PUBLIC POLICY FOR FAIRNESS & EFFICIENCY I

MPA 612: Economy, Society, and Public Policy

January 28, 2019

Fill out your reading report on Learning Suite

PLAN FOR TODAY

Incentives

Efficiency and power

Creating economic policy

INCENTIVES

WHY DO PEOPLE DO WHAT THEY DO?

People get utility from doing stuff

Extrinsic rewards   Intrinsic rewards

These can get distorted and crowded out!

WHY CARE AS AN MPA?

Good policy uses incentives to channel behavior toward some desired outcome. Bad policy either ignores incentives or fails to anticipate how rational individuals might change their behavior to avoid being penalized.

Naked Economics, p. 39

PERVERSE INCENTIVES

IMPORTANCE OF INCENTIVES

People respond to what you signal

You get what you measure

Daycares and late pickups

Blood donors

Taxes Favors Thanksgiving

Playgroups and daycares MLMs

NED and democracy promotion

Extrinsic rewards can crowd out intrinsic motivations

Don't violate important social relationships by reducing services to a market transaction

Pay enough or don't pay at all

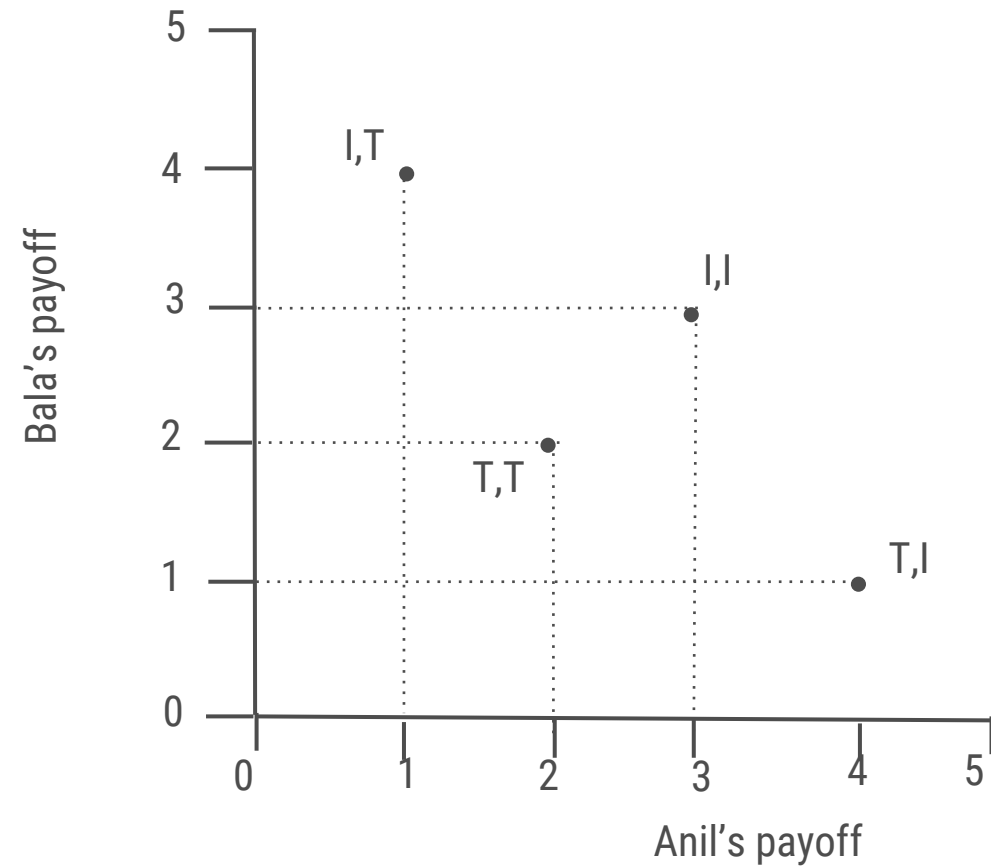What does this mean for you as a public administrator?

EFFICIENCY
& POWER

PARETO EFFICIENCY

No alternative allocation where one person would be better off and nobody would be worse off

The most economic pie is consumed without taking pieces away from others

	Bala	
	Magic bugs (I)	**Poison (T)**
Magic bugs (I)	**3, 3**	**1, 4**
Poison (T)	**4, 1**	**2, 2**

(Anil labels the rows.)

I,I = Both use Integrated Pest Control (IPC)

I,T = Anil uses IPC, Bala uses Terminator

T,I = Anil uses Terminator, Bala uses IPC

T,T = Both use Terminator

TRAGEDY OF THE COMMONS

		Farmer 2	
		Use water normally	**Double water use**
Farmer 1	**Use water normally**	6, 6 ⭐	2, 8 ⭐
	Double water use	8, 2 ⭐	3, 3

IS PARETO THE BEST STANDARD?

There can be more than one Pareto-efficient allocation (or none!)

There are no rankings

No consideration of power

POWER

The ability to do what we want in opposition to the intentions of others

WHO SHOULD DECIDE?

		Bala	
		Left	Right
Anil	Left	**Live, Live**	**Die, Die**
	Right	**Die, Die**	**Live, Live**

CREATING ECONOMIC POLICY

Annual income	Tax rate
$0−$10,000	0%
$10,001−$50,000	10%
$50,001−$100,000	20%
$100,001−$300,000	30%
$300,000−$∞	50%

1: Progressive tax rate
Increasing marginal rates

2: Flat tax
15% regardless of income
$80,000 × 15% = **$12,000**

Jody earns $80,000 a year.

She pays 0% on first $10,000	$10,000 × 0% = $0
She pays 10% on the next $40,000	$40,000 × 10% = $4,000
She pays 20% on the last $30,000	$30,000 × 20% = $6,000
Total tax:	$0 + $4,000 + $6,000 = **$10,000**

Veil of ignorance

Original position