

Course Code – Econ(H) 221

Lecture : Economic Systems



Economic Systems

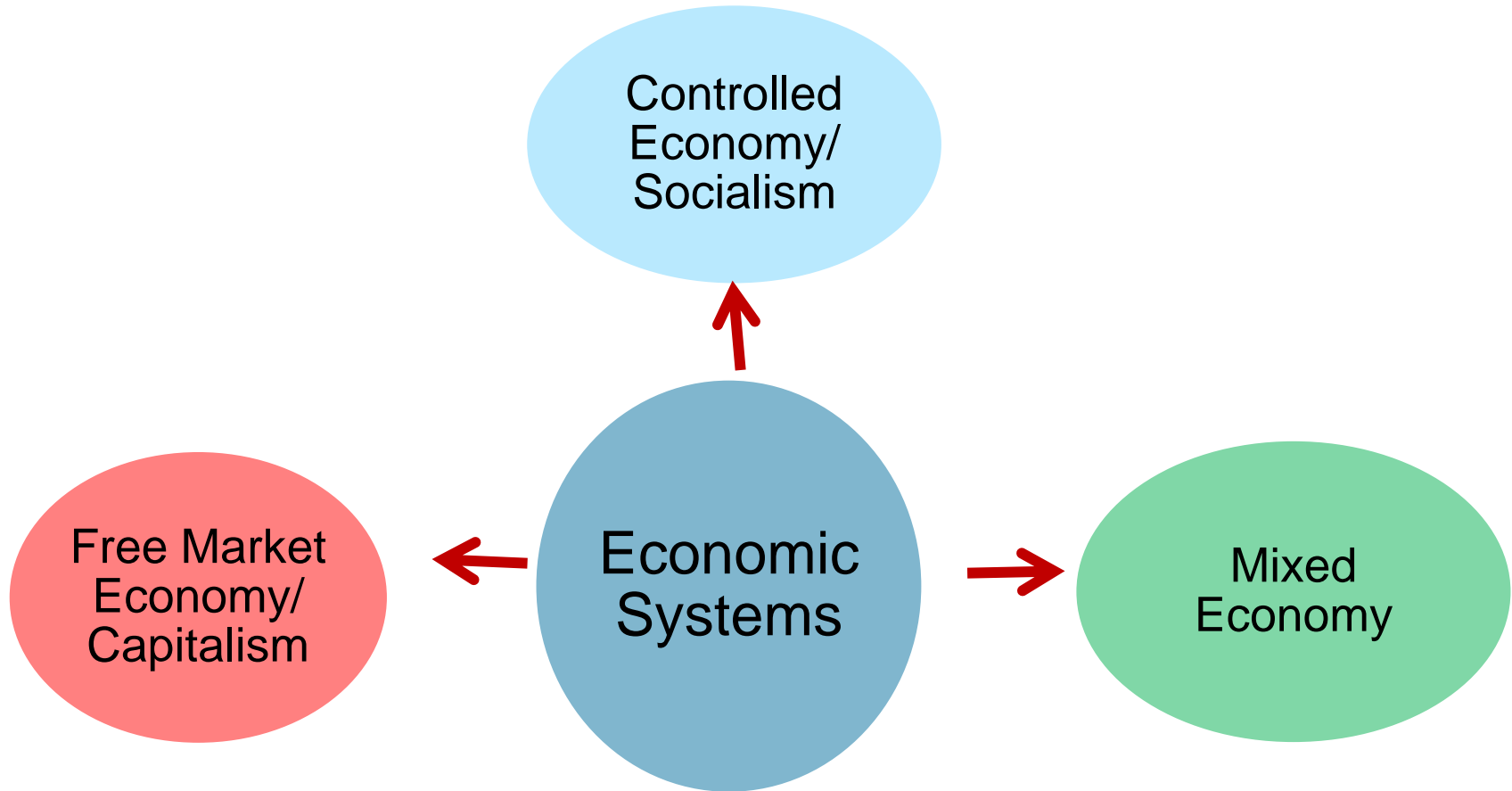
Economic System:

Refers to the method used by a society to produce and distribute goods and services.

- All Economic Systems must answer;
 - What goods and services to produce?
 - How will they produce them?
 - Who will get them?
 - How much will they produce now, and how much later?
- **Each economic system answers these questions in a different way.**

Economic Systems

(How the govt. influences how one does business)



Socialism

- It is a system under which the economic system of the country is controlled and regulated by the government to ensure overall welfare and equality of opportunity to the people in a society.
- Socialism focuses on abolition of the class relations which form the basis of capitalist production thought and on the socialization of land and capital (Maurice Dobb) .

Socialism – main features

- **Social or collective ownership:** all means of production are socially owned. No individual can keep capital at will in the form of machines, factory premises etc. However, it does not mean that individual can not have private property.
- **Central planning authority:** Govt. appointed central planning authority takes all economic decisions (what, how, when, for whom to produce)
- **Socialism has set objectives** (like rapid industrialization, raising of living standards, achieving full employment, reduction of social inequalities, etc) ; fully endorsed by the society and all efforts are made to achieve them.
- **Formulation of set economic plans**, which of course can be reviewed; all plans are formulated under government control.

Socialism – main features ...

- Lack of competition. (in fact state (govt.) assumes the role of monopolist.
- Social welfare is the main aim. Well being of one and all is the motto of this economic system
- Limited private power. Govt. controls the production sector. Public sector is the main production sector.

Merits of Socialism

- Best utilization of economic resources
- Better solution to basic problems
- No wasteful advertisement (e.g. selling costs in Monopolistic competition)
- Rapid economic development – central planning helps in fast execution of the projects, no time wastage
- No class struggle and no exploitation of labour (everybody is supposed to work as a member of the closed knit family)
- Less inequalities in wealth and distribution

Demerits of Socialism

- No proper basis of cost calculation (e.g. dumping etc. by China)
- Raises doubts whether the means of production are used efficiently (e.g. labour)
- No consumer sovereignty. Consumers may not be getting what they really want.
- No importance to personal efficiency and productivity.
- Lack of freedom – both in production and consumption
- Veil of secrecy: people in general are not aware of what is happening or what can happen in the economy.
- Less initiative. People work in a routine manner in the absence of incentives and hence no initiatives from their side.

Capitalism

- **Capitalism:** An economic system based on private ownership and on the investment of money in business ventures in order to make a profit
- The economic system of capitalism emerged in the 18th Century in western Europe (especially Britain).
- It emerged from more advanced and centralized feudal monarchies.
 - Non-agricultural production and trade came to displace feudal agriculture as most influential sector in society.
 - New forms of ownership and control arose to reflect new technology of work.
 - New social structures emerged to meet the needs of this new system.

Capitalism

- Every economy must produce enough to keep its participants alive, and to allow production to continue next year.
 - subsistence for the people.
 - Replace inputs to production (e.g., seeds for next year's crop).
- Production above and beyond this is the “economic surplus.”
 - It can be consumed, invested, or wasted.
 - Control & use of the surplus is a key dimension of economic organization.
 - Different economic systems do it differently

What “Caused” Capitalism

Several factors contributed to the emergence of capitalism...
... and its initial concentration in Western Europe.

- Technology (power systems, machinery).
- Unified, reliable markets (transport networks, weights & measures).
- Resources (water power, coal).
- Empire (raw materials & slave labour from colonies; captive market for output).
- Government (strong state to oversee commerce, protect private property, manage colonies).

Common Themes/lessons

- Work is the source of all value added, no matter what the economic system.
- Humans learn by doing: as we work, we learn how to work better (technology).
- Social relationships and the organization of our work change with technology.
- Every society which produces a surplus, must decide who gets it, and what they do with it.
- Nothing in the economy is permanent.

Mixed Economic System

➤ Central theme or meaning:

- An economic system under which public and private sector cooperate to achieve the goal of economic well being of the society. After the Great Depression of 1929, Keynes had suggested an alternative to capitalist system where public and private sector cooperate.
- Paul A. Samuelson defines mixed economy,” that economy in which both public and private institutions exercise economic control”.

Mixed Economic System– main features

- Co-existence of both public and private sector: both the sectors supplement each other.
- Planned economy and government control.
- Private property and economic equality: Subsidies and Tax mechanism of the government aims at economic equality.
- Price mechanism and regulated economy.(market forces and government regulation are in operation)
- Profit motive and social welfare (profit motive to encourage innovation, investment and CSR etc. for welfare).
- Control over Monopoly

Merits of Mixed Economic System

- Encouragement to private sector
- Competition and efficient production
- Efficient allocation of resources
- Advantages of planning
- Economic equality
- Protection against exploitation (through govt. actions/ public sector).

Demerits of Mixed economic system

- Unstable economy
- Inefficient planning – because a large section of the economy remains beyond the control of the govt.
- Lack of efficiency – as public sector does not work efficiently (though changing)
- Corruption
- Hindrances in development of private sector
- Black money
- Wastage
- Efforts to disgrace public sector

Thank you

Dr (Ms) Kesari Singh
School of Business Management and Liberal Arts
Shoolini University
Village Bajhol, Solan (H.P)

+91 9816603968
kesari@shooliniuniversity.com