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The Role of The Government in The Economy The Topic of Concern is the Analysis and Forecasting of Macroeconomic Factors

[1] **Hakimova Sohiba Halimovna**

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[1] MA at "Silk Road" International University of Tourism and Cultural Heritage, Samarkand, Uzbekistan
e-mail: c hsohiba@inbox.ru

ABSTRACT: The successful and effective exploitation of resources in the economy requires appropriate governance by a regulating body that acts as a mediator. This function is suitable for the government. In order to preserve the efficient allocation of resources and prevent their excessive use, it is essential for the government to exercise its authority. It is important to establish norms that impose restrictions on an entity's excessive usage and improper handling of limited resources. By establishing guidelines and providing clear instructions, the assurance of effective distribution may be achieved. It is essential for the government to ensure the sustainability of the economy in order to facilitate the country's progress and advancement. This research aims to provide a more comprehensive understanding of the six roles of the government in the economy, as well as their significance. In addition, it is beneficial to comprehend the government's approach in managing potential situations that might potentially disrupt the economy.

KEYWORDS: Government, Legal and Social Framework, Competition, Public Goods and Services, Externalities, Income and Economy.

Introduction

The term "government" is used to describe the system by which a country, state, society, or similar entity is administered and regulated. The development of a government is often believed to be an essential condition for the proper functioning of a civilized society. The responsibility of formulating public policies for the improvement of the general population belongs with the government, since it is held responsible to the whole of society (The Functions and Role of the Government, 2020).

The primary function of government in the economy is to address market imperfections or situations in which private markets are incapable of fully optimizing societal value. In order to do this, it is essential to ensure the provision of public goods, internalize externalities which refer to the impacts of economic activities on unrelated third parties, and enforce competition. However, several communities have acknowledged and accepted the increased involvement of the government within a market economy (The Government’s Role in the Economy Is to Regulate Economic Activity, 2019).

The extent to which the government should regulate and manage the economy is a topic of ongoing disagreement, as noted by Nitisha (2015). This is because governmental action seldom solves economic problems either.The role of government in an economy is a topic of debate among economists.

Today, people are debating how much the government should intervene in the economy. The government intervened in the economy in an effort to boost people's standard of living. In general, the government takes measures to promote economic growth, job creation, and pay stability. Many people, however, disagree on whether the government should take any steps to actively assist with the economy or if it should just allow it to grow on its own (Dan, 2017).

Methodology

The purpose of the study was to define exactly what the government does. The group focuses focused on the definition and significance of these jobs to assist readers better understand the government's part in keeping the economy healthy. The organization is also interested in hearing how people in similar positions are handling the global economic crisis.

The team's level of knowledge and expertise on the issue was shown via a Review of Related Literature. Utilizing the many online resources (such as Google Scholar) that provide in-depth explanations and explanations of each subject. The group realized the relevance of the government's role in the economy. This technique was also used to assess the state of the art in the field.

The team of researchers found relevant papers by searching for the terms "government," "legal and social framework," "competition," "public goods and services," "externalities," "income," and "economy."

Each piece of literature was researched and evaluated thoroughly so that we could arrive at the desired educational result. The major emphasis was on outlining the specific functions of government. The group was able to appreciate the government's role in keeping the economy alive by breaking down its many responsibilities.

Results and Discussion

The Role of the Government in the Economy in terms of:

a. Maintaining Legal and Social Framework

A basic legal framework focusing on the security of ownership and commercial liberties is necessary for a developing society's economic growth. Adopting a set of legal principles that are generally explicit rather than adopting standards that are more flexible, or making a large investment in upgrading the system court of the country, maybe the basic legal change necessary to establish that infrastructure. It is necessary to establish a beneficial comments circle in which first moderate efforts in legal reform increase economic development, which results in the generation of funding for future legislative changes that are more ambitious (Posner, 1998).

The government is responsible for providing the legal framework and essential services required for the efficient functioning of a market economy. The legal system plays a crucial role in determining the legal status of a corporation, protecting private ownership rights, and facilitating the creation and enforcement of contractual agreements. The government is responsible for establishing the legislative framework that governs business relations, resource providers, and consumers. Governmental institutions with distinct characteristics are responsible for conducting investigations into criminal activities and imposing penalties. Additionally, these organizations are entrusted with the task of resolving disputes related to economic contacts. It is expected that government action would improve the distribution of resources. In order to enhance the volume and safety of trade, it is essential for the government to fulfill many key functions, including the provision of a medium of exchange, assurance of product quality, specification of ownership rights, and implementation of contracts. In order to enhance the efficient allocation of resources, this approach facilitates market expansion and encourages more specialization in the use of land, labor, money, and entrepreneurial resources (McConnell Macroeconomics 18th edition, 2009). When agreements or contracts are created, it is common for counterparties to violate the terms and circumstances of their agreement. The enforcement of contracts plays a crucial role in a developed economic context. The government has the capacity to provide the necessary legislative structure while concurrently enforcing compliance among enterprises and other players in the market. An functional legal framework plays a crucial role in facilitating the enforcing of laws, safeguarding private property rights, and cultivating trust within the system. Additionally, it enhances resource allocation efficiency, leading to the expansion of the market and promoting increased specialization in the use of land, labor, money, and entrepreneurial resources (Pradhan, 2021). Without a strong legal foundation, such as the regulation of property rights, it is difficult for markets to function efficiently. Production and investment will be wary if there is a risk that the assets may be stolen or the businesses taken over. The government plays a critical role in ensuring that legal protections for property and intellectual property are respected (The Role of Government in a Modern Market Economy, 2020).

Changes in Philippine law and regulation enacted in response to the Covid-19 outbreak assure that the country would be able to meet the issues it faces. They have created Across light of recent shifts in the global economy, it is imperative that appropriate modifications be implemented. Time will heal the harms of these tragic pandemics, and the Philippines will rebound thanks to government efforts and the implementation of policies that promote economic growth and attract foreign investment (Oxford Business Group, 2020).

b. Maintaining the Competition

When people compete, they want to win or do better than their rivals. In economics, it is described as the action of two or more companies attempting to influence consumers to choose their product over that of a competitor. For instance, you may try offering something new, lower in price, or in some other way (Carbon Collective, 2021). The economic prosperity that free markets offer cannot be guaranteed without a well-crafted competition legislation, a powerful agency to police it, economically-sound policy enforcement, and principles that inevitably follow (Kolasky, 2002). The economic prosperity that free markets offer cannot be guaranteed without a well-crafted competition legislation, a powerful agency to police it, economically-sound policy enforcement, and principles that inevitably follow. In particular, it helps the poor because it encourages the entrance, development, and expansion of efficient enterprises, which leads to more employment opportunities, cheaper pricing, and better quality products and services.

The purpose of the Philippine Competition Act (PCA) and the accompanying Philippine Development Plan (PDP) 2017-2022 is to create a climate that encourages investment, innovation, and competitiveness by decreasing limitations to entry, supporting regulatory reforms, improving trade policies, and removing unfair business practices.

Consistent attempts and dedicated interventions by the government to preserve competitive markets have led to positive results. Promoting competitive policies is a significant obstacle on the path to a fair playing field. When addressing market failures and inefficiencies using the National Competition Policy (NCP), the government as a whole must work together to ensure that their actions and interventions are consistent with competition principles (NEDA, 2021).

In times of economic anxiety, the government should not see implementation of antitrust laws and other forms of competition regulation as a "political luxury good" to be sacrificed. Previous economic crises have shown that competition is a vital component of economic revival (OECD, 2020). If a nation's legal system isn't one that provides a level playing field and makes it simple to conduct business, then that country will struggle economically (PHCC, 2017).

c. Proving Goods and Services

Infrastructure, education, national defense, security, fire, and environmental protection are all crucial services that the government provides in almost every country. The phrase "public goods" is widely used to refer to these objects. The supply of public goods is, to varied degrees, important for the effective running of society economically, politically, and culturally; this makes them philosophically intriguing since they are tied to concerns of externality regulation and the free-rider dilemma. Without the infrastructure and its protection, it would be harder to trade commodities, cast votes, and experience the rewards of cultural advancement. Educating the populace is crucial for a healthy democracy, say political thinkers. The provision of public goods presents substantial economic and ethical issues due to the link between externalities and the free-rider difficulty. (Reiss, 2021)

The private sector just cannot be relied upon to provide some services properly. To prevent problems for its citizens, the government takes full control of these amenities. One of the primary functions of government is the efficient distribution of public or utility goods for those who need them. Some examples of these include the supply of power and water, the maintenance of roads and highways, and the operation of postal services. To prevent misuse of these essential services, the government often delivers them only after extensive deliberation and the approval of relevant laws (The Functions and Role of the Government, 2020).

The government serves a purpose in a market economy. The public sector subsidizes or entirely supports certain industries. Services like national defense, environmental safeguards, and protection of personal property are all made possible by tax revenue. Service that the marketplace is unwilling or unable to offer are another responsibility of government (The Role of Government in a Market Economy - Nebraska Department of Education, 2019).

It is quite costly to be left out of something that everyone else has access to for nothing. The problem with a public good is that everyone has access to it once it's made. Nobody has the right to be refused the use of a product just because they haven't paid for it.

Thus, individuals are incentivized to use the service without paying, and enterprises delivering the public good do not get signals from their customers that represent the value of the service they are providing (Publisher, 2016).

Public products have the characteristics of being both nonrival and nonexcludable.

The price of making sure that those who don't pay can't enjoy a service's benefits is known as "nonexcludability." The second characteristic of common goods, as defined by economists, is "nonrivalrous consumption," of which national defense is an example. If one individual in a certain region is able to successfully ward off an invasion or assault, it's possible that others may benefit as well. This makes it difficult to implement fees for security, resulting in the well-known free-rider problem. In fact, almost all economists agree that taxation is the only realistic way to support an effective military (Cowen, 2018).

d. Managing Externalities

An externality refers to a cost or benefit that is incurred by a person not directly involved in the economic transaction or activity. The ultimate cost or benefit does not include the visible cost or benefit associated with a particular commodity or service. Consequently, economists often see externalities as a significant concern that induces market inefficiencies, ultimately resulting in market failures. The tragedy of the commons is mostly attributed to externalities (Externality, 2022).

There are two distinct categories in which externalities might be classified. To begin with, externalities may be categorized as either positive or negative due to the potential for side effects to provide benefits or inflict damage into a third party. Externalities may exhibit both positive and negative characteristics. Furthermore, externalities may be defined by the mechanism through which they are generated. These phenomena are often known as production or consumption externalities (Kenton, 2020).

The development of a negative externality arises when a cost is shifted to a party external to the transaction. The act of transferring a benefit to a third party is considered a positive externality. One potential approach to mitigating negative externalities is by ensuring the introduction of taxes on products and services that generate external costs. The government has the ability to enhance positive externalities via the implementation of subsidies for products and services that provide advantageous spillover effects (Externalities - the Economic Lowdown Podcast Series, 2022).

Externalities are often regarded as the primary rationale for government involvement within the field of economics. The government often uses the concept of externalities as a rationale for assuming control of companies that generate positive externalities, while also implementing restrictions on items associated with negative externalities. However, considering the economic perspective, this might be seen as excessive. If the absence of government involvement, known as laissez-faire, proves to be inadequate in ensuring access to education, it is apparent that a viable solution would include implementing a sort of financial assistance for schooling, rather than relying on the government to directly deliver education. In the same way, when confronted with an excessive production of cocaine in a laissez-faire system, a more sensible approach would involve implementing taxation measures rather than imposing an absolute prohibition (Externalities, 2018).

The government has the ability to decrease negative externalities by implementing taxes on commodities that generate additional expenses during their production. The imposition of these taxes results in an escalation of the production expenses associated with these items.

Therefore, the increased expenditures, including indirect costs such as environmental contamination, more accurately reflect the actual production costs. So, this kind of taxation aims to ensure that the producer bears the whole burden of production expenses. The use of this kind of taxation is sometimes referred to as internalizing the externality (The Role of Government in a Modern Market Economy, 2020).

e. Stabilizing the Economy

A stabilization policy is a strategy adopted by governments to maintain economic stability; it maintains prices by adopting certain measures and monitoring the business cycle. Governments use fiscal or monetary policy to stabilize economies that are subject to turbulence. Governments and central banks utilize stabilization policies to prevent the sort of extreme fluctuations in prices that may have a significant influence on GDP and other economic indicators. Both economic and discretionary stabilization measures are utilized regularly to maintain an economic recovery. The health of an economy fluctuates for a variety of reasons, both internal and external.It is the job of governments and central banks to ensure economic stability in the face of several influences, including inflation and deflation. Stabilization policy, as the name suggests, helps to maintain economic stability via the careful control of supply and demand, stable prices, and careful monitoring of market exchanges (Stabilization Policy (Economics) - Explained, 2022).

Fiscal policy refers to the government's use of taxation and spending to guide the economy. Fiscal policy is a frequent tool used by governments to reduce poverty and promote sustained economic development. Government intervention to stabilize financial institutions, boost development, and lessen the crisis' effect on vulnerable people brought the function and goals of fiscal policy into sharp light during the global economic crisis. The goals of fiscal policy extend beyond the provision of basic services like public security, infrastructure, and primary and secondary education. Long-term growth and poverty reduction are two possible outcomes of supply-side investments in infrastructure and education. Governments may prioritize short-term macroeconomic stability by, for example, increasing spending or tax rates to stimulate a slowing economy, or decreasing these same policies in response to inflation or to reduce the country's exposure to outside factors. Considering its global applicability, the relative weight given to each objective will vary from country to country. Priorities may shift depending on the state of the economy, the response time to a natural disaster or a worldwide rise in the price of food or fuel. Population density, natural resource endowment, and development levels are all factors that have an impact over the long run. While high-income nations prioritize pension changes to prepare for the long-term costs of an aging population, low-income nations may redirect funds to primary healthcare in an effort to reduce poverty. In order to better link fiscal policy with larger macroeconomic changes, a country's oil production should minimize its procyclical expenditure. Spending should be kept flat during periods of high oil prices and avoided during periods of dropping oil prices (Fiscal Policy: Taking and Giving Away, 2009) to achieve this goal.

Although the major emphasis of the budget is in fiscal policy, the government has a range of instruments that may be used to exert influence on the economy through monetary management, including the determination of resource collection and expenditure. Through the management of its debt portfolio and the determination of the quantity of additional funds to be injected into the economy, the government has the ability to exert control over the volume of currency in circulation. As a result, this enables the government to indirectly impact several economic variables, including prices, in line with the principles of stabilization theory (Government Economic Policy - Stabilization Theory, 2022).

It is possible for government functions like social care, transportation, and military to be provided at no cost when tax income outweighs expenditures. When spending by the government exceeds income, however, the government must borrow money in the form of Treasury bonds to cover the difference. The government often spends more money than it takes in, as seen by the regular occurrence of deficits (Government's Role in Managing the Economy, 2010).

The government's role in the economy may be broken down into two broad categories: regulation and control, and programs to promote economic development and stability. Adjustments in tax rates and spending priorities (changes in the quantity of money in circulation) are one method of promoting stability and growth via fiscal and monetary policy. The federal government governs and manages the economy via the application of a plethora of laws that impact economic activity. All sorts of rules, from those protecting individual privacy to those fostering healthy competition in the marketplace, come under this umbrella. The Function of Government in the Economy: An Overview (2019) | Encyclopedia.com.

f. Redistribute Income

The most effective short-term strategies for reducing inequality and eliminating poverty include economic regulation and control, programs to promote economic development, taxation, and income transfers to the most disadvantaged. When the poor are left out of economic progress, these instruments become invaluable. However, they are often unimportant and useless. In many developing nations, personal income taxes and aid to the poor make up a far smaller share of GDP. Conditional cash transfer programs have shown that it is feasible to efficiently provide financial aid to the needy in emerging nations (BOURGUIGNON, 2018).

With our extra funds, we may promote economic interactions that are a mutually beneficial for all parties involved. Work motivates people since it boosts their ability to buy things. If income is redistributed, this incentive is reduced, however only gradually and only if the marginal tax rate is very high. Income redistribution has enormous advantages but just a small price tag. The advantages result from the fact that money has decreasing marginal utility. To put it another way, those who have less to begin with will get more value out of the same amount of money. If you currently have a BMW and a Mercedes, you probably aren't interested in buying a Ford Escort, but if you walk an hour each way to and from work every day, it may be a good investment (ALTax, 2017).

This common ground on the purpose of redistribution gives us some good criteria by which to measure the success of our efforts. Helping the poor and minimizing damage to others are two tangible objectives that may be used to evaluate the efficacy of our redistribution strategies. It is assumed that the goal of this redistribution is to protect society as a whole from needless damage (Rethinking Redistribution, 2011).

The material circumstances, human capital development, and opportunities available to those at the bottom of the income distribution may be impacted by the widening income gap. As inequality increases, people may lose trust in the government's capacity to pass laws that are in the best interests of the majority rather than the minority. Governments need to be able to ensure that everyone has access to the same opportunities and the same minimum quality of life in order to reduce social discontent and increase happiness (Home, 2019).

Conclusion

From what has been said above, it follows that governmental intervention, either in the form of encouragement or discouragement of economic activity, is crucial. The extent to which government has grown in market economies since the industrial revolution has caught us by security, as has the size and importance of government in recent years.

Financial market regulation, monetary system management, adequate market competition, consumer protection, trade and investment treaty negotiations, and the establishment and enforcement of technical standards for products are all examples of government operations aimed at ensuring market function. The government is becoming more involved.

When it came to encouraging fast economic expansion, governments were particularly active. Governments at all levels are now primarily responsible for their countries' defense, with private firms sometimes providing logistical support. Governments nowadays do a lot more than just protect their citizens; they also offer substantial social welfare and social insurance services; they regulate markets; they invest in enterprises; they create and preserve public goods; and they even sell commercial products and services to citizens in certain situations. The government has grown to be a crucial actor in many market economies.

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