

Rational Institutions

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2013-10-08

- Briefly: Ansell (2010): “The Redistributive Political Economy of Education”
- Busemeyer (2008): “The Impact of Fiscal Decentralization on Education and Other Types of Spending
- Moe (2005): “Power and Political Institutions”
- Ostrom (1999): “Coping With Tragedies of the Commons”
- Tsebelis (1995): “Decision Making in Political Systems: Veto Players in Presidentialism, Parliamentarism, Multicameralism and Multipartyism”

Rational as opposed to what?

- I like to check the OED (U of T has a very expensive subscription) to make sure I am not totally wrong about how words are defined
- One illustrative example of 'rational' they provide comes from Jared Diamond's book *Collapse: How Societies Choose to Fail or Succeed* and concerns circumstances where the interests of a ruling elite diverge widely from those of the population being ruled
- 'Rationality' is always relative to a defined set of actors and objectives

Moe (2005) provides the classically formulated question about institutions:

- “How can individuals who are self-interested and opportunistic overcome their collective action problems to cooperate for mutual gain?”
- Incorporates a theory of human nature, focuses on certain kinds of problems and solutions
- Whether an institution is cooperative or mutually beneficial depends on which actors you count as relevant (221)

Ostrum 1999 raises the question in a concrete way

- How are real 'tragedies of the commons' addressed
- As complex as biological systems: with a whole taxonomy of different types of rules and organizational structures
- Combinatorial explosion makes it impossible to solve for an optimum

- As such, policy making must be a series of experiments: for various reasons, people try slightly different arrangements
- Path dependence and the importance of history
- “Everything is the way it is because it got that way” -attributed to a biologist

Hobbes was wrong

- “During the time men live without a common power to keep them all in awe, they are in that conditions called war; and such a war, as if of every man, against every man.”
- People can find a way to manage their irrigation, patch of forest, fishing territory, etc
- In fact - imposition of authority from the centre can destabilize functional local regimes, suddenly giving those in the region an incentive to exploit as much as possible right now
- In fact, it may be wrong to talk about ‘solving’ the ToTC - it is always there, but more or less well-managed

Ostrum also espouses a view of 'human nature' derived from experimental and real-world observations

- Arguably, the key features are not surprising to someone who has interacted with humans:
 - Fallible, boundedly rational, and norm-using
- Complex and contextual though, in some circumstances the "norm-free, complete rationality" produces accurate predictions
- Raises a methodological problem: if the behaviour of people has very different characteristics depending on context, how do we know what empirical observations are applicable to what case?
- Especially problematic for very artificial experiments, like economics experiments on undergraduates

Briefly on Ansell 2010

- In multi-party democratic systems, there is always the possibility that successive administrations will have very different platforms in a particular issue area, leading to oscillations in policy
- The new government in Australia campaigned on repealing their carbon tax
- Education has special characteristics
 - Redistributive: equality of opportunity depends on it, parasitic elites may want to block spending on it
 - Connected in complex ways to labour market trends
- Connects back to Ostrum's insight about the combinatorial complexity of policy: not only are there a dazzling number of policy options, but the decisions made in any one issue area affect and are affected by decisions (and policy-exogenous trends and developments) in others
- Ansell also discusses globalization at length - further complexity, since policy in any particular state is no longer well-insulated from policy (and non-policy developments) in other places

Education continued

- There are additional sources of complexity in relation to education policy not broadly elaborated upon in the Ansell article, especially in the North American context
- People are aware of the power of schooling to shape values, so education is a realm of contestation in terms of what values to teach - from creationism to comprehensive sex education to how the history of the second world war is taught in China

Busemeyer 2008

- Theoretical contribution: an example of a case where different ‘rationalities’ could dominate, given the possibility of different policies in distinct but interacting jurisdictions
- Jurisdictions may race to the bottom, or to the top
- In this case, in terms of education, “local communities in a decentralised setting find themselves in strong competition with other localities to attract new residents”

Busemeyer II

- Reflective of Ostrum to an extent
- Locally-managed systems can work better
- “when spending decisions are located closer to the local level, fiscal decentralization has a positive impact on spending”

Tsebelis 1995

- He is interested in a different set of taxonomic features from Ostrom
- Comparative analysis, focused on how government structure affects the prospects for policy change (292)
- Specifically, how ‘veto players’ function and affect politics in different kinds of political systems
- Two types of veto players: institutional and partisan
- U.S.: the president and both houses of Congress are potentially veto players; under Westminster-style parliamentary systems, a majority doesn’t need support from other parties

Tsebelis 1995

- Your perspective on policy stability depends on the degree to which you are satisfied by the *status quo* (294)
- Veto players can be a deliberate institutional mechanism for increasing stability - U.S. Constitution / Federalist 51
- “Ambition must be made to counteract ambition.”
- The precise number of veto players varies by constitutional design, party configuration, and issue-area (central banks often set monetary policy alone)

Tsebelis 1995

- One criticism: so many different significant dimensions of difference, makes it hard to theorize or generate predictions
- This may simply be a feature of democratic governments but, if so, it may require us to use non-parsimonious, historical and particular explanations

Moe 2005

- Takes us back to Diamond's insight - what is good for some people may be bad for others, there is a competition to influence those with power, and the outcomes may not be socially optimal
- Institutions need not be benign - to add my own example: the secret police in totalitarian states are institutions too, with a constituency to serve, interests, internal policies and procedures etc
- Agenda-setting is a key explanatory factor for why democratic institutions experience relatively few chaotic reversals in voting outcomes - a kind of power, and a way power can be used (extreme form: mugging 227)

Moe (2005)

- “Whoever wins has the right to make decisions on behalf of everyone, and whoever loses is required by law — backed by the police powers of the state — to accept the winners’ decisions. This means that any groups that prevail under the formal rules can legitimately use public authority to impose bureaucratic institutions that are structurally stacked in their own favor, and that may make the losers worse off, perhaps by a lot.” (218)
- There is no opting out of the state
- “Can we seriously say, that a poor peasant or artisan has a free choice to leave his country, when he knows no foreign language or manners, and lives, from day to day, by the small wages which he acquires? We may as well assert that a man, by remaining in a vessel, freely consents to the dominion of the master; though he was carried on board while asleep, and must leap into the ocean and perish, the moment he leaves her.” (Hume 1748)

Mo' Moe

- Institutions can be imposed by winners on losers, yet still require cooperation among winners to be established
- Gramsci took over from Machiavelli the image of power as a centaur: half man, half bear, a necessary combination of consent and coercion.

Conclusions

- Institutions are means we use to try to solve various social problems, and the characteristics of the problem affect the probabilities that different kinds of institutional solutions will be effective
- Very challenging social problems often include particular characteristics, such as cases where a small subgroup can 'capture' regulatory institutions, impacts that are real but very small for any particular individual, situations where people interact only a very limited number of times, and cases where behaviour is difficult or impossible to observe

Rent seeking and regulatory capture

- Probably the best description: Frederic Bastiat (1800s)
- Describes the predicament of a French ironmaker being undercut by Belgian imports, and who briefly considers going to the border to stop imports personally
- “First of all, it is quite possible that the buyers of iron, my fellow countrymen and my enemies, will take offense, and, instead of letting themselves be killed, they might kill me. Furthermore, even if all my servants marched out, we could not guard the whole frontier. Finally, the entire proceeding would cost me too much, more than the result would be worth.
- Mr. Protectionist was going to resign himself sadly just to being free like everyone else, when suddenly he had a brilliant idea.
- He remembered that there is a great law factory in Paris. What is a law? he asked himself. It is a measure to which, when once promulgated, whether it is good or bad, everyone has to conform. For the execution of this law, a public police force is organized, and to make up the said public police force, men and money are taken from the nation.

Regulatory capture II

- If, then, I manage to get from that great Parisian factory a nice little law saying: "Belgian iron is prohibited," I shall attain the following results: The government will replace the few servants that I wanted to send to the frontier with twenty thousand sons of my recalcitrant metalworkers, locksmiths, nailmakers, blacksmiths, artisans, mechanics, and plowmen. Then, to keep these twenty thousand customs officers in good spirits and health, there will be distributed to them twenty-five million francs taken from these same blacksmiths, nailmakers, artisans, and plowmen. Organized in this way, the protection will be better accomplished; it will cost me nothing; I shall not be exposed to the brutality of brokers; I shall sell the iron at my price; and I shall enjoy the sweet pleasure of seeing our great people shamefully hoaxed."

Widespread benefits, concentrated costs

- The eternal problem with environmental regulation
- Normally, protecting some aspect of the environment - reducing toxic pollution, protecting endangered species, mitigating climate change - benefits everyone to a relatively small degree
- Policies that address these problems often harm small groups of people to a disproportionate degree
- Those with a large motivation have enough incentive to organize and influence policy

Few interactions

- People often leave public bathrooms in a shameful state
- Also, there can be wicked logic in nuclear war
- If it's all happening in one go, it's hard to avoid bad outcomes through institutional means
- Conversely, iterated interaction facilitates cooperative outcomes (Moe 222)

Unobservable behaviour

- Shared kitchens in university residences are often in a shameful state
- It is hard for public health officials to encourage people to control STIs through barrier use in every sexual encounter
- “Shoot, shovel, and shut-up” as a strategy for dealing with endangered species legislation
- Moe: hidden information as part of the principal-agent problem (216)

Solvable problems with good institutions

- Maine lobster fishery (Ostrum): Six patrol officers police 6800 lobster fishers, along with all other fisheries and coastal environmental laws