ASPECTS REGARDING THE ROLE AND FUNCTIONS OF THE STATE, IN ECONOMY*

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Abstract

Public Sector Economics - branch of economic science – has, as main object of study, the state policies, the role and importance of its actions in the economic and social life.
State involvement in the economic life is relevant through its activities, whereby are occured legal regulations concerning the development of social and economic life, interventions in the market mechanisms, with measures designed to increase economic performance.
The implications of the public sector in economy are exhibited in the context of links that they provide between the production and consumption sphere , in the development of flows among economic agents.
The actions of the state, respectively of government, both as an economic agent and as regulator of economy, relevant to the role of the public sector, have as main objective, the optimum of resource allocation, so that to obtain a better fulfillment of citizen needs.
The study highlights issues referring to the public sector role and implications in economy, market failure and state functions, through which it aims to promote economic and social wellbeing.

Keywords: *state, the role of public sector, market failure, functions, public goods*

JEL Classification: H11, H41, P43.

1. Introduction

Public sector economy is a branch of economics the main object of study of which is the policies of the state, the role and importance of its actions in economic and social life.

Human existence is indestructibly linked to the presence of the state, as the area of manifestation of the activities developed by it comprises multiple levels of economic and social life, the political decisions taken by the state causing a system of rules by which society operates, namely, the political, economic, legal institutions, determinant for the life and actions of individuals.

State's interventions, as an economic actor, take the form of benefits provided for community in areas that cannot be covered by the private sector; concerned, first of all, to satisfy the needs of citizens, the public sector has a monopoly in the provision of public goods and services provided to them, the manner of resource allocation being subordinated to this goal. Meanwhile, private sector involvement in providing public goods and services causes the occurrence of competition and thus of performance in public administration, an improved public sector, through the instrument of public administration, constituting a support for strengthening democracy and good governance.

Performance in the public sector requires a set of conditions on competence, organization, accountability, government transparency, citizen participation in decision-making in certain common issues of public interest, efficient allocation of public resources, democratic governance.

2. The role and importance of public sector

The role of the public sector in economy is relevant by means of the state's actions, respectively, of the government, both as an economic actor and as well as regulator of the economy so that, through an optimal management of resources, to achieve the objective of meeting the needs of citizens.

The implications of the public sector are manifested in the context of the links it provides between the production and consumption and the carrying out of economic flows between operators.

Thus, the public sector:

- Provides its resources through the channel of fees and taxes levied from the economic producers and consumers;
- Participates in capital market transactions, entering into relationship with other economic participants, which is another source of income;
- It is a direct participant in the exchange on the market, using the financial resources it has, as ***producer*** - stance in which it acquires the resources (production factors) from the production factors (inputs) market - and as ***beneficiary*** – a situation in which it purchases

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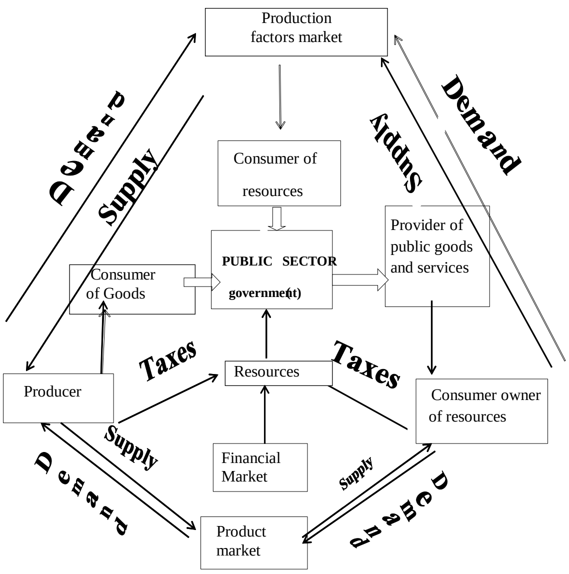
goods and services from private operators;

- It is a provider of goods and services on which it has an exclusivity (defense, justice etc.) and of other goods and services that can be delivered by means of both the public sector and the private sector (health, education etc.).

These forms of participation of the public sector in economic activities can be represented schematically in the figure below (Fig. no. 1):

Figure no. 1 The implications of the public sector



Source: adaptation from Cosmin, Marinescu, "Economia sectorului public", http://www.cse.uaic.ro/_fisiere/Documentare/Suporturi_curs/III_Economia_sectorului_public.pdf; Bom, Ready, Chapitre 2 "L'Allocation des Ressources", https://www.scribd.com/document/249295987/Chapitre-2-L-Allocation-Des-Ressources

By means of the flows created between the public sector and private operators, the State influences and regulates the economic activity, affecting resource allocation as a result of its interventions through the level of taxation applied, or of the decisions of price and production, when they act as producers.

Also:

- On the products market: the demand of consumer goods meets the supply of producers;
- On the market of production factors: demand for production factors (resources) of producers, meets the holders' area.

3. Market failure

The State is a public organization, the system of government being the one which sets the basic rules according to which economic activity takes place; the institutions of the economic system are linked to the form of manifestation of political power, the political government authority being the one holding monopoly in exercising power in the society.

In the context of modern economies, the public sector operates alongside the private one in the form of mixed economy.

The market and price balance is achieved based on the supply-demand relation, in competition conditions, the efficiency being contingent upon the orientation of markets towards a pure and perfect competition. Failure to comply with these criteria can cause imbalances in market mechanisms and in ensuring an optimal allocation within the meaning of the Pareto criterion, situations considered market failures.

They identified a number of causes that prevent the efficient allocation of resources and lead to the need for the State intervention in order to remedy and maximize social utility.

The most significant of these relate to the particularities of public goods and externalities, to which, the failure of competition, the costs of transfer can be added.

- Particularities of public goods

Public goods are those categories of goods that cannot be achieved by the market or the production of which is not covering, which causes government intervention, by ensuring resources for their production through compulsory taxation system.

It is identified by means of two characteristics:

- Are not excluded - a public good produced is affordable for any potential consumer;
- Not rival - for a public good produced when adding any new consumer to the original, no new costs are added, utilities are not diminished; each person can benefit from the amount available to another person.

These two properties provide to the public goods the quality of **pure public goods**; in case of pure private goods these two traits do not manifest.

In the market system, private producers are not interested in supplying these types of goods, the allocation of resources to this end, being done by the public sector, the result of a political decision. Government can contract the achievement of these goods with private companies, the funding being made from public resources.

The following data show the characteristics of public goods versus those of private goods (Table no. 1):

Table no. 1 Comparative elements between public goods and private goods

Features	***Pure public goods***	***Pure private goods***
Exclusion	Are not excluded	Are excluded
Rivalry	Non-rival	Rival
Exclusion costs	Great	Insignificant

Producer	Public organizations or private actors on the basis of the contract with government.	Private actors
Allocation	Through public budget	Through market
Resources of financing	Public budget charged by taxation	Incomes from capitalization on market

Source: adaptation from Dorel Ailenei, Tudor Grosu, "Economia sectorului public", http://www.biblioteca-digitala.ase.ro/biblioteca/carte2.asp?id=389&idb

The above shows that the particularities of the two categories of goods are in opposition, being relevant for the involvement in resource allocation.

As such, they have an impact on the market mechanism generating failures:

particularities of public goods: the reverse of **non-exclusivity** is the disinterest of private companies in achieving public goods because those who do not pay consumption cannot be eliminated; **non-rivalry** – it does not lead to profit maximization (zero marginal cost on the emergence of a new consumer), so that the goods are not supplied.

Not covering the market at the level of demand means inefficiency in the sense of Pareto.

Along with the two categories of pure public and pure private goods, there is the category of mixed private-public goods, which there are in every contemporary economy.

Externalities. This category includes certain activities of production or consumption of goods, which can affect positively or negatively, the activity of other agents than those which have generated it; benefits or costs, in addition, resulted from these processes are not reflected in market prices (are external).

In the case of water or air pollution by a producing unit, the price of those products does not include an additional cost.

Externalities can be:

- **Positive** - the private advantages (of the manufacturer) are lower than the social benefit achieved also by other community members;
- **Negative** - social costs (borne by other subjects external to those from the producing units) are higher than those of private establishments;
- **Externalities** generate costs or benefits that are not reflected in market prices - these do not reflect appropriately the allocation of resources used.

The government measures consist of economic policies able to stimulate activities that generate positive externalities (through subsidies), respectively, to compensate those who suffer the consequences of negative externalities.

- **Competition failure** occurs when the subjects that provide or those who consume have a monopoly on the demand or supply. The consequence is manifested in prices higher than trade balance or unsatisfactory supply.
- **The costs** involved in transferring the use of goods make the exchanges and the development of market processes difficult, with negative effects on the efficiency of resource allocation.

4. The functions of the state

In direct relation and consequence of market failure, the State functions carry out, categories through which the State seeks to promote economic and social wellbeing.

Richard Musgrave identified the areas that require government intervention in economy, by exercising three functions[1]:

- function of resource allocation;
- function of distribution;
- organizing (stabilization) function"

- **The function of resource allocation** occurs when there are obstacles in the efficient allocation of resources as a result of weak competition, externalities, particularities of public goods, causing disruptions in market mechanisms.

Public intervention is exercised by the production activity of the State for the achievement of certain categories of goods (which cannot be achieved through the market system) in areas such as national security and defense, justice, public utilities, infrastructure, education, health, which implies the existence of appropriate resources.

- **The function of distribution** of wealth consists of a process of redistribution of income and wealth among members of society, by transferring from owners to persons who do not have such resources, based on considerations of social justice, which obliges one to find suitable methods leading to a fair distribution.

In exercising this function, the State applied a income tax, the State, thus, obtaining financial resources needed for the supply of public goods and services. Thus, the function of redistribution is related to the public production activity which uses the resources resulted from taxation to finance the assets.

- **Organizing function (macroeconomic stabilization)** The imbalances that manifest as a result of the spontaneous market game aim at issues of growth, inflation, unemployment, a

[1] Jaques Genereux (2003) quotes Richard Musgrave (1959), "The theory of Public Finance: a study in public economy" ed. Mc. Grow Hill, New York, 1959, in the article "Les trois fonctions de l'Etat, selon Richard Musgrave", 01/11/2003, *Alternatives Economiques*, N 219, 2003, http://www.alternatives-economiques.fr/trois-fonctions-de-letat-selon-richard-musgrave/00027793.

situation which causes the need for public intervention.

The exercise of the stabilization function is consistent with the state's objectives in the economic field regarding the full use of production factors. The state develops policies to stimulate economic growth, control of inflation, increase employment with effect in reducing unemployment, social protection actions.

In the state intervention may occur activity risks relating to the effectiveness of public actions and correction of market errors considered as failures of government, such as:

- Difficulty of control of the economic policy instruments implementation systems, of certain negotiations that may fail;
- High costs posed by a bureaucratic apparatus, significant as size, required by government intervention, difficulties that may arise in the operation thereof.

As such, attention should be paid to the delimitation of government actions, to ensure the most advantageous alternative to the degree of public sector intervention in the market economy.

5. Conclusions

The State is a public organization, the system of government being the one which sets the basic rules according to which economic activity takes place; institutions of the economic system are linked to the manifestation form of political power, political government authority being the one holding the monopoly of exercising power in the society.

The role of the public sector is relevant through the actions of the state or government, both as an economic actor as well as regulator of the economy so that, through optimal management of resources in can achieve the objective of serving citizens' needs.

The implications of the public sector in the economy are manifested in the context of the links it provides between the production and consumption areas and of carrying out of economic flows between economic operators.

By means of the flow created between the public sector and private economic operators, the state influences and regulates the economic activity affecting resource allocation as a result of its interventions through the level of taxation applied, or of the price and production decisions, when they have the capacity of producers.

In the context of modern economies, the public sector operates alongside the private one in the form of mixed economy, the market balance and prices being achieved based on the supply-demand relation under competition conditions.

The existence of market failures leads to the need for state intervention manifested through the exercise of its functions - categories by means of which it aims at remedying and maximizing social utility.

Production of goods by the public sector, their destination are related to income redistribution, which makes the government considering the resources available, based on the tax system, and as well as the nature of the goods to be produced.

If the efficiency and effectiveness is the cornerstone of good governance, the public sector has the responsibility to find the best ways to use the resources (human, material, financial, etc.) in order to ensure in the best conditions, the coverage of the needs of the population.

The increase of the public sector efficiency must comply with the increasingly larger and more diverse demands of citizens, as an essential purpose of public administration's actions; for this purpose, the evaluation of the efficiency of the public sector in various fields can provide an opportunity for guidance in formulating some public funds management strategies appropriate to achieve the objectives.

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