**Business Environment**

**Unit-I**

**Definition Of Business**

The term business is understood and explained in different ways by different people. For some, business is an activity, for some it is a method of transacting, for some others, it is a method of money making and some people argue that business is an organized activity to achieve certain predetermined goals or objectives. Dictionary meaning of business is: the act of buying and selling of goods and services, commerce and trade. Based on all these meanings of business, we may define business as: gainful activity through which various elements of society conduct exchanges of the desirable things.

**Definition Of Business Environment**

“The total of all things external to firms and industries which affect their organization and operation”—Bayard O. Wheeler According to Arthur M. Weimer, business environment encompasses the ‘climate’ or set of conditions, economic, social, political or institutional in which business operations are conducted.

**Factors/components of the internal (Micro) environment :**

**Micro environment:** “ The micro environment consists of the actors in the company’s immediate environment that affect the performance of the company. These include the suppliers, marketing intermediaries, competitors, consumers and the publics. ” - Philip Kotler. Micro environment is also called Task/ Operating environment.

**Factors**: The following are the factors in micro environment.

**1.Suppliers:** Suppliers of the raw materials; other inputs and components to the company. Importance of reliable sources of supply is always felt by the company. When there is un-operating environment. Certainity of supply, companies maintain high inventory. As a result, cost increases. Supply chain management is very essential to the efficiency of a firm.

**2. Customers:** Monitoring customer sensitivity is very essential. Customer environment is increasingly becoming global. Depending on a single customer is too risky. In choosing the customer segments, and company should consider relative profitability, dependability, stability of demand, growth prospects and the extent of competition.

**3. Competitors:** A firm’s competitors are “the other firms” and those who compete for the discretionary income of the consumers. Eg: competition for a company TVs may come from other TV 9 manufacturers. Other competitors include two-wheelers, refrigerators, cooking ranges, stereosets, and so on. Consequent to the liberalization, the competitive environment in India underwent sea-change. Many companies restructured their strategies.

**4. Marketing intermediaries:** Marketing intermediaries are the firms that aid the company in promoting, selling and distributing goods to final consumers. Marketing intermediaries are vital links between the company and the final consumers. A dislocation of the link may cost the company very heavily. Eg: Hindustan Unilever faced major challenge when it faced collective boycott in Kerala on the issue of trade margin.

**5. Financiers:** Individual and institutional lenders. Financing capabilities, their policies and strategies, attitudes and activity to provide non-financial assistance are very important. 6. Publics: Publics are the groups, which have actual interest in the ability of an organisation to achieve its targets. Media publics, citizen action publics and local publics are the examples. Growth of consumers publics (like NGOs)is an important development affecting business. Co-operation between company and publics is established for mutual benefit of the company and local community

**6. Value system:** Value system of the founders and persons holding top positions have some values. These values influence their policies, practices, choice of business, vision-mission and objectives of the organization. Eg: TISCO incorporated its social responsibility to consumers, employees, shareholders, society and the people in articles of association. This is due to the value system of JRD Tata and acceptance of it by persons at the top of Tata business domain.

**7. Vision-mission-objectives:** Vision-mission and objectives of the company decide the business domain, priorities, direction of the development, business philosophy, business policy. Eg: Ranbaxy’s thrust into the 7 foreign markets and development have been driven by its mission “ TO BECOME A RESEARCH BASED INTERNATIONAL PHARMACEUTICAL COMPANY.”

**8. Management structure and nature:** Some complex management structures and styles delay decision making. Quality of the board of directors is a vital element. There are some companies with highly qualified and responsible board. Some companies have dishonest and unscrupulous board. Eg: in some companies like WIPRO majority of the shares are held by promoters. In the case of TATA group of companies, the share of promoters is very vulnerable. Financial institutions had large shareholding in many Indian companies.

**9. Internal power relationship**: Relationship between board members and the CEO is a critical factor. The cordiality between them is more important. Support enjoyed by top management from different levels of employees, shareholders and board of directors influences the decisions and their implementation.

**10. Human resources**: Skill, quality, morale, commitment, attitude of people contribute to the strength of the enterprise. Employee resistance to change is a barrier to growth of an organization. Involvement, initiative of people vary from organization-to-organisation. Eg: john towers, M.D. Rover group observes that a Japanese company of 30000 employees is 30000 process improves. Such a situation cannot be found in an Indian company.

**11. Company image and rand equity:** Image of the company plays a significant role while raising finance, forming joint ventures, soliciting marketing intermediaries, entering sale or purchase contracts, launching new products etc., brand equity is also relevant.

**12. Physical assets and facilities:** Production capacity, technology and efficiency of productive equipment, distribution logistics influence the competitiveness of the enterprise. 8. Research and development: Research and development and technological capabilities determine a company’s ability to innovate and compete.

**13. Marketing resources:** Marketing efficiency of the business unit depends on marketing organization, quality of the marketing men, brand equity and distribution network.

**14. Financial factors:** Financial factors like financial policies, financial position and capital structure influence business performance.

**Factors/components of the external (Macro) environment :**

**Macro environment:**

Business environment refers to all the external forces, which have a bearing on the functioning of business. The literal meaning for environment means surroundings, external objects, influences etc., hence, it is said, “A business is a product, of its environment.” Business environment is the total of all conditions, events and influences that surround and affect a specific object. Business Environment poses certain threats to an organisation and also immense opportunities for market exploitation. Business Environment is macro. A single unit can’t control this macro environment.

**Factors:**

**1. Sociological and cultural:** Sociological and cultural environment refers to influence of the factors which are beyond the company’s gate/capacity. People’s attitude towards the role of family, marriage, role of women in the society, cultural aspects in society, the education level of the people, the ethical issues involved, social responsiveness etc., are the important components of Business Environment. Socio-cultural environment is highly relevant for a business unit. The reason is the variety of goods produced, the type of people it gets and its social obligation depend on the cultural mileau in which the firm operates.

**2. Technological:** Technology is understood as the application of scientific knowledge to practical tasks. Technology reaches people through the business. Technology changes fast. Businessmen should always be alert to the changed technology. They should adopt the changed technology to the business processes. A business unit, which keeps pace with technology upgradation, succeeds. Technological factors exercise considerable influence on business.

**3. Economical:** Industrial production agriculture, planning, basic economic philosophy, national income, per capita income, money supply, price level, population, savings stages in economic development, trade cycles are the major economic factors. These economic factors have an economic impact on business. Business obtains all the needed inputs from the economic environment. Economy absorbs the output of business units.

**4. Political:** Political environment refers influence exerted by legislature executive and judiciary. These three political institutions shape, direct and control business activities. Legislature decides a specific course of action. Executive implements whatever decided by legislature. Judiciary is the 11 ‘watchdog’ to see that legislature and executive work in public interest within the boundaries of constitution.

**5. International:** International / global environment is fast emerging as a force. Due to liberalization, Indian companies are looking at business issues from the global angle. Business responses and managerial practices must be fine-tuned to survive in the global environment. Today, managers understand that protected markets are no more; the world is becoming small in size due to advanced transportation and communication facilities; learning foreign languages is necessary; acquiring familiarity with strange and changing currencies is a must; facing political and legal uncertainties is inevitable; and adapting their products and services to different customer needs only makes them to survive.

**6. Natural:** Industrial/ business activity is dependent upon nature. Till recently, business units did not care for ecological effects. Industries contaminated water and polluted air. Much environmental damage has been caused by industry. As a result, ecological imbalance has been created. Natural calamities like floods, cyclones, earthquakes cause lot of loss to business units. The bad effects of these natural environmental factors could not be mitigated by business units. Business continues to be dictated by nature.

**7. Demographic:** Size and growth rate of population, life expectancy age and sex composition of population, work participation rate, distribution of population, employment status, rural-urban distribution of population, education levels, religion, caste, ethnicity and language are the demographic factors. These factors constitute demographic environment. Business decisions are also influenced by these demographic factors.

**Stages of environmental analysis**

**1.** **Scanning the environment:** Environmental scanning is primarily done for identifying the factors which may have implications on the business. This is the prime step to be done in environmental analysis. A good scanning of environment can reveal so many hidden factors in the environment.

**2.** **Monitoring particular factors spotted:** In the process of scanning, some particular factors which need due attention might have been identified. At this stage of analysis, such factors or trends evolving should be undergone for keen understanding. The outputs of monitoring are therefore, a precise picture of the environmental issues, identification of tendencies for additional scrutiny and recognition of patterns demanding further scanning.

**3. Forecasting:** It refers to anticipating the future threats and opportunities for formulating strategic plans. It can be defined as Estimating the intensity, nature, and timing of the external forces that may affect the performance of a firm, disrupt its plans, or force a change in its strategies.

**4. Assessment:** Assessment refers to realizing implications or probable impacts of those factors which may cause threats and provides opportunities.

**SWOT Analysis:**

It is an important form of business environment analysis, which is accepted all over the world. A SWOT analysis (alternatively SWOT matrix) is a configured planning method used to assess the strengths, weaknesses, opportunities and threats involved in a project or in a business venture. It is not feasible for an organization to exploit all the opportunities present in the environment due to the short of strengths and abilities. It may also fail to successfully overcome threats due to the lack of capabilities.

Proper Strength, Weaknesses, Opportunities, and Threats (SWOT) analysis may reveal that the company is not efficient in particular fields of business. It can give up such business activities and concentrate more on competent areas. A firm’s strengths are its resources and abilities that can be used as a foundation for expanding competitive advantage.

It includes factors like better brands, reputation and goodwill, cost reduction etc. Similarly, weaknesses include those zones where the firm is not strong. For instance, high cost structure and inefficient production processes may keep a firm weak.

Opportunities are the factors which open doors to profitability and expansion for a firm, and are present in the external environment of a business. Novel technologies developed, a particular need of consumers etc can be seen as opportunities for improvement. The vibrant external environment can challenge the prosperity of an enterprise by throwing threats against it. Such threats include, a new policy of regulation by government, steeply increasing cost of raw materials etc.

**Merits of SWOT analysis:**

a. It is a source of information for strategic planning.

b. Builds organization’s strengths.

c. Helps to deplete firm’s weaknesses.

d. Maximize organization’s response to opportunities.

e. Overcome organization’s threats.

f. It helps in identifying core competencies of the firm.

g. It helps in setting of objectives for strategic planning.

h. It gives a clear picture of the past, present and future aspects of the organization.

**Unit-II**

**Concept of CSR:**

Social responsibility is understood as the obligation of decision makers to take actions which project and improve the welfare of the society as a whole along with their own interest.

“Industry in the 20th century can no longer be regarded as a private management for enriching share-holders and it has responsibility to customers, workers, stakeholders and the country.” - GEORGE GOYDER

Before taking any action, the businessmen should keep social implications in mind. Diversification-expansion-opening of a new branch-closure-replacement of men and machines-overtime and night shifts-subcontracting-laying\_off employees etc., have a social impact.

**Reasons for CSR :**

**1. Government programmes:** Most governments demand the following of existing regulations. Foreign governments exert pressure on MNCs to abide by codes-of-conduct that they have drafted. They expect businesses to respect human rights and social justice pay fair wages, protect the environment, ensure safety, and health of workers, improve workers living conditions and behave ethically.

**2. Community interest and demands:** Firms undertake many programmes that give benefit to society in general. Such programmes range from helping to rebuild disadvantaged sections to providing executive talents to run government undertakings MNCs from US create scholarships to poor but deserving students from Korea, Malaysia and Mexico to pursue higher studies.

**3. Environmental concerns:** Standards established by government agencies demand environmental programmes. Government of India enacted the environment protection act 1986. Pollution control boards set up under the provisions of the act have laid down norms. Firms are expected to take care of environmental issues.

**4. Pressures from shareholders**: Sometimes, shareholders exert pressure on the firms to respond to community interests. Eg: shareholders of Pepsi Co., launched a campaign to force the company to pull-out-of Myanmar due to violation of human rights by military regime. Pepsi co., did oblige the shareholders.

**5. Competitive advantage:** Firms believe that by undertaking social responsibility actions, they would gain competitive-edge. Realizing this, corporations spend huge amounts on social responsibility.

**6. Factor conditions:** Availability of trained workers high quality scientific and technical institutions, adequate physical infrastructure, transparent and efficient administrative processes and natural resources. These are factor conditions, which influence social responsibility actions.

**7. Demand conditions:** Social actions can influence the size and quality of the local market. Eg: Apple computers has donated computers to schools as a means of introducing its products to young people. This provides a clear social benefit to the schools. At the sametime, the market for the company increases.

**8. Related and supporting industries:** Social responsibility can foster the development of clusters and strengthen supporting industries. Eg: American Express Bank is a part of the travel-cluster in the countries where it operates. It depends on the success of these clusters in improving the quality of tourism and attracting travelers.

**Social responcibility of Business:**

**1. Social responsibility to shareholders**: Business responsibility to shareholders is to protect their interests. Business has a responsibility to protect and safeguard the capital of the shareholders. It provides a reasonable dividend on the shareholders investment. In order to satisfy the shareholders, the company should strengthen its financial position. The company should enhance its public image, so that shareholders feel proud of their company.

**2. Social responsibility towards employees:** The responsibility of the business towards the employees include: Payment of fair wages-provision of the best possible working conditionsestablishment of fair work standards-provision of labour welfare facilitiestraining and education-reasonable chances for promotion-recognition and encouragement of special skills-installing an effective grievance handling system and an opportunity to participate in managerial decision making.

**3. Social responsibility to consumers:** The purpose of business is to create a customer. Consumer satisfaction is the key to attain organizational goals. The important responsibilities of the business to the customers/consumers are: Supplying goods at reasonable prices-increase productivity, quality and smoothen the distribution system-R&D to improve quality and introduce better and new products-removal of black marketing, or profiteering service-products do not adverse affect on consumer-provide sufficient information on products/servicesavoiding improper advertisements-providing an opportunity of being heard and to redress grievances-understanding customer needs and take necessary measures to satisfy these needs.

**4. Social responsibility to the state:** Faithful compliance with all regulations-payment of taxes to the government promptly-playing the role of good corporate citizen-participating with government in the formulation of relevant laws-,are some of the areas of social responsibility towards the state.

**5. Responsibility to the suppliers**: Large business enterprises should encourage sub-suppliers and establish everlasting relationship with them. A steady and lasting relationship with the suppliers makes good sense. Business units make prompt payment to the suppliers.

**6. Responsibility to the community:** The areas of social responsibility to the community are: Provision of health facilities-medical aid-assistance to educational facilitiesencouragement to sports-maintenance of parks, gardens, and such other 83 activities. These are more than a small return to the community, which has enabled the business enterprise to live in its environment. The demand for environmental improvement offers opportunities to nearly all types of companies to tap new markets.

**PRACTICAL APPLICATION OF CSR:**

1. You need to evaluate various aspects of your business and operations.

2. You need to evaluate the impact your business is having on your stakeholders.

3. Then set realistic targets on how to improve your business operations and processes.

4. Draw up a result- driven CSR Policy.

5. Embed your CSR into your business strategy.

6. Appoint a driver for your CSR initiative.

7. Communicate your CSR efforts to all your stakeholders clearly and boldly.

8. Make your CSR initiative part of your business culture.

9. Set up CSR measuring indicators to monitor progress and possible deviations.

10. Be enthusiastic about your CSR initiative; be committed to it.

11. Report on your initiatives and measure progress/ impact made.

**Unit-III**

**Economical Reforms:**

Industrial revolution has taken place in 1991. Liberalisation, Globalisation and privatisation are the part of it.

1. **Liberalisation :**

Liberalization provides freedom to the entrepreneur to enter any industry, produce any product, render any service, earn any amount of money. Liberalization programmes aim at injecting flexibility in place of rigidity of the rules, regulations and procedural issues in various policy measures. Elimination of different kinds of restrictions on trade and industrial activities is the main thrust. The government of India had taken the following measures since July 1991 in the liberalization programmes:

• Abolition of licensing, exception in a few areas.

• Opening up of the basic telecommunication services to private participation including foreign investment.

• Abolition of minimum lending rates for amount exceeding Rs. 2 lakhs.

• Reduction in statutory liquidity ratio to 31.5%

• Announcing 5 year tax holiday to new industrial units set up in industrially backward regions. 43

• Relaxing the FERA (Foreign Exchange Regulation Act) and introducing the FEMA (Foreign Exchange Management Act).

• Allowing setting up of banks in private sector.

• Reducing the import duties on capital goods to facilitate exports.

• Introducing 5 year export import policy.

• Reforming the customs duties to encourage the exports.

• Granting automatic approval for 100% Export oriented units and units in EPZs / SEZs etc., for export promotion.

**b. Globalisation:**

Globalization can be simply defined as the expansion of economic activities across political boundaries of the native state. In wider sense, it is a process of deepening economic integration, increasing economic openness and growing economic interdependence between the countries of the world economy. The term globalization has four parameters:

• Reduction of trade barriers, so as to permit free flow of goods and services across national frontiers.

• Creation of an environment in which free flow of capital can take place among nations.

• Creation of environment permitting free flow of technology and

• Creation of an environment in which free movement of labour can take place in different countries in the world.

The advocates of globalization, more specifically from developed countries, limits the definition of globalization only to first three components. But from the developing countries point of view, the fourth component cannot be left out because the ultimate aim of globalization is to look world as a global village. Hence Deepak nayyar puts that “globalization is not only with phenomenal spread and volume of cross boarder economic transactions but also with an organization of economic activities which straddle national boundaries.” Kawaljit Singh in his book, ‘ A citizens guide to the globalization of finance’ has given some important characteristics of globalization. They are:

• Rapid growth in international financial transactions.

• Fast growth in trade, especially among Multinational Corporations (MNCs).

• Surge in foreign direct investment, largely contributed by MNCs.

• The emergence of global markets and

• The diffusion of technologies and ideas through rapid expansion of globalised transportation and communication system

**c Privatisation:**

Privatization may be understood as the process whereby activities or enterprises that were once performed or operated by the Government and it employees are now performed, managed or owned by private business and individuals, often with much better results in terms of cost and quality of service. Privatization achieves these results by replacing government monopolies with the competitive pressures of the marketplace to encourage efficiency, quality and innovation in the delivery of goods and services.

Replacement of government monopolies by the market forces is often effected by the salefull or partial-of ongoing PSUs or by the sale of their assets following liquidation, sale of the business or of its assets has been the most widely employed and debated form of privatization and this is the option that is stressed in this chapter. The other techniques of privatization are contracts, leases and 44 concessions. In these three techniques of disinvestment, only the management of PSUs is privatized but not their ownership.

The basic objective of privatization everywhere is to improve the performance of PSUs so as to lessen the financial burden on tax payers. The other objectives aim at increasing the size and dynamism of the private sector, distributing ownership more widely in the population at large; encouraging and facilitating private sector investments, from both domestic and foreign sources; generating revenues for the state; reducing the administrative burden on the state; and in the case of the former socialist countries-launching and sustaining the transformation of the economy from a command to a market model. Popularization of the private sector too is an objective of privatization.

**Capitalism:**

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

#### Characteristics of Capitalism:

**1. Private Property:** Every individual has a right to hold property. This means that every individual is free to consume his private property and every individual has a right to transfer his property to his successors after death. Individuals have their property rights protected and are usually free to use their property as they like as long as they do not infringe on the legal property rights of others.

**2. Free Enterprise:** Free enterprise, an essential feature of the capitalist system, is merely an extension of the concept of property rights. The term free enterprise implies that private firms are allowed to obtain resources, to organise production and to sell the resultant product in any way they choose. In other words, there will not be any government or other artificial restrictions on the freedom and ability of the private individuals to carry out any business.

**3. Price Mechanism:** The price mechanism plays an important role in the production of goods and services. Under capitalism, the price is determined by the demand and supply.

**4. The Market System:** The market mechanism is the key factor that regulates the capitalist economy. A market economy is one in which buyers and sellers express their opinions about how much they are willing to pay for or how much they demand of goods and services. Prices guide the purchase decisions of the consumers.

**5. Economic Freedom:** Another feature of capitalism is economic freedom. Freedom of enterprise, Freedom of contrast, Freedom to use one’s property.

**6. Freedom to Save and Invest:** The freedom to save is implied in the freedom of consumption, for savings depend on income and consumption. The term saving implies the sacrifice of consumption. As George Halm observes- “The right to save is supported by the right to transmit wealth, so that the choice between present and future consumption is not limited to the adult life of one person. The freedom to save, inherit, and accumulate wealth is, therefore, a right which is perhaps more typical for the private enterprise system than is free choice of consumption and occupation.”

**7. Economic Inequalities:** Another feature of capitalism is the existence of glaring inequalities in income, wealth and economic power. The existence of big monopolies results in the concentration of not only income and wealth but also of economic power in the hands of a few people.

**8. Motive of Profit:** Profit is an important element of capitalism Investment tends to take the direction in which there is more possibility of profit. If the producers feel that they can obtain greater profit by the production of comfortable goods they will be inclined to do so without caring what people actually need.

**9. Competition:** Competition among sellers and buyers is an essential feature of an ideal capitalist system. Competition reduces market imperfections and associated problems. Therefore, in a free market economy, a sufficient amount of competition is considered necessary if the whole production and distribution process is to be regulated by market forces.

**10. Limited Role of Government:**

The absence of a central plan does not mean that the government does not play any role in a private enterprise economy. Indeed, government intervention is necessary to ensure some of the essential features and smooth functioning of the capitalist system. For example- government interference is necessary to define and protect property rights, ensure freedom of entry and exit, enforce contractual agreements among private entrepreneurs, ensure the satisfaction of certain community wants, etc. However, government interference in the system is comparatively very limited.

#### Merits of Capitalism:

**1. Automatic Working-** Capitalism is controlled by the profit motive and price mechanism. Thus, there is coordination under capitalism. The whole activity is automatic in capitalism.

**2. Capital Formation**- Capitalist economy encourages formations of capital in the society. New industrial and commercial institutions are set up with the objective of profits and also encourage income and savings.

**3. Maximum Satisfaction**- In capitalism, production is carried on, keeping in view the needs and tastes of the consumer. This provides maximum satisfaction to the consumer who is a king in a capitalist economy.

**4. Reward according to Capacity**- In capitalism people are rewarded according to their capacity, to work and labour. The more people have the spirit of daring adventure, the more they are rewarded.

**5. Efficiency-** Under capitalism there is wide competition among the producers. In the competitive race it is the able producer who wins the race. An efficient producer produces the best goods at cost of production. Thus, capitalism encourages efficiency.

#### Demerits of Capitalism:

**1. Economic Inequality-** Capitalism gives complete freedom of private property, occupation and profession and is controlled by price mechanism. This leads to economic inequalities. The rich become richer and the poor become poorer.

**2. Inefficiency in Working-** The efficiency of the capitalistic system depends on the existence of free competition and the mobility of factors of production. But the existence of social, economic and legal issues hampers free competition with the result that the factors of production often lie idle.

**3. Neglect of National Interest-** The capitalists are mainly oriented towards self-interest of maximisation of profits and for this purpose they complete each of the formalities. They neglect the social interest. They do not complete their activities, keeping in view the national interest.

**4. Lack of Coordination-** Under capitalism the central government has no control over the activities of the businessmen and producers. The decisions pertaining to production mostly depend on the producers. The leads to irregularities, excess production and trade cycles. Thus there is a lack of coordination under capitalism.

**5. Unemployment-** Some of the economists are of the view that under a capitalist system full employment situation cannot be brought due to the lack of central economic planning. As a result, optimum use of resources cannot be possible.

**Socialism:**

***“Socialism is an economic organisation of society, in which the material means of production are owned by the whole community according to a general economic plan, all members being entitled to benefit from the results of such socialist plant production on the basis of equal rights.”***

#### Characteristics of Socialism:

**1. Government Ownership:** In socialist economy the means of production are either owned by the government or their use is controlled by the government. The state holds the ownership on the means of production and they are utilised for the welfare of the society. There is no private property in respect of the means of production.

**2. Central Planning:** Under socialism, the central planning authority or a Planning Commission formulates an overall plan for the entire economy according to certain objectives and priorities. The socialist economies generally have a central authority like the central planning agency to formulate the national plan for development and to direct resource mobilisation, allocation and investment to achieve the plan targets.

**3. Social Welfare:** Another feature of socialism is that the means of production are operated with the object of promoting and serving the good of the community rather than for the benefit of few persons. Under socialism, the productive resources of the community are diverted to the production of goods and services which maximise social welfare rather than earn the largest profits.

**4. Lack of Competition:** Since there is governmental control over means of production, government has a hand in the matter of the kind of product to be produced, the quantity to be produced and determination of its price. There is no scope for competition.

**5. Restriction on Consumption:** In communist countries, there is no consumer sovereignty because the state decides what may be made available to consumers, unlike in the market economies where the consumers have the freedom to choose from a wide variety. The consumers in a communist system, thus, have to content themselves with what the state thinks is sufficient for them.

**6. Restriction on Occupation:** The freedom of occupation is absent or restricted in socialist countries. An individual may not have the freedom to choose any occupation he is qualified for. Similarly, individual freedom of enterprise is absent or restricted.

**7. Fixation of Wages and Prices by the Government:** The wage rates and prices in a communist economy are fixed by the government and not by market forces. Non-communist socialist countries may also fix wages and prices or regulate them by certain means.

**8. Equitable Distribution of Income:** An equitable distribution of income is an important feature of the socialist system. This does not mean, however, that socialist systems aim at perfect equality in income distribution. Wage differentials, depending on the nature and requirements of the job, are recognised in socialist countries.

#### Merits of Socialism:

**1. Economic Equality-** Under socialism, there is control of government over production, there is no scope for centralisation of wealth. Wealth is distributed among all the people. This avoids economic inequalities.

**2. Production Planning-** Under the socialist economy, the object is to serve the real demands and to fulfill the real needs of the people. For this purpose it arranges plant productions.

**3. Economic Stability-** Under socialism the government establishes coordination between the demand for production and supply of various goods. Thus there is a little likelihood of over-production and under-production. As a result, there is economic stability in a socialist economy.

**4. Proper use of National Resources-** Under capitalism, the central planning authority is better equipped than a capitalist market in locating price output fluctuations. The state uses the means of production for optimum welfare of the society.

#### Demerits of Socialism:

**1. Difficulties of Management-** In a socialist system all production setup is based on government planning, wherein the government officials have to shoulder all responsibilities. As a result, the government officials are heavily burdened with the work and it makes proper management difficult.

**2. Lack of Freedom-** In a socialist economy, it is a government which controls the economy. The workers are not free to choose occupation according to their choice. The government controls on all the activities of human life hinder developments.

**3. Lack of Consumer’s Sovereignty-** In a socialist setup proper attention is not paid towards the likes and dislikes of the consumer. The government machinery determines the nature and quantity of production. Thus, the consumer is not a king in a socialist economy.

**4. Lack of Rational Calculation of Cost**- The economists are of the view that in socialist system, there is lack of rational calculation of cost in production process. Efficient production becomes impossible in the absence of rational calculation of cost. The reason is the state ownership of the sources of production.

#### Mixed Economy:

#### “A mixed economic system is that in which the public sector and private sector are allotted their respective roles in promoting the economic welfare of all sections of the community.”

#### Characteristics of Mixed Economy:

**1. Division of Public and Private Sector**- In mixed economy, public and private sectors are divided into two parts. In one part are the industries, the responsibility for the development of which is entrusted to the state and they are owned and managed by the state. In the second part, the consumer goods industries, small and cottage industries, agriculture, etc., are given to the private sector. It may be noted that the government does not work against the private sector.

**2. Government Control-** Mixed economy cannot function without exercising control over the private enterprises in the public interest. This control is necessary for the government to introduce and implement its policies.

**3. Protection of Labour-** Under mixed economy, government protects the weaker sections of society, especially labour, that is, it saves labour from exploitation by the capitalist. Minimum wages and the working hours have been fixed. The government takes a number of steps to prevent industrial disputes.

**4. Reduction of Economic Inequalities**- In mixed economy the government takes necessary steps for the reduction of inequalities of income and wealth. In the democratic system, the governments try to reduce economic inequalities for promoting social justice, social welfare and increasing production for all.

#### Merits of Mixed Economy:

**1. Economic Freedom-** Under mixed economy the consumers are free to act according to their choice. There is complete freedom for people to choose their profession. Economic liberty is available to people.

**2. Control on Monopolistic Activities-** In a mixed economy, both public and private sector co-exist and the private sector gets the opportunity to develop. There is a restric­tion on monopolistic activities for which the government enacts various rules and regulations.

**3. Social Welfare-** Under this system, the capitalist organisa­tions are controlled by government. The industrial, economic and financial policies of government are based on the concept of social welfare.

**4. Planning and Proper Use of Resource-** Under mixed economy the attention is given to planning. After proper survey all the resources are distributed into different sectors of the economy. This leads to proper and efficient utilisation of resources.

#### Demerits of Mixed Economy:

**1. Temporary Economic System-** Mixed economy cannot be maintained as permanent economic system. At the very early stage of development this system was found suitable but later on, its principles went on diminishing.

**2. Danger to Democracy-** It is possible that with the passage of time socialism may become powerful. In such condition the whole economic system would go under the control of government. Thus, there might be danger to democracy.

**3. Imbalance in the Economy-** The mixed economy cannot provide proper development as the government wants to maintain a balance between the private and public sector. The policies of the government are not clear; with the result there exists presence of imbalance in the economy.

India is regarded as the best example of a mixed economy. The evaluation of such an economy in India is based on values as embodied in the Directive Principles of State Policy in the Indian Constitution. According to these Directive Principles it is obligatory on the part of the state to have a democratic form of government and within the framework of democracy to bring about a rapid economic development of the Indian economy in order to raise the national income and the standard of living of the masses.

**UNIT-IV**

**Planning Commission:**

The Planning Commission was constituted in March, 1950 by a Resolution of the Government of India, and works under the overall guidance of the National Development Council. The Planning Commission consults the Central Ministries and the State Governments while formulating Five Year Plans and Annual Plans and also oversees their implementation. The Commission also functions as an advisory body at the apex level.

**FUNCTIONS:**

* Assessment of the material, capital and human resources of the country, including technical personnel and formulation of proposals for augmenting such of these resources as are found to be deficient ;
* Formulation of Plan for the most effective and balanced utilisation of the country's resources;
* Definition of stages in which the Plan should be carried out on a determination of priorities and allocation of resources for completion of each stage;
* Determination of the nature of the machinery necessary for implementation of the Plan in all its aspects;
* Appraisal from time to time of the progress achieved in the execution of each stage of the Plan;
* Public Cooperation in National Development;
* Hill Areas development;
* Perspective Planning;
* Directorate of Manpower.

After independence in 1950 planning commission was set up under the chairmanship of late, Sh. Jawaharlal Nehru. It was to formulate plans for the economic development of the country on the basis of the availability physical, capital and human resource.

According to Planning Commission – “Planning is essentially a way or organizing and utilizing resources to the maximum advantage in terms of defined social ends. Main constituters of concept planning are System of ends to be perused Knowledge as to available resources Their optimum allocation

First Five Year Plan 1951 – 56

Second Five Year Plan 1956 - 61

Third Five Year Plan 1961 - 66

Three One Year Plan 1966 - 69

Fourth Five Year Plan 1969 – 74

Fifth Five Year Plan 1974 – 79

Sixth Five Year Plan 1979 - 85

Seventh Five Year Plan 1985 - 90

Annual plan 1990-92

Eight Five Year Plan 1992-97

Ninth Five Year Plan 1997 - 02

Tenth Five Year Plan 2002 - 07

Eleventh Five Year Plan 2007 – 12

Twelth Five Year Plan 2012-17

The [General Agreement on Tariffs and Trade](https://www.wto.org/english/tratop_e/gatt_e/gatt_e.htm) was a [free trade agreement](https://www.thebalance.com/free-trade-agreement-types-and-examples-3305897) between 23 countries that eliminated [tariffs](https://www.thebalance.com/tariff-pros-cons-and-examples-3305967) and increased [international trade](https://www.thebalance.com/international-trade-pros-cons-effect-on-economy-3305579). It was the first worldwide [multilateral free trade agreement](https://www.thebalance.com/multilateral-trade-agreements-pros-cons-and-examples-3305949). It was in effect from January 1, 1948 until January 1, 1995. It ended when it was replaced by the more robust [World Trade Organizatio](https://www.thebalance.com/what-is-the-world-trade-organization-wto-3306366)

The purpose of GATT was to eliminate harmful [trade protectionism](https://www.thebalance.com/what-is-trade-protectionism-3305896). That had sent global trade down 65 percent during the [Great Depression](https://www.thebalance.com/the-great-depression-of-1929-3306033). GATT restored economic health to the world after the devastation of the depression and World War II.

[GATT](https://www.wto.org/english/thewto_e/whatis_e/tif_e/fact4_e.htm) grew out of the [Bretton Woods Agreement](https://www.thebalance.com/bretton-woods-system-and-1944-agreement-3306133). The summit at Bretton Woods also created the [World Bank](https://www.thebalance.com/the-purpose-of-the-world-bank-3306119) and the [International Monetary Fund](https://www.thebalance.com/what-is-the-imf-its-role-and-functions-3306115) to coordinate global growth.

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| **No.** | **GATT** | **WTO** |
| 1 | GATT is a set of rules and multilateral agreement. | WTO is a permanent institution. |
| 2 | GATT is designed with an attempt to establish International Trade Organization | WTO is established to serve its own purpose. |
| 3 | It was applied on a provisional basis. | Its activities are full and permanent. |
| 4 | Its rules are applicable to trade and merchandise goods | Its rules are applicable to trade in merchandise services and trade in related aspects of intellect |
| 5 | GATT was originally a multilateral instrument, but plurilateral agreements were added at a later stage. | Its agreement is almost multilateral |
| 6 | Its dispute settlement system was not faster and automatic. | Its dispute settlement was faster and automatic |
| 7 | It had contracting parties. | It has members. |
| 8 | It has no provisions for creating an organization | It has a legal basis because member nations have verified the WTO agreements |
| 9 | GATT is ad-hoc and provisional. | WTO commitments are full and permanent.. |