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ARE VOTERS IRRATIONAL?

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## ARE VOTERS IRRATIONAL?

In talks I've given over the years, I've often explained bad economic policies by reference to the undue influence of the special interests that benefit from them. Bad policies typically confer a benefit on a small number of citizens but a much greater cost on the public as a whole. Thus an import tariff benefits import-competing industries but imposes a disproportionate burden on exporting industries, whose costs are increased by the tariff, and on consumers, who have to pay higher prices for both domestic and imported goods than they would if trade were free.

Such policies can persist in democracies, despite the harm they do, because the benefits are concentrated on a minority who have strong incentives to lobby to keep them going, while the costs are dispersed over the majority, who, being very numerous, face far bigger obstacles to organising opposition to such policies.

In any case, since the individual citizen can hardly ever determine the outcome of an election by casting a vote, it may seem not worth the effort even to become informed about public policy. So it's perfectly rational for voters to remain ignorant about the harm that bad policies do them, and as a result the lobbies that favour those policies continue to get their way from politicians driven by the vote motive.

In 2004 I gave a talk on a book that to some extent restores faith in the workings of democracy. In *The Wisdom of Crowds*, James Surowiecki argued that, under the right conditions, a crowd can be wise even if each of its members is foolish: a mass of disparate opinions can often boil down to a collective opinion that is sound. When applied to politics, this results in what has been called the 'miracle of aggregation': the opinions of the uninformed majority run in all directions and cancel one another out, which enables the opinions of the informed minority to carry the day.

It's not surprising that both these approaches to politics have been advanced by economists. The idea of special interests exerting undue

influence because voters are 'rationally ignorant' relies on an economist's typical view that most people are rational calculators (they know their own interests and, while they make mistakes, they self-correct and do not consistently make decisions that harm themselves). The idea of the 'wisdom of crowds' applies to politics the economist's notion of the market, in which prices are the outcome of an unending 'miracle of aggregation' (or, as Adam Smith called it, an 'invisible hand') that reflects millions of exchanges between individuals and spontaneously reconciles them. In recent decades, economists have had a marked influence on thinking about democracy, especially in the United States.

Now an American economist has set the cat among the pigeons by rejecting both the approaches to democracy I've just described. Bryan Caplan is Associate Professor of Economics at George Mason University in Virginia – a university that's closely associated with the special interest theory of why democracy often produces bad policies. The title of his book – *The Myth of the Rational Voter* – is meant to strike at the heart of the economist's approach to politics by denying that people are rational calculators in the voting booth in the same way as they are rational calculators as consumers and producers in the market.<sup>1</sup>

In fact, as we'll see, Caplan does retain one crucial bit of voter rationality, so his break from the economic view of politics is not quite as radical as it at first appears. But the idea that bad policies persist because of the undue influence of special interests is, he says, nonsense, and demonstrably so. If you want to know why democracies produce bad policies, the answer is simple: it's because most voters want them. What's more, the voting public by and large are wedded to their misconceptions about economics, and are impervious to the evidence or arguments that would correct them. That's the sense in which they are irrational and the typical economist's idea of the rational voter is a myth.

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<sup>1</sup> Bryan Caplan, *The Myth of the Rational Voter: Why Democracies Choose Bad Policies*, Princeton University Press, 2007.

Nor can the voters be saved from their ignorance and error by any ‘miracle of aggregation’: on the contrary, voters’ beliefs about economics are *systematically* mistaken, because they tend to make the same mistakes on economic policy. So aggregating their opinions simply compounds the error: if a majority of votes are for protection, adding them up won’t miraculously result in a victory for free trade – it will result in a victory for protection.

Caplan argues that the evidence shows that voter irrationality about economics comes down to four systematically biased beliefs, which he says most economists are familiar with even if they find it prudent to keep quiet about it. The evidence Caplan cites is drawn from the Survey of Americans and Economists on the Economy (the SAEE) undertaken in 1996 by a consortium that included the Harvard University Survey Project. The survey interviewed 1,510 randomly selected members of the public and 250 economics PhDs, and collected a lot of data on respondents’ characteristics.

The first bias Caplan identifies from the answers given by the non-economists to the 37 questions in the survey is ‘antimarket bias’, which he defines as “a tendency to underestimate the economic benefits of the market mechanism” (p 30). This is the pervasive belief that self-interest and the profit motive are inherently anti-social, creating winners and losers rather than mutual gains.

The second bias is ‘antiforeign bias’, that is, “a tendency to underestimate the economic benefits of interaction with foreigners” (p 36). This shows up in the popular view of international trade as a form of international warfare, with imports representing defeat and exports victory, and also in doubts about the economic benefits of inward foreign investment and immigration.

The third bias is ‘make-work bias’, which is “a tendency to underestimate the economic benefits of conserving labor” (p 40). People tend to think the purpose of economic policy is to create jobs, and so they resist the notion

that labour is a scarce resource that must continuously be put to the most socially valuable uses in a dynamic economy if living standards are to rise.

The final bias that Caplan identifies is 'pessimistic bias', or "a tendency to overestimate the severity of economic problems and underestimate the (recent) past, present, and future performance of the economy" (p 44). Economic conditions improve slowly over the long term, and so does human well-being broadly conceived, but we are nevertheless prone to fill our imaginations with possible future catastrophes. In modern times these tend to be environmental: the world overpopulation scare of a few decades ago has of course been eclipsed by the global warming scare and fears of resource depletion. These fashionable doom-and-gloom scenarios may be scientifically unsound but in democracies they can easily be sources of bad economic policy.

So the SAEF paints a picture of a US population sharply divided on economic issues between a majority made up of non-economists, who mostly subscribe to the four systematically biased beliefs Caplan identifies, and a minority consisting of trained economists, who don't. It's beyond Caplan's brief to prove that economists are right when they favour adopting market mechanisms, interacting economically with foreigners, economising on labour, and being optimistic about our economic futures. But he defends economists against popular claims that they are themselves subject to two particular biases.

The first claim is that economists display 'self-serving bias': that is to say, they are well-off, they like markets because they themselves are doing well out of them, and they use their professional influence to maintain market policies in their own interests. The second claim is that economists display a conservative 'ideological bias': that they have adopted a fundamentalist approach that cherishes the virtues of markets regardless of any evidence to the contrary.

A great virtue of the SAEF is that the data it brings together make it possible to test these claims. In fact, the survey shows that rich

economists think differently from rich non-economists, and also that most economists are moderate supporters of the Democratic Party, which is on the left of the political spectrum in the United States. So economists of all backgrounds and political persuasions tend to agree with each other and to disagree with non-economists of similar backgrounds and persuasions: their professional beliefs *systematically* distinguish them from most other people.

The survey produces another finding that tends to support the professional independence and integrity of economists' beliefs: that the minority of non-economists who agree with economists tend to be better educated than those who do not. Moreover, like economists themselves, these people do not display either self-serving bias or ideological bias. So non-economists who agree with economists are not more likely to be either rich or conservative, but they are more likely to be well-educated.

That's the situation that Caplan presents, and, naturally, he thinks it's a deplorable one. In fact, it's even more deplorable than it seems at first. I said a few moments ago that Caplan, while exposing the myth that voters are rational, retains part of the rational voter theory. Recall that economists who argue that voters are rational hold that, since the individual voter can hardly ever decisively affect the outcome of an election, it's rational to avoid becoming informed about political issues unless the voter has some special interest in them. So whereas workers in protected or subsidised industries have a strong incentive to defend their privileges, consumers and taxpayers as a whole have no corresponding incentive to organise to prevent the forced transfers to those industries, or even to become informed about them.

Caplan thinks the logic of this analysis hasn't been taken far enough: voters have an incentive not so much to be ignorant as to be irrational. That is, if by expressing your views in the voting booth you cannot normally affect the outcome of an election, why not at least give yourself the pleasure of indulging your prejudices? Those of us who deal in ideas about policies have an interest in getting them right. But we are inclined to forget that for

most people 'being right' about public affairs brings no reward. Rather, laypeople may espouse views for a range of other reasons: to gain the approval of their peers or to avoid being ostracised by them; to rationalise their prejudices and paranoias; or to make themselves virtuous in their own eyes, for example by voting in a way they think is 'unselfish'.

All the four biases that Caplan identifies in public opinion – antimarket, antiforeign, make-work and pessimistic – could be driven by such motives. So don't be surprised if voters actually approve of import protection or policies to stop firms shedding labour even though such policies increase the prices they pay in the shops. You can explain to them until you're blue in the face that those policies make us all worse off in the end, but since each voter, acting alone, cannot affect any outcome by a change of heart, why change it? Sentimentality rules, not reason.

What then can be done? Do we give up on democracy? Not completely, but Caplan, having shocked us with his frankness about voter irrationality, now shocks us with some ideas for making politics less economically irrational. His general position – that as far as possible we should rely on market processes as opposed to political ones in determining economic outcomes – is not new, and is of course one that the Business Roundtable is closely associated with. Politics should be reserved for those things for which governments are indispensable, such as protecting persons and property from internal and external threats. When governments expand beyond their core roles, they often do things badly. But some of Caplan's specific suggestions for improving political processes where they have to be used are daring, to put it mildly.

How about making people pass an economic literacy test before they can vote? He writes:

A test of voter competence is no more objectionable than a driving test. Both bad driving and bad voting are dangerous not merely to the individual who practises them, but to innocent bystanders (p 197).

He then suggests it would be "more palatable" to give "extra votes to individuals or groups with greater economic literacy" (p 197). Plural votes for the educated were for a time advocated by J S Mill, the British

nineteenth century liberal philosopher, and Caplan reminds us that until 1949 the graduates of a dozen British universities could vote for university MPs as well as constituency ones.

What Caplan calls a “moderate” reform would be to scale down efforts to increase voter turnout (this is a prominent issue in the United States, where only about half the voters turn out at elections): since age and education are the best predictors of turnout, cajoling more people to vote can only impair the quality of democratic decisions on economic policy. Instead, the school curriculum could be changed with the aim of rooting out biased beliefs, for example by giving more emphasis to subjects like statistics and economics, which would help people to evaluate public policy.

Finally, in less shocking mode, Caplan calls on economists to be more aggressive and self-confident in propagating their basic beliefs. Their reputation for disagreeing among themselves is undeserved, but they haven’t done much to dispel it. They tend to hedge their policy prescriptions around with qualifications and caveats, which detract from the core message, on which they *are* generally agreed, namely, that markets generally work, or at least that they work better than government intervention. They should face down charges of espousing ‘market fundamentalism’ and work harder to show that their generally pro-market stance is sound.

What then should we make of Caplan’s book? An initial reaction might be that democracy hasn’t done too badly; economic policy has improved markedly in democracies in the last 30 years, and brought substantial increases in economic welfare, and in this respect the democracies have generally not been outperformed by the non-democracies. Caplan anticipates this reaction, but says, with some justice, that “such comparisons set the bar too low. It is more worthwhile to figure out how and why democracy disappoints” (p 3).

Another possible objection that Caplan foresees and accepts is that voters may not always push their irrational biases through the democratic process,

but prefer to judge politicians on the results of their policies. I believe that this is a big part of the story, and it goes far to explain why democracies have improved their economic performance in recent decades. I would add that this tendency to suspend beliefs is stronger during economic crises of the sort the Western world experienced in the 1970s, when policies that were not unpopular in themselves were visibly failing.

But the other side of that coin is that it's when economic policy is working reasonably well that voters might start pushing their anti-economic policy biases. And history shows that nothing can be taken for granted: the present attachment to pro-market and free-trade policies may at any time come under serious threat from new political leaders who have no experience of the policy failures of the past. If public opinion does comprise the various biases that Caplan claims it does, that indeed constitutes a threat to the continuation of rational economic policy.

And yet I am unpersuaded by most of Caplan's analysis and remedies. I don't doubt that the biases he identifies in the SAEE responses exist, but I don't think they can all be dismissed as simply 'irrational'. And I don't think democracy should be watered down so as to give more weight to the votes of economists and better-educated laypeople. On the contrary, I believe we can strengthen democracy in a way that would improve economic policy and indeed public policy in general. So I'll spend the rest of this talk spelling out my objections to Caplan and some alternatives to his remedies.

Let me start by agreeing that plenty of opposition to sound economic policy consists of a bone-headed refusal to admit the obvious, and a sentimental attachment to nonsense, and we might indeed call these responses 'irrational'. But there are several *non-irrational* reasons why people might resist sound economic policies.

One is that *economics is hard*. Typically it involves chains of cause and effect that are both long and invisible. It requires quite an effort to work out the remote, long-term effects of economic policies and to accept that these effects are more significant than the immediate, visible effects. The

problem is illustrated in Caplan's 'make-work bias', which stresses, for example, the immediate and tangible effect of using government subsidies or import tariffs to save existing jobs but is blind to the long-term effects of subsidies and tariffs in destroying unidentifiable jobs, and preventing new jobs being created. People who reject the economist's argument that direct job-saving subsidies and tariffs are counterproductive are not necessarily just exploiting democracy by indulging feel-good prejudices; they are often *genuinely unconvinced*. But, as Caplan argues, it may be possible to educate them and, if so, they may change their minds.

Another non-irrational reason for resisting sound economic policy is people's attitudes to *risk*. Caplan cites the work of psychologists who have found that people exaggerate the magnitude of low but spectacular risks, like aircraft crashes. Similarly, investors are typically over-impressed by the risk of stock-market crashes while failing to notice the greater but quieter long-term damage done to their investments by inflation.

Such biases could be called 'irrational', and, again, they can in principle be changed by education. But Caplan appears to dismiss as 'irrational' *all* resistance to economic policies motivated by risk avoidance. This is surprising, because economists normally accept risk avoidance as rational. Even if an economic reform is likely to make most people much better-off, and leave only a few people slightly worse-off in the short run, it's not irrational to oppose such a reform: how people fit risk and reward into their personal well-being accounts is an entirely subjective matter.

Caplan dismisses such calculations as "awfully convoluted" (p 207) and urges economists to go straight to easier and more obvious explanations of voter irrationality. On the contrary, I suspect that rational avoidance of risk is the true reason why people are often reluctant to embrace economic reform. In my experience, people often understand why economic reform is in the public interest, but are genuinely fearful that they will have to bear a lot of the cost of change. What Caplan calls 'irrationality' is, I think, often simply the fact that people don't naturally think like economists, and as citizens don't always readily act in a way that fulfils the requirements of

rational policies. By diagnosing such responses only as 'irrational', Caplan leaves himself no way of dealing directly with them other than through education. However, if they are not in fact irrational, education alone may provide no remedy, as in the case of extreme aversion to risk. The solution here is, rather, skilful political leadership and imagination in the way policies are framed, presented and implemented.

Finally, it's not irrational to prefer non-economic values to economic ones. The 'antiforeign bias' that opposes high levels of immigration could be motivated by a fear of social dislocation, regardless of any economic benefits. We can argue about whether immigration does necessarily cause social dislocation, and, even if it does, whether the economic gains of immigration are too great to forgo. But such an argument would be between rational positions, not between reason and irrationality.

The fact that public policy is about more than economics leads on to my several objections to Caplan's ideas for increasing the influence of well-educated, allegedly more 'rational', voters, whether directly by giving them additional votes, or indirectly by not encouraging a higher voter turnout. Caplan admits that economics isn't the whole of public policy, but he doesn't follow through the implications.

It could be true, as the SAEE suggests, that more-educated people have a better understanding of economics than the less-educated. But I wonder whether the same goes for other areas of policy. For example, I am not persuaded that more-educated people systematically support sound policies in education and social welfare: if anything, I would expect more support for these from *less* educated people. Numerous black leaders in the United States and Maori leaders in New Zealand have spoken out about the damaging effects of welfarism and in favour of school choice. Educated elites can be as susceptible to unsound policy proposals as anyone else, if not more so: fads and fashions in education are a classic case in point. Even economists are not infallible: although their underlying support for markets is wide, deep and longstanding, they have disagreed on macroeconomic policy, and in the 1970s and '80s the profession had to

change its tune over the use of active monetary and fiscal policies as ‘countercyclical’ measures. Again, sometimes political decisions are made on moral issues on which there is no decisive ‘expertise’, and it’s hard to see why the well-educated or economists should have a greater say on such matters than anyone else. No one in their right mind would try to apply a cost-benefit test to the regulation of abortion, for example.

A more fundamental objection to Caplan’s proposals is that decisions based on anything less than universal and equal suffrage would lack *legitimacy*. Controversial economic reforms are sometimes enacted with little public enthusiasm, but are acquiesced in because they are indeed democratic, and decided on after everyone who wants to can have a say, and everyone has an equal share of the decision. But a government that had a slim parliamentary majority sustained only by the plural votes of the well-educated could well find it impossible in practice to implement such policies – and rightly so.

At the start of the twenty-first century, professional elites are under growing pressure to account for themselves and to publicly justify their claims to expertise. This surely means that Caplan’s proposal to renegotiate the Creation so as to make the universe more economist-friendly is an absolute non-starter. Yet one of his remedies – mentioned as an aside and without elaboration – is worth considering. He wonders whether the courts could strike down policies that are economically unsound.

But giving unelected judges, however well-educated, an open-ended power to overturn the decisions of elected politicians offends democratic principles. On the other hand, a sound democratic system contains checks and balances. One could envisage constitutional-type arrangements that embody points of wide and enduring consensus, and help constrain governments from implementing unsound economic policies. The Reserve Bank Act and the Fiscal Responsibility Act (now part of the Public Finance Act) can be thought of as economic constitutions. Similarly, the New Zealand Bill of Rights Act could be amended to include an article protecting property rights by obliging governments to pay just compensation for any

property they expropriate – along the lines of the US and the Australian federal constitutions. Expropriation could be interpreted broadly to include property materially devalued by regulation. The concept of a Regulatory Responsibility Act being promoted by business organisations is based on similar ideas and envisages, among other things, a role for the courts. I believe that even people whose heads are full of the biases that Caplan identifies could support such measures.

Such constitutional changes would ideally be enacted by popular referendums, which could be extended to some kinds of ordinary legislation as well. There is some evidence from Switzerland that subjecting new state spending programmes to referendums, combined with competition between decentralised governments, helps to contain the size of government. Such referendums raise the quality of debate because they focus on a single issue rather than the random bundle of issues in play in general parliamentary elections, and they are educational because they bring the full tax and other costs of spending programmes into view. I speculate that for these reasons there is less ‘rational irrationality’ among voters participating in referendums – that is, less tendency to exploit the minuscule impact of each vote by indulging in ‘feel-good’ prejudice – since the single-issue approach of referendums reduces the mental gulf between the individual voter and the outcome of the collective vote.

To conclude: the advocacy of sound economic policy is embedded in support for a free and open society in which economic freedom is not only the road to prosperity but also one aspect of personal freedom, which is expressed in full political and civil freedom and equality. Successfully maximising freedom and prosperity together is partly a matter of education, Caplan stresses, but also a matter of institution-building. However, Caplan has limited faith in institution-building because of his conviction that the voting masses are irrational. Hence his proposal to move away from political equality by skewing the system in favour of the well-educated, allegedly more rational voters. One – entirely rational – response to this proposal is that it isn’t worth it: that political equality is too important to sacrifice in order to secure better economic policies. But in fact, in my

view, he hasn't satisfactorily made his case for mass voter irrationality, and so his pessimism about democracy is unjustified. The search for institutions that maximise freedom and prosperity together can go on.