

# The 4 Boneheaded Biases of Stupid Voters

(And we're all stupid voters.)

[Bryan Caplan](#) | October 2007 [Print Edition](#)

Almost all the “respectable” economic theories of politics begin by assuming that the typical citizen understands economics and votes accordingly—at least on average. By a “miracle of aggregation,” random errors are supposed to balance themselves out. But this works only if voters’ errors are random, not systematic.

The evidence—most notably, the results of the 1996 Survey of Americans and Economists on the Economy—shows that the general public’s views on economics not only are different from those of professional economists but are less accurate, and in predictable ways. The public really does generally hold, for starters, that prices are not governed by supply and demand, that protectionism helps the economy, that saving labor is a bad idea, and that living standards are falling. Economics journals regularly reject theoretical papers that explicitly recognize these biases. In a well-known piece in the *Journal of Political Economy* in 1995, the economists Stephen Coate and Stephen Morris worry that some of their colleagues are smuggling in the “unreasonable assumptions” that voters “have biased beliefs about the effects of policies” and “could be persistently fooled.” That’s the economist’s standard view of systematic voter bias: that it doesn’t exist.

Or at least, that’s what economists say as researchers. As *teachers*, curiously, most economists adopt a different approach. When the latest batch of freshmen shows up for Econ 1, textbook authors and instructors still try to separate students from their prejudices. In the words of the famed economist Paul Krugman, they try “to vaccinate the minds of our undergraduates against the misconceptions that are so predominant in educated discussion.”

Out of all the complaints that economists lodge against laymen, four families of beliefs stand out: the anti-market bias, the anti-foreign bias, the make-work bias, and the pessimistic bias.

## **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. 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. The public has severe

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

Joseph Schumpeter, arguably the greatest historian of economic thought, matter-of-factly spoke of “the ineradicable prejudice that every action intended to serve the profit interest must be anti-social by this fact alone.” Anti-market bias, he implied, is not a temporary, culturally specific aberration. It is a deeply rooted pattern of human thinking that has frustrated economists for generations.

There are too many variations on anti-market bias to list them all. Probably the most common error of this sort 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. People tend, for example, to see profits as a gift to the rich. So unless you perversely pity the rich more than the poor, limiting profits seems like common sense.

Yet profits are not a handout but a quid pro quo: If you want to get rich, 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. For modern economists, these are truisms, yet teachers of economics keep quoting and re quoting this passage. Why? Because Adam Smith’s thesis was counterintuitive to his contemporaries, and it remains counterintuitive today.

A prejudice similar to the one against profit has dogged interest, from ancient Athens to modern Islamabad. Like profit, interest is not a gift but a quid pro quo: The lender earns interest in exchange for delaying his consumption. A government that successfully stamped out interest payments would be no friend to those in need of credit, since that policy would crush lending as well.

Anti-market biases lead people to misunderstand and reject even policies they should, given their preferences for end results, support. For example, the Princeton economist Alan Blinder blames opposition to tradable pollution permits on anti-market bias. Why let people “pay to pollute,” when we can force them to cease and desist?

The textbook answer is that tradable permits get you more pollution abatement for the same cost. The firms able to cut their emissions cheaply do so, selling their excess pollution quotas to less flexible polluters. End result: more abatement bang for your buck. But noneconomists, including relatively sophisticated policy insiders, disagree. In his 1987 book *Hard Heads, Soft Hearts*, Blinder discusses a fascinating survey of 63

environmentalists, congressional staffers, and industry lobbyists. Not one could explain economists' standard rationale for tradable permits.

The second most prominent avatar of anti-market bias is monopoly theories of price. Economists 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 CEO intentions and conspiracies.

Historically, it has been especially common for the public to pick out middlemen as uniquely vicious "monopolists." Look at these parasites: They buy products, "mark them up," and then resell us the "exact same thing." Economists have a standard response. Transportation, storage, and distribution are valuable services—a fact that becomes obvious whenever you need a cold drink in the middle of nowhere. Like most valuable services, they are not costless. The most that is reasonable to ask, then, is not that middlemen work for free, but that they face the daily test of competition.

One specific price, the price for labor, is often thought to be the result of conspiracy: capitalists joining forces to keep wages at the subsistence level. More literate defenders of this fallacy point out that Adam Smith himself worried about employer conspiracies, overlooking the fact that in Smith's time high transportation and communication costs left workers with far fewer alternative employers.

In the Third World, of course, the number of employment options is often substantially lower than in developed countries. But if there really were a vast employer conspiracy to hold down wages, the Third World would be an especially profitable place to invest. Query: Does investing your life savings in poor countries seem like a painless way to get rich quick? If not, you at least tacitly accept economists' sad-but-true theory of Third World poverty: Its workers earn low wages because their productivity is low, due partly to lower skill levels and partly to anti-growth public policies.

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."

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 prices and cutting quality often lead to lower profits, not higher. 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 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. But economists who debate certain issues about

the perfection of markets are *not* debating, say, whether prices give incentives. Almost all economists recognize the core benefits of the market mechanism; they disagree only at the margin. Widespread bias against market mechanisms as reasonably efficient means of meeting human needs affects politicians' incentives in almost every decision they make. It is perhaps most relevant today in the debate over whether the American health care system needs more markets and choice or more central control.

### **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, and 2) a Berlin Wall at the Mexican border.

Like most noneconomists, he suffers from anti-foreign bias, a tendency to underestimate the economic benefits of interaction with foreigners. Popular metaphors equate international trade with racing and warfare, so you might say that anti-foreign views are embedded in our language. Perhaps foreigners are sneakier, craftier, or greedier. Whatever the reason, they supposedly have a special power to exploit us.

There is probably no other popular opinion that economists have found so enduringly objectionable. In *The Wealth of Nations*, Adam Smith admonishes his countrymen: "What is prudence in the conduct of every private family, can scarce be folly in a great kingdom. If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry."

As far as his peers were concerned, Smith's arguments won the day. More than a century later, Simon Newcomb could securely observe in the *Quarterly Journal of Economics* that "one of the most marked points of antagonism between the ideas of the economists since Adam Smith and those which governed the commercial policy of nations before his time is found in the case of foreign trade." There was a little backsliding during the Great Depression, but economists' pro-foreign views abide to this day.

Even theorists, such as Paul Krugman, who specialize in exceptions to the optimality of free trade frequently downplay their findings as abstract curiosities. As Krugman wrote in his 1996 book *Pop Internationalism*: "This innovative stuff is not a priority for today's undergraduates. In the last decade of the 20th century, the essential things to teach students are still the insights of Hume and Ricardo. That is, we need to teach them that trade deficits are self-correcting and that the benefits of trade do not depend on a country having an absolute advantage over its rivals."

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, while a few hours' wages spent at the grocery store can 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 the economic writer Steven Landsburg explains in his 1993 book *The Armchair Economist*, 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 Ocean. After a few months, the ships reappear with Toyotas on them.”

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.” 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”? Anyone who consistently equated money with wealth would fear *all* outflows of precious metals. 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 iTunes. The fallacy is not treating all purchases as a cost but treating *foreign* purchases as a cost.

Anti-foreign bias is easier to spot nowadays. To take one prominent example, immigration is far more of an issue now than it was in Smith’s time. Economists are predictably quick to see the benefits of immigration. 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.

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 in the general public see 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.*

It is misleading to think of “foreignness” as a simple either/or. From the viewpoint of the typical American, Canadians are less foreign than the British, who are in turn less foreign than the Japanese. From 1983 to 1987, 28 percent of Americans in the National Opinion Research Center’s General Social Survey admitted they disliked Japan, but only 8 percent disliked England, and a scant 3 percent disliked Canada.

Objective measures like the volume of trade or the trade deficit are often secondary to physical, linguistic, and cultural similarity. Trade with Canada or Great Britain generates

only mild alarm compared to trade with Mexico or Japan. U.S. imports from and trade deficits with Canada exceeded those with Mexico every year from 1985 to 2004. During the anti-Japan hysteria of the 1980s, British foreign direct investment in the U.S. always exceeded that of the Japanese by at least 50 percent. Foreigners who look like us and speak English are hardly foreign at all.

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 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.” We can see this today most vividly in the absurdly overblown political reactions to the immigration issue, from walls to forcing illegal workers currently in America to leave before they can begin an onerous procedure to gain paper legality.

### **Make-Work Bias**

I was an undergraduate when the Cold War ended. I still remember talking about military spending cuts with a conservative student. The whole idea made her nervous; she had no idea how a market economy would absorb the discharged soldiers. In her mind, to lay off 100,000 government employees was virtually equivalent to disemploying 100,000 people for life.

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 the make-work bias, a tendency to underestimate the economic benefits of conserving labor. Where noneconomists see the destruction of jobs, economists see the essence of economic growth: the production of more with less.

Economists have been at war with the make-work bias for centuries. The 19th-century economist Frederic Bastiat ridiculed 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, he wrote, “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.” For the economist, by contrast, wealth “increases proportionately to the increase in the *ratio of result to effort*. Absolute perfection, whose archetype is God, consists [of] a situation in which no effort at all yields infinite results.”

Nineteenth-century economists believed they had diagnosed enduring economic confusions, not intellectual fads, and they were right. The crudest form of make-work

bias is the 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 throw people out of work. It forgets that technology also *creates* new jobs. Without the computer, to give one obvious example, there would be no jobs in computer programming or software development. But the fundamental defense of labor-saving technology is deeper than that. Employing more workers than you need wastes valuable labor.

After technology throws people out of work, they have an incentive to find a new use for their talents. The Dallas Fed economist W. Michael Cox and the journalist Richard Alm illustrate this process in their 1999 book *Myths of Rich and Poor*, citing 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.”

Many economists advocate government assistance to cushion the displaced workers’ transition to new jobs and to retain public support for a dynamic economy. Other economists disagree. But almost all economists grant that stopping those transitions has a grave cost.

Exasperating as the Luddite mentality is, countries rarely accede to public anxieties and turn back the clock of technology. But you cannot say the same about another controversy infused with make-work bias: hostility to downsizing.

Inside of a household, everyone understands what Cox and Alm call “the upside of downsizing.” You do not worry about how to spend the hours you save when you buy a washing machine. Make-work confusion can arise only in an exchange economy. If you receive a washing machine as a gift, the benefit is yours; you have more free time and the same income. If you get downsized, the benefit goes to other people; you have more free time, but your income temporarily falls. In both cases, though, society conserves valuable labor.

The danger of the make-work bias is easiest to see in Europe, where labor market regulation to “save jobs” has produced decades of high unemployment. But we can see it in the U.S. as well, especially in our massive employment lawsuit industry. The hard lesson to learn is that giving people “rights to their jobs” is a drain on productivity—and makes employers think twice about hiring people in the first place.

### **Pessimistic Bias**

I first encountered anti-drug propaganda in 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 that 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 work force.

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

My teachers' predictions about America's economic future 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. We can call this the pessimistic bias, a tendency to overestimate the severity of economic problems and underestimate the economy's performance in the recent past, the present, and the future.

Pessimism about the economy comes in two varieties. You may be pessimistic about symptoms, overblowing the severity of the effects 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 both forms of pessimism. Economists constantly advise the public not to lose sleep over the latest economic threat in the news, pointing out massive gains we've made during the last 100 years and now take for granted.

David Hume—economist, philosopher, and Adam Smith's best friend—blamed popular pessimism on our psychology. “The humour of blaming the present, and admiring the past, is strongly rooted in human nature,” he wrote, “and has an influence even on persons endued with the profoundest judgment and most extensive learning.”

But 19th-century economists did little to develop the theme of pessimistic bias. Nineteenth-century socialists who predicted “immiseration” of the working class met intellectual resistance from economists. But the root of the socialists' forecast was hostility to markets, not pessimism as such. Economists often ridiculed socialists for their wild *optimism* about the impending socialist utopia.

Pessimistic bias is widely thought to have grown worse in the modern era. In *The Idea of Decline in Western History* (1997), the historian Arthur Herman of the Smithsonian Institution maintains that it peaked soon after the end of World War I, when “talking about the end of Western civilization had become as natural as breathing. The only subject left to debate was not whether the modern West was doomed but why.”

How can high levels of pessimism coexist with constantly rising standards of living? Although pessimism has abated since World War I, the gap between objective conditions and subjective perceptions is arguably greater than ever. In *The Progress Paradox* (2003), the journalist Gregg Easterbrook ridicules the “abundance denial” of the developed world: “Our forebears, who worked and sacrificed tirelessly in the hopes their

descendants would someday be free, comfortable, healthy, and educated, might be dismayed to observe how acidly we deny we now are these things.”

Not all professional economists are utter optimists about tomorrow. There is an ongoing debate among economists about growth slow-down. This is what relatively pessimistic economists like Paul Krugman mean when they say that “the U.S. economy is doing badly.” Other economists counter that standard numbers inadequately adjust for the rising quality and variety of the consumption basket and the changing composition of the work force. Either way, the worst-case scenario that GDP statistics permit—a lower speed of progress—is no disaster.

The intelligent pessimist’s favorite refuge is to argue that standard statistics such as GDP miss important components of our standard of living. The leading candidate is environmental quality. Pessimists often add that our failure to deal with environmental destruction will soon morph into economic disaster as well. If resources are rapidly vanishing as our numbers multiply, human beings are going to be poor and hungry, not just out of touch with Mother Earth.

A number of economists have met these challenges. The most wide-ranging is the late Julian Simon, who argued that popular “doom-and-gloom” views of resource depletion, overpopulation, and environmental quality are exaggerated and often the opposite of the truth. Past progress does not guarantee future progress, but as Simon explained in his 1995 book *The State of Humanity*, it does create a strong presumption: “Throughout the long sweep of history, forecasts of resource scarcity have always been heard, and—just as now—the doomsayers have always claimed that the past was no guide to the future because they stood at a turning point in history.”

Simon has been a lightning rod for controversy, but his main theses—that natural resources are getting cheaper, population density is not bad for growth, and air quality is improving—are now almost mainstream in environmental economics. Since the Harvard economist Michael Kremer’s seminal 1993 paper “Population Growth and Technological Change: One Million B.C. to 1990,” even Simon’s “extreme” view that population growth raises living standards has gained wide acceptance.

The UCLA geographer Jared Diamond’s immensely popular 1997 book *Guns, Germs, and Steel* links population and innovation in essentially the same way, albeit with little fanfare. The upshot: GDP may not be the best conceivable measurement of our well-being, but refining measures of economic welfare does not revive the case for pessimism. In fact, more inclusive measures cement the case for optimism, because life has also been getting better on the neglected dimensions.

This pessimistic bias is a general-interest prop to political demagoguery of all kinds. It creates a presumption that matters, left uncontrolled, are spiraling to destruction, and that *something* has to be done, no matter how costly or ultimately counterproductive to wealth or freedom. This mind-set plays a role in almost every modern political controversy, from downsizing to immigration to global warming.

### **Bias Against Bias**

Economists have a love-hate relationship with systematic bias. As theorists, they deny its existence. But when they teach, address the public, or wonder what is wrong with the world, they dip into their own private stash of the stuff. On some level, economists not only recognize that systematically biased beliefs exist; they think they have discovered virulent strains in their own backyard.

You can hardly teach economics without bumping into these biases. Students of economics are not blank slates 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 in doing all that underestimating, they overestimate both the need for the government to solve these purported problems and the likely efficacy of its solutions.

*[Bryan Caplan](#), a professor of economics at George Mason University, is the author of *The Myth of the Rational Voter: Why Democracies Choose Bad Policies* (Princeton University Press), from which this article is excerpted. © Copyright 2007 by Princeton University Press.*