Administrative Decentralization and Management for Myanmar: Recap and Reflections on Year One (Part 1)

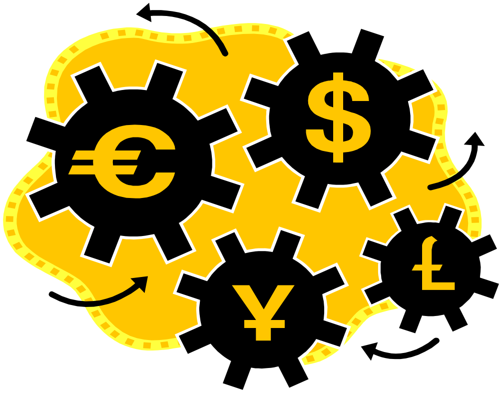
Jay K. Rosengard

John F. Kennedy School of Government

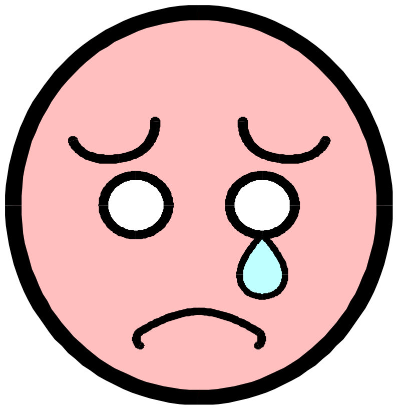
Harvard University

Rationale for Government Interventions in a Nation’s Economy

MARKET EFFICIENCY



& MARKET FAILURE



Market Efficiency

- Theory/ideal/analytic tool
  - Help understand the role of the public sector
  - Identify market failures, evaluate policy alternatives
  - Like doctor making diagnosis to prescribe appropriate medicine
- Efficiency exists in relative > absolute terms
  - If all markets perfectly efficient, limited need for government intervention
  - Key is direction of movement, if becoming more or less efficient
- Market efficiency/welfare economics theorems
  - Competitive economy, decentralized market, consumer sovereignty
  - Efficiency ≠ Equity; not explicit consideration
  - Market Equilibrium: $S = D = P$; $MB = MC = P$

Market Failures: Failure To Achieve An Efficient Allocation of Resources

- Failure of competition: natural monopoly
  - Economies of scale (size), scope (complementarities), contiguity (service area)
  - Characteristics of user demand (basic human needs → inelastic demand)
  - ***Policy options***: government production or government regulation
- Public goods: (next slide)
- Externalities: spillover effects on non-users
  - Impose costs without payment (overproduced), benefits without compensation (underproduced)
  - ***Policy options***: government taxes/subsidies or government regulation
- Incomplete markets: provision shortfalls
  - Failure to provide good/service even when cost < willingness to pay
  - ***Policy options***: government production or government regulation
- Information failures: asymmetries of information
  - Unequal information between producers and consumers, difficult to make rational decisions
  - ***Policy options***: government production or government regulation
- Macroeconomic disequilibrium: global economic crisis
  - Economic contraction, unemployment increase, price or currency volatility
  - ***Policy options***: countercyclical fiscal and monetary policies, supportive regulatory policy

PUBLIC GOODS

& PRIVATE GOODS

Pure Public Goods and Pure Private Goods

Pure Public Goods

- Non-Rival Consumption(with no capacity constraints)
- Impractical or inefficient to exclude (at reasonable cost and effort)
- Cannot use price mechanism to allocate goods (charging → under consumption and no charge → under supply)
- Examples: national defense, domestic security, lighthouse, streetlamp

Pure Private Goods

- Rival in Consumption (assume capacity constraints)
- Excludability (assume practical and efficient to exclude)
- Use price mechanism for allocation (charging → S = D = P; public sector prices are called user fees/user charges)
- Examples: pizza, beer; health, education (can exclude ≠ should exclude)

Impure/Quasi-Public Goods

- Social goods or collective goods
- Some but not all properties of pure public goods (quasi public goods)
  - Non-rival but excludable (police and fire protection)
  - Rival but non-excludable (congested urban street)
- Property rights and market failures
  - Tragedy of the commons (address by regulation or privatization)
  - Tragedy of the anticommons (address by deregulation or public use provisions)

Market Failures:
Failure To Achieve A <u>Desirable</u> Allocation of Resources

- Remember: economic efficiency ≠ social equity
- Objectives
  - Income or wealth redistribution
    - ➢ Social equity ***vs.*** economic efficiency
  - Provision of merit goods
    - ➢ Paternalism ***vs.*** consumer sovereignty

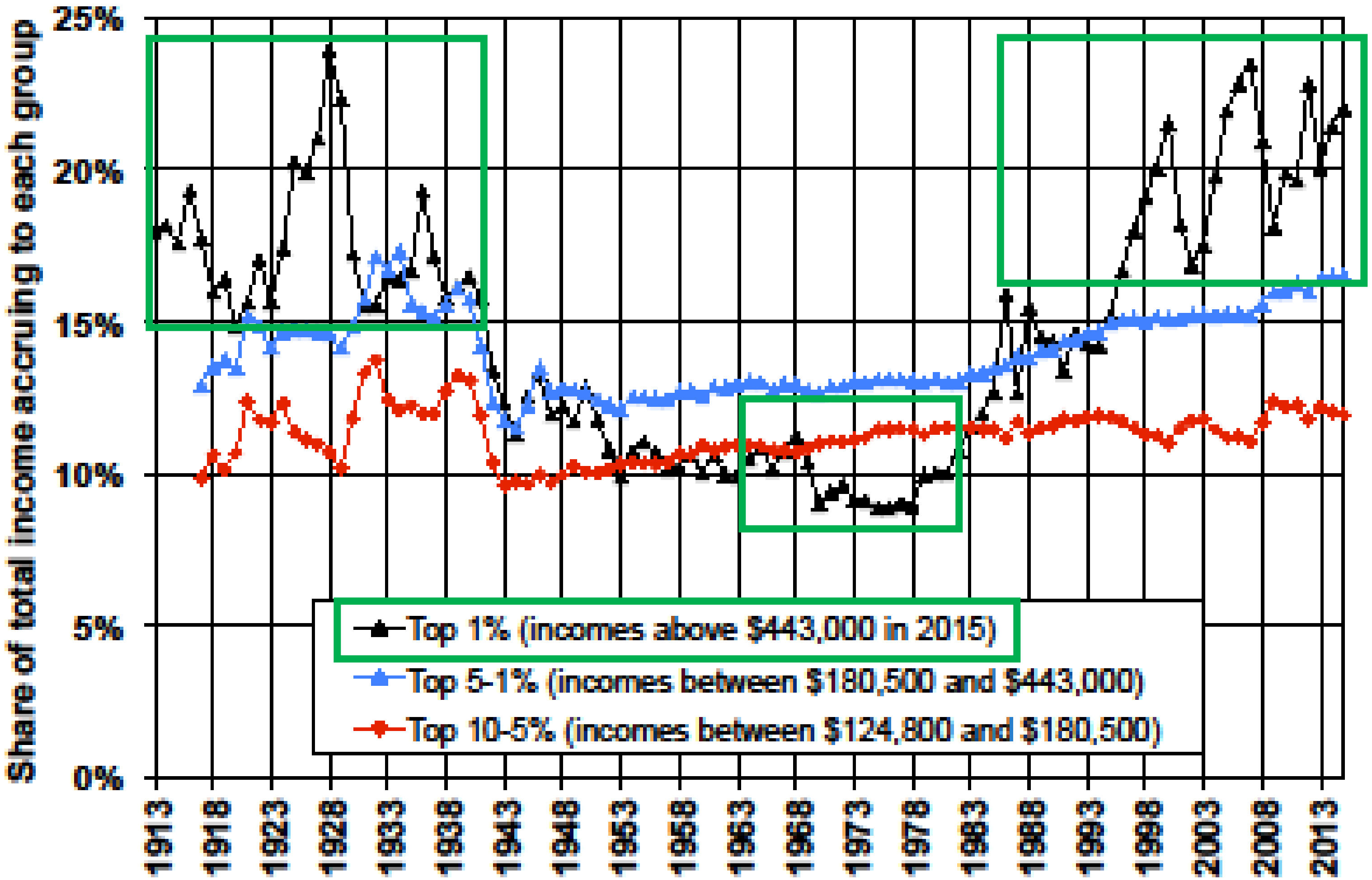
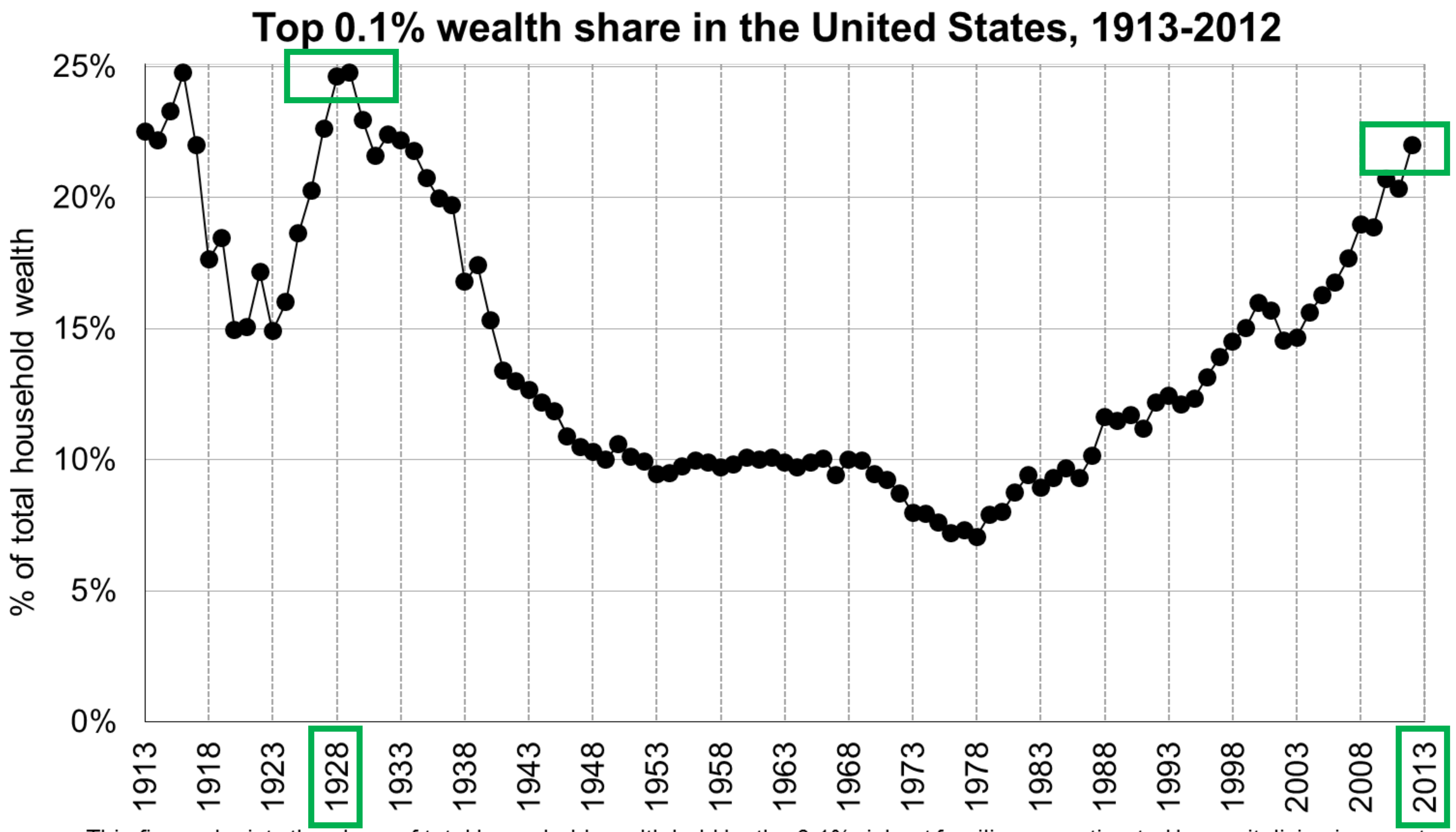


FIGURE 2
Decomposing the Top Decile US Income Share into 3 Groups, 1913-2015

Source: Emmanuel Saez, *Striking it Richer: The Evolution of Top Incomes in the United States (Updated with 2015 preliminary estimates)*, June 30, 2016.



This figure depicts the share of total household wealth held by the 0.1% richest families, as estimated by capitalizing income tax returns. In 2012, the top 0.1% includes about 160,000 families with net wealth above $20.6 million. Source: Appendix Table B1.

Source: Emmanuel Saez and Gabriel Zucman, *Wealth Inequality in the United States Since 2013: Evidence From Capitalized Income Tax Data*, October 2014.