GBR is far from the reality and is separated from the social and natural endowment. In reality, the specific relations between government and business reveals different characteristics due to the influence of national and local politics, economy, society, natural environment and globalization. Based on works of Zhao Dongrong, [7]etc., this article further refines the general GBR. Besides, it argues that, the general relations between government and business lies in market association, institutional restriction, policy control, public goods provision, information delivery, political interaction, etc. These aspects match with the nature of economy, politics and society in various ways. Once a problem emerges in the relationship or in an illogical situation, business would encounter particular difficulties in creation, sustainable operation, financing, rights-safeguarding, expansion, and so on.

#### A. *Market Connection between Government and Business*

Economists believe that market is the center of economy. Primarily in market, government is connected with companies. Such connection is a determinant in general relationship between government and business.

With the development of economic theories, the research on how government influences business through market has undergone different stages. The classics emphasizes that government is an invisible hand, which depends on the market to allocate resources and to provide sufficient competition for business. Keynesianism underlines that government intervenes in the economy and regulates business behavior through taxation, expenditure and monetary management. The new classics lay emphasis on the return of market. In 1990s, the revival of new Keynesianism once again underlies the necessity of government intervention in the economy. The above mentioned theories shed light on the dynamic balance between the roles played by government and the roles played by market under the condition of politics and economy. Such balance reflects the evolvement of the market connections between government and business.

#### B. *Institutional Restriction between Government and Business*

Institutional restriction between government and business means that, government keeps a fundamental rein on and influences business behavior through property-rights system, and business restrains government through constitution, laws and political rights to protect its own interests.

Defined by North, an institution is the rules of social game, including formal institutional restraints (such as rules enacted) and informal institutional restraints (such as convention). [8] In the neo-institutional economics, the transaction cost is the core concept. The transaction object is normally the property rights. The system of property rights is the definition, protection and implementation of property rights by government. In this sense, the

transaction of micro level property rights relies on the institutional arrangement and guarantee at the macro level. [9] Therefore, the property rights system is the most essential institutional restraint between government and business, determining the functional transformation of government and business.

### C. Indirect Control of Government on Business

Policy regulation and control is a government's specific behavior of managing economy within its institutional framework. It is also an important aspect of the interactive relation between government and business. Generally, policy regulation involves government's specific application of taxation, monetary, trade, industry and income distribution policies. And its control consists of social and economic control. The former is the standards set for products and service quality; and the rules set for prohibiting and restricting specialty. The latter means that, government uses legal, administrative permission and authorization to control the business entry into and withdrawal from the market, the pricing and quality requirements of products or service, business investment, and so on.

### D. Government's Responsibility of Public Goods Provision

Taxation, one of the policy control methods, is an important financing channel for government to guarantee its public goods supply. The provision behavior after financing closely links government with business.

The demand and supply of public goods and service is realized through political institution. [10] The reason of collecting business surplus by government is to offer valuable service. The amount of taxation and fees are dependent upon the varieties and quantities of service offered. However, rather than a single supplier, public goods supply has three mechanisms, including government, market and voluntary supply. [11] The interactive relations associated with demand, supply, financing and regulation of public products thus shape the pivotal relation between government and business.

### E. Information Delivery between Government and Business

Government information is a public product and possesses the feature of sharing. Though business information does not possess such feature, it can be available to government for fulfilling its functions within the permission of laws. Government and business make decisions in accordance with the information delivered and feedback. There are transaction costs in information delivery, including cost of measuring the value of the delivered goods, cost of protecting rights, and cost of supervising and reaching agreement. [12] The high costs of transaction have far-reaching influence on the efficiency of information delivery, as well as on business performance and GBR.

### F. Political Interaction between Government and Business

Due to government's huge influence on business decisions, business has a keen interest in taking part in the political activities. This leads to a real-life political

interaction between government and business. According to Wang Liang, etc., the attempt of business to directly influence government policy or control is one of the examples, aiming at generating public policy that is favorable to the sustainable business survival and market success. [13] Li Fenghua, for him, conducts extensive study on domestic literatures about private business and government relations, and concludes that, the political influence business has on government mainly falls into two types: direct and indirect, which includes formal political participation and informal political interaction. [14]

## V. MODEL OF GOVERNMENT- BUSINESS RELATIONS

Based on the summary and review of the nature, general relations and pattern between government and business, this article builds a GBR model to vividly describe the meaning and structure of GBR.

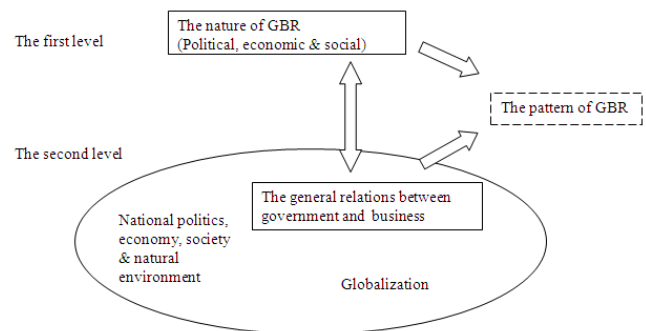


Figure 1. Model of Government- Business Relations

Instruction: The meaning of GBR consists of two levels: the first shows the nature of GBR, including economic, political and societal nature; the second level reveals the general relations between government and business under certain conditions. It is an array of connections in market linkage, institutional restriction, information delivery, policy regulation, public goods provision and political interaction between government and business. The outer oval indicates the specific environment that affects general relations between government and business, including national politics, economy, society, natural environment and globalization.

This model involves the nature of GBR and is a refinement and summary of GBR under particular historical period and environment.

## VI. CONCLUSION

A nation's GBR determines the model and efficiency of its national economic development. Affected by economic globalization, system reform, financial crisis, many countries have been reviewing and adjusting their GBR. Based on the literature review and theory summary, this article clarifies the pattern, nature and general relations of government and business relations. By constructing a GBR model, the relations among nature, general relations and pattern are outlined. This model can shed light on the focus of future research. For example, empirical study, case study, social investigation, etc. all can be applied to studying and diagnosing which practical problem may exist in the GBR. Then the causes can be analyzed and corresponding suggestions can be proposed. It is also

significantly important in guiding political and economic system reform and microeconomic decision-making.

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