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Capitalism, Socialism and Mixed Economy

1. CAPITALISM OR MARKET ECONOMY

A free market economy or capitalism is one in which all the main economic decisions are taken by the people keeping in view their own self interest without any state interference or control. In such an economy price system is the main working mechanism of economic activity. Such an economy is characterised by economic freedom so that people can be producers, sellers, purchasers, employees, organisers or employers according to their own wishes.

Definition

Professor R.T. Bye defined capitalism as "that system of economic organization in which free enterprise, competition and private ownership of property generally prevail." Thus, this definition hints at the major features of capitalism. Similarly, Ferguson and Kreps write : "In its own pure form, free enterprise capitalism is a system in which property is privately owned and economic decisions are privately made."

In McConnell's view, "A free market or capitalist economy may be characterised as an automatic self-regulating system motivated by the self interest of individuals and regulated by competition." A capitalist economy works through the price system.

Functions of the Price System (the invisible hand)

Prices perform two functions : (i) a rationing function and an incentive function. Prices ration out the available goods and services among buyers according to the amounts each buyer wants and is able to pay for. Others whose desire is less urgent or whose income is smaller will receive smaller quantities.

Prices also provide an incentive for firms to produce more. Where demand is high, prices will rise encouraging firms already in the industry to produce more and drawing new firms into

the industry. Where demand is falling, prices will normally fall too. Firms will reduce their production, releasing resources for use in other industries where there is demand for them.

Firms are buyers as well as sellers. They buy materials and supplies from other firms, behaving exactly as private individuals do in deciding what to buy and how much. If a new machine promises to reduce production costs, or if a certain material can be substituted for another at a saving, the firm will buy the low-cost resources in order to compete with other firms. The economy is tied together by millions of those interactions linking producers with one another and with consumers, linking one product with other products and linking every market with other markets. The point is that all the economic units in an economy are interrelated.

It is this interrelatedness of production and consumption units which helps a market system to function as an organic unit. Adam Smith described how individual buyers and sellers in a free market would send and receive signals by means of prices. Prices were considered the means of communicating society's needs. Prices helped to insure flexible adjustment to changing conditions of demand and supply. It is through the market system that our economy answers three basic questions : (1) What will be produced, (2) How will it be produced, (3) and To whom the output will be distributed ?

What will be Produced ?

What do Indian consumers want ? Our wants are changing fast. The television network in India has been expanded quickly during the last seven years (1980 to 1987). Besides the main TV telecast centres in metropolitan cities, we have now TV relay stations like those at Kasauli near Chandigarh and Mussoorie in U.P. After the Asian games of 1983, colour television has been encouraged through liberal imports of sets and spare parts. Those who could afford it have purchased colour TV sets while others have bought black and white TV sets. The electronics industry has suddenly found its market booming. Radios and transistors have faded into the background as live telecasts of cricket matches are beamed from the cricket stadia and even shop-keepers keep small TV sets on their counters. The electronics industry has responded by mobilising vast resources for investment in the production of TVs, VCRs and Video-recorded movies. In this way, resources have automatically responded by moving into the types of production the people wanted.

How will goods be produced ?

What resources will be used in production ? Most goods can be produced in many different ways, depending upon the relative prices of the resources involved. The most plentiful resources may have the lowest prices. But as resources become scarce relative to demand, their prices rise and discourage their use. For example, teak wood has now become very costly in India as a result of which house-builders have started using iron and plywood as far as it is possible. The Himachal Pradesh government is encouraging the use of plastic trays and cardboard boxes for fruit canning to save the forest trees growing around the fruit gardens.

Who will get the output ?

Another function of the price system is the distribution of output among the inhabitants of the country. Almost everybody in India would like to have sufficient quantity of milk, butter or desi ghee. But the supply of these commodities in relation to their demand is so short that their prices are very high for the poor majority of people in this country. They have to remain satisfied

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Working of the Price Mechanism

The price mechanism works as follows. Prices respond to shortages and surpluses. Shortages cause prices to rise. Surplus cause prices to fall.

If consumers decide that they want more of a good (or if producers decide to cut back supply), demand will exceed supply. The resulting shortage will cause the price of the good to rise. This will act as an incentive to producers to supply more, since production will now be more profitable. It will discourage consumers from buying as much. *Price will continue rising until the shortage has thereby been eliminated.*

If, on the other hand, consumers decide that they want less of a good (or if producers decide to produce more), supply will exceed demand. The resulting surplus will cause the price of the good to *fall*. This will act as a disincentive to producers, who will supply less, since production will now be less profitable. It will encourage consumers to buy more. Price will continue falling until the surplus has thereby been eliminated.

The same analysis can be applied to factor markets. If the demand for a particular type of labour exceeded its supply, the resulting shortage would drive up the wage rate (*i.e.* the price of labour), thus reducing firm's demand for that type of labour and encouraging more workers to take up that type of job. Wages would continue rising until demand equalled supply : until the shortage was eliminated.

Likewise, if there were a surplus of a particular type of labour, the wage would fall until demand for labour, the wage would fall until demand for labour equalled supply.

How will the price mechanism respond to changes in consumer demand or producer supply? After all, the pattern of consumer demand changes. For example, people may decide that they want more of small colour TV sets and less of large black-and-white TV sets. Likewise the pattern of supply also changes. For example, changes in technology may allow the mass production of micro chips at lower cost thereby encouraging the use of more computers, while the production of hand-built furniture becomes relatively expensive.

In all cases of changes in demand and supply the resulting changes in *price* act as both *signals* and *incentives*.

A change in demand may be a rise or fall of demand. A rise in demand is signalled by a rise in price. This then acts as an incentive for supply to rise. What in effect is happening is that the high price of these goods relative to their costs of production is signalling that consumers are willing to see resources diverted from other uses. This is just what firms do. They divert resources from goods with lower prices relative to costs (and hence lower profits) to those goods which are more profitable.

A fall in demand is signalled by a fall in price. This then acts as an incentive for supply to fall. The goods are now less profitable to produce.

A rise in supply of a good is signalled by a fall in price. This then acts as an incentive for demand to fall.

It should be remembered that the markets for goods and services are inter- dependent. A surplus or a shortage arising in one part of the economy creates a wave of change which affects

the markets immediately in its neighbourhood. The effects of this change depend upon the importance of the sector experiencing change for the whole of the economy. For example, a change in the demand for cars affects steel, electronics and rubber industries immediately. The effect is then carried to other sectors.

Main Features of Capitalism

What a capitalist economy actually is can be known through its main features. These are derived from the way certain functions are performed and the main decisions of the economy executed. These characteristics may be stated as under :

1. Private Property and freedom of Ownership. A capitalist economy is always having the institution of private property. An individual can accumulate property and use it according to his will. Government protects the right to property. After the death of every person, his property goes to his successors. However, people have to use their private property under government laws and regulations. There is some public property also which is built by the government such as roads, railways, parks, etc.

2. Price Mechanism. This type of economy has a freely working price mechanism to guide consumers. Price mechanism means the free working of the supply and demand forces without any intervention. Producers are also helped by the price mechanism in deciding what to produce, how much to produce, when to produce and where. Price mechanism brings about the adjustment of supply to demand. All economic processes of consumption, production, exchange, distribution, saving and investment work according to its directions. Therefore, Adam Smith had called price mechanism as the Invisible Hand which operates the capitalist economy.

3. Profit Motive. In this economy, the desire to earn profit is the most important inducement for economic activity. All entrepreneurs try to start those industries or occupations in which they hope to earn the highest profit. Such industries as are expected to go under a loss are abandoned. Profit is such an inducement that the entrepreneur is prepared to undertake high risks. We can say, therefore, that profit motive is the soul of a free market economy.

4. Competition and Co-operation going side by side. A capitalist economy is characterised by free competition because entrepreneurs compete for getting the highest profit. On the other side, buyers also compete for purchasing goods and services. Workers compete among themselves as well as with machines for taking up particular work. To produce goods of the required type and quality, workers and machines are made to co-operate so that the production line runs according to schedule. In this way, competition and co-operation go side by side.

5. Freedom of enterprise, occupation and control. Every person is free to start any enterprise of his choice. People can follow occupations of their ability and taste. Moreover, there is the freedom of entering into a contract. Employers may contract with trade unions, suppliers with a firm and one firm with another.

6. Consumer's Sovereignty. In a capitalist economy a consumer is compared to a sovereign king. The whole production frame works according to his directions. Consumer's tastes govern the whole production line because entrepreneurs have to sell their production. If a particular type of production is to the liking of consumers, the producer gets high profit.

7. Leading role of Joint Stock Companies. The role of modern corporations (called joint stock companies) is of great importance. With the growth of corporate form of enterprise, almost all large scale industries in every economy are being run by joint stock companies.

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The corporate sector of the economy registers a fast rate of growth as industrialisation proceeds. In U.S.A. there were about 5 million business firms 13% of which were big corporations. What is more striking is that 29 big corporations employed about huge funds and also use internal resources for expansion of their business. In fact, modern corporations have institutionalised the process of capital formation.

In a joint stock company, business is carried on by a board of directors which is democratically elected by the shareholders of the company at its general body meeting. In view of this, it has been said that joint stock companies democratise capitalism. However, the real functioning of the corporate sector is not really democratic because there is one-share one-vote election. Since big business houses own a majority of the shares of a company, they manage to get re-elected and the company is run as if it were their family business.

8. Important role of the entrepreneur. The entrepreneurial class is the foundation of capitalist economy. The whole of the economic structure of the capitalist economy is based on this class. Entrepreneurs play the role of leaders in different fields of production. Presence of good entrepreneurs is a must for healthy competition. Entrepreneurs are the main source of dynamism of the capitalist economy.

Merits of Capitalism

The main points of appeal of capitalism are as under :

1. Production according to the needs and wishes of the consumers. In a free market economy consumers' needs and wishes are the uppermost in the minds of the producers. They try to produce goods according to the tastes and liking of the consumers. This leads to maximum satisfaction of the consumer as obtained from his expenditure on the needed goods.

2. Economic freedom. There is complete freedom of choice in a capitalist economy. Economic freedom means the right to earn and retain property. It also means the freedom of enterprise and choice of occupation. This leads to the automatic channelization of the country's manpower resources in different vocations. There is no need to direct people or force them. Further, there is the freedom of contract which ensures smooth and flexible functioning of different production units.

3. Efficient production of goods and services. Due to competition every entrepreneur tries to produce goods at the lowest cost and of a durable nature. Entrepreneurs also try to find out superior techniques of producing the goods. Consumers get the highest quality goods at the least possible cost because the producers are always busy in making their production methods more and more efficient.

4. Varieties of Consumer goods. Competition is not only in price but also in the shape, design, colour and packing of products. Consumers, therefore, get a good deal of variety of the same product. They need not be given limited choice. It is said that variety is the spice of life. Free market economy offers variety of consumer goods.

5. Automatic incentives. A capitalist economy provides encouragement to efficient producers. The abler an entrepreneur is, the higher is the profit he obtains. There is no need to provide any kind of inducement or punishment for good and bad production. The price mechanism punishes the inefficient and rewards the efficient on its own.

6. Technical progress. It is commonly known that a capitalist economy provides the best atmosphere for inventions. Entrepreneurs are always on the look out for new ideas to be applied to production. They try to beat each other in innovations. This leads to rapid expansion, greater employment and income. The inventors are suitably rewarded with their royalties through the copyright. Similarly, innovators enjoy the benefit of their research through the system of patents and trade marks.

7. Flexibility. This type of economy provides a good deal of flexibility in that it can automatically change with the circumstances. During war time market regulations are adopted to provide for the war machine. As soon as there is a peace, the economy reverts to the free functioning of markets.

Demerits

The capitalist economy has been showing signs of stress and strain at different times. Some have called for a radical reform of the free market economy. Others like Marx have considered capitalist economy to be contradictory in itself. They have predicted the ultimate doom of capitalist economy after a series of deepening crisis. The main demerits of the capitalist economy often talked about are as follows :

1. Inequality of distribution of wealth and income. The system of private property acts as a means of increasing inequalities of income among different classes. Money begets money. Those who have wealth can obtain resources and start big enterprises. The propertyless classes have only their labour to offer. Profits and rents are high. Wages are much lower. Thus the propertied classes obtain a major share of national income. The common masses have their wages to depend upon. Although their number is overwhelming, their share of income is relatively much lower.

2. Class Struggle. Some critics of capitalism consider class struggle as inevitable in a capitalist economy. Marxists point out that there are two main classes into which capitalist society is divided. The haves which are the rich propertied class own the means of production. The have-nots which constitute the wage earning people have no property. The haves are few in number. The have nots are in a majority. There is a tendency on the part of the capitalist class to exploit the wage-earners. As a result, there is a conflict between the employers and the employees which leads to labour unrest, strikes, lockouts and other points of tension. All this has a very bad effect on production and employment.

3. Social Costs. A capitalist economy industrialises and develops but the social costs of the same are very heavy. Factory owners running after private profit do not care for the people affected by their production. The environment is polluted because factory wastes are not properly disposed of. Housing for factory labour is very rarely provided with the result that slums grow around big cities. All these are social costs. The Industrial Revolution in England was brought about by the use of cheap female and child labour who often met accidents in the factories.

4. Unnecessary multiplicity and wastes of competition. Consumers have to pay a big price for their freedom of choice and provision of variety. There is sometimes too much competition leading to unnecessarily high costs of production because competitors bid the prices of resources too high. There is wasteful advertisement. Sometimes sub-standard goods are highly advertised and the consumer is deceived.

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5. Instability of the capitalist economy. A capitalist economy is inherently unstable. There are recurring business cycles. Sometimes there is a slump in economic activity. Prices fall, factories close down, workers are rendered unemployed. At other times business is brisk, prices rise fast, there is a good deal of speculative activity. These alternating periods of recession and boom lead to a good deal of wastage of resources.

6. Unemployment and underemployment. A capitalist economy has always some unemployment because the market mechanism is slow to adjust to the changing conditions. Business fluctuations also result in a large part of the labour force going unemployed during depressions. Not only this, workers are not able to get full time employment except under boom conditions.

7. Lack of social security. In a capitalist economy, the working class does not have adequate social security. Commonly, the factory owners do not provide for any pension, accident benefits or relief to the families of those who die in employment. As a result, widows and children have to undergo a good deal of suffering. Governments are not in a position to provide for adequate social security in over populated less developed countries.

8. Slow and unbalanced growth. A free market economy may work automatically but the rate of growth is rather slow. Moreover, as the economy progresses, there is no all-round development. Some areas develop much faster while others remain backward. Industries may expand fast while there may be poverty in agriculture. The U.S.S.R. economy which was socialist had grown much faster than the U.S.A.'s economy which was capitalist in nature.

9. Exploitation. In a capitalist economy, workers are often paid a wage rate below their productivity. This is because they do not have the bargaining power to get their due from the rich capitalists. Women and children are often paid a very low wage rate. There is no equal pay for equal work.

10. Growth of monopolies with their evils. A capitalist economy is competitive only in theory. In practice, the few competitors often arrive at an understanding and exploit the consumer. Sometimes the bigger firms buy or eliminate the smaller firms to establish their supremacy in particular lines or production. They charge high prices and do not have any compulsion to improve efficiency of production. Thus, the much talked about efficient working of a capitalist economy becomes a myth.

Conclusion

Free market economy in its pure form exists nowhere in the world not even in the United States and U.K.. Economists now agree that there are certain imperfections in a free enterprise economy which must be corrected. The government must come out to regulate the economic machine so that it does not run down occasionally. Government has a positive role to play in promoting employment, price stability and orderly growth. The difference of opinion now is not on whether the government should regulate or not, but is rather on how much of state control is appropriate under different circumstances.

1A. COMMUNISM

Marx believed that capitalism must someday receive its death blow at the hands of workers. When this happens capitalism will be succeeded by socialism, which Marx regarded as a *transitory* stage on the road to communism. This stage will have two main characteristics.

1. **"Dictatorship of the proletariat."** This is a state of affairs in Marxian socialism in which the bourgeoisie has been toppled from power and is subject to the control of the working class. In other words, the expropriators have been expropriated. The capitalists' properties are under the management of the proletariat, who are also in control of the state.

2. **Payment according to work performed.** This means that labourers will earn wages, each receiving "for an equal quantity of labour an equal quantity of products," and, "he who does not work shall not eat."

Socialism, in Marxian ideology, may thus be defined as a transitory stage between capitalism and full communism. Under Marx's socialism, the economy's social output is distributed by the formula "From each according to his ability, to each according to his labour."

Communism, in Marxian ideology is the final perfect goal of historical development. It means :

1. A classless society in which all people live by earning and no person lives by owning.
2. The state is non-existent, having been relegated to the museum of antiquities.
3. The wage system is abolished and all citizens live and work according to the formula : "From each according to his ability, to each according to his needs."

This last quotation represents the essence of communism.

Communism has only remained a dream for all of the socialist republics of Europe and Asia. The practical experience of the U.S.S.R. tells us that even socialism in its totalitarian form is unacceptable to most of the people. In fact, Marx's reasoning had several missing links. Firstly, he neglected the entrepreneurial functions which the bureaucracy is unable and unfit to perform. Secondly, he failed to recognise the importance of the demand side. The price system follows the demands of the consumers. But there is no substitute for the price system in a totalitarian economy. Thirdly, there was inadequate analytical support of surplus value. There is no concrete evidence to indicate that there exists in the capitalistic system a fund of value of the type that Marx conceived in his concept of surplus value.

In short, it can be said that communism is only the ideal imaginary world of Marx. The break up of the Soviet Union shows that it is very difficult to run a socialist economy in a world of global competition and cooperation.

2. SOCIALISM : A COMMAND ECONOMY

It is difficult to provide one acceptable definition of socialism because it is an abstract name given to a particular organization of an economy which has many interpretations. Different writers give different levels of emphasis on the basic features of this type of economic system. However, we can define a socialist economy as that under which economic system is not only regulated but also controlled by the government to ensure welfare, equality of opportunity and social justice to the people.

There are as many kinds of socialism as the number of writers. Karl Marx was the first to think of practical socialist economy. In his view, such an economy would be run by the state with ownership of all means of production in the interests of masses in general. He considered socialism as the first step towards communism.

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Two types of socialism are distinguished at the present time. The first is the totalitarian socialism in which government has full control over the economy and people have to work according to the directions of a Central Authority. This type of socialism may be said to have prevailed in the U.S.S.R. and its allied socialist countries. The second type of socialism is more idealistic in nature. It is called democratic socialism because in this economic system, government operates the economy in all its major decisions but people are free to choose their occupation and consumer goods. This type of socialism is the ideal with some democratic countries like India. As yet there is no practical example of this type of socialism having been achieved through democracy. Therefore, we may call it the ideal socialism.

Much of what we call Economics is the economics of capitalism. Some writers have attempted to build the economics of socialism. Prof. Dickinson is one such writer. In his opinion, "Socialism is an economic organization of society in which the material means of production are owned by the whole community and operated by representatives of the people who are responsible to the community according to a general plan, all the members of the community being entitled to the benefits from results of such socialised, planned production, on the basis of equal rights." This is an abstract definition containing the basic features of idealised socialism.

Main Features of Socialism

A socialist economy is characterised by the following features :

- 1. Social or Collective ownership of resources.** In such an economy, all the means of production are owned and operated by the state in the interest of society as a whole. This is to ensure equality of opportunity to all the citizens with regard to earning of income. This is also aimed at full and efficient utilization of the country's resources.
- 2. A planned economy.** A socialist economy is necessarily a fully planned economy, otherwise the economic system cannot be run. There is a choice between centralised and decentralised planning. The U.S.S.R. was a centrally planned economy. Yugoslavia had a more decentralised planning structure. All socialist economies were fully planned economies. The other features of socialist economy derive from this fundamental fact.
- 3. A Central planning authority.** Planning is the responsibility of an authority at the centre. It may be known as the Planning Commission in India or the Gosplan in the U.S.S.R. The main task given to this body is to formulate long-term and short-term plans for the economy.
- 4. Definite aims and objectives.** Socialist economy has specified aims or objectives. Generally, they are included in the constitution itself but these are given a specific shape by the planners. As far as possible the objectives are clearly and quantitatively defined. The competitiveness or complementarity among these objectives is explicitly noted. This is meant to bring planning nearer to reality.
- 5. Specific long-term plans.** The central planning authority is given the responsibility to chalk out specific long-term plans for the country. These long-term plans are called Perspective Plans. These may range from twenty to thirty years. These are in the nature of a blueprint of the path the economies have to follow in the near future. These perspective plans may be modified with changes in basic structure and objectives of the economy. This requires the use of input-output and activity analysis.
- 6. Central controls and ownership.** A fully planned economy is by implication a controlled economy. Government controls the main aspects of all economic activity. There are

controls on production through licensing. Consumption is also controlled indirectly through controlled production. There are exchange controls generally operated through the central bank of the economy. Then there are controls on distribution. Government may have a public distribution system. It may have direct procurement and sale of essential commodities through fair price shops. However the nature of controls and their intensity shall depend upon the economic conditions in the economy.

7. Much less importance of price mechanism. A socialist economy gives much less importance to market forces and therefore, the price mechanism is given a minor role in resource allocation. A specific plan based on social needs guides the process of resource allocation. Private profit is not allowed. Public interest is given more importance. The means of production are directed by the government and are used in promoting the general welfare of the people. In democratic socialism the price system is allowed some role depending upon the size of the private sector and openness of the economy.

8. People's co-operation. A socialist economy is run with the active co-operation of the people in the fulfilment of plan targets. No plan can possibly succeed without people's participation. The plan is prepared and implemented by the government but the main targets of the different activities in the plan are fixed by taking into account the resources which people will be able to mobilise. To encourage the people to participate in plan implementation, the government may provide special incentives.

In short, a socialist economy is not run by the impersonal forces of supply and demand. It is a scientifically planned economy. As such its main features are quite different from those of the market economy.

Solution of the Economy's Central Problems in a Socialist Economy

As against the capitalist economy in which central problems are solved through the functioning of price mechanism, in a socialist economy the central problems are solved through the economic decisions taken by the state with the help of comprehensive planning. The Central Planning Authority decides about what to produce, how to produce and for whom to produce. Since price mechanism has no role to play in a socialist economy, all these problems of economic choice are solved through the techniques of planning which are by now very well-known. The techniques are activity analysis and mathematical programming.

1. What to produce ? The Central Planning Authority collects detailed statistics about the available resources, both natural and man-made, in the economy. It fixes up the national priorities keeping in view the present needs of the country as well as the future requirements of the desired rate of economic growth for the country. On the basis of the available resources and national priorities, as derived from the national goals, the Central Planning Authority fixes up detailed targets for the production of various goods and services. The problem of what to produce is thus solved.

2. How to produce ? The Central Planning Authority also decides about the techniques to be used in the production of the different goods and services. The choice is between the traditional techniques and modern techniques of production which can be imitated and adopted from the advanced countries. In making this choice the Planning Authority is guided by the option available to the country in various industries, the social benefit and cost of adoption of new techniques.

3. The distribution of the national product. The distribution of the national product is also decided by the Central Planning Authority. A pre-determined part of the national product is kept for investment purposes in order to produce capital goods for meeting the growth requirements of the economy. Another part of the national dividend is used by the government for collective consumption by the society in the fields of means of communication education, health etc. The remaining part of the national product is distributed among workers on the basis of work norms evolved through political consensus. For example, skilled workers get more than unskilled workers, and socially more desirable labour is rewarded higher than ordinary labour.

The distribution of various commodities among the people is done through a set of administered prices fixed by a central agency. As a rule, prices of essential consumer goods such as food, vegetables etc. are fixed at a relatively low level, whereas prices of luxuries like motor cars, refrigerators and air conditioners are fixed at a high level. At these fixed prices, people are free to buy different commodities according to their liking. The aims of the fixed prices is to ration the available output among the people on the one hand and reduce inequalities in the distribution of income on the other.

Merits of Socialism

A socialist economy has many attractive features. These have made socialism more and more popular. The main merits of the socialist economy are as under :

1. Rapid economic development. A socialist economy is likely to grow much faster than a capitalist economy. The experience of the U.S.S.R. and other socialist countries amply proved this. The main factors making for the fast growth rate is the full use of resources, scientific planning and quick decisions.

2. Production according to basic needs. Another main merit of the socialist economy is that production is directed to satisfy the basic needs of the people first. As far as possible, the production of food, clothing or building materials is guided by the basic needs of the people and is not according to the purchasing power of the rich section of society. Therefore, the phenomenon of the poor going hungry while the rich feast cannot be seen in the socialist economy.

3. Balanced economic development. Economic planning is meant to carry out balanced development of the economy. All the regions of the country are taken care of. Development of the backward areas is also given a priority. Similarly, agriculture and industry, heavy and small industry develop side by side. As a result there is no lop-sided development of the economy.

4. Economic Stability. Another merit of the socialist economy over the capitalist economy is the economic stability which a socialist economy has. A capitalist economy is often suffering from economic fluctuations resulting in lot of unemployment and wastage of resources. There is a good deal of misery among the working classes in periods of depression in a capitalist economy. A socialist economy is able to control economic instability due to the planned nature of the economy. Future changes are taken care of under a perspective plan. Private investment is given a minor role. Therefore, there are no economic fluctuations.

5. Flexibility. A socialist economy is much more flexible than a capitalist economy because of the control on market forces. The socialist economy can be geared to war times as easily as it is operated during peace time. Rather the State having ownership of means of production can meet the needed changes much better than the slow moving market mechanism of the capitalist economy.

6. Conservation of natural resources. A socialist economy has a great advantage of planning for the future. Wasteful use of the country's natural resources is a common problem in all the capitalist economies. Private enterprise does not care for the future. A planning authority can take the interest of future generations into account by preparing plans for conservation of the country's non-renewable resources like coal, petroleum, forests and soil.

7. Equitable distribution of wealth and income. A socialist economy is operated with the aim of providing equal opportunity for all citizens in earning incomes. Generally private property is restricted to some basic needs. There is no amassing of wealth by a few. Wealth is also equitably distributed because private enterprise is given a limited role.

8. No exploitation and class struggle. A socialist economy can also get rid of the basic maladies of the capitalist economy. There is no question of exploitation in as much as the state determines the distributive pattern of country's income. Further, the whole society is the common aim of all planning. No sections are discriminated against. There is no special favour to any class. Therefore, there is no scope for anything like the class struggle which is a characteristic of the capitalist economy.

9. Social welfare. A socialist economy is oriented to the social needs. The government provides for full social security. There is automatic care for the children of those who meet accidents while performing their duties. There is provision for old age pension for all. The slogan is 'to each according to his needs, from each according to his capacity.' Therefore, the employees in state enterprises can work without much worry. Their productivity is higher. There are no labour disputes and no wastage of resources resulting therefrom as is the case in a capitalist economy.

10. No wastes of competition. A capitalist economy is not always able to achieve productive efficiency through competition. There is a good deal of wastage through competitive advertisement of different varieties. The consumer has to pay the price of the useless advertising. Prof. Chamberlin has tried to show that competition leads to excess capacity when there is differentiation of the products. In a socialist economy, there is no such wastage. In the first place only those goods and services are produced which are preferred by the consumers. Secondly, if at all there is any advertising, it is only meant for information about different products to consumers.

11. Foresightedness. A socialist economy can prepare for the future much better than a capitalist economy. Future is always uncertain. The planners take full note of the uncertainties while formulating the plan. Flexibility in planning is meant to provide for immediate changes in the plan as conditions change. Planners can anticipate some of the future changes and prepare for them so that the nation is not suddenly caught unawares.

Demerits of Socialism

The merits of socialism given above should not lead us to the conclusion that socialist economy is all virtue. There are some difficulties in running a socialist economy which are its demerits. Some of these demerits are as under :

1. No suitable basis of cost calculation. Von Hayek and Robbins have pointed out that there is no proper basis of cost calculation in a socialist economy. They say that the means of production being owned by the government, there is no market price for the factors of production. In the absence of market mechanism there is no standard way of calculating costs of

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2. Choice of working incentives. The most difficult problem in running a socialist economy is the choice and working of incentives in the absence of profit motive. The Russian government has been using the policy of carrot and the stick. Some national honours are given to those showing outstanding results. Those shirking work or proving irresponsible are punished. There is decentralization of authority along with responsibility. This ensures freedom at the lower levels and scope for initiative. However, there is no comparable system of incentives and disincentives to the profit motive in a capitalist economy.

3. Lack of data, experts and administrators for planning. Operating a socialist economy as a planned economy requires huge data, a good number of experts and an equal number of administrators at different levels for administering the plan. No doubt machines can help process the data and experts can advise but there has to be decision-making at different levels of government. It is difficult to find out enough data with the result that decisions are delayed, miscarried or wrongly implemented. Ultimately, the common people have to pay the price for these mistakes.

4. Loss of economic freedom and consumer sovereignty. Under socialism all economic activity is directed by the central planning authority. There is no significant role given to private investment and initiative. Consumers are compelled to accept whatever public enterprises produce for them. Generally, there is limited variety of goods and restricted available choice. Prices are fixed by the government and consumers just cannot do anything about them. Consumer's preferences are just guessed by the planners who have no compulsion to study the people's preferences deeper. The citizens of East Germany opted for unification with West Germany on the inducements of economic freedoms which they could enjoy as a result.

5. Imperfections in planning lead to dissatisfaction on a big scale. Imperfection may creep in the formulations of the plan, its assumptions, statistics or analysis. Further, imperfection may enter at the stage of implementation of the plan. Thirdly, there may be lack of adjustment between prices and wages. As a result of these imperfections there is lot of wastage of resources, slowing down of work, shortfalls in targets and the dissatisfaction resulting therefrom. Mistakes made by individuals harm them only. National mistakes are costly for the common man. In fact, this has been the cause of disintegration of the U.S.S.R. When the other economies of Europe were booming, the U.S.S.R. could not provide the minimum comforts of life.

6. Bureaucracy and red-tapism. A socialist economy is a state-enterprise economy. Every bit of the plan is to be cleared by bureaucrats. This often leads to red-tapism. Even simple, state forward jobs may take unduly long time to be done. The work of government departments or even autonomous bodies is slow moving. As a result inefficiency creeps in through bureaucracy. In many countries where socialism had been brought about hastily, work came to a standstill. Leaders had to revert to liberal policies containing elements of the capitalist economy. So it is in Russia now.

Conclusion

Whatever the difficulties of running a socialist economy, the appeal for socialism was great especially in less developed countries. For over populated countries having national problems, socialism seemed to be the only hope of the masses. Free market economy in its pure form is a thing of the past. Mixed capitalist economy is already the order in all the western countries. In

the less developed Asian countries, government has not only to regulate economic activity but positively direct it by active participation for fast development of the country. As for the difficulties, they exist and can be eliminated through co-operation between the administration and the people. As the country develops, economic planning gets a strong hold and difficulties wear away.

3. REASONS FOR FAILURE OF PLANNED ECONOMIES

For over a century, a great debate raged over the relative merits of the planned economy versus the market-economy for co-ordinating economic decisions in practice. The Soviet Union, the countries of Eastern Europe, and Poland were command economies for much of this century. The United States and most of the countries of Western Europe were, and are primarily market economies. The successes of the Soviet Union and China in the early stages of industrialisation suggested to many observers earlier in the twentieth century that the planned, socialist economy was at least as good for organising economic behaviour as the market economy. Towards the end of the century, however, planned economies proved unable to raise living standards at anything approaching the speed in market economies. By the end of the 1980-s, this was clear to most ordinary citizens in the planned economies of Eastern Europe.

What were the reasons for failure of central planning in Eastern Europe and the Soviet Union? The failure of central planning had many causes, but four were particularly significant.

The failure of co-ordination

In centrally planned economies, a planning authority tries to co-ordinate all the economic decisions about production, investment, trade and consumption which are likely to be made by the producers and consumers throughout the country. This proved impossible to do with any reasonable degree of efficiency. Bottlenecks in production, shortages of some goods and gluts of others were prevalent in the Soviet economy for decades. For example, in 1989, much of a bumper harvest rotted on the farm because of shortages of storage and transportation facilities and for years there was an over-supply of black-and-white television sets and severe shortages of toilet paper and soap.

Failure of quality control

A constant problem of production in the Soviet Union was the production of poor-quality products. Factory managers were concerned with meeting their quotas by whatever means were available, and once the goods passed out of their factory, what happened to them was none of their concern. The quality problem was so serious that very few Eastern-European manufactured goods were able to stand up to the newly permitted competition with superior goods produced in the advanced market economies.

In market economies, those who produce poor quality goods are punished by low sales, and the retailers soon give a signal to factory managers by shifting their purchases to other suppliers. The incentives that obviously flow from such private sector purchasing discretion were generally not found in command economies, where purchases and sales were planned centrally.

Misplaced incentives

In market economies, differences in wages and salaries provide incentives for labour to move from one area to another, and the possibility of losing one's job provides an incentive to

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work diligently. The price mechanism works harshly on shirkers of work. In planned economies, workers usually have complete job security. Industrial unemployment was rare, and even when it did occur, new jobs were usually found for those who lost theirs. Although the high level of security was attractive to many, it proved impossible to give sufficient incentives to work reasonably hard and efficiently under such conditions. Workers tried to enjoy as much leisure under the system as they could. The work-culture suffered. More hardworking and meritorious workers got discouraged. Instead, the workers who toed the line of the party in power were better rewarded than those who were not its members. The use of the political lever in the working classes depressed the spirit of competition and excellence in jobs.

Environmental degradation

In planned economies, the managers of the producing units were preoccupied with fulfilling production plans. They did not care about the effect of their decisions on the environment. As a result, environmental degradation occurred in all the countries of Eastern Europe on a scale unknown in advanced capitalist nations. A particularly disturbing example occurred in Central Asia, where high quotas for cotton output led to indiscriminate use of pesticides and irrigation. Birth defects are now found there in the newly born child in three, and the vast Aral sea has been half drained, causing incalculable environmental effects.

The failure to protect the environment was the result of the pressure to fulfill the production plans on the one side and the lack of any political platform for the affected citizens to register their protests. The democratic process allows citizens to express views on the use of scarce resources for environmental protection. But this is not so in regimented systems.

The surprising successes of the price system

In contrast to the failures of planned economies, the performance of the free-market price system was impressive. The comparisons could easily be made between adjacent countries like East Germany and West German Republic. The thin dividing line between them—the Berlin Wall—was easily demolished and the two parts united to form a single country. The people in East Germany have never regretted their decision to join the other part. So much so that there is a process of change over to a market-driven economy in all the countries of eastern Europe. Privatisation of public sector undertakings has been the keyword in all such economies. In India also we are selling the shares of the public sector undertakings to the public in order to introduce accountability of the managers to the share-holders.

To conclude the discussion, we can say that fully planned economies are things of the past. The last surviving economy of the type is China and there too a wave of privatisation and incentive-based production is sweeping the whole system. They are proceeding slowly but surely to a more decentralised and efficient system of economic management.

3A. GANDHIAN ECONOMIC IDEAS

M.K. Gandhi developed the following economic ideas.

1. Study of Economics. According to Gandhi, true economics aims at material and moral progress of the society. He observed, "An economics that inculcates mammon worship and enables the strong to amass wealth at the expense of the weak is a false and dismal science."

Gandhi gave importance to individual values in economic analysis. In this view, the statistical averages which are used to measure standards of living (such as per capita income) do not reflect the true picture of society because these measures hide the living conditions of the poor as well as those of the affluent.

2. Economic laws. Mahatma Gandhi did not agree with the view that there are universal laws of economics. Only the laws of nature are universal in nature. So all laws of economics should be based on the laws of nature. Since every country has its climatic, geological and temperamental conditions, the economic laws for a country must be in conformity with its natural laws. These economic laws are practical guides to policy formulation in that country.

3. Full employment through small scale and cottage industries. In Gandhi's view, every employable youth needs employment for self-sustenance in a country like India where there is no social security provision. He did not oppose the setting up of large-scale industries wherever needed. But his considered opinion was that in India these industries would leave a large section of the society in unemployment and poverty. Large-scale industries need a lot of capital and entrepreneurial ability. These are also machine-based. So these industries are unable to absorb the millions of workers available in the country. He was opposed to mechanisation of agriculture as it is the main source of employment for the poor. Most of the poor and unemployed people live in the rural areas. They are unable to migrate to the big industrial centres because of illiteracy and poverty. They feel secure in their villages and employment must be offered to them at their door steps. This is possible only through planned development of village and cottage industries which are natural to their talents and environment. Gandhi observed, "Mechanisation is good when the hands are too few for the work intended to be accomplished. It is an evil when there are more hands than required for the work, as is the case in India."

4. Economic decentralisation. The goal of Gandhian production scheme was the creation of self-contained communities. Each community, he said, should be internally self-sufficient. He regarded an area covered by a radius of five miles as the basic unit of a community. The local industries should produce what the population of the area demands and possibly use the raw-materials available locally. These industries must offer employment in the lean season of agricultural production. In his view, small scale and cottage industries such as the *Khadi* are better suited to Indian conditions than large-scale industries producing the same goods. He regarded the *social* cost of such industries to be much less than the money cost. This is because in the case of local, small industry (a) no separate establishment charges are required, (b) very few tools are needed, (c) there is no problem of storage, (d) cost of transportation of raw-materials and finished goods is minimised, (e) since the production is locally consumed, the problem of over production does not arise, and (f) there would be no wastes of competition.

Gandhi proposed the following measures to develop the *Khadi* industry (handloom) : (1) compulsory introduction of spinning in all primary and secondary schools, (2) cultivation of cotton in all possible areas, (3) organisation of weaving in multi-purpose co-operative societies, (4) all the employees in education and co-operative departments are supposed to pass the spinning test, (5) control of prices of the handloom cloth produced in mills and to impose a cess on such cloth, (6) preferential use of hand-spun cloth in all government departments (7) the old cloth mills should not be allowed to expand and new ones should not be allowed, (8) import of foreign yarn or cloth should be banned.

In short, it can be said that foreign trade does not play a significant role in the self-contained community of the Gandhian type.

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5. Capital and Capitalism. In Gandhi's view, "Just as the capitalist cannot make his capital fructify without the cooperation of labour, even so the working man cannot make his labour fructify without the cooperation of capital." For better labour relations, capital and labour must cooperate. But the capitalist is able to organise quickly, labour is not able to do so. Because of the weak bargaining power of labour, it is likely to be exploited. Gandhi suggested two ways to reduce the evil effects of concentration of capital. One, the ownership of capital should be decentralised. Two, if concentration of capital is considered essential, the state should have the full control over the use of capital.

6. The Sarvodaya Plan. Gandhi was a practical idealist. He put forward the plan for uplift of all called Sarvodaya. The plan includes : (a) full attention to the cultivators and labourers, (b) the cultivators should organise their own committees and the workers should organise their own unions, (c) All persons would receive education whether technical or basic, (d) Special attention would be given to the development of village industries, sanitation and hygiene. Hand-spinning would be carried out in every rural family, (e) Economic equality and communal harmony would be the twin objectives of state policy. In short, the basic objective would be to develop the village into a complete republic.

Gandhi had great compassion for the poor and the down-trodden. He evolved the idea of what he called 'Antyodaya' which literally means the upliftment of the poorest of the poor. For economic policy, he laid down a simple criterion of choice. It was that the policies must definitely raise the standard of living of the people below the poverty line. For this purpose, he also advocated decentralisation of executive powers upto the Panchayat level.

Gandhi had no intention to tinker with economic models. He was a practical idealist. He was passionately interested in solving the problems of poverty and inequality in the country. He called for a socio-economic revolution through non-violent means.

4. EVOLUTION OF THE MIXED ECONOMY

A mixed economy is that economy in which a public sector actively operates to fulfil some clear-cut social objectives in co-operation with an actively functioning private sector. Before 1917, all economies were capitalist in their organisation. After the October Revolution, the first socialist economy of the world came into existence in the Union of Soviet Socialist Republics. The capitalist economies of Europe and America faced their worst economic crisis in the Great Depression of the period 1929-34. There was widespread unemployment and misery. It seemed to be a man-made crisis. It seemed very clear that there was something wrong with the way capitalist economies operate which creates the problem of booms and depressions, that is, the problem of trade cycles. Lord J.M. Keynes, an English economist suggested that a public works programme is a necessity for the survival of all capitalist economies. His suggestion was accepted in many countries and a public sector came to be looked upon as a stabilising force for these capitalist economies. Ever since, there has been an effort at reform of capitalism which has brought into active functioning the mixed economies of the world. At the present time, mixed economy is the most popular form of organisation of economy in the Third world countries.

Three factors have led to the establishment and popularity of mixed economy. First, the appearance of Keynes's monumental work, the so-called General theory, which established it theoretically that a free-enterprise economy may not automatically generate full employment even

in normal economic situations. Second, the growth of socialist ideas in European countries which shifted the role of the State from that of a regulatory power to that of a redistributive power in the field of economic affairs. This made the public sector a necessity for those economies where income distribution was sought to be made more equalitarian. Third, most of the underdeveloped economies of the world got political freedom from foreign rule. These newly freed countries were anxious to speed up the process of economic development through the use of resources mobilised by the State. This anxiety led them to establish mixed economies in their countries. So, by now the concept of a mixed economy has come to be accepted as useful. The definition of a mixed economy is given as follows :

A mixed economy is one in which the private and the public sectors actively function side by side. The government directs economic activity in some socially important areas of the economy, the rest being left to the price mechanism to operate ; the public and the private sectors co-operate to achieve the social objectives under a common economic plan. The private sector forms an important part of the economy. It is not merely tolerated. It is considered to be an important instrument of economic growth.

5. CHARACTERISTIC FEATURES OF A MIXED ECONOMY

Mixed economies all over the world may differ with regard to the relative roles given to the public sector and the private sector. However, there are some common features which distinguish the mixed economies from capitalist economies on the one hand and socialist economies on the other.

Co-existence of the Public and the Private Sectors

In mixed economies the role of the public sector vis-a-vis the private sector is clearly defined. Since the two sectors cannot operate in isolation from each other, the need for co-operation between the two is considered to be urgent. Yet, in some economies, as in India, the public sector undertakings may operate within the same field where private firms are also working. This is done to encourage a healthy competition between the two sectors of the economy in providing services. In mixed economies, the public sector is generally planned to expand at a rate faster than the private sector so that the public sector controls the vital fields of the economy and dominates the private sector.

In India, the public sector has in it defence, public utilities, and heavy industries commonly beyond the organising ability of private enterprises and public sector undertakings which combine some social objective (such as giving employment) with profit-making. The private sector in India operates under a set of regulations and controls (with subsidies too) on consumer- goods industries, professions and trades. In the expanding Indian economy, an expansion of the public sector can take place along with expansion of the private sector.

It must be observed here that the distinction between public and private sectors in a democracy is fairly thin. They must be treated as two complementary arms of an economy. They must function on the basis of cooperation and not conflict. Even the Clay committee of the United States of America admitted that there is no alternative to state or private enterprise in the process of development. "The initiative, strength and special qualities of both are required, and their relationship to one another can only reflect shifts of emphasis in the course of economic development."

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Important Role of the Cooperative Sector

In most mixed economies, there is a significant cooperative sector which is actively encouraged and even assisted by the state. Cooperation is considered to be a middle path between capitalism and socialism. Cooperative organisations in many fields are thought to be the champions of the cause of the weak and the poor. In India, cooperative sugar mills have been organised on a priority basis. Then, cooperative financing institutions have been actively assisted by the government. Further, consumer cooperative stores have been organised with state help and patronage. Again, industrial cooperatives in the small-scale sector have also been given special concessions. Thus, cooperative sector is a link between the government and the public for promoting the welfare of the masses.

State Help and Controls

In a mixed economy, there is a system of incentives and disincentives instituted by the government to operate the whole economy along desired lines. The activities which deserve to be promoted are given subsidies. Those activities which need to be scaled down are subjected to taxation. Further, to keep an overall check on the working of the private sector so as to guard against abuse of economic freedom by private parties, a set of controls is introduced. These controls may be physical, monetary or of a fiscal nature. But writers like Jagdish Bhagwati and Deepak Lal favour only monetary and fiscal regulation and consider physical controls wasteful.

Dual Pricing of Essential Commodities

Some commodities like wheat, rice, sugar, ghee and cloth are declared 'essential commodities' because when these are in shortage, the poorer sections of society suffer heavily. With a view to protecting the poor against undue rise in the prices of these commodities, the government takes up distribution of these commodities through fair price shops. Take the example of sugar shortage in India. To protect the poorer sections against the abnormal rise in the prices of sugar, the government resorted to what is called 'dual pricing' of sugar. There is a market price of sugar which is very high. This is the open market price. Then, there is the lower price of sugar at which a ration of sugar is given to consumers through the fair price shops. The first price ensures free play of the supply and demand forces. The second price has the role of protecting the poor against acute shortages. In a mixed economy, such dual pricing serves an immediate purpose. The lower price serves as a social security measure.

Economic planning

Most of the mixed economies of the world have taken to economic planning as an instrument of economic growth and social justice. Economic planning in these economies may be 'planning by direction' for the public sector only. For the private sector, it is only planning by inducement. With an expanding public sector the directing power of the government for economic growth as well as social justice increases. Actually to what extent a mixed economy has planning by direction is decided largely by the competence and authority of the government to control economic activity. In India, the central government along with state governments is trying to implement welfare programmes for the poor. There is a set of directions given to the public sector banks and corporations for special attention to the poor. Further, the poor are given special inducements to work and save so as to be self-reliant within the shortest period of time. Moreover, the central government is setting up its public sector units in the backward areas to develop these areas.

2. Mutual checks of the public and private sectors. The public sector and the private sector can provide checks on the functional efficiency of each other. The performance of the public sector is constantly watched by the entrepreneurs in the private sector so as to make a case against its further expansion. Likewise, the functioning of the private sector is continuously observed by the government from the social viewpoint. Wherever the private sector fails to serve the social ends, it is subjected to control and regulation. In this way, the two sectors strive towards the most efficient organisation of production from the public viewpoint.

3. Rapid economic development through the public sector. A mixed economy is more suited to the rapid economic development process. This is because the public sector is a very useful instrument of mobilisation of resources on the one hand and allocation of resources on the other. In less developed economies, there is very little private saving capacity which seriously restricts the scope of private investment. There are, however, income inequalities which can be reduced and this can also give resources to the government through taxation. Secondly, government can mobilise the small savings with the public easily and invest these in public sector projects. Thirdly, the public sector can easily obtain resources from international lending institutions. In these different ways of mobilising resources, the public sector is able to make a significant attack on poverty and unemployment in less developed countries.

4. Economic freedom and choice. A mixed economy gives complete economic freedom to the consumers to buy consumer goods of their choice and in the desired quantities. The private sector is free to invest of course within the social constraints laid down under the plan for development. For example, in India, durable consumer goods like cars, scooters, motorcycles, refrigerators and television sets are being produced by private companies in a variety of models among which the consumers can choose. This satisfies the preference of the consumers and also allows the price mechanism to play its part in the economic processes.

5. Incentives. In a mixed economy, there is a choice of incentives for the producers and the consumers for inducing them to fulfil the objectives of the plan. Incentives are in the form of subsidies and grants. For example, in India, handloom products are subsidised and consumers are given special discount in the month of October. Likewise, there are disincentives for the production and consumption of liquor etc. because these are not good for health.

6. Suited to democracies. The organisation of mixed economy is much better suited to democracies like India. Operating a completely socialist economy necessitates a dictatorship of whatever type it may be. A mixed economy is a flexible system in which different parties can increase or diminish the relative role of the public sector or the private sector as they come to power. Moreover, elections offer opportunities for expressing the dissatisfaction they have regarding the economic programmes offered by the different parties. If a particular party gets a massive mandate for a radical programme of economic development, it can implement the same to the voters' satisfaction.

7. A good phase for changeover to socialism. Mixed economy provides a very convenient system for those countries which have been recently given independence and which have opted for socialism in their constitutions. A sudden changeover from capitalism to socialism is painful for the people, the march towards socialism can be without tears if a mixed economy is adopted as a means to a gradual changeover to socialism. As the people get accustomed to the socialist way of life, complete socialism may be instituted in the economy.

8. DEMERITS OF A MIXED ECONOMY

Mixed economy is not simply the golden middle path between socialism and capitalism. The economic system of mixed economy was adopted to minimize the demerits of both a socialist economy and a free-enterprise economy. But experience about the working of a mixed economy has shown that this system has its own demerits. The main demerits are as follows

1. Friction between the two sectors. The public sector and the private sector are supposed to co-operate with each other for promoting economic growth with social justice. But actually the two sectors tend to develop some type of conflict with each other. The private sector in India has been complaining of the lack of resources for expansion owing to high rates of corporate and personal taxes whose proceeds go to finance the expansion of the public sector. Businessmen have often talked of the inefficiency and mismanagement of the public sector undertakings. In turn, the private sector has been accused of building monopolies and concentration of economic power through mergers and collusions. Very often the private sector has been criticised for its poor quality of the products and the disproportionately high prices. The public sector supplies raw materials and machinery to the private sector at low prices but the private sector does not pass on these lower prices to the consumers. Thus, there is always a likelihood of a conflict between the two sectors.

2. Difficulty of exercising controls without distortions. Planning in a mixed economy is a difficult job because of lack of direct control on the private sector. In the public sector there can be planning by direction. The targets in this sector can be set and achieved. But in the private sector it is planning by inducement. The targets set for this sector may not be achieved because private entrepreneurs are largely guided by profit and it is not always possible to create the conditions fully according to their desires. The controls on the private sector are of an indirect nature. The government can influence the behaviour of this sector through its fiscal and monetary policy or through physical controls which are disliked by private producers. These indirect controls are never a complete success.

3. Difficulty of maintaining a balance. Smooth and speedy economic development requires that there should be a balance between the public and the private sectors. But the inability of the political leadership to run the public sector efficiently or to create a climate of industrial peace for the private sector may create serious imbalances between the two with the result that production in some sector may be seriously below the targets. There may be dislocation of the channels of communication and transport with its bad effects on total production. This happened in India during the period 1977-81. As a result the price situation had gone out of control. The best that we can do to remedy this problem is to restore a balance between the public sector and the private sector.

4. Uncertainty and the failure of long-term planning. In a mixed economy, there is always an element of uncertainty for the private sector. This uncertainty is owing to the fear of nationalisation of an industry. In developing mixed economies like India, the line between the public sector and the private sector cannot be drawn for ever, government intervention in the private sector may be called for at any time by the necessity of social interest; therefore, the government must keep with it the option to nationalise an industry or to take over the industry for some time or to become a partner in it or be able to start its own production units if the situation so requires. The private sector is always scared of such options with the government. This has an adverse effect on long-term plans of investment in the private sector.

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5. Tends to degenerate into State Capitalism. A mixed economy also has the drawback of turning itself into what is called State Capitalism. The public sector in a mixed economy is meant to speed up the rate of growth of the economy by capital formation and is also required to promote social justice by reducing inequalities of income and wealth. But the public sector can be misused by the ruling political party to feed some capitalists by providing cheap raw materials from the public sector undertaking to private units or by providing lucrative contracts to private firms or through bulk purchase of the goods and services from private firms at rather high prices. Politicians are able to find out other ways of feeding the capitalists at the cost of the state exchequer. This is a case of state capitalism. In this case the true objectives of a mixed economy are defeated.

Conclusion

From the discussion of the merits and demerits of a mixed economy given above, we can conclude that a mixed economy in itself is an economic system which has the advantages of flexibility and stability if it is operated sincerely by farsighted politicians. But the economic system is capable of gross misuse by unpatriotic, self seeking politicians who want to share the plums of power. If the country comes to be ruled by such politicians, then the mixed economy has the defects of both socialism and capitalism.

9. EXPERIENCE OF THE MIXED ECONOMY IN INDIA ??

India adopted the mixed economy as her economic system after 1950. In the Industrial Policy Resolution of 1956, it was clearly declared that the public sector in the country shall be expanded till it is controlling the 'commanding heights' in the economy. Some lines of industrial production were reserved entirely for the public sector. These were the defence production industries, the basic and key industries, the public utilities and some other industries which were considered vital for the rapid economic development of India. Then, another group of industries was declared to be in the common sector. For example, iron and steel, fertilizers and drugs, that any industry in the private sector could be nationalised if the public interest so needed. Thus, in the 1956 industrial policy resolution, the pre-eminent position of the public sector in the economy was recognised and the flexible relationship between the public sector and the private sector was stressed.

In 1956, the Indian Parliament adopted a resolution which declared that the goal of mixed economy in India is to build an economic system which will be Democratic Socialism. So far it had been believed that democracy and socialism could not go together, but Pt. Jawahar Lal Nehru clarified that the aim is to build a 'socialist pattern of society'. Since then, planners in India have adopted policies meant to take the country towards this goal. These policies are

(1) Nationalisation of all types of insurance so that the vast resources with the insurance companies are used for achieving the national goals.

(2) Nationalisation of commercial banks so that the public deposits available with them are loaned according to social priorities.

(3) Building up of a public distribution system for procurement, storage and distribution of foodgrains and other essential commodities with a view to protecting the weaker sections of

The licensing policy is also being used to induce private sector units to start new ventures in the backward areas.

6. SOLUTION OF CENTRAL ECONOMIC PROBLEMS IN A MIXED ECONOMY

In a mixed economy, the central problems of the economy are solved through an integrated development plan (of four or five years) for the public sector and the private sector. The relative roles of the public sector and the private sectors are assigned on the basis of the capacities of the state and private individuals as entrepreneurs within the overall plan. In deciding the size of the public sector, the state is guided by considerations of social welfare and growth needs of the economy. The choice of activities to be undertaken by the public sector is made on social considerations, not on profit making possibilities. The remaining activities are left to the private sector which works under state supervision and state regulation to fulfil the national goals while pursuing its profit-making aspirations.

Unlike the capitalist economy, the price mechanism is not permitted to function freely through market forces of demand and supply. In many markets, the government intervenes directly through price controls and indirectly through a system of indirect taxes and subsidies on selected inputs like fertiliser and outputs such, as those of cottage industries and of exports. The state imposes indirect taxes like excise duties and sales tax etc. to discourage the production of such commodities as enter the consumption of the rich. Similarly, the state grants subsidies on the production of such commodities as are considered socially more useful. For example, subsidies are being given in India on the gohar-gas plants and solar heaters so as to encourage the use of indigenous sources of energy. The system of taxes and subsidies alters the market-shaping forces of supply and demand in the economy. It is through the free functioning of this modified price mechanism that economic decisions regarding what to produce, how to produce and the distribution of the product are taken in the private sector. The public sector enterprises also participate in the markets by purchasing their inputs and through sale of their outputs at administered prices which reflect the social goals before the public sector units.

Thus, through well-designed intervention in the functioning of price mechanism, the government of a mixed economy is able to influence the decisions of private producers towards production of socially more desirable commodities, use of socially more desirable methods of production and a better distribution of the national product.

7. MERITS OF A MIXED ECONOMY

The 'mixed economy' is a popular form of organisation of the economy in the world today. This is because of the following merits.

1. Benefits of both the public and the private sectors. The biggest reason for widespread appeal of mixed economy is that it gives to the country concerned the benefits of both the sectors. The public sector can be made to function all in the public interest and the private sector for profits. In this way, the public sector can be made to look after social justice while the private sector can organise production efficiently and respond to the inducements and signals given by the price mechanism.

2. Mutual

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3. Rapid

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4. Econo

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5. Incen

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6. Suite

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7. A goo

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