

Optimality versus Fire

Public choice economists have long argued that conventional economists hold markets to far higher standards than they hold government. Markets “fail” unless they’re *optimal*. Governments “succeed” unless they’re *on fire*. If this seems unfair, compare the standard definitions of “market failure” and “failed state.” Market failure exists whenever markets fall short of perfect efficiency. To be a failed state, in contrast, requires habitual disaster.

Is this a Straw Man? I think not. Even the most sophisticated conventional economists hold markets to unreasonably high standards – and hold governments to unreasonably low standards. Paul Krugman, arguably the world’s *most* sophisticated conventional economist, provides a fine case study in his recent *Conversation with Tyler*.

Tyler asks Paul, “To start with a very basic question: The major tech companies have become increasingly controversial. Do you think there’s a significant market failure there? And if so, what would it be?” Paul’s response:

Everything about tech, certainly everything about networks, is a violation of the principles that say that a market should be efficient. The trouble is, it’s hard to sort out. It’s not that there’s any one thing.

It’s got increasing returns, it’s got imperfect competition, it’s got spillovers. So I’m not sure what I know is the particular market failure. There’s no reason at all to think that Facebook or Twitter or Google are doing the optimal thing from a social point of view. The trouble is, trying to figure out what to do as an alternative is not trivial.

When Tyler prods him about all the great stuff consumers get, Paul pushes back:

What’s problematic is that they’re still—although they’re not charging us anything—they’re not in business for our health, they’re in business for their health. They’re in business to sell something else. What Google is selling, really—it’s still ads. It’s selling advertiser access. At some level, that’s what Facebook is doing as well.

Since it’s indirect, in some ways, the reasons to think that it’s going to

be non-optimal are even greater.

Paul's right, no doubt, that tech markets are "non-optimal." But that's an absurd way to frame the situation. A reasonable frame is more like: Mankind has received a *cornucopia of wonderful stuff for free*, so thanks a million! If you described the modern Internet to people in 1988, almost everyone would have laughed at your naive optimism. Sure, things could have been even better. But if your main reaction to the Internet is to complain that it's "non-optimal," there simply is no pleasing you.

Does Krugman really hold government to lower standards? He definitely has many negative things to say about current U.S. politics.

Exhibit A:

[O]ur political system is set up on the basis that we elect representatives who will not exactly reflect their voters but will, in fact, deliberate and exercise independent judgment. But we are in an extreme partisan environment in which, for all practical purposes, only the party matters.

All that matters on most things is whether there's an R or a D, which means that all of the . . . Not that long ago, people used to refer to the Senate as the world's greatest deliberative body in a non-ironic fashion. [laughs]

These days, it's ridiculous. There is no deliberation that goes on. It's a completely partisan institution.

Exhibit B:

I think that the role of money in politics has created . . . a lot of people in political life now have spent their entire lives within a partisan ecosystem, never really having to step outside. Any independence in judgment, any demonstration of an independent conscience is actually career destroying.

So the kind of people you get are people who are basically bad people, at the very least very cynical people. I still find it hard to understand how people can be quite as cynical as they have become.

Exhibit C:

Ordinary people, people with real lives, real jobs, people who aren't paid to think about abstract policy issues are, understandably really, more poorly informed than those of us who push around words and symbols for a living can easily appreciate.

If you ask people, do they actually know what the policies are being propounded, if you ask them do they know what Republican healthcare policies actually are—maybe more so now than a year or two ago—but still mostly not. People are poorly informed.

Of course, sometimes they're actively misinformed by Fox News or something. It's instructive, being out there in public, writing for a newspaper, even writing for the New York Times, and then looking at the mail you get.

Leaving aside the crazy and hate stuff, but just the sort of ordinary citizens—they've heard from somebody that there's a plan to replace the US dollar with some global currency.

You know and I know that's ridiculous. But these aren't necessarily stupid people. They're not devoting a lot of time to public affairs. Of course, the news environment is—leave aside, again, the partisan media—tends to be very information scarce.

Strangely, though, none of this negativity leads Paul to question his support for government intervention - or support stricter limits on government. Common sense tells us that great power comes with great responsibility. Common sense tells us that "very cynical people" and "basically bad people" with power will do very bad things. Common

sense tells us that ignorant people who don't "devote a lot of time to public affairs" will be easy for cynical and bad politicians to manipulate. But as far as I can tell, Paul's only proposed remedy for democracy's deep structural flaws is to elect more Democrats. No matter how poorly our government performs, we must grin and bear it.

When does our political system's performance get bad enough for Paul to muse, "Democracy in chains is a lot better than it sounds"? The answer, strangely, seems to be "never."

Aside from the fact that the world is going to hell otherwise, I'm just basically having a good time.

A joke? Perhaps. Yet it still exposes a deep truth. When markets fall short of perfection, Paul cries for government to fix them. When government is an ongoing disaster, Paul hopes that government will fix itself.

What's the alternative? Recognize that due to government imperfections, economists should often oppose government intervention even when a thoughtful, well-intentioned government could readily make the world a better place. Why? Because actually-existing governments are rarely thoughtful or well-intentioned. Public choice problems hardly provide an iron-clad case for laissez-faire, but they plainly tip the scales in that direction. And due to the ubiquity and severity of these problems, we should never forget to put them on the scales.