

The image shows a spiral-bound notebook with a light brown, textured cover. The spiral binding is on the left side. The notebook is set against a light green background. The title is centered on the page.

Efficiency, Market Failure and Social Regulation of Risk:

The background of the slide is a spiral-bound notebook with a light beige, textured cover. The spiral binding is on the left side, and the notebook is set against a solid green background. The text is centered on the notebook page.

Efficiency, Market Failure and Social Regulation of Risk:

*The Good, the Bad, and
the Ugly*

Impediments to Efficiency

IN GOVERNMENT

- Conflicting objectives
- The loss of centralized control
- The threat of success

IN MARKETS

- Market failure
- Ambiguous or unenforceable property rights
- Protectionism
- Bad outcomes

Where Efficiency is Bad

- Trade in immoral commodities
 - Slavery, graduate school and other forms of involuntary servitude
 - Votes? Organs? Ice during hurricanes?
- Denials of fundamental rights
 - Liberty
 - Equality before the law
 - Equality of outcomes?

Whose Preferences?

COLLECTIVE

- Subordinates the people to the State
- Denies diversity
- Rich elites dominate poor and disenfranchised
- Poor are made worse off if forced to abide by preferences of rich

INDIVIDUAL

- Subordinates the State to the people
- Permits diversity
- Poor and disenfranchised may dominate rich elites
- Rich not made worse off, rely on private resources to reduce risk

Preferences and Transboundary Risks

SOUTH

- Low WTP for small risk reductions
- Need to take risks to escape poverty
- E.g., ban on DDT kills thousands of people from malaria

NORTH

- High WTP for small risk reductions
- Poverty not a major risk
- E.g., ban on DDT saves eagles, etc.

Intergenerational Discounting

- Do we get to make only one decision? Are effects truly irreversible?
- If no, then discounting isn't the real issue
- Are asteroids different from GCC? Is natural GCC different from anthropogenic GCC?
- If yes, discounting isn't the real issue
- \$1 trillion in 2100 is worth \$1 billion today
- "This can't be right. Let's use something smaller. How about 0%?"
- Saving 100 lives today = saving 100 lives in 2010, 2020, 2050, or 2100
- Saving for tomorrow is stupid.

Expected Value Uber Alles*

- Ideal: Use risk distributions
 - Generate WTP distribution
 - Calculate opportunity cost of risk-aversion; don't let risk managers hide
- Real: Have “worst-case” risk estimate
 - Results are unreliable and non-comparable
 - Need EV to generate minimum useful result

* With kindest regards to Yacov Haimes.