Co-ordination failure – corruption in government assignment

The governments of many developing countries are sometimes part of the problem of coordination failures. ” Explain and discuss. Word count: 997 In this essay I will explain what is meant by coordination failures and how these might arise and subsequently persist. It will then be shown how governments can attempt to overcome these using policies however this is not always successful as governments sometimes cause the problem to persist. A coordination failure is when economic agents do not properly coordinate their choice which then leads to an equilibrium outcome that leaves agents worse off.

The alternative situation would be a more optimal equilibrium outcome however since agents do not coordinate their behavior, they settle at the suboptimal equilibrium. It may be the case that agents are aware of the preferred equilibrium but there are difficulties reaching this because of coordination. Adam Smith said “ The division of labor is limited by the extent of the market, the extent of the market is also limited by the division of labor”, markets are highly Interdependent therefore highlighting the way ordination failures can keep developing economies in the poverty trap.

An example would be with primary and secondary education in poor countries. If parents expect their neighbors to choose primary education rather than secondary, they will also choose primary education for their children. In this situation it would be more beneficial to individual families and to society for families to choose secondary education however there is short terrorism present here because parents want their children to be educated but the longer the child Is In education the less mime they are economically helpful.

There are complementarities involved where there are coordination failures whereby decisions often involve investments whose return depends upon investments being made by other economic agents. Multiple Equilibrium The following diagram Illustrates the multiple equilibrium that arise as a result of coordination failures. The shape of the function shows that agents benefit increasingly depending on how many other agents are expected to undertake the same action, or how many of the agents do undertake this action.

Actions of one gent are interlinked with actions of another agent, if one agent uses specialist machinery then it is likely that other agents will begin to use specialist machinery. At ODL and DO the equilibrium are stable, meaning that small changes around the equilibrium will mean that agents react In a way to bring us back to the original equilibrium. However at DO there Is an unstable equilibrium which means that It acts as a halfway point between the two stable equilibrium.

The general idea of an equilibrium is one in which all participants are doing what is best for them, given hat they expect others to do, which in turn matches what others are actually doing. Made that achieve the optimal equilibrium position with an optimal allocation of resources. These traps create a vicious cycle of underdevelopment which is hard to escape from. Therefore when the market mechanism fails to settle at the optimal equilibrium position, governments should coordinate agents to move equilibrium by implementing policies.

The use of effective government policies is thus required to help escape these traps along with a change in expectations. There is especially an portent role for policy in co-ordination Joint investments when there is a lag between an agent making the initial investment and then realizing the return on that Investment. An example off policy a government could use to correct coordination failure would be to coordinate between workers who want to acquire skills that employers can use and the employers who want specialist equipment that the Markers are able to use.

Both of these require investments (time and money) so both the employees and the employers may hold back and wait for the other to invest first, Hereford being stuck in the suboptimal equilibrium. However governments in developing countries may actually contribute to the problem of coordination failures and may create more failures. Joseph Stilling has said that “ we should be more suspicious of corrupt government officials” since they keep economies at the suboptimal equilibrium by benefiting from monies captured from public enterprises.

Corruption is a non-productive economic activity and therefore governments need to make sure that economic agents working for the public have he incentive to work productively with those in the private sector. If this happens then economies are more likely to be able to move out of poverty traps. When there IS corruption present, the very existence of it breeds more corruption since if other people are dishonest then others are likely to follow suit.

Society will either coordinate around corruption or non-corruption since if one agent chooses corruption and the other doesn't, he will be penalized. Nash equilibrium will either be at the choice of corrupt; corrupt or non-corrupt; non-corrupt. In the corrupt society taxation, governments can actually perpetuate the inefficient equilibrium which could be due to a high corruption regime where the stable choice is to be dishonest and corrupt for both government officials where they may benefit personally from this corruption and economic agents dealing with them.

Hewitt (2001) argues that decisions made by economic agents will depend upon their expectation that other agents will make decisions that take full advantage of potential gains from trade. However the issues I have discussed in this essay suggest otherwise since individuals o not always expect others to act in this way, but that they expect them to play it safe and only make investments depending on the choices others make, when in fact it would be more beneficial to collaborate and be mutually informed.

Government intervention involves transferring of resources from one party to another therefore creating scope for corruption. Most governments will try to prevent this as it is harmful and inefficient however developing countries may not have the capacity to do this, therefore it creates more market failures and if there is the opportunity for overspent officials to do so they may take it if it is beneficial to themselves.