

# The Role of Government

## **0. Distribution of Government Funds**

- 40% Medicare, 30% Medicaid, 30% various other
- plus involved in much regulation and in tax policy.

## **1. Law and Order**

- Taken for granted but essential.

## **2. Public Goods**

- Goods that when I consume others can also consume
- highway until congested
- not a hamburger
- research and information for health
- standard reason for government involvement.

### **3. Externalities**

- Actions of one individual (person or firm) has a direct effect on another individual in a wayis not transmitted by market prices.
- infectious diseases and vaccinations
- standard reason for government involvement e.g. subsidy or tax.

### **4. Monopoly**

- Monopoly power exists when firm's output impacts market price.
- e.g. only a few hospitals or specialists in region
- e.g. patent .
- standard reason for government involvement e.g. regulate.

### **5. Incomplete markets**

- e.g. health insurance if preexisting conditions.

## **6. Equity**

- Medicaid for poor.

## **7. Other**

- paternalism – say not to drugs
- war – great innovator for trauma treatment.

## **8. Medicare and Medicaid**

- Medicare is viewed as social insurance
- Medicaid is viewed as aid for poor.