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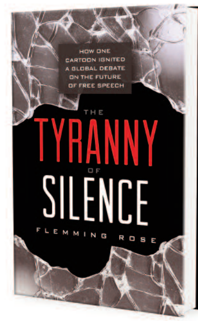

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Why Government Fails and Why Ideas Matter

BY DONALD J. BOUDREAUX

In a famous Sidney Harris cartoon, a senior professor reviews a long and complicated mathematical proof that a younger colleague has written on a chalkboard. Pointing calmly at part of the proof, the elder scholar tells the younger "I think you should be more explicit here in step two"—a step that appears on the chalkboard as "Then a miracle occurs."

This witty depiction of an unscientific means of reaching a conclusion sadly describes an actual step in the reasoning of far too many people who call for government intervention. People identify a problem in reality and then demonstrate how that problem can be "solved" by government. But far too many such demonstrations feature a "then a miracle occurs" step. This step is the assumption that politicians and other government agents are superhuman—that when they are elected or appointed to political office, they are miraculously transformed into beings consistently more altruistic, knowledgeable, and wise than are business executives, consumers, and other people who operate only in the private sector.

Of course, in many cases the problems identified are imaginary (such as the alleged stagnation of middle-class Americans' incomes since the mid 1970s). And even when the problems are real, the means proposed to solve these problems will often fail even in theory (such as when government tries to revive a slumping economy with deficit spending). But even when the problems are genuine and the proposed means of addressing the problems can in principle succeed, proponents of intervention seldom pause to consider the realities of politics and how these realities typically make it unlikely that interventions that succeed on a chalkboard will do so in the real world. The result is consistent failure of government to live up, not only to its frequent billing as a uniquely proficient and transformative agent for the good, but to live up even to the lower standards of performance that most people expect of free markets.

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In *Halbig v. Burwell*, the D.C. Circuit Court ruled that that the current administration is violating the law by spending tens of billions of dollars to encourage people to enroll in Obamacare. That same day, however, the Fourth Circuit held in *King v. Burwell* that the administration was acting in concert with the law. At a Capitol Hill Briefing in August, MICHAEL CANNON (at podium) of the Cato Institute and JONATHAN ADLER of Case Western Reserve University Law School—two scholars who laid the groundwork for these cases—explained their implications for the nation at large.

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CONCENTRATED BENEFITS, DIFFUSE COSTS

The chief scholarly response to this naiveté about politics is Public Choice economics. Starting in the 1950s, my late Nobel laureate colleague James Buchanan, along with my emeritus colleague Gordon Tullock, insisted that any formula for government intervention that ignores political realities is unscientific. In effect, Buchanan and Tullock together were like the senior professor who, evaluating colleagues' elaborate proofs of the efficacy of government intervention, identified an illegitimate assumption. Just as no natural scientist can reach a legitimate conclusion by assuming that a miracle occurs to transform physical substances or quantitative values into something that they are not, no social scientist can reach a legitimate conclusion about public policy by assuming that election or appointment to government office miraculously transforms human beings into saints with superhuman knowledge.

Unlike in the cartoon, of course, those who "prove" that government can successfully intervene into the economy never explicitly write "then a miracle occurs." Instead, the assumption of the miraculous transformation of human nature is slipped into the proof silently, even unknowingly.

Yet sensible people need not be expert in formal economics or political science to detect that something is seriously wrong with typical explanations of how government will fix this or that problem. All that people need do is to observe with their minds free of romantic notions about the power and motives of democratically elected politicians. These observers will see many political phenomena that are plausibly explained only on the assumption that government officials aim self-interestedly to promote their own well being—especially by maximizing their tenure in office—rather than aim altruistically to enhance the public welfare.

Consider the U.S. sugar program. For 80 years now, since the passage of the 1934 Jones-Costigan Act, Uncle Sam has used production quotas, import quotas, high tariffs, and loan guarantees to ensure that American consumers pay higher prices for sugar and sugar substitutes, such as corn syrup. Economist Mark Perry estimates that, in 2012 (a typical year), the sugar program artificially raised the total amount that American consumers paid for sugar by about $2.9 billion. Why would a government of the People, by the People, and for the People impose such unnecessary costs on the People?

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The answer is that government officials—including those chosen democratically—often best promote their own interests by securing favors for special-interest groups at the expense of the general public. While the number of Americans who consume sugar is roughly 314 million, only about 4,700 farms in the U.S. produce sugar. This fact means that in 2012 the sugar program cost each American about $9.24—or about $24 for the typical American household. But the sugar program raised each sugar *grower's* revenues in 2012 by, on average, a whopping $617,000.

Put yourself, first, in the place of a typical consumer. How much effort will you exert to end the sugar program? Very little, if any. You *might* be sincerely upset that this program lightens your wallet each year by $10, give or take a few cents, but because the cost to you is so small, you won't go to great lengths to register your opposition. You might send an email to your representative or write a letter-to-the-editor to demand that this program be ended. But you probably will not do even this much, because you understand that such individual small exertions have zero chance of changing public policy. And most don't know the details of the sugar program to begin with, so they remain silent.

Of course, what's true for you is true for nearly all other Americans. The only exceptions are sugar growers. Now put yourself in the place of one of them and suppose that you catch wind that Congress is thinking of ending the sugar program. How much effort will you exert to save this program? A lot.

If you're a typical sugar grower, this program adds to your annual revenues several hundreds of thousands of dollars—the stream of which over time is today worth millions of dollars to you. So if you sense that the threat to the program is real, you'll spend millions of dollars, if you must, to protect the program. Likewise for each of your fellow sugar farmers.

The end result is that Congress hears only from sugar growers and not from sugar consumers. Those who benefit from the program vigorously defend it; those who pay the cost of the program remain silent. This reality impresses upon each member of Congress that a vote against the program creates a real risk of significant opposition to his or her reelection bid. Sugar growers will actively express their hostility to votes against their interests while sugar consumers are silent and invisible, acting as if they don't care one way or the other about the program.

POLITICS WITHOUT ROMANCE

This account of the politics of the U.S. sugar program is an example of the most familiar Public Choice theory of political outcomes—namely, the *special-interest-group effect*. This theory predicts that when the costs of a government program are spread across the population differently than are the benefits—for example, when the costs are diffused by being spread widely while the benefits are concentrated on relatively small numbers of people—a bias infects political decision-making. Government officials typically serve the interests of concentrated groups at the expense of dispersed groups.

Two other major Public Choice insights are closely connected to the theory of special-interest groups. One is *rational ignorance*. Because you understand that your vote will not determine the outcome of any election, you have no incentive to become as informed about the issues at stake as you would if you sincerely believed that your vote would determine the outcome. Why spend your precious time and energy to become informed about the candidates and the issues if practically you can do nothing to determine which candidate wins? Far better for you to spend that time and energy on matters that you *can* control, such as improving your job skills or helping your kids with their homework.

In short, you remain ignorant—for perfectly rational reasons—about politics and public policy. And so, too, do nearly all other voters. In contrast to voters, though, are the special-interest groups. Members of these groups have powerful incentives to stay informed about what's happening with the programs that significantly affect them. For example, while the great majority of Americans are rationally ignorant of the U.S. sugar program, all sugar farmers remain up-to-date on its details. This reality means that policies chosen by government are unlikely to be ones that the People would choose, or even tolerate, if they were better informed.

The second major Public Choice insight connected with the special-interest-group effect is *rent-seeking*. Sugar farmers, steel executives, heads of too-big-to-fail banks, and other recipients of special privileges from government don't actually spend a great deal of their own personal time pressing the flesh in Washington. They aren't specialized experts at pleading for political favors. Instead, they pool their funds to hire such specialized experts—experts known as lobbyists. These political insiders are ambitious, highly educated, and talented professionals who work full time at the task seeking special favors—what economists call "rents"—for their clients. And, of course, for their clients the use of the time and talents of professional lobbyists is worthwhile because it increases these clients' wealth.

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For society at large, however, rent-seeking activities are wasteful. The reason is that lobbyists spend their time pleading for government to *transfer* slices of the economic pie from the general population to their clients—an activity that, at best, does nothing to *enlarge* the pie. But if government were unquestionably not in the business of dispensing interest-group favors, no one would pay talented professionals to seek such favors. The talented professionals who now work as lobbyists would, instead, be obliged to work at tasks that increase the size of the pie.

AN INCONVENIENCE STORE

Public Choice scholars also warn of problems caused by the "bundling effect." The nature of this effect is best introduced with an example from everyday life: shopping at a supermarket.

Imagine if we were to choose groceries in the same way that we choose government policies. Rather than you filling your grocery carts with items that you want, and leaving out of your cart all items that you don't want, you would instead be presented with, say, two different pre-filled grocery carts. The supermarket manager would allow you to inspect carts A and B, but not allow you to add items to any cart, to remove items from any cart, or to transfer items between carts.

Let's say that cart A has the wine and yogurt that you want, but has also diapers and dog food that you do not want. And cart A does *not* contain the breakfast cereal that you'd like. Cart B, in contrast, has neither diapers nor dog food, and it does have your favorite cereal, but it does *not* have the wine or the yogurt. Clearly, neither cart satisfies your preferences as well as those preferences would be satisfied if you got to choose which items to include, and which to exclude, from the cart of groceries that you buy.

Still, if you want groceries, you must choose either cart A or cart B. If you choose cart A, outside observers—including the supermarket manager—can know only that you prefer the bundle of groceries in cart A to the bundle in cart B. Outside observers, seeing you choose cart A, cannot know that you chose that cart *despite* its offering of diapers and dog food rather than because of that offering.

The situation is exactly the same when voters cast ballots for their preferred candidates because each candidate for political office is a bundle of positions on each of the many issues within government's purview. Anyone who runs, for example, for the U.S. presidency today will have a position on health care policy, foreign policy, trade policy, the desirability of carbon taxes, and on and on. The list is as long as is the range and reach of government's power.

So when a voter casts her ballot for Smith rather than for Jones, she necessarily casts her ballot only for the *bundle* of positions that she believes Jones takes. She cannot, when choosing between Smith and Jones, vote for Jones's position on, say, tax policy without also voting for Jones's position on education funding. Even if this voter prefers Smith's position on education funding, she cannot vote for that policy if she casts her ballot for Jones. If Jones wins the election, therefore, the most that we can conclude is that a majority of voters prefer the bundle of positions taken by Jones to the bundle of positions taken by Smith. We can say nothing about the majority's preferences for any individual policy.

This reality creates an information deficiency for elected officials. Successful candidates for office never know for sure just why they won (or why their opponents lost). Did Jones defeat Smith *because* of Jones's position on education funding or *despite* his position on this matter? No one really knows. Exit polling and other sources of information can help to reveal better knowledge of voters' preferences, but these sources are highly imperfect. So each victorious candidate naturally assumes that the majority of voters approves of the positions that he took on *all* of the issues. The result is that even candidates who win elections by large majorities inevitably wind up, when in office, pressing for at least a handful of policies that most of those candidates' own supporters likely find objectionable.

IDEAS STILL MATTER

The narrow material interests of voters, interest groups, and government officials play the leading role in Public Choice theory. Emphasizing the reality and consequences of such interests is necessary in light of the romantic notions that many people still have about democratic government. (It remains, after all, a commonplace to call politicians and government employees "public servants"—a term never used to describe the likes of stockbrokers or Walmart store managers, despite the fact that such private-sector agents clearly serve the public.)

Yet Public Choice scholars recognize that motives other than narrow material interests play a role in politics. People's political behaviors are affected also by their norms, beliefs, and ideologies. This fact is a cause for both concern and optimism.

In private markets, each person who ignores the preferences of buyers or sellers in order to indulge his or her personal ideological interests pays the cost of doing so. For instance, a racist restaurateur who refuses to serve

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African-Americans forgoes the profits he would earn from such customers. As a result, markets naturally temper ideological actions that are inconsistent with sellers' efforts to earn profits or with buyers' efforts to stretch their spending power as far a possible.

Matters differ in politics, for two reasons. First, most political decisions are about how to spend *other* people's money or resources; and second, no voter truly expects that his or her vote will determine the outcome of any election. Each of these realities means that the bulk of the consequences of every *individual* political decision falls on people other than the decisionmaker.

Consider a citizen in a voting booth. We've already seen one reason why he'll cast an uninformed vote—namely, because he knows that his vote won't determine the outcome of the election, the benefit to him of becoming adequately informed is very small. A second, related reason is that he stands to capture only an infinitesimally small share of benefits of casting an informed vote, and to suffer only an infinitesimally small share of the costs of casting an uninformed vote. Because becoming informed is costly, each voter remains rationally ignorant of the detailed facts and issues at play in any election.

Although this rational ignorance initially appears to be an unambiguous cause for despair about the prospects of any good ever coming from politics, it isn't necessarily so. Precisely because each voter, as such, has no material interest that will be affected by how he, as an individual voter, casts his ballot, he has free rein to vote ideologically—to vote his conscience, if you will. For example, a steelworker in Pittsburgh who supports free trade can safely vote against the candidate who promises higher tariffs on steel imports. Because this steelworker has no hope of determining the election's outcome, it costs him nothing to express in the voting booth his ideological preference for free trade, even though his material interest would be better served by the protectionist candidate.

The upshot is that democratic outcomes are not destined to be determined strictly by special-interest-group politics and other collective-decisionmaking imperfections. Ultimately, voters' *ideas* about the proper role of government matter a great deal.

If the public believes that a large and discretionary government will generally intervene productively, then the result will be a large, discretionary government that intervenes. And special-interest groups will then get "cleared" by uninformed and pro-government voters to then determine the actual details of government's activities. Basic Public Choice economics predicts that these details will be ugly.

If instead, however, the public is skeptical of the power of government to do good, then that ideology of limited government will be expressed in voting booths. That expression will, in turn, keep predatory rent-seeking and government failure to a minimum.

So ideas do indeed matter. They matter greatly, far more than do the identities, party affiliations, or campaign slogans of whatever crop of candidates has most recently been elected to office. Changing the world can be done only by changing prevalent ideas (a task, I add, that has long been at the forefront of the Cato Institute's agenda). And one set of ideas that, were it to become more prevalent, would surely change the world for the better, is the set of ideas known as Public Choice. Knowledge of Public Choice destroys the romantic myth that government is some sort of miracle worker. ■