

INSTITUTIONAL ALTERNATIVES

MPA 612: Economy, Society, and Public Policy

April 3, 2019

*Fill out your reading report
on Learning Suite*

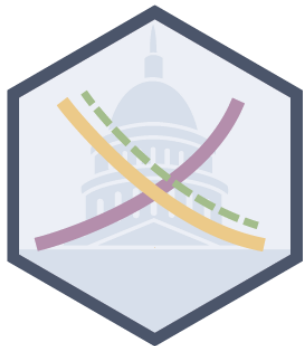
Capitalism, markets, and public policy

Growth Social dilemmas
Measurement Fairness

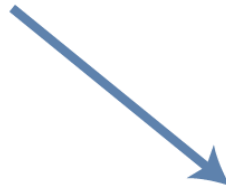


Scarcity, power, and inequality

Preferences Institutions Rights



ECONOMY, SOCIETY, AND PUBLIC POLICY



Evaluating and implementing policies

Cost-benefit analysis Experiments
Causal inference Politics



Market failures, governments, and politics

Externalities Public goods Rent seeking
Monopolies Government intervention



Economic models

Firms and markets Credit markets
Labor markets Macroeconomics

PLAN FOR TODAY

Tragedies and CPRs

Private solutions to CPR problems

Government solutions to CPR problems

Informal solutions to CPR problems

Third sector solutions to CPR problems

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 don't
need to do everything**