

Government interference: to impose or not to impose essay sample

[Finance](#), [Market](#)



A perfect market for economists is a perfectly competitive market with absolutely no interferences from the government[1]. A competitive market economy, on the other hand, is the best vehicle for efficiency concurrently with the presence of price mechanisms. However, market failure, externalities, including other societal needs result to public goods and other forms of government intervention to recreate efficiency lost by these factors[2]. In the most extreme form, market failure means that the buyer and seller are not able or willing to agree on the terms of the transaction regarding price, financing, quantity, etc. In the broad social sense, a desired social outcome does not occur. For example, people who are infected with the HIV virus or have AIDS may not be capable of paying health care or health care insurance premium. Therefore, the market fails to “clear the market of any surplus or shortage” and there continues to be a demand greater than any willing suppliers of health care or health insurance. Market failure also refers to failure also refers to failure of the market mechanism to achieve optimal or efficient outcomes[3].

Presence of externalities is also another indication of market failure.

Externalities are costs or benefits that are not “captured” by the price mechanisms. For example, a college student does not capture all of the benefits of a college education. Some of the benefits would accrue to others in society who might benefit from a lab discovery or a work of art.

Conversely, the producer of a product that causes pollution does not incur all of these costs. Most of the costs are external to the producer[4]. For these market failures or externalities to be corrected or at least be improved, government interference is required. In addition to this, government

interference regarding these scenarios would be justified if it would aim for an efficient level of output or provide solution or prevent risks, disadvantages and circumstances with negative impacts or effects.

Government interference may include the implementation of price ceilings or floors. A price ceiling is usually imposed to help buyers. But it helps only the buyers who are able to buy the good at low price. The existence of a shortage means that there are many buyers who are not able to buy what they want. These buyers are hurt by price controls. Similarly, a price floor is usually imposed to help sellers. But it helps only the sellers who are able to sell the good at a higher price. The existence of a surplus means that many sellers are not able to sell their goods. These sellers are hurt by the price floor[5].

In addition to this, when lawmakers try to force the price away from its equilibrium level, the quantity bought and sold is reduced. The quantity actually bought and sold is the smaller of the quantity demanded and the quantity supplied. This reflects the basic freedom inherent in markets. No one is forced to buy or sell more than they want, so the smaller of the quantity demanded and supplied is the quantity actually bought and sold. This quantity, the smaller of demand and supply at each price is called locus of trade. Other consequences of price floors and price ceilings include non-price rationing, changes in quality, black markets and violation of the law, etc.

Non-price rationing is the method of equating supply and demand other than price. Two main methods of rationing without prices are waiting lines and discrimination. Waiting lines may include high unemployment caused by the ceiling on gas prices while discrimination may include the discrimination caused by the minimum wage law. The law resulted in a surplus of applicants and employers have hired mainly whites. The result is that black teenagers have had at least twice the unemployment rate of whites[6].

Changes in quality occur with a price ceiling. Sellers, to save on costs, will cut back on quality. For example, the rent controls in New York City have produced some of the most run-down apartments and unresponsive landlords in the country. With a price floor, sellers try to attract buyers by offering better quality, since they cannot lower the price. For example, when government regulations allowed airlines to set a price floor on ticket prices, airlines competed by offering many extras, such as better food and wider seats. Black markets and violation of the law occurs to get around a price ceiling. The buyers who cannot buy what they want at the ceiling price will seek out sellers who are willing to sell at illegal prices which usually are higher than the market equilibrium price[7].

Tariffs and regulations are also government interferences imposed on the market or economy. Tariff refers to the tax which is usually imposed on goods upon importation. The tax is calculated and imposed by customs officer in ports who inspect cargoes and shipments. Oftentimes, tariff is calculated based on a particular tariff formula and it is the simplest way of collecting tax because the goods cannot be unloaded and distributed on land

unless the tax is paid. In addition to this, tariffs that the traders have to pay are usually low costs.

There are several kinds of tariffs, which range from ad valorem tariff, specific tariff, revenue tariff, protective tariff to prohibitive tariff. The first kind of tariff, ad valorem, is the tax imposed on the goods being imported and it is based on a set percentage[8]. In cases where the international price of a particular merchandise falls, the ad valorem tariff also decreases.

Consequently, this is problematic and it more often than not, it subjects domestic industries to more competition. On the contrary, if the international price increases, the ad valorem tariff also increases. However, countries do not provide too much protection or control if the international price of goods is high. Another effect of this tariff is the increased risk for inappropriate transfer pricing. This problem occurs when the actual value of the goods imported is higher as compared to the declared value of the companies who are importing. Companies do this to reduce the overall taxes that they pay for the goods, which harm the state due to low percentage of tariff collected.

Specific tariff refers to the tax which is independent on the price of goods. However, implementing or imposing this kind of tariff is difficult because the amount of tariffs collected should be regularly checked or standardized based on inflation or changes in the market. In addition to this, usually, the amount of specific tax on particular goods is difficult to decide and requires thorough discussions among concerned agencies or individuals. Revenue tariff on the other hand is based on a particular rate which is set by the

government. This kind of tariff is collected mainly to support the financial needs of the government.

On the other hand, protective tariff, as the name suggests, is the tariff that protects the interest of the domestic industries against their foreign competitors because it inflates the prices of the products or goods imported. Protective tariffs would seem to be advantageous, however, it becomes problematic when it sets a very high price or tax for a particular good or raw material consumer or used by particular industries and individuals. For example, imposing protective tariff on food may result to increased poverty. Or producers of bread becomes less competitive if protective tariff is imposed on flour or raw materials used for making bread. Sometimes, a trade war occurs if the country whose goods or trade was disadvantaged because of the protective tariff imposes protective tariff on their own. Tariff on this scenario results to disadvantages for both countries. When the tariff imposed is too high, the protective tariff becomes a prohibitive tariff. It is the kind of tariff implemented on particular goods, mainly to prevent it from being imported by setting a very high tax for it[9].

Generally, based on theories by economists, the government's interference by imposing tariff harms the freedom of the individuals as well as the laws of the free market. Economic theorists believe that tariff is unfair on the side of the consumers. In addition to this, it discourages the maintenance of inefficient industries and encourages the creation of new industries, often resulting to higher cost.

Much of the debate continues on whether government interference provides negative or positive result. While others individuals, government officials and economists, still continue to contemplate whether government interference is good or bad. Oftentimes, the right decision or choice is done through careful planning, better management and understanding of consequences. Similarly, imposing government interferences requires thorough analysis, studies, discussions and considerations of different point of views from different sectors including those from the political and economic world. There are times where government interference is needed and efficient especially if it is imposed without bias to any particular company or individual. There are also times where it harms the economy, especially when total control of market activities and relationships occur. As such, I believe that there is no perfect or totally good choice, nor a government interference resulting to totally negative impacts or totally positive impacts. Government interference can be both, where the greatest effect or impact would depend on what actions or choices are considered. The interference of the government in the relationships existing in the free market can be justified if it pursues to maintain the market free[10]; it is not justifiable if it seeks the opposite.

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