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Market Failure vs. Government Failure

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By Avik Roy

John Goodman makes a profound point about the common complaint that the market can't work in health care:

> Nothing follows from the fact that there is "market failure." To make the case for transferring decision making power to government one would have to show that the likely "government failure" would be less harmful. In health care, that's hard to do — particularly given the track record of government in health in the twentieth century.
>
> Overall, the market and the government have comparative advantages in certain areas and the sphere where government has a comparative advantage would appear to be very small.

As he points out earlier in the piece,

> Now suppose we let government dictate the output level and allow consumers and producers to influence the decision through votes, campaign contributions, bribes, etc. Assume consumers always want higher levels of production (making the market clearing price lower) and producers generally want less output (making the market clearing price as well as profits higher). Is there any political system (majority voting, other types of voting, politicians selling their votes at auction, etc.) under which government will make the ideal decision? Answer: No. Ideal outcomes are virtually impossible.

This is an observation that is generalizable to many areas of public policy.