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Government Regulation Of The Economy: Why It Is Effective.

OV Mamai^{1*}, AA Penkin², IS Kurmaeva^{2*}, AL Mishanin³, TA Baimisheva², and SV Pertsev².

¹Department of Management and marketing, Samara State Agricultural Academy, Samara Russia 446442, Ust-Kinelskii, Uchebnaya ul. 2

²Department of Economical theory and economics, Samara State Agricultural Academy, Samara Russia 446442, Ust-Kinelskii, Uchebnaya ul. 2

³ Department of Agricultural machinery and livestock production engineering, Samara State Agricultural Academy, Samara Russia 446442, Ust-Kinelskii, Uchebnaya ul. 2

ABSTRACT

The study aims to improve government economic regulation under market conditions. Its objectives are to understand the main theoretical aspects of government regulation of national economic branches, the World Trade Organization's (WTO) influence on the economic support of the state, classification of the government's regulation functions, and a model for optimal functioning of the economy, based on the government's regulatory principles. The study emphasizes economic relationships in the implementation of state policy that support branches of the national economy. It incorporates an abstract-logical method, situational and system analyses, and expert assessments. The research investigates how the WTO influences systems of economic regulation. A new system is proposed to classify the functions of state support. Our model for optimal functioning of the economy is based on synergistic, joint implementation of these principles of government regulation. Under existing conditions and using various instruments, government regulation of the economy should undertake the implementation of structural changes, reduce production declines, and create developmental prerequisites, thereby improving national economic productivity and satisfying the needs of the population.

Keywords: government regulation, World Trade Organization, principles of regulation, degree of support.

**Corresponding author*

INTRODUCTION

Despite the diversity of Russian and foreign research works, no fundamental studies devoted to the optimal functioning of an economy based on market and government regulations exist in the economic literature.

One of the main reasons for production declines in recent years are weaker government regulation, lack of restructuring, and inefficient arrangement of reforms. Therefore, at present, the main problems facing manufacturers must be addressed through government intervention [4, 6].

In Russia, creation of a mechanism for government regulation of a real sector, which includes state influence on economic relations, is determined by the role of the national economy on the market economy.

Objectives: a) to determine the main theoretical aspects of the government's regulation of national economic branches, b) to uncover the World Trade Organization's influence on state support for the economy, c) to classify government regulation functions, and d) to propose a model for optimal functioning of the economy.

METHODS

This study emphasizes state policies' effects on the branches of the national economy, using an abstract-logical method, situational and system analyses, and expert assessments.

RESULTS

Governments often regulate industries with low levels of monopolization relative to the extractive industries of the economy. For this, they need to protect their interests from highly monopolized industries. An equally important reason to regulate production is the need to develop the industrial and social infrastructure and to promote environmental practices [1, 11].

As a result of these factors, economic regulation became an integral part of state policy in countries with developed market economies. As markets develop, government regulations grow and become more complicated.

In management theory, regulation is a control function that operates within specified parameters, based on information about the activity and the state of the control object.

Government regulation implies that state authorities influence economic activities and market supply and demand, with the aim of creating normal market conditions and solving social and environmental problems [8, 12].

Government regulation is a system of economic levers and incentives, through which the state influences economic development. J. Mark, J. Asmussen formulated government regulation as «...the methods of state influence in the economic activity of the country using the forms and levers of influence for processes in society and economy that ensure the effective formation of market relations» [9, 14].

Government regulation stabilizes the economy as well as the participation of international commodity producers, who receive the greatest benefit from this activity.

Under standard market conditions, government regulation eliminates periodic crises and supports commodity producers.

Government regulation directly and indirectly influences the state's economic and legal impact on sustained functioning of all sectors, including production facilities [2, 16].

While being efficient, this support may also cause problems, including unequal inter-industry relations and financial sector violations. The main shortcomings of the existing regulatory system are its illegitimacy,

unpredictability, and lack of concentration on the most important problems, as well as untimely, insufficient, and irregular payments.

The dominant role of government regulation does not reduce the importance of market self-regulation, which performs structural reformatting of the economy and establishes prerequisites for sustainable growth [19, 20].

State support for the main parameters of the economy are determined not only by the objectives and opportunities of the state government but also by a number of international treaties and rules. The most significant restrictions are put forward by the WTO.

The main purpose of the WTO is to create equal conditions for world trade and to eliminate barriers for all members of the organization.

To implement this, the WTO proclaimed the following six basic trading principles:

- facilitating the process of trade liberalization;
- complying with national trade regulations;
- ensuring predictable and transportable trade terms;
- ensuring conditions for fair competition; and
- implementing distinctive, specialized, conditions for developing countries [5, 7].

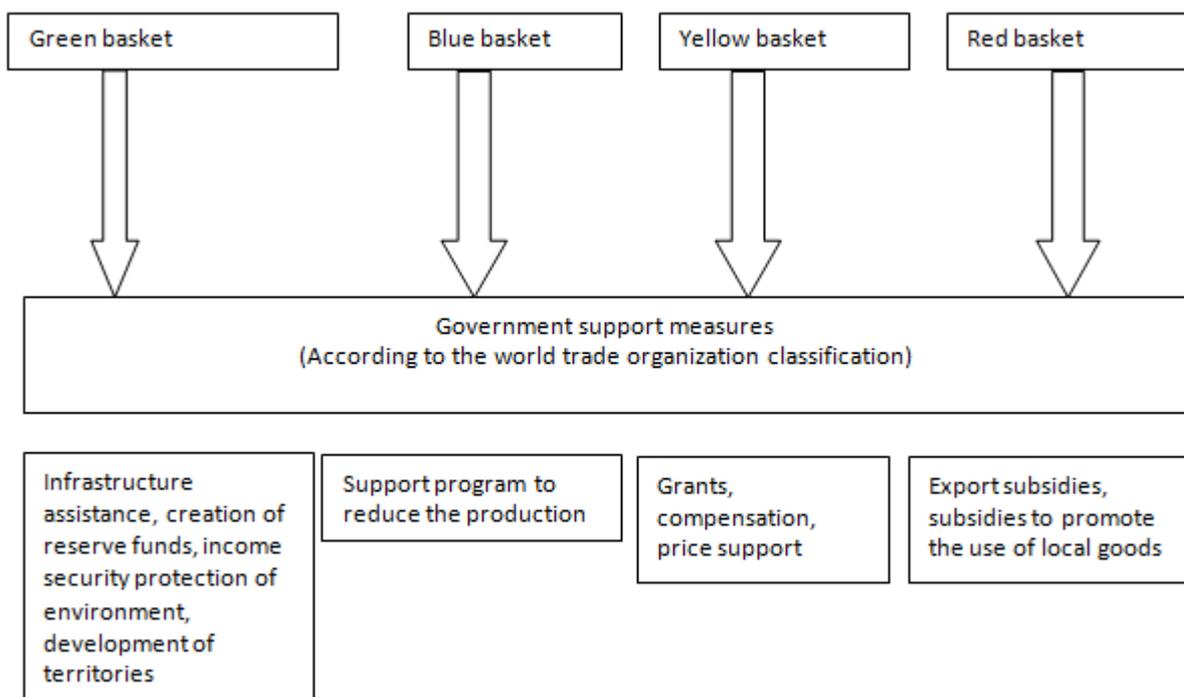


Fig 1: Classification of Government Support Measures (WTO) (Compiled by the Authors)

Within the framework of these principles, state support measures are classified into four baskets: Green, Blue, Yellow, and Red (Figure 1).

The Green basket group’s government support activities have a negligible impact on production and trade. These measures do not ensure an increase in producer prices [7, 9].

The Blue basket group includes compensation for a reduced volume of products manufactured, a form of compensation for lower income.

Support measures that impact on trade and affect production defined as measures of Yellow basket.

Red basket support includes subsidies for exports and grants to stimulate the consumption of local products, compared with imported goods. Red basket activities refer only to industrial subsidies (subsidies for agriculture are excluded) [13, 15].

Despite the WTO's strict limitations, each state implements economic support differently, determined mainly by the functions performed.

To create successful economic development, a more detailed study of government regulation is required.

The main functional groups under consideration are:

1. Infrastructural;
2. Institutional;
3. Organizational;
4. Others.

Infrastructural functions of government regulation include the following:

- various forms of ownership and management and the industrial system of interaction between various owners;
- land market infrastructure, material and technical resources, capital, and the system of wholesale and retail markets;
- motivational mechanisms for the flow of capital and the introduction of exogenous and related technogenic production technologies;
- other functions.

Institutional functions of the government's regulation of the national economy include the following:

- justification and selection of nationwide goals and development constraints;
- development of effective federal and regional target programs;
- creation and regulation of a price system, which ensures sustainable supply and demand of food products and other goods;
- other functions.

Organizational functions of state support of the national economy include:

- maximum effective use of very limited material and financial resources by both the state as well as business entities;
- other functions.

All of the above functions can be implemented either individually or in combination with others.

Institutional and organizational functions, which comprise of creating and updating operational market entities, are inconceivable without the formation of a price system that ensures a stable supply and demand of food and other goods for market participants (Figure 2).

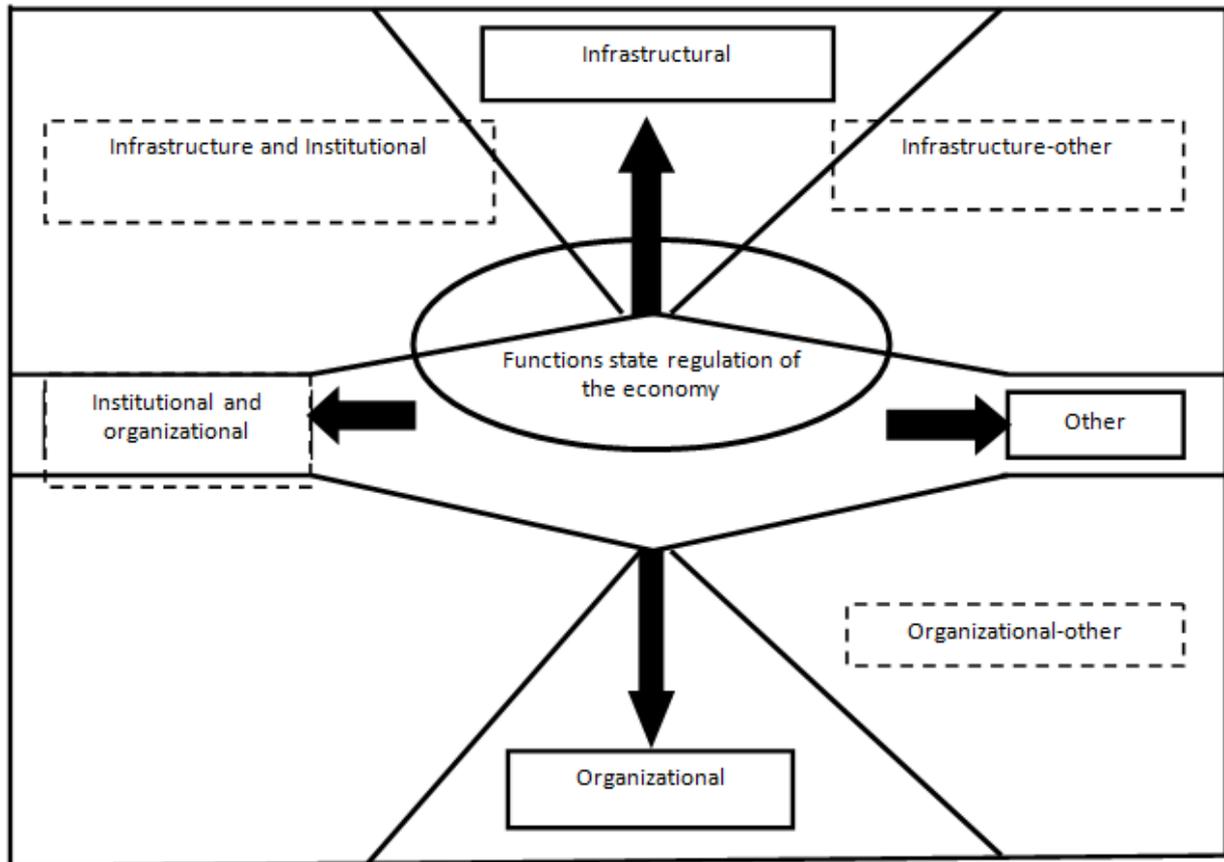


Fig 2: Functions of Government Regulation of the Economy (Compiled by the Authors).

Experience and writings of Russian and foreign authors enabled the formulation of the most important principles of governmental economic regulation, which authorities use to support the economy. This classification is shown in Figure 2.

- Principle 1: Rational protectionism, which is the basis of the country’s economic security;
- Principle 2: Equal provision of state support to all market participants, regardless of their legal form and relationship with authorities;
- Principle 3: Transparency of economic policy, ensuring equal access of all business entities to information about public policies and markets;
- Principle 4: Unity and uniformity of economic conditions throughout the country, and equal working conditions in the Russian Federation;
- Principle 5: Consistency, succession, and permanence of government regulation of the national economy;
- Principle 6: Targeted orientation and stability of governmental support measures, and targeted allocation of program funds;
- Principle 7: Obligatory fulfillment of state obligations to all market entities;
- Principle 8: Integrating goals and direction in regulating the economy;
- Principle 9: Continuity of social and economic benchmarks;
- Principle 10: adhere to the goals and objectives specified in the programmes for economic development.

Based on these principles, we propose a classification to determine the effectiveness of the government’s regulation measures. Its main criterion is the simultaneous application of all principles of government regulation. These principles have equal influence on the objectives of government regulation. Therefore, we take their magnitudes as equal in value. We distinguish four degrees of effectiveness for government regulation of production and the economy:

- maximum degree of effectiveness;
- average degree of effectiveness;

- minimal degree of effectiveness;
- chaotic government regulation.

A maximum degree of effectiveness means that all ten principles are simultaneously fulfilled, which because of its synergistic effect (max = 10), optimizes the effectiveness of state support. This maximum degree of effectiveness takes the following form:

$$y = 10,$$

Where y is the number of the government regulation principles implemented.

An average degree of effectiveness of government regulation is achieved with simultaneous fulfillment of seven to nine principles:

$$6 < y < 10$$

A minimal degree of effectiveness of government regulation fulfills three to six principles:

$$3 \leq y \leq 6$$

Chaotic government regulation is characterized by less than three principles:

$$y < 3$$

Currently (and unfortunately), more than seven principles of government regulation are rarely implemented simultaneously, which explains their low overall effectiveness.

These principles should be implemented within the framework of systemic activities in the formation and functioning of markets, providing credit in the real sector of production, ensuring domestic and foreign economic activity, scientific activity. Within these frameworks, various methods of regulation are used.

To implement the principles, objectives, and functions of economic policy, indirect (economic) and direct (administrative-regulatory) methods are applied. Primary instruments for government regulation of production, foreign economic activity, budgets, administration, and infrastructure also are determined.

CONCLUSION

Under existing conditions, government regulation of the economy should continue, using various instruments. Structural changes reduce production declines and help meet the needs of the population and the economy.

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