

Review of Bryan Caplan's *The Myth of the Rational Voter:
Why Democracies Choose Bad Policies*

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This bold, imaginative book advances an entirely new theory of voters' behavior. The starting point for this theory is that individuals are endowed with a set of beliefs, or a worldview, and derive psychological benefits from acting in accordance with these beliefs. However, the beliefs of most people about many issues are systematically wrong, in the sense that the world really works differently from the way people like to imagine. For example, a majority of people think that free trade is bad for the economy, while in fact it is deemed by most economists to be good.

Individuals also care about their own material well-being. Since acting on wrong beliefs is often costly in terms of material well being, agents must keep an eye out for situations where they face a potential trade-off between sticking to their (possibly wrong) ideas and minding their more prosaic interests. How they solve this dilemma depends on the price to pay in case of mistake. In Caplan's view, in most everyday situations the cost of being true to one's wrong beliefs is large, and people choose material interests over beliefs. For example they ignore their anti-trade bias in their consumption and labor supply decisions.

There is one place, however, where the material cost of indulging one's world view is individually trivial, and this is the voting booth. Because the probability of influencing the election outcome with one's vote is effectively zero, the perceived cost of voting, say, against free trade is virtually nil. It is therefore individually rational to support protectionist candidates. Since a majority of voters holds the same (wrong) beliefs, this individually rational behavior results in a collectively irrational choice. Which is why, to paraphrase the book's subtitle, democracies choose bad policies.

This theory is terribly attractive. That people hold widely different world views, and are unwilling to change them, is of course the source of most of the events making international news these days. As pointed out by Caplan, that a majority of people believe stuff that most economists rate as dead wrong is well known by anyone who has tried to change those beliefs in introductory or intermediate economic courses. (To this I can only add that those of us who have taught executive-education classes in business schools know these beliefs are by no means confined to twenty-somethings with no labor-market experience). Yet most people seem to get by with those beliefs without suffering any big personal catastrophe. By imagining that people trade-off acting on beliefs v acting on self-interest, using the individually correct "situation-specific" relative prices between the two, Caplan solves this puzzle in a manner that manages to be at the same time vastly original and yet deeply consistent with established economic method. In doing so he provides an important novel critique of the institution of majority rule.

The theory has rich, non-trivial, and plausible implications for, respectively, the profit- and vote-maximizing behavior of the media and politicians (or the type of people who succeed

in politics). To these Caplan devotes an interesting chapter. What he does not mention is that his theory can also solve another long-standing puzzle concerning voting behavior. If agents derive utility from expressing their beliefs, then it becomes possible to make sense of the fact that people vote *in the first place*. None of the theories of voting behavior that I am aware of presents such a simple and plausible view of both *why* and *how* people vote. I think this “bonus” is an important additional reason to like the book.

What’s the alternative to Caplan’s theory? Most political-economy models adopt some version of “rational voting.” In a nutshell, this means that each voter goes to the voting booth and then casts his vote on the assumption that his vote will be decisive. An interesting aside is why this behavior is supposed to be rational, given that it does not explain why people bother to vote to start with. This not-so-minor quibble aside, one big difference with Caplan’s theory is that in the latter voters vote with their heart, while so-called rational voters vote with their minds. Caplan’s voters however know it is OK to use their heart because their mind tells them they will never be decisive. So-called rational voters vote with their mind because they can somehow lull themselves into believing they might after all be decisive. It seems to me far from obvious from this comparison that the so-called rational voter is as rational as it is cracked up to be, nor that so-called rational-voter theory is all that internally consistent. This without even getting into the profound psychological implausibility of the behavior postulated by rational-voter theory. Caplan’s voters look much more like they have it together.

To both motivate and support his theory Caplan marshals a variety of empirical information, from voter surveys to historical anecdotes, and mixes in well-targeted appeals to everyday experience and introspection. His main concern is to establish that voters really make *systematic* mistakes when thinking about economics (he thinks they do so in other fields as well, but economics is sufficient for his argument). His main source of formal evidence for these purposes is the Survey of Americans and Economists on the Economy (SAEE). The results clearly show that, even after controlling for demographic characteristics, income, and education, the average voter has views on the economy that are clearly at odds with those of economics PhDs. The survey should do a fairly good job of mimicking voting behaviour of respondents, given that there is zero material cost of expressing their worldview when questioned.

Few new paradigms come into the world without some loose ends. This one is no exception. The rest of this review will highlight some of these loose ends, not as fatal flaws in the argument, but as an agenda for future work in this area. I will also examine the extent to which the evidence presented by Caplan is dispositive.

1 Where do biased beliefs come from and why do they persist?

The biggest gap in Caplan's theory is a theory of voter beliefs. In economics, we have long recognized that the beliefs agents hold are endogenous variables every bit as much as agents' choices and payoffs. Beliefs that affect voting decisions are no exception. For example, in an important paper which unfortunately Caplan does not discuss, Alesina and Angeletos (200?) explain the extent of the welfare system with the degree to which voters are confident in the fairness of the market system. The more voters believe that the market fails to reward effort, the more they will support a large welfare system. Crucially, however, in their theory a larger welfare system implies that effort is less rewarded, so voters' beliefs are self-fulfilling. Nobody is making a mistake. Caplan's central point is indeed the very opposite: the median voter believes stuff that is wrong *in the model*.

Caplan devotes little more than one sentence to the origin of beliefs, with a somewhat half-hearted reference to evolutionary psychology. In particular, he suggests that protectionist instincts, whose proximate cause resides in what he calls an *anti-foreign bias*, may be a legacy of a stage in our evolutionary history in which it paid off to be very weary of other bands, or tribes. That is a huge leap, and leaves much too much work for the reader to do on his own. Surely even our hunting and gathering ancestors appreciated the difference between warfare and barter? Surely competitive behavior (for status, resources, and wives) coexisted side-by-side with cooperation *within* bands, so why could it not coexist *between* bands?

It is not that I am not sympathetic to evolutionary psychology as a way of making sense of preferences and beliefs, quite the contrary. But I object to casual throwaways of the "there must be some evolutionary psychology explanation for this" form. Unfortunately one encounters these claims more and more often. To treat evolutionary psychology with the respect it deserves as a method of scientific enquiry, a survey of pre-historical evidence (in the case in point, on patterns of trade, or lack thereof) is an indispensable first step, which must be followed by sketching a careful and well-articulated model of the set of beliefs concerning trade that would confer a reproductive advantage in pre-historic times.

On the origins of beliefs other than those concerning foreign trade Caplan is even more sketchy. For a book whose main goal is to offer a theory of the failure of democracy based on erroneous beliefs this is a grave omission. One of the great attractions of the book is that it is short. Yet, I feel that the book would have been much more compelling with an additional couple of chapters trying to develop the evolutionary argument in a more compelling fashion.

Explaining the origin of beliefs is only the beginning. One also has to offer an argument for these beliefs' persistence. To a point I suspect this may be easier to do. Reproductive fitness depends, among other things, and perhaps chiefly, on one's nutrition and status relative to other members of the group. Now recall that in Caplan's theory agents are able

to silence their own wrong beliefs whenever the individual material cost of not doing so are large. Hence, agents who behave á la Caplan do not jeopardize their relative fitness. Wrong beliefs only affect collective decisions, and as such do not have direct selective consequences for individual members holding such beliefs.

Yet that there are no individual selective consequences within the group does not mean there are no consequences between groups. Since multiple human populations have spent millennia segregated from each other, we should expect plenty of drift in the beliefs of the median voter (or median member of the council of the elders, or whatever). And then those populations (or regimes) whose beliefs are seriously wrong should get into serious trouble when coming into contact (and competition) with populations with better beliefs. Isn't that how socialism ended?

In sum, thinking through possible origins and, especially, persistence of erroneous beliefs throws up a potentially serious challenge to Caplan's theory. If these beliefs have an evolutionary origin, as Caplan suggests, then there must be drift. If there is drift, different populations will have different beliefs when coming into contact with each other. Those populations with the better beliefs should then outsmart and eventually outnumber those with inadequate beliefs, much like those with better guns, germs, and steel outsmarted and outnumbered the others in the age of discovery. Caplan needs some reason for why this did not happen. One possibility that suggests itself is that people's beliefs are not as wrong as Caplan makes them. Maybe not believing in free trade is not that costly after all, even collectively. More generally, perhaps competition among social groups has already selected out the truly harmful beliefs that can get democracy in trouble. The result in the surviving societies may not be perfect. But how bad can it be?

Caplan does acknowledge that democracy does not lead to disaster, but in his view this is not because the public's systematic biases are relatively harmless. He offers two explanations. The first is selective participation: people who exercise their right to vote tend to be more educated than those who don't. Given that education "substantially increases economic literacy," the median voter is less biased than the median non-voter. This is clearly a very US-centric view: voter participation is much higher elsewhere, including in countries with high rates of illiteracy. The second is that voters have systematic biased beliefs about policies, but their perceptions about the current state of the economy are fairly accurate. Consequently, "leaders have to strike a balance between doing what the public thinks works, and what actually does." Politicians may thus pretend to agree with the voters without actually implementing some of their worst ideas. Yet one systematic bias cited by Caplan is excessive pessimism on the state of the economy. It is hard to square this with a view that voters have an accurate perception of the state of the world.

2 Can one hold conflicting beliefs?

Caplan's theory is simple, which is one reason why it is powerful. But there is one aspect of it that requires some careful reflection before the whole can be digested. In its basic version, it appears to imply that agents are able to simultaneously hold conflicting beliefs. There are the cherished beliefs of one's irrational or pre-rational world view, which are used when the material personal costs of doing so are small, such as when voting, and there are the prosaic beliefs that agents "switch on," or "switch to," when they have to make hard-nosed personal decisions important to their everyday life.

How plausible is it that conflicting sets of beliefs will coexist in the same mind? Caplan mostly invokes casual observation to argue that, indeed, people seem to switch back and forth among conflicting beliefs, depending on circumstances. He also provides some specific examples, but his choices are either very odd (he begins with the Jains decisions regarding nudity. Ha? Indeed), or don't quite work (as in his discussion of Jihad). No matter: my own casual observation (but not introspection, of course!) is entirely in agreement with his. For example, I see no other way of explaining the behavior of several otherwise perfectly reasonable friends of mine who persist as of today in voting for the unreconstructed communist parties in Italian elections. Indeed, people who describe themselves as "leftist with the heart, and conservative with the head" (or Argentines suffering from "Corazon Peronista," compelling them to re-elect obscenely and blatantly corrupt and/or inept Peronist candidates over perfectly good alternatives), may be incarnations of Caplan's voters. More generally, only a small percentage of voters actually switch allegiance between political parties in their lifetime, despite frequent changes in party leadership and policies. Changes in personal circumstances, such as net worth, do little to weaken the blindly-held allegiance that many voters have to their party. In the UK people who consider themselves working-class vote Labour for this reason only.

And yet, we should not need to rely on casual observation on this. There is a vast sub-field of psychology devoted to the study of cognition. Had Caplan drawn on that literature, he would probably have been able to provide a much more solid empirical basis for his cognitive assumptions. Even more importantly, a review of this literature would have served to clarify the cognitive processes by which people achieve the remarkable feat of believing that "A is true," and that "A is not true," without driving themselves mad.

In sum, Caplan's theory desperately cries out for a firm grounding in cognition science. I suspect the science would be abundantly supportive of his ideas. More's the pity that he eschewed the necessary footwork. Incidentally, had he dug deeper on the psychological literature, he might also have spared himself the obvious marketing mistake of choosing an oxymoron to name his theory. Rather than the awfully gauche "rational irrationality," which

mercifully did not make it into the book's title, he might have settled for something like "cognitive dissonance and voting behavior." Somewhat staid, perhaps, but at least not a shot in one's foot.

3 Who's biased anyway?

The premise of Caplan's theory is that voters have systematic biases that lead to poor policies. One of his main examples, which I have repeatedly referred to, is an anti-foreign bias that translates into a suspicion of free trade and thus excessively protectionist policies. Caplan is perfectly right that a majority of people are instinctively protectionist, and that this instinctive protectionism, more than any Olsonian bias in favor of special-interests, is the main explanation why there is so much political resistance to lowering trade barriers. The question however is whether it is self-evident, as he clearly takes it, that the rational, unbiased position is an unconditional support for free-trade.

The weakness of this position is so obvious that it is barely worthwhile rehearsing. First, systematic empirical evidence that free-trade is income- or growth-enhancing is notoriously patchy, and certainly nowhere near so compelling as one would expect given the near-universal belief in free trade by economists. Second, and more importantly, it is possible to make a perfectly plausible argument (and I am certainly not the first one to make it), that economists' views are as biased in favor of free trade as those of the general public are against.

We are not as callous as to deny that there are adjustment costs following the removal of trade barriers. These costs take the form of costly reallocation of capital and labor across sectors, and geographic areas. During this process both capital and, more importantly, labor suffer from spells of unemployment. In the case of older or very unskilled workers the disappearance of certain industries lead to permanent unemployability. And of course in skill-abundant countries there are absolute wage declines for unskilled workers that may, *or may not*, be compensated by the fall in the price of consumption goods.

But even though we are willing to admit that some costs exist, we seldom put them explicitly in our models and because of this, I think, we tend to forget about them when we think about real-world issues. Even if we don't forget about them, we reassure ourselves with the argument that trade generates extra resources that can be used to compensate the losers. Never mind that experience clearly shows that these compensations typically either don't materialize, perhaps because they themselves involve considerable deadweight costs, or don't work. Never mind, also, that sometimes purely financial compensation is powerless to rebuild the shattered self-esteem of a 50-year old who has been made unemployable by foreign competition.

My own guess is that the general public is more aware than the typical economist,

entranced as the latter is by the aesthetic pleasures of contemplating the beauty of the theory of comparative advantage, of the transitional and distributive consequences of changes in trade policy. Whether voters exaggerate these costs I don't know, but that we economists tend to underestimate them I am fairly convinced. Furthermore, we are hopeless at assessing psychological costs. Most "normal" people will take it as self-evident that the anxiety and loss of identity associated with unemployment and unemployability are virtually impossible to compensate financially. Yet, we tend to treat any behavior inconsistent with maximization of $u(c)$ as hopelessly irrational. No wonder we are surprised when people are suspicious of trade.

Another manifestation of anti-foreign bias that drives economists crazy is the hostility to foreign take-overs of domestic firms. Caplan actually does not discuss this at any length, perhaps because it is currently less topical in the US, but it is a very big deal in Europe and EU politics. Unlike foreign imports, foreign takeovers do not necessarily imply direct adjustment costs, so this type of economic nationalism might seem a better target for our scoffing. And yet I suspect that simply concluding that "people don't get it" is too easy an answer.

I know plenty of economists with impeccable neoclassical credentials that, every four years, consider it perfectly normal to spend one month glued to the television set, to which they alternately direct the wildest exclamations of joy and chagrin. Their hearts are aflutter, their breathing is short. When their national team scores they think nothing of jumping up from their seats, hugging each other with loud shouts and, in the lucky event that citizens of the opponent country are present, taunting them in the crassest of manners. It would never occur to them to consider such unseemly behavior irrational, much less a puzzle to explain.

Yet these same economists profess to be mystified by what I will now pointedly call economic patriotism. But why, if I accept it as a basic fact of life that I am allowed to derive so much pleasure in reminding myself, and my readers, that Italy won the last World Cup (particularly by beating Germany in the semi and – here I have to check myself to contain my delight – France in the final!) should I not then take pride in Unicredit buying out HVB Group, or root for Enel in its attempts to take over Electricité de France? And, by the same argument, why shouldn't I support attempts to keep Italian firms under Italian ownership and management?

Pointing out that economic patriotism, unlike the sporting variety, is costly (after all that foreign threat of takeover must signal that domestic management is inefficient, and that under foreign ownership the firm would generate more social value) is absolutely correct, but besides the point. Once we admit that patriotism is a natural, perhaps even a healthy piece of us humans (at least in this stage of our evolutionary or cultural history), then it

behoves the self-respecting economist to abandon all scoffing and admit instead that people may be willing to trade-off some economic efficiency for the satisfaction of knowing that their country's firms are run by their countrymen. Of course defence at all costs even when domestic management is truly awful would be irrational, but it is not clear to me that one can point to many such extreme examples.

The anti-foreign bias I have discussed so far is one of four economic biases Caplan emphasizes in his book. The other three are: anti-market bias, which is essentially a deep-seated prejudice against the profit motive, leading in Caplan's view to excessive regulation; make-work bias, which I think other economists know as the lump-of-labor fallacy, and which leads people to oppose the application of labor-saving technologies; and pessimistic bias, which consists of a tendency to systematically believe that the economy is doing worse than it is.

There is no space here to tackle all of them, nor is this necessary, because I have made my main points already. I agree wholeheartedly that in all these areas there is a systematic difference in views between economists and the general public: we economists are more pro-market, more pro-technical change, and more optimistic. I also think that Caplan has made a very important contribution in pointing these differences out. But I am not yet convinced that the error is all, or even mostly, on the part of the general public. Economists may be misled by their models, or rather by their modelling style, in underestimating the distortions generated by monopolies, or the transitional and distributive costs associated with the adoption of new technologies.

I emphasize that I am not questioning Caplan's basic claim of voter irrationality. I am just saying that he undermines his own empirical case by choosing economists as his benchmark for the "unbiased" view in economic matters. Caplan defends his approach by pointing out that appealing to the opinions of "experts" would be deemed perfectly reasonable in other fields. For example, if people firmly hold beliefs about the toxicity of certain substances that are deeply inconsistent with the views of toxicologists we would hardly doubt that the former are wrong and the latter right. Yet this is missing an important difference between the grounds on which economists and toxicologists think they know what they know. Toxicologists derive almost all of their knowledge from experimental evidence. The vast majority of what makes the economist's world view comes from theory, not evidence. It's a crucial difference, and I think the general public knows it.

4 Stuck with democracy?

Despite my reservations about Caplan's view of economists as paragon of unbiased beliefs, I am quite willing to accept his view of voters. They don't go to the voting booth and

say “suppose I was pivotal, ...”. Rather, they bring to voting the same kind of attitude that they bring to sports: they have a team they have always loved and they want it to win, no matter how lousy the players are in this particular year. They want to be faithful to family tradition (or, for that matter, they want to break with family tradition). They want to connect – at least here, at least now – with their youthful ideals. Since one’s vote doesn’t really matter, it can be used to fulfill psychological needs that have little to do with the bread-and-butter issues that dominate the rest of their life (where one’s actions do have direct personal consequences).

As Caplan rightly points out there is absolutely no reason to expect that, somehow, all these individual biases will cancel each other out to produce “the right outcome after all.” Irrational beliefs are not like classical measurement error around an unbiased mean. We can all be wrong in the same direction, if that suits our heritage or culture. As a result, there is a serious problem with democracy. More importantly, and more devastatingly, this problem is *unique to* democracy. While dictatorships and oligarchies can go wrong for all sorts of reasons, they will not go wrong because the decision-makers do not care, or feel that their decision does not matter. In contrast, by its very nature democracy means that each decision-maker’s choice is immaterial. It is a recipe for collective irresponsibility.

What can be done about that? On a purely empirical basis – and, if nothing else, this book makes it clear that there should be no other basis for the comparison – democracy still seems to perform better than dictatorship or hereditary absolute monarchy (though China may be leading some to reconsider, at least as far as economic outcomes are concerned, and though, furthermore, differences in the causal effects of democracy and dictatorship on growth are as hard to establish rigorously as the benefits of trade). Hence, any improvement must probably come more from tinkering at the edges of democracy, than from a wholesale replacement of democracy with something completely different.

Caplan’s main proposal is to try to move as many issues as possible from the political sphere to the market. In market settings people are not allowed the irresponsibility they can afford in the voting booth, so if fewer decisions are taken in a process involving democratic voting the overall quality of decisions should improve on average. This is probably sensible, though this might be my (and his) economist bias speaking. But it is a very narrow solution, which at best takes care of problems in some limited areas of economics. If we are worried about the collective irrationality that democracy ushers in, we need to worry about much more important life-and-death decisions, such as going to war. There is no way this can be done by the market.

Another approach Caplan seems to be sympathetic to is a return to some sort of education requirement for voting rights (or more generally for weighting votes based on

education). His main argument in support of this solution is that more educated voters give answers to surveys on the economy that are more similar to those of economic PhDs (though still quite different). Not surprisingly, given my previous comments, I don't buy this for a second. First, economists are not obviously unbiased. Second, why not then give the vote exclusively to economics PhDs? (If you think that's a good idea you are not attending the same conferences that I do!)

I think a better idea may be to have decisions taken by a small, say no more than 100 strong, randomly drawn sample of the population. The small size should ensure that each member of the decision-making body has a non-trivial probability of being pivotal, forcing him or her to carefully weigh the material consequences of the outcome. Because the sample is randomly drawn there is no problem of politicians or the media pandering to voters' irrational beliefs. The randomness of the sample should also insure a reasonable representativeness, so that this system would have the same egalitarian properties that are the main attraction of democracy. This randomly drawn body would replace the various parliaments and congresses of modern democracies, and would be renewed by another entirely random draw every few years. (Presidential systems would have to become parliamentary ones for this to work, with prime minister appointed by, and responding to, the decision-making body).

Of course, in coming up with possible solutions to the collective irresponsibility and chronic irrationality implied by democracy I am (and Caplan is) indulging in purely idle theorizing. For the fact is that we live in democracies, and any reform to the system must be, directly or indirectly, democratically approved. If there is one irrational belief that voters will never rationally relinquish while in the voting booth, it is the belief that democracy leads to rational results.

References

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