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Politics without Romance: Government Failure in the Introductory Economics Course

Amy M. Willis
Liberty Fund, Inc.

John Morton
Arizona Council on Economic Education

Abstract
Although most high school and college principles of economics courses cover market failure extensively, they underemphasize government failure at best and often overlook it entirely. For example, four released Advanced Placement microeconomics exams have thirty-nine questions on market failure. The closest the exams come to questions on government failure are nine questions on price ceilings and floors. This paper explores the problem and offers suggestions for infusing public choice economics into the introductory economics course without the use of a textbook.

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I. The Problem

> The orthodox theory of exchange in private goods is not itself the source of major confusion about the role of the state. The same cannot be said of the complementary theory of public goods.
> —James M. Buchanan, *The Limits of Liberty*, pp. 46–47

The concept of government failure is not new to free-market educators. Nevertheless, the concept hardly exists in the materials used in introductory economics courses. At best, they underemphasize government failure, and they often overlook it entirely, especially when considering the concept relative to the theory of market failure. It would be easy, perhaps too easy, to blame the absence of coverage of government failure on the fact that most introductory-level economics courses are taught by self-serving government employees. While not ruling this explanation out, we submit that the answer is more complex.

The purpose of this paper is fourfold. First, we will look at some major indicators of the content of introductory economics courses to show the conspicuous absence of the concept of government failure. Next, we will offer some possible explanations of this absence. Third, we will offer a strategy to infuse public choice concepts into introductory courses, and finally, we will recommend materials available to educators who want to teach about government failure in their introductory courses. We lump together high school economics courses and university principles courses. Both are introductory courses in economics. For many students the high school course is the only economics course they ever take.

As typically defined, market failure generally includes any instance of market inefficiency. Common examples of market failure are monopolies, public goods, externalities, noncompetitive markets, and information asymmetries. The theory further assumes that because markets are not functioning as well as desired in these instances, government should intervene to provide a better, more allocatively efficient outcome. As of September 2010, The Advanced Placement (AP) microeconomics course includes four topical units: I. Basic Economic Concepts, II. The Nature and Function of Product Markets, III. Factor Markets, and IV. Market Failure and the Role of Government. The fourth unit accounts for nearly 20 percent of the course. One might expect to find the concept of government failure in this unit, but it is entirely absent. Here is the College Board's (2012) description of what students should understand about market failure and the role of government:

> It is important for students to understand the arguments for and against government intervention in an otherwise competitive market. Students examine . . . the ways in which externalities, public goods, and the market distribution of income create market failure even in competitive free-market economies. In addition, students are expected to study the effectiveness of government policies such as subsidies, taxes, quantity controls, and public provision of goods and services, which are designed to correct market failures and achieve economic efficiency. It is also important to emphasize that

> monopolies can cause market failures when they use their market power to engage in behavior that restrains competition and to examine the government's attempt to solve such problems by using antitrust policy and regulations.

The AP microeconomics exam follows the course description. Every five years, the College Board releases a microeconomics exam and a macroeconomics exam. An analysis of the four released microeconomics exams (Ferrarini, Gwartney, and Morton 2011, p. 64) shows that the test includes the following:

- 14 questions on market failure
- 0 questions on public choice theory and government failure
- 19 questions on monopoly behavior
- 0 questions on the benefits of private property protection
- 0 questions on the benefits of economic freedom
- 5 questions on income redistribution
- 9 questions on price ceilings and floors

Students enrolled in an AP microeconomics course would conclude that markets fail and government corrects this failure.

Fortunately, the Voluntary National Content Standards in Economics by the Council for Economic Education (2010) does give attention to government failure.

Not all high school courses adhere to these content standards. Most states also have their own content standards, some conceptually closer to the national standards than others. Nonetheless, this paper assumes that most high school economics courses are generally guided by the CEE standards. Two of the twenty standards are of interest here, including one devoted exclusively to government failure:

> *Standard 16: Role of Government and Market Failure*
>
> Students will understand that: There is an economic role for government in a market economy whenever the benefits of a government policy outweigh its costs. Governments often provide for national defense, address environmental concerns, define and protect property rights, and attempt to make markets more competitive. Most government policies also have direct or indirect effects on people's incomes.

> Students will be able to use this knowledge to: Identify and evaluate the benefits and costs of alternative public policies, and assess who enjoys the benefits and who bears the costs.

Standard 17: Government Failure

> Students will understand that: Costs of government policies sometimes exceed benefits. This may occur because of incentives facing voters, government officials, and government employees, because of actions by special interest groups that can impose costs on the general public, or because social goals other than economic efficiency are being pursued.
>
> Students will be able to use this knowledge to: Identify some public policies that may cost more than the benefits they generate, and assess who enjoys the benefits and who bears the costs. Explain why the policies exist.

While the standards, especially Standard 17, are encouraging, public choice scholars should curb their enthusiasm. The problem is twofold. First, there is a tremendous dearth of introductory-level materials for teaching the concepts of public choice, "politics without romance," and government failure in particular. Second, the idea of market failure is *too* present and accepted without due skepticism. Some public choice scholars would argue that even declared students of public choice have yet to integrate its lessons into their public policy courses. Therefore, it is not surprising that the practice has yet to trickle down to the introductory level.

In fact, public choice theory has been more integrated into public policy than into the introductory economics course. Price controls, for example, are not instituted nearly as often or as quickly as they have been in the past. There is a rise in what Tullock (2005) calls "the very local government," organizations such as homeowners associations that perhaps are a more optimally sized governmental body for making binding decisions on members. And there are examples of market-based policies in place, particularly in regard to the environment, such as emissions-trading programs. That at least some skepticism about the efficacy of direct intervention has permeated policy discussions has two implications. First, imperfect market outcomes do not necessarily require government interventions. They may rectify themselves over time, or there may exist alternative market mechanisms that arrive at better solutions than regulations would. Second, it may be more possible than ever to discuss the efficacy and desirability of government decision-making processes themselves with an eye toward making them more efficient (Tullock, Seldon, and Brady 2005, p. 12). But how much *more* success might we achieve were the notion of government failure more widely recognized?

Students in mainstream economics courses learn that markets emerge spontaneously out of the self-interested behavior of their variety of participants, and these emergent markets share two critical features. The first is that the contractual nature of exchange reduces transaction costs to a minimum. Second, there is some critical mass in terms of the size of the market, and individual exchanges are embedded within this network of multiple alternatives. Market and government failure cannot be considered without looking at the role of the state generally.

Contrary to the usual simple list of functions, the work of James Buchanan gives us an effective lens through which to view this question. Buchanan and his fellows in the public choice tradition criticize both mainstream economics and political science for failing to identify the incentives of those in office and for simultaneously overemphasizing the incentives and behavior of consumers. Buchanan sees politics as the process of compromising our differences, rather than politics as "truth-judgment." But of course the way in which the state engages in exchange is starkly different from the way in which individuals in market settings participate in exchange.

Exchange in public, or collective, goods presents a different scenario from that in markets insofar as each person involved in the exchange has the incentive to free ride. "The thrust of the modern theory of public or collective-consumption goods is the demonstration that markets fail to emerge and to produce tolerably efficient results when potential contracts require the simultaneous agreement of many parties. Neither of the efficiency-generating elements of private-goods markets is present in the pure public-goods model," write Tullock, Seldon, and Brady (2005, p. 50). And here is one place where Buchanan and traditional theory part ways. For example, Buchanan argues that the "free-rider problem" is overly simplistic in that it implies much more strategic behavior than individuals usually are able to employ. "Strategic behavior designed to conceal from others the individual's true preferences for the public good will take place, however, only if the group itself is small and if the individual recognizes that his own behavior can affect others," Buchanan writes (2000, p. 49). These are hardly the sorts of conditions typically seen in collective goods situations.

Hence, Buchanan, like mainstream economists, acknowledges a limitation of markets in public goods exchange. "Exchanges in genuinely public goods will not be consummated voluntarily in the same institutional framework that facilitates exchanges in private goods," Buchanan writes (2000, p. 50). Here seems to be the crux of the problem: the existence of market failure. Thus far, both Buchanan and introductory course curricula are generally in agreement.

The typical course presents students with a binary choice—markets or the government—but there is a definite causal bias. That is, the curricula assume that if and when markets do not work as we desire, then government intervention is the answer. Most introductory courses acknowledge that markets are imperfect. But if our policy choices are only two, how can we admit the possibility of one failing and not the other? An assumption of government failure must at least be implicit. That is, if governments never failed, it would follow that texts should argue against market allocation in *all* instances, and instead prefer state allocation. They do not.

But not including any reference to government failure is tantamount to admitting just this. When there *is* mention of government failure in introductory curricula, the existence of market failure is taken as given. However, when we think we see a market failure, there are two questions we must ask. First, is what we are seeing *really* a market failure? Put another way, is there sufficient reason for the government to intervene? Only if we have answered the first question affirmatively can we move on to the next question: Is the government policy an improvement over the market's performance (Winston 2006, p. 2)? However, introductory course materials never ask the first question. And where the concept of government failure is introduced, it is typically defined as an instance of an intervention whose costs exceed its benefits. Indeed, this would qualify as an example of government failure, but it does not suffice as a definition. An equal example of government failure is an instance in which the intervention's benefits exceed the costs, but in which an alternative mechanism might have achieved even lower costs, rendering the net benefits higher still.

So there are at least three ways in which it might be desirable for students to recognize government failure. First, government intervenes when such an intervention is unjustified in the first place. Second, the costs of the intervention exceed its benefits. Third, an alternative policy would have incurred lower costs. To treat government failure and cost-benefit analysis as synonymous does a disservice to the contributions public choice scholars have made to the field, and, perhaps more importantly, does not paint a realistic picture of the world for students.

Further, there are philosophical questions about the role of government that have gone unanswered for too long. What should be the benchmark for evaluating intervention: efficiency or liberty? In other words, is a Pareto-optimal intervention satisfactory despite the inherent coercion? At what point does the net loss of liberty in a program of state intervention become a concern? Philosophy aside, how can instructors assist students in evaluating interventionist policy? The real point of introducing students to the basic insights of public choice is to enable them to ask more and better questions.

II. An Economic Way of Thinking

Another weakness of introductory courses is their failure to focus on economic reasoning. Instead, most courses focus on mechanics. "The Guide to Economic Reasoning" (Council for Economic Education, 2003) has long been a popular teaching tool for high school teachers. The guide emphasizes choice-making, costs and benefits of choices, incentives, gains from voluntary trade, and the direct and unintended consequences of decisions. Specifically, "The Guide to Economic Reasoning" makes these points:

1. People choose. People choose the alternative that seems the best to them because it involves the least cost and the greatest benefit. People economize.
2. People's choices involve costs—monetary costs and opportunity costs. Opportunity cost is the second-best alternative people give up in making a choice.
3. People respond to incentives in predictable ways. Incentives are benefits or rewards that encourage people to act. When incentives change, people's choices change.
4. People create economic systems, and these systems influence incentives and people's choices. How people cooperate is governed by written and unwritten rules. As rules change, incentives change and choices change.

5. People gain when they trade voluntarily. People can produce more in less time by concentrating on what they do best. The surplus goods or services they produce can be traded for other valuable goods or services.
6. People's choices have consequences that lie in the future. The important costs and benefits in economic decisions are those that will appear in the future. Economics stresses the importance of making choices about the future. People cannot choose to change the past.

Public choice, "politics without romance," begins with the assumption that political actors are the same as market actors in that they are guided primarily by their own interests. Indeed, political actors are also market actors in some aspects of their lives, and vice versa. Therefore, it is wise to insist that students compare the goals of any government intervention, which are ostensibly public, with the means the government has at its disposal to meet them, namely the private self-interest of the persons charged with designing and implementing the intervention. This fundamental insight allows the focus of public choice analysis to be on the individuals making decisions, rather than on some ambiguous entity such as "the government." And, as in the economic way of thinking, incentives are king; public choice analysis recognizes the differences in the *kinds* of incentives that might influence individuals in their roles as political and market actors, particularly in situations of collective choice.

The idea of the knowledge problem is another commonality in public choice and the economic way of thinking. In public choice, the costs of obtaining and acting on information become very important. That is, even when information is available, it may not be in the individual actor's self-interest to follow up on it.

III. A Public Choice Guide to Economic Reasoning

Students might examine proposed or existing government interventions by using a "Public Choice Guide to Economic Reasoning." Teaching students the principles of public choice is teaching students how to ask the right questions. The key assumptive questions for this public choice guide could be as follows:

1. What is the problem? What problem is the state is seeking to solve, or what is the supposed market failure?
2. What is the proposed solution? The answer could take the form of either a proposed intervention or one already on

the books, depending on the "problem" under examination.

3. Who has an interest in the answer? The question asks students to consider who the interested parties would be. Who (which interest groups) stands to gain from the proposal, and who might be opposed? At this point, the instructor can emphasize the issue of concentrated benefits and dispersed costs. The instructor would not ask students to identify only those interest groups that would take action on this matter, but any who would be impacted by it, whether positively or negatively. In fact, part of the point of this question is to identify those parties who likely would *not* take action against the proposal, as the cost to each as an individual is not large enough to offset the costs of taking action.
4. What are the costs and benefits arising from the proposed solution? This question continues the discussion of question 3 regarding the proposal's costs and benefits by asking students to specify the gains those in favor of the proposal stand to reap as well as the costs to those opposed. Attaining great specificity here is challenging, and perhaps impossible. For example, how can we precisely measure the opportunity costs of lobbying? What might these lobbyists be doing—that is, producing—were they not expending resources on lobbying? Encouraging students to look at both the explicit and implicit costs of the proposed intervention is critical.
5. What alternative solutions might be proposed? Here students are asked to think of alternative policy proposals, even in the form of alternative means of intervention. Implicit in this task is an evaluation of which intervention, the original or an alternative, we should prefer. A separate but related question is which option is more likely to be adopted, and why?

IV. Using the Public Choice Guide to Economic Reasoning: A Brief Case Study

The Public Choice Guide can be used to analyze a wide range of government policies, such as tariffs, quotas, environmental regulations, defense spending, entitlements, educational policy, health care, farm subsidies, and green subsidies. An analysis of the 2007 Energy Independence and Security Act (Pope 2012) illustrates how the Public Choice Guide can be used.

1. What is the problem?

Lawmakers responded to the concerns of several groups. Lower pump prices for gasoline, energy independence, reduced use of nonrenewable fossil fuels, and a cleaner environment would all be positive outcomes for the American economy. Decreasing dependence on foreign oil, cutting greenhouse emissions, and paying less for gasoline would delight most American voters.

2. What is the proposed solution?

The 2007 Energy Independence and Security Act requires that a certain volume of ethanol be blended into gasoline. Each year, the volume of ethanol in a gallon of gas is scheduled to gradually increase. In 2012, 15.2 billion gallons of ethanol (mainly derived from corn) had to be blended into the nation's supply of gasoline regardless of the price of oil or the price of corn.

3. Who has an interest in the solution?

Corn farmers and ethanol producers have a large interest in producing ethanol. Farmers are partners in ethanol plants across the Midwest. Environmentalists could tell their constituencies that cleaner air is on the way. Consumers are helped by lower gas prices because the supply of gasoline produced from corn in the United States would rise. Oil, natural gas, and coal companies are not beneficiaries.

4. What are the costs and benefits arising from the proposed solution?

The major benefit was purported to be energy independence. In 2011, ethanol displaced 655,000 barrels of imported oil. Unfortunately, in an energy crisis, ethanol production cannot be ramped up because it takes time to grow corn. Some studies show that the price of gasoline is slightly lower because of ethanol use.

The costs, however, are greater than the benefits. Forty percent of the United States's annual corn supply is used to produce ethanol. The price of a bushel of corn increased from about $2 in 2005 to over $8 in 2012. The price of corn impacts the price of other foods, including beef and pork. Further, farmland that was once used to grow other crops has been converted to corn, further increasing prices across agricultural commodities. There have been riots over tortillas in Mexico because of their dramatic rise in price due to the rising price of corn.

The law's effect on the environment seems to be miniscule. While fossil fuel use in gasoline has decreased, carbon dioxide emissions also are released when corn is planted, plowed, fertilized, harvested, and delivered to the ethanol plant. Many environmental groups that once supported ethanol mandates now oppose them. Nevertheless, President Barack Obama and politicians of both parties support the ethanol mandate.

Additionally, the study of the ethanol market can illustrate that policies have both direct and indirect results. Any discussion of this situation should note that corn farmers and producers receive large direct benefits, while the costs that consumers worldwide pay are indirect, less observable, and a smaller percentage of each person's income.

5. What alternative solutions might be proposed?

One alternative would be to rely more on market incentives to find oil and natural gas. Market incentives also might find more cost-effective alternative energy sources such as wind, solar, and nuclear energy.

The point of such an exercise is to get students to focus on the incentives and interests equally inherent in politics as in markets and to help students recognize that political actors respond to incentives in much the same way as anyone else. Further, that politicians do so is not to their individual discredit; as fellow humans, we should expect no different. Nor should we expect that "if only" different people held the same political positions, things would be different. The example provided here is simplistic, and certainly a great deal more time can and should be spent on it. It was chosen in part for its familiarity and to show that by posing the five questions in the Public Choice Guide, a great deal of interest may emerge. Economic reasoning must be applied to both private and public choice. By the same token, five simple questions are not enough to compensate for the dearth of public choice analysis in introductory courses.

IV. Resources for Teaching about Government Failure

This paper concludes with recommended resources that can help correct the lack of public choice materials in an introductory economics course. The resources listed here are in no way exhaustive, but should motivate authors to create new publications with public choice economics for an introductory economics course.

James D. Gwartney, Richard L. Stroup, Dwight R. Lee, and Tawni H. Ferrarini. Common Sense Economics. *St. Martin's Press, 2010*

Common Sense Economics (commonsenseeconomics.com) consists of four lists that elaborate on the insights of economics that really matter. The "Seven Major Sources of Economic Progress" covers the basic elements of economic freedom. "Ten Elements of Clear Thinking about Economic Progress" and the "Role of Government" are guides to the basic concepts of public choice theory. These insights are presented in a concise, organized, and readable manner. An accompanying website includes features such as study questions, a test bank, lessons, and links to videos and other fun stuff. There is also an online course available from the Stavros Center for Economic Education at Florida State University.

Making Economics Come Alive, *with John Stossel*

This DVD contains eighteen video segments from John Stossel's television programs and specials. The videos (with English and Spanish subtitles) are divided into six sections:

- Economics of Property Rights
- Regulation and Unintended Consequences
- Public Choice Economics and Crony Capitalism
- Government Spending, Deficits, and Debt
- International Trade and Trade Barriers
- Why Some Nations Prosper and Other Stagnate

Also on the DVD is an instructor's guide with eighteen lessons in English and Spanish, a test bank in English and Spanish, and slideshow presentations to accompany the video segments. The DVD is available from the Stossel in the Classroom website.

The Economic Freedom Map: Charting a Path to Prosperity, by The Fraser Institute

This full-color wall map accompanied by a set of seven lessons is based on the Fraser Institute's 2009 Economic Freedom of the World Index. The map and lessons explain what economic freedom is and its effects on economic prosperity. Both the map and lessons are available online.

Virtual Economics, Version 4, by the Council for Economic Education

This CD-ROM contains more than 1,400 lessons on economic education. It also covers fifty-one concepts and suggests lessons, teaching tips, and videos. One concept is property rights; it features a video on the Senate testimony of Metallica's Lars Ulrich against Napster discussing stealing intellectual property rights and the importance of protecting property rights. Another concept is government failure and public choice analysis. The video features the Big Dig in Boston and explains why there were so many cost overruns.

Print Publications from the Council on Economic Education

These publications contain multiple lessons on government failure, public choice economics, and economic freedom:

- Capstone: Exemplary Lesson for High School Economics
- Understanding Economics in Civics and Government
- Economics and the Environment: EcoDetectives
- Focus: Understanding Economics in U.S. History
- The Great Economic Mysteries Book: A Guide to Teaching Economic Reasoning, Grades 9–12

Liberty Fund Resources

Liberty Fund publishes many titles online and in print from the public choice tradition, including the collected works of James Buchanan and Gordon Tullock. It also maintains a website, the Library of Economics and Liberty, that houses hundreds of economics classics. These resources are available at no cost, and instructors are free to copy the works. A powerful search engine complements the texts. These brief selections would contribute to an excellent introduction to public choice analysis:

> James Buchanan, "What Should Economists Do?" in *The Logical Foundations of Constitutional Liberty*, 2000.
>
> In this essay, Buchanan dismisses the popular textbook notion of "the economic problem" and suggests an

alternative focus of study for economists. He advises replacing the notion of economics as the study of resource allocation with the notion of economics as the study of people's exchange relationships. If one focuses on people's efforts to navigate exchange relationships to their best advantage, one realizes there is no "economic problem," as such. This piece also provides a brief but good introduction to the application of economic and exchange principles to politics and to markets. Buchanan distinguishes between economic and political behavior, as well as the (appropriate) study of economics and politics.

James Buchanan, "Politics Without Romance," in *The Logical Foundations of Constitutional Liberty*, 2000.

In this very accessible piece, Buchanan sketches out the emergence and content of public choice theory. Of particular note, he describes how public choice offers a theory of government failure that is "fully comparable" to the theory of market failure. He also introduces the distinction between the two levels of political exchange: the constitutional and the post-constitutional. He stresses that political science and theory have long recognized the former, but their failing lies in their belief that a social compact would be sufficient to hold Leviathan in check. As such, the study of post-constitutional politics includes an examination of voting rules, bureaucracy, and electoral competition.

James Buchanan, "The Constitution of Economic Policy," in *The Logical Foundations of Constitutional Liberty*, 2000.

In this, his Nobel address, Buchanan describes his early influences that led to his pioneering work in public choice, ceasing to assume, on Knut Wicksell's advice, that policy is created by benevolent despots. He describes the important assumption of methodological individualism and the limitations of the "homo economicus" conception. He introduces the notion of politics as exchange, again to counter the notion that people enter politics, unlike markets, for the "common good."

James Buchanan and Gordon Tullock, "Individual Rationality in Social Choice," in *The Calculus of Consent*, 2000.

For those wanting to dig deeper without getting technical, this *Calculus* chapter foresees some of the criticisms of applying the economic decision-making framework to the political process. Tullock and Buchanan distinguish between individual and collective decision-making, starting from the assumption that only individuals, not groups, can make choices, and to the extent that rationality can be discussed, it is only as it pertains to individual action. They also assert that the notion of "public goods" can only be considered in terms of individual evaluations. The limitations on individual rationality, overstated in mainstream economic theory, are the existence of conflicting interests (mitigated by the possibility of exchange in votes or other political goods), and the lesser degree of responsibility for final collective decisions.

The Concise Encyclopedia of Economics*, edited by David Henderson*

Available in print and online, this is an indispensable content resource, and it can be assigned to students very effectively. Noteworthy selections are as follows:

William F. Shughart II, "Public Choice"

For a non-technical explanation of the public choice approach in general, this entry is hard to beat. Shughart reiterates Buchanan's notion of public choice as "politics without romance" and stresses the importance of two ideas. First, the individual, rather than "the government," becomes the fundamental unit of analysis. And second, there is an important distinction between public and private choice, both in terms of varying incentive structures and outcomes. Shughart also offers brief examples of how the public choice perspective has been applied to various institutions, such as the judiciary and international trade.

"James Buchanan" (biography)

This brief biography includes the emphasis of Wicksell on Buchanan's early work in public choice, and stresses the importance of his contribution in distinguishing between the constitutional and post-constitutional levels of political exchange.

Richard L. Stroup, "Political Behavior"

This entry offers a very simple comparison between market and political behavior, both as means of dealing with the ubiquity of scarcity and allocating resources. Market behavior does so via competition, while political behavior bears little similarity to voluntary exchange. He provides some interesting explanation as to why persons might seek their desired allocative outcomes in the political realm, as well as why these attempts can sometimes backfire.

EconTalk*, a weekly podcast series hosted by the Hoover Institution's Russell Roberts.*

The following episodes are relevant:

"Winston on Market Failure and Government Failure"

Clifford Winston, author of *Market Failure vs. Government Failure*, summarizes a large literature on a variety of types of government intervention, concluding that such intervention generally fails to meet its own objectives.

"Boudreaux on Market Failure, Government Failure, and the Economics of Antitrust Legislation"

Don Boudreaux and Roberts discuss the history of theories of externalities and public goods, turning specifically to the justifications for antitrust regulation.

"Don Boudreaux on Public Choice"

Boudreaux argues that political competition is a blunt instrument that works less effectively than economic competition. The efficacy of voting gets a great deal of attention.

Learn Liberty

The Institute for Humane Studies has recently developed Learn Liberty, a series of brief videos that are well-suited to classroom use. Some relevant examples include the following:

"Should Government Regulate Monopolies?" An interview with Lynne Kiesling

Kiesling encourages us to think about the regulation that markets naturally provide. She argues that markets, in addition to naturally regulating monopolies, generate wealth and technologies that systemically reduce the cost of starting new ventures over time. This, in turn, increases the competitive pressures on larger firms and reduces the likelihood of monopoly.

"Externalities: Market Failure or Political Failure?" An interview with Mark Pennington

Economists often use externality problems, such as pollution, to make arguments in favor of government action. However, they often overlook that fact that government action is itself a negative externality. Politicians' decisions guide government action. Politicians win elections by promising benefits to small interest groups at the expense of the masses. The political process, and the government actions that follow, systemically externalize costs.

"A Cost-Benefit Approach to Public Policy," An interview with Jeffrey Miron

The public-policy approach Miron advocates is referred to as cost-benefit libertarianism or consequential libertarianism. In this view, the net consequences of government action that actually occur in the real world are often negative.

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