Introduction

There is an apparent contradiction in the economic approach to government policy. On one hand, neoclassical economists are champions of ‘consumer sovereignty’. This is the idea that individuals are the best judges of what is in their interests and should be able to make their own decisions. For example, economists would tend to oppose a regulation that required airbags to be installed in new cars, on the grounds that some customers would not wish to pay for the extra cost. On the other hand, economists recommend the policies that they, as experts, believe to be in the interests of citizens, rather than those that the citizens support. In extreme cases this has led to “IMF riots”, against the reforms advocated by the International Monetary Fund.

It is the purpose of this paper to explore this apparent contradiction. In Section 1, I will outline and evaluate some arguments for consumer sovereignty. Section 2 will deal with economists’ scepticism about the applicability of consumer sovereignty to one of their own areas of alleged expertise, government policy. In the final section, I will conclude that it is difficult to consistently oppose all safety regulation while believing that unpopular economic policies should be adopted.

1. Consumer sovereignty and safety regulation

Economists’ standard argument against regulating people for their own good is based on the rejection of paternalism. Paternalists are willing to override individuals’ assessments of their own interests. Sometimes expert opinion is imposed, such as when a food additive is banned on the advice of toxicologists and doctors. Alternatively, mainstream opinion may be imposed on minority or dissident groups. A ban on cannabis might be a plausible example. Of course, there are other possible justifications for these interventions that do not depend on paternalism. For example, the proscribed activities may harm other people.

The underlying premise of paternalism is that people do not always choose what is good for them. This could be so for a number of reasons; including irrationality, inadequate information and weakness of will or impulsiveness. While economists typically assume that people do make choices that are in their own interests, there is some acknowledgement in the economics literature that this is not always so (e.g. Thurow (1974), Burrows (1995), New (1999)). In particular, people do not seem to make rational decisions about small risks of serious injury (Viscusi, 1992). This might provide a rationale for some regulation aimed at occupational and consumer safety.

When individuals make choices that do not advance their welfare, should the state override these choices? Clearly the answer will depend on value judgements. Most of us probably think that both advancing the welfare of citizens and respecting their choices are legitimate goals of the state. But when there is a tradeoff between these two goals, we can expect some diversity of
opinion about whether the state should intervene. For example, libertarians and other strong nonpaternalists will tend to oppose compulsory seatbelts and bike helmets. But others will judge the harm of restricting choice to be outweighed by the benefits in reduced injury.¹

Although respecting choices and advancing welfare both seem to be reasonable objectives, only the latter is treated as a fundamental goal in the mainstream economic approach. The position is that people should be free to make their own choices, not because this is inherently valuable, but because it is the surest way for people to get what is good for them. As a result, this approach may not appear to provide a very secure basis for challenging paternalism if people do not always choose what is good for them. However, it does allow challenges to regulations restricting peoples’ choices ‘for their own good’. The possible arguments include; (i) that experts are not disinterested or have different goals to citizens, (ii) that individuals will respond to intervention in ways that dilute its impact and (iii) there is too much diversity among people for a single regulatory solution to be suitable for everyone. In the rest of this section, these arguments will be reviewed and evaluated. In the following section, I will examine whether they have weight against economists who argue that constitutions or policies should override the expressed preferences of voters.

(i) Experts are not perfect agents

One reason to oppose regulation is scepticism about the motives of regulators. The idea would be that although a perfect regulator would be better than no regulator, a real world regulator is not. Regulators are not perfect agents as they have goals that differ from those of the citizens. Economists such as Stigler (1971) have argued that regulation has often been used to serve the interests of producers rather than consumers. For example, bans on alternative medicine might be justified in terms of safety, but have the main effect of protecting conventional medicine from competition.

The implications of this sceptical approach to the motives for regulation may not be obvious for intervention that is genuinely paternalist. But even if regulators are principally motivated by altruistic goals, they may still have different goals from citizens. Kelman (1981b) examined safety regulators in both the United States and Sweden and concluded that they were more concerned with safety than citizens were. If regulators are too conservative about risks, citizens may prefer to take their chances without regulation. In addition, some economists have been sceptical of the ability of safety regulators to make correct decisions (e.g. Viscusi, 1992).

Economists’ standard approach to experts, such as doctors, mechanics and engineers, is principal agent analysis. According to this approach, experts are employed by less informed parties to act as their agents. In a principal agent relationship there is a danger that the more informed agent may take advantage of the poor information of the ‘principal’, in order to further his or her own goals. For example, a mechanic may try to convince her customer to buy more services than he really needs. Economists have analysed various ways to reduce this danger.² But in the end, a decision will need to be made as to whether the expert service is worth purchasing, assuming that a certain amount of ‘misinformation’ will be provided. This will be so whether it is a customer purchasing the services of a mechanic or a society purchasing the services of a regulator. However, the problem may be worse for a regulator than a doctor or a mechanic, because doctors and mechanics have limited recourse to legal sanctions on those who do not comply with their advice.
(ii) **Compensating responses**

Safety regulation can sometimes be challenged on the grounds that it is self-defeating. In particular, citizens may compensate for the regulation in their behaviour, in such a way that it counteracts the intended effects of the regulation. If citizens are compelled to adopt safety-enhancing products such as safety belts and child-proof drug containers, then they may feel free to be more careless. A rational citizen may drive faster when wearing a safety belt, or be less careful about putting pills out of sight of children when the pills come in a child-proof container (Viscusi, 1992).

(iii) **Heterogeneity of citizens**

If citizens are sufficiently diverse, it may be difficult to frame a regulation that is appropriate for everyone. For example, compulsory bicycle helmets may prevent head injuries among young bicycle couriers in large towns, but only serve to deter cycling by older people in small towns.

The preceding arguments give us reason to be cautious about regulators. In some cases we may prefer to make our own decisions, even though a regulator would be more informed about risks. But in other cases, the costs of ignorance would be too high. However, officials might be permitted to conduct information campaigns, but not to regulate. Instead of over-riding the choices of citizens, officials could provide information so that citizens could make their own choices with the benefit of expert advice.\(^3\) For example, if there is a consensus of expert opinion that toys that can be swallowed are dangerous for small children, then the response could be an information campaign rather than a ban on such toys.

There are at least two potential limitations of information campaigns as alternatives to regulation. First, it is sometimes more efficient to reduce decision costs by delegating the decision to a regulator. Second, there may be a free rider problem. Kelman (1981a) highlights the first limitation. He argues that in many cases it is simply inefficient for each individual to independently assess the dangers of a product or activity. It makes more sense for citizens to delegate not only the collection, analysis and interpretation of data, but also the decision on whether the activity or product should be avoided. Otherwise, the costs in attention and communication will, in many cases be impractically high. It would be clumsy and costly to make every dangerous chemical freely available, but to carry out information campaigns for each one. Viscusi (1992) makes a related point. He suggests that the need to make information succinct and easily comprehensible means that it cannot be comprehensive.

The second limitation is that citizens may not give enough attention to information campaigns even when it would be socially efficient for them to do so. They may ‘free ride’ on other citizens. The basic idea is that each consumer benefits if other consumers are well-informed. When customers are better able to judge quality and safety, firms will be penalised with lost sales if their products are inferior or dangerous. As a consequence, quality and safety of products will improve. But this means that even an uninformed consumer is likely to benefit. The upshot is that although consumers will have some incentive to consider information, their efforts will typically be inefficiently low. In some cases the outcome may be worse than if unsafe products are banned.

These two limitations of information campaigns can be used to defend (some) safety regulation, with reference to either the goal of welfare or the goal of respecting choice. The version in terms of welfare is straightforward. Citizens may be worse off if they must process information themselves.
and make numerous decisions about safety. The version in terms of respecting choices is subtler. It trades on a paradox of libertarianism. Citizens may choose to delegate some of their choices to a regulator. If they do, then presumably we should respect the higher order choice to delegate rather than insist on a literal reading of the principle of consumer sovereignty.

There does not seem to be an overwhelming case against safety regulation. There is not only a case for regulation in terms of consumer and worker welfare, but also a case in terms of choice. However, a genuine opponent of paternalism would not accept the first case and would not accept that the second case justifies a wide range of regulations. Such an opponent would not be in favour of a regulation that did not enjoy broad support from citizens.

The conclusion thus far is that while some safety regulation can be justified, not all of it can be. And those who oppose paternalism will reject much of it. It remains to be seen whether activities of economists should be opposed by nonpaternalists.

2. Economists as experts on policy

The role of an economist differs from that of a regulator. The analogy between regulating people for their own good and supporting unpopular economic policies is not transparent. However there are common elements. Both involve a role as an ‘expert’ about what is good for people. And both may be viewed as objectionable by those who believe that individuals should be the judges of what is in their own interests.

Economists offer “expert” advice on government policy. They do not usually base their advice on surveys of what policies citizens want. Instead they try to work out what will be in the interests of citizens. The assessment will make assumptions about the kinds of things that citizens care about and may be informed by evidence on what people actually choose in various situations. The economist does not typically view his or her assessment as a prediction about which policies citizens will support, but rather as a recommendation of which policies should be supported. Consequently, economists do not appear to follow their own principle of consumer sovereignty.

As with regulation, it can be argued that a naïve application of consumer sovereignty is inappropriate for economic policy. It clearly makes sense to delegate many decisions to policy advisers. While there is scope for debate about which decisions should be turned over to direct democracy, it seems implausible that every decision of economic policy would be made in this way. Public opinion can be fickle, although it is not always so (Yankelovich, 1991). Furthermore, as argued below, there is little payoff to individual voters in carefully considering information before voting. Consequently, citizens are unlikely to be adequately informed about all policy issues. Even if the ignorance of voters is not a problem, the costs of numerous referenda restrict the application of this option.

The role of information campaigns in relation to economic policy differs from that which was suggested for safety regulation. Although provision of information can sometimes be an alternative to regulation, it is not a plausible alternative to economic policy in general. It would be far fetched to dispense with government policy altogether. However, as with safety issues, it is possible that information campaigns could increase the congruence of opinion between the ‘experts’ and citizens. Information could be provided with the general objective of increasing understanding of government policy, or the specific objective of building up electoral support.

As noted above, economists’ advice is not typically presented as a prediction about
citizens’ choices. Consequently, the economic approach is not consistent with a literal interpretation of the claim that individuals are the best judges of what is in their own interests. But it is not necessarily evidence of genuine paternalism. Consumers often pay for expert advice in making decisions about health care, legal positions and financial investments. A consumer may judge that it is in her own interests to gather information before judging which purchase will be of most benefit to her.

Citizens and politicians may consider the advice of economists before making a judgement about which policy to support. In this regard, we might view an economist as an agent of politicians and other policymakers, who act as proxies for citizens. Clearly, we do not usually expect to get a prediction of our choice when we turn to an expert for advice. Consequently, we will have to dig a little deeper to determine if mainstream economists can reasonably be described as paternalists.

Recall that experts can be discussed in terms of principal agent analysis. So just as for the regulator, we might suspect economists of choosing advice that suits their own interests or perspectives rather than the interests of citizens. However, this may not be a serious problem from the point of view of the expert. The main problem may appear to be that the ‘principal’ wilfully refuses to follow the considered advice of the expert, rather than that the expert tries to fool the principal. While economists have fretted about the dangers of doctors “inducing” demand for their services, in order to increase their incomes (Dranove, 1988), doctors seem more concerned with the “non-compliance” of patients (Lerner, 1997). Similarly, economists have written little on how their own advice to governments might be self-serving, but volumes have been written on why governments fail to adopt the policies that economists argue would increase efficiency.

The branch of economics, which deals with explaining government choices, is public choice theory.

Public choice theorists have suggested a number of reasons why politicians adopt inefficient policies. First, voters are uninformed and have little control over politicians. Second, politicians have limited control over officials. Third, there are temptations to misuse political power. The first of these problems is critical. Citizens may make poor decisions if they are irrational or impetuous, but economists do not emphasise this possibility. Instead the focus is on lack of information. Public choice theorists argue that voters are “rationally ignorant”. This means that a voter gains very little individually by learning about what the government should and does do. Individual voters each have such a tiny influence on the fortunes of politicians and political parties, that it is not worth the effort to investigate political issues before voting. This leaves the political process vulnerable to self-interested decisions by not only politicians but also officials and lobbyists.

The argument in terms of ignorance seems overstated. Many people do follow political news and have an interest in policy issues even though there may be no obvious material benefit from doing so. Whether this is out of interest or a desire to be a responsible voter, it provides clear limitations to the opportunism of politicians and officials. The chances of re-election will be reduced if opportunism is exposed in the media.

Public choice theory, as an account of ‘political non-compliance’ provides some justification for economists to question the views of voters, as expressed through the electoral system. But it has not been established whether economists conclude that governments should override the views of citizens in adopting economic policies. As most economists do not have the
opportunity to impose their favoured policies, it is not easy to judge their paternalism by their actions. However, they will have paternalist beliefs to the extent that they believe that governments should act as ‘trustees’ rather than ‘delegates’, and adopt policies that they believe will be good for the country, irrespective of the views of voters.

Public choice theorists generally do not accept that governments would even try to act in the interests of the country. However, they sometimes suggest that both ignorant voters and opportunistic politicians might be restrained. In response to the alleged failings of the political process, a public choice theorist might suggest changes that restrict the possibilities for opportunistic behaviour. A salient American example is the proposal to make budget deficits unconstitutional (the “balanced budget amendment”). This would mean that politicians could not spend more than they raise in taxes, even if voters prefer that they do. At least to the extent that this proposal is justified with reference to voter ignorance, it does invite a charge of paternalism.

Although economists are not usually in a position to impose their chosen policies, they sometimes do have direct influence. Central bankers and IMF officials are examples. A central banker (such as the governor of the Reserve Bank) might adopt a monetary policy leading to high interest rates, even though citizens oppose this decision. Such a central banker could claim that the opposition was based on ignorance. This may well be true, but when most citizens oppose the policy even though they know that the central banker recommends it, paternalism does seem to be involved. The views of the central banker about what is good for citizens are not just being offered as advice. They are overriding the views of citizens.

It seems that, at least in some cases, economists can be described as paternalistic. This will be an uncomfortable conclusion for many economists, but it is not the same as concluding that this paternalism is unjustified. However, it would be difficult to justify paternalism about economic policy without allowing at least a potential role for safety regulation. Furthermore, some of the problems that economists have raised about regulation, are also potentially applicable to economists.

Economists may be imperfect agents because of their motives. They do seem to have views that systematically differ from those of the population in general. For example, they are generally less concerned with distributional consequences of policy. In addition, there may be compensating responses by citizens, if the views of economists are imposed on voters. Frey (1997) argues that treating people in ways that signal a lack of trust can “crowd out” intrinsic motivation. Perhaps restricting the decisions that voters can make could reduce willingness to participate and support social decisions. For example, he finds that those cantons in Switzerland that have the most direct democracy have greater tax compliance.

3. Conclusion

Policy economists may seem to be ambivalent about consumer sovereignty. Safety regulation is opposed on the grounds that consumers are the best judges of their own interests. But economic advice often contradicts the views of these consumers. There are at least three ways for an economist to state a consistent position. First she could give up the role as an advocate for consumer sovereignty. Second, she could continue to oppose paternalism, including paternalism by other economists. However, both of these choices probably require some movement from the mainstream position of economists. Finally, she could argue that the appropriate domain of consumer sovereignty includes consumer choices but not political choices.
While there may be arguments for this third position that have not been considered above, it appears to be a difficult thesis to defend. It is possible to oppose all safety regulation. But it would seem to require such a strong version of nonpaternalism that political and economic paternalism would also be ruled out.

VEC

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FOOTNOTES

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However, there may be nonpaternalist reasons for these measures. Medical costs of injured motorists and cyclists are largely borne by the state, and as such may be viewed as externalities.

Such as second opinions, guaranties and ‘incentive compatible’ contracts.

This argument is most natural when it is lack of information that compromises private decisions, rather than irrationality or impetuosity.

Some implicit value judgement on how the interests of different citizens should be weighed against each other is also required.

An exception is Buchanan (1964), who advocates a role for economists as predicting the constitutional changes that (nearly) everyone would support.

However, it is sometimes possible to oppose the adoption of policies that majorities support on non-paternalist grounds. The reasons could be that the minorities’ rights would be violated or that their preferences are more intense.

So long as the opposition and the recommendation are both based on beliefs about how the welfare of those citizens will be affected.