

Equilibrium Neglect and Political Feasibility

Abstract

When voters underappreciate the equilibrium effects of policies, efficient reforms become politically infeasible. I develop a general framework of equilibrium neglect, and use this framework to construct a portable and generally applicable remedy. Using off-path contingent rebates, a social planner can generate a policy that (i) implements the social optimum, (ii) is budget balanced and (iii) is politically feasible even in the presence of equilibrium-neglecting voters. In a survey experiment on congestion pricing with a large probability sample from six US metros, I show that respondents are overly pessimistic about traffic-reduction effects of congestion pricing, and that pessimism correlates with strong opposition to the policy. Adding contingent compensation that pays if traffic remains high significantly increases public support, especially among potential compensation recipients. Turning to the supply side of policymaking, I survey samples of state legislators and civil servants. Both groups recognize that contingent compensation increases public support, and legislators' own support for congestion pricing increases; civil servants, however, show a preference for more conventional tools.