Comments on “Bounded Institutions”

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Federal Agency Decision Making Under Deep Uncertainty
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May 8, 2015
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Related issues in policy design

Prices vs. Quantities
- Environmental policy
- Uncertainty and the cost of mistakes

Rules vs. Discretion
- Monetary policy
- What’s the difference between a bound and a rule?
Applying the theory to fiscal policy

Principals and agents may differ about
- Policy goal
- Value of a taxpayer dollar
- Agent efficiency
- Agent rent-seeking

Potential bias is large

Limit agent discretion: bounds or rules
Discretionary spending

Bounded
- Fixed dollar amounts, appropriated annually
- Cap and, since 1974, a floor

Unexpected situations handled by
- Supplementals (war, disaster)
- Recissions (rarely)

How fast can principal respond?
Mandatory spending

“Entitlement” formulas written into law
• Administrative costs typically discretionary

Mandatory spending generally not predetermined
• Depends on economic & technical factors

How is the agent constrained?

Bounds vs. formula, not vs. “unbounded”
Typical mandatory program

Spending =

Eligible x Take-Up x Benefits x Cost
TANF
Mandatory, but fully bounded

Eligible \times Take-Up \times Benefits \times Cost
Social Security retirement
Tight formula

Eligible $\times$ Take-Up $\times$ Benefits $\times$ Cost

beneficiary discretion, not agent
Social Security disability
Tight formula with some discretion

Eligible $\times$ Take-Up $\times$ Benefits $\times$ Cost

+ some agent discretion, not agent discretion
Food stamps (SNAP) 
Bounded with a bit more discretion

Eligible x Take-Up x Benefits x Cost

beneficiary discretion + some agent discretion
Medicare
It’s complicated

Eligible x Take-Up x Benefits x Cost

beneficiary discretion
beneficiary & provider discretion within legislated bounds
complex rules
Truly “unbounded” programs are rare

Federal Reserve

Some new agencies
  • Congressional Budget Office in 1975

Lending and insurance programs
  • Losses bounded or unbounded ex ante
  • Executive discretion, e.g., student loans
Active debate

Medicare: Traditional vs. premium support

Block grants for federal-state programs.

Veterans: Why is veterans’ health discretionary?