

State regulation in the modern market economy



Although state regulation in the modern market economy is carried out in a much smaller scale than it used to be in the command-administrative system, the economic role of government is still high enough, especially compared with the system of free competition.

State regulation of economy has become necessary for the implementation of social policy, and general strategy of socialization in the broadest sense. Collective consumption or satisfaction of social needs (healthcare, education, support for the poor, organization of scientific research, habitat protection, etc.) is impossible without the application of public instruments and institutions. State regulation of economy, thus, is determined by the emergence of new economic needs market cannot cope with by its nature (Zhang 169-196).

The facts run that with the development of market economy the economic and social problems emerged and intensified, which cannot be automatically solved basing on private property. There occurred the need for significant investment, marginal or uneconomic in terms of private capital, but needed to continue the reproduction on a national scale, while industry and general business crises, mass unemployment, violation of the monetary circulation, and competitive pressure in global markets required government economic policy.

Further in this paper, we'll discuss the essence of market economy and possibilities of its state regulations, as well as set the criteria and scale of state intervenience in the economy. The paper shows that state regulation of economy in conditions of market economy is a necessary system of standard

measures of legislative, executive and supervisory nature, carried out by competent state institutions and social organizations in order to stabilize and adapt the existing socio-economic system to changing conditions.

The functions of state regulation of economy

Theoretically, the concept of the state economic regulation is broader than the concept of state regulation of economy, since it can be based on the principle of laissez-faire in economic life (“laissez faire-laissez passer” economic liberalism principle). In the contemporary conditions, the non-interference of government in the socio-economic processes is impossible. It has long been debated not about the need for state regulation of the economy, but about its scale, form and intensity. Therefore, the terms “state regulation of economy” and “government economic policy” in our time are identical (“Regulatory Governance” 98-129).

Objective possibility of state regulation appears when a certain level of economic development, concentration of production and capital is achieved. Necessity that turns this possibility into reality is the growth of problems and difficulties, which the state regulation of economy is intended to settle.

Nowadays, the governmental regulation of the national economy is an integral part of reproduction. It solves various problems like, for example, stimulating economic growth, regulation of employment, promotion of progressive shifts in sectoral and regional structure, support for exports. Specific directions, forms, and scales of state regulation of economy are determined by the nature and severity of economic and social problems in a country in a specific period (Tepe, Gottschall and Kittel 653-684).

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The return reaction between the carriers of economic interests and state regulating authorities is quite rigid. Firstly, the success of governmental regulation of market economy is manifested in economy structure improvement, growth rate, unemployment decrease, sound payments balance, inflation reduction, and growth of living standards. Secondly, it is reflected in the indicators which are not always possible to measure quantitatively: the level of social unrest (strikes, demonstrations, etc.), evaluation of state economic regulation by the media, state of environment, quality of life in cities. Thirdly, the carriers of economic interests directly or through their unions maintain or do not maintain the government. The loss of voters' and unions' trust to the ruling party or parties is the main line of the feedback between the state economic policy and carriers of business interests.

Agencies of state regulation of economy cannot afford to find out the reaction of the carriers of economic interests to the general direction and specific measures of state economic policy during elections, and wait until discontent with the economic situation takes extreme forms (strikes, capital flight). Government agencies need operational information, most possible reliable forecast of behaviour of economic agents in the case implementation of certain measures of state economic regulation. For this purpose, there is a proved mechanism in the form of questionnaires (Thatcher 147-173).

Questionnaire method helps to study the effectiveness of tools of fiscal and monetarist regulation, impact of public procurement orders, public sector investment. This method has become a working tool of state regulation of

economy, providing feedback between regulators and carriers of economic interests.

So it has been a perfect image of dependency of state regulation on economic interests. In reality, there is a lot of deviations from the model: there is a struggle between different interest groups for influence over regulators, lobbying has become widely spread, there are cases of corruption in agencies of government economic policy in different countries. However, the mechanism of government intervention in market economy is functioning according to the rules, not exceptions.

Possible economic objects of state regulation

Estimating the abovementioned mechanism of state intervention in market economy, we can outline the economic objects of state regulation, i. e. areas, industries, regions and situations, phenomena and conditions of socio-economic life of the country, the problems emerged in or can emerge in, the difficulties that are not resolved automatically or are solvable in the distant future, while the removal of these problems is necessary for the normal functioning of the economy and maintaining social stability (Hope 62-85).

The main objects of state regulation of economy include: 1) the economic cycle; 2) sectoral and regional structure of the economy; 3) terms of capital accumulation; 4) currency; 5) employment; 6) balance sheets; 7) prices; 8) R & D activities designed to develop and implement scientific ideas; 9) competitive conditions; 10) social relations, including relations between employers and employees, as well as social security; 11) training and retraining; 12) environment; 13) international economic relations.

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Surely, the listed items can be quite different in nature; they cover macroeconomic processes – the economic cycle, capital accumulation across the country, individual industries, territorial complexes and even the relationship between the actors – the competitive environment, the relationship between trade unions and business associations, among state regulators, etc. Further, we address the most important ones.

For instance, the essence of governmental counter-cyclical policy or regulation of the economic situation lies in stimulating demand for goods and services, investment and employment in times of crises and depressions. For this aim, private capital is provided with additional financial benefits; government spending and investment are increased. In the conditions of durable and rugged progress in the national economy, dangerous phenomena may occur: absorption of commodity stocks, rising of imports and worsening of pay balance, excess of demand for labor over the supply and hence unjustified increase in wages and prices (Reichman 102-117). In such a case, the task of government is to slow down the demand growth, investment and production, in order to reduce the overproduction of goods and overaccumulation of capital to a possible extent, and thus, reduce the depth and duration of a decline in production, employment and investment in future.

State regulation of the economy in the sectoral and territorial structure is also carried out with financial incentives and public investments that provide preferential conditions for specific industries and regions. In some cases, the support is provided to industries and territorial units in a state of protracted crisis, while in other cases – government encourages the development of

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new industries and types of productions which are the carriers of scientific and technological progress and would lead to progressive structural changes within industries, across sectors and throughout the national economy in general, improving its efficiency and competitiveness (Petit 593-607). At the same time, measures can be taken to slow down the excessive concentration of production.

The major object of state regulation of economy should be the accumulation of capital. Production, appropriation and capitalization of profits are always the main goal of economic activity in the market economy, that's why public economic policy encouraging savings, in the first place, corresponds to the economic interests of economic entities. Simultaneously, government regulation of capital accumulation also indirectly serves for other objects of state regulation of the economy. Creating additional incentives and opportunities at different times for all investors or individual groups of industries and territories, regulating organs affect the economic cycle and structure.

Governmental regulation of employment includes maintenance of normal terms of market economy relations between supply and demand of labor. This ratio should satisfy the need of the economy for skilled and disciplined workers, whose wages serve as a sufficient motivation to work. However, the relation between supply and demand should not lead to excessive growth of wages, which could adversely affect national competitiveness. Sharp decrease in employment is also undesirable and leads to an increase in the army of the unemployed, lower consumer demand, tax revenues, higher costs for benefits and, most importantly, dangerous social consequences.

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A constant object of attention by state regulators should be the circulation of money. The main direction of monetary control is the fight against inflation, which represents a serious threat to the economy. Regulation of money circulation indirectly affects other objects mentioned above: conditions of capital accumulation, social relations and prices (Tepe, Gottschall and Kittel 653-684).

In its turn, the balance of payments is an objective indicator of the economic wellbeing of the state. In countries with market economies, the state constantly carries out operational and strategic control over the balance of payments by the impact on exports and imports, capital flows, the rise and fall of national currencies, trade and contract policies and participation in international economic integration.

Still, one of the main objects of regulation should be the price. Dynamics and structure of prices reflects the state of the economy. At the same time, the prices themselves strongly influence the structure of the economy, investment conditions, the stability of national currency, and social atmosphere.

State regulating authorities seek to affect other economic objects, for instance, to involve private companies in the development of scientific researches and further implementation of their results in the export of goods, capital and accumulated knowledge and experience. Laws are studied and improved to comply with competition rules, social security, and environmental protection.

Objects of state regulation of the economy sure vary in dependence of the level of problems they solve. This is how we see the hierarchical levels: the level of a company, region, industry, economic sector (industry, agriculture, services), national economy as a whole (economic cycle, monetary circulation, R&D, price), global level (social relationships, environment), supranational (relations with other countries, and global integration processes).

The common purpose of market economy state regulation is seen as maintaining social and economic stability, as well as strengthening current system within the country and abroad, adapting it to the changing environment. Out of this common purpose, a tree of so-called mediating specific goals is distributed, without which the implementation of the general purpose cannot be achieved. These specific objectives are inextricably linked with the objects subject to governmental regulation (Zhang 169-196). For instance, the goal of the alignment of the economic cycle is directed to the economic cycle as an object, the goal of improving the environment – to the environment, etc.

It is obvious that, first, the goals vary in their meaning and scope and, second, they are closely interrelated. Most often, one goal cannot be set and achieved, regardless of others. For example, it is impossible to stimulate research and development without creating favorable conditions for capital accumulation, without clearing conditions, improving the industrial structure of the economy, providing a stable currency.

The listed objectives overlap each other, one may be temporarily more important than the other depending on the real economic and social situation, awareness of this situation, the objects of market economy state regulation, and on the established government authorities on this period of time. For example, in a crisis, the primary purpose is overcoming the crisis in the narrow particular sense, i. e. increasing business activity.

Thus, individual instruments of state policy can be used for different purposes, in various combinations and with varying intensity. Depending on the nature of the objectives, the location of a tool in the arsenal of state regulation of the economy in a particular period will change. The highest form of state regulation of economy can be revealed in the state economic programming, the task of which is the compound application of all the elements of market economy state regulation in global views.

Existing and perspective models of state regulation of economic sector

With growing complexity of the tasks of economy regulation, governments began to formulate short-, medium- and long-term goals, determine the order of their solutions and the authorities responsible for these solutions, allocate the necessary funds and determine funding arrangements.

The level of development of public programming is different in different countries. Virtually all the countries with market economy apply targeted programs. An example of one of the oldest programs is a regionally-energy target program on reclaiming the Tennessee River Basin in the U. S., France nuclear power development program, and southern Italy economic development program.

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There were national emergency programs: on recovering the economy of South Korea after the war, restructuring and privatization of new lands (of East Germany) after the reunion of the GDR to the FRG (Deeg 374-405).

In the citadel of the market economy – the United States, there is no national program, but task target and emergency programs are widely used.

Obviously, the differences in the level of development of economic programming in different states depend on the nature and scope of the tasks that social and economic situation sets.

Governmental economic programming proved quite effective in solving a number of economic and social objectives, but in this effectiveness has objective limits. In a market economy, programming can only be indicative, that is, be of targeted, recommendation-stimulating character. Nevertheless, it proved quite effective means of solving problems at different levels, even if government programs were often not fully implemented, they still provided economic and social development in the desired direction. No less important is the fact that programming allows synthetically using all the means of state regulation of economy, avoiding inconsistency and noncompliance of regulatory activities of separate government agencies.

State financial incentives, orders and procurement on the economic programs have a significant and uneven impact on the competitiveness of individual companies, the state of industries, regions, social groups and cause resistance from those whose interests are adversely affected (Petit 593-607). The programming public authorities are therefore constantly

influenced from different sides, which reflects conflicting interests of particular groups, social forces, political pariahs.

Contrary to popular opinion that in market economies pricing occurs spontaneously, prices are, in fact, subject to constant attention and regulation by the national government and global inter-state agreements. Prices are considered to be one of the critical points of socio-political and economic life with constantly colliding interests of producers and consumers, wholesalers and retailers, unions and business associations, exporters and importers (Reichman 102-117). Impact on prices serves the global objectives of the government regulation of economy, the purposes of market and structural policy, the fight against inflation, strengthening national competitiveness in world markets and alleviating social tensions. The impact of government economic policy on other objects of regulation, in turn, affects the processes of price formation.

Conclusion

The scale, tools and effectiveness of state regulation of economy were decisively influenced by the tasks facing the economies of separate countries, material resources of the state reflected in the share of redistributed GDP and in total amount of means it is ready to use for state regulation of economy, the gained experience and advances in the scientific developments and researches on the issues of state intervenience in market economy.

The discussed mechanism of market economy state regulation can be further improved, regardless of whether the government is guided by the <https://assignbuster.com/state-regulation-in-the-modern-market-economy/>

principles of monetarist economic policy, or tends to use more rigid budget management instruments. In the contemporary conditions, the practice of market economy regulation by the government proved to be quite effective to prevent crises and general socio-hazardous unemployment (Thatcher 147-173).

Thus, state regulation of economy should be aimed at achieving the following goals: 1) creation of normal conditions for the functioning of the market mechanism; 2) ensuring sustainable growth; 3) regulation of structural changes in economy caused by the needs of modern scientific and technological revolution; 4) ensuring social stability and social progress; 5) addressing environmental problems.

Despite the fact that state takes responsibility for addressing the negative socio-economic consequences of market imperfections, creating conditions for the operation of the national economy as a whole, its intervention in the economy should not be limitless. The limit to state regulation of economy is the efficiency of the market economy as a system. Crossing of this line may lead to the extinction of economic incentives ensuring the effective functioning of market mechanism. Excessive state involvement in the economy and implementation of non-core functions promote the nationalization of the economy, and change of economic system.