

Course Name:-B.A.LLB-IIth Sem

Subject:-Economics-II

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Topic:- *Mixed Economy*

Mixed economy is that economy in which both government and private individuals exercise economic control.” –Murad.

Meaning

It is a golden mixture of capitalism and socialism. Under this system there is freedom of economic activities and government interferences for the social welfare. Hence it is a blend of both the economies. The concept of mixed economy is of recent origin.

The developing countries like India have adopted mixed economy to accelerate the pace of economic development. Even the developed countries like UK, USA, etc. have also adopted ‘Mixed Capitalist System’. According to Prof. Samuelson, “Mixed economy is that economy in which both public and private sectors cooperate.” According to Murad, “Mixed economy is that economy in which both government and private individuals exercise economic control.”

Main Features of Mixed Economy

(i) 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.

(ii) Personal Freedom

Under mixed economy, there is full freedom of choice of occupation, although consumer does not get complete liberty but at the same time government can regulate prices in public interest through public distribution system.

(iii) 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.

(iv) 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.

(v) Price Mechanism and Controlled Price

Under this system, price mechanism and regulated price operate simultaneously. In consumer goods industries price mechanism is generally followed. However, at the time of big shortages or during national emergencies prices are controlled and public distribution system has to be made effective.

(vi) Profit Motive and Social Welfare

In mixed economy system, there are both profit motive like capitalism and social welfare as in socialist economy.

(vii) 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.

(viii) Control of Monopoly Power

Under this system, government takes huge initiatives to control monopoly practices among the private entrepreneurs through effective legislative measures. Besides, government can also take over these services in the public interest.

Types of Mixed Economy

Capitalistic Mixed Economy

In this type of economy, ownership of various factors of production remains under private control. Government does not interfere in any manner. The main responsibility of the government in this system is to ensure rapid economic growth without allowing concentration of economic power in the few hands.

Socialistic Mixed Economy

Under this system, means of production are in the hands of state. The forces of demand and supply are used for basic economic decisions. However, whenever and wherever demand is necessary, government takes actions so that basic idea of economic growth is not hampered.

Characteristics of Mixed Economy

1. Co-existence of the Private and Public Sectors

Co-existence of the private and public sectors is the outstanding feature of mixed economy. In mixed economy, both public sector as well as private sector industries will be functioning. Certain industries will be in the public sector and certain industries in the private sector. Private individuals and firms own private sector industries. Profit will be the primary motive of private sector industries. In public sector, industries

are owned and managed by the Government. Public industries will also have profit motive but that too for the promotion of social welfare.

2. Existence of Joint Sector

Joint sector is one where both Government and private individuals establish an organization jointly by contributing the necessary capital.

3. Regulation of Private Sector

Under mixed economy, Government exercises strict control and regulation over private sector industries.

4. Planned Economy

The entire economic structure is subject to the planning of the Government. Mixed economy is a planned economy. The planning commission decides the objectives, targets and allocation of resources etc.

5. Private Property

Under mixed economy, private firms and individuals have right to own and use property.

6. Provision of Social Security

Under mixed economy, Government takes steps to provide social security.

7. Motive of Business Concerns

The motive of the business concerns is profit but coupled with the objective of social welfare.

8. Reduction of Inequalities of Income and Wealth

The Government takes steps to reduce inequalities of income and wealth.

9. Complete Economic Freedom

There is complete economic freedom in mixed economy. Hence, the consumer is free to buy any commodity they like.

Advantages of Mixed Economy

The important advantages of mixed economy are as follows:

1. Efficiency

There will be competition between public and private industries, which will result in greater efficiency and production in a mixed economy.

2. Reduced inequality

The profit of public sector industries goes to the Government and as a result inequalities of income will be reduced in mixed economy.

3. Systematic plan

In a mixed economy, economic activities are carried out as per plan. The entire economic system is subject to systematic planning of the Government.

4. Economic Stability

The economic activities take place in a planned manner. So there will be economic stability in mixed economy.

5. Consumer sovereignty

Goods are produced as per the wishes of the consumers, which results in consumer's sovereignty in a mixed economy.

6. Freedom

In mixed economy, freedom of enterprise and profit motive are the important features. Further there is competition between public and private sectors. These factors increase efficiency, initiative, innovation and productivity.

7. Promotion of social welfare

Mixed economic system gives importance to the promotion of social welfare. Under this system, both private and public sectors work for the welfare of people.

8. Rights of Individual

Under mixed economy, individual rights are protected. People have freedom to buy any commodity.

Demerits of Mixed Economy

The mixed economy also suffers from various defects, which are as under:

1. Unhealthy Competition

There is unhealthy competition between private and public sectors in a mixed economy.

2. No freedom to pvt. sector

There is no freedom to private sector in mixed economy. This is because Government regulates private industries through its various regulations and licensing.

3. Inefficient public sector

Inefficiency of public sector is another demerits of mixed economy. They may suffer heavy losses. People will have to bear these losses. The objective and targets of economic planning also may not be achieved in a mixed economy.

4. Unemployment and Uncertainties

On account of capital scarcity, Government regulation and control, the growth of private sector may be less than what is fixed in plan. It may lead to unemployment and uncertainties in a mixed economy.

5. Threat of Nationalization

There is always a threat of nationalization in the mixed economic system because of which the private sector does not work actively.

In spite of the defects in the mixed economy, it has become popular in some countries. India is one of the important countries, which adopted mixed economy.