ECONOMIC SYSTEMS

Comparison between the Capitalist and Socialist Economies

Capitalism and socialism are two different political, economic, and social systems blended together by countries around the world. Sweden is often considered a strong example of a socialist society, while the United States is usually considered a prime example of a capitalist country. In practice, however, Sweden is not strictly socialist, and the United States is not strictly capitalist. Most countries have mixed economies with economic elements of both capitalism and socialism.

Capitalism

Capitalism is an economic system where the means of production are owned by private individuals. **"Means of production"** refers to resources including money and other forms of capital. Under a capitalist economy, the economy runs through individuals who own and operate private companies. Decisions over the use of resources are made by the individual or individuals who own the company.

In a theoretical capitalist society, companies that incorporate are treated by the same laws as individuals. Corporations can sue and be sued; they can buy and sell property, and perform many of the same actions as individuals.

Under capitalism, companies live by the motivation for profit. They exist to make money. All companies have owners and managers. In small businesses, the owners and managers are generally the same people, but as the business gets larger, the owners may hire managers who may or may not have any ownership stake in the firm. In this case, the managers are called the owner's agents.

The job of the management is more complex than just making a profit. In a capitalist society, the goal of the corporation is maximizing shareholder wealth.

Under capitalism, it's the government's job to enforce laws and regulations to make sure there is a level playing field for privately-run companies. The amount of governing laws and regulations in a particular industry generally depends on the potential for abuse in that industry.

Socialism

Socialism is an economic system where the means of production, such as money and other forms of capital, are owned to some degree by the public (via the state.). Under a socialist system, everyone works for wealth that is in turn distributed to everyone. A socialist economic system operates on the premise that what is good for one is good for all, and vise versa. **Everyone works for their own good and for the good of everyone else**. The government decides how wealth is distributed among public institutions.

In a theoretical socialist economy, there is a more limited free market than in an archetypal capitalist economy, and thus the taxes are usually higher than in a capitalist system. There are government-run health care and educational systems for tax payers. Socialist systems emphasize more equal distribution of wealth among the people.

Comparison between the Capitalist and Socialist Economies

The main difference between capitalism and socialism is the extent of government intervention in the economy.

A capitalist economic system is characterized by private ownership of assets and business. A capitalist economy relies on free-markets to determine, price, incomes, wealth and distribution of goods.

A socialist economic system is characterized by greater government intervention to re-allocate resources in a more egalitarian way.

BASIS OF DIFFERENCE	CAPITALIST ECONOMY	SOCIALIST ECONOMY
Resources Ownership	Privately owned	State owned
Foundation belief	competition brings out the best in people	cooperation is the best way for people to coexist
Earning of wealth	everyone works for his own wealth	everyone works for wealth which is distributed equally to everyone
Market Scenario	Level playing field	Protection to PSUs, Private enterprises are permitted in few businesses only
Govt. interference	Only in situations where laws have been broken	Fully involved
Employees motivation	Highly motivated on account of proportional benefits	Rarely motivated as performance is not rewarded
Merit	Perception of better economic growth because of competition	Equal distribution of income results in welfare of all
Demerit	Few individuals/groups attain powers, rest are exploited	Hard work is not rewarded, lazy employees also enjoy equal level of benefits

There are also different aims of the economic systems.

Equality

- Capitalism is unconcerned about equity. It is argued that inequality is essential to encourage innovation and economic development.
- Socialism is concerned with redistributing resources from the rich to the poor. This is to ensure everyone has both equal opportunities and in some forms of socialism – equal outcomes.

Ownership

- Capitalism: Private businesses will be owned by private individuals/companies
- Socialism: The state will own and control the main means of production. In some models of socialism, ownership would not be by the government but worker co-operatives.

Efficiency

- Capitalism: It is argued that the profit incentive encourages firms to be more efficient, cut costs and innovate new products that people want. If firms fail to keep up, they will go out of business. But, this business failure allows resources to flow to new more efficient areas of the economy. Something known as 'creative destruction'
- Socialism: It is argued that state ownership often leads to inefficiency because workers and managers lack any real incentive to cut costs. One joke under Soviet Communism was 'They pretend to pay us. We pretend to work.'

Unemployment

- In capitalist economic systems, the state doesn't directly provide jobs. Therefore in times of recession, unemployment in capitalist economic systems can rise to very high levels, e.g. 20% + in Great Depression
- Employment is often directed by the state. Therefore, the state can provide full employment even if workers are not doing anything particularly essential. Socialism is sometimes associated with Keynesian demand-management attempts to stimulate the economy in times of slump. Keynes himself was not a socialist.

Price controls

Prices are determined by market forces. Firms with monopoly power may be able to exploit their position and charge much higher prices.

In a state-managed economy, prices are usually set by the government this can lead to shortages and surpluses.

Evaluation

There are many different forms of 'socialism' from totalitarian 'Communist regimes' To democratic socialist parties in Western Europe, who pursue a pragmatic form of redistribution aiming for equality of opportunity rather than equality of outcome.

Pragmatic socialism

Some forms of socialism, adopt a more pragmatic approach. Many industries are left in private hands a recognition free-markets are more efficient in producing goods. However, the socialist society attempts to use progressive taxation and social spending to provide a minimum safety net. Important public services are run directly by the government.

Responsible capitalism

Many 'advanced capitalist societies' have considerable government intervention. The government may provide unemployment benefits and public spending on infrastructure, healthcare and education.

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VARIOUS TYPES OF ECONOMIC SYSTEMS BEING FOLLOWED IN THE WORLD

Economic System

Any system that involves the mechanism for production, distribution, and exchange of goods apart from consumption of the goods and services within the different entities can be classified as an Economic System. The various kinds of economic systems and their classifications broadly follow the methods by which means of ownership are established. Thus, the mode of ownership of capital leads to the different kinds of economic systems in vogue.

Types of Economic systems

The different kinds of economic systems are Market Economy, Planned Economy, Centrally Planned Economy, Socialist, and Communist Economies. All these are characterized by the ownership of the economics resources and the allocation of the same.

For instance, in a Capitalist Economy, the capital is privately owned and distributed with governmental oversight and regulation. On the other hand, in a Communist Economy, the state itself takes on the task of allocation of resources according to the needs of the different sectors. In a mixed economy, the state looks after some sectors whereas it frees up the other sectors for private participation.

Apart from this, the extent of governmental or state intervention determines the kinds of economic systems that are classified accordingly. In many ways, each of these systems has their own pros and cons when it comes to the welfare of the citizens.

1. **Capitalist System**

This is the predominant economic system in the world today. In this system, the capital is privately owned and distributed. The distribution mechanism is left to the market to allocate the resources with the emphasis being on efficient allocation of capital. Going by the “Invisible Hand” of Adam Smith that guides the allocation of resources, it is deemed that the market does a good job of determining which sectors receive the capital and how much.

Thus, perfect knowledge and perfect competition are assumed to be given and the market mechanism is taken to determine the beneficiaries and the recipients. In the modern context, this kind of system has come to be associated with the laissez faire mode of capitalism where the state has minimal responsibility and is seen as a “hands off” player rather than being interventionist.

Of course, the state is expected to have regulatory mechanisms in place and ensure that the market corrections are supervised and the state steps in whenever there is a crisis of liquidity or other market failures.

As we are currently witnessing the different kinds of state interventions arising out of the credit crunch, it becomes apparent that this kind of economic system may not be the ideal one as was being propounded over the last few decades.

In this economic system, the four kinds of land, labor, capital, and entrepreneurship are the types of production that make up the mechanism for production and distribution of resources.

The capitalist system of production and distribution has proved to be highly successful in western countries and it has spawned several clones in the east as well.

2. **Communist System**

In this kind of economic system, the state takes upon itself the allocation and production functions as well as distribution of the goods and services. In this system, capital cannot be privately held and there is communal ownership or what is known as "Communism". The workers are paid uniform wages and what Marx called the "participation of the workers in the collective bargaining" is a feature of the system.

This model was pursued in the erstwhile USSR before it broke up and has been considered a failure though there is debate whether it was an ideological failure or an implementation failure. Like capitalism, communism also had several takers in the newly independent economies of the east. Thus, the Cold war was fought as much between two blocs as between two competing ideologies.

3. **Socialist and Mixed Economic Systems**

In these forms of economic systems, the state has control over some areas which it deems to be of primary importance as regards national security and importance to the welfare of the citizens. Thus, the state does not allow private participation in sectors such as defense and essential goods and services whereas the entrepreneurs are provided incentives to contribute in other sectors that the state thinks fit.

This kind of economic system was followed in countries like India till the 1990's when the economies were liberalized and full private sector participation allowed. This parallels the demise of the centrally planned economy where the command and control of the economy is top down rather than bottom up. This has often led to several imbalances in the distribution and allocation of resources.

Benefits to Society and Individuals in Economic Systems

An economic system, in whatever form is necessary for the society to prosper and function as a cohesive unit. From the primitive societies of barter and the hunter gatherers to the new technocratic ages, there always has been some form of economic systems. The economic systems make up the whole system that comprised the political system, the legal system, and the like.

Some of the benefits are self-evident in the sense that the individuals in a society get paid for their work and in return can buy and exchange goods and services. In other ways, the material well-beingof the individuals is guaranteed with promise of wages and other inducements. On the other hand, the individuals contribute to the collective pool of wealth by paying taxes that in turn make up a portion of the social security nets.

As can be seen from the prosperity of the western world, the economic systems contribute in a major way towards the sense of well-being and security of the citizens. The state guarantees the rights of the citizens and in turn expects duties from them. There are instances of breakdown of economic systems in Sub-Saharan Africa that has resulted in chaos and civil war.

Need for a Social Contract

Thus, one of the pre-requisites of the economic systems is that of a “social contract” between the individual and the state along with the legal and other forms of enforceable contracts. As can be seen, an effective economic and social system not only takes care of the constituents but also enforces the mode of behavior through a set of laws and regulations to be followed. Thus this is a kind of win-win situation for all the players concerned.

In communist societies, the state had an additional responsibility to ensure that the material wellbeing of the citizens is taken care under the auspices of the state. Thus, one of the conditions for communal ownership was the co-ordination of the services and the goods.

The society as a whole gains from the distribution of wealth and its effects on the economy are as real as the whole structure of production and distribution of services are concerned. Society participates by providing services and gets paid in return. On the other hand the political economy enforces the contracts of the participants and the players concerned. Overall, society stands to gain from the methods of production and distribution of goods and services.

Individuals perform duties as per the market rules for participation and are guaranteed their share of the profits according to the norms of the wages prescribed.

Current trends

With the advent of the Internet and the rise of the “dot com” companies, a new kind of Economic system based on the “virtual” exchange of goods and services is arising that leads to dramatic shifts of wealth around the world.

However, there is also a need to refine the current market economies for them to have proper regulation and oversight. Unfettered capitalism is as risky as an absence of economic system. The whole edifice of an economic system can come down if not properly regulated and enforced.

As far as the current market crises are concerned, it is imperative that some kind of "paradigm shifts" occur within the systems and these are taken care of by the regulatory authorities.

CONCEPT OF CAPITALISM, SOCIALISM AND MIXED ECONOMY

An economic system is a mechanism with the help of which the government plans and allocates accessible services, resources and commodities across the country. Economic systems manage elements of production, combining wealth, labour, physical resources and business people. An economic system incorporates many companies, agencies, objects, models, as well as for deciding procedures.

Capitalist Economy:

According to Gary M. Pickersgill and Joyce E. Pickersgill, "The capitalist system is one characterised by the private ownership of the means of production, individual decision making, and the use of the market mechanism to carry out the decisions of individual participants and facilitate the flow of goods and services in markets."

In a capitalist system, the products manufactured are divided among people not according to what people want but on the basis of Purchasing Power which is the ability to buy products and services. This means an individual needs to have the money with him to buy the goods and services. The Low-cost housing for the underprivileged is much required but will not include as demand in the market because the needy do not have the buying power to back the demand. Therefore, the commodity will not be manufactured and provided as per market forces.

Two types of capitalism may be found in the economic system:

(1) The old laissez faire capitalism and

(2) The modern, regulated and mixed capitalism.

Characteristics of Capitalism:

The following are the **basic characteristics** of a **'pure' capitalism system:**

1. **Private Property:**

Every individual has a right to hold property. This means that every individual is free to consume his private property and every individual has a right to transfer his property to his successors after death. Individuals have their property rights protected and are usually free to use their property as they like as long as they do not infringe on the legal property rights of others.

Private property, however, is protected, controlled and enforced by law. Private property is necessary because it supplies the motive underlying economic activity. In a capitalist economy, the factors of production land, labour and capital are privately owned, and production occurs at private initiative.

2. **Free Enterprise:**

Free enterprise, an essential feature of the capitalist system, is merely an extension of the concept of property rights. The term free enterprise implies that private firms are allowed to obtain resources, to organise production and to sell the resultant product in any way they choose. In other words, there will not be any government or other artificial restrictions on the freedom and ability of the private individuals to carry out any business.

3. **Price Mechanism:**

The price mechanism plays an important role in the production of goods and services. Under capitalism, the price is determined by the demand and supply.

4. **The Market System:**

The market mechanism is the key factor that regulates the capitalist economy. A market economy is one in which buyers and sellers express their opinions about how much they are willing to pay for or how much they demand of goods and services. Prices guide the purchase decisions of the consumers.

At the same time, while they decide to buy or not to buy a product, consumers vote for or against the product by using their money. Thus, market prices, which reflect the desires of millions of consumers, provide guidance to investors and other business persons. The market system, also called the price system, may, therefore, be regarded as the organising force in a capitalist economy.

5. **Economic Freedom:**

Another feature of capitalism is economic freedom.

This freedom implies three things:

(1) Freedom of enterprise,

(2) Freedom of contrast,

(3) Freedom to use one's property.

Under the capitalism, everybody is free to take up any occupation that he likes, and to enter into agreements with fellow citizens in a manner most profitable to him.

In a capitalist economy, the individual is free to choose any occupation he is qualified for. This freedom of choice enables the worker to make the best possible bargain for his labour. This implies that the employers have to competitively bid for labour. Freedom of occupational choice, however, does not mean guarantee of the job a worker opts for; the choice is practically limited by the extent of availability of the jobs.

6. **Consumers' Sovereignty:**

Consumers' sovereignty is at its best in the capitalist system where consumers have complete freedom of choice of consumption. Under capitalism, the consumer is the king. Consumers' sovereignty means freedom of choice on the part of every consumer. The consumer buys whatever he likes and as much as he likes.

The money price which the consumer offers expresses his wish. The production decisions in the free-market economy are based on the consumer desires which are reflected in the demand pattern. Frederic Benham remarks- "Under capitalism, the consumer is the king."

7. **Unplanned Economy:**

As is clear from the features mentioned above, the capitalist system is essentially characterised by the absence of a central plan. No central economic planning is done in a capitalist economy.

There are no rules and regulations framed by the central agency. The productive function is the result of decision taken by a large number of entrepreneurs. Freedom of enterprise, occupation and property rights rule out the possibility of a central plan. Resource allocation and investment decisions in a free market economy are influenced by market forces rather than by the State.

8. **Freedom to Save and Invest:**

The freedom to save is implied in the freedom of consumption, for savings depend on income and consumption. The term saving implies the sacrifice of consumption. As George Halm observes- "The right to save is supported by the right to transmit wealth, so that the choice between present and future consumption is not limited to the adult life of one person. The freedom to save, inherit, and accumulate wealth is, therefore, a right which is perhaps more typical for the private enterprise system than is free choice of consumption and occupation."

9. **Economic Inequalities:**

Another feature of capitalism is the existence of glaring inequalities in income, wealth and economic power. The existence of big monopolies results in the concentration of not only income and wealth but also of economic power in the hands of a few people.

10. **Motive of Profit:**

Profit is an important element of capitalism Investment tends to take the direction in which there is more possibility of profit. If the producers feel that they can obtain greater profit by the production of comfortable goods they will be inclined to do so without caring what people actually need.

11. **Competition:**

Competition among sellers and buyers is an essential feature of an ideal capitalist system. Competition reduces market imperfections and associated problems. Therefore, in a free market economy, a sufficient amount of competition is considered necessary if the whole production and distribution process is to be regulated by market forces.

Competition is necessary in a private enterprise economy to keep initiative constantly on alert, to protect the consumer, and to maintain a sufficiently flexible price system.

12. **Limited Role of Government:**

The absence of a central plan does not mean that the government does not play any role in a private enterprise economy. Indeed, government intervention is necessary to ensure some of the essential features and smooth functioning of the capitalist system. For example, government interference is necessary to define and protect property rights, ensure freedom of entry and exit, enforce contractual agreements among private entrepreneurs, ensure the satisfaction of certain community wants, etc. However, government interference in the system is comparatively very limited.

The pure capitalist system described above is highly idealised system. There is hardly any pure capitalist or free enterprise system in the real world today. The capitalist economies of today are characterised by state regulation in varying degrees. As a matter of fact, the modern capitalist economies are mixed or regulated systems.

Such regulated capitalist or market economies include the United States, Canada, Australia, the United Kingdom, France, Italy, the Federal Republic of Germany, Japan, Spain, New Zealand, the Netherlands, Belgium, Denmark, Sweden, Switzerland, Norway, etc.

Merits of Capitalism:

1. Automatic Working: Capitalism is controlled by the profit motive and price mechanism. Thus, there is coordination under capitalism. The whole activity is automatic in capitalism.

2. Capital Formation: Capitalist economy encourages formations of capital in the society. New industrial and commercial institutions are set up with the objective of profits and also encourage income and savings.

3. Maximum Satisfaction: In capitalism, production is carried on, keeping in view the needs and tastes of the consumer. This provides maximum satisfaction to the consumer who is a king in a capitalist economy.

4. Reward according to Capacity: In capitalism people are rewarded according to their capacity, to work and labour. The more people have the spirit of daring adventure, the more they are rewarded.

5. Efficiency: Under capitalism there is wide competition among the producers. In the competitive race it is the able producer who wins the race. An efficient producer produces the best goods at cost of production. Thus, capitalism encourages efficiency.

Demerits of Capitalism:

1. Economic Inequality: Capitalism gives complete freedom of private property, occupation and profession and is controlled by price mechanism. This leads to economic inequalities. The rich become richer and the poor become poorer.

2. Inefficiency in Working: The efficiency of the capitalistic system depends on the existence of free competition and the mobility of factors of production. But the existence of social, economic and legal issues hampers free competition with the result that the factors of production often lie idle.

3. Neglect of National Interest: The capitalists are mainly oriented towards self-interest of maximisation of profits and for this purpose they complete each of the formalities. They neglect the social interest. They do not complete their activities, keeping in view the national interest.

4. Lack of Coordination: Under capitalism the central government has no control over the activities of the businessmen and producers. The decisions pertaining to production mostly depend on the producers. The leads to irregularities, excess production and trade cycles. Thus there is a lack of coordination under capitalism.

5. Unemployment: Some of the economists are of the view that under a capitalist system full employment situation cannot be brought due to the lack of central economic planning. As a result, optimum use of resources cannot be possible. This brings up the situation of unemployment.

Evaluation of Capitalism:

Pure capitalism is an idealised system. It is very difficult to realise the avowed virtues of a free enterprise economy in the real world. There is no invisible hand that ensures the smooth functioning of the capitalist system.

Unregulated capitalism suffers from the following drawback:

1. In capitalism investment allocation is guided by only profitability criterion, sufficient investment may not take place in areas where profitability is low, however essential they

may be. Profitability would be generally high in sectors which cater to the needs of the upper income strata.

A large part of the resources of the nation may, therefore, be utilised for the satisfaction of the needs of the well-to-do. Resource allocation under pure capitalism will not, therefore, be optimal.

2. The right to property and freedom of enterprise are likely to lead to concentration of income and wealth and the widening of inter-personal income disparities.
3. Though, according to the theory, there will be free competition, in the real world the large firms are likely to gain an advantageous position which would eventually lead to monopolies.
4. The operation of free market mechanism in the long run is detrimental to the lower and middle level of society. It creates imbalances in the standard of living also.

On the basis of the demerits of capitalism H.D. Dickinson writes, "Capitalism … is fundamentally blind, purposeless, irrational and is incapable of satisfying many of the urgent human needs."

Socialist Economy:

According to Webbs, "A socialised industry is one in which the national instruments of production are owned by public authority or voluntary association and operated not with a view to profit by sale to other people, but for the direct service of those whom the authority or association represents."

In the words of H.D. Dickinson, "Socialism is an economic organisation of society, in which the material means of production are owned by the whole community according to a general economic plan, all members being entitled to benefit from the results of such socialist plant production on the basis of equal rights."

This economy system acknowledges the three inquiries in a different way. In a socialist society, the government determines what products are to be manufactured in accordance with the requirements of society. It is believed that the government understands what is appropriate for the citizen of the country, therefore, the passions of individual buyers are not given much attention. The government concludes how products are to be created and how the product should be disposed of. In principle, sharing under socialism is assumed to be based on what an individual needs and not what they can buy. A socialist system does not have a separate estate because everything is controlled by the government.

Characteristics of Socialism:

The important characteristics of socialism are as follows:

1. **Government Ownership:**

In socialist economy the means of production are either owned by the government or their use is controlled by the government. The state holds the ownership on the means of production and they are utilised for the welfare of the society. There is no private property in respect of the means of production.

In communist countries like the USSR and China, the means of production are mostly owned by the state. In some socialist economies, the private sector also plays a very important role. In such cases, the government directs and regulates investment allocation and production pattern in accordance with national priorities.

In some countries, such as India, some of the basic sectors, including a major part of institutional finance, are in the public sector so that the resource allocation and investment pattern of the private sector may be regulated by regulating the flow of the basic inputs to the private sector.

When the state owns almost the whole of the means of production, it is much easier to achieve the desired pattern of resource allocation. State capitalism, of course, has its own defects and limitations.

2. **Central Planning:**

Under socialism, the central planning authority or a Planning Commission formulates an overall plan for the entire economy according to certain objectives and priorities. The socialist economies generally have a central authority like the central planning agency to formulate the national plan for development and to direct resource mobilisation, allocation and investment to achieve the plan targets.

In the word of Dickinson, "Economic planning is the making of measured economic decisions, what and how much is to be produced, and to whom this is to be allocated by the conscious decision of determinate authority, on the basis of comprehensive survey of the economic systems as a whole."

Socialist economies are sometimes called command economies because the central planning authority commands the pattern of resource utilisation and development. They are also called centrally planned economies. Centrally planned economies include the USSR, China, the German Democratic Republic (East Germany), Poland, Romania, etc.

3. Social Welfare:

Another feature of socialism is that the means of production are operated with the object of promoting and serving the good of the community rather than for the benefit of few persons. Under socialism, the productive resources of the community are diverted to the production of goods and services which maximise social welfare rather than earn the largest profits.

4. Lack of Competition:

Since there is governmental control over means of production, government has a hand in the matter of the kind of product to be produced, the quantity to be produced and determination of its price. There is no scope for competition.

5. Restriction on Consumption:

In communist countries, there is no consumer sovereignty because the state decides what may be made available to consumers, unlike in the market economies where the consumers have the freedom to choose from a wide variety. The consumers in a communist system, thus, have to content themselves with what the state thinks is sufficient for them.

6. Restriction on Occupation:

The freedom of occupation is absent or restricted in socialist countries. An individual may not have the freedom to choose any occupation he is qualified for. Similarly, individual freedom of enterprise is absent or restricted.

7. Fixation of Wages and Prices by the Government:

The wage rates and prices in a communist economy are fixed by the government and not by market forces. Non-communist socialist countries may also fix wages and prices or regulate them by certain means.

8. Equitable Distribution of Income:

An equitable distribution of income is an important feature of the socialist system. This does not mean, however, that socialist systems aim at perfect equality in income distribution. Wage differentials, depending on the nature and requirements of the job, are recognised in socialist countries.

The objective of equitable income distribution maybe achieved by fixing the wage rates and other economic rewards or by means of fiscal and other appropriate measures.

The traditional socialism emphasised government ownership of factors of production. But a number of today's socialist systems are based on government control of the means of production rather than pure state capitalism. Even the Euro-communism shows a more liberal view than the Russian and Chinese systems. The recent changes in USSR and India are its best example.

Merits of Socialism:

1. Economic Equality: Under socialism, there is control of government over production, there is no scope for centralisation of wealth. Wealth is distributed among all the people. This avoids economic inequalities.
2. Production Planning: Under the socialist economy, the object is to serve the real demands and to fulfill the real needs of the people. For this purpose it arranges plant productions.
3. Economic Stability: Under socialism the government establishes coordination between the demand for production and supply of various goods. Thus there is a little likelihood of over-production and under-production. As a result, there is economic stability in a socialist economy.
4. Proper use of National Resources: Under capitalism, the central planning authority is better equipped than a capitalist market in locating price output fluctuations. The state uses the means of production for optimum welfare of the society.

Demerits of Socialism:

1. Difficulties of Management: In a socialist system all production setup is based on government planning, wherein the government officials have to shoulder all responsibilities. As a result, the government officials are heavily burdened with the work and it makes proper management difficult.
2. Lack of Freedom: In a socialist economy, it is a government which controls the economy. The workers are not free to choose occupation according to their choice. The government controls on all the activities of human life hinder developments.
3. Lack of Consumer's Sovereignty: In a socialist setup proper attention is not paid towards the likes and dislikes of the consumer. The government machinery determines the nature and quantity of production. Thus, the consumer is not a king in a socialist economy.
4. Lack of Rational Calculation of Cost: The economists are of the view that in socialist system, there is lack of rational calculation of cost in production process. Efficient production becomes impossible in the absence of rational calculation of cost. The reason is the state ownership of the sources of production.

Evaluation of Socialism:

Socialism has become a very appealing and flexible concept. It has been aptly remarked that socialism is a cap that has lost its shape because so many different people have worn it. Indeed, there is a large variety of socialism today.

Democratic socialism strives to achieve a trade-off between the free enterprise system and state capitalism. Communism and state capitalism, however, suffer from a number of drawbacks.

Some of the important among these are the following:

1. Civil liberties are suppressed under communism: Under communism; man is a mere cog in the machine. If a free and fair election is conducted in the totalitarian countries, it is doubtful if people will vote for the status quo.
2. There is no consumer sovereignty in totalitarian systems. The state decides what and how much the people shall consume.
3. The central planning authority commands the resource allocation, investment and development pattern. But the views of the authority need not always be the right ones. As criticism is hardly tolerated, there is a limited scope for accommodating different views and making critical evaluations.

Mixed Economic:

According to J.D. Khatri, “A mixed economic system is that in which the public sector and private sector are allotted their respective roles in promoting the economic welfare of all sections of the community.”

According to J.W. Grove, “One of the pre-suppositions of a mixed economy is that private firms are less free to control measure decisions about production and consumption than they would be under capitalist free enterprise, and that public industry is free from government restraints than it would be under centrally directed socialist enterprise.”

Mixed systems have characteristics of both the command and market economic systems. For this purpose, the mixed economic systems are also called dual economic systems. However, there is no sincere method to determine a mixed system. Sometimes, the word represents a market system beneath the strict administrative control in certain sections of the economy.

Characteristics of Mixed Economy:

1. Division of Public and Private Sector: In mixed economy, public and private sectors are divided into two parts. In one part are the industries, the responsibility for the development of which is entrusted to the state and they are owned and managed by the state. In the second part, the consumer goods industries, small and cottage industries,

agriculture, etc., are given to the private sector. It may be noted that the government does not work against the private sector.

2. Government Control: Mixed economy cannot function without exercising control over the private enterprises in the public interest. This control is necessary for the government to introduce and implement its policies.
3. Protection of Labour: Under mixed economy, government protects the weaker sections of society, especially labour, that is, it saves labour from exploitation by the capitalist. Minimum wages and the working hours have been fixed. The government takes a number of steps to prevent industrial disputes.
4. Reduction of Economic Inequalities: In mixed economy the government takes necessary steps for the reduction of inequalities of income and wealth. In the democratic system, the governments try to reduce economic inequalities for promoting social justice, social welfare and increasing production for all.

Merits of Mixed Economy:

1. Economic Freedom: Under mixed economy the consumers are free to act according to their choice. There is complete freedom for people to choose their profession. Economic liberty is available to people.
2. Control on Monopolistic Activities: In a mixed economy, both public and private sector co-exist and the private sector gets the opportunity to develop. There is a restriction on monopolistic activities for which the government enacts various rules and regulations.
3. Social Welfare: Under this system, the capitalist organisations are controlled by government. The industrial, economic and financial policies of government are based on the concept of social welfare.
4. Planning and Proper Use of Resource: Under mixed economy the attention is given to planning. After proper survey all the resources are distributed into different sectors of the economy. This leads to proper and efficient utilisation of resources.

Demerits of Mixed Economy:

1. Temporary Economic System: Mixed economy cannot be maintained as permanent economic system. At the very early stage of development this system was found suitable but later on, its principles went on diminishing.
2. Danger to Democracy: It is possible that with the passage of time socialism may become powerful. In such condition the whole economic system would go under the control of government. Thus, there might be danger to democracy.

3. Imbalance in the Economy: The mixed economy cannot provide proper development as the government wants to maintain a balance between the private and public sector. The policies of the government are not clear; with the result there exists presence of imbalance in the economy.

India is regarded as the best example of a mixed economy. The evaluation of such an economy in India is based on values as embodied in the Directive Principles of State Policy in the Indian Constitution. According to these Directive Principles it is obligatory on the part of the state to have a democratic form of government and within the framework of democracy to bring about a rapid economic development of the Indian economy in order to raise the national income and the standard of living of the masses.

The Directive Principles of the Indian Constitution lay down that the Slate strives "to promote the welfare of the people by securing and protecting as effectively as it may, social order in which justice social, economic, and political shall inform all the institutions of national life." In the economic sphere, the state is to direct its policy to secure a better distribution of ownership and control of the material resources of the community and to prevent concentration of wealth in the hands of a few and the exploitation of labour.

It would be impossible for the state to attain the ends implied in the directive unless it enters the field of production and distribution. How can the state raise the level of national income and standards of living of the toiling masses in India unless it promotes rapid industrialisation through its own participation?

In India, therefore, the state is pledged to the establishment of a socialist order of society in which the present glaring inequalities of wealth would be reduced to the minimum. But then, the state would not be prepared to eliminate the system of private enterprise, which, in spite of many mistakes and obvious handicaps, has been doing a good job in the field of production and distribution.

Our mixed economy, therefore, is the result of our devotion to democracy and also to socialism. The result has been a growing state sector side by side with a growing private sector.

The Indian economy is a mixed economy characterised by the co-existence of private, public, joint and cooperative sectors and cottage, tiny, small, medium and large industries. Though there are overlapping in a number of areas, certain areas are specifically earmarked for different sectors, or some sectors are ruled out of some areas with a view to achieving certain socio-economic objectives.

The first important characteristic of a mixed economy is the existence of both private and public sectors. In a sense, both capitalist and socialist economies may be regarded as mixed economies, because as has been mentioned before, public sector will definitely exist in a capitalist economy and a small private sector will exist in a socialist economy.

The existence of a small public or private sector in a capitalist or socialist economy will not convert them into mixed economies. The important thing is that the government should follow a definite policy and should declare through the legislature its determination to allow the co-existence of the two sectors. Through law, the scope of each is clearly marked out.

Secondly, a mixed economy is necessarily a planned economy. The mixed economy does not mean simply a controlled economy in which the government interferes in economic matters through fiscal and monetary policies, but it is an economy in which the government has a clear and definite economic plan.

The government has operated according to certain planning and to achieve certain social and economic goals. But the government cannot leave the private sector to develop in its own unorganised manner, and therefore, it will have to prepare an integrated plan in while the private sector has well defined place.

Thirdly, the mixed economy has the salient features of capitalism and also of socialism very clearly and cleverly incorporated together. For instance, the private sector enterprises are based on self-interest and profit motive. Individual initiative is given full scope and the system of private property is respected. Individual freedom and competition are allowed to exist.

At the same time, it is not free or laissez faire capitalism but it is controlled capitalism since the scope of free enterprise and initiative, the driving forces of self-interest of society. Either they are restricted to certain industries or they are controlled through legislative and other measures. On the other hand, the public sector industries are managed and operated on the basis of welfare of the community.

Here private property and profit motive have no place. Competition is avoided and so too are the possible wastes of competition. The advantages of planning and relative equality of incomes are harmonised with the advantages of private initiative and profit motive.

The ideal of a mixed economic system has been adopted because it has been found to be the best system for the realisation of the goal of democratic socialism. A properly balanced system, where each of the sectors has a specific role to play, can make a significant contribution to growth with social justice.

The mixed system is a via media between the free enterprise economy and state capitalism or communism. Such a mixed economy harnesses and harmonises the resources and skills of both the private and public sectors for national development. It is expected to have the positive effects of the free enterprise and state capitalism without their negative effects.

With a view of effectively regulating the private sector, not only is the private sector subject to a number of checks and controls, but the public sector has acquired control over the commanding heights of the economy. However, the private sector is given positive support for growth and development in the areas in which it is expected to function.

There is no denying the fact that the public, private, joint and cooperative sectors have made their own contributions to the economic development of the country, though each suffers from some drawbacks and deficiencies, the mixed economic system has assisted in the acceleration of the pace of development, for it has facilitated the augmentation of the productive resources and their channelisation and utilisation in accordance with policy.

This is not to say that there have not been distortions or improper developments. But such distortions are the result of defective implementation rather than that of a defective policy.

The mixed economic system, no doubt, is best suited for a vast developing country like India. Our development experience since independence bears testimony to this. Had not the public, private and other sectors played their respective roles, it would not have been possible for India to achieve whatever growth and diversification it has attained.

The regulation of the private sector and the dominance of the public sector in certain areas are necessary for the attainment of the objective of the prevention of concentration of economic power in a few hands to the common detriment, to check the economic dominance and power of the private sector against social interest, and to promote social justice.

At the same time the pace of development has been accelerated by allowing the private sector to function in a number of areas. A lot of resources, including skills, would otherwise have gone unutilised.

The joint sector is an attempt at utilising the resources and talents of both the public and private sectors, with social orientation to achieve development in the desired direction. The co-operative sector, which involves the operation of the democratic spirit, has been encouraged in a number of areas to augment the resources of the common man and to facilitate their greater involvement in the development process.

FEATURES OF INDIAN ECONOMY

Dependence on Agriculture

Majority of India's working population depend on agricultural activities to pursue their livelihood. In 2011 about 58 percent of India's working population was engaged in agriculture. In spite of this, the contribution of agriculture to India's gross domestic product is a little over 17 percent. A major concern of agriculture in India is that productivity in this sector is very less. There are many reasons for this. There is heavy population pressure on land to sustain huge number. Due to population pressure on land the per capita availability of land area is very low and not viable for extracting higher output. Two, since per capita land availability is less, a majority of people are forced to become agricultural labour working at low wages. Three, Indian agriculture suffers from lack of better technology and irrigation facilities. Four, mostly people, who are not educated or not trained properly, are engaged in agriculture. So, it adds to low productivity in agriculture.

Low per capita income

India is known in the world as a country with low per capita income. Per capita income is defined as the ratio of national income over population. It gives the idea about the average earning of an Indian citizen in a year, even though this may not reflect the actual earning of each individual. India's per capita income for the year 2012-2013 is estimated at Rs. 1,39,168/-. This comes to about Rs. 11,598/- in 2021 per month. If we compare India's per capita income with other countries of the world then it can be seen that India is well behind many of them. For example, the per capita income of USA is 15 times more that of India while China's per capita income is more than three times of India.

Income Disparities: a report released by Credit Suisse revealed that the richest 1% Indians owned 53% of the country's wealth, while the share of the top 10% was 76.30%. To put it differently, in a manner that conveys the political economy of this stunning statistic, 90% of India owns less than a quarter of the country's wealth.

Heavy population pressure

India is world's second largest populated country after China. As per 2011 census India's population stands at more than 121 crores. It increased at a rate of 1.03 percent during 1990-2001. The main cause of fast rise in India's population is the sharp decline in death rate while the birth rate has not decreased as fast. Death rate is defined as the number of people died per thousand of population while birth rate is defined as the number of people taking birth per thousand of population.

In 2010, the birth rate was 22.1 persons per one thousand population while the death rate was only 7.2 persons per one thousand population. Low death rate is not a problem. In fact it is a sign of development. Low death rate reflects better public health system. But high birth rate is a problem because it directly pushes the growth of population. After 1921, India's population increased very fast because birth rate declined very slowly while death rate declined very fast. From 49 in 1921 the birth rate declined to 22.1 in 2010 while during the same time period, death rate declined from 49 to 7.2. Hence the population growth was very rapid in India.

Heavy population pressure has become a major source of worry for India. It has put burden on the public exchequer to mobilize enough resources to provide public education, health care, infrastructure etc.

Backwardness of Infrastructural Development:

As per a recent study, 25% of Indian families don't have reach of electricity and 97 million peoples don't have reach of safe drinking water and 840 million people in India don't have sanitation services. India needs 100 million dollars for infrastructural development upto 2025.

Use of Outdated Technology:

It is very clear that Indian production technique is more labour oriented in nature. So, it increases the cost of production of the products made in these countries.

Traditional Set Up of Society:

Indian societies are trapped in the menace like casteism, communalist, male dominated society, superstitions, lack of entrepreneurship, and 'chalta hai attitude' of the peoples. These all factors hindered the growth of the country as a whole.

INDIAN ECONOMY : Primary, Secondary and Tertiary Sectors

The three-sector model in economics divides economies into three sectors of activity: extraction of raw materials (primary), manufacturing (secondary), and service industries which exist to facilitate the transport, distribution and sale of goods produced in the secondary sector (tertiary). The model was developed by Allan Fisher, Colin Clark, and Jean Fourastié in the first half of the 20th century, and is a representation of an industrial economy. It has been criticized as inappropriate as a representation of the economy in the 21st century.

According to the three-sector model, the main focus of an economy's activity shifts from the primary, through the secondary and finally to the tertiary sector. Countries with a low per capita income are in an early stage of development; the main part of their national income is achieved through production in the primary sector. Countries in a more advanced state of development, with a medium national income, generate their income mostly in the secondary sector. In highly developed countries with a high income, the tertiary sector dominates the total output of the economy.

The rise of the post-industrial economy in which an increasing proportion of economic activity is not directly related to physical goods has led some economists to expand the model by adding a fourth quaternary or fifth quinary sectors, while others have ceased to use the model.

PRIMARY INDUSTRY:

The primary sector is concerned with the extraction of natural resources or raw materials from the earth. The economic operations of a primary sector are usually dependent on the nature of that particular place. These industries create products that will be sold or supplied to the general public. A primary industry's economic operations revolve around using the planet's natural resources, such as vegetation, earth water, and minerals.

Mining, farming, and fishing are examples of primary industries. This extraction yields raw materials and staple foods, coal, wood, iron, and corn.

Primary industry can be divided into two types:

1. **Genetic industry**: The genetic sector encompasses the development of raw materials that can be improved via human involvement in the manufacturing process. Agriculture, fisheries, forestry, & livestock management, are all genetic industries vulnerable to scientific & technological advancements in renewable resources.

2. **Extractive industry:** The extractive industry produces finite raw materials that cannot be replenished through cultivation. Mineral ores are mined, the stone is quarried, and mineral fuels are extracted in the extractive industries.

The primary industry is often the most important sector in emerging countries. When we consider animal farming as an example, it is significantly more important in Africa than in any other country.

SECONDARY INDUSTRY:

After primary industries have accumulated raw materials, secondary industries enter into the picture. The construction and manufacturing industries are primarily included in the secondary industry. The transition of raw materials into finished items is part of the secondary sector. For example, wood is used to make furniture, steel is used to make automobiles, and textiles are used to make clothing.

In order to manufacture products that will be marketed to the general public, secondary industries frequently use massive machinery in production plants. Even human power can be employed to package these items for distribution to retailers and other locations.

Most of these businesses generate a large amount of waste, which can result in significant environmental difficulties and pollution.

Secondary industry is divided into two categories:

- **Heavy industry**: Large-scale manufacturing often necessitates a significant capital investment in equipment and machinery. Heavy and massive items are among the features of the heavy industry. It caters to a vast and diverse market, which includes various manufacturing sectors.

This industry is primarily made up of construction, transportation, & manufacturing enterprises. Ships, petroleum processing, machinery production are among the most common operations in this heavy industry.

- **Light industry**: The light industry usually requires a relatively smaller quantity of raw materials, lesser power and smaller area. The items produced in light industries are minimal, and they are very easy to transport.

Home, personal products, food, beverages, electronics, and apparel are among the most common operations in this light industry.

TERTIARY INDUSTRY:

Tertiary industries market secondary industries' products to consumers. They are usually not involved in creating products but rather in the provision of services to the general public and other industries. The creation of different nature services, such as experiences, discussion, access, is the most significant feature of the tertiary sector.

The tertiary sector is divided into two categories.

1. The first group consists of businesses that are into making money, such as those in the financial sector.
2. The second group consists of the non-profit sector, which includes services such as public education.

The industries of the Tertiary sector include investment, finance, insurance, banking, wholesale, retail, transportation, real estate services; resale trade; professional, legal, hotels, personal services; tourism, restaurants, repair and maintenance services, police, security, defence services, administrative, consulting, entertainment, media, information technology, health, social welfare and so on.

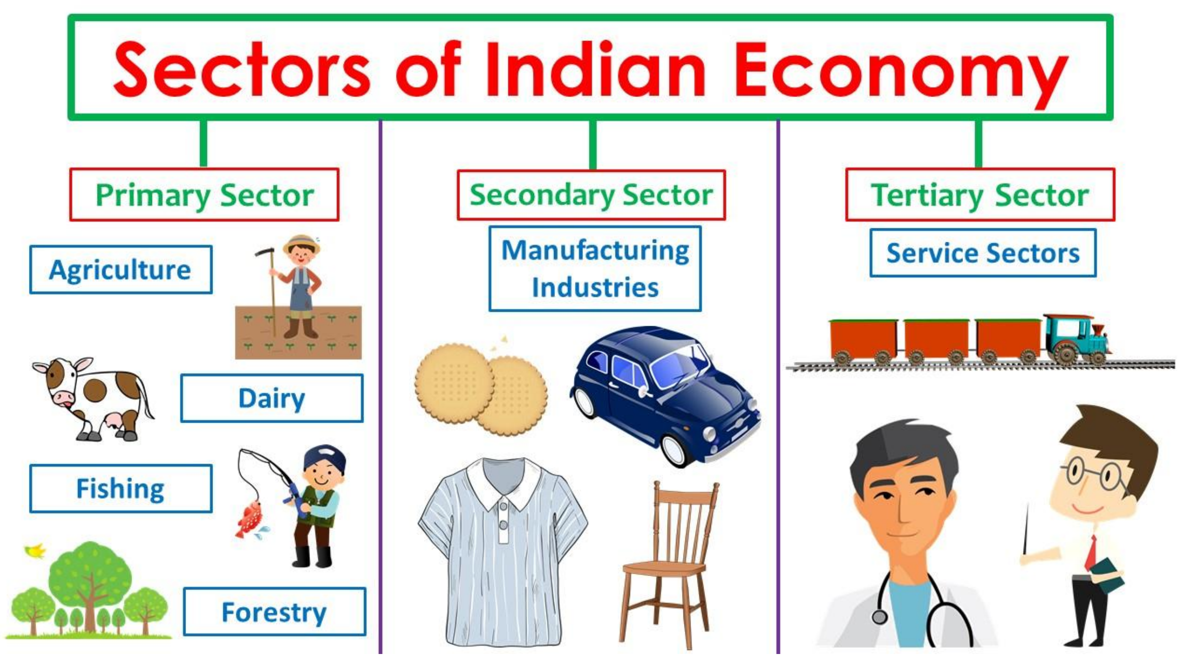
Tertiary industry classifications

Telecommunications:
This is a field that deals with the transfer of signs, words, signals, messages, images, sounds, or information of any type across radio, the internet, and television networks.

Professional services:

The tertiary sector includes a variety of professions that need specialised knowledge and training in the arts & sciences. Engineers, architects, surgeons, attorneys, and auditors are among the licenced professionals in this sector.

Franchises:
It is a practice of selling the right to utilize a particular business model and brand for a set period.



Relationship between Government & Business Organization

The government most often directly influences organizations by establishing regulations, laws, and rules that dictate what organizations can and cannot do.

To implement legislation, the government generally creates special agencies to monitor and control certain aspects of business activity.

For example, the environment protection agency handles Central Bank, Food and Drug Administration, Labour Commission, Securities, and Exchange Commission and much more.

These agencies directly create, implement laws and monitor its application in the organization.

Governments sometimes take an indirect approach to shaping the activities of business organizations. These are also done by implementing laws or regulations but they are not always mandatory.

For instance, the government sometimes tries to change organizations' policies by their tax codes.

The government could give tax incentives to companies that have an environment-friendly waste management system in a production factory.

Responsibilities of Business towards Government:

The Government has certain definite expectation from business.

1. **Regular Payment of Taxes:**

Taxes are a major source of revenue for the Government. It is the responsibility of every businessman to pay regular taxes on sales, inputs and income. Moreover, it is the duty of the businessman, as an employer, to deduct the income tax from the salaries of the employees and remit the same to the government treasury.

2. **Voluntary Programmes:**

Another expectation of the Government from the business is that the business firms should cooperate with Government agencies on voluntary basis in connection with various programmes.

Such as:

(i) Sponsoring social welfare programmes

(ii) Cultural growth

(iii) Environmental preservation

(iv) Promoting education

(v) Population control measures

(vi) Assistance in connection with drought relief etc.

Business does all this under the name of social responsibility.

3. **Providing Information:**

It is another responsibility of the business houses to give feedback information to the Government on the decisions taken by the political leaders. Business has necessary knowledge and experience. They can, therefore, place before the decision makers the facts and problems and argue for the modification or changes. This can be done by them individually or collectively.

4. **Government Contracts:**

Due to privatisation of the economy a number of Government contracts are executed by private business houses. Many business houses submit the tenders. It is the responsibility of the business houses to carry out the projects according to required specifications and standards.

5. **Providing Service to the Government:**

Sometimes, some influential and competent businessmen are included in the Advisory boards constituted by the Government. Some businessmen are appointed as members of the delegations who go abroad for exploring trade and industry prospectus.

6. **Corporate Contributions to Political Activities:**

The business houses are involved in the political activities in the following ways:

(a) Making monetary contributions to political parties particularly at the time of elections.

(b) To contest elections as independents or on party tickets.

(c) Through lobbying, which refers to the behaviour after the election and is concerned with securing legislation in favour of business.

It is the responsibility of the business houses to make sure that their political involvement provides an additional safeguard against the authoritarian potential of a mass society.

Responsibilities of Government towards Business:

The business has its own expectations from the Government.

Specifically, the expectations of the business or the responsibilities of the Government towards business are as follows:

1. **Political Institutions:**

(i) Government is responsible for preparing the laws which make the business system function smoothly. In these we include various economic and business laws.

(ii) It is the responsibility of the Government to provide for the implementation of the laws.

(iii) Further, it is the responsibilities of the Government to provide a proper judicial system for settling the disputes between business firms, individuals or Government agencies.

2. **Provision of a Peaceful Atmosphere:**

Government has the responsibility of maintaining law and order situation in the country and to provide protection to persons and their property. No successful business can be carried on in the absence of a peaceful atmosphere.

3. **Provision of a System of Money and Credit:**

The Government has to provide for a system of money and credit by means of which business transactions can be effected. Further, it is the responsibilities of the Government to regulate money and credit and to protect the money value of the rupee in terms of other currencies.

4. **Balanced Development & Growth:**

It is the responsibility of the Government to make sure that there is balanced regional development, full employment and a stable economy. Government has the resources and capabilities for all this; the only requirement is optimum utilisation of resources.

5. **Provision of a Basic Infrastructure:**

It is the responsibility of the Government to provide a basic infrastructure to the business this includes provision of banking, finance, transportation, power, trained personnel, warehousing and the other civil amenities.

6. **Provision of Information:**

It is the responsibility of the central, state and local Governments to provide information, which is useful to the businessman in conducting their business activities. This information may be about economic and business activity in general, specific lines of business, scientific and technological developments and many other things of interest to business houses.

7. **To Assist Small Scale Industries:**

The Government has special responsibility towards small scale industries because these industries generally face problems relating to finance, marketing, technical know-how and infrastructure. It is the responsibility of the Government to provide these facilities and to encourage small scale sector.

8. **Transfer of Technology:**

Another responsibility of the Government is that whatever discoveries are made by the Government owned research institutions should be transferred to private industry so that these can be used for commercial production.

9. **Competition with Private Sector:**

Government should compete with the private business firms for the purpose of ensuring healthy competition, improvement in the quality and regulating the prices.

10. **Licensing and Inspections:**

Government agencies should inspect the private business houses to ensure quality and to prohibit the sale of substandard goods. Moreover the Government should issue licenses to competent business establishments, so that they may carry on different and useful business activities.

11. **Protection from Foreign Competition:**

Government should encourage the development of home industries by providing them various subsidies and incentives. Moreover, measures like Tariffs and Quotas should be used by the Government to protect business from foreign competition.

ROLE OF GOVERNMENT IN BUSINESS

Regulator of Business:

The entire regulatory legislation and policies **stand** covered under this segment. On the one hand, there is a very large indirect area of government control over the functioning of private sector business through budgetary and monetary policies.

But against this there is also a fast-expanding area of direct administrative or physical controls through which the government seeks to ensure that private investment and production in industry and the use of scarce resources conform to government's basic socio-economic objectives.

They have become necessary tools in a system which seeks to avoid total nationalisation of resources.

Government's regulatory functions with regard to trade, business and industry aim at laying down the limits for the private enterprise. The regulatory functions of the Government include:

(i) Restraints on private activities

(ii) Control of monopoly and big business

(iii) Development of public enterprises as an alternative to private enterprises to ensure competitive dualism

(iv) Maintenance of a proper socio-economic infrastructure.

Promoter of Business:

The promotional role of the government in relation to industries can be seen as providing finance to industry, in granting various incentives and in creating infrastructure facilities for industrial growth and investment.

For example, our government has identified certain backward areas as 'No Industry Districts'. To promote development of such areas, Government provides subsidies and tax holiday to attract investment in backward areas.

In this way the government will help the process of balanced development and thereby remove regional disparities. The government is assisting the development of small scale industries.

The District Industrial Centers are assisting the development of small industries. The government is actively helping the industrial development of the country by providing finance to them through the development banks.

Government as the Planner:

In its role as a planner, the government indicates various priorities in the Five Year Plans and also the sectoral allocation of resources. Mixed economies are democratically planned economies.

The government tries to manage the economy and its business activities through the exercise of planning. Planning is the most important activity in a modern mixed economy. The idea of economic planning can be traced to three different sources: Rationalism, Socialism and Nationalism.

Economists advocate a planned economy on the ground that it can be a rational economy which can utilize the available resources in an optimal manner.

In other words, the planned economy is a rational economy which attempts to secure the maximum return with minimum wastage of productive resources.

The socialists advocate a planned economy because it helps to achieve some desirable social ends like economic equality. An unplanned economy, left to it, is incapable of attaining the social ends.

The nationalists advocate a planned economy because a planned economy is a powerful economy.

The Government's responsibilities towards business are as follows:

Providing Monetary System

The Government has to provide monetary system so that business transactions can be effected. Further, it is also the responsibility of the Government to regulate money and credit, and protect the money value of the currency in terms of other currencies.

Incentives to Home Industries

It is the responsibility of the Government to encourage the development of home industries by providing them various incentives and subsidies.

Conducting Inspections

It is the responsibility of the Government to inspect the private business concerns in order to make sure that they produce quality products, and also to prevent the production and sale of sub-standard goods.

Transfer of Technology

It is the responsibility of the Government to transfer to private industries whatever discoveries are made by the Government owned Research Institutions so that they can be used for commercial production.

Assistance to Small-scale Industries

It the responsibility of the Government to provide the required facilities and encourage the development of small-scale industries to overcome the problem faced by them.

Supply of Information

It is the responsibility of the Governments to provide information, which is useful to businessmen in carrying out their business activities. Government agencies publish and provide a large volume of information, which is used extensively by business firms. This information normally relates to economic and business activity, specific lines of business, scientific and technological developments, and many other things of interest to business houses or business leaders.

Provision of Basic Infrastructure

Government should provide basic infrastructural facilities such as transportation, power, finance, trained personnel and civic amenities, which are indispensable for the effective functioning of business concerns.

Balanced Regional Development and Growth

It is the responsibility of the Government to make sure that there are balanced regional developments and growth.

Maintaining Law and Order

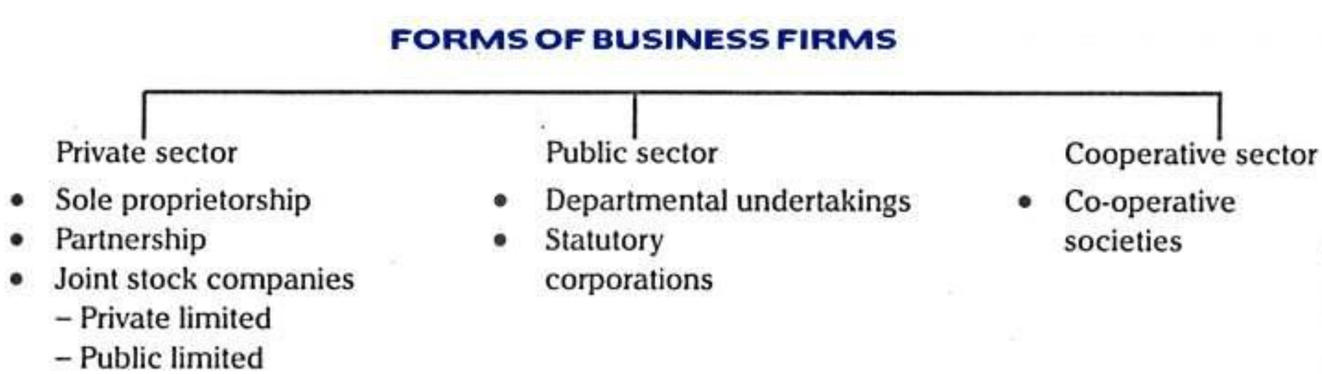
Maintaining law and order and protecting persons and property is another responsibility of the Government of the country. It would be impossible to carry on business in the absence of a peaceful atmosphere.

Enacting and Enforcing Laws

Enacting and enforcing laws is the prime responsibility of the Government of each country. This is because laws and regulations only enable the businesses to function smoothly. Further, Government provides a system of court for adjudicating differences between firms, individual or Government agencies.

PRIVATE, PUBLIC AND CO-OPERATIVE SECTORS

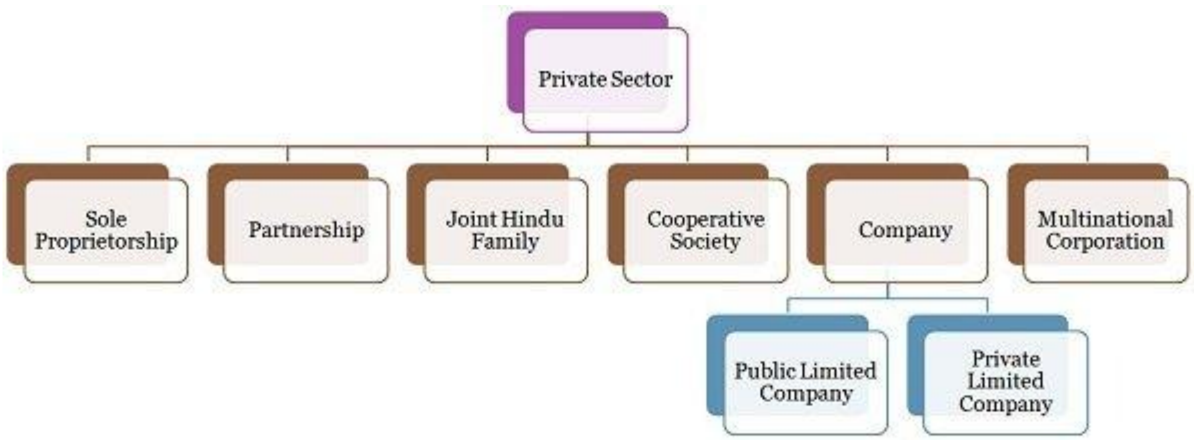
The stage of economic development and the level of economic activity determine the suitability of a form of business firm. In fact, a particular form of business firm play a dominant role in the economic activities at a particular stage of economic development. In other words, all forms of business firms play their due roles in the economic activities.



The total business activity in the country is carried out in three sectors Viz., private sector, public sector and cooperative sector. Private sector plays major role in capitalist or market economies. Public sector and cooperative sectors play significant roles in communistic or socialistic economic systems.

1. **Private Sector**

Private investment, management and control dominate in private sector. The forms of business firms in private sector include: sole proprietorship firms, partnership firms, private limited companies and public limited companies.



(a) Sole Proprietorship

The sole proprietor or sole trader is an individual who invests, owns, manages and controls the business. The individual invests his own and/or borrowed capital, manages the business, bears all the risks alone, enjoys all the profits and suffers from all the losses. Thus the sole proprietor is the sole owner, manager, controller, strategist, policy maker, risk-bearer, financier all rolled into one.

Advantages of Sole Proprietorship

The advantages of sole proprietorship form of businesses include: ease facility of formation, quick decision-making prompt, action, establishment of maximum personal contact with customers, confidentiality of business decisions, flexibility, lower costs of management etc.

Disadvantages of Sole Proprietorship

Sole proprietorship form of business suffers from the following disadvantages. They are: limited capital, limited abilities of management, unlimited liability when the business form incurs losses, absence of legal status, absence if specialization and economies of scale due to small size and the like.

(b) Partnership Firms

The limitations of sole proprietorship firms particularly, availability of limited capital, limited scope for expansion and small size of the business, partnership type of firms have emerged. A partnership is usually formed to combine capital, labour and varied specialized skills and knowledge.

The term partnership is defined by the Indian Partnership Act, 1932 as,

"The relation between two or more persons who have agreed to share profits of a business, carried on by all or any of them acting for all."

Features of Partnership Forms

The features of partnership include:

- It is a form of business firm.
- It is a result of agreement between two or among more than two partners.
- The object of starting a partnership is sharing of profit among partners.
- A partner can act simultaneously as principal/owner and an agent of the firm.
- The essence of partnership is the spirit of cooperation.
- The minimum number of members of a trading partnership firm is 20 and of a banking partnership firm is 10.
- The liability of partners is unlimited, joint as well as several. In other words, partners are jointly and individually liable for the payment of complete debts even from their personal assets.
- Partners are not permitted to sell or transfer their shares to others without the consent of all partners.

ADVANTAGES OF PARTNERSHIP FIRMS

The advantages of partnership firms include:

- High capital raising power of the firm
- Higher and varied managerial skills
- Easy formation of partnership firm
- Simple dissolution

- Maintenance of business secrecy and
- partners do the business continuously without taking much risk as the liability of the partners is unlimited, joint and several.

However, the partnership also suffers from some disadvantages.

Disadvantages of Partnership Firms

The disadvantages of partnership firms include:

- Limitation on capita
- Managerial skills of the partners may be limited
- Absence of separate legal status and stable life
- Dangers of unlimited, joint and several liability
- Problems of non-transferable shares of the partners and
- Absence of public confidence

(c) Joint Stock Companies

Neither the sole proprietorship firms nor partnership firms can normally mobilize large amount of capital required by large scale industries. Similarly these firms also can't provide necessary managerial skills for the large business houses. Another major problem of these two forms of business firms is unlimited liability. Added to this, is the emergence of large scale business firms resulting in the formation of Joint stock companies.

A joint stock company "is an incorporated association which is an artificial person (an association of natural persons) created by law having a common seal and perceptual succession." The joint stock company is a limited company because the liability of the owner/shareholder is limited to the extent of unpaid amount of the face value of the share.

Features of Joint Stock Company

The features of a joint stock company include:

- Compulsory incorporation
- Company is art artificial person
- Company has a common seal
- Company has perpetual/continuous life

- The company can enjoy expert and professional managerial talents and skills due to separation of ownership from management
- Company enjoys lower tax liability as it is recognized as an independent legal person
- The shareholders of a joint stock company have a privilege of limited liability. Their liability is limited to the extent of unpaid amount of the face value of the share
- Wide distribution of risk of loss due to large number of shareholders
- Easy transferability of shares: Members of the company can transfer their shares easily
- The capital of the joint stock is contributed by a large number of members. Thus the joint stock company has a large number of shareholders
- Capital mobilisation: The features of limited liability, large number of shareholders and easy transferability of shares enables the joint stock company to mobilize huge capital resources.

The joint stock companies are of two types viz., private limited companies and public limited companies.

Private Limited Companies

The features of the private limited company include:

- Limitation of membership: The minimum number of share holders are two and the maximum number of shareholders are 50
- Restriction on transfer of shares: Restrictions are imposed on the sale and transfer of shares. First preference for buying the shares should be given to the existing share holders at a fair price to be determined by the directors in consultation with the company auditors
- Prohibition on the public issue of shares: A private company cannot invite the public to subscribe to its shares or debentures through prospectus or any such open market offer
- Private company cannot issue share warrants.

Public Limited Company

Features of a public limited company include:

- Number of shareholders. The minimum number of shareholders are seven and the maximum number is unlimited,
- The shares are freely transferred

- Public limited company can approach the public by means of prospectus and other open market operations to issue the shares,
- Public limited company can issue share warrants

A comparative analysis of public limited company and a private limited company is presented in exhibit.

Point of Difference	Private Company	Public Company
No. of members	2 - 50 members.	7 – no limit members.
No. of Directors	Min. 2 directors to fill quorum.	Min. 3 directors are needed.
Invitation to general public	Does not invite general public to subscribe to its shares, debentures and public deposits.	Does invite general public to subscribe to its shares, debentures, public deposits.
Transfer of Shares	Prior permission required for transfer of shares	Free transfer of shares is permitted.
Prospectus	Need not issue prospectus.	It is compulsory to issue a prospectus or a statement in lieu of prospectus.
Statutory meeting and report	No compulsion for holding Statutory meeting and filling of statutory report.	It needs to hold a statutory meeting and must file a statutory report.
Legal formalities	Exempted from various legal formalities.	Has to comply with many legal formalities.
Min. paid up capital	Rs. 1 lakh	Rs. 5 lakh.

2. Public Sector

Public sector firms are organized differently for purposes of management and control.

They are departmental undertakings, statutory corporations, central boards and companies.

(a) Departmental Undertakings

The departmental form of public enterprises is the oldest form. The characteristics of this form include.

- Enterprises under this form are run by government department with a minister at its helm. For example, Indian Railways, Defence, Posts etc.

- They are financed from the treasury.
- Their day-to-day management is run by the civil servants.
- They are under the direct supervision of the parliament.
- The ministry concerned of the department is directly responsible to parliament for the efficient running of the firm.

(b) Statutory Corporations

A corporation is a body corporate created by a separate law, independently financed and vested with autonomy in managing its activities. For example: Life Insurance Corporation of India, Reserve Bank of India; Industrial Finance Corporation of India, Oil and Natural Gas Commission, Air India, National Textile Corporation etc.

The characteristics of the corporations are:

- Each public corporation is established separately by a statute with a separate legal entity.
- They are free from parliamentary control in its day-to-day management. Parliamentary control is limited to the business policies and strategic management
- These corporations do not have shareholders, but they can raise loans with the approval of the minister arid the consent of the treasury.
- The employees of these corporations are not civil servants.

(c) CENTRAL BOARDS

These are common in river valley projects which involve huge capital investments. These are normally set up with the help of both central government and state government concerned.

(d) Companies

According to Section 617 of the Companies Act, 1956, is that in which not less than 51

Percent of the paid up share capital is held by the central government, state government(s) or by the central government and state governments jointly. A subsidiary of a government company is also a government company. The **characteristics of a government company are:**

- The capital to the extent of 51 per cent and above is held by the government.
- All or majority of the directors are appointed by the government.
- It is created under the provisions of the companies act, 1956.

- Its funds are obtained from the government and private shareholders.
- It has freedom and functions on commercial lines.

3. **Cooperative Sector**

In cooperative forms of business firms, people voluntarily associate together, as human beings, on the basis of equality for the promotion of furtherance of their common economic interests. Cooperative organizations prefer

- Service maximization rather than profit maximization,
- Joint action instead of keen competition
- Self help and self-reliance rather than undue dependence on external bodies and
- Development of moral values of their members.

The different types of cooperative firms are: cooperative industrial firms, cooperative retail organizations, cooperative distribution agencies, cooperative banks etc.

Features of Cooperative Sector

The distinctive features of cooperative organizations include:

- Spirit of cooperation under the motto "each for all and all for each".
- United and joint action.
- Common interest.
- Economic democracy and democratic management: Individual members are recognised as human beings but not as capitalists. Every member has only one vote irrespective of amount of his investment or the number of shares he holds.
- Membership is open to all adults without caste or colour or creed.
- Emphasis is laid on moral values of the members.
- Dividend hunting element is absent and the fixed rate of return on the capital is assured.
- Cooperative organization has to be registered under the separate legislation.

Advantages of Cooperative Sector

The advantages of cooperative organizations include

- Cooperative organizations help the poor people who do not have other means.

- It is a judicious compromise between radical communism and extreme capitalism.
- Capitalism provides for removal of the evils of capitalism.
- Emphasis on the development of moral values and character.
- Cooperatives provide the advantage of limited liability to the extent of the face value of the share.
- Government provides different kinds of help to cooperatives as they are social organizations.

Disadvantages of Cooperative Sector

Despite the advantages, the cooperatives suffer from certain disadvantages. They are:

- The absence of cooperative spirit among the members is the greatest disadvantage.
- Cooperatives cannot raise huge financial resources
- Cooperatives cannot appoint specialized and professional managers due to their poor financial position.
- Excessive government involvement discourages the voluntary character of the cooperatives.
- The politics among the members weakens the functioning of cooperatives. Cooperative organizations failed in India due to these disadvantages.

Particulars	Private	Public	OPC	LLP
Min Members	2	7	1	2 partners
Max Members	200	Unlimited	1	No Limit
Min Directors	2	3	1	2 Designated Partners
Max Directors	15	15	15	No limit
Transfer of ownership	Ownership can be transferred through share, max 200 shareholder	Ownership can be transferred	Ownership can be transferred to nominee in the event of death of owner	Ownership can be transferred
Subscription of shares	Public subscription not allowed	Public subscription allowed	Public subscription not allowed	Public subscription not allowed
Issue of Prospectus	Not Mandatory	Mandatory	Not Mandatory	Not Mandatory
Managerial Remuneration	No limit for managerial personnel	Govt. approval, if remuneration payable is above limits	NA	Remuneration is based on LLP agreement
Commencement of Business/ Operations	Immediately after obtaining certificate of incorporation	Immediately after obtaining certificate of incorporation	Immediately after obtaining certificate of incorporation	Immediately after obtaining certificate of incorporation
Legal Status	Pvt Co is a separate legal registered under Companies Act, 2013. The Directors are liable for defaults made under the act	Public Co is a separate legal registered under Companies Act, 2013. The Directors are liable for defaults made under the act	OPC is a separate legal registered under Companies Act, 2013. The Directors are liable for defaults made under the act	LLP is a separate legal entity registered under LLP Act, 2008. The Designated partners of LLP are liable for contraventions under the act
Governing Act/ Law	Companies Act, 2013	Companies Act, 2013	Companies Act, 2013	LLP Act, 2008
Foreign Ownership	Investment allowed under automatic approval route in most sector	FDI is allowed under automatic route in the government allowed sector	The Director and Nominee Director cannot be foreigners	Allowed with prior approval of RBI and FIPB
Annual Statutory Filings	Annual statement of accounts & annual return with ROC	Annual statement of accounts & annual return with ROC	Annual statement of accounts & annual return with ROC	Annual statement of solvency & annual return with ROC
Annual Filings	IT return to be filed	IT return to be filed	IT return to be filed	IT return to be filed and audit mandatory in case turnover exceeds INR 40 lakhs

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