



Kazakh Nation Agrarian University

# Role of Government in a Market Economy

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# Plan

Four main types of economic systems

Market Economies

Role of the Government in a market economy




# Four main types of economic systems

- Traditional
- Relies on habit, custom, or ritual to answer 3 questions
- Command/Centrally Planned
- Government decides how to answer 3 questions
- Market/Free Enterprise
- Individuals and firms answer the 3 questions
- Mixed
- Market-based systems in which the government plays a role
- Along a continuum



# Market Economies

- A market economy is a system in which the supply and demand for goods and services plays a primary role in a competitive marketplace. In your own life, you can see the market economy at work when you look at prices. For example, when you go to buy a banana, the price has a lot to do with how many people want to buy bananas and how many bananas are available.
  - This lesson considers what role the government can play in this form of economy. Note that there is a great deal of disagreement among politicians about just how much influence government should have in market economies. We'll use this lesson to cover the basic concepts, not the detailed controversies.
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# Role of the Government

- In a market economy, individuals and private companies play more of a central role than the government. This means that the price of bananas may be influenced by certain government policies, but is mainly driven by consumers and companies going about their business. So when does the government get involved in a market economy? Let's imagine for a moment that the government played no role at all. What risky things might happen that would be really bad news for most people?




# Role of government

- 1. To pass laws to protect businessmen & consumers
- 2. To issue money
- 3. To provide certain services – police
- 4. To prevent firms from dominating  
The market and to restrict the power  
Of trade unions
- 5. Repair and maintain state properties




# Role of Government

- Protect Property Rights
  - Resolve Market Failures
  - Provide Public Goods & Services
  - Redistribute Income
  - Regulation
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# ROLE OF GOVERNMENT IN A FREE MARKET ECONOMY

- Some, if not most, in our society are very confused when it comes to the role government must assume in a free market economy. There is a reason why it is called “free market economy.” It is called so because government must not dictate the course the economy should take. When you have government controlling and/or interfering in the course the economy should or must take, then we have an economy that ceases to be free.
- The role of government in this type of economy is to guarantee the fluidity and complete functioning of the world of business. That is so easy to say. But how can government make that possible? That’s where the bulk of the challenge lies.
- Government makes possible the fluidity and functioning of the business world by enacting and implementing laws/policies that could guarantee the rights of the individuals to own properties and have these rights secured and respected. Also, government must strengthen the institutions that could guarantee the security of the physical aspect of all private investments in a stable political climate.



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- There is no doubt that government alone cannot make an economy work for the betterment of all its citizens. It does need to partner with a progressive private sector (watch the emphasis put on the word progressive) to make that happen.
  - Government must not position itself as the ultimate competitor, which, sadly, is and has long been the case in Haiti, our beloved country. When you have government -whose primary job is to guarantee a safe environment suitable for business -competing against the private sector, the market tends to become unfair, which in itself is a detriment to economic development and progress.
  - It is imperative that government guarantee a secure and politically stable playing field where all the players in the economy can play freely within the realm of fairness and dignity.
  - What we need to keep in mind is that business people are like migratory birds. They would build their nests and lay their heads wherever they can find their peace of mind to operate, without having to be reminded of the possibility of their investments being ransacked. So when you have a volatile political climate -where any unexpected thing can happen at any given time, which may put in jeopardy the security and good operation of private investments -then you have a situation that cannot synchronize itself with the expectations of the private investors. What will happen next? That's when you start seeing private investors leaving the economy for places where the security of their investments can be guaranteed, creating an anemic economy.

# Provide Public Goods & Services


- Public Good – a good/service provided free to everyone - excludes no one from using it
- Impractical or impossible to charge for use
- One person's use does not prevent or reduce another persons use
- Problem: Free Riders – someone who wouldn't pay for the good/service but gets use if provided as public good

# Resolve Market Failures

- Market Failure – markets do not distribute resources efficiently
- Free riders are an example
- Occurs because in private industry  $\text{cost} > \text{benefit}$  to one individual
- Government steps in to provide so that group benefits exceed cost
- Correct for externalities (side effects; over or underproduction of goods)




# Redistribute Income

- Shifting income from those who have it to those who need it or reducing what people need to pay for
  - Cash Transfer Payments: direct payments of money without receiving a good/service in exchange
  - EX: TANF, Social Security, Unemployment, Workers Comp
  - Other programs:
    - In Kind benefits
    - (food stamps)
    - Medical assistance
    - (medicare/medicaid)
    - Education
    - (grants, financial aid, free reduced lunch, SAT waiver, AP Test subsidy)
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# Protect Property Rights

- Protect legal ownership of resources including right to own or sell them – both physical & intellectual
  - Create incentive for people & firms to create ideas & goods, innovations, invest in the future
  - Send signals of who to reward for care of resource & who to punish for misuse; encourages wise use & protection of resource
  - Examples:
    - Copyright laws
    - Trademarks
    - Increased property values
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# Regulation

- Maintain competition – enforcing anti-trust laws
- Control price, quality and output
- Exs. Justice Dept v Microsoft, gas company deregulation in GA, public service commissions



