A misinformed electorate?

Thomas Jefferson felt that an informed electorate was the bulwark of democracy. I wonder what he would think of how misinformed many American voters are when it comes to the economy. Here are a few of the more widely believed myths.

Government spending has exploded: This is an article of faith among the angrier voters, but the data say otherwise. Over the course of the 2001-2007 expansion, government spending at all levels increased by an average annual rate of 6.2 percent. Since the Great Recession began, it has increased by 6.3 percent. Some explosion.

Governments are running deficits because revenues have dropped dramatically even when compared to typical recessions. During the last expansion, revenues at all levels grew by an average of 5.3 percent per year. Since the recession began, they’ve fallen by 2.8 percent per year.

The number of government jobs is down as well. To be sure, much of that is due to layoffs at the state and local levels. But even federal employment has only risen by about 1 percent per year since the end of 2007.

High inflation and interest rates are imminent: A common fear is that current budget deficits are sowing the seeds of future inflation. This resonates with voters who remember the inflationary late 70s and early 80s.

Yes, the money supply has expanded. Yes, the Federal Reserve’s balance sheet is huge. But with money circulating so little, the usual rules don’t apply. And sure enough, there’s no evidence of significant inflation on the horizon.

The core rate of inflation (used by policy makers because it’s made up of prices that are set infrequently and therefore factor in inflationary expectations) was 0.0 percent in September. Market prices for inflation-adjuseted bonds and inflation swaps reveal that traders’ greatest concern is not inflation, but deflation.

As for interest rates, the government’s policy rate has been at zero for nearly two years, and mortgage rates keep setting new all-time lows.

TARP was a costly failure: Hatred of the Toxic Asset Relief Program knows no partisan boundaries. Even Democratic challengers like North Carolina’s Elaine Marshall attack incumbents (in this case GOP Sen. Richard Burr) for voting for the Wall Street bailout in late 2008.

But the program actually did its job, and its cost will be far below the initial price tag of more than $700 billion. The U.S. Treasury estimated this month that, thanks to profits on interest, dividends and sales of stock, the actual cost of the program will be less than $50 billion — or less than half the cost of fixing the 1980s S&L crisis.

Not a bad deal.

Health care reform will raise costs: Such claims are often made by comparing a current figure (e.g., health-insurance premiums) with one 10 years from now, after the Affordable Care Act is in place. Of course that’s the wrong comparison, because health care costs will rise with or without the ACA.

The right comparison is with the ACA in 10 years versus without it in 10 years. When this is done, it’s clear that the ACA will reduce costs, if only slightly. The Congressional Budget Office estimates that the ACA will reduce the federal deficit. Harvard economist David Cutler estimates that it will reduce the health insurance premium as well as the economy’s overall cost of health care.

Perhaps getting the facts right is unimportant in this year of economic fear and loathing. Unemployment is still above 9 percent and the recovery has been uninspiring. Voters are scared, and a better understanding of the economy might scare them even more.

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