Econ 130

Introduction
Definition

Public policy consists of decisions and actions taken by a governing authority that affect at least a subset of the population.
Philosophical Basis of Course

• **Economists’ point of view.** Most political science issues left to Poly Sci.

• **View of Role of Public Policy:** “Competitive Markets are an amazingly powerful mechanism for efficiently allocating goods. When conditions are right, it is difficult or impossible for the government to improve on the competitive market. Conditions, however, are not always right, and there are often other considerations besides efficiency. In these circumstances, there is a rationale for government intervention and government policy.”
Every time we discuss a particular public policy, we will ask:

(1) What is the **rationale** for government intervention?

(2) Is the current policy the **best way** to achieve the intended goal?

(3) Might there be **unintended consequences**?
Evaluating Public Policy

It is important to trace the effects of public policy, including *indirect or hidden* effects.

Policy makers must always remember two key points:

(1) *Good intentions are not enough*

(2) *Individuals and businesses are amazingly creative in trying to get around regulations or taking advantage of government policy in unintended ways.*
Examples of Indirect Effects or Unintended Consequences

Example 1: Trade barriers
Example 2: CAFE Standards
Example 2: CAFE Standards - continued
Example 3: Three Strikes Law in California

1994 California voters passed Proposition 184 by an overwhelming majority, with 72% in favor and 28% against. The initiative proposed to the voters had the title of *Three Strikes and You're Out*, referring to *de facto* life imprisonment after being convicted of three felonies. California’s law became the harshest in the nation.

Example – someone got life in prison after a 3rd offense of stealing golf clubs from a country club.

Careful studies have found no correlation between law and the decrease crime, which also occurred nationwide.
Figure 5
Less Than Half of Strikers Are Incarcerated for Serious/Violent Commitment Offenses

(December 2004)

<table>
<thead>
<tr>
<th>Current Commitment Offense</th>
<th>Serious/Violent</th>
<th>Nonserious/Nonviolent</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Percent</td>
<td>Number</td>
</tr>
<tr>
<td>Second Strikers</td>
<td>14,608</td>
<td>41%</td>
<td>20,627</td>
</tr>
<tr>
<td>Third Strikers</td>
<td>4,079</td>
<td>54%</td>
<td>3,496</td>
</tr>
<tr>
<td>Totals</td>
<td>18,687</td>
<td>44%</td>
<td>24,123</td>
</tr>
</tbody>
</table>

http://www.lao.ca.gov/2005/3_strikes/3_strikes_102005.htm
Corrections vs. Higher Education:

Portion of California State General Funds

http://www.cacs.org/ca/article/44
Determining whether the policy is “good” or “bad

Positive vs. Normative Economics

Positive:

Normative:
Three Established Normative Standards

1. Economic Efficiency
Three Established Normative Standards

2. Equality (equity)
Three Established Normative Standards

3. Liberty
Tradeoffs between standards
Recurring Themes of the Course

1. Efficiency versus Equity: The effects of “slicing the pie.”

2. Market vs. Government

3. Costs vs. Benefits

4. There is no free lunch. “Increase x” usually means “decrease y”.

5. Private vs Social Cost and Benefit

6. “Good intentions are not enough”