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PRINCIPLES OF THE GOVERNMENT REGULATION OF MARKET ECONOMY

The government regulation of economy represents the system of methods of legislative, executive and control characters. Major functions of governments in market economies are identified by economists. Governments: 1. Provide the legal and social frameworks (creates laws and provide courts, provides information and services to help economy function better, establishes a monetary system, defines and enforces property rights). Social policy is national government's course of action designed to influence the welfare of its citizens. Its important areas are: the welfare state; social security; unemployment insurance; pensions; healthcare; social housing; social care; social exclusion; education policy; crime and criminal justice; labor regulation. 2. Maintain competition (creates and enforces antitrust laws, regulates natural monopolies). 3. Provide public goods and services (provides goods and services that markets are unable or unwilling to provide). 4. Redistribute income (higher income tax rates for rich than for poor, provides social security and aids to dependent children). 5. Correct for externalities (taxes to reduce negative externalities, such as environmental pollution, subsidies to encourage positive externalities, such as education). 6. Stabilize the economy (uses government budgets and/or the money supply to promote economic growth, control inflation, and reduce unemployment). 7. Support small and mid-sized business. 8. Organize fiscal policy in order to form a budget of the country. The spheres of government interference may be the following: 1. Trade and industry regulations. 2. The regulation of labor. 3. The maintenance of thoroughfares. 4. The maintenance of postal and telegraph systems. 5. The manufacture and distribution of gas, the maintenance of water supply etc. 6. Sanitation, including the regulation of trades for sanitary purposes. 7. Education. 8. Care of the poor and incapable. 9. Environment protection etc. By adjusting spending and tax rates (fiscal policy) or managing the money supply and controlling the use of credit (monetary policy) governments can slow down or speed up the economy's rate of growth by affecting the level of prices and employment. The main forms of the government regulation are: a) planning (long-, mid- and short-term) – an act of formulating a program for a definite course of action; b) programming – setting an order and time for planned events; c) forecasting on national and international levels – a statement foretelling the possible outcome(s) of an event, process, or experiment. It is based on observations, experience, and scientific reasoning. The methods of the government regulation are: 1. Economic regulation is aimed at influencing the behaviour of firms and individuals in the private sector. It includes public expenditures, taxes, government ownership, loans and loan guarantees, tax expenditures, equity interests in private companies etc. The economic regulation is divided into two types: direct (is necessary to be implemented) and indirect (have a recommendation character and is not necessary to be followed). 2. Legislative one has to provide the laws necessary for the functioning of the economic subjects and for the protection of the consumer's rights, interests of the society, struggle with the illegal economy and corruption. 3. Administrative regulations are governmentally developed detailed directions aiming at putting policy into practice. These directions are created by government regulatory agencies through decisions, orders, regulations and rules etc.