

Examples

Farm support

Farming: most subsidized business in EU and N.A.

Reasons:

- Instability of market and prices. Drought, bankruptcy, etc.
- Nat'l food self-sufficiency.
- Farming as 'threatened way of life'.
- Export business (US and Canada).

Types of subsidy and support

Fair price: gov't pays difference between 'actual' and 'viable' price.

Supply management: gov't buys surplus.

Emergency support.

Insurance schemes.

Impact

Farmers increase production

Govt buys surplus, dumps onto foreign markets.

EU sugar surplus = 20% of world market.

Eliminating subsidies → increase value of poor country agric exports by 24%.

Increases farming land values → squeezing small farmers.

Economists' Critique

Not all farmers are poor – cash poor, but have expensive assets that could be put to better use.

Insurance schemes are better.

Winners are large farmers.

Propping up the inefficient farmer. Too many farmers. Moral Hazard.

Policies give large \$ to big, profitable farms.

International division of labor – china WTO , African countries complain of subsidies.

Rent Control: What's the Problem?

Problem: decent, affordable housing.

Why: low supply → high price → protect low-income tenants.

Why shortage a low end of market?

Subsidies for home owners

- mortgage insurance,
- easy credit, RRSP use,
- capital gains exemption,
- deductible mortgage interest in US

Inelastic supply for low-end housing.

High up-front costs, permits, infrastructure.

What is Rent control?

Price control or ceilings.

Restriction on conversions

Residential to commercial.

Vacancy decontrol (partial rent control).

Mandatory standards and repairs.

Criticisms of RC

Controlled prices shrink supply (lowers incentive to invest, increases prices).
Developers rush to homeowner or condo sector.
Subsidized home ownership → bigger houses → increases land and building costs.
Helps those who need it least.

More criticisms:

Hoarding: staying in controlled or subsidized units.
Non-needy clients benefit.
Blocks (poorer) newcomers
Shadow or black markets (unregulated).
Landlord's behavior gets nasty:
Force out tenants.
Aggressive screening for new tenants.

Possible solution

Financial assistance and housing allowances.

Laws and their Enforcement

Criminal law

Deterrence, correction, social protection.
Regulation: administrative law.
Controversies around enforcement:
White collar crime.
More laws or enforcement the better!
Build more jails!

Is an 'Economics approach' toward law enforcement justified?

Why police laugh when you tell them someone stole your bike.
Cost/benefit of more police spending.
Privacy and nuisance costs of more policing.
The 'value' of each crime prevention activity.
Subject to law of diminishing marginal returns, opportunity costs, substitution.

Other factors

Law enforcement and scarce resources.
Laws as responses to loud complainers.
Symbolic and expressive value.
Laws that are never enforced (sodomy, software piracy, lawn pesticides, etc..)

Speeding

Why punish speeding?
Reduce probability of accidents (the 'cost' of speeding).
Why not deter all speeding?
High penalties, jail time, etc.. would be inefficient.
Cost of the penalty exceeds damage done to others.
Right amount of punishment:
Price a rational speeder would be willing to pay to forego the benefits of speeding.

Socially efficient enforcement

Social Cost of Speeding

- Accident cost = \$1,000,000
 - probability of accident from speeding = $1/20,000$
 - Accident cost per speeder + \$50
 - enforcement cost per speeder = \$25
 - Net social cost of speeding = \$75
- \$300 Fine x 25% chance of being caught
- penalty = \$75

Regulatory (administrative) law

Legislators vs. enforcers (inspectors, agencies).

Polluters, workplace or consumer health and safety, taxation, securities regulation

Why are gov't inspectors soft (cooperative) toward violators?

Some regulatory laws are over-inclusive.

Veljanovsky's answer: regulatory law diff from criminal

Violation as failure to act.

Organizations: responsibility is diffused.

Offending behavior has social benefits.

Limited knowledge, technical information of regulators.

'Penalty' threatens: long-term relationships, jobs, transparency, trust, cooperation, sharing info.

Compliance rather than Penalty

Optimum deterrence: some violations cost more to avoid.

Enforcement works more efficiently as cooperation.

Regulation as bargaining framework.

'tough laws' are opening offers, threats.

'Enforcement game' : inducements and rewards

Some examples

Bike registries.

Financial reporting and disclosure rules.

Restaurants and public health inspectors.

Enforcement of academic honesty at York.