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Oversimplified economics is no substitute for common sense

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Why is the public's grasp of economics so weak? A recent Radio 4 documentary by economics commentator Martin Wolf pointed the finger partly at the impenetrable jargon of economists. Wolf worried that "one could not understand politics if one does not understand economics".

He highlighted a concerning 2017 YouGov poll showing that half of the UK public didn't feel confident they understood the economic impact of policies on which they were voting. Surely, we'd all benefit, as one interviewee recommended, if economists, politicians and commentators told stories and used simple historical examples to get across complex ideas?

I wonder. Sure, your average guy in a pub might not know the ins and outs of monetary policy (then again, most experts at central banks appear uncertain of its effects these days). But in some areas the public's inherent common sense seems more economically sophisticated than the talking points of commentators and politicians.

A great example of this is the public's continued opposition to the increasingly costly HS2 rail project. In an age where seemingly intelligent thinkers seem to believe that saying "infrastructure spending is good for the economy" suffices to justify any project, the public shows awareness of the large costs involved and the weak "bang for the buck".

Indeed, there is an argument that banal, lazy and simplistic storytelling would worsen the quality of public debate about such issues.

Take recent academic work by Danish economists, who in true Monty Python style explored the question "what have the Romans ever done for us?" by examining the legacy of the Roman Empire's road system. Using mapping and statistical techniques, they showed the patterns of roads built two millennia ago in Europe strongly correlate with prosperity levels today, as proxied by modern road intensity, how built up an area is via night-time light imagery, and population.

The economists produce a convincing case that the direction of causation flows from the public roads to economic development, rather than roads being built with economic potential in mind. The Romans, after all, were primarily concerned about moving armies, not trade. In North Africa and the Middle East (where roads were allowed to fall into disrepair following greater use of camels) the link between roads and today's prosperity levels is much weaker.

This is a fascinating case study of infrastructure that hugely increased connectivity. But some commentators lazily generalise to suggest this insight shows how "infrastructure investments today could continue to bear fruit for thousands of years to come".

This kind of conclusion – sweeping judgments about all infrastructure spending – does nothing to inform the public, but actually worsens economic understanding by conflating the intuitive concepts of average effects and marginal effects. That the development or maintenance of a road or rail system has major benefits overall tells us very little about the desirability of new or additional investments today, which should be judged according to their own merits.

Academic evidence from the US by John Fernald, for example, has shown development of the interstate highway system there produced a big one-time boost to economic activity. More recent studies, though, actually find that too many new highways were built between 1983 and 2003 and that these extensions did not bring net social benefits. That was not least because the cost savings of reducing travel times further are small relative to incomes and prices.

Similar reasoning has shown why HS2 is so wasteful. Not only will the high-speed line only shave off a small amount of journey time between London and Birmingham. But technological developments mean that the costs of travelling by rail in terms of productive time lost are much lower today then they have been anyway. Not only can one video-conference, but you can also work online as you travel.

Though politicians supportive of the scheme like to portray its opponents as Nimbys stifling an economically beneficial scheme, the truth is the public know it is just poor value for money. The Government's own 2010 comprehensive spending review deferred, cancelled or placed under review road investments with average benefit-cost ratios of 6.8, 3.2 and 4.2 respectively, but persisted with HS2 (which had a benefit-cost ratio of 1.2).

But it has become even more obvious since. A fortnight ago, a leaked report suggested the scheme could run as much as 60pc over budget,taking the cost to £90bn or more. The Government's own assessment suggests there is a high risk of the project not delivering value for money.

Of course, not all projects are this wasteful. The public wants more infrastructure investment. But given we have major networks already, marginal improvements are where the big wins can be found. Some roads and commuter routes in particular suffer from heavy congestion, both requiring new capacity and more effective pricing.

There is scope, with technological developments, to adopt comprehensive road pricing in the longer term, which would provide the clear signals for where new capacity was needed. Eliminating bottlenecks, in particular, can bring big economic benefits. The modern equivalent of the Roman roads could well be capacity for flights to rapidly growing areas of the global economy.

Despite the large sums of money involved, this is one policy area where economists and politicians have oversimplified and often exhibit less level-headedness than the country at large. You're more likely to hear an economist quoted as saying "infrastructure investment is good for economic growth" in newspapers than garner any insight on these trade-offs and spillovers.

Yes, levels of economic education in the UK overall might be poor. Yet simple historical stories and clichés could sometimes worsen public understanding, not improve it. And that creates a lack of trust in the political class to deliver the public goods that do bring major economic benefits.

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