Quadrant II - Notes

Paper Code: COG 137

Module Name: Economic System - Meaning and Features of Capitalism, Socialism and Mixed Economy

Economic Environment

An economic system is a means by which societies or governments organize and distribute available resources, services, and goods across a geographic region or country.

Meaning of Capitalism

Capitalism or capitalist economy is referred to as the economic system where the factors of production such as capital goods, Labour, natural resources and entrepreneurship are controlled and regulated by private businesses. In a capitalist economy, the production of all the goods and services is dependent on the demand and supply in the market, which is also known as market economy.

Features of Capitalism

1. **Private Property:** This is one of the most important characteristics of capitalism, where private property like factories, machines and equipment can be owned by private individuals or companies.

2. **Freedom of enterprise:** Under this system in capitalism, every individual has the right to make their own economic decisions without any interference. This is applicable to both consumers and producers.

3. **Profit Motive:** The motive of earning profit is one of the most important drivers of a capitalist economy. In this system, all the companies are looking to produce and sell their products to consumers for earning maximum profit.

4. **Free trade:** In this system, there exist low tariff barriers that promote international trade.

5. **Government Interference:** In a capitalist economy there is no government interference in the daily activities of the business. The customer and producers are free to make their own decisions regarding any product or service.

Meaning of Socialism

Property and the means of production are owned, controlled and managed by the state. All economic activities come under the state control in Socialism. Private property does not exist. Every individual has to work to the best of his ability, and the Government takes the responsibility for fulfilling his needs.

In a socialistic system, the resources (factors of production) are owned by the State. The production and distribution of goods will be done for the welfare of the people arid not for the profit of the individuals.

In a socialistic economy, private property will not be allowed and private enterprise will be very little. All factories and firms will be nationalized and production will be done in the public sector. This is just the opposite of capitalism.

Features of Socialism

1. **State ownership:** All the factors of production are owned by the State. The government or the community owns the land and factories. There is no private sector.
2. **Production and distribution by the State**: State produces all goods and services in government factories and farms. It undertakes the distribution of goods to the people by itself.
3. **Central Planning and control:** There will be a planning authority in Socialism. This authority will decide what to produce, how to produce and for whom to produce. The planning Authority prepares the national plan for utilizing the resources of the economy. Production and distribution will be done accordingly. The price mechanism will be suppressed.
4. **Controlled production and consumption:** Production of essential commodities will be done first. Production is done not for profit, but for social use. Even if there is any profit, it will go to the State. Mass consumption will not be allowed. Each will be given according to his need.
5. **Social Security:** The State provides all social security measures such as unemployment benefit health insurance etc.

6. **Reduction of inequalities:** Socialism attempts to reduce the difference between the rich and the peer. It aims at a classless society and eliminates class struggle by giving equal opportunity to work.

Mixed Economy

A mixed economic system is a system that combines aspects of both capitalism and socialism. A mixed economic system protects private property and allows a level of economic freedom in the use of capital, but also allows for governments to interfere in economic activities in order to achieve social aims.

Features of mixed Economy

1. **Co-existence of Private and Public Sector:** Under this system there is co-existence of public and private sectors. In public sector, industries like defence, power, energy, basic industries etc., are set up. On the other hand, in private sector all the consumer goods industries, agriculture, small-scale industries are developed. The government encourages both the sectors to develop simultaneously.
2. **Private property is allowed:** In mixed economy, private property is allowed. However, here it must be remembered that there must be equal distribution of wealth and income. It must be ensured that the profit and property may not concentrate in a few pockets.
3. **Economic Planning:** In a mixed economy, government always tries to promote economic development of the country. For this purpose, economic planning is adopted. Thus, economic planning is very essential under this system.
4. **Profit Motive and Social Welfare:** In mixed economy system, there are both profit motive like capitalism and social welfare as in socialist economy.
5. **Check on Economic Inequalities:** In this system, government takes several measures to reduce the gap between rich and poor through progressive taxation on income and wealth. The subsidies are given to the poor people and also job opportunities are provided to them. Other steps like concessions, old age pension, free medical facilities and free education are also taken to improve the standard of poor people. Hence, all these help to reduce economic inequalities.