

UNIT-IV

KARL MARX

Karl Heinrich Marx (1818-1883) was born on May 5, 1818 in the city of Trier, Germany. His father was a lawyer who came from a long line of Rabbis, but had changed his faith to Protestantism in order to keep his job. Karl Marx went to the University of Bonn to study law when he was 17 years old. Here he became engaged to Jenny von Westphalen, whose father, Baron von Westphalen, influenced Marx to read Romantic literature and Saint-Simonian politics. Only a year later, Marx was moved by his father to the University of Berlin where he studied Hegelianism, influenced by Ludwig Feuerbach and other Hegelians. He admired G.W.F. Hegel's dialectics and belief in historical inevitability, but Marx questioned the idealism and abstract thought of philosophy and maintained his belief that reality lies in the material base of economics. In distinct contrast to G.W.F. Hegel's concentration on the state in his philosophy of law, Marx saw civil society as the sphere to be studied in order to understand the historical development of humankind. In 1841 Marx earned his doctorate at Jena with his work on the materialism and atheism of Greek atomists.

It was difficult for Marx to find publishers because of his radical political views, so he moved to Cologne, which was known to house a strong liberal opposition movement. The liberal group the Cologne Circle published a paper by Marx defending the freedom of the press in their newspaper *The Rhenish Gazette* (in 1842 he was made the editor of the paper). In Cologne Marx met Moses Hess, a radical who organized socialist meetings, which Marx attended. At these meetings Marx learned of the struggles of the German working-class. Based on the information he gathered from the members present at the meetings, Marx wrote an article on the poverty of the Mosel wine-farmers in which he was highly critical of the government. When the article was published in 1843, the Prussian authorities banned *The Rhenish Gazette* and threatened Marx with his arrest. Marx married his fiancé and they fled together to Paris. Here he took a position as editor of a political journal called *Deutsch-Französische Jahrbücher* (Franco-German Annals) that was designed to connect French socialism and radical Hegelianism. Although the journal only lived as long as one issue, it was a valuable opportunity for Marx. Through it he met his life-long friend Friedrich Engels, a contributor to the journal. Other prominent contributors included his old mentor from Berlin, Bruno Bauer, and the Russian anarchist Michael Bakunin.

While in Paris, Marx became a communist, and worked primarily on studying political economy and the history of the French Revolution. He wrote a series of papers known as *-konomisch-philosophische Manuskripte aus dem Jahre* (Economic and Philosophical Manuscripts, 1844), however they were not published until the 1930s. The Manuscripts are influenced by Feuerbach and outline a humanist idea of communism. Marx contrasts capitalist society, and an alienated nature of labor, with communist society, in which human beings in cooperative production develop their nature freely. In 1844 Marx reviewed Bruno Bauer's book *On the Jewish Question*. More than a review, Marx used the article to critique the continued influence of religion over politics, and propose a revolutionary change to the structure of European society.

In 1845 Marx was expelled from France by Guizot. He fled with Friedrich Engels to Brussels where they stayed for three years with intermittent trips to England to visit Engels' family who had cotton-spinning interests in Manchester. While in Brussels Marx wrote a piece against the idealistic socialism of P.J. Proudhon called *The Poverty of Philosophy*. He also worked on his materialist conception of history, and developed the manuscript that would come to be named *The German Ideology* when it was published after his death. This paper argues that the nature of an individual is dependent upon the material conditions that determine his production. It is a historical study of modes of production through the ages, and in it Marx predicts the collapse of industrial capitalism and the advancement of communism. Marx joined the Communist League at this time, which was an organization of German émigré workers centered in London. Marx and Engels became the major theoretical force of the League, and at a conference in 1847 they were commissioned to write a declaration of the League's position. The hope was that the *Manifest der kommunistischen Partei* (*The Communist Manifesto*) would inspire social revolution, and no sooner was it published than the 1848 revolutions broke out across Europe. This work marks a turn in Marx's writing from appealing to natural rights as justification for social reform, to indicating that the laws of history would inevitably lead to the power of the working class. The Manifesto distinguishes communism from other movements, proposes specific social reforms, and includes a description of the struggles between the proletariat and the bourgeoisie. It also explicitly encourages workers to unite in revolution against the existing regimes.

The panic caused by the February revolution of 1848 caused the Belgian government to expel Marx from Brussels. He was invited by the French provisional government to return to Paris. From there, he returned to Cologne with some friends to start the newspaper the *Neue Rheinische Zeitung*. The government there attempted to shut down the paper through legal means, and finally succeeded by finding pretexts to expel the editors. Marx and his friends were expelled after the revolts of May 1849, and the newspaper's last edition was June 1849. Marx had to return to Paris, but he was expelled again immediately, and moved on to London, which would be his final home.

In London Marx rejoined with the Communist League, confident that there would be further revolutionary action in Europe. He proceeded to write two pamphlets about the 1848 revolution in France and its effects, titled, *The Class Struggles in France* and *The 18th Brumaire of Louis Bonaparte*. He felt that new revolution would only be possible if there was to be a new crisis, and he hoped to uncover what would cause this crisis. He spent a large amount of his time in the British Museum studying political economy toward this end. For the first part of the 1850s Marx, Jenny, and their four children lived in an impoverished state in a three room flat in London's Soho. The couple would have two more children, but only three in all would survive. The family survived primarily on gifts from Friedrich Engels whose own income came from the family business in Manchester. Marx also earned a small amount from articles he wrote as the foreign correspondent for the *New York Daily Tribune*. In 1864 Marx and Friedrich Engels together founded the *International Workingmen's Association*, which would finally break up due to disagreements

between Marx and the anarchist Mikhail Babuknin.

By 1857 Marx had written an 800-page manuscript which was to become Das Kapital (Capital). This is his major work on political economy, capital, landed property, the state, wage labor, foreign trade and the world market. In the early part of the 1860s he took a break from his work on Das Kapital to

work on Theories of Surplus Value, a three-volume work. This text discusses specific theories of political economy, primarily those of Adam Smith and David Ricardo. In 1867 Marx published volume I of Das Kapital, an analysis of the capitalist process of production, with an elaboration on his version of labor theory value, surplus value, and exploitation, that he predicted would lead to a falling profit rate and the collapse of industrial capitalism. Marx continued to work on Volumes II and III of Das Kapital for the rest of his life, even though they were essentially finished in the late 1860s. Friedrich Engels would publish the last two volumes after Marx's death. By 1871 Marx's daughter Eleanor, who was 17 at the time, was helping her father with his work. She had been taught at home by Marx himself, and grew up with a rich understanding of the capitalist system which would allow her to play an important part in the future of the British labor movement.

Marx's health rapidly declined during the last ten years of his life and he was unable to work at the same impressive pace he had set in his early years. He still paid close attention to contemporary politics, especially concerning Germany and Russia, and he often offered his comments. In his Critique of the Gotha Programme he critiqued the actions of his admirers Karl Liebknecht and August Bebel, disagreeing with their compromises with state socialism in the interest of a united socialist party. He indicated in his letters to Vera Zasulich of this time that he imagined it could be possible for Russia to bypass a capitalist stage of development and move directly to communism by basing its economy on common ownership of land characterized by the village. In 1881 both Marx and his wife became ill. Marx had a swollen liver, and survived, but Jenny died on December 2, 1881. In January 1883 Marx was deeply saddened by the loss of his eldest daughter to cancer. On March 14, 1883 Marx passed away. He is buried at Highgate Cemetery in London.

1. Economic Ideas of Marx

For Karl Marx, the basic determining factor of human history is economics. According to him, humans - even from their earliest beginnings - are not motivated by grand ideas but instead by material concerns, like the need to eat and survive. This is the basic premise of a materialist view of history. At the beginning, people worked together in unity and it wasn't so bad. But eventually, humans developed agriculture and the concept of private property. These two facts created a division of labor and a separation of classes based upon power and wealth. This, in turn, created the social conflict which drives society.

All of this is made worse by capitalism which only increases the disparity between the wealthy classes and the labor classes. Confrontation between them is unavoidable because those classes are driven by historical forces beyond anyone's control. Capitalism also creates one new misery: exploitation of surplus value. For Marx, an ideal economic system would involve exchanges of equal value for equal value, where value is determined simply by the amount of work put into whatever is being produced. Capitalism interrupts this ideal by introducing a profit motive - a desire to produce an uneven exchange of lesser value for greater value. Profit is ultimately derived from the surplus value produced by workers in factories.

A laborer might produce enough value to feed his family in two hours of work, but he keeps at the job for a full day - in Marx's time, that might be 12 or 14 hours. Those extra hours represent the

surplus value produced by the worker. The owner of the factory did nothing to earn this, but exploits it nevertheless and keeps the difference as profit. In this context, Communism thus has two goals: First it is supposed to explain these realities to people unaware of them; second it is supposed to call people in the labor classes to prepare for the confrontation and revolution. This emphasis on action rather than mere philosophical musings is a crucial point in Marx's program. As he wrote in his famous Theses on Feuerbach: 'The philosophers have only interpreted the world, in various ways; the point, however, is to change it.' But eventually, humans developed agriculture and the concept of private property. These two facts created a division of labor and a separation of classes based upon power and wealth. This, in turn, created the social conflict which drives society.

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Economics, then, are what constitute the base of all of human life and history - generating division of labor, class struggle, and all the social institutions which are supposed to maintain the status quo. Those social institutions are a superstructure built upon the base of economics, totally dependent upon material and economic realities but nothing else. All of the institutions which are prominent in our daily lives - marriage, church, government, arts, etc. - can only be truly understood when examined in relation to economic forces. Marx had a special word for all of the work that goes into developing those institutions: ideology. The people working in those systems - developing art,

theology, philosophy, etc. - imagine that their ideas come from a desire to achieve truth or beauty, but that is not ultimately true.

In reality, they are expressions of class interest and class conflict. They are reflections of an underlying need to maintain the status quo and preserve current economic realities. This isn't surprising

- those in power have always wished to justify and maintain that power.

MATERIALISTIC INTERPRETATION OF HISTORY

Historical materialism, also known as the **materialist conception of history**, is a methodology used by scientific socialist and Marxist historiographers that focuses on human societies and their development through history, arguing that history is the result of material conditions rather than ideals. This was first articulated by Karl Marx (1818–1883) as the "materialist conception of history". It is principally a theory of history which asserts that the material conditions of a society's mode of production, or in Marxist terms the union of a society's productive forces and relations of production, fundamentally determine society's organization and development. Historical materialism is a fundamental aspect of Marx and Engels' scientific socialism, arguing that applying a scientific analysis to the history of human society reveals fundamental contradictions within the capitalist system that will be resolved when the proletariat seizes state power and begins the process of implementing socialism.

Historical materialism is materialist as it does not believe that history has been driven by individuals' consciousness or ideals, but rather subscribes to the philosophical monism that matter is the fundamental substance of nature and therefore the driving force in all of world history; this drove Marx and other historical materialists to abandon ideas such as rights (e.g. "right to life, liberty, and property" as liberalism professed). In contrast, idealists believe that human consciousness creates reality rather than the materialist conception that material reality creates human consciousness. This put Marx in direct conflict with groups like the liberals who believed that reality was governed by some set of ideals,^[4] when he stated in *The German Ideology*: "Communism is for us not a *state of affairs* which is to be established, an ideal to which reality [will] have to adjust itself. We call communism the real movement which abolishes the present state of things. The conditions of this movement result from the premises now in existence".

Historical materialism looks for the causes of developments and changes in human society in the means by which humans collectively produce the necessities of life. It posits that social classes and the relationship between them, along with the political structures and ways of thinking in society, are founded on and reflect contemporary economic activity. Since Marx's time, the theory has been modified and expanded by some writers. It now has many Marxist and non-Marxist variants. Many Marxists contend that historical materialism is a scientific approach to the study of history.

CLASS STRUGGLE

Class struggle, or class warfare or class conflict, is tension or antagonism in society. It is said to exist because different groups of people have different interests.

Looking at society this way is a feature of Marxism and socialism. Social sciences group people with similar social features into classes. Most of these features are economic.

According to Marxism, there are two main classes of people: The bourgeoisie controls the capital and means of production, and the proletariat provide the labour. Karl Marx and Friedrich Engels say that for most of history, there has been a struggle between those two classes. This struggle is known as **class struggle**. After *The Communist Manifesto* and *Das Kapital*, this concept became well known.

Class struggle happens when the bourgeoisie (the rich) pay the proletariat (the workers) to make things for them to sell. The workers have no say in their pay or what things they make, since they cannot live without a job or money.

Karl Marx saw that the workers had to work without any say in the business. He believed that since the workers make the things, they should say where they go and for how much, instead of the rich owners. They had to work hard to earn a living, while making the rich richer just doing simple office work.

Since they had to earn money to buy food, and jobs were the only things that give money, they had no choice but to work for the rich who made the business. The rich became richer while the worker hauled and lifted and did all of that hard manual stuff no one really likes to do.

Karl Marx thought that their labor limited their freedom. He wanted the workers to unite and take over the business, so that they could all be prosperous. He thought that the common man deserved to run the business, and that the rich were not better than the commoner.

THEORIES OF SURPLUS VALUE

Theories of Surplus Value (German: *Theorien über den Mehrwert*) is a draft manuscript written by Karl Marx between January 1862 and July 1863.^[1] It is mainly concerned with the West European theorizing about *Mehrwert* (added value or surplus value) from about 1750, critically examining the ideas of British, French and German political economists about wealth creation and the profitability of industries. At issue are the source, forms and determinants of the magnitude of surplus-value^[3] and Marx tries to explain how after failing to solve basic contradictions in its labour theories of value the classical school of political economy eventually broke up, leaving only "vulgar political economy" which no longer tried to provide a consistent, integral theory of capitalism, but instead offered only an eclectic amalgam of theories which seemed pragmatically useful or which justified the rationality of the market economy.

Theories of Surplus Value was part of the large Economic Manuscripts of 1861–1863, entitled by Marx A Contribution to the Critique of Political Economy and written as the immediate sequel to the first part of A Contribution to the Critique of Political Economy published in 1859. The total

1861–1863 manuscript consists of 23 notebooks (the pages numbered consecutively from 1 to 1472) running to some 200 printed sheets in length. It is the first systematically worked out draft of all four volumes of Capital, although still only rough and incomplete. Theories of Surplus Value forms the longest (about 110 printed sheets) and most fully elaborated part of this huge manuscript, and it is the first and only draft of the fourth, concluding volume of Capital. As distinguished from the three theoretical volumes of Das Kapital, Marx called this volume the historical, historico-critical, or historico-literary part of his work.

Marx began to write Theories of Surplus Value within the framework of the original plan of his Critique of Political Economy as he had projected in 1858–1862. On the basis of what Marx says about the structure of his work in his introduction to the first part of A Contribution to the Critique of Political Economy, in his letters of 1858–1862 and in the 1861–1863 manuscript itself, this plan titled Plan for the Critique of Political Economy can be presented in the following schematic form as projected by Marx in 1858–1862:

KEYNES' THEORY OF EMPLOYMENT: THE CONCEPT OF EFFECTIVE DEMAND:

According to classicists, there will always be full employment in a free enterprise capitalist economy because of the operation of Say's Law and wage-price flexibility. This classical theory came under severe attack during the Great Depression years of 1930s at the hands of J. M. Keynes.

He rejected the notion of full employment and instead suggested full employment as a special case and not a general case. Full employment is a temporary phenomenon, an astrological coincidence! He claimed his theory to be '**general**', i.e., applicable at any point of time. That is why he christened his epoch-making book: The General Theory of Employment, Interest and Money (1936). Thus, Keynes' theory is "**general**".

In this book, he not only criticized the classical macroeconomics, but also presented a '**new**' theory of income and employment. He is often described by economists as a revolutionary one in the sense that it was Keynes who salvaged the capitalist economy from destruction in the 1930s. Critics, however, label him as a '**conservative revolutionary**'.

Keynes' theory of employment is a demand-deficient theory.

This means that Keynes visualized employment/unemployment from the demand side of the model. His theory is thus known as demand-oriented approach. According to Keynes, the volume of employment in a country depends on the level of effective demand of the people for goods and services. Unemployment is attributed to the deficiency of effective demand.

It is to be kept in mind that Keynes' theory is a short run theory when population, labour force, technology, etc., do not change. Once Keynes remarked that since "**in the long run we are all**

dead”, it is of no use to present a long run theory. In view of this, one can argue that the volume of employment depends on the level of national income/output.

Higher (lower) the level of national output, higher (lower) is the volume of employment. Thus, Keynesian theory of employment determination is also the theory of income determination. In this section, we intend to determine the level of employment in terms of the principle of **‘effective demand’**.

(a) Meaning of Effective Demand:

Keynes’ theory of employment is based on the principle of effective demand. In other words, level of employment in a capitalist economy depends on the level of effective demand. Thus, unemployment is attributed to the deficiency of effective demand and to cure it requires the increasing of the level of effective demand.

By **‘effective’** demand, Keynes meant the total demand for goods and services in an economy at various levels of employment. Total demand for goods and services by the people is the sum total of all demand meant for consumption and investment. In other words, the sum of consumption expenditures and investment expenditures constitute effective demand in a two-sector economy.

In order to meet such demand, people are employed to produce all kinds of goods, both consumption goods and investment goods. However, to complete our discussion on effective demand we need another component of effective demand—the component of government expenditure. Thus, effective demand may be defined as the total of all expenditures, i.e.,

$$C + I + G$$

Where, C, I and G stand for consumption, investment, and government expenditures.

Here we ignore government expenditure as a component of effective demand. According to Keynes, the level of employment is determined by effective demand which, in turn, is determined by aggregate demand function or aggregate demand price and aggregate supply function or aggregate supply price.

In Keynes’ words:

“The value of D (Aggregate Demand) at the point of Aggregate Demand function, where it is intersected by the Aggregate Supply function, will be called the effective demand.”

i. Aggregate Supply (AS):

Employers hire and purchase various inputs and raw materials to produce goods. Thus, production involves cost. If sales revenue from the sale of output produced exceed cost of production at a given level of employment and output, the entrepreneur would be induced to employ more labour and other inputs to produce more.

At any given level of employment of labour, aggregate supply price is the total amount of money that all entrepreneurs in an economy expect to receive from the sale of output produced by given number of labourers employed. For each particular level of employment, there is an aggregate supply price.

Here, by '**price**' we mean the amount of money received from the sale of output, i.e., sales proceeds. Thus, aggregate supply prices refer to the proceeds from the sale of output at each level of employment and there are different aggregate supply prices for different levels of employment. If this information is expressed in a tabular form, we obtain "**aggregate supply price schedule**" or aggregate supply function.

The aggregate supply function is a schedule of the minimum amounts of proceeds required to induce varying quantities of employment. Simply, it shows various aggregate supply prices at different levels of employment. Plotting this information graphically, we obtain aggregate supply curve.

According to Keynes, aggregate supply function is an increasing function of the level of employment. Aggregate supply (AS) curve slopes upward from left to the right because volume of employment increases with the increase in sale proceeds.

But there is a limit to increase output level. This is called full employment level of output beyond which output cannot be increased. It is because of full employment that AS curve becomes vertical or perfectly inelastic. This means that the level of employment cannot exceed full employment (N_f) even by increasing aggregate supply price. This is shown in Fig. 10.4.

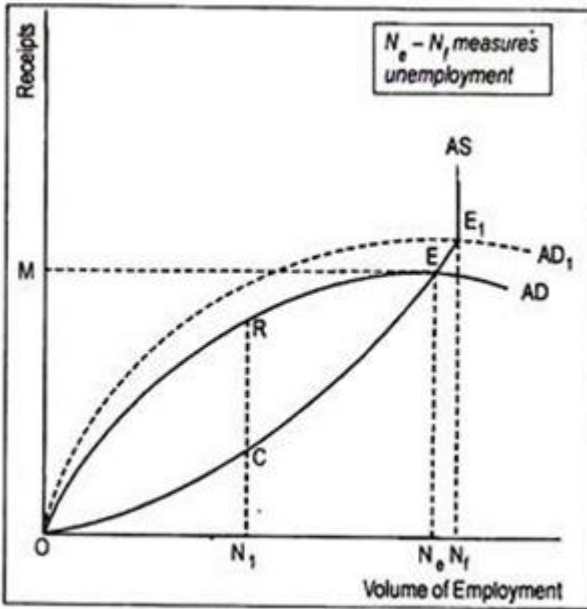


Fig. 10.4: Effective Demand and Determination of Employment

ii. Aggregate Demand (AD):

Aggregate demand or aggregate demand price is the amount of money or price which all entrepreneurs expect to receive from the sale of output produced by a given number of men employed. Or it refers to the expected revenue from the sale of output at a particular level of employment.

Each level of employment is associated with a particular aggregate supply price and there are different aggregate demand prices for different levels of employment. Like the aggregate supply schedule, aggregate demand schedule shows the aggregate demand price for each possible level of employment.

Plotting the aggregate demand schedule we obtain aggregate demand curve as there is a positive relation between the level of employment and aggregate demand price i.e., expected sales receipts. This is shown in Fig. 10.4. It rises from left to right.

(b) Equilibrium Level of Employment —the Point of Effective Demand:

We have studied separately aggregate demand and aggregate supply as the two determinants of effective demand. Now we will describe how equilibrium level of employment is determined in an economy by using the concept of effective demand.

The level of employment in an economy is determined at that point where the aggregate supply price equals the aggregate demand price. In other words, the intersection of the aggregate supply

function with the aggregate demand function determines the volume of income and employment in an economy.

It is thus clear that so long as expected sales receipts of the entrepreneur (i.e., aggregate demand schedule) exceed costs (i.e., aggregate supply schedule), the level of employment should be increasing and the process will continue until expected receipts equal costs or aggregate demand curve intersects aggregate supply curve.

Note that the AS curve starts from the origin. If aggregate receipts (i.e., GNP) are zero, entrepreneurs would not hire workers. Likewise, AD curve also starts from the origin. The equilibrium level of employment is determined by the intersection of the AS and AD curves.

This is the point of effective demand—point E in Fig. 10.4. Corresponding to this point, ON_e workers are employed. At the ON_1 level of employment, expected receipts exceed necessary costs by the amount RC. Entrepreneurs will now go on hiring more labour till ON_e level of employment is reached.

At this level of employment, entrepreneurs' expectations of profits are maximized. Employment beyond ON_e is unprofitable because costs exceed revenue. Thus, actual employment (ON_e) falls short of full employment (ON_f). Keynesian system shows two kinds of equilibria—actual employment equilibrium determined by AD and AS curves and underemployment equilibrium.

Keynes made little emphasis to the aggregate supply function since its determinants (such as technology, supply or availability of raw materials, etc.,) do not change in the short run. Keynes was examining the possibility of unemployment in a capitalistic economy against the backdrop of the Great Depression of 1930s.

After diagnosing the problem, Keynes recommended policy prescription so as to create more employment in the economy. Indeed, for curing unemployment problem, he did not subscribe to the classical ideas—the supply-oriented policies.

Keynes attached great importance to demand-stimulating policies to cure unemployment. In other words, Keynes paid emphasis on the aggregate demand function. That is why Keynes' theory is known as a '**theory of aggregate demand**'.

Fig. 10.4 shows the situation of equilibrium at less than full employment level. Actual equilibrium, ON_e , is short of full employment equilibrium, ON_f . Thus, the distance $ON_f - ON_e$ measures unemployment. This is called involuntary unemployment—a situation at which people are willing to work but do not find jobs. This unemployment, according to Keynes, is due to deficiency of aggregate demand.

This unemployment can be removed by stimulating aggregate demand. Aggregate demand is the sum total of consumption and investment demand or expenditures in the economy. By raising consumption expenditure, level of employment can be raised. But there is a limit to consumption expenditure. So what is needed is the raising of (private) investment demand.

Anyway, increase in consumption demand and investment demand will raise the level of employment in the economy. The point of effective demand has been changed in Fig. 10.4 because of the shifting of AD curve from AD to AD₁. New effective demand is now given by E₁. Corresponding to this point, equilibrium level of employment is ON_f—the level of full employment.

Thus, in Keynes' theory, unemployment is due to the deficiency of effective demand. Only by stimulating effective demand can a higher level of employment be achieved. However, Keynes goes on arguing that equilibrium level of employment will not necessarily be at full employment.

A capitalist economy will always experience underemployment equilibrium—an equilibrium situation less than full employment. Full employment, according to Keynes, can never be achieved. In Keynes' scheme of things, both consumption and investment cannot be raised enough to employ more work force.

Therefore, he recommends government to come forward and take appropriate action to cure unemployment problem. This means that aggregate demand is now the sum total of all consumption, investment and government expenditures.

It is because of the multiplier effect of both private investment expenditure and government expenditure that there will be larger income, output and employment.

ECONOMIC SYSTEMS

CAPITALISM

Meaning and Definition:

Under capitalism, all farms, factories and other means of production are the property of private individuals and firms. They are free to use them with a view to making profit. The desire to earn profit is the sole consideration with the property-owners in the use of their property. Under capitalism everybody is free to take up any line of production he wishes and is free to enter into any contract with a view to earn profit.

Definition:

(1) Prof. R. T. Bye has defined capitalism as “**that system of economic organisation in which free enterprise, competition and private ownership of property generally prevail.**” Thus, the definition hints at the major features of capitalism.

(2) In the words of Prof. LOUCKS:

“Capitalism is a system of economic organisation featured by the private ownership and the use for private profit of man-made and nature-made capital.”

(3) Similarly, Ferguson and Kreps has written that “in its own pure form, free enterprise capitalism is a system in which privately owned and economic decision are privately made”.

(4) Capitalism from Mc Connell view is:

“A free market” or capitalist economy may be characterised as an automatic self-regulating system motivated by the self interest of individuals and regulated by competition.”

A capitalist economy works through the Price System.

Prices perform two functions:

(i) A rationing function,

(ii) An incentive function.

Prices ration out the available goods and services among buyers according to the amounts each buyer wants and is able to pay for others whose desire is less urgent or whose income is smaller will receive smaller qualities.

Prices also provide an incentive for firms to produce more. Where demand is high prices will rise encouraging firms already in the industry to produce more and drawing new firms into the industry. Where demand is falling, prices will normally fall too. Firms will reduce their production, releasing resources for use in other industries where there is demand for them.

Firms are buyers as well as sellers. They buy material and supplies from other firms behaving exactly as private individuals do in deciding what to buy and how much to buy. If a new machine promises to reduce production costs or if a certain material can be substituted for another at a saving, the firm will buy the low-cost resources in order to complete with other firms.

The economy is tied together by millions of those interactions linking producers with one another and with consumers, linking one product with other products and linking every market with other markets. The point is that all the economic units in an economy are inter-related.

Main Features of Capitalism:

What a capitalistic economy actually is can be known through its main features. These are derived from the way certain functions are performed and the main decisions of the economy executed.

These may be stated as under:

1. Private Property and Freedom of ownership:

A capitalist economy is always having the institution of private property. An individual can accumulate property and use it according to his will. Government protects the right to property. After the death of every person his property goes to his successors.

2. Right of Private Property:

The most important feature of capitalism is the existence of private property and the system of inheritance. Everybody has a right to acquire private property to keep it and after his death, to pass it on to his heirs.

3. Price Mechanism:

This type of economy has a freely working price mechanism to guide consumers. Price mechanism means the free working of the supply and demand forces without any intervention. Producers are also helped by the price mechanism in-deciding what to produce, how much to produce, when to produce and where to produce.

This mechanism brings about the adjustment of supply to demand. All economic processes of consumption, production, exchange, distribution, saving and investment work according to its directions. Therefore, Adam Smith has called price mechanism as the “**Invisible Hand**” which operates the capitalist.

4. Profit Motive:

In this economy the desire to earn profit is the most important inducement for economic activity. All entrepreneurs try to start those industries or occupations in which they hope to earn the highest profit. Such industries as are expected to go under a loss are abandoned. Profit is such an inducement that the entrepreneur is prepared to undertake high risk. Therefore, it can be said that Profit Motive is the SOUL of capitalist economy.

5. Competition and Co-operation Goes Side by Side:

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

6. Freedom of Enterprise, Occupation and Control:

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

7. Consumer's Sovereignty:

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

8. It arises Class Conflict:

From this class-conflict arises. The society is normally divided into two classes the "haves" and the "have-not's", which are constantly at war with each other. Conflict between labour and capital is found in almost all capitalistic countries and there seems to be no near solution of this problem. It seems that this class-conflict is inherent in capitalism.

9. Leading Role of Joint Stock Companies:

In a joint stock company, business is carried on by a board of directors which is democratically elected by the shareholders of the company at its general body meeting. In view of this, it has been said that Joint stock Companies "**Democratic Capitalism**".

However the real functioning of the corporate sector is not really democratic because there is one-share-one vote election. Since, big business houses own a majority of the shares of a company, they manage to get re-elected and the company is run as if it were their family business.

10. Important Role of the Entrepreneur:

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

Merits of Capitalism:

The main merits and advantages of capitalism are as follows:

1. Production According to the Needs and Wishes of Consumers:

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

2. Higher Rate of Capital Formation and More Economic Growth:

People under capitalism have the right to hold property and pass it on in inheritance to their heirs and successors. Owing to this right, people save a part of their income so that it can be invested to earn more income and leave larger property for their heirs. The rate of capital formation increases when savings are invested. This accelerates economic growth.

3. There is Complete Freedom of Choice in a Capitalist Economy:

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

4. Optimum Utilisation of Resources Available:

The limited resources of the community are put to the most economical uses with as little waste as possible. There is keen competition among producers and entrepreneurs to produce and sell goods. Every producer and entrepreneur tries to use the productive resources at his disposal in the most economical manner in order to make maximum profit.

5. Efficient Production of Goods and Services:

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

6. Varieties of Consumer Goods:

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

7. In Capitalism there is no Need of Inducement or Punishment for Good and Bad Production:

A capitalist economy provides encouragement to efficient producers. The able an entrepreneur is, the higher is the profit he obtains. There is no need to provide any kind of inducement. The price mechanism punishes the inefficient and rewards the efficient on its own.

8. It Encourages the Entrepreneurs to Take Risks and Adopt Bold Policies:

Because by taking risk they can make higher profits. Higher the risk, greater the profit. They also make innovations in order to cut their costs and maximise their profits. Hence capitalism brings about great technological progress in the country.

9. It Provides the Best Atmosphere for Inventions:

Entrepreneurs are always on the look-out for new ideas to be applied to production. They try to beat each other in innovations. This leads to rapid expansion, greater employment and income. The investors are suitably rewarded with their royalties, through the copy right. Similarly, innovators enjoy the benefits of their research, through the system of patents and trade-marks.

10. It Provides a Good Deal of Flexibility:

This type of economy can automatically change with the circumstances. During war time market regulations are adopted to provide for the war machine. As soon as there is peace, the economy reverts to the free functioning of markets.

De-Merits of Capitalism:

The capitalist economy has been showing signs of stress and strain at different times. Some have called for a radical reform of the free-market economy. Others like Marx have considered capitalism economy to be contradictory in itself. They have predicted the ultimate doom of capitalist economy after a series of deepening crisis.

The main de-merits or dis-advantages of capitalist economy are as follows:

1. Inequality of Distribution of Wealth and Income:

The system of private property acts as a means of increasing inequalities of income among different classes. Money begets money. Those who have wealth can obtain resources and start big enterprises. The property less classes have only their labour to offer. Profits and rents less classes have only their labour to offer. Profits and rents are high.

Wages are much lower. Thus the property holders obtain a major share of national income. The common masses have their wages to depend upon. Although their number is overwhelming their share of income is relatively much lower.

2. Class Struggle as Inevitable in Capitalist Economy:

Some critics of capitalism consider class struggle as inevitable in a capitalist economy. Marxists point out that there are two main classes into which capitalist society is divided. The 'haves' which are the rich propertied class own the means of production. The "have not's" which constitute the wage earning people have no property.

The 'haves' are few in number. The 'have not's' are in majority. There is a tendency on the part of the capitalist class to exploit the wage-earners. As a result there is a conflict between the employers and the employees which leads to labour unrest. Strikes, lockouts and other points of tension. All this have a very bad effect on production and employment.

3. Social Costs are Very High:

A capitalist economy industrialises and develops but the social costs of the same are very heavy. Factory owners running after private profit do not care for the people affected by their production. The environment is polluted because factory wastes are not properly disposed of. Housing for factory labour is very rarely provided with the result that slums grow around big cities.

4. Unnecessary Multiplicity and too Much of Competition:

Consumers have to pay a high price for their freedom of choice and provision of variety. There is sometimes too much competition leading to unnecessary high costs of production because

competitors bid the prices of resources too high. There is wasteful advertisement. Sometimes sub-standard goods are highly advertised and the consumer is deceived.

5. Instability of the Capital Economy:

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

6. Unemployment and Under-employment:

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

7. Working Class does not have Adequate Social Security:

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

8. Slow and Unbalanced Growth:

A free market economy may work automatically but the rate of growth is rather slow. Moreover as the economy progresses, there is no all round development. Some areas develop much faster while others remain backward. Industries may expand fast while there may be poverty in agriculture.

9. No Bargaining Capacity of Labourers hence Exploitation:

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

10. Growth of Monopolies with their Evils:

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

Conclusion:

Economists now agree that there are certain imperfections in a free enterprise economy which must be corrected. The Government must come out to regulate the economic machine so that it does not run down occasionally. Government has a positive role to play in promoting unemployment, price stability and orderly growth. The difference of opinion now is not on whether the government should regulate or not, but is rather on how much control is appropriate under different circumstances.

SOCIALISM

Meaning and Definition:

Socialism as an alternative to capitalism, has the widest appeal.

Definition:

1. The word socialism has been defined as “such type of socialist economy under which economic system is not only regulated by the government to ensure, welfare equity of opportunity and social justice to the people.”

Main Features of Socialism:

A socialist economy has the following features:

1. Socialism is Social or Collective Ownership of Resources:

In such an economy, all the means of production are owned and operated by the state in the interest of society as a whole. This is to ensure equality of opportunity to all the citizens with regard to earning of income. This is also aimed at full and efficient utilisation of the country's resources.

2. It is a Fully Planned Economy:

A socialist economy is necessarily a fully planned economy otherwise the economic system cannot run. There is a choice between centralised and decentralised planning. All socialist economics were fully planned economics.

3. It is the Responsibility of the Central Planning Authority:

Planning is the responsibility of an authority at the centre. It may be known as the Planning Commission in India or the Gos plan in the U.S.S.R. The main task given to this body is to formulate long-term and short-term plans for the economy.

4. It has Definite Aims and Objectives:

Socialist economy has specified aims or objectives. Generally, they are included in the constitution itself but these are given specific shape by the planners. As far as possible the objectives are clearly and quantitatively defined. The competitiveness on complementary among these objectives is explicitly noted. This is meant to bring planning nearer to reality.

5. Specific Long-Term Plans:

The Central Planning authority is given the responsibility to chalk out specific long-term plans for the country. These long-term plans are called "Perspective Plans". These may range from twenty to thirty years. These are in the nature of a blue-print of the path the economies have to follow in the near future. These perspective plans may be modified with changes in basic structure and objectives of the economy. This requires the use of input and output and activity analysis.

6. Central Control and Ownership:

A fully planned economy is by implication a controlled economy. Government controls the main aspects of all economic activity. There are controls on production through licensing. Consumption is also controlled indirectly through controlled production. There are existing controls generally operated through the Central Bank of the economy.

Then there are controls on distribution. Government may have a public distribution system. It may have direct procurement and sale of essential commodities through fair price shops. However, the nature of controls and their intensity shall depend upon the economic conditions in the economy.

7. Much Less Importance of Price Mechanism:

A socialist economy gives much less importance to market forces and therefore, the price mechanism is given a minor role in resource allocation. A specific plan based on social needs guides the process of resource allocation. Private profit is not allowed. Public interest is given

more importance. The means of production are directed by the Government and are used in promoting the general welfare of the people.

8. People's Co-operation is Essential:

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

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

Merits of Socialism:

A socialist economy has many alternative features. These have made socialism more and more popular.

The main merits of the socialist economy are as under:

1. Social Justice is Assured:

The chief merit of socialism is that it assures of social justice. Under socialism the inequalities of income are reduced to the minimum and the national income is more equitably and evenly distributed. The socialist principle provides for a fair share for all. No one is permitted to have unearned income. Exploitation of man by man to put an end to. Every individual is assured of equal opportunities, irrespective of caste, creed and religion. Every child whether he is born in a poor family or in a rich family is given an equal opportunity to develop his latent faculties through proper education and training.

2. Rapid Economic Development:

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

3. Production According to Basic Needs:

In this economy the production is directed to satisfy the basic needs of the people first. As far as possible, the production of food, clothing or building materials is guided by the basic needs of the people and is not according to the purchasing power of the rich section of the society.

Therefore, the phenomenon of the poor going hungry while the rich feast cannot be seen in the socialist economy.

4. Balanced Economic Development:

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

5. It has Economic Stability:

Another important merit is the economic stability which a socialist economy has. A capitalist economy is often suffering from economic fluctuations resulting in lot of unemployment and wastage of resources. There is a good deal of misery among the working classes in periods of depression in a socialist economy.

A socialist economy is able to control economic instability due to the planned nature of the economy. Pure changes are taken care of under a perspective plan. Private investment is given a minor role. Therefore, there are no economic fluctuations.

6. It has More Flexibility:

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

7. Conservation of Natural Resources:

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

8. Equitable Distribution of Wealth and Income:

A socialist economy is operated with the aim of providing equal opportunity for all citizens in earning incomes. Generally, private property is restricted to some basic needs. There is no

amassing of wealth by a few. Wealth is also equitably distributed because private enterprise is given a limited role.

9. No Exploitation and Class Struggle:

A socialist economy can also get rid of the basic maladies of the capitalist economy. There is no question of exploitation in as much as the state determines the distribution pattern of country's income. Further the whole society is the common aim of all planning. No sections are discriminated against. There is not special favour at any class. Therefore, there is no scope for anything like the class struggle which is a characteristic of the capitalist economy.

10. Social Welfare Activities:

A Socialist Economy is oriented to the social needs. The government provides for full security. There is automatic care for the children of those who meet accidents while performing their duties. There is provision for old age pension for all. The slogan is **“to each according to his needs, from each according to his capacity.”**

Therefore, the employees in state enterprises can work without much worry. Their productivity is higher. There are no labour disputes and no wastage of resources resulting there from as is the case in a capitalist economy.

11. There is no Wastage of Competitive Advertisement:

A capitalist economy is not always able to achieve productive efficiency through competition. There is a good deal of wastage through competitive advertisement of different varieties. The consumer has to pay the price of the useless advertising. Prof. Chamberlin has tried “to show that capitalism leads to excess capacity when there is differentiation of the products.”

In a socialist economy, there is no such wastage. In the first place only those goods and services are produced which are preferred by the consumers. Secondly, if at all there is any advertising, it is only meant for information about different products to consumers.

12. Foresightedness:

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

Demerits of Socialism:

The merits of socialism given above should not lead us to the conclusion that socialist economy is all virtue.

There are certain demerits of this system which are as follows:

1. No Suitable Basis of Cost Calculation:

Von Hayek and Bobbins have pointed out that there is not proper basis of cost calculation in a socialist economy. They say that the means of production being owned by the government, there is no market price for the factors of production. In the absence of market mechanism there is no standard way of calculating costs of production for different goods and services.

2. Choice of Working Incentives:

The most difficult problem in this system is the choice and working of incentives in the absence of profit motive. The Russian Government has been using the policy of “Carrot and the Stick”. Some national honours are given to those showing outstanding results. Those shirking work or proving irresponsible are punished.

There is decentralisation of authority along-with responsibility. This ensures freedom at the lower level and scope for initiatives. However, there is no comparable system of incentives and dis-incentives to the profit motive in a capitalist economy.

3. It Becomes Lack of Incentives:

In this system, it has also been seen that incentive of hard work and inclination to self-improvement will dis-appear together when personal gain or self-interest is eliminated. People will not give their best. Incentive, ability, enterprising spirit and the go-ahead attitude will languish and creative work will become impossible. It is said that “a Government could print a good edition of Shakespeare’s work but it could not get them written.”

4. There is Loss of Economic Freedom:

A very important charge against socialism is that, when freedom to enterprise dis-appears, even the free choice of occupation will go. Workers will be assigned certain jobs and they cannot change them without the consent of the planning authority. Every workers will have to do work what he will be asked to do.

5. Lack of Data, Experts and Administrators for Planning:

Operating a socialist economy as a planned economy requires huge data, a good number of experts and an equal number of administrators at different levels for administering the plan. No

doubt machine can help to process the data and experts can advise but there has to be decision-making at different levels of government. It is difficult to find out enough data with the result that decisions are delayed, mis-carried or wrongly implemented. Ultimately, the common people have to pay the price for these mistakes.

6. Loss of Economic Freedom and Consumer Sovereignty:

Under socialism all economic activity is directed by the central planning authority. There is no significant role given to private investment and initiative. Consumers are compelled to accept whatever public enterprises produce for them. Generally, there is limited variety of goods and restricted available choice. Prices are fixed by the government and consumers just cannot do anything about them. Consumer's preferences are just guessed by the planners who have no compulsion to study the people's preferences deeper.

7. Imperfections in Planning Lead to Dis-satisfaction on a Big Scale:

Imperfection may creep in the formulations of the plan, its assumptions, statistics or analysis. Further, imperfection may enter at the stage of implementation of the plan. Further, there may be lack of adjustment between prices and wages. As a result of these imperfections there is lot of wastages of resources, slowing down of work, shortfalls in targets and the dis-satisfaction resulting there-from.

Mistakes made by individuals harm them only. National mistakes are costly for the common man. In fact, this has been the cause of dis-integration of the U.S.S.R., when the other economics of Europe were booming the U.S.S.R. could not provide the minimum comforts of life.

8. Too Much Power is Concentrated in the State:

Under socialism the state is not merely a political authority but it also exercises unlimited authority in the economic sphere. In this, all power is concentrated in the state. It means the state is everything and individual nothing. He is reduced to a cypher. After all the human institutions are for man and not man for these institutions.

9. There is Loss of Personal Liberty:

In socialism there is no unemployment. But the critics retort by saying that there is also no unemployment in a jail. They regard a socialist state as one big prison-house and they do not think that employment is any compensation for the loss of liberty.

10. Bureaucracy and Red-Tapism:

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

Conclusion:

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

Mixed Capitalist Economy is already the order in all the western countries. In the Less Developed Asian Countries Government has not only to regulate economic activity but positively direct it by active participation for the fast development of the country. As for the difficulties, they exist and can be eliminated through co-operation between the administration and the people. As the country develops economic planning gets a stronghold and difficulties wear away.

MIXED ECONOMY

A mixed economy is a golden mean between a capitalist economy and a socialist economy. It is an economic system where the price mechanism and economic planning are used side by side.

There is mixture of private and public ownership of the means of production and distribution. Some decisions are taken by households and firms and some by the planning authority. All developing countries like India are mixed economies.

Features of Mixed Economy:

A mixed economy possesses the following features:

1. Public Sector:

The public sector is under the control and direction of the state. All decisions regarding what, how and for whom to produce are taken by the state. Public utilities, such as rail construction,

road building, canals, power supply, means of communication, etc., are included in the public sector. They are operated for public welfare and not for profit motive. The public sector also operates basic, heavy, strategic and defence production industries which require large investment and have long gestation period. But they earn profits like private industries which are utilised for capital formation.

2. Private Sector:

There is a private sector in which production and distribution of goods and services are done by private enterprises. This sector operates in farming, plantations, mines, internal and external trade, and in the manufacture of consumer goods and some capital goods. This sector operates under state regulations in the interest of public welfare. In certain fields of production, both public and private sectors operate in a competitive spirit. This is again in the interest of the society.

3. Joint Sector:

A mixed economy also has a joint sector which is run jointly by the state and private enterprises. It is organised on the basis of a joint stock company where the majority shares are held by the state.

4. Cooperative Sector:

Under a mixed economy, a sector is formed on cooperative principles. The state provides financial assistance to the people for organising cooperative societies, usually in dairying, storage, processing, farming, and purchase of consumer goods.

5. Freedom and Control:

A mixed economy possesses the freedom to hold private property, to earn profit, to consume, produce and distribute, and to have any occupation. But if these freedoms adversely affect public welfare, they are regulated and controlled by the state.

6. Economic Planning:

There is a central planning authority in a mixed economy. A mixed economy operates on the basis of some economic plan. All sectors of the economy function according to the objectives, priorities and targets laid down in the plan. In order to fulfill them, the state regulates the economy through various monetary, fiscal and direct control measures. The aim is to check the evils of the price mechanism.

7. Social Welfare:

The principal aim of a mixed economy is to maximise social welfare. This feature incorporates the merits of socialism and avoids the demerits of capitalism. To remove inequalities of income and wealth, and unemployment and poverty, such socially useful measures as social security, public works, etc. are adopted to help the poor. On the other hand, restrictions are placed on the concentration of monopoly and economic power in the hands of the rich through various fiscal and direct control measures.

Merits of Mixed Economy:

A mixed economy possesses certain merits which are as under:

(1) Best Allocation of Resources:

Since a mixed economy incorporates the good features of both capitalism and socialism, the resources of the economy are utilised in the best possible manner. The price mechanism, the profit motive, and the freedoms of consumption, production, and occupation lead to the efficient allocation of resources within the economy. But where the possibility of mal-allocation of resources appears, the state regulation and control rectifies it. Thus shortages are avoided, productive efficiency increases, and cyclical fluctuations are eliminated.

(2) General Balance:

A mixed economy maintains a general balance between the public sector and the private sector. There is competition as well as cooperation between the two sectors which are conducive for achieving a high rate of capital accumulation and economic growth. Further, an estimate of the

successes and failures of the two sectors can be made by comparing their respective performances, and corrective measures are adopted accordingly. Thus the inconsistencies of the private enterprise economy and the 'paper guesses' of the planned economy are avoided in a mixed economy. By maintaining a higher level of production in the two sectors, the state is able to achieve the targets laid down in the plan.

(3) Welfare State:

A mixed economy contains all the features of a welfare state. There is no exploitation either by the capitalists as under a free enterprise economy or by the state as under a socialist economy. The workers are not forced to work, Workers are provided monetary incentives in the form of bonus and cash rewards for inventions. Labour laws are passed fixing minimum wages, hours of work, and laying down the working conditions of workers in factories and on farms.

Social security is also provided to workers in the event of unemployment, disablement, death, illness, etc. The production and sale of noxious articles are banned, while those of essentials are increased for the benefit of the people at large. Legislative measures are adopted to remove the concentration of economic power in the hands of the few rich, and to lessen inequalities of income and wealth.

Demerits of Mixed Economy:

A mixed economy has also certain defects which are discussed below:

(1) Non-Cooperation between the Two Sectors:

The experience of the working of mixed economies reveals that the public sector and the private sector do not see eye to eye with one another. The private sector is treated like a step-child and groans under the various restrictions imposed upon it by the state. The private sector is taxed heavily, while the public sector is given subsidies and preference over the former in the supplies of inputs. Thus a sense of bitterness and non-cooperation develops between the two sectors.

(2) Inefficient Public Sector:

The public sector of a mixed economy is a big burden on the economy because it works inefficiently. Bureaucratic control brings in inefficiency. There is over-staffing of the personnel, red-tapism, corruption and nepotism. As a result, production falls and losses emerge.

(3) Economic Fluctuations:

The experience of the working of the mixed economic system in the developed countries also reveals that they have not been able to remove economic fluctuations. This is because of the improper mixture of capitalism and socialism. The private sector is allowed to operate freely under a loose system of government regulations and controls. The public sector also does not operate under the rigid conditions which are laid down under a planned economy.

It has to depend for its supplies of raw materials, intermediate products and factors on the vagaries of the market mechanism. If in the market, the prices of inputs are increasing due to their shortages, the public sector will be equally experiencing these shortages and price increases. Hence economic fluctuations which are a characteristic feature of a capitalist economy are equally experienced in a mixed economy.

Conclusion:

But the defects of the mixed economy enumerated above are not so acute that they cannot be overcome. Given efficient and honest administrative machinery, the defects of the public sector can be removed. The private sector can be made to work more efficiently by proper control and direction. By adopting fiscal, monetary and physical control measures, economic fluctuations can be eliminated.