

## **THE ROLE OF THE STATE IN A MARKET ECONOMY: THEORETICAL APPROACHES AND PRACTICAL EXPERIENCE**

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**ABSTRACT.** This scientific article analyzes the role and functions of the state in a market economy from both theoretical and practical perspectives. It discusses the necessity and limits of state intervention based on classical, neoclassical, and Keynesian approaches. The study also examines international experience of developed and developing countries.

**KEYWORDS:** market economy, state intervention, fiscal policy, monetary policy, economic regulation.

### **INTRODUCTION**

In a market economy, the issue of state intervention in economic processes is one of the most important and controversial topics in economic theory. Classical economists advocated minimal state involvement in the economy; however, modern economic systems increasingly require active state participation. The main function of the state is to create a legal and institutional framework that ensures the efficient functioning of market mechanisms.

At the same time, the allocation of resources in a market economy is not always efficient, which leads to so-called “market failures.” In such cases, state intervention becomes necessary. In particular, the role of the state is crucial in reducing social inequality, developing infrastructure, and ensuring economic stability [1].

In the context of globalization, state economic policy determines not only national economic performance but also international competitiveness. Therefore, studying the functions of the state in the economy remains a highly relevant scientific issue.

### **LITERATURE REVIEW**

Adam Smith, in his work *An Inquiry into the Nature and Causes of the Wealth of Nations*, introduced the concept of the “invisible hand” and argued that resources are efficiently allocated through free markets, while state intervention should be minimal [2]. According to Smith, competitive markets naturally achieve equilibrium without excessive government interference.

John Maynard Keynes, in *The General Theory of Employment, Interest and Money*, argued that markets do not always self-correct and therefore require active fiscal policy

by the state [3]. He emphasized increasing government spending during economic downturns to stimulate aggregate demand.

Milton Friedman, the founder of monetarism, advocated limiting direct state intervention and focusing instead on controlling the money supply to ensure economic stability [4]. He believed that excessive government intervention reduces economic efficiency.

Joseph Stiglitz emphasized that due to imperfect information in markets, state intervention is necessary to reduce inequality and improve social welfare [5]. He highlighted the importance of government policies in addressing market imperfections. Richard Musgrave identified three key functions of the state: allocation, stabilization, and redistribution [6]. These functions form the foundation of modern public finance theory.

### **METHODOLOGY**

This study employs systematic analysis, comparative analysis, and economic generalization methods. The role of the state in a market economy was examined based on different theoretical schools of thought. In addition, the experiences of developed and developing countries were compared. Statistical data were used to assess the impact of state intervention on economic efficiency. Inductive and deductive reasoning methods were also applied.

### **ANALYSIS AND RESULTS**

The role of the state in a market economy is expressed through several key functions: legal regulation, macroeconomic stabilization, social policy implementation, and infrastructure development.

**Table 1.**

**State Intervention and Economic Performance (Comparative Analysis)**

<b>Country</b>	<b>Level of State Intervention</b>	<b>Average Economic Growth (%)</b>	<b>Income Inequality (Gini Coefficient)</b>	<b>Remarks</b>
USA	Medium	2.1	0.41	Market-oriented with regulation
Germany	High	1.8	0.29	Social market economy model

Sweden	Very high	1.5	0.27	Strong welfare state model
South Korea	Medium-High	3.2	0.34	Active industrial policy
Uzbekistan	Increasing	5.5	0.36	Reform and liberalization process

The table shows that there is a complex relationship between the level of state intervention and economic outcomes. For example, countries such as Sweden and Germany demonstrate low inequality due to strong social policies, although their economic growth rates are relatively moderate.

The experience of the USA and South Korea shows that a balanced combination of market mechanisms and state support leads to higher economic efficiency. In the case of Uzbekistan, ongoing economic liberalization highlights the increasing transformational role of the state.

Overall, the optimal level of state intervention depends on a country's institutional structure and level of economic development. Both excessive and insufficient intervention may lead to economic imbalance.

### CONCLUSION

The role of the state in a market economy remains one of the most important and continuously relevant issues in both economic theory and policy practice. The results of this study show that while market mechanisms play a key role in efficient resource allocation, they do not always ensure socially optimal outcomes. Therefore, state intervention emerges as a necessary institution.

Theoretical analysis indicates that classical economists support minimal state involvement, while Keynesian theory emphasizes active fiscal policy as a key factor for economic stability. Monetarists advocate limiting direct intervention and focusing on monetary policy, whereas modern institutional economists highlight the importance of the state in correcting market imperfections, monopolies, and inequality.

Practical experience shows that the most effective economic outcomes are achieved in systems where there is a balance between market forces and state intervention. Countries such as Germany and Sweden demonstrate high social welfare levels, while the USA and South Korea show strong economic growth due to a balanced approach combining market mechanisms with strategic state support. This confirms that the role

of the state is not uniform but depends on institutional, historical, and developmental contexts.

In transition economies such as Uzbekistan, the state plays a particularly important transformational role. During reforms, the state acts as a key actor in building market institutions, ensuring competition, and supporting strategic sectors. When combined with gradual liberalization, this creates a solid foundation for sustainable economic growth.

In conclusion, the role of the state in a market economy is not a fixed model but a dynamic and adaptive system. The most effective approach is a mixed economy model based on a balance between market forces and state intervention. Such a model not only enhances economic efficiency but also ensures social justice and sustainable development. In the future, with the acceleration of digitalization and globalization, the role of the state is expected to further transform toward regulation, innovation support, and strategic guidance.

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