

WHEN GOVERNMENTS GO WRONG

MPA 612: Economy, Society, and Public Policy

April 3, 2019

*Fill out your reading report
on Learning Suite*

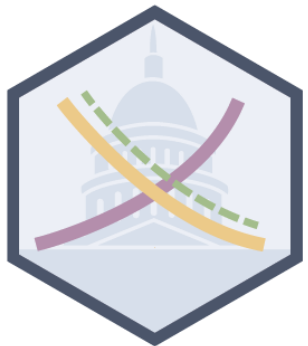
Capitalism, markets, and public policy

Growth Social dilemmas
Measurement Fairness

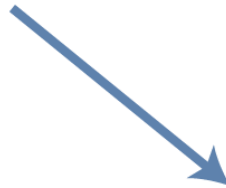


Scarcity, power, and inequality

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

Governments in the economy

Government failures

Economics, identity, and race

**Public policy and the
institutional legacies of slavery**

GOVERNMENTS IN THE ECONOMY

**What do governments
do in the economy?**

SPECIAL FEATURES OF GOVERNMENTS

**Only actor allowed to
use legitimate force**

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

TWO POSSIBLE GOALS

Maximize surplus
(efficiency)

Ensure fairness

YAY GOVERNMENTS

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

Incentives

Regulation

Persuasion and information

Public provision

BUT WAIT!

**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

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

Elections

Constitutional restrictions

THREE KEY DEMOCRATIC INSTITUTIONS

Rule of law

Civil liberties

**Inclusive, free, and
decisive elections**

GOVERNMENT FAILURES

FAILURES

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

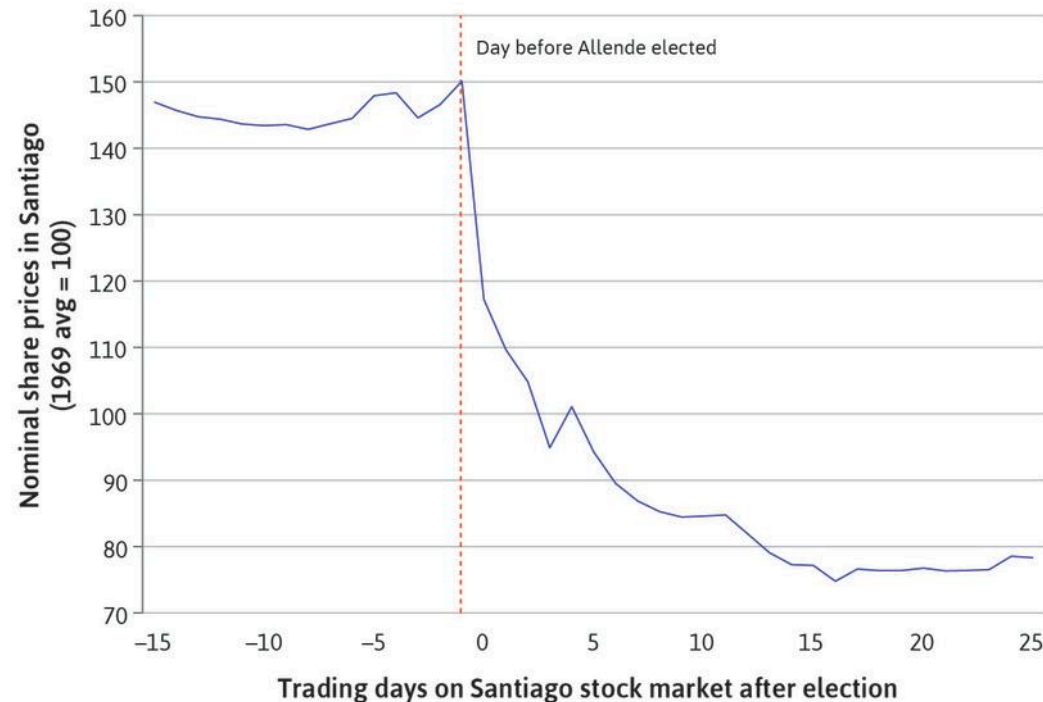
Economic infeasibility

Administrative infeasibility

Political infeasibility

ECONOMIC INFEASIBILITY

Public policy must be a Nash equilibrium to be successful



ADMINISTRATIVE FEASIBILITY

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

Limited information

Limited capacity

(This is why you're here!)

POLITICAL FEASIBILITY

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

Short-termism

Unequal access

Voting

POLITICAL FEASIBILITY

Short-termism

Implement policies that
get you elected next cycle

POLITICAL FEASIBILITY

Unequal access

The rich and powerful
can have a louder voice





1960

TODAY

VOTING

Policy	Anil	Bala	Carlos
(1/2, 1/3, 1/6) X	1	2	3
(1/3, 1/6, 1/2) Y	2	3	1
(1/6, 1/2, 1/3) Z	3	1	2

$X > Y$

$Y > Z$

$Z > X$

Condorcet paradox

Vote intransitivity

VOTING

Order of voting matters!

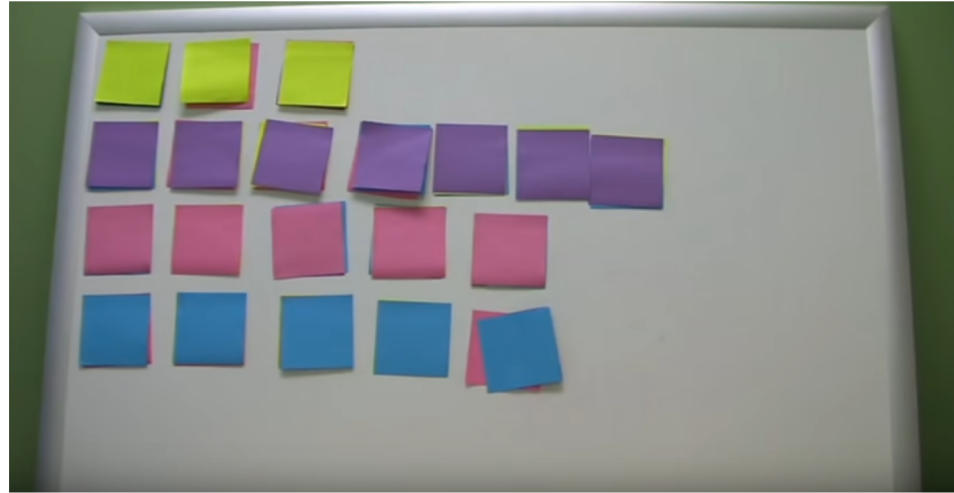
Speaker of the House

(or whoever's in charge of the agenda)

**could theoretically
guarantee any outcome**

Arrow's Impossibility Theorem

ALTERNATIVE VOTING SYSTEMS?



https://www.youtube.com/watch?v=_5SLQXNpzsk

Ranked choice / Instant runoff

Encodes more information in vote + changes campaign calculus

Still suffers from Condorcet paradox

ECONOMICS, IDENTITY, AND RACE

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

Is Diversity Detrimental? Ethnic Fractionalization, Public Goods Provision and the Legacy

Andreas

Comparative Political Studies
2016, Vol. 49(11) 1407–1445
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Comparative Political Studies 49(11)

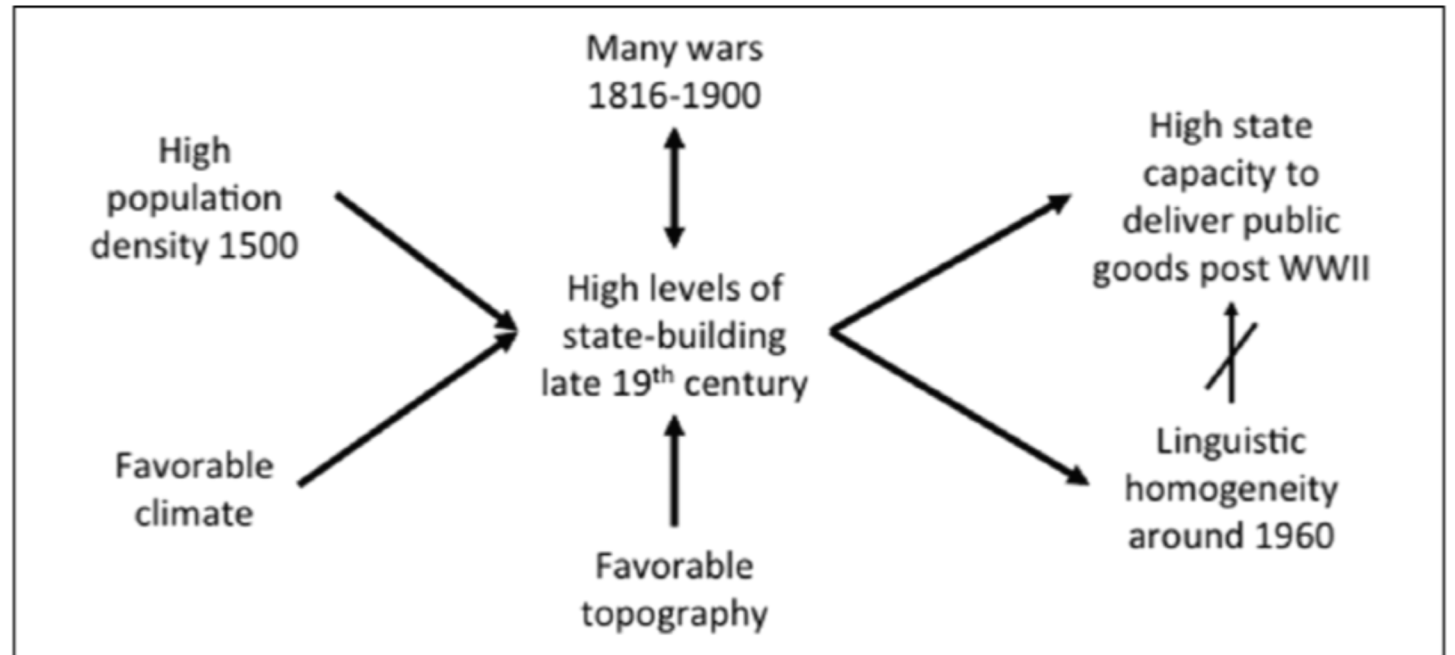


Figure 1. Summary.

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.

**What is a shared
national identity?**

Who gets to be an American?

Catholics?

Irish?

Italians?

Chinese?

Japanese?

Mormons?



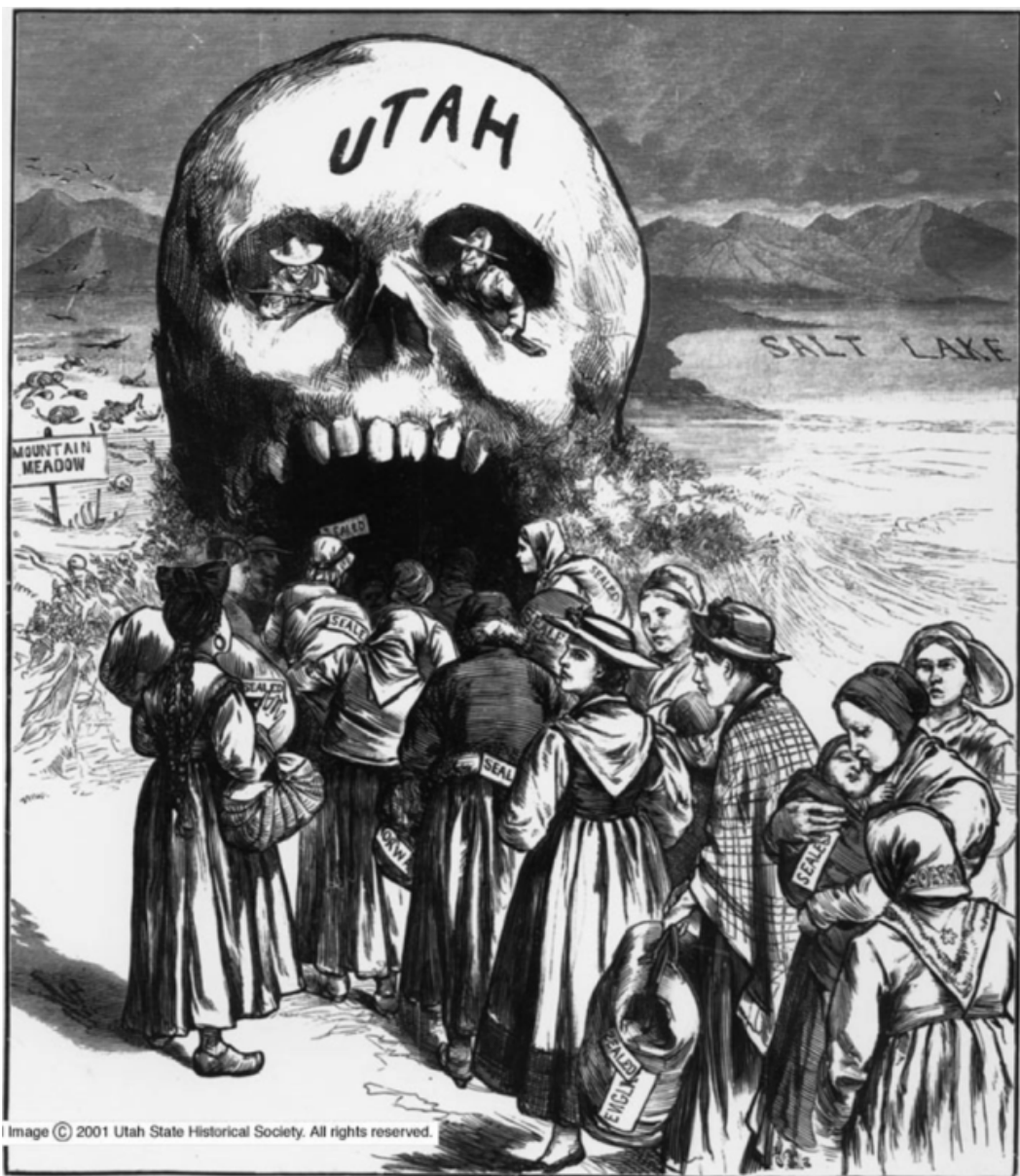
C. J. Rudd, "Mormon Elder Berry—out with his six year olds, who take after their mothers," 1904



Twin relics of barbarism

Slavery

Polygamy



MORMONISM IN UTAH—THE CAVE OF DESPAIR.

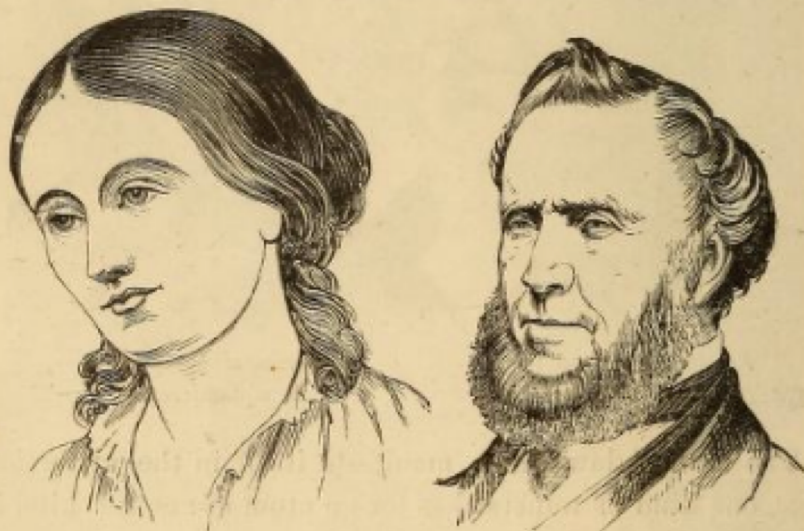


WOMAN'S BONDAGE IN UTAH.
THE MORMON SOLUTION OF THE "CHEAP LABOR" QUESTION.
See Page 34.

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.

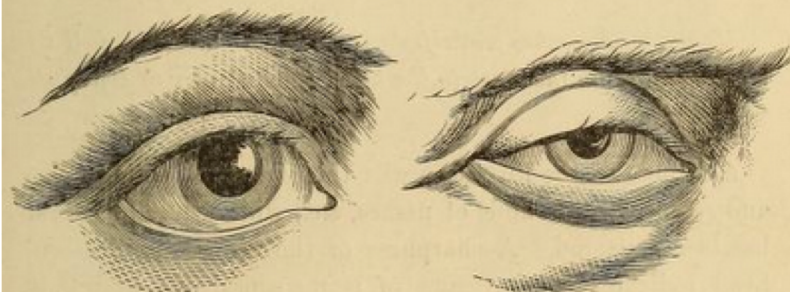
Monoeroticity Small—Brigham Young, the noted polygamist.

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.

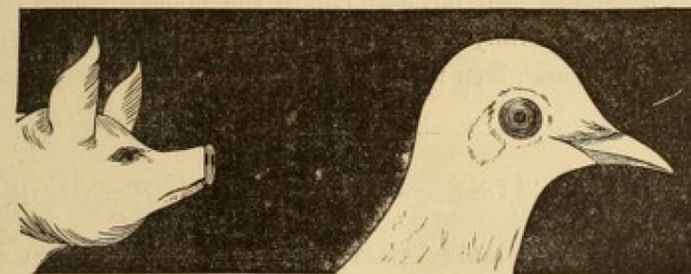
THE DISPOSITION TO LOVE MANY.

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.



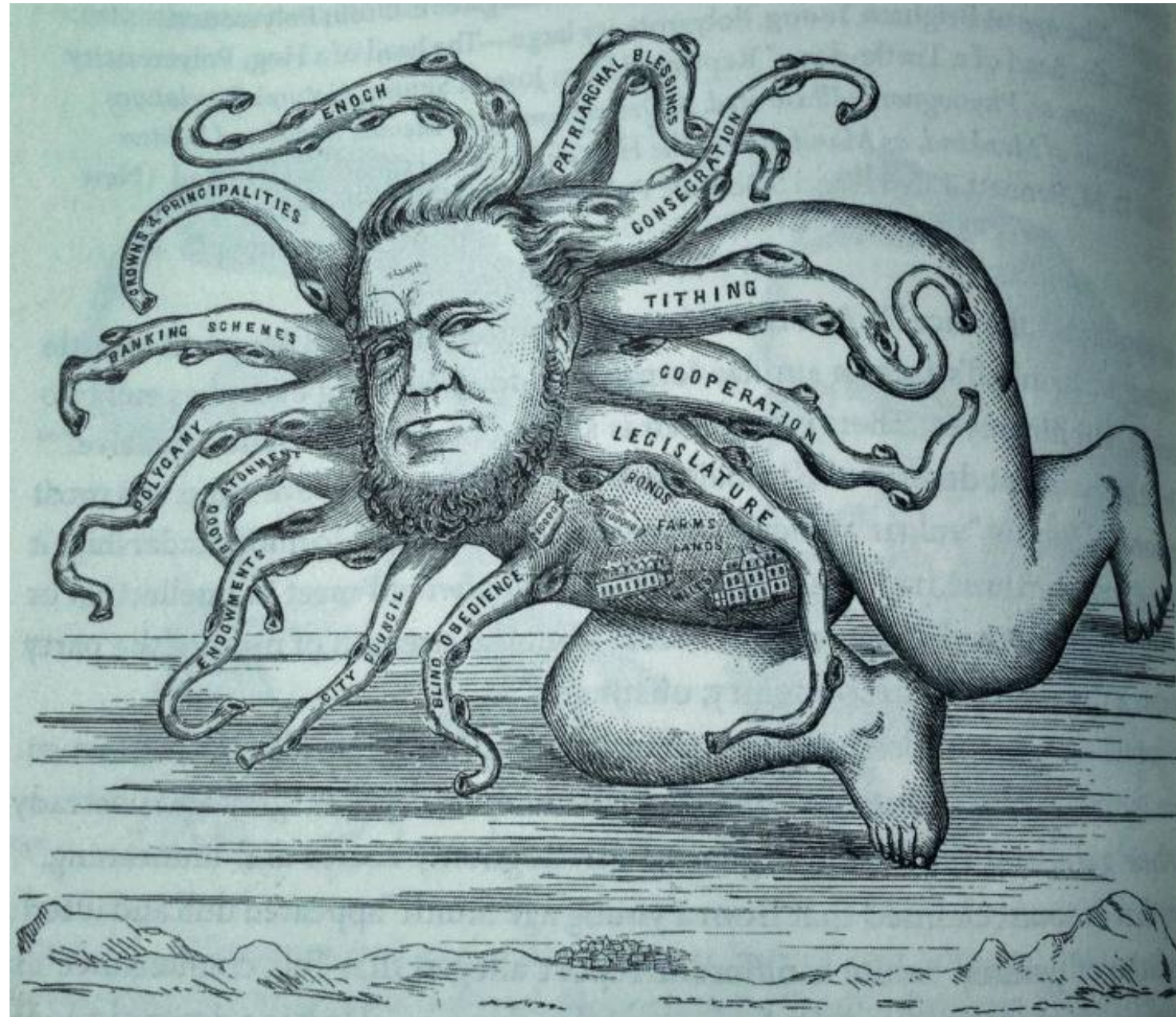
Polyeroticity Small—The eye of Mrs. Margaret F. Osoli.

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 become more
American (white) to gain
access to political and
economic institutions**

So have many other ethnic groups

(with some glaring exceptions)

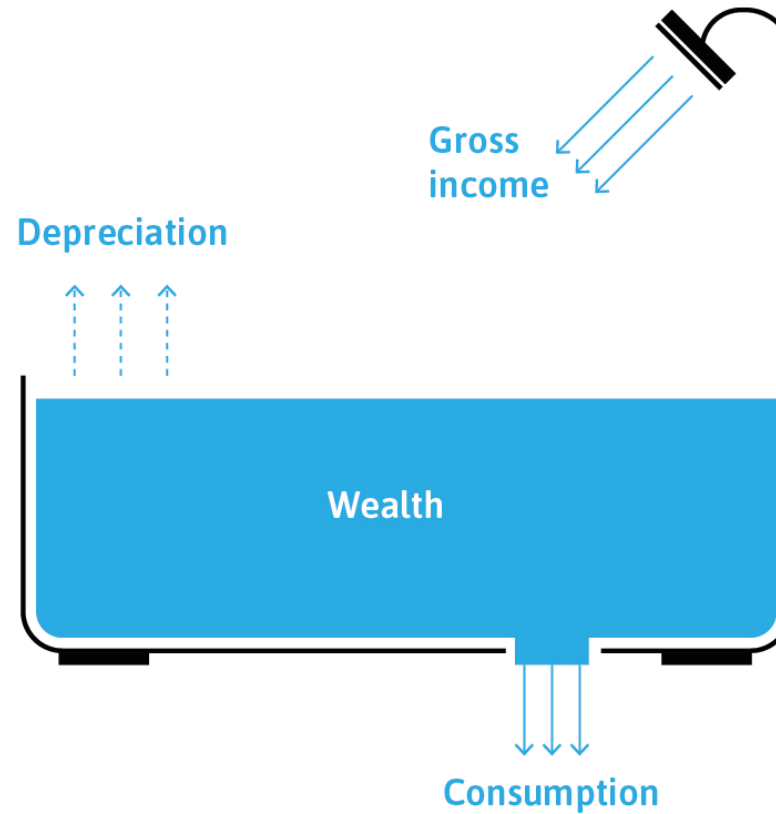
**PUBLIC POLICY
AND THE INSTITUTIONAL
LEGACIES OF SLAVERY**

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 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**

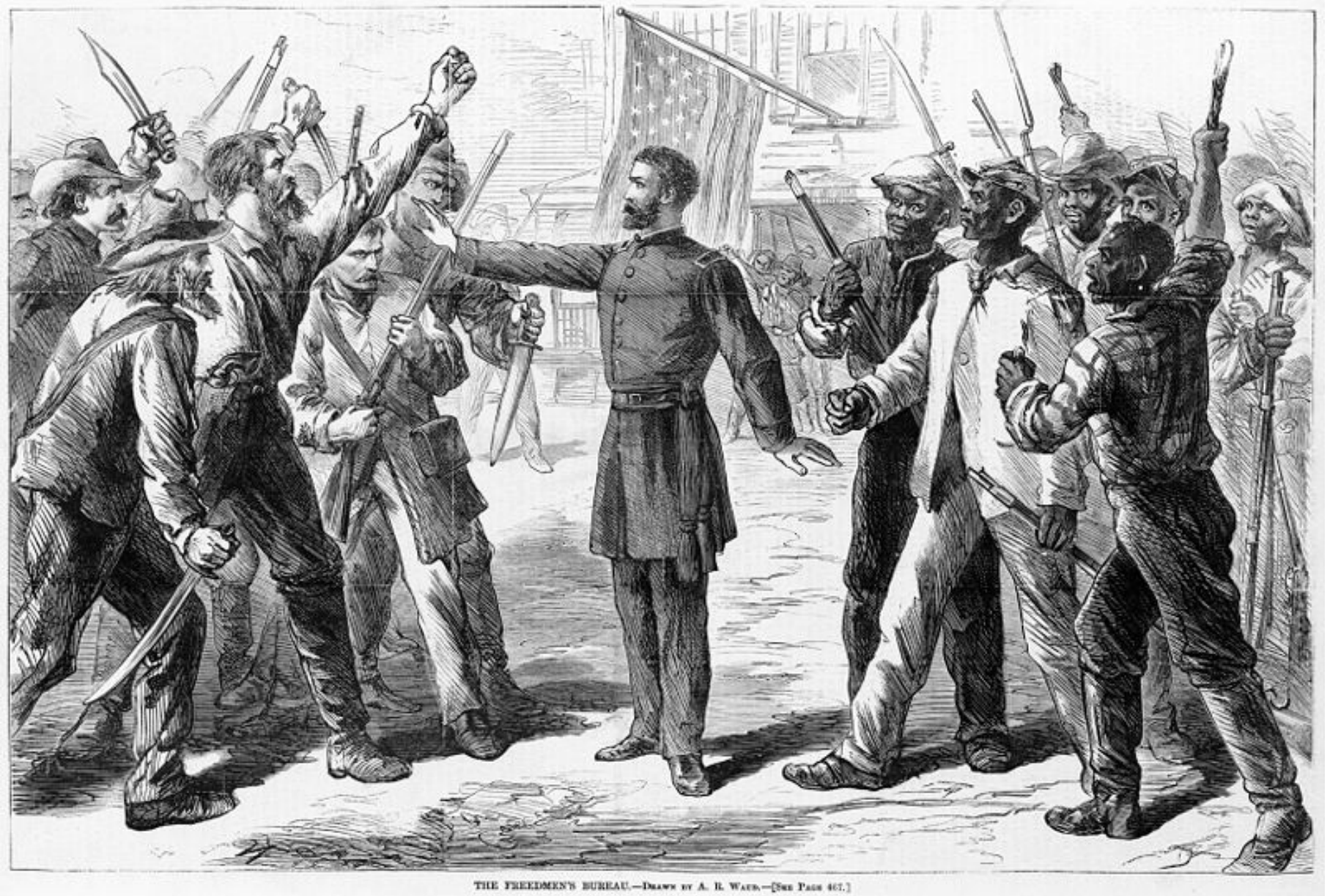
**Super quick overview of post-1865
economic and political trends for
African Americans**

**How does public policy and
administration fit in this history?**

**“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.*

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 preemption claim, or which may, at the time the application is made, be subject to preemption 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.

SEC. 2. And be it further enacted, That the person applying for the benefit of this act shall, upon application to the register of the land office in which he or she is about to make such entry, make affidavit before the said register or receiver that he or she is the head of a family, or is twenty-one years or more of age, or shall have performed service in the army or navy of the United States, and that he has never borne arms against the Government of the United States or given aid and comfort to its enemies, and that such application is made for his or her exclusive use and benefit, and that said entry is made for the purpose of actual settlement and cultivation, and not either directly or indirectly for the use or benefit of any other person or persons whomsoever; and upon filing the said affidavit with the register or receiver, and on payment of ten dollars, he or she shall thereupon be permitted to enter the quantity of land specified: *Provided, however*, That no certificate shall be given or patent issued therefor until the expiration of five years from the date of such entry; and if, at the expiration of such time, or at any time within two years thereafter, the person making such entry; or, if he be dead, his widow; or in case of her death, his heirs or devisee; or in case of a widow making such entry, her heirs or devisee, in case of her death; shall prove by two credible witnesses that he, she, or they have resided upon or cultivated the same for the term of five years immediately succeeding the time of filing the affidavit aforesaid, and shall make affidavit that no part of said land has been alienated, and that he has borne true allegiance to the Government of the United States; then, in such case, he, she, or they, if at that time a citizen of the United States, shall be entitled to a patent, as in other cases provided for by law: *And provided, further*, That in case of the death of both father and mother, leaving an infant child, or children, under twenty-one years of age, the right and fee shall enure to the benefit of said infant child or children; and the executor, administrator, or guardian may, at any time within two years after the death of the surviving parent, and in accordance with the laws of the State in which such children for the time being have their domicile, sell

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

Contents of affidavit.

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

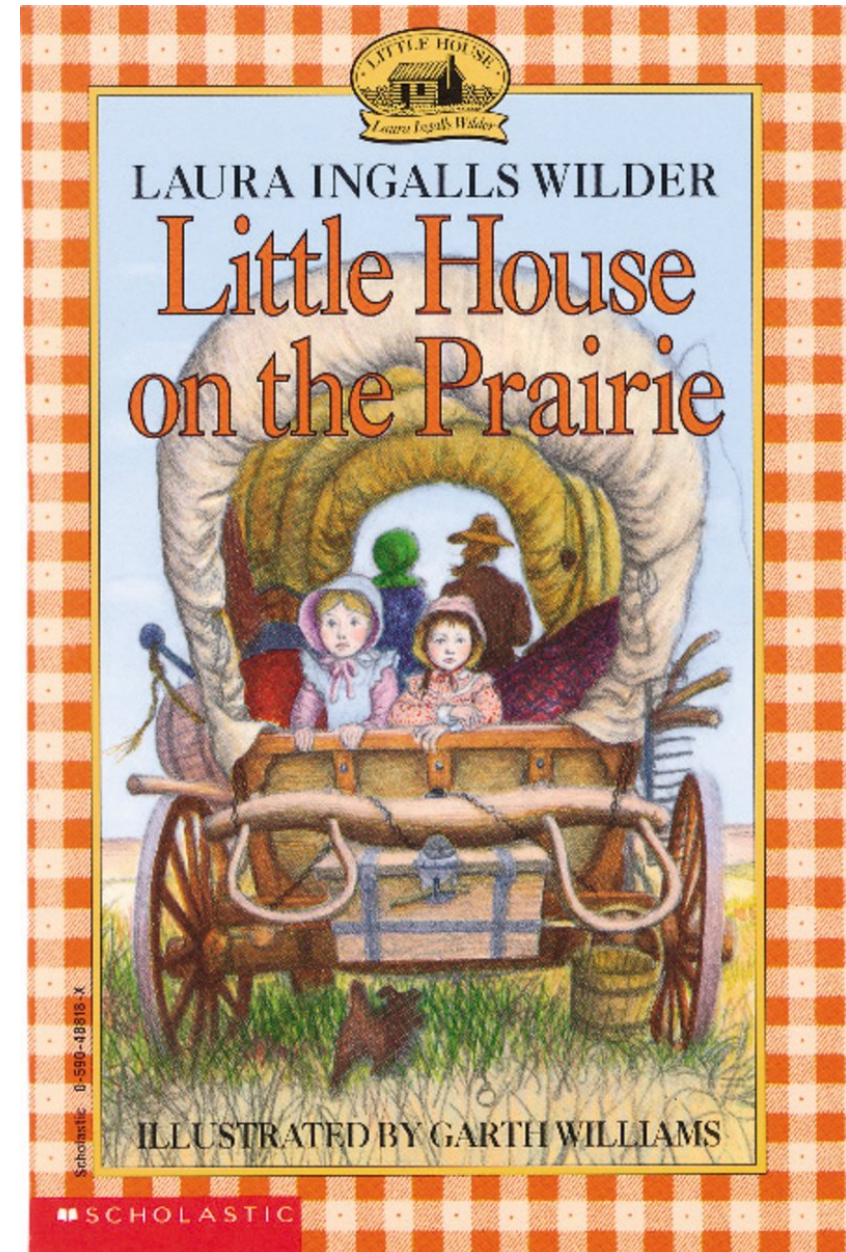
Affidavit.

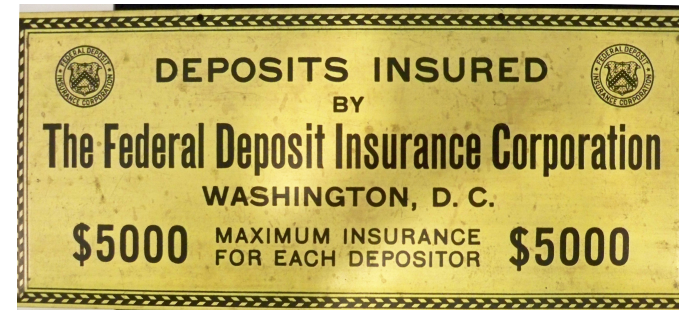
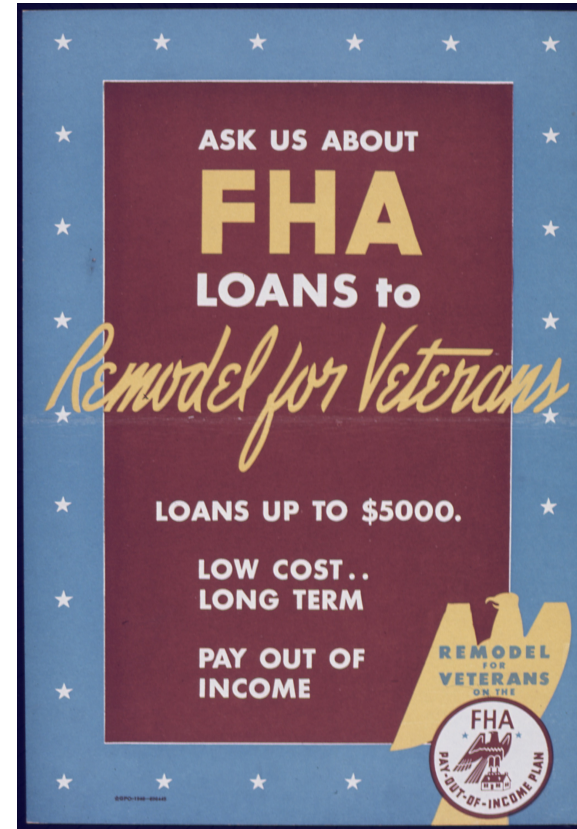
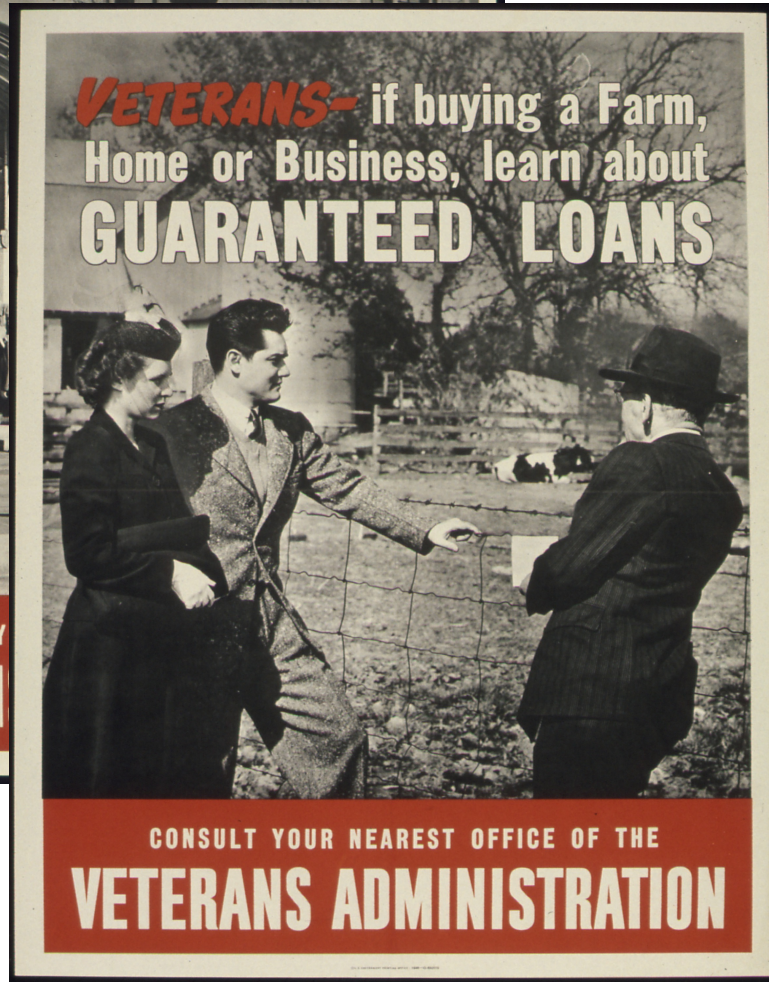
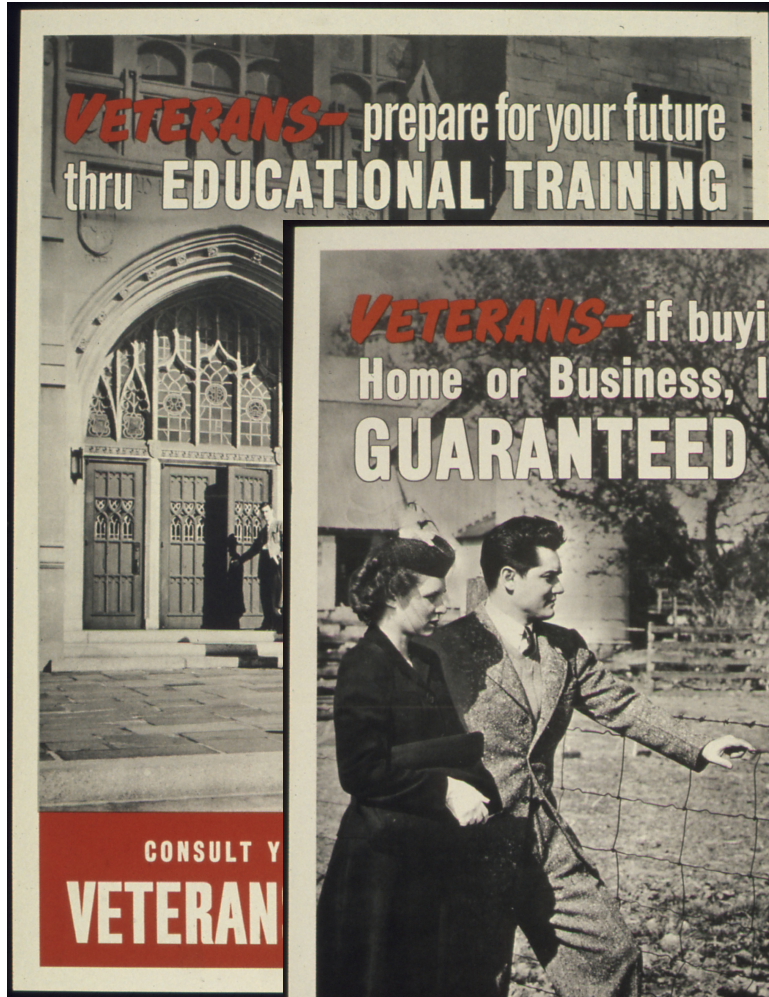
Provision in case of death of applicant, &c.

Homesteading Act of 1862

160 acres in the west

Distributed 80 million acres by 1900, mostly to white settlers





Designed
to boost
assets

Access to
programs
was unequal
and racialized

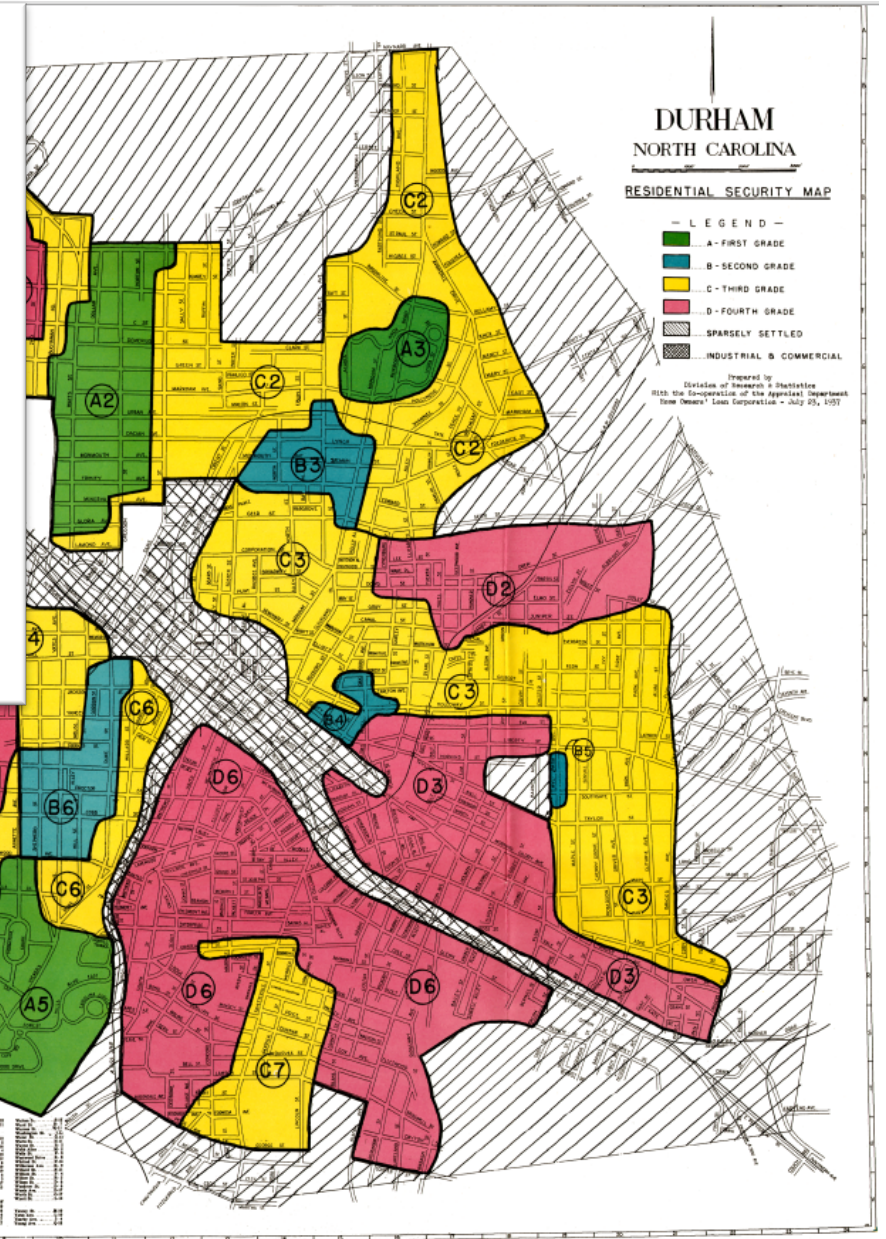
D6

Category [Area Descriptions:Red Area Descriptions](#)

Tags [Red \(D\)](#)

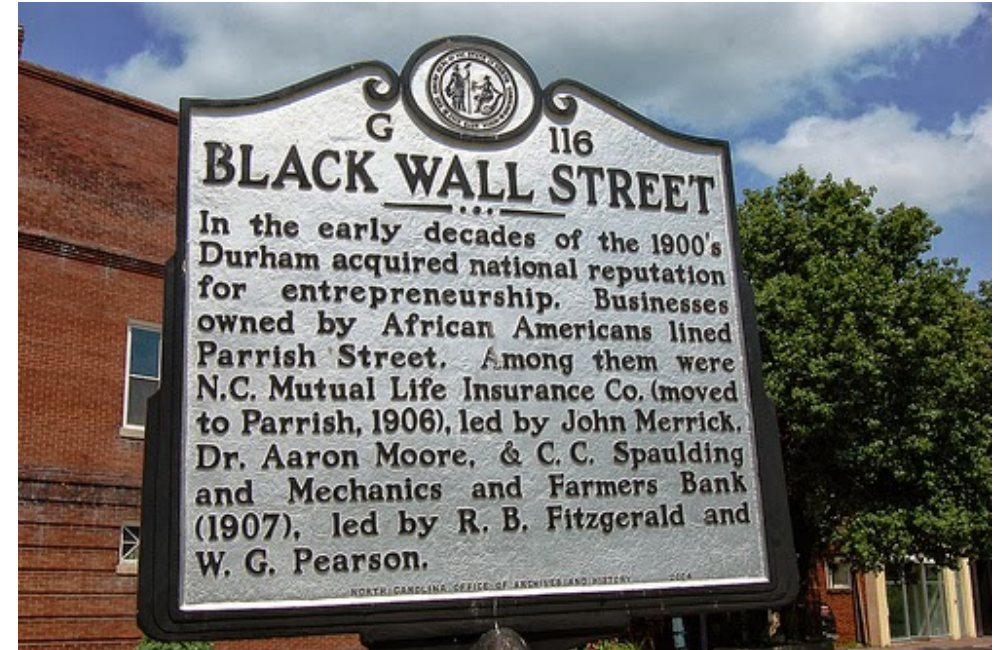
CLARIFYING REMARKS: White population largely on McMannen Street for about 2 blocks South of railroad and some on South Street, and on McMannen Street are several fairly nice homes. This was formerly a good white residential street but negroes are gradually taking up the area.

[D6 Area Description](#)

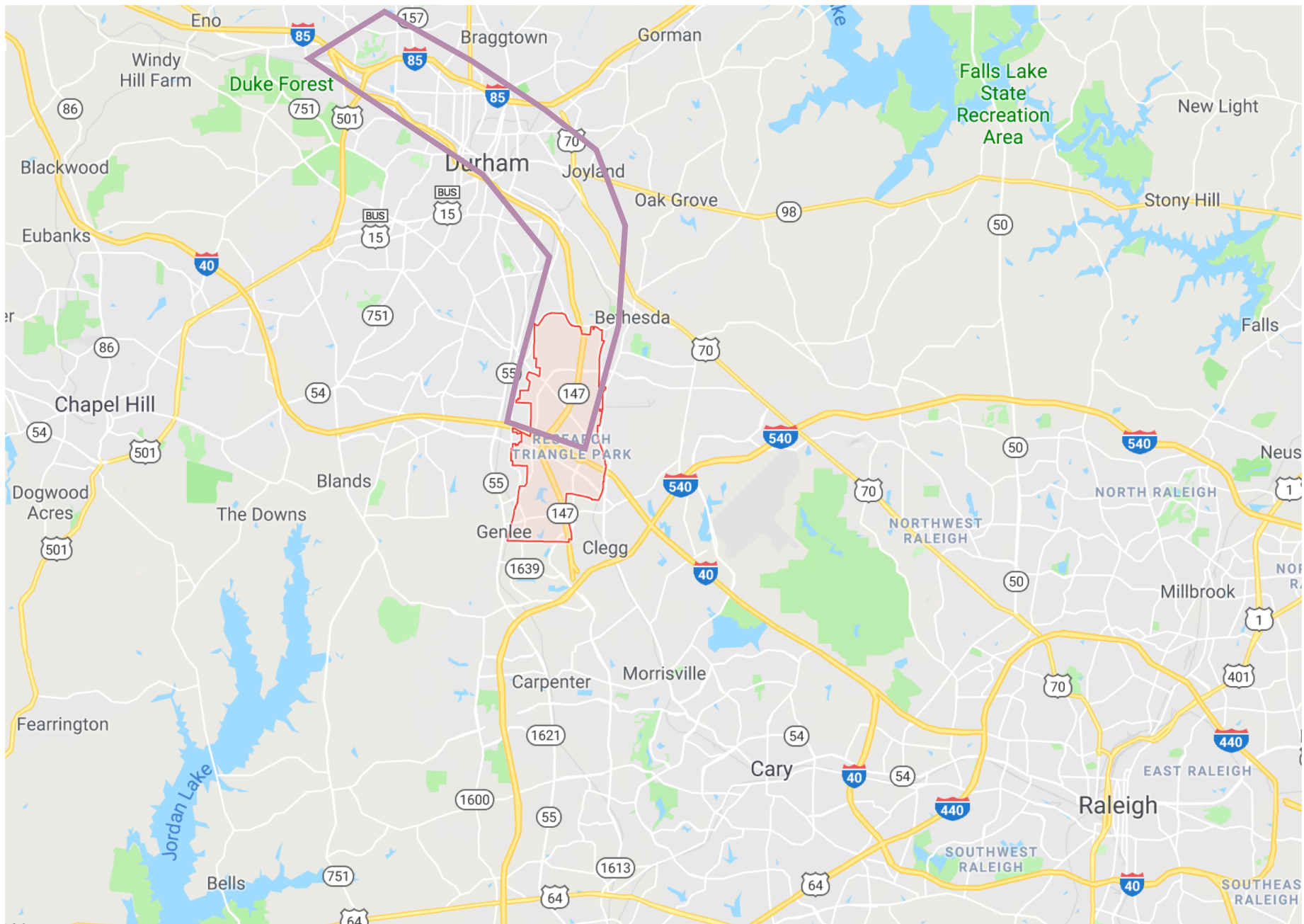


Implementation was
systemically racist

Hayti

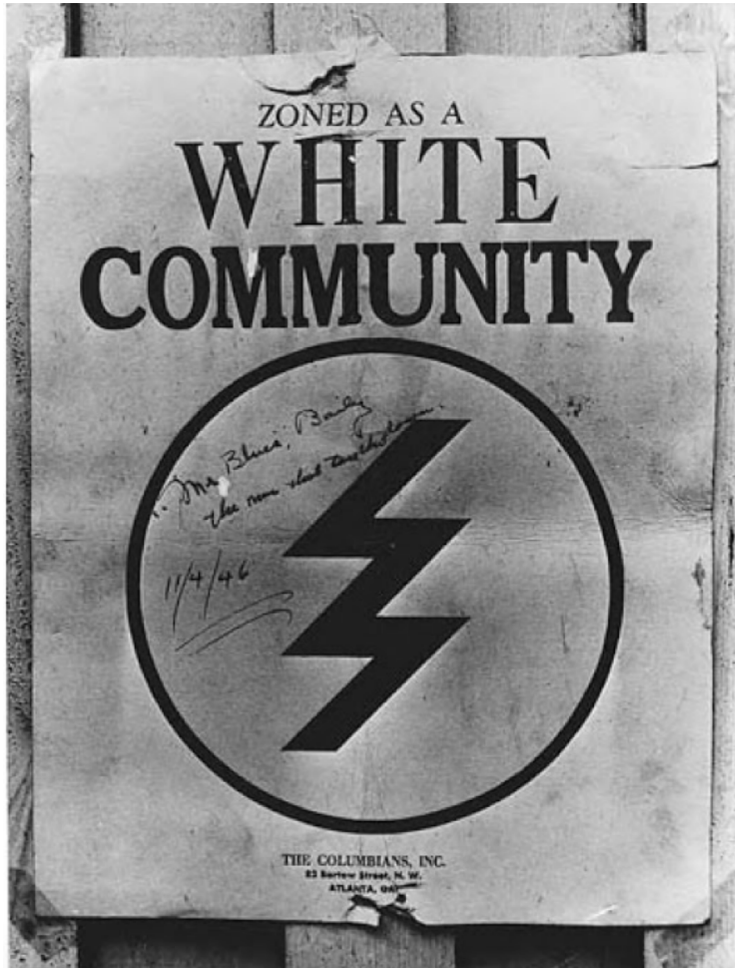


James E. Shepard, Founder





HOAs, zoning, and white flight in Atlanta



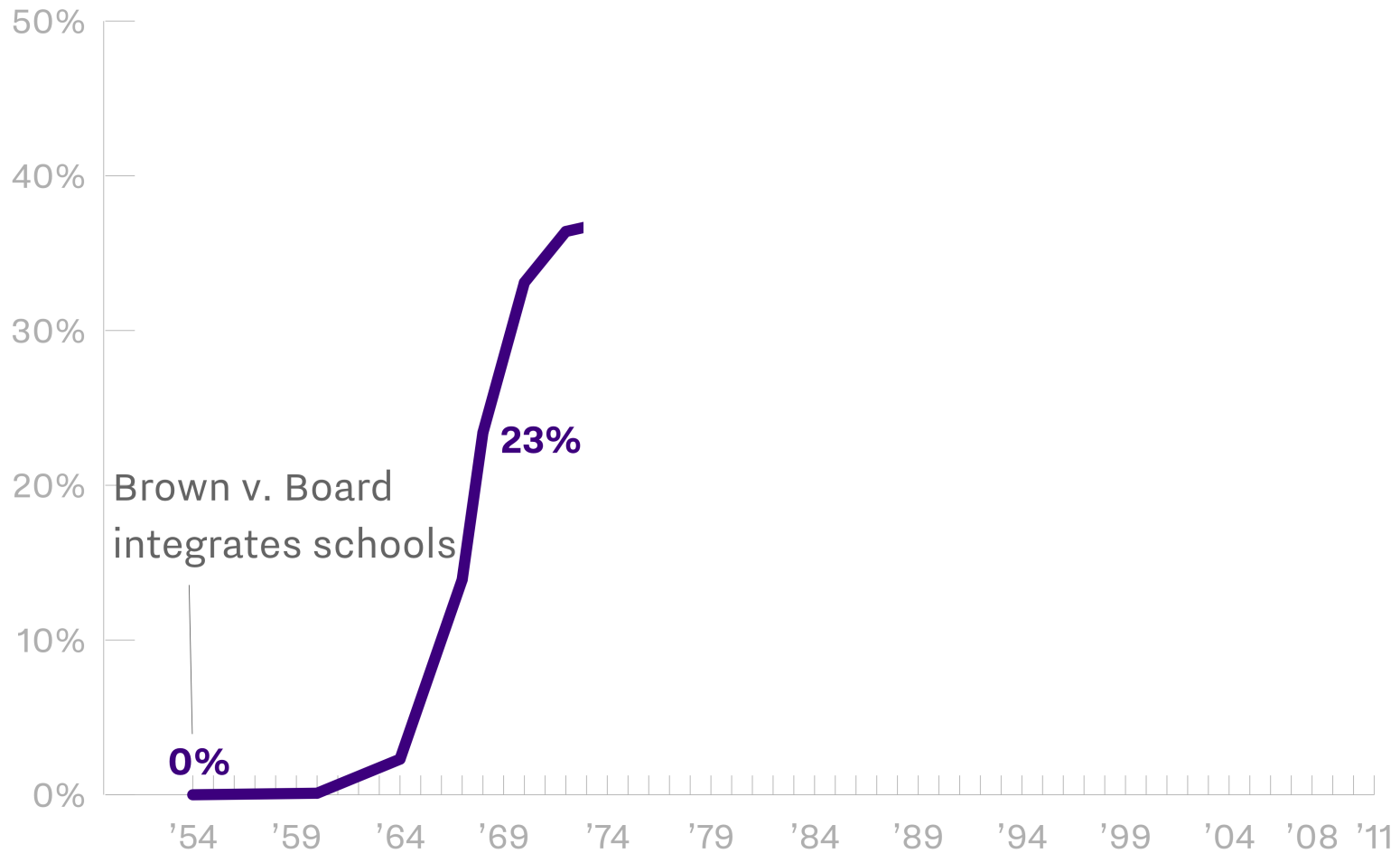
Civil rights laws in 1960s banned redlining



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



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



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 a FHA mortgage to your grandfather.

Mehrsa Baradaran

POLICY SOLUTIONS

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 Reason

Nixon's solution for racial
economic justice.

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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.



The New York Times

Opinion

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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

Capitalism and the free market?

Affirmative action?

Baby bonds?