

Procrastination, Obedience, and Public Policy:

The Irrelevance of Salience

By GARY M. ANDERSON and WALTER BLOCK*

ABSTRACT. Modern economics assumes that individuals are rational maximizers, who, in the presence of costly *information*, sometimes make mistakes. Recently, George *Akerlof* has challenged this presumption. He proposes that people sometimes fail to maximize their long-run *utility*, due to the phenomenon of "salience." This refers to the alleged systematic distortion in individual perception where events closer to a person (in time and in space) seem bigger and more important than they really are. The *salience* phenomenon is claimed to interfere with the process of rational *maximization*, rendering some individual choices, in effect, irrational. This paper subjects Akerlof's suggestion to critical scrutiny. It is argued that the examples Akerlof offers of the effect of salience are not the anomalies he claims but instead represent behaviors which can be readily explained within the framework of the standard economic model. All of his major examples are considered in this light and it is suggested that the work of *Israel Kirzner* holds more promise for improving the analytical power of the standard economic model than does the idea of salience.

I

Introduction

THE IDEA that individuals fail to evaluate accurately the real value of future prospects has a long history.¹ Many scholars have felt that individuals systematically fail to evaluate correctly the present value of future prospects.

Recently, this venerable idea has received a refurbishing from a distinguished modern economist, George Akerlof. He argues that economists should pay greater attention to a central principle of modern cognitive psychology, "salience."

This term refers to the purported tendency of individuals to place greater cognitive weight on events which strike them as especially "vivid." But a more "salient" event may not necessarily be more important or significant in the individual's longer view; it is merely more striking, or memorable for reasons essentially unrelated to its "true" significance.

* [Gary M. Anderson, PhD., is professor of economics at California State University, Northridge, CA 91330 and Walter Block is professor of economics at Holy Cross College, Worcester, MA 01610.]

We contend that the basic thesis offered by Akerlof is unsound, and the many public policy recommendations he proffers cannot be justified on its basis. Our purpose in the present paper is to examine critically the proposed role of "saliency" in economic affairs. We will argue that this bold attempt to reconstruct modern economics is in reality a disappointing fizzle.

The paper is divided into eight sections. Section II outlines the thesis of Akerlof's article and explains his position on the issue of "saliency" in human affairs. Section III discusses some general, basic criticisms of Akerlof's idea. Section IV examines a major Akerlof application, his analysis of drug addiction. Section V considers Akerlof on another important application, obedience to authority. Section VI discusses Akerlof's extension of his salience principle to the problem of cults. Section VII addresses the implications of his argument for public policy generally. Finally, Section VIII concludes our argument.

II

Akerlof on Salience and Procrastination

THE AKERLOF THESIS is bold, yet simple in form. It holds that in certain situations involving a long series of small incremental repeated decisions, people are likely, all too often, to place undue emphasis on the importance of present events, and to discount future ones too heavily. "Present benefits and costs may have undue salience relative to future costs and benefits" (Akerlof 1991, 1). Given this "dynamic inconsistency" (4), people will not maximize their "true utility" (2). He argues that this discrepancy between perception and reality may help to explain several seemingly difficult phenomena common in everyday life. For example, "procrastination" may occur when present costs are "unduly salient" in comparison with future costs, "leading individuals to postpone tasks until tomorrow without foreseeing that when tomorrow comes, the required action will be delayed yet again" (1). Similarly, "irrational obedience to authority" may occur when the salience of an action today depends upon its deviation from previous actions.

Akerlof believes that his theory of saliency has practical and important implications for public policy. Sometimes people just don't know what is good for them, in their own terms as defined by their personal utility functions:

Individuals whose behavior reveals the various pathologies I shall model are not maximizing their 'true' utility. The principles of revealed preference cannot therefore be used to assert that the options that are chosen must be preferred to the options that are not chosen. Individuals may be made better off if their options are limited and their choices constrained (2).

He offers several examples of such "utility enhancing" coercions. Forced pension plans may be superior to voluntary pension schemes; prohibitions on alcohol

and drug use may make potential users better off than merely taxing intoxicants; and a key role of management may really involve the (arbitrary) setting of schedules and deadlines, which presumably help their employees to discover their "true" productivity. Thus, according to Akerlof, coercive paternalism can often improve the well-being of the coerced parties.

Describing this theory as "bold" is an understatement. Taken literally, it represents a radical rejection of the neoclassical economic model of man as a rational, self-interested utility maximizer. The standard economic model acknowledges that individual choices may sometimes be mistaken, when for example a person makes a selection based on incomplete or faulty information. The individual is still making a consistent effort to maximize his utility even though his actual performance leads to disappointing results. Instead, according to Akerlof, oftentimes individuals just prefer the "wrong" things in terms of their own welfare. Sometimes individuals fail to maximize their utility in the long run.

In devoting careful attention to the role of "saliency" in human affairs, "procrastination" is, perhaps, the primary illustration Akerlof offers. "Procrastination" refers to the phenomenon where an individual delays taking action with respect to some matter in spite of an awareness that a prompt response would be superior.

It is common for delayers to proclaim to others that they "meant to" do this or that sooner, implying that they did not in fact maximize. In Akerlof's view, in effect, individual discount rates are too high in cases where a pattern of regular decisions must be made, and time is short between each discrete choice; where a penalty, or a "saliency cost" is imposed by making the wrong decision; and where rational expectations do not apply, in that the actor "did not foresee that when the next day came (he) would continue to put off the decision for an additional day" (3, 4). Thus, an individual in such a circumstance exhibits a failure to rationally maximize utility across time. The vividness of the experience of the moment dominates, and the individual's long term interest—defined in that individual's own terms—suffers as a result.

Akerlof describes such behavior as irrational, *i.e.*, meaning that it represents a simple failure by the person to maximize his own utility. It is not merely that the person possesses inadequate information regarding the future consequences of dawdling, but rather that he simply fails to compare correctly the costs versus the benefits of procrastinating. Thus, the behavior Akerlof means to describe cannot merely be dismissed on information cost or transaction cost grounds. People are not merely prone to mistakes because they have access only to imperfect information, but also because they sometimes process the available information in the wrong way.

III

Was Akerlof's Analysis of Procrastination Worth Waiting For?

IF AKERLOF IS CORRECT in asserting that this kind of behavior is common, this fact has radical, and troubling implications for economics. In effect, if people often behave irrationally then much human action is simply unpredictable and beyond analysis.

Therefore, a simple question has important implications for economics: do we have reason to take the (admittedly) common representations made by individuals concerning their own "irrationally procrastinating" behavior at face value?

It is curious that Akerlof, in the course of detailing his theory of how rational maximization fails in the face of saliency, implicitly relies on the perfect accuracy of individual self-representations. Simply stated, Akerlof seems to assume that people always tell the complete truth when describing their motivations.

But real people often fail to tell the complete truth about their personal motivations as well as everything else. Beyond the obvious fact that people sometimes lie (intentionally misrepresent the facts as they understand them to be), much human time and attention involves attempts to bargain with others. This bargaining extends to all human interaction. In many circumstances, complete and total honesty will not be the optimal strategy in a bargaining situation.

This consideration applies to an important illustration used by Akerlof, the supposed "failure" of a diet to lead to actual weight loss.

Dieting represents a pre-eminently social activity. Not only is an improved personal appearance in the eyes of others typically the ostensible goal of the diet, but the diet-related behavior can also be a kind of performance designed to serve some other purpose than weight loss. The very fact that others are aware of a person's diet suggests that the person has undertaken some investment designed to communicate the fact to those people. This behavior—the overt manifestations of the diet—may, in part, represent a strategy designed to influence others in the immediate environment; actual weight loss may be only a secondary goal, or in actuality not really a goal at all.

Consider a stylized example. A wife expresses dismay to her husband concerning his overweight, unattractive appearance. The husband goes on a diet in order to appease her, perhaps only temporarily. An external observer of this interaction will likely be unable to ascertain the husband's true, as opposed to the stated, goal. It is possible that reduced domestic strife, and not weight loss, is the true goal of the diet. Thus, the failure of the diet as a weight loss tactic may simply signal that the true objective was different than the goal the dieter

represented to others. Dieters, like the rest of us, sometimes find it expedient to misrepresent their true goals in pursuit of strategic benefit.

Misrepresentation may not necessarily include actual lying. Losing weight may indeed have been one of the dieter's goals. But it might not have been the only goal, or even the major goal.

This principle of systematic misrepresentation applies to the phenomenon, procrastination, more generally. Procrastinators are often individuals who disagree with other people about the correct prioritization of behaviors, but who prefer to portray this disagreement as something else. "I meant to" and "I couldn't help myself" sometimes stands in for "I did not want to, and I refuse to admit the fact." Dishonesty may not be ethical, but it can be eminently rational.

Alternatively, a behavior which might seem irrational on the surface, might merely be evidence of shifting patterns in preference ordering. Consider once again the example of the apparently failed diet. A person might genuinely want to lose weight, and at the same time want to eat delicious but fattening food; sometimes, seemingly, he wants both at the same time. The person must choose between the satisfaction from maintaining a slim body and the pleasures of eating fatty foods. A rational individual will necessarily rank one or the other of these conflicting goals higher than the other at any given time.

The standard economic model assumes that individual preferences are consistent at any moment, yet not necessarily constant over time. The prioritization individuals place on conflicting goals may shift over time. Thus this year I prefer slimness over the enjoyment from eating fatty food, so my diet works and I lose weight, but last year gastronomic delights took precedence over my desire to avoid obesity, and I gained weight. This shifting of preference ordering, combined with strategic considerations [*e.g.*, my desire to minimize marital conflicts causes me to claim that I have been on a diet all along] seems sufficient explanation for my observed behavior without the need to introduce any new principles like "saliency."

Thus, in our view Akerlof's attempt to explain procrastination by way of his theory of saliency is unnecessary and overwrought. The behavior he offers as supposedly paradoxical, is in reality easy to explain within the confines of existing economic theory.

One of the most basic insights of modern economics is the subjectivity of preferences. Prices and quantities demanded and supplied are objective facts, measurable and, in some sense, reliable. On the other hand, the true preference orderings of individuals are subjective and cannot be directly measured by outside observers. Consequently, the assertions of (self-interested) parties regarding their personal preferences and motivations are inherently problematic. One ignores this simple methodological precept at one's analytical peril.

However, Akerlof is not merely intent on proposing a radical new principle in the analysis of human behavior, but also intends that this principle has quite policy-relevant implications. These claims will now be examined in detail.

IV

Addiction and Procrastination

AKERLOF APPLIES HIS MODEL of procrastination to drug abuse, and explicitly rejects the Chicago School's rationalistic model of addictive behavior (Becker and Murphy 1988; Stigler and Becker 1977). "Most drug abusers, like most chronically overweight individuals, fully intend to cut down their intake, since they recognize that the long-run cost of their addiction exceeds its benefits," Akerlof writes (1991, 5). But the "certain and immediate" (salient) rewards win out over the possibly lethal (nonsalient) costs.

It is important to recognize what Akerlof is not arguing. He bases his defense of government anti-drug policy on a purported failure of the individual drug consumer to rationally maximize his own utility, and does not make any claims concerning externalities purportedly generated by the consumption of drugs. Drug use may or may not produce detrimental impacts on society. But Akerlof takes no position on this question.

We readily grant that individuals with serious, physical, addictions to drugs do not seem to be plausible candidates for the role of rational utility maximizer. Some addicts do indeed seem to engage in fatal activities for what seems to an outside observer paltry short-term satisfaction, and a rationalistic explanation for such extreme cases is hard to accept. Even if we assume, however, for the sake of argument that such behavior is actually irrational, just how big and extensive is the problem?

The answer seems to be, fairly small. The long suffering addict is a comparative rarity. Most drug users seem to indulge occasionally, as a form of recreation. Most users of intoxicants (including substances like alcohol) seem to maintain homes, jobs, and families with apparent success. Akerlof exaggerates when he suggests that most "substance abusers" are comparatively helpless addicts. To the contrary, most drug users seem rather ordinary in all other respects.

One need not accept that all drug users are carefully calculating rational actors to recognize that most drug users seem quite rational in their conduct. Drug users, like practitioners of many other activities, accept certain levels of risk in exchange for expected benefits. Most drug use involves risk to the user, but does not represent assured self-destruction; moreover, the act of intoxication *per se* produces pleasure for the user that counterbalances the cost associated with the expected level of risk. That objective risk might be under or over-

estimated by the drug user, but the model of rational maximization will still apply, subject to information constraints.

Akerlof's willingness to dismiss the drug addict's choices as irrational is unnecessary, but this does not necessarily mean that drug use can have drastic implications on the individual's utility maximization problem. Some drug addicts are, in fact, different after their experience of using drugs.

The experience of intoxication itself can, indeed, lead to a kind of error on the part of some drug users. The problem relates to the fact that intoxication is inherently difficult to anticipate in detail for individuals unaccustomed to it. Not only is it possible for some drug users to underestimate the pleasure associated with the experience, but the drug experience seems to affect the underlying utility functions of at least some users. The person who takes drugs may exhibit significant changes in personal priorities after, as compared to before, the experience. Sometimes, the shift may be sudden and the resulting dislocation and discoordination of that person's plans might be extreme, at least temporarily. This possibility reflects a kind of error in decision-making but does not imply irrationality.

Akerlof misses an important problem with the Chicago theory of rational addiction concerning the role of error in decision-making. Kirzner (1973) points to a difficulty in the Chicagoesque world of Stigler (1961) and Telser (1966), where no one can ever miscalculate. In the Stigler-Telser information-search model, genuine error is impossible; if it is later shown that an *ex post* mistake was made, the defence can always be that *ex ante* the information about the good, and the good itself were, in effect, a joint product, and that the expected utility of another day's search was less than the expected benefit. Telser (1966, 458) argues that selling a car which includes a carburetor is like selling a car together with information about the car. Kirzner (1973, 156) takes issue with this comparison, and argues that the very conception of demand presumes some knowledge, however limited, of the relevant product. Genuine error in the Kirznerian world arises out of total ignorance of the availability of automobiles, or other products, not just of their costs and benefits.

Understanding the shortcoming in these information search models depends crucially on the fact that while demand curves can indeed be drawn for commodities of whose existence one is aware, it is meaningless to draw a demand curve for a product about which one is completely unaware. Kirzner (1973, 158) considers the possibility of a person who has no inkling that a particular kind of commodity exists:

We may, of course, imagine his demand curve for this commodity once its existence has become known to him. But if we wish to discuss the commodity in its unknown state, we are simply unable to talk of the consumer's demand for it. It is not that his demand curve

coincides with the price axis; that he would buy none of it at any given price. It is rather that the very notion of demand has no place under these circumstances. . . . With no opportunities perceived, the notion of consumer demand has no meaning.

In other words, the Stigler-Telser information model is quite adequate to the task of accounting for length of search for ordinary, known, commodities. Here, in their sense, no errors are possible. But with regard to completely unknown products (*e.g.*, the frisbee or hula hoop or pet rock or automobile *before* their respective introductions) the model cannot even be applied, because it is illegitimate to utilize demand curves, and without them, the model cannot be applied. In these cases, then, true error can indeed, occur.

But while the Chicago approach underemphasizes the role of error in economic affairs, Akerlof seems to assume a world in which mistakes are the rule. Neither extreme is warranted; we need to develop an alternative theory of expectations, where miscalculation is neither virtually omnipresent nor totally absent. This more moderate position implies an economic universe where people can change their minds, continually, as in the case of diets and addictions, and once and for all, or at least gradually, as in the case of saving money for old age.

In fact, another example of "salience driven" procrastination offered by Akerlof involves intertemporal savings and consumption decisions. The present costs of deferring future consumption are more "salient," and lead individuals to save less than the optimal amount. Akerlof notes that Irving Fisher held a similar view, and spoke of the "preference for present gratification" being powerful because "anticipation of the future is *weak*" (quoted in Akerlof 1991, 6; emphasis as in the original). Later he states that the hypothesis "in the absence of pension plans, many individuals lack sufficient self-discipline to begin saving for retirement in a timely fashion is consistent with the finding that there were high rates of elderly poverty prior to the rapid, unexpected growth in Social Security payments in the late 1960s and the 1970s" (7).²

This is a prime example of the irrelevance of "salience," at least of Akerlof's version. His application of his idea to the problem of saving adds exactly nothing to our understanding of the phenomenon of the discount rate. Other things equal, now is better than later to the rational actor. To assert that the present has greater "saliency" compared to the future adds nothing of substance to our understanding of the discount rate. The model of rational self-interested utility maximization is perfectly capable of accommodating the phenomenon to which he here refers. "Salience" seems to be a term in search of a theory.

V

Obedience and Salience

THE FAMOUS EXPERIMENTS of Stanley Milgram receive attention from Akerlof as purported evidence that pathological, irrational obedience to authority is a common behavior. Since these experiments are cited by Akerlof as supporting evidence for his contention that saliency leads to irrational outcomes, the subject deserves a closer look.

Milgram recruited a number of participants to his experiments by a mail circular, that falsely listed the purpose of the experiment as a study of the effects of punishment on memory. The real intent was to investigate the willingness of those participants to follow instructions. The experimental subjects were then instructed to act as teachers, and administer electric shocks (as punishment for wrong answers) to a confederate of Milgram posing as a learner. Milgram found that the majority of his subjects were willing to administer the maximum shock level (in reality, the switches did not really administer any electric shock) to learners, even though the subject/teachers were led to believe that such a level of shock was quite painful to the recipient. Akerlof interprets this result as supporting his argument that people often exhibit "irrational obedience to authority" (Akerlof 1991, 9).

Akerlof claims that "undue obedience to authority may occur as a form of procrastination if disobedience of an authority is salient and distasteful" (8). Apparently, individuals like the unwitting subjects in Milgram's experiment find disagreement with the experimenter/authority figure so distasteful that they push the shock lever even though they "know they shouldn't."

Akerlof remarks that the Milgram experiment "demonstrates that isolated individuals can exhibit remarkably obedient (and deviant) behavior inside the laboratory" (10).

Nowhere in his article does Akerlof make reference to any difference between coerced and voluntary obedience. Surely it matters whether or not an instruction is backed by coercion or the threat of coercion. This is a very important distinction, and one which Milgram clearly understands. He is very clear that his experimental subjects were all volunteers, paid for their services (Milgram 1974, 14-16). Although Milgram misrepresented his intent behind employing these subjects, their actual participation was completely voluntary on their part.

In other words, Milgram (or his employee who conducted the experiment) was not an authority who enforced his decisions with brute force. Milgram's experimenter merely succeeded in persuading (some) subjects to follow a recommended course of action. Rational individual maximizers will often choose to rely on information provided by others possessing special expertise—authority

figures in the sense that they seem worthy of respect and trust—as a means of minimizing transactions costs.

Consider the context of the Milgram experiments. The subject recognizes that the entire (purported) test is voluntary for all concerned. The student (in reality, one of the experimenters) supposedly subject to electric shocks meted out following mistaken answers to questions, and who (per Milgram's instructions) loudly complained without ever getting up and leaving, has voluntarily entered the test situation. This person was free to leave at any time, as the real test subject was well aware.

Milgram's main finding should have surprised no one. He discovered that complete strangers feel little compunction about annoying each other, at least in a setting where all aspects of their interaction is voluntary (*i.e.*, either party is free to just get up and leave at any time). Whatever the value of Milgram's experiments, they are simply irrelevant to the use to which Akerlof puts them.

VI

The Cult of Saliency

AKERLOF DEVOTES considerable attention to the purported applicability of his theory of saliency to the problem of cults. These religious organizations are portrayed as prime examples of the failure of individuals rationally to maximize when they refuse to question authority. This matter, too, deserves close attention.

While to the dictionary, a "cult" is a "system of religious belief and ritual," this neutral definition is misleading. Ever since the Jonestown mass suicide in 1978, cult has become a term of opprobrium, connoting mental instability and bizarre practices. Akerlof applies his theory of saliency to cults in this sense since it is clear from his examples that he means pathological group behavior. Thus, the very act of joining a cult is implicitly presented as a fundamentally irrational act, meaning that to do so tends not to be in the individual's long-term interests. Rational, utility maximizing individuals will, therefore, tend to avoid cults.

Akerlof implies that the act of joining a cult with rigid internal rules constitutes *prima facie* evidence of shortsighted irrationality on the part of that individual member. But as Iannaccone (1992) demonstrates, there is a simple and reasonable explanation for such behavior. Cults provide services to their members, such as intense fellowship as well as more tangible collective undertakings, which are potentially subject to free riding by members possessing low levels of commitment to the enterprise. Strict internal rules serve to mitigate this free riding problem, and improve the ability of such organizations to supply collective goods to their membership. Cults that control free riding more efficiently are

more likely to survive in competition with other groups who offer less stringent internal rules. Thus, the popularity of relatively strict cults has a rational explanation.

The process of joining some organizations, religious and otherwise, often involves a series of stages, and Akerlof regards this gradual acceptance as an example of irrational acceptance of authority. Consider the Unification Church, one of Akerlof's principal examples. He outlines the elaborate process of induction into Unification Church confronting new adherents:

Converts make a sequence of small decisions to accept authority. . . . as a result of this sequence of decisions to obey rather than to rebel, the converts develop beliefs and values very different from what they had at the beginning. . . . the dissent necessary for resistance to escalation of commitment does not develop (11).

In other words, Akerlof is concerned that groups of like-minded individuals develop as a result of a voluntary process of self-selection. As Iannaccone explains, such behavior on the part of cults may represent a rational response to a free riding problem. Furthermore, all religious organizations attempt to increase attendance and membership, in order to save souls or to do other good works. Many of them do this in the form of slow easy stages so disturbing to Akerlof. This also applies in the commercial world, especially for big ticket items, for example by the use of easy credit terms. Even courtship follows this gradual program; the man buys the woman flowers, he opens the door for her, he is polite to her parents, he tries to insinuate himself into her good graces using a myriad of step-by-step techniques, and so on. In each of these cases, the observed behavior seems to simply be an act of persuasion. As such, it represents a form of rational behavior and requires no new economic principle to understand.

Akerlof implicitly accepts a politicized model of a non-political form of organization. Clubs of all kinds normally restrict membership to individuals with certain interests and inclinations, and implicitly (or explicitly) exclude others. But those excluded from a club are not dissenters in any political sense. The term, "dissent" implies a pre-existing process of allocating resources in a coercive manner. A stamp-collecting club may implicitly exclude individuals uninterested in philately, but the latter have nothing to dissent about. In a free society, dissatisfied cult members can promptly make themselves ex-members, and reallocate their energies, money, and time elsewhere—perhaps to the cult down the street! By referring to conversion, and suggesting that the absence of dissent represents the outcome of an irrational process, Akerlof implies that a range of perfectly voluntary individual activities are really (somehow) politically coerced. Akerlof's misuse of these loaded terms merely invites unnecessary confusion.

Throughout his discussion of the Unification Church (and his other major example, the Synanon drug-treatment organization) Professor Akerlof implicitly

objects to conformist behavior which he regards as irrational (*ibid.*, 10, 11). He even claims that Synanon "evolved into an organization under the control of a leader who became increasingly insane" (12). It is evident that Akerlof disapproves of successful persuasion when it is employed by organizations with goals he considers objectionable.

Although Akerlof might have done a better job at avoiding unnecessarily normative phrasing (at points, the reader gets the distinct impression that Akerlof personally does not care for certain brands of conformist), his main point is quite clear. He thinks that many forms of conformity are inefficient, not for society (although this is a possible related issue), but to the conformist himself. Conformity supposedly represents a failure of rational utility maximization.

Surely Akerlof would readily agree that many forms of conformity are efficient both to the individual and to the social order. In the most basic sense, civilization itself depends on widespread conformity to law and mores. There are certain segments of the economy where conformity is rewarded. The army and police forces are good examples. An orchestra is a bastion of conformity. The string instruments must play on time and in tune but things are even worse with the wind players—they are told when and when not to breathe! We assume that Akerlof has no objection to this kind of productive conformity.

But this point has broader implications. Much conformity is productive. Conformity to existing norms of behavior represents the efforts on the part of rational individuals to minimize transactions costs, and maximize their own utility in the process. Sometimes those conforming individuals may later come to regret their decision to abide by some particular norm of behavior, but such (*ex post*) regret has no bearing on the rationality of the original decision.

VII

Who Will Guard the Procrastinators?

ACCORDING TO AKERLOF, the "model of cult group behavior. . . is relevant in understanding politics' darker side" (1991, 14). He proceeds to explain the role of "salience" and "procrastination" in two historical episodes, "Stalin's Takeover" and the "Vietnam War."³ Akerlof concludes with a discussion of how bureaucracies tend to become populated with dysfunctional personalities which behave in deviant ways.

But early in his article, Akerlof alludes to the need for government intervention in correcting individual failures to maximize their own utility. In short, individuals are dysfunctional, procrastinate and behave irrationally. So the recommended policy solution is for dysfunctional, procrastinating, irrational individuals

who happen to hold jobs as government politicians and bureaucrats to step in to restore rationality. This contradiction is hardly worthy of critique.

Akerlof has collided with an age-old problem philosophers have long wrestled with. To wit, who will guard the guardians? If "undue salience" causes individuals to procrastinate and irrationally obey authority why should some people (the guardians) be free of this problem? And if the guardians, along with the rest of us irrational mortals, suffer from excessively high time preference, how can they ameliorate things for us? For example, assume that Akerlof is correct in his assertion that individuals typically save too little for their old age. But the guardians, the minions of the state, are also subject to the vagaries of saliency, and *also* save too little. This circular reasoning is characteristic of Akerlof's provocative, but flawed, article.

VIII

Conclusion

FOR CENTURIES, government intervention has been advocated by a diverse lot of intellectuals, including economists, as a panacea. Woefully short-sighted, ill-informed individuals supposedly fail to see the forest of long-run efficiency for the trees of immediate gain. Public interested, long-sighted and well-informed government officials can intervene to restore the misguided individual back to the path of welfare maximization and efficiency.

Akerlof is the latest in a long line of such proponents, offering a superficially fresh, but ultimately familiar variant on the conventional line of interventionistic reasoning. Unfortunately, Akerlof introduces new jargon (although in this case borrowed from psychology) into economics with no gain in theoretical insight.⁴ Conflating later regret with prior irrationality is tantamount to confusing *ex post* with *ex ante*.

Given the radical uncertainty confronting rational actors in the market, individuals will sometimes make mistakes in their planning. Naturally, such mistakes will often happen after the individual receives some misleading information. But terming this the effect of "undue salience" adds nothing to our understanding of how and why that mistake occurred when and where it did. For this insight, we need to develop a true "economics of error" (following Kirzner).

Notes

1. Adam Smith maintained that the "contempt of risk and the presumptuous hope of success" caused many to overvalue the chance of gain and under-value the risk of loss (1776/1976, V. 1, 122). Earlier, Hobbes referred to man's "perverse desire for present profit" (1642, ch. 2, paragraphs 27 and 32) and suggested that this led to an underestimation of the true value of future returns. Pigou (1920, 25) thought that "people distribute their resources between the present . . . and

future on the basis of a wholly irrational preference . . . [the] inevitable result is that efforts directed towards the remote future are starved relatively to those directed towards the . . . present."

2. Unfortunately, there are many other reasonable explanations for whatever level of poverty of the aged exists which do not presume any lack of self-discipline amongst the young. There are, for instance, many government programs which might be argued to impact negatively on the elderly of the 1990s: ruinous monetary mismanagement in the 1920s and 1930s, which greatly enhanced impoverishment of this age cohort (Friedman and Schwartz, 1963); they have borne an escalating tax burden over their lifetimes, reducing their ability to save for the future; and the impact on the economy of the proliferation of government regulations which impacted them during their most productive years, just to name a few. These developments, too, are consistent with the poverty rates among the elderly mentioned by Akerlof.

3. Communist Party members allegedly acquiesced step-by-step to Stalin's increasingly brutal rule, and gradually committed themselves to "altered standards of behavior" (15). Similarly, President Lyndon Johnson is claimed to have gradually escalated the conflict in Vietnam due to the role of "salience" related to his brow-beating of dissenters within the Administration.

4. See Rothbard (1977) for a critique of "welfare maximizing constraints on choice." He argues that such a claim is ultimately logically incoherent.

References

- Akerlof, George A., "Procrastination and Obedience," *American Economic Review*, 81, 2, (1991): 1-19
- Banfield, Edward C., "Present-Orientedness and Crime," *Assessing the Criminal: Retitution, Retribution and the Legal Process*, Barnett, Randy E., and Hagel, John III, eds., Cambridge, MA: Ballinger, 1977
- Becker, Gary S., and Murphy, Kevin M., "A Theory of Rational Addiction," *Journal of Political Economy* 96.4 (1988): 675-700
- Fisher, Irving, *The Theory of Interest*, New York: Macmillan, 1930
- Friedman, Milton, and Schwartz, Anna J., *A Monetary History of the U.S., 1867-1960*, New York: National Bureau of Economic Research, 1963
- Hayek, Friedrich A., "The Non Sequitur of the 'Dependence Effect,'" in *Studies in Philosophy, Politics and Economics*, New York: Simon and Schuster, 1967
- Hobbes, Thomas, *The Citizen*, London: 1642
- Iannaccone, Laurence R., "Sacrifice and Stigma: Reducing Free-riding in Cults, Communes, and Other Collectives," *Journal of Political Economy* 100.2 (1992): 271-291
- Kirzner, Israel, *Competition and Entrepreneurship*, Chicago: U. of Chicago Press, 1973
- Milgram, Stanley, *Obedience to Authority: An Experimental View*, New York: Harper & Row, 1974
- O'Driscoll, Jerry P., "Professor Banfield on Time Horizon: What Has He Taught Us About Crime?" in *Assessing the Criminal: Retitution, Retribution and the Legal Process*, Barnett, Randy E., and Hagel, John III, eds., Cambridge, MA: Ballinger, 1977
- Pigou, Arthur, *The Economics of Welfare*, London: MacMillan, 1920
- Rizzo, Mario J., "Time Preference, Situational Determinism, and Crime," in *Assessing the Criminal: Retitution, Retribution and the Legal Process*, Barnett, Randy E., and Hagel, John III, eds., Cambridge, MA: Ballinger, 1977
- Rothbard, Murray N., "Toward a Reconstruction of Utility and Welfare Economics," San Francisco: Center for Libertarian Studies, Occasional Paper #3, 1977
- Smith, Adam, *An Inquiry into the Nature and Causes of the Wealth of Nations*, Chicago: U. of Chicago P., 1776/1976
- Stigler, George J., "The Economics of Information," *Journal of Political Economy* 69.3 (1961): 213-25
- Stigler, George J., and Becker, Gary S., "De Gustibus non est Disputandum," *American Economic Review* 67.1 (1977): 76-90
- Telser, Lester G., "Supply and Demand for Advertising Messages," *American Economic Review* 56.2 (1966): 457-66

Property Taxes in Pennsylvania

BY A VOTE OF 26-24, the Pennsylvania Senate this summer [1994] rejected House Bill 2202, which was in our opinion mislabeled, the "local property tax reform" legislative proposal. The bill would have enabled local governments to levy a 1 percent earned income/net profit tax; or a 1 percent personal income tax; or a 1 percent sales and use tax. However, local governments would have had to use 60 percent of those new revenues to reduce property taxes, eliminate nuisance taxes, or both. Alanna Hartzok of Scotland, Pa. had sounded the alarm last January (see GroundSwell) when a press conference promoting the bill was held by Pennsylvania Lt. Gov. Mark Singel, Senate Finance Committee Majority Chairman Michael Dawida (D-Allegheny), and Rep. Frank LaGrotta (D-Lawrence) who is a member of the House Appropriations Committee. HB 2202 had been previously voted out of the Finance Committee.

The second part of Alanna's strategy was the introduction of a local option bill enabling the two-rate tax to be extended to the Pennsylvania boroughs. Prime sponsor of HB 2532 was Rep. Jeffrey Olasz (D-Allegheny), after a two-rate tax was recommended to him by a Homestead consultant. Rep. Olasz chairs the Penn. House of Representatives Financial Services Sub-committee of the Business and Economic Development Committee. Among the 27 co-sponsors of HB 2532 was Rep. Jeffrey Coy (D-Chambersburg), who is House Majority Caucus Chairman. Introduction of HB 2532 was preceded by passage by the Chambersburg councilmembers of a resolution requesting that the state pass boroughs enabling legislation.

GroundSwell