

Hello Everyone,

I wanted to close out the government vs. markets series last Monday but realized I had left out one very important component...our responsibility as citizens.

Thus, today's missive looks at *we the People*. Why do we vote as we do? Why do we complain about government but vote for the same people over and over?

Oh, and how does this affect corporate America? Does "rational ignorance" explain why Nike will embrace Colin Kaepernick but reject Betsy Ross?

As usual, I hope you find this thought provoking.

Signed, Your Going-To-Vote-In-The-City-Council-Run-Off-Election-Tomorrow Financial Advisor,

Greg

KKOB 12.02.2019 Part 5 Politics, Governments, Economies & Investments--- Short-Term Bias & Rational Ignorance

Bob: So, Greg, over the past few two weeks, we've looked pretty closely at the relationship between the markets and the government.

And, so far, it's very clear government's incentives and motivations are often in conflict with what we would call the common-good---- and long-term prosperity.

But, still, don't the voters bear some responsibility in all this? I mean we vote for these people.

Greg: You make two great points. One has to do with the short-term bias of government and the other with what many call the "rational ignorance" of voters. So, let's take them one at a time.

The first one (short-term bias) is easy.

We all know the time horizon for most politicians is the next election. They want to “get something done” fast----- even if it ill-conceived, expensive, and brings only temporary benefit. Their goal is to say, “Look what I did for you!” before every election cycle.

Bob: Right. And we see this all the time...at all levels. Projects are rolled out with great fanfare---- and five or 10 years later, they are all a hot mess that cost millions to clean up.

Meanwhile, the politicians that caused the problem have moved on...or else they blame someone else.

Greg: Right. Now compare this to the private sector. If businesses operated this way, they wouldn't last very long. Either the competition --or lawsuits-- would clobber them. But since it's government, we repeat the same practices every election cycle.

Oh, and to your earlier point... yes, you're right, *we the People* are guilty of routinely falling for the same old political tricks. In fact, we voters act so gullibly there is term for it. It's called *rational ignorance*.

Bob: wait. Rational ignorance? To me, that's an oxymoron. There is nothing rational about being ignorant.

Greg: I agree with your sentiment. But let me offer a weird rationalization for the

concept. The argument goes something like this:

In a democracy with millions of voters, the value of my one vote is rather small. And, since the value of my vote is miniscule, I am not inclined to spend a whole lot of time researching candidates, proposals, or platforms.

So, Bob, even though I don't agree with that. I kind of get it.

Anyway, because of this thinking, voters become susceptible to unreasonable & unrealistic promises. These low-information voters then tend to support politicians who offer them something for free.

Bob: And we see this all the time. It's as if people don't want to know. It would pop their bubble.

Greg: Right. And, it's a lot of work (and study) to vote responsibly. The injustice is--- for the informed voter, the payoff for his or her effort is the same as for the guy who walks into the booth and says, "I like that guy's name."

So, in this scenario, wouldn't the rational choice be to spend your time in other ways? After all, you don't get rewarded for extra work.

Bob: Thus, rational ignorance. And, my guess is seasoned politicians know all about this.

Greg: Sure. They're pros at it. Enlightened voters are a pain. Therefore,

we get campaigns of disinformation and confusion. The messaging plays to emotions over facts. And there is nothing more emotional than degrading & humiliating your opponent. And, in recent years, we've seen these techniques elevated to extremes.

Anyway, this lust for power allows for an "anything goes" campaign philosophy; irrespective of the common good.

Of course, once the scorched-earth policy is over---and the election results are in--- no one can govern because the campaigns incited only hatred, polarization, and the desire for revenge. Sound familiar?

Bob: Unfortunately, yes. And, I think I see where you are going with this investment-wise. You'd say businesses have a harder time operating in this environment because the society splinters. So, finding common ground to market your products gets tougher.

Greg: Sure. Great companies adjust to their surroundings. And it is far better for any firm to operate in a culture that values unity, clarity, accurate information, and positive feelings.

Bob: I couldn't agree more. As usual, I learned something. How do people reach you?

Greg: My number is 508-5550. Or go to my website at zanettifinancial.com

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