

VISUAL 13.1
NEWSPAPER ACCOUNTS

	“Thousands March on Mexico...”	“Steel Tariffs...”
Main topic	<ul style="list-style-type: none"> • U.S. policy on Ethanol(E)85 drives up corn prices • Tortilla price increases in Mexico spark protests 	<ul style="list-style-type: none"> • Tariffs imposed on imports of foreign steel • Costs of products in which steel is an important input likely to rise
Policy	<ul style="list-style-type: none"> • Energy Policy Act of 2005 requires 7.5 billion gallons of renewable fuel by 2012 • 51 cent per-gallon subsidy for processing corn into ethanol 	<ul style="list-style-type: none"> • 8% to 30% tariff on imported steel • Enacted to prevent “dumping” of low-priced steel
Benefits of policy	<ul style="list-style-type: none"> • Some reduction of foreign oil use • Corn price increase benefits corn farmers 	<ul style="list-style-type: none"> • Prices paid to U.S. steel firms increased • Steel jobs “saved”
Costs of policy	<ul style="list-style-type: none"> • Increased prices on all goods made with corn • Impact felt by poor consumers of corn-based tortillas 	<ul style="list-style-type: none"> • Cost per job saved (\$1.18 million) • Increased costs for all things made with steel (construction, cars, etc.)

VISUAL 13.2

MARKET FAILURE VS. GOVERNMENT FAILURE

Market Failure

A *market failure* occurs when markets are not working optimally. The result of such failure will be economic inefficiency. In other words, the market will fail to allocate scarce resources in a way that serves the general public interest. In cases of market failure, government intervention may be used to protect the public's interest.

Government Failure

A *government failure* occurs (1) when government intervention causes scarce resources to be allocated less efficiently than they otherwise would have been allocated, or (2) when the costs of the government intervention exceed the benefits. Government failures may become entrenched, preventing policy makers from adopting more efficient market-based solutions to the problems in question.

Costs (taxes, increased prices, etc.) of government programs or policies



Benefits of government intervention (e.g., program, policy, etc.)

VISUAL 13.3

THREE MAIN REASONS WHY GOVERNMENT FAILURES OCCUR**1. Rational Ignorance:**

Voters may think that it is not worthwhile to take the time and trouble needed to become well informed about issues or candidates at stake in an election. Their vote is not likely to make a difference in an election, anyway, they may believe, so it probably does not matter how they vote, or whether they vote at all. It therefore seems rational to avoid the costs of becoming well informed. Legislators may make a similar decision by declining to take the trouble to learn about the issues at stake in legislative proceedings.

2. Special Interest Group Effects:

Legislators often vote for policies that do not benefit their constituents but do benefit well-organized special interest groups. For example, trade associations may lobby elected representatives to enact tax breaks for the industry that the associations represent.

3. Log-rolling:

Log-rolling is the process by which legislators trade votes. Legislator Kazmarek might vote for a bill that does not benefit her constituency—if Legislator Gonzalas agrees to vote for Kazmarek's bill in return.

VISUAL 13.4

THE COSTS AND BENEFITS OF VOTING

Group	# of students	Project A		Project B	
		Benefits per student	Total Group Benefits	Benefits per student	Total Group Benefits
1		\$100		\$1,000	
2		\$100		\$1,000	
3		\$500		\$0	
4		\$500		\$0	
5		\$1,000		\$0	
Total					

1. If Project A is approved, what are the total benefits to the class?
2. If Project B is approved, what are the total benefits to the class?

VISUAL 13.5

“YOU VOTE FOR MY BILL...”

	(Dollar values in millions)			
	<u>Dairy Subsidy</u>		<u>Medicare Increase</u>	
	Benefits to Constituents	Costs to Constituents	Benefits to Constituents	Costs to Constituents
Eastern Senator	\$5	\$20	\$5	\$20
Midwestern Senator	40	20	5	20
Southwestern Senator	5	20	40	20

VISUAL 13.5, CONTINUED

“YOU VOTE FOR MY BILL...”

1. Which of these bills is economically efficient (i.e., the benefits to constituents exceed the costs)?
2. Which bill will get out of the subcommittee with majority approval?
3. If you were the Southwestern Senator, what could you do to convince one of the other Senators to vote for the Medicare increase?
4. What role does the Eastern Senator play in this process?