

ECONOMICS USA
21st Century Edition

Program #13

PUBLIC GOODS AND RESPONSIBILITY:
HOW FAR SHOULD WE GO

AIRSCRIPT

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Annenberg Learner (Logo and Music)

NARRATOR: FUNDING FOR THIS PROGRAM IS PROVIDED BY ANNENBERG LEARNER

DAVID SCHOUMACHER: It was 1927. Once again havoc reigned throughout the Mississippi and Tennessee Valleys. In the midst of a Great Depression, Congress created the TVA...a federal project to control the ravages of the great Tennessee River. Why would anyone object? Medical advances have added years to the lives of Americans...but not everyone can afford the high cost of today's medical care. So why shouldn't the government guarantee a minimum level of health care? And following the attack of 9/11, was the Fed's takeover of airport security justified?

DAVID SCHOUMACHER: We don't all agree on the proper role and desirable size of government. Some feel government has gotten out of hand, while others feel we're not doing enough in the right places. Public Goods and Responsibility: How Far Should We Go? We'll examine that question with the help of economic analysts Nariman Behravesh and Richard Gill on this 21st century edition of Economics USA. I'm David Schoumacher.

(MUSIC PLAYS - SERIES OPENING TITLES)

PART I

DAVID SCHOUMACHER: We can all enjoy the benefits of public services such as museums, schools, and highways, but somehow they have to be paid for. And they

are...most often in the form of taxes. One of the central questions about these services is why the government must provide them. Why can't we rely instead on the free market? It's a controversial question, as we see in the case of private utilities versus the TVA.

The great Mississippi flood of 1927 left 800,000 homeless as the swelling waters overran levies throughout the Tennessee River and into the Mississippi. Thousands of acres of farmland were damaged, turning northern Louisiana into an inland sea. Secretary of Commerce, Herbert Hoover, called the flood the greatest peacetime calamity in the history of the country. The disaster was predictable. The Mississippi had flooded before. Local authorities attempted to provide flood control, but their efforts were uneven and the levy system is only as strong as its weakest link. A technical solution, the building of dams, could have prevented the flood. In the absence of initiatives from the private sector, some legislators felt that federal funds ought to be used. But they faced tough opposition on Capitol Hill. Dams not only control floods, but they can be used to generate large amounts of hydro-electric power...and that presented a threat of competition to the private utilities.

ALVIN VOGTLE: "To justify the heavy expenditure of money required to build all these dams, there had to be something else like the sale of electricity...and that would be produced by these hydro-electric units which were going to be installed in the dams. And it was that feature which caught the eye of the people who opposed TVA because they thought that was a function the government ought not to engage in."

DAVID SCHOUMACHER: The private utilities were successful in their opposition until 1933 when a new administration, with an activist view of the role of government, came into power. Franklin Delano Roosevelt created the Tennessee Valley Authority...the TVA. William Jennings Randolph was a member of Congress during the Roosevelt Administration.

WILLIAM JENNINGS RANDOLPH: "The Tennessee Valley Authority was a product of the so-called 'New Deal.' It was a long-range program...It was not doling out some

money here and there...It was the planning of an area in the United States of America where there would be a development. Of course...hydro-electric power...that was a part of it.”

DAVID SCHOUMACHER: The plan to provide economic development to the Appalachian region began with the construction of the Norris Dam on the Clinch River. The TVA plan was ambitious. The regional economies could be improved if the waters were made navigable and goods could flow all the way to the Gulf of Mexico. The TVA constructed housing, began a malaria control project, worked on agricultural development and provided electrical power to this depressed region. Some thought the government was now going too far. Along with the utilities, others who feared economic loss joined in the opposition. Coal miners feared the TVA’s generation of hydro-electric power would cut into the demand for coal.

WILLIAM JENNINGS RANDOLPH: “I remember when the coal operators and the coal miners of West Virginia came to Washington, D.C. And they were very angry at me because I was an open supporter of the legislation to create the Tennessee Valley Authority. And they said, ‘This will rob us of hundreds and thousands of jobs if this is done over a wide area, turning these rivers into lakes and productive areas for the power systems. That will not stop in the Tennessee Valley Authority,’ they said, ‘but will go out into other regions of the United States.’ So they looked upon it as something that they must oppose...And they did so, vigorously.”

DAVID SCHOUMACHER: The TVA argued that flood control was its primary goal...and the revenues from energy sales only assisted in financing the dams. The opposition argued that the government had no right being in the power business. Within 5 years some 57 suits were brought against the TVA. Finally, in 1937, the legal issues were resolved. The U.S. District Court upheld the TVA, ruling that the projects were primarily for the improvements of navigation and flood control. The legal case was over, but the political issues lingered. On one hand, TVA had harnessed the great flood waters of the valley, spurring other economic activity in this once deeply depressed region. On

the other hand, utility companies continued to claim that the TVA was an element of “creeping socialism”. We asked economic analyst Richard Gill: How do economists determine the extent of government involvement in a free-market society?

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(MUSIC PLAYS - COMMENT AND ANALYSIS I)

RICHARD GILL: As far back as Adam Smith in the 18th century, even economists devoted to the principle of a private market economy have recognized that there are certain areas that virtually require government intervention. Put crudely, if Uncle Sam won't do it, no one else will. The TVA project of the 1930s had many different aspects but, in one respect, it clearly met this test. It provided what economists call a public good...A good that has to be provided collectively or not at all. I am speaking here of the flood control and navigation improvements made possible by the TVA dams. These improvements were in the interests of society, but they would not have been in the interests of private individuals or businesses. Why? Well, for one thing, the benefit of flood and navigation control was spread over the entire region and not limited to a few paying customers. Flood control protects me and my neighbor and thousands of others in the region and, for that matter, thousands more who may move in after the dams are built. This is a general indivisible benefit and, whether it is enjoyed by a thousand or a million people, the cost of providing it is unchanged. And the real problem with a public good like this is that it is impossible, or certainly extremely difficult, to charge any private consumer for the benefit he is receiving. My neighbor decides to pay for flood control, but I do not. There is basically no way in which I can be excluded from the benefit of his flood control. Just as there is no way in which I can be excluded from the benefits of, say, a nationwide polio vaccine program, or...the most obvious case of a public good...national defense. Invasions of flood waters, contagious diseases or foreign armies can rally be handled only in one way: collectively. Public goods provide one clear reason for government intervention in the economy...a point on which virtually all economists can agree!

PART II

DAVID SCHOUMACHER: Our country has accepted the need for the government to provide public goods like dams or traffic lights, local police and national defense, but that by no means covers all questions of government involvement in our lives. What, for example, are the responsibilities of government to people who can't afford necessities like decent housing or food...or the subject of this investigation, health care?

Health care costs have risen astronomically over the past few decades. Most of us cope with the high cost of medical care through insurance...a way of sharing the risk of high medical bills. But not everyone has medical insurance. Those without it face being turned away from emergency rooms or being dumped to public hospitals many miles away. It is no secret that low income people go without adequate medical services and have a shorter life expectancy as a result. Health care used to be within one's means. But, in the 1940s, health care costs became more expensive as medical technology advanced and grew more specialized. In the process, the cost of medical care went beyond the means of most families. The marketplace offered one solution...private insurance coverage under the Blue Cross/Blue Shield Programs. By the end of World War II, only half of the population was protected by some form of hospital insurance. But many, particularly the aged, the poor and those without jobs, had no coverage at all. In 1946, President Harry S. Truman called for national health insurance to cover all Americans. But his program didn't make it through Congress. Its passage was blocked by the American Medical Association. AMA President, Dr. James Sammons...

JAMES H. SAMMONS: "I think the AMA's opposition was in great part responsible for helping defeat the Truman plan and some other plans that have come down the line. If the doctors of this country had agreed with those plans, I think they would now be in place. On any national health insurance program that is proposed, the AMA is going to have the same objections that we've had all along. It does interfere in the doctor/patient relationship...It does not guarantee quality of care...It is a form of rationing...It would be incredibly expensive if it were attempted on a national basis...and there is not a need for it in this country."

HENRY AARON: “Well, that question’s one that’s been debated long and hard and I really think the evidence and the arguments on behalf of the government role are overwhelming. They range from the fact that for a variety of reasons we have decided, in all developed societies, that at the time people become ill we are not going to require them to pay for the full cost of the services that they receive at that very time.”

DAVID SCHOUMACHER: As the costs of medical care grew, more and more favored some kind of government action. Wilbur Cohen, former Undersecretary HEW...

WILBUR COHEN: “In 1950, when I was the Director of Research and Statistics for Social Security, the Federal Security Administrator asked me if I had an idea as to how to get out of the inactivity we were in, and I said, ‘Yes, I had an idea...Instead of covering everybody, why not cover just the aged who were receiving Social Security?’ He thought that was a good idea and he asked me to draft the Bill, so, in 1950-51, I drafted that sort of a Bill for him and it was introduced in Congress in 1951, 1953, 1955, 1957, 1959, 1960...But in 1959 I persuaded Senator John f. Kennedy to be for the idea and that’s what changed the whole situation. Kennedy and Johnson, in the campaign of 1960, came out for Medicare...Kennedy appointed me the Assistant Secretary of HEW to get the Bill through Congress...I spent 5 years doing that.”

DAVID SCHOUMACHER: Finally, in 1965, during the Great Society era, Medicare, an insurance program for those 65 and older, and Medicaid, a joint federal-state health program for the poor, were passed. President Lyndon Johnson flew out to Independence, Missouri, and, in the presence of Harry S. Truman, signed the Bill into law. Many were aided by these programs. Medicaid covered the health care costs of millions of low income people. We asked Henry Aaron if that met our responsibilities to those who couldn’t afford medical care.

HENRY AARON: “This wouldn’t be a problem if all states provided benefits as generous as those in, say, the upper third or upper half of the distribution. Some states in

the United States, however, provide extremely meager Medicaid benefits...fewer than ten days a year of hospitalization, severe limits on the number of doctor's visits one can receive, a narrow range of services covered...so that even moderate illnesses may not be fully protected under the Medicaid Program. In addition to which, the population that may be served by the Medicaid Program in many states is really quite narrowly defined. So notwithstanding the fact that Medicaid is the federal health program for the poor, millions of poor Americans, in fact, are not covered by Medicaid benefits and, in fact, are not covered by any benefits of any type at all. They don't have government protection... They don't have private insurance because they have been out of work or because they work in types of jobs that do not provide such coverage...and the result is that on the order of 15 to 20% of the American population at the present time has little or no health insurance protection, either through private insurance or through government programs.”

DAVID SCHOUMACHER: In the 1970s, the cost of Medicare and Medicaid mounted. As the burdens on state governments increased, the programs ran into criticism from state Governors like Ronald Reagan...

RONALD REAGAN: “We find that Medi-Cal, as we call our Medicaid Program in California, is increasing by 50% a year. In its first sixteen months it was budgeted for 746 million dollars...But 876 million dollars were spent, meaning that this program went 130 million dollars in debt in that limited time. And we've been informed that debt has to be paid off out of this year's working budget. We're in deep trouble in this phase of welfare. In California alone, hastily drawn legislation in this field can bankrupt our state unless we have major revisions.”

DAVID SCHOUMACHER: In 2010, Congress passed, and President Barack Obama signed landmark legislation to expand health care benefits, including a provision to provide care for all Americans. Then in 2011, as the nation faced a budget crisis and many objected to “individual mandate” provisions, the new Health Care Reform Act reignited a firestorm of controversy. We asked economist Richard Gill if there continues to be an economic rationale for government subsidized health care.

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(MUSIC PLAYS - COMMENT AND ANALYSIS II)

RICHARD GILL: The fundamental argument for government subsidized health care for the elderly, and especially for the poor, is that a market economy doesn't distribute income in the way most people consider fair and desirable. Mind you, a market economy does have its own principle of income distribution, and it isn't an insignificant one. Very generally, a market economy pays people more...the more economically productive they are. This isn't a trivial principle: It probably does keep the productive process running rather smoothly and this ultimately provides more abundance for all of us. However, a lot of people can get left out in this process and the instance of people who are both poor and ill is a clear case in point. When a poor person gets seriously ill, his already low productivity suffers a severe blow while, at the same time, his need for support mounts sharply...often catastrophically, in fact, given today's monumental medical costs! What the Medicaid Program says, in effect, is that this burden is too great for any individual to bear by himself. The market may have a just appreciation of abilities but it doesn't have a just appreciation of needs. Society has to step in. Of course, there is always some cost to this. When you start redistributing income, you are increasing tax burdens on the economically more productive groups in the economy. Also, Medicare and Medicaid Programs do have a tendency to up medical costs generally. As in so many economic issues, the question isn't "whether," but "how much?" A question not infrequently raised during the past decade.

PART III

DAVID SCHOUMACHER: Until 2001, security on planes and in airports was handled by airport managers and airline companies. Passengers moved swiftly from ticket lines to airplane seats. There were times when tighter security measures became necessary. But soon air travel returned to normal. Then came 9/11 and everything changed. Why did the

federal government decide it was time to take airport security away from the private sector?

Not too many years ago, you could show up without a reservation, buy a ticket at the airline counter, check your bags and walk onto a plane. Then on the morning of September 11, 2001, nineteen terrorists breached security checkpoints and boarded four commercial airlines. Within hours, two planes crashed into New York's World Trade Center. Another plane crashed into the Pentagon. The events of 9/11 were a wake-up call for a much-needed check-up on America's airline security. The question was: can airport security be left in the hands of the airlines?

SEN. JOHN MCCAIN: "The present situation is not acceptable. The people who now do these jobs are underpaid and ill trained. At least partial federalization, at least the top 140 airports in America should have federal employees carrying out these very vital functions of insuring security at airports."

SEN. JOHN KERRY: "We need to have a system that has a national standard with national employees, not unlike a border patrol or customs."

DAVID SCHOUMACHER: The discussion continued in the halls of congress for another two months...

REP. LEE TERRY: "'Until now, airlines have been in charge of security at our airports. They, in turn, for the lowest bid ...hire companies...'"

REP. STEPHANIE TUBBS JONES: "We need to enact legislation that will federalize the airline security personnel. ..."

SEN. JAY ROCKEFELLER: “Law enforcement has to be fulfilled by the federal government. Everybody agrees on that...”

REP. JACK KINGSTON: “The issue is protecting my children, my family, my loved ones, and your business associates and loved ones, when they travel.”

DAVID SHOUMACHER: The economic debate over government’s takeover of airline security was not as one-sided as the political debate. Was security a public or private good? Congress seemed to be saying it was a public good.

PETER VAN DOREN: “There are two features of goods – the ability to restrict consumption to those who pay for them, and whether consumption is rivalrous or not. Private goods are, you can restrict consumption to those who pay, and consumption of the good is rivalrous and here’s where we go to the airlines. Should airlines provide their own security, then the question is: are they pure public goods? i.e., you can’t restrict consumption to those who pay, and consumption is not rivalrous.”

ALICE RIVLIN: “ I would consider airport security a public good. It’s protecting the public that flies and the public that’s in buildings or wherever...that might be flown into. Clearly we have an interest in not having another 9/11 or 9/11-like incident.”

DAVID SCHOUMACHER: With the passage of the Aviation and Transportation Security Act, competition between airlines over security was ended.

PRESIDENT GEORGE W. BUSH: “The events of September the 11th were a call to action and the congress has now responded. The law I will sign should give all Americans greater confidence when they fly. For the first time airport security will be a direct federal responsibility.”

DAVID SCHOUMACHER: The federal government spent millions to improve airline security. Cockpit doors were reinforced... armed undercover officers were placed on passenger flights. Many carry on items were banned, and checked baggage started flowing through an explosives detection system.

Not only would the federal government pay for increased security, they would also provide it through the transportation security administration. Airport security personnel more than doubled. This massive overhaul forever changed air travel. No longer can a passenger show up 10 minutes before take off and walk on a plane.

How is it working for passengers?

PASSENGER 1: "It's the age we're in now and not that we like it, but we have to live with it."

PASSENGER 2: "It's kind of annoying, but if it's for the safety of the aircraft, I'm for it."

PASSENGER 3: "Probably don't mind taking my shoes off, I think the machines and all, seems like it's getting a bit beyond where I'm comfortable."

PASSENGER 4: "I have no problem taking my shoes off, taking my belt off, giving them my cell phone and letting them see it all."

DAVID SCHOUMACHER: When full body scanners were introduced, the issue of who should provide airline security was again in the news. Would the private sector do a better job, for less?

PETER WALLISON: "If we turn it back to private enterprise, there could be a concern that the airlines would be more interested in getting the passengers through security quickly, than making sure that those passengers are fully vetted in the security process, and if you look at it in terms of which would be better overall for travelers, and for the airlines I think the answer would have to be on balance the government should probably

be doing that.”

DAVID SCHOUMACHER: What we go through in the name of security when we board a plane is inconvenient and occasionally invasive. But convenience and privacy are no longer the driving forces in deciding who is responsible for keeping us safe when we fly. We asked Nariman Behravesch to explain why.

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(MUSIC PLAYS - COMMENT AND ANALYSIS II)

NARIMAN BEHRAVESH: Economists classify a good as a public good if it satisfies two conditions. First in the jargon of economics, is it non-excludable? That is a good or service for which people who are not paying for it can still use it. Second, in the jargon of economics is it non-rival? Does one person’s use of it diminish other people’s use of it? National defense is a classic example of a public good. Everyone is protected and it is impossible to prevent any single person from benefiting from that protection.

It is difficult to determine how much a public good is worth to each individual because they may be able to benefit from it without having to declare how much it is worth to them. This is called the “free rider problem.” Most economists agree that airline security is a public good. It benefits everyone jointly and you can’t prevent someone who is not paying for it from being covered by it. No surprise then, that before 9/11, a lot of people did not want to pay the extra cost of security and the airlines did not force them to. Instead the airlines cut costs and, in the process, reduced the effectiveness of security. Free markets almost always “under-supply” public goods. The solution to correct this type of “market failure” is to have the government provide the good or service and to tax people in order to pay for it. While the current system of publicly provided airline security has been no panacea, the record, in terms of the prevention or more terrorist attacks speaks for itself.

DAVID SCHOUMACHER: From the time of the founding of this nation, it has been

recognized that despite the advantages of the free enterprise system, there are certain goods and services that the market will not provide. So it has generally been accepted that the government will provide those services. The government's responsibilities have evolved, however, pushing beyond the economically well-defined reasons for government involvement into broader social arenas. How far we should go in this direction depends on the public's perception of the needs—of the effectiveness of the government in serving them—and of course, our willingness to pay. For the 21st-Century Edition of Economics U\$A. I'm David Schoumacher.

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