

May 2007

## **Markets vs. Government**

*Government intervention is often called for when markets do not perform well. Presenters at this event revisited the important debate about the appropriate role for markets and government. Clifford Winston summarized his new Joint Center book, *Government Failure vs. Market Failure: Microeconomics Policy Research and Government Performance* (AEI-Brookings Joint Center, 2006). In his book, Winston describes how government efforts to improve market performance have turned out in practice. He also suggests how to improve government policy. Newt Gingrich offered his views on how government can and should complement markets.*

### **Clifford Winston**

#### **AEI-Brookings Joint Center**

The point of *Government Failure vs. Market Failure* is that we ought to get both government and markets to perform as well as possible. When a market fails to allocate resources efficiently, it may be appropriate for the government to intervene. An ill-conceived or unnecessary government intervention, however, may have costs that far exceed the problem the intervention was designed to address. Accordingly, there is much debate about when and how the government should attempt to address market failures.

Among scholars of market failures and solutions, there is broad agreement that government intervention is often inadvisable. Interventions, however well-intended, have often done more harm than good. This is due in large part to the market's ability to self-correct. It is also due to the political process: rulemaking agencies are bureaucratic and often slow-moving, and interest groups have significant political clout.

The point is not that the government should never intervene; rather, it is that market performance is better than is generally recognized, and that intervention intended to improve efficiency should be based on thorough evidence and sound analysis.

### **Newt Gingrich**

#### **AEI**

Many government interventions and policies are poorly devised and therefore incredibly costly. When government does intervene, it should strive to implement market-based solutions. An excellent example of this is current Medicare prescription drug coverage. Under this new market-based system, drug vendors are forced to compete for business. The result is more choice and greater convenience for seniors, at a lower cost to the government.

*Government Failure vs. Market Failure* provides the appropriate framework for implementing policy. Careful empirical analyses should be conducted to determine the optimal course of government action. These analyses will typically reveal that relying on a market mechanism of some type will provide the most public bang for the government buck.

*Joint Center research assistant David Burk prepared this summary.*