

Political Economy of Public Policy
PubP&A 697A

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CPPA

Course Notes

- CPPA welcomes Jane Fountain (Harvard University and the National Center for Digital Government) , “Technology and Institutions: Prospects for Change,” Thursday September 30 at 4:00, 620 Thompson Hall
- Economics Department’s Gamble Lecture: William Greider “The Soul of Capitalism,” Thursday, October 21, 4 pm, Student Union Ballroom.
- Guest speaker John Fox, Wednesday, November 10. *10 Tax Questions the Candidates Don’t Want You to Ask* (Readings to follow)

Today

1. Consumer Sovereignty, Consumerism
2. Exit, Voice, and Loyalty
3. Little Injustices

Exit, Voice, and Loyalty

- Concept of “slack” or “decline” (and best practice)
- Separate analysis of the causes of deviation from best practice and the introduction of slack into systems.

Exit

- “Economists”
- Exit can trigger a management response
- Satisficing behavior. Requires a signal large enough to be recognized but not so large as to capsize the firm.
- Not all customers are the same: inert and alert
- Paradoxes of *faux* competition, e.g., Ford and GM (fn. 7 on page 27 and Nigerian rail on p. 44)

Voice

- “Political scientists”
- Making a fuss, negotiating or discussing with management
- With and without exit option—obvious and not-so-obvious observations

Combining Exit and Voice

... those customers who care *most* about the quality of the product and who, therefore, are those who would be the most active, reliable, and creative agents of voice are for that very reason also those who are apparently likely to exit first in case of deterioration.

- Distinct *marginal* customers in response to price and quality, e.g., shipping quality.

Application to schools

- Deterioration in quality of public schools leads to withdrawal of quality-conscious parents who might otherwise have fought deterioration.
- Asymmetry in exit from public schools and private schools
- Limited usefulness of exit in spurring the management of public schools (still true in era of sanctions?)
- Too much reliance on exit at the lower end, deficiency of exit at the upper end.

Monopoly Paradox

- A no-exit situation may be superior to limited exit opportunities!
 - Exit biased towards the quality-sensitive
 - If voice can be made effective for locked-in members
- The lazy monopolist (voluntary exile, high-price/quality competitors)

Two-party system

- Hotelling-Downs
- But what about the activist?

Loyalty

- The right (wrong) mix of loyalty and exit, e.g., Johnson administration
- Augmented cost and, hence, threat of exit
 - Severe initiation, high penalties for exit (e.g., grapes)

Optimal Mix of Exit and Voice

Organizations whose members react strongly via

		Exit	
		Yes	No
Voice	Yes	Voluntary associations, competitive political parties, and some business enterprises, for example, those selling output to a few buyers	Family, tribe, nation, church, parties in non-totalitarian one-party systems
	No	Competitive business enterprises in relation to customers	Parties in totalitarian one-party systems, terroristic groups, and criminal gangs

Functional and Dysfunctional Organizations

Decline arouses primarily:

Exit

Voice

Exit

Competitive business enterprise

Organizations where dissent is allowed but is “institutionalized”

Organization is sensitive primarily to:

Voice

Public enterprise subject to competition from an alternative mode, lazy oligopolist, corporation-share-holder relations, inner cities, etc.

Democratically responsive organizations commanding considerable loyalty from members

Identity Crisis for Labor

- Social unionism
- Business unionism
- The failure of “commodity” unionism
- Union differential (consumption) and broader goals
- Application of Exit, Voice, and Loyalty
- Multi-category unions, e.g., student and teacher unions

Consumer Sovereignty and Consumerism

- Consumerism emphasizes the household/individual as a consumption unit. Utility derives from consumption. Role/identity is as a consumer (not as a worker). (See Smith quote.)

Conservative Perspective

- Invisible hand: self-interested producer best serves the consumer (See Friedman quote)
- Consumer sovereignty via EXIT (or exit threat)
- Limited role for intervention
 1. Tort system (but ...)
 2. Information, not regulation
 - Right-to-know laws, labelling, e.g., pollution, energy efficiency, workplace safety

Costs of regulation

- Direct cost of administering regulatory apparatus
- Higher prices of products, e.g., automobile regulation 1968–1982: 10 percent safety mark-up and 13 percent environmental measures
- Paternalism “obligated to pay for safety they do not want”
- Cost-benefit methodology

Liberal Perspective

- Asymmetric information
- Myopia, technical detail (“risks and hazards that consumers are simply unprepared to evaluate and act on rationally”)
- Externalities
- Limited downward liability for wrongdoers
- Advertising and manipulation of consumer wants
- Therefore, labelling insufficient

Liberal example: automobile safety regulation

- Auto as “necessity”; no safety movement without regulation
- Cost-Benefit analysis highly favorable to auto safety regulation (at least 2 : 1)

Radical Perspective

- Endogenous preferences, shaped by advertising
- Goods and status
- Production for profit does *not* make people happier or safer
 - Does the purpose of production matter, especially in fundamental goods, such as food?
- Social construction of “risk” and “safety” to drive consumer culture.
- Many regulations defend monopoly by driving up the cost of entry, e.g., recent Greek yogurt controversy
- Unequal access to consumption

Consumption and Class

What is class?

- Relationship to income
- Relationship to work
 - Leisure class and Working class
 - Confusion regarding consumption as a manifestation of class and consumption as a form of class membership.
 - Consumption as a substitute for control.
- Relationship to wealth
 - The wealth-managing managerial class
 - Patterns of wealth, income, and consumption inequality
- Relationship to technology
 - Novelty and change, e.g., automobile in relation to community living patterns, sexual morality, gender
 - Difficulty in attracting early factory workers (substitution and income effects) and strategy to create a consumer culture

Consumption and Class

- Confusion regarding consumption as a manifestation of class and consumption as a form of class membership.
 - Conspicuous consumption
 - Emulation
 - Competition, rat race
 - Enabling myths
- Consumption as a substitute for control.
- Growing consumptions as a substitute for shrinking control.

Profits, Scale, and Consumption

- Consumption, aggregate demand, and macro-stability (marginal propensity to consume and class-biased mpc)
- Growing profits require growing consumption
- Planned obsolescence
- Search for new markets

Getting back to policy

- Automobiles and highways
- HDTV