

## How Governments Intervene

In this assignment I am going to find how the government intervene within the economic and social sectors of the market. I will be doing this to find out if we are benefiting from this and also if the sectors of the market benefiting are from this as well.

I am going to do this by looking at data which we have looked at in class and comparing this to find out the good parts and the bad parts from the government intervening in the market. Intervention is when the government intervenes in a market because it has failed. Intervention happens when the market becomes a failure and there is no longer a use for it, market failure happens because;

- Market fails to provide public goods.
- The market also fails when there is some degree of monopoly power.
- And the market fails when costs of production do not reflect the true costs of society.

So the governments will intervene to provide public and merit goods when the market fails to meet society's objectives. The objective of the government is to intervene when the private sector can't satisfy a market so the government must intervene to be able to make this happen; there are a variety of ways in which this can be achieved. By state provision, Subsidies, and benefits.

### State Provision

This generally means that goods or services are free to those who want or need them. This is certainly the most direct way of knowing that the needs of the people are met. It allows free access to education and health care for everyone. It is expensive as people who could provide for themselves are able to claim. The National Health Service is then a case in point. Quality issues arise because comparisons are made with the services provided within the private sector, this will then cause a public debate about the nature of such provision and this does not look good for the government.

### Subsidies

These are there to meet some of the costs of the provision and therefore reduce the price to the recipient. Sometimes there are various classes of customer who receive a product or a service free or at a cheaper price, while others pay something which contributes to or meets the same as the full price. By subsidising the product, the price of the item is reduced and there the price of consumption can be raised. If this is done the resources can be targeted at those who are going to need them the most.

### Benefits

These are usually a form of financial support for those who have a particular need or needs. These include the unemployment, which is the low paid as well as the sick or unable to work. Most of these benefits are now means tested, so that the amount paid out to the person is related to the resources owned by the individual. These are therefore

selective which will reduce the level of expenditure required from the state. As the opportunity cost is high, this then frees limited resources so then there are more available for those who need them most or for use in other areas of the market.

So two of these are helping to help the failed market, state provision does this by using equity, subsidies help by increasing the amount of a product sold this is therefore increasing consumption, and with the benefits is not helping at all if anything it is making the problem worse.

So the uses of these ways are designed to balance the effect of the failed market. If it is considered important that everyone receives state provision, then it is generally provided free at the point of the consumer. Meaning that the provision of education and much health care.

The external effects of under consumption are that we have an economy which has people who lack education and treatment for illness which will be much less productive. With all of these there good points and bad points, out of the three ways that the government intervene two of them are good and one of them is bad.

State provision is a good thing that they are doing this, because if the market continues to fail and education + health care is not provided then the market will stay bad and there will be a lack of educated people which may be able to meet the societies needs. Also the people that may be the few educated people could get sick and with bad health care they could not recover and help to mend the market. So it is a good thing that the government are intervening in this way.

Subsidies are also a good thing because the government give money to the producers; this will then encourage the worker to work harder to get more money and by doing this it will make them have an increase in output and also an increase in consumption.

Benefits I think are a bad thing and the government should not intervene in this way. Because by intervening in this way they are giving benefits to the unemployed, ill and people who can not afford the housing rates. By giving benefits to these people you are encouraging them not to work and giving them houses. These people will just sit at home which will be paid for them, and live off the benefits for the rest of there lives, most of these people are drug addicts and will just send all of there money on them so then the government will have a drug problem and much more beggars. This is not helping the economy what so ever.

### **What has the government intervened in?**

One thing that the government has intervened in is British Telecom (BT). They provide a service called 192 and what this does is gives you the number of a certain person that you want to get in touch with. Seen that they were the only people to do this they can charge whatever price that they want to. So they are earning whatever they want because people have no choice to where else they can get the number. By saying that there is only on of these this means that they are a monopoly (there is only one of something) and there is no competition for them. So what happens is that the company's service

keeps growing and growing. When this starts to happen the government start to get worried and then they decide to intervene. They do this because the company could become more powerful than the government, so the government decide to intervene so that they can open the market to lots of other companies who want to do the same thing. Now that the government has opened the market more people can do the same thing, BT start to lose lots of money because these new companies have a much cheaper price and then people go to them. So now that BT have competition they bring there price down in order to compete, but they are now losing money because they can not charge as much as they want to. So what the government has done is move BT from a Monopoly to what is called perfect competition and this is where there are more than one company selling the same product or service. This has now made BT much weaker which is what the government wants because they don't want any normal business to become much more powerful than them. Other companies that have now opened which are 11 88 88, 118 118, these services now only charge 25p for the service and BT's 192 charged 49p so now they have to change there image and there reputation to compete. So what they have done is changed there price down to 25p so that they can now compete with the others and have changed there number to 118 500. They have changed there number because if they kept there old number then people would not think of a service which costs a lot of money. So by changing the number of the service and now people think of a cheap service and now they will have a different reputation with a different number, by doing this they are now not losing as much money if they had not changed.

### **Conclusion**

The government have three different ways in which they intervene to try and help the market which has failed, these way are state prevision, subsidies and also benefits. By using these they are hoping to try and make the market work again, which two of them are working and this is helping the problem, these are state prevision and the subsidies. But the benefits are slowing things down if anything, and are not going to solve the problem. All that these are doing are encouraging people not to work and just sit at home. The government should stop this if they want to stop the problem and do what is best for the economy. But by intervening in the BT situation they are doing the right thing because they should not be more powerful than the government.