MANKIW'S PRINCIPLES OF ECONOMICS PART 7: GOVERNMENTS CAN SOMETIMES IMPROVE MARKET OUTCOMES

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Mankiw's Seventh Principle of Economics is: Governments Can Sometimes Improve Market Outcomes. Mankiw says economics will refine the view of the student on the role of government. In Mankiw's book, government has several acceptable roles:

1. Enforcement of property rights. It is imperative that scarce resources are owned by individuals and firms. Government enforces the rules and protects the institutions that support these property rights. If the rights of creators of products are not protected, people won't make things. "The invisible hand counts on our ability to enforce our rights."

2. Government intervention is allowed to achieve greater efficiency or greater equality.

The first point fits squarely with Mirowski's commandments of neoliberalism. The Fourth Commandment is: Thou Shalt Retask the State to Thy Needs. The function of the strong state is to make sure that the neoliberal program can come into existence; it must, as we learn from the First Commandment, be constructed, it will not happen without force and socially acceptable forms of violence. This is accomplished by using the state to marketize everything, and by ensuring that scarce resources are put into the hands of the wealthy and secured to them. The rest of us become forced customers of private entities, health insurance companies, policing, and education. Can water be far behind? Care to buy your water from Comcast?

As an aside, privatized education really bothers me. We've learned that the Educational Testing Service has rewritten the guidelines for AP History to cut back on what wingnuts call negativity and the rest of us call reality, and to focus on US exceptionalism. The ETS is a private corporation. Its Chairman is Robert Murley, who is also the CEO of Apollo Education Group, Inc., which operates Phoenix University. His only interest is making money. The idea that he is a scholar is preposterous. But he sets the standards for many of our smart kids, the lucky ones in schools that have AP classes.

The second allowable activity of government is to achieve greater efficiency. This entails dealing with market failures or with externalities. Neither of these is an allowable function of government in a truly neoliberal society. Markets cannot fail in neoliberalism, as Mirowski explains in Commandment 3, Thou Shalt Worship "Spontaneous Order". More important, market power is not a problem for neoliberals, as we learn in Commandment 10, Thou Shalt Not Blame Monopolies and Corporations. The idea that a government might intervene to reduce inequality is anathema to neoliberals. Mirowski explains this in his Ninth Commandment: Thou Shalt Know That Inequality is Natural.

For Mankiw, at least theoretically, government is allowed to legislate on externalities and market power. Sadly, all externalities can be litigated indefinitely. Between the courts and flaccid enforcement, antitrust law has been ignored for years. As to inequality, Mankiw tells us that markets reward those who produce things other people want to buy, which is closely related to his Principle Number 8. Markets, he admits, won't make sure everyone has food, clothing, health care, shelter, or anything else. “This inequality may, depending on one’s political philosophy, call for government intervention.” That might mean welfare, progressive income taxation or other programs. Then we get a full paragraph explaining the problems of using government for these purposes, including this gem: “Sometimes policies are designed simply to reward the politically powerful.”

In my discussion of Principle 6 (markets are usually a good way to organize economic activity) I pointed out that Mankiw ignores the enormous amount of buying done by governments at every level, which in Mankiw’s language probably confuses the Invisible Hand. Similarly, in his discussion of Principle 7, Mankiw ignores the role of government in establishing the rules related to markets, and in enforcing a minimal level of anti-fraud rules. This role of government obviously improves market outcomes, unless the rules are “designed to reward the politically powerful.” I assume he doesn’t mention this crucial role of government in the economy because it would show that markets are a construction, not a given and that would be one too many deviations from neoliberal dogma.

That markets are constructed is most obvious in the area of “intellectual property”, a term that probably came into wide use in [the late 1940s](). Essentially, the people behind this term want to marketize intellectual activity, making it an article of commerce rather than a commons.

Mankiw assigns to government the obligation to “maintain the institutions that are key to a market economy.” I suspect this is more than the courts and US Marshals, but Mankiw leaves us hanging. Perhaps he means private groups like ETS, or the [World Intellectual Property Organization](). Or perhaps he means groups like the Uniform Law Commission. Who knows? Here’s a story about the Uniform Law Commission.

Several years ago, the group decided to rewrite the section of the Uniform Commercial Code governing security interests, which is the technical term for liens on personal property. The purported problem was that compliance with the requirements of Article 9 was so complex that bank paperwork occasionally didn’t comply. In Chapter 7 cases, the Bankruptcy Trustee is allowed to set aside a defective security interest, and sell the property for the benefit of unsecured creditors. Trustees are paid a small percentage of the funds raised, which encourages them to inspect the paperwork carefully. The idea was to amend the rules so that close enough was good enough. One of the participants in the revision process told a CLE session I attended that in drafting sessions, the members would joke that these provisions would really screw the Trustee. That was silly. Trustees have plenty of work, and only got a tiny payment for setting aside invalid security interests. The actual people getting screwed were unsecured creditors. Of course, none of the participants represented unsecured creditors, so the changes were made, and with the imprimatur of a supposedly neutral group, they were adopted in all of the states. I know for a fact that this resulted in more wins for the banks at the expense of common creditors. A decent government would have insisted on participation by all relevant groups in the drafting of these changes, which violently upset the original balance between secured and unsecured creditors that once was the hallmark of the UCC.

That’s the kind of institution Mankiw wants the government to protect. Oh, and ALEC.