

There are some economists who would claim that smoking is a perfect example of market failure. The definition of market failure is very simple; it is when the market mechanism fails to allocate resources efficiently in one or more of the following four fronts: Social Efficiency; Allocative Efficiency; Technical Efficiency; Productive Efficiency.

Smoking is an example of market failure because it fails to allocate resources in a socially efficient way. When someone buys a pack of cigarettes they do not take into consideration the effects of other people's health because of second hand smoke or the fact that they are taking up valuable resources from the national health services when the majority of people who smoke for a long time end up needing medical major medical help, which is paid for by the taxes of the society that the smoker lives in. This shows that eth resources are not put in a socially efficient way and so we see this as an example of market failure.

There are several sides to the argument on whether or not the government should increase the taxation on cigarettes. Firstly, the government says that smoking is very dangerous to your health with around 120,000 people dying a year from smoking and that is just in the UK. The government say that in this new and enlightened and educated era in history the general public do know the damage that cigarettes to their health and now the health warnings on the pack do also add to this knowledge.

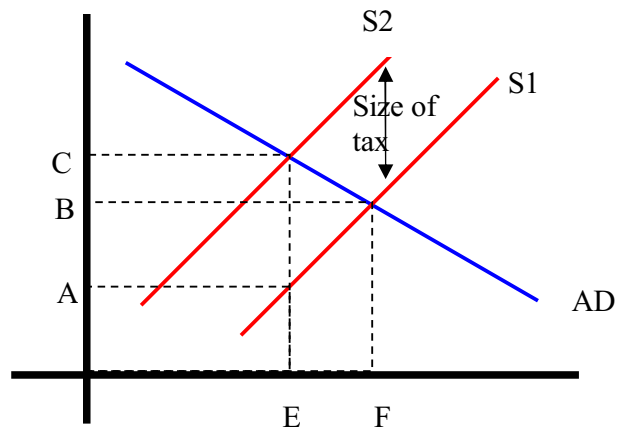
When smokers get ill from smoking, be it cancer emphysema or any number of other smoking related illnesses, they want to be treated by doctors on the National health. The amount of money per year spent by the NHS on treating smokers reaches hundreds of millions of pounds per year. This money has to come from somewhere and the government say that if people are knowingly partaking in something that they know probably causes them to need medical treatment then they should pay for this treatment through tax.

The government also say that it is their duty to safe guard the population. And although unable to ban smoking straight up because of the outrage this will cause they are able, they say to create a major deterrent against taking up this health destroying habit. The government has made smoking a very expensive hobby and so they are creating a reason, other than the detrimental effect of smoking to one's health, to no smoke. The various points of evidence do actually point to this being a successful plan of action because since the tax levels on smoking have been increase the consumption of cigarettes has in fact decreased by almost ten billion cigarettes per year in the UK in the last ten years.

The problem with this argument is that the studies actually show that cigarettes are very price inelastic. This is mainly due to the addictive nature of tobacco and because of the lack of any actual substitute goods. Because

of these factors we see that an increase of price will only reduce the consumption of tobacco products marginally and so this shows to be not a very good deterrent. This also leads to smokers feeling that the government is holding their addiction to ransom. Knowing that they are physically incapable of giving up they are forced to buy cigarettes and feel that the government is exploiting their weaknesses.

By creating a high tax the government are able to force the public, and the manufacturers to pay for their habit and the drain that they cause on the economy. This is shown in this diagram:



Here we see that because of the tax there is a shift to the left of the supply curve from S1 to S2. because of this we see that the price of on unit of product is significantly increased from level A to level C. the manufacturer pays the tax from level A to level B and it is the consumer who has to now pay the extra tax from level B to level C meaning that the total cost is increased by AC with the manufacturer baring the main brunt of this increase.

In a lot of cases the interference of the government through taxation is a good idea when trying to correct market failure. This is because by taxing goods the government can decrease demand of the good and this a very good thing if the good in question has various negative externalities. We see that a government intervention may seek to correct for any distortion created by the various factors of a failing market. t for the distortions created by market failure and to improve the efficiency in the way that markets operate

One of the many examples of market failure is pollution from cars and factories. This pollution causes severe natural and social damage that is not accounted for in the cost. Here the pollution is a negative externality and so we see the government taxing factories and petrol to correct for these externalities.

It is this sort of manipulation of markets through fiscal policy that the government imposes on tobacco products and alcohol. We see that alcohol

abuse and long term smoking causes damage to the body and so the individual who is smoking or drinking has a negative effect on the society that he lives in. because of this the imbalance has to be corrected through higher prices of the good going to help the economy. This is intervening taxation and I believe that in most market failure example where the market failure is caused by negative externalities, government intervention with taxation is a good thing.