

WHEN GOVERNMENTS GO WRONG + INSTITUTIONAL ALTERNATIVES

PMAP 8141: Economy, Society, and Public Policy

November 14, 2019

*Fill out your reading report
on iCollege!*

Capitalism, markets, and public policy

Growth Social dilemmas
Measurement Fairness Inequality



Economic models

Scarcity Firms and markets
Preferences Optimization Information



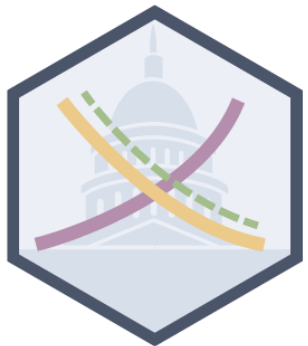
Evaluating and administering policies

Cost-benefit analysis Experiments
Causal inference Politics



Market failures, governments, and politics

Externalities Public goods Rent seeking
Monopolies Government intervention



**ECONOMY, SOCIETY,
AND PUBLIC POLICY**

PLAN FOR TODAY

Economics, identity, and whiteness

Public policy and the institutional
legacies of slavery

Tragedies and CPRs

Private, government, informal, and
third sector solutions to CPRs

ECONOMICS, IDENTITY, & WHITENESS

Economic principles public administrators should care about

Institutions

Keeping the plumbing working with norms and rules

Public goods provision

Public goods, externalities, monopolies, information

Redistribution

Fairness and equity

Without these, society breaks

Institutions

Nobody trusts anyone; hare-hare defection

Public goods provision

Underprovision of public goods

Redistribution

Underprovision and
underinstitutionalization is unequal

**Shared national identity
is essential for all three**

**What is a shared
national identity?**

Unequitable public policies

Decreased public goods provision

Unequal access to institutions

Increased fractionalization

Unequitable public policies



Noah Smith @Noahpinion · 28 Dec 2017

4/Let's make this a little more concrete.

In America, we have had under-investment and political dysfunction for decades because a significant chunk of white Americans don't want to pay for stuff that benefits black Americans.

Noah Smith @Noahpinion

In the airport line. Met some Trump fans from Louisiana. They kept saying the EITC gives money to lazy black people who game the system.

Who gets to be an American?

Catholics?

Irish?

Italians?

Chinese?

African Americans?

Japanese?

Mormons?





C. J. Rudd, "Mormon Elder Berry—out with his six year olds, who take after their mothers," 1904



Twin relics of barbarism

Slavery

Polygamy

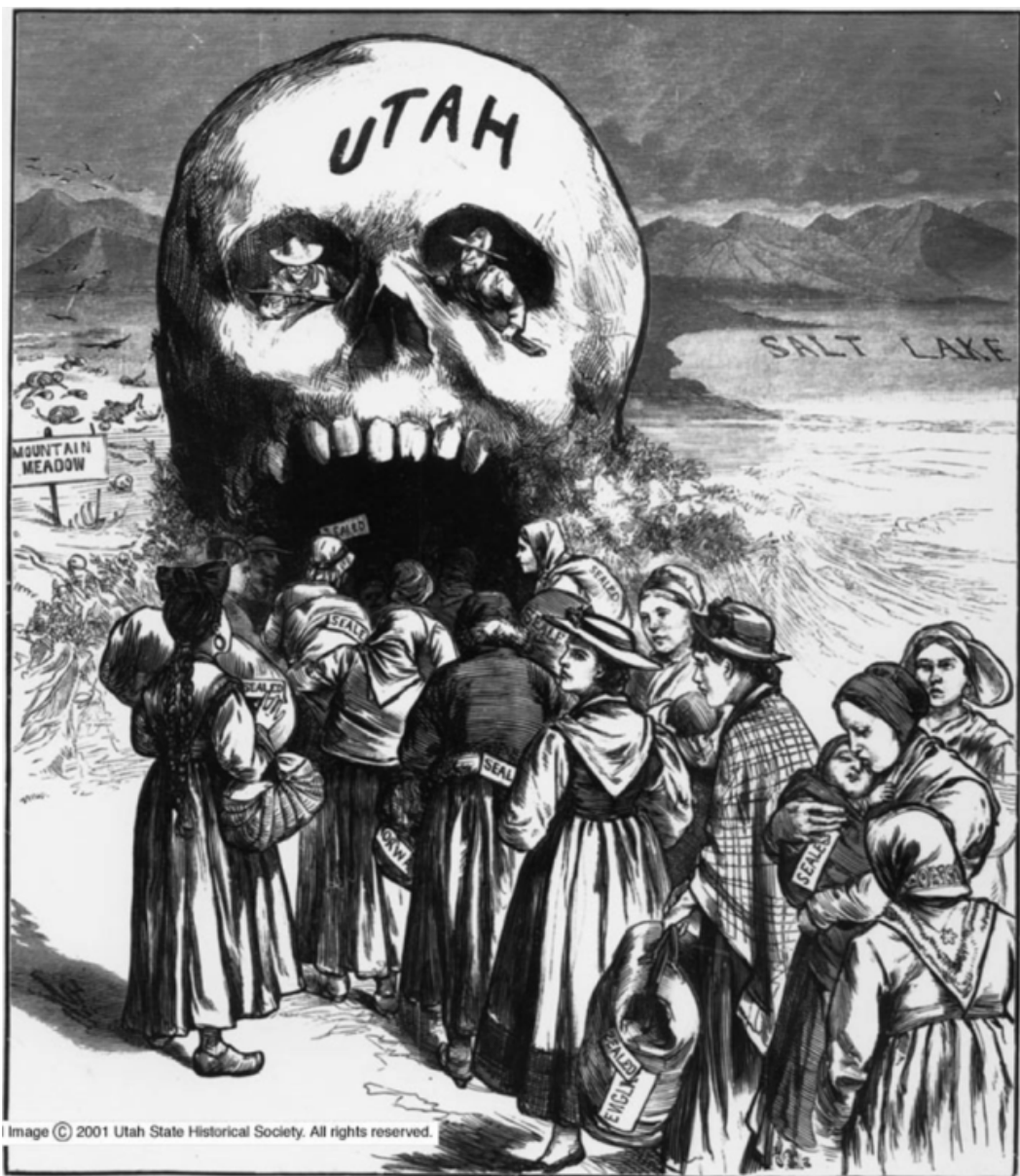


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MORMONISM IN UTAH—THE CAVE OF DESPAIR.



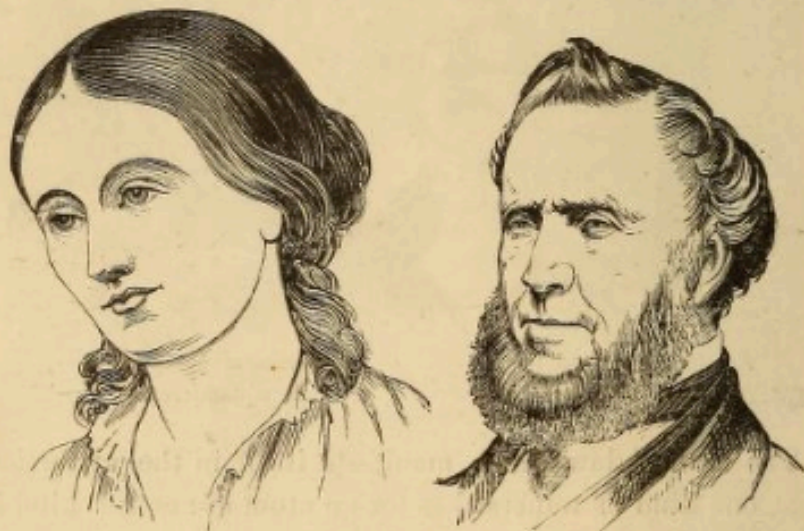
Image © 2001 Utah State Historical Society. All rights reserved.

WOMAN'S BONDAGE IN UTAH.
THE MORMON SOLUTION OF THE "CHEAP LABOR" QUESTION.
See Page 34.

MONOEROTICITY.—MONOGAMY

THE DISPOSITION TO LOVE ONE ONLY.

The dove or round shape of the eye openings is the most unexceptionable evidence of large mating love.



Monoeroticity Large—Mrs. Margaret Fuller Osoli, who preferred to drown rather than to leave her husband.

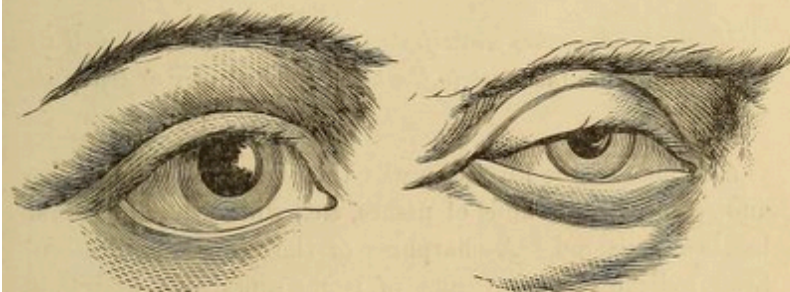
Monoeroticity Small—Brigham Young, the noted polygamist.

The attention is riveted upon the being on whom we have lavished our love and affection, to the exclusion, for the time-being, of any other object that may be within the range of vision, and we find that a tendency to unity

POLYEROTICITY.—POLYGAMY.

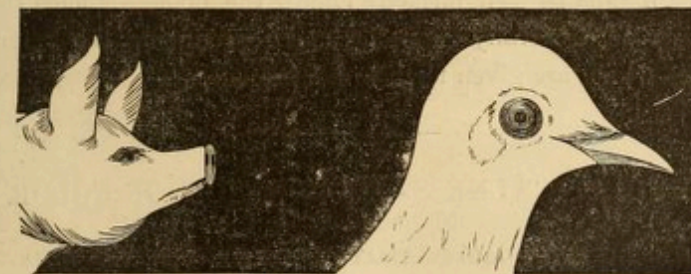
THE DISPOSITION TO LOVE MANY.

The amount of love for the opposite sex may be known by the fulness of the eyes, and its quality by the shape of the commissures, or opening between the lids of the eyes. When the opening is quite almond-shaped, promiscuous love prevails in that form; if the commissure has great vertical measurement, the love is connubial.



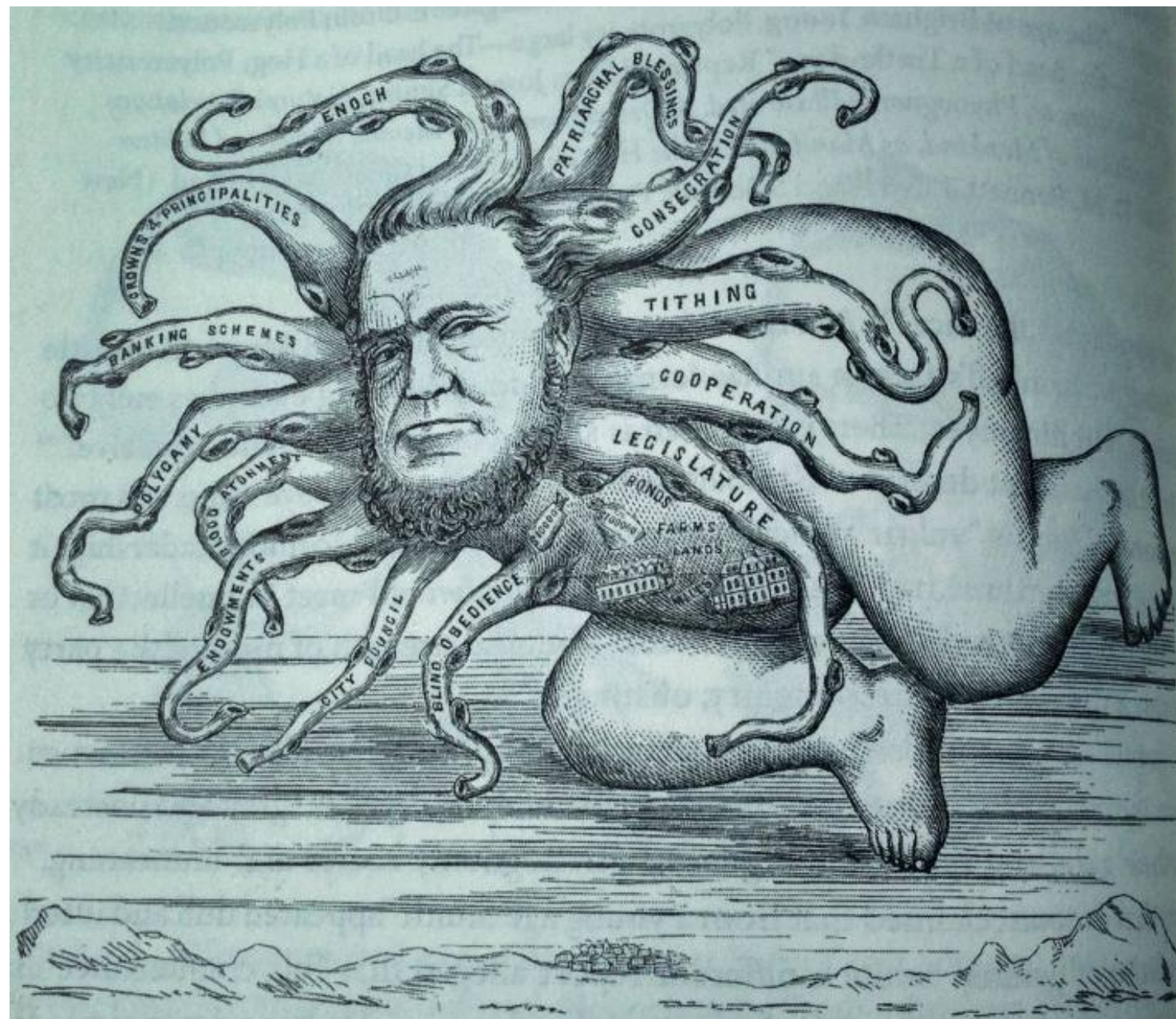
Polyeroticity Small—The eye of Mrs. Margaret F. Osoli.

Polyeroticity Large—The eye of Brigham Young.



Polyeroticity Large—The head of a Hog (*Genus Sus*.)

Polyeroticity Small—the head of a Turtle-dove (*Turtur Auritus*).



**Mormons had to prove their
whiteness to gain access to
political and economic
institutions**

So have many other ethnic groups

MASSIVE GLARING EXCEPTIONS

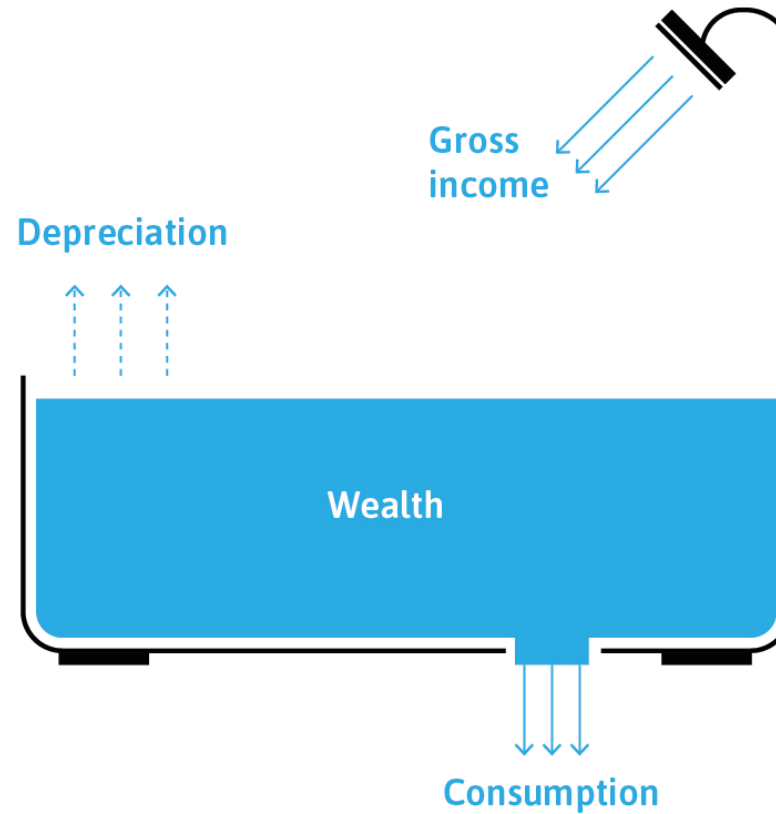
**PUBLIC POLICY
AND THE INSTITUTIONAL
LEGACIES OF SLAVERY**

Slavery

...the most intractable and longest lasting aspect of American ethnofractionalization

...an area where public policy has (very) often been (very) detrimental

Assets vs. income



Why are assets important for wealth?

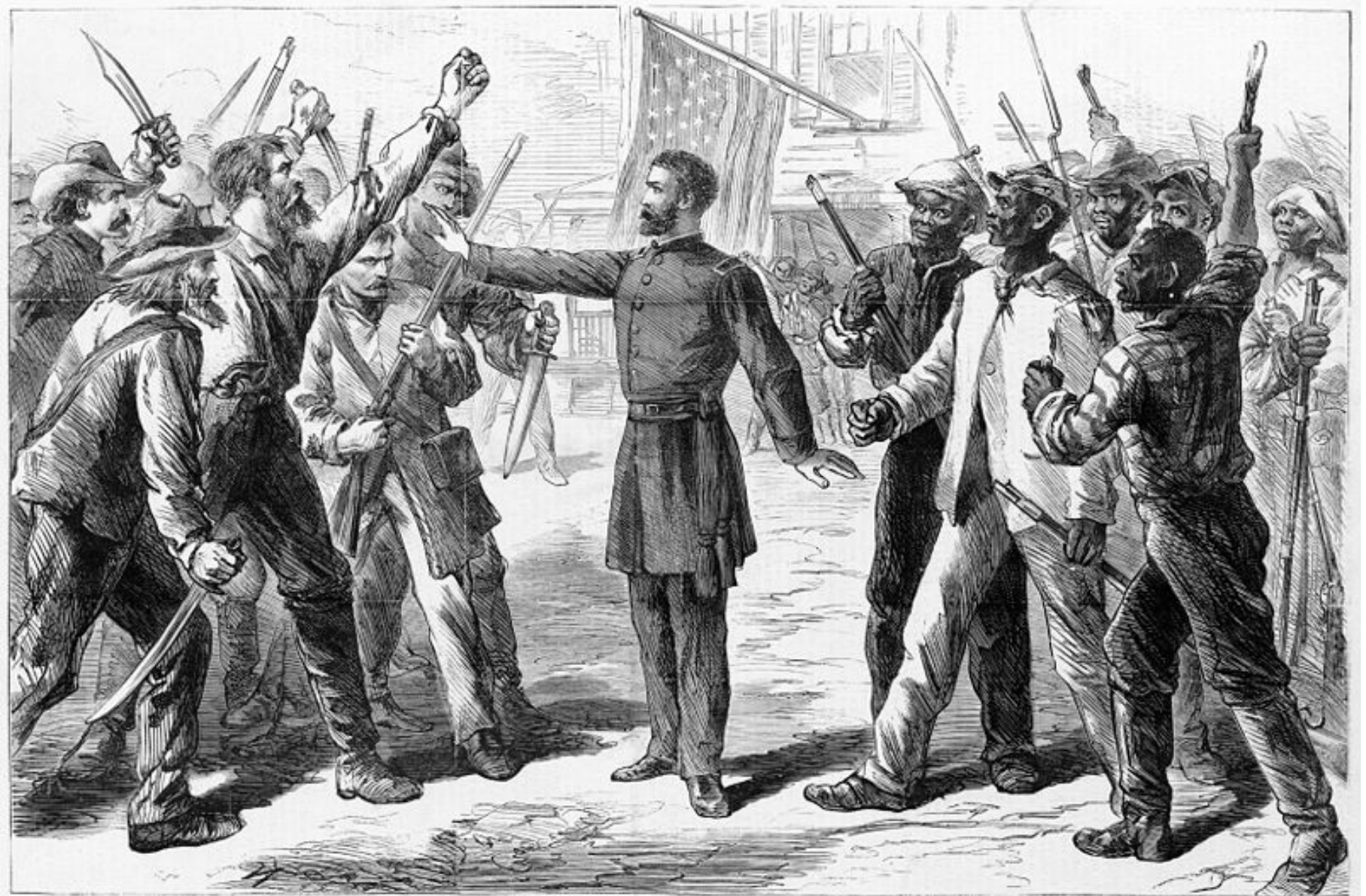
“It’s all right to tell a man to lift himself by his own bootstraps, but it is a cruel jest to say to a bootless man that he ought to lift himself by his own bootstraps.”

**—Martin Luther King, Jr.
May 8, 1967 NBC interview**

**“40 acres
and a mule”**

**The
Freedman's
Bureau**

**Designed
to promote
assets**



THE FREEDMEN'S BUREAU.—DRAWN BY A. R. WOOD.—[SEE PAGE 467.]

Repeal of inconsistent laws.

SEC. 20. *And be it further enacted*, That all acts and parts of acts heretofore passed, which are inconsistent with any of the provisions of this act, are, for the purposes of this act, hereby repealed, so far as the same are inconsistent herewith.

APPROVED, May 17, 1862.

May 20, 1862. CHAP. LXXV. — *An Act to secure Homesteads to actual Settlers on the Public Domain.*

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That any person who is the head of a family, or who has arrived at the age of twenty-one years, and is a citizen of the United States, or who shall have filed his declaration of intention to become such, as required by the naturalization laws of the United States, and who has never borne arms against the United States Government or given aid and comfort to its enemies, shall, from and after the first January, eighteen hundred and sixty-three, be entitled to enter one quarter section or a less quantity of unappropriated public lands, upon which said person may have filed a preemption claim, or which may, at the time the application is made, be subject to preemption at one dollar and twenty-five cents, or less, per acre; or eighty acres or less of such unappropriated lands, at two dollars and fifty cents per acre, to be located in a body, in conformity to the legal subdivisions of the public lands, and after the same shall have been surveyed: *Provided*, That any person owning and residing on land may, under the provisions of this act, enter other land lying contiguous to his or her said land, which shall not, with the land so already owned and occupied, exceed in the aggregate one hundred and sixty acres.

Such persons may enter certain quantities of certain unappropriated public lands. *SEC. 2. And be it further enacted*, That the person applying for the benefit of this act shall, upon application to the register of the land office in which he or she is about to make such entry, make affidavit before the said register or receiver that he or she is the head of a family, or is twenty-one years or more of age, or shall have performed service in the army or navy of the United States, and that he has never borne arms against the Government of the United States or given aid and comfort to its enemies, and that such application is made for his or her exclusive use and benefit, and that said entry is made for the purpose of actual settlement and cultivation, and not either directly or indirectly for the use or benefit of any other person or persons whomsoever; and upon filing the said affidavit with the register or receiver, and on payment of ten dollars, he or she shall thereupon be permitted to enter the quantity of land specified: *Provided, however*, That no certificate shall be given or patent issued therefor until the expiration of five years from the date of such entry; and if, at the expiration of such time, or at any time within two years thereafter, the person making such entry; or, if he be dead, his widow; or in case of her death, his heirs or devisee; or in case of a widow making such entry, her heirs or devisee, in case of her death; shall prove by two credible witnesses that he, she, or they have resided upon or cultivated the same for the term of five years immediately succeeding the time of filing the affidavit aforesaid, and shall make affidavit that no part of said land has been alienated, and that he has borne true allegiance to the Government of the United States; then, in such case, he, she, or they, if at that time a citizen of the United States, shall be entitled to a patent, as in other cases provided for by law: *And provided, further*, That in case of the death of both father and mother, leaving an infant child, or children, under twenty-one years of age, the right and fee shall enure to the benefit of said infant child or children; and the executor, administrator, or guardian may, at any time within two years after the death of the surviving parent, and in accordance with the laws of the State in which such children for the time being have their domicile, sell

Certain persons may enter certain quantities of certain unappropriated public lands.

Contents of affidavit.

Certificates and patents, when to issue and upon what proof.

Affidavit.

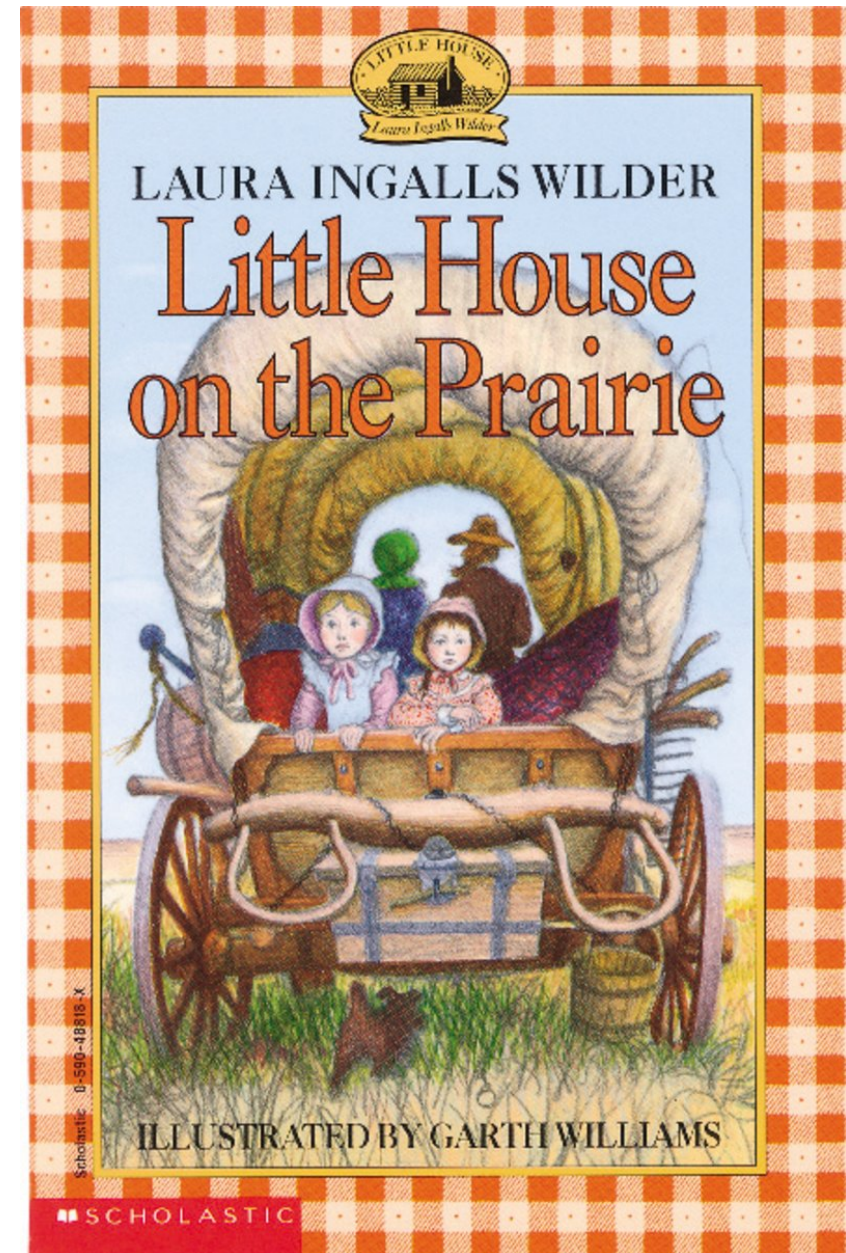
Provision in case of death of applicant, &c.

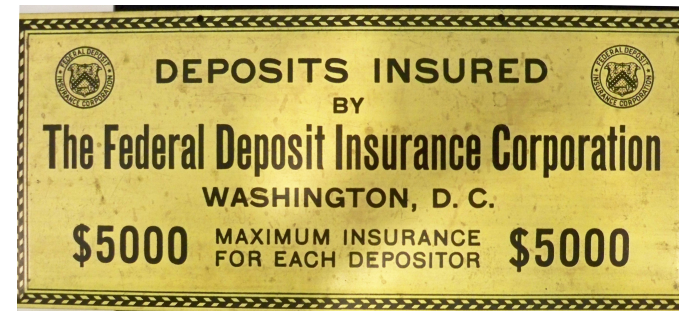
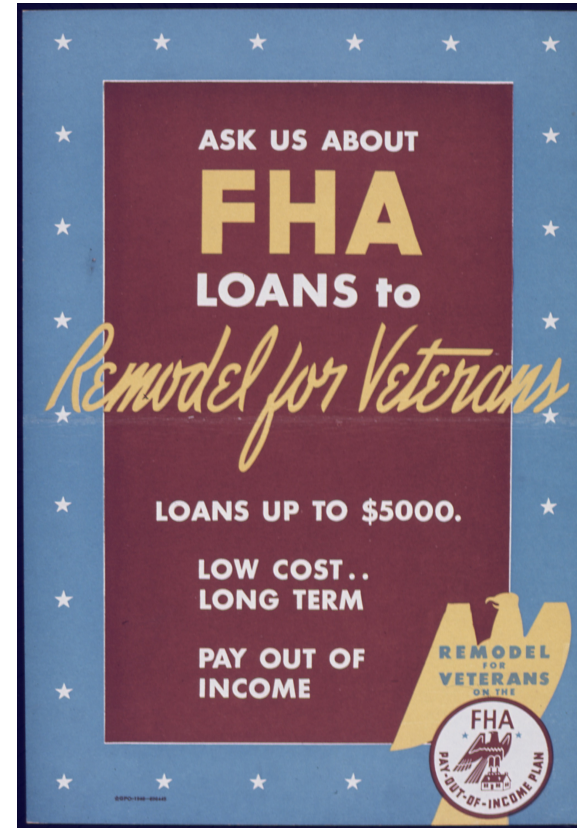
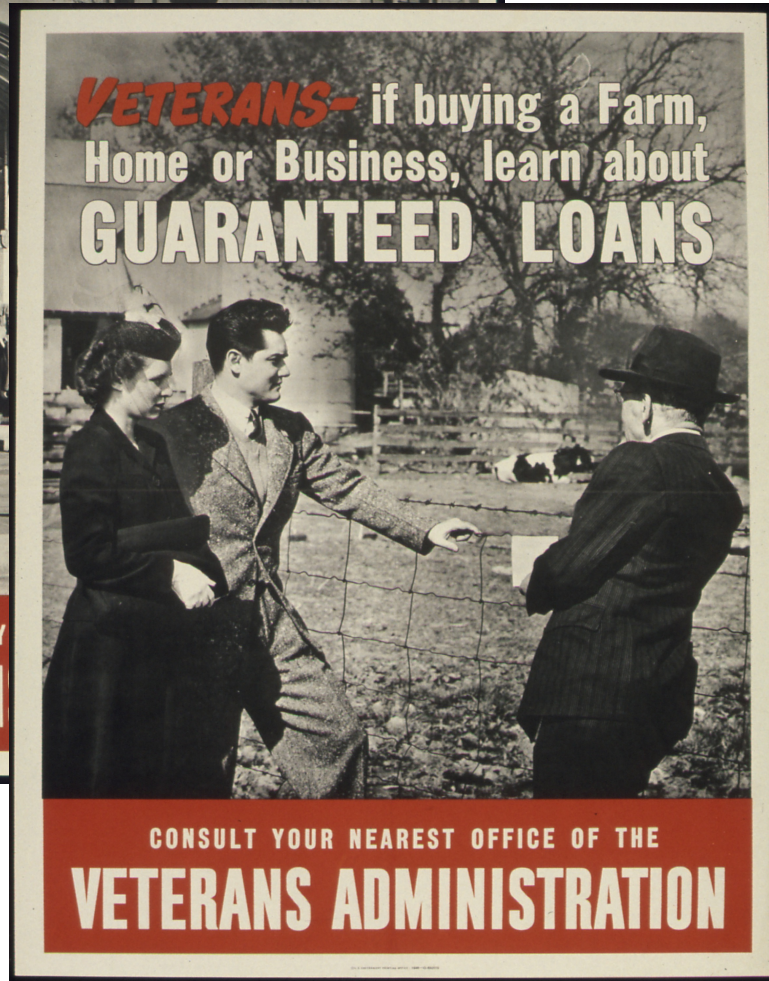
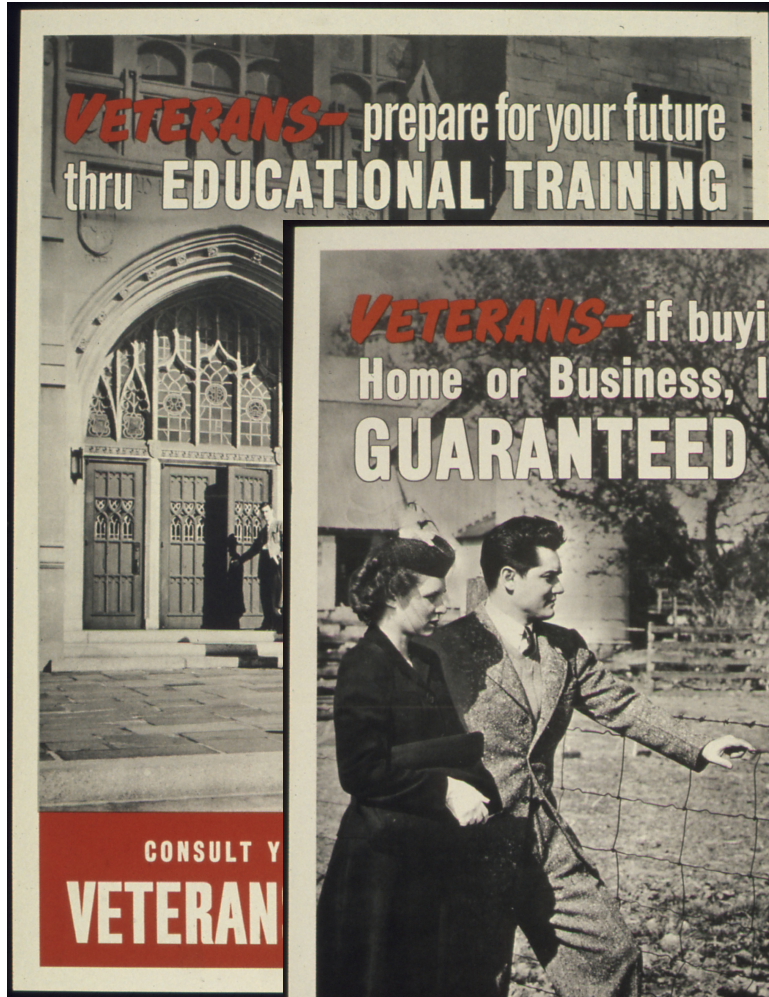
Homesteading Act of 1862

160 acres in the west

Distributed 80 million acres by 1900, mostly to white settlers

(Promoted assets)





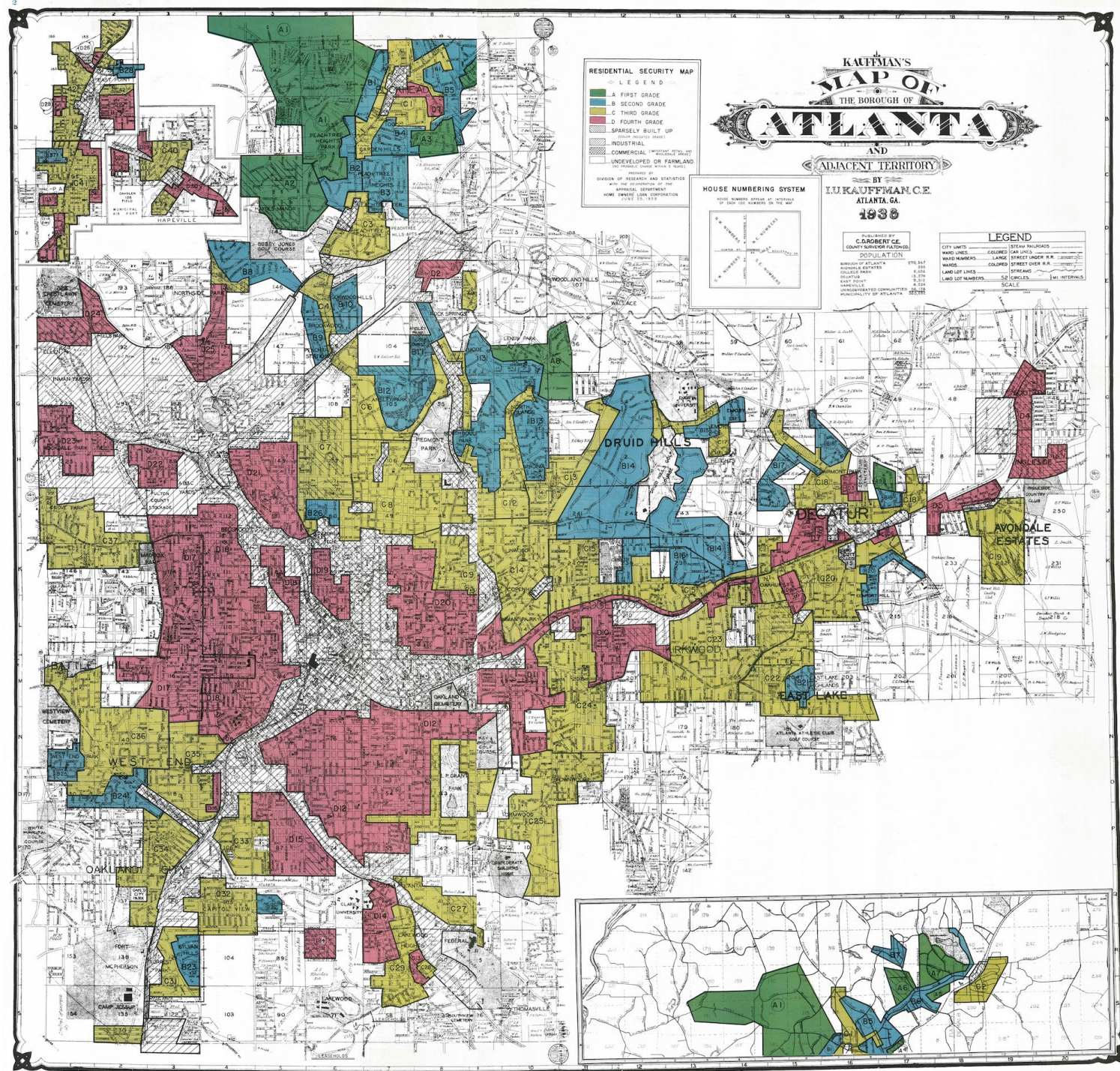
Designed
to boost
assets

Access to
programs
was unequal
and racialized

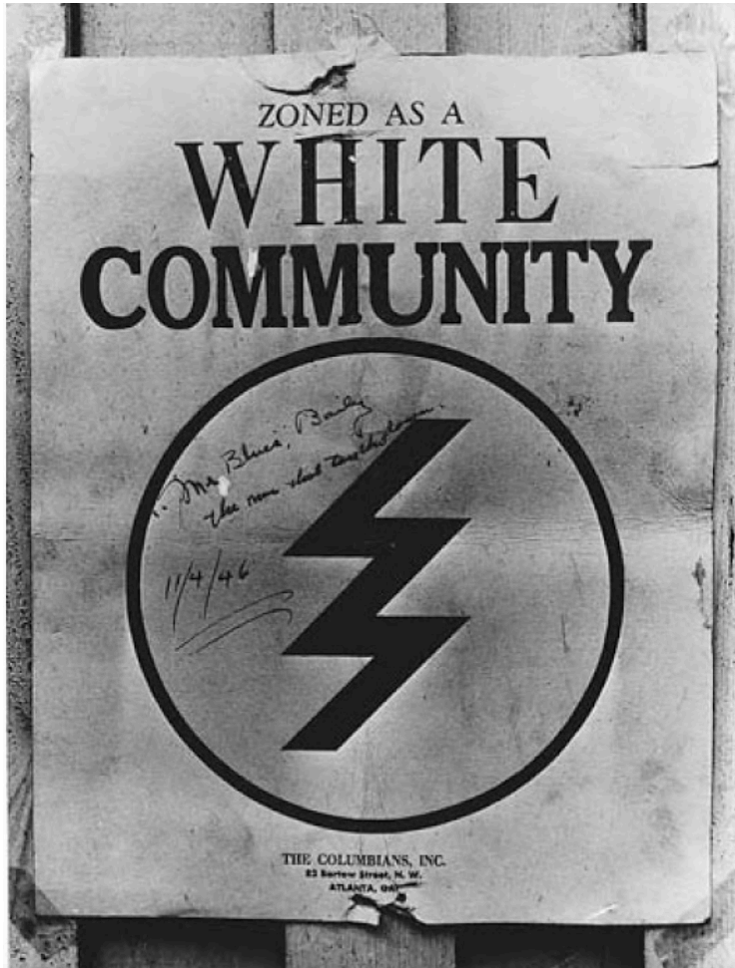
Implementation
of FHA was
systemically
racist

andhs.co/atl-redlining

andhs.co/atl-airport



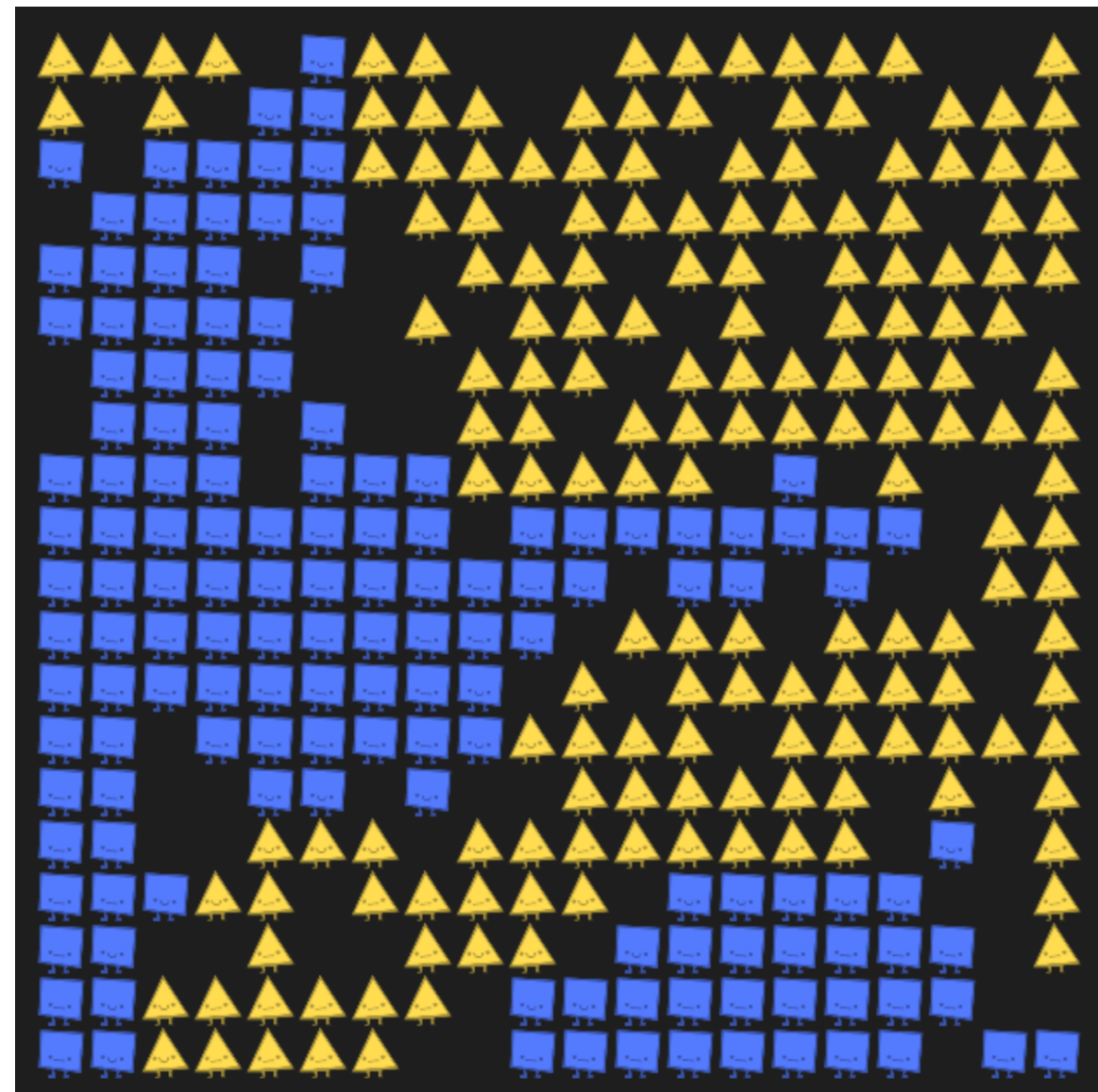
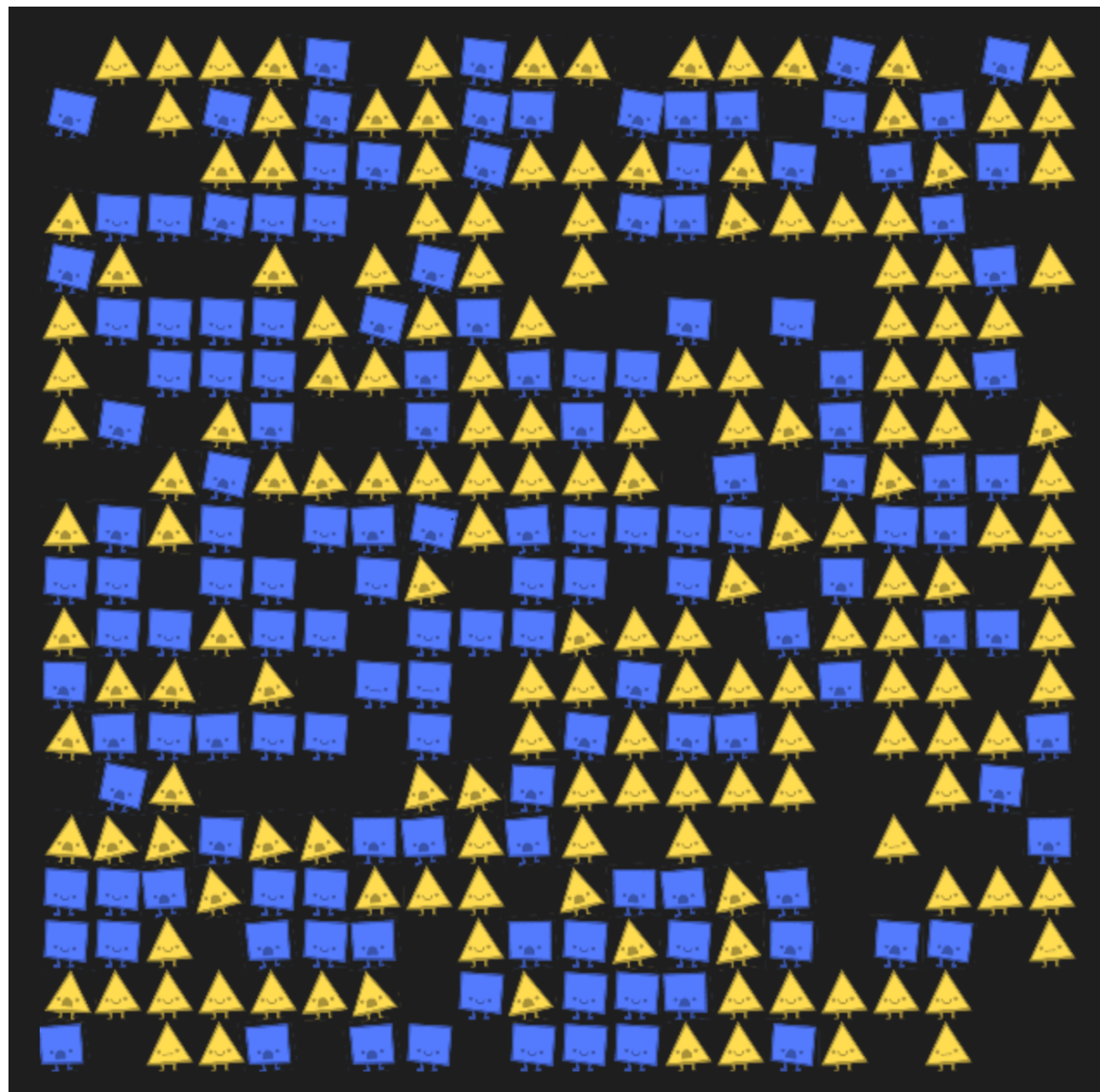
HOAs, zoning, and white flight in Atlanta



Civil rights laws in 1960s banned redlining

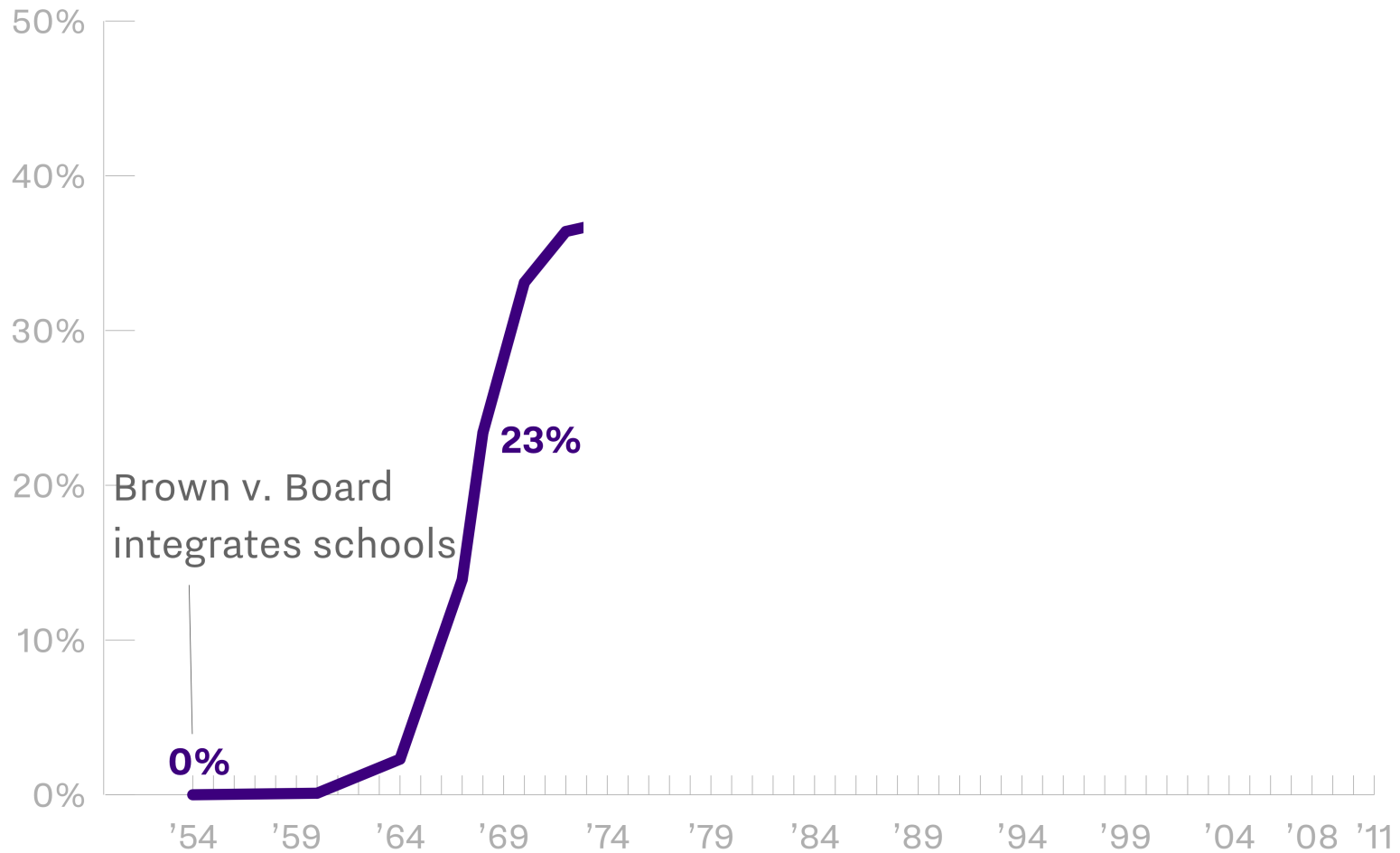


For people of color, banks are shutting the door to homeownership



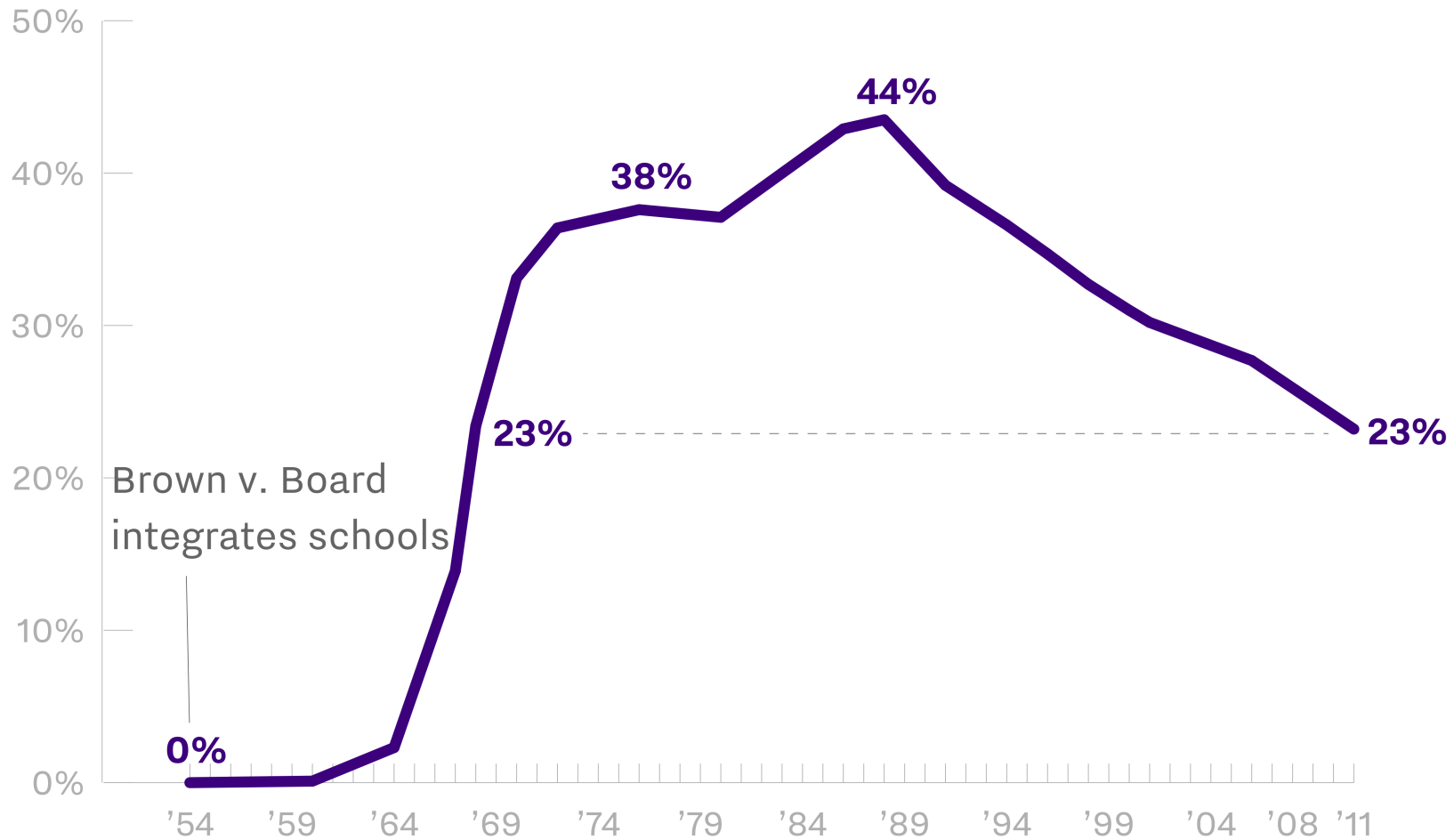


Percentage of black students in the South who attend schools that are at least 50 percent white



Data from the National Center for Education Statistics, via UCLA's Civil Rights Project

Percentage of black students in the South who attend schools that are at least 50 percent white



Data from the National Center for Education Statistics, via UCLA's Civil Rights Project



norman rockwell

“It is the unearned birthright of inheritance or other family transfers that has the greatest effect on wealth accumulation, and likewise is the largest factor erecting barriers to wealth accumulation for people of color.”

Darity, et al., 3

“There’s no amount of lattes and avocado toast that you can forego that will take the place of an FHA mortgage to your grandfather.”

Mehrsa Baradaran

POLICY SOLUTIONS

Capitalism and the free market?

Opinion

The Real Roots of ‘Black Capitalism’

Nixon’s solution for racial ghettos was tax breaks and incentives, not economic justice.

By Mehrsa Baradaran

Ms. Baradaran is the author of “The Color of Money: Black Banks and the Racial Wealth Gap.”

March 31, 2019



Opinion

The Real Reason

Nixon's solution for racial
economic justice.

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March 31, 2019

Before the 1968 presidential election, the choices for reform seemed clear: housing integration, reparations or both. One Republican candidate, **George Romney**, called for an integration plan to loosen the "high-income white noose" of white suburbs around black ghettos. Several candidates presented reparations proposals, one of which, introduced in Congress with Republican sponsors, called for federal capital investment and Treasury financing to build up capital in the ghetto.



The New York Times

Opinion

The Real Reason

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While a generation of white Americans had gained wealth through discriminatory government-sponsored credit subsidies for student and mortgage loans, **Mr. Nixon pointed blacks to the free market and wished them luck**. Black capitalism was so politically appealing, every administration since Mr. Nixon's has adopted it in some form. Black capitalism morphed into Ronald Reagan's "enterprise zone" policy, Bill Clinton's "new market tax credits," and Barack Obama's "promise zones."

POLICY SOLUTIONS

Capitalism and the free market?

Baby bonds?

Federal job guarantee?

Target assets, not income, for lasting change

TRAGEDIES AND CPRS

WHAT IS A TRAGEDY?

Sad event vs. τραγωδία

“The essence of dramatic tragedy is not unhappiness. It resides in the solemnity of the remorseless working of things.”

Deliberate choices of humans set off inevitable and inescapable chains of events

COMMON POOL RESOURCES

Non-excludable

Rivalrous



TRAGIC TRAJECTORY

If the commons is under capacity, new animals can be added without damaging the system

So people add more animals. It's rational.

Commons goes over capacity

oh no

"Therein is the tragedy. Each man is locked into a system that compels him to increase his herd without limit—in a world that is limited. Ruin is the destination toward which all men rush, each pursuing his own best interest in a society that believes in the freedom of the commons. **Freedom in a commons brings ruin to all.**"

Garrett Hardin, "The Tragedy of the Commons" (1968), p. 1244

CPR EXAMPLES

Fisheries

Forests

Pastures

Air

Antibiotics

Beautiful views

Fruit in public parks

Road capacity

Christmas creep

HOW DO WE FIX CPR PROBLEMS?

Privatization

Government

**Informal institutions
and self-regulation**

Third sector

PRIVATE SOLUTIONS TO CPR PROBLEMS

**Make the non-excludable
excludable**



PROPERTY RIGHTS & PERMITS

Property rights

Assign rights to all stakeholders

Parcel the commons

Incentive to overuse disappears

Permits

Assign right to infringe on CPR

PROPERTY RIGHTS & PERMITS

BUT...

Coasian bargaining issues

What if people get bad parcels?

What about the air? The ocean?

It's Pareto efficient, but is it fair?

GOVERNMENT SOLUTIONS TO CPR PROBLEMS

REGULATION & TAXATION

Regulation

Monitor the commons and punish defectors

Abatement is fixed

Feels “fair”; is more politically feasible

REGULATION & TAXATION

But this requires...

...knowledge of CPR capacity

...costless monitoring

...costless punishment

...costless administration

...benevolent government

REGULATION & TAXATION

Taxation

Move PMC in line with SMC and cancel out DWL

Can reduce taxes on other things

Increases flexibility

REGULATION & TAXATION

But...

...it's hard to set taxes correctly

...it leads to unknown abatement,
since some will just pay tax

INFORMAL SOLUTIONS TO CPR PROBLEMS

Institutions!

**Why do we follow
informal institutions?**



“Can we agree that duels are dumb and immature?”

“Sure // But your man has to answer for his words, Burr”

“With his life? We both know that’s absurd, sir”

INFORMAL INSTITUTIONS

Presidential term limits

Presidential personal finances

Senate filibuster and nuclear option

**Violation of norms can lead
to quick formal fixes**

But formalization drives out intrinsic motivations



FIXING ALANYA'S CPR

Rely on local knowledge

Rotating system for sites

Violations handled in coffee house

Fishermen still had to be licensed

**Local solutions require
legitimacy and authority**

SELF-GENERATED INSTITUTIONS

Good institutions begat by good prior
institutions begat by good prior
institutions begat by... 🐢 🐢 🐢 🐢 🐢

People in close-knit groups naturally
create norms that maximize aggregate
welfare and enforce themselves



Traditional vs. modern cattlemen in Shasta County, CA

THIS DOESN'T ALWAYS WORK!



Bodrum, Turkey

More fishermen,
more cooperatives,
more tourists

THIRD SECTOR SOLUTIONS TO CPR PROBLEMS

WHAT IS THE THIRD SECTOR?

Organizations and institutions that aren't private and aren't public

Voluntary organizations that advocate for reform, rights, and public goods

Fill in service gaps not covered by public and private sectors

Education

Health

Poverty

Advocacy

WHAT MAKES THE THIRD SECTOR?

“value-driven action and commitment from individuals operating within it”

People not motivated by coercion (government) or profit (private), but by values

Organized

Private

Self-governing

No distribution of profits

Voluntary

BUT WHAT IS IT REALLY?

" At times the concept [of the third sector] seems to take on the property of a gas, expanding or contracting to fit the analytic space afforded it by each historical or sociopolitical setting."

Michael W. Foley and Bob Edwards, "The Paradox of Civil Society"

DIFFERENT CONCEPTIONS

Extension of state power

Antonio Gramsci

Counterweight to state

Revolutionaries

Essential to cooperation in a state

De Tocqueville, Putnam

MORAL OF TODAY'S STORY

**Governments can be
destructive!**

**Governments don't
need to do everything**