What is a mixed-market economy?

- A mixed economy means that a part of the economy is left to the free market, while part of it is managed by the government.
- Mixed economies start from the basis of allowing private enterprise to run most businesses. Then the governments intervene in certain areas, such as providing public services (health, education, waste management) and the regulation or private business (e.g. legal right to private property, and abuse of monopoly power)
- In reality, most economies are mixed, with varying degrees of state intervention.

How does it work?

- Individuals are able to set up business and make a profit. However, usually progressive taxes and certain benefits are in place with the intention of reducing inequality (to an extent, though not completely) and providing a safety net.
- Prices are determined by market forces (the 'invisible hand'). But the government may regulate some goods (for example, placing higher tax on cigarettes to discourage use).
- Most businesses are privately owned. However, the government may own or be involved in regulating natural monopolies, (e.g. tap water, electricity, gas).
- Businesses are free to decide what to produce and price to pay, but there are government regulations on the environment, labor markets and abuse of monopoly power.
- The economy is largely driven by private investment and enterprise, but government can intervene to try to reduce fluctuations in the economic cycle.

Advantages of mixed economies:

- **Incentives to be efficient.** Most business and industry are managed by private firms. Private firms tend to be more efficient than government controlled firms because they have a profit incentive to cut costs and be innovative.
- **Limits government interference.** Mixed economies can reduce the amount of government regulation and intervention prevalent in a command economy (one that is completely/mostly controlled by the government).
- **Reduces Market failure.** Mixed economies can enable some government regulation in areas where there is market failure. This can include:
  - Regulation on the abuse of monopoly power, (e.g. preventing mergers that will reduce overall competition, prevents excessively high prices).
  - Taxation/regulation of goods with negative externalities, (e.g. pollution)
  - Subsidy or state support for goods and services which tend to be under-consumed in a free market. This can include public goods, like police and national defense, and merit goods like education or healthcare.
- **A degree of equality**. A mixed economy can create greater equality and provide a 'safety net' to prevent people living in absolute poverty. At the same time, a mixed economy can enable people to enjoy the financial rewards of hard work and entrepreneurship.
- **Macroeconomic stability**. Governments can pursue policies to provide macroeconomic stability, (e.g. expansionary fiscal policy in times of a recession).
- **Provides means for government to protect private property and the rule of law.** Even libertarians who dislike government intervention believe there needs to be a legal support for private property and government provision of law and order.

Disadvantages of mixed economies:

- How much should government intervene? It can be very difficult to know how much governments should intervene, (e.g. discretionary fiscal policy may create alternative problems such as government borrowing).
- Too much inequality? Mixed economies are criticized by socialists for allowing too much market forces, which they claim leads to greater inequality.
- Government failure. Mixed economies are criticized by free-market economists for allowing too much government intervention which they claim has negative consequences for everyone. Libertarians argue that governments make very poor managers of the economy, invariably being influenced by political and short-term factors, rather than what truly benefits society.

Conclusion:

- Even the most ardent free-market economists will agree we need a degree of government intervention – if only to protect private property. For example, Adam Smith in 'Wealth of Nations' argued governments needed to prevent the exploitation of monopoly power. And on the other hand, very few economists would argue that the government should try and intervene in all areas of the economy – even if the desire is to promote greater redistribution. This is because private business and financial incentives play an important role in a well-functioning economy and generate new wealth.

Source: www.economicshelp.org