Journal of Global Economics

Egbo, J Glob Econ 2018, 7:1
DOI: 10.4172/2375-4389.1000324

Mini Review Open Access

The Market and Government Regulation: The Need for Appropriate Balance for Sustainability

Munonyedi Kelvin Egbo*

Department of Mechanical Engineering, Faculty of Engineering, University of Nigeria, Nigeria

***Corresponding author:** Munonyedi Kelvin Egbo, Department of Mechanical Engineering, Faculty of Engineering, University of Nigeria, Nigeria, Tel: +2348036625848; E-mail: munonyedi.egbo@unn.edu.ng

Received date: Aug 28, 2018; **Accepted date:** Dec 18, 2018; **Published date:** Dec 24, 2018

Abstract

This study critically reviews the concept of market economy and government regulations. The ideas of the free market economy and the government regulated market economy are discussed, and the disparities between these two markets are presented based on the popular phrase 'the invisible hand' which Adam Smith used to describe the forces facilitate the equilibrium between the demand and supply side of a free market. There are pros and cons associated with both market economy, and in a world so obsessed with sustainable development, these pros and cons need to be established to pave way for economists suggest suitable trade-offs.

Keywords: Sustainability; Governmental; Environment; Market economy

Introduction

There are basically two types of economic systems; market economy and planned economy. The former been an economy in which decisions relating to production and distribution of goods and services, as well as the investment of scarce resources are determined by market forces. Market forces are driven by economic incentives and profit motives [1]. However, it has been observed that market economy does not exist on a free-market basis due to a varying degree of the oversight of government regulation in its operation. The question now is to what degree does the government need to regulate this market.

The concept 'Sustainability' is used extensively in the issue surrounding market and government regulations and is open to a wide range of interpretations, therefore a brief definition would be helpful to convey intended meanings, and to avoid misconceptions and contradictions throughout the course of this work.

Sustainability

Sustainability or sustainable development, although widely and often used, has numerous meanings. This concept emerged as efforts were been made to analyse the socio-economic effects on the environment. The World Commission on Environment and Development's (the Brundtland Commission) report Our Common Future, published in 1987, defined Sustainable development as the "development that meets the needs of the present without compromising the ability of the future generations to meet their own needs". This publication was responsible for bringing the ideas of development and environmental economics to light. It did present the new and urgent environmental concerns of which climate change was at the forefront, and the role of economic growth and development, especially in developing countries. In recent years, this concept of sustainability has also been incorporated into the economic and social spheres [2]. It has been embraced by diverse governmental and nongovernmental organisations as a new model for development [3].

Several individuals, including economists and markets analysts, often question the role of government policies and regulations on markets. This has brought about various studies, inquiries, observations, and research on the behaviour of different market economies; some of which are regarded as operating on 'free-market' basis while others are under strict government regulation. To be fair, considerable efforts have been made. The relevant economic literature on government regulation has provided theoretically and empirically substantial contributions and evidence to help with better understanding of the nature of government regulation in market economies [4].

Advocates of Unregulated free Market Economy

Proponents of the unrestricted market economy have pointed out that strict government regulation weakens property rights, supersedes already existing institutions and standards, and at the same time undermines choices [5]. They argued that solving one market problem, such as externality eruptions, through government restrictive interventions only creates new ones and as such seen as no reason at all to embrace the implementation of these regulatory policies. Arguments have also been directed towards government use of the financial restriction on the market in raising taxes. Allowing the market to bear social costs (externalities) through government established policies would have some severe consequences on the social welfare of the public as well as a damaging effect on the entire economy as industries that make up this market would struggle to comply with the established standards. This may eventually put parts of the market out of business, resulting in insufficient supply that would meet the market demand for certain goods and services; hence higher prices for the available ones. This is the case for the regulated taxicab market where government restriction on the prices of the medallion would result in a decrease in the numbers of taxies which would invariably drive up the taxi fares [4].

Citation: Egbo MK (2018) The Market and Government Regulation: The Need for Appropriate Balance for Sustainability. J Glob Econ 7: 324. doi:10.4172/2375-4389.1000324

Government restriction of the market is usually adopted for the so-called 'social good' but sometimes does take an eddy effect of favouring the restricted industry instead; as with the case taxi fares increase. However, in most cases, the market often bears the costs of trying to comply with these regulatory policies. The energy market is an example of such markets where efforts have been made to persuade the complete removal of government involvement. Nuclear energy, for instance, which has been under government influence from day one, has experienced heavy price distortions because of the policies that were put in place [6]. Levendis et al., suggested that government should allow innovation in the market driven by research and development to solve the problems associated with nuclear power programmes instead of enforcing strict regulatory schemes that would negate the possibilities of wealth creation and economic growth; stating that 'greater social good' is not enough for irrational 'monopoly' schemes.

In general, advocates of unregulated market believe that the system facilitates socio-economic progress, political freedom, and transparency. They believe that strict government regulation is often misjudged as the only solution to imperfect markets [7].

Advocates of Regulated Market Economy

Institutions have been described by some as the major contributor to today's 'functioning' economy [8]. These advocates of the regulated market economy have reached a consensus concerning government roles in a market. These roles were categorised based on their specific functions and included the provision of a legal system and public goods, correction of market failures, facilitation and maintenance of competition, redistribution of income, et cetera. Gilmore et al. [9] who conducted a research on government regulation of the tobacco market (cigarette to be specific) listed information failure, externalities, provision of public goods, and market power as some of the problems with the current tobacco market and their pricing system. They argued that the lack of competition in the tobacco industry is due to monopoly in the market. Their suggestion was to set up a regulatory policy where the regulatory agency controls the prices instead of the firm. Potential benefits associated with effective regulation of the tobacco markets include the elimination of youth marketing and smuggling of cigarettes; with the accompanying public health benefit [9]. In terms of environmental protection, emission diminution by various market economies is crucial to enable the success of international mitigation efforts [10]. Proponents of a regulation have pointed out that this can only be achieved through provision and implementation of strict regulatory policies on the industries and markets responsible for these emissions, and to seek their compliance.

In general, advocates of the regulated free market economy are on the basis that unregulated market is 'bad news' for the economy, the environment, and the social welfare of the public.

The Appropriate Balance: Flexible, Effective and Efficient Government Regulation of the free Market Economy

Based on conducted studies relating market, government regulation, and sustainability, economists and researchers believe that careful analyses and considerations should be made on issues of regulating market economies. Research has shown that strict government regulation of the market such as internalization of externalities would have devastating social, economic, and in some cases, environmental consequences. The case is the same when the market is allowed to operate without any restrictive regulation. It is believable that free market does not contribute wealth to the economy nor profit to the investors unless through fraud and coercion. Therefore, market sustainability is dependent on 'effective' and 'efficient' government regulation. This is to say that government regulation of the market should take the form of "interventions" that correct market failures, protect the social and employees' interests, and more importantly monitor the effect the market activities have on the environment.

Crispin and Primitive [11] investigated the sustainability of the FX type of a para-transit service which emerged in the early 90's in the major cities of the Philippines. Their research shows that imposing strict regulations that would see an undesirable reduction in the fare prices and the number of allowable passengers would put the operators in a serious financial situation and in worst cases would put them out of business. Studies have shown that most government policies are implemented without proper assessments of their long-term sustainability. These are usually caused by political pressures. This myopic approach in policy making and implementation is one of the biggest failures encountered when market regulatory responsibility is devolved to the government. In a macroeconomic context, investments in emerging economies are influenced by strict and rigid government regulations and policies such as security of property rights and business entry requirements; showing flexible administrative procedures are necessary to initiate business agreements that would bring positive and significant effects on the investments in an economy [8]. These inflexible government regulations create a hostile external economic environment for investors and as such slows down economic growth since these potential investors are forced to look elsewhere.

An alternative approach to direct government regulation would be to devolve the regulatory function to the market; popularly known as indirect market control. This has been proven more effective and enables the market to take more social, as well as environmental responsibility. This approach reduces the burden on the government in passing regulatory measures and in monitoring their compliance [1]. For instance, the popular kosher certification agency in the United States proved to be more reliable in providing inspection and monitoring activities of kosher foods [12]. These private regulatory bodies generate revenues, and this serves as an incentive to utilise their high degree of unlimited jurisdictional boundaries in expanding their organizations. This is also good for the economy as the government can generate revenues through direct taxation of these regulatory authorities.

There are situations where deployment of strict government regulations is necessary. The well-known fishery market is one of such examples. Research has shown that allowing an unregulated free market system to exist in the fishery market would not lead to sustainability. The popular Gordon Shaefer's fishery model has been used to show that strict government regulation of this market is imperative if it's continued existence and functioning in terms of availability, consumers demand satisfaction and economic viability is sought. The government can regulate this market through the introduction of the monopoly system. However, this system tends to favour the economic activities at the expense of the consumer welfare. Therefore, much productive, efficient, and effective flexible alternative regulatory policies are imperative. The identification and restriction of areas of intensive fishing activities, provision of fishing licences, modification of fishing technologies, and complete closure of regions with severe biomass depletion to facilitate recovery, have all been suggested [13]. There is also the issue of radioactive waste management which requires strict regulatory policies. Large nuclear power plants are predominantly government-owned due to their intensive capital expenditure requirements. However, there are privately owned small-scale commercial nuclear power stations around the world that generate high-level radioactive wastes which would have devastating ramifications if not properly disposed or stored. As radioactive waste management is capital intensive, and with the primary objectives of these plants being to maximize profit and increase shareholders value, proper measures might not be taken in the safe disposal of these hazardous materials. The government also should be aware and in control of the nuclear fuel market considering the possibilities of sabotage and proliferation by terrorists for the use in the production of weapons of mass destruction.

For the non-renewable resource markets, such as the oil/gas market, there are huge complications arising due to the inherent political, economic and environmental imbalance. The activities involved in the exploitation, refinement, and consumption of these resources have been the major contributor to atmospheric emissions. The impact of these emissions such as industrial effluents, petroleum wastes, gas flares, and the frequent oil spills in the environment is problematic. Since the activities surrounding these resources are for economic growth and development it is extremely difficult for the government to put restrictive laws in place as doing so would attract unwanted political pressures from the social and economic sector [14].

Conclusion

The 'invisible hand' operation of the free-market system is not always sufficient in providing sustainable consumer satisfaction and security, wealth distribution, enhanced social welfare in the form to the availability of public goods, economic growth and development, and environmental safety. The market, like any other system, is bound to require some form of boundary and maintenance to remain functional. This boundary is in the form of a set of regulatory policies that are set and implemented by the government, directly or indirectly through a devolved regulatory function to private authorities, to help keep the market on a sustainable basis. The level of regulation, however, should depend on the type of market. Some market requires flexible government regulatory involvement or interventions to complement the 'invisible hand' system and to correct the inherent market failures that often arise. Others, such as the fuel (nuclear and oil) market, energy market, and fish stock market, must remain under strict government control to accommodate the economic, social, and environmental dimensions. In order words, strict government regulation of the market should have specific areas of the market economy and time of deployment. The government can also devolve some of these regulatory responsibilities to the market/private authorities which have been found to be more efficient and less expensive.

The government should lead while the market follows; and at the same time, the market should be allowed to operate without hostility, with the government taking monitoring and intervention role.

References

1. Levendis J, Block W, Morrel J (2006) Nuclear Power. J Bus Ethics 67: 37-49.
2. Mangi SC, Kenny A, Readdy L, Posen P, Ribeiro-Santos A, et al. (2016) The economic implications of changing regulations for deep sea fishing under the European Common Fisheries Policy: UK case study. Sci Total Environ 562: 260-269.
3. Steve C (2015) When Does Regulation Distort Costs? Lessons from Fuel Procurement in US Electricity Generation. Am Econ Rev 105: 411-444.
4. Crispin D, Primitivo C (2005) Impacts of government regulation on the sustainability of paratransit services in the Philippines: case of FX services between Manila city and Quezon city. J East Asia Soc Transp Stud 6: 214-224.
5. O'Driscoll GP, Hoskins L (2006) The case for market-based regulation. Cato J 26: 469-487.
6. Korutaro B, Biekpe N (2013) Effect of business regulation on investment in emerging market economies. Rev Dev Financ 3: 41-50.
7. Gilmore AB, Branston JR, Sweanor D (2010) The case for OFSMOKE: how tobacco price regulation is needed to promote the health of markets, government revenue and the public. BMJ Journals 19: 423-430.
8. Ye G, Zhao J (2016) Environmental Regulation in a Mixed Economy. Environ Resource Econ 65: 273-295.
9. Tahmassebi CH (1992) Government role in achieving environmental goals. Energy Policy 20: 959-962.
10. Lytton TD (2013) Kosher Certification as a Model of Private Regulation. Regulation, 36: 24-27.
11. Çetin T, Yasin Eryigit K (2013) The economic effects of government regulation: Evidence from the New York taxicab market. Transp Policy 25: 169-177.
12. Dempsey N, Bramley G, Power S, Brown C (2011) The social dimension of sustainable development: Defining urban social sustainability. Sustain Dev 19: 289-300.
13. Lélé SM (1991) Sustainable development: A critical review. World Dev 19: 607-621.
14. Goodland R, Daly H, El Serafy S (1991) Environmentally sustainable development: Building on Brundtland. pp: 1-90.