Micro economics environment
Government intervention

Before we go on to look at the monopoly, privations and the location of industry in spefic areas we have to consider that why do the government intervene. Ecominist identify many reason why its necessary for the government to intervene in economic activity. There are nationalised industries such as the post office. There is the public service were defence, law and order, education, banks and social security. To be honest any company that can have the government have the power to investigate any industry. They can do it for monopoly so the company has the power or they can legalise it, which control the company for example the water company. So the range of control that the government can vary from 100% to very little they do have the power to do what they want so that will affect all company's.

Why do the government intervene

The existence of imperfect markets

None or little competition
Monopoly- no competition

This is when generally one company takes up the whole market power

The existence of externalities

This is when one person or company action leads to the cost falling on other groups without there being any compensation paid bit there is been a social cost been generated from it.

The view that the consumption of certain products/services is bad for a social point of view.

This when the government will come in and say what they are allowed to use and banning certain goods or services e.g. certain drugs.

To provide merit goods

The government may produce a service that a public sector may not provide such as a school.

To provide public goods

These good would be provided by the private sector because they would find that many people, even if they benefited from the product they would refuse to pay for them. E.g. the health services law and order.

For purpose of strategic spending

Certain industries e.g. nuclear energy or naval dockyards may be considered to be too important to be left under private control. This was a post war argument for nationalist of basic industries. But today you do find that some are in the hands of the private sector.

Large scale investment

Production that requires massive investment with little or no returns would not new undertaken by the private sector.

The question of equity

Because the private sector has its aim of profit maximisation it is felt that fairness may be ignored therefore the government intervene e.g. monopoly

There is also reason for them not to intervene such as there are two main government parties, the labour party and then there is the conservative's party.

The labour party will practise intervention in the economy if there is

Macro econominics terms
The regulation of industry
The provision of public merit goods. (Those products or service, which are not, disturbed through the price system but on the basis of merit or need EG health and safety)

The conservatives were the one in charge they would have little to do with intervention believing that,

The economy is self-regulating
Industry would be less efficient if heavily controlled, egg nationalised industries
The public should have greater choice in how it's spend it money on the public and merit goods.

Monopoly

Monopoly is when a company or a group of companies has all the market power in different ways. They may charge excessive prices or reductions in the levels of service offered. In turn this restrict entry to get into the market. The legal definition of this that is split in to two characters,

A scale monopoly is where at least one company or person supplies 25 per cent or more.

A complex monopoly is where a group of companies have altogether 25 per cent and they all act in the same way.

Monopoly today is due to company's mergers together to form one big group. This is when the trading standards will come in and will have two test on them to see if this will be fair on the others companies.

As for example in the 80's the British Gas had no competitors at all until the government allowed the introduction of competitors.

The asset test- this is the total gross asset of the company to be taken over exceeds £70 million in value.

The market share test- that as a result of the merger 25 per cent or more of the supply or purchase of goods or service of a particular description in the uk or a substantial part of its comes under the control of the merger enterprise, or a 25 per cent share increase.

Passing one of the tests will pass you for a merger as long you are based in the UK or owned by a UK company. But not the government has ways of dealing with them. The government can ban them altogether also it could take them over and use them for the public interest or last regulate them when the government give them laws so they do not act against the public.

The overall responsibility for competion policy is in the hands of the secretary of state of trade and industry. The director general (head of the office of fair trading) acts very much as a watchdog, he also maintains the register of restrictive trading agreements.

The legal systems is made of

The fair trading act 1973 deals with mergers and monopolies.

The restrictive trade practise act 1976 is concerned with agreements between persons or companies that could limit their freedom to operate independently.

The resale price act 1976 covers attempts to impose minimum prices at which goods can be resold.

The competion act 1980 deals with anti competitive practise.

The competition act 1998 reforms and strengthens previous UK law.

The effectives of this is the government's restrictive practice policies is that certain points have to be proven in order to demonstrate that an agreement or policy is in the public's best interests. If the practise is found no to be in favour of the public the government will move in.

Privatisation

The government policy of selling/ transferring ownership of public services and other state assets to private sector. For example British telecom or the railway system.

Why would the government intervene is that for a various of reason is that a company that they run is under competition and so letting it be privatised its letting it be open to the market. the other reason why the government might want to sell off some of there business is that they need to reduce the psbr. By doing this they will be reducing the amount the borrow and will all so making a profit. Examples of this are the deregulation of the bus services and broadcasting services. Another type of policy is a Marketisation or Commercialisation, which is the increased provision of services previously undertaken in the non-market sector of the economy e.g. efficiency and competition, where a good example of this is the NHS with the internal market or the incorporation of local authority colleges.
There are other arguments.

There are arguments for and against

For

Increased competition and efficiency

Expose industries to the forces of the free market thus they face compition which the forces them to become efficient. Profit would become the main motive so it would be driven to keep its costs and prices to a minimum and produce high quality goods and service so as to compete effectively.

Less government interference

A problem in the past is that the government took to long to come to decision and so with it being privatised s the decision will come quicker.

Increased government revenues and reduced borrowing in the PSBR

The public sector borrowing requirements (PSBR) is the overdraft of the public sector. The sale of nationalised assets not only to raise money for the government but also reducing borrowing.

Promote shareholdings

Linked to the culture of enterprise where we all become a nation of property owners.

Increased choice to consumer

Under government control consumer has no choice, as they are the sole supplier of the service e.g. the post office. If a service is privatised the consumer would choose which producer to purchase from e.g. British telecom.

Against

Private monopolies for public monopolies

In the case of the privatisation of British Telecom and British Gas it is suggested that the government have virtually created private monopolies (single suppliers) from public monopolies which the government had direct control over.

Reduction in standards

The desire to make profits may outweigh such factors as health and safety standars eg private coach operators may not maintain their coaches as they should and there are already instances of health authorities having to get rid of private contractors who did not clean hospitals properly.

Reduction in the levels of services

Many unecomic services within an industry or parts of an industry may be disposed of or terminated if they are found to contribute nothing to profits or even lead to losses eg rural telephone and transport services, off peak transport services.

Simply to finance a “binge”

A cynical view of recent events and predicted events is that the government is simply using the privatisation issue as an excuse to raise funds to finance tax cuts and government spending
The gains are once and for all gains and thereafter in private hands the profits will go to the shareholders and not as they would have done into the states coffers.

Unemployment

This will worsen as that part of the labour force previously providing the uneconomic services is shed, many argue that a balance sheet mentality disguises other costs when people are made unemployed eg redundancy payments, less income tax, less VAT as people spend less, less in NI Contributions, more in state benefits.
Because a private concern is unlikely to take such a wide view the government may become worse off as it pays the bill of incresed efficiency.

Sale of the century

A specific criticism of the current privatisation/denationalisation programme is that the receipts is that the receipts from the sales have been much lower than they need have been, share have been well oversubscribed and shares prices have risen sharply after trading began on the stock exchange

The Effectiveness of these policies

The effectiveness of these policies has been successful to some extent such as the encouragement of import competition for those goods which are traded internationally. Other marketisations or commercialisation, which have not been so successful can be seen in the example of the effectiveness of the NHS. With this by letting a company go they in turn may be making the business a better place. They may get more money in befor and will be able to create more jobs.

Region policy

Region policy is when the government try's its best to eradicate the unemployment; they use two ways of doing this.

<u>Take the work to the workers</u> incentives provided to encourage firms to locate in areas of high unemployment eg subsidies/grants, expenditure on infrastructure,and

<u>Take the workers to the work</u> incentives provided to encourage workers to move from areas of high unemployment to areas of low unemployment eg retraining facilities, local amenities, available housing etc.

The way region policy was there as in the 1970 and 1980 there was high unemployment's so the government came up with the idea of giving companies a firm grant locate there business in a certain area were there is low employment. So if a company created new jobs in a delevpoment area the would receive more than a company then one that did it.

So why will the government intervene when there has been a long run in the employment stages and areas are in decline in a particular industry. An example of this was once Glasgow and Belfast where there were thriving industries for ship-building, the requirements of which could not be accommodated by the local availability of employees. The government would need to intervene to source the skilled labour from another region where there were high levels of unemployment.

There is always disadvantages to what you do and is this case the government will be creating something called a brain dead. This is when a place is edricated of the all the smart jobs and in return may cause a ghost town due to be people moving away. For example this happened in Dundee.

Effectiveness of these policies

The purpose of the regional policy is to create long term employment for employees however this is not all effective. the company that will want to do business will be giving grants to encourage them to come to that area, there are normally two. With grants available for employers it is an incentive for regional policy. One grant that is available is the regional development grant (RDG) which is where a firm becomes eligible for a grant if it creates a new job in the development area the other is a regional selective assistance (RSA) and this is available to firms or organizations which create jobs in the development area, however this type of grant is discretionary. The benefits of both of these types of grant are that it has positive effects for the unemployed to gain employment and for the organizations to additional employees. Also other method I forgot to mention befor is the European Estructural Funds which are European Union's main instruments for supporting social and economic restructuring across the Union; for example the UK's allocation from the Estructural Funds for 2000 – 2006 is over £10 billion

MICRO ECONOMICS

OUTCOME 3

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