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It is rational for the general public to avoid acquiring economic knowledge

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Anew report by the Economic Statistics Centre of Excellence makes for depressing reading. The British public has a “limited knowledge of economic concepts”, such as GDP and unemployment, it concludes, with a “weak understanding of the size of different economic indicators and a lack of confidence in assessing and judging economic figures”.

Many people also believe official data can be “manipulated” or “massaged” by politicians, seemingly unaware much of it is collated by the Office for National Statistics.

A 1,665-person YouGov survey undertaken in co-ordination with the ONS’s think tank found that less than half of the public could correctly define GDP in a multiple-choice question, while participants in 12 focus groups showed little to no understanding of it.

Despite featuring prominently in our political discourse, the public often wrongly thought GDP was a measure of exports, exchange rates or even confused it with GDPR – an EU law on data privacy.

Rather than something they participate in, a lot of the public talk about “the economy” as if it is an external force they feel the consequences of. And yet, many struggle to identify how things such as GDP growth might affect them personally.

Concepts that economists use regularly such as gross domestic product and “real terms” (to describe variables being adjusted to account for inflation) were denounced in focus groups as “jargon” and “confusing”.

True, the public showed a much better awareness when it came to unemployment, interest rates and the basics of trade. Yet even on issues where they expressed more personal confidence in their knowledge, only a minority said they had a “very good” or “good” understanding when told they would be later tested.

This shows good self-awareness. Most people thought the term “unemployment rate”, for example, described the share of the working age population not working, rather than the share of those economically active without jobs (active meaning those in work or looking for work recently).

No wonder focus groups were sceptical when told that the true unemployment rate at the time was less than 4pc – their faulty alternative definition would imply 24pc.

The public overall appeared particularly unaware of the intricacies of macroeconomics. Instead, they tended to assume deficits (on trade or the government budget) were bad, lower interest rates were good, and the lower the inflation rate, the better.

Over 70pc correctly identified the UK runs a budget deficit, but other answers suggest only around 40pc of the public understand what that means. Few are aware of the link between interest rates and inflation, or the role of the Bank of England.

Does this ignorance matter? Whenever a report such as this is published, hand-wringing ensues. Some ask: how can we ever hope to achieve good economic policy when the public's understanding of the basics is so weak? Yet reading through the document, there's a striking paradox: ordinary people appear to be acting economically, even if their knowledge of important economic data leaves a lot to be desired.

A majority of the public expresses an interest in economics and, in focus groups, they regret they aren't better informed. Yet any good economist would tell you that acquiring information is not without cost.

It takes time to learn about GDP, how inflation is calculated, and the ins and outs of international trade policy – time that most people could better spend pursuing other aspects of life that enhance their well-being. Sure, they'd like to be more knowledgeable, but that would entail sacrifices they won't make.

Economists often describe people's considered decision not to educate themselves as "rational ignorance". When the cost of acquiring extra knowledge exceeds the benefit, people do not bother. It shouldn't surprise us, then, that people are unaware of detailed, abstract economic statistics and are better versed - as the report concludes - in areas affecting their personal lives, such as interest rates and prices.

On the tests, older people performed better than younger people, while in focus groups individuals drew on their lived experiences, with those who lived through the Seventies worried about high inflation and those who experienced Eighties unemployment still thinking the jobless figures could be doctored through definitional changes.

Knowledge about interest rates, many people said, arose from them paying attention to mortgage markets.

All this is consistent with the view that people will not go out of their way to learn about economics, unless they can absorb it at low cost as background noise, or if there are large benefits to obtaining that knowledge.

That explains why the deficit issue is salient – we have lived through a decade where it was debated daily – but yet people still do not appear confident of what it even means.

The report, for what it's worth, seems to consider this a big problem and lays the blame at economists' feet. It suggests trialling different ways of presenting information, including more explainers and fact-checkers, trusted messengers and novel ways to communicate certain concepts.

While these might help on the margin, I suspect most of these actions will not fundamentally change the public's calculations on the desirability of becoming economics-literate. It takes time to read explainers, after all.

Strangely, one of the report's authors has been quoted as saying that the "solution isn't that people should be taught economics in schools". But that is, in fact, what many focus groups' participants believed was the answer.

In retrospect, they'd have preferred to trade off learning useful economics during their mandated school time, rather than expending the energy now. Given the lifetime uselessness of much of what is taught in school, that sounds economically rational to me.

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