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WHAT DO GOVERNMENT DO?

The shortcomings of the free market mechanism under which there is no role of governnment in the economic development of a nation. Due to the failure of the free market mechanism, the intervention of government became indispensable for the growth of an economy. Now the question arises of determining the extent of governnment in regulating and managing economic activities.

Following is what government mainly do in a capitalist economy:-

ⓐ Regulating and controlling various economic situations, such as inflation & deflation by formulating and implementing various fiscal and monetary measures.

ⓑ controlling the power of monopolistic and large corporations to elude various economic problems, such as unemployment and inequitable distribution of resources.

Modern governments are expected to create the conditions for economic growth and material prosperity. While not all governments do this successfully, it is a function assumed in modern democracies. Even free markets need government regulation in the form of enforceable property rights, consumer protection, enforcement of contracts and health and safety laws to work fairly and efficiently.

Government in economically developed countries are expected to not only make the economic pie grow larger but to distribute the fruits of prosperity. Governments tax wealthier citizens and transfer income & services to certain categories of individuals who are thought to need them. Government provide subsidized housing, food and health care to the poor, as well as providing pension for the elderly.

Public goods are resources that governments play a crucial role in providing. These are the services that typically private markets can't provide, or they can provide but only in a way that is inefficient or unfair. National security is a good example. Certain goods are best provided by government, though individuals often disagree over what those are.

Governments also help in preventing externalities. Externalities are indirect costs or benefits produced by an activity which impacts society. Externalities affect those who are not direct participants. We see that governments regulate activities that impose harmful or undesirable externalities.

Government serves many vital functions. This is what a government does in economics.