

# Institutional alternatives

Session 14

PMAP 8141: Microeconomics for Public Policy  
Andrew Young School of Policy Studies

# Plan for today

Tragedies and CPRs

Private solutions to CPR problems

Government solutions to CPR problems

Informal solutions to CPR problems

# Tragedies and CPRs

# What is a tragedy?

Sad event vs. τραγωδία

*tragoidia*

“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

# Private solutions to CPR problems

# Make the non-excludable excludable



# Property rights and permits

Property rights

Assign rights to all stakeholders

Parcel the commons

Incentive to overuse disappears

Permits

Assign right to infringe on CPR

# Property rights and 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

Regulation

Monitor the commons and punish defectors

Abatement is fixed

Feels “fair”; is more politically feasible

# Regulation

But this requires...

...knowledge of CPR capacity

...costless monitoring

...costless punishment

...costless administration

...benevolent government

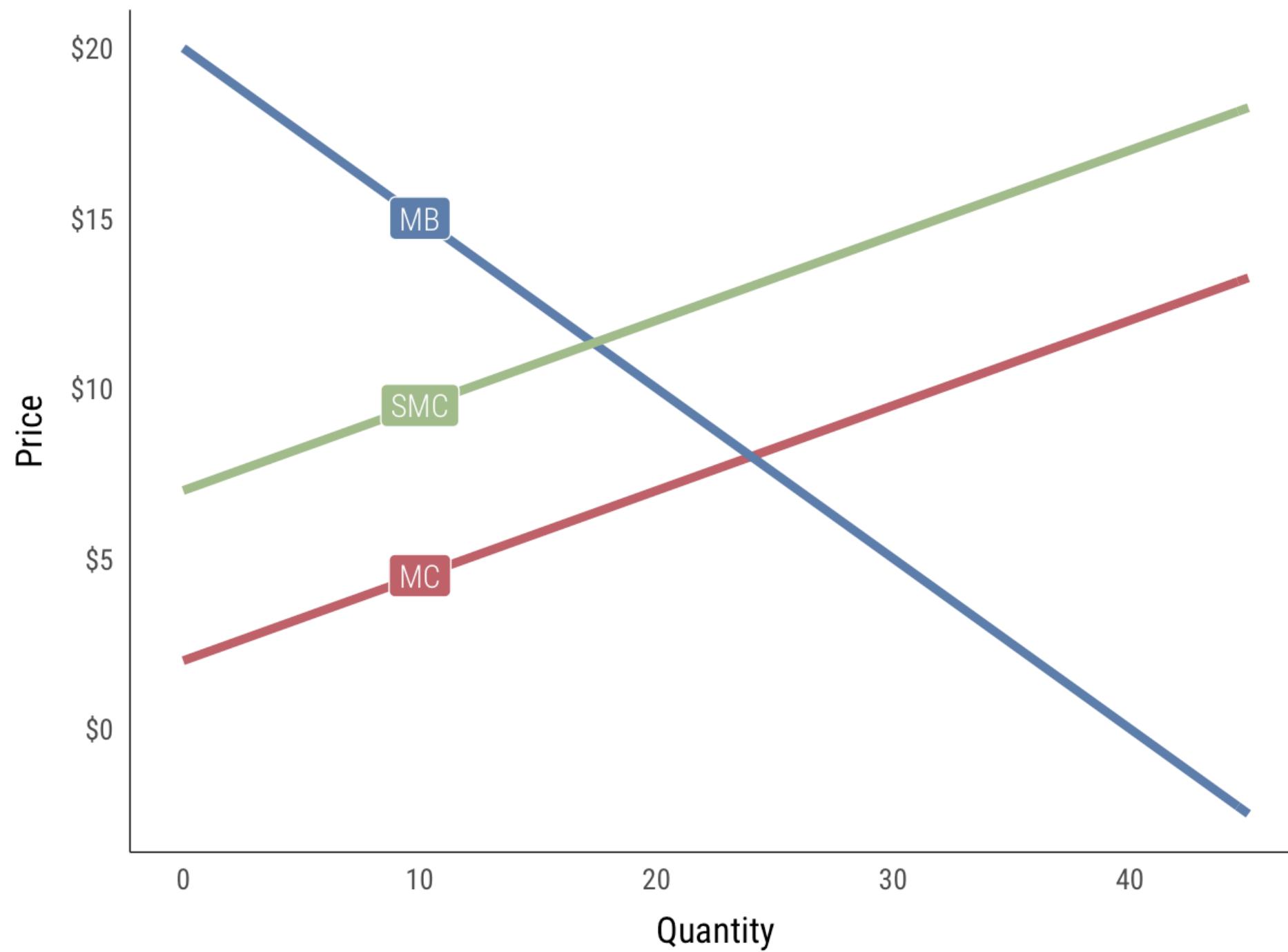
# Taxation

Taxation

Move PMC in line with SMC  
and cancel out DWL

Can reduce taxes on other things

Increases flexibility



# 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

# Informal institutional fixes



Elinor Ostrom

2009 Nobel Prize  
in Economics

(But was a political scientist!)

First woman to win



# 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



Smaller force =  
better community  
response

Rely on informal  
community  
connections instead

# This doesn't always work!



Bodrum, Turkey

More fishermen,  
more cooperatives,  
more tourists