

Can government
intervention be
effective in correcting
market failures
associated...



**ASSIGN
BUSTER**

Can government intervention be effective in correcting market failures associated with alcohol? I have chosen to perform a microeconomic analysis surrounding the effect of Alcohol consumption on society. 'Can government intervention be effective in correcting market failures associated with alcohol' is the question set. The model I will be exploring is 'market failure' 'where the market mechanism fails to allocate resources efficiently' (Smith et al, 2006, p. 56) The Times 'Alcohol-related treatment costs the NHS ? 1.7bn. ' The Telegraph

Londoners are losing an astounding 1.68 million working days as a result of alcohol-related absence. 'The Telegraph' microcosmically displays how the issue prevails all around us as a society. It's clear from numerous sources including 'Alcohol Concern' describing the 'epidemic' proportions of the problem. Mark P. Taylor describes Economics as 'The Study of how society manages its scarce resources' (2006, p. 5). The issue is clearly rooted within individual decision making as well as analysing how society is allocating its limited resources.

The 3 major issues below exemplify the 3 main causes of the market failure. Information: Failure to provide good information (a public good) is a major cause of market failure and brings about the consequences of drinking alcohol hence reducing the efficiency of the market. Evidence suggests that advertising has strong detrimental effect on consumption, particularly for youth. (Saffer and Dave, 2003). The development of Markets promoting alcohol consumption benefits the industry groups however no such private incentives provide information that presents the negative consequences of consumption.

<https://assignbuster.com/can-government-intervention-be-effective-in-correcting-market-failures-associated-with-alcohol-assignment/>

Self-control issues: '1. 2 million incidents of violence are alcohol-related' (The Times, 2007) and 360, 000 incidents of domestic violence (Simmons, BBC. co. uk), perpetrated show lack of control. Intervention is happening, a four-year government review into the nation's alcohol culture found a system that encourages people to consume until they collapse incurring costs such as health on society as a whole, so the goods and services provided by the market are not in our best interests costing our society its efficiency.

Externalities: Alcohol (a De-Merit Good and not in societies best interests) creates private costs for individuals and more general social costs, for example behaviour by those intoxicated in the broader community.

Exemplifying the issue is the NHS and the medical costs incurred by alcohol consumption, which are not borne only privately by the individual. Above-average medical costs will be met partly from public funding. For this reason alone there should be a public interest in restricting use of alcohol. Decision makers do not take into account the cost imposed on society and others as a result of their decision

So the data has been highlighted and the issue displayed, it is now time to utilise models and concepts to try to ultimately answer my question. Alcohol has costs, these consist of marginal private costs (the cost that the individual incurs on themselves) when purchasing Alcohol i. e. money or time etc as well as fixed costs like transport costs to venue, also the opportunity cost of all the resources used up by those costs. The other costs include external marginal costs; these might include time off work, health costs etc.

Both costs added together produce a marginal social cost, the cost to society as a whole incurred by alcohol usage: Private Marginal Costs (PMC) + External Marginal Costs (EMC) = Social Marginal Cost (SMC) Given the 'market-failure' reasons for seeking to restrict alcohol consumption what are the governmental policy options for regulating alcohol use? Information: I propose the government should correct market failure, providing accurate information about the negative consequences of consuming alcohol and to restrict advertising that emphasizes the inaccurately optimistic positive consequences of consumption.

If people were to see warning labels on bottles and messages displaying safe limits we would move vital steps towards 'perfect knowledge' (P. Anderson & B. Braumberg, 2006). Informing the public as to how they affect society rather than consuming to maximize ones own welfare. Improving the government's knowledge through media watchdogs like Ofcom will create a more efficient grasp of the market. Self-control policies: The lack of restraint requires interventionist restrains, rules limiting the number of 'standard drinks' one consumes per week could be utilised.

The government could curtail availability by limiting alcohol outlets, restricting trading hours etc. Such policies also increase the non-price user costs of consuming alcohol. Blears said it was time for the alcohol industry to clean itself up and stop indulging in 'irresponsible promotions' such as 'drink all you can for ? 10' and 'happy hours' which make people less capable of making rational decisions (2006). Externalities: As an Economist focus on negative externalities is the primary source of social costs in relation to Alcohol abuse.

<https://assignbuster.com/can-government-intervention-be-effective-in-correcting-market-failures-associated-with-alcohol-assignment/>

A standard governmental intervention is to introduce fiscal policies in a way that internalizes these external costs. Building on article the fiscal theory is displayed in the graph below: The market demand for alcohol q is displayed along with the PMC of consuming differing units of alcohol. The demand curve measures the marginal benefits from alcohol consumption for alcohol consumers. The PMC curve $c(q)$ includes the private costs, the costs the alcohol purchased etc. The SMC of consumption are also illustrated. These comprise both PMCs borne by consumers and the external social costs generated including the health costs borne by others etc.

Theoretically with a free market operating, consumers will consume to the point where their private marginal benefits equal their PMCs ??? they operate at q_2 and pay price p_2 for their consumption. Because social costs exceed marginal benefits over the range q_1 to q_2 consumption this imposes net social costs to the community from drinking equal to the value of the area ABC. Intervention would remove cost by taxation henceforth raising the price of alcohol consumption to p_1 and leave alcohol consumption where marginal private benefits equal marginal social costs.

The size of this tax depends on assessing the scale of the unpaid social costs and how these are linked to consumption at the margin. It also depends on the elasticity of demand of consuming alcohol ??? ' the more responsive demand is to the tax the smaller the tax can be' Selvanathan (2004) As I begin to conclude, I propose that if the social costs are related to the alcohol content of drinks, volumetric tax related to the alcohol content of particular drinks could be used. For example a lower rate tax for weak lagers etc that imposes less of a cost on society than say ull-alcohol-strength beer in accord <https://assignbuster.com/can-government-intervention-be-effective-in-correcting-market-failures-associated-with-alcohol-assignment/>

with volumetric principles (like Australian system). Governments recognize that alcohol consumption benefits consumers indicated by the area under the demand curve. This is simplistic and people drink for many different reasons but it does allow the situation to be assessed. ' If alcohol-related externalities are related to the overall level of a population's alcohol consumption then a simple uniform tax policies make sense Young' (1998, p. 115). The approach used focuses on the external costs of consuming alcohol not gross costs.

I recognize that alcohol provides benefits to consumers and that these costs of consuming alcohol are only borne by consumers themselves and to them irrelevant from the viewpoint of society. I propose the utilitarian precept ' that alcohol consumers should bear the full costs of their consumption' (L. Cameron & J. Williams, p77, 2001) and, given this; society should seek to maximize net social benefits from consumption. The tax may not take an immediate effect, in the short term; demand for alcohol is normally price inelastic due to lack of substitutes.

In the long run, it should prevent people from starting to abuse alcohol, clearly another problematic issue is the drawing up interventionist schemes in this section, government economists can identify the failure and suggest solutions but ultimately they would allocate this power to behavioural specialists. Improvement on the current information deficit through focused campaigns (TV, School education, labels etc) provide the public ' with an increased understanding of alcohol pricing that can force the price of alcohol towards its full social cost' (Godrey, 2004).

People see healthcare as a largely invisible cost, correcting this is one example forwarding the concept. All three segments are interdependent; 'Externalities' like drink-driving induced accidents cannot be dealt with by a simple tax directed toward alcohol consumption since the externality here stems from the combined activities of drinking and driving. Driving needs to be penalized by fines and penalties and awareness improved through campaigns rather than fiscal policy. 'Can government intervention be effective in correcting market failures associated with alcohol? I would say yes, but simply I believe as well as 'Information' and 'Self-protection' policies, a new tax-inclusive price would promote a level of alcohol consumption that maximizes the net social advantage. Correctly taxing the value of the benefits consumers derive from alcohol consumption will put it in tune with the costs consumers impose. Finally, although it does not fit into 'market failure' as reason for intervention, moral arguments against excessive drinking are something I have neglected but ultimately still support the schemes. In societies eyes, political motivations are just as important.

Any government that puts up tax on alcohol will be unpopular and to me this is the single greatest issue against the theory. Word Count: 1480

Bibliography Anderson. A & Braumberg. B (2006) 'Alcohol in Europe: A Public Health Perspective, Institute of Alcohol Studies for the European Commission. ' Downloaded from http://ec.europa.eu/health-eu/news_alcoholineurope_en.htm. Blears, H(2004). 'Press Release' on 20 May 2004. Downloaded from http://press.homeoffice.gov.uk/press-releases/Ministers_And_Industry_Join_Forc?version=1 Clarke. H

<https://assignbuster.com/can-government-intervention-be-effective-in-correcting-market-failures-associated-with-alcohol-assignment/>

(2005) 'Alcoholism', La Trobe University. nd January 2004 downloaded from <http://www.latroben.edu.uk/business/profiles/clarke> Etherington, I, Smith, C, Smith (2006). 'Market Failure' in AS & A2 Economics, pp. 56-57. Essex: Pearson Education. Godfrey, C (2004). 'The Financial Costs and Benefits of Alcohol', Paper presented to the European Alcohol Policy Conference: Bridging the Gap, Warsaw 16-19 June 2004. Downloaded from <http://www.eurocare.org/btg/conf0604/papers/godfrey.pdf> Rose, D, (2007) 'Higher drinking tax.' Article in 'The Times', 13/11/07, pp. 8. Rose, D, (2004) 'Effects of alcohol. Article in 'The Times', 25/09/01, pp. 16. 4 Saffer and Dave (2003) 'Advertising and Price Effects on Adolescent Drinking.' Downloaded from <http://www.nber.org/digest/nov03/w9676.html> Simmons, p (2006), 'Campaigners want alcohol tax rise' BBC science 27th November 2006. Downloaded from <http://news.bbc.co.uk/1/hi/health/7090864.stm> Selvanathan, A (1998) The Demand For Alcohol, Tobacco And Marijuana: International Evidence' ??? pp. 332 (2nd Edition republished , 2005). 'Technology publishing'. Taylor, M (2006) 'Ten principles of Economics' in Economics, pp. 5. London: Thompson Publishing.