

IV. Economics and Politics of Public Policy

Prof. Laura I. Langbein

Professor Langbein teaches quantitative methods, program evaluation, policy analysis, and public choice. Her research fields include: theories of bureaucratic discretion, productivity, pay-for-performance and intrinsic motivation, social capital, and cooperation in the workplace; theories of influence of interest groups in Congress and the bureaucracy; empirical applications in various policy areas, including the environment, education, defense, housing, criminal justice (death penalty and police), and corruption. Her recent articles have appeared in Political Research Quarterly, Journal of Politics, Journal of Policy Analysis and Management, Social Science Quarterly, Journal of Public Administration Research and Theory, Evaluation Review, Public Choice, Public Administration Review, Economics of Education Review, International Public Management Review and other scholarly journals. She has forthcoming articles on the impact of descriptive on substantive representation of women in US state legislatures, and on the World Bank's measurement of corruption in countries. Her new textbook, Program Evaluation: A Statistical Guide, (with Claire Felbinger) was published by ME Sharpe in Sept. 2006.

Course description

This course applies both normative and positive theories of public policy to specific policy areas, including social as well as regulatory policies, and to current topics such as national security and terrorism, and secondary credit markets (i.e, the mortgage and credit crash). Topics covered in designated class sessions include issues in education (and day care); cash and in-kind transfers to the poor; health care; social security; crime and illegal drugs (and terrorism); environmental regulation and natural resources; risk, safety and (maybe) advertising regulation; and other policy issues of specific interest to those in the class. For each topic, class discussion will generally adhere to the following outline:

A. Current policy

What is the current policy? (May be general; e.g., higher education; or specific; e.g., Pell grants). (Current policy may be "do nothing.")

B. Market failure/success

- 1) In the absence of government, what, if any, market failure(s) would characterize the supply of and/or the demand for the good or service?
- 2) What, if any, would be the theoretically best (if not optimal) policy response? (i.e., Pareto improving if not Pareto optimal)

C. Non-market (government) failure/success

- 1) Given the presence (or absence) of government, what, if any, is/are the type(s) of non-market failure (or success) that characterize current policy?

What political factors account for disparity (or, possibly, conformity) between the current and a theoretically more optimal policy?

In your answer, use the readings and the class discussions and notes about the characteristics of voters/citizens, interest groups/elites/social movements, legislators, and unelected officials (especially in executive agencies) in terms of their

likely preferences and the institutional "rules" that affect their behavior and preferences. (You may consider policies in areas outside the U.S., and in non-democracies.)

With the exception of the introductory sessions, each class will be structured around a specific policy area using the outline set forth above. Because of the seminar format, and because information from class discussions and the readings is to be applied to fulfill the course requirements, it is critical that everyone not only come to class, but be prepared to discuss--and challenge--the readings (and the instructor). This will also make it easier for you to write the 2 short papers. Be sure to use the outline above to write the short papers.

To help you write these papers, analyze policy issues, bring tools of quantitative analysis learned in other classes to the task of policy analysis, prepare for comprehensives, etc., there will also be 2 short exercises requiring you to identify market/govt failures and to use empirical tools to analyze the effectiveness of actual policy responses. You will hand these in for grading, but we will also discuss the methodological and substantive issues raised by exercises as part of the class.

Course requirements

Two short assigned exercises identifying market/govt failure and effectiveness of policy response. (15% each) Problem will be handed out one week before the due date. (Problem will combine econ and stats questions.)

Two short papers (20% each) (Max. 3 pages double space each; use outline above;

use page 4 for diagrams, if necessary)

Paper 1 on education

Paper 2a on welfare, health care or social security

Paper 2b on regulating risk/safety, the environment or crime

One term paper (25%) (10 - 15 pages)

Longer version of a short paper, or on a topic of your choice.

Same outline as short papers. (Masters students only; but see details

below)

PhD students: see below.

Class presentation of term paper (5%)

Class participation (fudge factor)

The two short assignments will be self-explanatory. They introduce a policy, and ask you to identify likely market and government failures that justify or question the efficiency of the policy, an exercise in policy analysis required by OMB for all agencies whose regulations it examines. It will also ask you to use the skills from MOPS/Conduct of Inquiry and Program Evaluation to explain the results from an empirical study of policy impact, and to assess the credibility of the implied causal claim.

The short papers focus on understanding the readings and the class discussions. Each short paper is to be no more than 3 double-spaced typed pages (and 1 page for diagrams, if needed). Each paper should follow the outline above, using the logic of policy analysis based on the assigned readings, the class handouts and discussion and, optionally, other relevant information that the student has available and wishes to introduce. In addition, each short paper may conclude with a brief original discussion or personal opinion on the issue that pertains to the readings, the current news, or the class discussion. You may also voice an opinion that is relevant but is not raised in the readings, the discussion, or the news. Given the page limit in the short papers, each

section must be succinct, well organized and clear, but as thorough as possible. It probably will help to start with an outline of your most important points, focusing on current policy, market failure, non-market failure, reasons for non-market failure, and your opinion. Adhere to that outline in the paper that you hand in. Please read and edit your paper before you hand it in. Be advised that it takes longer to write short papers than long papers. *Ruthless editing and rewriting is essential.*

The short papers may focus on a subset of the general policy issue that the paper is to address. Some examples include: vouchers in education; education choice; reducing school size; reducing class size in public schools; "no child left behind" policy; EITC; minimum wage; work requirements to get welfare; welfare caps; privatizing social security; public provision of social security; public subsidy for prescription drugs; tax subsidy of employer-provided health insurance; tax subsidy for home mortgage; housing vouchers; raising cigarette taxes; taxing booze; banning/regulating handguns; easing compliance with federal clear air regs; raising air/water pollution standards; taxing gasoline and/or automobile mileage; preserving ANWR; preserving endangered species; building highways to reduce traffic congestion; increasing airline safety/security (screening passengers, scanning luggage, etc.); raising fuel efficiency standards; patients' "bill of rights"; banning (certain) drugs; mandatory minimum sentences for certain crimes; the death penalty; etc.

The term paper is a longer, more nuanced version of the short papers, but it is based on a topic of your choice. The policy area of the term paper will, in most cases, be more narrow than many of the general policy areas that we discuss in class; you may also choose a topic that we do **not** discuss (e.g., regulation/deregulation in trucking, banking, railroads, utilities, auctioning bandwidth, telephony; the arts; sports; national defense; foreign aid; supporting AIDS treatment (not prevention) in Africa; NAFTA and other foreign trade policies; immigration (legal or illegal). As an alternative to a purely analytical paper, masters students may chose to write an empirical policy paper, revising the paper they wrote for PUAD604 and adding or updating the section on theory/previous research. **PhD students must write an empirical term paper evaluating the impact or effectiveness of a public policy or policy change, basing their model on theoretical expectations and previous research, and adding their own original empirical research. Alternatively, PhD students may wish to examine empirically why different political entities make different policy choices, or implement them differently.** In all cases (masters and PhD students), the paper may build on previous research that you have done or are doing in your program of studies.

A note on outside readings.

Besides the readings listed on this syllabus, additional readings will be a necessity for many of you to complete the term papers. Consulting additional readings is an option (not a requirement) for the short papers. Please minimize reliance on ad hoc searches of the web for these additional sources. There is a lot of "stuff" on the web, but most of it is not refereed by professional peer review. Materials in books and journals (on-line or not) that are held by university libraries are refereed, and are more likely to be theoretically coherent and empirically valid. By all means use the web to search for these sources; and use the web for electronic versions of journals held by libraries. Materials published by reputable think tanks are also refereed, and are usually of high quality. (Urban Institute, Brookings, American Enterprise and Cato span the ideological spectrum and are of

equally high quality, probably because of competition in the think tank market.) Also, if applicable, use the web to access data files collected by government agencies, universities and reputable think tanks (especially Urban) for use in statistical analyses. Before you start searching for information, see me; I have a drawer full of references on a lot of policy topics, and I (usually) point you in the right direction.

Of the many journals in economics and political science, this is a partial list of those that are likely to be useful:

Economics: Journal of Economic Perspectives, Regulation Magazine, CATO Journal, Brookings Review, National Bureau of Economic Research Papers, Journal of Economic Literature, American Economic Review, Journal of Human Resources, Journal of Policy Analysis and Management, Public Choice, Southern Economic Journal, Journal of Law and Economics, Journal of Legal Studies, Jnl. of Regulatory Economics, National Tax Journal, Social Science Quarterly, Economics and Politics, etc.

Politics: American Political Science Review, American Journal of Political Science, Journal of Politics, Policy Studies Review, Policy Studies Journal, Evaluation Review, Public Choice, Journal of Law and Economics, CATO Journal, Journal of Legal Studies, American Economic Review, Journal of Policy Analysis and Management, Journal of Theoretical Politics, Rationality and Society, Economics and Politics, Journal of Law, Economics and Organization, Social Science Quarterly, etc.

Journals specific to particular policy areas: New England Journal of Medicine, Journal of Environmental Economics and Management, Economics of Education Rev., etc.

Readings for purchase:

- Sharp, Register and Grimes, Economics of Social Issues (18th ed.)
- Miller, Benjamin and North, Economics of Public Issues (14th ed.)
- Gruber, Public Finance and Public Policy (Worth, 2005 or 2007).
- Winston, Government Failure versus Market Failure (Brookings, 2006)

Recommended readings (other editions are also good; each addition has a slightly different selection of policy issues):

- Stiglitz, Economics of the Public Sector, 3rd ed.
- Edgmand, Moomaw and Olson, Economics and Contemporary Issues, 6th ed.

Required reading from books:

- Shefrin, Markets and Majorities
- Walters, Enterprise, Government and The Public

Course schedule, reading assignments:

- **Market failure and Government Failure**

- **Review of market failure and optimal policy design:
applications of the theory to specific policy issues**

Walters, Enterprise, Government and The Public, ch. 2-3

Shefrin, M&M, ch. 1 (BB)
 Miller, Econ of Public Issues, all.
 Gruber, PF & PP, ch. 1-3, 5-7, 9, 10
 Weimer and Vining, Policy Analysis, 2005, ch. 4,5, 6, 10 (recommended)
 Stephens, Economics of Collective Choice, ch. 2, 3, 4 (recommended)
 Stiglitz, Economics of the Public Sector, 2000, ch. 1-4 (recommended)
 Edgmand, Econ and Contemp Issues, ch. 1, 2, 3, 5 (recommended)

- **Introduction to non-market failure**
- **Hand out Exercise 1**

Miller, Econ of Public Issues, all but ch. 15, 16, 19, 32
 Walters, Enterprise, Government and The Public, ch. 4
 Gruber, PF & PP, ch. 9, 10 (again)
 Bardach, A Practical Guide for Policy Analysis, Appendix A, "Things

Governments

Do"

Weimer and Vining, Policy Analysis, 2005, ch. 10
 Sharp et al., Econ of Social Issues, ch. 1, 2, 3, 8, 9, 10
 Winston, GF versus MF, ch. 1-8
 Congleton; Shughart; Sobel and Leeson, "Editorial Commentaries on the
 Political Economy of Catastrophe in New Orleans", Public
 Choice 127 (1-2), April 2006: 5-74
 Frame and White, "Fussing and Fuming over Fannie and Freddie:
 How Much Smoke, How Much Fire?" J. Econ. Perspectives
 19 (2), Spring 2005.
 Stephens, Economics of Collective Choice, ch. 1 (recommended)
 Weimer and Vining, Policy Analysis, 2005, ch. 8,9 (recommended)
 Stiglitz, Economics of the Public Sector, 2000
 ch. 6, "Public goods and publically provided private goods"

- **Reasons for government/non-market failure or success**
- **Voting and interest groups**

Shefrin, M&M, ch. 6 (on free trade)
 Gruber, PF & PP, Ch. 9.2-9.3
 Jacobs and Shapiro, "Studying Substantive Democracy," PS:
 Political Science and Politics 27 (1), March 1994: 9-17 (BB) (JSTOR)
 Stiglitz, EPS 2000, ch. 7, "Public Choice" (recommended)
 Fred McChesney, Money for Nothing: Politicians, Rent Extraction,
 and Political Extortion, Harvard, 1997 (recommended)
 Stevens, The Economics of Collective Choice, ch. 6, 7 (thru 7.72)
 (recommended)

- **Legislatures and bureaucracies**

Gruber, PF & PP, ch. 9.4 (again)

Langbein and Spotswood-Bright, “Private Governments: The Impact of Residential Community Associations on Residential Property Values.” SSQ, 85 (3), Sept. 2004. (BB) (began life as a class paper in 604+607; short version appears also in Regulation Magazine, published by Cato)

Stevens, The Economics of Collective Choice, ch. 8, 9, 10 (recommended)

Stiglitz, EPS, 2000: ch. 8 “Public Production and Bureaucracy” (recommended)

W. F. Shughart II, ed., Taxing Choice: The Predatory Politics of Fiscal Discrimination, Transaction, 1997 (recommended)

- **Specific policy applications: Market failure and/or Government failure?**

- **Education (including higher education and day care)**

Henry Levin, “Education as a Public and Private Good,” JPAM 6(4), Summer ‘87

Gruber, PF&PP, ch. 11

Miller et al., Economics of Public Issues, ch. 16, 17, 19

Sharp et al., Economics of Social Issues, ch. 6

Psacharopoulos, “The Value of Investment in Education: Theory, Evidence, and Policy” J. of Education Finance 32(2) Fall 2006

Stiglitz, EPS, 2000: ch. 16, “Education” (recommended)

Edgmand et al., Economics of Contemp Issues, ch. 9, 10 (recommended)

- **Moral redistribution or moral hazard: welfare (cash/in-kind transfers to the poor), work and decentralized finance. What do we know about welfare reform? Should states run the show?**

Gruber, PF&PP, ch. 10, 14, 17

Miller et al., Economics of Public Issues, ch. 4, 11, 13

Sharp et al., Economics of Social Issues, ch. 1, 7, 12

Iversen and Soskice, “Electoral Institutions and the Politics of Coalitions: Why Some Democracies Redistribute More than Others.” APSR, May 2006.

Edgmand et al., Economics of Contemp Issues, ch. 12, 14 (recommended)

Stiglitz, Economics of the Public Sector, 2000 (recommended)

ch. 5, “Welfare Economics: Efficiency vs Equity”

ch. 15, “Welfare Programs and Redistribution of Income”

- **Social (In)Security**

Miller, et al., Economics of Public Issues, ch. 23
 Gruber, PF&PP, ch. 12, 13
 Shefrin, Markets and Majorities, ch. 3
 Ferrara, Social Security, ch. 5
 R. Douglas Arnold, “The Politics of Reforming Social Security,” Pol. Sci. Qtrly 113 (2), Sum. ‘98: 213-240
 Sharp et al., Economics of Social Issues, ch. 15, pp. 428-445
 Edgmand et al., Economics of Contemp Issues, ch. 11 (recommended)
 Stiglitz, EPS, 2000: Ch. 14, “Social insurance” (recommended)

- **Health Care and Government: Pathology or Palliative?**

Gruber, PF&PP, ch. 15, 16
 Miller et al., Economics of Public Issues, ch. 2, 6, 9, 12, 17
 Shefrin, M&M, ch 2
 Sharp et al., Economics of Social Issues, ch. 15, pp. 4445-455
Regulation Magazine, Fall 1992 (in periodical stacks)(recommended)
 Stiglitz, EPS, 2000: ch. 12 “Health Care” (recommended)
 Edgmand et al., Economics of Contemp Issues, ch. 7 (recommended)

- **Paper on redistribution, health or social security due**

- **Pollution, Politics, and Public Policy**

Shefrin, M&M, ch. 4
 Gruber, PF&PP, ch. 5, 6.1, 6.2
 Walters, Enterprise, Government and the Public, ch. 16
 Miller et al., Economics of Public Issues, ch. 2, 7, 12, 17, 24-28
 Sharp et al. Economics of Social Issues, ch. 4
 Van Doren, “Letting Environmentalists Preferences Count,” Regulation Magazine, Fall 2003
 Portney et al., “The Economics of Fuel Economy Standards,” J. Econ. Perspectives 17 (4), Fall 2003 (in JSTOR) (recommended)
 Stiglitz, EPS, 2000: ch. 9, “Externalities and the Environment” (recommended)
 Edgmand et al., Economics of Contemp Issues, ch. 6 (recommended)

- **Regulating Risk: Health, Safety and Small Business**

Shefrin, M&M, ch. 5
 Gruber, PF&PP, ch. 6.3-6.5
 Miller et al., Economics of Public Issues, ch. 1-3, 10, 24
 Walters, Enterprise, Government and the Public, pp. 510-522
 Ch. 11: 304-320; Ch. 17: 522-548 (recommended)

Calfee, "The Ghost of Cigarette Advertising Past," Regulation Magazine, Nov./Dec. 1986; reprinted, Regulation Sum. '97
Hudgins, "Memo to the Mafia: Smuggle Cigarettes,"
Regulation Magazine, Spring 1998
Regulation Magazine, Fall 1991 (in periodical stacks)(recommended)

- **Crime and Illegal Drugs**
(second hour)

Miller et al., Economics of Public Issues, ch. 5, 8, 10, 22
Langbein, "Politics, Rules and Death Row: Why States Eschew
or Execute Executions," SSQ 80(4), Dec. '99
Soss, Langbein and Metelko, "Why Do White Americans Support
the Death Penalty?" (J. of Politics, 2003) (BB)(also JSTOR)
Edgmand, Economics and Contemporary Issues, ch. 8
Sharp et al., Economics of Social Issues, ch. 5
Lukesetich and White, Crime and Public Policy, ch. 3-6, 9, 10
(recommended)

- **Paper on environment, risk or crime due**
- **Class presentations of term paper**