Deduced and Abandoned: Rational Expectations, the Investment Theory of Political Parties, and the Myth of the Median Voter

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> We are here plunged in politics funnier than words can express. . . . The public is angry and abusive. Everyone takes part. We are all doing our best and swearing like demons. But the amusing thing is that no one talks about real interests. By common consent they agree to let these alone. We are afraid to discuss them. Instead of this, the press is engaged in a most amusing dispute whether Mr. Cleveland had an illegitimate child. . . .
>
> Henry Adams, 1884

> If you truly had a democracy and did what the people wanted, you'd go wrong every time.
>
> Dean Acheson

In the turbulent Spring of 1919, Bronson Cutting, a wealthy "Progressive" who controlled one of New Mexico's leading newspapers, decided to throw in with the enthusiasts who were pushing General Leonard Wood for the 1920 Republican presidential nomination. For a few months Cutting and likeminded local acquaintances worked by themselves, in virtual isolation, for the General, who was widely perceived as the heir to the mantle of the recently deceased Theodore Roosevelt.

Late in the summer, however, Wood's own powerful, Eastern-centered national campaign organization reached out to them. John T. King, the former Republican national committeeman from Connecticut who was one of the General's key national organizers, wrote to Cutting. Inviting cooperation, King requested an assessment of the local political scene.

The publisher responded at once. In a lengthy letter Cutting reported that

> The Republican party in New Mexico has for a long time been split up into two bitterly antagonistic factions, one of which has controlled the northern and the other the southern counties of the state. Each group has been to a large extent controlled by rival corporate interests.

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> The northern group represents the Maxwell Land Grant Company, the northern coal mines and the St. Louis and Rocky Mountain railroad. In the background is the powerful but unobtrusive influence of the AT&S [Atchison, Topeka & Santa Fe] Railway. The chief figures in this group are:
>
> Charles Springer, of Cimarron, manager of the Maxwell Land Grant Company and president of the State Council of Defense [a privately funded, but state sanctioned "voluntary" organization that was then crusading against labor unions and "radical" agitation].
>
> Jan Van Houten, of Raton, vice president of the St. Louis & Rocky Mountain Railway.
>
> John S. Clark, of Las Vegas, president pro tem of the state senate.
>
> Secundino Romero, of Las Vegas, sheriff and boss of San Miguel County.
>
> Judge Clarence J. Roberts, of the supreme court, residing in Santa Fe.
>
> Governor O.A. Larrazolo, who, however, has kept free of factional alliances since he has been governor.
>
> The controlling interest in the southern group is the Phelps Dodge Company (El Paso & Southwestern Railroad) with such allied corporations as the Chino Copper Company, etc. Its principal figures are:
>
> H.O. Bursum, of Socorro, national committeeman.
>
> Senator A.B. Fall.
>
> W.A. Hawkins, of El Paso, counsel for the E.P. & S.W.
>
> Eduardo M. Otero, Los Lunas, sheep man and boss of Valencia County.[1]

In a sparsely populated, semi-peripheral state where human life was often cheap, Bronson Cutting stood out. He was a genuine Progressive, frequently at odds with the rest of the state's political establishment, someone who, years later, would end up switching parties and supporting Franklin D. Roosevelt. In sharp contrast to King, whose corrupt relations with a powerful bloc of business leaders exploded into a scandal that eventually brought down the Wood campaign, he was on no one's payroll except his own.

If in 1919, accordingly, he initially disregarded warnings from his friends that "there is no sincerity in the advocacy of the Republican ring here for the General, and that their intention is to trade him for [Illinois Governor Frank] Lowden or [Ohio Senator Warren G.] Harding at the convention," it was only because—for a time—he still reposed too much starry-eyed trust in the publicly professed principles of Progressive Republicanism.[2]

This paper, however, is not concerned with Cutting's political biography or the 1920 campaign. Its focus is broader: whether the account of party competition implicitly put forward in the New Mexico publisher's letter to King, according to which rivalries and competition between major investor blocs provide the mainspring (not the *only* spring) of partisan competition, might provide a better guide to politics in countries like the United States than the usual "median voter" model.[3]

In a series of recent papers I argue in effect that the answer is "yes"—that classical theories of democracy greatly underestimate the costs facing ordinary voters as they attempt to control the state. As a consequence, political parties in countries such as the United States

> are not what . . . most American election analyses . . . treat them as, viz. . . . political analogues of 'entrepreneurs in a profit-seeking economy' who 'act to maximize votes'. . . . Instead the fundamental market for political parties usually is not voters . . . most of these possess desperately limited resources and—especially in the United States—exiguous information and interest in politics. The real market for political parties is defined by major investors, who generally have good and clear reasons for investing to control the state. . . . Blocs of major investors define the core of political parties and are responsible for most of the signals the party sends to the electorate (Ferguson 1983, 6).[4]

In such investor-driven systems, the dynamics of political competition are very different from what traditional democratic theory imagines:

> Political parties dominated by large investors try to assemble the votes they need by making very limited appeals to particular segments of the potential electorate. If it pays some other bloc of major investors to advertise and mobilize, these appeals can be vigorously contested, but . . . on all issues affecting the vital interests that major investors have in common no party competition will take place. Instead, all that occurs will be a proliferation of marginal appeals to voters—and if all major investors happen to share an interest in ignoring issues vital to the electorate, such as social welfare, hours of work, or collective bargaining, so much the worse for the electorate. Unless significant portions of it are prepared to try to become major investors in their own right, through a substantial expenditure of time and (limited) income, there is nothing any group of voters can do to offset this collective investor dominance (Ferguson 1983, 11).

As publicly recorded campaign expenditures have skyrocketed in the U.S. and other countries, this argument has won some favorable notice. Several analysts have recently concluded that their case studies support an investment theory approach. Among these are the author of an imaginative quantitative assessment of press coverage of the 1964 Presidential election (Devereux 1992), a historian of the 1920s Democratic Party (Craig 1992, 7, 155), and, *mirabile dictu*, the *Wall Street Journal*, which recently informed readers that "the 1992 election proves that the investment theory of political parties is correct" (19 November 1992, A16).

But not everyone, to put it mildly, is equally enthusiastic. Ever since 1983, when my first essay appeared, a few analysts have complained that the investment approach implies that elections should go automatically to the highest bidder—an outcome which, they insist, simply cannot be true, however superficially attractive it may appear to casual consumers of FEC statistics. Other critics allege that the investment approach implies a passive role for voters, or even ignores them all together.

Two rival schools of thought, in addition, have claimed to refute the investment approach. Champions of so-called "retrospective voting" assert that by simply "voting the rascals out," the electorate can bypass all the problems my original essay raised about the tendency to investor dominance of parties and policymaking. Two well known "rational choice" analysts, Richard McKelvey and Peter Ordeshook (1986), reach essentially the same conclusion by a somewhat different route. They claim that a consistent "rational expectations" approach to questions about the use of information by voters invalidates my earlier essay. By relying on easily available "cues," they argue, voters can learn all they need to know to enforce majority (median) control.[5]

This paper responds to these critics by restating in a compact, and I hope, pointedly accessible fashion, the fundamental propositions of my investment approach to party competition. It begins by setting out a simple example to make the key point crystal clear: the general failure of the median position in elections "in which money matters." This same case is then analyzed more closely, to point up the fallacy in suggestions that an investment approach makes electoral outcomes a linear function of total spending. A last glance at the example reveals an important implication of the investment approach that many critics have missed—that even voters who were virtually perfectly informed might easily be unable to control policy.

The discussion next considers the role voters play in money-driven electoral systems. By complicating the original single issue model, it is easy to show how choices voters make affect elections and parties—but without leading to convergence by the parties on the median position. Then the paper tackles the important, and much neglected, question of how "systematic error" is possible, given that voters are not passive and clearly attempt to make sense of campaigns.

This exercise, which is essentially a critique of McKelvey and Ordeshook, yields a clear statement—at last—of just what is required, both objectively and subjectively, for voters to be systematically mistaken over long periods of time about candidates and parties. This theoretical conclusion is supported throughout by references to empirical analyses of actual voting decisions, conducted by Stanley Kelley, John Geer, and other analysts. By contrasting the role information plays in the functioning of politics and the stock market, this discussion exposes the hollowness of claims that free markets guarantee voters all the information they need to vote in their own best interests—whether the "markets" in question are served by political parties or the media. A final section considers Fiorina's (1981) "retrospective voting" model. This, I suggest, solves no fundamental problem of democratic control of elections.

The Myth of The Median Voter

Let us begin, however, with the investment theory's bedrock claim: what might be termed the general failure of control by the so-called "median" voter (the voter whose strategic position exactly in the middle of a distribution of voters guarantees a candidate one more vote than he or she needs to defeat all comers).

The argument can be developed with any degree of detail and formal rigor. But it is perhaps most easily and convincingly outlined in terms of a single concrete example designed to demonstrate with the clarity of a laboratory experiment just how money-driven political systems can thwart the will of even overwhelming majorities of voters.

Imagine a world in which labor-intensive textile producers command virtually all pecuniary resources beyond those necessary for ordinary wage earners to live (a world, that is, in which the so-called "classical savings function" popularized by Kalecki, Kaldor, and Robinson applies). Such a situation is perhaps most conveniently pictured along the lines of some company town of the early industrial revolution, but as will shortly be evident, conditions long ago and far away are not the essence of the problem. *A fortiori*, neither is the classical savings function.

Suppose, further, that an election is being staged, in which everyone votes for one of two political parties. There is only one issue, and everyone agrees on what it is: passage of legislation that is likely to lead to 100 percent unionization of the labor force. All wage earners agree that the law is desirable. All textile magnates (3 percent of the total voting population) vehemently disagree.

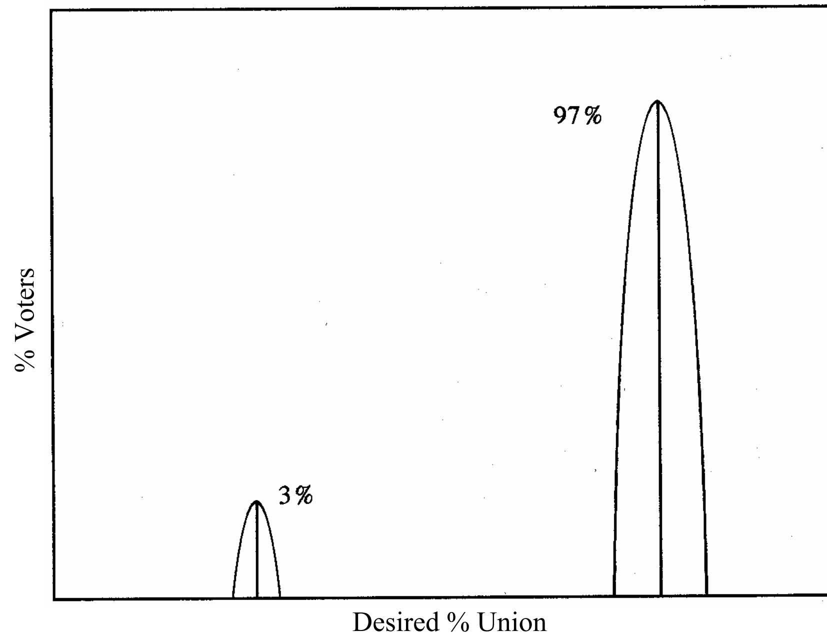
What stance do the political parties take?

Analysts impressed by the familiar spatial models of party competition will of course reply that the parties must head immediately to the median position at the far right of Figure 1, where virtually all voters are located.[6]

The investment theory, however, spotlights a detail that leads to a dramatically different expectation: *when money matters importantly to mounting campaigns*, no party can afford to take up the median position that represents the views of the vast majority, if investors disagree. The mere fact that votes are out there does not imply that any party can afford to campaign for them, even if its message is what they would want to hear.

In this instance, all parties depend on textiles for funding. The textile industry, of course, will not pay to undermine itself. It thus subsidizes only candidates opposed to passage of the law. (Readers who have been exposed only to the median voter model are often inclined to object: 'But wouldn't the textile party improve its chances of winning by embracing unionization?'

Figure 1



The all but irresistible tendency to this mistaken inference illustrates perfectly how a bad model can blind social scientists—and many ordinary people, who intuitively know better—to the harsh realities of money-driven political systems. The short answer is that if the cost of winning the election really were sponsoring unionization, textiles would, paradoxically, lose by adopting the "winning" strategy.)

Given that the textile industry is the only source of campaign funds, all parties must comply with the industry's demand for a union-free environment. Or else they cannot afford to compete at all. Without collusion or "conspiracy" of any kind, accordingly, each party *independently* discovers that available funds constrain it to champion the very same rate of unionization as all others: 0 percent, ironically, on the far left of Figure 1.[7]

The conclusion is sweeping, but while the example is carefully constructed, it is not contrived. In particular, it does *not* represent a "special case" dependent on the improbably stark contrast between the very rich and the very poor assumed here for simplicity's sake, or on features unique to unionization as a political issue.

Instead, what is critical are the brute implications of a very pedestrian fact: that entry into politics (and, for that matter, subsequent campaigning) is normally very expensive in terms of the time and incomes of ordinary voters. As a consequence of this "campaign cost condition," whenever the generic policy interests of all large investors diverge from those of ordinary people (there is certainly no presumption that they should always do so), voters are checkmated. As long as money matters importantly, and efforts to offset the costs of political activity by pooling resources confront high transaction costs or other obstacles, including overt repression, the electorate can shake, rattle, and roll. But it cannot float an alternative of its own to force the issue onto the agenda—even if, as in this case, the majority comprises an overwhelming 97 percent of the electorate. By virtue of what my earlier essay summarized as the "principle of non-competition across all investor blocs," only investors can compel (at least one of the) parties to take up an issue—because only investors can afford to pay the high "replacement cost" of non-responsive parties (candidates, etc.).[8]

Does the campaign cost condition imply then that elections go automatically to the highest bidder, or render electoral outcomes a linear function of total spending? Hardly. As will become even clearer below, in the analysis of elections with more than one issue, what is pivotal is ready access to the comparatively large sums of money necessary to mount a real campaign, not necessarily *the most* money. (In light of recent developments in American politics, it may be worth raising a yellow caution flag about a related misconception: multiplying the sheer number of parties in the system will not solve the conundrum facing the voters. Their situation would not improve if there were three, four, five or *n* parties on the ballot. To refer back to my example, only if one or the other of these new parties were financed independently of the textile industry, by some group that wants unionization, would the electorate break loose from its golden fetters.)

One final point about this example merits notice, since it brings us to the heart of some of the most important differences between median voter models and the investment approach. Note that while democracy is failing miserably, no one is being fooled about anything. Neither misinformation nor voters' lack of time or ability to process campaign appeals are relevant here. There is no money, hence, no campaign appeal. *The electorate is not too stupid, or too tired to control the political system*. *It is merely too poor*.

Though some rational choice analysts profess exasperation, it is convenient to summarize this state of affairs as one in which the electorate is "virtually perfectly" informed—while still being quite unable to control the money-driven political system.[9]

Voter Choice In a World Ruled By Money

In the example just discussed ordinary voters desperately want something else from their party system, but cannot achieve it. I suspect that some complaints that the investment approach assumes a passive electorate are really disguised refusals to recognize that real life electorates may often be trapped in such "no (cheap) exit" situations. On the other hand, for simple reasons of space, my earlier essays said relatively little directly about voters. It may, therefore, be helpful to discuss in more detail the roles voters play in money-driven political systems.

Again, to make the basic point as clear as possible, let us consider first a very simple example—an extension of the case just discussed, in which a handful of textile magnates control all the political money. Now, however, in place of the single dominant sector, let us picture how the situation might look 50 or so years later, when the economy has diversified a bit. We can imagine that a second, capital-intensive industry—the oil industry perhaps—has firmly established itself alongside textiles in the local economy.

Let us further assume that at some point, the handful of oil magnates decide to acquire control of the state. One morning, accordingly, a new political party that they finance emerges. Since the oil industry is far more capital-intensive than textiles, its labor costs as a percentage of total value added are much lower. The investors who control the new party conclude, accordingly, that they can afford to support a scheme for, say, company unions, or even, perhaps, the organization of twenty percent of the workforce into independent (i.e., real) unions. As a consequence, funding suddenly becomes available for a party prepared to offer the electorate another deal—a New Deal, one might say.

Now consider the situation of the electorate, for whom the long-deferred dream of unionization remains, by hypothesis, as attractive as ever. As long as the costs of mounting serious campaigns exceed sums that the voting majority can readily raise, its only alternative (other than abstention or collective self-organization, both here ruled out by assumption) is to calculate, along the lines of Kelley's (1983, 11-12) linear model (in which voters tally up the pluses and minuses of each candidate/party and then vote for the one with the net score), that the proposed "New Deal" is a better deal for them. They, accordingly, vote to put the new, oil-financed, party in power. Here, indubitably, is real voter choice—yet the median is never approached. The system goes from zero to twenty percent unionization, and that is all.

Now let us consider how this "New Deal" example can be adapted to shed light on problems now widely discussed in the literature on real life

political campaigns. In the case just described, as long as nothing changes, the capital-intensive party would obviously win election after election in a manner reminiscent of the "dominant party" scenarios of some "realignment" theories. (Indeed, from an investment theory standpoint, the rise to power of new, dominant blocs of industries, or firms, is historically the most common cause of "realignment," which explains why Burnham and so many other realignment theorists who have never developed a consistent approach to investor blocs have such difficulties pinning down the precise role of the electorate in their otherwise very illuminating discussions.)[10]

How might the textile party try to reply to break its rival's hold? From the perspective of comparative political history, the number of likely strategies does not seem enormous. First of all, in the spirit of the maxim that the best defense is a good offense, conservative parties facing this kind of pressure almost invariably begin a relentless campaign of vilification directed against their opponents. In the intellectual equivalent of radio-jamming, they hammer away at the principles and the leaders (in some cases, even the dogs of the leaders—witness FDR's Fala) of the opposition with virtually any argument that seems likely to fly. Sometimes their campaigns focus on rival values ("freedom" or, rather "Freedom" is said to be in danger, or the Constitution is declared to be at risk); in other cases, the goal is lauded, but the means are scorned, while charges of corruption resound everywhere. Almost invariably, however, as the social temperature begins to rise, previously accepted rules of social intercourse fray. In a word gravid with implications, we can summarize all this by saying that all sorts of cues—not only the good, but the bad and the ugly—quickly fill the air.

Such campaigns usually succeed in instilling enough doubt in some portion of the electorate's mind to at least slow down a developing mass movement (and they certainly raise the level of investment required to stay in the game). In particularly backward regions and specially circumstanced voting groups (including, many times in the past, at least upper class women and the conventionally religious at every level of society), they sometimes stop agitation all together. On the other hand, the historical evidence also shows that purely negative campaigns often are not enough. At some point, another strategy often comes into play: try to change not minds, but the subject.

Historically, this step leads to a 'Heinz 57 varieties' of concrete proposals. Sorting them into rough, but illuminating, categories is not too difficult. One class of options involves a deliberate decision to counter by emphasizing another economic issue (or, obviously, issues). From a comparative historical standpoint, perhaps the most common contraposition to unionization and similar broad "populist" issues has been the attempt to celebrate economic "growth." Depending on time, circumstance, and the

business cycle—for the historical association of free enterprise with economic growth is far more problematic than most contemporary discussions are willing to recognize—the textile party could, for example, froth on about the liberating possibilities of, say, "supply side" economics, a la Reagan or Jack Kemp.

Or it might emphasize deregulation of the economy from the stultifying grip of feudal lords (the stock in trade of many European "Liberals" in the eighteenth and nineteenth centuries) or of monopolistic business franchises (an issue that helped make the political careers of Andrew Jackson and Martin Van Buren, as well as Ronald Reagan, Margaret Thatcher, and many other twentieth century rightwing leaders in Europe, the U.S. and, now, the Third World). If the textile industry is not easily imagined as a plausible champion of advanced technology, still, for completeness, it is worth observing that, on occasion, investor-dominated political parties have emphasized not only state-assisted "modernization" or "great leaps forward" in technology (e.g., as did many fascist groups, FDR's New Deal, and Ernest Mercier's *Redressement Français* during the inter-war period, or François Mitterrand's "Socialists" in the 1980s), but also the introduction of modern financial systems (e.g., Napoleon III, who famously availed himself of many other appeals as well) as ways of projecting an economic appeal.[11]

Many examples also exist—notably in the United States, though few voting analysts ever notice—of "horizontal" economic cleavages, in which parties represent coalitions of investor blocs dominant in different regions, sections, or other spatially defined groups.[12] In France, Japan, the U.S., and many other countries, a variant of this strategy has led investor-dominated, predominantly urban-based conservative parties to coddle agriculture to secure an electoral base (a fact which, because the link to urban investor blocs is rarely acknowledged, leads many electoral analysts to tie themselves into knots trying to explain the apparently magical ability of comparatively small numbers of farmers to succeed where millions of workers have failed). The case of "free trade" or "protection" in Germany, the United States, Great Britain, and other countries in the last two centuries is analogous, and too well known to require any comment.

On the other hand, while many American readers may be skeptical, it is a fact that such economic appeals rarely suffice for long. Particularly as party systems decay, the economic appeals by themselves often become almost laughably inadequate. Any investor-dominated party that relied solely on them would be swiftly overwhelmed by a tide of a triumphant unionization or populist farm organizations.

The anthropologist Marvin Harris (1979, xi) has observed that groups dominated by the wealthy are usually the most conspicuous champions of the

importance of ideals and values in political practice.[13] Though I know of no clearcut statistical inquiries into the question, I suspect strongly that he is right, and that what accounts for this is the overwhelming incentive conservative parties frequently have to change the subject, from economic questions to the flag, eternal values, or patriotism—or even foreigners, Blacks, or Jews.

Moves of this sort—which centrally involve "discourse" or "political language" (i.e., sustained political arguments and appeals, in plain, non-mystifying English)—have sweeping implications for the level of investment required to become a player in the political system.[14] First, as new issues surface, complex, ramified arguments proliferate. The threshold of finance required for credible entry into and subsequent argument within the political system, accordingly, rises markedly. As the 1992 campaign illustrates, even nationally known political figures, with clearly articulated initial positions on major issues, some free TV time, and an 800 number require really vast sums of money once the campaign heats up. (Rarely, however, will the relation between money and political success become linear, as many critics of the investment approach seem to think.)

Second, money's influence on the election now becomes more subtle. In part mediated by campaign rhetoric and language, it is not only direct in the senses discussed earlier, but indirect as well: not only are issues vital to the electorate not being discussed, but other issues apparently quite unrelated to pecuniary interests are being deployed or emphasized instead. Analysts who try to estimate money's influence on politics (*or on voters*, who are struggling to make up their minds) by attending to, say, direct discussions of economic issues, will be almost comically mistaken—although only investors will be laughing. And statistical studies of the correlation of policy with opinion are very likely to be systematically misinterpreted, since the whole point of hyping these other issues (which will work if and only if they are "real" to some constituency) is precisely to raise the apparent correlation, while guaranteeing investor dominance.[15]

Much more could be said about precisely how money figures in campaigns and mass politics. But the above suffices to explain Hobsbawm's observation, in his masterly survey of comparative politics, that everywhere in the nineteenth century the generalization of suffrage vastly denatured the political rhetoric of the (non-socialist) parties (Hobsbawm 1989, 87-88). It should also be apparent why an established church is so often connected with conservative parties; why, in money-driven political systems like that of the contemporary United States, both major parties show strong preferences for highly stylized discussions of the economy (e.g., abstract talk about "growth" or—when someone wishes to look daring—very guarded,

highly stereotyped New Deal tub-thumping); and why so much American political rhetoric concentrates on "social" or "cultural" issues that are peripheral to most investors, even though most voters indicate in responses to open-ended questions that economic issues stand high on their list of concerns. Not to mention why, in 1992, all three major candidates flatly declined an invitation in the debates to discuss even modest changes in the Federal Reserve System.[16]

More broadly, it should be equally easy to understand why investor blocs in the United States (and, *mutatis mutandis*, many other countries) so often pursue two apparently contradictory grand strategies in regard to public opinion. On the one hand, inspired sometimes by elaborate normative theories articulated within The Establishment by opinion leaders such as A. Lawrence Lowell or Walter Lippman, and in other instances by much cruder pressures, they are quite prepared to force through public policies opposed by majorities (or, if "don't knows" are included, pluralities) of the electorate. (Choice recent examples include the North American Free Trade Agreement, which free traders in both the Bush and the Clinton administration pushed ahead in the face of polls showing overwhelming public opposition; most policy switches that defined the Reagan-Bush "right turn" of the 1980s; and the all-but-incredible spectacle of insistent Congressional pressure to scale back President Clinton's already anemic proposals for an economic stimulus, despite polls showing that truly gigantic majorities of voters rank job creation above deficit reduction as a priority.)[17]

Some of these efforts involve organized (and subsidized!) campaigns to "marginalize" adverse opinion by blandly redescribing the facts of either policy or opinion until the inconsistency disappears in a cloud of verbiage. (One example: most of the discussion of America's "right turn" in the 1980s, which also featured that reliable staple of the "marginalization" strategy, vituperative attacks on the heterodox.) In other cases, investor blocs and the media simply ignore the inconsistency (as in the discussion of the North American Free Trade Agreement or the efforts to cut back the Clinton administration's economic stimulus). Frequently, when majority opinion is obviously hostile, no one prints or analyzes any polls at all in public. (It is certainly not accidental that major polls virtually never report the public's views about, say, Federal Reserve high interest rate policies; while, in a careful study of *New York Times* polls on aid to the Contras, Lance Bennett has demonstrated that the paper simply stopped printing the polls—which ran strongly against the U.S. government's position—as major Congressional votes approached.)[18]

On the other hand, American political history is also filled with wave after wave of clever publicists who became rich teaching big business and

politicians the latest refinements of "the engineering of consent." Among these was, appropriately, the inventor of the three ring circus (and father of the adage that "there's a sucker born every minute"), P.T. Barnum, who served as a Republican state legislator and Mayor of Bridgeport, Connecticut; any number of journalists and publishers, from Thurlow Weed to Warren G. Harding (the genial Ohio newspaper publisher who on at least one occasion recommended the use of gatling guns to quell labor unrest); and some fabulously successful retailers (including John Wanamaker, Chair of the Republican National Finance Committee in the late 19th century). More recently, an army of handsomely remunerated "public relations consultants" has taken the field, ranging from Edward L. Bernays (American nephew of Sigmund Freud) and Ivy Lee (the man who told John D. Rockefeller to hand out dimes to children) at the turn of the century, to more *gemuetlich* bamboozlers than can be conveniently enumerated in recent decades.[19]

The message of virtually all these eminently respectable gentlemen (all, so far, have been men, though women are now becoming increasingly prominent in the "profession") consists of variations on a single theme: that often it is easier and, in the long run, cheaper, to change mass opinion than to brush it aside (Bernays 1928).

Such public relations activities, and the simple fact that, as Ginsberg recently emphasized, even dictatorial regimes will sometimes find it in their interest to appear to court public opinion, guarantee that some positive correlations are almost bound to exist between public policies and mass opinion in most historical periods (Ginsberg 1982, 8-9). Given that politicians barred by their dependence on investor blocs from addressing the issues most important to voters still have to talk about something, we can be quite certain that elections, and scholars of elections, will inevitably celebrate the idea of such correlations.

But How Is Systematic Error Possible?

We thus arrive at a first, preliminary statement from a practical research perspective on how to tackle questions of mass voting behavior and actual campaigns in political systems like that of the United States, where most of the population is very weakly organized and a minority are almost hyper-organized. Clearly the initial and most critical task is to form a coherent picture of bloc formation within big business ("major investors") as an election approaches. Once this is achieved, the next problem is to relate these blocs (and their associated policies) to candidates and parties (if reasonably comprehensive campaign finance records are available, an

application of the Golden Rule—to see who rules, follow the gold—can help greatly in resolving these problems, though I would caution against excessively mechanical applications of this dictum).[20]

By paying careful attention to the slogans, buzzwords, and oratory that constitute the collective deliberative process—such as it is—of political campaigns, one then tries as best one can to sort out the signals that are being sent to the electorate. (This step is a rough, linguistic equivalent of tracing campaign financing. It is an area in which current measurement practices leave much to be desired.) If the problem is finally to explain voting behavior, then the last stage of the inquiry involves analyzing how voters draw on their own particular interpretative resources—which are very closely related to their particular forms of social activity (and thus, as discussed below, differ radically from the cognitive activities assumed in neoclassical economics in general and "rational expectations" in particular)—to reach a decision.

In practice, these last steps can be accomplished in a number of ways. But empirical studies of voting behavior, I think, would gain a lot from closer acquaintance with the practice of writing "history from below," as George Rude, E.P. Thompson, or a few members of the (overrated) *Annales* school have attempted to do. In sharp contrast to conventional "public opinion" analysts, these historians take pains to disentangle elite from mass opinion, and to relate political events and social trends to subtle differences in the flow of information within and between social classes, racial and ethnic groups, political institutions, and gender hierarchies. Precisely who reads which newspapers or books (or watches which TV programs), along with the interpretative theories historical actors bring to bear on these experiences, not to mention who subsidizes what and how all of this changes over time all figure in their explanations.[21]

On the other hand, one strand of contemporary voting research deliberately bends over backward to avoid the great pitfall of all such inquiries: the likelihood of inadvertently putting words into people's mouths and, without meaning to, mistranslating popular culture into familiar (elite) viewpoints. Relying exclusively on open-ended questions, Stanley Kelley (1983) has shown that voters' decisions in two-party races can be predicted with remarkable accuracy (more than 80 percent in most elections, within at least respectable hailing distance of eclipse studies, the stock social science example of a good theory) by attending to what voters volunteer they like and dislike about candidates and parties. Though he does not refer to it, Kelley's "linear model" approach to voters' decisions is supported by a substantial psychological literature on decision making. His findings, in addition, have been extended by John Geer (1988, 1991, 1992, 1993), who

also has shown empirically that a number of plausible objections to the method—for example, that it might disproportionately favor articulate or educated respondents—are invalid. Additional buttressing comes from two sociologists who independently developed what amounts to virtually the same method (Ajzen and Fishbein 1980).[22]

Both Kelley and Geer stress their conviction that voters' decisions on the smallish list of considerations that actually appear to move them are importantly affected by campaigns, the media and other influences. From an investment theory standpoint, this sounds exactly right, and while one would like to explore the point in detail, there is no reason to quarrel with their empirical results. Indeed, I regard their analyses of recent elections as entirely consistent with my own studies of the behavior of investor blocs in those elections.[23]

But this view of voters, political campaigns, and public discussion raises a fundamental question. Kelley's and Geer's research with open-ended questions shows that most ordinary voters are definitely not passive spectators of electoral contests. At least during presidential elections, most are certainly not voting randomly, or on the basis of "off the top of the head" whims, as other analysts have sometimes suggested. Many try rather hard to make sense of campaigns. Despite the publicity about alleged "single issue voters," almost all cast their ballots on the basis of more than one issue.[24]

On the other hand, this research, along with other studies, suggests quite a mixed picture about the overall consistency and coherence of the electorate's views. For example, in sharp contrast to political scientists, a large majority of the population apparently finds it very plausible that the rich and powerful dominate the political system. At the same time, however, they "rally round the flag" and give many responses to other questions that are often jarringly inconsistent with this viewpoint. While one perhaps could redescribe this behavior to reduce the impression of incoherence, it is obvious that the American electorate is light-years from the case discussed at the outset of this paper, in which only the sheer existence of the campaign cost constraint prevents aroused voters from controlling the state.[25]

But how is it possible to square the evidence of intelligent, goal-directed behavior on the electorate's part with the persistence of so much ambiguous and contradictory thought about politics? Or, to make the question as pointed as possible by raising the level of generalization, how is persistent, "systematic error" reproduced in social systems that is consistent with the historical and contemporary evidence regarding both investor bloc strategies and voters' behavior?

This is the real question raised by McKelvey and Ordeshook's critique of my earlier paper. Their use of "rational expectations" to analyze "whether incomplete information precludes effective competition among groups, as Ferguson suggests" is really an argument that systematic error of this sort should not occur on what are, essentially, theoretical grounds (McKelvey and Ordeshook 1986, 912). Because their case is the polar opposite of mine, it is very helpful to consider their argument in detail:

> Our definition of an equilibrium here is inspired by recent attempts at incorporating considerations of imperfect information into economics. Just as voters are unlikely to be informed about the details of candidate platforms, consumer-investors are not likely to satisfy, even approximately, the information assumptions of neoclassical micro-economics. The rational expectations hypothesis assumes that consumers and investors condition their decisions on a belief about how true states are related to observed signals (e.g., prices). In equilibrium, they must be acting optimally, conditional on their beliefs, and these beliefs must be consistent with what they observe; otherwise, there is additional information available that might change their decisions (McKelvey and Ordeshook 1986, 914).

McKelvey and Ordeshook therefore attempt to analyze a process of expectation formation and verification that teaches citizens "to vote correctly in terms of their self-interests by using relatively costless sources of information" (1986, 934).

They proffer two models which they suggest lead to plausible reconstructions of actual voter practices. The first, which they admit assumes rather a lot, postulates that uninformed voters know exactly where they usually sit in relation to the entire distribution of voter opinions (while possessing an internalized sense of self-discipline worthy of St. Ignatius of Loyola and a strong, intuitive sense of stochastic processes).[26] By tracking a series of polls showing how various candidates fare over time, voters initially ignorant of where candidates stand on an issue spectrum running from left to right learn to recognize which candidate is nearest to them. By eventually matching up with the right candidates, voters force the candidates to move to the median.

McKelvey and Ordeshook's second model, by contrast, appears to assume much less about the voters. Accordingly, it seems on the surface much more plausible. Essentially, McKelvey and Ordeshook suggest that by paying careful attention not only to polls, but endorsements from reference groups and similar campaign announcements, voters can find out which candidate is nearest them. This, they argue, will again force candidates to the median after a while, even though all that voters know about the candidates is who is closest to them, not what they stand for, or even what the precise issues in question are (1986, 933-934).

As in many parts of economics where "rational expectations" has been tried, the argument is ingenious and stimulating, at least up to a point. But also like many parts of economics, including those concerned with stock prices (once considered the area of the theory's greatest success, but now marked by many negative appraisals and even recantations of one-time champions, foreign exchange markets, many macroeconomic adjustment questions, and asset market bubbles in the U.S. and Japan), their ultimate conclusions have a distinct air of *Through The Looking Glass* about them.[27]

To anyone sensitive to the Niagaras of on-the-record cash that now swirl indubitably around Washington and state capitals, for example, McKelvey and Ordeshook's argument appears more than a little quixotic. While "rational expectations" does not (as sometimes supposed) imply perfect foresight on everyone's part, the claim certainly does entail what might be termed perfect foresight on average, i.e., a random distribution of hits and misses nestling around the theoretically true mean value of whatever one is trying to predict. (This is why the argument implies an absence of systematic error [Begg 1982, 29ff].)

Thus, if the Cal Tech analysts were correct in arguing that voters' rational expectations normally ensure the triumph of the median, it would be pointless for the average (self-interested) investor to contribute to political campaigns at all. The expected value of contributions, on average, would be zero, because democracy is working, and the investment theory is wrong. Investors, who must perforce also be assumed to be acting with rational expectations, would know it, and would not contribute. (Note that since McKelvey and Ordeshook's principal models work because voters use cues to cut through the fog of political campaigns and inform themselves, investors do not need to contribute to protect themselves against contributions by rivals—when the median decides, the median decides.)[28]

But the gravest problems with their argument emerge when it is examined in the light of the textile magnates/pro-union majority case already discussed above. Though their argument is, in effect, designed to dispute it, McKelvey and Ordeshook completely fail to confront the campaign cost condition! Their model *simply assumes away* the problem that the textile example highlights: that, somehow, the candidates are able to get on the ballot and to continue to find the resources with which to stay in the race to the finish.

In effect, their argument presupposes that money grows on trees or, perhaps, that the left-most candidate is running some as-yet-unknown form of green campaign that burns something other than money for fuel. If there is no campaign at all, their case falls completely apart, since informed voters would have nothing to respond to and the candidate would not appear in the

polls. (It may be instructive to recall that even Jerry Brown kicked off his now legendary 1992 campaign with widespread national name recognition worth, in effect, millions of dollars. He also spent an additional eight million dollars before he was emulsified by the Clinton campaign's lavishly financed TV blitz—and his own mistakes, but mostly the TV blitz—in the New York primary.)[29]

The "critical realignment" case discussed earlier also qualifies as a disastrous counter-example of why, in the real world, the ability of the voters to recognize which candidate is nearest to them *does not* lead to an iterative process in which all, or indeed, any candidates have to converge on the median. To get to the median, candidates have to be able to go to the median. But unless they can float not only freely, but *free*, over the political spectrum, they can't afford to do much travelling. Indeed, in a world where money matters, they can't even pack their bags without seeing their receipts fall off literally with the speed of light, in the case of wired funds.

The Origins of Systematic Error I: The "Objective" Side

McKelvey and Ordeshook's disregard of the campaign cost condition is aided by an important equivocation. Their exposition equates voters' reliance on rational expectations with the use of "all available" information. While this formulation is common in the literature, the best accounts carefully note a major qualification: that the "available" information is free or obtainable at negligible cost. As an exceptionally lucid statement of the view concedes:

> Improving the quality of information about the structure of the economy will generally be a costly activity which will be pursued only up to the point at which marginal benefits from better information equal the marginal costs of obtaining it. Thus it is unlikely that it will ever be profitable or rational to obtain complete information. Without a more detailed examination of these costs and benefits, it is hard to decide how much information will be collected. While the assumption of any particular information is therefore arbitrary, many models implicitly assume that the relevant information set is precisely the widely available public information used by economists in empirical specification of the model itself (Begg 1982, 67).

That is, what makes expectations "rational" is not that they incorporate all potentially available information, but that they incorporate all *affordable* information. As Begg goes on to underline,

> By a Rational Expectation equilibrium we then mean a path along which individuals cannot improve their forecasting by using the information which they cheaply acquire (Begg 1982, 69).

By eluding this point, McKelvey and Ordeshook brush aside all the differences in the real life political economy of information that are created by social class and education, or one's slot within the industrial structure. By assumption, in other words, and not by any compelling evidence or reasoning, voters are put on the same footing as investment banks.

Since McKelvey and Ordeshook's exposition relies heavily on the notion of a "poll," and then quite deliberately elongates that concept into the still broader idea of "cues," it is important to observe that their case depends absolutely on the existence of a neutral source that freely supplies voters with unbiased polls and other "cues" throughout the campaign.

Along with the neglect of the campaign cost condition, and the implicit confusion of "affordable" with "available," this last point gives the game away. It is not simply that the use voters would have to make of the polls is, practically speaking, computationally impossible and conflicts with virtually everything that is known about the logic of everyday inference.[30] Nor is it that "rational expectations" as a general theory of cognition is incompatible with the results of contemporary empirical research on human judgment and reasoning—though, as we shall see, the implications of this fact are indeed striking.[31]

From the standpoint of the investment theory, the most profound problem with their argument is that no such neutral, "Archimedean" point exists in the real world's political economy of information.

This fact comprises at least half of the answer to the question about how "systematic error" arises and persists, so the argument is worth tracing in detail. We are all aware that ever since that *annus mirabilis* of American party politics, 1896, the *New York Times* has promised readers "all the news that's fit to print." Unfortunately, it is a fact that on all too many occasions—e.g., the Bay of Pigs, the notorious transfer of Raymond Bonner for his politically incorrect reporting on Latin America, or the articles on local politics that appear to have occasioned the departure of Pulitzer Prize-winning columnist Sidney Schanberg—the paper deemed unfit to print information that would have been of great interest to many voters. (It is also a fact, and a very interesting fact, that no other major media outlet picked up the torch when the *Times* let it fall.)[32]

Considering McKelvey and Ordeshook's uncomplicated confidence in polls, it is worth recalling Bennett's penetrating demonstration of the *Times*' manipulative coverage of public opinion about Nicaragua, or the many years the same preeminent journal spent touting Ronald Reagan as one of the most popular presidents in American history—a claim which it abandoned only long after evidence to the contrary had been widely publicized. Then there is the matter of its improbable, but nonetheless reiterated claims that higher

participation by non-voters would not have affected the outcome of 1988 and other presidential elections, which I believe played a role in various pre-nomination struggles within the Democratic Party in 1992.[33]

Even more telling against McKelvey and Ordeshook's case, however, is the simple fact that the *Times* and the rest of the U.S. prestige press rarely cover endorsements, or other politically significant activities of most major investors. Unless major party campaigns choose to publicize (a select few) of their business supporters for special reasons, as the Clinton campaign did in 1992, for example, major media at best provide very general, "no fault" campaign finance analysis. Neither do they cover the Business Council, the Trilateral Commission, the Council on Foreign Relations and other influential investor-dominated organizations in any detail, though the latter two, at least, must be well known to many leading media figures, since so many have been members. This pattern of benign neglect also extends to most research institutes, think tanks, foundations, and other places where investors, scholars, and journalists, if rarely median voters, converge to formulate policy proposals. Other "special interests" such as unions occasionally receive coverage, but little of it is likely to be helpful to voters, particularly if they are suspicious of the official union leadership.

But this unhappy catalog does not even hint at the true dimensions of the problem with reliance on the media for "polls" (and other cues). Consider just the relatively clear-cut case of real polls. For all the questions that cluster about the *Times*' use of opinion polls in its news coverage—and there are many more than there is space here to mention—it is important to remember that the actual CBS/*Times* polling operation is a model of care and professionalism. Real care is taken not to cook the questions; the staff is sensitive to question wording, interviewer and order effects; and requests for fuller information are readily and courteously filled.

Apart from Gallup and a few other leading surveys, the same cannot be said about most other polls published in the media. Questions are frequently slanted in any number of ways in both primaries (where, it often seems, almost anything goes) and general elections. Candidates who should be included in surveys are not. Potential candidates and non-candidates who shouldn't be, are. (We pause here in memory of frustrated 1992 Democratic presidential hopeful Larry Agran, and note that in the early stages of the New Hampshire primary, his poll numbers, but not his press notices or fund-raising totals, were little different from those of, say, Bill Clinton. We also underline the fact—calamitous for McKelvey and Ordeshook—that in this instance, as in many others, newspaper editors were sometimes willing to admit in public that both their coverage and their polls were affected by candidates' success in raising money.)[34]

Outrageously loaded questions about issues and referenda are common even in very respectable newspapers (and are not unknown in even the "name brand" polls). Results are frequently published with no indication of sample size, the exact wording of the question, or hints about what other questions preceded it. While one would like to believe that these horrors are a consequence of simple incompetence, often they are not. Studies of journalism content confirm what is suggested to me by my own archival work and first hand acquaintance with many "analysts" in the "business": that newspapers' coverage and use of polls is usually correlated with their support for particular candidates.[35]

In general, what is true of polls holds for all the rest of the "cues" voters often rely on. In terms of a critical approach to rational expectations, what is problematic is not merely the empirical fact that voters have often paid demonstrably inordinate attention to the ethnic origins of candidates, or their religion, or irrelevant traits of personality, character, facial features, or even their names (e.g., an Ohio Senate candidate named John Kennedy received over a million votes, and Nelson Rockefeller connived with the Hatters' Union to install one Frank D. Roosevelt, Jr. on the Liberal line to siphon votes from Frank O'Connor [Kramer and Roberts 1976, 317-19]), or whether they can claim the title "Dr.", or are listed first on the ballot.

The truly mortifying circumstance is that all through American history, voters have received all kinds of institutional encouragement to rely on such cues. Even the *prima facie* absurd ballot position and same-name cues can be and have been systematically manipulated by parties, newspapers and investor blocs, in many instances for years. The same holds for the generous tolerance these same groups—parties, media, and investor blocs—have so long extended to the venerable practice of religious and ethnic "balancing" of tickets by political parties whose top leadership indubitably and literally is or was "in the money;" to the way the contemporary Democratic Party, which should probably take out formal membership in the Investment Bankers Association of America, disguises itself as a congeries of more politically correct and far less affluent "special interest" groups; or the growing practice among Republicans of grabbing for a "moderate" label by talking up "choice" or, occasionally, gay rights. In some of these cases (e.g., ballot position and same name candidacies) the promotion of the cue may be explicable, but plainly amounts to encouraging irrationality, if that Protean term is to have any meaning at all. In other cases, the cue arguably—the rubber quality of this qualifying term points to a major part of the problem—made sense once, or in special, limited circumstances, but has long since deteriorated into a complex fraud that, however, still retains (some) effectiveness, particularly as long as the media wink at the practice.[36]

McKelvey and Ordeshook's claim that endorsements are an avenue for voters to obtain cheap information is equally flimsy. While, as we have already noticed, most endorsements fail to make the papers, there are a variety of other problems with this suggestion. In money driven systems, endorsements are frequently sold and bartered by both business and unions, as a variety of striking cases from recent Democratic primaries can illustrate. Endorsements can also be affected by a host of considerations that are clearly irrelevant to voters' interests in the best possible "signal" value. For example, strategic silences by interest groups are very common, but virtually impossible for voters to "read." Neither would it be a very good idea for average voters to try to "go to school" on their more affluent compatriots' voting preferences, as McKelvey and Ordeshook suggest at one point, unless they enjoy, for example, regressive taxes.[37]

The cumulative effect of all these influences defies straightforward quantitative summary. But, in general, there is no reason either empirically or theoretically to believe that the media do anything but exacerbate voters' problems in obtaining and evaluating reliable information.

We can, for example, dismiss the still fashionable notion that the media have "few political effects." Particularly if one gives up silly "1984" notions of Big Brother controlling everyone at election time, and thinks in terms of marginal influences on various percentages of the electorate (Robinson 1974), a wave of new studies suggests that this old chestnut is absurd. (Some studies suggest that the voters most susceptible to media influence are usually those who know the least, which, interestingly for money-driven political systems, turns out to be precisely those who watch the most TV. These are mostly middle and lower-middle class voters whose opinions as a result resemble not their similarly circumstanced compatriots, but upper class voters who do not watch nearly as much television.)[38]

As Erik Devereux has observed, for all the *rodomontade* about journalistic independence, what might be termed the "practical party identification" of newspapers and other media (indicated by which party's presidential candidates are normally endorsed; though these are often important less in their own right than because they have been shown to be correlated with other aspects of coverage [Wilhoit and Auh 1974]) is at least as stable and predictable as analysts of electoral behavior used to believe individual party identifications were.[39]

From an investment theory standpoint, none of this is surprising. In the United States and most other advanced post-industrial societies, most major media are privately controlled and a wave of pressure for deregulation is leading to the erosion of the few state-supported systems that still exist. As a consequence, one can generalize the investment theory's "Principle of

Non-competition" across all investor blocs within the party system into a "Black Hole" maxim applicable to the public sphere as a whole under "free enterprise:" just as large profit-maximizing investors in parties do not pay to undermine themselves, major media (i.e., those big enough to have potentially significant effects on public opinion) controlled by large profit-maximizing investors do not encourage the dissemination of news and analyses that are likely to lead to popular indignation and, perhaps, government action hostile to the interests of all large investors, themselves included.

This does not imply that such media will not sometimes print "bad" news—a newspaper that reports none at all is likely to lose credibility. Nor, as emphasized by a variety of recent empirical studies of politically significant differences within the media, does the claim imply that the press cannot be critical. It can, and it will, to the point of destroying presidencies, when major differences within investor blocs are involved, or, of course, when mobilizing against anti-investor groups. (As the recent upsurge of corporate-backed lawsuits and subsidized studies of "bias" in press coverage of oil spills, Vietnam, and other hot topics attests, however, rival investor blocs can hit back hard.)[40]

But all this "diversity" is diversity among large investor blocs. While greatly underestimated in contemporary social science, it will not necessarily do much for the average voter. Unions, the poor, and other groups who are not major investors cannot count on the press to present their cases. Indeed, if the major media are profit maximizers, all sorts of subsidized misinformation will be circulating in the press, even in regard to major public issues that appear to be "well covered." In the political equivalent of Gresham's law, bad information repeated by most of the major media may even drive out good information, and—via "Asch effects," "spirals of silence," or simple fear of ridicule—sow further public confusion.[41]

But, it may be urged in response, would it not, accordingly, be profitable for some individuals to attempt to organize new enterprises to improve the quality of the information and analysis available to them? Here, I fear, the answer is obvious, if rarely incorporated into empirical democratic theory.

Of course it will (or, as will momentarily become evident, *might*). That is why my original essay on the investment theory included the passages that McKelvey and Ordeshook take special exception to (1986, 934), on the importance of government policy toward the secondary organization of the citizenry—toward unions, cooperatives, etc. Precisely because these organizations have such revolutionary potential (in many senses), governments controlled by large investors have always been extremely sensitive to their political activities. That is why the history of labor or agrarian protest

cannot be reduced to a chronicle of attempts to raise wages or farm prices. It is also part of the reason why in so many parts of the world, including the United States, the specter of honest, free trade unions arouses so much passion—and brings forth such strenuous efforts from major investors and governments to raise the costs of starting or maintaining such movements. And the success of this repression in so many parts of the world is probably the major reason for the comparative failure of voter control in most existing states.[42]

In the case of new newspapers, additional considerations are relevant. Ginsberg's (1986, 135-37) historically sensitive discussion of the role of advertising (paid for, of course, by other investors) in reducing the news-stand and subscription prices of newspapers and magazines helps greatly to explain why almost all new publications that focus on politics are subsidized. As Curran (1982) documents, really aggressive papers have historically faced all sorts of other transactions costs, including (often groundless) libel suits and police harassment. And if, as has not been likely since the mid-nineteenth century, the owners successfully thread their way around all these hazards, at some point they begin to think like major investors themselves. Like the once "populist" Scripps-Howard chain, interest in the original mission withers (Lundberg 1946, 279-82).

From a purely theoretical standpoint, in addition, the public's prospects in a free market for information peopled only by profit-maximizing producers and totally self-interested consumers are even bleaker than indicated by existing discussions of "imperfect markets" for information. In strict, neoclassical logic, for political information such as we are considering, a market is unlikely to exist at all.[43]

Perhaps the most convenient way to demonstrate the point is to contrast two cases: first, that of a newsletter that accurately predicts the stock market; second, that of a magazine that attempts to inform voters about the political activities of the very same concerns, and perhaps, their relations with high government officials. The first has an obvious market and may expand rapidly. People will buy it, read it, invest on the basis of its reports, and make money, at least until word leaks out. In the other case, however, people buy it, read it, and then face massive collective action problems (Olson 1971) plus, commonly, direct repression and formidable transactions costs. While the social value of the information may be enormous, from a purely self-interested individual economic standpoint, there is no reason to purchase the magazine at all. All one gets is a headache, accompanied perhaps by long-term demoralization.[44]

The Origins of Systematic Error II: The "Subjective" Side

All these influences collectively constitute what might be termed the "objective" side to the genesis of systematic error—the part that is external to individual voters. But as hinted earlier, this comprises but half the story. No less important is the "subjective" side of this process—what individual voters add as they deliberate and attempt to act.

The literature in experimental social psychology is now quite clear that rational expectations, with its reliance on a single, unanimously accepted, unambiguous (and quantitatively formulated) true model, caricatures the way human perception and judgment actually work. Real-life human perception proceeds not only from "the bottom up" (by inducing from particulars), but also from the "top down," (i.e., from preconceived ideas). Frequently stereotypical, full of "false consensus," "anchoring," and "halo" effects, and relying extensively on "heuristics" of "representativeness," or "availability," human judgment can be shown to be highly fallible and not self-correcting in many clear cut cases in ordinary life (Hogarth 1980; Tversky and Kahneman 1974; Nisbet and Ross 1980). When group pressures and values figure importantly, the likelihood of major persistent error rises even further, not least because of a raft of perceptual anomalies that can seriously distort even simple physical comparisons of the relative sizes of everyday material objects (Tajfel 1981, chs. 5 and 6). A variety of other "cognitive illusions" also exist, including some that may cause special problems for voters.[45]

This does not mean that humans cannot respond sensibly to new situations. They can, and they do—particularly if they already have a clue as to the real nature of the situation they are up against, or if somebody takes the trouble to teach them how to respond appropriately (which often requires considerable time, not simply for purely intellectual reasons, but because human performance often has a motor aspect requiring some repetition, and always involves an appropriate level of emotional commitment). Not surprisingly, studies by Goodwyn (1976) and other analysts indicate that the real costs of equipping mass political movements with a reasonably accurate perception of how their political systems really work is enormous—which is one major reason why such developments almost always occur only during major social crises.[46]

The implications of all this for individuals can be summed up by observing that for all but the very simplest levels of human performance, successful human activity is a function of culture (Wyogotski 1985; Luria 1982). But "human activity in general" is an empty abstraction. What is real are humans acting in particular contexts (including the very abstract contexts

of mathematics and formal reasoning) with particular tools (including the great tool of language itself). As a consequence, without deliberate organized effort (that is very costly, since it involves some formal instruction) knowledge tends to be "local" and domain-specific. The so-called "transfer problem" (recognition of A should entail recognition of B, by voters and everyone else) is ubiquitous—and, normally, solvable only in culturally sanctioned contexts (Tulviste 1991; Laboratory of Comparative Human Cognition, 1983).

There is, accordingly, no contradiction in asserting that voters in an ordinary language sense usually do the "best they can" in investor-dominated systems, even if they rarely grasp the essence of a political system that few political scientists can describe correctly. As Granberg and Holmberg (1988) demonstrate, in the United States the quality of political information conveyed by the media, parties, and other institutions is wretched, even by the standards of other countries—which are usually nothing to be proud of. Moreover, as many recent studies of political "rhetoric" remind us, political commentary is far from a "random" stream of impressions. In most cases, it has been skillfully crafted to appeal to its audiences's prejudices and stereotypes—precisely the sort of material that the literature in experimental psychology suggests is difficult for most humans to see through under normal conditions (Bennett 1992).

Not surprisingly, in such an environment the everyday "theories" most voters hold about the political system rarely provide much help. Thanks to generations of hard work by investor blocs, most voters are usually saddled—this term is carefully chosen—with some high school civics textbook version of the median voter model, perhaps supplemented by almost endlessly manipulable personality-based accounts of high-level decision-making gleaned from popular novels, television, and, sometimes, the educational system—including higher education. Ignorant of alternative ways of thinking about either the polity or the economy, they often possess few general notions about politics at all.

But however inadequate these everyday theories are, they are usually well entrenched. In part, this is because voters, like the rest of the human race, approach reality with particular hopes, fears, and interests and a definite, historically circumscribed knowledge base, rather than behaving as statistically unbiased detectors that impartially pick up and decode every signal in the environment. In part, it is also because many mistakes voters make are luxuriantly encouraged by the very processes of social deliberation they are attempting to master.

Not surprisingly therefore, voters share the general human tendency toward "overconfidence" in judgments. They stick with bad interpretative

theories far longer than they rationally should (Hogarth 1980). Even when everyday life is breaking up, nothing resembling impartial hypothesis testing usually results. The set of alternatives is normally restricted to proposals that grow naturally out of the previous era's elite discourse. In turn, the high costs of inventing serious, credible new hypotheses that are worth sticking one's neck out for compounds the problem, since, as Thomas Kuhn (1970) noted, even scientists rarely break with existing theories without a well developed alternative to sharpen their perception and give them confidence. And, of course, the sheer massive fact of political repression often overrides everything else.

When Retrospective Implies Retrograde

There remains only the argument in the literature on "retrospective voting" as a challenge to the investment approach. At first hearing, this view sounds very plausible: voters may not know or care very much about the particulars of governing. But they still should be able to decide whether or not they like what the governing party has brought about. Members of the electorate, accordingly, have a perfectly sensible basis for casting their ballots. If they like the effects of the incumbent's policies, they vote for him or her. If they don't, they throw the rascal out. As Fiorina (1981, 12) has argued: "What policies politicians follow is their business; what they accomplish is the voter's."

This innocent sounding proposal, however, suffers from two grave drawbacks. The most fundamental is apparent from the aforementioned case of the textile magnates confronting a 97 percent majority in favor of unionization. I noted then that merely multiplying parties did nothing to solve the electorate's problem. The situation with regard to expelling a series of incumbents is similar.

By installing a swivel chair in the Oval Office, voters can ensure the circulation of the elite's representatives. But they do not thereby achieve circulation of the elite in a world in which money matters: if, for example, voters want unions, they still need a pro-union party. Otherwise, all they get is a fresh (and affluently rewarded) face and timeworn (pro-textile) policies. Nor is this a purely theoretical deduction from airy first principles: as more than one electorate in American history discovered, to ensure a break with persistently deflationary macroeconomic policies, it is essential to find someone willing to try out a genuinely new policy. Otherwise, all voters can do is substitute Grover Cleveland (whose closest advisors included J.P. Morgan's principal attorney, and who himself spent the period between his first and second presidential terms in Morgan's law firm) for Benjamin

Harrison (backed actively by J.P. Morgan, Wanamaker, & Co.), and then dump him for William McKinley (also backed by J.P. Morgan, Wanamaker and an almost wall-to-wall coalition of finance and industry). Or, as almost happened in 1932, the populace will be asked to hail as the alternative to Herbert Hoover the honorable Newton D. Baker, Cleveland bank attorney and counsel to the Federal Reserve System that was strangling the economy![47]

There is another problem with the notion of retrospective voting. Like McKelvey and Ordeshook's "rational expectations" argument, the notion simply slides past the real life political economy of information. For at bottom, the view takes voters' judgments of a regime's policy success to be essentially incorrigible. It thus succumbs to what might be termed the "fallacy of immaculate perception."

Considering the amount of political commentary that is concerned with managing perceptions of past policy, this is difficult to abide. It was Friedrich Nietzsche (1957) who observed, in his celebrated essay "On the Use and Abuse of History," that a culture's ability to function was essentially bound up with the view of the past it maintained. In the twentieth century, Nietzsche's point has been seized upon by any number of regimes, think tanks, and foundations. They have grasped keenly the logic of making massive investments in the rewriting of history—with results visible to all, not least in the fluctuating answers recorded by pollsters to questions about the reputations of former presidents and candidates, and policy questions, such as exactly how successful the War on Poverty really was, or how the economy responded to the Reagan tax cuts.[48]

Such facts are a warning that eternal vigilance is likely to be the least of the costs of democratic control of the state. In politics, as in the economy, voters get what they pay for—or else investors do, exactly as my original paper argued.

NOTES

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Some arguments in this paper date back to my "Deduced and Abandoned: McKelvey and Ordeshook's Rational Expectations-Augmented-Myth of the Median Voter," a paper presented at the Conference on Politics, Information, and Political Theory, 13-15 February 1986, University of Texas, Austin.

[1]Bronson Cutting to John T. King, 4 September 1919, Bronson Cutting Papers, Library of Congress, Box 4. This letter also briefly discusses how ethnic politics fitted into this pattern. H.J. Hageman to Cutting, 9 February 1920, in Box 5 suggests that Cutting's was the only sizeable paper in the state not clearly affiliated with the mining companies and their allies.

Note that strictly speaking, Cutting's missive deals with intra-party competition. But the Democrats were no different—indeed, the New York based chair of Phelps Dodge, Cleveland Dodge, was one of the most prominent Democrats in the U.S. and a close friend of President Woodrow Wilson.

For reasons of space, this paper attempts to provide the minimum of documentation consistent with precision of argument; references are therefore collected, whenever possible, and inserted into a single note.

[2]The warning is in the Hageman letter cited above.

[3]The classic account of the median voter is that put forward in Downs (1957); there have been many restatements and refinements since. See also the lucid discussion in Barry (1970, Ch. V), and, for a later treatment, McLean (1987, 49-50).

[4]This paper was originally quite long, and had to be divided for publication. Its first part appeared as Ferguson (1986).

[5]McKelvey and Ordeshook (1986) references several other essays they wrote on the question of democratic control of the state. The "retrospective voting" objection has not appeared in print, but ever since the 1986 panel at the Texas conference referred to above at which McKelvey, Ordeshook, and I all appeared, it has been advanced informally by various commentators, as have the other objections mentioned in the text. Perhaps the best known general statement of the retrospective voting view is Fiorina (1981).

It may also be worth mentioning that after McKelvey and Ordeshook performed some experiments with a median voter model of elections, Gavan Duffy designed and carried out several from an investment perspective. Though all these are interesting, it is difficult not to be skeptical of their ecological validity.

[6]This discussion draws very slightly from Ferguson (1991b, 496-98). It should not be necessary to caution that the discussion below is informal. But the critical points should nevertheless be clear; I certainly see no point to attempts to specify a minimum dollar amount for when "money matters." Note, however, that Ross Perot, the walking incarnation of the investment theory of political parties, appears to have spent rather more than sixty million dollars in his two very brief campaigns in 1992, and that every single major losing candidate in the 1992 Democratic presidential race was forced to quit the race for lack of funds before being finished off electorally in the primaries. Serious campaigns for the White House, accordingly, now seem to require a hundred million or so to go all the way—and that is a low estimate that takes no account of the "free" publicity that true insurgent candidacies are rarely afforded.

One other point about the example may need to be emphasized—the language about voters choosing a general rate of unionization is chosen carefully to avoid a variety of formal complications that would waste considerable time and distract from the essence of the argument. For the average semi- or unskilled worker, in any case, the treatment is probably quite realistic.

[7]So far, the discussion is about one issue. But if no one can speak affirmatively to it, voters would end up flipping coins to decide for whom to vote, or the candidates would start competing on who has the best smile, or whatever. Such moves would amount to adding "issues." Filling in these details would clutter the exposition, so I omit them.

[8]This notion of "replacement cost," in my opinion, is basic to discussions of competition. It clearly varies with the overall state of the political system—an unpopular incumbent, for example, might have a lower replacement cost.

[9]The truly significant assumption here is that information that is immediately recognized as reliable does not flow instantaneously and costlessly from candidates to voters, who are otherwise clear about what they want. Of course, this broad condition, which certainly fits our world, is precisely what brings parties into existence in the first place. Parties, in this respect, resemble banks,

which depend for their existence on the fact that funds do not flow effortlessly from savers to investors as they would in a "perfect" credit market. Note also that, depending on how one defines terms, even in such a "frictionless" world, information costs may not exhaust the obstacles facing voters; there might exist various transactions costs, for example.

[10]Ferguson (1986) discusses various contradictions reflected in different versions of realignment theory. The reference to the New Deal is not casual, though in that case, class conflict squeezed the capital intensive party to change its initial offer. See Ferguson (1984, 41-92); Ferguson (1991) presents detailed quantitative tests of the earlier paper's central hypotheses.

[11]Here a caution is in order. In outlining how adding issues can help investor blocs, I am *not* suggesting that these additional issues are necessarily "pseudo" issues. Each concrete case is different, but as discussed below, the general case is likely to be one that is consistent with the evidence from experimental psychology that people are often poor judges of everyday events and the "black hole" maxim that applies to the public sphere in market societies. Typically, in other words, plausible arguments are overstated, and alternatives are underplayed or suppressed. This "cultural-historical" emphasis on social factors in cognition itself sharply differentiates the investment approach from "rational choice" theory.

[12]The sectional interpretation of American history was long a mainstay of political history, but until recently it cut little ice with political scientists. In many respects, however, the revival of interest in regionalism is a giant step backward theoretically, for in treating regions as homogeneous, all the important questions of class, race, ethnicity and gender are dodged. Save perhaps in a few cases of peripheral nationalism (largely outside the U.S.), in which virtually the whole of some large social group has been mired for generations in relative poverty, it can be taken as a rule that where regionalism dominates a political system, other basic cleavages are usually being suppressed.

[13]Perhaps I should note that while I think very well of Harris' work, the "cultural-historical" approach to language and cognition discussed below is quite different from "cultural materialism."

[14]"Discourse" is a term that means many things to many people. But it is now used widely to signal a commitment to a view that meaning is an attribute of texts, with no necessary (or, sometimes, possible) relation to a larger world. In my view, this is entirely wrong even as an empirical theory of reading, which is a practice that always requires the reader to draw on his or her knowledge of the world even to get started. See, e.g., Cole (1990).

[15]Thus a classic study by Warren Miller and Donald Stokes (1966) of constituency influence in Congress found a fairly strong correlation between a district's views and its Congressional representative's record on racial issues, but only a weak fit between the district's economic views and the representative's record. This result is exactly what an investment approach would predict, but, somehow, the paradox has never been assimilated into the discipline. We may also note that in many instances where new issues are being invented, the target group is likely to be very far from median voters. Thus, for example, in the 1980s, the basic GOP strategy for the White House was rather clearly to appeal broadly to wealthy Americans, while trying to splinter blue collar Democrats around race, gun control, pornography, etc. For this to work, the economy had to be reasonably strong and the Democrats had to avoid strong cross-cutting appeals to social class or New Deal issues and efforts to raise turnout. Ferguson (1993) and Ferguson and Rogers (1986) analyze in detail how Democratic investor blocs blocked such appeals, thereby "winning" even as they "lost."

One other point, for clarity: note that adding issues never amounts to a step back toward the median voter, in the sense that no money-driven party can afford to add an issue that all investors abominate. I repeat this point, which is implicit in the main text, because some readers have suggested "synthesizing" the investor approach with the median voter view, or trying to show "how much" each is true in a concrete case. Alas, this catholicity is inconsistent: for voters to control the state, either they organize and pay the costs, or money grows on trees.

[16]Readers dubious about the "invention" of other issues should consult Hobsbawm's "Mass Producing Traditions: Europe, 1870-1914," in Hobsbawm and Ranger (1983), and his devastating recent book (1990). For evidence on voters' desires, see Kelley (1983). A very stimulating analysis of rhetoric and the investment approach is Bennett (1992).

[17]Lippman's writings and viewpoint are well known, but my own examination of Lowell's papers at Pusey Library, Harvard University makes it clear that Lippman, who was a student at Harvard, wrote up ideas that Lowell had already put in the air. (The conservative Lowell was President of Harvard and heir to a large textile fortune.) On public opinion, for NAFTA, see Ferguson (1993); for the Reagan-Bush right turn, see Ferguson and Rogers (1986, Ch. 1); for jobs vs. the deficit under Clinton, see Schneider (1993); other sources report even bigger majorities. There are no doubt ways to frame the questions about Clinton's budget to show lower numbers but no poll suggests that the population would rather have a higher rate of unemployment and a lower deficit, even if some polls suggest many voters might choose more budget cuts over higher taxes. (The latter question, in my judgment, is highly manipulative when asked in isolation.)

[18]On marginalization, see especially Bennett (1989). On the controversy over public opinion and the right turn, cf. Page and Shapiro (1992, 169-70), whose well-nigh exhaustive review of polls over time concludes that "Ferguson and Rogers are correct, therefore, in arguing that the policy right turn of the Reagan years cannot be accounted for as a response to public demands." On the *Times* and Nicaragua, see Bennett (1989) for an excellent discussion. Note that his "institutional voice" really amounts to "investor voice."

[19]Most of these cases are well known, but for the little known Harding quote, see Downes (1970, 86).

[20]For the necessary cautions, see Ferguson (1991b and 1992). Note that this paragraph's suggestions presuppose a prior assessment of the level of popular organization—that yields a rough estimate of how much control ordinary citizens can afford to exert over the system.

[21]See e.g., Rude (1959); E.P. Thompson (1968); the *Annales* group has produced more work than can possibly be referenced here.

[22]On linear models in psychology, see especially Dawes (1988, 202-27). Ajzen and Fishbein (1980, 192) claim that campaigns normally give voters highly accurate information on candidates by election time. But this is easy to refute. See the works discussed below, or Center for the Study of Communication (1992), which shows, for example, that large numbers of voters greatly overestimate the number of children welfare mothers have and in general, possessed little true information about any candidate in 1992. They did, however, know the name of George Bush's dog. This imaginative piece of research should embarrass a large number of far better-funded political scientists.

One should also note that Kelley himself observed that his model was virtually equivalent to one developed by Brody and Page (1973).

[23]Especially their findings that the turnaround in voters' ratings of the Democrats in regard to economic issues is the largest single cause of the party's decline—not race, or crime, or any other issue, including religious fundamentalism. This is why the dominance of the investment houses and other forces in the party committed to austerity since the late seventies is so significant for the party's electoral chances: they block more attractive economic appeals.

[24]This is implied in Kelley's and Geer's tables, though there is perhaps minor ambiguity about how to correlate issues with responses. But more of this another time—the population clearly has multiple reasons for its votes.

[25]Almost every poll now finds very large numbers of Americans suspicious of the role money plays in the system. Kelley, Ajzen and Fishbein, and Geer all present data that raise questions about consistency, though all consider the question only briefly. Perhaps the best overall treatment of this question is Granberg & Holmberg (1988, 27-37).

[26]The latter is particularly vulnerable, to judge from the literature on decision making cited below. People, in general, are poor judges of probabilities, and often don't think stochastically at all.

[27]On the increasing difficulties of rational expectations in economics, see Sheffrin (1989, 133ff.) and Shiller (1989), among a large and rapidly growing literature that only incompletely assimilates the various failed European efforts to introduce "credible" macroeconomic policies in the 1980s. (The American failure at the start of the 1980s has been taken to heart, in many quarters.)

My own coauthored work on stock markets turned up clear evidence that adjustments to unexpected developments were far from instantaneous (Epstein and Ferguson 1991, 195, n16).

Within political science, the discussion of such questions would be much easier if works like Lavoie (1993) were better known.

[28]In section 3 of their paper, McKelvey and Ordeshook do present a model of campaign contributions that is specifically aimed at the investment theory for which this is not true. But that model is outlandish, in that only turnout is affected by contributions and politicians cannot keep any of the money. Both of their really interesting models work by giving the electorate full information equivalents.

[29]For Brown, see Ferguson (1993). The eight million figure is an estimate that assumes that many bills that were paid in June were run up in May, as was surely the case.

[30]See e.g., Lave (1988). Her discussion of shopping is highly relevant to McKelvey and Ordeshook's suggestions. The literature in Hogarth (1980) on the role errors in memory play in systematic mistakes is highly relevant to any example in which people are expected to compare polls over time.

[31]This literature is enormous, but see the references below.

[32]The Bay of Pigs case is now well known; for Bonner, see Wypijewski (1990, 14) and Parry (1992, 208-09); for Schanberg, see Lee and Solomon (1991, 21-22). For other cases, see Herman (1992) and Herman and Chomsky (1988).

[33]For the participation claim, cf. the discussion of unpublished data supplied by the Gallup Poll in Ferguson (1989, 101, n3); see also Ginsberg (1986, 198-99). For an even more striking case involving the *Washington Post* and the number of voters Jesse Jackson helped register see Ferguson (1991a, 253, n24).

[34]I owe this point to Dr. Erik Devereux, who pointed out to me various media interviews during the 1992 campaign, in which news editors themselves drew connections to decisions on coverage, polls, and large amounts of early money. See Ferguson (1993) for a discussion with detailed references to a critical incident in the 1992 Clinton campaign when fundraisers deliberately aimed to signal the media and other elite groups, and helped save the campaign.

[35]Most studies of newspaper reporting of polls end up concluding that newspaper coverage of polls is at least moderately biased in favor of candidates that the paper endorses. See e.g., Wilhoit and Auh (1974).

[36]On the Democrats, investment houses and alleged "special interests," cf. Ferguson (1993). Public promotion of dubious cues is certainly no nineteenth century phenomenon. As I finish a draft of this paper, the Boston papers are touting a possible set of ethnic-based mayoral candidates with an elan that recalls Henry Adams' famous characterization of Massachusetts politics as the systematic organization of hatreds.

[37]The vast literature on the diffusion of innovations identifies one pattern as characteristic: that lower status individuals often copy higher status people. See Rogers (1983, 153, 206, 215ff). For voters concerned about political economy, relying on such cues is often clearly irrational, unless one is prepared to swallow "supply side" economics whole. The example, however, is a good example of how the group process of self-informing touted by McKelvey and Ordeshook (1986, 926) easily goes off the rails.

[38]For TV, voters and knowledge, see Ginsberg (1986, 146-48); for the limits of the "limited effects" literature, see e.g., Page, Shapiro and Dempsey (1979). Chapter 9 of Page and Shapiro (1992, 365-66) has a good empirical survey of some of the biases in the media, though its claim that the world of think tanks and research institutes is highly decentralized is mistaken from an investment theory standpoint. Virtually all such institutions are highly subsidized by a very small percentage of the population—the very wealthy.

[39]The point, suggested to me by Devereux, is obvious, if one notices in such older accounts of the press as Lundberg (1946).

[40]See e.g., the discussion and references in Ferguson and Rogers (1986, 104, 248, n50).

[41]The “Asch effect” refers to Solomon Asch’s famous experiments, in which individual dissenters or small minorities were induced to change their views to conform to a larger group’s opinions—even on matters that were plainly and obviously dead wrong. The “spiral of silence” refers to the discussion started by Elizabeth Noelle-Neumann (1984). (It is an effect, I believe, that does exist, but is normally fairly small in voting democracies.)

[42]At the 1986 Texas conference, where I first presented this analysis, Peter Aronson responded that unions would be able to borrow all the finance they required in (perfect) credit markets. But this is not only empirically false, it is theoretically mistaken. For exactly the same reasons that investors do not promote political parties favoring a dangerous degree of unionization (the reference is to the limited “New Deal” case discussed above), they would not rationally make direct loans to unions either.

[43]E.g., Page and Shapiro (1992, 397), who recognize that the market is less than perfect.

[44]This conclusion, I think, should lead one to investigate changes in the “non-profit” sector over time and their relation to the diffusion of political information. Were there space enough, it would also be desirable to look a bit more closely at the notion of self-interest, though only subsidized academics would dream of arguing that self-interest in a very crass sense is not a basic feature of the existing world economy.

[45]Compare, for example, Langer (1975) on the “illusion of control” with Ginsberg’s argument and data (1982, 165ff) that the act of voting by itself tends to produce the feeling in citizens that they control the state. The work of James Gibson on perception and context suggests a variety of quite specific illusions which may be important in electoral contests, but I lack the space to develop the point.

[46]Some critics of my earlier paper have objected that poorer citizens can always contribute time instead of money. But if one imagines costing out all the time contributed by the people described in Goodwyn, the amounts are still enormous. The point emerges with even greater clarity if one also tries to value that time at the wage rate prevailing for unskilled labor, which would be the appropriate price for most campaign work.

[47]For Morgan and his associates in these quite complicated elections, cf. Josephson (1963, 423ff) and Burch (1981, 97); for FDR’s narrow convention win, see Rosen (1977, ch. 10).

[48]One other point may be relevant on the logic of retrospective evaluations. In refusing to look forward at all, retrospective theories end up throwing out too much valuable information, even if it is difficult to assess. Anyone who tried to buy stocks purely off past records would suffer far more losses than necessary if he or she never glances ahead to, say, the condition of the macroeconomy.

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