

COMPARATIVE POLITICS

**Public Policies When
Markets Fail: Welfare,
Health, and the
Environment**

The logo for the Department of Political Science features a blue background with an orange triangle on the left side. The text "DEPARTMENT OF" is in a smaller font above "POLITICAL SCIENCE" in a larger, bold font.

DEPARTMENT OF
POLITICAL SCIENCE

INTRODUCTORY COMMENTS AND KEY QUESTIONS

The text notes that “As globalization spreads the market economy, some of the issues raised in earlier chapters (10 and 11) about the relationship between the state and the market looms larger than ever.

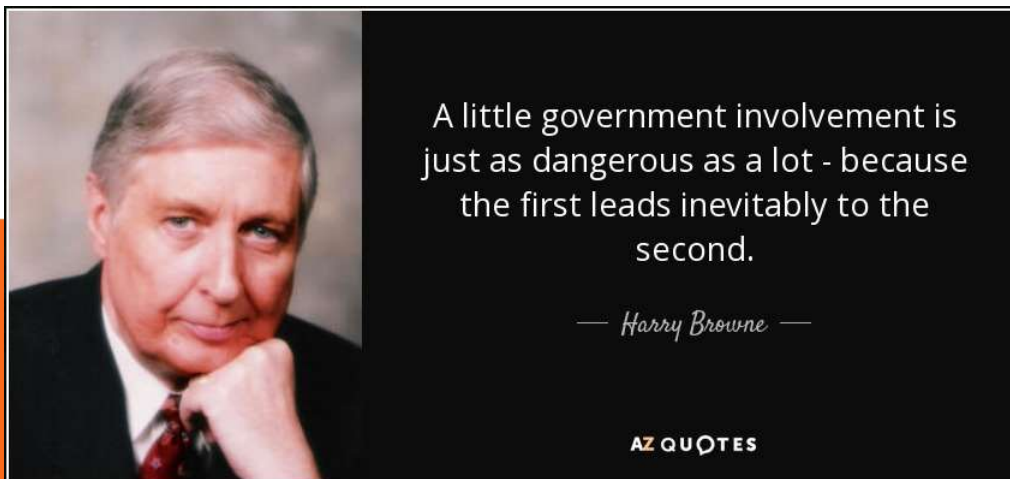
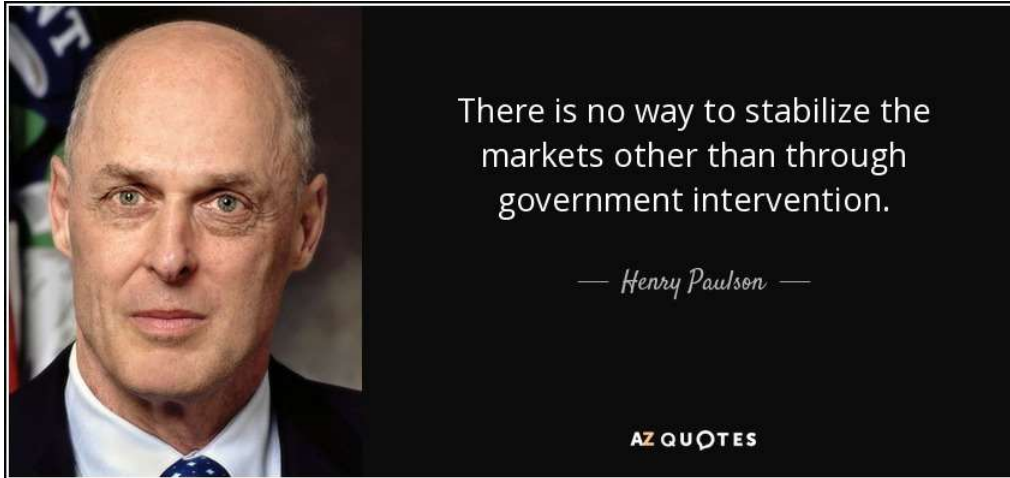
Externality

When the market has not taken into account the negative effect of an economic activity



Market Failure

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The debate continues over how much governments ought to intervene in the market in an effort to maximize citizens' well-being.

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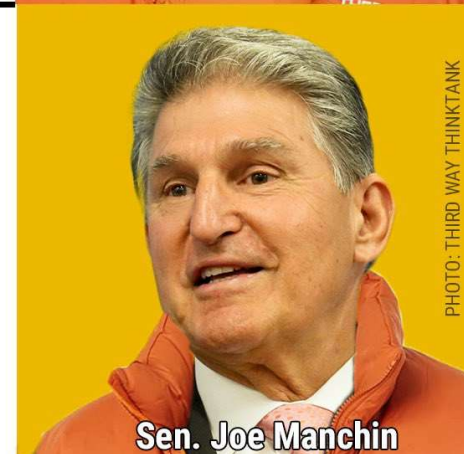
This next lecture will address three key areas that have been long subjects of debate in virtually every country: *welfare*, *health care*, and the *environment*.

The common thread among them is the call for government to intervene in response to market failure.

Investing in child care, health care, education, and climate action



Spending \$750B a year on the military



Sen. Joe Manchin

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Market failure is defined in economic terms found in Chapter 10: Markets fail when they do not maximize efficiency, most commonly because of externalities, monopolies, or imperfect information.



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One example is environmental damage which occurs when resources are not allocated efficiently (i.e. the price of gas – true price vs. market price).



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But markets can also fail, in the sense that they don't achieve the results a society collectively desires.



What the public wants is called 'politically unrealistic.' Translated into English, that means power and privilege are opposed to it.

— *Noam Chomsky* —

AZ QUOTES



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These forms of government interventions raise many interesting questions because they pit various groups of citizens against one another. The policy outcomes often tell us the classic “who rules” question: Who is better represented, and thus has power?

**“To learn who
rules over you,
simply find out
who you are
not allowed
to criticize.”**

- Voltaire



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“Welfare”

Social Policy in Comparative Perspective



Power has only one duty - to secure the social welfare of the People.

~ Benjamin Disraeli

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Most Americans think of welfare as a government handout to poor people. Being “on welfare” is something virtually all Americans want to avoid, because a certain moral opprobrium seems to go with it.



(what about corporate welfare?)

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This is why scholars are increasingly using the term “social policy” instead of the word “welfare.”

SOCIAL POLICY

Social policy refers to governmental policies aimed at meeting the needs of society. It aims to influence how society is structured and influences the rights, freedoms, and responsibilities of citizens.

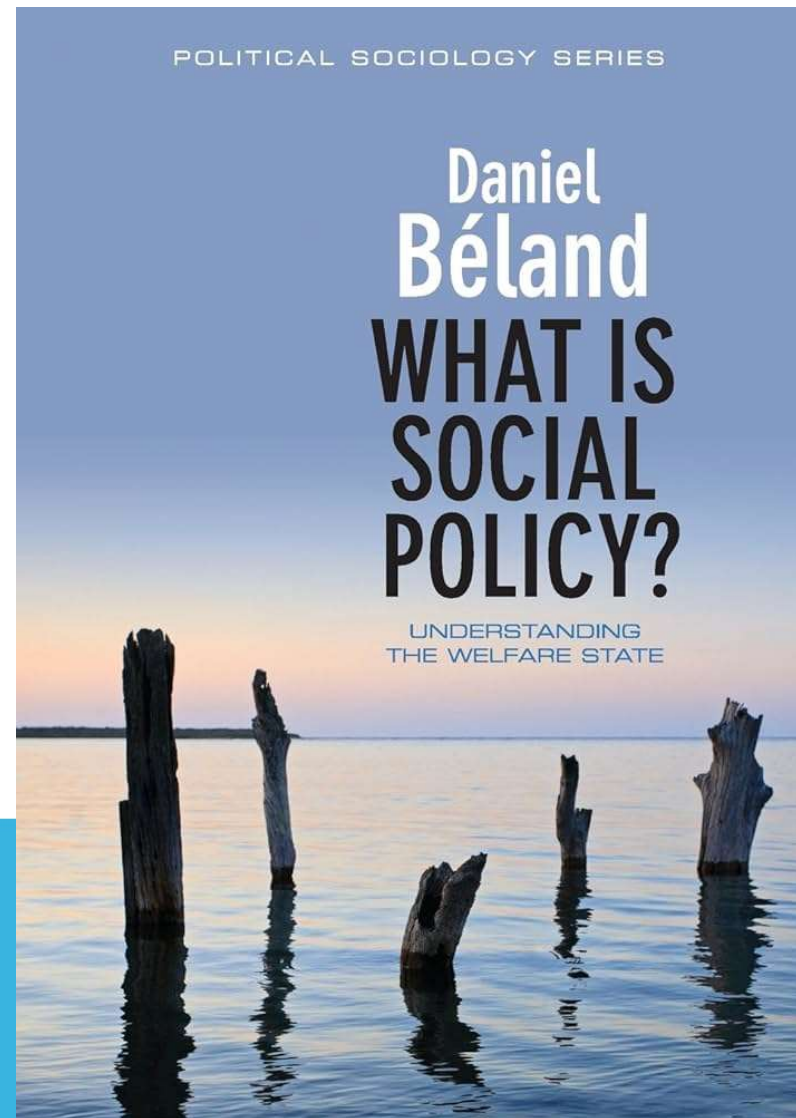
FOCUS AREAS	EXAMPLES
1 Social security	1 Unemployment support
2 Health	2 Neighborhood renewal
3 Education	3 Job training
4 Housing	4 Pension schemes
5 Employment	5 Disability services
6 Migration	6 Public health policy

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Social Policy

Policy focused on reducing poverty and income inequality and stabilizing individual or family income.



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Types of Social Policy

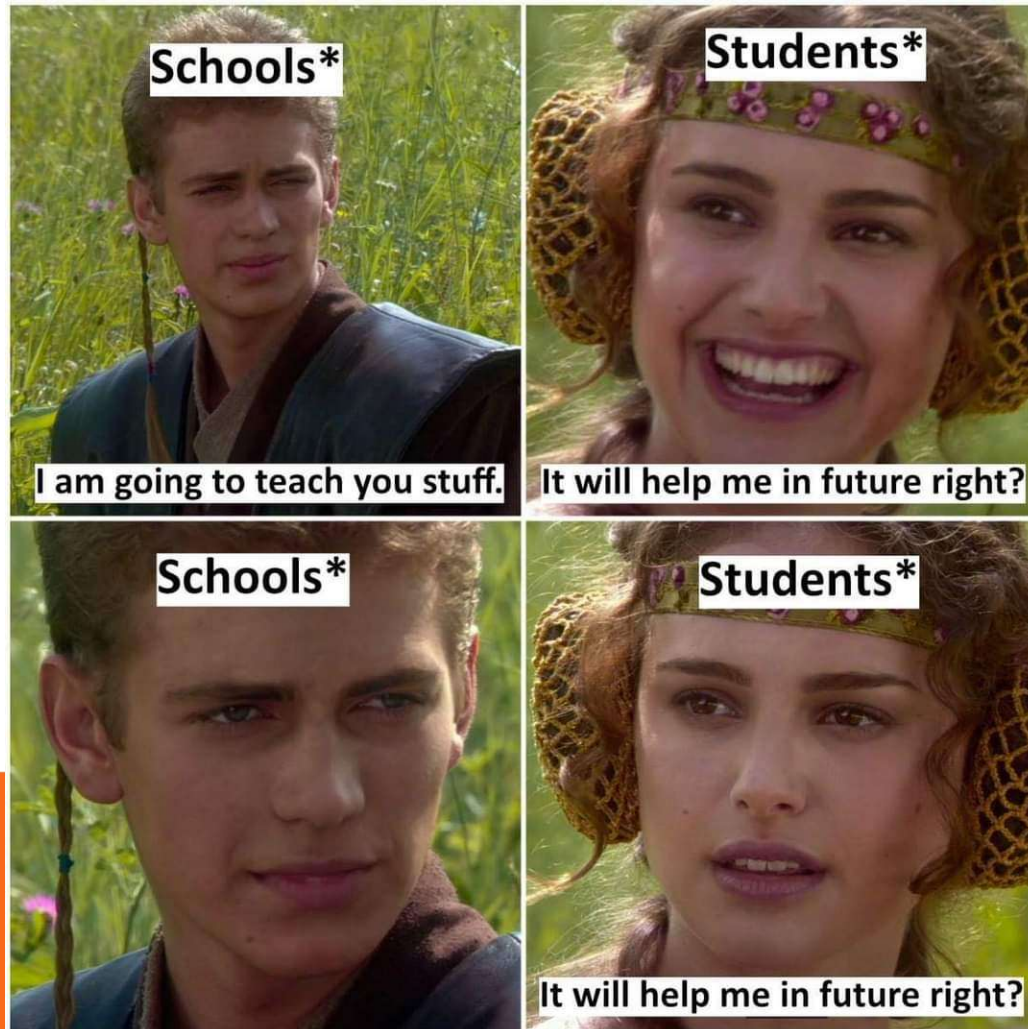
SOCIAL POLICY



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Universal Entitlements

Benefits that governments provide to all citizens more or less equally, usually funded through general taxation (example: US public education).



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Social Insurance

Provides benefits to categories of people who have contributed to a (usually mandatory) public insurance fund; typically used to provide retirement pensions.



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Means-Tested Public Assistance

Social programs that provide benefits to individuals who fall below a specific income level; TANF is an example in the United States.



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Tax Expenditures

Targeted tax breaks for specific groups of citizens or activities designed to achieve social policy goals.



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Types of Welfare States

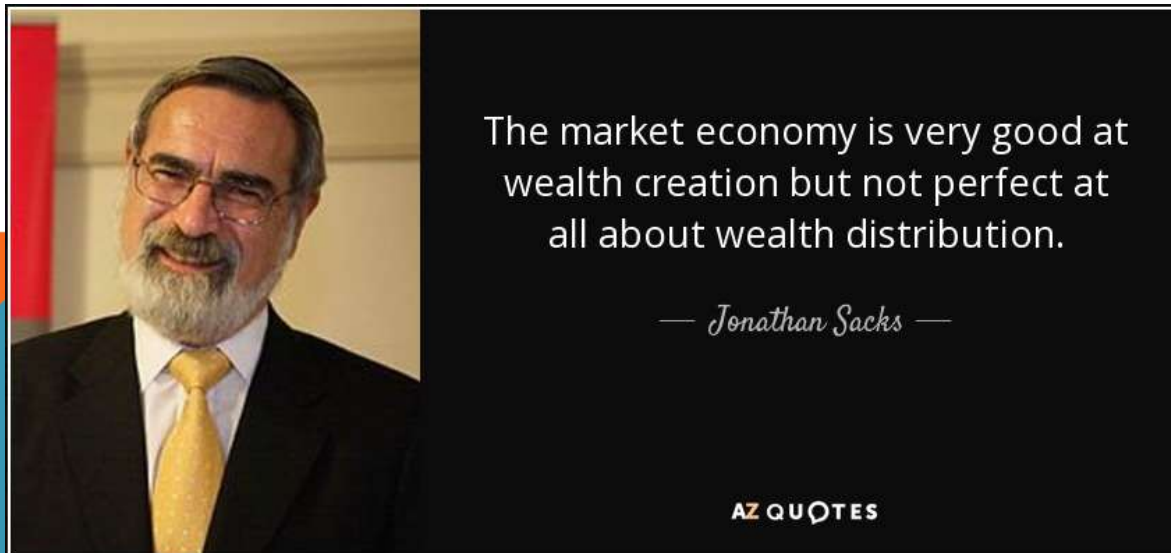
3 types of (bottom-up) welfare states

- Social democratic (Nordic countries)
 - Aims at universal benefits at a high standard
 - Workers have same rights as middle class
- Liberal welfare state (US, Canada Australia)
 - Means-tested assistance
 - Modest benefits → poor and working class
- Christian Democratic (postwar Italy, Austria, Germany)
 - Subsidiarity: state only interferes when family's capacity to provide benefits is exhausted

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Welfare States

Distinct systems of social policies that arose after World War II in wealthy market economies, including social democratic welfare states, Christian democratic welfare states, and liberal welfare states.



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Social Democratic Welfare States

States whose social policies strongly emphasize universal entitlements to achieve greater social equality and promote equal citizenship;



Sweden is a key example.

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Christian Democratic Welfare States

States whose social policies are based on the nuclear family with a male breadwinner, designed primarily to achieve income stabilization to mitigate the effects of market-induced income insecurity.

Germany is a key example

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Liberal Welfare States

States whose social policies focus on ensuring that all who can so gain their income in the market; more concerned about preserving individual autonomy than reducing poverty or inequality.

The United States is a key example.



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Explaining the Development and Evolution of Welfare States

Comparativists have used rational choice, cultural, institutional, and structural arguments to explain the origins and evolution of welfare states.



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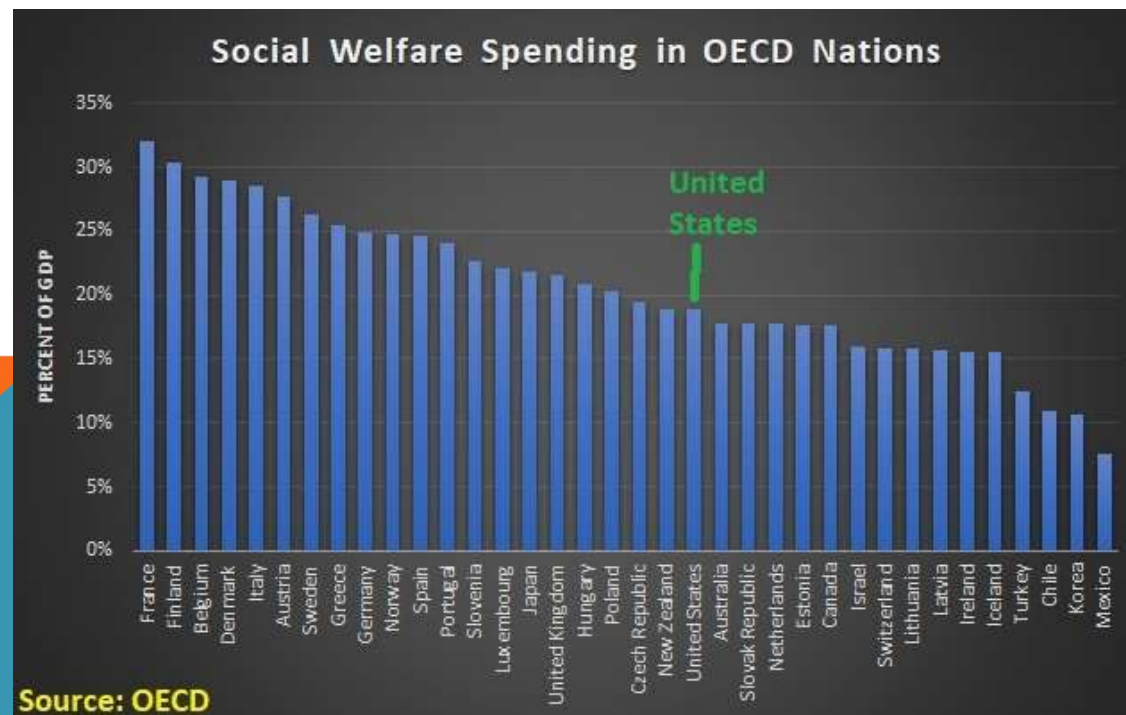
1. Early theorists – a product of structural changes of modernization and industrialization.
2. Marxist scholars – welfare state allows capitalism to postpone revolution.
3. Rational choice theorists – all people are risk averse.
4. Cultural theorists – differences in long-standing values (individualist vs. collectivist).



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Comparing Welfare States

The different types of welfare states initially created significantly different societies in terms of how much is redistributed from the rich to the poor.



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Social Policy in the Global South

A welfare state requires a state capable of implementing fairly complex policies. In the weakest states, social policy is minimal, often involving little more than retirement pensions for the relatively small share of the population employed in the government and large companies.



Social and Solidarity Economy

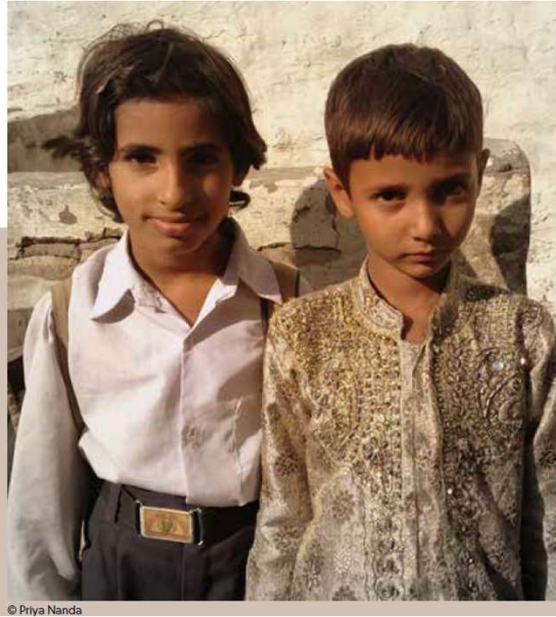
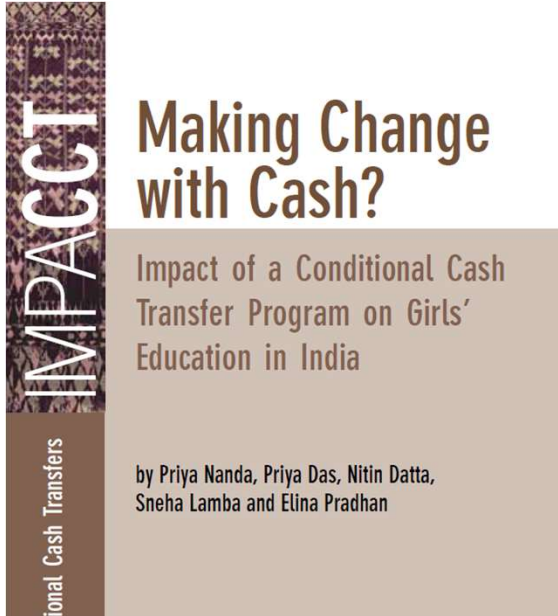
What are Fragile States?

OECD: fragile states are "Those failing to provide basic services to poor people because they are unwilling or unable to do so"

DFID: fragile states are: "those where the government cannot or will not deliver core functions to the majority of its people, including the poor."

World Bank: in fragile states "state policies and institutions are weak, making them vulnerable in their capacity to deliver services to their citizens, to control corruption, or to provide for sufficient voice and accountability. They face risks of conflict and political instability"

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Conditional Cash Transfer (CCT)

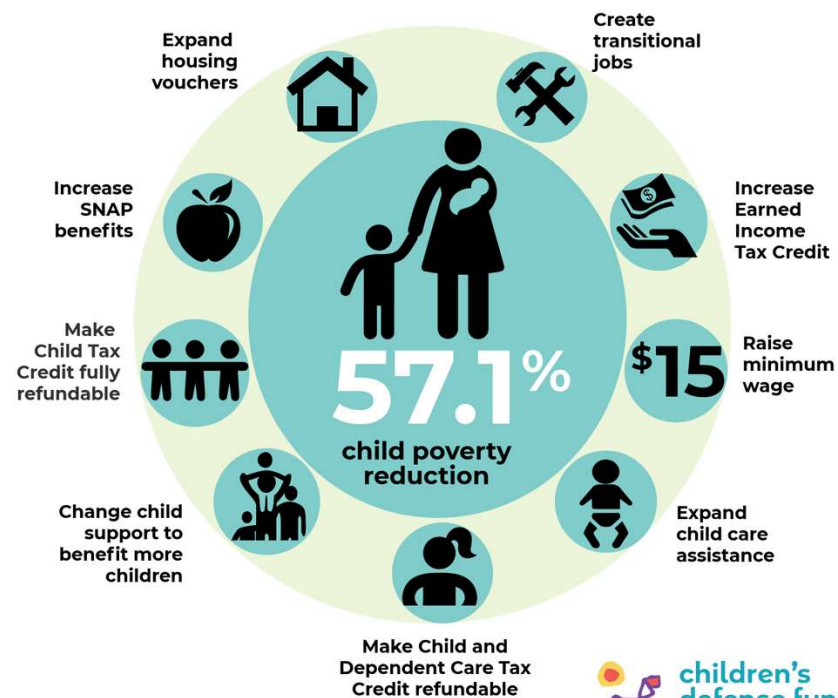
Programs that provide cash grants to the poor and in exchange require particular beneficial behavior from the poor, such as children's attendance at school and visits to health clinics.

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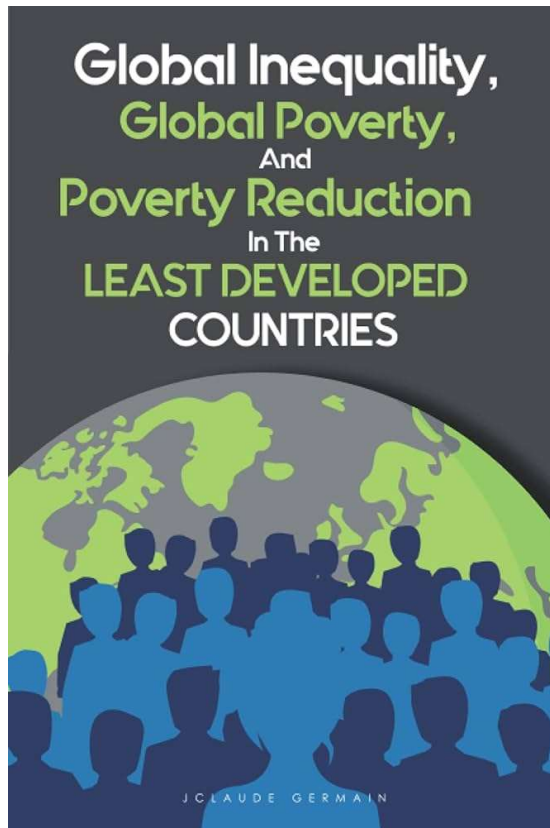
Social Policy: A Summary

Social policies emerged as countries industrialized and became relatively wealthy; poverty was no longer the norm and many citizens came to see its continued existence as unacceptable.

HOW TO LIFT MILLIONS OF CHILDREN OUT OF POVERTY NOW



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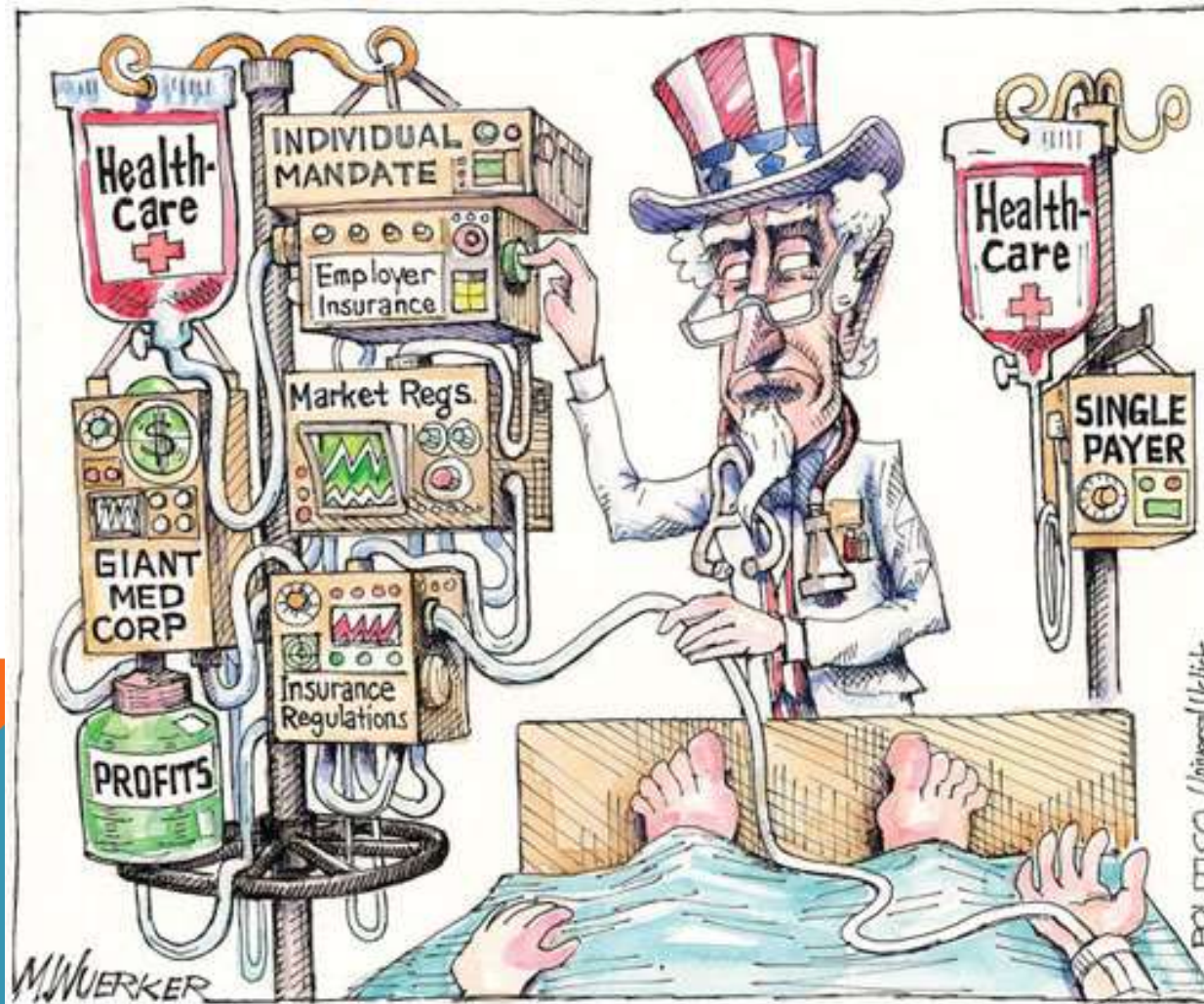


Middle income countries like Brazil have begun to create social policies in recent years, reflecting political demands in their societies.

But for the poorest countries, poverty remains the norm and no real social policy exists.

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Health Care and Health Policy




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Health Care and Market Failure

Moral Hazard

Occurs when parties to a transaction behave in a particular way because they believe they will not have to pay the full costs of their actions.



Those with health insurance are overinsured and their behavior is distorted by moral hazard. Those without health insurance use their own money to make decisions based on an assessment of their needs. The insured are wasteful. The uninsured are prudent. So what's the solution? Make the insured a little more like the uninsured.

— *Malcolm Gladwell* —

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Health Care Systems

National Health Insurance (NHI)

A health care system in which the government mandates that virtually all citizens must have insurance.



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National Health System (NHS)/Single-Payer System

A government-financed and managed health care system into which all citizens pay, either through a separate insurance payment or via general taxation, and through which they gain medical care.



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How Universal Health Care Works

Single Payer

Free government-provided health care paid for by income tax revenue



Every citizen has the same access to government-owned services (Example: The United Kingdom)

Mandatory Insurance

Government-run health insurance fund financed by payroll tax on employers and/or employees



Private doctors and hospitals provide services (Example: Germany)

National Health Insurance

Every citizen pays into a national plan provided by a single insurance company



Publicly funded and privately delivered (Example: Canada)

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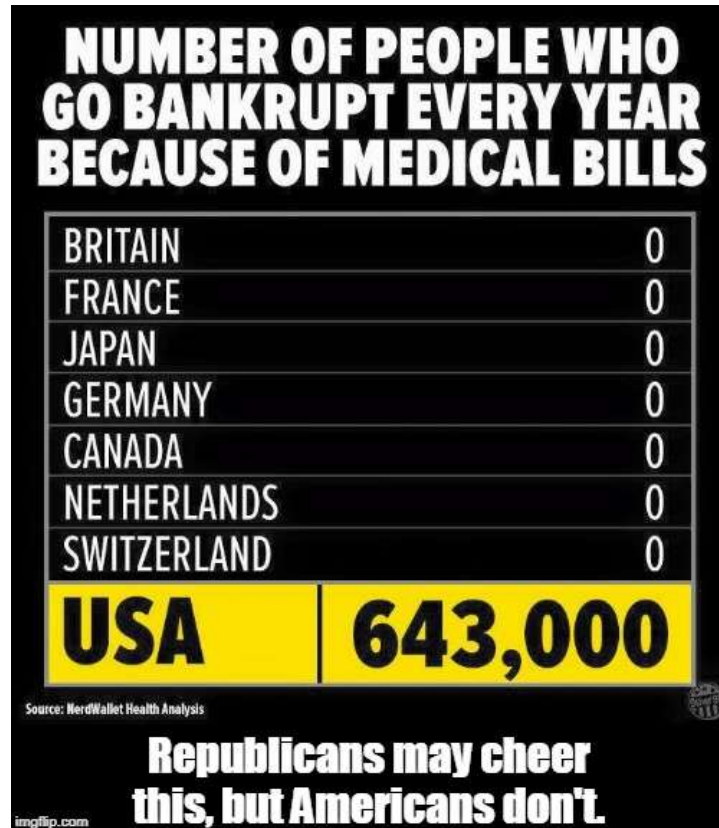
Market-Based Private Insurance System

Health care system that relies on private insurance for the bulk of the population.

Trying to get healthcare in America be like



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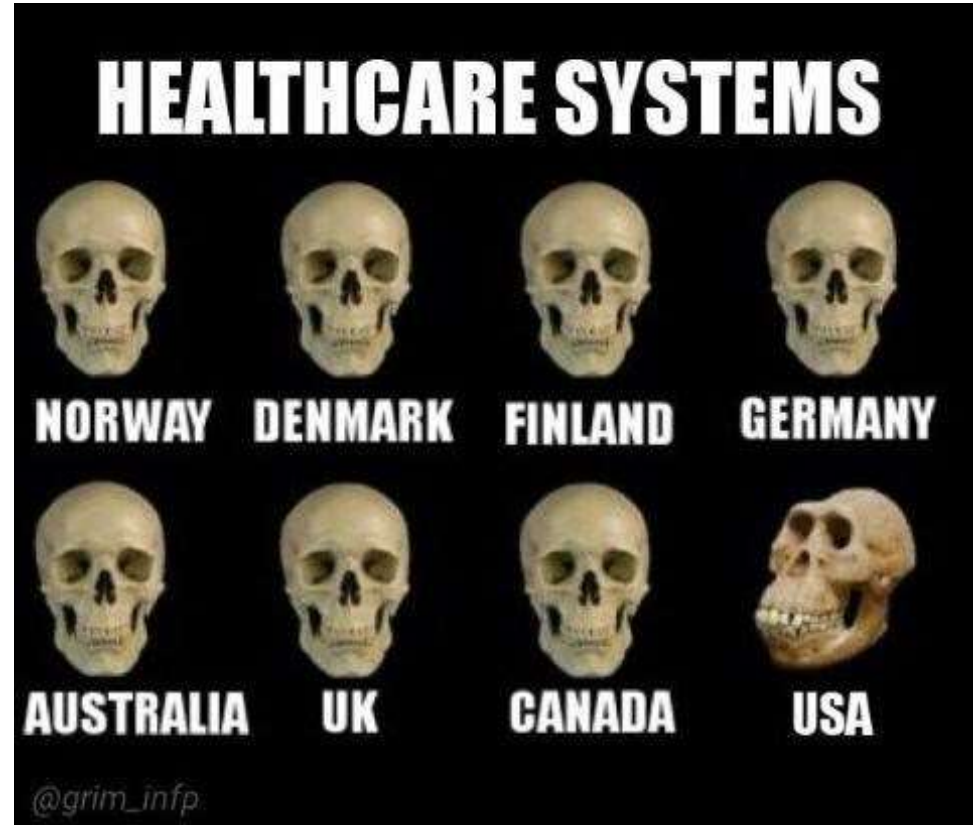
Common Problems

Almost all countries face a common set of problems regardless of the system they use.

1. Rising costs
2. Lack of access to care
3. Growing public health concerns

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A trade-off certainly exists between cost containment and achieving a healthy population. All countries thus ration care in different ways depending on whether they are NHS, NHI, or private systems like the U.S.



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Environmental Problems and Policy

WHO WOULD WIN?

The whole ecosystem of earth



Strange walking ape with sticks



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Climate change is only the latest and largest environmental problem confronting governments around the world. As wealth rises, environmental problems become a significant policy issue.

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The Environment and Market Failure

Tragedy of the Commons

No individual has the incentive or ability to preserve a common, shared good that is free, so without collective effort, it is likely to be overused and perhaps ultimately destroyed.



Tragedy of the Commons

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Risk, Uncertainty, and the Precautionary Principle



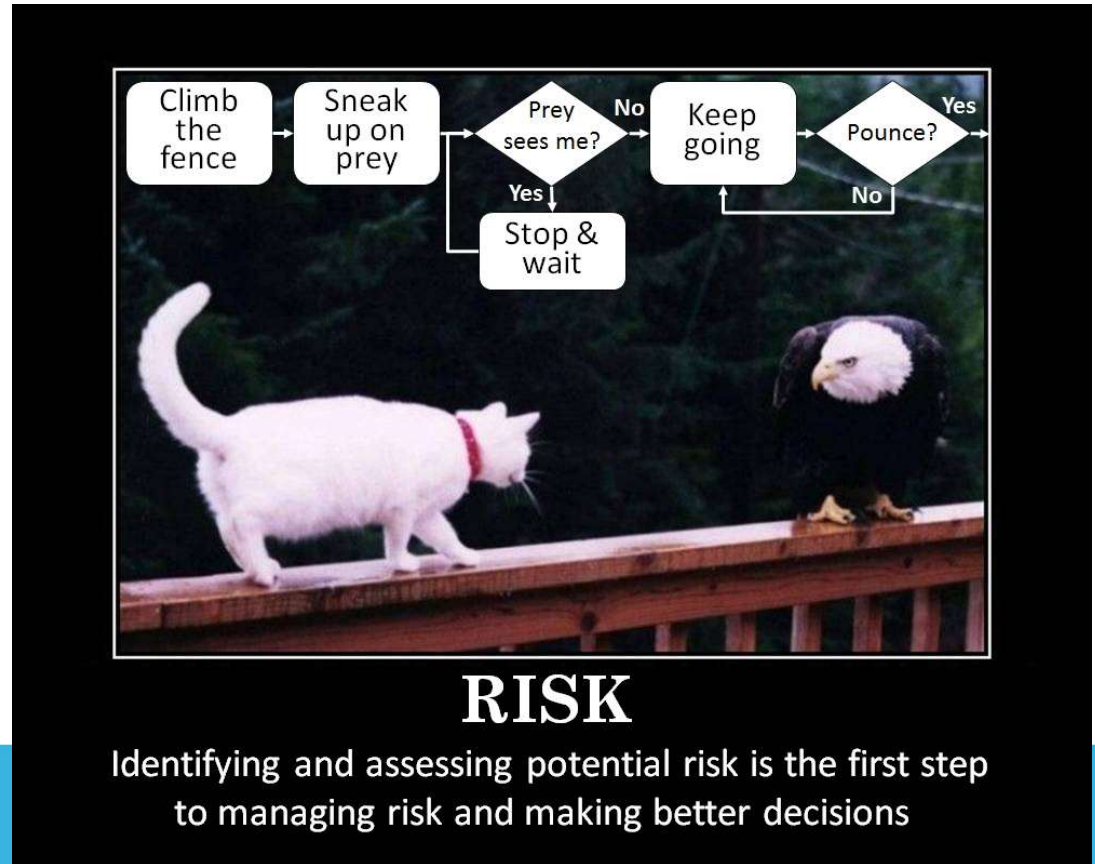
Risk and Uncertainty

Although most analysts agree that environmental damage is an externality that must be addressed, a loud debate exists about the uncertainty nearly always present in environmental issues.

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Risk Assessment

Analysis of what the risks of damaging outcomes are in a particular situation.



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Risk
Management

LEHMAN BROTHERS

Risk Management

Employee of the month


August 2008

Policy used to
keep risks to
acceptable
levels

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Precautionary Principle

A policy that emphasizes risk avoidance even when the science predicting a risk is uncertain.



We will get out when you prove we **will** be boiled alive

Burden of Proof

We should get out until you can prove we **won't** be boiled alive

Precautionary Principle

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Policy Options

Command and Control Policies

Pollution control system in which a government directly regulates the specific amount of pollution each polluting entity is allowed.

Command-and-Control Policies

Standard: a mandated level of performance enforced in law.

- Ambient Standards
 - Water ambient standards
 - Air quality ambient standards
- Emission Standards
 - Vehicles
- Technology Standards
 - BACT



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Cap and Trade System



Market-based pollution control system in which the government sets an overall limit on how much of a pollutant is acceptable and issues vouchers to pollute to each company, which companies are then free to trade.

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Company A

Illustration of Cap and Trade

Company B

Under the emission cap

Trading allowance

Exceeded emission cap

Transferring money

Cap

Company A is selling surplus allowance to company B for the market price

www.erp-information.com



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Climate Change

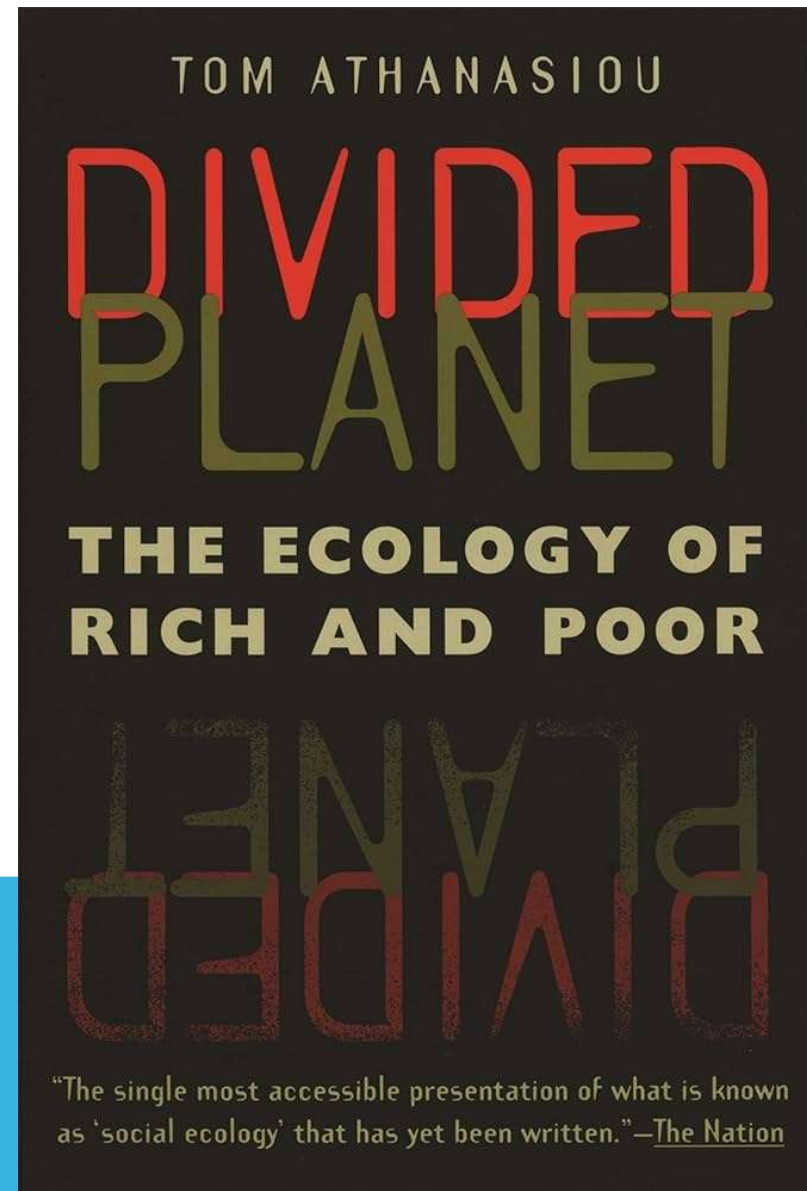
The complexity of environmental regulation is magnified at the international level, but policy similar. The policy response?

1. Mitigation – reducing the cause of the problem.
2. Adaptation – adapting to the effects of climate change.



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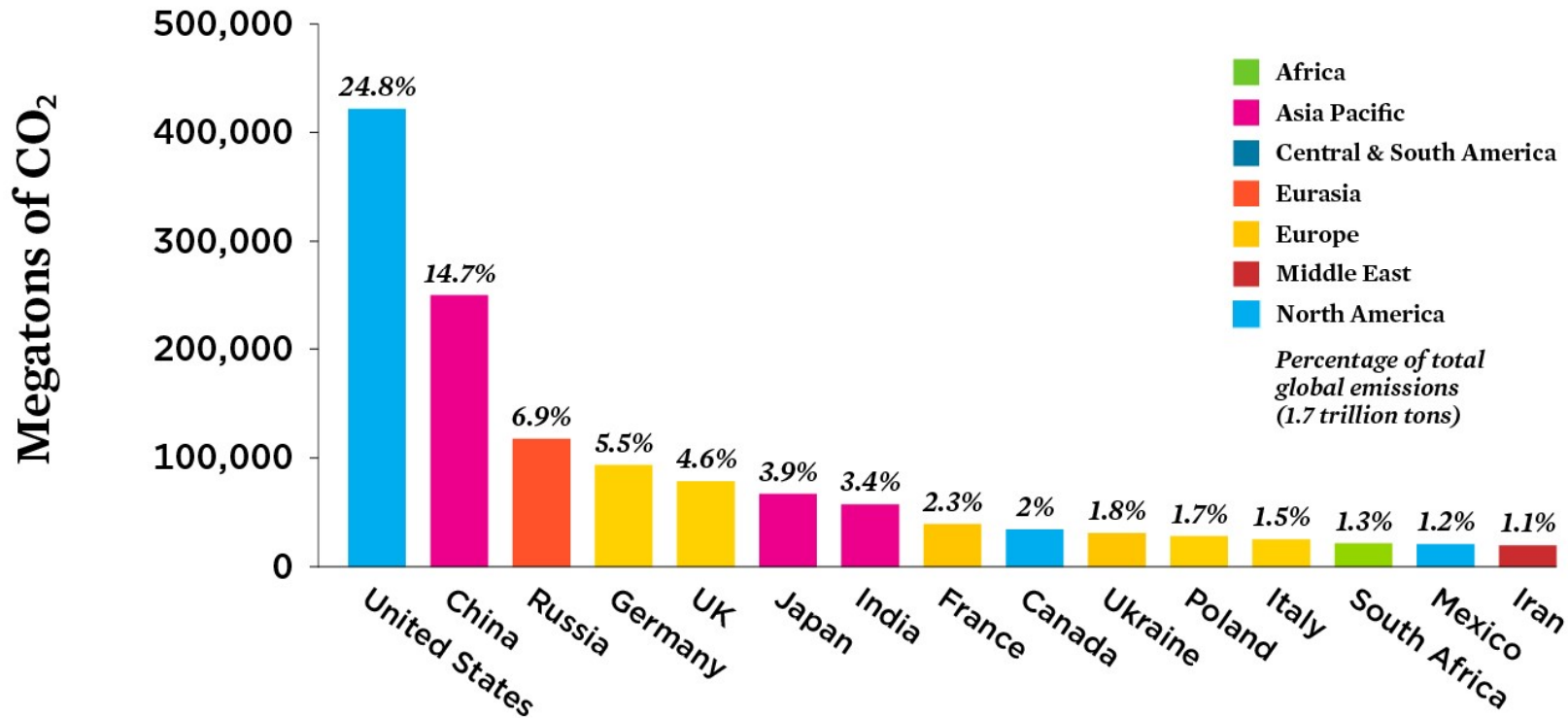
However, it is important to remember that the battle between the wealthy and poorer countries is at the heart of the global climate change debates.



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Top CO₂ Emitting Countries, 1750-2021

(from fossil fuels and cement)



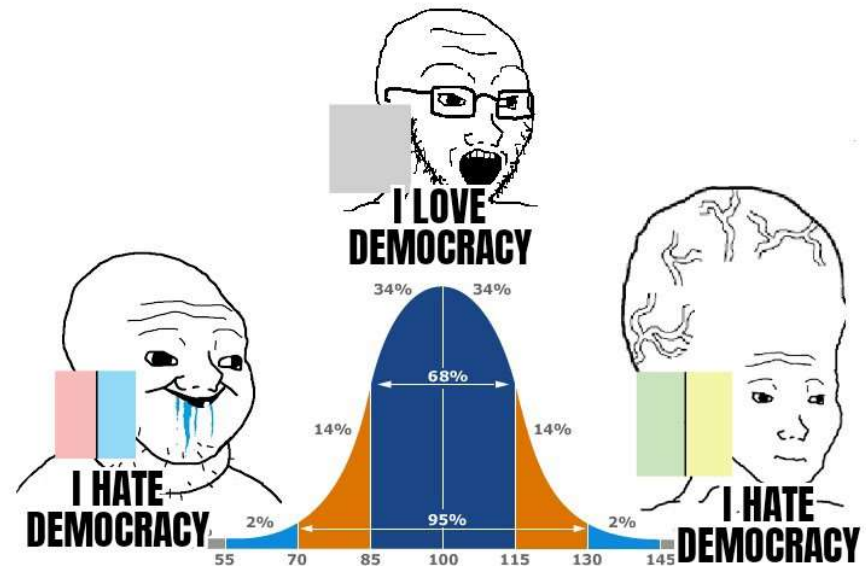
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Concluding thoughts and questions...

Of the three policy areas discussed in this chapter, the environment is the easiest area in which to justify government intervention in markets.



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The outcome of policy battles can tell us much about “who rules.”

Policy outcomes reflect the relative strength of various groups in a given political system.

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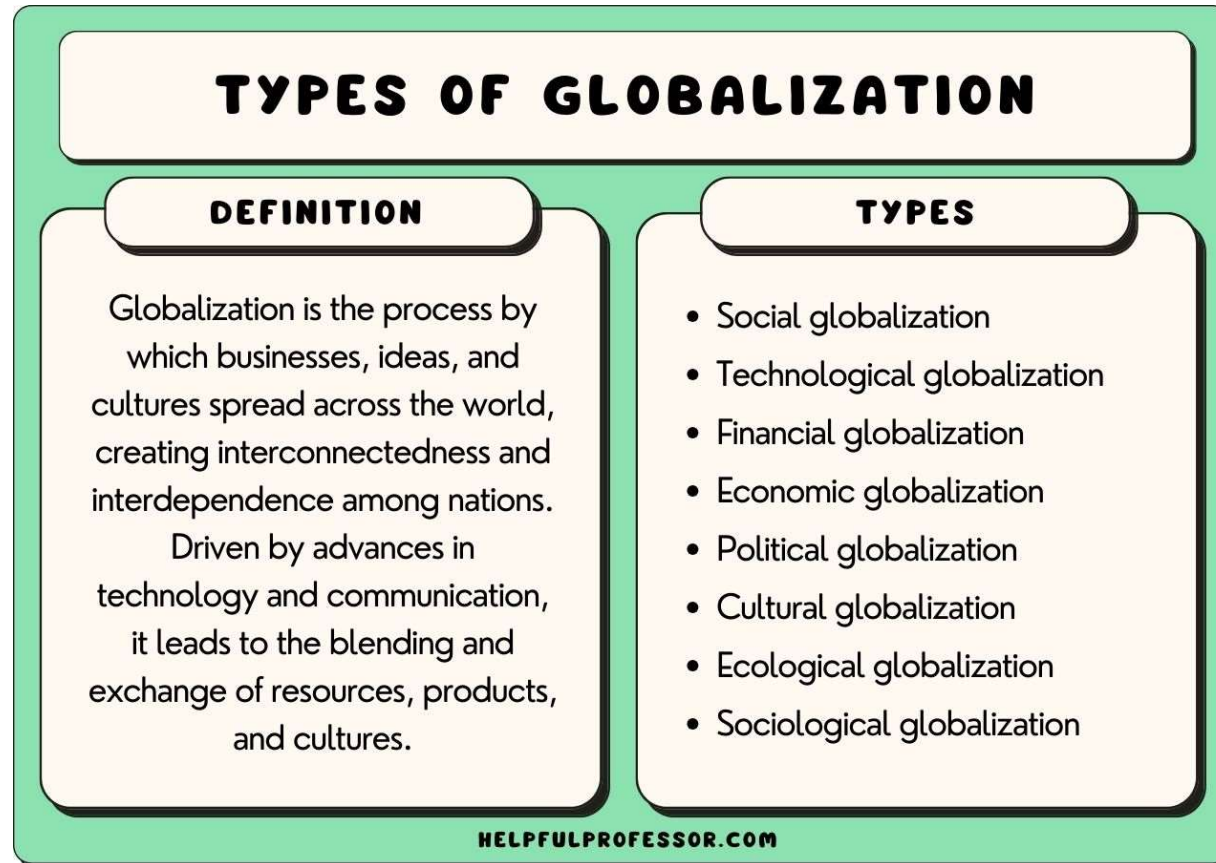
Environmental policies, which usually assign clear costs and benefits to particular groups, perhaps demonstrate relative power most directly.

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State intervention in each of the three policy areas has its own rationale, but to all three, market failure of some sort offers a reason for the state to modify pure market outcomes.



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Globalization too, has had an impact on policies in all countries.

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Judging which set of policies is most “successful” in each of the three issue areas must in part be based on normative values, especially in social policy.



Normative Economics

[ˈnɔr-mə-tiv ,e-kə-ˈnā-miks]

A perspective on economics that reflects normative, or ideologically prescriptive judgments toward economic development, investment projects, statements, and scenarios.

 Investopedia



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If reducing poverty is the key goal, social democratic welfare states seem to be best; if ensuring people are employed is most important, a liberal welfare state may seem to be better....in health policy, what is “best” may be a little clearer.








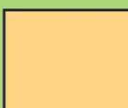
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Judging environmental policy success also depends on values; How much do we value clean air and water? How much do we value the well-being of future generations versus our own, right now?



SUCCESSFUL POLICIES IN ENVIRONMENTAL POLITICS



- 
- 
- 
1. California Cap-and-Trade Program
 2. Costa Rica's Payment for Ecosystem Services (PES)
 3. Germany's Energiewende
 4. Montreal Protocol
 5. Clean Air Act Amendments (USA)
- 
- 
- 

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Public Goods

Non-rivalrous and non-excludable.
Tends to be over-consumed and under-produced without intervention

Asymmetric Information

When one person knows more than somebody else

Market Failure

Externalities

Consequences of an economic activity on unrelated third parties.

Abuse of Market Power

When a seller or buyer influences the supply or price of a product.