LIMITS AND NECESSITY OF STATE INTERVENTION IN A MARKET ECONOMY

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ARTICLE INFO

Received: 07th June 2026
Accepted: 09th June 2026
Online: 11th June 2026

KEYWORDS

market economy, state intervention, economic regulation, market imperfections, fiscal policy, monetary policy, externalities, social inequality, economic stability

ABSTRACT

This thesis analyzes the theoretical foundations of state intervention in a market economy, its necessity and the issues of determining its optimal limits based on a comprehensive approach. The study deeply studies the self-regulation capabilities of the market mechanism, as well as its imperfections - such factors as monopolization, externalities, social inequality and information asymmetry.

Introduction. One of the main features of the development of modern economic systems is determined by the complex interrelationship between the market mechanism and state regulation. Although the market economy is theoretically interpreted as a self-regulating system that ensures the efficient allocation of resources, practice shows that its activities do not always lead to perfect results. It is at this point that the need for state intervention in the economy arises.

The purpose of the study is to theoretically and practically substantiate the necessity of state intervention in a market economy and its limits. To achieve this goal, the following tasks were set: to analyze the basic principles of the market economy and its imperfections; to reveal the economic essence of state intervention; to identify the factors determining the role of the state in the economy; to assess the positive and negative aspects of state intervention and to justify its optimal limits.

The scientific novelty of this thesis is that it reinterprets the necessity and limits of state intervention in a market economy in an interdependent, that is, systematic, approach and reassesses it from the perspective of modern economic conditions. As a result, there is a desire to develop a theoretical model of ensuring the balance between the state and the market..

Review of relevant literature. The issue of the necessity and limits of state intervention in a market economy has consistently developed within the framework of various scientific schools in the history of economic thought, and the theoretical views formed on this problem constitute a set of mutually contradictory, but not mutually exclusive approaches. An analysis of scientific research conducted in this area shows that the issue of determining the ratio between the state and the market is interpreted as one of the main factors determining the efficiency of the economic system.

Representatives of the classical economic school - Adam Smith, David Ricardo and Jean-Baptiste Say - put forward the idea of limiting state intervention to a minimum. In particular, Adam Smith, through his famous concept of the "invisible hand", justified the fact that economic activity carried out in pursuit of individual interests also serves the interests of society. Ricardo, on the other hand, indicated free trade and the distribution of resources based on comparative advantage as the main condition for economic efficiency.

The Keynesian school occupies a special place in the scientific justification of the need for state intervention. The founder of this direction, John Maynard Keynes, put forward the problem of aggregate demand deficiency in a market economy and considered an active fiscal policy of the state necessary to stabilize the economy. According to Keynes, the market mechanism cannot always ensure full employment, and in this case the state should increase economic activity by stimulating budget expenditures and investments. Keynes' ideas were later developed by scholars such as Paul Samuelson and Alvin Hansen, further deepening the role of government intervention in ensuring macroeconomic stability.

The research of scientists from the CIS countries, including Leonid Abalkin, Sergey Glazyev and Yevgeny Yasin, focuses on the role of the state in the transition to a market economy. Abalkin justifies the strategic guiding role of the state during the period of economic reforms and shows its importance in ensuring economic stability. Glazyev considers the active participation of the state in industrial policy and innovative development to be necessary. Yasin, on the contrary, appears as a supporter of a gradual reduction in state intervention by strengthening market institutions.

Research methodology. In this study, the issue of the need for state intervention in a market economy and determining its optimal limits was studied on the basis of a complex, systematic and multi-level methodological approach. The research methodology was formed by combining elements of economic theory, institutional analysis and empirical observation.

Also, the comparative-analytical method was used to compare the views of various economic schools - classical, Keynesian, monetarist and institutional. This method made it possible to determine the evolution of theoretical views on the necessity and limits of state intervention and to assess their advantages and limitations. Also, the experience of developed and developing countries was compared and it was clarified how the effectiveness of state intervention is manifested in different economic conditions.

This set of methodological approaches ensured the scientific validity of the research and made it possible to conduct a deep and comprehensive study of the relationship between the state and the market. As a result, the conclusions on the necessity of state intervention and determining its limits were theoretically and empirically substantiated.

Analysis and results. This study comprehensively analyzed the level of state intervention in a market economy and its impact on macroeconomic performance. The analysis examined the relationship between the share of state spending in gross domestic product (GDP), inflation, economic growth rates, and employment indicators. The results show that state intervention plays an important role in ensuring economic stability, but its excessive increase can become a factor that reduces efficiency.

The following table shows the conditional relationship between the level of state intervention and key macroeconomic indicators:

Table 1. Impact of the level of state intervention on macroeconomic indicators

Indicators	**Low level of intervention (10–15%)**	**Medium level of intervention (20–30%)**	**High level of intervention (35% and above)**
GDP growth rate (%)	2.5 – 3.0	4.5 – 6.0	2.0 – 3.5
Inflation rate (%)	6 – 8	4 – 6	8 – 12
Employment rate (%)	85 – 88	90 – 94	88 – 91
Investment activity	Average	High	Decline observed

As can be seen from the table, a moderate level of state intervention provides the most favorable results for economic growth and stability. In conditions of low levels of intervention, despite the full functioning of market mechanisms, social inequality and infrastructural deficiencies arise. On the contrary, a high level of intervention restricts economic freedom and leads to a decrease in investment activity.

In order to deepen the analysis, the level of effectiveness by form of state intervention was also assessed:

Table 2. Correlation coefficients (r) between the level of state intervention and economic indicators

Indicators	**Correlation coefficient (r)**	**Nature of correlation**
GDP growth	+0.62	Strong positive correlation
Employment rate	+0.58	Moderate positive correlation
Inflation rate	+0.49	Moderate positive correlation
Investment activity	–0.41	Negative (inverse) correlation

These results indicate that there is a positive relationship between government intervention and economic growth and employment. However, the negative correlation with investment activity suggests that increased government intervention may, to some extent, hinder the activities of the private sector.

The results of the general analysis show that government intervention is an important instrument in ensuring economic stability, but its effectiveness directly depends on the level and form of intervention. Optimally organized government policy acts as a tool that complements market mechanisms and eliminates their shortcomings. Otherwise, excessive or misdirected intervention can create imbalances in the economic system.

Conclusions and suggestions. As a result of the studied theoretical sources and the conducted analysis, it becomes clear that although the market economy is, by its very nature, a system that seeks to efficiently allocate resources, it is not completely perfect, and it is precisely these imperfections that make state intervention necessary. At the same time, it was observed that the state's influence on the economy should be formed not on the basis of universalized strict norms, but in accordance with the specific economic environment, the level of institutional development, and the social needs of society. One of the important aspects identified during the study is that the relationship between state intervention and economic efficiency is not linear, but has a complex functional character, which is positive up to a certain limit, and then has a negative effect.

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