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Book Review

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

All serious students of political economy should read *The Myth of the Rational Voter*. It attempts to answer one of the most important questions in political economy – why democracies choose bad policies. Caplan’s answer is bold. He claims that governments do not fail to produce good outcomes because of special interests or self-interested bureaucrats or politicians. Instead, he argues that voters largely get the policies they want, but voter beliefs on economic issues are irrational and systematically biased. He does this while arguing that even though traditional neoclassical theory assumes rationality, he is well within that framework. Voters are rationally irrational.

Traditional Virginia School public choice theory explains that democratic governments fail to do what is efficient because voters are rationally ignorant about public policies and what politicians do, allowing politicians and special interests to hijack the political system for their own private benefit. The evolution of Chicago School public choice from Stigler to Becker and ultimately Wittman is the main challenge to this view.¹ Wittman argues that democratic failure is a myth. He contends that behind every theory of democratic failure is an assumption of serious lack of competition, excessively high negotiation costs, or extreme voter stupidity. Wittman argues that economists who are extremely skeptical of these assumptions in markets should also be skeptical of them in the political arena. Wittman argues that none of these assumptions hold and thus democratic outcomes are efficient. *The Myth of the Rational Voter’s* greatest strength, and ironically its greatest weakness, is that it steps inside Wittman’s framework and tirelessly argues that a single assumption, extreme voter stupidity, is in fact correct. His conclusion is that even with the Chicago School framework, democratic governments fail to select efficient policies.

Caplan argues that extreme voter stupidity, which he equates with irrationality, is both empirically supported and is consistent with neoclassical economic theory. It is the next logical step from rational ignorance. In the political sphere, the benefit or cost that accrues to the individual voter as a result of his vote is virtually zero. Because there is a positive cost associated with acquiring enough information to cast a well-informed vote, individuals make the rational decision to remain ignorant. Caplan,

¹ See Wittman, Donald. 1995. *The Myth of Democratic Failure: Why Political Institutions Are Efficient*. Chicago: University of Chicago Press.

like Wittman and mainstream economics, equates ignorance with random noise such that errors are normally distributed with a mean of zero. But Caplan argues that because the cost of a vote with negative consequences is zero, voters are not only rationally ignorant, they are also rationally irrational where the mean error is not zero and that this has serious consequences for the efficiency of democracy.

If there is a benefit to irrationality – if people derive utility from holding a belief in a policy that will not produce the intended outcome – as the price of irrationality falls, people will consume more of it. The cost of consuming irrationality in a market setting is high, as individuals bear the costs of decision-making, but in the political context, indulging irrational beliefs in the voting booth has an expected cost of nearly zero, since one vote is not going to change the outcome of the election. Individual utility maximization leads people to vote for irrational policies. Individually rational decisions thus produce inefficient outcomes for society. This is the essence of Caplan's *rational* irrationality.

Rationally irrational voters hold systematically biased views resulting in mean errors which are not zero. The miracle of aggregation holds that for a large population, even if 99 percent of the voters are ignorant, their ignorant views will not be systematically biased one way or another, so they will cancel each other out in the voting booth. The one percent of informed voters would choose the efficient policy. So for the miracle to work the errors that ignorant voters make *must be random* – not systematically biased.

Caplan provides empirical evidence that voter errors are systematically biased. He uses the results of the Survey of Americans and Economists on the Economy,² a comprehensive data set on people's opinions on a variety of economic issues. He compares the opinions of laymen to that of "experts" (economists) and concludes that laymen systematically suffer from anti-market, anti-foreign, make-work, and pessimistic biases. These results are robust even when controlling for socio-demographic characteristics such as income, race, gender, and job security.

Because voters have incorrect beliefs about economic policy that are systematically biased a large and only partially informed voter population can still select in-

² <http://www.kff.org/kaiserpolls/1199-econgen.cfm>

efficient policies. Democracy does not fail because it does not give the people what they want. Voter irrationality causes democracy to fail precisely because it does give people what they want.

How can we get more efficient policies? Caplan hints at some electoral tweaks such as restricting the franchise to the more informed voters, but his main solution is restricting the scope of democratic decision making. In chapter, 8 Caplan contrasts “market fundamentalism” with the “religion of democracy.” He argues more decisions should be made in markets where people are rational while fewer should be decided democratically where they are rationally irrational. Although a good suggestion, given that Caplan documents anti-market bias, it seems unlikely that a democracy would voluntarily move more decisions to the market.

Caplan’s book is an important contribution to the democratic failure literature. His attack is strongest on Chicago School public choice. He steps inside the Chicago framework, challenges one assumption and generates an entirely different conclusion. This is a significant intellectual achievement. Chicago School objections to Caplan’s book will likely center on whether systematically biased beliefs are empirically justified.³

The greatest weakness of Caplan’s book is related to this strength. In order to win the intellectual battle against Wittman, Caplan too easily dismisses other causes of government failure. Caplan writes, “Voter irrationality is *the* key to a realistic picture of democracy” (p.3, emphasis ours). Caplan has done a good job demonstrating that it is *a* key but has not demonstrated that it is *the* key. A tension running through the book is whether it is a complement or substitute for traditional Virginia School public choice. Both reach the same conclusion – democracies achieve inefficient outcomes – but they arrive at it different ways. For Caplan the mechanism of failure is systematically irrational policy beliefs; for the Virginia School, it is rational ignorance coupled with self-serving politicians and interest groups. Caplan seems to reject the importance of the traditional Virginia School mechanisms confining them to operating only

³ In fact, in an exchange in Econ Journal Watch published prior to the book Caplan and Wittman argued exactly this point. See: <http://www.econjournalwatch.org/pdf/CaplanCommentApril2005.pdf>, <http://www.econjournalwatch.org/pdf/WittmanReplyApril2005.pdf>, <http://www.econjournalwatch.org/pdf/CaplanRejoinderAugust2005.pdf>, <http://www.econjournalwatch.org/pdf/Wittman2ndReplyAugust2005.pdf>.

on “margins of voter indifference” and sometimes showing they could actually minimize the harm irrational voters would otherwise cause.

However, traditional sources of government failure should not be so easily dismissed. Virginia School public choice has produced counter arguments to all three of Wittman’s assumptions. Negotiation costs can be high and there often is a serious lack of meaningful competition in the political realm. Also left out of Caplan’s analysis is the source of the systematically biased beliefs. He dismisses the media and current politicians as sources of the bias, claiming they only operate on margins of indifference and pander to the biases that exist. But what about the educational system the government often controls? Can that create biases that serve the interests of the politicians? Does culture cause bias? Why are some places more or less biased on the same policies than others?

These shortcomings do not detract from the importance of Caplan’s book. In fact, they could be considered a public choice research program that his book might inspire. Overturning general interest stories by explaining the rent-seeking interest-group origin of many public policies has been an important public choice research program. That program coupled with Caplan’s work provides a new research agenda. It is an empirical question whether voter irrationality or interest groups have been a more important source of democratic failure. Can some of the traditional rent-seeking stories be overturned by explanations of irrational public opinion? Better opinion data will clearly have to be gathered in the future to better test these competing hypotheses. We believe that both standard Virginia School public choice and “extreme voter stupidity” create democratic failure, but it is likely that neither is a universal explanation. In some cases failure is likely due to voter stupidity, and in others interest groups are likely at work. It is an empirical question of which mechanism is operating in which instance.

The second question this book leaves unanswered, what causes systematic bias, also deserves to be explored. Caplan’s conclusion that democracy should be restricted so there is more room for markets is a reasonable response to democratic failure. However, another solution is to ask what causes systematic bias and to try to eliminate it. This research question deserves to be further explored.

The Myth of Democratic Failure is the most important public choice book published in over a decade. It develops evidence of systematically biased voter beliefs, shows how these systematically biased irrational beliefs are compatible with traditional neoclassical economic theory, and then shows how this bias is a cause of democratic failure. This book should inspire new public choice research agendas.

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