**Do people really lack knowledge about the economy? A reply to Facchini**

*Abstract*

*Facchini uses a behavioural approach to analyse the political beliefs of French people, who he believes are ‘more or less incompetent’ in economics. In this article I focus on his premise that the public are incompetent and therefore that their views, such as being opposed to the market in the case of the French people, should be interpreted as ‘perception bias’. Other economists may echo Facchini, claiming that people who voted Leave in the UK and for Trump in the USA did so because their lack of economic knowledge contributed to an ‘anti-foreign bias’. However I argue here that the existing empirical research showing people lack economic knowledge is flawed.**Many economists adopt a questionable approach to the interpretation of public knowledge and the evaluation of what knowledge is important.*

There is a set of arguments in neoclassical behavioural economics, put most forcefully and originally by Bryan Caplan in his 2007 book[[1]](#endnote-1), which develops the claim that mistaken beliefs and cognitive ‘biases’ affect political as well as individual behaviour. These mistakes and biases cause the public to lend support to government policies that will ultimately make them worse off. Caplan claims, from research conducted in the USA, that people who lack economic knowledge exhibit four systematic biases; they tend to be anti-market, anti-foreign, ‘make work’ (prioritising employment over growth) and pessimistic. The less people know about economics the more they demonstrate such biases. In the accompanying article Facchini takes Caplan’s arguments to France, and finds in the characteristic beliefs of the French public plenty of evidence of incompetence in economic affairs and a strong anti-market bias.

Facchini applies neoclassical economic theory on public knowledge as follows. He claims that in general French people know very little about economics because they score poorly in multiple choice style tests that ask what the current rates of inflation and unemployment are and the ratio of GDP to public spending. This lack of knowledge reduces their capacity for economic reasoning. It contributes to them resisting the factual evidence he presents, that the percentage of GDP spent on welfare has increased, the tax burden has increased and is still redistributive and inequality has increased only ‘very slightly’. The public’s desire for increases in welfare spending despite this evidence proves they have a broad anti-market bias.

I interrogate whether he is right that the less people know about economics the more they exhibit biases such as being anti-market and anti-foreign. First I ask, what does the existing empirical research tell us about public economic knowledge? Economists like Caplan and Facchini say it is low overall, but can they draw that conclusion from the empirical research? Second, I explore how the behavioural approach Facchini uses downplays the importance of reasoning and voters’ attempts to evaluate governments’ performance.

Third, Facchini’s claim that having anti market views amounts to a perception bias is based in part on the public’s lack of understanding of underlying economic laws. He implies that if they knew the laws as he knows them, then they would correct their bias. I suggest that economists should declaim less about the lack of public knowledge of ‘below surface’ economic laws, which are in reality contested by economists, and focus instead on identifying how the public might learn about ‘above surface’ economics. More accurate ‘above surface’ knowledge is a good enough basis on which to evaluate economic policies, and it can be improved.

**What economic knowledge do people have?**

Fuelled by recent economic turmoil and the perceived rise in populism, the broader issue of public economic knowledge and the prospects for democracy is growing in importance. There is a significant difference in years in education between Leave and Remain voters and Trump and Clinton voters which may lead social scientists to assume, explicitly or implicitly, that this translates directly into a knowledge divide. Therefore it is more important than ever that any such claims are based on a thorough interrogation of the theoretical and conceptual underpinnings of research on public economic knowledge.

Caplan shows from a series of multiple choice style tests in the United States, repeated on a more minor scale in Europe, that people’s knowledge of key factual economic knowledge has stayed low since testing began. The low scores have not shifted despite improvements in education and the financialisation of people’s lives. The lower people’s scores on knowledge tests, the more they display biases such as systematically favouring anti-market or anti-foreign policies. Facchini draws on this when he argues that French people possess a perceptive anti-market bias in part because they score badly on the empirical economic knowledge tests.

Empirical research on public economic knowledge should be varied. However most of the empirical research on knowledge that Caplan and Facchini rely on is constructed as follows. The (usually neoclassical) economist concerned decides which five, ten or twenty bits of factual knowledge are most important and constructs a multiple choice style test. He or she includes some questions about indicators like the current inflation rate, some about basic definitions like deficit and some about connections or effects of indicators.

But do these tests conclusively prove that, as Facchini puts it, people are incompetent in economics? The research design and purpose of multiple choice tests of factual knowledge is limited. First they tend to fetishize precise knowledge of statistics, such as the exact inflation rate, rather than understanding. They do not provide conclusive evidence about how people *use* correct knowledge of the statistics at election time. In the political knowledge field more work has been done on practical knowledge, and it suggests that someone who does not know the correct percentage rate of inflation but does know whether it is rising or falling, low or high, may still be informed enough to make a political judgement[[2]](#endnote-2). My research (forthcoming)[[3]](#endnote-3) indicates that off the cuff statistical knowledge is low overall but also that understanding, or even interest, is not always correlated with accurate statistical knowledge.

It is arguably more worrying that the tests show people do not understand *terms.* A recent You Gov poll in the UK showed only 39% of respondents could define GDP, a term that is used constantly in economic policy debate, and 57% could not define the (fiscal) deficit despite the fact that its level was much discussed in the 2015 election campaign. 61% of those who voted Conservative in the 2010 election thought their party planned to cut the total debt rather than the deficit[[4]](#endnote-4).

A second criticism of the tests is that they are elitist. In terms of *who* knows, the tests consistently show the educated and male tend to know more, and that income is also positively correlated with economic knowledge. However, the apparently knowledgeable, educated, wealthy man may just have greater familiarity with the terms of reference and content of the tests. The tests often have little bearing on lower income citizens’ experience. For instance questions about policy interest rates or share prices may relate meaningfully to the experience of people on high incomes; those on lower incomes may have better knowledge of pay day loan terms or the minimum wage.

Where more imaginative qualitative research has been done, for example by economic psychologists, it is instructive but often from too neoclassical a perspective in terms of interpretation and categorisation of findings. For instance interesting research into public attribution of responsibility for the 2008 crash was marred by the categorisation of the belief that capitalism and globalisation caused 2008 as ‘less knowledgeable’ while viewing it as a ‘cyclical downturn’ was ‘more knowledgeable’.[[5]](#endnote-5)

There is very little research of economic knowledge that asks people to state what they know about a topic in their own words, which would find out what they do know rather than what they don’t. My forthcoming research does use this bottom up approach, based on interviews rather than checking multiple choice boxes, and indicates the picture about ‘who knows’ and ‘who knows what’ is far more nuanced. The wealthier and more educated, despite usually having more knowledge of what is in the media, do not necessarily pay more attention to the whole range of economic indicators than the less educated. In many ways what characterises the approach to economic knowledge of each group is self-interest, connected with their respective social conditions.

Some economists do consider the possibility that knowledge may vary between social groups. Bischoff and Siemers[[6]](#endnote-6) propose a ‘mental models’ approach based on the premise that people’s different social experiences may cause them to develop different models for processing economic information. Applying the mental models of different social groups to the issue of migration, it may be the case that lower income people who have experienced a recent increase in migration in their occupation at the same time as stagnant or worsening pay and conditions, may reach a negative conclusion about the economic effects of migration. A higher income person who has either not experienced the job competition or believes any personal costs from free movement are worth paying because they or family members could benefit from working abroad, may reach a more positive one.

This approach, of research that allows for exploration of differences in what social groups believe they know, needs further development. Relatedly, much neoclassical based research on economic knowledge does not take account of regional variations in knowledge. More supplementary qualitative research might allow people to express what they know about their local economy, which economists producing aggregated national analyses often miss.

Open ended bottom up research, including by political scientists and sociologists, of what people believe they know, would add to the findings from multiple choice tests to give a fuller picture and allow us to be more certain about estimates of the level of knowledge. It would give a fuller understanding of the *dimensions* of knowledge. I am not arguing that citizens have an educated expertise in economics or exact statistical knowledge, but they do have an understanding of how the economy has impacted and continues to impact on their lives. Too many economists do not seem to have understood this or been open to the possibility that they themselves might learn from listening more to people’s everyday economic experiences.

**Do people reason when voting?**

Is Facchini right that in supporting anti-market policies the French people are not reasoning but are instead expressing their deeper values, knowing there is no cost to doing so because their vote is never going to be decisive? There is one answer to this which is to refute the paradox of voting theory. Some political scientists like Gerry Mackie[[7]](#endnote-7) do this convincingly by arguing for a contributory theory of voting. People do believe their vote will be decisive because they care how much their side wins by. This strikes a chord with public debate in the wake of the recent UK referendum result. The figures of 52% and 48% are constantly referred to, figures that would have resonated differently if they had been 50.1 and 49.9%. Mackie rightly concludes more broadly that, as well as wanting their side to win by a margin, people have a broad sense of civic duty which means they do not see voting as a costless exercise.

However, the element of Facchini’s argument I want to focus on is whether he is right that people’s desire to express their feelings in the ballot box is stronger than their desire to reason. He brings expressive utility theory in here, which posits that in a situation where there are no costs people will enjoy expressing their sentiments, such as an anti-foreign one, because it affirms their cultural identity and takes less effort than reasoning. Facchini attaches a lot of importance to how both religion and ideology reinforce this tendency in people. However, he does not convince me that the expressive utility will play a large part in voting behaviour, given that most people do not have strong ideological beliefs. The utility that such a person gets from voting for protectionist or pro-welfare spending policies is not comparable to the utility a strongly religious or ideological person derives from expressing the biases associated with their belief systems.

There is not much room in Caplan and Facchini’s models for people to use mental processes or chains of reasoning to evaluate political alternatives. Instead their permanent lack of knowledge links with their expression of permanent biases, and these biases appear as stand-alone phenomena rather than outputs of reasoning. Their model runs counter to other strands in economics and politics, such as the mental models approach which sees people as having simplified representations of the economy in their minds rather than biases. Here, the inputs people choose to load into their mental models may be biased but there is a reasoning process, however flawed.

In political science there is an authoritative school that argues many voters do not approach economic issues ideologically but as ‘valence’ issues. They reward governments for strong economic performance and punish them for weak performance[[8]](#endnote-8), regardless of ideology. Facchini’s main comment on this is that people lack the knowledge to make a competent evaluation of governments’ past performance. However they may still *strive* to evaluate, in which case his notion of biases that are very persistent whatever the economic conditions is undermined.

Furthermore, Facchini’s argument is not robust in the face of changes in voting behaviour. The anti-economic liberal establishment vote has risen, but persistent biases and the utility of expressive behaviour are presumably unchanged. If we accept that changes in voting are at least in part a slow response to difficult economic conditions since 2008 and the twenty year stagnation in wages and conditions for the lower income groups, it follows that voters are engaged in reasoning of some kind. Some people may have changed their perception of the competence of liberal economic incumbents and the policies they espouse, such as free trade and movement. They may be remembering that leading economists and politicians told them we would recover from 2008 within a few years or that growth always trickles down, and they are increasingly distrustful. They are reaching evaluative conclusions, however wrong economists and others may think they are, rather than exhibiting perceptive biases.

**Below and above surface knowledge.**

Facchini’s approach relies more on psychology than Caplan’s; he contends voters’ anti-market bias is reinforced by mainstream academic and religious opinion, which in France tends to be anti-capitalist. However his approach still relies on Caplan’s strand of rational choice economics in the way he justifies categorising views as perceptive biases rather than just sets of beliefs. Facchini characterises wanting to spend more on welfare as anti-market. Caplan characterises support for protectionism (we could add migration controls in the UK context) as anti-foreign. In their eyes these are not reasonable policies to support. They rely on what is often called ‘below surface’ laws of economics to justify their conclusion that such beliefs amount to biases.

Caplan has proposed that economic knowledge can be conceived as divided between ‘above’ and below’ surface knowledge. ‘Above surface’ knowledge is what is visible to anyone from close acquaintance with publicly-disseminated economic information. It includes economic statistics and indicators, and basic relationships between phenomena and policies. In contrast, ‘below surface’ knowledge refers to the laws and principles of economic theory that are only visible to those who have learned economics. Whilst non–economists might argue that accurate ‘above surface’ knowledge is enough to enable someone to make an informed evaluation of economic policies, Caplan argues that even the best ‘above surface’ informed citizen does not count as knowledgeable if they lack below surface knowledge. This lack of ‘below surface’ knowledge results in permanent biases in the beliefs of non-economists, and these biases are cognitive or perceptive rather than (for example) primarily social, affective or psychological.

The first step in Caplan’s theory is the claim that not knowing below surface knowledge amounts to a kind of permanent ‘meta’ bias. He argues that if all a person does is to observe the economy ‘above surface’ then by definition they have a cognitive bias: as Lomasky puts it, ‘a disposition to lend undue weight to what is readily observed at the expense of appreciating what is below the surface’[[9]](#endnote-9). Because below surface theoretical underpinnings, concepts and laws of the economics discipline are mainly counter-intuitive, they have to be ‘drilled’ into economics students. Therefore, unless there is an explosion in the number of people taking economics degrees (school level economics does not drill hard or long enough), the lack of below surface knowledge in the population is unlikely to change.

The next step in the theory is that the ‘meta’ cognitive bias of not knowing what is beneath the surface spawns four specific cognitive biases. The public’s anti market bias arises because whereas economists are trained to view the economy as a non-zero sum game and a pie that can grow, non-economists tend to see economic exchange as zero sum and the economy as a fixed pie. Whereas (neoclassical) economists believe lack of intervention in the market will lead to growth of the pie and that the growth will trickle down, the public’s perception of the pie as fixed makes them more likely to focus on how shares in it are distributed, leading them to advocate interventions, such as welfare spending, that in the economists’ eyes are counter-productive because they inhibit growth.

The public’s ‘make work’ bias arises because whereas economists believe increasing production is more important than employment and that it can be better to conserve labour, the public believe it is always better to keep people employed and tend to have a bias in favour of ‘making work’ when evaluating policies. For instance they usually oppose downsizing. The public’s ‘anti foreign’ bias arises because whereas economists know the theory of comparative advantage means that exchange such as trade in goods or free movement is mutually beneficial, laypeople are more likely to believe exchange between countries is a zero sum game in which one country will come off worst. Their failure to understand that trade and free movement of workers can lead to all countries becoming richer will therefore lead them to possess an anti-foreign bias that may reinforce deeper affective or psychological biases such as fear of the other.

Economists are also less pessimistic than laypeople, who tend to over-estimate negative indicators and be gloomy about economic prospects. In the aftermath of 2008 the public were more pessimistic than economists about the chances of recovery, unfortunately one case at least where it could be argued they were right.

Neoclassical economists derive the high status of below surface laws from the claim that most economists believe in them, implying that they constitute a corpus of scientific principle similar to that underpinning physics. However, the existence of an economic consensus is not accepted within economics itself. Earle et al[[10]](#endnote-10) argue that even neoclassicals sometimes accept changes to below surface laws; for instance many now accept the theory that money is created by private banks when making loans rather than originating from central banks. In the past, economists accepted more readily that their discipline was divided. Earle et al argue that whilst neoclassicals constitute a majority, there are at least ten different economic schools, some of which dispute neoclassicals’ underlying principles.

However the more significant division may not be between those who support the neoclassical approach and those who support more heterodox ones but within neoclassical economics, between those who rely on formal mathematical models and those who emphasise real life conditions. For instance, Facchini believes increased spending on welfare will damage growth, but mainstream economist Peter Lindert’s analysis of the actual growth rates of high welfare spending countries shed doubt on that connection. For Lindert the below-surface economic laws that propose that social programmes reduce growth 'overuse imagination and assumption'.[[11]](#endnote-11). Some economists are therefore less inclined to rely on below surface laws to design models that do not correspond to real life.

Facchini elevates the importance of behavioural factors such as the effect of majority opinion in his analysis. However at the root of his approach is the same rational choice connection of Caplan’s: that any beliefs that contradict the below surface laws of economics by definition count as a bias, and are also by definition based on lack of knowledge (of neoclassical economics).

**What public economic knowledge is important and achievable?**

Caplan’s conclusion is that public economic knowledge is low and the public are so attached to their permanent biases they will not get better at evaluating economic policies. Therefore, given that an increase in below surface knowledge through economics degree level education is unlikely, government has to start doing less, the prescription that accords with his own libertarian economic principles. It is not clear whether Facchini believes French people could ever become more economically knowledgeable; he believes in the voting paradox and accords high importance to majority left-wing opinion which he sees as deeply entrenched, so in his eyes the chances are probably low. For those who believe either that the public do already know more than they are given credit for or have the potential to know more, this is too bleak a scenario.

However, if neoclassicals are wrong about the importance of below surface economics then we can argue that people could, at least partially, evaluate economic policies on the basis of better above surface knowledge alone. Facchini himself should applaud this, as it is the lack of above surface knowledge of spending that he deplores. But *how* might people’s above surface knowledge of this highly complex subject improve? Here I make four proposals.

First, the research shows that in many cases people do not understand simple economic terms. However politicians, economists themselves and the media could strive harder to explain terms clearly, for example by not eliding debt and deficits. Any regular listener to the Radio 4 programme *More or Less* will know that public figures are often responsible for statistical and terminological confusion.

Second, people may feel justified in ignoring statistics which have been manipulated. My research shows that participants from all social backgrounds distrust unemployment statistics which they believe have been massaged for a long time. The more politicians and economists can maintain the integrity of statistics the less people will be able to rationalise their lack of effort in not learning them. While precise statistical knowledge may always be low, some accurate statistical knowledge at least of trends or proportions is important.

Third, a lack of regional data and analysis can also lead to the rejection of economic knowledge. In the EU referendum campaign too many of the statistics used and claims made related to the national but not the regional level. It may be true that, on average, migration had raised GDP per capita[[12]](#endnote-12), but this did not convince voters in regions who perceived the national average to be driven by London. Other aggregative indicators such as the average wage enrage the proportion of the population who are well aware they are in the below average bracket. Regional breakdowns, or even recognition of that fact that the average is not the median, might make people engage with the statistics more. Economists and politicians should set statistics in context; rough percentages may make more sense than billions, knowing whether unemployment or wage rates for different sectors, regionally broken down, is rising or falling may make more sense than knowing the exact national figure right now.

Finally, we heard in the UK referendum campaign that people did not ‘trust experts’. Economists and politicians need to restore some trust here. Facchini wants French people to accept his statistics on welfare spending. But he himself displays a bias in the statistics he offers as being relevant. He outlines three indicators: the level of welfare spending as a share of GDP, the overall tax burden and the extent to which tax is redistributive. However other economists might argue that additional factual information is necessary such as that an ageing population is putting more pressure on the welfare system and more spending is needed just to maintain the same level of welfare. They might also dispute his interpretation of the factual indicators; Piketty for instance disputes that there has only been what Facchini calls a ‘very small’ rise in inequality. The public know that economists are divided and therefore it is important that economists become more open about how contentious the choice of relevant statistics is. When there is a predictive focus the situation becomes even more complex and uncertain. In the run up to the EU referendum in the UK, economists were too ready to make precise predictions. They did not realise how disillusioned the public were already due to wrong predictions in the past, nor that they distrusted the below surface basis of extrapolations from models to the real world that many of the predictions were based on.

**Conclusion**

I have argued that, in analysis of political behaviour social scientists should consider more broadly all the evidence about levels and dimensions of economic knowledge and the evidence for how much voters reason, rather than just assuming a link between lack of factual knowledge and the expression of ‘perception bias’.

Economists like Earle believe economics should become more open about the discipline’s pluralism[[13]](#endnote-13). Economists would benefit from admitting that not all economists agree on ‘below surface’ neoclassical principles or how they should be applied. Public admission by economists that their discipline is divided would be unlikely to damage their standing with the public, who are already well aware that expert opinion is divided. In fact I believe renewed attempts by politicians, economists and the media to present statistical information more clearly, whilst acknowledging that there are differences in interpretation, are crucial for raising the level of knowledge of phenomena such as unemployment, trade and inflation and thus enabling voters to make more informed evaluations of economic policy.

Facchini is one of a long line of economists who do not believe that the public will ever become more knowledgeable or more rational in their approach to voting on economic policy. This leads them to be gloomy about democracy and pleased when turnout of the less knowledgeable drops. Some, like Caplan, use public ‘ignorance’ as the justification for their prescription that governments should reduce the range of economic policies presented to voters by intervening less. We should instead have more faith in people’s desire to reason and to learn.

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1. Bryan Caplan, The myth of the rational voter, Princeton, Princeton University Press, 2007 [↑](#endnote-ref-1)
2. See Will Jennings, Wrong about nearly everything, but still rational:public opinion as a thermostat, in Cowley, P. and Ford, R. (eds.) Sex lies and the ballot box, Biteback, 2014. [↑](#endnote-ref-2)
3. I am conducting in depth semi-structured interviews of Southampton residents asking them about their economic life histories and what they know and understand about key components of the economy such as taxation, government spending, debt, inflation, unemployment, migration, trade and banking. [↑](#endnote-ref-3)
4. Cited in Joe Earle Cahal Moran and Zach Ward Perkins, The econocracy:the perils of leaving economics to the experts, Manchester, Manchester University Press,2017 [↑](#endnote-ref-4)
5. Leiser, D., Bourgeois-Gironde, S. and Benita, R. (2010) Human foibles or systemic failure—Lay perceptions of the 2008–2009 financial crisis. *The Journal of Socio-Economics,* 39 (2), 132-141. [↑](#endnote-ref-5)
6. Ivo Bischoff and Lars-H.R. Siemers, Biased beliefs and retrospective voting: why democracies choose mediocre policies, Public Choice (2013), 163–180 [↑](#endnote-ref-6)
7. Gerry Mackie, Rational ignorance and beyond for collective wisdom: principles and mechanisms, College de France, 22-23 May 2008 http://pages.ucsd.edu/~gmackie/documents/RationalIgnoranceAndBeyond.pdf [↑](#endnote-ref-7)
8. Harold D. Clarke, David Sanders, Marianne C. Stewart, and Paul Whiteley, Political Choice in Britain, Oxford, OUP, 2004. [↑](#endnote-ref-8)
9. Loren Lomasky, Swing and a myth:a review of Caplan’s ‘The myth of the rational voter’, Public Choice (2008), 471. [↑](#endnote-ref-9)
10. Earle et al ibid. [↑](#endnote-ref-10)
11. Peter Lindert. Why the welfare state looks like a free lunch. *NBER working paper series,* Working paper 9869 (2003) . http://www.nber.org/papers/w9869 [↑](#endnote-ref-11)
12. Jaumotte et al. showed that a 1% increase in the migrant share of the adult population results in an increase in GDP per capita and productivity of approximately 2 percent. Jaumotte, Florence, Ksenia Koloskova and Sweta C. Saxena (2016).Impact of migration on income levels in advanced economies.

url: http://www.imf.org/media/les/publications/spillovernotes/spillovernote8 [↑](#endnote-ref-12)
13. Earle ibid [↑](#endnote-ref-13)