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Wonderful!

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Public Choice

Homework #3

1.

Tyler Cowen has a 2005 paper titled "Self-Deception as the Root of Political Failure."¹ In the article, Cowen argues that voters deceiving themselves is a central explanation for failures of government. He defines self-deception as behavior by individuals that disregards freely available information. According to Cowen's view, people start out with initial ideological endowments. These views generally come from family backgrounds, culture, genetics and things of that sort. These ideological underpinnings also tend to shape how people think of their own identities. As a result, when individuals come across information that challenges these views, people tend to disregard it even though the information is costless to obtain.

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If Donald Wittman were to respond to Cowen's paper, he would probably argue that Cowen is, like many public choice economists, simply assuming extreme voter stupidity. In fact, Cowen's argument about self-deceiving voters is not that far off from a claim that voters are just plain old stupid. Wittman generally doubts that most economists will want to go on the record as saying voters are dumb, but since Cowen comes close, Wittman would probably have several more responses to the self-deception thesis.

First, maybe some voters are self-deceiving, but it is unlikely that all voters are self-deceiving or that voters are systematically self-deceiving in the same direction. In the aggregate we can expect the

¹ Tyler Cowen. "Self-Deception as the Root of Political Failure." Public Choice (2005) 124: 437-451.

views of the self-deceiving voters to cancel out and the views of the informed, non-self-deceiving, electorate to become the deciding factor in elections.

Next, because of the competitive nature of elections, there is a strong incentive for politicians to become aware of voter self-deception and to expose it. For example, a Democrat has a strong incentive to point out that Republican voters are deceiving themselves when it comes to denying climate change. It is unlikely that all US voters will self-deceive on this particular issue, so by pointing out that a subset of voters are deceiving themselves a politician can gain votes from groups that aren't deceiving themselves since those voters will want to align with the more scientific and informed electorate.

Given this finding, political parties are also likely to transmit information about voter self-deception to the public. This could be done through speeches, political platforms, symbols, etc. The media also has an incentive to expose voter self-deception since the public is likely to be entertained when backward individuals are made fun of publicly. This kind of schadenfreude makes people feel better about themselves. Due to these forces, over time we should expect voters to become less self-deceived as certain views are gradually weeded out of existence and better views become the initial ideological endowments that people start out with. This process might explain the increasing level of tolerance we see over time with respect to treatment of women, minorities, gays, etc. The backward views supported by those who were deceiving themselves eventually went away.

Lastly, Wittman might argue that concerns about reputation will eliminate voter self-deception over time. Most voters would be embarrassed to have others find out that they are deceiving themselves. Given the strong incentives of politicians, political parties and the media to expose self-deception, voters are likely to respond by ceasing to deceive themselves. Holding unreasonable, self-deceiving views will tend to be looked on as backwards, so exposing self-deception leads to voter embarrassment. This embarrassment gives voters a strong incentive to change their views in response

information, or, to identify when they are deceiving themselves in advance of being exposed in order to avoid potential future embarrassment.

3.

Caplan's story about rational irrationality has a hard time explaining why we don't see more "feel good" policies, especially when the costs of those policies are relatively minor or invisible. Like much of public choice theory, Caplan's story has difficulty explaining why policies are not much, much worse than they actually appear to be in reality.

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Some policies clearly make overwhelming majorities of the public feel good about themselves, even if these policies are counterproductive or harmful. I label these policies "feel good" policies. If voters are truly irrational in the voting booth, due to the low cost of being irrational in that environment, we should expect politicians to pander to this irrationality by passing many feel good policies that voters are systematically biased in favor of. One example is the minimum wage. The minimum wage is overwhelmingly popular and something like 70 percent of Americans support raising it. Not only do we not see the minimum wage raised except for once or twice a decade, but in recent years the Republican Party has been almost universally opposed to raising it. This seems like political suicide when the electorate is irrational. We should expect the minimum wage to be raised on a very routine basis.

There is a similar story for free trade. The public seems to have systematically biased views against trading with foreigners. Yet, politicians sign free trade deals every few years, and tariffs are far lower today than they were in the 19th century. Again, it seems like political suicide for politicians to act in a way that is so clearly antagonistic to a large majority of irrational voters.

One might argue that politicians are shirking. They are defying the wishes of voters because the politicians are more enlightened and know that they will ultimately be punished by voters if the

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At my job at the Mercatus Center, I study regulations. As such it is logical to talk about the principal-agent problem that exists when Congress delegates its legislative authority to rule-writing agencies. In this case, legislators in Congress are the principals and bureaucrats in regulatory agencies are the agents. The failure is that regulators are not acting in a manner consistent with the wishes of Congressmen and women, who are themselves agents of American voters. 10

An obvious example of this principal-agent problem relates to EPA regulation of greenhouse gasses. It is obvious that greenhouse gases were never intended to be regulated under the Clean Air Act or subsequent amendments. It is also obvious that a law granting authority to the EPA to regulate in this area would never pass the current Congress. Yet, the EPA is moving forward with sweeping greenhouse gas rules that are likely to shutter hundreds of coal-fired power plants in the US.

How does this happen? The simplest reason is principal negligence. Congress does not punish the EPA when it acts in a manner inconsistent with legislators' wishes. One reason is because the oversight committees and the appropriations committees are kept separate. One clear way to punish the EPA would be to cut its budget dramatically, yet budget cuts rarely happen. The cost of shirking to the agency is the probability of getting caught times the punishment. The punishment appears to be close to zero because the EPA routinely flouts the wishes of politicians, does so in a public manner, and never pays for it with budget cuts.

The EPA also has the advantage of asymmetric information. Bureaucrats know how they spend resources and what programs are most important, while Congress has less information on these matters. Congress could set up procedures to reduce these information asymmetries, say by playing a more strict oversight role. In actuality, however, oversight hearings come across more as political

theatre than as an attempt to get at the root cause of information problems. This again suggests principal negligence is at work.

It may be that Congress does not want to reign in regulatory agencies. The current arrangement is quite convenient for Congress. If a problem arises, Congress can tell an agency to go solve it by passing a law. After passage of the law, Congress can claim success by saying it dealt with a problem. If the agency messes up when trying to solve the problem, Congress can hold hearings and pretend to scold the agency, thereby passing the blame onto regulators. Alternatively, if the agency succeeds, Congress can again claim credit to the initial legislation.

Congress appears to have largely abdicated its responsibility as a principal in the relationship with regulatory agencies. Congress lets agencies do what they want and continues to fund bad behavior even when the behavior blatantly violates the wishes of legislators. When Congress holds hearing, these events are more theatre than actual oversight, which signals to agencies that they can do what they want and won't be punished for it, except for perhaps a few coarse words. If Congress really wants to reign in the executive branch, it should take back some of the legislative authority it has delegated to regulators, but Congress is unlikely to do this since this would require Congress being more responsible for outcomes of public policy. The current situation conveniently reduces the accountability of Congress for bad public policy outcomes.