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Balancing negative external influences on market

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THE objective of the market economy is to optimise the market outcome. The achievement of this objective may be difficult or problematic due to some factors including externalities and market imperfection. This is called market failure which is also a Government failure in other words. Production and consumption of goods and services and its impact is not limited to the entrepreneur or the center of production and consumption itself. My economic action may have some external effects which will affect the other in the society positively or negatively. Similarly, my consumption of some goods and services affect the other or a third party positively or negatively. For example, a smoker annoys the other with second hand smoke. A factory can pollute the air or water. These are called a negative externality, the cost of which is not estimated by the smoker or the factory owner. A garden delights a neighbour with his beautiful gardening for which the gardener is not paid. This is called positive externalities. Positive externalities will increase the total social benefit of our economic action taken privately. The negative externalities will increase the total social .cost of an economic action conducted by the private sector or the private individual.

The capitalism tends to over-produce the goods of negative externality and under-produce the goods with positive externality. Total social cost is equal to private cost plus external cost.

Negative externality will decrease the free market net output. Positive externalities will increase the free market net output. To minimize the negative externality market economy advocates to impose a tax on the producer.

The proponents of the economy of Flexism argue that over-taxation may discourage the producer or over-subsidy may be a burden on the Government's fiscal policy. As advocated by Flexism Theory the solution of the problem of negative externalities has to be the following: The taxation, subsidy, legal restriction and an increase of social awareness about the effect of negative externalities or a suitable combination of everything as towards the solution of the problem of negative externalities.

In Flexism, we would like to share the responsibilities by all parties in our way to minimise the effect of negative externality.

Externalities tend to an inefficient allocation of resources with under-or over estimation of production and consumption of goods and services, which can be minimised in the system of Flexism with close and scientific supervision.

The minimisation of negative externality and the maximisation of production of goods and services have to be made in balanced fashion so as to increase the total social benefit.

Sometimes a cultural restriction may also be very helpful to decrease the negative externalities. For example, you cannot smoke in front of the other. Positive externalities in production mean that social output is more than the privately estimated output. Positive externality also means that real social cost is less than the privately estimated cost per unit of output. If subsidized to a reasonably greater extent more of the goods and services with positive externalities can be produced in the system of the economy of Flexism. Externalities tend to an inefficient allocation of resources with under-or over estimation of production and consumption of goods and services, which can be minimised in the system of Flexism with close and scientific supervision.

The Theory of Flexism agrees with all other proponents to remedy the problem of externalities by private arrangement or by a public policy, which are the following:

1. Moral codes and social sanction.
2. Voluntary organisations:-Charitable groups and lobbing groups etc.
3. Internalisation:- When activities with complementary externalities are merged into one firm and thus eliminating the externality.
4. Contracts:-Parties through negotiation can agree as to how to regulate the externality.

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