Chapter —

MIXED ECONOMY

22.1 TYPES OF ECONOMY

Economic systems govern the economic activities operating within the nation. An economic activity can be of micro or macro in nature. Microeconomics is the study of particular firm, particular household, individual price, wage, income, individual industries, and particular commodities. Macroeconomics, however, deals with the functioning of the economy as a whole, including how the economy's total output of goods and services and its total employment of resources are determined and what cause these totals to fluctuate. Considering both micro and macro economic, economic system operating today can be broadly classified as Command economy, Market economy and mixed economy.

Command economy: Command economy is also called socialist economy. Socialist economy in one way a antonyms of capitalist economy, majority of economic activities are carried out by individual, and thus himself enjoy the benefits. Majority of productive resources are owned and controlled by the individual and finally two common genera rich group and poor group are established. To eliminate this distinct class, Sait Saimon, Sismandi and Karl Marx has pioneered the socialist type of economy. According to Dickinson, socialism is an economic organization of society in which the material means of production are owned by the whole community and operated by organs, representative of and responsible to the community according to a general plan, all members of community being entitled to benefits the results of such socialized planned production on the basis of equal right. Some common feature of socialism are:

- Social ownership
- Central planning
- Income equality
- Social welfare
- Lack of exploitation
- More emphasis to value, etc.

Market economy: Market economy also called as capitalist economy is the very old economic system was originated at end of 18th century in Europe. Economists like Adam Smith, J.S.Mill are credited as pioneer of market economy. According to Loucks and Hoot, Capitalist is a system of economic organization featured by the private ownership and the use for private profit of man made and nature made capital. On capitalistic economy, expected profit is the pivot on which the entire system runs. Some common features of capitalistic economy are:

- Private property
- Economic freedom
- Profit motive
- Competition
- Class conflicts
Market economy offers various benefits like

- Economy
- Perfect competition
- Improvement in living standards
- Democratic system
- Maximum utilization of resources
- Technological progress
- Elastic planning system
- Self adjusting economy
- Supply according to demand
- Efficient management,

Some common demerits of market economy are:

- Economic inequality
- Class conflicts
- Lack of production
- Unemployment and uncertainty
- Birth of monopoly
- Lack of consumer's sovereignty
- Economic exploitation
- Lack of production of necessary goods, etc.

Mixed economy: Mixed economy emerged due to certain demerit of market and capital economy. The pioneering credit of mixed economy goes to J. M. Keynes. According economist Samuelson: "mixed economy is an economic system where some planning and work of production are undertaken by the government itself directly and some such activities are left to private enterprises". Under mixed economy, both private and public (government) are coordinately operating and is not either totally centralized or open market system. Some sort of public welfare activities, where private sector are not attracted, either due to high risk, low profit margin or lacking consumer purchasing power like drinking water, electricity, hospital etc are operated and managed by government. Other business activities are open to private sector. Some activities are carried by on the joint invest of government and private sector too. So, mixed economy can also be called as Controlled economy and Duel economy.

22.2 FEATURE OF MIXED ECONOMY

Co-existence of capitalism and socialism: Mixed economy consists of characteristics of both capitalism and socialism. Though, capitalism and socialism are opposite, mixed economy is a perfect combination between two. Here, majority means of production are owned by private sector like capitalistic economy and some for social welfare are operated by government like socialist economy.

Division of total economy into four sectors: In mixed economy, economy is divided in to four sectors:

- **Private sector:** In mixed economy, private sector owned, controls direct the resources. As they have full control over the resources and profit, they are motivated to carry out business and also expansion of them.

- **Public sector:** In mixed economy, large scale industries (some large industries are operated by government because of difficulties in raising capital by private sector and greater risk), arm and arsenal industries and other social welfare services are carried by state or government and called as public enterprises. Public enterprises are very important for social development in developing countries.

- **Joint sector:** Some industries are operated jointly; where government has more than 50% investment and remaining are invested by private sector or general public. These are called as **public limited company.** Public limited company gives opportunity for safe investment for private sector and general public. Public limited company aims profit making through social welfare unlike private company that might ignore social welfare.
**Co-operative sector**: In mixed economy, government emphasize to operative co-operatives. Co-operatives are established by small producer, farmers, or trader to have benefit of large scale operation and thus safeguard their business.

Economic planning: In mixed economy, though private sector are free to operate, they are imposed with some government control regarding operation, labor, quota, reservation etc. These government control aims to sustainable development and public welfare.

**Maximum social welfare**: In mixed economy, the more focus is given to social welfare. This is done by either establishment of public enterprise or by public private partnership program (PPPP) or by government policies regarding the private sector.

**Social security**: In mixed economy, government provided various social security activity like, hospitals, schools, accident, medicines, etc. These are done either by insurance policy or by establishment of government undertaking providing these facilities.

**Equal distribution of wealth**: In mixed economy, government tries to collect maximum taxes under name of income tax, value added tax, etc and invest these revenue to marginal public and least developed areas, races or communities.

**Individual freedom**: Though, company, enterprises, or public has individual freedom regarding investment, disposition of resources, income, but government insist some kind of control over it focusing on social welfare.

**Price system**: Here price of commodities and service are determined by the law of demand and supply, but government insist some kind of control over price fixation on some common commodities like public transport, electricity, fuel, medicine education etc.

### 22.3 NEPALESE PERSPECTIVE

Since the restoration of democracy in 1990, Nepal has adopted a policy of political, economic and social reform focused on creating an environment conducive to the private sector participation on the development process. A liberal trade policy was adopted to integrate trade sector into international economy, attract foreign investment, make domestic product competitive and diversify trade and generate employment. The policy is adopted to privatize government undertakings and made them further competitive and productive. These economic policy reforms indicate that HMGN is moving towards the capitalist market economy where government only works and policy maker and controlling force but do not participate in production, service or any trading activities.

Government has already privatized the major industrial undertaking and is planning further privatization with in tenth plan. Though, companies providing the basic goods and services like drinking water, electricity, air transportation, communication, banking etc are still owned by government and is still affianced on fixing price of some common commodities like land and air transportation, electricity, drinking water, salt, sugar, fuel etc. However, government is continuously withdrawing its role on these activates, and opened private sector in these area. Currently, HMGN has opened petroleum products for private sectors. On top of this, major donor agencies like ADB, and World Bank are also imparting excessive pressure to HMGN for its steady privatization process.

On top of this, from the 14 years effort, Nepal has became the WTO membership from 24th April 2004. During the accession protocol, Nepal has committed to bou the tariffs and open more than 70 out of 150 service sector. Nepal has made conditional commitment to open up sectors like legal service, engineering, architecture, research and development, advertising, market research, courier, telecommunication, musical products, higher education, financial service, hotels and restaurants, among others. This further support that, HMGN is framing towards the Capitalists economy, which may not have diligent effect on poor rural citizens, who needs government support and reservations even to sustain. However, WTO agreement has provided special protective measures for least developed countries not necessary to liberate its market; measures of special assistance e.g., technical assistance in the development, strengthen and diversification of their production and export bases which enable them to maximize benefits from liberalization process. Nepal being one of the least developed countries can enjoy these
benefits from WTO and can still practice mixed from of economy, providing greater benefits to the marginal rural communities and citizens.

22.4 CONTROLS IN MIXED ECONOMY

Control is the power to determine how the resources of the nation are to be allocated for various purposes, what goods and service shall be produced, who shall produce them, how and among whom the wealth and income shall be distributed, in what proportion it will be distributed etc. Some control comes from the nature or our institution, customs, laws, and processes. For example, our system of economy, featuring individual initiative, private ownership, and operation of the means of production, is a controlling force. Competition among producers, among buyers, among sellers, and between buyers and sellers is another controlling force. These traditional control tended to make the economy self regulating to a considerable degree. In addition to these institutional controls, government and organized labor are other controlling forces on the economy. The combined effects of all these forces make the economy working – providing jobs, goods, and services which advance the general welfare of all our people. The major controlling forces in mixed economy are:

- System as controlling force
- Government as controlling force
- Organized labor as controlling force

System as controlling force
The law of country protects the right of contract and private ownership and right to enjoy rewards (including profit) derived from them. A nationwide communication and free market network and a uniform monetary system facilitated the exchange of goods and services. The owner, directors, and managers, determine the internal policies and operation of the particular organization. Freedom to work and produce, competition, and the price system were relied upon to regulate activity and to ensure balanced and equity. The consumer, within certain limitations, exercising his free choice to buy or not to buy, to shift favor from seller to seller and from one product to another, is a powerful factor in the control of enterprise. With government maintaining order and enforcing respective legislations are the main lines of control which prevailed in our country at present.

Controlling modern enterprise is a complex process. Many of the controlling forces inherent in a private enterprise system continue to function in mixed economy. Here one is free to join, leave the company or own and dispose of property. Within a frame work of government legislations and social values and norms, management still makes the decision on the kind and location of the plant, the kind and quality of product, the organization and working condition of the enterprises, marketing of the product, and distribution of the proceeds. Consumers also exercise free choice to buy or not to buy and to shift favor from seller to seller and from one product to another. The competition on other hand is other controlling factors. The variety of close substitute has provided great threat over the producer and thus he can not play more on quality and cost of the produce. The most significant development in modern times is the expansion of public sector of the economy. Growth on number and power of organized labor, to the point where both government and labor along with management also acts as controlling fore in mixed economy.

Government as controlling force
Macro-control in the economic field of the country by government is the positive point on mixed economy. Here, government is also involved in the economic activity on sectors of higher risk and low profit margin, thus providing services to rural marginal public. Besides, it makes policies which help to control the enterprise in good way. Government as an active element, control economic operation by following major means:

1. By regulations affecting almost every field of activity, every enterprise and every process of economic life
2. By deliberate manipulation of banking and monetary system By provision of an elaborate array of government services.
3. By considerable participation as promoter, financier, and operator of large scale public enterprises.
4. By commodity control, purchases and other stabilization operations.
5. By the employment of taxation and other fiscal devices to transfer wealth and income from the more to the less fortunate groups in the populations through loans, grants, subsidies, benefits and social welfare services.
6. By the control, almost exclusive in some cases of economic relation between the foreign trades
7. By the political action of executive department of government allying themselves with special interest
groups to expand government powers and activities

In addition to the obvious effects of government taxing and spending, government exerts other influences on
nation's economic system. These include influences stemming from the size and management of public debt and
effects on the interest rates, savings, and investment from government borrowing, lending, and refinancing
operations.

Organized labor as controlling force
The power of organized labor to exert controlling forces on the economy can be readily understood when its
methods of operation are stated. They are:

1. Labor's traditional economic power to affect industry through wage, hour, working condition and
   benefits contracts in collective bargaining and through a variety of strikes, slowdowns, boycotts and
   other work stoppages - some capable of permanently damaging private enterprises and crippling the
   national economy.
2. The persuasive effect of mass organization upon industrial policies, standards and operations
3. Labor's political power through alliance with political parties, influence on voting habits of an
   organized minority, and pressures on law making bodies at all level of government.

Other developments in organized labor indicate that it will continue to be heard in economic affairs. It is a major
income source, has large welfare and pension funds, to invest and administer. Union leaders exercise strong
control over the internal affairs of unions and union workers. Alliances between unions for common ends have
become more frequent and more effective. The result is that, even though organized labor covers only a portion
of the nation's total working force, it exerts considerable influence on the decisions affecting specific industries as
well as the economic system as a whole. Conversely, there is now placed upon organized labor a new and grave
responsibility for the operation of industry which until recent times rarely rested upon the worker or upon
management.