GOVERNMENT INSTITUTIONS II

MPA 612: Economy, Society, and Public Policy

March 27, 2019

Fill out your reading report on Learning Suite

PLAN FOR TODAY

Governments in the economy

Democracy

Limits of governments

Talk like an economist

Final project

Groups: yea or nay?

Exam 3

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
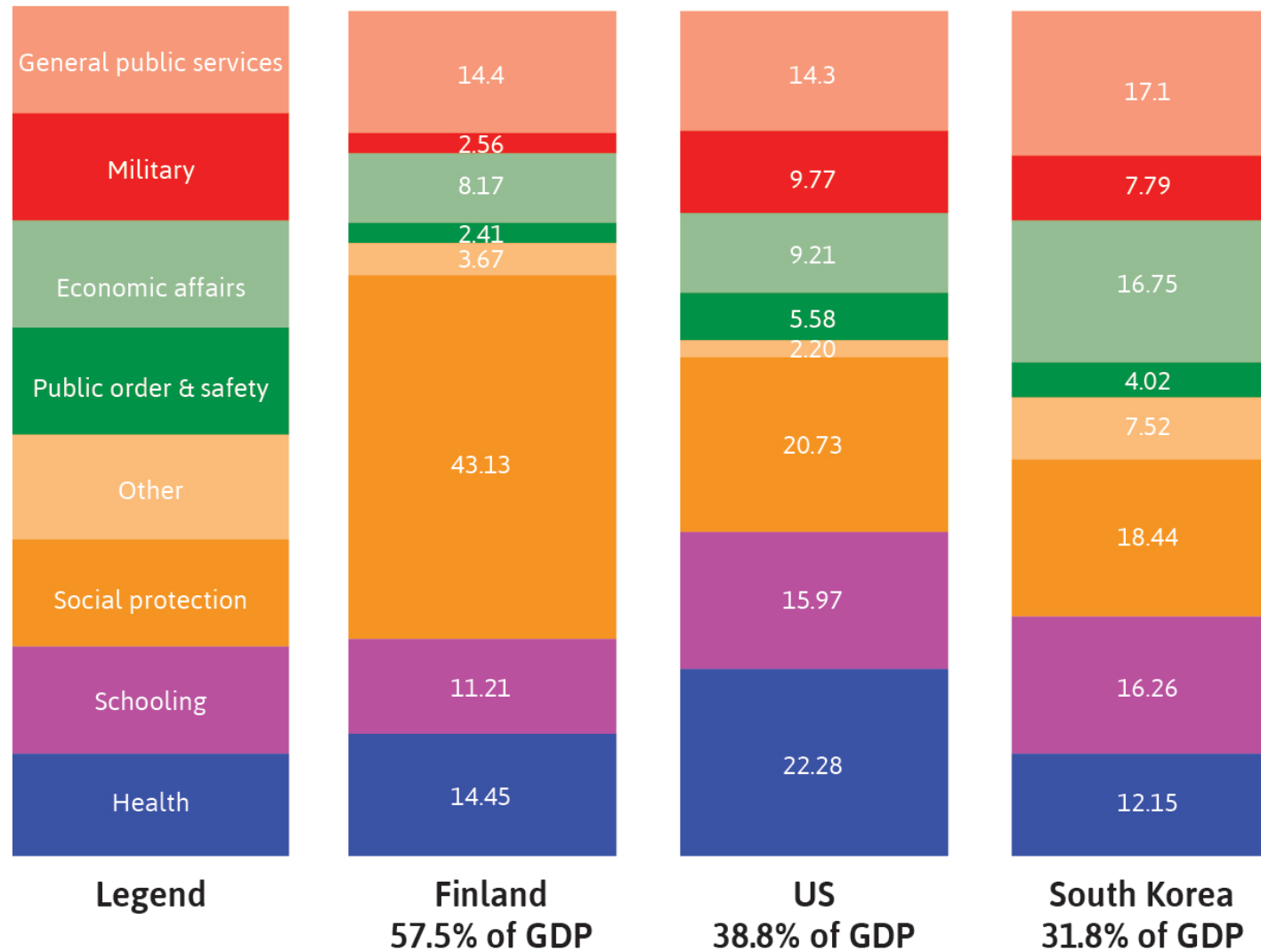
Elections

Constitutional restrictions

DEMOCRACY

THREE KEY INSTITUTIONS

Rule of law

Civil liberties

Inclusive, free, and decisive elections

Legend
- General public services
- Military
- Economic affairs
- Public order & safety
- Other
- Social protection
- Schooling
- Health

Finland
57.5% of GDP
- 14.4
- 2.56
- 8.17
- 2.41
- 3.67
- 43.13
- 11.21
- 14.45

US
38.8% of GDP
- 14.3
- 9.77
- 9.21
- 5.58
- 2.20
- 20.73
- 15.97
- 22.28

South Korea
31.8% of GDP
- 17.1
- 7.79
- 16.75
- 4.02
- 7.52
- 18.44
- 16.26
- 12.15

What makes these different?

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
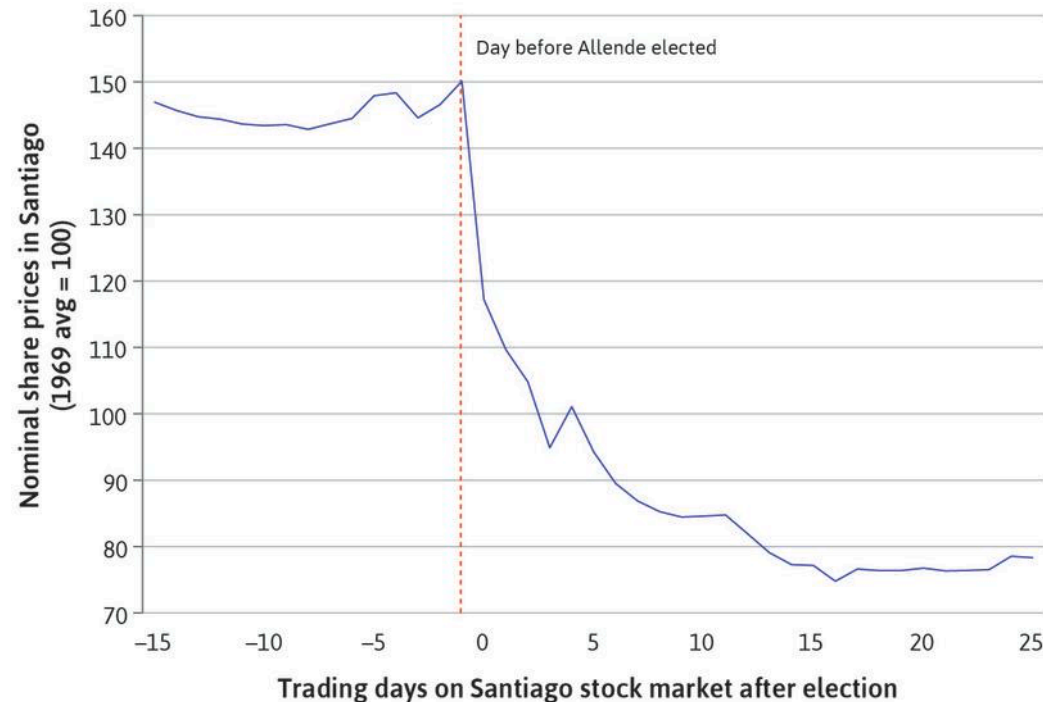
GOVERNMENT FAILURES

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

Peanut butter

VOTING

Policy		Anil	Bala	Carlos
(1/2, 1/3, 1/6)	X	1	2	3
(1/3, 1/6, 1/2)	Y	2	3	1
(1/6, 1/2, 1/3)	Z	3	1	2

X > Y   **Y > Z**   **Z > X**

Condorcet paradox

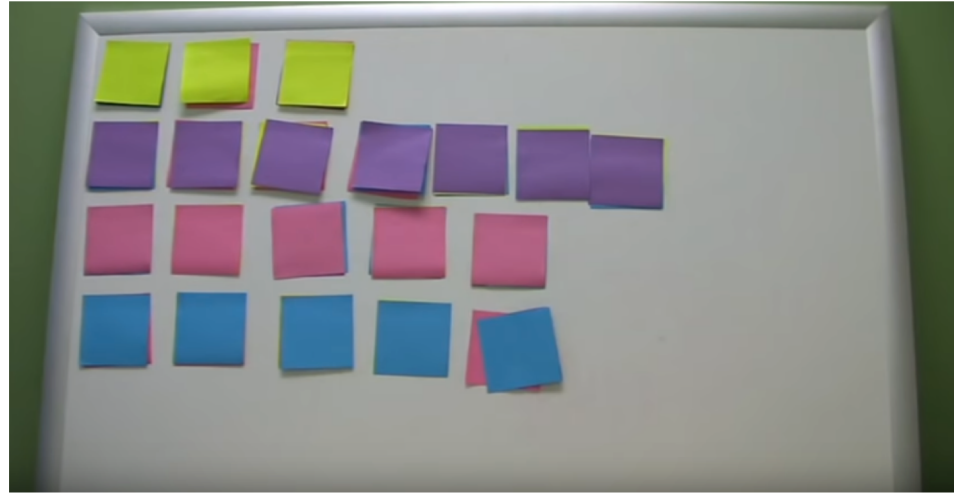**Vote intransitivity**

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?

Ranked choice / Instant runoff

Encodes more information in vote + changes campaign calculus

Still suffers from Condorcet paradox

MATH PRACTICE!

The US can produce 14 billion bushels of corn and 443 million bushels of rice

China can produce 8 billion bushels of corn and 7.7 billion bushels of rice

Who has absolute advantage?
Who has comparative advantage?
What price of rice/corn would be advantageous?
What would combined PPF look like