

Ideology

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Background

How voters perceive the proper scope of markets versus government in the economy is the subject of increasing interest among economists. More generally, growing attention is being devoted to the role played by societal beliefs about “how the world works”: importance ascribed to effort versus luck in life outcomes, trust in others, religion and other cultural factors. Many findings indicate that popular perceptions are often substantially at odds with the available facts –and yet they persist, displaying remarkable “immunity to evidence” and impeding necessary reforms.

A new study titled “Ideology” by Roland Bénabou, the Theodore A. Wells '29 Professor of Economics and Public Affairs at Princeton University’s Woodrow Wilson School, examines the interplay between societal beliefs and political economy. How do voters construct their views on whether goods such as education, health insurance or pensions should be publicly (government) provided or left to individual decisions (markets)? And under what conditions will these individual beliefs involve some measure of reality denial and coalesce into a dominant and persistent ideology?

In combining the analytical tools of economics with insights from cognitive and social psychology to address a question of public policy, Bénabou’s study is representative of an emerging field of research that can be called “behavioral political economy”.

The Study

Using data from the 2005 World Public Opinion and 2004 World Bank surveys, Bénabou first documents two basic facts. First, there is enormous dispersion in the beliefs held by people across the world. Among Americans, 71% expressed confidence in free markets and free enterprise.

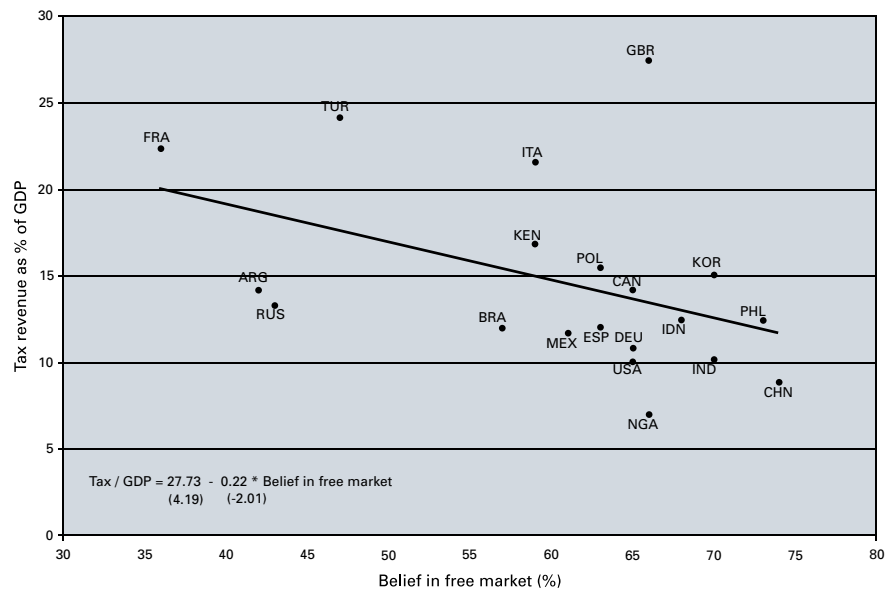


Figure 1: *Free-market beliefs and the size of the state.* Source: Author’s calculations based on data from World Public Opinion (2005) and World Bank (2004). Beliefs measured by agreement with the statement: “The free enterprise system and free market economy is the best system on which to base the future of the world.”

In China the proportion was even higher, reaching 74%. France showed the greatest distrust of market economics, with only 36% expressing confidence –much lower than even Russia’s 43%. Second, these societal beliefs are highly correlated with government’s actual “footprint” in the economy, measured for instance by the share of taxes in GDP.

To explain these patterns, Bénabou develops a formal model of ideology as mutually sustaining distortions in people’s perceptions of the state versus the market. The idea is to analyze the motivations underlying individuals’ worldviews and the cognitive processes by which they arrive at them in order to understand why some countries become “stuck” with anti-market beliefs and excessive faith in public bureaucracies, while others display equally unrealistic anti-state beliefs and pro-market bias. The emphasis of the study is thus on differences in predominant attitudes across countries, rather than political disagreement within countries.

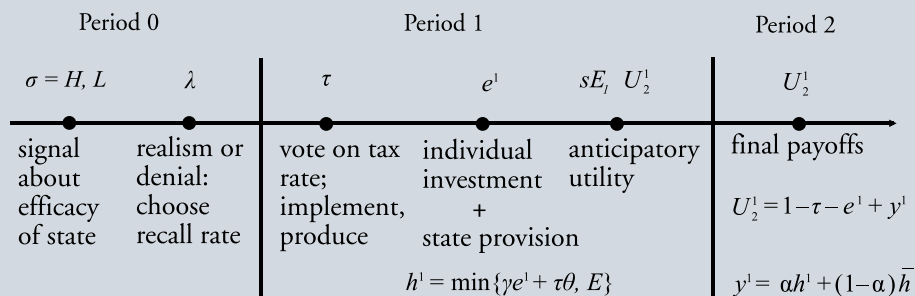


Figure 2: *The state and the market: timeline.*

Cognition, Decision-Making, And Outcomes

The author divides his model into three periods: 0, 1 and 2. In period 1, people invest in a good such as education, health, or retirement assets that will pay off in the long run (period 2), possibly with external benefits for society. Investment takes place both privately and through tax-financed government programs (public education, pension system, etc.). Naturally, voters opt for higher taxes and public spending, and invest less on their own, the more efficient they believe the state to be, relative to the market.

These beliefs about what is the appropriate public policy also have a direct psychological impact, as they determine what kind of future people (and their children) can expect to face as a result of the majority's choice and other citizens' investment decisions. This is where "anticipatory emotions" such as hope, anxiety, dread etc., can come into play and color people's views of the system they live in with a certain amount of cognitive dissonance and wishful thinking. Indeed, there is a basic tradeoff between holding more accurate beliefs (allowing better-informed choices) and more optimistic ones (the future is brighter).

In forming their beliefs, citizens have access to information (received in period 0) about the efficacy of the public and market sectors: past experience, expert studies, media reports, policies in other countries, etc. They can then process this news objectively, or subjectively: paying attention to and acknowledging it, or on the contrary dismissing it, rationalizing it away, and so forth. Reality avoidance occurs when data consistent with the desired

belief in a reasonably pleasant future are attended to and recalled more than "unwanted" news suggesting that society has fallen prey to ideology and made the wrong choices.

Findings

The analysis shows how subjective cognitions simultaneously shape politico-economic outcomes and adapt to them, allowing different societal beliefs to emerge and persist across countries, in conjunction with different policies.

In the first instance, citizens embrace a *statist ideology*, remaining blind to the limitations and burdens of government intervention and persistently voting for an overly large welfare state. Indeed, if a majority with such distorted perceptions imposes high taxes (and underinvests privately) in spite of evidence indicating a low return to

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public expenditures, a realistic assessment of the situation leads to bleak prospects, which many people find hard to accept. Going along with the prevailing ideology, on the other hand, allows one to maintain the hope of a better future in which public spending will ultimately prove worthwhile. People are thus led to discount and look away from evidence that society is “on the wrong track”, and in so doing each one contributes to strengthening the dominance of statist ideology.

The second type of societal delusion is *laissez-faire* ideology, in which a majority of citizens are unwilling to acknowledge the presence of market failures, and accordingly vote against government intervention even where it would be appropriate. Having to bear the consequences of a severe but uncorrected market failure (say, in the provision of health insurance) is a rather unsettling prospect—much more so than a second-best regime in which public intervention would partially ameliorate the problem. When anti-government ideology dominates in the electorate, however, second-best realism is not an option, so people seek reassurance by adopting the prevailing faith in unhindered markets and the invisible hand.

In both cases, looking away from an unpleasant reality (government failure or market failure) leads to policies and private choices that further raise the appeal of denial—a trap of collective delusion.

Bénabou also identifies which of these two ideologies tends to prevail, as a function of a country’s history. The key channel here is public sector capital: infrastructure, institutions, civil service know-how, etc. The larger the stock inherited from previous generations (say, post-war reconstruction), the greater is citizens’ incentive to overestimate the extent to which it is a productive asset that will continue to deliver valuable benefits. If such is the prevailing

ideology, in turn, voters opt for continued investment in public capital, much of which will remain for the next generation.

Conversely, where there is little preexisting public capital, so that a meaningful stock would have to be built up at considerable tax expense, cognitive incentives go in the direction of underestimating the need for such assets. Hence voters do not support public investment and a small public sector persists.

The study leads up to a clear policy conclusion. In order to minimize the risk of periodically falling into ideological traps, societies need to set up strong constitutional protections – even encouragements – for the expression of dissenting views: guarantees of free speech, independence of the press, whistleblower and freedom of information laws, etc. Indeed, society in the long run is always worse off under wishful thinking (of either type) than when people realistically accept what markets and public programs can and, especially, cannot deliver. Nonetheless, anyone trying to call attention to societal delusion and misguided choices will encounter a general unwillingness to listen and attempts to silence the messengers of bad news.

Commitment mechanisms are thus indispensable to ensure that unwanted news and facts will “resurface” and confront citizens in a way that is hard for them to ignore. By lowering the return to reality avoidance, this helps prevent its emergence in the first place.

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