

## **Government's Role and Government Failure**

Governments in market economies perform several economic tasks. These include promoting production and trade by defining property rights, enforcing contracts, and settling disputes, as well as enforcing laws designed to maintain competition, redistributing income via taxes and transfers, reallocating resources by producing public goods and intervening to correct negative and positive externalities, and promoting economic growth and full employment.

In this chapter, we deepen our understanding of government's role in the market economy by examining some of the difficulties that democratic governments face when making specific laws related to the economy.