Economic laws : Theory and Practice in India

Introduction

Alfred Marshall has defined Economic laws thus: “Economic law or the statements of economic tendencies are the statements which relate to the branches of conduct in which the strength of the motives chiefly concerned can be measured in money price.” It can be inferred from this definition that economic laws are (a) statements of economic tendencies, (b) social laws, (c) concerned with human behaviour, and (d) human behaviour can be measured in money. Thus, economic laws are statements of general tendencies or uniformities in the relationships between two or more economic phenomena.

On comparison of economics with government laws, it can be found out that the former doesn’t have any penalty for its breach but the breach of government laws leads to payment of penalties to compensate the government for not breaking the law again.

Again, comparing economic laws with the law of morality, it can be stated that economic laws are not exact and definite. Laws of morality teach us about the quality of the man’s behaviour. These laws advocate what the man’s behaviour ought to be. Telling a lie is morally bad, but many businessmen tell lies and make business. So, economic laws are not same as laws of morality are.

According to Robbins, “Economic laws are statements of uniformities about human behaviour concerning the disposal of scarce means with alternative uses for the achievement of ends that are unlimited.”

“Economic analysis of the law,” is the application of economic principles to analyse the effects of various laws on the individual and society at large. In other words, economic concepts (like scarcity of resources, supply, demand, market efficiency, and bargaining power) are used to explain the purpose and effects of various laws, to assess which legal rules are economically efficient, and to predict which legal concepts will be effective and which will not.

In India the concept of economic laws can be seen in the following Indian statutes, namely:

- The Indian Contract Act (1872): Established the framework within which contracts can be executed and enforced.


- Workmen’s Compensation Act (1923): Set the compensation to be paid by employers to injured workers.
Nature of economic laws:

In the words of Marshall:

“Economic laws are those social laws which relate to branches of conduct, which the strength of motive chiefly concerned can be measured by money prices”.

I. Laws of economics are less exact. The nature of economic laws is that they are less exact as compared to the laws of natural sciences like Physics, Chemistry, Astronomy, etc.

The reasons as to why economic laws are not as exact as that of natural sciences are as follows:

First, Natural sciences deal its matter which lifeless. While economics, we are concerned with man who is endowed with a freedom of or he may act in whatever manner he likes. Nobody can predict with certainty his future actions. This element of uncertainty in human behaviour results in making the laws of economics less exact than the laws of natural sciences.1

Secondly, in economics it is very difficult to collect factual data on which economic laws are to be based. Even if the data is collected it may change at any moment due to sudden changes in the tastes of the people or their attitudes.

Thirdly, there are many unknown factors which affect the expected course of action and thus can easily falsify the economic predictions. Dr. Marshall writes that laws of economics are to be compared with the laws of tides rather than with the simple and the exact law of gravitation.

The reason for comparing the laws of economics with the laws of tides by Marshall is that the laws of tides are also not exact. The rise of tides cannot be accurately predicted. It can only be said that the tide is expected to rise at a certain time. It may or may not rise. Strong wind may change its direction to opposite side. They instead of rising may fall. So is the case with the laws of economics.2

II. Economic laws are essentially hypothetical. Economic laws, writes Seligman, are essentially hypothetical. They are true under certain given conditions. If these conditions are fulfilled, the conclusions drawn from them will be true and exact as those of the laws of physical sciences.3

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1 An economist cannot predict with surety as to what will happen in future in the economic domain. He can only say as to what is likely to happen in the near future.
2 http://www.economicsconcepts.com/nature_of_economic_laws.htm
3 From this statement that laws of economics are hypothetical, we should not conclude that, they are useless or unreal.
The hypothetical element is also there in the laws of physical sciences. Take for instance, the law of gravitation. It states that bodies tend to fall to the ground but the bodies may not fall immediately. Their fall may be retarded by atmospheric pressure. So is the case with the laws of Economics. Take for instance, the law of diminishing marginal utility. It states, other things being equal, the additional benefit which a person derives from a given increase of his stock of a thing diminishes with every increase in the stock that he already has, but this may not happen.⁴

III. Economic laws qualitative or quantitative. Laws of economics are qualitative in nature. They are not exactly stated in quantitative terms. They tell the direction of change which is expected rather than the amount of change. For example, according to the law of demand, the quantity demanded varies inversely with price. We do not say that 10% rise in price will lead to 30% fall in the quantity demanded.

IV. Applies on the average in normal conditions. Economic laws do not deal with any particular individual, firm, commodity etc. It takes an average economic unit and lays down its economic behaviour.

V. Laws of economics are more exact than the laws of other social sciences. We do admit that the laws of economics are not 100% exact. They are, however, more exact than the laws of any other social science.

International economic law

International economic law exists since countries/states trade goods. International law depends on the emergence of modern state. Rules concerning the behaviour of legal persons participating in cross border trade (including capital and services) , Conventions, common law, principles of law, international law resolutions, supranational law and national foreign trade legislation and „Legislative bodies“ on national, regional and international basis are covered under international economic laws.

A growing body of international law addresses the large number of economic issues with global impact. This includes significant legal and institutional developments in the areas of trade, foreign direct investment, sanctions, economic integration and development, business regulation and taxation, intellectual property, and issues related to the transnational movement and regulation of goods, services, labour, and capital.⁵

International economic law is based on the traditional principles of international law such as⁶:

- pacta sunt servanda
- freedom
- sovereign equality
- reciprocity
- Economic sovereignty.

It is also based on modern and evolving principles such as⁷:

- the duty to co-operate
- permanent sovereignty over natural resources
- preferential treatment for developing countries in general and the least-developed countries in particular.

A related purported distinction between international business law and international economic law is the distinction between transactions and trade. Thus, the business person may use international law as a basis to attack adverse domestic law. International law may or may not be directly applicable to require the non-application of inconsistent domestic law. Even if it is not applicable by courts, it may form the basis for a favourable interpretation of domestic law, or for a political attack on an adverse domestic law.

Although it seems likely possible to separate the contract, commercial law, conflict of laws, and other private dispute resolution issues, which share some common themes, from trade law issues, which relate more to competition, especially competition among states,

⁵ https://www.asil.org/international-economic-law
⁶ International economic law , Section A: Evolution and principles of international economic law , Revised version – December 2006 / S.P. Subedi
⁷ ibid
as opposed to private persons but from a practical and theoretical standpoint, however, it must be recognized that transactions and trade are inseparable.\textsuperscript{8}

Finally, the distinction between business and economics, between international business law and international economic law, may be viewed as a distinction between private and public.

International economic law is most visible in the European Union and in the GATT/WTO systems, although it is growing in other regional organizations and in multilateral or plurilateral organizations with sectoral responsibilities.

International economic law has no standard definition. But two scholars, John Jackson and Ernst-Ulrich Petermann provides the following definitions:\textsuperscript{9}

John Jackson:

“This phrase can cover a very broad inventory of subjects: embracing the law of economic transactions; government regulation of economic matters; and related legal relations including litigations and international institutions for economic relations.”

Ernst-Ulrich Petermann:

“International economic laws presents itself as a conglomerate of private law, state law and public international law with a bewildering array of multilateral and bilateral treaties, executive agreements, ‘secondary law’ enacted by international organisations, ‘gentlemen’s agreements’, central bank arrangements, declarations of principles, resolutions, recommendations, customary law, general principles of law, de facto orders, parliamentary acts, government decrees, judicial decisions, private contracts or commercial usages.”

\textsuperscript{8} Ronald A. Brand, Recognition of Foreign Judgments as a Trade Law Issue: The Economics of Private International Law, in ECONOMIC ANALYSIS OF INTERNATIONAL LAW (Jagdeep Bhandari & Alan Sykes eds., forthcoming 1996).

\textsuperscript{9} Journal of international law vol. 1 by Joel P Trachtman, 1996,University of Pennsylvania, Page 18
Types of economic laws in India

To do business in India, it is very necessary to be aware about the 20 essential economic laws of our country. They are listed below:

- **The Indian Contract Act (1872):** Established the framework within which contracts can be executed and enforced.
- **Negotiable Instruments Act (1881):** Set rules for promissory notes, bills of exchange, and checks.
- **Workmen’s Compensation Act (1923):** Set the compensation to be paid by employers to injured workers.
- **Sale of Goods Act (1930):** A mercantile law that complemented the Contract Act (see above).
- **Payment of Wages Act (1936):** Established a minimum monthly salary for industrial and factory workers.
- **Industrial Disputes Act (1947):** Provided for the investigation and settlement of industrial disputes.
- **Minimum Wages Act (1948):** Fixed minimum pay rates for certain jobs.
- **Factories Act (1948):** Regulated labor in factories.
- **Employees Provident Fund and Miscellaneous Provisions Act (1952):** Established provident funds, family pensions, and other monetary benefits for factory employees.
- **Maternity Benefits Act (1961):** Regulated post-childbirth time off for female employees.
- **Payment of Bonus Act (1965):** Regulated bonus payments to be made to certain categories of employees on the basis of production, profit, or productivity.
- **Monopolies and Restrictive Trade Practices Act (1969):** Established rules to prevent unfair concentrations of economic power.
- **Indian Patents Act (1970):** Set rules for patent protection in India.
- **Payment of Gratuity Act (1972):** Provided for payment of gratuities to Indian employees in certain industries.
- **Copyright Act (1975):** Helped establish copyright protection in India.
- **Arbitration and Conciliation Act (1996):** Set up to govern arbitration issues.
- **Geographical Indications of Goods Act (1999):** Provided legal protection for goods originated in a particular area or region within India (examples include Darjeeling tea and Basmati rice).
- **Trademarks Act (1999):** Helped establish trademark protection in India.
- **Designs Act (2000):** Helped establish protection of designs.
- **Competition Act (2002):** Provided for the establishment of a commission that promotes competition, protects consumers, and ensures freedom of trade.

All the above laws are very important for smooth functioning of our economic legal system on a wider level and for proper running of business on a lower level.
Practice of economic laws in India

I. The Indian Contract Act (1872):

The Indian contract Act, 1872 and is applicable to the whole of India except the state of Jammu and Kashmir and came into force from 1st September 1872.\(^\text{10}\)

Section 1 to section 75 of Indian Contract Act deals with the general principles. The basic or the foundation on which the Indian Contract Act is given below:

- **Offer and acceptance**
- **Consideration**
- **Capacity to contract**
- **Free consent**
- **Legality of the object**

There are different kinds of contracts which include valid contracts, void contracts, voidable contracts, unenforceable contracts and illegal contracts.

‘Contract’ is a word which is derived from a latin word “contractum” which means “drawn together”. It is an agreement between two or more persons or parties subject to certain terms and conditions for lawful consideration.

Example: ‘A’ and ‘B’ are into agreement where, A promised B to sell his house for Rs. 10,000/- and B accepts to purchase it for the said amount and thus it is a contract. (The agreement which is made, must be enforceable by law)\(^\text{11}\)

For forming a contract there must be:

- An agreement the agreement should be enforceable by law for an agreement:
  - Agreement= offer + acceptance
  - Contract= agreement + enforceability

Section 2(e) of Indian contract Act 1872, defines agreement as “every promise or every set of promises forming the consideration for each other, is an agreement’ and to constitute an agreement three points are to be remembered:\(^\text{12}\)

- **There must be at least two parties.**
- **There must be a proposal or offer from one person or one party.**
- **There must be an acceptance from the other person or party.**

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\(^\text{10}\) Indian contract act, 1872, bare act

\(^\text{11}\) [http://lawmantra.co.in/a-brief-introduction-to-the-indian-contract-act-1872/](http://lawmantra.co.in/a-brief-introduction-to-the-indian-contract-act-1872/)

\(^\text{12}\) Supra from 10
Example: ‘A’ offered to sell ‘B’ his house for a particular amount of money and B accepted for the same (to purchase the house for the same amount of money). Here ‘A’ is the offeror while ‘B’ is acceptor. So here there is a proposal or offer and when it is accepted then it becomes a promise.\(^\text{13}\)

They are various forms of contracts such as contract of indemnity, contract of guarantee, agency etc. The contract act illustrates elements that need to be fulfilled for a valid contract along with exception and afterwards it deals with the sections that illustrates the remedies for both parties in case the contract has been breached or has been considered to be void in case of any of the elements not being fulfilled. It is very important for a normal day to day trading and regular dealing to have a valid and effective contract and it need to be made affective under the Contract act.\(^\text{14}\)

\[\text{II. The Companies Act (2013):}\]

It extends to the whole of India and consists of 29 chapters, 470 clauses with 7 schedules.

The important highlights of this act as compared to the old companies’ act 1956 are as follows:

- **One Person Company (OPC)** - It’s a Private Company having only one Member and at least One Director. No compulsion to hold AGM. Conversion of existing private Companies with paid-up capital up to Rs 50 Lacs and turnover up to Rs 2 Crores into OPC is permitted.

- **Woman Director** - Every Listed Company /Public Company with paid up capital of Rs 100 Crores or more / Public Company with turnover of Rs 300 Crores or more shall have at least one Woman Director.

- **Resident Director** - Every Company must have a director who stayed in India for a total period of 182 days or more in previous calendar year.

- **Accounting Year** - Every company shall follow uniform accounting year i.e. 1st April -31st March.

\(^{13}\) [http://lawmantra.co.in/a-brief-introduction-to-the-indian-contract-act-1872/]

\(^{14}\) [http://www.netlawman.co.in/ia/indian-contract-act]
Loans to director – The Company CANNOT advance any kind of loan / guarantee / security to any director, Director of holding company, his partner, his relative, Firm in which he or his relative is partner, private limited in which he is director or member or any bodies corporate whose 25% or more of total voting power or board of Directors is controlled by him.

Articles of Association- In the next General Meeting, it is desirable to adopt Table F as standard set of Articles of Association of the Company with relevant changes to suite the requirements of the company. Further, every copy of Memorandum and Articles issued to members should contain a copy of all resolutions / agreements that are required to be filed with the Registrar.

Disqualification of director- All existing directors must have Directors Identification Number (DIN) allotted by central government. Directors who already have DIN need not take any action. Directors not having DIN should initiate the process of getting DIN allotted to him and inform companies. The Company, in turn, has to inform registrar.

Financial year- Under the new Act, all companies have to follow a uniform Financial Year i.e. from 1st April to 31st March. Those companies which follow a different financial year have to align their accounting year to 1st April to 31st March within 2 years. It is desirable to do the same as early as possible since most the compliances are on financial year basis under the new Companies Act.

Appointment of Statutory Auditors- Every Listed Company can appoint an individual auditor for 5 years and a firm of auditors for 10 years. This period of 5 / 10 years commences from the date of their appointment. Therefore, those companies have reappointed their statutory auditors for more than 5 / 10 years, have to appoint another auditor in Annual General Meeting for year 2014.

III. Industrial Disputes Act (1947):

The objective of the Industrial Disputes Act 1947 is to secure industrial peace and harmony by providing machinery and procedure for the investigation and settlement of industrial disputes by negotiations. This act deals with the retrenchment process of the
employees, procedure for layoff, procedure and rules for strikes and lockouts of the company.

- **What is an industrial dispute** - According to **Section 2A**: Where any employer discharges, dismisses, retrenches or otherwise terminates the services of an individual workman, any dispute or difference between that workman and his employer connected with, or arising out of, such discharge, dismissal, retrenchment or termination shall be deemed to be an industrial dispute notwithstanding that no other workman nor any union of workmen is a party to the dispute.\(^\text{16}\)

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\(\text{16}\) Industrial Disputes have adverse effects on industrial production, efficiency, costs, quality, human satisfaction, discipline, technological and economic progress and finally on the welfare of the society. A discontent labour force, nursing in its heart mute grievances and resentments, cannot be efficient and will not possess a high degree of industrial morale. Hence, the Industrial Dispute Act of 1947, was passed as a preventive and curative measure.
IV. **The Arbitration And Conciliation Act (1996):**

*Purpose of the Act*

Conciliation is for dispute settlements. Conciliation is defined as the process of amicable settlement of disputes by the parties with the assistance of a conciliator. It differs from arbitration in the sense that in arbitration the award is the decision of the third party or the arbitral tribunal, while in the case of conciliation the decision is of the parties which is arrived at with the mediation of the conciliator.

*Benefits of the act for the society*

The major provisions relating to Conciliation in the Act are. A party initiating the conciliation shall send a written notice to the other party, briefly identifying the subject of the dispute and inviting it for conciliation. The conciliation proceedings shall commence on acceptance of invitation by the other party. If the party initiating conciliation does not receive a reply within 30 days from the date the invitation was sent or within the specified period, it may opt to treat this as a rejection and inform the same to the other party.

If it rejects the invitation, there can be no conciliation proceeding. Unless otherwise agreed there shall be one conciliator. The parties may however, agree that there shall be two or three conciliators, who shall act jointly. The sole conciliator shall be appointed by mutual consent of the parties. In case of two conciliators, each party may appoint one conciliator. In case of three conciliators, each party may appoint one conciliator and the third conciliator may be appointed by mutual agreement of the parties who shall act as the presiding conciliator. However, the parties may agree that a conciliator shall be appointed or recommended by an institution or a person.

*Procedure for filling a case*

Each party shall submit to the conciliator a brief written statement describing the general nature of the dispute and the points at issue. A copy of the same shall be sent to the other party. The conciliator may require of each party to send a detailed statement supported by documents and other evidence, a copy whereof shall be sent to the other party also. 17

The parties involved shall co-operate with the conciliator in good faith, comply with requests for submitting written materials, providing evidence and attending meetings. A party may submit to the conciliator suggestions for the settlement of the dispute.

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17 Any factual information concerning the dispute received by the conciliator from a party, shall be disclosed to the other party to allow it an opportunity to present any explanation, except however, when a party gives any information subject to a condition that should be kept confidential.
The Act explains about the functions of conciliator in details as to how it deals with problems and how the proceeding shall be continued.

**Ingredients of the Act**
The Act also explains about the conciliation proceedings shall be terminated when, a settlement agreement is signed by the parties. It explains that a written declaration is made by the conciliators after consultation with the parties, that further efforts at conciliation are no longer justified. A written declaration is made by the parties to the conciliator, that the conciliation proceedings are terminated. A written declaration is sent by a party to the other party and the conciliator, that the conciliation proceedings are terminated.

A commercial dispute covered by an arbitration agreement to which either of the Convention apply, arises before a judicial authority in India, it shall at the request of the party be referred to arbitration. The party applying for the enforcement of a foreign award shall produce the original award or a duly authenticated copy thereof, the original arbitration agreement or a certified copy thereof, and evidence to prove that the award is a foreign award and If the court is satisfied that the foreign award is enforceable, the award shall be deemed to be a decree of the court.

The arbitration act is about counselling the disputed parties and to reach a conclusion where all settlements can be made. The Act is a good for parties who wish to avoid delayed and intense court work and want dispute to be settled in a quickly and in a proper manner.

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18. A written declaration is made by the conciliator, after the deposits required in relation to costs of the proceedings are not received from the parties, that the proceedings are terminated.

19. An appeal shall lie against the order of the court refusing to refer the parties to arbitration or refusing to enforce a foreign award.
Conclusion:

Each state’s domestic legal system and regulatory structure has an intended or unintended effect on each other state, either in terms of externalities or in terms of competition. Every field of business regulation is a trade issue, and trade is dependent on every other area of business regulation. This fact is analogous to the fact in domestic society that every field of business regulation affects the market and the market is dependent on every area of public policy. In domestic society, we have legislative, judicial, and executive institutions to make decisions regarding how much regulation we want, and how much market allocation we want. In international society, these institutions are in a formative stage.

Economic laws in India are very intensive as well as extensive in nature. The wide array of acts pertaining to different spheres provides for smooth coordination between economics and law. As seen in this paper it becomes very apparent for us that both the interrelation and combination of economics with law creates economic laws, hence the broader platform has lot of roles to fulfil. Although we can say that these economic laws are an integral part of our legal system as well as economic system, still we can decipher that there exists certain lacunas in it. But, it is something which we shouldn’t worry about as the legal as well as economic cycle is just like a vicious cycle and all these loopholes will be recovered with various amendments in the future.

However, there is much important work to be done in both external and internal approaches if international economic law is to fulfil its role within the larger quest for global justice.
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