

GOVERNMENT INSTITUTIONS

PMAP 8141: Economy, Society, and Public Policy

November 7, 2019

**Fill out your reading report
on iCollege!**

PLAN FOR TODAY

Addressing external effects

Governments in the economy

Democracy and factions

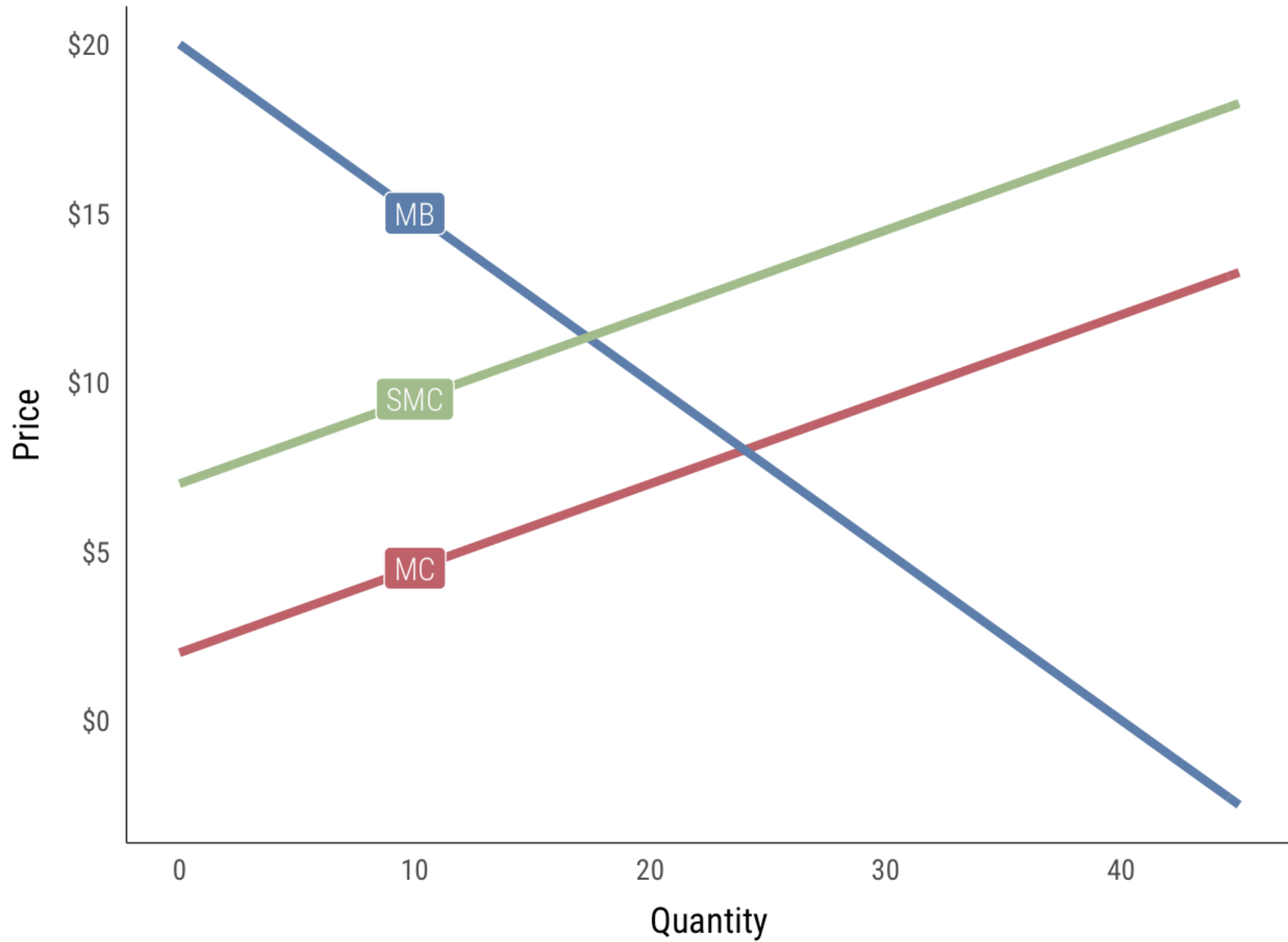
Small factions and public goods

Limits of governments

ADDRESSING EXTERNAL EFFECTS

GENERAL PROBLEM WITH EXTERNALITIES

Someone isn't paying enough



SOLUTION TO ALL EXTERNALITY PROBLEMS

Internalize the externality

Make SMC/SMB part of the equation so that the price fully reflects the external costs and benefits of a party's actions

Private sector solutions

Public sector solutions

Market-ish solutions

Private sector solutions

Merging and acquiring

Natural governance

Coasian bargaining

Public sector solutions

Regulations

Pigouvian taxation

Pigouvian subsidies

Market-ish solutions

Caps + tradable permits



TRADING
POLLUTION

**Government issues 200 permits
to allow for 1 unit of pollution**

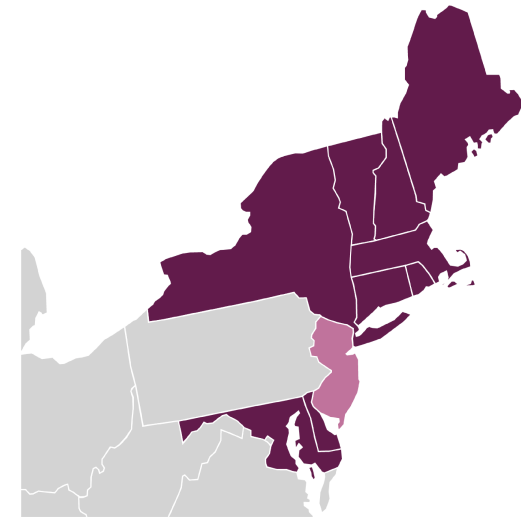
Plants A and B each get 100 permits

**It's cheaper for A to abate pollution,
so they don't need as many permits**

**B will buy permits from A until
they have 150 and 50 each**

**Pollution goes down while
maintaining flexibility**

Regional Greenhouse Gas Initiative (RGGI)



Western Climate Initiative (WCI)

≡ Sections

Los Angeles Times

LOG IN



Trump administration sues California over cap-and-trade agreement with Canada

EU Emissions Trading Scheme

American Clean Energy and Security Act of 2009

111TH CONGRESS
1ST SESSION

H. R. 2454

IN THE SENATE OF THE UNITED STATES

JULY 6, 2009

Received and read the first time

JULY 7, 2009

Read the second time and placed on the calendar

AN ACT

To create clean energy jobs, achieve energy independence, reduce global warming pollution and transition to a clean energy economy.

BUT THERE ARE PROBLEMS...

**Reduce damage now,
consequences be damned**

vs.

Minimize costs

Quantity regulations get the right level of reduction, but it can be way expensive and can distort markets

Cap and trade keeps costs down, but doesn't guarantee level of abatement

GOVERNMENTS IN THE ECONOMY

**What do governments
do in the economy?**

SPECIAL FEATURES OF GOVERNMENTS

**Only actor allowed to
use legitimate force**

**Only actor with
civil and human rights
obligations to its citizens**

TWO POSSIBLE GOALS

Maximize surplus
(efficiency)

Ensure fairness

YAY GOVERNMENTS

**Governments can use public policy
to fix inefficiency and unfairness**

Incentives

Regulation

Persuasion and information

Public provision

BUT WAIT!

**An organization with the
power to address
efficiency and fairness
can also do great harm**

**“With great power comes
great responsibility”**

Peter Parker's Uncle Ben

BOO GOVERNMENTS

Use of force to silence opponents

Rent seeking, oligarchy, and
self-enrichment

LIMITS OF GOVERNMENTS

**Well-governed societies place
limits on government power**

Elections

Constitutional restrictions

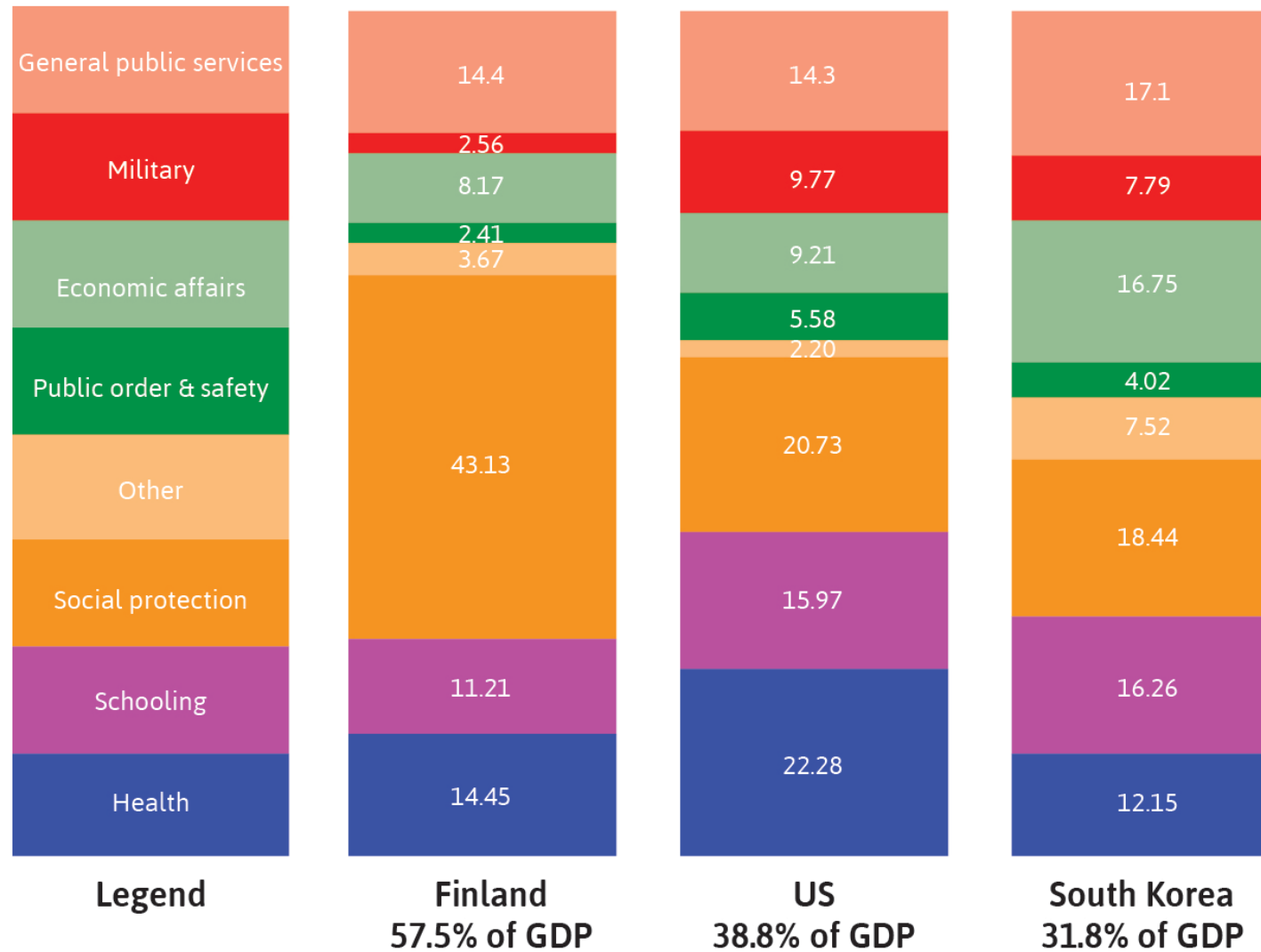
DEMOCRACY AND FACTIONS

THREE KEY INSTITUTIONS

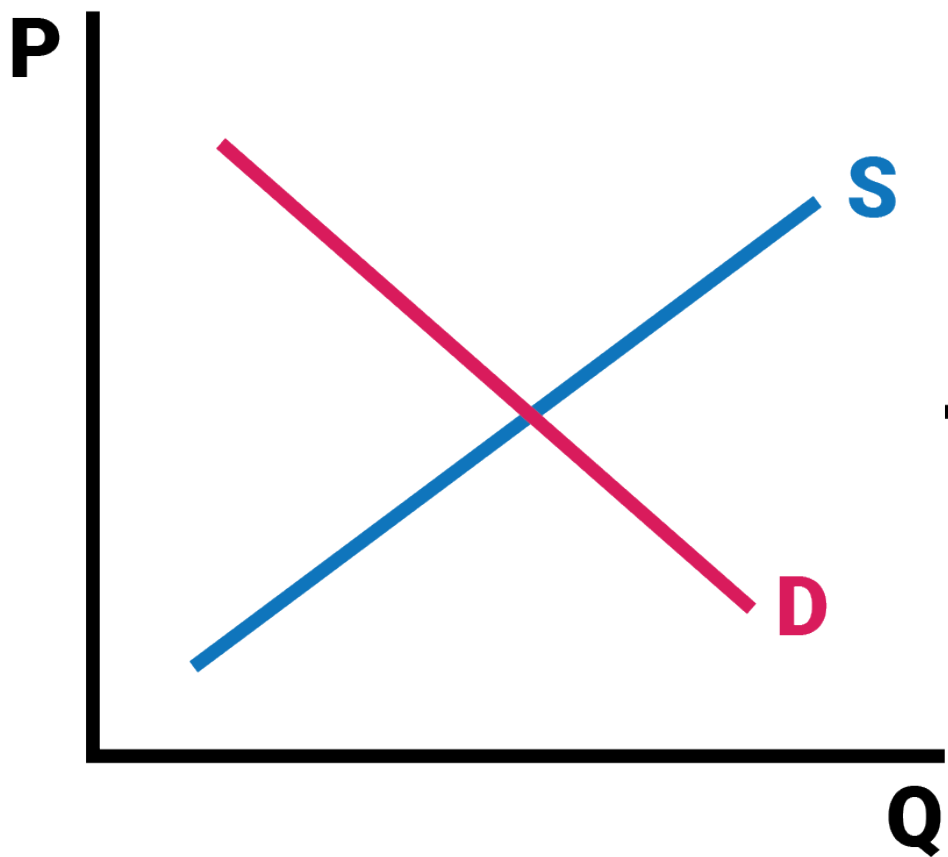
Rule of law

Civil liberties

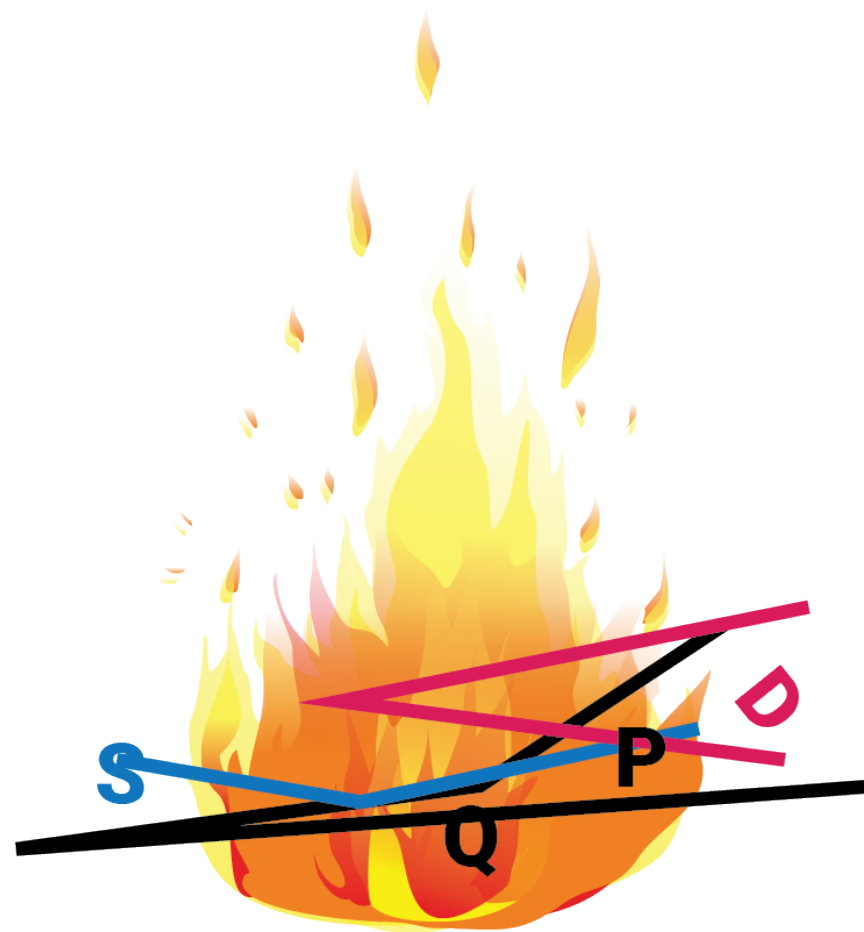
**Inclusive, free, and
decisive elections**



What makes these different?



Politics



The FÆDERALIST, No. 10.

To the People of the State of New-York.

AMONG the numerous advantages promised by a well constructed Union, none deserves to be more accurately developed than its tendency to break and control the violence of faction. The friend of popular governments, never finds himself so much alarmed for their character and fate, as when he contemplates their propensity to this dangerous vice. He will not fail therefore to set a due value on any plan which, without violating the principles to which he is attached, provides a proper cure for it. The instability, injustice and confusion introduced into the public councils, have in truth been the mortal diseases under which popular governments have every where perished; as they continue to be the favorite and fruitful topics from which the adversaries to liberty derive their most specious declamations. The valuable improvements made by the American Constitutions on the popular models, both ancient and modern, cannot certainly

Factions = bad

Fix factions by removing
their causes...

...or minimizing
their effects

**Bigger republic =
more competition =
better**

“Extend the sphere, and you take in a greater variety of parties and interests; **you make it less probable that a majority of the whole will have a common motive to invade the rights of other citizens**; or if such a common motive exists, it will be more difficult for all who feel it to discover their own strength, and to act in unison with each other.”

PROBLEMS WITH ARGUMENT

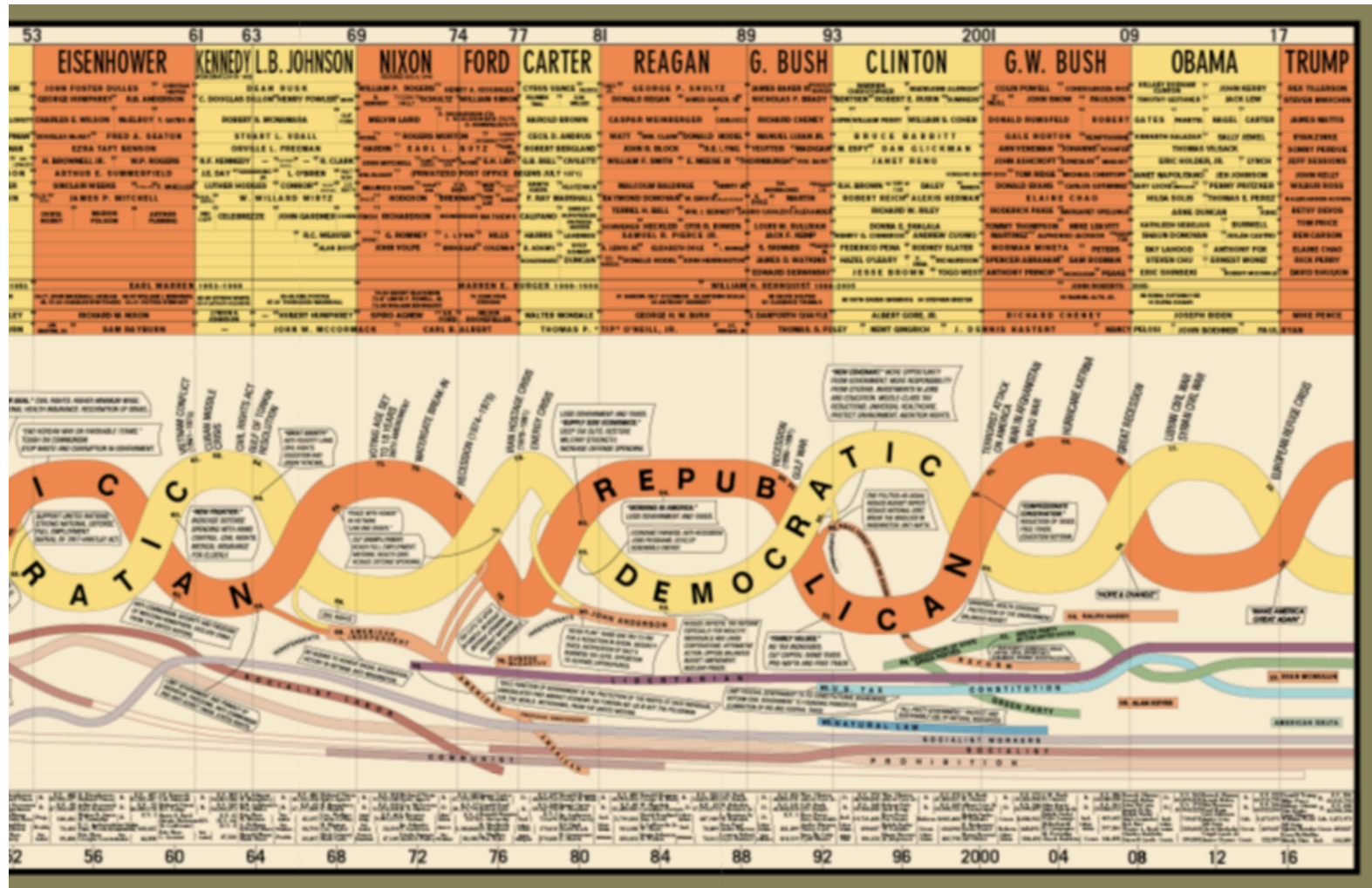
Constitutional system empowers minorities; provides veto points

Pre-Bill of Rights

Assumes factions will never get big

Assumes multiparty system

Duverger's law: plurality-rule elections + single-member districts = two parties



<https://historyshots.com/collections/political-financial>

**Minorities have inordinate power
in democracies because of the
dynamics of small groups**

CAVEAT: Minorities \neq marginalized groups

*Minorities with access to political
system have inordinate power*

Better term = interest groups

SMALL FACTIONS AND PUBLIC GOODS

WHY DO WE NEED FACTIONS?

“[I]ndividual, unorganized action will either not be able to advance that common interest at all, or will not be able to advance that interest adequately”

Mancur Olson, *The Logic of Collective Action*, p. 7

“Never doubt that a small group of thoughtful, committed, citizens can change the world. Indeed, it is the only thing that ever has.”

Margaret Mead

**Have you ever contributed to
or volunteered in a national
political campaign?**

Why did you donate or volunteer?

How much did you benefit personally from
that donation or from the outcome?

How much did the group
benefit from your work?

Individual gains in large groups are essentially zero

Why would a rational, self-interested person donate to a national campaign or join a union or support activist causes?

GROUP INTERESTS = PUBLIC GOODS

**Achievement of goals =
nonexcludable and nonrivalrous**

“The achievement of any common goal or the satisfaction of any common interest means that a public or collective good has been provided for that group”

Mancur Olson, *The Logic of Collective Action*, p. 15

Free riding!

WHO SUPPLIES GLOBAL ORDER?

Pax Britannica

Pax Americana

Pax Sinica?

How does this make hegemonic powers feel?

**Have you ever contributed
to a city-level (or lower!)
political campaign?**

**Have you tackled a single
issue with a city council?**

**You get individual benefits if you
believe your marginal actions
will lead to actual change**

Small groups can harness this

Benefits can be excludable

Little free riding = more power

(Madison was right!)

How do large groups fix public goods problems (and stop free riding)?

Change individual calculus

Coercion

Increase the costs of not acting

Selective incentives

Increase the benefits of acting

<https://benefits.nra.org/>

Federation

Make big group feel small

Coercion

Increase the costs of not acting

Selective incentives

Increase the benefits of acting

Federation

Make big group feel small

Governments?

Political campaigns?

Unions?

Advocacy groups?

Nonprofits?

MORAL OF THE STORY

Small groups can be too powerful

Madison's solution = use big groups

**The larger the group, the less it
will further common interests**

oh no

Concentrated interest groups vs. large latent groups

Narrow special interests and passionate minorities can unduly influence policy

Concerned citizens (even if passionate!)
are stuck with free riders

**Is it okay that small groups
wield substantial power?**

What can we do about it?
(or should we do anything about it?)

What does this mean for democracy?

**What does this mean for public
administration and policy?**

LIMITS OF GOVERNMENTS

FAILURES

Market failure

Prices don't reflect individual actions + allocation of resources isn't Pareto efficient

Government failure

Failure of political accountability



“With great ability comes great accountability”

Miles Morales's father, Jefferson Davis

GOVERNMENT FAILURES

Failure of government accountability

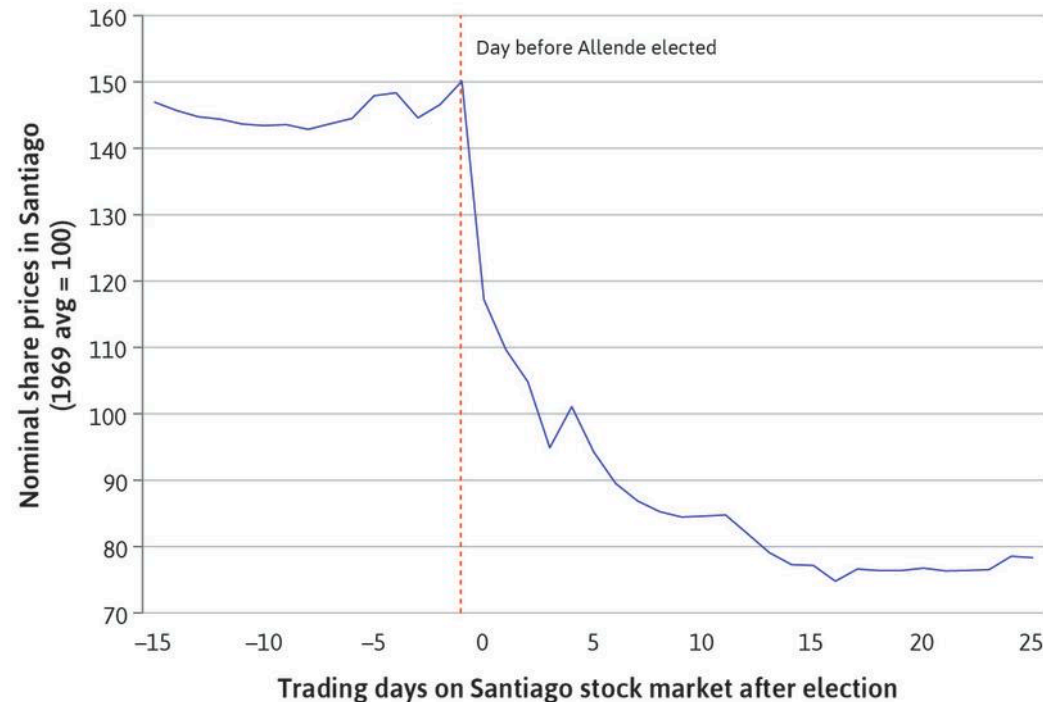
Economic infeasibility

Administrative infeasibility

Political infeasibility

ECONOMIC INFEASIBILITY

Public policy must be a Nash equilibrium to be successful



ADMINISTRATIVE FEASIBILITY

**A policy might be adopted if
there's not enough state capacity**

Limited information

Limited capacity

(This is why you're here!)

POLITICAL FEASIBILITY

A policy might not be adopted even if it's great and there's sufficient state capacity

Short-termism

Unequal access

Voting

POLITICAL FEASIBILITY

Short-termism

Implement policies that
get you elected next cycle

POLITICAL FEASIBILITY

Unequal access

The rich can have
a louder voice

Smaller groups can
have a louder voice

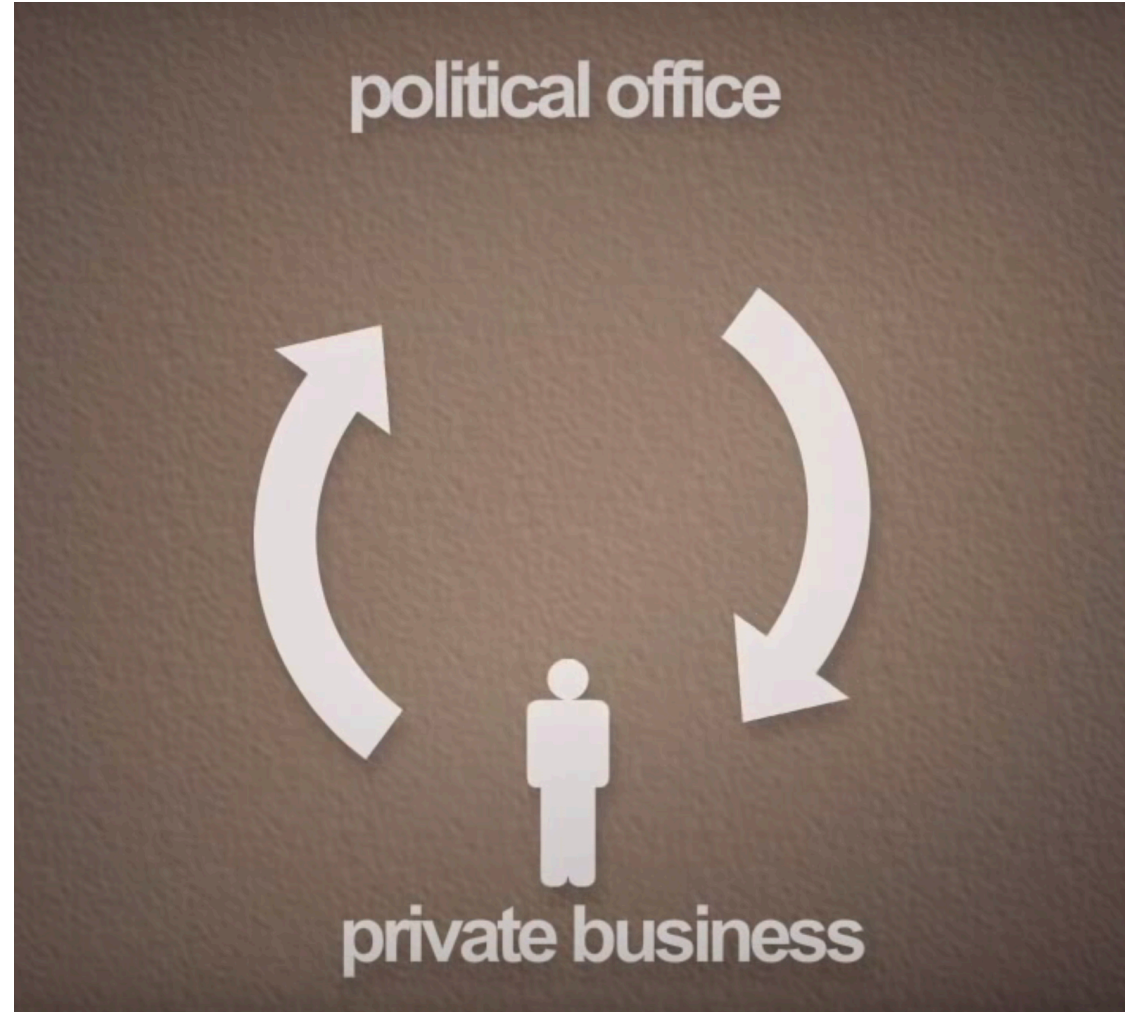




1960

TODAY

LOBBYISTS





John Boehner ✓

@SpeakerBoehner

Follow



I'm joining the board of **#AcreageHoldings** because my thinking on cannabis has evolved. I'm convinced de-scheduling the drug is needed so we can do research, help our veterans, and reverse the opioid epidemic ravaging our communities.

@AcreageCannabis



News Release: Board of Advisors Appointment

acreageholdings.com

4:58 AM - 11 Apr 2018



Filing Taxes Could Be Free and Simple. But H&R Block and Intuit Are Still Lobbying Against It.



The makers of TurboTax and other online systems spent millions lobbying last year, much of it directed toward a bill that would permanently bar the government from offering taxpayers prefilled filings.

by **Jessica Huseman**, March 20, 2017, 1:22 p.m. EDT



GUTTING THE IRS

Congress Is About to Ban the Government From Offering Free Online Tax Filing. Thank TurboTax.

A bill supported by Democrats and Republicans would make permanent a program that bars the IRS from ever developing its own online tax filing service.

by Justin Elliott, April 9, 5 a.m. EDT



GUTTING THE IRS

Congress Is About to Gut Government From Online Tax Filing

A bill supported by Democrats and Republicans would create a program that bars the IRS from ever

by Justin Elliott, April 9, 5 a.m. EDT

Those efforts have been fueled by hefty lobbying spending and campaign contributions by the industry. Intuit and H&R Block last year poured a combined \$6.6 million into lobbying related to the IRS filing deal and other issues. Neal, who became Ways and Means chair this year after Democrats took control of the House, received \$16,000 in contributions from Intuit and H&R Block in the last two election cycles.

Who are politicians responsive to?



AMERICAN JOURNAL
of POLITICAL SCIENCE

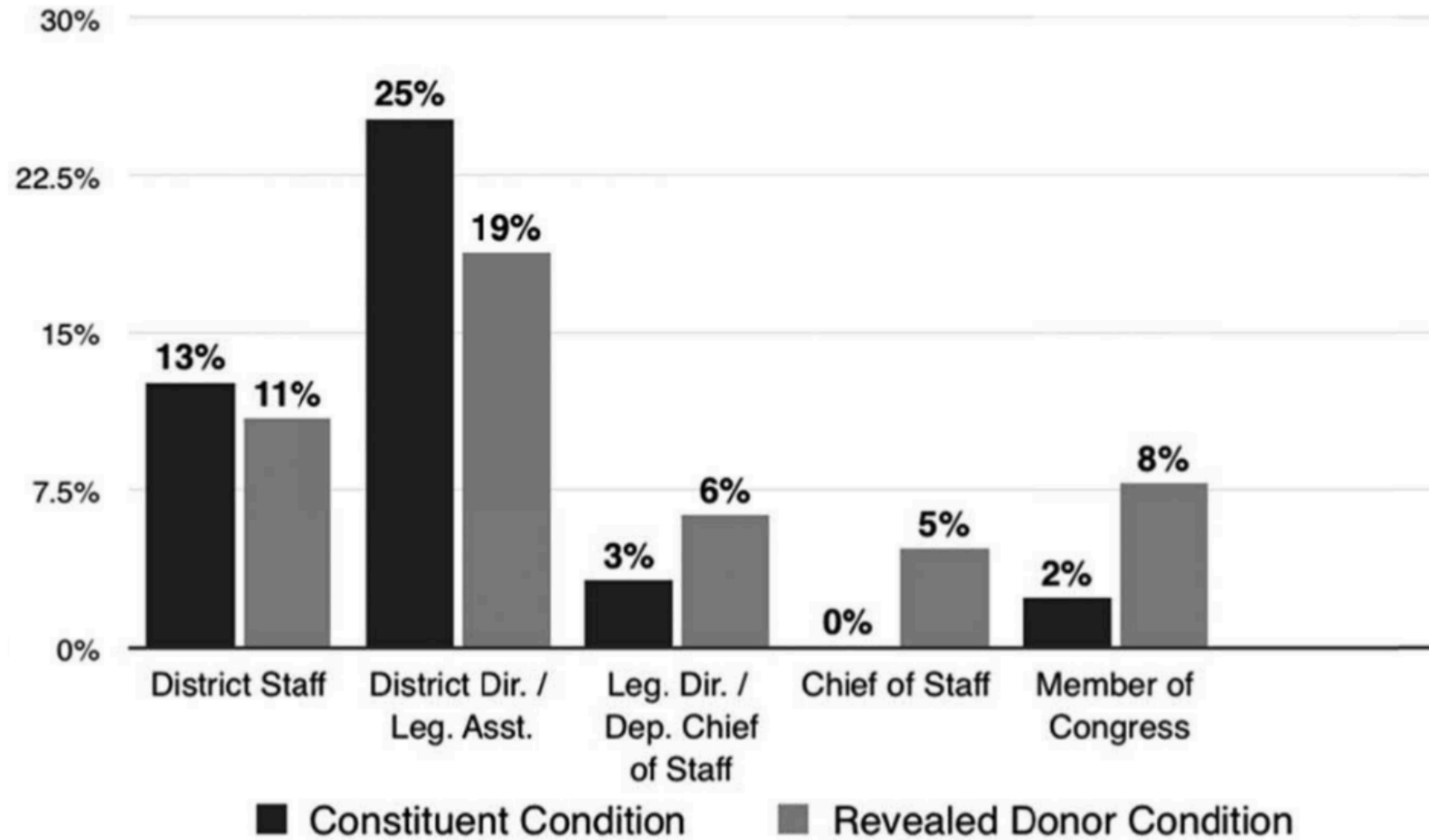
Campaign Contributions Facilitate Access to Congressional Officials: A Randomized Field Experiment

Joshua L. Kalla University of California, Berkeley

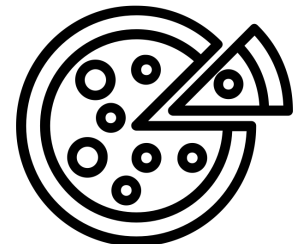
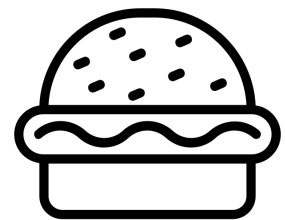
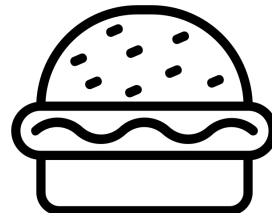
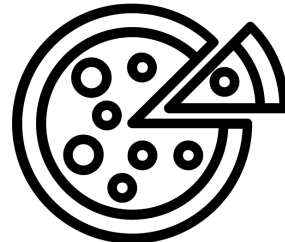
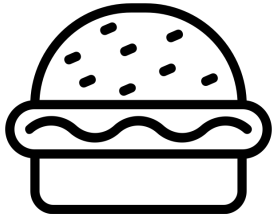
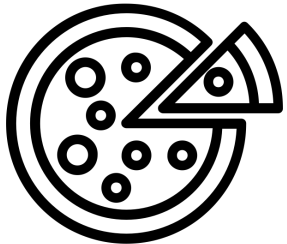
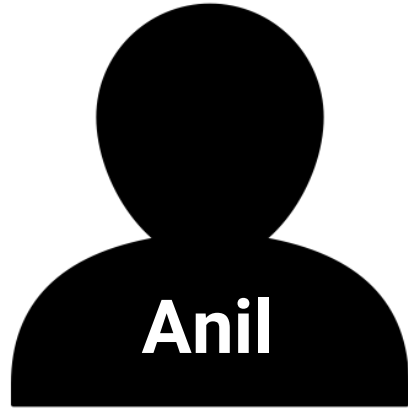
David E. Broockman University of California, Berkeley

Concern that donations to political campaigns secure preferential treatment from policy makers has long occupied judges, scholars, and the public. However, the effects of contributions on policy makers' behavior are notoriously difficult to assess. We present the first randomized field experiment on the topic. The experiment focuses on whether contributions facilitate access to influential policy makers. In the experiment, a political organization attempted to schedule meetings between 191 congressional offices and the organization's members in their districts who were campaign donors. However, the organization randomly assigned whether it revealed to congressional offices that prospective attendees had contributed to campaigns. When informed prospective attendees were political donors, senior policy makers made themselves available between three and four times more often. These findings underscore concerns about the Supreme Court's recent decisions deregulating campaign finance.

**FIGURE 1 Access Gained to Congressional Staffers, by
Experimental Condition**



VOTING



VOTING

Pizza > Burger

Burger > Soup

Soup > Pizza

Condorcet paradox

Vote intransitivity

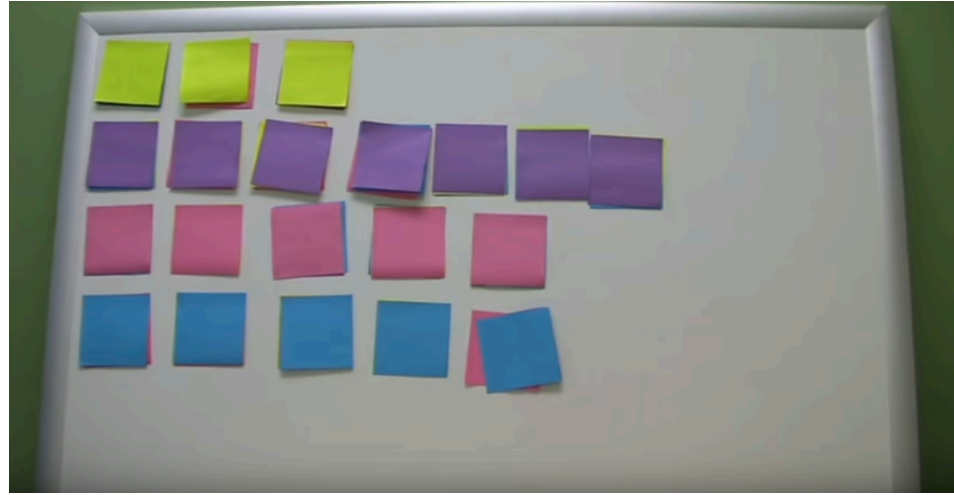
VOTING

Order of voting matters!

Speaker of the House
(or whoever's in charge of the agenda)
**could theoretically
guarantee any outcome**

Arrow's Impossibility Theorem

ALTERNATIVE VOTING SYSTEMS?



https://www.youtube.com/watch?v=_5SLQXNpzsk

Ranked choice / Instant runoff

Encodes more information in vote + changes campaign calculus

Still suffers from Condorcet paradox