

# 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

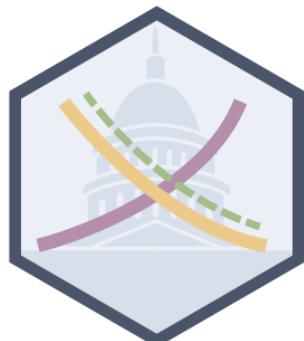
Causal inference      Politics



## **Market failures, governments, and politics**

Externalities      Public goods      Rent seeking

Monopolies      Government intervention



# **ECONOMY, SOCIETY, AND PUBLIC POLICY**

# PLAN FOR TODAY

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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

# NATIONAL REPUBLICAN



# PLATFORM

ADOPTED BY THE

NATIONAL REPUBLICAN CONVENTION,

HELD IN CHICAGO, MAY 17, 1860.

*Resolved*, That we, the delegated representatives of the Republican electors of the United States, in Convention assembled, in discharge of the duty we owe to our constituents and our country, unite in the following declarations:

The Republican Party.

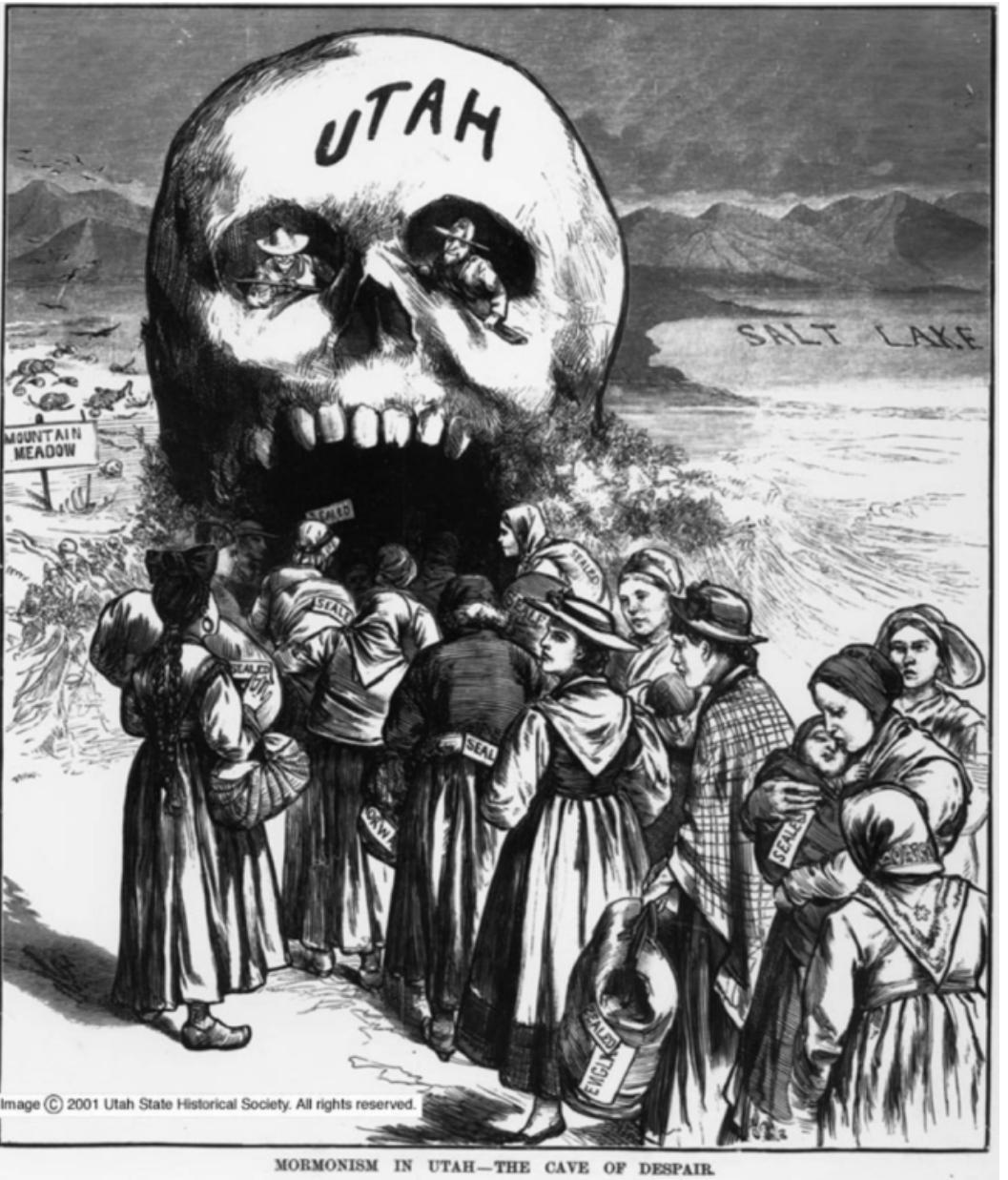
#### **Freedom, the Normal Condition of Territories.**

8. That the normal condition of all the territory of the United States is that of Freedom: That as our Republican fathers, when they had abolished slavery in all our national territory, ordained that "no person should be deprived of life, liberty, or property, without due

Twin relics of barbarism

Slavery

Polygamy



## 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.



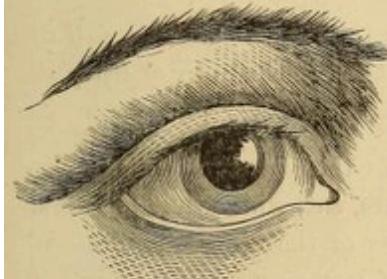
Monoeroticity Small—Brigham Young, the noted polygamist.

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

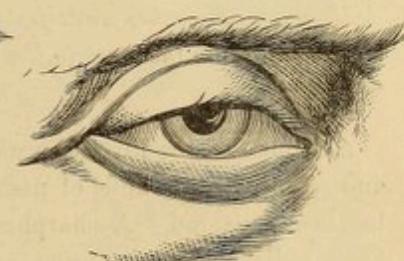
## POLYEROTICITY.—POLYGAMY.

### THE DISPOSITION TO LOVE MANY.

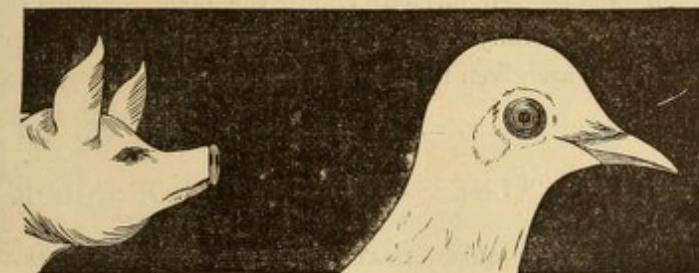
*The amount of love for the opposite sex may be known by the fulness of the eyes, and its quality by the shape of the commissures, or opening between the lids of the eyes. When the opening is quite almond-shaped, promiscuous love prevails in that form; if the commissure has great vertical measurement,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



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

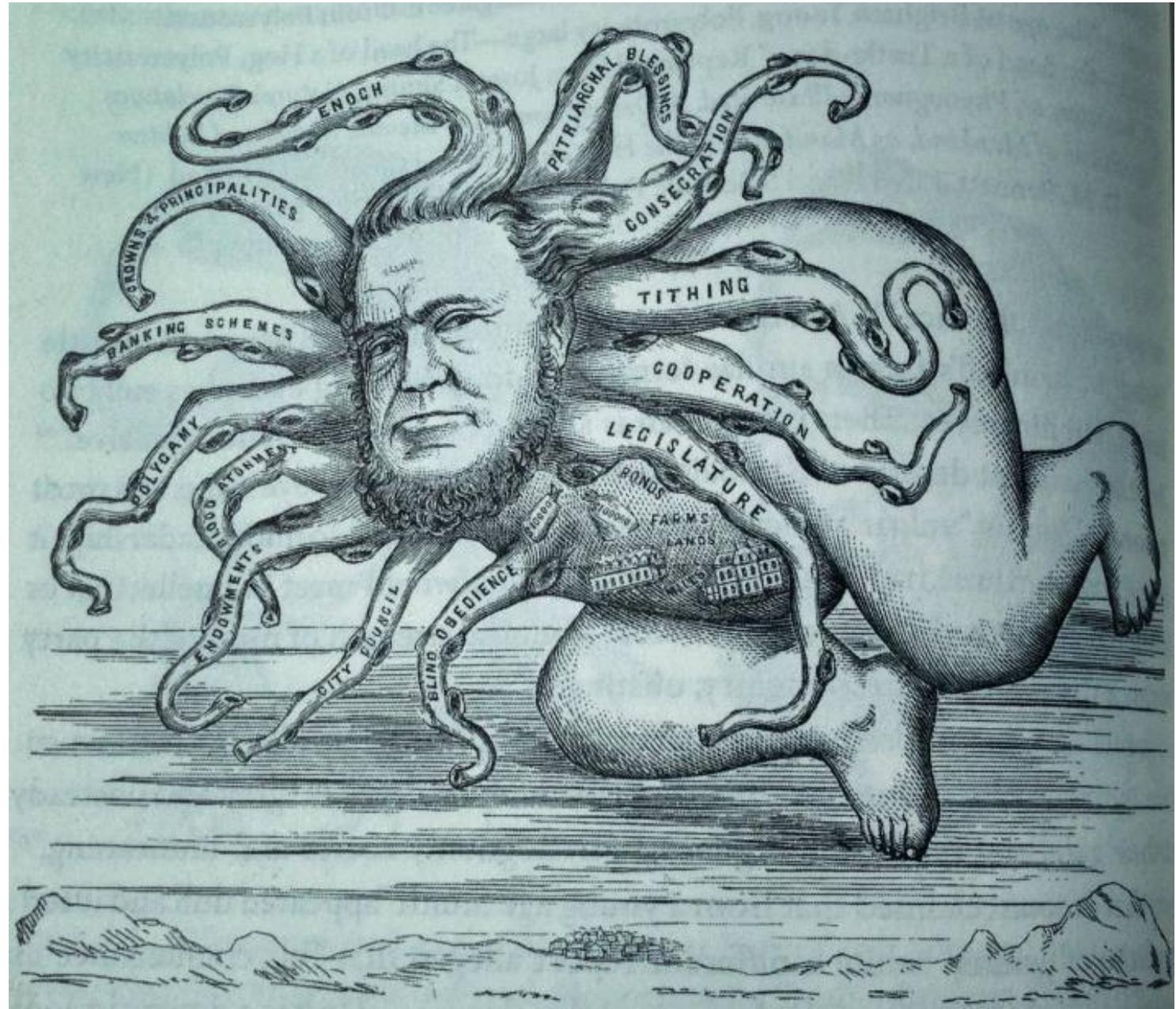


Polyeroticity Large—The eye of Brigham Young.



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**

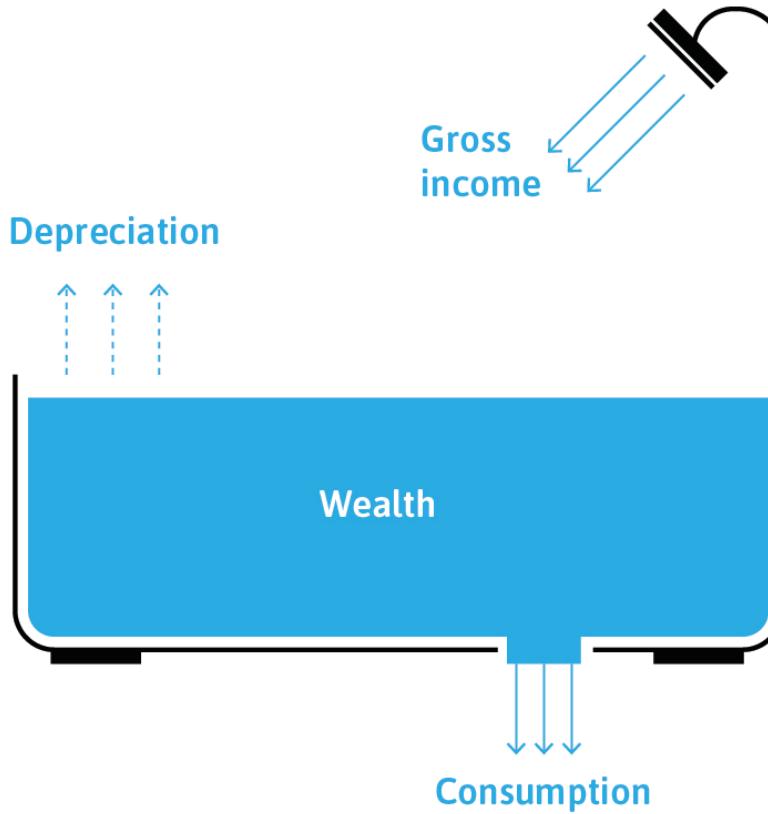
PUBLIC POLICY  
AND THE INSTITUTIONAL  
LEGACIES OF SLAVERY

# 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?

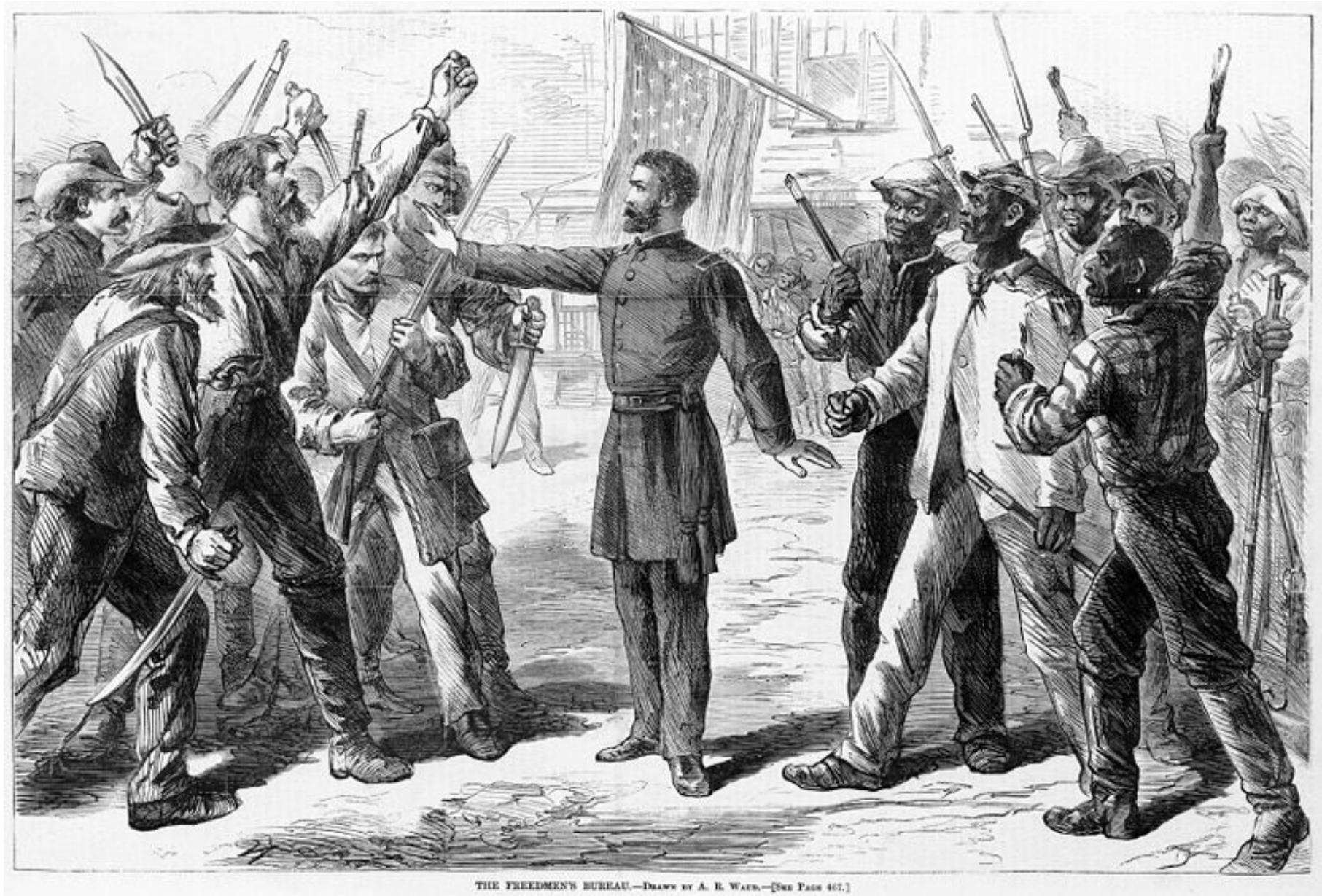
**“It’s all right to tell a man to lift himself by his own bootstraps, but it is a cruel jest to say to a bootless man that he ought to lift himself by his own bootstraps.”**

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

**“40 acres  
and a mule”**

**The  
Freedman's  
Bureau**

**Designed  
to promote  
assets**



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.*

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

*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 pre-emption claim, or which may, at the time the application is made, be subject to pre-emption 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 to make affidavit.

Contents of affidavit.

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

Affidavit.

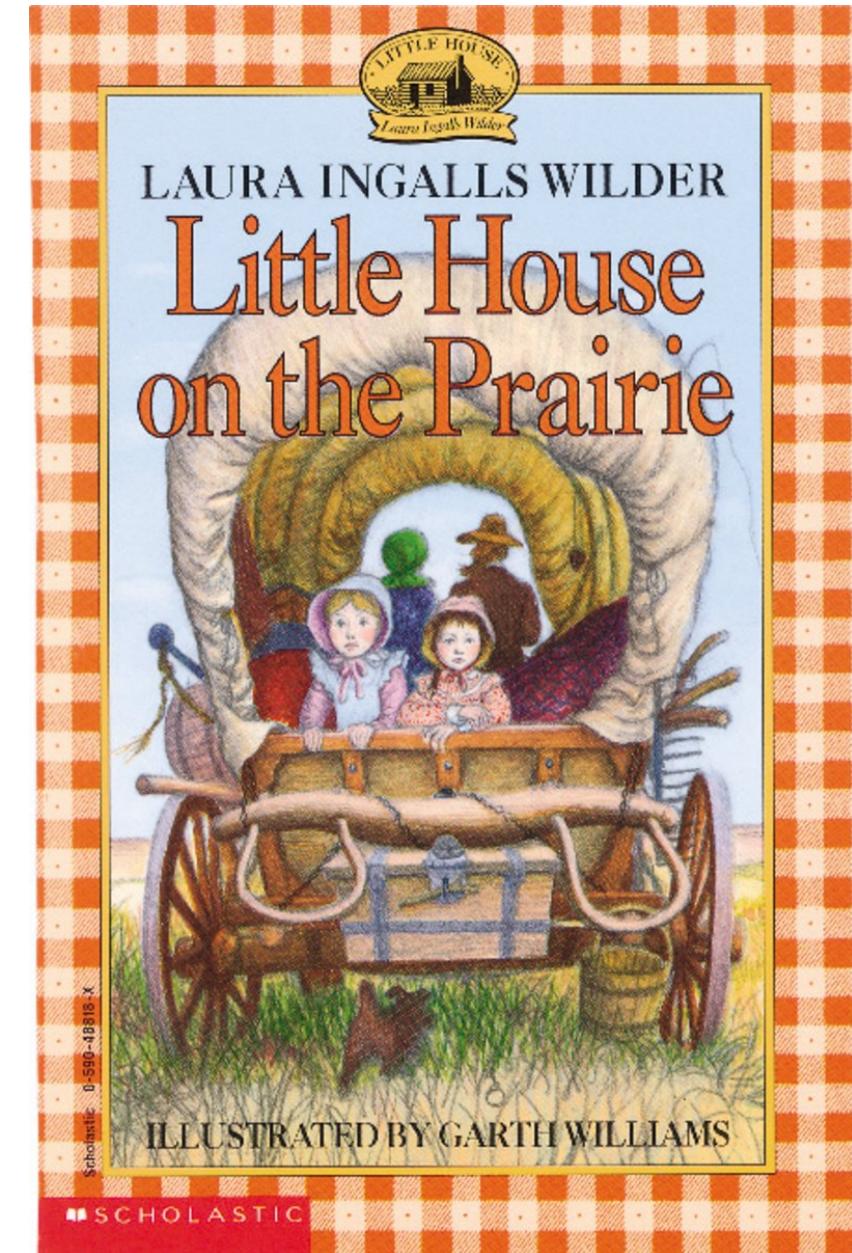
Provision in case of death of applicant, &c.

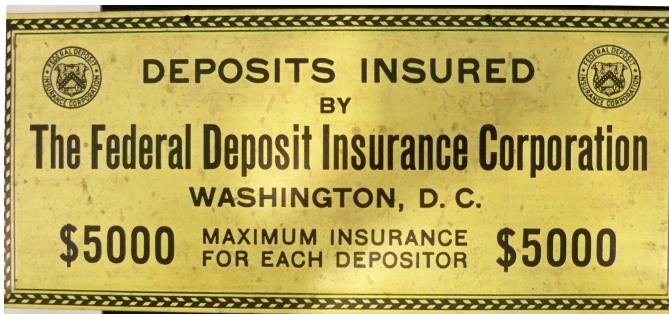
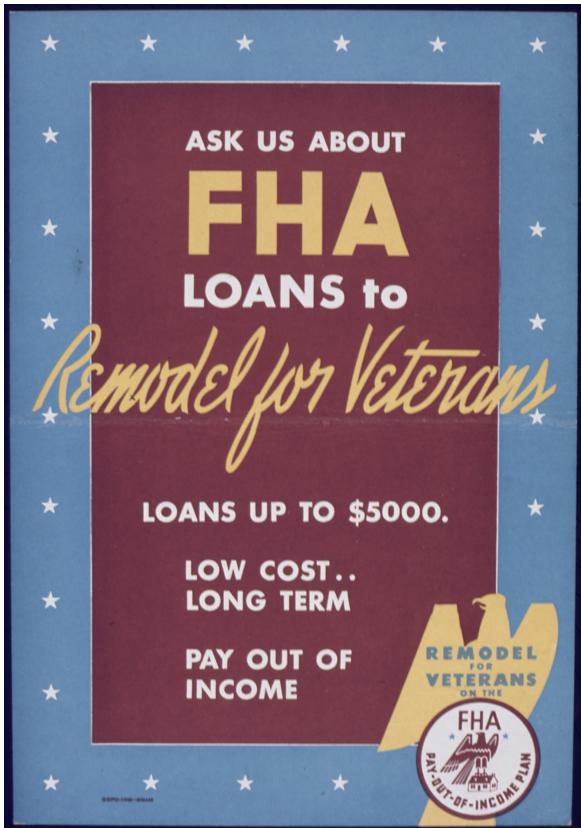
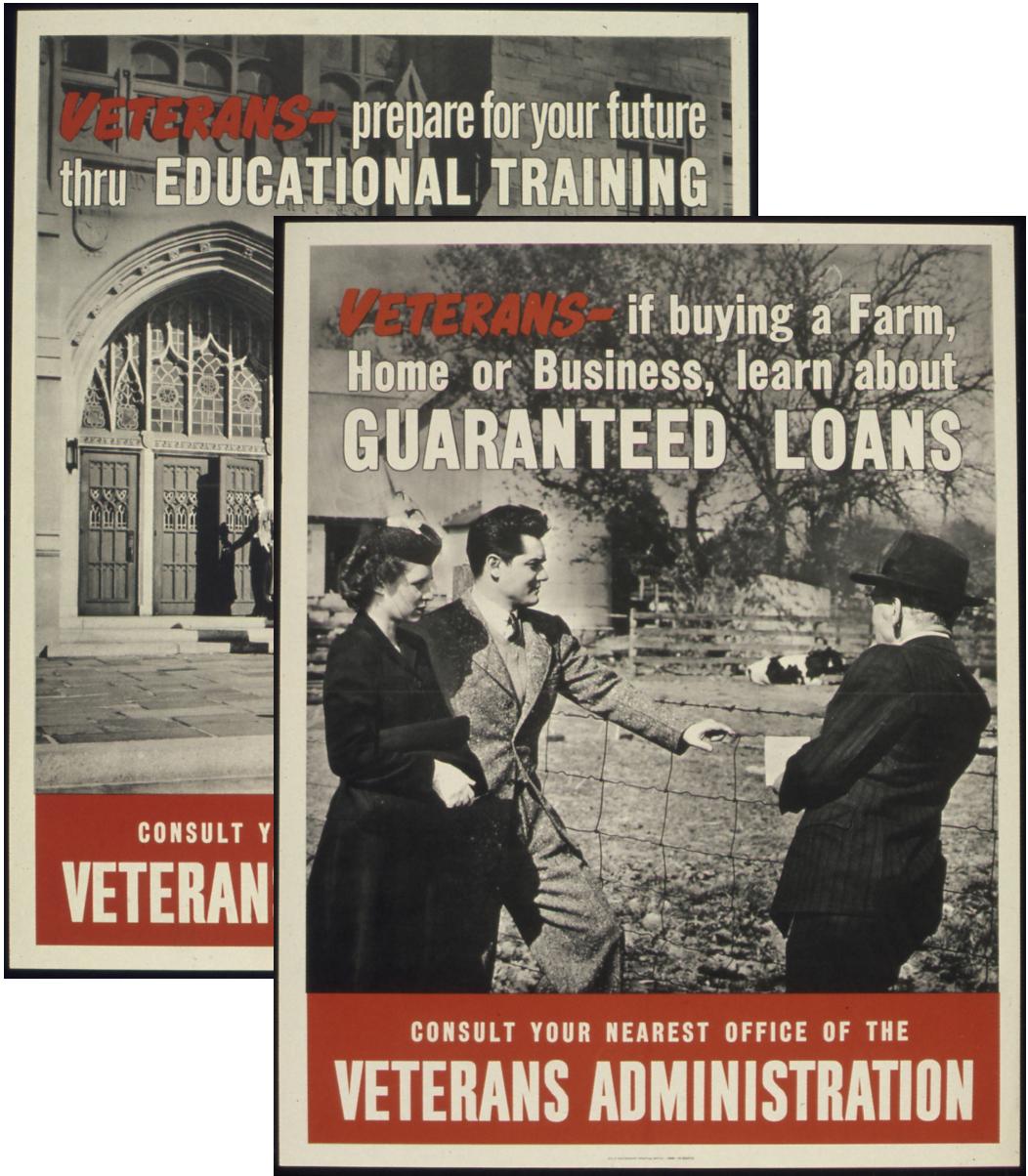
# Homesteading Act of 1862

160 acres in the west

Distributed 80 million acres by 1900, mostly to white settlers

(Promoted assets)





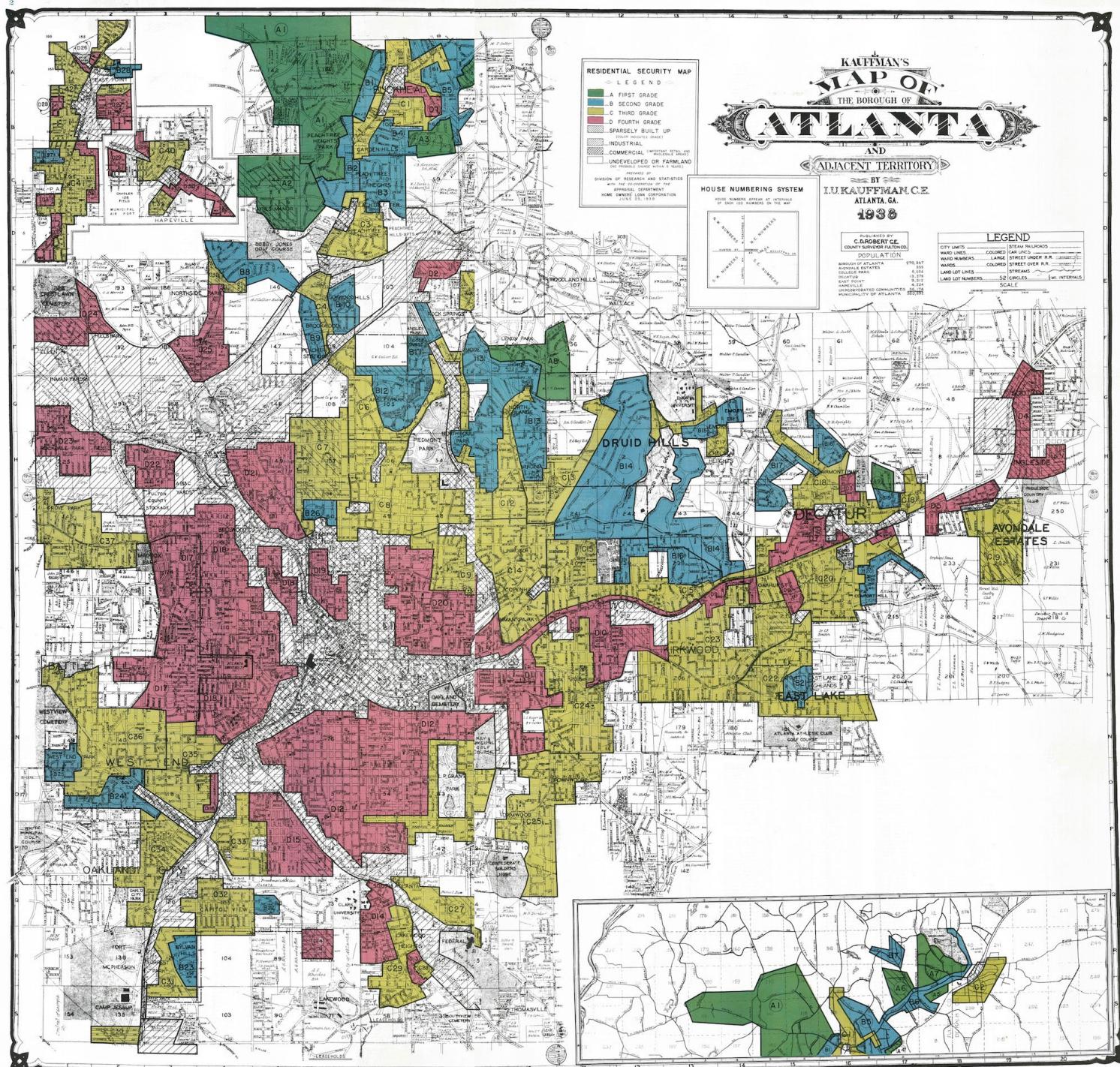
Designed  
to boost  
assets

Access to  
programs  
was unequal  
and racialized

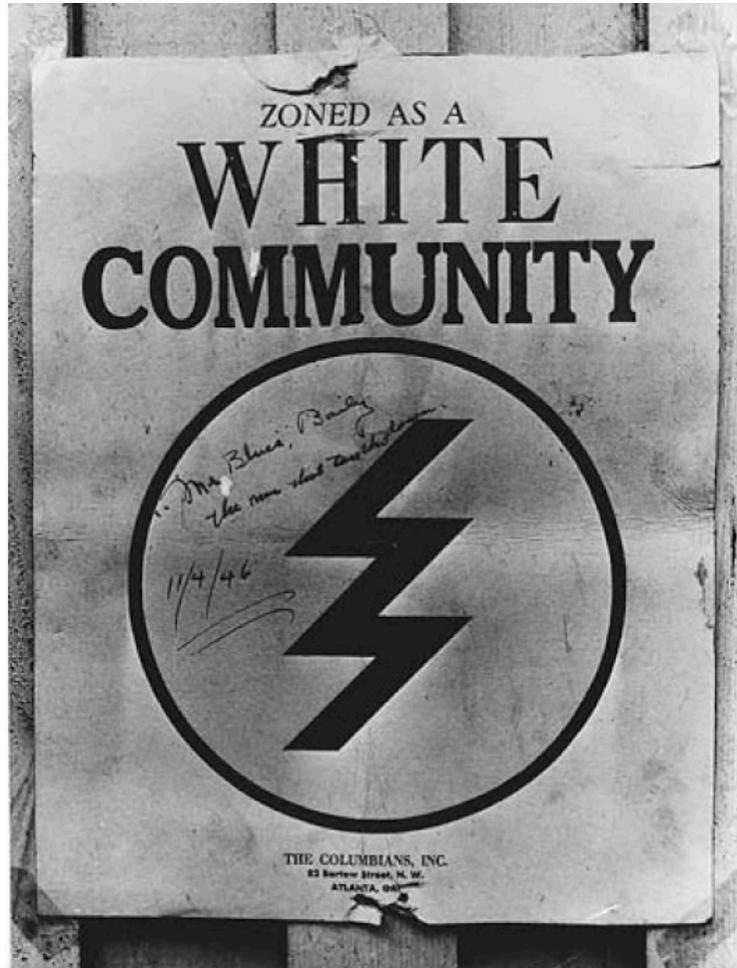
# Implementation of FHA was systemically racist

[andhs.co/atl-redlining](http://andhs.co/atl-redlining)

[andhs.co/atl-airport](http://andhs.co/atl-airport)



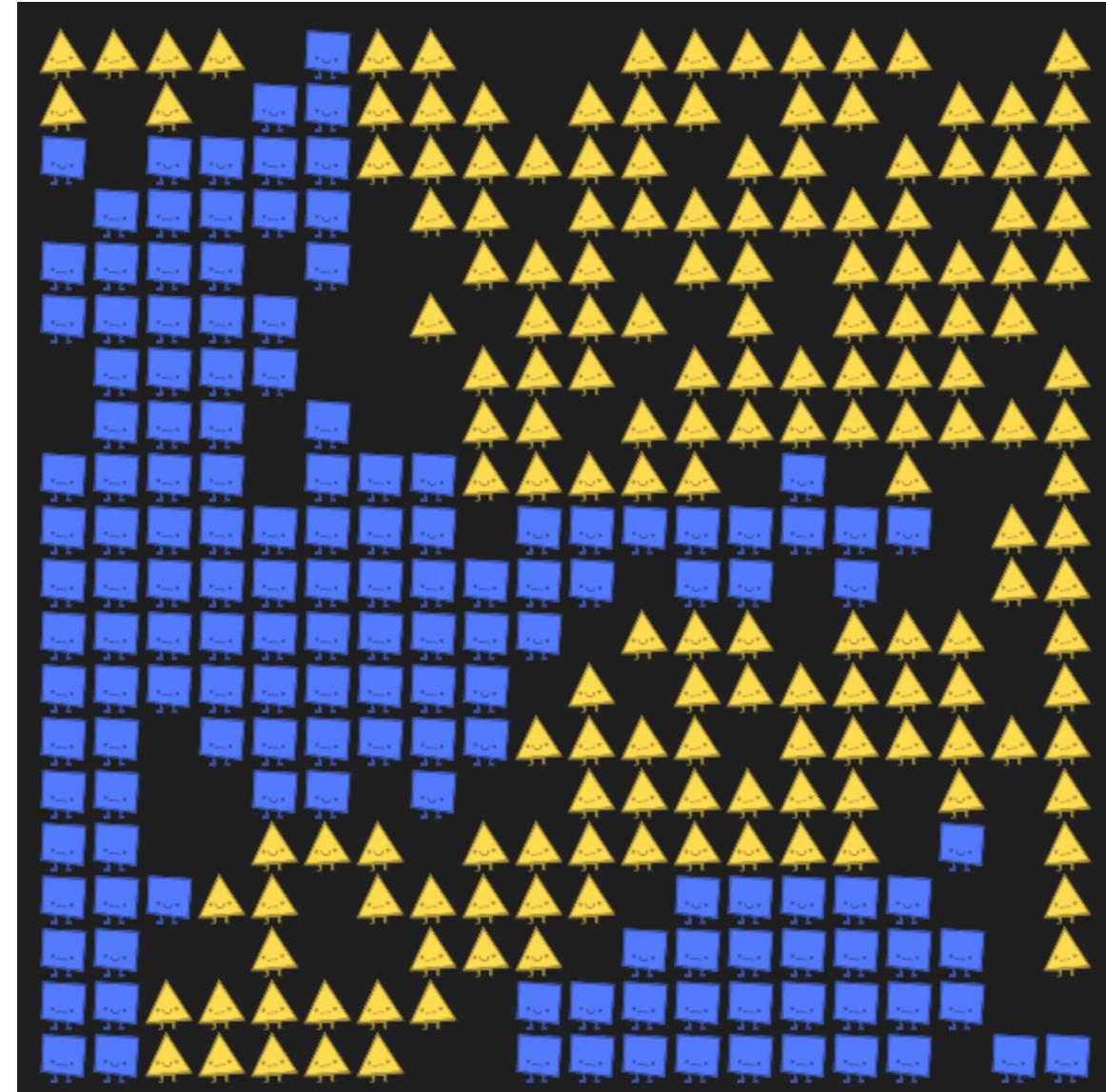
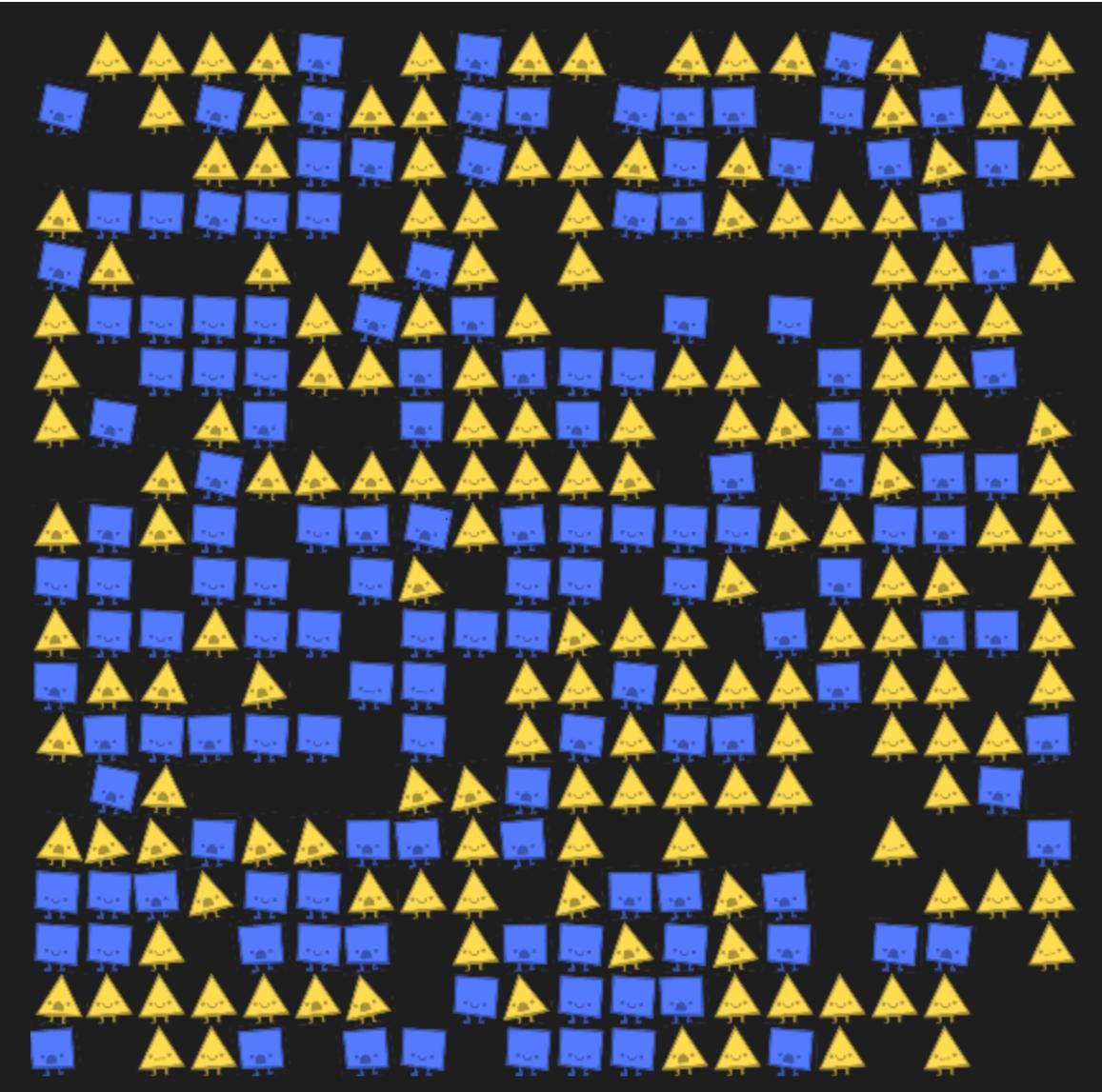
# HOAs, zoning, and white flight in Atlanta



# Civil rights laws in 1960s banned redlining



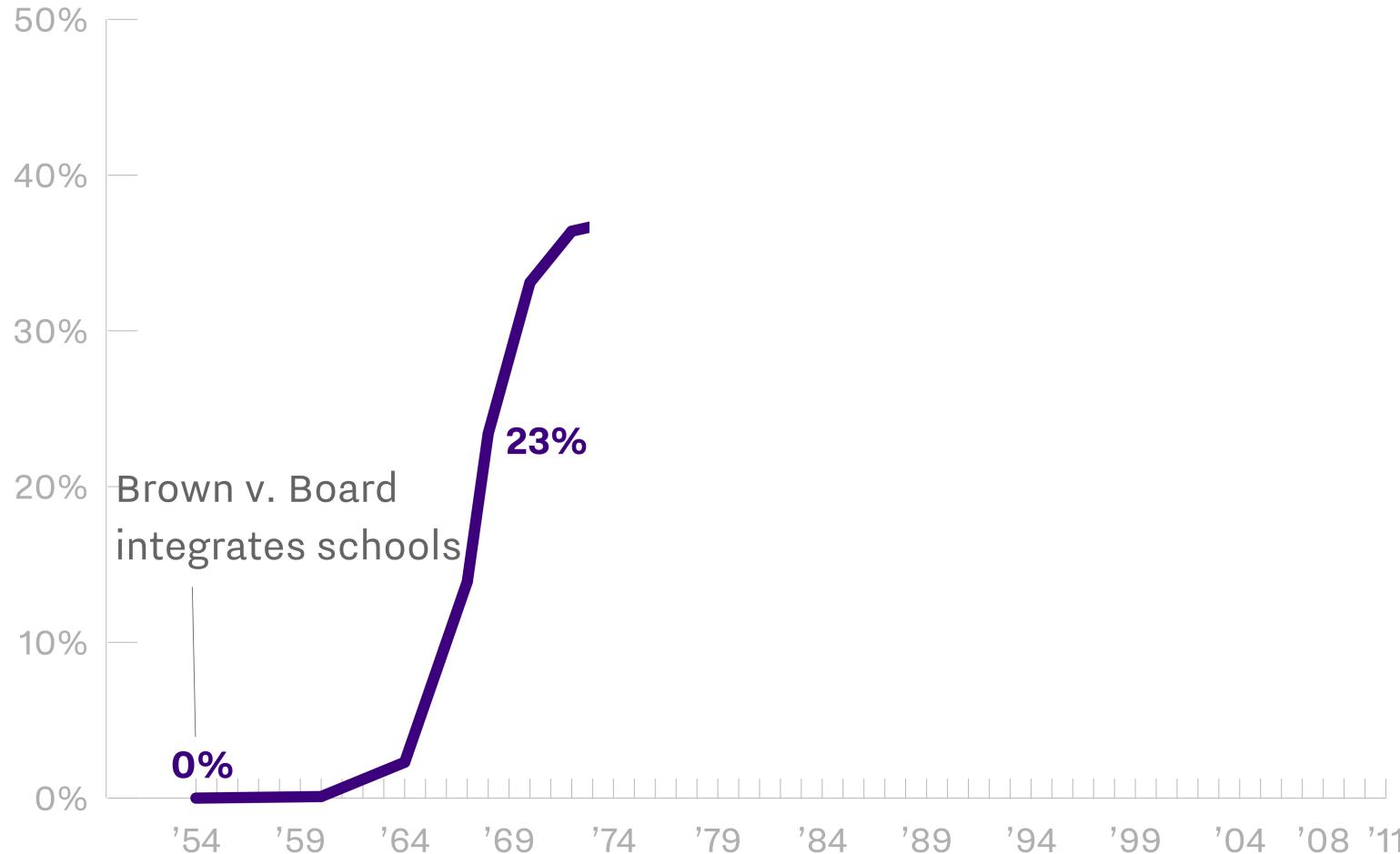
For people of color, banks are shutting  
the door to homeownership



[ncase.me/polygons/](http://ncase.me/polygons/)

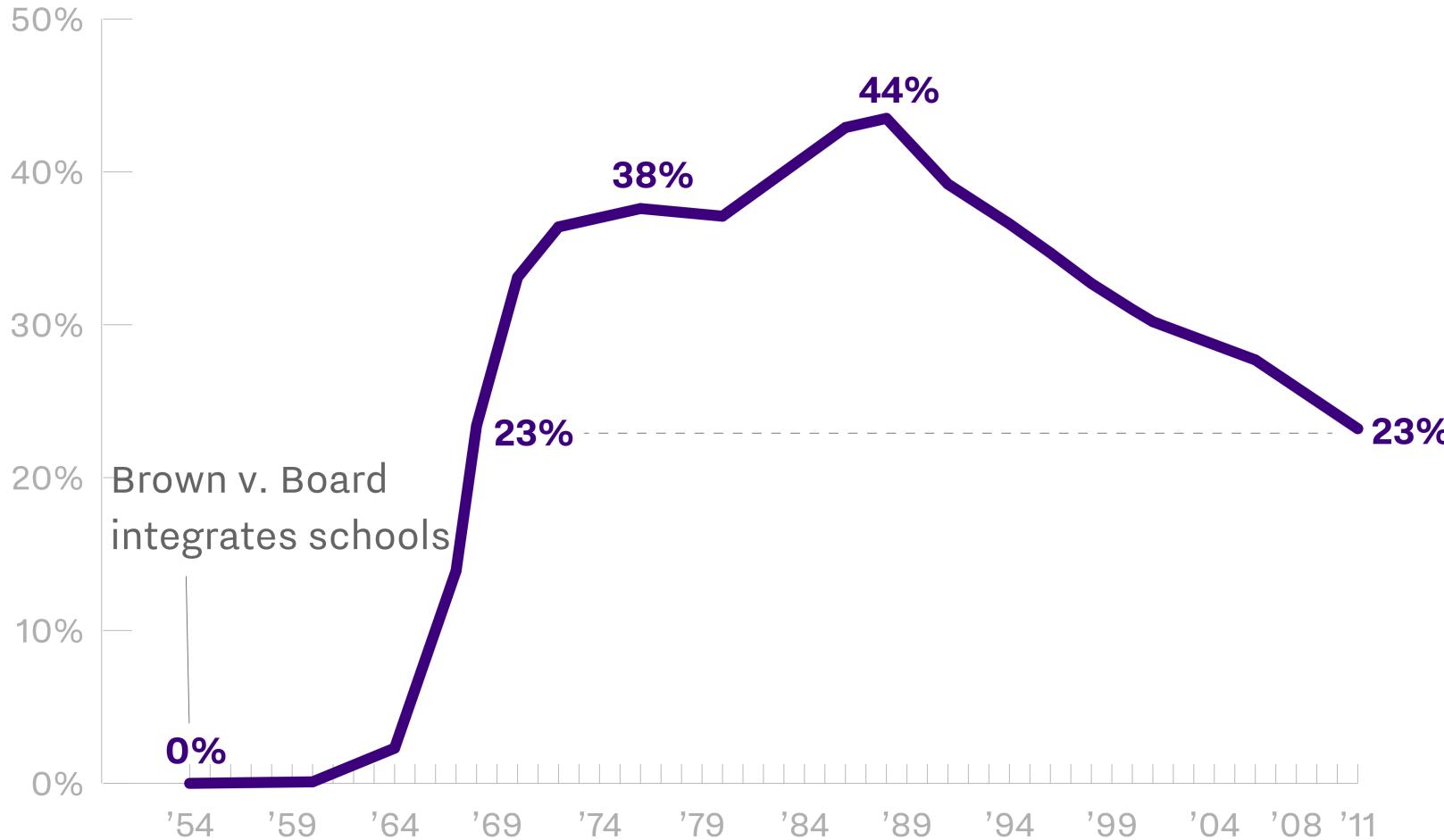


# Percentage of black students in the South who attend schools that are at least 50 percent white



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

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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

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## 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 Re

Nixon's solution for racial justice and economic justice.

By Mehrsa Baradaran

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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.



Opinion

# The Real Re

Nixon's solution for racial economic justice.

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capitalism to end racial segregation. 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

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Capitalism and the free market?

Baby bonds?

Federal job guarantee?

Target assets, not income, for lasting change

**TRAGEDIES AND CPRS**

# WHAT IS A TRAGEDY?

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**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

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Non-excludable

Rivalrous



# TRAGIC TRAJECTORY

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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

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Fisheries

Forests

Pastures

Air

Antibiotics

Beautiful views

Fruit in public parks

Road capacity

Christmas creep

# HOW DO WE FIX CPR PROBLEMS?

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Privatization

Government

Informal institutions  
and self-regulation

Third sector

# PRIVATE SOLUTIONS TO CPR PROBLEMS

# Make the non-excludable excludable



# PROPERTY RIGHTS & PERMITS

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## Property rights

Assign rights to all stakeholders

Parcel the commons

Incentive to overuse disappears

## Permits

Assign right to infringe on CPR

# PROPERTY RIGHTS & PERMITS

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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

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## Regulation

Monitor the commons and punish defectors

Abatement is fixed

Feels “fair”; is more politically feasible

# REGULATION & TAXATION

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But this requires...

...knowledge of CPR capacity

...costless monitoring

...costless punishment

...costless administration

...benevolent government

# REGULATION & TAXATION

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## Taxation

Move PMC in line with SMC and cancel out DWL

Can reduce taxes on other things

Increases flexibility

# REGULATION & TAXATION

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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

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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**

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**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

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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!

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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?

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**“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?

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"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**

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**Extension of state power**

Antonio Gramsci

**Counterweight to state**

Revolutionaries

**Essential to cooperation in a state**

De Tocqueville, Putnam

# MORAL OF TODAY'S STORY

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Governments can be  
destructive!

Governments don't  
need to do everything