



# Contraditório think tank

## Article

### The ideas trap: Portugal needs a handful of heroes | Luís Faria

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"We need to copy the policies of more successful countries and turn our backs on our failed national political tradition". We would hardly hear this idea from an elected political candidate in Portugal and that is the reason why we consistently have bad policies.

This paper offers a perspective of how bad performance is not self-correcting and why Portugal is trapped in bad ideas. But most important, this paper shows that the secret of a country's success lies in a handful of heroes, a key group of individuals with one or two outstanding leaders (Harberger, 1993).

Portugal shares three features with some unpleasant places in the world to live:

1. Low economic growth;
2. Policies that discourage growth;
3. Resistance to the idea that other policies would be better.

Caplan (2003) presents an interesting theory to explain this combination:

1. Good (bad) ideas cause good (bad) policies.
2. Good (bad) policies cause good (bad) growth.
3. Good (bad) growth causes good (bad) ideas.

The first two points of this "virtuous" (or "vicious") circle are commonsensical. The author explains the much less intuitive third point with the fact that income growth seems to increase economic literacy. Nevertheless, income level does not. This means that, for example, poor people whose income is rising – like recent immigrants – have more than the average amount of economic sense. However, rich people have less (Caplan, 2001).

We accept as illogical to embrace counter-productive ideas just because conditions are



getting worse, but that is what people seem to do anyway. In the midst of difficult times the bafflement, anxiety and the sense of incomprehension about market forces are inevitable when people must worry whether the household budget will be enough to feed the family and pay the bills.

What do we need then for anything to change? The bad news is that an economy in the idea trap usually stays in the idea trap. The good news is that once in a while a country may win a lottery – a government that tries a more free-market approach, which increases growth and improves the climate of public opinion that then, with some luck, re-elects a government embracing the same reforms.

But why does Portugal retain bad economic policies? Some literature (Rodrik, 1996) suggests as explanations: 1) risk aversion - voters prefer the bad policies in place to a reform gamble that might make policy even worse; and 2) time preference - reforms have long-term benefits but short-term costs. However, if we analyze the counterfactual of reform – no reform – and its consequences, even in the short run, then the impact of reform is extremely promising (Rodrik, 1996). And we have said before ([here](#) and [here](#)), based on circumstantial

evidence, that reform and good economic policies are possible even in the midst of a crisis.

But Portugal has a distinguishable approach to bad policies: it is widely accepted that voters admit bad policies as a cultural imperative – or in the words attributed to a Roman general: “In the confines of Iberia, there is a people who isn't ruled nor lets itself be ruled”. Thus, the resistance to the idea that other policies would be better is even greater. This widespread idea and the consequent resignation of a country sound like music to the ears of the status quo. But according to Caplan (2003) the long-term persistence of bad policies suggests that the probability of people realize their favoured policies are ineffective given that those policies are ineffective is low. When people do turn against earlier policies, this recognition is interpreted as a random positive shock to ideas and not necessarily the result of learning from experience.

“This government will be austere, uncompromising, and unpopular if that is what is required to achieve economic recovery”. This sentence could have been said in today's Portugal, but it was Mário Soares



who declared it in 1983 upon taking office as prime minister of Portugal<sup>1</sup>.

Portugal is a country trapped in bad ideas for decades. Good ideas require, for example, respecting budget constraints; preclude compromising with special interest groups that have been the beneficiaries of the harmful policies of the past; and pursued market-oriented policies.

The rapid move from import-substitution policies towards freer trade around the world is a good example of the idea trap and the effect of “luck”. Did countries change course because they “learned” that import-substitution policies were inefficient? If so why did it take so long to realize how bad that policy was? What new and extra information did they acquire that exposed their mistakes? Caplan (2003) highlights that the randomness of ideological shocks is correlated across countries mostly due to shared educational experiences and communication. If import-substitution policies in least developed countries were a negative ideological shock, the more recent move towards free trade as a positive cross-national ideological shock.

The conclusion is revealing about what to expect in Portugal. “Cross-national trends

were not coincidental, but in neither case was ideological shift an inevitable response to the evidence” (Caplan, 2003, p. 195). Then, even though low-growth countries could mimic successful countries by copying their policies, it is endogenously unlikely that they will.

If a Portuguese opinion maker or politician defends that a successful policy is inapplicable in the Portugal of 2013, we should see this person as a non-reformer or someone without the potential to jump start self-sustaining prosperity. If someone defends successful policies for years and when becomes a member of the government happen to be incapable of implementing them, it means that that person is not sufficiently competent or probably his/her good ideas were shattered by the status quo, damaging that person’s credibility. The “vicious” circle of bad policies will persist.

Instead of resisting to the idea that other policies would be better and with that perpetuating the “vicious” circle, we should all think about how to improve on the status quo. Resignation is not the solution and positive ideological shocks are possible:

“ [T]he policy would in all likelihood have failed (or never got started) but for the efforts of a key group of individuals, and within that

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<sup>1</sup> Quoted by Jose Maria Maravall in Luiz Carlos Bresser Pereira, Maravall, and Adam Przeworski (1993), in Rodrik (1996).



group, one or two outstanding leaders”, Harberger (1993).

It is time for Portugal to look further and move forward away from bad ideas.

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Luís Faria, Associate Researcher and President of the Executive Committee at Contraditório think tank

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