Machende

Literature, Russian Literature

c)Is there evidence for market failures or government failures in the provision of public services, merit goods and control of demerit goods in Sub-Saharan Africa? Discuss (30 marks) Marketfailureis a circumstance in which private markets do not bring about the allocation of resources that best satisfies society’s wants. Government failures are inefficiencies of the public sector. Public goods are goods that would not be provided in the free market system, because firms would not be adequately charge for them.

Merit goods are goods that are deemed as necessary for consumption by the state and if left to the private sector only, such goods would be under-consumed . Demerit goods are goods and services whose consumption is considered unhealthy, degrading or otherwise socially undesirable due to the perceived negative effects on the consumers. Such goods are deemed as unnecessary for consumption by the state. Most of the countries in the Sub-Saharan Africa like Zimbabwe, Zambia and South Africa are operating under a mixed economy. A free-market on its own can’t best allocate resources in a best way that satisfies the society.

Market failures would arise as the invisible hand on its own can’t provide adequately for the society. S d1 Qp a c d2 Costs and benefits Output External benefit Welfare loss because merit goods tend to be under consumed by the free market b Qs 0 Merit goods provide externalities but if left wholly to the private sector, it is likely that merit goods will be under consumed. In most Sub-Saharan African countries such as Zimbabwe, Namibia and Zambia, the private sector provideseducationat high costs which results in the under-consumption of the good.

Most Governments often provide merit goods for free but when considering Sub-Saharan African countries, this has not been in practice, for instance, public schools in Burkina Faso have since been experiencing high charges of fees. This often results in welfare loss as illustrated by the diagram below: Welfare loss caused by under-consumption of merit goods As shown by the diagram above, under-consumption of merit goods in Sub-Sahara Africa results in the loss of welfare of ABC. Moreover, merit goods are often provided by the state, thus, to increase consumption of merit goods, the state has to increase spending on such goods.

This has been practically impossible for most Sub-Saharan African countries as they have no incentive for spending on merit goods. For instance, countries such as Somalia, Burundi and Uganda. In most Sub-Saharan African countries the invisible hand and the state have since failed to control the consumption of demerit goods. The consumption of demerit goodscan lead to negative externalities which causes a fall in social welfare. The free-market often fails to control the consumption of demerit goods as it may fail to take into account the negative externalities of consumption (social cost exceeds private cost).

This may be due to imperfect information as information is a commodity that costs to obtain. For example, methods of conveying information to customers is rather poor in Africa than in European countries. Furthermore, Governments may fail to control consumption of demerit goods due to a number of reasons. For example, the government may decide to intervene in the market for the regulation of demerit goods and impose taxes on producers or consumers. This often raises prices and may produce detrimental effects to the economy like inflation in the long-run.

This may restrict government from taking such decisions . In South Africa, there has been a proposal for the ban ofadvertisementof alcohol but it has been a failure since many alcohol producing companies have been responsible for sponsoring most sporting activities. Costs and benefits Social cost External costs {negative externalities} Private costs Limited information full information D2 D1 0 Failure to regulate consumption of demerit goods results in welfare loss. This is illustrated below: Output Q1 Q2 Q3 Welfare loss due to unregulated consumption of demerits

As shown above, the social optimal level of consumption would be q3, an output that takes into account the information failure of consumers and also negative externalities. There are also some government failures in Sub-Saharan Africa. Governments are awarding subsidies to firms but this may protect inefficient firms from competition and create barriers to entry for new firms because prices are kept artificially low. Subsidies and other forms of assistance by the governments cause moral hazard. Most Sub-Saharan African countries are subsidizing firms that produce fertilizer as a way of achieving long termfoodsecurities.

This causes barriers to new firms which might want to produce fertilizers, as they can’t withstand the competition due to low production costs enjoyed by the existing firms. More so, there is evidence of government failure caused by rent seeking. Most Governments in the Sub-Saharan countries are in charge of controlling natural resources. This causes barriers to entry in industries that require the use of natural resources like minerals. The government will now be a monopoly in that industry and it may fail to allocate resources in the most socially desirable manner.

Most Sub-Saharan countries are still developing they are bureaucratic which is very slow in decision making. This causes most governments to be inefficient as it takes time for firms and institutions to be given the permission to produce goods and services. Such goods and services might be merit or public goods and services. For example, the decision to allow Econet in Zimbabwe was slow meaning that it would rather take long for Zimbabwean citizens to enjoy the telecommunication services to be offered by Econet.

In Zimbabwe there is unfair distribution of some merit goods like education, for instance, universities or tertiary education institutions. In Manicaland there are no state universities as compared to other regions such as Mashonaland, Masvingo, Midlands and Matebeleland. Examples of such universities in the favoured regions include University of Zimbabwe, Midlands States University and others. When it comes to the government provision of public services in countries like Zimbabwe, there is an unequal distribution of such services.

For instance, politicians may use funds which should be assigned to produce public services to campaign. Therefore they may increase spending on public goods and services in some regions at the expense of other regions in a bid to gain political millage in such regions. However, the governments of Sub-Saharan African countries have not completely failed to provide public services, merit goods and control of demerit but have intervened in correcting market failures. Some Sub-Saharan African countries have been successful in banning the consumption and importation of cocaine which is a harmful drug.

They are also controlling the consumption of other drugs likemarijuana. Some governments have also been improving on the provision of public services such as road networks. For instance, roads in South Africa are better off. South Africa and Nigeria have also been subsidizing the production of merit goods like education. To solve failures such as under-consumption of merit goods such as education, the Governments of Sub-Saharan African countries can increase expenditure or spending on such services. For example, the construction of more educational institutions.

In Zimbabwe, there is a current project that is running the construction of a university in Manicaland (to be named Manicaland State University). The same can also to public service expenditure by the Governments of these countries. Zimbabwe is currently undergoing the construction of a dual carriage way from Mutare to Harare. This reflects an increase in expenditure on public services. Therefore, in conclusion, there is evidence of market failure as reflected by Government intervention. However, the governments of Sub-Saharan African countries may also fail as discussed above.