BLOCK I:
State Intervention in Business

Unit 1 : State intervention in Business, need and objectives and constitutional provision for state intervention

Unit 2: Role of Government in Business- Regulatory, promotional and entrepreneurial

Unit 3: Role of Government in different economic system- laissez faire, capitalism and socialism

Unit-1

State intervention in Business, need and objectives and constitutional provision for state intervention

Unit Structure:

1.1 Introduction

In the initial stage of economic development, the only function of the state was to protect the life, wealth and property of the state. Due to changing condition the role of the state has changed. The government formulated legal framework for intervention which affected the operation and policies of the business. The introduction of New Economic Policy, 1991 had been an effective indicator that business organization has now been assigned crucial role for economic development through industrialization, technological dynamism, foreign trade, abolished licensing except some few industries, relaxation of MRTP Act and FERA etc. Government and the Reserve Bank of India also formulated fiscal and monetary policies to regulate inflation and money supply.

Business is defined as a set of activities relating to industry and commerce. Modern business may be defined as the production, distribution and sale of goods and services with the motive of earning profit and satisfying human needs. It plays an important role in the economic development of nation, improving living standard of people, employment generation, increasing government revenue, fostering international relation etc.

Stephenson (2008) *defines business as "The regular production or purchase and sale of goods undertaken with an objective of earning profit and acquiring wealth through the satisfaction of human wants."*

Government- Government can be defined as an institution with powers to enforce rules, regulations and administer the social and economic conducts of residents for a country.

The Marriam-Webster Dictionary *offers three definitions of government:*

- *'the group of people who control and make decisions for a country, state, etc.'*
- *'a particular system used for controlling a country, state, etc.'*
- *'the process or manner of controlling a country, state, etc.'*

Thus, government can be defined by the people involved, the system in place, or the process in use.

State intervention may be defined as the regulatory actions taken by a government in order to affect or interfere with decisions made by individuals, groups, or organizations regarding economic and social matters. Government intervention is when the state gets involved in markets and takes action to try to correct market failure and so improve economic efficiency. The state takes action if it believes markets are not delivering productive effectiveness. It aims to improve economic efficiency by changing policies, regulations, price signals, better information or direct provision to change allocation of resources.

In India state intervention is directed towards ensuring labor market providing job security, income policies, trade union legislation, minimum wage legislation, legislation governing hiring and firing of employees etc. In short, government is the market regulator that intervenes deeply to resolve transaction disputes between market players.It also controls the market inefficiencies and failures. Subsidies, taxes and regulations are the three major categories for creating positive impact of state intervention in business. Without government intervention, organization may exploit monopoly power and unfair trade practices to pay low wages to workers and charging high prices from consumers.

1.2 Objectives

This unit is an attempt to know the pros and cons of state intervention in business. After going through this unit, you will be able to know the–

- meaning of state intervention in business,
- relationship between state intervention and business,
- reasons in favour of state intervention,
- reasons against state intervention,
- need and objectives of state intervention,
- constitutional provision for state intervention in business.

1.3 State Intervention in Business

Dimock quoted that "The two most powerful institutions in society today are business and government; where they meet on common ground – amicably or otherwise – together they determine public policy, both foreign and domestic, for a nation".

State intervention in business seems to be as old as business itself. As years went by, state intervention became necessary and government took positive steps for rapid industrialization in India. The reign of Narasimha Rao in 1991, brought larger cooperation of the private sectors in the growth of Indian economy through Liberalization, Privatization and Globalization (LPG). This was the period of economic reforms, elimination of quotas, technology upgradation, industrial licensing, removal of restrictions in private sectors, foreign trade and foreign investment.

Regulatory actions taken by the state or government in regarding to economic and social norms. In modern business, there is an increasing involvement of government. Government and business are the two most important entities in a nation which contribute to its sustained economic growth and success. The economic survey of India, 2020 pointed out that excessive intervention stifles economic freedom and leads to wasted chances of creating consumer and producer supply.

The three main institutions which govern the business environment by formulating and implementing laws and regulations are:

i) **Legislature:**Legislature comprises of two subsidiaries- (a) Parliament at the Centre and (b) State Legislature at state level. The legislature is responsible for making laws, budget policies etc., which should be adhered to by the citizens. The representatives of the legislature are chosen by the citizens via election.

ii) **Executive:**It is the body which implements the laws and mainly consists of smaller group comprising of ministers and government officials. Its main function is to make sure whether the rules and policies formed by the legislature are being followed or not.

iii) **Judiciary:** The judicial system of the country is responsible to make sure that the laws and policies passed are within the framework of the constitution. Its function is to understand the laws and settle the disputes and issues arising out of it. Depending on various factors there are various courts where the disputes are settled, e.g., Consumer Court, District Court, High Court, Supreme Court etc.

The state sets the formal rules-laws and regulations that are part and parcel of a country's institutional environment. State intervention sometimes though well intended, often ends up undermining the ability of the markets to support wealth creation and leads outcomes opposite to those intended.

1.3.1 Relationship between State Intervention and Business

Both business and state intervention have different ethics and ambitions. For the positive growth of the nation, both the sides must have a balanced cordial relationship with each other. Both the government and the business institutions are dependent on one another.

The important points of interdependence are-

i) Business supports the government in execution of various developmental projects and programmes. Besides, government creates a safe and stable working environment,better infrastructural facilities and cordial relationship with the business.

ii) Businesses pay tax to the government which is the main source of revenue for the government. In the current economic scenario, businessmen and entrepreneurs are driving force of the economy. Taxation is an avenue for redistribution of income.

iii) The state makes the laws for the business for running the business smoothly and ensures that business follows fair practices.

iv) It is the responsibility of business organization to take initiative and fulfill corporate social responsibilities. Accordingly collaborate with the state to provide employment generation, environmental protection, education, upliftment of poor etc.

v) The government establishes regulations and policies to govern industries ensuring fair competition, consumer protection and industry standards.

vi) The state sets restrictions on FDI in various sectors to safeguard national interests and sectors of strategic importance.

Role of state towards the business-

- **Government as a promoter-** Government's role as a promoter in business is to create an environment conducive to economic development while ensuring fairness, stability and social welfare.It provides financial assistance, infrastructure development incentives and subsidies to the business.
- **Government as a business regulator-** Government formulates different rules and regulations to operate business smoothly. For ex- Registration Act, Trade Union Act, Company Act, Trade Policies, Fiscal and Monetary Policies etc.
- **Government as a business caretaker-** Government provides protection from the political risk factors such as extortion, competition, ethical operation, business unrest, crisis management etc.
- **Government as an Entrepreneur-** Entrepreneurial role in the State helps in establishing and operating business enterprises and bearing the risks. Recently, many governments have resorted to privatization in varying degrees, and have redefined the role of the public sector.

How the Government Intervened:

- The edible oil prices were higher prior to the year 2021; however, there is a declining trend of retail edible oil prices from October 2021 after government intervention in it. The government interacts with the edible oil industry and has convinced them to reduce the maximum retail price (MRP). The reduction in import duty and steps like imposition of stock limit has helped to calm down the domestic prices to the end consumers.

- The Noida Apparel Export Cluster (NAEC) appealed the govt. to “rescue the apparel industry from the cotton crisis” in the year 2021. According to industry representatives, the industry was in severe crisis because of the high cost of cotton yarn and raw fabric leading to a steep hike in production costs. The government responded by various positive steps along with reduction in import of raw material and launching of schemes like Production Linked Incentives(PLI) , PM-MITRA etc.

1.3.2 Reasons for State Intervention

In any economy should be a planned economy. Government is the only agency which can plan and execute.

- Our constitution binds the government to take an active part in economic activities.
- What the people and the country need can only be understood and provided by government.
- State participation is necessary to lay a strong base for the future development of industry and commerce.
- Poverty can be eliminated by the state through schemes of job creation and encouragement for self-employment.
- The failure of market invites state intervention in an economy.

1.3.3 Reasons Against State Intervention

State intervention creates new paradigm and need to be redefined from time to time to maintain economic transition.

- Excessive state intervention in business may lead to bureaucratic red tape, slowing down business processes, hindering decision making process which may discourage entrepreneurship and business growth.
- Heavy state control may distorts markets, favouring certain industries through subsidies or protectionist measures, disrupting fair competition and hindering market efficacy.
- State intervention can sometimes suppress innovation by imposing rigid standards that discourage risk-taking and experimentation among businesses.
- Rigid regulation of state can create barriers to entry for new businesses specially small enterprises trying to enter the market.

- State interventions might be influenced by political motives, leading to policies that benefit certain businesses due to political connection rather than the broader interest of economic growth and fairness.

Check Your Progress

1. What do you mean by state intervention?
2. What do you mean by business?
3. What is the relationship between state intervention and business?
4. What are the reasons in favour of state intervention towards business?
5. What are the reasons against state intervention towards business?

1.4 Need for State Intervention in Business

State is empowered for production and distribution of goods and services. The following are the need for state intervention in business-

1) **Need for contractual management and exchange-** Contractual management and exchange are required for effective management of production resources. The restrictions should be minimized on entry and exit of entities in market; except for a few exceptions. If legal support and protection of the state are not available, some corporations may face the problem of mutual trust. State intervention protects the entities by providing grants during incorporation and makes laws for controlling insolvency, adjudication of disputes, credit control, free business from unnecessary control of banking regulation and also regulating mergers and takeovers.

2) **Economic stability-** State interventions aim to stabilize the economy by preventing market failures. It also manages economic crisis by implementing appropriate fiscal and monetary policies. The state plays a pivotal role in by helping in infrastructure development, investing in transportation, energy and communication which are essential for business operations.

3) **Need of full knowledge of market-** State intervention through its regulatory mechanism controls the monopolistic trends, regulate arrangements, legal protection for well-developed market system. This market information is utmost necessary for the consumer and

producer to know the prevailing market conditions and improve economic welfare.

4) **Free market programmes-**The market is never totally free; it cannot function without the state. The pattern of market development vested on nature of the state, state controlling power, pull and push factors of different interested groups etc. The state tries to fight these inequalities through proper guidelines, regulations, taxations, subsidies etc. This leads to correcting the market failures, consumer choices, fair competition, employment generation, price stability and socially desirable growth in the economy.

5) **Maintenance of social value-**Maximizing social value is one of best outcome of state intervention. Interventions like mandatory corporate social responsibility (CSR) initiatives ensures that businesses contribute positively to society, addressing social issues, safeguarding public interest, and community development. This can be achieved by removing inequality existedbetween the distribution of income and wealth. Social value comprises of social, environmental and economic wellbeing across the communities and lives. Public utility services by the local authorities and the government departments can give a shape the business entity to do social good by making use of resources, increasing value of inputs and generating cost savings for the public.

1.5 Objectives of State Intervention in Business

Objectives of state intervention are to protect the business units from the undesirable entry, competition and domination of foreign companies. In practice, the government regulates the spectrum of entry of foreign companies in Indian market. The following are the major objectives behind state intervention in business-

i) **Minimizing effects of wealth and power-** Poverty minimizes overall prosperity of a nation. The widening economic gaps can be reduced by the state intervention. State intervention minimizes the income distribution by imposing redistribution of income from those with high income to those with low incomes, increasing public spending on health and education and implying tax on wealth and inheritances. Fiscal instruments such as social spending to reduce unpaid care work, taxing more to the wealthiest in the society, higher wages and stronger labour rights etc. could removedisparity. State participation in business satisfactorily helps in achieving this objective.

ii) **Fulfilling the basic needs-** State intervention plans the economic resources in such a way so that it can guarantee to fulfill thebasic human needs of food, cloth and shelter. State intervention enables the society to avail public services (food, education, health, water, sanitation), through subsidized goods and services or through transfer payments.

iii) **Encouraging decentralized industrial development-** Entrepreneurs and businessman establishes their industries in those areas where there is high rate of return and security in investments. Basically, they are guided by profit motive.Industrialization plays a vital role in economic development of a nation. Therefore, the government intervene through planned dispersal of industries which ensures decentralization of growth of the country i.e., establishing industries even in the most backward and rural areas for a balanced regional development. The positive effect of state intervention in industrialization are- increase in Gross National Income (GNP), higher standard of living, increase in government revenue, economic stability, improvement in balance of payment, increased employment, rise in agricultural production, technological progress etc.

iv) **Profitable use of scarce national resources-** State intervention in business prepares a sustainable environment for maintaining balanced regional development. The state permits the entrepreneurs to utilize those resources that can fetch maximum returns.Sustainability aims at providing corrective management, preservation of scarce national resources and making consumer more responsible. The purpose is to solve the problems imposed by continuous increase in resource consumption and to find alternative solution. It seeks to satisfy present needs without compromising the ability of future generations.

v) **Safeguarding national interests from foreign investors-** Though economic reforms welcome foreign investments and MNCs in the nineties, it does not seem to be so far evident in overall attitude of the country. India is a multi-cultured society and the local entrepreneurs are not technologically sound enough, and lack managerial skills to face the tough competition of these MNCs. Thus, state intervention tries to protect the domestic industries from the domination and grip of foreign companies. The state has taken initiative to safeguard national interest from foreign investors by introducing Make in India, Skills India, Smart Cities, Digital India, Start-Up India etc. This encouragesthe up-liftmen of traditional industries and making India hub for manufacturing, designing and innovation.

1.6 Constitutional Provision for State Intervention

The Indian Constitution incorporates a number of matters that are economically very significant and have far-reaching implications. The socio-economic and political objectives of the Indian Republic and the basic guiding principles of state functioning have been clearly laid down in the Preamble to the Constitution, the Fundamental Rights and in the Directive Principles of State Policy.

Certain constitutional provision for state intervention in business are summarized below-

I. Preamble of Constitution and Business

The Preamble of the Indian Constitution sets out fundamental values and objectives guiding the nation. While it doesn't explicitly mention business, its principles significantly impact business and economic activities in India.

(i) Sovereign: India, as a sovereign nation, establishes its authority to govern economic policies, including regulations and trade agreements, independently without external control.

(ii) Socialist: The term "socialist" indicates India's commitment to a mixed economy, where the state plays a role in economic planning, regulation, and welfare measures to ensure equitable distribution of wealth and resources.

(iii) Secular: India as a secular nation ensures that business practices are free from religious biases, fostering an environment where businesses operate neutrally and inclusively across diverse communities.

(iv) Democratic: The democratic framework supports a system where policies regarding business and economic activities are formulated through elected representatives, ensuring that these policies reflect the will and interests of the people.

(v) Republic: India being a republic signifies a nation where power is vested in the hands of elected representatives, shaping laws and regulations that govern business operations to align with national interests and values.

II. The Fundamental Rights

The Fundamental Rights outlined in the Indian Constitution provide a framework that influences the extent and nature of state intervention in business:

i) Right to Equality (Articles 14-18): This ensures equal treatment under the law and prohibits discrimination. It influences state intervention by ensuring fair and equal opportunities for all businesses without favoritism or unjust privileges.

ii) Right to Freedom (Articles 19-22): These rights include freedoms such as the right to practice any profession, carry on any occupation, trade, or business. State intervention should respect these rights while imposing reasonable restrictions in the interest of the general public, like for public order, morality, or health.

iii) Right against Exploitation (Articles 23-24): These articles prohibit trafficking, forced labor, and the employment of children in hazardous industries. State intervention is directed at protecting individuals from exploitation in business activities.

iv) Right to Property (Article 300A): Though no longer a fundamental right, this article emphasizes that no person shall be deprived of their property except by law. It influences state intervention concerning property rights and regulations related to property acquisition or usage.

v) Right to Constitutional Remedies (Article 32): This provides individuals the right to move the Supreme Court for the enforcement of their fundamental rights. It serves as a check on state intervention that might infringe upon these rights.

III. Directive Principles

The Directive Principles of State Policy in the Indian Constitution (Part IV, Articles 36-51) provide guidelines for state intervention in various spheres, including business:

i) Promotion of Equal Opportunity (Article 38): The state shall strive to promote the welfare of the people by securing and protecting, as effectively as it may, a social order in which justice, social, economic, and political, shall inform all the institutions of the national life. This directive influences policies aiming at equal opportunity in business, especially for marginalized sections of society.

ii) Minimization of Inequalities in Income (Article 38(2)): The state is directed to minimize the inequalities in income and endeavor to eliminate inequalities in status, facilities, and opportunities. This directive impacts policies that address income disparities and promote equitable access to business opportunities.

iii) Operation of Economic System (Article 39): Article 39 contains several principles that guide state intervention in business, including:

   a. Ensuring the ownership and control of material resources are distributed to serve the common good.
   b. Preventing the concentration of wealth and means of production.
   c. Ensuring that the economic system does not result in the abuse of citizens.

iv) Protection of Health and Strength of Workers (Article 42): The state shall make provisions for securing just and humane conditions of work and for maternity relief. This influences policies related to labor laws, workplace safety, and worker welfare in businesses.

v) Promotion of Economic Interests of Weaker Sections (Article 46): The state shall promote with special care the educational and economic interests of the weaker sections of society. This influences policies that encourage economic development and opportunities for disadvantaged communities in business.

vi) Promotion of Village Panchayats (Article 40) and Promotion of Cooperative Societies (Article 43): These directives encourage the state to promote local self-governance and cooperative societies, which can impact various aspects of rural businesses and small-scale enterprises.

While the Directive Principles are not legally enforceable, they serve as a guide for the state in making laws and policies. These principles often influence the formulation and implementation of laws and policies related to business, aiming to foster a just, equitable, and inclusive business environment in India.

The main objective of the above noted directive principles are to enable the individual to lead a good and satisfying life.

> **Stop to Consider**
>
> The Directive Principle of the Constitution provides vast scope for state intervention in functioning of the economy. It is for welfare of the people, equal pay at work, protection of workers, health and safety measures, workers participation in management, etc.
>
> The government, through these acts and regulations, protects the interests of working men, women and children, prevents concentration of economic power, and promotes and protects the interest of small and cottage industries.

IV. Freedom of Trade, Commerce and Intercourse

The Indian Constitution guarantees the freedom of trade, commerce, and intercourse through Articles 301 to 307:

i) Article 301: Article 301 ensures the freedom of trade, commerce, and intercourse throughout India. It asserts that trade, commerce, and the movement of goods and services are free and unrestricted within the territory of India.

ii) Article 302: This article allows the Parliament to impose restrictions on the freedom of trade, commerce, and intercourse between states or within any part of the territory of India in the public interest.

iii) Article 303: It outlines restrictions on the legislative powers of the Union and states concerning trade and commerce. It stipulates that Parliament has the power to legislate on matters related to trade and commerce, even if they impose restrictions on the freedom of trade, provided that the law is in the public interest.

iv) Article 304: This article allows the state legislatures to impose restrictions on trade and commerce if it's in the public interest, but such laws need the President's approval.

v) Article 305: It exempts certain laws concerning trade and commerce from the restrictions mentioned in Articles 301 and 303.

While Article 301 guarantees the freedom of trade and commerce, other articles allow for reasonable restrictions to be imposed in the interest of the public. These restrictions can pertain to various aspects, including taxation, movement of goods, professional or commercial activities, and economic regulations. The goal is to strike a balance between ensuring free trade and imposing necessary restrictions that serve the public interest.

Self Asking Questions (SAQ)

* Do you think that the state intervention in business is necessary? Give reasons in support of your answer. (20 + 80 words)

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Overview of Constitutional Provisions of State Intervention

The state intervention over the Indian economy grew enormously in the first four decades since Independence. Since 1991, with Liberalization, Privatization and Globalization (LPG), India has been passing through a process of decontrols and economic reforms.

The Government in India is guided and governed by the principles and provisions of the Indian Constitution. The Preamble to the Constitution which indicates the objects and intention of the Constitution, the Fundamental Rights which enforces limitations on State's power, the Directive Principles of State Policy suggests abundant socio-economic welfare responsibilities for the people of India, separation of powers of judiciary, executive and legislature and division of power and responsibility, freedom of trade and commerce within the nation premise with minimum restrictions.

1.7 Key Terms

- **State intervention-** A regulatory action taken by a government in order to affect or interfere with decision made by the individuals, organizations regarding economic and social norms. It also influences resource allocation and market mechanisms by regulations, taxes, subsidies, fiscal and monetary policy etc.
- **Government-** An institution having power to enforce rules and regulations and administer social and economic development of the nation and its citizens.

- **Business-** An economic activity involved in production of goods and services with the main motive of earning profit and providing social welfare.
- **Regulations-** The rules and regulation created by the concern authority or agency to impose control and restrictions.
- **Constitutional Provision**- Specifically designated rule or law within a state or nation. These provisions cannot be altered without a court or common law under any circumstances.
- **Trade-** It means 'buying' or 'selling' of goods.
- **Commerce-** It includes all forms of transportation such as by land, air or water.
- **Intercourse-** It means movement of goods from one place to another.
- The words 'trade commerce and intercourse' covers all kinds of activities which are likely to come under the nature of commerce.

1.8 Summing Up

- Both business and state intervention have different ethics and ambition. For overall development of the country both the sides are equally important.
- The government formulates the rules, regulations, policies for smooth and stable functioning of the business. The business has to follow these policies and create a better social and economic environment in the state.
- The State, i.e., the government, plays a very active role in all economies, including the market economies, the extent and nature of State intervention vary widely between nations.
- Functions of the state are to provide basic minimum requirements to active participation in several other sectors.
- Business is an important agent of economic system. Its main objective is to maximize profit with the limited resources. Whereas, government is guided by its desire to maximize community welfare by attaining stability in price, interest, exchange rates, employment, etc. Government provides guidance, environmental subsidies, and

infrastructure to business, electricity, water supplies etc. Hence, economic growth and development is possible when there is a proper balance between the state and the business.

- The basic objectives of state intervention are-minimizing effects of wealth and power, fulfilling the basic needs, encouraging decentralized industrial development, profitable exploitation of scarce national resources, safeguarding national interests from foreign investors and saving valuable foreign resources.
- The Indian Constitution incorporates a number of matters that are economically very significant and have far-reaching implications. The socio-economic and political objectives of the Indian Republic and the basic guiding principles of state functioning have been clearly laid down in the Preamble to the Constitution, the Fundamental Rights and in the Directive Principles of State Policy.
- The Preamble of Constitution and Business explains that every business, organization should have liberty of thought, expression etc., with everyone.
- The Fundamental rights enumerated in the constitution in 42^{nd} Amendment of the Constitution, adopted in 1976 guarantee a number of economic and social lights to the citizens. At the same time the state has the power to impose reasonable restrictions on such rights in the interest of the people.
- The main objective of the directive principles is to enable the individual to lead a good and satisfying life. All the provisions of directive principles of state policy guide the government policies towards the business and other economic and social activities. The various Acts like FERA, Factories Act. MRTP Act, Minimum Wages Act, Industrial (Development and Regulation) Act, Industrial policy, etc., are based on the Directive Principles of the Constitution.
- According to the Constitution of India, trade, commerce and intercourse throughout the territory of India shall be free. Free movement and exchange of goods throughout the territory of India was essential for the Economic Unity of the country which alone could sustain the progress of the country.

1.9 Model Questions

Short Questions

1) Define state intervention.
2) Why is the state intervention necessary?
3) Why does a government need to formulate business policies?
4) What are the objectives for state intervention?
5) What are the reasons for and against state intervention in business?
6) What is the effect of state intervention on economic outcomes?

Long Questions

1) Describe the need and objectives of state intervention in business.
2) Explain the relationship between the state intervention and business.
3) Discuss the constitutional provision of state intervention in business.

1.10 References and Suggested Readings

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Unit-2
Role of Government in Business- Regulatory, Promotional & Entrepreneurial

Unit Structure:

2.1 Introduction

The term business is commonly referred to commercial activities aimed at making a profit. The constitution of the country gives the government the power to regulate and exercise its authority in several ways to maintain business and commerce. Most business needs to register with the central or state government to operate.

Indian economy has been suffering from issues like low industrialization, unemployment, financial stability, etc which act as a barrier for the economic growth of the country. But with the effort of government, India now is one of the fastest growing economies in the world. Government have created numerous agencies and regulatory acts in order to manage business activities in a complex society and to help respond to changing societal needs through the duties and functions of each agency. So, it is the best interest of business to maintain healthy relationships with regulatory agencies at all levels of government. Business is an integral part of the social system and it is influenced by other elements of society which in turn is affected by the business. Business has primarily been seen as wealth creators for share holders, it has the potential to go beyond that and induce inclusive socio-economic transformation. The Gandhian philosophy of trusteeship captures the business responsibility towards society.The philosophy of giving back to the society has been an integral part of the culture, which has also been imbibed in traditional Indian business since time immemorial. There has been growing recognition of the social objectives and responsibilities of business. Social objective of business may be grouped into - protecting consumer interest, protecting the interest of the workers and protecting the interest of the society.

2.2 Objectives

After going through this unit you will be able to–

- understand the relationship of Government and business,
- discuss the role of government as regulator, promoter and entrepreneur.

2.3 Relationship Between Government and Business

The term business refers to an organization or enterprising entity engaged in commercial, industrial, or professional activities. The purpose of a business is to organize some sort of economic production of goods or services. Businesses can be for-profit entities or non-profit organizations fulfilling a charitable mission or furthering a social cause. Businesses range in scale and scope from sole proprietorships to large, international corporations. A government is an institution or a system made of a group of people that takes care or manages a country or a state. Every government has its own constitution or a set of fundamental principles that it follows to ensure effective governance. The main goal of businesses is to make a profit and governments' goal is to ensure economic stability and growth. Both of them are different but very co-dependent.

Government and business are interrelated and interdependent on each other. As businessmen and entrepreneurs are the driving force of any economy and government must make the environment for business organization suitable. For maintaining a steady and upward economic growth a balanced relationship between government and businesses is required where government and associates or businesses try to influences and persuade each other for achieving desired objective.

The government most often directly and indirectly influences organization by establishes regulations, laws and rules that monitor and control business.

Government influences the business by

- Laws and regulations

- Government agencies and regulatory bodies.
- Various financial and non-financial institutions
- Trade policies.

Whereas,Business influence the government by

- Investments
- Tax payment
- Trade unions and chamber of commerce
- Personal conducts and lobbying.

The government plays a very active role in all economies which vary widely between nations. The government control over the Indian economy grew enormously in the first four decades since independence. Since 1991, India has been passing through a process of decontrols and economic reforms. Government has been playing an active role in the industrial development by creating a conducive environment for the development of industries and by attracting foreign investment.

The role of business in society depends upon the degree of economic development in the society. Opportunity for business may arise as a result of changing technology or changing laws. Business always takes advantages of opportunities offered by government in the economic, political, social and technological environment. In accordance with the economic planning, the government gave a lead role to the public sector for infrastructure industries whereas the private sector was broadly given the responsibility of developing consumer goods industry with several restrictions and control. Since 1991, after high government deficit and rising trend of prices, government announced a New Industrial Policy (NIP) in July 1991. The features of the policy were:

1. **Delicensing or liberalized industries**: Under this policy, the company becomes liberalized from licensing system, which means industries do not need any licenses from the government to establish their industry or to run industry, but around 18 industries are exempted from this privilege, these industries include those who produce products which are harmful to environment and industries.

2. Liberalising **FDI Policy**: This policy allows the investment of foreign investors in the company from 47 percent to 51percent to attract more investors to the Indian and domestic companies. This will influence more investors towards the country. This will lead to significant investment and technological outflow.

3. **Agreement on foreign technology**: This policy allowed domestic companies to deal with foreign companies to make deal in technology up to 1 crore without govt. permission. The company does not need government permission to deal with foreign companies.

4. **Public sector De-reservation**: This policy liberated many industries that were previously reserved under the public sector. However, the dominant place of the public sector in five core industries like atomic energy, arms and ammunition,railways, mining, and mineral oils was sustained.

5. **Public sector disinvestment**: To enhance productivity and competitiveness, government share in public sector industries were decreased under this industrial policy.

6. **Localized policy**: Any industry was allowed to be established in the cities if its population is less than 1 million, and if the population is high, then industries have to develop their workshops outside the cities with the permission of the government.

7. **Reservation of small –scale industries**: this policy made the center responsible for supporting small rural industries to grow the economy. The central government was mended to provide adequate resource top support local industries growth.

The policy of liberalization and globalization of the government of India has made a significant impact on business which signaled the end of the license permit quota raj, tariff restrictions, licensing of import etc. Through the policy of 1991, the government of India initiated the globalization pattern.

Some challenges faced by business after policy change in Indian economy are:

i. Indian firm has faced an increased in competition as a result of changing rules of industrial licensing and entry of foreign firm.
ii. Customer became demanding due to wide choice in goods and services.
iii. Lack of human resource.
iv. Declined of budgetary support to public sector.
v. Rapid change in technology etc.

The government responsibilities toward business are as follows:

The government plays an important role in almost every economy of the world. The economic responsibility bestowed on the country by Indian constitution is so enormous that it calls for greater government interference in the functioning of the economy with a view to discharge its duties and responsibilities, for the realization of objectives. The government has been very active in playing its responsibilities towards business such as:

1. Enacting and enforcing law to enable the business to function smoothly.
2. Maintain law and order to carry on business in a congenial environment.
3. The government should have a robust monetary system (regulate money and credit) for effective business transactions and protect the money value of the currency in term of other currencies.
4. It is the responsibility of the government to make sure that there is balanced regional development and growth in the economy.
5. Government should provide basic infrastructure facilities (example: transportation, power, finance, trained personnel and civic amenities) and also proper socio-economic infrastructure for effective functioning of business concern.
6. Incentive and assistance to small scale industries for export growth.
7. It the responsibility of the government to inspect the private business concerns in order to make sure that they produce quality products and also to prevent the production and sales of substandard goods.
8. Control of monopoly and big business.

2.4 Other Role of Government

The role of the government in India is guided and governed by the principles and provisions of the Indian constitutions. The preamble of the constitution which indicate the objects and intention of the constitution, the fundamental rights which imposes limitation on state's power, the directive principles of the state policy which suggest numerous social economic welfare responsibility for the state. The separation of power of judiciary, executive and legislature and division of power and responsibility between the union and the states also defines the role of government in the business. The government control over the Indian economy grew enormously in the first four decades since independence. Since 1991, India has been passing through a process of decontrols and economic reforms. This implies a redefinition of the role of the state. The government role in business and industrial development has significantly diminished as result of the delicensing and substantial reduction in the role of the public sector.

2.4.1 Government as Regulator

Regulatory role of government involves regulation of various business and economic activities by directing the business with set of controls(Example: ceiling on dividends, public utility profits, imposition of duties and other taxes). It may cover a wide spectrum extending from entry and exit of a business. Regulation is very important for the proper functioning of the market economy. As a regulator government also aim to intervene and settle dispute between management and workers through with social justice.

The basic objectives of regulating business are:

1. Prevent the market from becoming monopolistic.
2. Developing the small and new entrepreneurs.
3. Promoting the welfare of weaker sections of the society.

The law controls the business and covers matters as standards of product, packaging, promotion, ethics; ecological factors etc to protect consumer interests have assumed great importance in the country. Although the control has been substantially brought down as a result of the liberalization, a number of controls still prevail. Certain change in the industrial policies, fiscal policy, tariff policy etc have taken effect from time to time.

List of some governments regulations are:

Regulation/Act	Year	Regulation/Act
Indian contract Act	1872	Ensure the rights and obligations arising out of a contract are honored and that legal remedies are made available.
Indian Partnership Act 1932	1932	To define and amend the law relating to partnership.
Capital Issue(control) Act 1947	1947	To channelize the capital in the right direction.
Industrial Policy Act	1948	Development of industry private sector, public sector, joint sector, cooperative sector and small scale sector.

Banking Regulation Act	1949	Regulate and monitor private banking company and manage banks.
Industrial developments and Regulation Act 1951	1951	•Proper allocation of resource and incentive to new industries. • To control the concentration of economic power.
Companies Act 1956	1956	Formation and promotion of company, defining capital structure, investigate the affair of the company, administrate company law.
Securities Contract(regulation) Act 1956	1956	• Regulate the shares and debentures of companies. • Regulate stock market, capital market, OTCEI and various issues of the companies
Monopolistic and restrictive trade practices Act (MRTP),1969	1969	• Ensure no concentration of economic power at single place. •Control of monopolistic, restrictive and unfair trade practices which are prejudicial to public interest.
Foreign exchange regulation Act (FERA), 1973	1973	Effective management of foreign exchange,provide authorized dealing in foreign exchange, Impose penalties
Industrial Licensing Act	1951	Control the setup of new industries and increase the capacity of existing industry.
The Consumer Protection Act	1986	To provide better and all-round protection to consumers and effective safeguards against different types of exploitation.
SEBI Act	1992	To monitor the activities of the stock exchange, to curb fraudulent practices by maintaining a balance between statutory regulations and self–regulation.
The new industrial policy	July 24, 1991	Correct the distortions, maintain a sustained growth in productivity, attain international competitiveness.

Foreign trade(development and regulation) Act	1992	• Empower the central government to formulate and implement policies related to import and export. • Development of foreign trade. • Cancellation of imported and exporter code license.
The foreign exchange management act	1999	Facilitating external trade and payments and promoting the orderly development and maintenance of foreign exchange market in India.
The information technology Act	2000	Granting legal recognition to all transaction done through electronic communication
Competition Act	2002	To establish the legal frame work and Mechanisms to ensure competition policies are followed, to prevent anti-competitive conduct.
Companies (Amendment)Act	2013	To provide business friendly regulation
Goods and Services Tax(GST)	2017	It is substitute to all indirect taxes levied on goods and services.

Various enactment touching different aspect of business like trade and commerce,commodities marketing Act 1959, Agricultural products (grading and marketing)Act 1959, Standardized Weight and Measurement Act 1956,LimitedLiability Partnership Act(LLP)2008, Companies Act 2015,the information technology Act 2000, GST goods and service tax, has also been passed.

The government while performing the role of a regulator has the following objectives:

1. Developing SSI and promote entrepreneurship.
2. Preventing monopolistic activities.
3. Promoting interest of the weaker sections of the society.
4. Providing patent and subsidy, which provide direct benefit to the business.
5. Protecting investor interest.
6. Monitoring performance of service provider.
7. Promoting healthy competition.

Stop to Consider

The government attempts to shape the business practices through both, directly and indirectly, implementing rules and regulations. For instance, the government sometimes tries to change organizations' policies by their tax codes. The government could give tax incentives to companies that have an environment-friendly waste management system in a production factory.

2.4.2 Government as a Promoter

This is most important in developing countries than in the developed because of speedy development of the industry and commerce. Government has the role to build up and strengthen the necessary development infrastructure, such as power, transport, finance, marketing, institution for training and guidance and other promotional activities to cover certain risk, for the development of priority sectors and activities. In promotional role government doesnot intervene or regulate the working business but encompasses fiscal, budgetary and monetary incentives for expansion of business and priority sector of the economy.

Some of the activities performed by Government as a promoter are:

1. Maintenance of public utilities.
2. Promotion of private and public investment.
3. Provide trade incentives for promoting foreign trade.
4. To enable effective utilization of various resources.
5. Ensure equitable income distribution.
6. Make economic resource productive and efficient.

Various steps can be initiated by the government with regard to foreign direct investment, development of infrastructural facilities and establishment of growth centers, export promotion, marketing etc. The important promotional measures undertaken by Government of India include:

1. Reservation of items for exclusive production in the small scale industry.
2. Reservation and Preference in government procurement from SSI.
3. Infrastructural and institutional support are provided which provide technical assistance, testing facilities.
4. Arrange supply of machines on hire-purchase system.
5. Marketing assistance including export promotion assistance are provided by government through various institutions such as KVIC, SIDO etc.

6. Financial assistance is provided through various financial institutions to assist small scale sectors.
7. Training for existing and new entrepreneur offered by entrepreneurship development institute of India and other promoting organization.
8.Arrange supply of raw materials particularly of scarce items to the small business house.

2.4.3 Government as an Entrepreneur

Government acting as an entrepreneur leads to contribution of country's economy by benefiting society through providing various public services. The role of Government as an entrepreneur tends to accelerate the socio-economic development of a country. The public sector unit under the control of Government leads to employment generation, balances the regional development, balances the concentration of wealth and economic power, facilitates for economic development, equalizes the distribution of wealth, abolishes monopoly, utilization of local resources, achieving self reliance, generation of income etc. Being an entrepreneur, Government tries to create a strong industrial base in India and provides essential services to the people. It also invests in key sectors of the economy, such as infrastructure, manufacturing, and services which helps to boost economic growth and create jobs. With the mindset of an entrepreneur, Government provides essential services to the people at affordable price which helps to improve the quality of life. Government acting as an entrepreneur reduces the India's dependence on imports by producing goods and services domestically which tends to make the Indian economy more resilient to external shocks. In India companies/business organization are categorized based on their ownership and the level of control by the Government. Some of the common categories are Maharatna, Navaratna and Miniratna.

Maharatna is the highest category of public sector unit, which are generally large enterprises and have significant global operations. Example: ONGC, BHEL, SAIL etc.

Navaratna is also categorized as large public sector unit but not as Maharatna yet they are given greater financial autonomy and operational flexibility by the Government. Example: BEL, HAL, MTNL etc.

Miniratna companies in India are Central Public Sector Enterprises (CPSEs) that enjoys certain autonomy in their operations and decision- making. It is divided into 62 Miniratna category-1 and 12 Miniratna Category-2 companies. Example: IRTC, NFL, NHPC Limited.

Role of Government in the entrepreneurship development: The role of Government in promoting entrepreneurship development is multifaceted. Government sometimes act as an entrepreneur by investing in new start ups which tends to create jobs opportunity and overall growth of the economy and promotes and encourage innovation and investment in certain sectors. The Government provides access to business finance in the form of small business loans or venture capital investments. Government encourages entrepreneurship through public-private partnerships. These partnerships involve a mix of Government funding and private sector investment, often with the aim of creating new jobs or developing new technologies. Government develops industries in rural and backward areas with the objective of balanced regional development. The Government develops plans and programmes to help entrepreneurs in acquiring new techniques, availing finance, finding markets. The establishment of Entrepreneurship Development Institutes and alike by the Indian Government during the last decade is a good testimony to strong realization about the role of entrepreneurship in economic development of the country.

Institutions set up by Government for the growth and development of entrepreneurship in India: The following are some of the prominent institutes, boards or corporation set up by government of India:

1) ***Small industries development organizations (SIDO):***

   SIDO was established in October 1973 now under Ministry of Trade, Industry and Marketing. SIDO is playing a very constructive role for strengthening this vital sector, which has proved to be one of the strong pillars of the economy of the country. SIDO also provided to be one of the strong pillars of the economy of the country. SIDO also provides extended support through comprehensive plan for promotion of rural entrpreneurship.

2) ***Entrepreneurship development institute of India (EDI):*** Entrepreneurship Development Institute of India (EDI), an autonomous and not for profit institute, set up in 1983, is sponsored by apex financial institutions- the IDBI Bank Ltd, IFCI Ltd, ICICI Bank Ltd and the State Bank of India (SBI). EDI has helped set up

twelve state level exclusive entreneurship development center and institutes.

3) ***National Institute of Small Industries Extension Training (NISIET):***

It was established in 1960 with its head office at Hyderabad. The main objectives of national Institute of Small Industries Extension Training are:

a) Directing and co-coordinating syllabi for training of small entrepreneurs.
b) Advising managerial and technical aspects.
c) Organizing seminars for small entrepreneurs and managers.
d) Providing services regarding research and documentation.

4) ***National Small Industries Corporations Ltd (NSIC):***

The NSIC was established in 1995 by the Central Government with the objective of assisting the small industries in the Government purchase program. The corporation provides a vast market for the products of small industries through its marketing network. It also assists the small units in exporting their products in foreign countries.

5. ***Small Scale Industries Board (SSIB) 1954:***

The board was established to advice on development of small scale industries of the country.

6. ***State Small Industrial Development Corporations (SSIDCS) 1956:***

The corporation was established to procure and distribute scarce raw materials, supply machinery, assistant in marketing, construct industrial estates and provide with management assistant

7. ***Small Scale Industrial Service Institutes (SISIs) 1971:***

This Institutes serve as interface between state and central government, render technical support, initiate promotional programs, provide assistant in work shop facilities, training etc

8. ***Management development Institute (MDI):1973:***

It was sponsored by Industrial Finance Corporation Of India, with objectives of improving managerial effectiveness in the industry.

The government agencies have provided support to business by creating a startup culture in the country. *The following table reflects some of the recent initiatives of the government as regard to the Start-Up eco-system in the country.*

Startup India	Launched in 2016, the Startup India initiative is the flagship program of the Indian government to promote startup culture and entrepreneurship
Standup India	This scheme primarily promotes entrepreneurship among women and marginalized communities. Standup India aims to provide financial assistance to at least one scheduled caste or tribe and one woman entrepreneur per bank branch
Atal Innovation Mission (AIM)	Under the Atal Innovation Mission, the government has set up Atal Incubation Centers (AICs) and Atal Tinkering Labs (ATLs) to foster innovation and entrepreneurship. ATLs are established in schools to nurture creativity and scientific thinking among students
Pradhan Mantri Mudra Yojana (PMMY)	PMMY aims to provide collateral-free loans to micro and small enterprises, including startups.
Make in India	Launched to boost manufacturing in India, the Make in India initiative supports startups in the manufacturing sector.
Electronic Development Fund (EDF)	The Electronic Development Fund provides early-stage funding to startups in the electronics and IT sector. It promotes innovation, research, and development in electronics and IT hardware manufacturing.
Biotechnology Industry Research Assistance Council (BIRAC)	BIRAC is an initiative under the Department of Biotechnology that supports startups and entrepreneurs in the biotechnology sector. The council provides funding, mentoring, and infrastructure support to startups working on cutting-edge biotechnology, healthcare, and life sciences technologies.

Export Promotion Capital Goods (EPCG) Scheme	The EPCG scheme enables startups to import capital goods to produce goods and services for export purposes. Under this scheme, startups can avail a license to import capital goods at a concessional rate of customs duty, thereby reducing their production costs and enhancing their export potential.
ASPIRE (A Scheme for Promotion of Innovation, Rural Industries, and Entrepreneurship)	ASPIRE focuses on promoting entrepreneurship and job creation in rural areas. It supports startups and small businesses in rural sectors such as agro-based industries, rural crafts, and food processing. The scheme includes incubation centres, training programs, and financial assistance for rural entrepreneurs
Pradhan Mantri Kaushal Vikas Yojana (PMKVY)	PMKVY is a skill development program that provides training and certification to individuals, including aspiring entrepreneurs. Startups can benefit from this scheme by hiring skilled and certified individuals to meet workforce requirements.
NIDHI (National Initiative for Developing and Harnessing Innovations)	NIDHI nurtures innovative ideas and startups through a network of incubators and entrepreneurship development centres. It provides financial support, mentoring, and training to entrepreneurs and startups
Stand-Up India Scheme	This scheme promotes entrepreneurship among women and SC/ST entrepreneurs. The scheme aims to create a more inclusive startup ecosystem.
National Entrepreneurship Awards (NEA)	NEA recognizes and rewards exceptional startups and entrepreneurs who have significantly contributed to the entrepreneurial ecosystem. The awards encourage innovation, job creation, and social impact while providing recognition and visibility to deserving startups
SIDBI Make in India Soft Loan Fund for Micro, Small and Medium Enterprises (SMILE)	SMILE aims to provide soft loans to startups and MSMEs in the manufacturing and service sectors. It offers financial assistance to support technology upgradation, capacity expansion, and market development.

Innovation in Science Pursuit for Inspired Research (INSPIRE)	INSPIRE is an initiative by the Department of Science and Technology (DST) to attract young talent towards scientific research and innovation. It offers scholarships, research fellowships, and grants to students and researchers, including support for startup ventures in science and technology.

Check Your Progress

1. Mention two dimensions of government role in business?
2. What are the basic aims of regulating business?
3. State the rules to be followed while regulating business?
4. Mention the area of importance in the new industrial policy 1991?
5. Write the function of government in promoting business operation?

2.5 Summing Up

- The term business commonly referred to commercial activities aimed at making a profit.
- The policy of liberalization and globalization of the government of India has made a significant impact on business which signaled the end of the license permit quota raj, tariff restrictions, licensing of import etc.
- The government control over the Indian economy grew enormously in the first four decades since independence. Since 1991, India has been passing through a process of decontrol and economic reforms.
- The state sets the formal laws and regulations that are part and parcel of a country's institutional environment which can accelerate development.
- Various steps have been initiated by the government with regard to foreign direct investment, development of infrastructural facilities and establishment of growth centers, export promotion, marketing etc.

2.6 Model Questions

i. Describe the role of Government to eradicate the problems of business in developing Economy?

ii. Briefly discuss the impact of government policy changes on business?

iii. Write short notes on:

a).SIDO, b)SSIB, c)SISIs,

d) DICs , e) globalization f). privatization and

g)liberalization.

2.7 References and Suggested Readings

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Unit-3
Role of Government in Different Economic System-Laissez Faire, Capitalism and Socialism

Unit Structure:

3.1 Introduction

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. Economic systems regulate the factors of production, including land, capital, labour, and physical resources. An economic system encompasses many institutions, agencies, entities, decision-making processes, and patterns of consumption that comprise the economic structure of a given community. The major problem in any economy is that– while the resources used as means of production is always limited, the wants are unlimited. There are many types of economies around the world and each of them has their own characteristics and basic features. The four major types of economic systems are around the world are: (a) traditional system (b) capitalism (c) socialism and (d) mixed economic system. The role of government in different economic system is different. While in capitalism, the government gives liberty to private producers to own the means of production to large extent, in socialism, the government owns the means of production and work to form a non-antagonistic society. In capitalism, government's intervention is minimal as regards to various economic activities. Individuals are permitted to produce anything and charge at any price according to their wish as long as they can find buyers who can afford their goods and services that they produce; hence, private property creation is much easier in such type of economic system. In this unit, the three different types of economic system, shortcomings of these systems and the role of government in such systems are discussed.

3.2 Objectives

The main attempt of this unit is to highlight the role of government in different types of economic system. After going through this unit, you will be able to–

- the different economic systems,
- the differences amongst the different economic systems,
- the role of government in different economic system,
- the type of economic system that any country adopts.

3.3 Different Types of Economic System

There are different economic system having its own distinguished characteristics and features. The main economic system and their features are:

3.3.1 Capitalist Economy and its Features

Capitalism is an economic system in which private actors own and control property and the factors of production. The demand and suplly forces determine the price of products. The consumers are free to choose what they want to buy according to their purchasing power. In this system, role of govt. is limited to protect the right of the citizens and maintain an orderly environment that facilitates proper functioning of market. The following points highlight the features of capitalist economy.

- ♦ **Private property:** One of the central tenets of capitalism is that private entities like individuals or corporations can own properties such as factories, machines, and equipment.
- ♦ **Freedom of enterprise:** In a capitalist system, individuals are free to make their own economic decisions without interference, a liberty extended to both consumers and producers.

- **Profit motive:** Profit is a major driving force in a capitalist economy. Companies strive to produce and sell products that generate the highest profit.
- **Price mechanism:** The level of production and the pricing of products are determined by market demand and supply, with no government involvement.
- **Consumer sovereignty:** The consumer holds significant power in a capitalist economy, with their demands dictating the level of production by companies. Consumers are also free to choose which products to purchase.
- **Free trade** : Low tariff barriers promote international trade in a capitalist system.
- **Government interference:** In a capitalist economy, government interference in daily business activities is minimal or nonexistent. Both customers and producers are free to make decisions regarding products or services.
- **Labour market flexibility:** Capitalism allows for the flexibility to hire and fire workers.
- **Ownership freedom** : Individuals can accumulate and use property as they wish in a capitalist system. After their death, the property can be passed on to successors through inheritance.

3.3.2 Socialist Economy and its Features

The socialist economy is almost opposite to the capitalist economy. In such an economy the factors of production are all state owned. The entire foundation of socialist economy is based on socio - economic objectives. Profit making is the basic motive in capitalism but the welfare of the people is the basic motive in socialism. The consumers should choose from the limited products that the state manufacturers. Some of the features of socialism are:

- **Collective ownership of resources**: The major resources are owned by the government, hence, the decision related to utilisation of resources rests with the government. There is a complete disregard for private ownership of property beyond the permissible limit. The institution of private ownership is replaced by state ownership.

- **Decision on collective interest**: Under socialism, the means of production are organised, managed and owned by the government with the benefits accruing to the public. All the economic decisions are taken in the collective interest of the society.
- **Equitable distribution of income** : Since, the major resources are owned by the state, the national income is equally distributed among the citizens.
- **Planned economy and limited role of market**: Under socialism, free enterprise is replaced by state planning. Planning is necessarily in order to secure production for use rather than profit. Market has also limited role in socialism. The role of the institutions of free enterprise and strong market mechanism are almost absent since these institutions are abolished by the law.
- **Lack of competition:** Unlike capitalism, there is no cut throat competition in socialism. There is lack of competition in most of the cases as state is the sole producer, distributer and manager of goods and services. .
- **Elimination of evils of capitalism**: Existence of great inequalities of income and wealth, division of society into two classes- the 'have' and the 'have-nots', existence of monopoly, manufacturing of hazardous items are eliminated in socialism. The socialism guarantees income equality, employment for everyone and state management of production.
- **Maximum social gain and social welfare:** The sole objective of socialism is the maximum social gain and social welfare of the society. Unlike capitalism, the production is done to maximize social welfare. It implies that there is no scope of exploitation of working class. Government keeps a close eye on the needs of the poor masses while formulating plans.
- **Basic needs are taken care of by the state**: Under socialism, basic needs including education, public health, and other services are taken care of by the government.

Stop to Consider

Socialism is type of economic system which stresses on collective ownership of means of production..While capitalism is motivated by profit maximisation, socialism is motivated by social welfare maximisation. All the economic decisions are taken by the government in the collective interest of the society.

Check Your Progress

1. What are the basic features of socialism?
2. What are the merits and demerits of socialism?
3. What are the major roles of government in socialism?

3.3.3 Laissez Faire and its Features

Laissez-faire is a French word which means "let do" or "leave alone.". In 'Laissez Faire', the government should not regulate economic activity and its role is simply that of upholding the natural order and safeguarding property rights. Hence, it is a type of economic system based on the pursuit of self-interest, free competition, private property, inheritance, free contract, mobility of labour and capital, and the absence of private and public monopolies as well as of government intervention in economic activity. The laissez-faire assumes perfect competition; hence, the system is driven exclusively by the forces of demand and supply. The role of government in such system is limited to (a) the maintenance of internal law and order, including the protection of private property, the enforcement of contracts and (b) the prevention of aggression from outside, that is, national defense. Hence, the role of the government is like a night-watchman.

3.3.4 Mixed Economy and its Features

A mixed economic system is a combination of capitalist and socialistic ideals. The mixed economy incorporates the benefits of capitalism and socialism while avoiding their drawbacks. Under a Mixed Economy, the private and public sectors coexist. Economic activity is directed by the government toward particular socially significant sectors of the Economy, and the balance is determined by the operation of the pricing mechanism. The public and private sectors collaborate to achieve social objectives within the framework of a common Economic plan. The private sector is a significant component of the Mixed Economy and is regarded as a critical engine of Economic growth. India is widely recognised as the world's best example of a Mixed Economy. There are different types of mixed economy. They are-

- Partial State Control - The ownership of factors of production like a factory, machinery, the plant is owned by the private entities, and the government plays a regulatory role.
- Total Government Control - The state directly influences the functioning of the entities. The government invests its own money into the business and is solely responsible for the activities of the companies. It bears the risk of loss and owns the profits of the company.
- Public-Private Control - There is a joint venture between the state and private players. Western countries are the first type of mixed economy, while Asian countries like India are the second mixed economy type.

The main features of mixed economy are:

- Coexistence of all the Sectors: In this system, the three major sectors, viz. private, public, and mixed sectors, thrive together in peace. The mixed sector is jointly driven by the government and private companies with more than half government control.
- Cooperative Sector: In a mixed economy, there is a cooperative sector whose objective is to provide financial support to cooperative societies involved in agriculture, animal husbandry, or warehousing.
- Freedom of Operation: The choice to produce goods and provide services, buy capital assets, select professions, products, or services is given to the public but to check monopolistic forces, the government maintains state control.
- Economic Management: A mixed economy is a federal planning body. All economic sectors adhere to the state's economic plan to fulfill various set targets. Financial planning is not rigid but acts as a common guideline for the overall prosperity and growth of the national economy.
- Welfare of Society: Social welfare is one of the prime targets of a mixed economy. It fights to reduce the gap between the rich and the poor by providing job opportunities and reducing poverty. The other

targets are social and economic security, health care, and free or subsidized education up to high school for all.

3.4 Role of Government in Various Economic Systems

3.4.1 Role of Government in Capitalist Economy

A capitalist economy is an economic system where private individuals and business have the ownership and command on most of the factors of production. Here, the government interference is minimum, demand and supply determine the production level, affordable options are available for consumers and the labour market are flexible. In a capitalist economy the role of the government is very less. The main duty of government is to maintain law and order in a country, make national defense stronger, and regulate money supply. In a capitalist economy government regulates and controls various economic situations such as inflation and deflation by formulating and implementing various fiscal and monetary measures. The government controls the power of monopolistic and large corporation to elude various economic problems such as unemployment and inequitable distribution of resources. The government creates central planning body that helps in the development of an economy on a larger scale also handling problems to environment, extinction of natural recourse and growth of population. In a capitalist economy govt. possesses the ownership of public utilities, such as railways, education, medical care, water and electricity which are required by an economy as a whole. The United States is the most well known country with a capitalist economy. In United States there is no direct government intervention other than to control monopolistic practices in the economy. In the United States, the means of production (such as manufacturers or importers) are privately owned and operated for profit.

Check Your Progress

1. What are the basic characteristics of capitalism?
2. What are the merits and demerits of capitalism?
3. What are the major roles of government in capitalism?

3.4.2 Role of Government in Socialist Economy

In socialism, the government plays a unique role; the government employs comprehensive control on almost all economic activities. The government plans, manages and regulates all economic activities centrally. Government has to take all the decision regarding production, allocation and management of resources, pricing, employment, etc. The decisions regarding - what to be produced, how much to be produced, at what price to be produced and for whom to be produced, are taken by the government. The government also enacts several legal framework to abolish the institution of private property, punish unethical practices and eliminate the evils of capitalism. The government works to bring efficiency, growth, social justice and maximize social welfare by removing class contradiction, exploitation of labour, poverty, unemployment and providing employment to those who deserve for the right job. To maximize the social welfare, the government takes care of social benefits of the people.

3.4.3 Role of Government in Laissez Faire

Laissez faire economy is such an economy where the government intervention is less. Here, the production of goods and service are determined by the free play of demand and supply forces in the market. The theory suggests that an economy is strongest when the government stays out of the economy entirely, letting market behave naturally. In this form of economy, the government allows private business to make as much money as possible without intervention in the idea that this wealth would trickle down to individuals. In this type of economy the government cut taxes to stimulate the market, which is based on laissez faire theory. The idea is that lifting regulations or taxes helps put more money into the market by encouraging spending. In this type of economy government sells state assets, such as transport or postal services, this is laissez faire at work. In Laissez the government protects the markets and that all have equal access to information. In this economy, the role of government is also to prevent and coercion against individuals . Theft, fraud and monopolies prevent rational market forces from operating. Here, the government protects the rights of the individual rather than regulating business in any way.

Stop to consider

In 'Laissez Faire, the government should not regulate economic activity.

The government should confine its roles maintenance of internal law and order and the prevention of aggression from outside.

Apart from it, government should erect and maintain those public institutions and public works which are beneficial to the whole society.

Check Your Progress

1. Who are the proponents of *Laissez Faire*?
2. What are the characteristics of *Laissez Faire*?
3. What type of roles is played by the government in *Laissez Faire*?

3.5 Summing Up

Laissez Faire, capitalism and socialism are different type of economic system which have distinct characteristics. While many have used Laissez Faire, and capitalism synonymously, both have different way of functioning. However, both the systems are developed based on the free market concept. While in Laissez Faire, the government's intervention in economic activities is nil, in capitalism, the government has to intervene in many areas to bring market efficiency and protect economic actors. The nature of capitalism is pluralistic, competitive, horizontally organized, individually directed and open economic system whereas socialism is a non-pluralistic, non-competitive, vertically organized, centrally directed, and closed economic system, based on public ownership of the means of production and state coordination.

3.6 Model Questions

1. Choose the correct answer-
   a) The primary objective socialism is
      (i) to promote private property
      (ii) to promote entrepreneurship
      (iii) to earn profit
      (iv) to promote social welfare

b) The role of government in capitalism is

(i) to control inflation and deflation though indirect measures

(ii) to expand public sector enterprises

(iii) to manage all the economic activities by the state

(v) none of the above .

c) The tools production are owned and managed by the government in case of-

(i) capitalism

(ii) socialism

(iii) Laissez Faire economic system

(iv) none of the above

d) In Laissez Faire economic system, government should be-

(i) neutral

(ii) in the prevention of aggression from outside

(iii) both (i) & (ii)

(iv) none of the above

2. State whether the following statements are true or false.

a) Under capitalism, labour power is not a commodity.

b) Socialism comes automatically after capitalism.

c) Market plays major role in socialism.

d) Distribution of income is more equitable in capitalism than socialism.

e) To classify people on the basis of ownership of means of production is not possible in socialism.

3. What is economic system? What are the different types of economic system?

4. What do you mean by Laissez Faire? Why can't Laissez Faire system continue in the present world?

5. Discuss the advantages and disadvantages of Capitalism and Socialism?

6. Distinguish between the role of government in Capitalism and Socialism?

7. Considering your needs and demands, which economic system is to be considered as the best? Justify.

8. 'Every economic system has advantages and disadvantages'. Considering the present scenario of India, which system will be more appropriate? Explain.

3.7 References and Suggested Readings

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