

EFFICIENCY

Chapter 3 *Policy Paradox: The Art of Political Decision Making* by Deborah Stone
GROUP 2

Efficiency is “getting the most out of a given input” or “achieving an objective for the lowest cost” are simple definitions of the goal of efficiency.

Efficiency is not a goal in itself.

Efficiency is getting the most out of something.

Like the equal slices of the cake...

No one is opposed to efficiency.

Stone says that everyone would like to attain something of value in the least costly way.

The conflicts arise over three questions: 1. Who gets the benefits and bears the burdens of a policy? How should we measure the values and costs of a policy? And what mode of organizing human activity is likely to yield the most efficient results.

What is often true in the Polis is that inputs are simultaneously outputs. A lot of inputs and outputs are not always quantitative or tangible.

One person’s efficiency is another person’s waste....it always goes back to “how do you define values.”

Example From Library System: Duplication can be seen either as waste or as enhancing ease of use.

It’s very difficult to measure efficiency, things are always changing;

Objectives for public policy are forged in political conflict and are constantly changing.

Scenario: A library’s book collection. Questions arise: What kind of book collection? And good for whom? How do we measure the costs and benefits?

Applying a concept to a concrete policy choice requires making assumptions about who and what counts as important. There are no correct answers to these questions to be found outside the political process. Sides in a conflict can portray their preferred outcomes as being most efficient.

MARKETS AND EFFICIENCY:

The idea that voluntary exchanges are the best way to achieve efficiency is the central tenet of the theory of markets. **Rule: Markets are governed by Contracts.**

Rules of Ownership: Ownership is a right to use and trade something backed up by the state. The legal rules of ownership in a society serve to define what is ownable, by whom, and how. Societies will make sure the rules of ownership are enforced. Rules will always be broken (e.g. prostitution, selling of stolen goods), however, communities will move quickly to curtail such deals because they undermine the trust to a system of exchange.

Two important characteristics of exchanges: 1. it's voluntary, they'll only trade when it makes them better off. 2. they make voluntary exchanges based on price/quality and need. Voluntary exchanges must lead to situations where at least one person is better off and no one is worse off.

Market exchange can be viewed as mystical. The paradox of markets is that all items have two values, 1. market price, 2. and their subjective value. **Both parties are made better off by the exchange** (see p. 69 loaf of bread example)

What goes on in a market is that it converts universal or market value to a higher individual value and thus produces efficiency.

Voluntary exchanges are supposed to ensure getting the most for the least.

In market theory, it is assumed that if all the exchanges in a system are efficient, the result will be efficiency at the societal level or "maximum social welfare."

Economics is all about the idea that only individuals can judge welfare, individuals can judge only their own welfare, and therefore, societal welfare can be defined only as the aggregate of individual situations.

Every exchange should lead to a situation in which the new holders get more value out of the resources than the old holders.

If exchanges make people better off as individuals, they necessarily make society as a whole better off.

Since welfare can be judged only subjectively by individuals, the only concept of social welfare that makes any sense is one that identifies societal welfare with the aggregate welfare of individuals.

The challenges to voluntary exchange fall rather neatly into two groups: ones that accept the basic premise that voluntary exchange leads to efficiency and ones that do not.

CHALLENGES FROM THE MARKET:

Four conditions for a well-functioning market:

- 1. in order for markets to yield efficiency, there must be numerous buyers and sellers of any resource, so that no person or firm can influence the market price....otherwise a monopoly will result.**
- 2. full information about the available alternatives**
- 3. the exchange must not affect the welfare of people who are not a part of the exchange**

4. **The resources must be used individually and used up if they are used at all.**

CHALLENGES FROM THE POLIS:

Exchange is only one small part of a relationship. See Robert Lane P. 73

Important question to consider: what about the whole idea of welfare, happiness, and satisfaction implicit in market theory? **“There are many ideas people undertake for their intrinsic rewards. Often people derive happiness from doing or experiencing something, rather than from the paycheck that is the outcome of exchange.” “Much of the activity people care about falls outside the realm of exchange,” and a society that is viewed in this way fails to capture what are perhaps the most important sources of human happiness and well-being.**

SITE THE CHART ON PAGE 81: challenges to efficiency as a criterion for social welfare

THE EQUALITY-EFFICIENCY TRADE-OFF

See page 84 chart

KEY IDEA IN SUM: Economic policies tend to reconcile equality with efficiency. The idea that the two are incompatible is a politically useful myth for the rich and powerful.

There are 3 reasons why efficiency and equality are thought to be in a trade-off.

1. motivation argument: greater equality through income redistribution to the poor would necessarily lead to less work and lower production.
2. to maintain equality, government must continuously interfere with individual choices about how to use resources, and in doing so, it curbs useful experimentation and productive innovation.
3. The waste argument: illustrated by Arthur Okun, leaky bucket metaphor: any redistributive policy is like carrying money from the rich to the poor in a leaky bucket. The policy question for Okun is how much waste society will tolerate before deciding it is not worth engaging in transfer at all.

PARADOXICAL NATURE OF GOALS: See chart on p. 67. Simple definition: Getting the most output for a given input.

There are six possible things going on at once as depicted in the chart.

Complications in the Polis:

Inputs and Outputs may be going on at the same time:

Output:

1. Who determines what is the correct output goal, or objective of a program?
2. How should we value and compare multiple objectives?
3. How do different objectives or outputs benefit different constituencies or groups?

Input:

4. How should we count inputs (e.g. labor costs) that are simultaneously outputs to

Somebody else (e.g. jobs, for local community)?

5. How should we decide which of the many benefits/outputs of any input to count in the equation?

6. how should we count the virtually unlimited opportunity costs of resources used as inputs?

Reference Library: In one classic essay on efficiency, Herbert Simon speculated on how an administrator might apply the criterion of efficiency to running a public library. He noted: “A “good” public library, from the administrative standpoint, is not one that owns all the books that have ever been published, but one that has used the limited funds which are allowed it to build up as good a collection as possible under the circumstances.”