

The Siren of Democratic Fundamentalism

In an otherwise outstanding primer on Scandinavian economic policy, Timothy Taylor remarks:

I won't try to make the case here either for or against the Scandinavian model of capitalism. Strong majorities of people living in those countries seem to like the tradeoffs, which is all the justification that is needed.

“All the justification that is needed”?! Frankly, this is a textbook case of what I call “democratic fundamentalism.”

Almost all economists, regardless of ideology, would scoff at the following argument: “Market decisions are voluntary, so we should respect market outcomes.” But say, “Political decisions are democratic, so we should respect political outcomes,” and even economists salute.

Every economics textbook explain how market outcomes can go wrong. Externalities. Monopoly. Asymmetric information. Irrationality. Democratic outcomes can easily go wrong for all the same reasons. Is it possible that Scandinavians simply underestimate the severity of the disincentives their policies generate? Is it possible that they ignore the externalities their welfare state imposes on others – most obviously, by providing a rationale for immigration restrictions? Is it possible that Scandinavians vote for what *sounds good*, even if the actual effects of their preferred policies are bad?

Sure, you could object, “Couldn’t Americans be making analogous mistakes?” The answer, of course, is: “Of course.” My point is simply that political popularity proves next to nothing. Scandinavians could be wrong. Americans could be wrong. Both could be wrong. And if they are, bad policies will normally win by popular demand.