

The Myth of the Rational Voter *Why Democracies Choose Bad Policies*

by Bryan Caplan

Executive Summary

In theory, democracy is a bulwark against socially harmful policies. In practice, however, democracies frequently adopt and maintain policies that are damaging. How can this paradox be explained?

The influence of special interests and voter ignorance are two leading explanations. I offer an alternative story of how and why democracy fails. The central idea is that voters are worse than ignorant; they are, in a word, *irrational*—and they vote accordingly. Despite their lack of knowledge, voters are not humble agnostics; instead, they confidently embrace a long list of misconceptions.

Economic policy is the primary activity of the modern state. And if there is one thing that the public deeply misunderstands, it is economics. People do not grasp the “invisible hand” of the market, with its ability to harmonize private

greed and the public interest. I call this *anti-market* bias. They underestimate the benefits of interaction with foreigners. I call this *anti-foreign* bias. They equate prosperity not with production, but with employment. I call this *make-work* bias. Finally, they are overly prone to think that economic conditions are bad and getting worse. I call this *pessimistic* bias.

In the minds of many, Winston Churchill’s famous aphorism cuts the conversation short: “Democracy is the worst form of government, except all those other forms that have been tried from time to time.” But this saying overlooks the fact that governments vary in scope as well as form. In democracies the main alternative to majority rule is not dictatorship, but markets. A better understanding of voter irrationality advises us to rely less on democracy and more on the market.

Voters are worse than ignorant; they are, in a word, irrational—and vote accordingly.

Introduction: The Paradox of Democracy

In a dictatorship, government policy is often appalling but rarely baffling. The building of the Berlin Wall sparked worldwide outcry, but few wondered, “what are the leaders of East Germany thinking?” *That* was obvious: they wanted to continue ruling over their subjects, who were inconsiderately fleeing en masse.

No wonder democracy is such a popular political panacea. The history of dictatorships creates a strong impression that bad policies exist because the interests of rulers and ruled diverge. A simple solution is make the rulers and the ruled *identical* by giving “power to the people.” If the people decide to delegate decisions to full-time politicians, so what? Those who pay the piper—or vote to pay the piper—call the tune.

This optimistic story is, however, often at odds with the facts. Democracies frequently adopt and maintain policies harmful for most people.¹ Protectionism is a classic example. Economists across the political spectrum have pointed out its folly for centuries, but almost every democracy restricts imports. Admittedly, this is less appalling than the Berlin Wall, yet it is more *baffling*. In theory, democracy is a bulwark against socially harmful policies, but in practice it gives them a safe harbor.

How can this paradox be explained? One answer is that the people’s “representatives” have turned the tables on them.² Elections might be a weaker deterrent to misconduct than they seem on the surface, making it more important to please special interests than the general public. A second answer, which complements the first, is that voters are deeply ignorant about politics.³ They do not know who their representatives are, much less what they do. This tempts politicians to pursue personal agendas and sell themselves to donors.

I offer an alternative story of how democracy fails. The central idea is that voters are worse than ignorant; they are, in a word, *irrational*—and vote accordingly. Despite their lack of knowledge, voters are not humble

agnostics; instead, they confidently embrace a long list of misconceptions.

When cataloging the failures of democracy, one must keep things in perspective. The shortcomings of democracy pale in comparison with those of totalitarian regimes. Democracies do not murder millions of their own citizens. Fair enough, but such comparisons set the bar too low. Now that democracy is the most common form of government, there is little reason to dwell on the truism that it is “better than communism.” It is now more worthwhile to figure out how and why democracy falls short.

In the minds of many, one of Winston Churchill’s most famous aphorisms cuts the conversation short: “Democracy is the worst form of government, except all those other forms that have been tried from time to time.”⁴ But this saying overlooks the fact that governments vary in *scope* as well as form. In democracies the main alternative to majority rule is not dictatorship, but markets.

Economists have an undeserved reputation for “religious faith” in markets. No one has done more than economists to dissect the innumerable ways that markets can fail. After all their investigations, though, economists typically conclude that the man in the street—and the intellectual without economic training—underestimates how well markets work. I maintain that something quite different holds for democracy: it is widely *overrated* not only by the public but by most economists, too. Thus, while the general public underestimates how well markets work, even economists underestimate markets’ virtues *relative* to the democratic alternative.

Is the “Miracle of Aggregation” Just Wishful Thinking?

What voters don’t know would fill a university library. In the last few decades, economists who study politics have thrown fuel on the fire by pointing out that—selfishly speaking—voters are not making a mistake. One

vote has so small a probability of affecting electoral outcomes that a realistic egoist pays no attention to politics; he chooses to be, in economic jargon, *rationally ignorant*.

The vast empirical literature on voter knowledge bears this out.⁵ Almost all economists and political scientists now accept that the average citizen's level of political knowledge is extraordinarily low. At the same time, however, scholars have also largely come to believe that this *doesn't really matter*, because democracy can function well under almost any magnitude of voter ignorance.⁶

How is this possible? Assume that voters do not make *systematic* errors. Though they err constantly, their errors are random.⁷ If voters face a blind choice between X and Y, knowing nothing about them, they are equally likely to choose either.

With 100 percent voter ignorance, matters are predictably grim. One candidate could be the Unabomber, plotting to shut down civilization. If voters choose randomly, the Unabomber wins half the time. True, the assumption of zero voter knowledge is overly pessimistic; informed voters are rare, but they do exist. But this seems a small consolation. One hundred percent ignorance leads to disaster. Can 99 percent ignorance be significantly better?

Yes. Democracy with 99 percent ignorance looks a lot more like democracy with full information than democracy with total ignorance. Why? First, imagine an electorate where 100 percent of all voters are well-informed. Who wins the election? Trivially, *whoever has the support of a majority of the well-informed*. Next, switch to the case where only 1 percent of voters are well-informed. The other 99 percent are so thick that they vote at random. Quiz a person waiting to vote, and you are almost sure to conclude, with alarm, that he has no idea what he is doing. Nevertheless, it is basic statistics that—in a large electorate—each candidate gets about half of the random votes. Both candidates can bank on roughly a 49.5 percent share. Yet that is not enough to win. For that, they must focus all their energies on the one well-informed person in a hundred. Who takes

the prize? *Whoever has the support of a majority of the well-informed*.

This result has been aptly named the “miracle of aggregation.”⁸ It reads like an alchemist's recipe: mix 99 parts folly with 1 part wisdom to get a compound as good as unadulterated wisdom. An *almost* completely ignorant electorate makes the same decision as a fully informed electorate—lead into gold, indeed!

It is tempting to call this “voodoo politics,” or quip, as H. L. Mencken did, that “democracy is a pathetic belief in the collective wisdom of individual ignorance.” But there is nothing magical or pathetic about it. James Surowiecki documents many instances where the miracle of aggregation—or something akin to it—works as advertised.⁹ In a contest to guess the weight of an ox, the average of 787 guesses was off by a single pound. On *Who Wants to Be a Millionaire*, the answer most popular with studio audiences was correct 91 percent of the time. Financial markets—which aggregate the guesses of large numbers of people—often predict events better than leading experts. Betting odds are excellent predictors of the outcomes of everything from sporting events to elections. In each case, the logic enunciated by political scientists Benjamin Page and Robert Shapiro applies:

This is just an example of the law of large numbers. Under the right conditions, individual measurement errors will be independently random and will tend to cancel each other out. Errors in one direction will tend to offset errors in the opposite direction.¹⁰

Judging from research in recent decades, most economists find this logic compelling. Almost all “respectable” modern economic theories of politics begin by assuming that the typical citizen understands economics and votes accordingly—at least on average.¹¹ Nor is this view limited to apologists for the status quo. Some of the sternest critics of government regulation nevertheless scoff at the assumption of systematic voter bias.

Almost all “respectable” modern economic theories of politics begin by assuming that the typical citizen understands economics and votes accordingly.

Are voter errors systematic on questions of direct political relevance?

Legendary Chicago economist George Stigler is a case in point:

The assumption that public policy has often been inefficient because it was based on mistaken views has little to commend it. To believe, year after year, decade after decade, that the protective tariffs or usury laws to be found in most lands are due to confusion rather than purposeful action is singularly obfuscatory.¹²

The bottom line is that if the miracle of aggregation is true, then democracy can work, even with a morbidly ignorant electorate. Democracy gives equal say to the wise and the not-so-wise, but the wise determine policy. Belaboring the electorate's lack of knowledge with study after study is beside the point.

But there is another kind of empirical evidence that *can* discredit the miracle of aggregation. The "miracle" only works if voters do not make *systematic* errors. This suggests that instead of rehashing the whole topic of voter error, we concentrate our fire on the critical and relatively unexplored question: *Are voter errors systematic?*¹³

There are good reasons to suspect so. Our average guess about the weight of oxen is dead on. But cognitive psychology catalogs a long list of other questions where our average guess is systematically mistaken.¹⁴ That body of research ought to open our minds to the *possibility* of systematic voter error.

By itself, though, the psychological literature does not get us very far. The link between general cognition and particular political decisions is too loose. Voters might be bad statisticians but perceptive judges of wise policy. Thus, we should refine our question: *Are voter errors systematic on questions of direct political relevance?*

My answer is an emphatic *yes*. Economic policy is the primary activity of the modern state, making voter beliefs about economics among *the* most—if not the most—politically relevant beliefs. And if there is one thing that the public deeply misunderstands, it is eco-

nomics.¹⁵ People do not grasp the "invisible hand" of the market and its ability to harmonize private greed and the public interest. I call this *anti-market* bias. They underestimate the benefits of interaction with foreigners. I call this *anti-foreign* bias. They equate prosperity not with production, but with employment. I call this *make-work* bias. Lastly, they are overly prone to think that economic conditions are bad and getting worse. I call this *pessimistic* bias.

If voters base their policy preferences on deeply mistaken models of the economy, government is likely to perform its bread and butter function poorly. To see this, suppose that two candidates compete by taking positions on the degree of protectionism they favor. *Random* voter errors about the effect of protection cause some voters who prefer the effect of free trade to vote for protection. But it is equally common for voters who prefer the effect of protection to vote for free trade (see Figure 1).¹⁶ Then the miracle of aggregation holds: in spite of voter ignorance, the winning platform is socially optimal.

For anyone who has taught international economics, though, this conclusion is underwhelming. It takes hours of patient instruction to show students the light of comparative advantage. After the final exam, there is a distressing rate of recidivism. Suppose we adopt the more realistic assumption that voters systematically overestimate the benefits of protection. What happens? Lots of people vote for protection who prefer the effect of free trade, but only a few vote for free trade who prefer the effect of protection (see Figure 2). The political scales tilt out of balance; the winning platform is too protectionist. *The median voter would be better off if he received less protection than he asked for.* But competition impels politicians to heed what voters ask for, not what is best for them.

Comparable biases plausibly underlie policy after policy. For example, the law of supply and demand says that above-market prices create unsaleable surpluses, but that has not stopped most of Europe from regulating labor markets into decades of depression-level unemployment.¹⁷ The most credible explanation is that

Figure 1
The Median Voter Model: Random Error

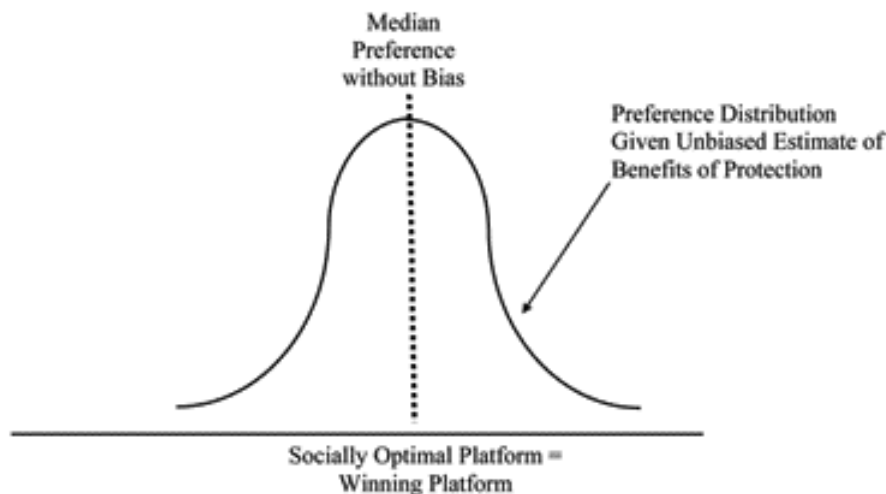
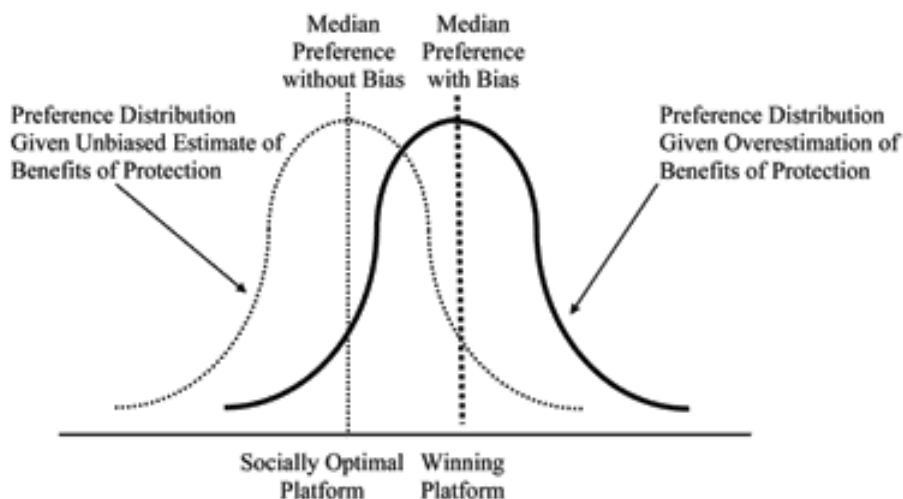


Figure 2
The Median Voter Model: Systematic Error



the average voter sees no link between artificially high wages and unemployment. Before I studied economics, I failed to see it myself.

Systematically Biased Beliefs about Economics

Economists have been complaining about anti-market, anti-foreign, make-work, and pessimistic biases for centuries. But what exactly have economists been criticizing? Where does the public go wrong? How prevalent are these biases? And if experts and the

public deeply disagree, what reason is there to side with the experts, anyway? Perhaps it is the experts who are biased.

I draw on several different bodies of evidence to answer those questions. To pin down what economists have been criticizing, I provide some historic examples. To explain where the public goes wrong, I summarize the main arguments that economists have made in the past and that textbooks still make today. To estimate the prevalence of these biases, I rely on a large body of surveys from recent decades.

But what about the hardest objection of all? Isn't it possible that the bias lies in the

Economists have been complaining about anti-market, anti-foreign, make-work, and pessimistic biases for centuries.

It is not lack of consensus that incenses knowledgeable critics, but the way economists unite behind unpalatable conclusions.

experts, rather than the public? If one finds the economists of the past and the textbooks of the present convincing, this question becomes less interesting. But the critics of the economics profession do make some disturbing accusations about the field's objectivity.

The most common doubt about economists stems from their apparent inability to agree, best captured by George Bernard Shaw's line that "if all economists were laid end to end, they would not reach a conclusion."¹⁸ But economists' hard-core detractors recognize the superficiality of this complaint. They know that economists regularly see eye-to-eye with one another. A quip from Steven Kelman directly contradicts Shaw:

The near-unanimity of the answers economists give to public policy questions, highly controversial among the run of intelligent observers, but which share the characteristic of being able to be analyzed in terms of microeconomic theory, reminds one of the unanimity characterizing bodies such as the politburo of the Soviet Communist Party.¹⁹

It is not lack of consensus that incenses knowledgeable critics, but the way economists unite behind *unpalatable* conclusions, such as doubts about the benefits of regulation. Kelman bemoans the fact that even economists in the Carter administration were economists first and liberals second:

At the government agency where I have worked and where agency lawyers and agency microeconomists interact with each other . . . the lawyers are often exasperated, not only by the frequency with which agency economists attack their proposals but also by the unanimity among the agency economists in their opposition. The lawyers tend to (incorrectly) attribute this opposition to failure to hire "a broad enough spectrum" of economists, and to beg the economists, if they can't support the lawyers' proposals, at least to give

them "the best economic arguments" in favor of them. . . . The economists' answer is typically something like, "There are no good economic arguments for your proposal."²⁰

Unsurprisingly, critics rarely change their minds once they notice how regularly economists agree. Instead, they typically shift to the argument that the experts are biased. Biased how? There are two prominent stories. The first is that economists suffer from "self-serving bias." Economists are unusually affluent, tenured, white, and male, and supposedly confuse what is good for them with what is good for the country. The second is that economists suffer from right-wing "ideological bias." They use economics to give scientific respectability to their political prejudices.

Fortunately, there is one excellent data set that allows us to bring these accusations to trial: the Survey of Americans and Economists on the Economy (henceforth SAE).²¹ This unique study, conducted by the *Washington Post*, Kaiser Family Foundation, and Harvard University Survey Project, asked 1,510 members of the general public and 250 PhD economists the same diverse set of questions about how the economy works. The SAE strongly supports the view that economists and the public sharply disagree in predictable ways. More importantly, though, the survey also collected detailed information about the respondents: income, job security, race, gender, party identification, ideology, and much more.

The upshot is that we can statistically *test* whether the vast belief differences between economists and the public are just a byproduct of economists' privileged circumstances, a right-wing orientation, or both. In other words, we can use the data to run a thought experiment: What would a person with average income, average job security, average party identification, average ideology, average *everything*, think if he had a PhD in economics? I call such a person a member of the "enlightened public"—someone who combines the circumstances of the layman with the knowledge of the expert.²²

If the critics of the economics profession

were completely right—if the sole reasons for economists’ unusual views were self-serving and/or ideological bias—then the enlightened public and the actual public would see eye-to-eye. If the critics of the economics profession were completely wrong—if self-serving and ideological bias had nothing to do with economists’ unusual views—then the enlightened public and economists would see eye-to-eye.

The world turns out to be much closer to the second extreme than the first. Self-serving bias accounts for less than 20 percent of the belief gap between economists and laymen. Controlling for ideological bias actually seems to slightly *increase* the size of the belief gap. How is this possible? Because contrary to popular belief, economists tend to be moderate Democrats, not conservative Republicans. Economists are unusually favorable toward markets not because of their extreme right-wing perspective, but despite their mildly left-wing perspective.²³

Shooting down the leading opponents of the “economists right, public wrong” position does not *prove* that it is true. But it significantly increases the probability. Think of it this way: common sense advises us to trust the experts. Critics challenge the experts’ objectivity, and their complaints turn out to be in error. The sensible response is to reaffirm the common sense position. Indeed, after the strongest challengers fail, we should become more confident that economists are right and the public is wrong.

There is no reason, then, to deny economists a normal level of deference in their field of expertise. But the profession also deserves an affirmative defense. Frankly, the strongest reason to accept its reliability is to flip through a basic economics text, then read the SAEE questions for yourself. You may not be fully convinced of economists’ wisdom. I, too, doubt it on occasion. But it is hard to avert your gaze from the public’s folly. Time and again, it gravitates toward answers that are positively silly.

If that is too subjective for you, an impressive empirical regularity points in the same direction: *education makes people think like econo-*

mists. Out of the SAEE’s 37 questions, there are 19 where economic training and education move together and only two where they move apart. It is not merely members of one inbred discipline who diverge from mainstream opinion. So do educated Americans in general, with the degree of divergence rising with the level of education. And the magnitude is substantial. Moving from the bottom of the educational ladder to the top has more than half of the (enormous) effect of an econ PhD.²⁴

This pattern is all the more compelling because it has parallels in other fields. Take political knowledge. Education substantially improves performance on objective tests about government structure, leaders, and current events.²⁵ Kraus, Malmfors, and Slovic similarly find that education makes members of the general public “think more like toxicologists.”²⁶ Perhaps education just increases exposure to brainwashing. But it is more likely that educated people think more clearly and know more.

With the most fundamental doubts about the economics profession out of the way, we are now ready to proceed. Economists have been complaining about laymen’s economic misconceptions for centuries. What seems to be the problem?

Anti-Market Bias

I first learned about farm price supports in the produce section of the grocery store. I was in kindergarten. My mother explained that price supports *seemed* to make fruits and vegetables more expensive, but assured me that this conclusion was simplistic. If the supports went away, so many farms would go out of business that prices would soon be higher than ever. If I had been more precocious, I would have asked a few questions. Were there price support programs for the other groceries? Why not? As it happened, though, I accepted what she told me, and felt a lingering sense that price competition is bad for buyer and seller alike.

This was one of my first memorable encounters with **anti-market bias**, *a tendency to underestimate the economic benefits of the market mechanism*.²⁷ The public has severe doubts

Economists are unusually favorable toward markets despite their mildly left-wing perspective.

**Anti-market bias
has frustrated
economists for
generations.**

about how much it can count on profit-seeking business to produce socially beneficial outcomes. It focuses on the *motives* of business, and neglects the discipline imposed by competition. While economists admit that profit-maximization plus market imperfections can yield bad results, non-economists tend to view successful greed as socially harmful per se.

Near the end of his life, Joseph Schumpeter eloquently captured the essence of anti-market bias:

Capitalism stands its trial before judges who have the sentence of death in their pockets. They are going to pass it, whatever the defense they may hear; the only success victorious defense can possibly produce is a change in the indictment.²⁸

Arguably the greatest historian of economic thought, Schumpeter elsewhere matter-of-factly speaks of “the ineradicable prejudice that every action intended to serve the profit interest must be anti-social by this fact alone.”²⁹ Considering his encyclopedic knowledge, this remark speaks volumes. Anti-market bias is not a temporary, culturally specific aberration. It is a deeply rooted pattern of human thinking which has frustrated economists for generations.

Liberal Democratic economists echo and amplify Schumpeter’s theme. Charles Schultze, head of President Carter’s Council of Economic Advisers, proclaims that “harnessing the ‘base’ motive of material self-interest to promote the common good is perhaps the most important social invention mankind has yet achieved.”³⁰ But politicians and voters fail to appreciate this invention. “The virtually universal characteristic of [environmental] policy . . . is to *start* from the conclusion that regulation is the obvious answer; the pricing alternative is never considered.”³¹

There are too many variations on anti-market bias to list them all. Probably the most common is to *equate market payments with transfers*, ignoring their incentive properties. (A “transfer,” in economic jargon, is a no-strings-

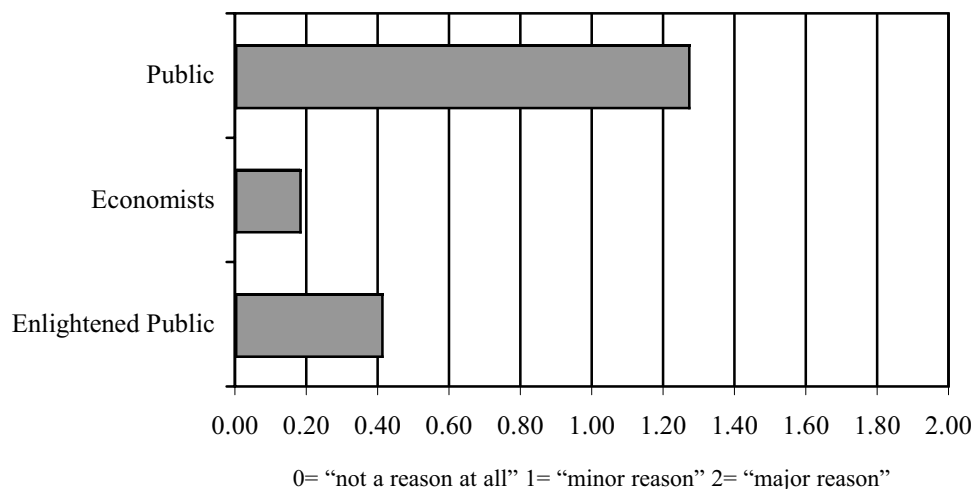
attached movement of wealth from one person to another). All that matters, then, is how much you empathize with the transfer’s recipient compared to the transfer’s provider. To take the classic case: People tend to see profits as a gift to rich. So unless you perversely pity the rich more than the poor, limiting profits seems like common sense.

Economists across the ideological spectrum find it hard to respond to this outlook with anything but derision. Profits are not a handout, but a quid pro quo: “If you want to get rich, *then* you have to do something people will pay for.” Profits give incentives to reduce production costs, move resources from less-valued to more-valued industries, and dream up new products. This is the central lesson of *The Wealth of Nations*: the “invisible hand” quietly persuades selfish businessmen to serve the public good:

Every individual is continually exerting himself to find out the most advantageous employment for whatever capital he can command. It is his own advantage, indeed, and not that of the society, which he has in view. But the study of his own advantage naturally, or rather necessarily leads him to prefer that employment which is most advantageous to the society.³²

For modern economists, these are truisms, but they usually miss the deeper lesson. If Adam Smith’s observations are only truisms, why did he bother to write them? Why do teachers of economics keep quoting and re-quoting this passage? *Because Smith’s thesis was counterintuitive to his contemporaries, and remains counterintuitive today.* A truism for the few is heresy for the many. Smith, being well aware of this fact, tried to shock readers out of their dogmatic slumber: “By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the publick good.”³³ Business profit appears to be a transfer but benefits

Figure 3
“Business profits are too high.”



society; business philanthropy appears to benefit society but is at best a transfer.

To get an idea of how counterintuitive Smith’s thesis remains, we can turn to a telling question from the SAEE. Respondents were asked to evaluate various explanations for why the economy is not “doing better than it is.” One of the candidates was “business profits are too high.” Figure 3 shows the results.

Economists scoff at the idea that excessive profits are hurting the economy. The public, in contrast, takes the problem seriously. And while critics of the economics profession might like to attribute the pattern to self-serving bias, the results for the enlightened public support a curt rejoinder. *Anyone with a Ph.D. in economics*, rich or poor, left or right, would basically tell you the same.

Part of the public’s error is quantitative. It wildly overestimates the rate of profit enjoyed by the typical business, with an average guess near 50 percent.³⁴ But the disagreement is deeper. Through the prism of anti-market bias, the public perceives profit as a lump-sum transfer to business. Economists, in contrast, recognize it as the motor of progress as well as flexibility.

The second most prominent avatar of anti-market bias is *monopoly theories of price*. Economists obviously acknowledge that monopolies exist. But the public habitually makes “monopoly” a scapegoat for scarcity.

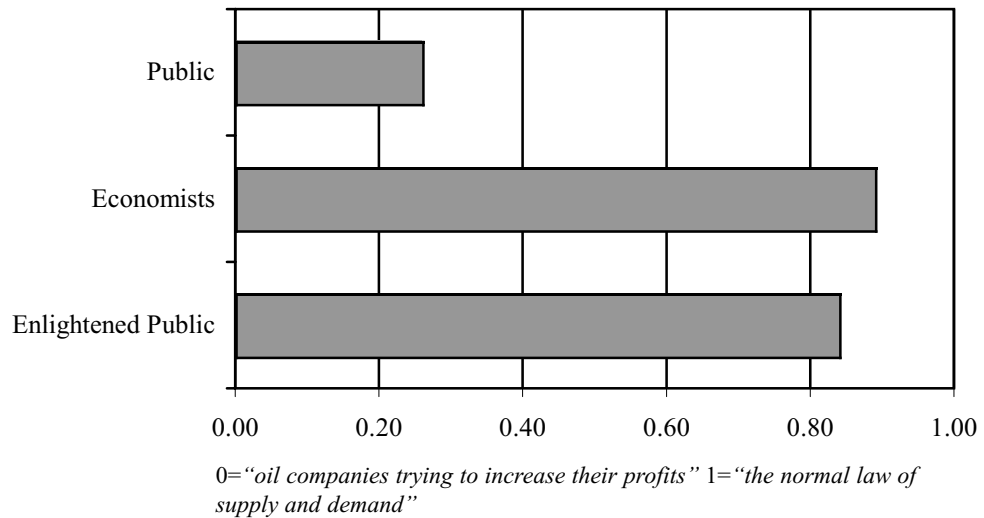
The idea that supply and demand *usually* control prices is hard to accept. Even in industries with many firms, noneconomists treat prices as a function of their CEOs’ intentions and conspiracies. Economists understand, however, that collusion is a “prisoner’s dilemma.” If an industry has more than a handful of firms, industrywide conspiracies are unlikely to succeed.

The SAEE has a nice question to illustrate this point. Back in 1996, it asked, “Which do you think is more responsible for the recent increase in gasoline prices?” Respondents chose between “the normal law of supply and demand” and “oil companies trying to increase their profits.” As Figure 4 shows, where economists see prices governed by market forces, the public sees monopoly or collusion. The numbers for the enlightened public confirm that economists do not dissent just because they are too rich to worry about how much it costs to fill their gas tank.

The real problem is not that economists are out of touch, but that the public’s story makes no sense. If gas prices rise because “oil companies are trying to increase their profits,” why do gas prices ever fall? Do oil companies feel generous and decide to cut their profits? Basic economics, in contrast, has an elegant explanation: if the cost of inputs falls, so does the profit-maximizing price.

The public perceives profit as a lump-sum transfer to business.

Figure 4
“Which do you think is more responsible for the recent increase in gasoline prices?”



Collusion aside, the public’s implicit model of price determination is that businesses are monopolists of variable altruism. If a CEO feels greedy when he wakes up, he raises his price—or puts low-quality merchandise on the shelves. Nice guys charge fair prices for good products; greedy scoundrels gouge with impunity for junk. It is only a short step for market skeptics to add “and nice guys finish last.” As John Mueller emphasizes, the public links greed with almost everything bad: capitalism is “commonly maligned for the deceit, unfairness, dishonesty, and discourtesy that are widely taken to be the inevitable consequences of its apparent celebration of greed.”³⁵

Where does the public go wrong? For one thing, *asking* for more can *get* you less. Giving your boss the ultimatum “double my pay or I quit” usually ends badly. The same holds in business: raising price and cutting quality often lead to lower profits, not higher. Mueller makes the deeper point that many strategies that work as a one-shot scam backfire as routine policies. It is hard to make a profit if no one sets foot in your store twice. Intelligent greed militates against “deceit, unfairness, dishonesty, and discourtesy” because they damage the seller’s reputation.

An outsider who eavesdrops on economists’ discussions might get the impression

that the benefits of markets remain controversial. To understand their conversation, you have to notice what economists are *not* debating. They are not debating whether prices give incentives, or if a vast business conspiracy runs the world. Almost all economists recognize the core benefits of the market mechanism; they disagree only at the margin.

Anti-Foreign Bias

A shrewd businessman I know has long thought that everything wrong in the American economy could be solved with two expedients:

1. A naval blockade of Japan.
2. A Berlin Wall at the Mexican border.

This is only a mild caricature of his position, which is all the more puzzling because he usually gets the mutual benefits of trade. He does well on eBay. But like most noneconomists, he suffers from **anti-foreign bias**, a *tendency to underestimate the economic benefits of interaction with foreigners*.³⁶ When outsiders emerge on the economic scene, they do a mental double take: “Foreigners? Could it really be mutually beneficial for us to trade with *them*?”

Popular metaphors equate foreign trade with racing and warfare, so you might say that anti-foreign views are embedded in our lan-

It is hard to make a profit if no one sets foot in your store twice.

guage. Perhaps foreigners are sneakier, craftier, or greedier. Whatever the reason, they supposedly have a special power to exploit us. As the 19th century mathematician and economist Simon Newcomb explained:

It has been assumed as an axiom which needs no proof, because none would be so hardy as to deny it, that foreign nations cannot honestly be in favor of any trade with us that is not to our disadvantage; that the very fact that they want to trade with us is a good reason for receiving their overtures with suspicion and obstructing their wishes by restrictive legislation.³⁷

Alan Blinder echoes Newcomb’s lament a century later. People around the world scapegoat foreigners:

When jobs are scarce, the instinct for self-preservation is strong, and the temptation to blame foreign competitors is all but irresistible. It was not only in the United States that the bunker mentality took hold. That most economists branded the effort to save jobs by protectionism shortsighted and self-defeating was beside the point. Legislators are out to win votes, not intellectual kudos.³⁸

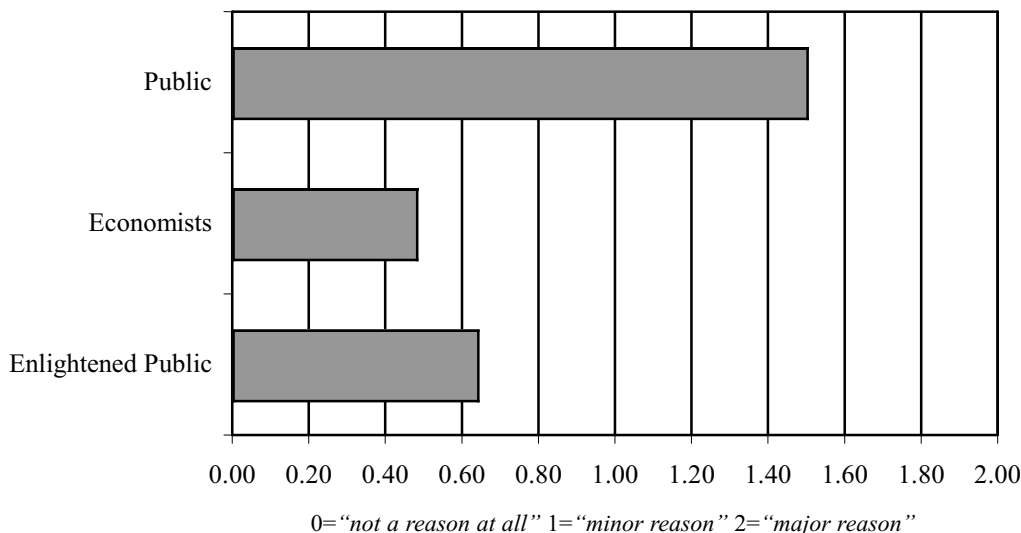
The SAEE amply confirms Blinder’s point. Respondents rated the severity of the economic harm caused by the fact that “companies are sending jobs overseas.” Figure 5 shows the results.

Economists are especially critical of the anti-foreign outlook because it does not just *happen* to be wrong; it conflicts with elementary economics. Textbooks teach that total output increases if producers specialize and trade. On an individual level, who could deny it? Imagine how much time it would take to grow your own food, when a few hours’ wages spent at the grocery store feed you for weeks. Analogies between individual and social behavior are at times misleading, but this is not one of those times. International trade is, as Steven Landsburg explains, a technology:

There are two technologies for producing automobiles in America. One is to manufacture them in Detroit, and the other is to grow them in Iowa. Everybody knows about the first technology; let me tell you about the second. First you plant seeds, which are the raw materials from which automobiles are constructed. You wait a few months until wheat appears. Then you harvest the wheat, load it onto ships, and sail the ships westward into the Pacific

The anti-foreign outlook does not just happen to be wrong; it conflicts with elementary economics.

Figure 5
“Companies are sending jobs overseas.”



No one loses sleep about the trade balance between California and Nevada, or me and my grocer.

Ocean. After a few months, the ships reappear with Toyotas on them.³⁹

And this is one amazing technology. The law of comparative advantage, one of the most fascinating theorems in economics, shows that mutually beneficial international trade is possible even if one nation is *less productive in every way*.⁴⁰ Suppose an American can make 10 cars or 5 bushels of wheat, and a Mexican can make 1 car or 2 bushels of wheat. Though the Americans are better at both tasks, specialization and trade increase production. If one American switches from wheat to cars, and three Mexicans switch from cars to wheat, world output goes up by two cars *plus* one bushel of wheat.

How can anyone overlook trade's remarkable benefits? Adam Smith, along with many 18th- and 19th-century economists, identifies the root error as misidentification of money and wealth: "A rich country, in the same manner as a rich man, is supposed to be a country abounding in money; and to heap up gold and silver in any country is supposed to be the best way to enrich it."⁴¹ It follows that trade is zero-sum, since the only way for a country to make its balance more favorable is to make another country's balance less favorable.

Even in Smith's day, however, his story was probably too clever by half. The root error behind 18th-century mercantilism was an unreasonable distrust of foreigners. Otherwise, why would people focus on money draining out of "the nation," but not "the region," "the city," "the village," or "the family"? In practice, human beings then and now commit the balance of trade fallacy only when *other countries* enter the picture. No one loses sleep about the trade balance between California and Nevada, or me and my grocer. The fallacy is not treating *all* purchases as a cost, but treating *foreign* purchases as a cost.

Modern conditions do make anti-foreign bias easier to spot. To take one prominent example, immigration is far more of an issue now than it was in Smith's time. In theory, trade in labor is roughly the same as trade in goods. Specialization and exchange raise output—for instance, by letting skilled American

moms return to work by hiring Mexican nannies. The SAEE confirms that the public is quick to see great dangers in this process—and economists and the enlightened public to minimize them (see Figure 6).

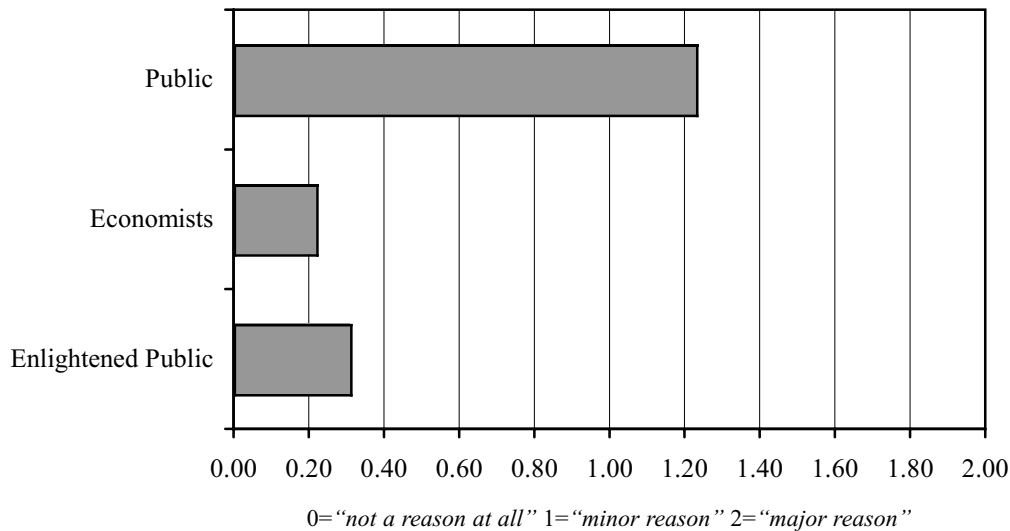
In terms of the balance of payments, immigration is a nonissue. If an immigrant moves from Mexico City to New York and spends all his earnings in his new homeland, the balance of trade does not change. Yet the public still looks on immigration as a bald misfortune: jobs lost, wages reduced, public services consumed. Many see a *larger* trade deficit as a fair price to pay for *reduced* immigration. One peculiar *pro*-NAFTA argument is that if we admit more Mexican goods, we will have fewer Mexicans.⁴² It should be evident, then, that the general public sees immigration as a distinct danger—independent of, and more frightening than, an unfavorable balance of trade. People feel all the more vulnerable when they reflect that these foreigners are not just selling us their products. *They live among us.*

Calm reflection on the international economy reveals much to be thankful for, and little to fear. On this point, economists past and present agree. But an important proviso lurks beneath the surface. Yes, there is little to fear about the international economy itself. But modern researchers—unlike economists of the past and teachers of the present—rarely mention that *attitudes* about the international economy are another story. Paul Krugman hits the nail on the head: "The conflict among nations that so many policy intellectuals imagine prevails is an illusion; but it is an illusion that can destroy the reality of mutual gains from trade."⁴³

Make-Work Bias

I was an undergraduate when the Cold War ended, and I can still remember talking about military spending cuts with a conservative student. The whole idea made her nervous. Why? Because she had no idea how a market economy would absorb the discharged soldiers. She did not even distinguish between short-term and long-term consequences of the cuts; in her mind, to lay off

Figure 6
“There are too many immigrants.”



100,000 government employees was virtually equivalent to disemploying 100,000 people for life. Her position is particularly striking if you realize that her objection would apply equally to spending on government programs that—as a conservative—she opposed.

If a well-educated individual ideologically opposed to wasteful government spending thinks like this, it is hardly surprising that she is not alone. The public often literally believes that labor is better to use than conserve. Saving labor, producing more goods with fewer man-hours, is widely perceived not as progress, but as a danger. I call this **make-work bias**, a tendency to underestimate the economic benefits of conserving labor.⁴⁴ Where non-economists see the destruction of jobs, economists see the essence of economic growth—the production of more with less. Alan Blinder explains:

If you put the question directly, “Is higher productivity better than lower productivity?” few people will answer in the negative. Yet policy changes are often sold as ways to “create jobs.” . . . Jobs can be created in two ways. The socially beneficial way is to enlarge GNP, so that there will be more useful work to be done. But we can also create jobs by seeing to it that

each worker is less productive. Then more labor will be required to produce the same bill of goods. The latter form of job creation does raise employment; but it is the path to rags, not riches.⁴⁵

For an individual to prosper, he only needs to *have* a job. But society can prosper only if individuals *do* a job, if they create goods and services that someone else wants.

Economists have been at war with the make-work bias for centuries. Bastiat ridicules the equation of prosperity with jobs as “Sisyphism,” after the mythological fully employed Greek who was eternally condemned to roll a boulder up a hill. In the eyes of the public:

Effort itself constitutes and measures wealth. To progress is to increase the *ratio of effort to result*. Its ideal may be represented by the toil of Sisyphus, at once barren and eternal.⁴⁶

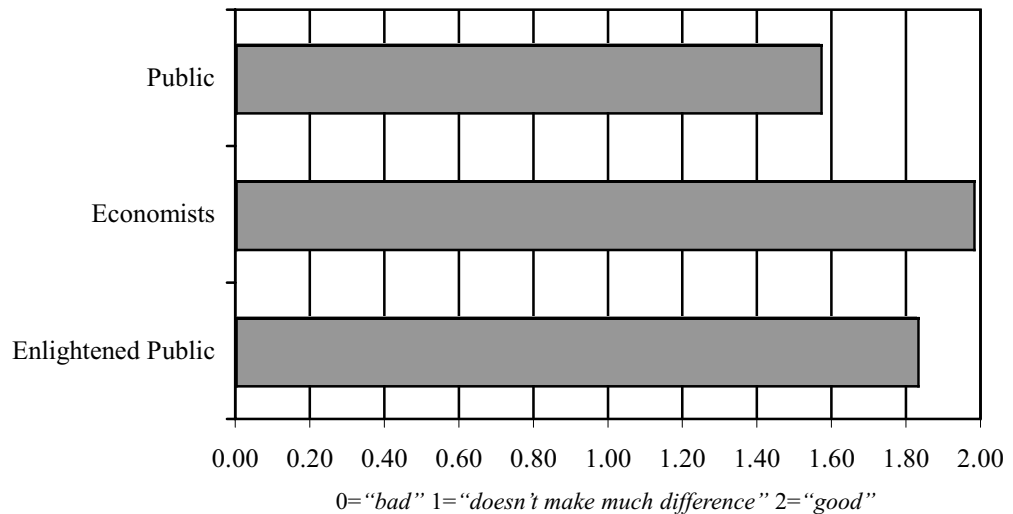
In contrast, for the economist:

[W]ealth . . . increases proportionately to the increase in the *ratio of result to effort*. Absolute perfection, whose archetype is God, consists in the widest possible distance between these two

Saving labor, producing more goods with fewer man-hours, is widely perceived not as progress, but as a danger.

The fundamental defense of labor-saving technology is that employing more workers than you need wastes valuable labor.

Figure 7
“Increased use of technology in the workplace.”



terms, that is, a situation in which no effort at all yields infinite results.⁴⁷

The crudest form of make-work bias is Luddite fear of the machine. Common sense proclaims that machines make life easier for human beings. The public qualifies this “naive” position by noting that machines also make people’s lives harder by throwing them out of work. Economists, in contrast, doubt that the pro-technology position needs to be qualified. Technology often *creates* new jobs; without the computer, there would be no jobs in computer programming or software development. But the fundamental defense of labor-saving technology is that employing more workers than you need wastes valuable labor.

Thus, when the SAEF asks respondents to evaluate the economic effects of “increased use of technology in the workplace,” both laymen and experts lean in a favorable direction. But economists are virtually unanimous, and the public clearly has reservations inspired by make-work bias (see Figure 7).

Economists often observe that if you pay a worker to twiddle his thumbs, you could have paid him to do something socially useful instead. Their deeper point, though, is that market forces readily convert this *potential* social benefit into an actual one. After technology throws people out of work, they have an incentive to

find a new use for their talents. Michael Cox and Richard Alm aptly describe this process as “churn”: “Through relentless turmoil, the economy re-creates itself, shifting labor resources to where they’re needed, replacing old jobs with new ones.”⁴⁸ They illustrate this process with history’s most striking example: the drastic decline in agricultural employment:

In 1800, it took nearly 95 of every 100 Americans to feed the country. In 1900, it took 40. Today, it takes just 3. . . . The workers no longer needed on farms have been put to use providing new homes, furniture, clothing, computers, pharmaceuticals, appliances, medical assistance, movies, financial advice, video games, gourmet meals, and an almost dizzying array of other goods and services. . . . What we have in place of long hours in the fields is the wealth of goods and services that comes from allowing the churn to work, wherever and whenever it might occur.⁴⁹

Exasperating as the Luddite mentality is, countries rarely move beyond rhetoric and turn back the clock of technology. But you cannot say the same about another controversy infused with make-work bias: hostility to downsizing. What could possibly be *good* about downsizing?

Every time we figure out how to accomplish a goal using fewer workers, it enriches society, because labor is a valuable resource.

We have a tremendous stake in allowing the churn to grind forward, putting our labor resources to work raising living standards, to give us more for less. We can't get around it: The churn's promise of higher living standards can't be reaped without job losses. . . . Downsizing companies will be vilified for making what appear to be hardhearted decisions. When passions cool, however, there ought to be time to recognize that, in most cases, the dirty work had to be done.⁵⁰

See how this issue plays out in the SAEI (see Figure 8). Respondents were asked to assess the economic harm resulting from the fact that "companies are downsizing."

The popular stance rests on the illusion that employment, not production, is the measure of prosperity. In contrast, for economists and the enlightened public, downsizing proves the rule that private greed and the public interest point in the same direction. Downsizing superfluous workers leads them to search for more socially productive ways to

apply their abilities. Imagine what would have happened if the farms of the 19th century never "downsized." Greed drove these changes, but they remained changes for the better.

Pessimistic Bias

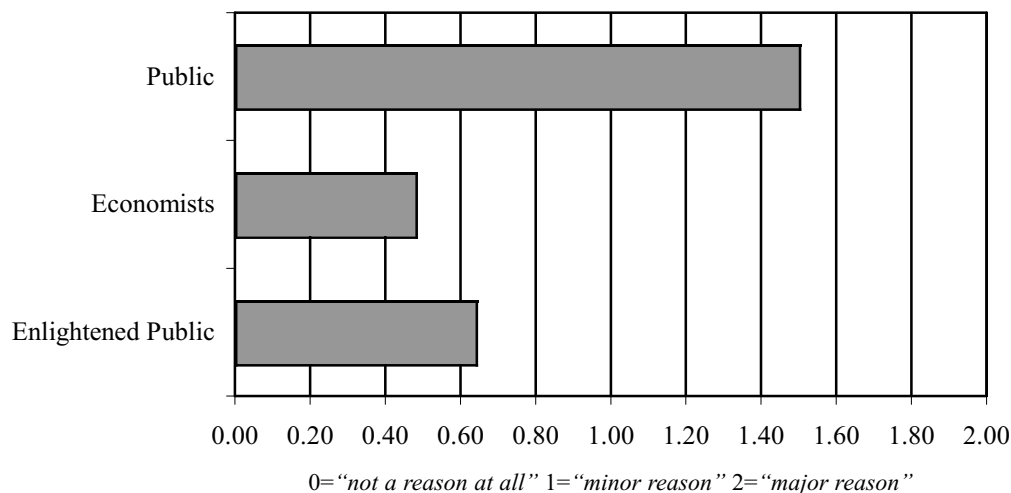
I first encountered anti-drug propaganda in the second grade. It was called "drug education," but it was mostly scary stories. I was told that kids around me were using drugs, and that a pusher would soon offer me some, too. Teachers warned that more and more kids would become addicts, and by the time I was in junior high I would be surrounded by them. Authority figures would occasionally speculate about our adulthood, and wonder how a country could function with such a degenerate workforce. Yet another reason, they mused, that this country is going downhill.

The junior high dystopia never materialized. I am still waiting to be offered drugs. By the time I reached adulthood, it was apparent that most people were not going to their jobs high on PCP. Generation X used its share of illegal narcotics, but its entry into the workforce accompanied the marvels of the Internet age, not a stupor-induced decline in productivity and innovation.

My teachers' predictions about America's

The popular stance rests on the illusion that employment, not production, is the measure of prosperity.

Figure 8
"Companies are downsizing."



**As a general rule,
the public
believes economic
conditions are
not as good as
they really are.**

economic future turned out to be laughable. But they fit nicely into a larger pattern. As a general rule, the public believes economic conditions are not as good as they really are. It sees a world going from bad to worse; the economy faces a long list of grim challenges, leaving little room for hope. I refer to the public's leanings as **pessimistic bias**, a tendency to overestimate the severity of economic problems and underestimate the (recent) past, present, and future performance of the economy.⁵¹

Suppose a congenitally pessimistic doctor examines a patient. There are two kinds of errors to watch out for. For one thing, he would exaggerate the severity of the patient's symptoms. After finding a body temperature of 100 degrees, the doctor might exclaim that the patient has a "dangerous fever." But the doctor might also err in his overall judgment, giving the patient two weeks to live.

Pessimism about the economy exhibits the same characteristics. You may be pessimistic about symptoms, overblowing the severity of everything from the deficit to affirmative action. But you can also be pessimistic overall, seeing negative trends in living standards, wages, and inequality. Public opinion is marked by pessimism in both forms. Economists constantly advise the public not to lose sleep over the latest economic threat in the news. But they also make a habit of explaining how far mankind has come in the last hundred years, pointing out massive gains we take for granted.⁵²

Adam Smith famously ridiculed pessimism with a one-liner: "There is a great deal of ruin in a nation."⁵³ His point, which economists often echo, is that the public lacks perspective. A large economy can and usually does progress despite interminable setbacks. While economists debate about *how much* growth to expect, public discourse is framed in terms of stagnation versus decline.

Consider expectations about the living standard of the next generation. The SAEE asks respondents: "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?" (see Figure 9). On average, the public expects stagnation, econo-

mists are more optimistic, and the enlightened public is most optimistic of all.

How can the enlightened public be more extreme than actual economists? The answer is that high-income males are actually unusually pessimistic about the future of prosperity. Since economists tend to be high-income males, their demographics dilute their optimism.

A staple of pessimistic rhetoric is to idealize conditions in the more distant past in order to put recent conditions in a negative light. Arthur Herman's *The Idea of Decline in Western History* asserts that "virtually every culture past or present has believed that men and women are not up to the standards of their parents and forebears" and asks "why is this sense of decline common to all cultures?"⁵⁴

Pessimistic bias is less well known than anti-market, anti-foreign, or make-work bias. Famous economists of the past frequently overlooked it; teachers of economics spend relatively little time rooting it out. But although the voice of oral tradition is softer than usual, it is not silent. Though he did not live to see the full fruits of the Industrial Revolution, Adam Smith declared progress to be the normal course of events:

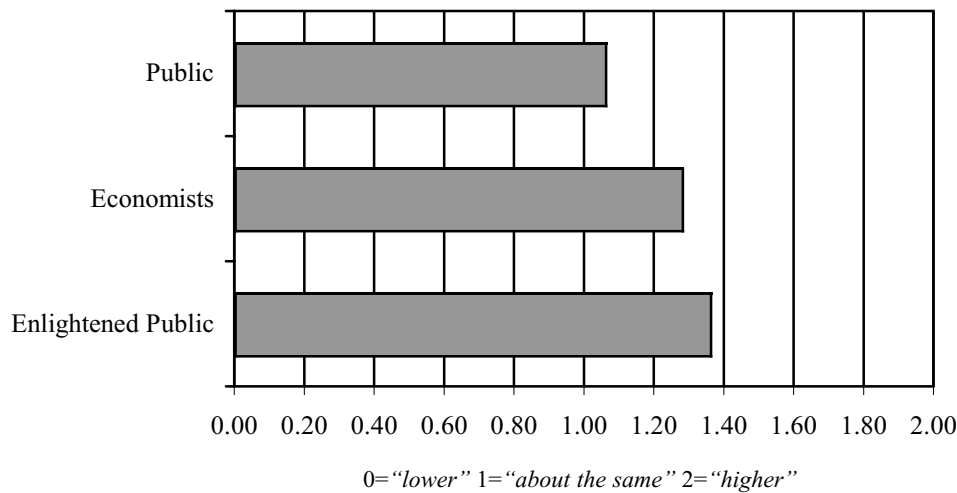
The uniform, constant, and uninterrupted effort of every man to better his condition . . . is frequently powerful enough to maintain *the natural progress of things toward improvement*, in spite both of the extravagance of government, and of the greatest errors of administration. Like the unknown principle of animal life, it frequently restores health and vigour to the constitution, in spite, not only of the disease, but of the absurd prescriptions of the doctor.⁵⁵

However, progress is so gradual that a few pockets of decay hide it from the public view:

To form a right judgment of it, indeed, we must compare the state of the country at periods somewhat distant from one another. The progress is frequently

Figure 9

“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?”



so gradual that, at near periods, the improvement is not only not sensible, but from the declension either of certain branches of industry, or of certain districts of the country, things which sometimes happen though the country in general be in great prosperity, *there frequently arises a suspicion that the riches and industry of the whole are decaying.*⁵⁶

David Hume—economist, philosopher, and Adam Smith’s best friend—blames popular pessimism on our psychology, not the slow and uneven nature of progress: “The humour of blaming the present, and admiring the past, is strongly rooted in human nature, and has an influence even on persons endowed with the profoundest judgment and most extensive learning.”⁵⁷

Despite those promising beginnings, 19th-century economists did little to develop the theme of pessimistic bias. Bastiat and Newcomb say little about it. In recent decades, however, economists have been making up for lost time. Cox and Alm appeal to fundamental human psychology to explain our pessimism: “The present almost always pales when measured against ‘the good old days.’”⁵⁸ Mild forms of this bias sustain lingering economic malcontent: “Nostalgists often ignore improvements in

goods and services, yet remember fondly the prices they paid long ago for the cheapest versions of products.”⁵⁹ Strong forms make us “open-minded” to paranoid fantasies:

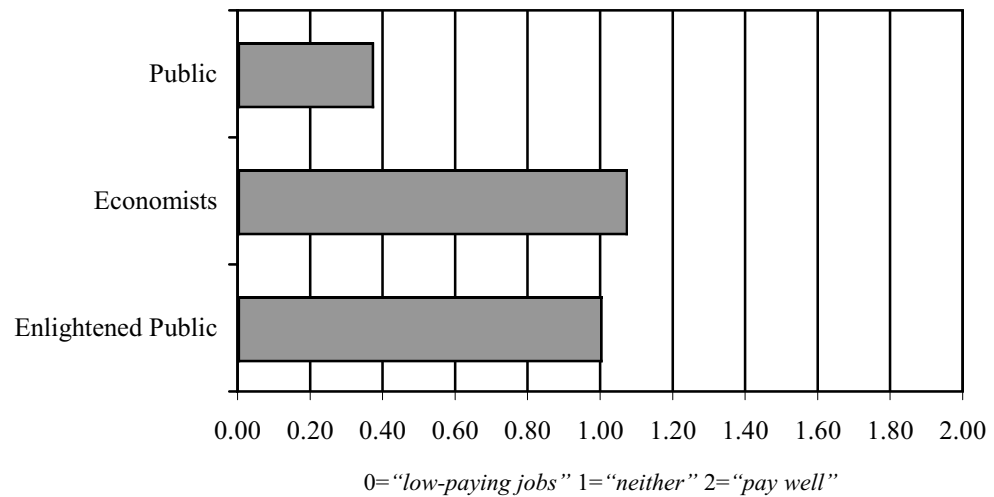
Some part of human nature connects with the apocalyptic. Time and again, the pessimists among us have envisioned the world going straight to hell. Never mind that it hasn’t: A lot of us braced for the worst. Whether the source is the Bible or Nostradamus, Thomas Malthus, or the Club of Rome, predictions of calamities yet to come aren’t easily ignored, no matter how many times we wake up the morning after the world was supposed to end.⁶⁰

How can high levels of pessimism coexist with constantly rising standards of living? It is arguable that the gap between objective conditions and subjective perceptions is now greater than ever.⁶¹ The SAEE finds, for example, that the public is overwhelmingly convinced that new jobs are low-paying, while economists and the enlightened public take a roughly balanced position (see Figure 10).

In part, economists simply think that the numbers contradict the public’s extreme pessimism.⁶² But the belief gap runs deeper than

How can high levels of pessimism coexist with constantly rising standards of living?

Figure 10
“Do you think most of the new jobs being created in the country today pay well, or are they mostly low-paying jobs?”



Economists have a love-hate relationship with systematic bias.

the latest data set. The progress of recent centuries implies that it is *abnormal* for new jobs to be low paying. A temporary setback is possible, but it merits an intellectual double-take.

There is an ongoing debate about the *slow-down* of growth. This is what *relatively* pessimistic economists like Paul Krugman mean when they say that “the U.S. economy is doing badly.”⁶³ Other economists counter that standard numbers inadequately adjust for the rising quality and variety of the consumption basket and the changing composition of the workforce. The rapid growth of the '90s raised more doubts. Either way, the worst-case scenario GDP statistics permit—a lower speed of progress—is no disaster. In the face of popular economic pessimism, Krugman, too, exclaims: “I have seen the present, and it works!”⁶⁴

Rethinking Systematic Error

Economists have a love-hate relationship with systematic bias. As theorists, they deny its existence. As empiricists, they increasingly import it from other fields. But when they teach, address the public, or wonder what is wrong with the world, they dip into their own

“private stash.” On some level, economists not only recognize that systematically biased beliefs exist. They think they have discovered virulent strains in their own backyard—systematically biased beliefs *about economics*.

Anti-market bias, anti-foreign bias, make-work bias, and pessimistic bias are the most prominent specimens. Indeed, they are so prominent that one can hardly teach economics without bumping into them. Students of economics are not a blank slate for their teachers to write on. They arrive with strong prejudices. They underestimate the benefits of markets. They underestimate the benefits of dealing with foreigners. They underestimate the benefits of conserving labor. They underestimate the performance of the economy and overestimate its problems.

The SAEE is hardly the only empirical evidence for these propositions. There are numerous studies of economic beliefs.⁶⁵ The advantage of the SAEE is its craftsmanship. It has been constructed to deflect the main objections that skeptics could levy against earlier empirics. Now that the SAEE has cleared these hurdles, it is fair to look back and recognize that the earlier literature—including both statistical work and economists’ centuries of observation and reflection—is basically sound.

The upshot is that economists’ reliance on

the miracle of aggregation is deeply misguided. Indeed, this blind spot is particularly hard to excuse because they stand at the end of a long tradition with a lot to say about bias. Many of the most famous economists of the past, like Adam Smith and Frédéric Bastiat, obsessed over the public's wrong-headed beliefs about economics, its stubborn resistance to basic principles like opportunity cost and comparative advantage. Today's economists have not merely failed to follow relevant empirical work in a related discipline. They have also turned their backs on what economists used to know.

At least this is what economists have done as researchers. As *teachers*, curiously, most economists honor the wisdom of their forebears. Paul Samuelson famously remarked, "I don't care who writes a nation's laws—or crafts its advanced treaties—if I can write its economics textbooks."⁶⁶ This assumes, as teachers of economics usually do, that students *arrive* with systematic errors.

This peculiar disconnect between research and teaching has an important upside. The problem is not that economists have nothing to say about bias. On the contrary, the problem is that economists have a lot to say but are reluctant to go public, to put their scientific credibility on the line. If this reluctance could be overcome, however, the oral tradition of the teachers of economics offers the researchers of economics a rich mine of scientific hypotheses.

At the same time, however, the oral tradition has been subject to so little analytical scrutiny that it is not hard to refine. Samuelson's is a story of hope; we can sleep soundly as long as he keeps writing textbooks. But pondering two more facts might keep us lying awake at night. Fact one: The economics the average introductory student absorbs is disappointingly small. If students had severe biases at the beginning, most still have large biases at the end. Fact two: *below-average students are above-average citizens*. Most voters never take a single course in economics. If it is disturbing to imagine the bottom half of the class voting on economic policy, it is frighten-

ing to realize that the general population already does. The typical voter, to whose opinions politicians cater, is probably unable to earn a passing grade in basic economics. No wonder protectionism, price controls, and other foolish policies so often prevail.

“Market Fundamentalism” versus the Religion of Democracy

Economists perennially debate each other about how well the free market works. They have to step outside their profession to remember how much—underneath it all—they agree. For economists, greedy intentions establish no presumption of social harm. Indeed, their rule of thumb is to figure out who could get rich by solving a problem—and start worrying if no one comes to mind. Most noneconomists find this whole approach distasteful, even offensive. Disputes between economists are quibbles by comparison.

Out of all of their contrarian views, nothing about economists aggravates other intellectuals more than their sympathy for markets. As Melvin Reder aptly states, comprehension of mainstream economics “tends to generate appreciation of the merits of laissez-faire even when that appreciation does not extend to acceptance.”⁶⁷ Left to their own devices, “normal” intellectuals could spend their careers cataloging human greed and the evils that flow from it. But economists stand in their midst, a fifth column, using their mental gifts to defend the enemy.

“Market fundamentalism” is probably the most popular insult against economics these days. The world listened when billionaire George Soros declared that “market fundamentalism . . . has rendered the global capitalist system unsound and unsustainable.”⁶⁸ Robert Kuttner has a handy summary of what market fundamentalism amounts to:

There is at the core of the celebration of markets a relentless tautology. If we begin, by assumption, with the premise

**Below-average
students are
above-average
citizens.**

The charge of “market fundamentalism” is silly, failing even as a caricature.

that nearly everything can be understood as a market and that markets optimize outcomes, then everything comes back to the same conclusion—marketize! If, in the event, a particular market doesn’t optimize, there is only one possible inference: it must be insufficiently marketlike.⁶⁹

He insists, moreover, that this fault is not limited to a right-wing fringe: “Today, the only difference between the utopian version and the mainstream version is degree.”⁷⁰ Indeed, “as economics has become more fundamentalist, *the most extreme version of the market model has carried the greatest political, intellectual, and professional weight.*”⁷¹ Even worse, economists’ fundamentalism overflows into the policy arena:

American liberals and European social democrats often seem unable to offer more than a milder version of the conservative program—deregulation, privatization, globalization, fiscal discipline, but at a less zealous extreme. *Few have been willing to challenge the premise that nearly everything should revert to a market.*⁷²

Joseph Stiglitz joins the chorus against market fundamentalism, happily discarding the guarded professorial prose of his Nobel prize-winning research:

The discontent with globalization arises not just from economics seeming to be pushed over everything else, but because a particular view of economics—market fundamentalism—is pushed over all other views. Opposition to globalization in many parts of the world is not to globalization per se . . . but to the particular set of doctrines, the Washington Consensus policies that the international financial institutions have imposed.⁷³

Market fundamentalism is a harsh accusation. Christian fundamentalists are notori-

ous for their strict Biblical literalism, their unlimited willingness to ignore or twist the facts of geology and biology to match their prejudices. For the analogy to be apt, the typical economist would have to believe in the superiority of markets virtually without exception, regardless of the evidence, and dissenters would have to fear excommunication.

From this standpoint, the charge of “market fundamentalism” is silly, failing even as a caricature. If you ask the typical economist to name areas where markets work poorly, he gives you a list on the spot: Public goods, externalities, monopoly, imperfect information, and so on. More importantly, almost everything on the list can be traced back to other economists. Market failure is not a concept that has been forced upon a reluctant economics profession from the outside. It is an *internal* outgrowth of economists’ self-criticism. After stating that markets usually work well, economists feel an urge to think up counterexamples. Far from facing excommunication for sin against the sanctity of the market, discoverers of novel market failures reap professional rewards. Flip through the leading journals. A high fraction of their articles present theoretical or empirical evidence of market failure.

True market fundamentalists in the economics profession are few and far between. Not only are they absent from the center of the profession; they are rare at the “right-wing” extreme. Milton Friedman, a legendary libertarian, made numerous exceptions, on everything from money to welfare to antitrust:

Our principles offer no hard and fast line how far it is appropriate to use government to accomplish jointly what is difficult or impossible for us to accomplish separately through strictly voluntary exchange. In any particular case of proposed intervention, we must make up a balance sheet, listing separately the advantages and disadvantages.⁷⁴

When Friedman preferred *laissez-faire*, he

often openly acknowledged its defects. He had no quasi-religious need to defend the impeccability of the free market. For example, his discussion of natural monopoly stated:

There are only three alternatives that seem available: private monopoly, public monopoly, or public regulation. All three are bad so we must choose among evils. . . . I reluctantly conclude that, if tolerable, private monopoly may be the least of the evils.⁷⁵

Friedman was far more market-friendly than the average economist. But a “market fundamentalist”? Hardly. He recognized numerous cases where market performance is poor, and he did not excommunicate less pro-market colleagues for heresy.

Popular accusations of market fundamentalism are plain wrong. Yes, economists think that the market works better than other people do. But they acknowledge exceptions to the rule. The range of these exceptions changes as new evidence comes in. And it is usually economists themselves who discover the exceptions in the first place.

Democratic Fundamentalism

The disparity between economists’ open-mindedness and the charge of market fundamentalism is so vast that it is hard not to speculate about the motives behind it. I sense a strong element of projection: accusing others of the cognitive misdeeds one commits oneself. Take, for example, “creation scientists.” Faculty and researchers of the Institute for Creation Research follow a party line: “The scriptures, both Old and New Testaments, are inerrant in relation to any subject with which they deal, and are to be accepted in their normal and intended sense.”⁷⁶ You can hardly get less scientific. Yet a standard debating tactic of creation scientists is to insist that “evolutionary theory, along with its bedfellow, secular humanism,

is really a religion.”⁷⁷ Creationists’ attacks on the objectivity of mainstream evolutionists seem to stem from their sense of scientific inferiority to their opponents.

Similarly, the most vocal opponents of “market fundamentalism” are themselves often believers in what can accurately be called “democratic fundamentalism.” Its purest expression is the cliché, attributed to failed 1928 presidential candidate Al Smith, that “all the ills of democracy can be cured by more democracy.”⁷⁸ In other words, *no matter what happens*, the case for democracy remains untouched.

A person who said “All the ills of markets can be cured by more markets” would be lampooned as the worst sort of market fundamentalist. Why the double standard? Because unlike market fundamentalism, democratic fundamentalism is widespread. In polite company, you can make fun of the worshippers of Zeus, but not Christians or Jews. Similarly, it is socially acceptable to make fun of market fundamentalism, but not democratic fundamentalism, because market fundamentalists are scarce, and democratic fundamentalists are all around us.

In the end, apologists for democracy often fall back on Winston Churchill’s slogan that “democracy is the worst form of government, except all those other forms that have been tried from time to time.”⁷⁹ On the surface, this sounds like mature realism, not democratic fundamentalism. But Churchill’s maxim is an all-or-nothing rhetorical trick. Imagine if an economist dismissed complaints about the free market by snapping: “The free market is the worst form of economic organization, except all the others.” This is a fine objection to communism, but only a market fundamentalist would buy it as an argument against moderate government intervention. Churchill’s slogan is every bit as weak. Just because dictatorship is disastrous, it hardly follows that democracy must have free rein. Like markets, democracy can be limited, regulated, or overruled. Contramajoritarian procedures like judicial review can operate alongside democratic

The most vocal opponents of “market fundamentalism” are themselves often believers in what can accurately be called “democratic fundamentalism.”

The complaint that we are “losing democracy” is especially weak when we bear in mind that this is not a choice between unlimited democracy and pure laissez-faire.

ones. Supermajority rules allow minorities to thwart the will of the majority. Twisting a marginal tradeoff into a binary choice is fundamentalism trying to sound reasonable.

Private Choice as an Alternative to Democracy and Dictatorship

Undemocratic politics is not the only alternative to democratic politics. Many areas of life stand outside the realm of politics, of “collective choice.” When the law is silent, decisions are “up to the individual” or “left to the market.” If the term were not preempted, private choice could be called “the Third Way,” the alternative to both democracy and dictatorship.

For most of human history, religion was a state responsibility. The idea that government could have no established religion was inconceivable. All that has changed; now individuals decide which religion, if any, to practice. Verbal gymnastics notwithstanding, this depoliticization is undemocratic. The majority now has as little say about my religion as it would under a dictatorship; in both cases, the law ignores public opinion. Before the 1930s, similarly, many areas of U.S. economic life were undemocratically shielded from federal and state regulation.⁸⁰ The market periodically trumped democracy, on everything from the minimum wage to the National Recovery Administration. And unless you are a democratic fundamentalist, you have to be open to the possibility that this was all for the good.

Fervent partisans of democracy often grant that democracy and the market are substitutes. As Kuttner puts it, “The democratic state remains the prime counterweight to the market.”⁸¹ Their complaint is that the public has less and less say over its destiny because corporations have more and more say over theirs. To “save democracy,” the people must reassert its authority.

Fair enough. Though their opponents greatly overstate the extent of privatization

and deregulation, these policies take decisions out of the hands of majorities and into the hands of business owners. But the critics rarely wonder if this transfer might be desirable. They treat less reliance on democracy as automatically objectionable.

That is another symptom of democratic fundamentalism. If all that an economist had to say against a government program were, “That’s government intervention. Government is supplanting markets!” he would be pigeonholed, then marginalized, as a market fundamentalist. But when an equally simplistic cry goes up in the name of democracy, there is a sympathetic audience. It is logically possible that clear-eyed business greed makes better decisions than confused voter altruism. Why not at least compare their performance, instead of prejudging?

The complaint that we are “losing democracy” is especially weak when we bear in mind that this is not a binary choice between unlimited democracy and pure laissez-faire. Just because *some* democracy is beneficial or necessary, it scarcely follows that we should not have *less*. Consider deregulation of the television and radio spectrum. Democratic fundamentalists find the idea offensive because it ends democratic oversight.⁸² But it is hard to see the value of democracy in the entertainment industry. Premium networks like HBO demonstrate that the profit motive, uninhibited by majority preferences, is a recipe for high-quality, creative programming. Democratic fundamentalism holds back the rest of the industry.

While my analysis here has debunked the main efforts to undermine the objectivity of the economics profession, it adds little to the debate on the virtues of markets. Rather, I have tried to put weight on the other side of the scale. The optimal mix between markets and government depends not on the absolute virtues of markets, but on their virtues *compared* to those of government. No matter how well you think markets work, it makes sense to rely on markets more when you grow *more* pessimistic about democracy. If you use two car mechanics and discover

that mechanic A drinks on the job, the natural response is to shift some of your business over to mechanic B, whatever your pre-existing complaints about B.

The striking implication is that even economists, widely charged with market fundamentalism, should be more pro-market than they already are. 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.

Even among economists, market-oriented policy prescriptions are often seen as too dogmatic, too unwilling to take the flaws of the free market into account. Many prefer a more “sophisticated” position: Since we have already belabored the advantages of markets, let us not forget to emphasize the benefits of government intervention. I claim that the qualification needs qualification: Before we emphasize the benefits of government intervention, let us distinguish intervention designed by a well-intentioned economist from intervention that appeals to noneconomists, and reflect that the latter predominate. You do not have to be dogmatic to take a staunchly pro-market position. You just have to notice that the “sophisticated” emphasis on the benefits of intervention mistakes theoretical possibility for empirical likelihood.

Notes

1. See, for example, Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 2002); Paul Krugman, *The Accidental Theorist and Other Dispatches from the Dismal Science* (New York: Norton, 1998); Mancur Olson Jr., “Big Bills Left on the Sidewalk: Why Some Nations Are Rich and Others Are Poor,” *Journal of Economic Perspectives* 10, no. 2 (1996): 3–24; and Alan S. Blinder, *Hard Heads, Soft Hearts: Tough-Minded Economics for a Just Society* (Reading, MA: Addison-Wesley, 1996).

2. See, e.g., Gene M. Grossman and Elhanan Helpman, *Special Interest Politics* (Cambridge: MIT Press, 2001); Charles K. Rowley, Robert D. Tollison, and Gordon Tullock, eds., *The Political Economy of Rent-Seeking* (Boston: Kluwer Academic Publishers,

1988); Gary S. Becker, “A Theory of Competition among Pressure Groups for Political Influence,” *Quarterly Journal of Economics* 98, no. 3 (1983): 371–400; and Geoffrey Brennan and James M. Buchanan, *The Power to Tax: Analytical Foundations of a Fiscal Constitution* (Cambridge, MA: Cambridge University Press, 1980).

3. See, e.g., Ilya Somin, “Voter Ignorance and the Democratic Ideal,” *Critical Review* 12, no. 4 (1998): 99–111; Stephen P. Magee, William A. Brock, and Leslie Young, *Black Hole Tariffs and Endogenous Policy Theory: Political Economy in General Equilibrium* (Cambridge, MA: Cambridge University Press, 1989); Barry R. Weingast, Kenneth A. Shepsle, and Christopher Johnsen, “The Political Economy of Benefits and Costs: A Neoclassical Approach to Distributive Politics,” *Journal of Political Economy* 89, no. 4 (1981): 642–64; and Anthony Downs, *An Economic Theory of Democracy* (NY: Harper and Row, 1957).

4. Quoted in Lewis D. Eigen and Jonathan P. Siegel, eds., *The Macmillan Dictionary of Political Quotations* (New York: Macmillan, 1993), p. 109.

5. For an excellent survey, see Michael X. Delli Carpini and Scott Keeter, *What Americans Know about Politics and Why It Matters* (New Haven, CT: Yale University Press, 1996).

6. See, e.g., Donald Wittman, *The Myth of Democratic Failure: Why Political Institutions Are Efficient* (Chicago: University of Chicago Press, 1995); and Benjamin I. Page and Robert Y. Shapiro, *The Rational Public: Fifty Years of Trends in Americans’ Policy Preferences* (Chicago: University of Chicago Press, 1992).

7. See, e.g., James Surowiecki, *The Wisdom of Crowds: Why the Many Are Smarter Than the Few and How Collective Wisdom Shapes Business, Economies, Societies and Nations* (New York: Doubleday, 2004); David Austen-Smith and Jeffrey S. Banks, “Information Aggregation, Rationality, and the Condorcet Jury Theorem,” *American Political Science Review* 90, no. 1 (1996): 34–45; and Benjamin I. Page and Robert Y. Shapiro, *The Rational Public: Fifty Years of Trends in Americans’ Policy Preferences* (Chicago: University of Chicago Press, 1992).

8. Philip Converse, “Popular Representation and the Distribution of Information,” in *Information and Democratic Processes*, ed. John Ferejohn and James H. Kuklinski (Champaign, IL: University of Illinois Press, 1990), p. 383.

9. Surowiecki.

10. Page and Shapiro, p. 41.

11. See, e.g., Allan Drazen, *Political Economy in Macroeconomics* (Princeton, NJ: Princeton University Press, 2000); and Torsten Persson and Guido Tabellini, *Political Economics: Explaining Economic Policy* (Cambridge, MA: MIT Press, 2000).
12. George J. Stigler, "Economics or Ethics?" in *The Essence of Stigler*, ed. Kurt R. Leube and Thomas Gale Moore (Stanford, CA: Hoover Institution Press, 1986), p. 309.
13. For important exceptions, see Scott L. Althaus, *Collective Preferences in Democratic Politics: Opinion Surveys and the Will of the People* (New York: Cambridge University Press, 2003); Larry M. Bartels, "Uninformed Votes: Information Effects in Presidential Elections," *American Journal of Political Science* 40, no. 1 (1996): 194–230; Justin Wolfers, "Are Voters Rational? Evidence from Gubernatorial Elections," Stanford University Graduate School of Business Working Paper no. 1730 (2002); and Carpinini and Keeter.
14. Matthew Rabin, "Psychology and Economics," *Journal of Economic Literature* 36, no. 1(1998): 11–46; Richard M. Thaler, *The Winner's Curse: Paradoxes and Anomalies of Economic Life* (Princeton, NJ: Princeton University Press, 1992); Daniel Kahneman, Paul Slovic, and Amos Tversky, eds., *Judgment Under Uncertainty: Heuristics and Biases* (Cambridge: Cambridge University Press, 1982); and Richard Nisbett and Lee Ross, *Human Inference: Strategies and Shortcomings of Social Judgment* (Englewood Cliffs, NJ: Prentice-Hall, 1980).
15. This does not imply that their beliefs about other topics are any sounder. In fact, I hope that experts in other fields will use my framework to explain how biased beliefs about their area of specialty distort policy.
16. For simplicity, assume symmetric voter preferences so that the median preference is also the most efficient outcome. Robert D. Cooter, *The Strategic Constitution* (Princeton, NJ: Princeton University Press, 2000), pp. 32–35.
17. See, e.g., Olaf Gersemann, *Cowboy Capitalism: European Myths, American Reality* (Washington: Cato Institute, 2004).
18. Quoted in Robert Andrews, ed., *The Columbia Dictionary of Quotations* (New York: Columbia University Press, 1993), p. 262.
19. Steven Kelman, *What Price Incentives? Economists and the Environment* (Boston: Auburn House, 1981), p. 7.
20. Ibid.
21. See Robert J. Blendon et al., "Bridging the Gap between the Public's and Economists' Views of the Economy," *Journal of Economic Perspectives* 11, no. 3 (1997): 105–18; and *Washington Post*/Kaiser Family Foundation/Harvard University, "Survey of Americans and Economists on the Economy #1199," October 16, 1996, <http://www2.kff.org/content/archive/1199/econgen.html>.
22. To estimate the beliefs of the enlightened public, I first regressed economic beliefs on respondents' characteristics, including income, job security, income growth, sex, race, party identification, ideology, education, and "econ" (a dummy variable equal to 1 if the respondent is an economist, and 0 otherwise). Then, for each equation, I calculated the predicted belief assuming a respondent had the general public's average income, job security, income growth, sex, race, party identification, and ideology, combined with a PhD in economics. For more details, see Bryan Caplan, *The Myth of the Rational Voter: Why Democracies Choose Bad Policies* (Princeton, NJ: Princeton University Press, 2007), pp. 84–93.
23. Bryan Caplan, "Systematically Biased Beliefs about Economics: Robust Evidence of Judgmental Anomalies from the Survey of Americans and Economists on the Economy," *Economic Journal* 112, no. 479 (2002): 433–58.
24. Bryan Caplan, "What Makes People Think Like Economists? Evidence on Economic Cognition from the Survey of Americans and Economists on the Economy," *Journal of Law and Economics* 44, no. 2 (2001): 417.
25. See Delli Carpinini and Keeter.
26. Nancy Kraus, Torbjörn Malmfors, and Paul Slovic, "Intuitive Toxicology: Expert and Lay Judgments of Chemical Risks," *Risk Analysis* 12, no. 2 (1992): 215–32.
27. See, e.g., Thomas Sowell, *Applied Economics: Thinking Beyond Stage One* (New York: Basic Books, 2004); John Mueller, *Capitalism, Democracy, and Ralph's Pretty Good Grocery* (Princeton, NJ: Princeton University Press, 1999); Daniel Klein, ed., *What Do Economists Contribute?* (New York: NYU Press, 1999); Andrei Shleifer, "State versus Private Ownership," *Journal of Economic Perspectives* 12, no. 4 (1998): 133–50; Ludwig von Mises, *Interventionism: An Economic Analysis* (Irvington-on-Hudson, NY: Foundation for Economic Education, 1998); Jeffrey D. Sachs and Andrew Warner, "Economic Reform and the Process of Global Integration," *Brookings Papers on Economic Activity* 1995, no. 1 (1995): 1–118; Blinder; Steven Rhoads, *The Economist's View of the World: Government, Markets, and Public Policy* (Cambridge, MA: Cambridge University Press, 1985); and Charles Schultze, *The Public Use of Private*

- Interest* (Washington: Brookings Institution, 1977).
28. Joseph A. Schumpeter, *Capitalism, Socialism, and Democracy* (New York: Harper and Brothers Publishers, 1950), p. 144.
29. Joseph A. Schumpeter, *History of Economic Analysis* (New York: Oxford University Press, 1954), p. 234.
30. Schultze, p. 18.
31. *Ibid.*, p. 47.
32. Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (Indianapolis: LibertyClassics, 1981), p. 454.
33. *Ibid.*, p. 456.
34. *Washington Post*/Kaiser Family Foundation/Harvard University, p. 4; and William B. Walstad and Max Larsen, *A National Survey of American Economic Literacy* (Lincoln, NE: The Gallup Organization, 1992), p. 48.
35. Mueller, p. 5.
36. See, e.g., William Poole, "Free Trade: Why Are Economists and Noneconomists So Far Apart?" *Federal Reserve Bank of St. Louis Review* 6, no. 5 (2004): 1–6; Jagdish Bhagwati, *Free Trade Today* (Princeton, NJ: Princeton University Press, 2002); Paul Krugman, *Pop Internationalism* (Cambridge, MA: MIT Press, 1996); and Douglas A. Irwin, *Against the Tide: An Intellectual History of Free Trade* (Princeton, NJ: Princeton University Press, 1996).
37. Simon Newcomb, "The Problem of Economic Education," *Quarterly Journal of Economics* 7, no. 4 (1893): 379.
38. Blinder, p. 111.
39. Steven F. Landsburg, *The Armchair Economist: Economics and Everyday Life* (New York: Free Press, 1993), p. 197.
40. See Bhagwati; and Irwin.
41. Smith, p. 429.
42. William J. Clinton Foundation, "Facts Sheet on NAFTA Notes," October 12, 1993, <http://www.clintonfoundation.org/legacy/101293-factsheet-on-nafta-notes.htm>.
43. Krugman, *Pop Internationalism*, p. 84.
44. See, e.g., W. Michael Cox and Richard Alm, *Myths of Rich and Poor: Why We're Better Off Than We Think* (New York: Basic Books, 1999); Paul Krugman, *The Accidental Theorist*; Steven Davis, John C. Haltiwanger, and Scott Schuh, *Job Creation and Destruction* (Cambridge: MIT Press, 1996); David Henderson, *Innocence and Design: The Influence of Economic Ideas on Policy* (NY: Basil Blackwell Inc., 1986); Frédéric Bastiat, *Economic Sophisms* (Irvington-on-Hudson, NY: Foundation for Economic Education, 1964); and Frédéric Bastiat, *Selected Essays on Political Economy* (Irvington-on-Hudson, NY: Foundation for Economic Education, 1964).
45. Blinder, p. 17.
46. Bastiat, *Economic Sophisms*, p. 20.
47. *Ibid.*
48. Cox and Alm, p. 116.
49. *Ibid.*, p. 128.
50. *Ibid.*, p. 133.
51. See, e.g., Gregg Easterbrook, *The Progress Paradox: How Life Gets Better While People Feel Worse* (NY: Random House, 2003); Bjørn Lomborg, *The Skeptical Environmentalist: Measuring the Real State of the World* (Cambridge, MA: Cambridge University Press, 2003); Cox and Alm; Mueller; David Whitman, *The Optimism Gap: The I'm OK—They're Not Syndrome and the Myth of the American Decline* (New York: Walker and Company, 1998); and Julian L. Simon, *The Ultimate Resource 2* (Princeton, NJ: Princeton University Press, 1996).
52. See, e.g., D. Gale Johnson, "Population, Food, and Knowledge," *American Economic Review* 90, no. 2 (2000): 1–14; Robert W. Fogel, "Catching Up with the Economy," *American Economic Review* 89, no. 1 (1999): 1–21; and Robert E. Lucas Jr., "Making a Miracle," *Econometrica* 61, no. 2 (1993): 251–72.
53. John Rae, *Life of Adam Smith* (New York: Augustus M. Kelley, 1965), p. 343.
54. Arthur Herman, *The Idea of Decline in Western History* (New York: Free Press, 1997), p. 13.
55. Smith, p. 343; emphasis added.
56. *Ibid.*, pp. 343–44; emphasis added.
57. David Hume, *Essays: Moral, Political and Literary* (Indianapolis: Liberty Fund, 1987), p. 464.
58. Cox and Alm, p. 200.
59. *Ibid.*, p. 44.
60. *Ibid.*, p. 197.
61. Pew Research Center, "The Optimism Gap

- Grows,” January 17, 1997, <http://people-press.org/reports/display.php3?ReportID=115>.
62. See e.g., Cox and Alm, pp. 139–56.
63. Krugman, *Pop Internationalism*, p. 48.
64. *Ibid.*, p. 214.
65. Leading empirical studies of the economic beliefs of economics and the general public include Alan S. Blinder and Alan B. Krueger, “What Does the Public Know about Economic Policy, and How Does It Know It?” *Brookings Papers on Economic Activity* 1 (2004): 327–87; The Chicago Council on Foreign Relations, “Global Views 2004,” September, 2004, http://thechicagocouncil.org/UserFiles/File/Global_Views_2004_US.pdf; Dan Fuller and Doris Geide-Stevenson, “Consensus among Economists: Revisited,” *Journal of Economic Education* 34, no. 4 (2003): 369–87; William B. Walstad and Ken Rebeck, “Assessing the Economic Knowledge and Economic Opinions of Adults,” *Quarterly Review of Economics and Finance* 42, no. 5 (2002): 921–34; Kenneth F. Scheve and Matthew J. Slaughter, *Globalization and the Perceptions of American Workers* (Washington: Institute for International Economics, 2001); Victor F. Fuchs, Alan Krueger, and James Poterba, “Economists’ Views about Parameters, Values, and Policies: Survey Results in Labor and Public Economics,” *Journal of Economic Literature* 36, no. 3 (1998): 1387–425; Walstad and Larsen; Richard M. Alston, J. R. Kearl, and Michael B. Vaughan, “Is There a Consensus among Economists in the 1990’s?” *American Economic Review* 82, no. 2 (1992): 203–209; Herbert McClosky and John Zaller, *The American Ethos: Public Attitudes Towards Capitalism and Democracy* (Cambridge, MA: Harvard University Press, 1984); and J. R. Kearl et al., “A Confusion of Economists?” *American Economic Review* 69, no. 2 (1979): 28–37.
66. Quoted in Mark Skousen, “The Perseverance of Paul Samuelson’s Economics,” *Journal of Economic Perspectives* 11, no. 2 (1997): 150.
67. Melvin W. Reder, *Economics: The Culture of a Controversial Science* (Chicago: University of Chicago Press, 199), p. 236.
68. George Soros, *The Crisis of Global Capitalism: Open Society Endangered* (New York: Public Affairs, 1998), p. 20.
69. Robert Kuttner, *Everything for Sale: The Virtues and Limits of Markets* (New York: Alfred A. Knopf, 1997), p. 6.
70. *Ibid.*, p. 6.
71. *Ibid.*, p. 9; emphasis added.
72. *Ibid.*, p. 7; emphasis added.
73. Joseph E. Stiglitz, *Globalization and Its Discontents* (New York: Norton, 2002), p. 221.
74. Friedman, p. 32.
75. *Ibid.*, p. 26.
76. Michael Shermer, *Why People Believe Weird Things: Pseudoscience, Superstition, and Other Confusions of Our Time* (New York: Holt, 2002), p. 142.
77. *Ibid.*, p. 143.
78. Eigen and Siegel, p. 115.
79. *Ibid.*, p. 109.
80. Howard Gillman, *The Constitution Besieged: The Rise and Demise of Lochner Era Police Powers Jurisprudence* (Durham, NC: Duke University Press, 1993).
81. Kuttner, p. 7.
82. Robert W. McChesney, *Rich Media, Poor Democracy: Communication Politics in Dubious Times* (Urbana, IL: University of Illinois Press, 1999).