

Things Governments Do

- Raise revenue;
- Fix market externalities;
- Can create deadweight loss.

- Natural monopoly regulation to avoid price distortions, e.g. telephone company prices;
- Social regulation to correct for market inefficiency, e.g. bank solvency;
- Oligopolistic regulation, e.g. entry, exit, price, and service levels in a competitive industry
 - require coordinating activity of many firms.

Subsidies and Grants

- Incentive effects, you want to generate activity that markets/volunteerism can provide in adequate quantity;
- Wealth effects, e.g. redistribution;
- There may be tradeoffs, e.g. you want to redistribute to lift people out of poverty without distorting work incentives.

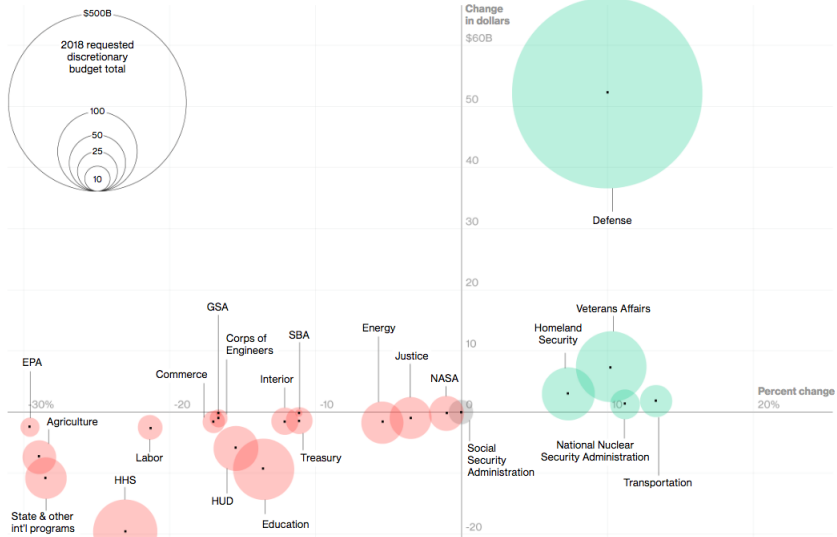
Desired services are easier than paternalistic services!

Agency Budgets

- Refocus agency priorities;
- Signal approval of agency work;
- Create inventive or wealth effects.

Proposed changes to agency discretionary budgets in 2018*

● Increase ● Decrease ● No change



- Suboptimal production of information;
- Suboptimal production of information;
- Decrease transaction costs (e.g. Coase Thm).

Structure of Private Rights

- Allocation of risk;
- Manage adjudication costs;
- Generate wealth effects via compensation.

Framework of Economic Activity

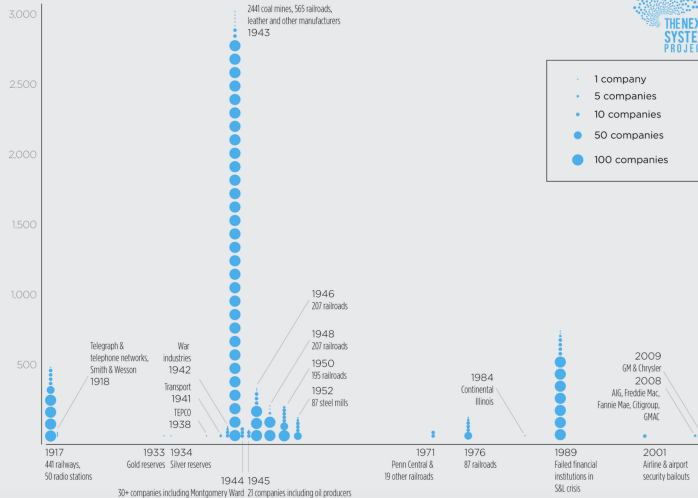
- More government intervention to deal with:
 - monopoly or anti-competitive collusion;
 - market generated shifts in balance of power between labor and capital;
 - Factors that prevent efficient consumption;
- More government intervention because:
 - Too costly;
 - Existing intervention is captured;
 - Existing intervention is OBE.

Problem definition!

Financing and Contracting

- Deal with corruption or inefficiency in government contracting;
- Fix inefficiencies in capital markets;
- Save too-big-to-fail economic entities/consumption smooth.

NATIONALIZATION IN THE UNITED STATES, 1917-2009



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