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THE EVOLUTION AND ROLE OF STATE REGULATION OF THE ECONOMY

Abstract

This article examines the evolution of concepts of state regulation of the economy. It explores the theories of Adam Smith, David Ricardo, and other prominent economic figures of their time on state regulation of the economy. It examines the role of the state in economic regulation, its advantages and disadvantages, and demonstrates how state regulation has transformed from occasional government interventions to a permanent component of the modern economy. The primary goal is no longer to replace the market, but to correct its weaknesses to ensure sustainable development.

Key words: *economic regulation, evolution, role, concept, globalization, Keynesianism.*

INTRODUCTION

In today's world, no market economy functions in isolation from state regulation, as spontaneous market forces are incapable of independently overcoming the problems of monopolization, social stratification, and economic cycles. Studying the evolution of doctrines regarding the role of the state in the economy, from classical liberalism to modern Keynesian and neoliberal paradigms, is essential for identifying optimal governance mechanisms in the context of globalization and innovative development. This article presents the historical stages of the development of state intervention in the economy, identifies fundamental theoretical concepts, defines the key functions and instruments of state regulation today, and assesses the role of the state in ensuring macroeconomic stability.

History of the development of state regulation of the economy

Attempts at state regulation of the economy date back to ancient times. In early civilizations, the economy was often perceived as an integral part of the state, a view reinforced by religious beliefs. For example, ancient Egyptian pharaohs considered themselves divine messengers governing the lands of Egypt. All property and resources within these territories were considered to belong to the pharaoh, and any economic activity required the approval of state officials. These officials controlled the distribution of public goods, which effectively suppressed economic initiative.

This perception of the state's role in the economy was characteristic of other ancient cultures as well. However, certain economic freedoms began to emerge in ancient Greece and Rome. Private initiative emerged in Greece, and Rome's major legal victory was the consolidation of private property rights. Thanks to these changes, ancient states became the leading powers of their time, conquering numerous territories: the Roman Empire encompassed almost all of modern-day Europe, the Middle East, and North Africa. It can be argued that the

fundamental principles of modern European civilization and the market economy were laid during this period, which subsequently played a key role in the development of society.

The Middle Ages saw the rejection of many of the achievements of the ancient era. Economic life became strictly regulated by feudal and religious structures. Although internal economic relations remained relatively free from regulation, guilds—associations of artisans based on professional affiliation and living in a single territory—became the foundation of the medieval economy. The creation of guilds was under the control of local feudal lords, and membership in such organizations granted the right to practice a specific craft and was often hereditary. Outsiders were virtually excluded from joining guilds, limiting access to craft activities for new members.

In the past, guilds served as instruments of state regulation of industries. They determined production and sales volumes for each artisan, regulated selling prices, established sales locations and raw material procurement, and even the technologies employed. Essentially, guilds functioned as state monopolies. However, the Age of Discovery undermined this monopoly system, based on the control of territorial markets. Craftsmen were able to immigrate to colonies where the guild system was not developed. This became one of the factors behind the gradual liberalization of European markets. Subsequent scientific discoveries and their implementation in production accelerated these processes, and the need to rethink state regulation of the economy became evident. The evolution of ideas about the role of the state in the economy paved the way from mercantilism to classical and neoclassical economic theories, and then to Keynesian approaches. [1]

The first to develop the concept of minimal government intervention in the economy was Adam Smith, one of the founders of modern economics. In 1776, he published his celebrated work, "An Inquiry into the Nature and Causes of the Wealth of Nations." [3] In it, Smith defined productive labor as the basis of wealth, substantiated the importance of the division of labor, and proposed free market theory. He introduced the concept of the "invisible hand" into academic discourse, arguing that the primary regulatory influence emanates from the market itself, and the role of the state is to allow this process to proceed without interference and prevent outside interference. Similar ideas were developed in the works of David Ricardo, a follower of Smith, who applied similar principles to international trade. The ideas of Smith and Ricardo proved relevant in practice, serving as a guide for many European monarchs. Their application played a decisive role in the Industrial Revolution, which transformed the European economy and culture. However, these changes drew criticism from proponents of alternative views. For example, in 1867, the German philosopher Karl Marx published "Capital: A Critique of Political Economy," in which he analyzed the capitalist system and put forward his ideas on the economic structure of society. [2]

In this work, as in other collaborations with Friedrich Engels, Adam Smith's liberal approach is criticized. Karl Marx and Friedrich Engels advanced the concept of the exploitation of the working class by the owners of the means of production. They believed that entrepreneurs have no moral right to profit as a reward for the exercise of their entrepreneurial abilities. All profits, they believed, should be redistributed among workers in the form of higher wages. Such an approach could only be realized through complete state control of the economy, where the state itself is formed by the efforts of the workers through revolutionary upheaval. Meanwhile, in October 1929, the United States faced a major economic crisis known as the Great Depression. The crisis began with a sharp drop in the stock market on October 24, 1929, followed by mass industrial bankruptcies, rising unemployment (which, according to some sources, affected up to two-thirds of the working population), the threat of a banking system collapse, and a financial crisis of non-payments. The crisis soon engulfed Europe, which was closely linked to the American economy. Franklin Delano Roosevelt, who became president in 1933, was tasked with leading the United States out of the crisis. His political program, known as the New Deal, was the first in the world to be based on the ideas of the English economist John Maynard Keynes. The main tenets of these ideas were outlined in Keynes's book, *The General Theory of*

Employment, Interest, and Money, published in 1936, laying the foundation for Keynesian economics. According to Keynesian theory, three key macroeconomic indicators determine the state of the economy: unemployment, inflation, and interest rates.

All three economic parameters are closely interconnected, and changes in one inevitably trigger adjustments in the others. According to Keynes's theory, the state can regulate economic processes by influencing these parameters and is obligated to prevent serious crises through timely intervention. Based on his ideas, Franklin Delano Roosevelt initiated numerous government projects that provided the unemployed with temporary employment and minimum wages. This encouraged people to consume goods and services from other industries, stimulating their development, increasing production volumes, and creating permanent jobs. However, in the 1950s–1970s, American economist Milton Friedman criticized Keynesian economics. He considered it excessive government intervention in the economy and considered certain goals, such as zero unemployment, unrealistic. Friedman proposed considering financial instruments as the primary mechanisms for influencing the economy, while emphasizing the need for their selective and limited use. His ideas formed the basis of monetarism, an economic concept that has gained widespread popularity. These principles were implemented by US President Ronald Reagan from 1981 to 1989.

The economic management policy of that period was dubbed "Reaganomics." Its results included a reduction in inflation from 12.5% to 4.5% per annum, a reduction in unemployment, a tax reform with reduced tax rates to stimulate business investment, and a partial overhaul of the social security system. The idea of creating an efficient economy has always prompted both scholars and market participants to reconsider the role of the state as a regulator of the market system. In the 17th–19th centuries, the "night watchman" theory prevailed, according to which the functions of the state were limited to ensuring the safety of citizens, protecting private property, and upholding the rule of law. However, the economic crises and contradictions of the 1930s led to a significant reassessment of public and academic views on the need and scope of government intervention in the economy.

The role of state regulation of the economy and the history of development

In the context of globalization, the role of the state is growing both globally and microeconomically. The state is becoming not only a participant in global economic competition but also plays a key role as an economic and social donor, aimed at mitigating crisis phenomena in all aspects of the economy and public life. The recent crisis demonstrated the active efforts of state institutions to support the banking system, stimulate entrepreneurial activity, and develop export-oriented policies and import substitution policies. These measures have become particularly relevant both in the context of a systemic crisis and in the implementation of measures related to external restrictions and sanctions. Concepts such as "state regulation of the economy under sanctions," "state management of crisis processes," and "state regulation of global competition" have already gained a foothold in the scientific community. This emphasizes that in the era of globalization, the state not only performs its function as a participant in the market economy but also acts as a protector and guarantor of national economic stability. Among the negative aspects of the modern market economy, it is worth noting the impact of free economic activity on the quality of life and interests of the population. For example, the activities of industrial enterprises often result in environmental pollution, which negatively impacts public health. Under these conditions, the state is forced to restrict economic activity in certain regions, protecting agricultural land and creating nature reserves. Furthermore, food producers' efforts to reduce costs and increase profits often lead to violations of production technologies. This manifests itself in the substitution of artificial ingredients for natural ones, the use of various additives and substitutes, which leads to a deterioration in product quality and negatively impacts public health.

The market, by its very nature, is incapable of providing social guarantees, as its primary goal is to achieve profit at any cost. This is why the state assumes the functions of maintaining stable employment, implementing housing programs, and improving the quality of life for

citizens, including providing healthcare, education, and protection for socially vulnerable groups. The growing concentration of production simultaneously exacerbates the problem of uneven income distribution, which contributes to social stratification, increased tensions in society, and the intensification of global problems such as military conflicts and international terrorism. This is clearly demonstrated by the widening gap between rich and poor countries. The average income of the population in poor countries lags significantly behind that of developed countries, reaching a gap of more than 80 times. This exacerbates mass migration to wealthier countries in search of a better life. According to data, the wealthiest 20% of the world's population consumes 86% of the world's resources and services, while the poorest 20% consumes only 1.3%. The market system also fosters corruption and the spread of income obtained through illicit rather than labor-based means. Access to scarce resources often runs counter to the principles of fair competition, undermining incentives for responsible work and harming the global economy. Growing social inequality leads to the formation of a low-income group with antisocial behavior. These individuals often lack the means to invest in a high-quality education for their children, thereby depriving them of a successful future. This creates a vicious cycle: socially vulnerable groups continue to reproduce a similar lifestyle, which seriously harms the economy and degrades the overall quality of life for those around them. The market itself is unable to effectively develop industries crucial to national security: innovative technologies, the nuclear industry, defense and agro-industrial complexes, and other important economic sectors. These areas require state intervention and support to ensure national interests and the country's sustainable development.

CONCLUSION

The evolution of state regulation of the economy has undergone significant changes. While laissez-faire approaches prevailed before the Great Depression, a period of Keynesian demand stimulation followed. Modern concepts, however, envision a harmonious combination of market mechanisms and public administration. The role of the state has changed dramatically: it has ceased to be a passive observer and has become an active participant, called upon to correct market failures, curb monopolies, mitigate the consequences of economic crises, ensure social well-being, and distribute income fairly. The state has a wide range of tools at its disposal, including legislation, antitrust policy, and fiscal and monetary levers. In the context of global and digital transformation, the state is increasingly stimulating innovation, creating a favorable institutional environment, and implementing "smart" regulation, which is the key to economic growth and security. Thus, state regulation is no longer an alternative to the market, but rather a necessary complement, ensuring the stability of the socio-economic system.

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İqtisadiyyatın dövlət tənzimlənməsinin təkamülü və rolu

Xülasə

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Açar sözlər: iqtisadi tənzimləmə, təkamül, rol, konsepsiya, qloballaşma, Keynsçilik.