ignorance

Economics, it is said, is the study of scarcity. There is, however, one thing that certainly isn't scarce, but which deserves the attention of economists - ignorance. A recent paper by Richard Zeckhauser and Devjani Roy - which introduces a new method of economic research - shows that this is unjustly neglected in economics.

Conventional economics analyses how individuals choose - maybe rationally, maybe not - from a range of options. But this raises the question: how do they know what these options are? Many feasible - even optimum - options might not occur to them. This fact has some important implications.

1. It matters for labour market mismatch. If people don't know of jobs they could reasonably fill, we'll get a mix of unfilled vacancies and unemployment - a bad Beveridge curve. This is likely to be an especial problem (pdf) in recessions, when job destruction requires people to change careers.

The issue here isn't just a short-run cyclical one. Young people can be ignorant of what careers are possible, and so drift into jobs they are unsuited for whilst neglecting worthwhile options. This is why better careers advice or role models are so important.

2. It matters for investment. If folk are ignorant of the possibility of an impending crisis, they might over-invest. Equally, though, firms' ignorance of technological or market opportunities can cause them to under-invest.

It's in this context that entrepreneurship matters. An entrepreneur is someone who reduces ignorance, by finding a market or technology of which others were ignorant. The conventional economics of "max U from a range of given options" has no place for entrepreneurship. Once we put ignorance at the heart of our thinking, a place emerges.

3. Ignorance can be a corporate resource. Customers who don't know of alternative products get ripped off; potential rivals who don't know the technology or market don't enter the industry.

4. Reducing ignorance can raise long-run economic growth not just by improving labour market matches, but by raising awareness of possibilities. Robin Hanson has said that we can think of really long-run growth as a series of ever-increasing modes. But why might growth rise? One reason could be that in traditional hunter-gatherer or agricultural societies, people's small social circles made them ignorant of economic possibilities, whilst increasing networks - first through mass literacy and latterly through the web - expand people's horizons and reduce their ignorance. One could argue here that social structures and cultures which block such networks - such as presenteeism - thus serve to impede growth.

Now, I suspect (hope) that this will seem trivial to economists in the Austrian tradition, which has tended to recognise (pdf) the role of ignorance. It does, however, clash with the managerialist ideology of our time, which pretends to manage away ignorance. In a brilliant post, Will Davies gives a lovely example of this. Academics making funding applications, he says:

have to describe the entire project, its outcomes and 'impact' in advance. These pieces of science fiction serve little purpose of ensuring that money goes to the 'best' recipients, but a great purpose in reassuring the state that nothing unexpected will happen.

But the entire point of economics - and indeed of life - is that the unexpected does happen. An ideology which overlooks ignorance is therefore a fiction. And worse still, a potentially costly one.