

Might economists be partly to blame for Trump and moves towards a ‘full British Brexit’?



*The reasons for the Trump phenomenon and Brexit vote are many and various, but have we overlooked ways in which standard economics, by failing to take seriously the radical uncertainty endemic in modern political economies, has contributed to the populist turn? **Richard Bronk** argues that by mischaracterising their profession as able to make precise forecasts of uncertain futures – an impossible task – economists contributed to the current denigration of experts. More importantly, by assuming that people form rational expectations, they encouraged us to ignore the transformative power of simple narratives.*



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Economists notoriously disagree among themselves both at the level of analysis and in the normative and political positions they take. But, while it is possible to find economists who believe that Brexit might boost UK productivity and growth – thanks to increased possibilities for deregulation and new trade deals – the majority believe it will be extremely difficult to compensate for the loss of full access to the EU single market and the disruption of intra-EU supply chains by entering into new trade agreements with China, India, and an increasingly protectionist USA. Likewise, few serious economists argue in favour of Trump’s zero-sum game view of trade and believe that the USA can emerge unharmed from a trade war. So how does it make sense to hold economics as a discipline partly responsible for Trump’s populist policies, for the UK flirting with what **Boris Johnson** calls a ‘full British Brexit’, and perhaps more widely for the populist turn in Italy and elsewhere?

I argue that deep in the microfoundations of standard economics – and therefore in the intellectual DNA of most economists – lie three almost universally held and closely related assumptions that have, indirectly, had profound effects on contemporary politics. The first is the belief the future can be predicted, at least in probabilistic terms, with the help of good models and sufficient data on the past. The second is that radical uncertainty – as opposed to the sort of ‘risk’ amenable to objective probability functions – is, in practical terms, of little importance. The third is that, over time, economic and political actors will converge on rational expectations – that is, they will tend to

internalise correct models of how the economy works and avoid systematic errors in their forecasting because they would otherwise lose out in competitive markets to people with more rational expectations.

In a new book, *Uncertain Futures: Imaginaries, Narratives, and Calculation in the Economy*, Jens Beckert and I argue that all three of these assumptions are highly questionable. We argue that dynamic capitalist economies are characterised by relentless innovation and novelty and hence exhibit an indeterminacy that cannot be reduced to measurable risk and objective probability functions. In such conditions of radical uncertainty, there is no objective future already ‘out there’ on which the expectations of rational actors can readily converge. Instead, the future is still to be created by how the various actors interacting with each other imagine and wish it to be. Faced with uncertainty, economic actors have no choice but to combine hard-headed calculation with imaginaries and social narratives to form fictional expectations that coordinate action and provide the confidence to act.

The various contributors to *Uncertain Futures* examine how economic actors form expectations and make decisions *despite* the high level of uncertainty they face. The book demonstrates how grand narratives, central bank forward guidance, economic forecasts, finance models, business plans, visions of technological futures, and new era stories influence behaviour and become instruments of power in markets and societies; and it argues that the market impact of shared calculative devices, social narratives, and contingent imaginaries underlines the rationale for a new form of narrative economics. Particular attention is paid to how central banks expend huge efforts on crafting messages that can channel expectations and influence behaviour in a desired direction, while using conversation to glean the stories that are motivating other actors.

So why might themes from a specialist economics book that only tangentially covers the dynamics of politics have relevance for understanding the spread of populism? I argue they do so for two reasons:

First, the failure of standard economics to acknowledge the impossibility of prediction and objective probabilities in dynamic economic and political settings where high levels of product, technology, and policy innovation cause radical uncertainty has led the discipline (and those using it in support of public policy) to set up a false standard for judging the value of economists’ expertise. The value of economic analysis is not for use as some modern-day equivalent of consulting the tea leaves or the Delphic oracle to learn what precisely Fate has in store for us. Rather economic models are valuable in helping us discern the causal mechanisms at play and simulate how crossing key economic thresholds might lead to sharp changes in trend. Economic models are vital diagnostic tools that improve our ability to spot emerging patterns and understand general economic tendencies.

By ignoring this and allowing their own expertise to be mischaracterised as divining the future with precision, economists unwittingly contributed to contemporary cynicism about the role of experts. As one forecast after another was proven ‘wrong’ as a point forecast, the credibility of economic expertise suffered and the great strides that the discipline has made in analysing key causal mechanisms became increasingly ignored.

In the case of Brexit, for example, it was easy to ridicule official attempts to forecast the exact impact over one year of a vote for Brexit. The mistaken emphasis in official Treasury and other forecasts on predicting precisely a future that the public correctly understood was highly uncertain helped those who wished to denigrate the analysis and advice of experts as ‘fake news’ or ‘Project Fear’. This may prove to have tragic consequences since it appears increasingly clear that the majority of economic forecasters were in fact correct in their broad assessments of the likely implications of Brexit for sterling, real wages, investment and long-term growth rates, as the **Bank of England Governor** and the **Centre for European Reform** have recently observed.

There is a deeper sense in which the widespread tendency in economics to downplay the importance of uncertainty has contributed to current political trends. A whole generation of elites

has been trained to assume that voters and economic actors will tend – despite certain predictable behavioural biases – to converge on rational expectations and internalise the best available model of how the economy works. In a world of stable parameters and given preferences, with little or no product or policy innovation – where history is a good guide to the future – this assumption might be perfectly valid. Competitive forces would tend to favour those who rationally use the evidence available and calculate probabilities correctly. In such circumstances, it would be as unwise as it is offensive to assume voter irrationality.

The situation is, however, completely different in conditions of radical uncertainty – where rampant innovation and complex global interdependencies make the future highly indeterminate. In such circumstances, the expectations of voters and economic actors cannot be anchored in pre-existing probability functions; instead, their expectations relate to a future that is yet to be created by the choices and innovations that they and others will make. The crucial political implication of this is clear: once you accept that there is no uniquely rational or optimal set of expectations in any uncertain situation, then it follows that the set of expectations and narratives most likely to determine the political future by structuring decisions is likely to be as much a function of rhetorical, market, or political power as of available factual evidence or data.

In *Uncertain Futures*, Robert Boyer and David Tuckett argue that the greater the level of uncertainty the more key economic actors must rely on often simple narratives to guide their expectations and behaviour and make sense of the world. This is a lesson that (intuitively or otherwise) Trump, Johnson, Farage and other populists have learned. When the world is unstable and the future uncertain, people crave simple narratives about fantastic futures that can orient their expectations and give them the confidence to act despite the uncertainty they face. And since narratives tend – at least until their weaknesses are exposed – to create a future in their own image so long as sufficient numbers of people adopt them, the immediate future belongs to those who craft the most persuasive narrative while rubbishing all analytical challenges to the imagined future they conjure up. In a world of uncertain futures, economic and political outcomes are partly determined by those who have the market, political, or rhetorical power to make their visions, stories, and expectations count.

Those who want to fight populist attempts to mislead the public with simplistic imaginaries of making one’s country great again which ignore well-established causal mechanisms need to understand the transforming power of imaginaries, narratives, and stories in modern capitalist societies. There remains a key role for expert judgement and reason in discerning more or less plausible (or ethically acceptable) political imaginaries and narratives. But anti-populists cannot rely on reason, evidence, and calculation alone to win back the argument. They also need to learn to craft narratives and imaginaries that are rhetorically persuasive and emotionally appealing, as well as backed up by the best understanding available of the physical and economic constraints faced. The political and economic future of our societies will depend on the ability of political leaders to harness imagination, rhetoric, and reason to craft narratives that can guide us to create a better society for all our children.

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Note: This article gives the views of the author, not the position of EUROPP – European Politics and Policy or the London School of Economics.

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