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Rational Irrationality and Bad Policies

by George C. Leef

[The Myth of the Rational Voter: Why Democracies Choose Bad Policies](#)

by Bryan Caplan (Princeton University Press, 2007); 276 pages; \$29.95.

For many years, the standard account of the tendency for democratic governments to adopt perverse policies (restrictions on free trade, for example) has centered on the presumed rationality of voters. Most voters are, this explanation goes, rationally ignorant about the content of legislation and the nuts and bolts of politics because their tiny bit of influence — a single vote and maybe a few letters or emails fired off — just isn't worth the cost of becoming well informed. On this view, special-interest groups and politicians act like cockroaches, scurrying around in the dark to do their skullduggery. If the lights were to be turned on, they'd be squashed, but for the most part the lights stay off. The rational ignorance of the voters ensures that.

George Mason University economics professor Bryan Caplan takes issue with that explanation in his new book, *The Myth of the Rational Voter*. In Caplan's view, voter ignorance isn't the key problem; instead it is the fact that most voters have irrational (or at least ignorant) preferences when it comes to public-policy matters. They tend to support politicians who advocate policies they like, even though those policies are detrimental to the general economic well-being. What the voters don't understand, however, is that their favored policies are harmful because, Caplan argues, they tune out contrary information. Therefore, if many voters have an emotional preference for protectionism, we get protectionism, despite all the evidence that it's economic poison.

Caplan identifies four beliefs that are common among voters and that drive policy in the wrong direction:

- Anti-market prejudice. This is the tendency among non-economists to underestimate the benefits that we derive from leaving things up to voluntary interactions of people on the free market. Adam Smith's view that the competitive force of the market acts like an invisible hand, guiding individuals to act in furtherance of the overall good, is too counter-intuitive for most

people, even many who have taken an introductory economics class. Therefore, politicians find many eager supporters when they offer policies that purport to fix the failures of the “chaos” of the market with coercive laws and regulations. The widespread appeal of government health-care programs is a good example.

- Anti-foreign prejudice. The voting public is similarly prejudiced against foreigners. Even though national boundaries have no more relevance in economic transactions than do state or city borders, many people act as if dealing with someone from another nation makes everything different. No American worries about trade deficits from state to state, but when politicians start yammering about our trade deficit with China, many voters react with alarm. The political language about foreign trade and immigration is the language of warfare rather than of peaceful commercial activity because many people have an irrational prejudice against foreigners.

- Make-work bias. The third systematic error that most voters make is rooted in their prejudice against the benefits of conserving labor. Where economists see the opportunity to produce more goods and services with less manpower, noneconomists usually fret about “the destruction of jobs.” Owing to this prejudice, politicians often find enthusiastic support for policies designed to prevent competition that could cost people their jobs.

- Pessimistic bias. The final systematic error that Caplan finds among voters is that they tend to overestimate the severity of economic problems, while at the same time underestimating economic successes and favorable trends. Bad news sells and Americans get a steady diet of it. Bad news on unemployment, inflation, the supposed maldistribution of income, the environmental crisis, the health-care crisis, the education crisis, and much more all work to keep Americans on edge and eager to hear politicians say that they care about those problems and have plans to solve them. Any politician who downplays the pessimistic talk is apt to get mauled for his lack of “concern.”

Caplan has encountered those biases (and undoubtedly others) in his years of teaching economics, but he relies on more solid evidence for them than just his own experiences. He draws on the results of a project called the Survey of Americans and Economists on the Economy (SAEE), which put a battery of questions to economists and noneconomists. The results were consistent with the biases Caplan identifies. For example, the public is far more apt to fear immigration than are economists, far more apt to believe that business executives are paid too much, and far more apt to worry that technology is displacing workers.

Although it's often true in other settings that the errors people make tend to cancel each other out in large numbers — if you take the average of the guesses on the weight of a cow of a

large number of people at a state fair, it will probably be quite close to right — that certainly is not the case when it comes to democratic choices on economic policy. We don't have a situation where half the voters want too much price control and half want too little and we therefore end up with the right amount. Rather, most voters want too much. (I'm sure that Caplan would agree that the optimal amount of price control is none at all.)

Rational irrationality

To make matters worse, voters often have emotional attachments to their erroneous economic beliefs. Just as people have preferences for flavors of ice cream or types of music, Caplan argues that voters have preferences for their political/economic opinions. Those opinions may be just as much a part of an individual's self-conception as is, for example, religion. That is why challenges to them are so often met with hostility. Try to persuade a self-proclaimed "man of the left" that laws against "price gouging" after a natural disaster are harmful and you'll probably suffer from burning ears for a week. Acceptance of political/economic views often has nothing to do with evidence and logic and the problem is that what many Americans believe is completely contrary to evidence and logic.

Here Caplan introduces the seemingly oxymoronic idea of "rational irrationality." What he means is that people tend to adhere to irrational beliefs as long as the cost of doing so isn't too high. If a business owner who despises immigrants finds that his competitors are hiring them and beating his productivity, the high personal cost may very well cause him to change his mind and start hiring immigrants. His irrational belief is costly to him. The salient fact about political action, however, is that the voter's minuscule impact on public decision-making makes the cost of doggedly sticking with irrational beliefs zero. That's why erroneous ideas persist in politics far more than in market action. As the author writes, "Voting is not a slight deviation on shopping. Shoppers have incentives to be rational. Voters do not."

To demonstrate his idea, Caplan provides a number of fascinating examples. Consider, for instance, Stalin's decision-making. He was content to remain true to Marxist theory in agriculture, allowing the wacky Lysenko free rein. All that was at stake there was food production. If some peasants starved, so what?

But when it came to nuclear science, Stalin didn't want anything to get in the way of the Soviet Union's developing the bomb, so he refused to interfere with scientists who deviated from Marxist dogma on the structure of the atom. Cherished notions are apt to be cast aside when the cost of adhering to them gets too steep. In democracy, unfortunately, that point usually isn't reached.

Dangers of democracy

One of the liveliest chapters in the book is the one entitled “Market Fundamentalism,” wherein Caplan does battle with writers such as Robert Kuttner who defend democracy and call for its extension into even more aspects of life. Our author handily turns the tables on this crowd, showing that it isn’t the economists who question the efficacy of democracy who are guilty of “fundamentalism,” but rather the democrats who feel compelled to defend democracy come hell or high water.

Caplan’s theory leaves you wondering why things aren’t even worse. If voters are so driven by irrational biases, why hasn’t the United States sunk deeply into the kinds of short-sighted, populist economic regulation that strangles economic growth? Caplan explores that question at length. One reason he advances as an explanation for the fact that we are still to a considerable extent an economically free nation is that popular politicians have a lot of “wiggle room” with voters. Voters may be saturated with all four biases, but quite a few politicians realize that if they were to go along with every socialistic, anti-foreign, or Luddite bill, the result would be economic ruin. That could spell defeat at the next election, so they have to find ways to appear to go along with the desires of the voters while actually surrendering little ground. This might be the silver lining to the fact that few elections are really competitive these days. If all the incumbent-protection schemes help make it easier for politicians to ignore the destructive desires of the voters, that could be more a plus than a minus.

One implication of Caplan’s view of voting is that we should stop worrying about low participation in elections. He maintains that the population of nonvoters is probably even more prone to the biases he has identified than are voters, so low participation helps to keep economic policy from being even worse than it is.

The more important implication is that the smaller the role for democracy in our lives, the better. Under a minimalist, Jeffersonian sort of government that just did what was necessary for the protection of life, liberty, and property, irrational views by large percentages of the public on such matters as the lowest wage that employers should be allowed to pay or whether we are buying too much from China would be perfectly harmless because the government would have nothing to say about such questions. The best safeguard against a venal and corrupt government is also the best safeguard against one that is driven by foolish beliefs of the voters — that is, to give it very little power and responsibility.

Counterintuitive truths

What can we do to improve this state of affairs? Caplan would like to see professors of economics do a much better job of explaining counterintuitive truths to their students, suggesting that they should “channel the spirit of the original one-handed economist, Frederic Bastiat.” Bastiat was brilliant in his attacks on fallacious economic thinking (think of the famous “Candle-makers’ Petition,” for example) and I couldn’t agree more that many professors don’t do nearly

enough to break through the irrational economic beliefs their students generally hold. Sad to say, though, many economics professors don't appear to have much interest in disabusing students of their statist misconceptions, and relatively few students ever take a course in the principles of economics. Better teaching would help, but it won't push back the frontiers of ignorance very far.

Still, Bryan Caplan has written a book that is very thought-provoking and will no doubt be at the center of a raging intellectual battle for years to come.

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