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Entrusting irrational voters with more government

By Leslee Kulba - November 5, 2012

All forms of government work on paper. They fall apart when placed in the hands of humans, a very teeny, tiny minority of whom would even consider honestly taking advantage of a situation. Winston Churchill claimed, “Democracy is the worst form of government, except all those other forms that have been tried from time to time.” Sometimes called tyranny of the majority, democracy conjures images of useful idiots doing their master’s bidding.

Special interest lobbies and an uninformed electorate are two reasons often suggested to explain how democracies fall short of perfection. A third was elaborated in a paper, “The Myth of the Rational Voter: Why Democracies Choose Bad Policies,” written by Bryan Caplan and published by the Cato Institute. Caplan argues voters are irrational.

The flaw is attributable to the unfortunate fact that, “Economic policy is the primary activity of the modern state;” and several voters would prefer to believe pub talk than read stacks of economic analyses. “The typical voter, to whose opinions politicians cater, is probably unable to earn a passing grade in basic economics. No wonder protectionism, price controls, and other foolish policies so often prevail.”

Caplan argues the choice between democracy and tyranny is a false dilemma. The invisible hand of the free market has an amazing way of balancing personal greed and public interest.

Caplan notes that economists even in left-wing administrations tend to be “economists first and liberals second.” Stephen Kelman told of being a government economist amongst lawyers. The economists would typically unanimously disagree with the lawyers, and the lawyers would then ask for the best economic justifications for their proposals.

To this, the economists would reply, “There are no good economic arguments for your proposal.” Compounding the problem, the public is wont to dismiss economic arguments because their authors are “usually affluent, tenured, white, and male.”

As substantiation for his claims, Caplan cites the Survey of Americans and Economists on the Economy. The study asked 1510 civilians and 250 Ph.D. economists the same questions, and analyzed the differences in terms of, among other things, education, income, and job security.

One difference of opinions is attributed to an anti-market bias in the general public. The non-economists’ fear of trusting people to trade without government intervention is based on undue concentration on businessmen’s motives and dismissal of other forces, such as competition. Voters typically view profits as unearned, rather than the other half of a transaction in which people receive something they want. Earned profits encourage people to focus resources on activities of higher public value.

Unfortunately, “a truism for the few is heresy for the many.” The average voter responding to the SAEE deemed corporate profits to be lump-sum transfers, and estimated them at about 50 percent. Price increases were more likely to be attributed to corporations deciding to increase their profits than normal balances of supply and demand. Civilian respondents also tended to perceive treachery behind successful businesses, but, to paraphrase political scientist John Mueller, “many strategies that work as a one-shot scam backfire as routine policies.”

Another trap is the anti-foreign bias. Caplan mocks the voters as assuming foreigners have “a special power to exploit us.” The fallacy seems rooted in xenophobia, since people scarcely complain about the balance of trade between North and South Carolina, or between oneself and one’s grocer. Basic economics teaches that overall output increases with specialization and trade. Shipping jobs overseas and investing money in foreign accounts make sense in terms of avoiding regulatory barriers to loosen funds for more valued purposes.

According to the make-work bias, job creation is key to growing the economy. There are two ways to create jobs. One is to produce more marketable goods and services; the other is to reduce worker productivity. “For an individual to prosper, he only needs to have a job. But society can prosper only if individuals do a job, if they create goods and services that someone else wants.” In 1800, 95 percent of Americans had to participate in agricultural activities. 200 years later, due to a mass agricultural downsizing, that number is only 3 percent. Citizens were freed to labor in and enjoy the benefits of a technology explosion. Moving to the computer age should spur a new wave of creativity rather than consigning those so unemployed to thumb twiddling.

A fourth fallacy is the pessimistic bias. People almost always tend to let that which is bad in the economy overshadow even magnificent improvements. They also underestimate man's tendency to avoid oppressive circumstances. Necessity is the mother of invention.

Former presidential candidate Al Smith reportedly claimed, "All the ills of democracy can be cured by more democracy." An apt rejoinder would be Princeton economist Alan Blinder's, "Legislators are out to win votes, not intellectual kudos."