Commentary 1

Title of the article: *Newcastle taxis oppose clean air congestion charge proposal*

Source of the article: BBC News
https://www.bbc.com/news/uk-england-tyne-46549582 (Accessed 15 December 2018)

Date the article was published: 13 December 2018

Date the commentary was written: 20 December 2018

Word count of the commentary: 800 words

Unit of the syllabus to which the article relates: Microeconomics

Key concept being used: Efficiency

Article

More than 1,000 people have backed a petition by taxi drivers to stop a clean air toll being imposed on Newcastle's roads.

The Newcastle Hackney Carriage Drivers Association fears the city council is considering imposing a charge of up to £12.50 to drive in the city centre.

The taxi drivers said the "injustice" would push prices up for motorists and commuters.

Newcastle City Council said no decision on a charging zone has been made.

Newcastle, Gateshead, and North Tyneside councils have until 31 December to put forward proposals to the government for tackling emissions in three hotspots - the Central Motorway between the Tyne Bridge and the Swan House roundabout, stretches of the A1 past Swalwell, Whickham and Blaydon, and the Coast Road near Wallsend.

Hackney Carriage driver John Hirst launched an online petition after receiving a letter from the council about options it is considering, according to the Local Democracy Reporting Service.

Mr Hirst said: "If you enter the city centre by vehicle we have been informed you will pay between £9 and £12.50 per day. Drivers who are already struggling to make a living in Newcastle will be expected to pay a further £350 per month.

"This cannot be justified and fares will increase."

He said buses would also be affected with increased costs being passed on to passengers.

Mr Hirst added that the taxi and private hire industry "cannot justify paying ridiculous amounts" to purchase new emission-free vehicles.

Arlene Ainsley, cabinet member for transport and air quality at Newcastle City Council, said: "At this stage we do not yet know whether we will need to introduce a charging clean air zone, how much it would be or which types of vehicles would be hit by the charges.

"We do know that Government does not expect a potential charge to be implemented before 2021."

She said drivers would continue to be informed.

Commentary

Governments throughout the world are taking measures to reduce air pollution. One of these measures is a “congestion charge” to reduce traffic congestion in urban areas. Currently, the Newcastle City Council is considering such a charge, but It appears as though this particular attempt to achieve allocative **efficiency** may be blocked. Opposition from taxi drivers and other stakeholders may prevent this policy from being implemented.

Driving taxis creates negative externalities. When these vehicles are driven, the private costs and benefits are enjoyed by the taxi drivers and consumer but when the taxis contribute to congestion in the “three hotspots”, the extra carbon emissions that are created worsen air quality for everybody. These are external costs paid by third parties.

Figure 1

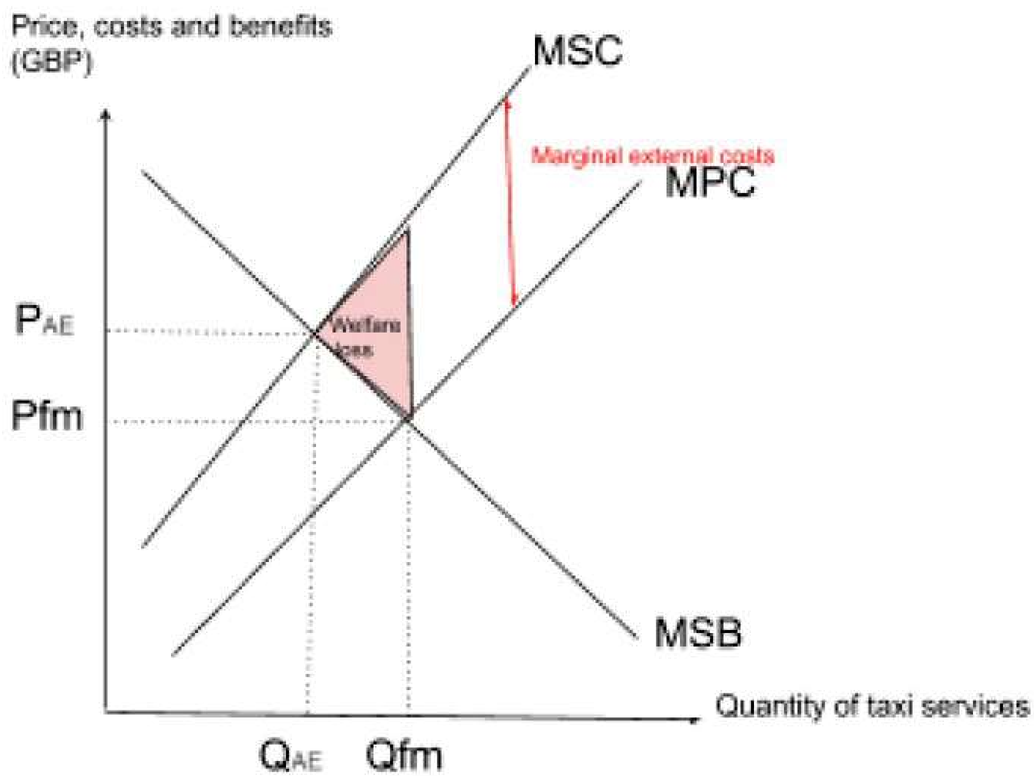
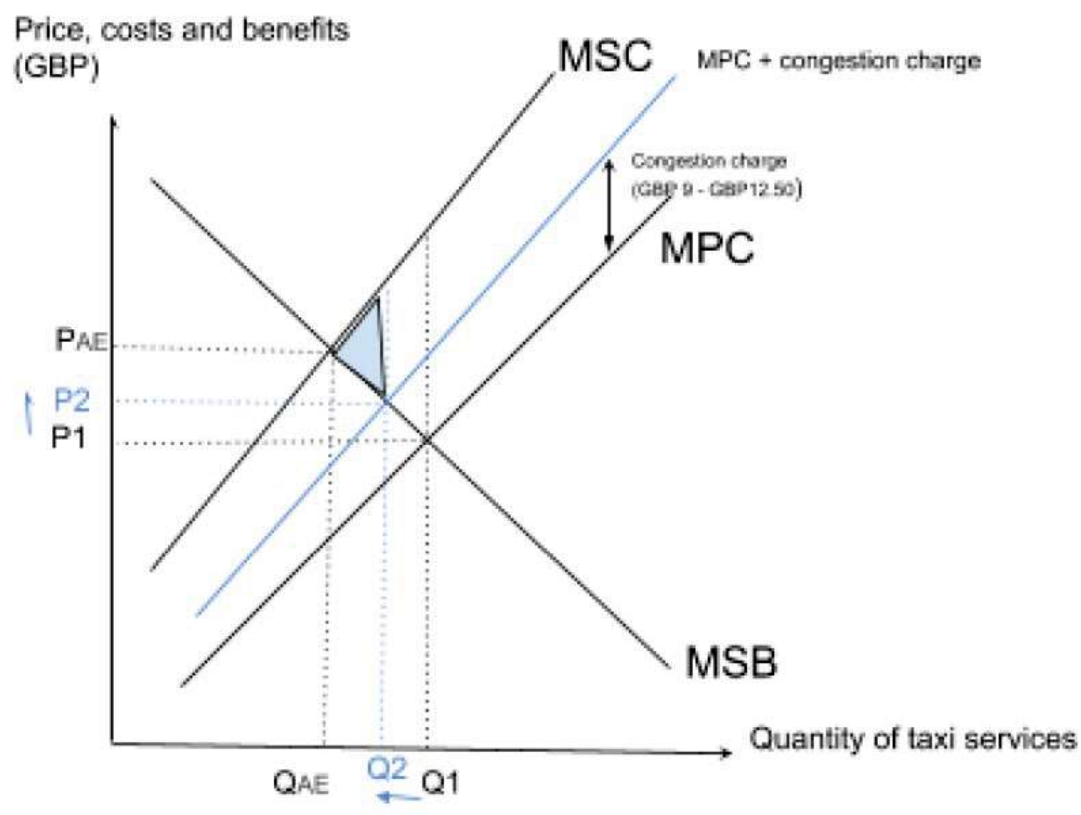


Figure 1 illustrates this problem. The free market equilibrium quantity (Qfm), assuming no government intervention, occurs at the point where the marginal private costs of producing the taxi services (MPC) meets the marginal private benefit of consuming the taxi service (MSB). The price of this service is Pfm. However, for each extra mile that is driven, there is a marginal external cost created in the form of emissions contributing to worsening air quality and health problems. When these marginal external costs (MEC) are added to the private costs, we have the marginal social cost (MSC). This represents the true costs of providing the taxi service to society. From this analysis, we can see that the quantity that should be provided, to achieve allocative **efficiency**, is where the marginal social costs of production (MSC) meets the marginal private benefits of consumption (MPB) at Q_{AE}. The diagram also suggests that the price paid by consumers in the free market (Pfm) is less than what the price should be if the full costs, including the external costs, were taken into account. This socially efficient price is shown as P_{AE}.

This inability of market forces to achieve social efficiency is known as a market failure. It results in a loss of social efficiency which can be seen in the form of the welfare loss triangle indicated.

To reduce the market failure, the Council has been asked to come up with proposals to "*tackle emissions*". A "*clean air toll*" appears to be one of the proposals. This "toll" can be seen as a tax to be paid by taxis drivers driving into the city centre. The theoretical effect of this charge may be seen in Figure 2.

Figure 2



The charge on vehicles entering the city centre may be between GBP9 and GBP12.50 per day. Since the taxi drivers will have to pay the congestion charges, their marginal private costs of production will increase from MPC1 to MPC2. As a result, the market equilibrium falls from Q1 to Q2, moving it closer to Q_{AE}. The taxi drivers will push on these extra costs to their consumers, so the price rises from P1 to P2, closer to the allocatively efficient price (P_{AE}). The welfare loss to society would be reduced to the newer smaller triangle. In theory, this would be a positive outcome in terms of moving towards social efficiency.

Even though "*no decision on a charging zone has been made"* the taxi drivers, represented by *The Newcastle Hackney Carriage Drivers Association,* have already started a petition to oppose the proposal. The Association is clearly worried about the loss of income that taxi drivers could face if the policy is put into effect. The extent to which they are able to pass on the extra charges depends on the price elasticity of demand for their service. But regardless of whether the burden of the charge falls more on the producers than the consumers, the fact is that the extra costs will reduce the quantity of consumers and reduce the revenues for the taxi drivers to some extent (unless demand was perfectly inelastic which is impossible).

The concept of **efficiency** is extremely relevant here. Although allocative efficiency may be an important goal of the Newcastle Council, they may be prevented from achieving it due to the competing goal of profit maximization by firms. Whether or not 1000 people signing a petition is enough to block this proposed congestion charge is not clear. The spokesperson of the government seems to be acknowledging the challenge of keeping as many people happy as possible by making the vague claim that *"At this stage we do not yet know whether we will need to introduce a charging clean air zone, how much it would be or which types of vehicles would be hit by the charges".* It may be assumed that the council wishes to be re-elected, so if it turns out that the taxi drivers' association can put together a campaign that mobilizes enough people against the policy, the council may have to abandon this policy and come up with something else.

Commentary 2

Title of the article: *Federal Reserve raises interest rates despite pressure from Trump*

Source of the article: The Guardian https://www.theguardian.com/business/2018/dec/19/federal-reserve-interest-rates-raised-trump (Accessed 20 December 2018)

Date the article was published: 19 December 2018

Date the commentary was written: 23 December 2018

Word count of the commentary: 796 words

Unit of the syllabus to which the article relates: Macroeconomics

Key concept being used: Interdependence

Article

The US Federal Reserve raised interest rates again on Wednesday despite intense, and unprecedented, pressure from Donald Trump to leave rates unchanged.

After a two-day meeting, the central bank announced rates would rise a quarter of a percentage point, to a range of 2.25% to 2.5%, the ninth such move since late 2015. The rate rise further signals the Fed's confidence in the US economy.

The closely watched Fed fund rates is used to benchmark interest rates worldwide, and the Fed's move is parsed by investors worldwide for signals about the strength of the US economy.

The Dow Jones industrial average dropped 70 points after the announcement to finish the day down 1.49%, while the S&P 500 lost 39.2 points, or 1.54%. US stocks are on course for their biggest December decline since 1931, the depths of the Great Depression.

The selling spread into Asian trade on Thursday, where the Nikkei in Tokyo was down 2.3% and the Hong Kong market was off 1.1%. In China, the Shanghai Composite was down 0.8%.
At a press conference, the Fed chairman, Jerome Powell, said the US economy remained strong overall but added that some "cross-currents" had emerged.

"Despite this robust economic backdrop and our expectation for healthy growth, we have seen developments that may signal some softening," said Powell, signaling that the pace of rate increases may slow next year.

Powell said that although US growth remained strong, globally economic growth had become more patchy. He said the Fed was carefully watching "event risks" – including Brexit – for their potential impact on the US. But he added US financial institutions are well prepared for any outcome of the UK's exit from the EU and that the final decision should not have major implications for the US. "Honestly, it shouldn't have major implications for the United States, but there's a lot of uncertainty because it's not something that's happened before," he said.

Trump has waged a public campaign to halt further rate rises, a highly unusual move for a president, calling the increases "crazy" and "foolish" and arguing the Fed's policy was "the "biggest threat" to the US economy, larger than the administration's trade dispute with China.

Last month Trump told the Washington Post he was "not even a little bit happy" with his selection of Powell to chair the Fed. On Tuesday, as the Fed was meeting, Trump pressed the Fed to hold off from "making another mistake".

He pointed to a Wall Street Journal editorial that called for a pause in rate hikes, arguing that US growth may be slowing, Trump's tariff disputes have dampened trade and sales of homes and cars, both highly impacted by rate rises, have dipped.

In spite of Trump's criticism, the Fed voted again for another small increase in rates. All four of the Fed's rate increases this year have been approved on a unanimous vote.

The White House press secretary, Sarah Sanders, defended Trump's criticism of the Fed on Tuesday. "The president is stating his opinion, which he is perfectly within his right to do," said Sanders. "He has been very clear about what his opinion is while at the same time he understands that the Fed is an independent agency. That doesn't take away the president's right to express his opinion on a particular matter."

Powell defended the Fed's independence. "Political considerations play no role whatsoever" in the Fed's decision, Powell said, adding that the independence of the Fed is "essential" if the central bank is to do its job properly. Powell said the Fed based its decisions on the economic data it gathered and "nothing will cause us to deviate from that".

The Fed is charged with helping to keep unemployment low and controlling inflation. The latest rise comes as the US unemployment rate has dropped to levels unseen since 1969 and inflation has remained low. However, Trump's trade disputes and the threat of a government shutdown over funding his proposed border wall with Mexico have rattled investors and stock markets have been highly volatile.

Powell said the Fed was watching the recent volatility in the stock markets but downplayed their importance. "We follow markets really carefully but remember, from a macro-economic standpoint, no one market is the single dominant indicator," he said.

Commentary

There seems to be some disagreement between what the Federal Reserve thinks is the best thing to do for the US economy and what President Trump and his government thinks is the best thing to do. The Federal Reserve is the central bank of the United States. In theory, the central bank is supposed to be independent of the government and is responsible for setting independent monetary policy to achieve price stability and low unemployment. In practice however, the central bank and the government are ***interdependent***; the actions of the central bank have significant impacts on the economic policies of the government, and the actions of the government have important implications for central bank policies.

As reported in this article, the Federal Reserve (the Fed) has increased its key interest rate, known as the “Fed Funds rate”. The key rate had been at low levels for many years, in order for stimulate the economy. In 2015, the Fed started increasing the rate gradually, and this latest increase was the ninth increase. It is an important symbol that the Fed feels that the US economy is performing well and does not require continued monetary stimulus from the central bank.

The unemployment rate in the US is at the lowest level since 1969. With this information, the Fed may be judging that the US economy is at, or near full employment. Theoretically, an economy at full employment is likely to experience inflationary pressure, as there is little excess capacity in the economy to absorb any increases in aggregate demand. This is typically the point at which central banks increase the key interest rate in order to dampen aggregate demand and prevent inflation from rising above a given target. With higher interest rates, consumers have less incentive to borrow money, and so consumption is likely to slow down or fall. Higher costs of borrowing make businesses less likely to invest and so investment may slow down or fall.

Assume that the US economy is at full employment at Yf as shown in Figure 1. With a strong economy and high levels of confidence, aggregate demand may be expected to rise from AD1 to AD2, resulting in an increase in real GDP to Y2, with inflationary pressure as the average price level will rise from APL1 to APL2. Since low inflation is a key objective of the central bank, it has increased its key rate to lower AD, or at least prevent it from increasing. In theory, this could keep the economy at a desired level of output near full employment. In doing so, the central bank would be achieving its two main aims, price stability and low unemployment.

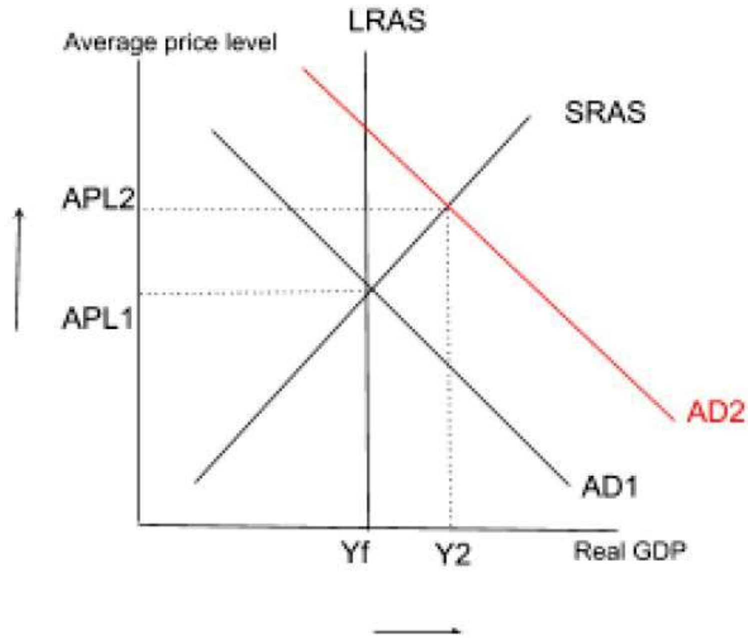


Figure 1: Possible inflationary pressure

There are two reasons why President Trump may be so upset with the central bank, and both are related to the **interdependence** of the government and the central bank. Firstly, increased interest rates are usually unpopular. Even though they are favourable to savers, they cause harm to any consumers and businesses who owe money, as the cost of repaying debt rises. Since many people feel that the central bank is an arm of the government, consumers and businesses may blame President Trump for any hardship that the increased rates cause them. Secondly, Trump may have a genuine concern that the increased rates will slow down growth in the economy. Any slowdown in economic growth is likely to cause people to blame the government, and Trump may feel that this will also reflect badly on him.

The Fed is also in a difficult situation due to the economic policy of protectionism that Trump's government has implemented. The article notes that the tariff disputes have "*dampened trade and sales of homes and cars"*. If the trade disputes continue, the economy may slow down and the tightening of monetary policy by the Fed may indeed worsen the situation. The central bank must take into account all of the economic variables to come to its policy decisions.

The situation facing the US economy is a clear example of the concept of **interdependence**. In theory, the Fed pursues an independent monetary policy and should **not** be subject to the pursuit of popularity which is typical of elected governments. Ideally, this should allow the central bank to behave objectively and sensibly. However, President Trump has made it very clear that he is most unhappy with the actions of the central bank, publicly "*calling the increases "crazy" and "foolish" and arguing the Fed's policy was "the "biggest threat" to the US economy."* The governor of the central bank insists that it will maintain its independence and pursue policies in the best interest of the country, and not give in to political pressure. It will be interesting to see whether President Trump allows it to do so.

Commentary 3

Title of the article: *2018 is by far the worst year the dairy industry has ever been through. It might get worse.*

Source of the article: Burlington Free Press
https://eu.burlingtonfreepress.com/story/news/local/vermont/2019/01/09/trump-trade-war-vermont-dairy-farms-closed/2512230002/ Accessed 15 January 2019

Date the article was published: 9 January 2019

Date the commentary was written: 17 January 2019

Word count of the commentary: 797 words

Unit of the syllabus to which the article relates: The global economy

Key concept being used: Economic well-being

Article

After years of low milk prices, about 75 dairy farms closed across Vermont in 2018. Harold Howrigan of Fairfield says the past year set a new low for dairy farmers in the state.

And the year isn't looking any better. In fact, dairy farmers say that it's looking worse.

President Donald Trump's tariff actions and the resulting trade war shut off access to foreign markets for U.S. dairy farmers. The U.S. Dairy Export Council, an organization funded almost entirely by dairy farmers, has worked for decades developing those same markets around the world for their dairy producers.

"Those markets were taken away with the stroke of a pen," Howrigan said, referring to Trump's move in July 2018 that imposed billions of dollars of tariffs on Chinese goods and prompted China to impose retaliatory tariffs of its own. The trade war then expanded to other countries like Canada and Mexico.

Now that U.S. farmers have been cut off from those markets, there's no guarantee that they will get them back.

"It's going to take some time," said Mark Magnan, a dairy farmer in Fairfield, who owns and operates a fourth-generation dairy farm.

Magnan said that if the trade war ended tomorrow and U.S. dairy farmers were allowed to sell to the foreign markets they lost, they'd have to compete to get back. And to do that Magnan says they'll have to lower U.S. milk prices.

And lower prices are the last thing dairy farmers need right now. Years of low prices have already taken a heavy toll. Aside from just not covering costs, Magnan said sustained low prices have driven down the value of cattle and have devalued other assets that farms rely on for collateral at the bank. That lack of value means farmers can't borrow as much money for things like seed for the next year's feed crop or to buffer financial losses from the previous years.

And back to those foreign markets, when U.S. dairy farmers were forced out by the trade war, other countries started moving in to fill the void. So, competition is fierce, from countries like Canada, Australia, New Zealand and more.

"There is tremendous competition from the European Union now for those same export destinations," Howrigan said.

The government did make a one-time payment to dairy farmers to help limit the impacts of the trade war, but of the estimated $1.5 billion lost in 2018, according to the U.S. Dairy Export Council, that payment covered just $127 million of what dairy farmers lost.

"It's a slap in the face," Magnan said

He would much rather see some kind of program to drive up milk prices by reducing production which he says would not only solve cash flow problems farmers are seeing now but would also serve as a long-term benefit after years of financial loss because of low milk prices.

Adding insult to injury, an additional payment scheduled for December never happened because of the government shutdown, which is also preventing dairy farmers from taking advantage of any other farm programs that might help.

"When you force farmers into the economic position we are in now, it makes me wonder where we are going to be in five years," Magnan said.

Magnan doesn't see a viable future for his farm if things continue the way they have for the past four or five years.

As for the Trump Administration's trade war and the impacts on his livelihood, Magnan doesn't think there is much hope at the moment.

"I don't think they fully understand [the problem], nor do I think they care."

Commentary

The **economic well-being** of United States dairy farmers is clearly under threat, and at least one farmer is concerned that the government just doesn't care.

In 2018, US dairy farmers were facing several problems, including higher costs, "*sustained low prices*" and difficulties in accessing credit to buy seeds. These problems were made much worse by the trade war that started in July 2018.

According to the article, export markets are very important to US dairy farmers and they had been working on developing these markets for decades. The imposition of "*billions of dollars of tariffs"* by the American government on Chinese goods has led China to retaliate on American products, including US dairy products. As the article notes, "*U.S. farmers have been cut off from those markets"*. The way in which the US farmers may have been cut out of those markets may be seen in Figure 1, showing a standard tariff diagram.

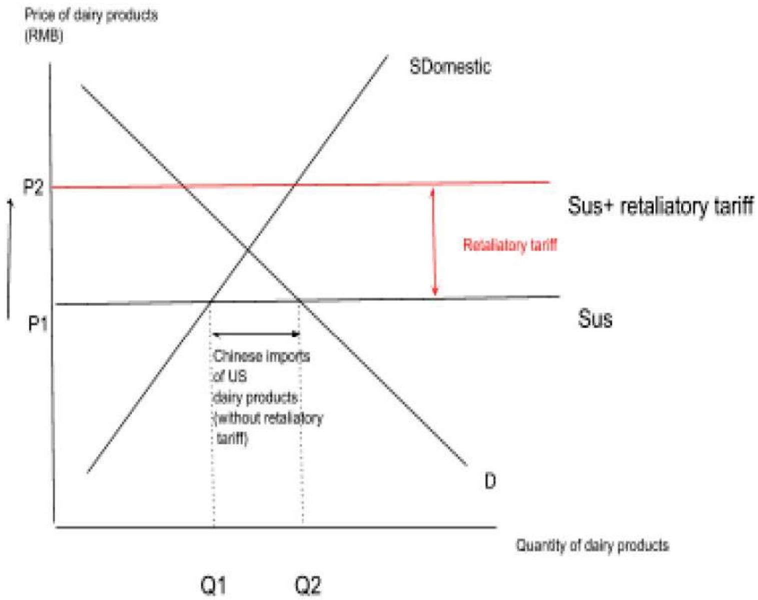


Figure 1: Market for US dairy products in China

Although there are no figures to back it up, the theory may be applied as follows. Without a tariff, the US dairy producers are able to supply into the Chinese market as shown by the US supply curve (Sus). This means that Chinese consumers are paying a price of P1. At this price, domestic Chinese producers are willing and able to supply the quantity Q1, but the quantity demanded is Q2. The excess demand between Q1 and Q2 is the quantity of dairy exports from the US.

However, since President Trump has put tariffs (taxes on imports) on Chinese products, the Chinese government has retaliated by putting a tariff on the US dairy imports, pushing the US supply curve up. If we assume that the US producers have been completely '*cut out of the market*', this suggests that the US supply curve has risen above the domestic equilibrium to Sus+ retaliatory tariff. This pushes the price in China up to P2. Because the price has risen, the quantity demanded has fallen and at this higher price, the Chinese producers are able to sell the quantity that is demanded. There is no excess demand, so the American dairy producers are effectively '*cut out of the market*'.

Theory suggests that Chinese consumers of dairy products will suffer due to the higher prices. However, the diagram only shows the market for imports from the United States. Other countries, such as Canada, Australia, New Zealand and countries in the EU are also selling to China. Now that the US has been priced out of the market due to the tariff, the other countries which do not face a retaliatory tariff are now able to take the place of the US exports. So Chinese consumers will be able to continue to import at the lower prices, but they will not be buying from the US dairy producers.

It may be argued that the trade war is temporary, but even if the trade war is settled and the tariffs removed, the US producers may have lost their place in the Chinese market. The farmer quoted in the article says that in order to regain their market position, they would have to lower their prices, and thus face falling incomes. With farmers already under threat, and 75 farms already closing down in 2018, the impact on the well-being of the farmers is likely to be harsh.

Although the government says it is trying to compensate the farmers for their losses due to the trade war through a support payment of $127 million, the Dairy Council says that their losses were $1.5 billion. Thus, the compensation amounts to barely 1% of the losses. This would support the statement made by dairy farmer Mark Magnan who says, "*I don't think they fully understand [the problem], nor do I think they care.*"

The concept of **economic well-being** is clearly illustrated in this article. The American government may be able to justify its punitive tariffs on Chinese goods if there is evidence of foul play, such as dumping, by Chinese producers. The government may dismiss the subsequent trade war as the necessary short run price to pay for fixing the situation, However, tariffs will severely impact the livelihood of different stakeholders in the US. Consumers in the US who must pay higher prices for imports, which may reduce their standard of living in the short run. The retaliatory tariffs on American products are clearly damaging the well-being of exporters, including the dairy farmers discussed in this article. Unfortunately, the export markets may be extremely difficult to regain once the trade war has ended. If the exporters are to get the markets back, they will have to offer more competitive prices that will further cut into their incomes. As a result, it is likely that the damage to their **well-being** may be long term.