

## **Sectoral Trends and Issues –industry and Service Sectors**

### **Economic system**

An economic system or economic order is a system of production, resource allocation and distribution of goods and services within a society for a given geographic area. It includes the combination of various institutions, agencies, entities, decision making processes and patterns of consumption that comprises economic structure of a given community.

All economic systems have three basic questions to ask:

What to produce

How to produce and in what quantities

Who receives the output of production

### **Main types of economic system:**

**Capitalistic economic system:** Economic system in which private ownership of the factors of production exist and the functions of production and distribution are organised on the basis of private ownership is called capitalistic economic. This type of economic system mainly organised by the price system.e.g, The United States of America, Canada, The United Kingdom, Japan, South Korea.

**Socialistic economic system:**Economic system in which private ownership of the factors of production is absent and the functions of production and distribution are organised on the basis of social ownership is called socialistic economic system. e.g, the former Soviet Union, North Korea.

**Mixed economic system:** Economic system which emerges by the combination of capitalist economic system and socialistic economic system. So economic system in which private sector along with the government sector or planned economy coexist is called mixed economic system. e.g, India.

### **Public sector:**

Economic activities of the economy which are conducted by any department or institution of the government is called public sector. Government is the owner of the public sector and economic activities (that is production and distribution) are guided by social interest. (e.g, education, electricity, fire service, gas and oil, health Care, infrastructure, law enforcement, emergency services etc.)

### **Aim of public sector:**

1. to prevent concentration of economic power and growth of private monopolies.
2. to enforce social control over trade and industry for ensuring equitable distribution of goods and services.

### **Causes of the expansion of public sector //importance of public sector in India.**

1. To achieve the target of high rate of economic growth
2. Investment in priority sector
3. Removal of regional

4. Formation of socialistic pattern of society

5. Incentive for the private sector.

**Causes of failure// limitations of public sector in India**

1. Lack of proper price policy

2. Accessories manpower

3. Underutilization of capacity

4. Inefficient management

5. Over Capitalization

6. Political factors influence the decision about location.

**Private sector:**

Economic activities of the economy which are conducted by private ownership or private enterprises is called private sector. Private individual or private enterprise is the owner of private sector and the economic activities (that is the production and distribution etc.) are guided by profit consideration.

**Main characteristics of private sector undertakings**

- Private ownership and control
- Profit motive
- Private finance
- Independent management

**Arguments in favour of privatisation:**

1. provides around 90% of employment in the developing world including formal and informal jobs
2. Delivers critical goods and services
3. Contributes to tax revenues and efficient flow of capital
4. Increases managerial efficiency
5. Creates competitive environment
6. Greater inflow of foreign capital and better technology.

**Arguments against privatisation**

1. Run with the intention of making profit
2. Neglect long-term benefits
3. Shifts burden to next generation

4. Open aggravates the problem of unemployment and poverty

5. Neglects social welfare aspect.

### **Disinvestment:**

Sale of some portion of the equity share of the government enterprises to the private operation operator is called is disinvestment.

### **Main objectives of disinvestment in India**

1. Reducing the financial burden on the government due to inefficient PSUs
2. To improve public finances.
3. Raise fund for physical and social infrastructure
4. Reallocation of of public sector resources
5. Bring more competition and market discipline
6. To help the capital market to develop.

### **Micro, Small and Medium enterprises(MSME) sector of India**

#### **Role of Micro, Small and Medium enterprises in Indian economy**

The growing number of these enterprises brings a positive and significant change in the

1. GDP
2. Employment
3. The share of these establishments directly or indirectly is about 40% of total export of India. So with respect to earn valuable foreign exchange, the role of these enterprises is infinite.
4. Reduction of economic inequality and social exploitation.
5. Reduction of regional inequality in industrial development
6. Reduction of capital scarcity
7. Low social cost. Social cost means cost for the development of transport, communication ,hospital, school etc. are minimum.
8. Saving of foreign exchange because machinery and capital goods which are required for these establishments are mostly produced within the country and a very small portion of it is required to import from foreign countries.
9. No need of highly skilled and efficient individuals.

**Problems of Micro, Small and Medium enterprises (MSME) sector of India:**

1. Problem of capital
2. Problem of raw material collection
3. Under table of production process and technology
4. Problem of marketing
5. Uneven competition
6. Unused production capacity
7. Problems related to liberalisation and globalisation.