**UNIT -2 BUSINESS ENVIRONMENT**

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**Economic System**

* Economic System is a social organism through which people make their living.
* The Economic System functions to answer **3** vital questions:

1. What to produce
2. How to produce
3. For whom to produce

* An Economic System refers to how the different economic elements will solve the central problems of an economy, what, how and for whom to produce.

**Meaning**

* Economic System is the basic structure under which all economic activities are regulated to achieve pre determined objectives.
* In Economic System, all economic activities are planned and controlled by an authority.
* Economic System is related to the method under which all decisions regarding production, resource allocation, consumption, exchange, and finance are taken.

**Definition**

* **Grossman** opined that aggregate of economic institutions which is feature of an economy, make it economic system.
* **Prof. Brown** has defined economic system is a system under which all decisions regarding consumption, production, exchange and distribution are taken.
* According to **Card Landover**, “ An Economic System is the sum total of devices by which preferences among the alternative purposes of economic activity are determined and individual activities are co-ordinated for the achievement of those purpose.”

**Types of Economic System**

1. **Capitalism/ Capitalist Economy**

* Under Capitalistic economy, all means of production are the property of private individuals and firms. They are free to use them with a view to make profit.
* This economic system works on the principle of laissez-faire system, i.e., least interference by the government or any external force.
* The primary role of the government is to ensure free working of the economy by removing restrictions.
* ***Capitalist Countries are: USA, Japan, Canada, Australia, etc.***

**Definitions**

* In the words of **Loucks and Hoot**, “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.”

**Features/ Characteristics of Capitalism**

1. Private Ownership
2. Profit motive
3. Freedom of choice of Occupation
4. Limited role of Government
5. Price mechanism
6. Competition
7. Freedom to save and invest
8. Absence of social welfare

**Merits/ Advantages/ Benefits of Capitalism**

1. Increase productivity
2. Flexibility
3. Risk Taking
4. Technological improvement
5. Better Utilization of resources
6. Remuneration is based on ability
7. Low cost and qualitative products
8. Democratic nature
9. Raising living standard
10. Rapid economic growth
11. Less corruption
12. Higher efficiency and productivity

**Demerits/ Disadvantages/ Limitations of Capitalism**

1. Inequalities in wealth
2. Leads to monopoly
3. Unemployment
4. Absence of welfare motive/ social benefit
5. Absence of industrial peace
6. Social discrimination/ class conflict

**2. Socialism/ Socialist Economy**

* The evils of capitalism have given birth to socialism.
* A Socialist Economy is an economic organization in which the means of production/ resources are planned, controlled and regulated by the state or government.
* The production and distribution of goods and factors of production are done by the state under the direction of the Planning commission.
* Maximization of community welfare or society is the objective rather than profit maximization of individual units.
* ***Socialist countries are: China, East Germany, Hungry, Poland, etc.***

**Features/ Characteristics of Socialism**

1. Public/Government ownership
2. Central planning authority
3. Restriction on consumption
4. Planning & pricing process
5. Equality of income and distribution/ equal distribution of income
6. Social welfare
7. Very limited ownership of private property
8. Government performs the activities of production and distribution
9. Equal opportunity
10. Classless society

**Merits/ Advantages/ Benefits of Socialism**

1. Elimination of class-struggle
2. Economic stability
3. Maximization of Social justice
4. Sustainable economic growth
5. Rational allocation of Resources
6. Absence of monopoly
7. Absence of business fluctuation
8. Price control
9. Elimination of Exploitation
10. Elimination of competition
11. Elimination of Unemployment
12. Elimination of Competition

**Demerits/ Disadvantages/ Limitations of Socialism**

1. Red tapism and Bureaucracy
2. Lack of individual freedom
3. Loss of Occupational freedom
4. Corruption

1. **Mixed Economy**

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

-**Murad**

* 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 the blend of both the economies.
* Mixed economy is operated by both private enterprise and public enterprise.
* 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 this system.
* According to **Indian Planning Commission, “***In a mixed economy private and public sectors are closely related and they function as the two factors of one unit.***”**
* According to **J.D. Khatri, “***A mixed economic system is that in which the public sector and private sector are allotted their respective roles in promoting the economic welfare of all sections of community.***”**

**Features/ Characteristics of Mixed Economy**

1. Co-existence of Private and Public sectors.
2. Personal Freedom
3. Private property is allowed
4. Economic Planning
5. Price Mechanism and Controlled price
6. Profit motive and Social welfare
7. Check on Economic inequalities
8. Control of monopoly.
9. Social security
10. Democratic system.

**Merits/ Advantages/ Benefits of Mixed Economy**

1. Best allocation of resources
2. Efficient resources utilization
3. General balance
4. Social welfare
5. Presence of Freedom
6. Rapid economic growth
7. Increase in social welfare
8. Centralization of economic power

**Demerits/ Disadvantages/ Limitations of Mixed Economy**

1. Non cooperation between the two sectors
2. Inefficient public sectors
3. Weak in practice

* **PUBLIC SECTOR**
* It refers to the economic system in which the entire system production and distribution are managed, owned, controlled and financed by state or Government.
* According to **A.H. Hanson, “***Public enterprises means state ownership and operations of industrial, agricultural, financial and commercial undertakings.***”**

**Objectives of Public Enterprise**

* To promote export and reduce imports to ease the pressure on balance of payment.
* To eliminate dependence on foreign aid and foreign technology.
* To attain self-reliance in different technologies.
* To create and enhance employment opportunities in various sectors by heavy investment.
* To bridge the gap between rich and poor and reduce disparities in income and wealth.
* To promote balanced regional development.
* To promote infrastructural facilities for the growth of the economy.
* To promote rapid economic development.
* Characteristics of Public Enterprise
* Government control and management
* Public purpose
* Government ownership
* Public accountability
* Wide coverage of activities
* Autonomous functioning

**Classification of Public Sector**

Public Utilities

* Doordarshan
* Akashvani
* Road Transport Corporations
* State Electricity Boards
* Railways
* Post & Telegraps, etc.

Promotional Public Enterprises

* National Industrial Development Corporation Ltd.
* Indian Mines Bureau
* National Small Industries

Financial Public Enterprises

* IDBI
* IFCI
* UTI  
  SFC
* SBI, etc

Manufacturing Public Enterprises

* Steel
* Oil
* Machinery
* Chemicals
* Fertilizers
* Engineering Equipments
* Minerals, etc.

Commercial Public Enterprises

* FCI
* IOC
* Cotton Corporation of India, etc.

**Role of Public Sector in India Or Importance of Public Sector in India**

* To Accelerate the pace of economic Development.
* To provide basic services.
* Redistribution of wealth.
* Mobilising financial resources.
* Generation of employment.
* Increase in contribution of Net Domestic product (NPD).
* Export Promotion.
* Import substitution
* Removal of regional disparities.
* Control over economy.
* Balanced Economic development.
* Capital formation.
* Promoting social interest.

**Shortcomings/ Problems of Public Sector**

1. Lack of clear cut objectives.
2. Inefficient management.
3. Underutilization of production capacity.
4. Increase in cost of completion due to the delay in completion/ Over capitalisation.
5. Over regulation and political intervention.
6. Over staffing.
7. High expensive ratio.
8. Bureaucratic delays.
9. Labour problem.
10. Faulty planning or control.

**Suggestions for Reform of Public Sector**

1. Sector corporation
2. Increase in efficiency.
3. Avoiding overcapitalisation.
4. Full utilisation of productive capacity.
5. Appropriate pricing policy.
6. Industrial relations
7. Project planning
8. Emphasis on research and development.
9. Proper auditing.
10. Remove evil competition.

* **PRIVATE SECTOR**
* When the ownership, management and control of business and industrial enterprises are in the hands of private entrepreneurs, it is called private sector.
* Private sector refers that sphere of economy where there is private ownership and control over the means of production. Private owners utilize these means for maximum profits and in order to promote ones own interests.
* In India Private sector is divided into 3 parts:

1. Organised Sector: Includes large scale units and big industrial houses.
2. Unorganised Sector: Includes individual units.
3. Small Scale Units: Includes small and cottage industries.

**Role of Private Sector**

1. Rising domestic saving.
2. Contribution of GDP (Gross Domestic Product).
3. Raising foreign private investments.
4. Capital formation.
5. Dominant in Agriculture.
6. Much diversified structure.
7. To manage the service sector.

**Problems of Private Sector in India**

1. Low priority industries.
2. High cost/ price economy.
3. Industrial sickness.
4. Lack of finance and credit.
5. Industrial disputes.
6. Heavy taxations.
7. Restrictions, etc.