

MIXED ECONOMY

History

A mixed economy, as is clear from the name, is a mixture of two opposite economic systems i.e. capitalism and socialism. During nineteenth century, all countries had free market economies and the government intervention was quite small. But, with the passage of time, the evils of capitalism such as unemployment, inequalities in distribution of income and wealth and business cycles became quite clear. In the beginning of 20th century, as a reaction to and as a solution of evils of capitalism, some countries adopted socialism. Under socialism, there was complete control of the state over all economic activities and the whole economy was run and directed through comprehensive planning. Initially, socialism appeared very successful. Many countries increased the rate of economic growth, ensured jobs for all and reduced inequalities of wealth. It was felt as if the whole world will one day come under socialism. But soon the drawbacks surfaced up. Not only people's tastes in choice of goods were ignored, but also the promise of equality of opportunities for all did not come true. The rate of economic development slowed down and people started resenting the loss of their personal freedom. The socialist economies failed to match the rapid progress in technology by capitalistic countries. As a result, almost all socialist countries have started freeing their economies from state control. Now, at the close of 20th century, we find that neither there is pure capitalism, nor complete socialism anywhere but a combination of the two i.e. mixed economy.

We can define mixed economy as

"Mixed economy is an economic system which is a combination of capitalistic economic freedom and the principles of socialistic control." or

"Mixed economy is that economic system in which private and public sectors co-exist in economic field."

"Mixed economy is that type of economic system in which government exercises a broad control over the economy; itself undertaking some basic economic activities through public sector, and also allowing a major role for private sector."

Every country has its own variant of mixed economy. However, we can divide all these into **two broad categories**.

(a) The economy in which public sector dominates. Private sector is weaker. e.g. Indian economy.

(b) The economy where most economic activities are in private hands. Public sector is limited to only provision of basic infrastructure and some social problems of health, education etc. e.g. Japanese economy.

Pakistan's economy is also a mixed economy. Till recently, the government sector had been quite strong, but now through the policy of privatization, the government is limiting the public sector only to provide basic infrastructure like gas, water, electricity and roads. The shape of our economy consists of,

(i) Public Sector (ii) Semi-public or Autonomous Sector (iii) Private Sector

Features

Mixed economy has the following main features:

(i) *Public and Private Sectors co-exist.* Directly productive activities like production of goods is in private hands and the government provides public utilities like water and social overheads like highways.

(ii) *Price mechanism* works through forces of demand and supply as in capitalism. However, sometimes the government interferes, to influence some prices to safeguard the interest of the common people.

(iii) *Private Sector is regulated* to check monopolies or concentration of wealth.

(iv) *Freedom of consumer's choice* is available to a very large extent.

(v) *Protection of rights of labour* and of weaker classes of society is the responsibility of the government.

(vi) *Planning of the economy* is undertaken only in a broad sense.

(vii) *Indirect regulation of the economy* is done through monetary and fiscal policies.

(viii) *Most of the means of production are in private ownership.*

Merits

1. **Natural and Nearer to Islamic System** The mixed economy follows a middle path, which is also the course prescribed by Islam. Individual freedom, initiative and enterprise is preserved to a large extent. So, people make maximum use of their potential qualities. Every individual is naturally an independent personality. This system admits this fact. However, at the same time, it does not leave individuals' actions unchecked and unbridled. The state, through various policies, keeps individual freedom within limits, so that it does not harm the cause of collective welfare.

2. **Democratic** Very large part of the economy is run through private enterprise. The government encourages people's participation and makes economic policies in consultation with private sector. People have organized themselves in various 'associations', 'unions' and 'chambers of trade and industry.'

3. **Efficient** The system ensures optimum use of national resources. The individuals and private business firms are engaged in directly productive activities such as production of consumer goods and services. Since people get good returns on their investments and fruits of labour, so they work whole-heartedly and to the best of their abilities. Moreover, a large number of opportunities exist for the people to undertake. Everybody can select a line of economic activity, which suits his talent. The government complements the private sectors. It undertakes those activities, which are beyond the scope of private investors or have strategic importance for general functioning of the economy such as highways, seaports, dams etc. When the basic infrastructure like roads, electricity, training institutions etc. is available, the efficiency of the private sector is increased.

4. **Equality of Opportunity.** A great objection against capitalism was that it creates concentration of wealth and monopolies in business. Under mixed economy, the scope of public sector is so adjusted, and the government regulates private business in such a way that opportunities for individual enterprise are spread to all sections of the society and all regions of the country. Thus, gap between the rich and the poor does not

widen too much. Everybody can find full expression of his ability, education and ambition.

5. Human Freedom. Freedom of action is an ideal which everybody likes to have. Mixed economy provides social and economic atmosphere which allows a large measure of free working of the people. Individual freedom is curtailed only when it interferes with the rights of others, or goes against the collective welfare of the society. Moreover, the government regulates the economy through indirect means like monetary and fiscal policies. People are 'induced' to behave in a certain way and direct intervention in their economic decisions is minimum.

6. Flexible. Mixed economy is a very flexible type of economic system. There is no clear-cut boundary between public and private sectors. It is the circumstances available in a country and the stage of economic development reached which determines what economic activities can be entrusted to private sector and what are to be retained in public sector. Thus, every country can adjust the exact shape of its economy as it finds appropriate. In some countries private sector may be dominant, while in others, public sector may be stronger.

7. Long Run Interest of the Economy is preserved and safeguarded. On the one hand, private sector tries to produce maximum amount of goods for current use while on the other, the government looks after the requirements of long run economic growth, and general welfare of the society in future. The government tries to conserve natural resources and environment, controls vital communication system and has the responsibility to provide basic education and health facilities for every citizen. It tries to reduce regional disparities of incomes.

8. Supports Sound Politics. Since means of production are partly in private hands and partly under government control, a strong middle class of the society exists. Excessive concentration of political power (arising out of excessive economic power) is discouraged. On the other hand, the government has few economic units (such as banks) under its control, so its capacity to misuse economic resources of the country to keep itself in power, is reduced. (The chances to misappropriate funds of various government departments for horse-trading in assemblies are limited. Similarly, most of the banks being in private control, little scope is left with the government in power to sanction and then write off huge loans on political grounds).

Demerits

The drawbacks of the mixed economy are much less than those of pure capitalism or pure socialism. Some of the drawbacks which have been observed in different countries are the following:

1. Conflict between public and private sectors may arise in some fields. For example, suppose the electricity is being produced in both the sectors. Now, private firms may try to foil government efforts since there is always a delay in government's making of decisions and completion of plans. On the other hand, it can also happen that the government may fix a low price for electricity because it controls hydel power and

atomic resources and is not worried to earn profit. But at this low price, private sector may refuse to provide electricity.

2. **No Definite Shape.** Since there is no clear cut line between public and private sectors, some ambitious government (like that of Mr. Bhutto in 1970s) may try to keep too much economic units in government hands, while some other government (like that of Mr. Nawaz Sharif) may try to keep too few economic activities under government control. So, there may be frequent changes in policies with the change of governments and the economy may suffer under uncertainty of future policies.

3. **Evils of private ownership of means of products.** In most cases, the evils of private ownership of means of production may continue. There may emerge large firms (i.e. the big business becomes too big) which, by using their vast economic resources, may be able to influence government policies to promote their private interest. Thus, interest of the common man may be ignored.

Conclusion

When we study the principles of mixed economy and its performance in various countries, we come to the conclusion that it is preferable to both capitalism and socialism. It ensures maximum efficiency and is, acceptable to people, flexible, and practicable. It is not simply an ideal theory of an economic system but a practical reality all over the world.

SUMMARY

There are three different systems under which economic activities in a country can be carried out. These are capitalism, socialism and Islamic economic system.

Under capitalism, which is also called free market economy, there is maximum freedom for private sector in economic matters. The government interferes to the minimum. Its basic note is freedom. Thus, there is freedom of enterprise, contract and holding of property. The system runs on the principle of profit and loss. This system has the merit that it encourages full use of material and human resources of a country. There is competitiveness, which ensures efficiency in production and minimum wastage in consumption. But excessive freedom in this system creates unequal distribution of incomes. Monopolies are created and private benefit takes precedence over collective benefit. The working of the system is also not smooth. There are ups and downs called business cycle.

Under socialism, the state is all in all. Private ownership of means of production is not allowed. The state plans and executes all policies about allocation of national resources. It controls production of goods and services and their distribution. The system has the claim to bring equality among incomes of the people and stability in the whole economy. However, because of absence of personal interest, the people do not put their full potentials to use. So there is inefficiency all around.

Now a day, in most of the countries of the world, the system of mixed economies is followed. Neither there is complete freedom of capitalism nor is there total government control. Major part of the economy is in private hands. They decide what to produce and how to produce. But government sector is also quite strong. The government follows different policies for coordination of private decisions and to eliminate evils of private enterprise.

Islamic economic system takes shape under the teachings of the Holy Quran and sayings of the Prophet Muhammad (peace be upon him). Islamic system is different from the others that (a) it