EE466 Political Economy of Development

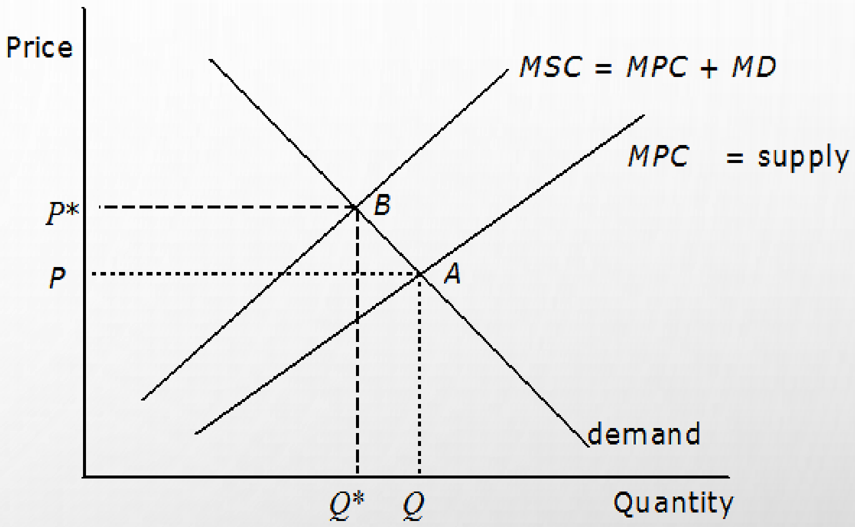
Political Economy of Public Policy

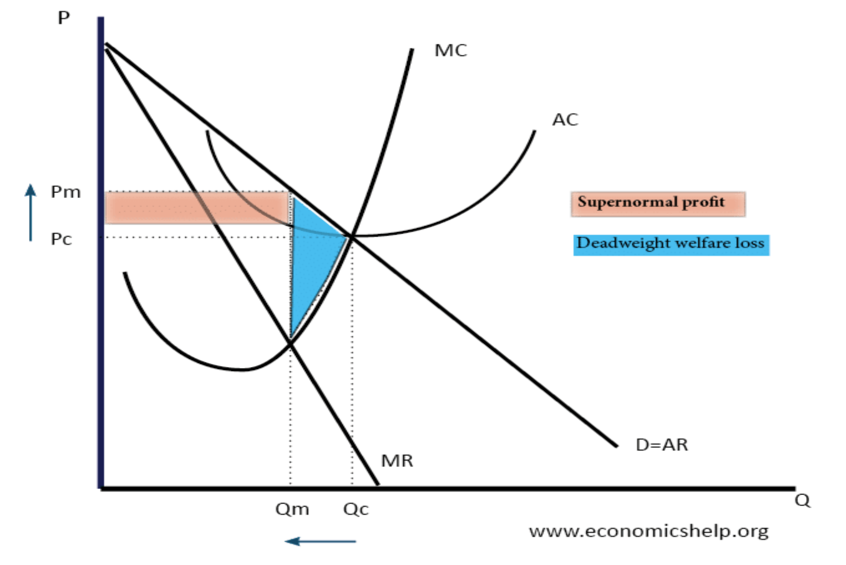
Outline

- Public Policy & Economics of Public Choice
- Policy Actors and Governance of Pubic Service
- Business & Politics Linkage
- Ethical Aspects in Public Policy

MARKET FAILURE & GOVERNMENT CORRECTION

Types of Market Failure	
Public Good	Goods which are non-rival and non-excludable - e.g. police, national defence.
Inequality	Unfair distribution of resources in free market
Monopoly	A firm dominates the market and can set higher prices.
Merit Good	People underestimate the benefit of good, e.g. education.
Factor immobility	E.g. geographical unemployment where people find it difficult to move to areas of jobs.
Agriculture	Volatile prices, fluctuating weather and externalities.
Cyclical instability	Macro economy enters recession or experiences inflationary boom
Externalities	When consuming or producing a good causes a cost/benefit to a third party
Demerit Good	People underestimate the costs of a good, e.g. smoking. www.economicshelp.org
How to remember types of market failure? PIMM FACED!	





DEMOCRACY & PUBLIC POLICY

"No one pretends that democracy is perfect or all-wise.

Indeed, it has been said that democracy is worst form of government

except all those other forms that have been tried from time to time"

- Winston Churchill

We have been taught:

- Democratic governments try to improve society
- A responsible electorate can toss the bums out
- Poor leadership is to blame for political apathy
- We should vote and participate in the political process
- one goal of governments may be to maximize social welfare.

<u>Political Economy:</u> There is **never** a 'good government'!!

4 KEY IDEAS IN PUBLIC CHOICE ECONOMICS

1. Is it rational for government leaders to favor special interests over the general public interest?

2. Why are politicians mainly in the middle of the road?

3. Are people rational or irrational when they spend little time evaluating candidates before they vote and when they don't vote?

4. What is the effect of bureaucratic entrepreneurs on government?

MARKET FRAMEWORK FOR 'PUBLIC POLICY'

- Analyzing 'Public policies' as 'Products'

How competitive is the market?

Policy Institutions

- Citizens
- Beneficiaries
- Private Sectors
- Civil Society
- Lobbying groups/ Interest group

Demand for PP

Policy Menu

- Policy A
- Policy B
- Policy C

Supply of PP

- Government
- Politicians
- Technocrats
- Political Party

Open economy

Pressures from international factors

Superstructure

Political Culture

Asymmetric Information?

GOVERNMENT FAILURE

Is it rational for government leaders to favor special interests over the general public interest?

- Policies are designed on basis of **both economic and political reasons**
  - Government not exactly maximize social welfares but also balance different interest groups
- **Vote-gain maximizing behaviors**

Policy	**Ranking**		
	Economic Efficiency	Number of Votes	Political Choice
A	A	C	C
B	B	B	B
C	C	A	A

- ***Agenda manipulation*** is the process of organizing the order of votes to assure a favorable outcome.

GOVERNMENT FAILURE

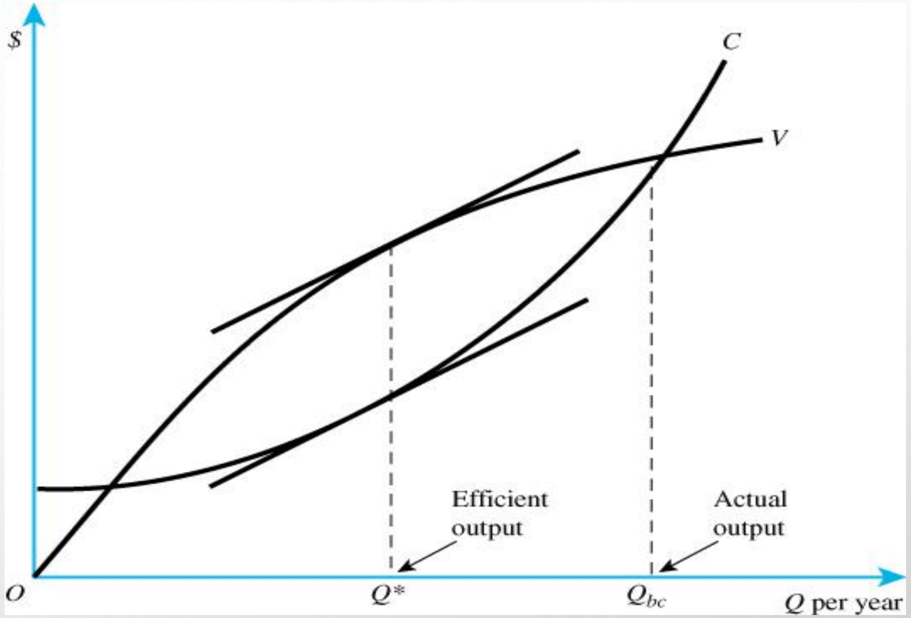
- **Rent-seeking behaviors**
  - The activities of influencing the political process to obtain favorable outcomes or to avoid unfavorable one.
  - Interest groups or firms will take resources from other productive endeavors and spend them on lobbying or other rent-seeking activities
  - Asymmetric information
- **Outcomes**
  - Inefficiency
  - Conflicts with the objectives of other groups: civil society

- Special interest groups can form coalitions and exercise a disproportionate amount of power if they vote in blocks or make campaign contributions.
- Groups form based on many factors, including capital vs. Labor, rich vs. Poor, industries, regions, and demographics.

Direct Democracy: Voting

Problems:

- **Bureaucrats:** government employees.
  - Naïve to assume that a bureaucrat's only aim is to interpret and passively fulfill the wishes of the electorate and its representatives.
  - Niskanen (1971) argues that bureaucrats tend to focus on maximizing perquisites of public office, public reputation, power, etc., because opportunities for monetary gains are minimal.
  - Bureaucrats have incentive to promote activities that increase the sponsor's perceptions of the project's benefits.
  - Bureaucrats have *informational advantage*, to present the alternatives as "take Q_{bc} or none at all."



Bureaucrat doesn't choose the efficient amount for the project, Q^*, where MB=MC, but rather chooses a larger project, Q_{bc}, where TB=TC. Project doesn't suffer losses, but is inefficient.

- A larger office
- A higher salary
- A larger pension

Direct Democracy: Voting

- **Direct Democracy:** No parliament, all people are either voting or reach agreement
- Voter is compared to the consumer in the marketplace – intensity of preference is registered by willingness to pay higher price.

- ***Unanimity rules***: All parties must agree for a policy to be implemented.
  - Example: In principle, society could agree that a public good should be provided rather than not being provided.

- ***Majority Voting rules***: one more than half of the votes must favor a measure to gain approval.

Table 6.1 **Voter preferences that lead to an equilibrium**

Choice	Voter: *Cosmo*	*Elaine*	*George*
First	A	C	B
Second	B	B	C
Third	C	A	A

Table 6.2 **Voter preferences that lead to cycling**

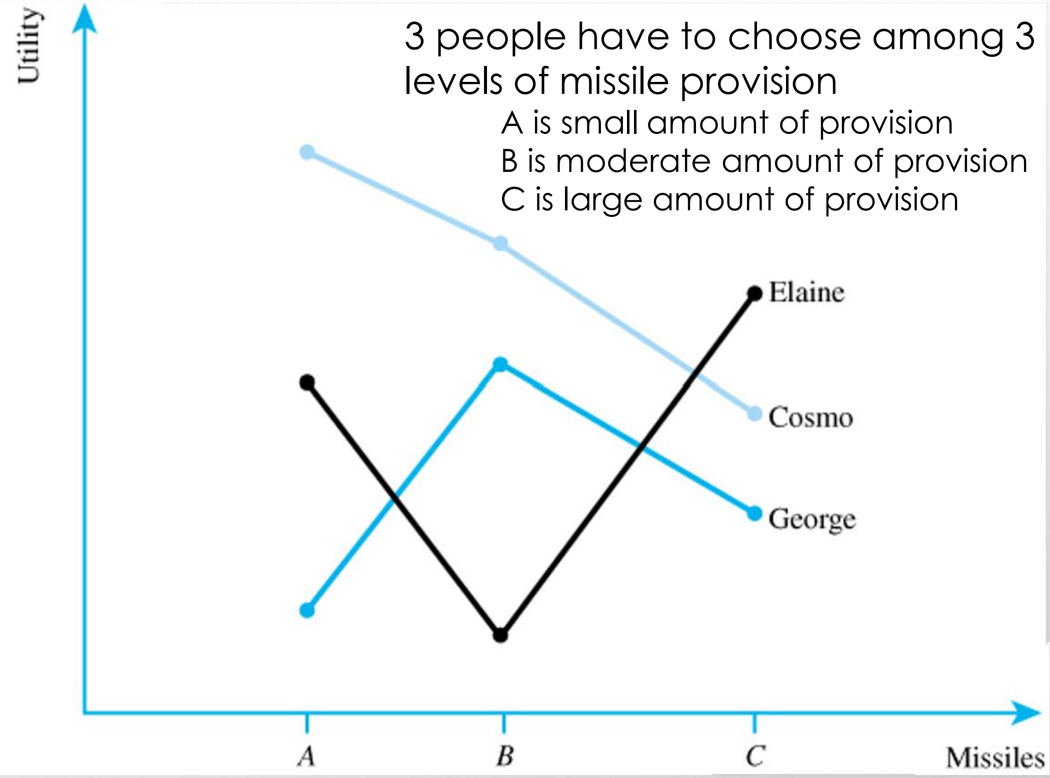
Choice	Voter: *Cosmo*	*Elaine*	*George*
First	A	C	B
Second	B	A	C
Third	C	B	A

- **Cycling**: paired voting can go on forever without reaching a decision.

Direct Democracy: Voting

Cases when alternatives can be ranked on a characteristic, like size or quantity.

- A ***peak*** in an individual's preferences are a point at which all neighboring points are lower.
  - ***Single peaked preferences***: utility falls as person moves away from most preferred outcome in any & all directions.
  - ***Double peaked preferences***: utility initially falls as person moves away from most preferred outcome, but then rises.
    - ***e.g.*** Goods which cannot be ordered on a single dimension like "size." The use of a vacant building, for example.



- Elaine has double-peaked preferences as quantity increases.
- This means she prefers either very large or very small missile expenditures to a quantity in the middle.

Direct Democracy: Voting

- ***The median voter*** is the voter whose preferences lie in the middle of the set of all voter's preferences.
  Half of voters want more of the good, and half want less.

  - The ***median voter theorem*** states that as long as all preferences are **single-peaked**, the outcome of majority voting reflects the preferences of **the median voter**.

Table 6.3 **Preferred level of party expenditure**

Voter	*Expenditure*
Donald	$ 5
Daisy	100
Huey	150
Dewey	160
Louie	700

- A movement from $0 to $5 would be by all five voters.
- A movement from $0 to $100 would be approved by Daisy, Huey, Dewey, and Louie.
- A movement from $100 to $150 would be approved by Huey, Dewey, and Louie.
- Any increase above $150 would be blocked by a majority of voters.
- Hence the majority votes for $150, which is the preferred amount of the median voter, Huey.

Direct Democracy: Voting

- ***Log-rolling*** systems allow people to trade votes, and hence register how strongly they feel about various issues.
  - Vote trading is controversial, but may lead to more efficient provision of public goods.
  - By trading votes, it is possible to get projetcts approved, and society gains welfare.

	Agriculture	Tax	Vote	School	Tax	Vote	Fire	Tax	Vote
Tanya	$300	$200	Y	$150	$200	N	$100	$200	N
Alvin	$150	$200	N	$350	$200	Y	$150	$200	N
Rebecca	$100	$200	N	$50	$200	N	$225	$200	Y
Total	$550	$600	Inefficient	$550	$600	Inefficient	$475	$600	Inefficient

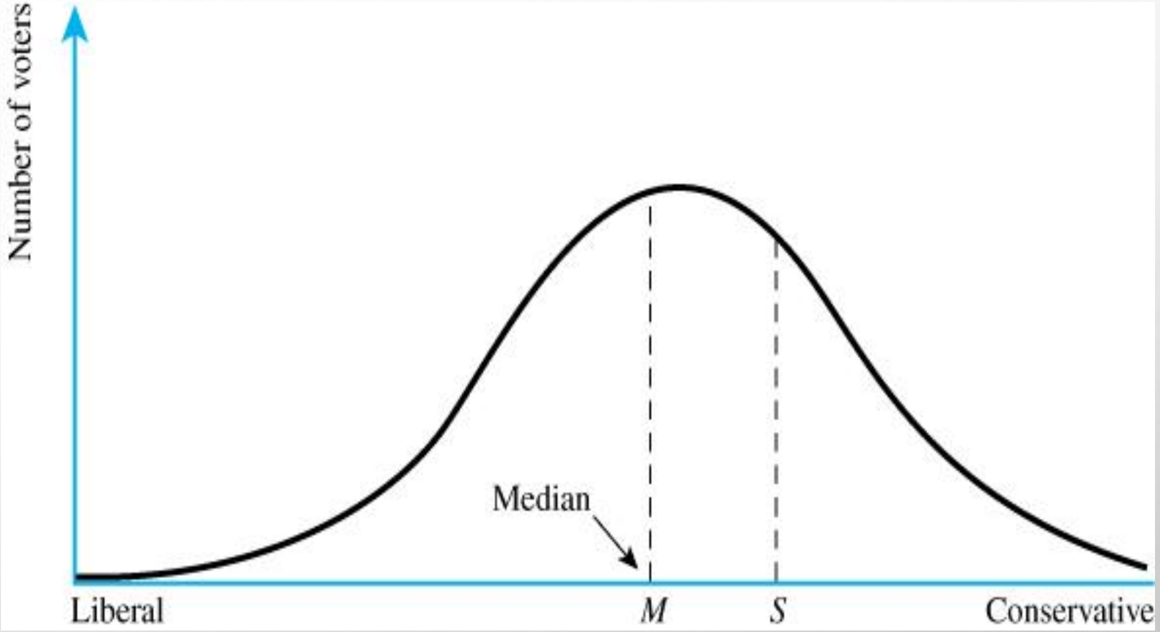
- Tanya favors subsidies for agriculture, Alvin favors school construction, and Rebecca favors the recruitment of more firefighters.
- It seems as if the proposals are doomed to fail because each is opposed by a majority of voters.

	Agriculture	Tax	Vote	School	Tax	Vote	Fire	Tax	Vote
Tanya	$350	$200	Y	$150	$200	N	$100	$200	Y
Alvin	$150	$200	N	$350	$200	Y	$200	$200	N
Rebecca	$125	$200	Y	$50	$200	N	$300	$200	Y
Example	$625	$600	Efficient	$550	$600	Inefficient	$600	$600	Efficient

- Tanya may visit Rebecca and tell her that she will vote for Rebecca's bill to recruit more firefighters so long as Rebecca votes for her policy, subsidies for agriculture, in return.
- Now both proposals will win because they have gained a simple majority.

Representative Democracy: Voting

- Elected Politicians: If voters have **single peaked preferences**, the vote-maximizing politician adopts the preferred program of **the *median voter***.
- 2 party systems tend to be "stable" in the sense that both stake out positions near the "center."
- Candidates move to middle of spectrum, because voters support candidate with view closest to own, and only one wins.



Representative Democracy: Voting

- **Real-life complications**
  - Ideology matters: politicians care about more than just winning elections.
  - Personality: voters care about more than just issues.
  - Leadership: politicians do not simply respond to voter’s preferences.
  - Voter participation: may be affected by relative difference in candidates

Representative Democracy: Voting

Why people vote?

“Active citizenship” thesis

- Voting is a consumption activity
- It provides a feeling of civic duty
- You can complain without feeling guilty

“Rational Ignorance” thesis

- Why spend the time to be informed when your single vote counts so little?

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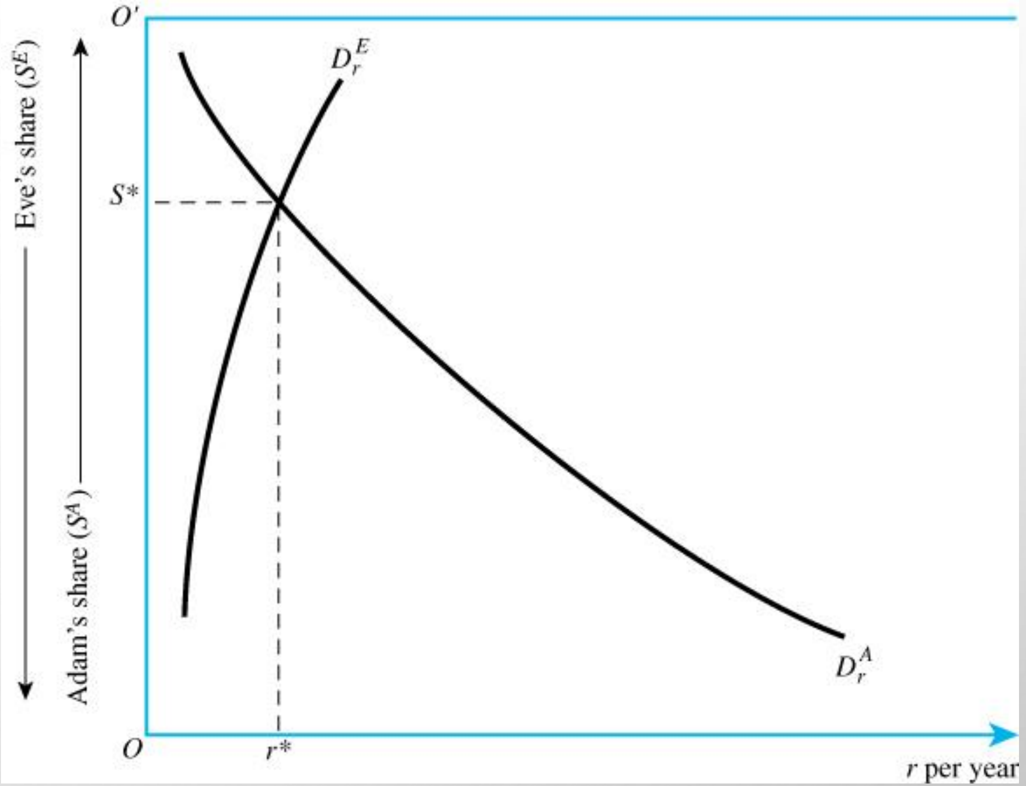
STATE VS. MARKET VS. COMMUNITY

Type of Goods

		Subtractability of Use	
		High	Low
Difficulty of excluding potential beneficiaries	High	*Common-pool resources*: groundwater basins, lakes, irrigation systems, fisheries, forests, etc.	*Public goods*: peace and security of a community, national defense, knowledge, fire protection, weather forecasts, etc.
	Low	*Private goods*: food, clothing, automobiles, etc.	*Toll goods*: theaters, private clubs, daycare centers

	Ephemeral	Enduring
Anonymous	Markets	States
Personal	—	Communities



Lindahl prices: Each person faces a "personalized price" per unit of the public good, which depends on the tax share.

- Finding tax shares may take a lot of time.
  - Imagine many parties, not just two.

THE DIFFERENT KINDS OF GOODS

- Four Types of Goods

Rival?

Excludable?	High	Low
High	**Private Goods**	**Collective Goods/Club goods /Toll Goods**
Low	**Common Goods**	**Public Goods**

Provision of goods by property rights

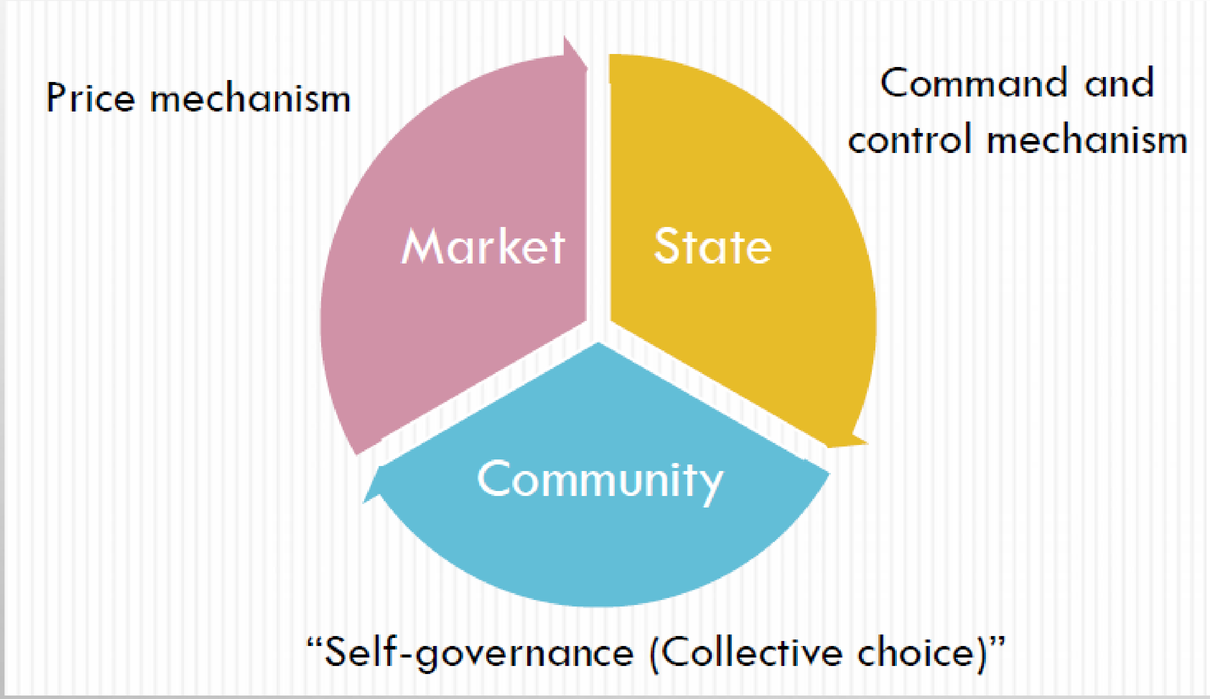
Public provision	**Common ownership**
Private provision	**Open access**

x

GOVERNANCE

- Private provision of private goods/ collective goods
- Private provision of public goods
- Public provision of private goods / collective goods
- Public provision of public goods
- Public provision of common-pooled resources
- Community provision of private goods/ collective goods
- Community provision of public goods
- Community provision of common-pooled resources

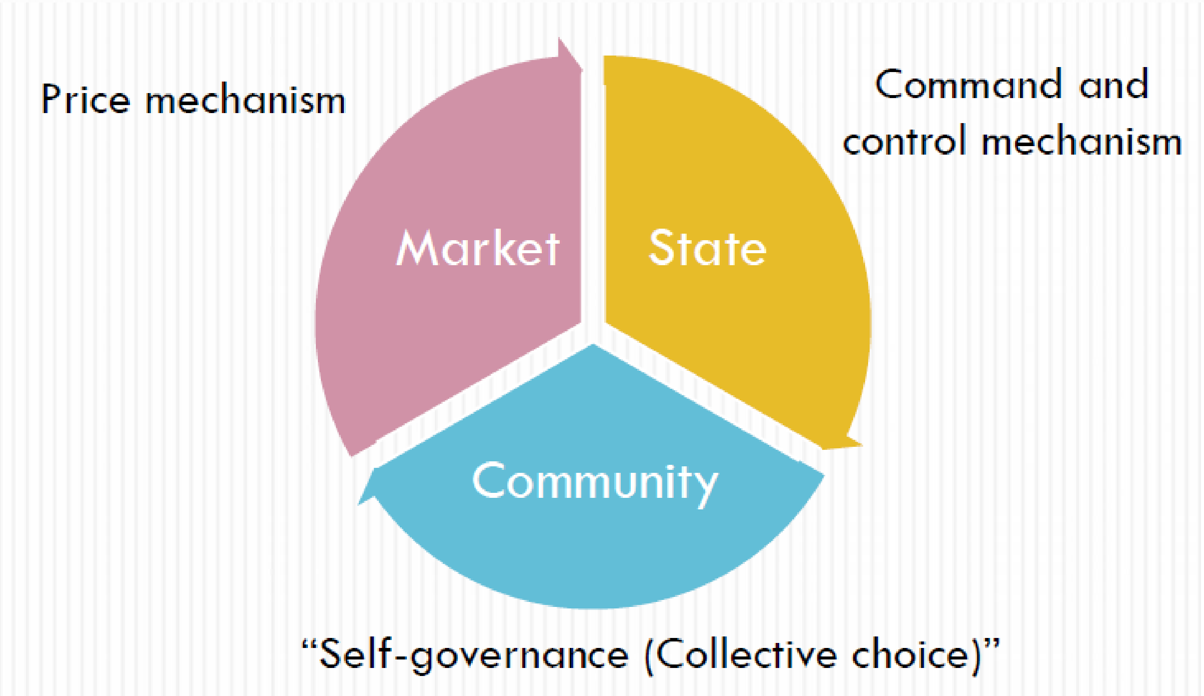
Governance of Public Service



GOVERNANCE

- Private provision of private goods/ collective goods
- Private provision of public goods
- Public provision of private goods / collective goods
- Public provision of public goods
- Public provision of common-pooled resources
- Community provision of private goods/ collective goods
- Community provision of public goods
- Community provision of common-pooled resources

- **Markets** are attractive because of their ability to make use of private information
- So where comprehensive contracts may be written and enforced at low cost, markets are often superior to other governance structures



- **The state** is attractive because it alone has the power to make and enforce the rules of the game that govern the interaction of private agents

- **Communities** can sometimes do what governments and markets fail to do because their members, but not outsiders, have crucial information about other members' behaviors, capacities, and needs
- Namely, **insufficient provision of local public goods**: Such as neighborhood amenities, the absence of insurance and other risk-sharing opportunities even when these would be mutually beneficial, exclusion of the poor from credit markets, and excessive and ineffective monitoring of work effort.

COMMUNITIES AND INCENTIVES

- Communities thus may make an important contribution to governance where market contracts and government fiats fail because the necessary information to design and enforce beneficial exchanges and directives cannot effectively be used by judges, government officials, and other outsiders
- This is particularly the case where **ongoing relationships among community members** support trust, mutual concern, or sometimes simply effective **multilateral enforcement of group norms**

- Community governance relies on **dispersed private information** often unavailable to states, employers, banks, and other large formal organizations **to apply rewards and punishments to members** according to their conformity with or deviation from social norms.
- In contrast with states and markets, communities more effectively foster and utilize the incentives that people have traditionally deployed to regulate their common activity:
  - Trust, solidarity, reciprocity, reputation, personal pride, respect, vengeance, and retribution, among others.

HOW MIGHT THE STRUCTURE OF THE COMMUNITY NONETHELESS INDUCE UNIVERSAL COOPERATION?

- **First: reputation effect of community**
- A high frequency of interaction among community members lowers the cost of gathering information, and raises the benefits associated with discovering the characteristics of those with whom one interacts.
- The more easily acquired and widely dispersed this information, the more will community members have an incentive to act in ways beneficial to their neighbors.
- Thus when agents engage in repeated interaction, **they have an incentive to act in ways that build their `reputation' for cooperative behavior**

- **Second: retaliation effect of community**
- Since in a community the probability is high that members who interact today will interact in the future, there is an incentive to act favorably towards one's partners **to avoid future repercussions**
- The more multifaceted is the relationship among people involved in the interaction, the more opportunities there are for the later redress of opportunistic treatment

HOW MIGHT THE STRUCTURE OF THE COMMUNITY NONETHELESS INDUCE UNIVERSAL COOPERATION?

- **Third: segmentation effect of community**
- Pro-social and anti-social behaviors typically involve conferring benefits and inflicting costs on others, in a situation where the costs and benefits in question are not subject to cost effective contracting.
- In a large population of many communities, the greater likelihood of interacting with a member of one's own community than with a randomly selected member of the population enhances the frequency of likes interacting.
- A result is that pro-social behaviors are more likely to be rewarded, those with prosocial norms being more likely to interact with other pro-social agents, and conversely for anti-social behaviors

COMMUNITY FAILURE VS. CORRECTION

- **“Community-yoke” thesis: pro-market viewpoint**

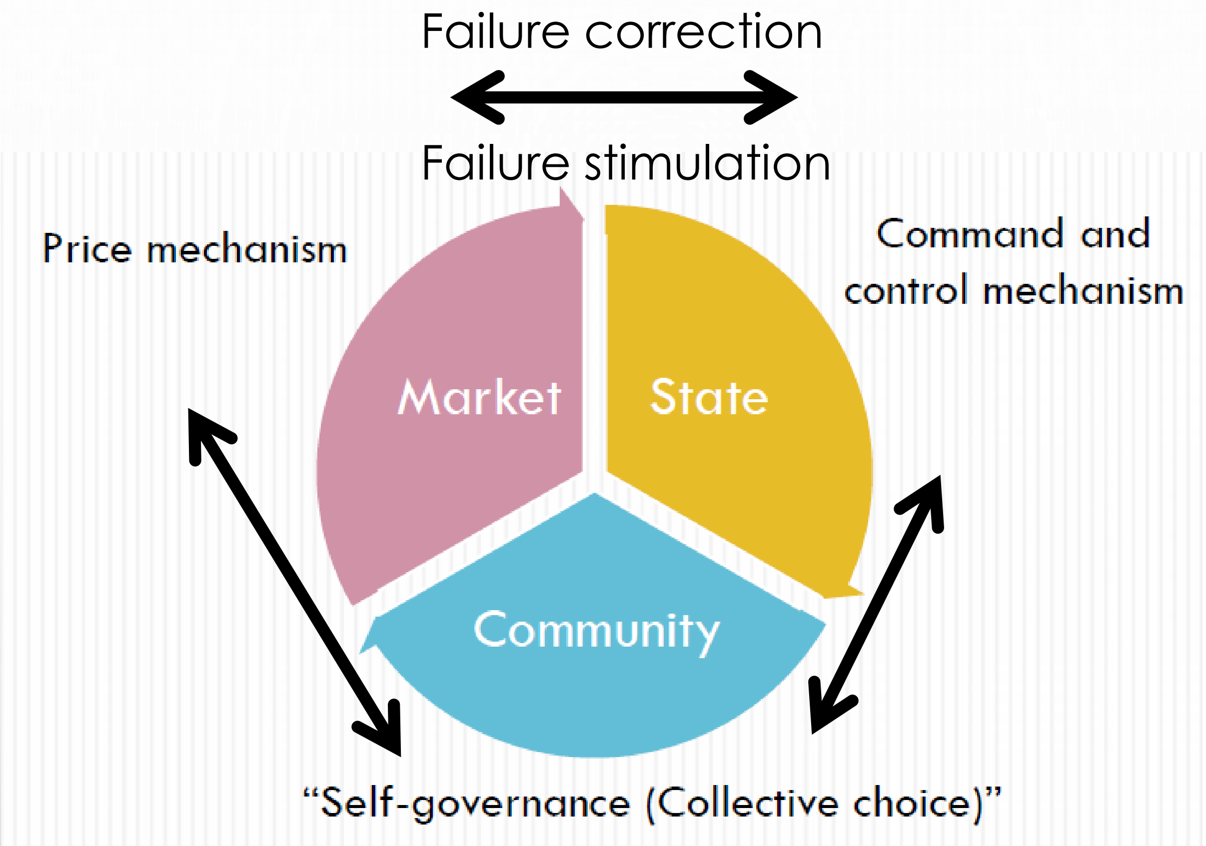
[Adam smith/friedrich A. Hayek/milton friedman]

- “Market” is efficient in resource allocation and also provides the ‘rules of justice’
  - Transition from pre-capitalist communities to modern economies is beneficial to a majority of the poor
- “Community” ‘traditional ties and despotism’
  - Bound by hierarchical status, traditional customs, and personal ties

- **“Evil-market” thesis: anti-market viewpoint**
- “Community” -there are morals that are considered necessary for the efficient functioning of a market economy, which are based on the contracts among free individuals
- E.G. Honesty/trust/restraint/mutual help/income sharing
  - Bound by common religion and mutual love
  - Exchange of labors/use of communal property
  - Secures minimum subsistence for all community members
  - Patron-clients relationship –> provides informal social controls on the better-off member to redistribute wealth
- “Market force”→“demoralizing and self-destructive”
  - The release of self-interests and material greed
  - Destruction of rural community relations
  - Dependency & external variation factors

Market failures

- Negative externalities
- Tragedies of the Commons"
- Unaffordable price of necessary service
- Lack of market for public/ merit goods/services



Government failures

- Bureaucracy
- Lack of efficiency
- Limited capacity: human resources/ budgets
- Rent-seeking behavior/ conflict of interest
- No incentives for innovation and improvement/ strategic thinking
- One-size-fit-all policies

'***Coordination failures***': the benefits and costs motivating individual action do not take appropriate account of the related beneficial or costly consequences of the collective actions

- Costlier in a larger size of community
- Requiring social capitals/trusts/ common values or identities

Governance of Public Service

Governance of Public Service

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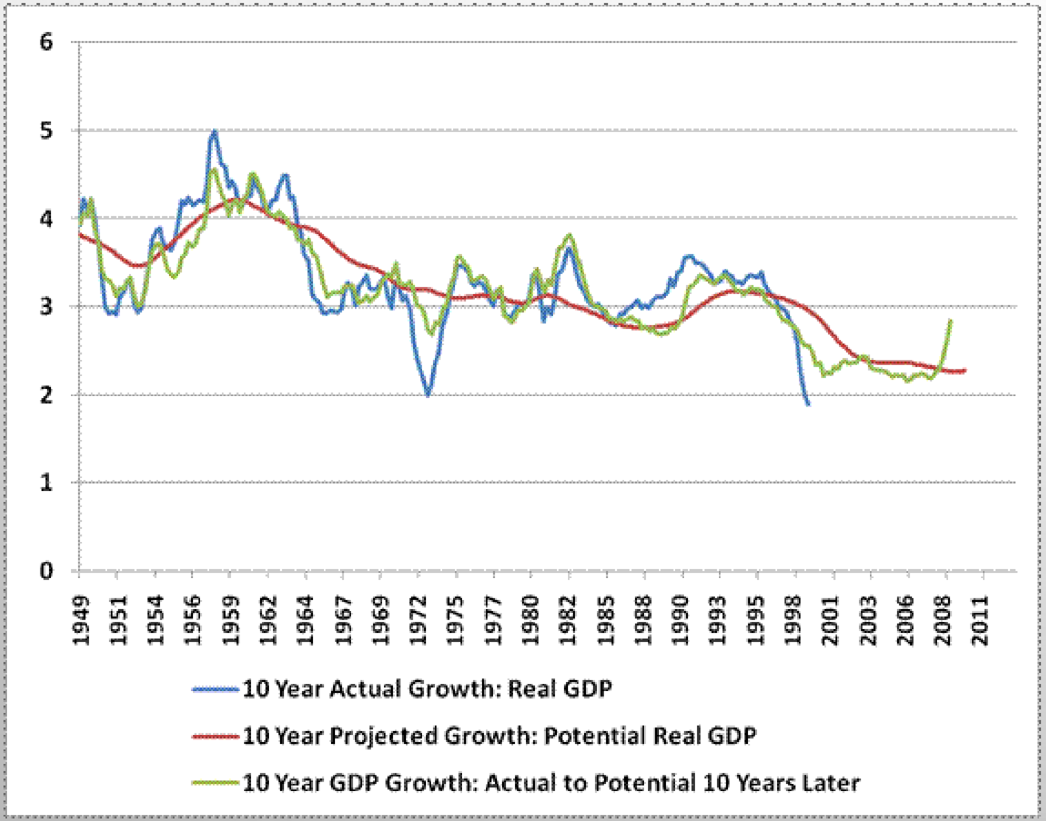
ECONOMIC MODERNIZATION

- **Mass production** was profitable because a large middle class had enough money to purchase what could be mass produced.
- **The middle class** had the money because the profits from mass production were divided up between giant corporations and their suppliers, retailers, and employees.
- The bargaining power of this latter group was enhanced and enforced by government action**. Almost a third of the workforce belonged to a union**.
- Economic benefits were also spread across the nation – to farmers, veterans, smaller towns, and small business – through ***regulation*** (of railroads, telephones, utilities, and small business) and subsidy (price supports, highways, federal loans).

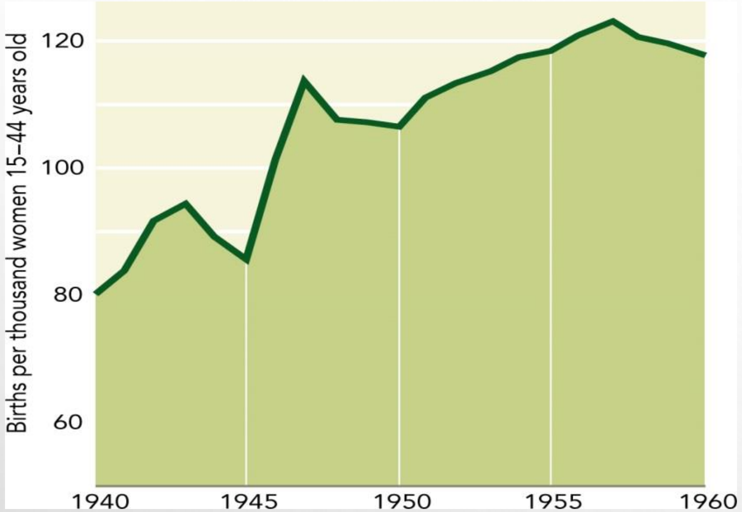
ECONOMIC MODERNIZATION



U.S. Booming Economic Growth:

- In U.S., the **government spending** continued to stimulate the economy in the late 1940s and early 1950s with funding for the building of schools and housing, veterans' benefits, welfare programs, interstate highway construction, and military spending, which remained high during the 1950s due to the Korean War.
- The 1950s and early 1960s, the U.S. experienced a period of economic growth that surpassed that of the 1920s, and which was much more widely distributed.
- Between 1945 and 1960, the **GNP** grew from $200 billion to $500 billion, and increase of 250 percent.
- **Unemployment** remained at about 5 percent.

ECONOMIC MODERNIZATION



The American Birth Rate, 1940-1960

- **Birth Rate**: The **"baby boom"** of the postwar era reversed a long trend of decline, peaking in 1957. The population rose from 150 million in 1950 to 179 million in 1960, driving consumer demand.
- **Suburban Expansion**: People living in the suburbs rose by 47 percent and stimulated many sectors of the economy, but especially home and road construction, and the car industry. Private car ownership more than doubled in the 1950s.

ECONOMIC MODERNIZATION

In 1960, Time magazine made "U.S. Scientists" its "Men of the Year."

- Many states (e.g. Texas and California) invested heavily in their state **university systems**, making them leaders in research and engines of growth.
- **Age of scientific discovery**

The oil industry in places like Texas and Colorado fed growth.

Development of Antibacterial Drugs

The first moon landing, the Apollo 11 mission, in July 1969

ECONOMIC MODERNIZATION

- **New business techniques** and **improved technology** enabled these nations to produce an abundance of goods and services for their people.
- Economic growth allowed many of them to enjoy a **standard of living** never before thought possible. Most Americans experienced an unprecedented level of prosperity in the postwar decades. The average American in 1960 had 20 percent more purchasing power than in 1945 and twice as much than in the 1920s.
- Americans had achieved the highest living standard in the world, though wealth was not evenly distributed.

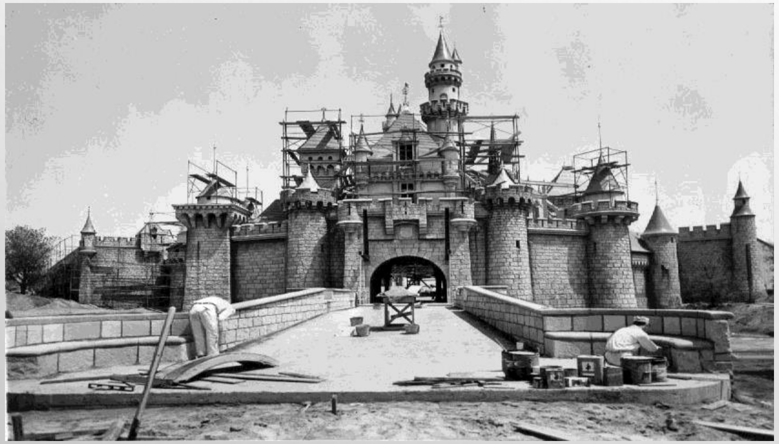
ECONOMIC MODERNIZATION

- **Middle-Class Expansion**: The middle-class lifestyle and outlook came to be shared by a much greater proportion of the population in the postwar period.
- **Growing Focus on Consumer Goods**: Consumer credit increased by 800 percent between 1945 and 1957 through charge cards and easy-payment plans.
- Galbraith asserts that even a comparatively useless product can be salable when its demand responds well to **advertising campaigns** that promise "greater sexual opportunity, less obesity, or some significant escape from the crypto-servant role of the housewife."
- Cars became even flashier and accessorized. Dishwashers, garbage disposals, televisions, and stereo systems were new items Americans embraced. Consumer crazes like the hula hoop and Mickey Mouse watches spread like wildfire.

Tail fins on a 1957 Chevrolet Bel Air

A 1950s kitchen

Dick Clark hosting American Bandstand in 1957; the program ran from 1952 to 1959, with Clark as host starting in 1956

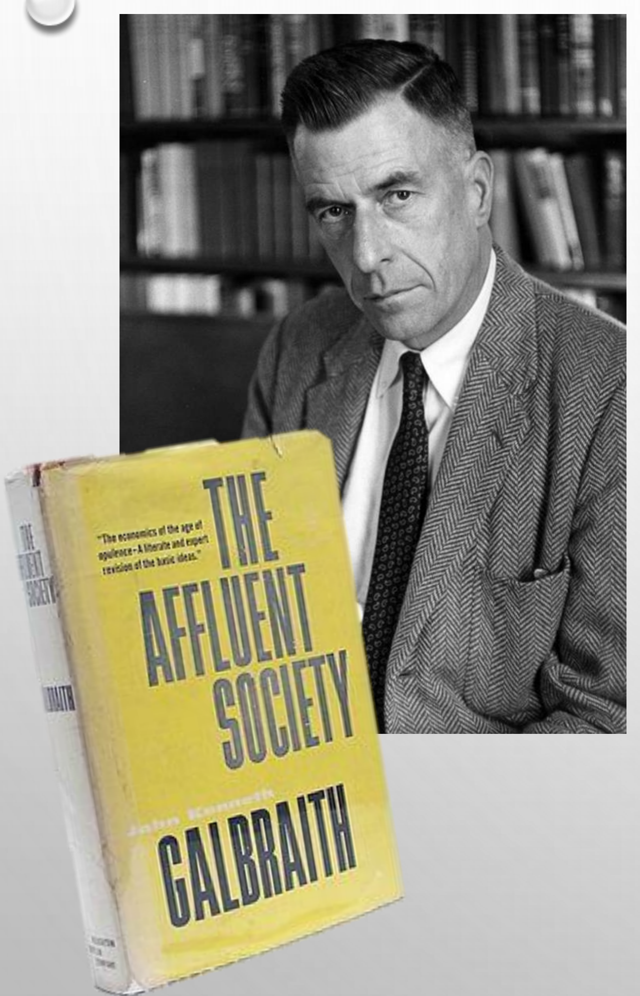


Disneyland's Sleeping Beauty Castle under construction before the park's opening in 1955.

A 1958 jukebox in a diner

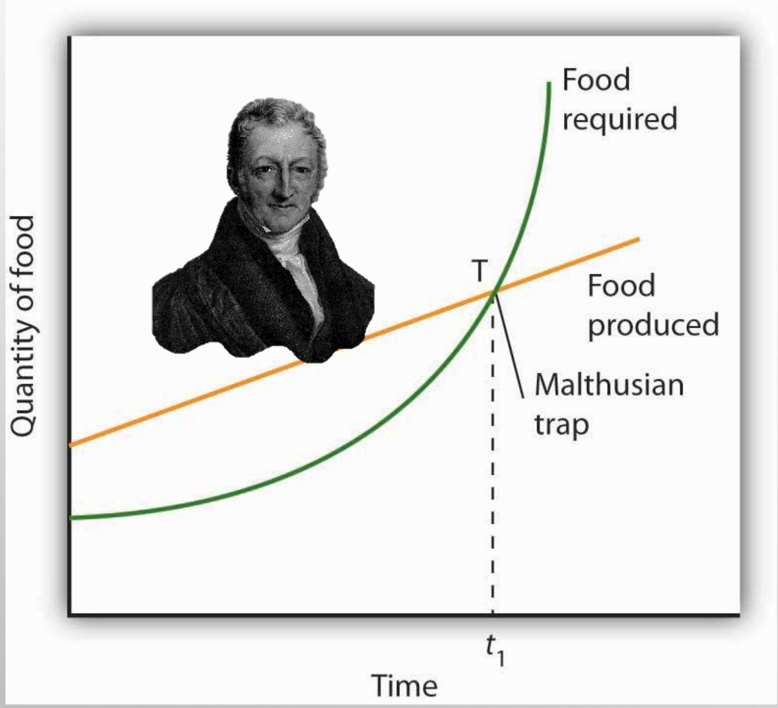
Elvis Presley (1935-1977)

THE AFFLUENT SOCIETY



- In 1958 economist **John Kenneth Galbraith** published the **Affluent Society**, in which he claimed that the nation's postwar prosperity was a new phenomenon. The country had enjoyed "years of rapid economic growth."
- But he tried to awaken American public opinion from its complacent worship of mindless economic growth.

THE AFFLUENT SOCIETY



- In the past, Galbraith said, all societies had an "**economy of scarcity**," meaning that a lack of resources and overpopulation had limited economic productivity.
- He observes that the early economic theorists—the leading figures being Smith, Ricardo, and Malthus—of the previous centuries based their theories in a world economy characterized by **poverty**.
- Now, the United States and a few other industrialized nations had created what Galbraith called an "**economy of abundance**.".

CONVENTIONAL WISDOM

- Galbraith introduces the concept of **conventional wisdom**, which refers to the generally accepted ideas within any given society.
- The conventional wisdom is based primarily on tradition and does not accommodate changes in society and so must be viewed with skepticism.
- Economists, policy makers, as well as the general public have a "vested interest" in the conventional wisdom in that it serves to maintain the status quo.
- Galbraith explains that the conventional wisdom about the economy stems from nineteenth-century economic conditions and is, therefore, no longer relevant to the American economy in the twentieth century.
- In essence, Galbraith views conventional wisdom as a **mass delusion** that must be dissipated to gain a clearer picture of the current status of the economy.

MARKET BELIEF IN THE 20TH CENTURY

Old market beliefs

- One of the oldest arguments in defense of markets rests on the belief that markets have an unrivaled capacity for meeting consumer needs and desires. Firms design new products because they are salable.
- **Firms also had no power over the government, consumers, or even their own prices**.
- They may lose some sales by charging a higher price.
- The monopoly model implies that the products would be underproduced in society and lead to poor quality.
- Wage/income is the only important factor in job satisfaction.
- Taxes would result in a stark reduction of productive activity
- The welfare system would distort market incentives. Where is the motivation to work when one can remain idle and collect welfare?

MARKET BELIEF IN THE 20TH CENTURY

New market beliefs

- Galbraith argues that **firms** are in the business of shaping the very demands they are supposed to meet.
- Actual production is some combination of what individuals desire, and of what firms want to produce. Large firms dedicate substantial funds to **advertising** and related selling efforts.
- Firms with monopolistic power can gain the additional sales arising from massive expenditures on **advertising and research and development**.
- Product development and market research are seldom very distant from each other in the corporate organization chart.
- Competitive markets are rather ***technologically backward.***

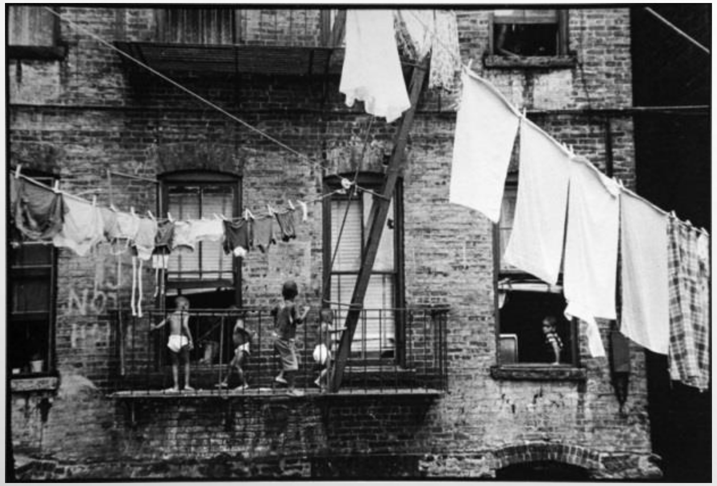
MARKET BELIEF IN THE 20TH CENTURY

- **Production rates** are determined by a society's need for various products, as indicated by **rates of consumption**.
- **High rates of production** do not simply satisfy preexisting needs or desires in the consumer; rather, the industries that produce consumer products simultaneously produce advertising campaigns designed to convince consumers of their need for this product.
- The problem with power is not that firms produce too little (as suggested by conventional monopoly theory), but that they **produce too much**. Resources are not underutilized by large firms in production, but are overused.
- Monopolistic automobile firms put out a new model every year and advertise it on all the major networks.

MARKET BELIEF IN THE 20TH CENTURY

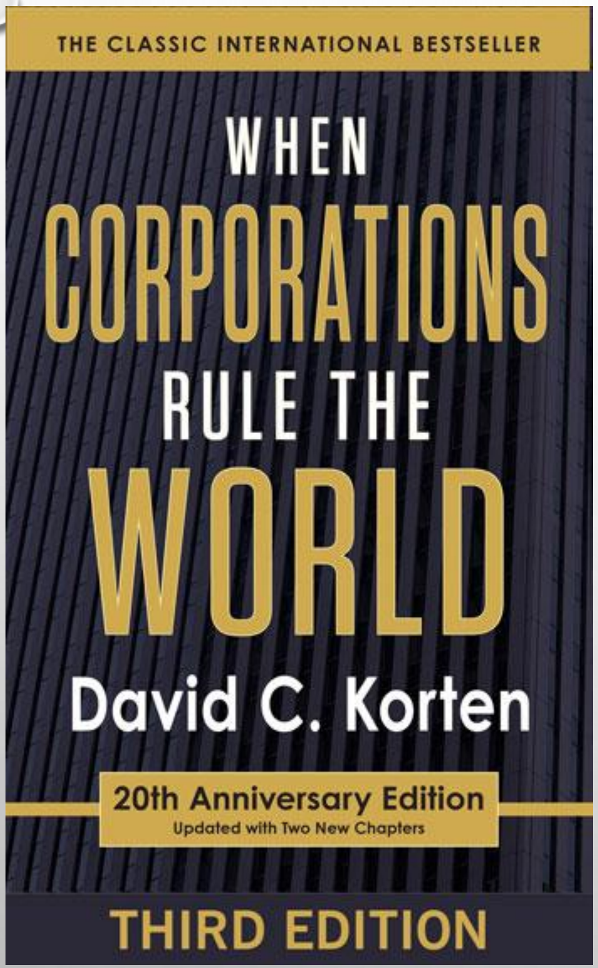
- **Production,** thus, has become the foremost concern in economic thought and the essential measure of economic vitality. The value of high rates of production in America was 'near-worship' would lead to a healthy economy.
- There is now **a new class of workers** who have the luxury of pursuing jobs that satisfy their own interests. They find occupations doing work they <u>*like*</u> to do. The desire for enjoyable work could be greater than the desire for less work.
- The most important factor in membership to this new class of workers is access to **higher education**.

THE AFFLUENT SOCIETY



- Some argued that prosperity, self-satisfaction, an ever-expanding consumer culture, and anti-communist fervor brought about a **blindness to social problems** faced by large groups within the U.S. population.
- Galbraith argues that the issue of **inequality** in the **distribution of wealth** has become less and less of a concern in American conventional wisdom.
- **The poor** are left to suffer the costs of a poorly functioning labor market, the rest of society has largely distanced itself from the insecurity and risk of the market. The system of large corporations and the complementary function of trade unions tend to push risk farther down the corporate ladder.

RISE OF COOPERATE POWER



- The publication of **The Wealth of Nations** and the signing of the US Declaration of Independence both occurred in 1776 manifesto challenging the abusive control of markets
- In 1886, private cooperation is a nature person under the U.S. constitution.
- There were days of violence and social instability by excesses of capitalism that **Marx** described (Bad working condition/ Child labour widespread). But union membership rose substantially between 1897 – 1904
  - Thriving social movement , was rooted in America and called for socialisation and democratic control
  - United ethnic group, women's labour union
- Better wage, benefits, work condition reduce the appeal of socialism and encourage work royalties, motivation.
- Corporates claimed the full right of individual citizens while exempting from responsibility of citizenship.

RISE OF COOPERATE POWER

- **Smith's ideal**: Market has only small buyers and sellers. He disliked both government and corporation. He saw corporations, much as he saw governments, as instruments for suppressing the beneficial competitive forces of the market.
- **<u>But</u>** current effort is to strengthen corporate monopoly
- The theory of market economics ≠ free market ideology
  - In unregulated real world, the successful players are larger → Create economic power to block entry.
  - Market without trust, cooperation and compassion
  - Society has to bear some '**external**' costs: Free-market neglect ecological issues.
  - Capital owners can increase their wealth by unjust distribution. Even though the American have better lives, high inequality, 1% of population control 59% of national wealth

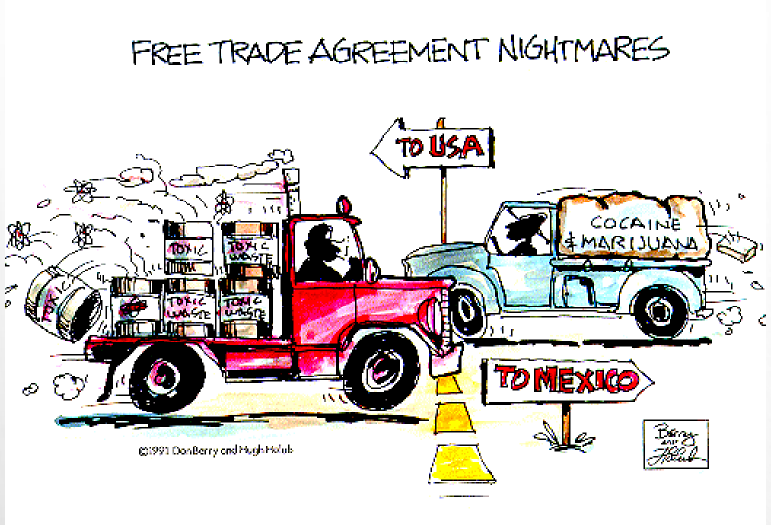
DREAMING OF GLOBAL EMPIRES

- Rapid institutional transformation; driven by global dreams of
  - **Corporate empire**
  - **Compliant government**
  - **Globalized consumer monoculture**

CORPORATE EMPIRE

- Ideal worlds of global can be characterised by one of which
  - World money, technology and market are controlled by **gigantic global companies**
- **Transnationalism** involve the integration of firms' global operation
- The more protected individual market are, the more global firm is forced in multinational mode
- Take advantages of difference between localities
- If firm has ability to move capital, goods, technology, personnel
  - Put pressure on localities
- Is heavily influenced by industry and has tended to harmonize standards downward?

CORPORATE EMPIRE



- Ex. Maquiladoras = assembly plants in free-trade zone in Mexico attracted many American companies
  - Low wages: Mexican government has denied workers the right to form labour union
  - Loosed environmental regulation: can operate without environmental license → **"Pollution haven hypothesis**"

The "pollution haven" hypothesis:

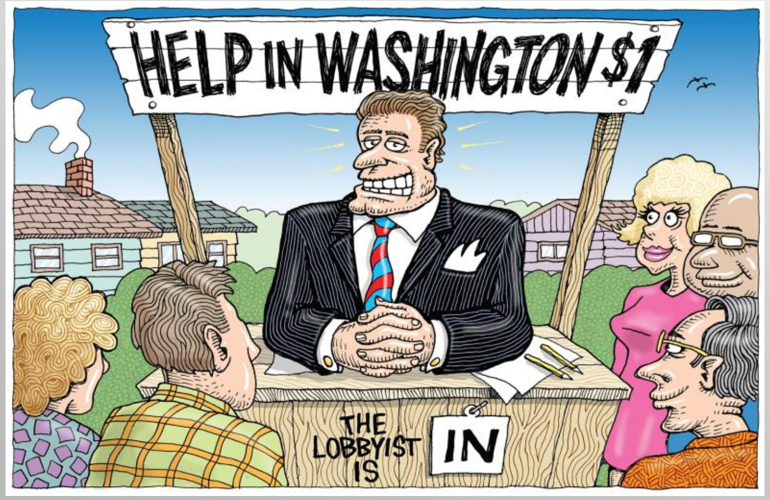
- Environmental regulation raises the cost of doing business.
- Industry & labor worry about international competition.
- The more open is a country to trade, the more pressure will they exert on their government to reduce the regulatory burden.
- Trade encourages some poorer countries to specialize in producing dirtier goods

COMPLIANCE GOVERNMENT

- Gradually, cooperate gained enough control over state legislative
    - Rewrite the law: Protection of cooperation
        - Tax on the rich radically reduced
        - Enforcement of environment and labour standard were weakened
  - Conservative court also was responsive to appeals cooperate law
- The beliefs espoused by free market ideologues exists all around and shaping nearly every aspects of public policy.

COMPLIANCE GOVERNMENT

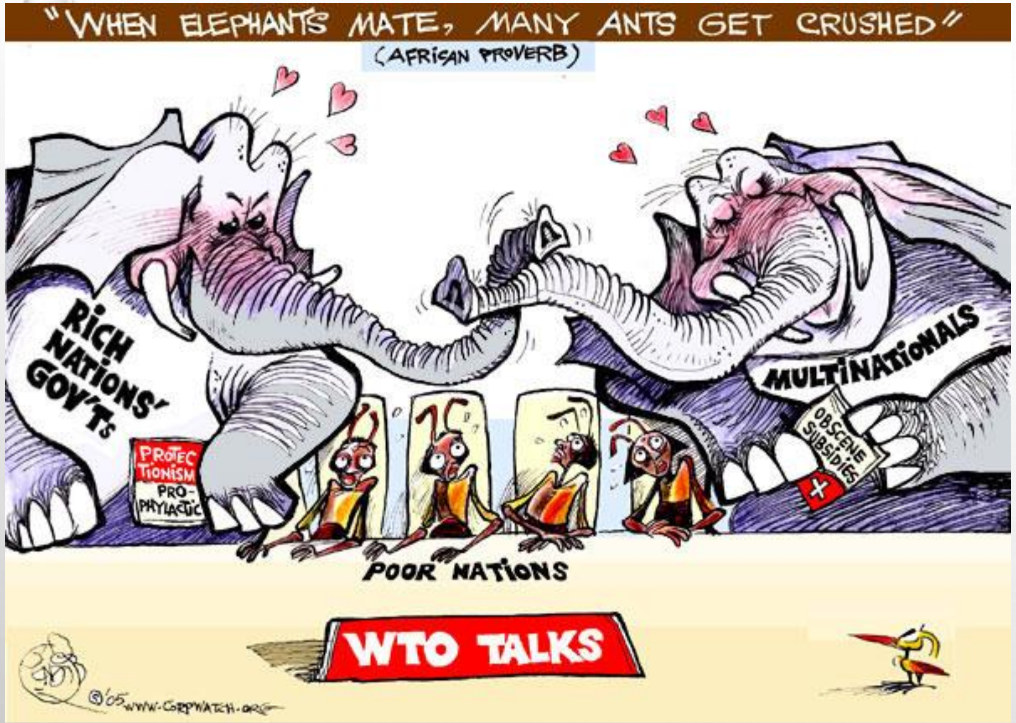
- Before the 1970s, business interests were represented by old-fashioned **corporate lobbying organizations**.
- Corporations began to create their own citizen organization with names and images to mask their sponsorship and their true purpose
- Business interests funded the formation of new conservative policy revived lethargic pro-establishment think tanks
- In 1970, only a handful of the fortune 500 companies had **public affairs** offices in Washington. By 1980, more than 80 percent did.
- Business interests funded the establishment of law and economics programme in leading law schools to support research advancing the premise



COMPLIANCE GOVERNMENT

- Business roundtables are national associations of the chief executive officers (CEOs) of the largest transitional corporations
  - The first business roundtable was formed in the United States in 1972
    - Includes fifty largest fortune 500 U.S. Industrial corporations & 7 of 8 largest U.S. Commercial banks
  - The roundtable has unusually narrow notion of what constitutes a "cross section" of thinking on national issues
    - Took an especially active role in campaigning for NAFTA
- Nine of the USA * NAFTA state captains were among the U.S. Corporations that according to 180,000 jobs to Mexico during 12 years

COMPLIANCE GOVERNMENT



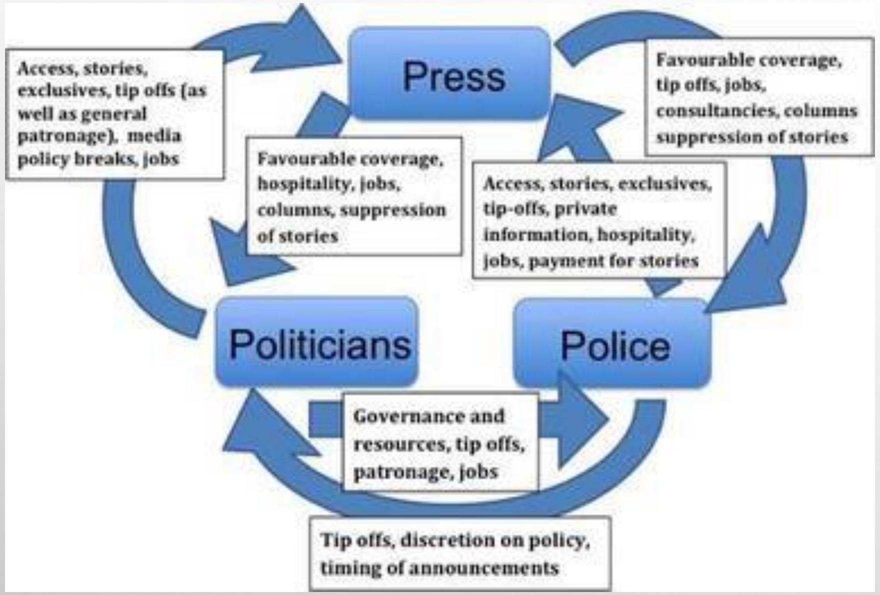
- The world's major transnational corporations have had a highly influential insider role in **GATT** negotiations and are similarly active in the **WTO.**
  - The corporate interest, however, was well represented
  - Of the 92 corporations represented on the three trade advisory panels
- Governmental delegations to codex routinely include nongovernmental representatives, but they are chosen almost exclusively from industry

COMPLIANCE GOVERNMENT

- Many of the GATT-WTO provisions have been promoted as necessary to ensure the efficient functioning of competitive markets
  - To privatize the rights to genetic materials, including seeds and natural medicines, through patenting.
  - A few companies have effectively obtained monopoly rights over genetic research on an entire species and on any useful products of that research
    - Under existing US patent law, a farmer who saves and replants the offspring of a patented seed violates patent law.
    - A review of the accomplishments of the three Bretton woods institutions brings their actual functions into sharp focus

COMPLIANCE GOVERNMENT

The Leveson Love Triangle:
Favours and reciprocities of **the politico-media complex**



- The **politico-media complex** (**PMC**, also referred to as the **political-media complex**) is a name given to the close knit, systematized, symbiotic-like network of relationships between a state's political and ruling classes and its media industry.
- It may also encompass other interest groups, such as law (and its enforcement through the police)
, corporations and multinationals.
- The term PMC is often used as a pejorative, to refer to the collusion between governments, individual politicians, and the media industry, in their attempt to manipulate rather than to inform the general public.

MARKETING THE WORLD

- In modern world, television has become an important institution of cultural reproduction
- **Advertising**: Consumer's interest = Corporate's interest
- The consumer culture emerged as a consequence of 19th century retailing giants
  - Ever-growing demand for goods
- Large corporations became good at creating desire for their products
  - Businesses are good at marketing
- Today, TV is a channel for corporation to shape American behaviors and cultures

MARKETING THE WORLD

THE ONE WORLD OF MTV KNOWS – “COKE IS BEST”

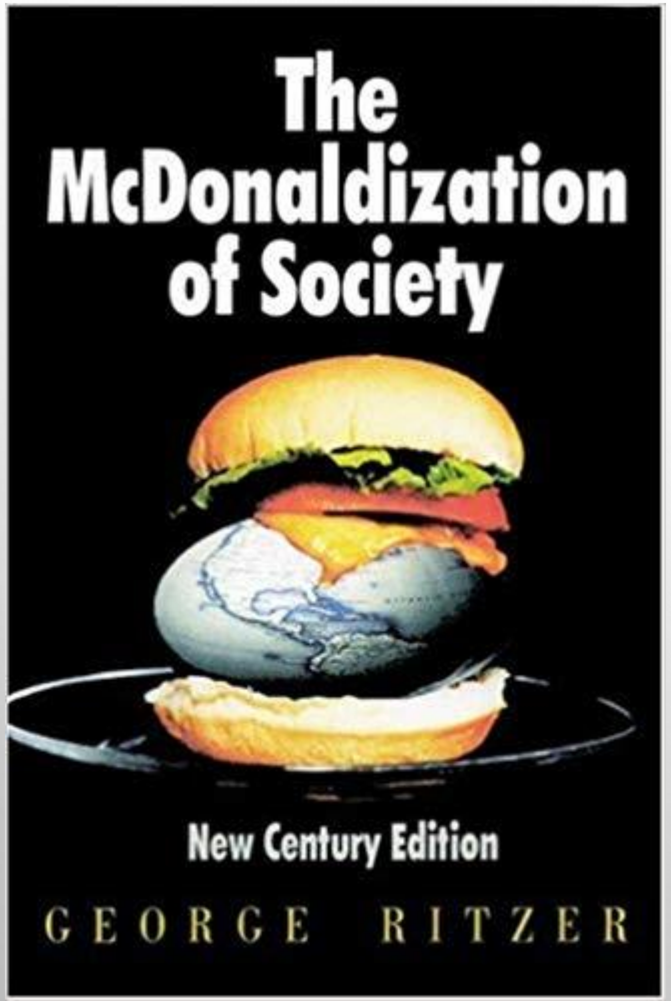
- Local culture can be trade barriers
  - Local taste and cultural difference
    - A gain for international marketing
  - Few media provide greater potential for realize this than MTV
- The most aggressive effort to universalized the consumer culture
  - AVON beauty product company
  - 70,000 AVON saleswomen take AVON message to every rural doorstep

GLOBAL DIVERGENCE

PLUTONOMY

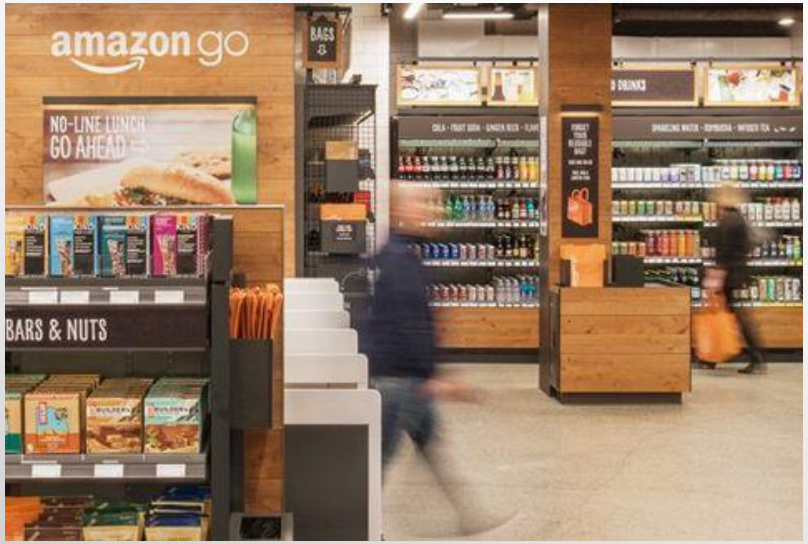
- In three reports for super-rich **Citigroup** clients published in 2005 and 2006:
- The World is dividing into two blocs - **the Plutonomy** and the rest. The U.S., UK, and Canada are the key Plutonomies - economies powered by the wealthy. Continental Europe (ex-Italy) and Japan are in the egalitarian bloc.
- In plutonomies, the rich absorb a disproportionate chunk of the economy and have a massive impact on reported aggregate numbers like savings rates, current account deficits, consumption levels, etc.
- The share of the very rich in national income of plutonomies had become so large that what is going on in these economies and in their relation with other economies cannot be properly understood any more with reference to the average consumer.
- This imbalance in inequality expresses itself in the standard scary “ **global imbalances**”.

RITZER'S THESIS



- "**Mcdonaldization**" (Ritzer, 1993; 1998; 2004):
  - "is the process by which **the principles of the fast food restaurant** are coming to dominate more and more sectors of American society as well as the rest of the world" (Ritzer, 1993)
  - *Organizing* force representing and extending rationalization into everyday life and interaction, facilitated by, and driving technology.
  - **Technological 'efficiency':** a 'near universal desire' (Weber, 1991)
  - Evidences the proliferation of non-human technologies into the realms of production and consumption on a global scale
  - Continuing debate as to the social impact of mcdonaldization processes

RITZER'S THESIS



- Technologies often the most attractive means to reach a specific end rapidly, with least amount of effort, reflecting the general **'speeding up'** of the pace of life and desire for convenience

- Technology facilitates '**calculability**'
  - Involves an emphasis on things that can be calculated, counted and quantified (i.e. quantity over quality)
  - Technologies have helped quantify performance (e.g. sporting feats) and capture ever more 'experiences' in as short a time as possible (e.g. digital camera technology)
  - Drew heavily on industrial predecessors but revolutionizes our 'means of consumption' (Ritzer, 1999)
  - Requires 'putting customers to work' (e.g. Supermarket scanners, technogym printouts)
  - Sports statistics and 'chatter', TV (ratings over quality), fast-food delivery

RITZER'S THESIS

- **"Replacement of human by non-human technology** is often oriented towards greater control. '
- The great source of uncertainty and unpredictability in a rationalizing system, are people - either the people who work within those systems or the people who are served by them" (Ritzer, 1994)
- **Enchanting a disenchanting world: we are 'consumed by consumption'** (Ritzer, 1999: xi)
- 'DE-MCDONALDIZED'??

Outline

- **Public Policy & Economics of Public Choice**
- **Policy Actors and Governance of Pubic Service**
- **Business & Politics Linkage**
- **Ethical Aspects in Public Policy**

JUSTICE:
WHAT'S THE RIGHT THING TO DO?

MICHAEL SANDEL

MARKET AND ETHICAL DEBATES

- Abortion
- Same –sex marriage
- Refugees
- Death penalty
- Internet security
- Animal rights
- Right to die
- Legal drug
- …

- Many economic and social policies are not morally neutral.
- Is ‘Freedom of choice’ a necessary and sufficient condition?
- If a just society involves reasoning together about the good life, what kind of discourse would point us in this direction?

CABIN BOY

- **In 1884,** the ship, the *mignonette*, had gone down in a storm, and four English sailors had escaped to the lifeboat… the captain, the first mate, and was a sailor
- The fourth member of the crew was the 17-year-old orphan cabin boy, **Richard Parker**, age seventeen. He had drunk seawater, against the advice of the others, and become ill. He appeared to be dying on the nineteenth day.
- The others then killed him with a penknife. For four days, the three men fed on the body and blood of Parker.
- And then help came…Upon their return to England, the three survivors were arrested and tried. They freely confessed that they had killed and eaten Parker.
- Suppose you were the judge. How would you rule?

CABIN BOY

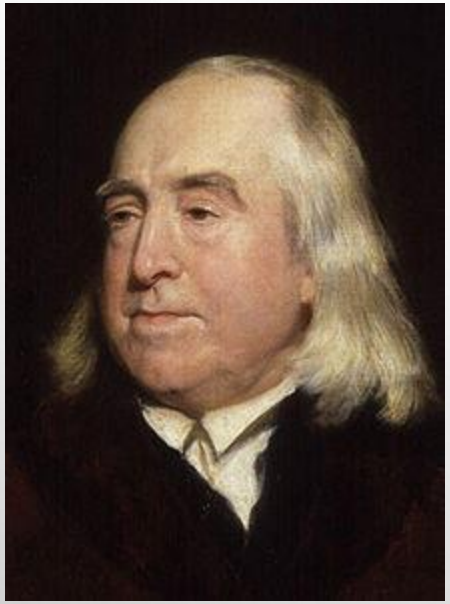
Objection #1 – A common currency of value (cost-benefit analysis)

- It was necessary to kill one person in order to save three.
- Had no one been killed and eaten, all four would likely have died.??
- Costs of killing?: Norm weakening

Objection#2 – individual rights

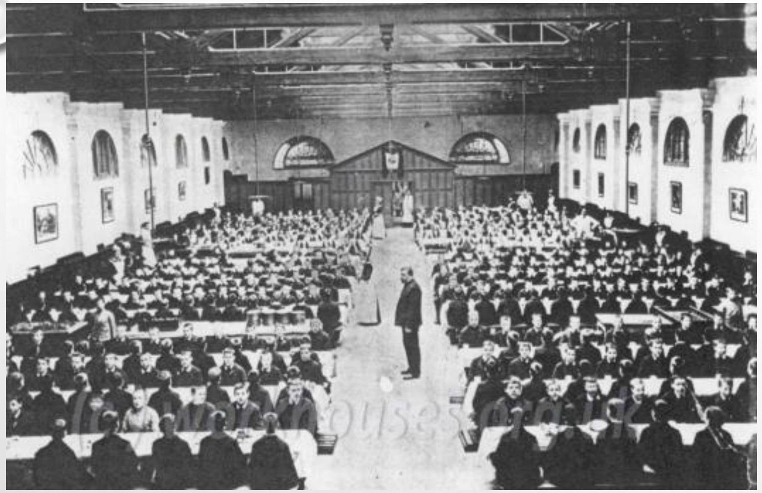
- Isn’t it wrong to use a human being in this way— taking his life without his consent?

UTILITARIANISM



- **Jeremy Bentham** (1748–1832): an English moral philosopher and legal reformer, founded the doctrine of **utilitarianism**.
- **Utilitarianism principle:** "**the greatest happiness for the greatest number of people".**
- We all like pleasure and dislike pain. There are no possible grounds for rejecting it. The utilitarian philosophy recognizes this fact, and makes it the basis of moral and political life.
- Every moral argument, he claims, must implicitly draw on the idea of **maximizing happiness**.
- Utilitarianism claims to offer a science of morality, based on measuring, aggregating, and calculating happiness.
- It weighs preferences without judging them. Everyone's preferences count equally.

UTILITARIANISM



- One of **Bentham**'s schemes was a plan to reduce the presence of beggars on the streets by establishing a self-financing workhouse for the poor.
- He also suggested that the prison should be run by a private contractor, who would manage the prison in exchange for the profits to be made from the labor of the convicts, who would work sixteen hours per day.
- Utilitarian logic could be extended: **Robin Hood scenario**
  - Suppose we take $1 million from Bill Gates and disperse it among a hundred needy recipients, giving each of them $10,000. Overall happiness would likely increase.
  - Gates would scarcely miss the money, while each of the recipients would derive great happiness from the $10,000 windfall.
  - Their collective utility would go up more than his would go down.!?!

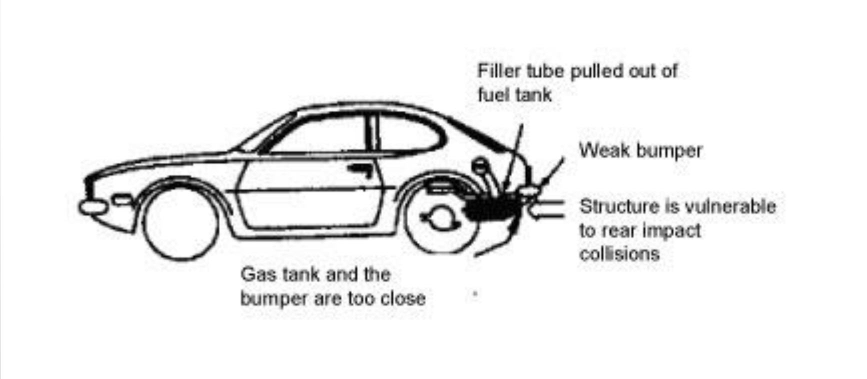
UTILITARIANISM

- Utilitarian logic is applied in **cost-benefit analysis**, a form of decision-making.

Would it be morally permissible to do so?

- In ancient Rome, they threw Christians to the lions in the coliseum for the amusement of the crowd.
- Imagine that you are the head of the local CIA branch. You capture a terrorist suspect who you believe has information about a nuclear device set to go off in Manhattan later the same day. As the clock ticks down, suppose the only way to induce the terrorist suspect to talk is to torture his young daughter (who has no knowledge of her father's nefarious activities).
- Coal power plants or mega-dams that relocate numbers of local communities
- 'Prism' Project that trade the personal security off
- Rejection to host refugees

UTILITARIANISM



Would it be morally permissible to do so?

- During the 1970s, the **Ford Pinto** was one of the best-selling subcompact cars in the United States. Unfortunately, its fuel tank was prone to explode when another car collided with it from the rear.
- Ford estimated that 180 deaths and 180 burn injuries would result if no changes were made. It then placed a monetary value on each life lost and injury suffered—$200,000 per life, and $67,000 per injury and calculated that the overall benefit of the safety improvement would be $49.5 million.
- But the cost of adding an $11 device to 12.5 million vehicles would be $137.5 million. So the company concluded that the cost of fixing the fuel tank was not worth the benefits of a safer car

LIBERTARIANISM

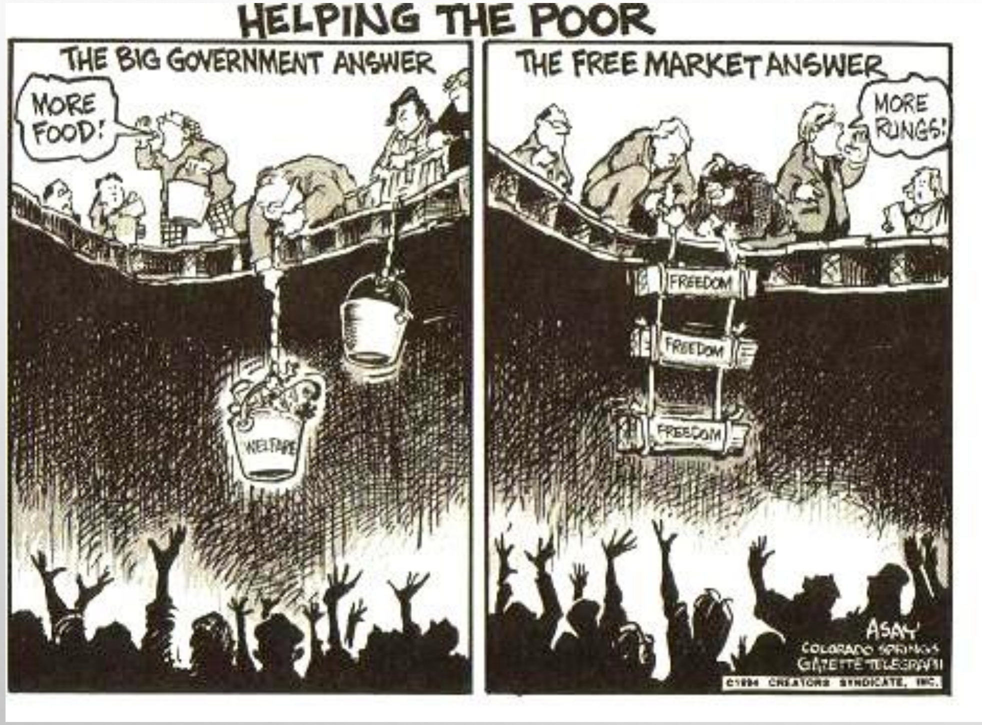
Libertarians make bad lifeguards

- **Libertarians** favor unfettered markets and **oppose government regulation**, not in the name of economic efficiency but **in the name of human freedom**
- The libertarian rejects three types of policies and laws that modern states commonly enact:

1. **No paternalism**

- Seatbelt laws/ motorcycle helmet laws
- As long as no third parties are harmed, and as long as motorcycle riders are responsible for their own medical bills, the state has no right to dictate what risks they may take with their bodies and lives.

LIBERTARIANISM



2. No morals legislation

- Free prostitution/ sexual orientation

3. No redistribution of income or wealth

- The state has no more right to force affluent taxpayers to support social programs for the poor than a benevolent thief has the right to steal money from a rich person and give it to the homeless
- Taking money from Gates and Winfrey without their consent, even for a good cause, **is coercive**.
- "Taxation of earnings from labor is on a par with forced labor."!!?. It **violates their liberty** to do with their money whatever they please.
- **Stealing from the rich and giving to the poor is still stealing, whether it's done by Robin Hood or the state.**

FREE MARKETS & ETHICS

- The case for **free markets** typically rests on two claims—

1. **Freedom [libertarian]**
   - Letting people engage in voluntary exchanges respects their freedom;
   - Laws that interfere with the free market violate individual liberty.
   - The libertarian case for contracts is that they reflect freedom of choice; to uphold a contract between two consenting adults is to respect their liberty.
   - The utilitarian case for contracts is that they promote the general welfare; if both parties agree to a deal, both must derive some benefit or happiness from the agreement—otherwise, they wouldn't have made it.!?!

2. **Welfare [utilitarian]**
   - Free markets promote the general welfare; when two people make a deal, both gain.
   - As long as their deal makes them better off without hurting anyone else, it must increase overall utility.

FREE MARKETS & ETHICS

Would it be morally permissible to do so?

- **Case 1:** Most countries ban **the buying and selling of organs** for **transplantation**. But thousands of people die each year waiting for kidney transplants —and that the supply would be increased if there existed a free market for kidneys. People in need of money should be free to sell their kidneys if they wish??
- **Case 2:** In March 1863, congress passed a new draft law, it provided that **any conscription draftee could pay the government a fee of $300 instead of serving army**. There rose the opposing slogan: "Rich man's war and poor man's fight" and "three hundred dollars or your life." .
- **Case 3**: **Pregnancy for pay**. What if the contracted surrogated mother decided she could not part with the child, and wanted to keep it?

FREE MARKETS & ETHICS

Questions:

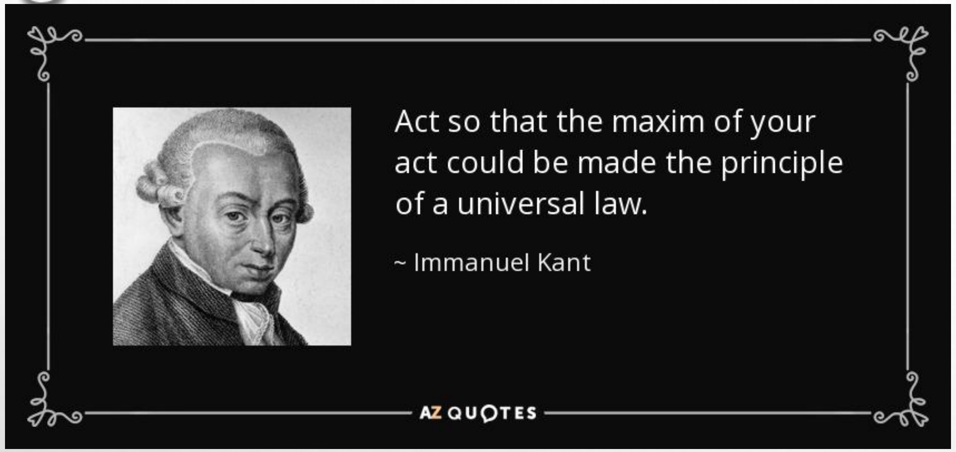
- **Civic virtue and the common good:** Are there certain virtues and higher goods that markets do not honor and money cannot buy?
  - Military service is not just another job; it's a civic obligation?? (unlike other hard and risky jobs (for example, coal mining or commercial fishing) that is properly governed by the labor market
  - Broader question: What obligations do citizens of a democratic society owe to one another, and how do such obligations arise?
- **Tainted consent**: Choices made under pressure, or in the absence of informed consent, are not truly voluntary?? For those with limited alternatives, the free market is not all that free.
- **Higher goods**: Some things money shouldn't buy, including babies and women's reproductive capacities??
  - Surrogacy contracts "convert women's labor into a form of alienated labor". Mother agrees not to form or to attempt to form a parent-child relationship with her offspring.
  - Broader question: What are those higher norms, and how can we know what modes of valuation are appropriate to what goods and social practices?

KANTIAN

Immanuel Kant (1724–1804)

- Emphasis on **human dignity** – **people as ends in themselves**. We are sentient creatures as well as rational ones.
- Persons should **not** be used merely as **means** to the welfare of theirs, because doing so violates **the fundamental right of self-ownership** (same as libertarian)
- Kant offers an alternative account of duties and rights that we are rational beings, worthy of dignity and respect.
- Kant rejects utilitarianism. Just because something gives many people pleasure doesn't make it right. He argues that morality can't be based on merely empirical considerations, such as the interests, wants, desires, and preferences people have at any given time.
- If you believe in **universal human rights**, you are probably not a utilitarian.

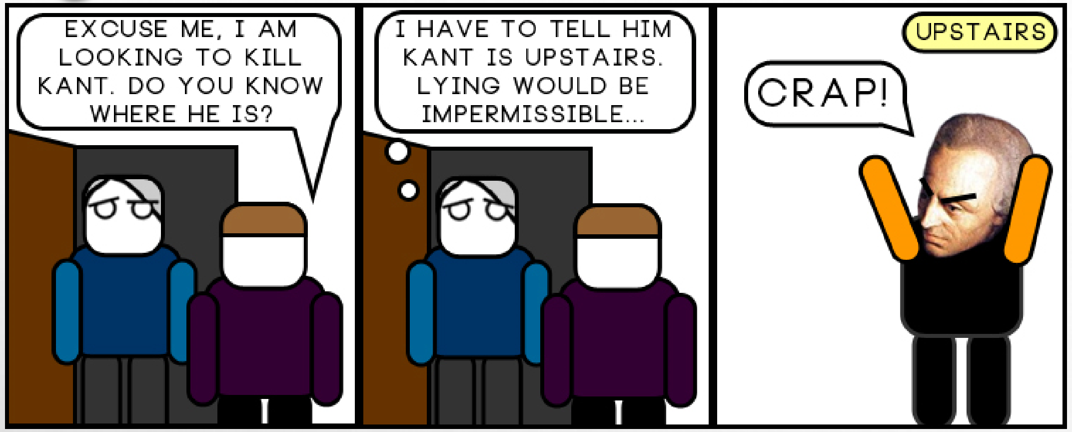
KANTIAN



CATEGORICAL IMPERATIVE I: UNIVERSALIZE YOUR MAXIM

- Any principle based on interest "was bound to be always a conditioned one and could not possibly serve as **a moral law**."
- Would it be morally permissible to get the loan by making a false promise to repay the money promptly, a promise I know I can't keep?
- **"What if everybody did that?"** If everyone lied, then no one could rely on anybody's word, and we'd all be worse off.

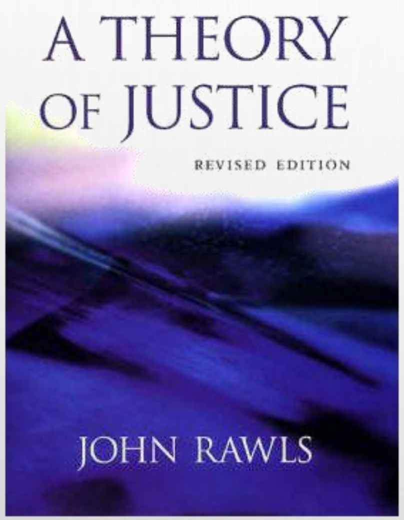
KANTIAN

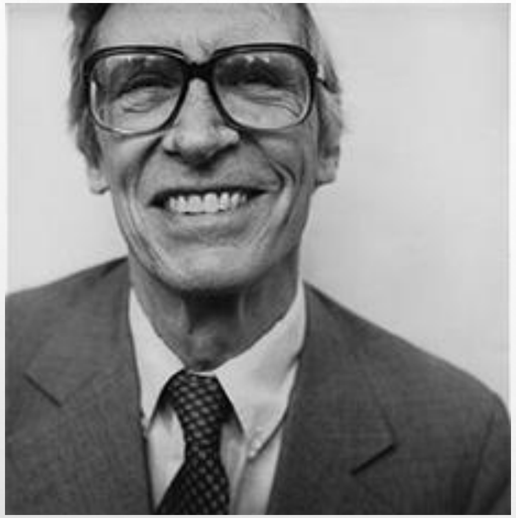


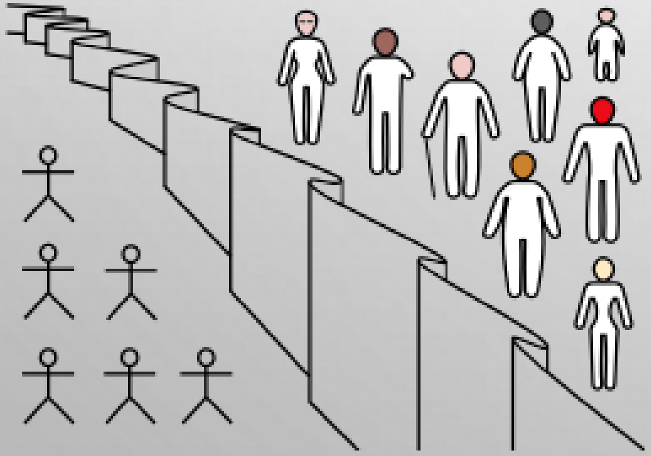
CATEGORICAL IMPERATIVE II: TREAT PERSONS AS ENDS

- “Act in such a way that you always treat **humanity**, whether in your own person or in the person of any other, never simply as a **means**, but always at the same time as an **end**.”
- For Kant, **justice requires us to uphold the human rights of all persons**, regardless of where they live or how well we know them, simply **because they are human beings**, capable of reason, and therefore worthy of respect.
- Kant opposed to prostitution and casual sex because it was “degrading humanity.”
- Is it wrong to lie to a murderer?
  - Kant states, is not that the murderer is entitled to the truth, or that a lie would harm him. It’s that a lie—any lie—“vitiates the very source of right . .

RAWLSIAN







John Rawls

- A politics of moral engagement: Based on **mutual respect as human beings**
- Behind a **veil of ignorance**
- The difference principle – only those social and economic inequalities are permitted that work to **the benefit of the least advantaged members of society**.
- Share each other's fate and avail ourselves of the accidents of nature and social circumstance only when doing so is for the common benefit.

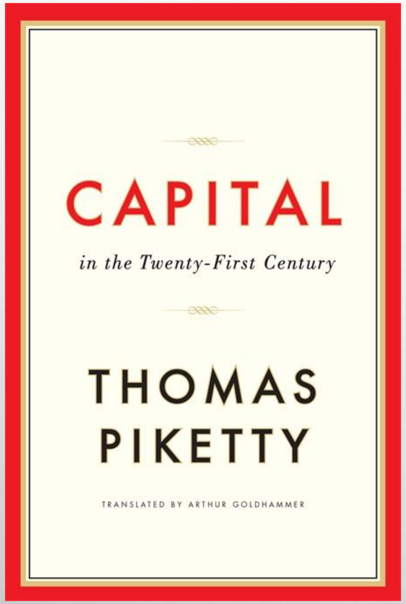
RAWLSIAN

Distributive Justice

- CEOs and sports stars should be taxed only for one reason: a system of progressive taxation helps the disadvantaged and this works to the benefit of the least well off.

- A just society requires **a strong sense of community**, and it must cultivate in citizens **a concern for the whole**, **a dedication to the common good**.
- Lack of engagement makes for an impoverished public discourse and lessening of mutual respect.

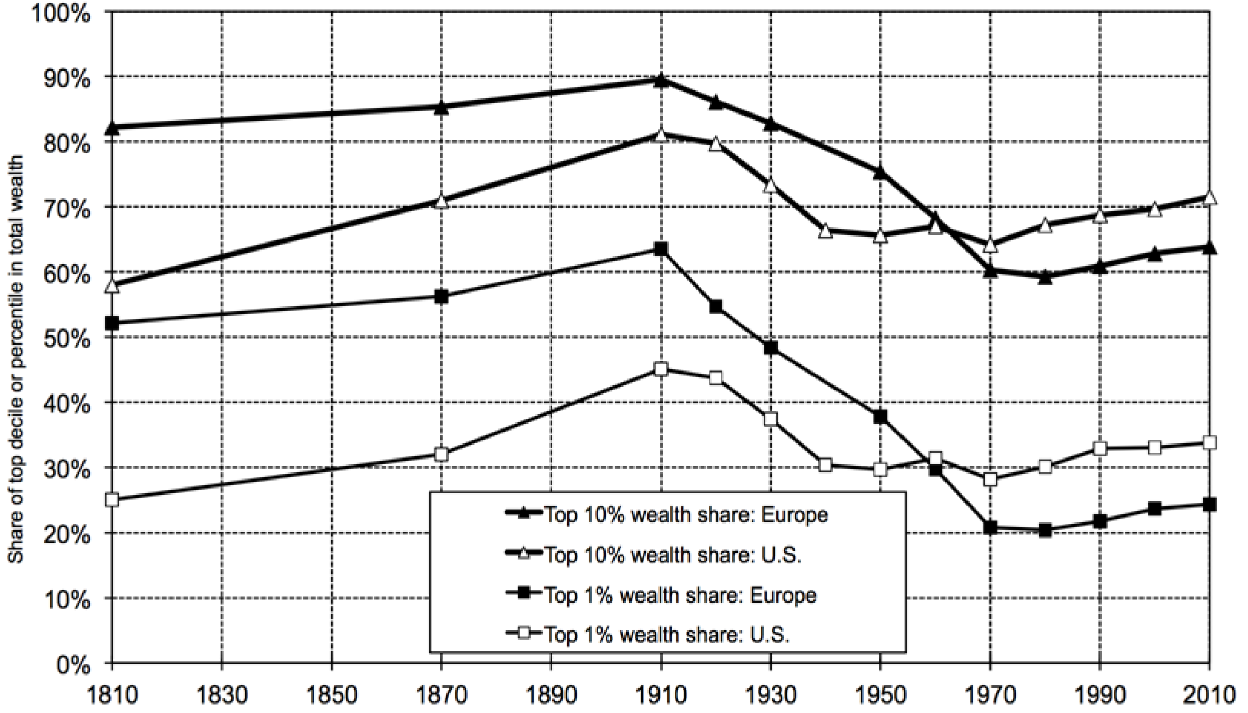
CAPITAL IN THE TWENTY-FIRST CENTURY



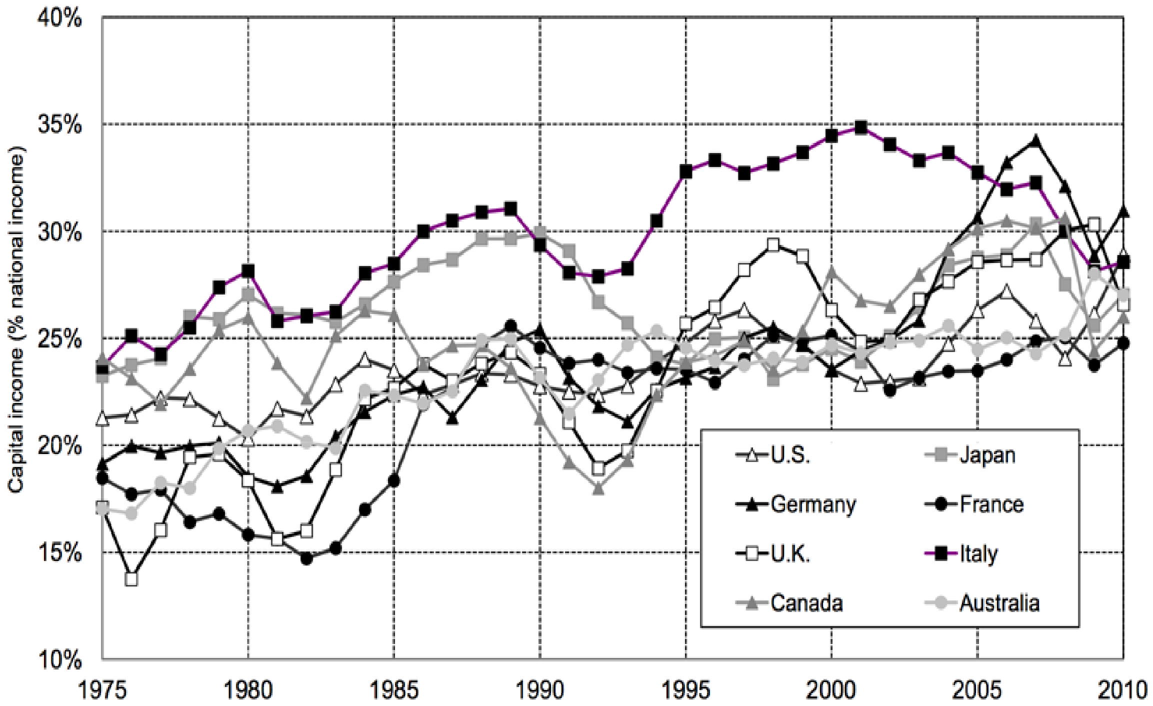
THOMAS PIKETTY

- Piketty and collaborators have spent the last decade gathering data from many countries.
- The math and data together say '**inequity will get worse'** and **'the rise of the middle class'** was an effect of the shocks of the world wars and the great depression.
- Now we are returning to a more historically typical situation, where
  - **Growth is low**
  - **Return on capital overcomes return on labor and inequity**
- Unless we change some of the details of our tax system…

The Structure of Inequality



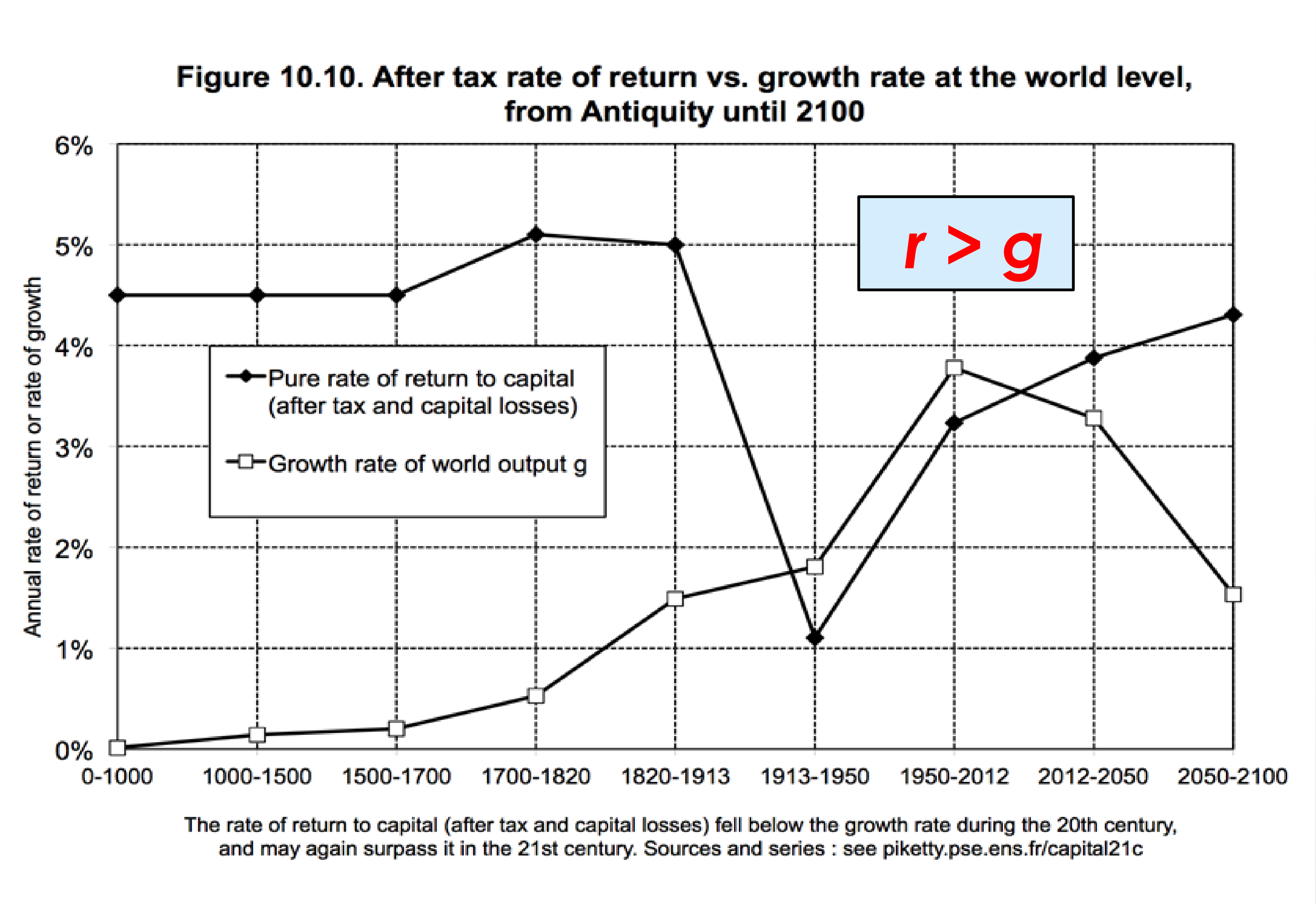
Until the mid 20th century, wealth inequality was higher in Europe than in the United States.
Sources and series: see piketty.pse.ens.fr/capital21c.



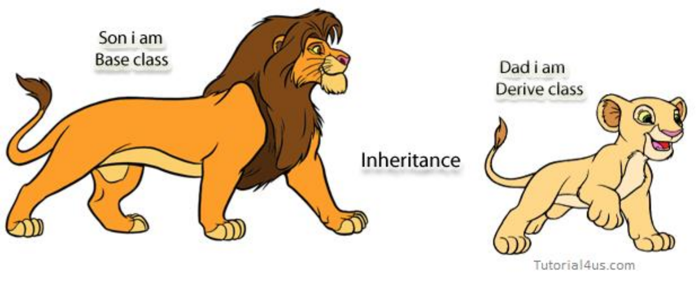
Capital income absorbs between 15% and 25% of national income in rich countries in 1970, and between 25% and 30% in 2000-2010. Sources and series: see piketty.pse.ens.fr/capital21c

- We see the upward trend in Europe and the US in wealth inequality
- Steady increase of **the capital/ income ratio** since the 1950s: the **share of income** going to **capital** rather than **labor** is going up
- The growth of a **true "patrimonial (or propertied) middle class"** was the principal structural transformation of the distribution of wealth in the developed countries in the twentieth century

The Structure of Inequality



- Then Piketty proposes the mechanism for why wealth naturally concentrates and why we had the fluke of a propertied middle-class in the 20th century..
- The **return on investment** is ***r*.**
- **The growth of income** is ***g*.**
- If ***capital reproduces itself faster than output increases***
- then pools of wealth will grow faster than the economy does.



The Structure of Inequality

- *The inequality* ***r > g****, combined with the inequality of returns on capital as a function of initial wealth, can lead* ***to excessive and lasting concentration of capital → 'Wealth Inheritance'****.*
- ***The entrepreneur inevitably tends to become a rentier, more and more dominant over those who own nothing but their labor.***
- *The idea that unrestricted competition will put an end to* ***inheritance*** *and move toward a more meritocratic world is a dangerous illusion.*

Piketty's on Distributive Justice

- *Can we imagine political institutions that might regulate today's global patrimonial capitalim justly as well as efficiently?*
- Piketty presents the idea of a '**global tax on capital'** he describes as a "**Utopian idea**".
- But he makes some practical suggestions on doing this regionally and improving global financial transparency
- We have large public debts and large debts favor the rich (better to lend the governments money than to pay taxes). Reducing the debt requires some combination of taxation, inflation, and austerity.
- Piketty favors a tax on capital as the best tool.