

Macroeconomics waste in economic terms article review

[Business](#), [Marketing](#)



Governmental support is essential for developing projects that have a significant social impact but are not attractive enough for private businesses. Unfortunately, very often such projects bring little benefit to the people in need, while putting a burden on taxpayers. The “Wastebook” by Tom Coburn describes 100 different items in the Federal budget that add little value for the nation but contribute to the already significant taxes and country debt.

Although nearly all projects described in the “Wastebook” make little economic sense, some of them can actually harm the economy. Kachemak Voyager ferry that runs between the two small towns, Seldovia and Homer, is one of such projects. The money from the federal budget were given to the ferry operators to improve regional transportation, however the ferry is currently used for sightseeing purposes only. These subsidies lower Kachemak’s operating costs, thus allowing the ferry to offer prices below those of the competitors. Such policy makes it impossible for other ferry operators to match the Kachemak’s offer, therefore they may have to leave the market in the future if the situation remains unchanged. In this case governmental support does not help the local economy, but cripples it by supporting a less efficient ferry operator and financing unfair price competition.

The Lifeline program initiated by the Federal Communications Commission (FCC) also heavily contributes to the development of market inefficiencies. People, who are entitled to a free or a reduced-price service, tend to consume more of it, than they would have actually demanded if they had to pay its full price, as the law of supply and demand suggests. As mobile

operators do not lower prices for their service, the money to cover the gap between supply and demand prices is taken from the FCC budget. Thus, even though Lifeline aims to provide access to telecommunications to all Americans, the current structure of the program leads to excessive spending on cell phones and brings significant revenues to the mobile operators that are the main beneficiary of the Lifeline.

The “ Prom Week” video game developed by the National Science Foundation (NSF) is another example of the market distortion created by the governmental funding. The small number of “ Likes” on a dedicated Facebook page clearly shows that the game is not wanted by consumer. However, NSF continued to develop it without considering the potential market reaction, since they do not have to bear the full cost of poor market analysis.

References

Mankiw, G. (2012). Principles of Economics. (6th ed.). Mason, OH: South-Western Cengage Learning.