

**DO DEVELOPED COUNTRIES TEND TO THRIVE MORE THROUGH AN
EMPHASIS ON MARKET-ORIENTED POLICYMAKING OR A STATE-ORIENTED
WELFARE SYSTEM?**

Khikmatov Behruz Bekzod o'g'li

Third-year student, School of International Economics and Management,
University of World Economy and Diplomacy

E-mail: behruz.xikmatov@icloud.com

<https://doi.org/10.5281/zenodo.20618168>

<https://doi.org/10.5281/zenodo.20618168>

Abstract:

This article examines two different policymaking strategies in developed countries, market-oriented policymaking and state-oriented welfare systems. It defines the key principles of both models and investigates the advantages and disadvantages of each of them in solving the issue of economic performance and social welfare. The article discusses the central question of whether developed countries tend to thrive more through an emphasis on market-oriented policymaking or a state-oriented welfare system, with case examples. The essay argues that both of the approaches are ineffective in their own way; the most appropriate strategy is the balanced combination of market mechanisms and welfare policies.

Keywords:

Market-oriented policymaking, state-oriented welfare system, economic policy, welfare state, developed nations, government intervention, social market economy.

Introduction:

Economic policymaking in developed nations has two models: market-oriented policymaking or a state-oriented welfare system. Both of them have their own pros and cons regarding specific cases. On one hand, market-oriented policymaking argues that competition, limited government intervention, and individual incentives are drivers of efficiency, innovation, and economic growth. On the other hand, state-oriented welfare systems prioritize social protection, equality, and economic stability through government intervention and redistribution of resources. A state-oriented welfare system prevents a huge gap between rich and poor people. The essay discusses the advantages and disadvantages of both market-oriented policymaking and state-oriented welfare systems, using specific country examples. The most effective strategy for developed nations to achieve the greatest overall benefits is also presented.

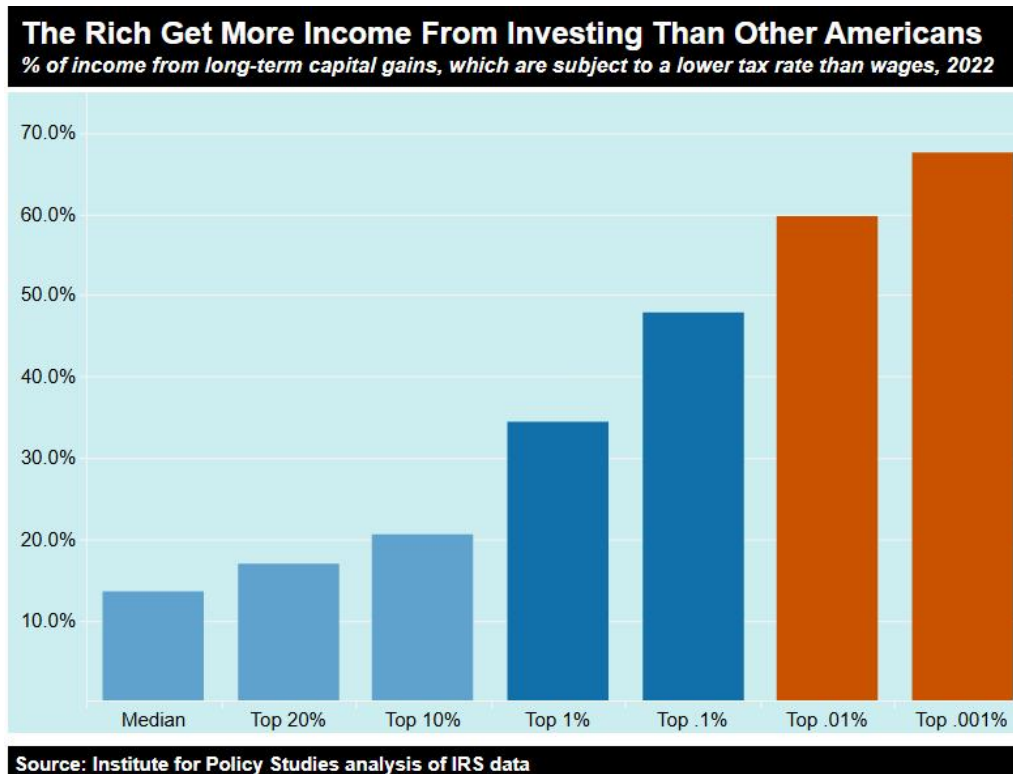
Advantages and disadvantages of market-oriented policymaking:

The key theory behind market-oriented policymaking is Adam Smith's invisible hand. The Scottish philosopher and economist of the 18th century argues that the market is controlled by the invisible hand and state intervention into the market should be minimal (Majaski, 2024). Competition in the market should decide the price, supply and demand (Majaski, 2024). Neoliberal economists such as Adam Smith and Milton Friedman argue that free markets promote efficiency and innovation (Majaski, 2024).

Market-based economies increase business efficiency and competition. Governments are minimally yet significantly involved in the enhancement of legislation to enable the fairness of competition as well as trade and regulating the interaction of firms with customers and labor. A company should enhance the quality of its products and minimize expenses, as it will help it stay competitive (Green, 2023). The economy that is market-based is linked to high productivity

since people are economically driven to work and gain some income in order to fulfill their needs. Market-based economies can compensate for hard work and performance, unlike command economies, where salaries are fixed (Green, 2023). Moreover, market-based economies encourage innovation because they encourage firms and individuals to come up with new products, technologies, and production processes to create a competitive advantage (Green, 2023). The United States is regarded as one of the most successful examples of market-oriented policymaking. The country has a very diversified economy, which is largely market-oriented and has little state interference. The influence of the government is primarily made by the monetary and fiscal policy, whereas the production and price choices are made by the business enterprises. Businesses can choose to get or dismiss workers and establish or shut down operations (United States - Strengths and weaknesses | Britannica, 2020). With a GDP of more than 30 trillion, the United States is the largest economy in the world, which is diversified, well-developed, with technologies including AI, and highly developed capital markets, including the New York Stock Exchange. The U.S. dollar is also a global reserve currency and the major world trade and innovator (World Bank, 2025), which makes it economically strong. This case illustrates the significant advantages that market-oriented policymaking can offer to developed economies.

In contrast, market-oriented policymaking has several cons that need to be considered. “The market economy is the major cause of income and resource inequality among individuals and business entities in a country.” (Ansari, 2023). Without effective government regulation, pollution can damage a country’s environment. In highly competitive markets, producers have an incentive to increase profit and reduce production costs, often by neglecting environmental safeguards. As a result, environmental harm becomes a negative externality of market competition (Ansari, 2023). The United States is a clear example of how capitalism based structure and market-oriented economy can generate income inequality. Despite being one of the world’s most successful market economies, the U.S. experiences high levels of income and wealth inequality (Inequality.org, 2019). “Over the past four decades, the richest 1 percent of Americans have enjoyed by far the fastest income growth. The most rapid increase has occurred at the tippy top of the economic ladder. Between 1979 and 2021, the average income of the richest 0.01 percent of households, a group that today represents just over [12,000 households](#), grew nearly 27 times as fast as the income of the bottom 20 percent of earners. These [Congressional Budget Office](#) figures include income from labor and investments, and do not account for taxes or means-tested public assistance, such as food stamps or Medicaid.” (Inequality.org, 2019).



Source: (Inequality.org, 2019)

Advantages and disadvantages of a state-oriented welfare system:

The modern welfare state is theoretically determined by the Keynesian economic model of John Maynard Keynes. To combat the Great Depression of the 1930s, Keynes was convinced that markets did not have the capacity to bring full employment and economic stability on their own. Keynes thus implemented active government intervention, especially through government expenditure. The intention was to boost demand, lessen unemployment and avoid economic degeneration. According to Keynes, a more active role of the state in serving the population and providing social services is an instrument of stabilizing the economy. (More, 2025). A state-based welfare system is a political system whereby a government is a central figure in the protection and promotion of the economic and social welfare of its citizens. The foundations of the welfare system tend to be equality of opportunity, fair distribution of wealth, and the duty of the government to provide for people who are incapable of accessing the bare minimum of a good life (Kenton, 2022). In this system government takes responsibility for protecting citizens' well-being by providing public services, income support, and social security, rather than leaving these outcomes mainly to the market. The government provides at least basic standards of living (education, healthcare, pension) for all its citizens, even if it requires higher taxes and larger government spending (Kenton, 2022). A market without any state intervention is not always fair for people's well-being. "While the market, driven by self-interest and competition, is an incredible engine for innovation and wealth creation, it's not always perfect. Sometimes, it stalls, glitches, or leaves too many people behind. That's where the state steps in—not to replace the market, but to guide it, fix its failures, and ensure the economy works for everyone." (Economics.Town, 2025). The government is a significant stakeholder in the market, as it creates an institutional and legal environment, ensures macroeconomic stability, alleviates poverty and inequality, and empowers people and offers them equal opportunities (Economics, Town (2025)). There are also some drawbacks to a state-oriented welfare system in which the government evenly offers opportunities to all people. Instead of searching for employment or acquiring skills, some people can use state assistance (More, 2025). It produces addicts and demotivated people.

Wages, as an example, in the Soviet Union were mostly homogenized irrespective of effort and output, thus undermining the motivation of the workers to work harder or to think of innovation. The high levels of welfare expenditure may put a big burden on the government budget, especially in recessionary periods or in an ageing world. As the expenditure of the government on welfare increases at a higher rate than the revenue collected, it may, in effect, result in long-run budget deficits and increase the level of debt carried by the population, which may cause concern when considering the sustainability of welfare systems over the long term in this context (More, 2025).

Many countries, including the United Kingdom, France, Sweden, Italy, Belgium, Denmark, Finland, Germany, Portugal, Spain, Austria, Greece, Japan, the Netherlands, Switzerland and Iceland, have state-run welfare systems, but policy priorities and aims are very different. No government can attain all the goals of welfare at the same time because there is always a limitation of financial and administrative resources. Consequently, states are forced to make strategic decisions regarding the social goals they are more interested in, including income redistribution, provision of employment, or universal services. As a result, welfare systems in each country are developed differently, which is based on economic ability, social norms, and the background. According to the article (Thompson, 1995), a single ideal model of a social welfare system does not exist. Rather, the success of any welfare strategy lies in its success in balancing social protection objectives with economic efficiency and its suitability to the particular economic, institutional, and political environment of a country. “Put simply, the policy that is most effective in achieving a given objective in Argentina may not achieve that objective in the United States, and the people of the United States may wish to pursue a particular objective with their social welfare system that is not as important to the people of Argentina. No particular structure is the most appropriate one at all times and all societies.” (Thompson, 1995). A clear contrast in welfare systems in developed economies is found in Sweden and the United Kingdom. As an illustration, in Sweden, there exists a social contract and everyone is contributing to the welfare due to progressive taxation. In its turn, all people can access healthcare, education, and social security equally. Healthcare provision is one of the most powerful units of the Swedish welfare system that provides healthcare services to all inhabitants, expatriates included. Sweden is the country that provides free education, including preschool and university, as well as study grants and loans to cover the living expenses of students (Focus, 2023). On the contrary, the welfare system in the United Kingdom is a state-based and more liberal one. The welfare model in the U.K. (as opposed to Sweden) is based more on targeted support, cost containment and responsibility. The U.K. has free and compulsory primary and secondary education and higher education is costly. Although local governments offer social housing and support to the homeless, the size of the public housing has decreased with time, and the marginal role belongs to the private market (Bentley Brinkerhoff Gilbert and Michael Charles Prestwich, 2019). The welfare system of the UK is designed to achieve a balance between social protection and fiscal sustainability and focus on targeted help rather than universal support (Bentley Brinkerhoff Gilbert and Michael Charles Prestwich, 2019).

The best strategy for developed countries:

The best strategy for developed nations is to use a balance of both. Countries must achieve a balance between the welfare policy and economic performance. Market mechanisms and competition promote efficiency, innovation, and economic growth by rewarding productivity, while welfare policies address market failures and achieve economic stability by providing social protection, reducing inequality, and ensuring equal access to essential services such as healthcare and education (Thompson, 1995). Germany is a great example that illustrates a social market economy. The social market economy in Germany is a system that combines both market driven economy and a welfare system, state makes regulations that correct market failures without

undermining competition. “Economic growth and prosperity for all – the social market economy has proved to be a model for success in Germany.” (deutschland.de, 2018). “It is about benefiting from the advantages of a free market economy, which include free choice of workplace, pricing freedom, competition and a wide range of affordable goods, while at the same time absorbing its disadvantages, such as monopolization, price fixing, and existence-threatening unemployment.” (deutschland.de, 2018).

Conclusion:

Do developed countries tend to thrive more through an emphasis on market-oriented policymaking or a state-oriented welfare system? Why? This is a central question of the essay. The answer is that developed countries tend to thrive more through the mix of both economic policies. The comparison of the pros and cons of market-oriented policymaking and state-oriented welfare system represents that neither approach is sufficient on its own to address the economic and social challenges that developed nations face. Market-oriented policymaking aims at generating economic growth, innovation and efficiency but market driven economy also produces inequality and negative externalities. In contrast, a state-oriented welfare system produces equality, social security and stability but lacks innovation and efficiency. Markets are good at producing wealth; governments are good at distributing it. Trouble arises when we ask either to do the other’s job.

Reference list

1. Ansari, S. (2023). Disadvantages of Market Economy. [online] Economics Online. Available at: <https://www.economicsonline.co.uk/definitions/disadvantages-of-market-economy.html/>.
2. Bentley Brinkerhoff Gilbert and Michael Charles Prestwich (2019). United Kingdom - Sports and recreation. In: Encyclopædia Britannica. [online] Available at: <https://www.britannica.com/place/United-Kingdom/Sports-and-recreation>.
3. deutschland.de. (2018). 70 years of social market economy. [online] Available at: <https://www.deutschland.de/en/topic/business/social-market-economy-in-germany-growth-and-prosperity>.
4. Economics.Town. (2025). The Role of State in a Market Economy: Regulation and Intervention • Economics.Town. [online] Available at: <https://economics.town/social-sector-and-environment/role-state-market-economy-regulation/> [Accessed 31 Dec. 2025].
5. Focus, E. (2023). Understanding Sweden’s Social Welfare System. [online] Expat Focus. Available at: <https://www.expatfocus.com/sweden/articles/understanding-swedens-social-welfare-system>.
6. Green, L. (2023). Advantages of a Market Economy. [online] Investopedia. Available at: <https://www.investopedia.com/ask/answers/033015/what-are-some-advantages-market-economy-over-other-types-economies.asp>.
7. Inequality.org (2019). Income Inequality. [online] Inequality.org. Available at: <https://inequality.org/facts/income-inequality/>.
8. Kenton, W. (2022). What is a Welfare State? [online] Investopedia. Available at: <https://www.investopedia.com/terms/w/welfare-state.asp>.
9. Majaski, C. (2024). What Is the Invisible Hand in Economics? [online] Investopedia. Available at: <https://www.investopedia.com/terms/i/invisiblehand.asp>.
10. More, A.H. (2025). Welfare State: Principles, Objectives, Advantages, and Criticism. [online] The Legal Quotient. Available at: <https://thelegalquotient.com/administrative-law/welfare-state-principles-objectives-advantages-and-criticism/7230/>.



11. Thompson, L.H. (1995). The advantages and disadvantages of different social welfare strategies. *International Social Security Review*, [online] 48(3-4), pp.59–73.
doi:<https://doi.org/10.1111/j.1468-246x.1995.tb00446.x>.
12. United States - Strengths and weaknesses | Britannica. (2020). In: *Encyclopædia Britannica*. [online] Available at: <https://www.britannica.com/place/United-States/Strengths-and-weaknesses>.
13. World Bank (2025). GDP (current US\$). [online] The World Bank. Available at: <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD>.