Democracy supposedly protects citizenries from “harmful” policies, but in fact produces and entrenches them. Bryan Caplan explores the failures of democracy which he believes is primarily because voters are worse than ignorant, they are irrational and thus their voting patterns reveal systematic error. Caplan believes that he has “robust empirical evidence” of systematic error in the form of evidence derived via econometric method applied to data collected by the 1996 Survey of Americans and Economists on the Economy (SAEE). First, let us review the facts of the survey, then examine the statistical method used.

SAEE surveyed 250 economics Ph.D.s and more than 1,500 members of the American public on 37 items in 4 categories. The first two categories consist of 18 items about whether various factors constitute a major factor, a minor factor, or no factor at all as to why the economy is not performing better than it is. The third category consists of 7 questions asking whether certain trends or policies are good, bad, or indifferent for the economy. The final category consists of 12 questions touching on various issues.

The statistical method applied to SAEE’s data is that of “enlightened preferences.” Enlightened preferences are political preferences voters would have if they were much more informed about political issues. The method consists of the following. First, a survey of policy preferences is given along with a test of political knowledge. Second, policy preferences are estimated as a function of political knowledge and demographic-profile factors (e.g., age, race, sex, income, etc.). Third, the preferences of all demographic categories are extrapolated, assuming that all of their members acquired the highest level of political knowledge (p. 25).1

1Page numbers in parentheses refer to the book under review unless otherwise noted.
The SAEE data reveal that economists are not as concerned about the U.S. level of tax rates or deficits as the public is. Answers to the first category of questions lie along a two-point scale where 2 designates a “major reason” the economy is not performing better, 1 a “minor reason” why the economy is not performing better, and 0 “not a reason at all” why the economy is not performing better. Survey item one states, “Taxes are too high.” The public average is 1.5 while the economists average is 0.77. Caplan’s enlightened public scores a 0.99. So far, so good. Item two states, “The federal deficit is too big.” The public registers a 1.73, while economists score a 1.14. Caplan’s enlightened public scores a 1.16. Again, so far, so good.

Unfortunately, one rather unpleasant aspect of econometrics is how results can seem to fall so nicely in your favor until they suddenly do not. Item six is, “Education and job training are inadequate.” The public scores a 1.56 and economists a 1.61. Caplan’s enlightened public scores a 1.64. Not good, since it supposedly consists of a normal U.S. public with unchanged demographics but all members being given the equivalent of an economics Ph.D. What seems theoretically plausible is that the enlightened public should move from the public position to more toward where economists are scoring, ceteris paribus. For the enlightened public to exactly achieve or exceed the economists score seems farfetched to say the least. Caplan fails to address this odd result. In his analysis of item six, he only discusses education, yet the wording of the item includes job training (see above) (p. 60). Obviously job training is a form of education, but there is a legitimate question of whether a distinction could have existed in the minds of SAEE’s respondents (e.g., cosmetology school versus a liberal arts degree). It is eminently reasonable to believe that different connotations and the reference to job training positioned toward the end of the item statement could have skewed responses to the item.

On item eight (“Women and minorities get too many advantages under affirmative action”), the public score is 0.76, economists score a 0.21, while the enlightened public scores a 0.19. Again, the enlightened public adjusts not to the exact level of economists, which seems implausible enough, but to a level exceeding them in terms of “enlightenment.” Caplan ignores this strange result and only speculates about the disparity between the public and economists before moving on. Five more items fit this pattern. On item fourteen (“Business productivity is growing too slowly”), again on a 2-point scale, the public scores at 1.18 while economists score at 1.43 and the

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2Caplan (p. 55): “The Enlightened Public’s belief is the answer to the question, ‘What would the average person believe if he had a Ph.D. in economics?’”

3Specifically, items numbered 14, 28, 30, 35, and 36.
enlightened public registers a 1.49. Caplan again ignores the enlightened-public score to speculate on the difference between the scores of the public and economists. Even if his conjecture is correct, and each group has different notions of productivity, the enlightened public result still seems unrealistic.

On item twenty-eight (“Do you think improving the economy is something an effective president can do a lot about, do a little about, or is that mostly beyond any president’s control?” with the range of possible scores being defined by 0 = “beyond president’s control,” 1 = “do a little about,” and 2 = “can do a lot about”), the public and economists both score at 0.92 while the enlightened public registers a 1.00. Again, Caplan ignores his enlightened-public score and only chooses to speculate as to why no systematic difference appears to exist between the public and economists on this issue. On item thirty (“Do you think the gap between the rich and the poor is smaller or larger than it was 20 years ago, or is it about the same?” with the range of possible scores being defined by 0 = “smaller,” 1 = “about the same,” and 2 = “larger”), the public registers a 1.70 while economists score at 1.85 and the enlightened public scores at 1.86. On item thirty-five (“Do you expect your children’s generation to enjoy a higher or lower standard of living than your generation, or do you think it will be about the same?” with the range of possible scores being defined by 0 = “lower,” 1 = “about the same,” and 2 = “higher”), the public scores at 1.06, economists score at 1.28, and the enlightened public registers a 1.36. Caplan explains this result away by asserting that high-income males are “uncharacteristically pessimistic” on this issue (pp. 77–78). Economists are usually high-income males, therefore the economists score is skewed downward. He offers no evidence for his assertion that high-income males are pessimistic.

Finally, on item thirty-six (“When they [your children under the age of 30, if you have any] reach your age, do you expect them to enjoy a higher or lower standard of living than you do now, or do you expect it to be about the same?” with the range of possible scores being defined by 0 = “lower,” 1 = “about the same,” and 2 = “higher”), the public and economists both score a 1.30 while the enlightened public registers a 1.52. Caplan explains this result as economists having relatively high incomes and thus being pessimistic that their children will have the same standard of living that they do. He does not bolster this assertion with evidence (p. 78). It again fits his pattern of seeming to ignore or rationalize inconsistent results in the enlightened-public forecasts. Nevertheless, he believes that “SAEE strongly confirms the reality of large and systematic belief differences between economists and the public” (p. 81).

The problem with this modified approach of Althaus, Bartels, et al. is that it gathers a sample and uses it to create a forecast for the preferences of a completely hypothetical entity sometimes treated as if real by its practitioners.
One can speculate to what degree a poor, white male Cajun fisherman would be more free market in outlook if he earned a Ph.D. in economics from LSU. However, if there is no evidence that he has either the willingness or economic and inherent cognitive abilities (i.e., demand) for a Ph.D. but we pretend that he earns one anyway, then at that point we have ventured into the land of the pretend. Caplan seems to overlook this in noting that his age regressor would fail to remain constant as his imaginary student literally consumes time to complete a Ph.D. (p. 221, note 66). With regard to SAEE, what is remarkable is how weak Caplan’s case really is in hanging so much on one data set4 and then rationalizing or ignoring problematic results.

Two contentions made by Caplan are particularly grating. First is the supposed correlation between “education” and what he sees as sound policy preferences (i.e., sound normative “economics”5). He writes that “an impressive empirical regularity” is that “[e]ducation makes people think like economists” (p. 83). In SAEE’s data, educated Americans part ways with the mainstream population, with the degree of difference increasing with the level of education. “Moving from the bottom of the educational ladder to the top has more than half of the (enormous) effect of an econ Ph.D.” (p. 83). And:

Since well-educated people are better voters, another tempting way to improve democracy is to give voters more education.

Maybe it would work. But it would be expensive, and as mentioned in the previous chapter, education may be a proxy for intelligence or curiosity. (p. 198)

Econometric results are provided showing an alleged relationship, but positive income growth emerges as a slightly stronger factor than education. Some interesting additional points come later:

If education causes better economic understanding, there is an argument for education subsidies—albeit not necessarily higher subsidies than we have now. If the connection is not causal, however, throwing money at education treats a symptom of economic literacy, not the disease. You would get more bang for your buck by defunding efforts to “get out the vote.” One intriguing piece of evidence against the causal theory is that educational attainment rose substantially in the postwar era, but political knowledge stayed about the same. (p. 158; emphasis in original)

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4“The rest of this book draws heavily on the SAEE, so it is worth exploring at length” (p. 52).

5Economics in a figurative sense since the normative-positive distinction only really holds at the level of statements.
Might one also legitimately ask, if more education leads to a more laissez-faire perspective, why aren’t American universities much more libertarian than Marxist? Caplan does concede the dirigiste predilection of other disciplines, in stating that economics appears conservative compared to other social sciences such as sociology where “leftism reigns supreme” (p. 82). The supposed correlation is all the more curious in light of his observation early on in the book about how little economics the average beginning economics student absorbs. He admits that it is “disappointingly small,” and “[i]f they had severe biases at the beginning, most still have large biases at the end” (p. 13).

The second annoying contention of Caplan’s is the idea that “experts are ordinarily right” (p. 82; emphasis in original).

We all share a presumption that when an expert disagrees with a nonexpert, the expert is right. This holds in math, science, history, and car repair. (pp. 81–82)

While he agrees that “the experts have been wrong before,” his contention that experts are usually right seems to be dangerous if not unhinged from reality. On any given day one can find experts in print, radio, and especially television media discussing the “fact” of anthropogenic global warming. Right before the second war in Iraq, one defense/military-terrorism expert after another appeared in various American and British media to affirm that Saddam Hussein had weapons of mass destruction (biological, chemical, and possibly even nuclear), the impending conflict would be easy and short, coalition forces would be greeted as liberators, and the war would be self-financed with sales of Iraqi oil. These claims were crucial to whipping up public support of the coming war. During the summer of 2008, the Fox News Channel had the ability to quickly assemble a number of experts with impressive credentials to assert that the state of Iran had a nuclear-weapons program that was a threat (if not an imminent one) to the United States and immediate military action was necessary to end it. If macroeconomics textbook authors can be considered “experts,” then many if not most of them are still propagating the system of Keynesian economics and the credibility of the Keynesian multiplier and macroeconomic stabilization.

This is not to argue for the “laypersons right, experts wrong” perspective as opposed to the “experts right, laypersons wrong” perspective. Both comprise a false dichotomy. Favoured experts can be wrong, and many laypersons can be brought over to their position because the state has an interest in advancing certain positions and distorting markets in certain directions to further its power and control. How someone such as Caplan, seemingly so familiar with the workings of the old Soviet Union, could forget that is surprising.
Caplan then ventures into his model of “rational irrationality.” Irrationality is driven by preferences and prices. “Rational irrationality” is so named to underscore its relationship to rational ignorance. Both view “cognitive inadequacy as a choice, responsive to incentives” (p. 123). However, rational ignorance sees people wearing down in looking for the truth while rational irrationality sees them actively avoiding it. “Demand for irrationality” curves\(^6\) have horizontal axes where instead of the usual quantity variable there is degree of irrationality. Even Caplan slips into forgetting the partly ordinal nature of his model as he explains the model’s analogue to price: “The ‘price of irrationality’ is the amount of wealth an agent implicitly sacrifices by consuming another unit [sic] of irrationality” (p. 123). In other words, the immeasurable is a function of the subjective. It has no empirical application in terms of estimation, a bit ironic for Caplan who seems to place much emphasis on empirical verification.

Caplan asserts that a prediction of his new model is that changing incentives shuffle people between opposing perspectives. For example, as voters, protectionists vote for candidates promising more protection. As consumers, they sometimes purchase high-quality, competitively priced foreign goods. Of course what Caplan describes sounds like nothing more than mere run-of-the-mill hypocrisy, not irrationality. Many consumers trumpet the “Buy American!” slogan, cognizantly purchase some Chinese goods at Walmart, and rationalize their transactions by reasoning or stating approximately, “I try to buy American as much as I can. I vote for quotas and increased tariffs because with them America’s manufacturing base will return. Then I would be able to purchase more American goods.” He or she would be wrong, but hardly irrational in the sense of weighing perceived costs and benefits and acting accordingly. This is not part of an irrationality pattern in the systematic-bias sense, but as Caplan himself concedes, systematic errors seem to exist among laypeople vis-à-vis the non-economics disciplines as well.\(^7\) (They also exist between experts in one discipline and issues circumscribed by another discipline. For example, historians who believe in anthropogenic global warming, or historians who see “unfettered capitalism” as the cause of the Great Depression.)

Caplan’s students evince annoyance when he asserts that wages raised above market-equilibrium levels increase unemployment, yet when these students apply for jobs, they are careful not to reveal too high a salary requirement.

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\(^6\)For example, figure 5.2 on p. 123.

\(^7\)See p. 160 for Caplan’s example of toxicology.
The cynical explanation is that my students understood labor demand curves all along. But why would you get angry at a professor for saying what you believe yourself? They are more likely in denial. (p. 124)

Actually it sounds like they are just having trouble applying theory consistently, a hardly uncommon problem among undergraduate economics students. Caplan maintains that “[t]here is no need to posit that people start with a clear perception of the truth, then throw it away” (p. 126). Agreed. “The only requirement is that rationality remain on standby, ready to engage when error is dangerous” (p. 126). In other words, people are normatively wrong until they are right. So what exactly is added to neoclassical economics here? Irrationality has been redefined from weighing perceived costs and benefits and acting accordingly or people having goals and usually choosing what they perceive as the best way to accomplish them, to systematic bias, or unsound policy preferences. This is not to deny the existence of bias. Caplan discusses Smith, Bastiat, and Newcomb’s observations of the phenomenon during their respective eras (pp. 11–12). But are we not all still guilty of systematic bias in one way or another? 8

Caplan complains that “market fundamentalist” is a current epithet aimed at mainstream economists that connotes the dogmatism and intolerance of Christian and Islamic fundamentalism. To Caplan, the juxtaposition would be accurate if the typical economist preferred markets over government in just about all circumstances, ignoring all contrary evidence, with even mild dissidents being ostracized. This is fatuous to him since economists are only too eager to emphasize “market failures” such as monopolies, public goods, externalities, and imperfect information, and besides, most of these market shortcomings were first brought to light by economists. Genuine market fundamentalists are rare, and even the libertarian Milton Friedman left “numerous exceptions, on everything from money to welfare to antitrust.” If even Friedman cannot plausibly be designated a market fundamentalist, who can? The adherents of Ludwig von Mises and Murray Rothbard. Caplan asserts that Rothbard (p. 185):

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\text{does seem to categorically reject the notion of suboptimal market performance:}
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8Many economists, libertarians, and their fellow travelers are united in their concern about what they see as the unnecessary and substantial costs the state imposes on them. To be brutally honest, though, these costs can pale in comparison to the self-imposed costs of bad individual choices (e.g., multiple marriages and divorces or substance addictions) that would be present with a minimal state or no state.
Such a view completely misconceives the way in which economic science asserts that free-market action is ever optimal. It is optimal, not from the personal ethical views of an economist, but from the standpoint of the free, voluntary actions of all participants and in satisfying the freely expressed needs of the consumers. Government interference, therefore, will necessarily and always move away from such an optimum.14 (p. 204)

Most readers would reasonably expect footnote fourteen attached to the Rothbard quotation above (reproduced exactly as it appears in Caplan’s book with the accompanying footnote) to just contain a reference to Rothbard’s *Man, Economy, and State*. But no:

14. Rothbard (1962: 887). Even at the libertarian extreme of the economic profession, however, the charge of “market fundamentalism” does not exactly fit. On closer reading, Rothbard only makes the agnostic claim that the effect of government intervention on social welfare is ambiguous because every act of government hurts at least one person. (Caplan 1999: 833–35).

Ah yes, the dissembled clarification! While Mises and Rothbard are no longer alive, their perspective is carried forward by Austrian scholars and the Ludwig von Mises Institute.

But groups like these have basically given up on mainstream economics; members mostly talk to each other and publish in their own journals. The closest thing to market fundamentalists are [sic] not merely outside the mainstream of the economics profession. They are *way* outside. (p. 185; emphasis in original)

Unfortunately our author seems to be a little conflicted: “The striking implication is that even economists, widely charged with market fundamentalism, should be more pro-market than they already are” (p. 195). And this:

What economists currently see as the optimal balance between markets and government rests upon an overestimate of the virtues of democracy. In many cases, economists should embrace the free market in spite of its defects, because it still outshines the democratic alternative. (p. 195)

Could it be that Austrian intransigence on this issue might have been right all along? It is hard to imagine Caplan, with his apparent craving for mainstream accolades and respectability, explicitly admitting it. His ambivalence makes statements such as the following all the more amusing.
I advocate neither market fundamentalism nor arrogance, but we should quit trying so hard to avoid the impression of either. There is no reason to be defensive. Economists have created and popularized many of the most socially beneficial ideas in human history, and combated many of the most virulent. If they were self-conscious of their role in the world, they could do much more. (p. 204)

Caplan would do well to be more circumspect before shoving certain alternative perspectives under the bus to make himself and the mainstream appear more respectable. There are undoubtedly more than a few scholars in the mainstream and left mainstream who would be more than happy to smear him if some of his proposals for improving democracy received more airplay. His first alternative is a test of economic literacy or the requirement of a college degree as a prerequisite for voting. Another possible remedy would be to give individuals with higher levels of economic literacy multiple votes. A third option would be to cease campaigns attempting to raise voter turnout. It is easy to see how such proposals would elicit charges of racism or fascism, just for starters. Although most Austrians would reject Caplan’s entire framework, it is undeniable that his ideas would be given a fairer hearing than they would get at many mainstream gatherings where gasps and shouts of “elitist!” would be the tamest response he would receive.

In sum, it is apparent that Caplan has thought much about his topic. However, redefining policy preferences that he and probably most economists disagree with as “irrationality” is dubious and per se will accomplish little in terms of changing minds in favor of expanding the role of markets in American society.

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