to do so by reference to a moving target, because they don't know what benefits technological progress might place within their reach in the longer term. Most people seem to value the benefits that rising living standards have brought us over the last few decades—including personal computers, email, internet access, and mobile phones—even though such things may not have not caused them to feel any happier or more satisfied with life than they were in the 1970s and 1980s. The Australian Survey of Social Attitudes for 2003 shows that 76% of Australians thought their standard of living was better than that of their parents at the same age.

On *policy*, Frey suggests that happiness research has provided fundamental new insights, including measurement of the impacts on well-being of unemployment, inflation, and different political institutions. For example, the finding that a one-percentage point-increase in the unemployment rate imposes higher costs than does a one-percentage-point increase in the inflation rate clearly has policy implications. But it would be wrong to infer that it is appropriate to attempt to buy reductions in unemployment by tolerating higher inflation. History tells us that such attempts tend to result in both higher inflation and higher unemployment. It seems to me that the most important policy implication of the finding that unemployment has a large negative impact on happiness is that we should avoid labour-market policies that price people out of jobs.

The finding that life satisfaction in some cantons of Switzerland is increased by more extensive political participation rights appears to provide fundamental new insights about the importance of institutions. Yet more recent research that controls for cultural influences on life satisfaction has questioned the validity of these findings. It will be interesting to observe further developments in this area.

Although I disagree with Frey about the implications of some happiness research, I think he makes a good case that it does at times produce revolutionary findings. But it seems to me to be unlikely that success of the happiness research counterrevolution will require standard economics textbooks to be completely rewritten. Nevertheless, this counterrevolution will help to ensure that economists continue to 'live in interesting times.' I imagine that most economists would agree with me that 'interesting times' in economics are not a curse, but tend to increase their happiness.

Reviewed by Winton Bates

The Myth of the Rational Voter: Why Democracies Choose Bad Policies
by Bryan Caplan
Princeton University Press
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The outcome of the 2007 federal election, like those of all elections before it, was decided by people that political scientists in their franker moments call the 'know-nothings.' These are the voters who say in surveys that they aren't much interested in politics, and prove it by giving no answers, or wrong answers, to simple political questions.

In the latest Australian Election Survey, conducted after the 2004 federal election, only a third of voters said that they had a 'great deal' of interest in politics, while 20% said that they had 'no' or 'not much' interest. Large minorities of the least knowledgeable voters couldn't name, or couldn't name correctly, the current treasurer or the previous prime minister. Compared to voters more interested in politics, they are much less likely to identify with a political party, and much more likely to decide which way to vote late in the election campaign.

As Bryan Caplan reports in his book *The Myth of the Rational Voter*, for decades this lack of knowledge has been explained as 'rational ignorance.' Since the chance of any one vote swinging an election is very small, it isn't rational—in the sense of the likely benefits outweighing the costs—to put in the effort required to become informed about issues and candidates.

According to Caplan's argument, the rational ignorance thesis understates the democratic problem. Unlike the know-nothings, most voters can name major political figures and offer pollsters their views on issues. Their votes, as recorded in surveys, are often consistent with their stated opinions. What electors lack are incentives to have well-informed views, since their votes are not individually likely to affect anyone.

Caplan thinks this helps explain the failure of the 'self-interested voter hypothesis.' If votes don't affect outcomes, it is hard to advance self-interest through the ballot box. Instead, elections give voters a chance to act according to their beliefs about themselves or the world, rather than their interests. Caplan says that 'altruism and morality generally are consumption goods like any other, so we should expect people to buy more altruism when the price is low.'

He cites studies supporting this contention. People favour policies unlikely to advance their own interests. Some wealthy voters support higher taxes, and some poor voters support lower taxes. Many electors support benefits, rights, or protections from which they cannot benefit.

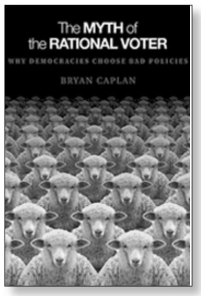
The difficulty is that incentives to form soundly-based beliefs are even weaker when we are voting for other people than when we are voting for ourselves. Researching policies to see their actual likely effects is time-consuming, and may challenge our existing beliefs. There is a large literature showing how we seek information confirming the opinions we hold already, while neglecting or rationalising away contrary evidence.

Caplan thinks that voting allows 'rational irrationality.' Because we benefit psychologically from our beliefs, even if they are incorrect, it is rational to indulge them when the costs to us are low. It's like rational ignorance, but perhaps worse. Random votes from grossly ignorant people will tend to cancel each other out, but people who know enough to offer the systematic opinions evident in polling encourage politicians to offer 'irrational' policies matching their 'irrational' beliefs.

The Myth of the Rational Voter focuses on 'irrational' economic beliefs, with survey evidence comparing the views of people holding economics PhDs with those of the general public. They differ most on technology displacing workers, business profits, immigration, downsizing, trade, the types of jobs being created, and trends in family income.

My own research in the Australian context has parallels with Caplan's, while also detecting signs of more sophistication among voters than is evident in his results. For example, while Australian public opinion remains stubbornly protectionist, surveys suggest that significant proportions of voters understand they would be better off and industry would be more competitive with lower tariffs. The problem is that the same voters also believe that workers would lose their jobs, and these 'altruistic' concerns override self-interest (and the views of most economists).

What Caplan's theory can't explain is why policy often doesn't match public opinion on economic matters. One reason is that politicians focus on ends more than means; while the public is rightly concerned about unemployment, for instance, their ideas about how to reduce it are frequently wrong. Provided policymakers achieve the desired end, they can take political gambles on getting away with choosing their own means, which are more effective than those favoured by the public. That we have seen two long-term federal governments in the era of Australian economic reform suggests those gambles have paid off.



This distinction between ends and means is one reason to oppose Caplan's suggestion—admittedly one more prominent in discussion of his book than in the book itself—that the economically literate be given more than one vote. While economically literate voters' views on how to achieve policy goals would on average be better-informed than those of the general public, if politicians pay most attention to goals there is less reason to give the economically literate more say on those. This is especially so because economic objectives are only some of the many ends that governments pursue.

Caplan is more convincing when he points out that people are more rational, though not necessarily always entirely rational, as consumers than they are as voters. Bad decisions as consumers lead directly and usually obviously to negative consequences. By contrast, bad policy choices conveyed through pollsters or ill-informed votes don't individually cause bad outcomes, and there is a lot of static in the feedback, making it hard for voters to know when they have made a mistake. Where possible, as Caplan says, 'it is a good idea to rely more on markets and less on politics.'

At one point, Caplan notes that before studying public opinion, many wonder why democracy doesn't work better than it does, and after studying public opinion many wonder how it works as well as it does. The answer, in part, is that any system of government has to operate through people prone to ignorance, irrationality, and misguided goals. Democracy incorporates the insight that even if rulers aren't more subject to these shortcomings than the ruled, the effects of their poor decision-making are much greater. Democratic systems give constant feedback to rulers, incentives to act on feedback, and mechanisms for removing bad governments.

For that reason, I am less down on democracy than Caplan is in *The Myth of the Rational Voter*. Yet, his analysis of public opinion is interesting and often insightful. The attention his book has received in the United States is well-deserved.

Reviewed by Andrew Norton