

# GOVERNMENT INSTITUTIONS

PMAP 8141: Economy, Society, and Public Policy

November 7, 2019

*Fill out your reading report  
on iCollege!*

# PLAN FOR TODAY

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Addressing external effects

Governments in the economy

Democracy and factions

Small factions and public goods

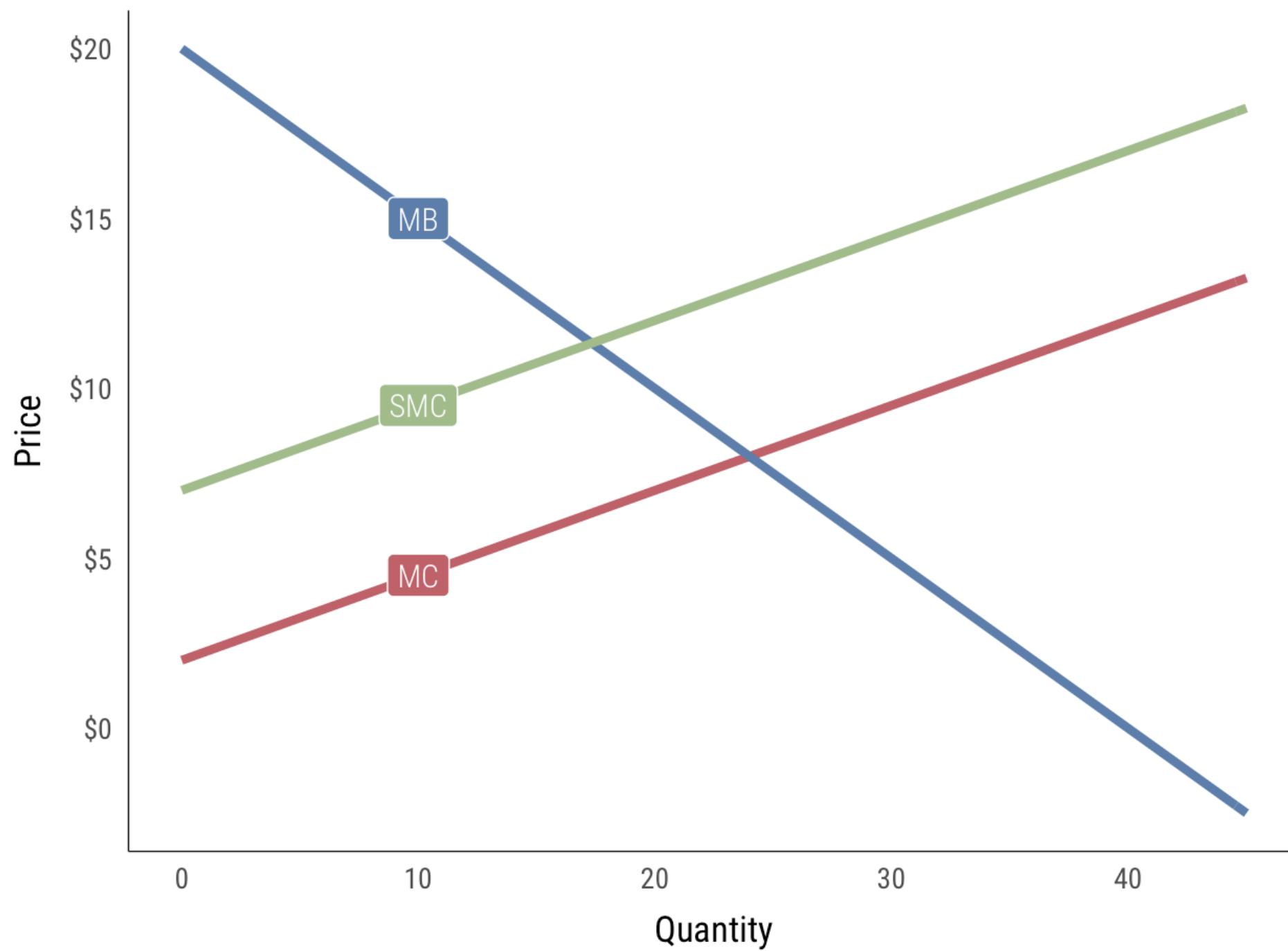
Limits of governments

# ADDRESSING EXTERNAL EFFECTS

# GENERAL PROBLEM WITH EXTERNALITIES

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Someone isn't paying enough



# SOLUTION TO ALL EXTERNALITY PROBLEMS

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## Internalize the externality

Make SMC/SMB part of the equation so that the price fully reflects the external costs and benefits of a party's actions

**Private sector solutions**

**Public sector solutions**

**Market-ish solutions**

# Private sector solutions

Merging and acquiring

Natural governance

Coasian bargaining

# Public sector solutions

Regulations

Pigouvian taxation

Pigouvian subsidies

# Market-ish solutions

Caps + tradable permits



**TRADING  
POLLUTION**

**Government issues 200 permits  
to allow for 1 unit of pollution**

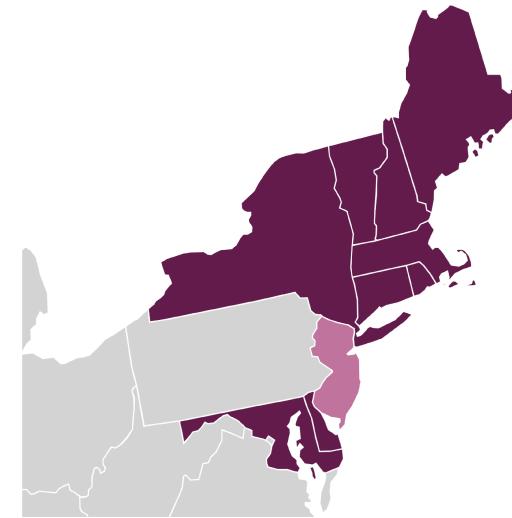
**Plants A and B each get 100 permits**

**It's cheaper for A to abate pollution,  
so they don't need as many permits**

**B will buy permits from A until  
they have 150 and 50 each**

**Pollution goes down while  
maintaining flexibility**

# Regional Greenhouse Gas Initiative (RGGI)



## Western Climate Initiative (WCI)

≡ Sections

Los Angeles Times

LOG IN



Trump administration sues California over cap-and-trade agreement with Canada

# EU Emissions Trading Scheme

# American Clean Energy and Security Act of 2009

111TH CONGRESS  
1ST SESSION

**H. R. 2454**

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IN THE SENATE OF THE UNITED STATES

JULY 6, 2009

Received and read the first time

JULY 7, 2009

Read the second time and placed on the calendar

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**AN ACT**

To create clean energy jobs, achieve energy independence, reduce global warming pollution and transition to a clean energy economy.

# BUT THERE ARE PROBLEMS...

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Reduce damage now,  
consequences be damned

vs.

Minimize costs

Quantity regulations get the right level of reduction,  
but it can be way expensive and can distort markets

Cap and trade keeps costs down,  
but doesn't guarantee level of abatement

# GOVERNMENTS IN THE ECONOMY

# What do governments do in the economy?

# **SPECIAL FEATURES OF GOVERNMENTS**

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**Only actor allowed to  
use legitimate force**

**Only actor with  
civil and human rights  
obligations to its citizens**

# TWO POSSIBLE GOALS

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Maximize surplus  
(efficiency)

Ensure fairness

# YAY GOVERNMENTS

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**Governments can use public policy  
to fix inefficiency and unfairness**

Incentives

Regulation

Persuasion and information

Public provision

# BUT WAIT!

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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

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**Well-governed societies place  
limits on government power**

Elections

Constitutional restrictions

# DEMOCRACY AND FACTIONS

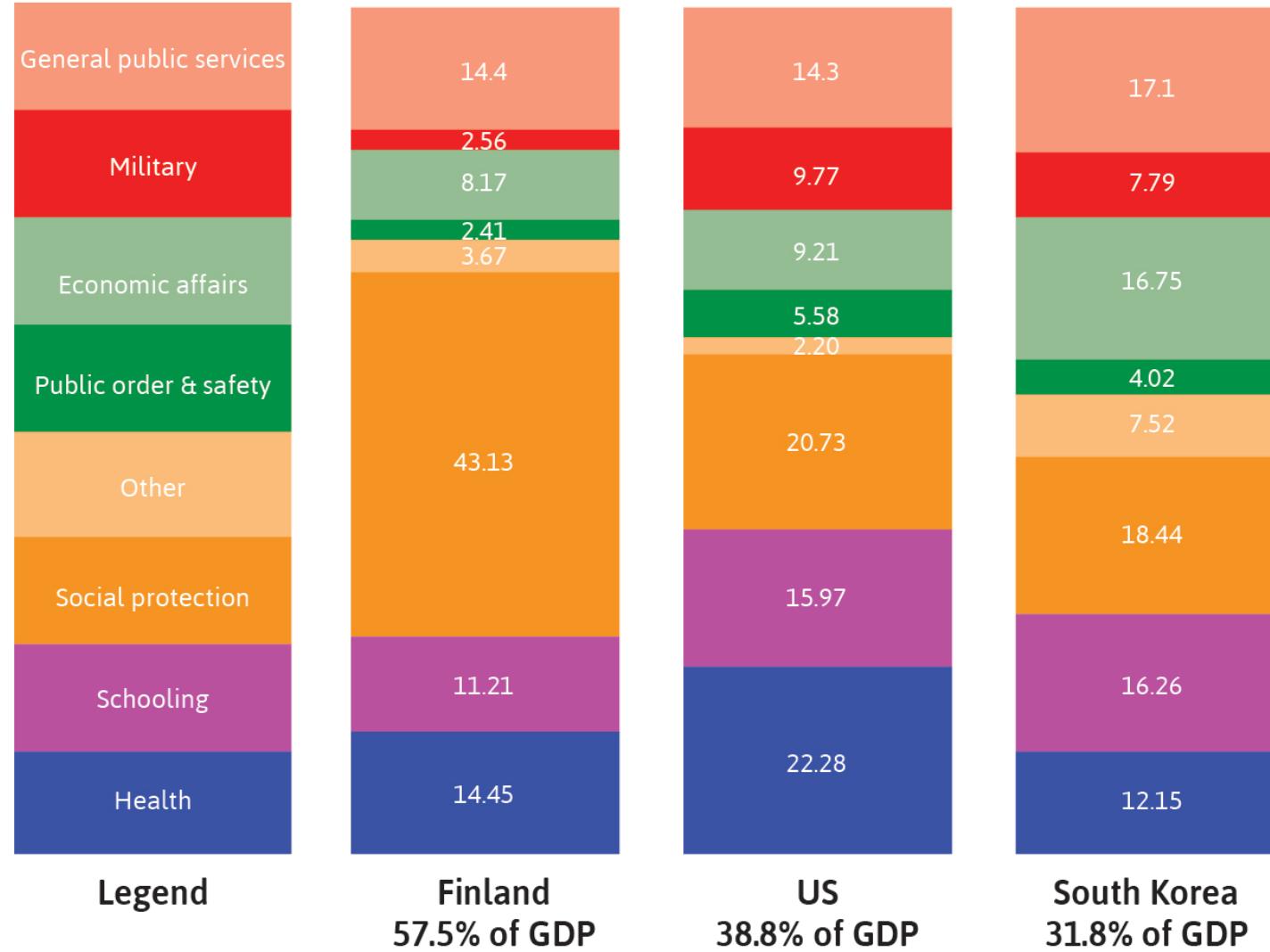
# THREE KEY INSTITUTIONS

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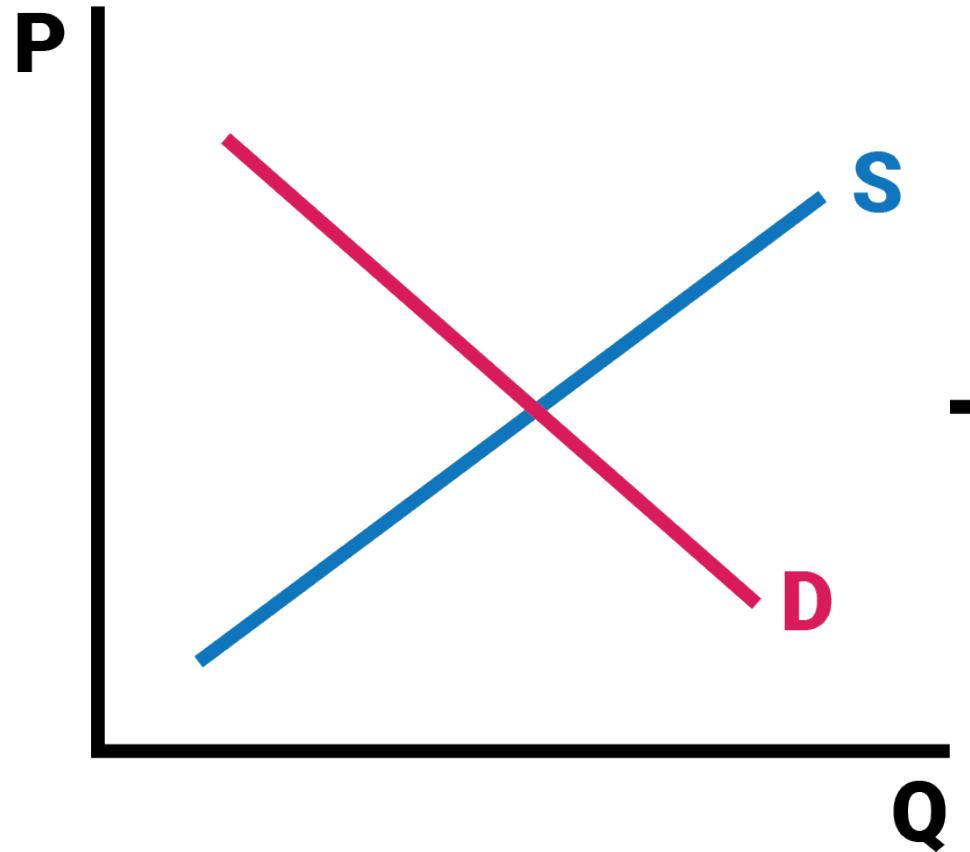
Rule of law

Civil liberties

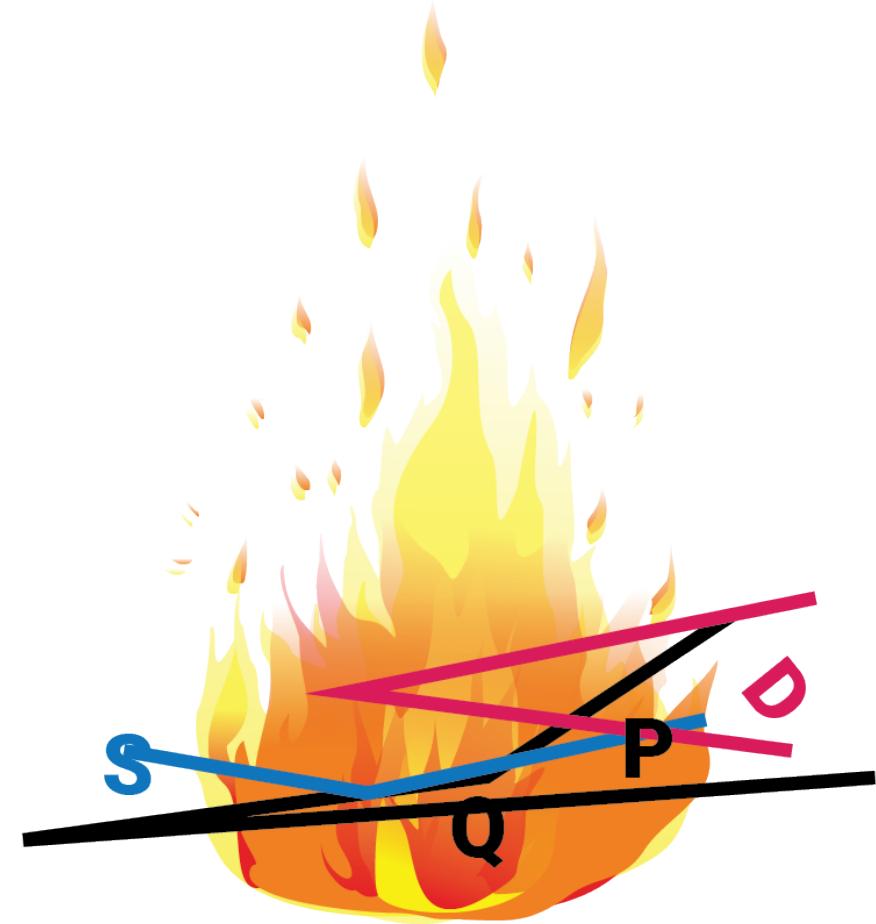
Inclusive, free, and  
decisive elections



# What makes these different?



**Politics** 



# The Fœderalist, No. 10.

*To the People of the State of New-York.*

A MONG the numerous advantages promised by a well constructed Union, none deserves to be more accurately developed than its tendency to break and control the violence of faction. The friend of popular governments, never finds himself so much alarmed for their character and fate, as when he contemplates their propensity to this dangerous vice. He will not fail therefore to set a due value on any plan which, without violating the principles to which he is attached, provides a proper cure for it. The instability, injustice and confusion introduced into the public councils, have in truth been the mortal diseases under which popular governments have every where perished; as they continue to be the favorite and fruitful topics from which the adversaries to liberty derive their most specious declamations. The valuable improvements made by the American Constitutions on the popular models, both ancient and modern, cannot certainly

## Factions = bad

Fix factions by removing  
their causes...

...or minimizing  
their effects

## Bigger republic = more competition = better

**“Extend the sphere**, and you take in a greater variety of parties and interests; **you make it less probable that a majority of the whole will have a common motive to invade the rights of other citizens**; or if such a common motive exists, it will be more difficult for all who feel it to discover their own strength, and to act in unison with each other.”

# PROBLEMS WITH ARGUMENT

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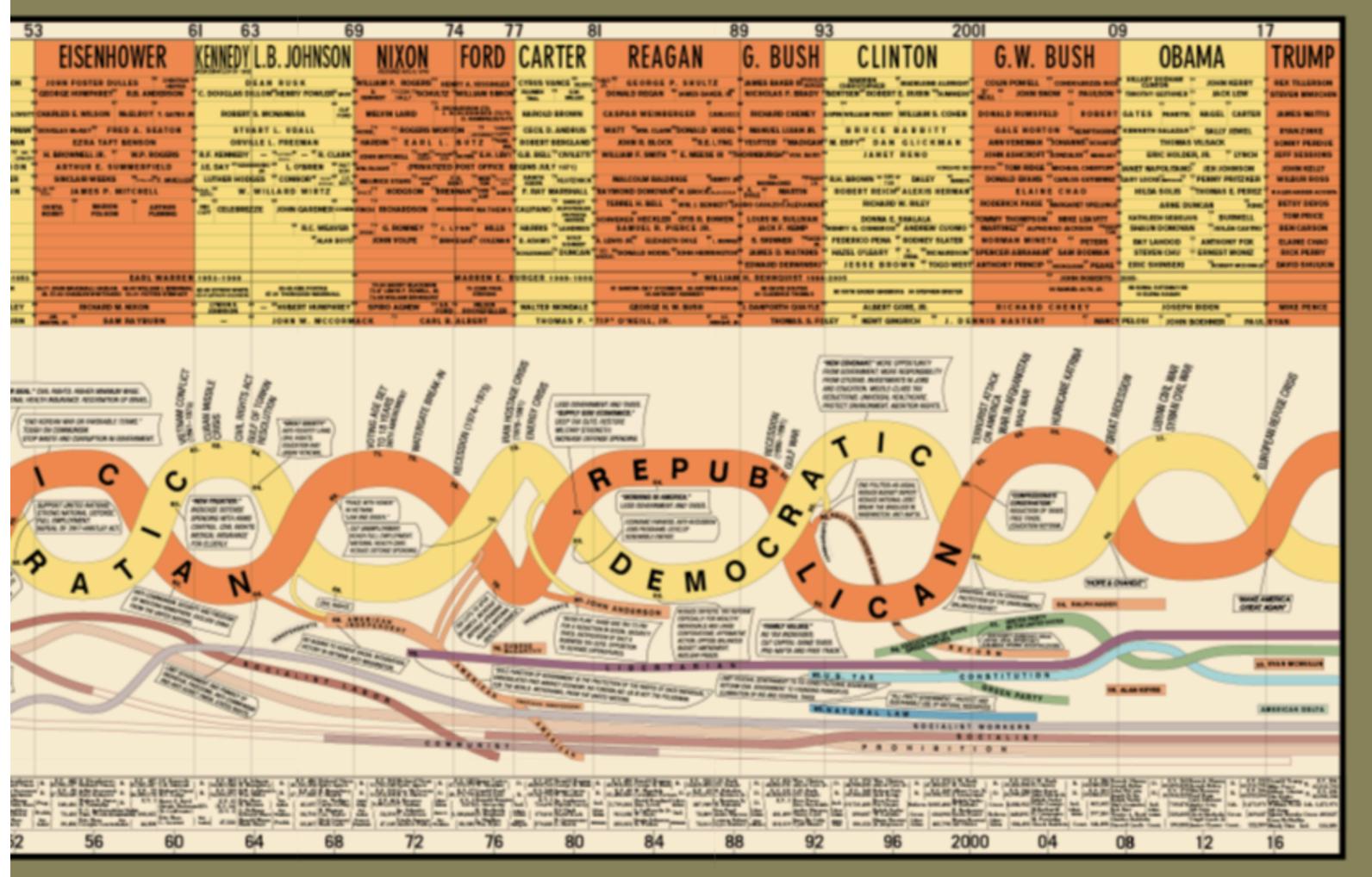
Constitutional system empowers minorities; provides veto points

Pre-Bill of Rights

Assumes factions will never get big

Assumes multiparty system

Duverger's law: plurality-rule elections + single-member districts = two parties



<https://historyshots.com/collections/political-financial>

# Minorities have inordinate power in democracies because of the dynamics of small groups

**CAVEAT:** Minorities ≠ marginalized groups

Minorities *with access to political system* have inordinate power

**Better term = interest groups**

# SMALL Factions AND PUBLIC GOODS

# WHY DO WE NEED FACTIONS?

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“[I]ndividual, unorganized action will either not be able to advance that common interest at all, or will not be able to advance that interest adequately”

Mancur Olson, *The Logic of Collective Action*, p. 7

“Never doubt that a small group of thoughtful, committed, citizens can change the world. Indeed, it is the only thing that ever has.”

Margaret Mead

**Have you ever contributed to  
or volunteered in a national  
political campaign?**

Why did you donate or volunteer?

How much did you benefit personally from  
that donation or from the outcome?

How much did the group  
benefit from your work?

# **Individual gains in large groups are essentially zero**

Why would a rational, self-interested person donate to a national campaign or join a union or support activist causes?

# GROUP INTERESTS = PUBLIC GOODS

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**Achievement of goals =  
nonexcludable and nonrivalrous**

“The achievement of any common goal or the satisfaction of any common interest means that a public or collective good has been provided for that group”

Mancur Olson, The Logic of Collective Action, p. 15

**Free riding!**

# WHO SUPPLIES GLOBAL ORDER?

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Pax Britannica

Pax Americana

Pax Sinica?

How does this make hegemonic powers feel?

**Have you ever contributed  
to a city-level (or lower!)  
political campaign?**

**Have you tackled a single  
issue with a city council?**

**You get individual benefits if you believe your marginal actions will lead to actual change**

Small groups can harness this

Benefits can be excludable

Little free riding = more power

(Madison was right!)

**How do large groups fix public  
goods problems (and stop free riding)?**

# Change individual calculus

## Coercion

Increase the costs of not acting

## Selective incentives

Increase the benefits of acting

<https://benefits.nra.org/>

## Federation

Make big group feel small

## **Coercion**

Increase the costs of not acting

## **Selective incentives**

Increase the benefits of acting

## **Federation**

Make big group feel small

**Governments?**

**Political campaigns?**

**Unions?**

**Advocacy groups?**

**Nonprofits?**

# MORAL OF THE STORY

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**Small groups can be too powerful**

Madison's solution = use big groups

**The larger the group, the less it will further common interests**

oh no

# Concentrated interest groups vs. large latent groups

Narrow special interests and passionate minorities can unduly influence policy

Concerned citizens (even if passionate!) are stuck with free riders

**Is it okay that small groups  
wield substantial power?**

**What can we do about it?  
(or should we do anything about it?)**

**What does this mean for democracy?**

**What does this mean for public  
administration and policy?**

# LIMITS OF GOVERNMENTS

# **FAILURES**

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## **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**

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Failure of government accountability

**Economic infeasibility**

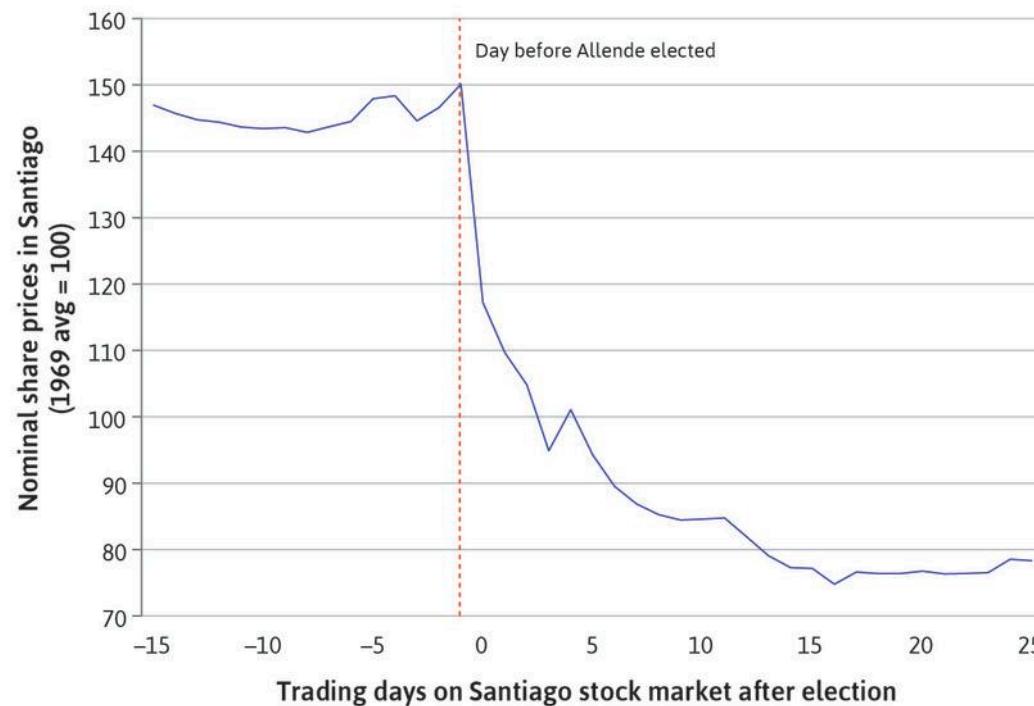
**Administrative infeasibility**

**Political infeasibility**

# ECONOMIC INFECTABILITY

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Public policy must be a Nash equilibrium to be successful



# ADMINISTRATIVE FEASIBILITY

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A policy might be adopted if  
there's not enough state capacity

Limited information

Limited capacity

(This is why you're here!)

# POLITICAL FEASIBILITY

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A policy might not be adopted even if it's great and there's sufficient state capacity

Short-termism

Unequal access

Voting

# POLITICAL FEASIBILITY

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## Short-termism

Implement policies that  
get you elected next cycle

# POLITICAL FEASIBILITY

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## Unequal access

The rich can have  
a louder voice

Smaller groups can  
have a louder voice



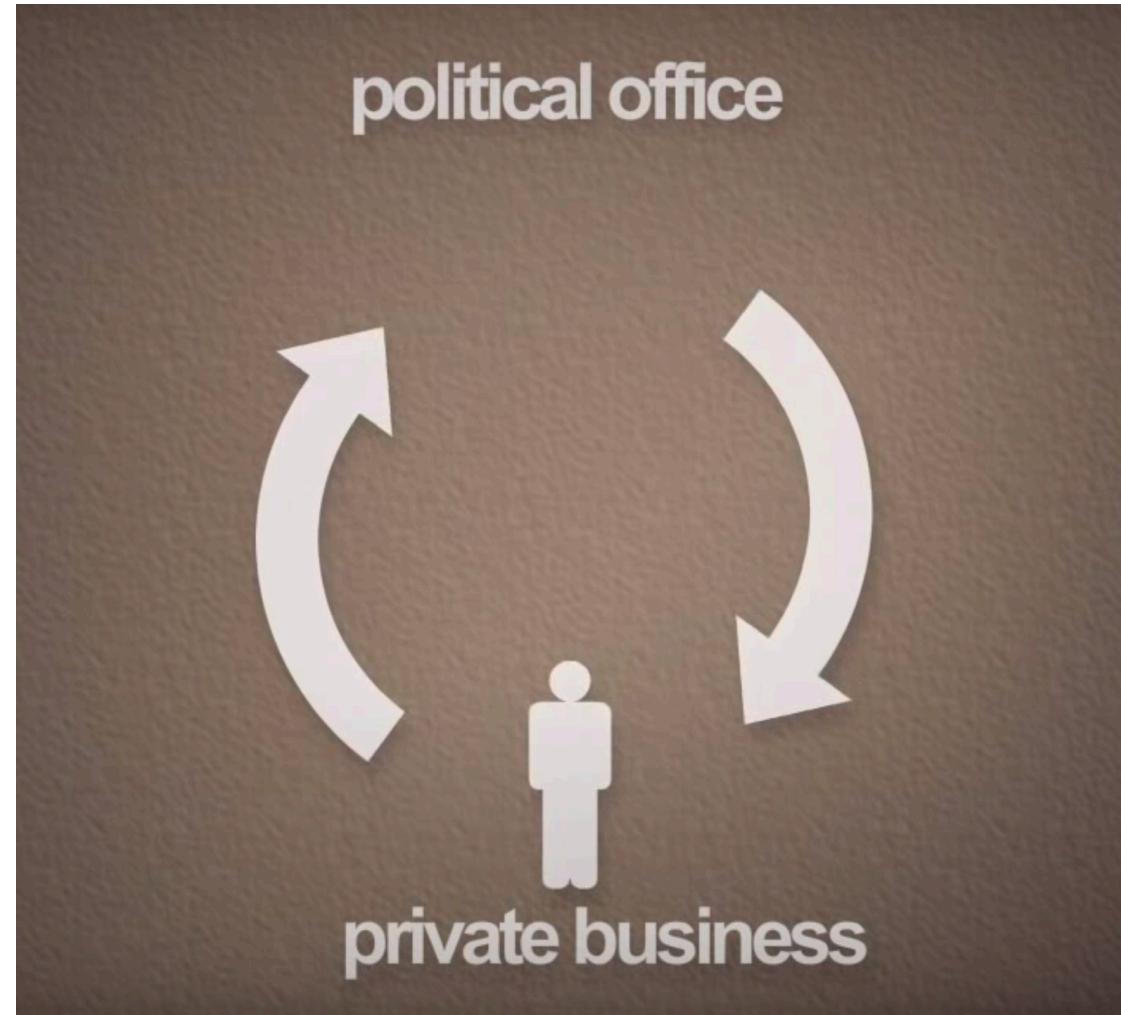


TODAY

1960

# LOBBYISTS

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John Boehner 

@SpeakerBoehner

Follow



I'm joining the board of **#AcreageHoldings** because my thinking on cannabis has evolved. I'm convinced de-scheduling the drug is needed so we can do research, help our veterans, and reverse the opioid epidemic ravaging our communities.  
**@AcreageCannabis**



**News Release: Board of Advisors Appointment**

acreageholdings.com

4:58 AM - 11 Apr 2018

**Filing Taxes Could Be Free  
and Simple. But H&R Block  
and Intuit Are Still Lobbying  
Against It.**

The makers of TurboTax and other online systems spent millions lobbying last year, much of it directed toward a bill that would permanently bar the government from offering taxpayers prefilled filings.

by Jessica Huseman, March 20, 2017, 1:22 p.m. EDT

**GUTTING THE IRS**

# Congress Is About to Ban the Government From Offering Free Online Tax Filing. Thank TurboTax.



A bill supported by Democrats and Republicans would make permanent a program that bars the IRS from ever developing its own online tax filing service.



by Justin Elliott, April 9, 5 a.m. EDT

**GUTTING THE IRS**

# Congress Is About to Gut Government From Online Tax Filing



A bill supported by Democrats and Republicans would gut a program that bars the IRS from ever

by Justin Elliott, April 9, 5 a.m. EDT

Those efforts have been fueled by hefty lobbying spending and campaign contributions by the industry. Intuit and H&R Block last year poured a combined \$6.6 million into lobbying related to the IRS filing deal and other issues. Neal, who became Ways and Means chair this year after Democrats took control of the House, received \$16,000 in contributions from Intuit and H&R Block in the last two election cycles.

# Who are politicians responsive to?



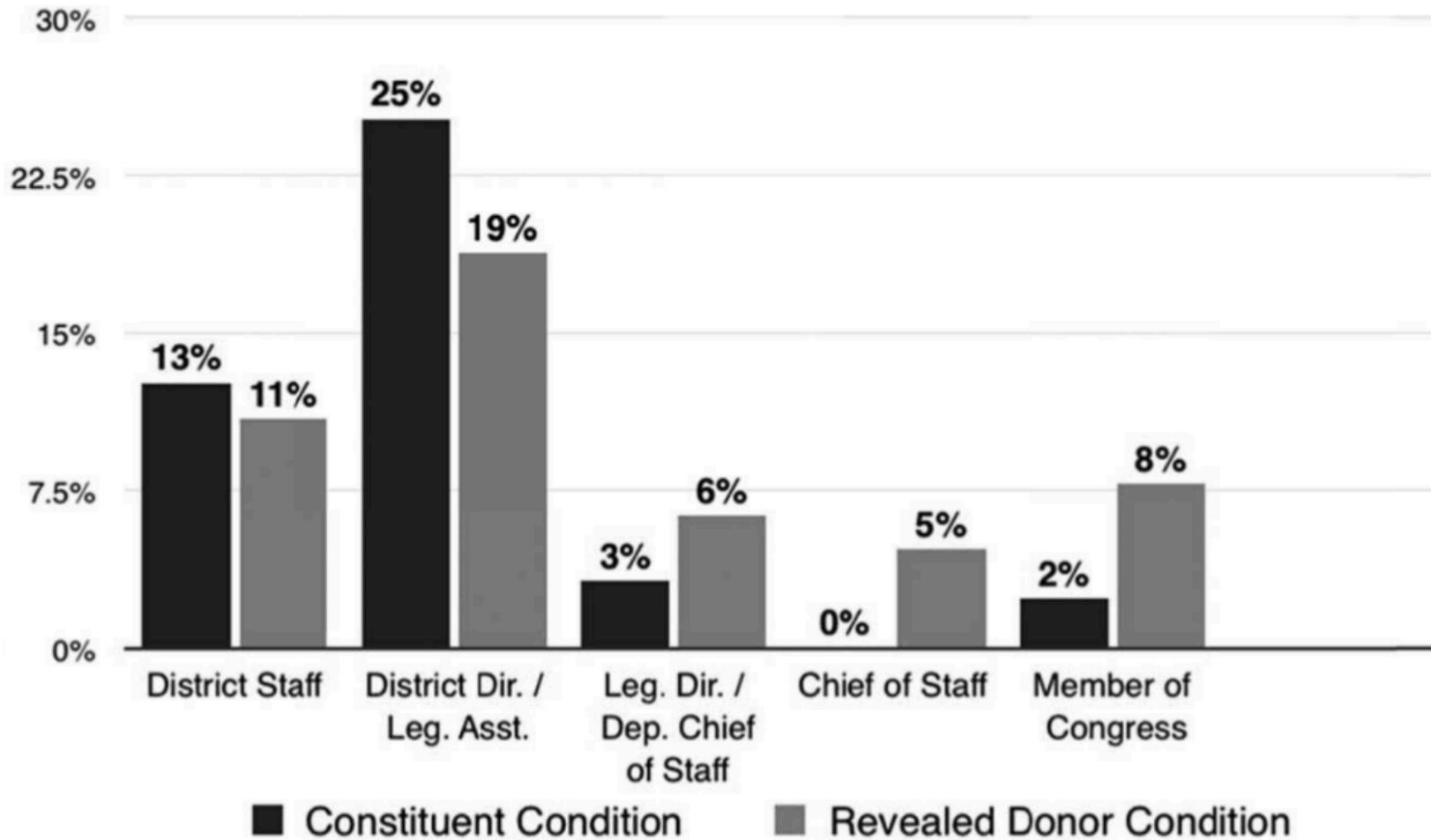
## Campaign Contributions Facilitate Access to Congressional Officials: A Randomized Field Experiment

**Joshua L. Kalla** University of California, Berkeley

**David E. Broockman** University of California, Berkeley

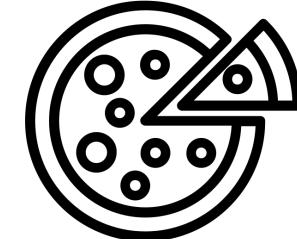
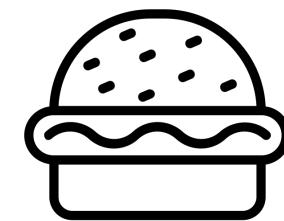
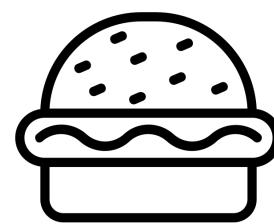
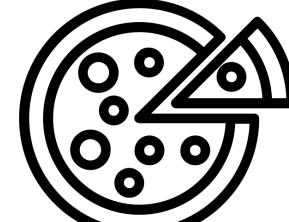
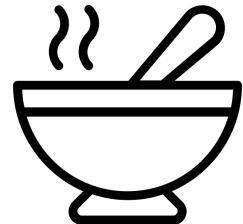
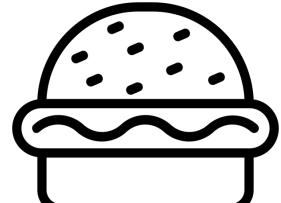
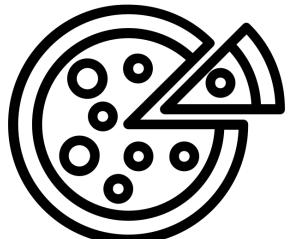
*Concern that donations to political campaigns secure preferential treatment from policy makers has long occupied judges, scholars, and the public. However, the effects of contributions on policy makers' behavior are notoriously difficult to assess. We present the first randomized field experiment on the topic. The experiment focuses on whether contributions facilitate access to influential policy makers. In the experiment, a political organization attempted to schedule meetings between 191 congressional offices and the organization's members in their districts who were campaign donors. However, the organization randomly assigned whether it revealed to congressional offices that prospective attendees had contributed to campaigns. When informed prospective attendees were political donors, senior policy makers made themselves available between three and four times more often. These findings underscore concerns about the Supreme Court's recent decisions deregulating campaign finance.*

**FIGURE 1 Access Gained to Congressional Staffers, by Experimental Condition**



# VOTING

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# VOTING

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Pizza > Burger

Burger > Soup

Soup > Pizza

Condorcet paradox

Vote intransitivity

# VOTING

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**Order of voting matters!**

**Speaker of the House**

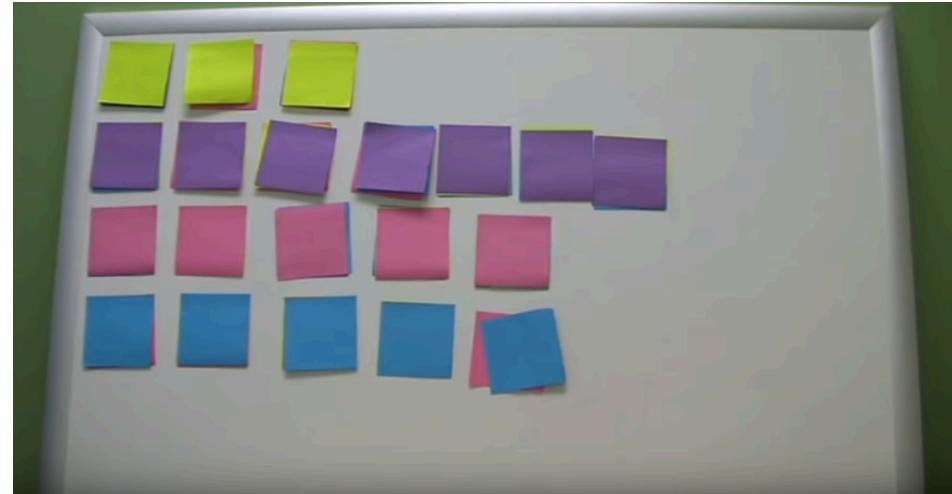
(or whoever's in charge of the agenda)

**could theoretically  
guarantee any outcome**

**Arrow's Impossibility Theorem**

# ALTERNATIVE VOTING SYSTEMS?

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[https://www.youtube.com/watch?v=\\_5SLQXNpzsk](https://www.youtube.com/watch?v=_5SLQXNpzsk)

## Ranked choice / Instant runoff

Encodes more information in vote + changes campaign calculus

Still suffers from Condorcet paradox