

Why We Keep Choosing Bad Policies

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Motivation:

1) Richer than ever

and yet many feel anxious, fearful, and angry.

2) Built an integrated global economic order

and yet now retreating from it.

3) Suffered GFC after intensifying moral hazard & deregulating

and yet now reproducing those conditions.

4) Selected many policies (housing | fiscal) despite evidence

and yet keep choosing immediate relief with hidden costs.

Purposes

QUESTIONS:

- *Why do societies repeatedly choose and maintain policies that disappoint?*
- *How can economists improve their policy analyses?*

APPROACH:

- *A diagnostic synthesis of welfare, selection, cognition, and institutions*
- *No new model, data, or estimates*

A challenge to economists. An agenda for the discipline.

Why do societies keep choosing bad policies?

[1] We disagree about the destination.

What counts as success?

[2] We disagree about the map.

What world are we in now?

[3] We disagree about the steering.

What are policies' effects?

[4] The driver is only human.

Drawn to simple stories.

Pushed by politics.

“The real wonder is that so many difficulties should have been surmounted...”

My working definitions

GOOD POLICY

- More likely to advance freedom and prosperity than feasible alternatives.

GOOD POLICY ANALYSIS

- Makes visible what is contested: values | trade-offs | facts | effects
- Anticipates how cognition, politics, and institutions shape what gets selected and maintained—rejected—and why.

***Good policy analysis does not make disagreement disappear.
It forces disagreement into the spotlight—and keeps it there.***

Success is contested

Freedom and prosperity—and how to weight their components—are contested.

The objective function is the fight.

The Prosperity Matrix

Prosperity is not just material.

COMPONENTS

Material

income, wealth, consumption, security

Nonmaterial

dignity, voice, belonging, recognition

The Prosperity Matrix

Prosperity is judged comparatively.

COMPONENTS

Material

income, wealth, consumption, security

Nonmaterial

dignity, voice, belonging, recognition

LENSES

Relativity

How do I compare?

The Prosperity Matrix

Prosperity is judged morally.

COMPONENTS

Material

income, wealth, consumption, security

Nonmaterial

dignity, voice, belonging, recognition

LENSES

Relativity

How do I compare?

Justice

Are the rules fair?

Prosperity is a verdict, not a statistic

Does it matter?

The welfare function is more complex than we often assume.

Does simplification affect policy assessments?

Trade through the Prosperity Matrix

Textbook trade policy analysis stops here.

COMPONENTS

Material

Policy focuses on compensating material losers.

Trade through the Prosperity Matrix

Trade policy affects other quadrants

COMPONENTS

Material

Policy focuses on compensating material losers.

Nonmaterial

\$≠\$!

Trade through the Prosperity Matrix

Trade policy analysis often ignores quadrants

COMPONENTS

Material

Policy focuses on compensating material losers.

Nonmaterial

\$≠\$!

LENSES

Relativity

It can have large distributional effects.

Justice

It can seem unfair.

Policy's effect on prosperity is a judgment.

Facts and effects are contested

We are navigating with a contested destination, a contested map, and uncertain steering.

Facts and effects are contested

DIAGNOSTIC

Where are we now?

Inequality?

Financial safety and soundness?

Homelessness?

PREDICTIVE

Where will any policy lead?

Minimum wage

Capital requirements

Taxes. Fiscal expenditures

We disagree on where we are—and what will happen if we turn the wheel.

People are human

We are subject to cognitive limits and biases — and politics knows it.

We can't see and assess the road and map clearly

Simple stories have cognitive advantages

COHERENCE

We prefer stories that fit.

Contradictory evidence registers as a threat. The mind smooths reality to fit.

IMMEDIACY

We overvalue what is visible now.

Visible benefits today, diffuse costs tomorrow — the political story that wins.

EMOTION

Feeling arrives before reasoning.

Emotion gets the first word. Reason often edits the story after.

CONFORMITY | TRIBALISM

Belonging beats accuracy.

Even when we know we are wrong.

Evidence complicates. Anger clarifies.

Politics rewards the story cognition prefers

COGNITION PREFERS SIMPLICITY

Coherent | Tribal | Villain | Victim | Remedy.

Minds resist complex, contingent, trade-off laden assessments—it's exhausting.

POLITICS SUPPLIES SIMPLICITY

It rewards those who supply such stories—and policies.

POLICY IS IRREDUCIBLY COMPLEX

Multifaceted trade-offs | uncertainties | delayed costs

Bad policies have selection advantages. Reality sends the bill.

Deliberation is an institutional achievement

OLD INSTITUTIONS SLOWED THINKING

Bicameralism | supermajorities | C-B analysis | Notice-and-comment

NEW PRESSURES SPEED REACTION

Attention markets | outrage | identity | fast thinking

Rebuilding deliberation is a mechanism-design problem.

The gap is integration—not ingredients

QUESTION	MATURE RESEARCH	UNDER-DEVELOPED
<i>What does the policy do?</i>	Impact evaluation; welfare weights and policy rankings; MVPF	<i>Joint verdict across matrix; relativity and justice as evaluative lenses, not components.</i>
<i>Why was it chosen?</i>	Political economy; selection; capture; lobbying	<i>Selection when welfare is multifaceted and contested</i>
<i>Why do choosers choose imperfectly?</i>	Behavioral economics; cognition; identity, applied to institutions.	<i>How cognition shapes selection with a pluralistic prosperity matrix</i>
<i>What institutions to build?</i>	Institutional design; rules; procedures	<i>Foster deliberation under evolving cognitive-informational environment</i>

Payoffs from integration

Anticipate which good policies are bad.

- *Joint analysis of cognition, selection, and welfare distinguishes policies that look good from policies that are good—and why.*

Design better institutions

- *Institutional design becomes endogenous to the cognitive and informational environment — revealing reforms that slow decision-making and force trade-offs into view.*
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Takeaways

Welfare analysis often misses its own rejection.

- *People judge material and non-material outcomes through the lenses of relativity and justice.*

Bad policies are not accidents.

- *The selection advantages of bad policies are structural.*
- *Cognition demands simple stories. Politics rewards those who tell them. Reality is irreducibly complex.*

Integration is the frontier.

- *Welfare | selection | cognition | institutions — the research program.*
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We are richer than ever, and many feel less prosperous than before.

That is not a paradox.

It is a clue.