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Research Report

Behavioural Economics Explanation: Trump's success and its impact for the next elections in Europe

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Dominik Enste

Trump's success and its impact for the next elections in Europe

Donald Trump is now the 45th president of the USA. Behavioral economics can explain why he was successful even though his positions are somewhat controversial. Furthermore, his success raises critical implications for Europe's next elections. Some of the main reasons for the success of populist politicians are explained.

Simple instead of complicated

In a complex world, people crave for simple solutions and easy decisions. The human brain has a limited capacity to process information. Processing facts requires efforts and concentration. That is why people rely on gut feeling and intuition based on own experience. This is faster, less exhausting and helps making good decisions. However, this process can lead to false conclusions. Especially, when people focus on obvious examples and cases, rather than on representative data. But people tend to ignore advice and findings from experts. Sometimes because they are poorly explained by experts – e.g. the negative consequences of protectionism, what Trump suggests to save jobs in the US. Sometimes because complex explanations are rarely presented in the media and can't be put in 140 letters like on

Twitter.

Bad News is good News

Humans are evolutionary trained to spend their attention primarily on bad news. This is an adaptive behavior in a dangerous surrounding to survive and is therefore deeply anchored in psychological processes. When it comes to news of globalization and offshoring of firms for example, people oftentimes just recognize the bad things, for example the shifting of jobs from their hometown to China. Meanwhile, they ignore what has been improved, like a wider and less expensive range of products. Consequently, if everything seems to be bad, people feel that it is time for change, because it can only be better afterwards. And Trump promised change and easy solutions.

Anti-Foreign Bias

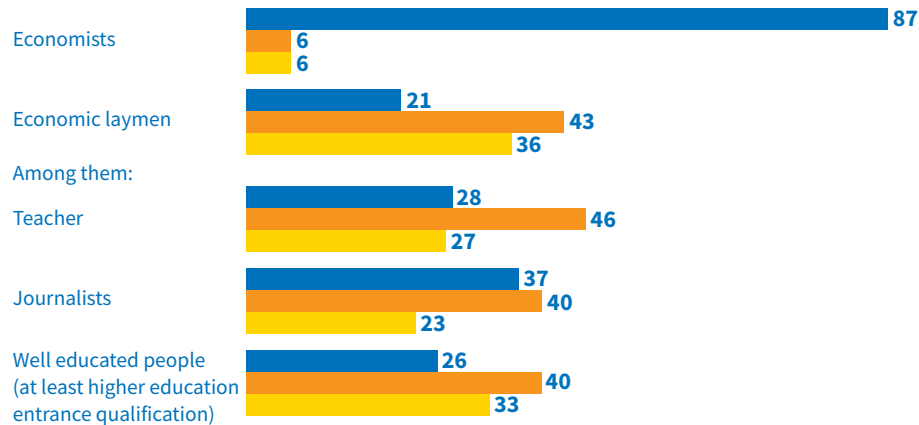
Global developments like digitalization evoke fear of social decline and job losses for vulnerable groups. In these situations people prioritize national interests. The so called "anti-foreign bias" describes e.g. that a job in the home country is valued much

Globalization – good or bad?

Question: How do you judge the increasing globalization worldwide?

Numbers in percent

— positive — neutral — negative



Survey with 480 economic laymen (including Teachers, journalists, well educated people) and 80 economists
Source: Fetchenhauer/Enste/Köneke, 2010

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higher and is also seen as more important than ten new jobs in a foreign country. Only 17 percent of the German respondents in a survey said that a loss of one job in their home country is acceptable, if this leads 10 new jobs in another country (Enste/Fetchenhauer/Haferkamp, 2009). The negligence of efficiency arguments was unrelated to the level of education. The general fear and suspicion of foreigners in a time of scarce jobs make it easy to blame “the others”. Caplan (2007, p. 36) warned, that this will lead to unreasonable decisions by politicians.

Anti-Market Bias

Trump is a businessperson and not an economist, who should have the welfare of all countries in mind. He underestimates (or systematically ignores) the economic benefits, interactions and the trade with foreign countries. His economic policy focuses on the interest of his home country which he aims to achieve by protectionism and less global competition. Nevertheless, the essential theories of comparative advantages and trade by David Ricardo are still applicable and relevant. That does not mean, that problems of certain groups (“forgotten white man”)

that lost due to globalization, must not be addressed and solved. Nevertheless, quick measures often have dramatic long term side effects. Non-economists often ignore such findings and the negative effects of protectionism and e.g. reverse protectionism. The financial crisis of 2008/2009 fuelled further mistrust towards the market systems and globalization. Many families have been affected and experienced financial losses. They often experienced that profit-seeking businesses were less affected. Hence, a direct trade-off between societal and business benefits are assumed which is seen as unfair.

Fixed Pie Bias

Humans intuitively value a distribution as fair that literally grants everybody the same piece of the pie. At the same time, the dynamics of growth are underestimated. The fact that a bigger pie can make everybody better off – at least in the long run – is less intuitive. This underestimation of the potential of the market mechanism is called anti-market bias or fixed-pie bias. The biases are subconscious patterns. They can explain, why many Americans voted for change. Figure 1 shows that the anti-market bias is

not a matter of education. Well-trained and well-educated people like teachers and journalists have the same doubts about capitalism and free trade.

Socially desired answers

After the victory of the “outsider” the question arises why polls and foresights did not predict the outcome. Pre-analyzed data never showed Trump’s victory but rather a preference for Clinton. Given the radical opinions of the republican candidate, she seemed to be the rather publicly acceptable and socially desirable choice. Not entirely convinced voters tend to answer in public surveys according to what they think is the public opinion, even though in private they have another opinion. However, in an anonymous situation like the election itself, voters can show their real opinion without running the risk to being socially judged by e.g. an interviewer or their peers. The same effect took place during the campaigns of the Brexit referendum in June this year when polls predicted another outcome. The decision is a low-cost-decision. Voters just have to tick one box in order to revolt. Just because they can do it and nobody knows.

“Bandwagon-Effect” in Europe

Europe’s far-right leaders see themselves confirmed and supported to lead a drastic political change. The right-wing politicians feel encouraged to try a political turnaround in Europe as well. They hope, the “bandwagon-effect” will give them additional support for their campaigns. This effect has been found in former elections. People tend to follow the trend and jump on the train that seemed to be successful.

Political Implications

A main reason for the success of right-wing and anti-market groups is the economic development and the increasing inequality in some countries without a functioning social welfare system. Therefore, economists and politicians will have to explain much better the pros and cons of the market system and

defend the political and economic institutions that contributed to a higher global welfare and more freedom. The negative side effects of competition and liberty should thereby not be neglected.

Schumpeter (1950) already stated that the market economy could (only) be destroyed by its own success. In other words, the market economy carries the seeds of its own destruction. The main causes of this gradual decline within the next 50 to 100 years – as he predicted in 1942 – would be its rejection by intellectuals, who would increasingly criticize the satisfaction of ‘mere’ material wants (consumer society) and secondly due to managers who would usurp the power of major public corporations: value-free functionaries in place of responsible and accountable owners and entrepreneurs.

In addition, the market economy depends on preconditions as a legally protected right to private property, an effective competitive framework and ethical values. If these preconditions do not (or no longer) exist, then irreparable structural faults will appear and cause the system to collapse.

It is time for a change – in communication, analyses and explaining economics. Business ethics and knowledge from behavioral economics can help to improve communication between and understanding of voters, people, politicians and economists.

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