Book Reviews

The Myth of the Rational Voter: Why Democracies Choose Bad Policies

Bryan Caplan. 2007. Princeton: Princeton University Press. ISBN: 978–0–691–12942–6, $29.95.

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In the 1950s and the 1960s economics was revolutionized by the advent of the sub-discipline known as Public Choice. Public Choice applied the rational behavior assumption of economics to collective activity, particularly the behavior of people in government and bureaucracies. It also analyzed voting behavior using the assumption of self-interest and applied the principal-agent framework, originally developed in discussing corporate behavior, to public sector activities.

Over the next several decades Public Choice continued to expand its sphere of influence, developing its own journals and its own annual meeting. In 1986 James Buchanan won the Nobel Prize, primarily for his contribution to development of this part of the economics discipline. Even more importantly, almost all economists have integrated the basic assumptions of Public Choice into their analysis, making little distinction between private and public sector activity in terms of the assumptions about human behavior and the appropriate ways to model that behavior.

Now Bryan Caplan, a professor at George Mason University, a center of Public Choice scholarship, has written a book that challenges the most fundamental assumptions of the Public Choice model. He agrees with the overall implication of Public Choice that democracy fails to deliver on its promises. However, standard Public Choice scholarship relies upon transaction cost problems in the aggregation of voter preferences. Many voters are "rationally ignorant" because there is not enough at stake for them to pursue good information about policies. On the other hand, some parts of the electorate are concentrated in particular groups which have a specific interest in seeing certain policies passed. Therefore, the principle of concentrated benefits and diffused costs leads to policies that are bad for the public as a whole, even though they generate benefits for special interest groups.

Caplan challenges this basic assumption, arguing that it is only at the margins of political choice that special interests dominate, and that on most issues voters are choosing policies that they think improve national well-being, not their own personal well-being. If that is the case, does this destroy one of the main implications of Public Choice, that there is a substantial amount of government failure and that many government policies do not actually advance the public good? Caplan's answer is a resounding no: government policies are bad because the overall understanding of economics (read rationality) is low. People are not voting their pocketbooks; they are voting their belief structure. But their belief structure is so strong that it overrides what an economist would think of as adequate knowledge about the world.

Caplan identifies four major biases that people hold that are systematically wrong. The first is the *antimarket* bias. The *antimarket* bias fails to understand how people pursuing their own self-interest can have their actions harmonized through market institutions. This means that people do not see how profits serve as a reward for correctly meeting the needs of other people. It also generates conspiracy theories about price determination, rather than an understanding of how prices result from the interaction of supply and demand.

The second is the *antiforeign* bias that fails to recognize the gains of exchange with foreigners. Few people would argue that residents of the state of South Carolina are made poorer because South Carolina trades with Ohio, but many believe that the residents of South Carolina would be richer if there were restraints on international trade.

The third misunderstanding is the *make-work* bias that sees employment as the primary goal of an economic system, instead of recognizing the benefits of conserving on labor. Finally, the general population also has a *pessimistic* bias that overestimates the severity of economic problems and underestimates how well the economy has done in the past and is performing in the present.

Since the political process works reasonably well, according to Caplan, the voters get the foolish policies that they want. How do we know that the policies are foolish? It is because economists, who have thought deeply about these issues, believe otherwise.

However, if the general public is biased, how do we know that economists are not also biased? It is at this point that the empirical evidence for Caplan's argument becomes somewhat sketchy. He relies upon a large 1996 survey project called the Survey of Americans and Economists on the Economy. He finds a substantial difference between the beliefs of economists and the general population about the functioning of markets, the gains from trade with other countries, the benefits of labor-saving devices, and the overall performance of the economy. He then estimates to what extent the positions of economists on a range of issues reflect their particular self-interest. In other words, he is asking, "What would Ph.D.

economists believe if their finances and political ideology matched those of the average person?" (p. 55). He finds that no more than twenty percent of the gap between the layperson and the expert (Ph.D. economist) can be explained by ideological bias or self-interest. This means that eighty percent of the gap occurs simply because economists have studied the issues and have generally come to common agreement as to the correct answers.

It is important to note in all of this discussion that Caplan is not arguing that it is simply the cost of information that keeps the general public from understanding economic issues. Rather it is basic worldviews, or the fact that people have preferences for certain beliefs, that keep them from learning more accurate information about how the world works. He calls people "rationally irrational" on matters of economics because they have a belief structure that gives easy explanations for price fluctuations and job losses due to foreign competition. Thus it is not that "people tire of the search for truth . . . but rather that they actively avoid the truth" (p. 123).

What should one make of this wide ranging and well-written argument for a fundamental rethinking of the basic assumptions about people's behavior in the political arena? Of course one problem with his work is the reliance upon a single survey which, although seemingly well constructed, is just that, one piece of evidence. Counter evidence that people do understand economics can be seen in migration patterns between states; empirical work indicates that states with economic policies that economists would call "sound" attract people, while states that pursue "unsound" policies lose residents. Nevertheless, one cannot lightly dismiss Caplan's work and there are some other parts of his argument that should give economists serious pause. One is the difference in the way that we approach our standard introductory economics class and the way that we write our journal articles. In the realm of refereed journal publications we do not assume any sort of systematic irrationality on the part of the population that we are modeling. However, for most of us, when we look at a class of students who are taking their first economics class we assume that they do have systematic biases and that part of our job as professors is to spend the semester providing evidence that these biases are incorrect.

Perhaps more interesting and more troubling for the Christian economist is the issue of where Caplan's work leads. He argues that economists are too friendly toward government. They should be even more pessimistic about government than they are, since government programs are instituted for and operated by people with a dismal understanding of economics.

Although this reinforces the Public Choice perspective that government failure is a significant problem, his solution is different than the Public Choice one, which argues for processes that do a better job of aggregating public preferences. Since he thinks public preferences are fundamentally wrong he does not want to expand the influence of the general public on governmental policies. It is not completely clear what he would recommend as appropriate policy prescriptions, but he does think that we should rely more heavily upon elites for decision-making. In the case of economics, that would mean using expert opinion to override or ignore public preferences. In fact, it might be worthwhile to limit the franchise to people who are economically literate. He thinks that it is no more objectionable to require a test of voter competence (which presumably would focus on matters economic) before entering the voting booth than it is to require a test for driving competence before allowing people to take the wheel of an automobile.

While Caplan's arguments are interesting and, to some extent, convincing, the implications are troubling. How do we decide that it is only in the area of economics that we need the rule of experts? What about other choices in the public realm? Should we also rely upon expert rule there? And on issues of morality and ethics it would surely become more complex to decide who is an expert and who is not. In those areas, "expert opinion" could well differ from what ordinary people (and many Christians) believe. As in matters economic, Caplan thinks expert opinion should be respected in other areas, and "a more knowledgeable public would be more pro-choice, more supportive of gay rights, and more opposed to prayer in school" (p. 27).

Caplan's argument for enhanced power for elites in certain decision-making processes can have an appeal to people when they are thinking of their own specialty. Economists may like the idea that if only they were more respected, economic policy would be improved. One should be quite cautious, however, about signing onto a "the public doesn't know what is in its own interest" agenda. Caplan is troubled by the fact that "instead of fairly weighing all claims, we can show nepotism toward our favorite beliefs" (p. 14). He quotes another author who gives insight into this problem: "Without some belief structure many people find this world meaningless and without comfort" (p. 14). Hmmm. This sounds a lot like the Christian faith. As thoughtful believers we do look at the world we live in, and hopefully we examine other claims. Once we have committed to our belief structure, however, we have a "preference for those beliefs." Caplan seems to think one does not need any ethical or religious framework for organizing one's life; we can simply weigh all claims and avoid "irrationality" in our understanding of the world.

Caplan has written a fascinating book, one that economists can profit from reading. It raises interesting questions about the role of belief structures, economic education, and how we interpret terms like rationality and informed public opinion. This book will undoubtedly cause a rethinking of some of the fundamental assumptions of Public Choice; it is doubtful that it provides a comprehensive model for thinking well about life in general. ■