

Democracy

and Other Failures

The theory of public choice helps explain why we get stuck with so many bad economic policies. Or does it?

BY DOUG CAMPBELL



Gravina Island, population 50, sits near the southeast corner of Alaska, just about 45 miles from the Canadian border. It has about 1,800 acres of timber and is accessible to the mainland via a seven-minute ferry ride. There wouldn't be much more to say about Gravina Island, except that in 2005 it was on the receiving end of one of the most notorious cases of pork-barrel politics in U.S. history — a \$223 million federal earmark for the so-called “bridge to nowhere.”

The Ketchikan Gravina Island Access Project, as it is officially known, became the poster child for seeming government waste. The planned span would be as long as the Golden Gate Bridge and high enough for cruise ships to pass underneath. How on earth, watchdog groups wondered, could legislators back something that would cost so much and benefit so few? It was, as one critic put it, “an abomination.”

The bridge's defenders make some reasonable points about its actual merits. But putting aside that debate, there exists a theory which perfectly explains any such apparent legislative breakdown. It is called public choice, and it has quietly become the default lens through which many social scientists view democracy.

Public choice uses economic principles to analyze political activity. It assumes that people are primarily self-interested, be they businessmen or politicians. That's in contrast to traditional political theory, which holds that government agents put aside their private interests when working for the public.

What's also different about public choice theory is that it assumes that most voters don't pay attention to the details of the legislative process, simply because their ballots are, on an individual basis, highly unlikely to decide an election. In other words, their votes don't really matter. As a result, politicians cater to the small groups of voters who are paying attention — special interests — thus maximizing

their chances of re-election. In some cases, special interests can be lobbies representing large groups of workers, like those in the steel industry; in other cases, they may be small groups in specific congressional districts that benefit from certain projects — like tourism workers gaining from the proposed Gravina bridge. Public choicers call this an example of “diffused costs, concentrated benefits.”

The logic is persuasive, especially when applied to other examples of uneconomic policies on trade and certain subsidies. Though public choice theory faces legitimate objections, in general it has held up well since its introduction 50 years ago. It is at base a critique of democracy, pointing out the difficulty in obtaining socially efficient outcomes under majority rule.

(In brief, one of the leading alternative takes on public choice has come to be associated with Nobel Prize-winning economist George Stigler. The idea is that society is always going to have an interest in doing things like helping unemployed steelworkers or building bridges somewhere. Of all the ways of achieving such goals, this view goes, our flawed democratic process might actually be the most efficient. Efforts such as lobbying that might seem wasteful are only so when compared with outcomes in an unattainable, perfectly frictionless world. This doesn't make public choice wrong, but it does distinguish between its explanatory analysis of democracy and whether or how to fix it.)

But now comes perhaps public choice's most significant challenge yet, and it comes from an economist at the very university where the nation's preeminent public choice center is housed.

In his new book, Bryan Caplan turns public choice theory on its head: It's not that voters end up with (admittedly bad) policies that they don't want, Caplan argues. Rather, the public is getting precisely what it demands — policies that make voters feel good but don't

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make any economic sense. Blaming special interests misses the point. Voters actually *like* protectionism and bridges to nowhere. As Caplan puts it in *The Myth of the Rational Voter: Why Democracies Choose Bad Policies*, “If I am right, then a great deal of published research is wrong.” Equally, if he is right, then the entire social science profession might have to rethink its approach to reforming the democratic process.

Public Choice

Anthony Downs, in his landmark 1957 book, *An Economic Theory of Democracy*, described that in a two-candidate election, the smartest course was for a politician to cater to the voting preferences of the median voter. The trick is to move as close to the center without overlapping with the rival platform, thus taking along all of the extreme voters and the highest number of swing voters. The “median voter theorem” is an oversimplification, as it strictly holds only when there is a single choice at stake. But it makes it easier to visualize how the democratic process actually works. Downs modeled democracy as a market where politicians were motivated by winning elections more so than upholding the public interest. With this view of politicians as rational and self-interested, Downs helped lay the foundation for public choice theory.

James Buchanan, teaching at the University of Virginia, formalized the public choice concept with colleague Gordon Tullock. The duo’s *Calculus of Consent*, published in 1962, is considered public choice’s seminal text. The premise was straightforward: “Our approach is based on the idea that, insofar as this pursuit of self-interest does take place, it should be taken into account in the organization of the political constitution,” the authors wrote.

After a stop at Virginia Tech, both Buchanan and Tullock eventually settled at George Mason University, where the Center for Study of Public Choice is now housed. In 1986,

Buchanan won the Nobel Prize in economics for his work on public choice theory. What was once a revolutionary approach to examining political behavior had become the norm.

Maybe the approach doesn’t sound so radical today, nor all that consequential. After all, if politicians are mostly interested in getting reelected, they ought to be simply implementing the will of the people, right?

The problem with that story is that voters are also self-interested. And that doesn’t necessarily mean they support policies which will make them better off. Instead, it means they are unlikely to spend much time figuring out what will make them better off in the first place. According to rational choice theory, they are likely to make a calculation about the benefits they would receive from their vote versus the costs of becoming informed and then casting a ballot. More often than not, because of the large pool of votes cast, an individual vote doesn’t count (much), so the rational choice is not to spend time becoming informed about broad issues. (At the same time, voters still tend to care about narrow issues of local concern.) This contrasts people’s behavior in the regular market. When buying a car, a consumer is likely to research the options before making a selection; when in the voting booth, such research may seem pointless.

With most voters uninformed, special-interest groups hold great sway. Tullock put it this way: “Members of Congress wishing to be reelected will take careful account of issues and bills that strongly affect small minorities, whether it is a reduction of transfers to them, an increase in the taxes specific to them (like road taxes for freight carriers), or a special tax exemption. Considerably less attention is given to the issues affecting the general population because the voters are unlikely to be strongly motivated to express their support or favor at the ballot box.”

Here is an example of how it works in practice: Most economists agree

that free trade makes countries better off. But protectionist policies that make little economic sense abound. This is because the pain of losing steel jobs is both obvious and concentrated, while the pain of paying, say, \$200 more per car because steel is more expensive is ambiguous and widely dispersed. So politicians tend to respond to those most acutely affected by trade — the steelworkers and their representatives who complain rather than the average consumer.

According to public choice, special-interest groups seek “rents,” or public privileges transferred for private use. Some people would call the Gravina Island bridge project an example of a rent. Through the phenomenon called “logrolling,” politicians agree to back each others’ pet projects, rolling up all these earmarks into big spending bills that sail through to law.

There are a couple of problems with this process. For one, having an entire industry of people devoted to seeking political favors is wasteful, because many of these lobbying efforts fail. And many of those that don’t are inefficient. A direct transfer to struggling steelmakers might be more efficient. But since such transfers are typically hard to accomplish in the public realm, they turn into indirect subsidies, ultimately hurting consumers and reducing incentives for steel companies to innovate and invest in their futures.

Into the Mainstream

Geoffrey Brennan, an Australian economist and former president of the Public Choice Society, is now a visiting professor in a joint program between Duke University and the University of North Carolina at Chapel Hill. Brennan says that democracy, as seen through public choice, has two main problems to deal with. First, some groups of people won’t be able to form lobbies to protect their interests as well as other groups — a social justice issue. The second problem is that even if everybody were able to defend their interests, the kind of policies that get adopted in this mutual exploitation

model are undesirable. “What public choice is saying is that these are characteristic features of the whole system,” Brennan says.

Oftentimes, the public choice remedy for such “government failures” is to turn to the market. For this reason, public choice followers often get branded as free-market zealots. This is not an entirely fair criticism.

Yes, public choicers say, markets do fail. But the relevant question is, compared to what? Assuming that government can always do better is just folly. That’s why, on balance, the public choice solution for many problems is to limit government intervention, where monitoring is weaker and rent-seeking and logrolling are more likely to be factors in producing bad policies. Given the incentives that legislators face to make bad policy, the prudent thing to do is to handcuff them as much as possible by limiting the number of things that get decided in the public sphere. Buchanan called public choice “politics without romance.”

Other market-oriented alternatives include letting more than one government bureau provide the same service, thus promoting competition and theoretically improving efficiency. Term limits and line-item vetoes are other standard public choice remedies to government failure (which might include the enormously high — 90 percent or more — re-election rates for House incumbents).

But return to public choice’s central premise — that voters are rationally ignorant. The implicit idea here is that voters are getting policies that they don’t want. Now there is a young economist who questions this premise. Voters are not ignorant, says Bryan Caplan. They are *irrational*, and their views are reflected in the irrational policies they get.

Rational Irrationality?

In 1995, economist Donald Wittman, at the University of California at Santa Cruz, published *The Myth of Democratic Failure: Why Political Institutions Are Efficient*, based on

several papers that appeared some years before. In it, Wittman attacked public choice as being based on several bad assumptions. Caplan was most intrigued by Wittman’s central critique — the assumption that voters are “extremely stupid.” Wittman had a number of reasons why this might be a stretch, including that voters process more information than public choice economists give them credit for. What’s more, Wittman asserted that even if people are “stupid,” it doesn’t matter because their random biases will even out in the aggregate, producing economically sound policy.

This is true, thought Caplan, so long as those biases are in fact random and not systematic. But what if voters are systematically stupid? Or, put another way, irrational? That is, what if voters in large, consistent numbers hold beliefs that are out of touch with expert economic thought? That would be a completely different problem than the one public choice economists had identified. In many cases, it would mean that irrational voter beliefs and irrational economic policy were identical. Perhaps special-interest-bound politicians weren’t shoving bad policy down the voters’ throats at all. Perhaps voters were swallowing precisely what they had already decided tasted good.

To figure this out, Caplan got his hands on a relatively fresh data set. It came from a 1996 survey commissioned by the *Washington Post*, Kaiser Family Foundation, and Harvard University Survey Project. Called the Survey of Americans and Economists on the Economy, it was based on interviews with 1,510 members of the general public and 250 Ph.D. economists.

One of Caplan’s goals was to overcome the standard criticism about studies like his: So what if economists and the public think different things? What if economists are wrong?

Economists get a lot less respect than other experts. Few people question the advice of medical doctors like they question the counsel of economists. Eat less fat? OK. Knock

Exceptions: Trucking Deregulation

Of course, there are examples where public choice theory seems to fall short. Diffuse populations *have* come together to support good policies in the face of staunch special-interest opposition. The story of trucking deregulation is relevant here. Trucking for most of the 20th century was tightly regulated, with new carriers having to be completely unopposed before receiving certificates to operate. Rules also required that carrier rates be made public, allowing for protests from competitors. And later, rates were fixed. The result was an industry with high barriers to entry and a complicated web of routes that served few interests beyond the trucking companies and the union members they employed.

As studies mounted about the steep cost of regulation, a movement began to open up the industry to competition and lift rate restrictions. Despite intense counter-lobbying from unions and trucking firms, a diverse coalition that included liberals and political appointees from both Republican and Democratic administrations succeeded in ultimately getting Congress to approve the Motor Carrier Act of 1980, which effectively deregulated trucking.

Does the case of trucking deregulation undermine public choice? Not quite. Most public choice theorists would probably agree that when conditions get particularly bad — as the trucking industry had become — then reform is possible. There was in essence a supermajority of the voting public in favor of deregulation, a force too powerful for special interests to overcome.

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down trade barriers? Not so fast.

Caplan explains how he set out to establish the correctness of some fundamental economic concepts. Typically, the biases of economists are labeled as being either self-serving or ideological in nature. But these are testable biases, Caplan says, and the Survey of Americans and Economists could be used to test for them. If economists are biased by their income, then both wealthy economists and wealthy members of the general public ought to hold the same views. Same for ideological bias — conservative economists and conservative voters ought to agree, Caplan says. But his parsing of the survey shows they don’t — that being an economist is much more likely to make a person

think that markets are a good thing, whether that economist is of a liberal or conservative persuasion, rich or not so rich.

Having dismissed the notion that economists are biased, Caplan makes the reasonable leap that their views might rightly be judged as expert. As such, where the public disagrees, the public is likely to be wrong. And the differences that Caplan logs are legion, specifically with regard to views on free trade, immigration, wage and price controls, and the overall state of the economy. “The public really holds, for starters, that prices are not governed by supply and demand, protectionism helps the economy, saving labor is a bad idea, and living standards are falling,” Caplan writes.

Reorienting Public Choice

Now, what Caplan says he sees here flies in the face of conventional economic thought. When building mathematical models of human decisionmaking, economists almost always take a rational expectations approach — that people cannot be

fooled on a systematic basis, and they learn from their mistakes. In the public choice model, the rational part of voter decisionmaking is not to spend much time invested in learning about the issues because individual votes hardly matter. In Caplan’s model, voters are being rational about the price of their irrationality.

The distinction between “ignorance” and “irrationality” is important. Being ignorant, as standard economic theory sees it, means that a person may not have seen the value of becoming informed, but if he had, then his viewpoint could have been changed to reach the proper conclusion. Like, if people were presented with the facts about the benefits of trade, then they would favor it over protectionism. Irrational people, on the other hand, still refuse to rethink their position even when presented with contradictory evidence.

The reason irrationality can exist on a systematic basis, so far as economic beliefs go, is because of the small cost of holding those beliefs. “One hundred and fifty million Americans can be wrong, and in fact easily,” Caplan says in an interview. “You could think the craziest thing in the world about politics, but if you have one vote, it won’t come back to hurt you. People can have comfortable beliefs rather than true beliefs.”

In this way, Caplan seeks to reconsider public choice theory. Why spend so much time building models with rational actors if, in fact, voters are irrational? In his book, Caplan uses the example of economists trying to explain why economic reform is so unpopular in developing countries. How come so few people support changes that would make them better off? To Caplan, the answer is obvious: People are irrational.

“When you put that together you get a very simple picture of how the world works,” Caplan says. “Voters vote on the basis of what is best for society, but their beliefs are so misguided that you have people unselfishly voting for policies that are bad for people.”

Where Caplan agrees with standard

public choice followers is that democracy doesn’t deserve its hallowed status. But where public choice sees democracy as flawed because of its tendency to be controlled by special interests, Caplan sees it as flawed because it allows people to believe things that can hurt their standard of living. The electoral process effectively allows people to behave irresponsibly, in ways that are ultimately irrational.

A Fresh Look At Reform

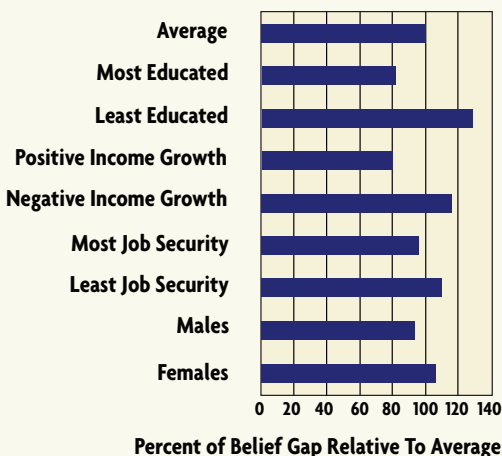
Standard public choice thinking on how to improve democracy is to let the private sector handle more efforts traditionally handled by government. In this way, the costs of poor decisions become more visible, so holding irrational economic beliefs becomes harder to do.

Caplan agrees with this assessment. But where public choice views the voting public as somewhat hopelessly ignorant, Caplan believes that an “irrational” public may actually be receptive to education, and possibly be improved by it. He bases this approach on his own study — the more educated people are, the more likely they are to think like economists. (Also in this category of people who think more like economists are men and those whose incomes have grown a lot over their careers.) Perhaps with earlier intervention, economics could make their principles more comforting to the general public.

To make economic education more palatable, Caplan says, economists need to change the way they sell their ideas. Instead of perpetually hedging their statements, economists could be bolder, if not blunter: Price controls cause shortages and surpluses, economists should say. End of statement, with no need for footnotes or disclaimers of why this statement is not absolutely and always correct. And then, make this sort of material standard in primary and secondary education. Instead of teaching state capitals, teach supply and demand. “We have something useful to say here. It’s hard to swallow, so we’ve got to be persistent,” Caplan says.

Thinking Like An Economist

Factors that make people more likely to think like an economist include education, positive income growth, and being male. This graph plots the degree to which average people disagree if one is a Ph.D. economist and one is not.



SOURCE: *The Myth of the Rational Voter* by Bryan Caplan

Perhaps more controversially, Caplan believes that certain groups of people are more qualified to make economic decisions. He favors panels of economic experts — modeled, perhaps, on the Federal Reserve Board or the Council of Economic Advisers (CEA) — to rule on matters that materially affect living standards. “The Supreme Court is able to declare something unconstitutional,” Caplan says. “Why can’t the CEA declare something uneconomical?” He even goes so far as to float, but not quite endorse, the idea of giving extra votes to more educated people, since their views will be more compatible with mainstream economic thought.

We are left with an argument that is soundly reasoned, compelling, and incredibly elitist. Also, as some critics have pointed out, Caplan’s argument asks that people think more like economists — except when it comes to understanding his own model, which undermines standard rational expectations economic theory.

To Caplan, his work adds up to something in between a reorientation and a debunking of public choice theory. “I can still accept 75 percent of [public choice theory], but with a big asterisk,” Caplan says. “It’s not so much about sneaking bad policy underneath the radar as it is tapping into public opinion.”

Reconciling Ignorance and Irrationality

So, do pork-barrel projects and protectionist policies endure because voters are ignorant or because they want them? William Niskanen, former acting

chairman of the CEA during the Reagan administration and current chairman of the Cato Institute, the libertarian think tank, is familiar with both Caplan and his recent work. He is unconvinced.

The weakness in Caplan’s premise, Niskanen says, is his reliance on a survey with open-ended questions. It may be that the general public believes that raising the minimum wage is a good idea while economists disagree. But if you extend the question with the information that raising the minimum wage may decrease employment for the least-skilled workers, the public may be less enthusiastic. And if so, then that is evidence against systematic irrationality. It is, quite plainly, rational ignorance.

“The responses to public opinion polls that he uses as proof of his conjecture I think are quite misleading,” Niskanen says. “The questions don’t convey anything about the effects of the policy. Their response is consistent with the general premise of public choice that voters are rationally ignorant about most detailed public policies.”

If voters were in fact systematically irrational, we would expect to see more evidence of it in their actual behavior — their “revealed preferences,” in economic jargon. Niskanen points to his own research on presidential election rates of incumbent parties. The rate of re-election goes up with economic growth, down as a function of government spending, and down sharply if the nation is at war. Similarly, other research has shown that people move to states with solid economic

growth and away from those with growth in government spending and taxes. “The response to macro-economic performance, public finance, and war conditions to me looks quite rational,” Niskanen says.

This is a new debate. Academics have yet to weigh in with substantial responses to Caplan’s work, making it difficult to declare at this stage whether *The Myth of the Rational Voter* will become landmark or a passing fancy. (For an academic book, it has been reviewed in a surprising number of popular magazines, including *The New Yorker*, *The Economist*, and *The New York Times Magazine*.) What’s encouraging about this debate is that it’s even happening. The United States is a rich nation, with one of the best-functioning democracies in the world. Public choice theory has identified the core of some of democracy’s flaws, and now Caplan is trying to advance our understanding of government failure.

Still, if you’re new to this discussion, you may understandably be confused and depressed. Public choice sees you as manipulated by special interests and probably lacking the wherewithal to improve democracy with the dismantling of the regulatory state. Bryan Caplan thinks you are getting precisely what you’ve ordered, and you’d do much better to listen to him or let other experts decide the details of U.S. economic policy.

There is, however, one thing about which both public choicers and Caplan agree: Most people’s views about many economic policies are woefully off the mark. **RF**

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