How a quest by elites is driving 'Brexit' and Trump

By Neil Irwin
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What lesson should a card-carrying member of the economic elite take from the success of Donald J. Trump, and British voters' decision to leave the European Union?

Voters in large numbers have been rejecting much of the underlying logic behind a dynamic globalized economy that on paper seems to make the world much richer. For the bankers, trade negotiators, international businesspeople and others who make up the economic elite (including journalists like me who are peripheral members of it), this is cause for introspection, at least among those who aren't too narcissistic to care what their countrymen think.

Here is an overarching theory of what we might have missed in the march toward a hyper-efficient global economy: Economic efficiency isn't all it's cracked up to be.

Efficiency sounds great in theory. What kind of monster doesn't want to optimize possibilities, minimize waste and make the most of finite resources? But the economic and policy elite may like efficiency a lot more than normal humans do.

Maybe the people who run the world, in other words, have spent decades pursuing goals that don't scratch the itches of large swaths of humanity. Perhaps the pursuit of ever higher gross domestic product misses a fundamental understanding of what makes most people tick. Against that backdrop, support for Mr. Trump and for the British withdrawal known as Brexit are just imperfect vehicles through which someone can yell, "Stop."

In a poll of 639 British economists conducted in May, 88 percent expected that a vote to leave the European Union would depress British economic growth, yet 52 percent of voters approved it anyway. Only two of 40 leading economists, surveyed by the University of Chicago Initiative on Global Markets, agreed with the statement that a country can improve citizens' well-being by increasing its trade surplus or cutting its trade deficit, an idea that is a hallmark of populist rhetoric.

But what if those gaps between the economic elite and the general public are created not by differences in expertise but in priorities?

Consider an experiment published last year in the journal Science. Four economists tested people with a computer simulation in which they could either be greedy and keep tokens that had real cash value, or share them with others. The catch: If they shared them, the total number of tokens would decline. In other words, the more evenly the pie was divided, the less pie there was to go around. There was a trade-off between equality and maximizing income, a version of economic efficiency.

Among the general American public, about half of those who played the game favored equality over efficiency.

But the researchers also did the experiment at Yale Law School, an elite bastion filled with people who become Supreme Court clerks, White House aides and richly compensated lawyers. Among the Yale students who played the game, 80 percent preferred efficiency to equality. They were more worried about the size of the pie, apparently, than making sure everyone got a slice.

"The people who are destined to fill these elite positions tend to have a strong efficiency orientation," said Raymond Fisman, a Boston University economist and lead author of the study. "One underlying explanation may be that, if the system has been kind to you, and you find yourself at Yale Law School, you know you're going to make out O.K. in the end, and so you don't worry about widening the distribution of outcomes."

You can see versions of this play out in a wide range of areas. For example, economists almost uniformly argue that rent control laws are a terrible tool to try to make housing more affordable. As Paul Krugman once wrote, “the analysis of rent control is among the best-understood issues in all of economics, and — among economists, anyway — one of the least controversial.”

Yet among people grappling with soaring rents, the policies are persistently popular — even, recently, in the free-market-oriented boomtowns of Silicon Valley.

It’s easy for an economist to chalk up support for rent control as idiocy that depresses the home construction that might reduce housing prices for everyone. I have thought of it that way.

But maybe it is really important for people who live in a place to be able to stay there indefinitely. Maybe the idea that things should stay the way they are, without new people moving in and new buildings going up, is not as inherently irrational as Economics 101 would suggest. Yes, rent control is a bad idea if you’re worried about the long-term prospects for economic efficiency. But maybe the people who advocate these policies know exactly what they’re rooting for, and that’s not it.

The rent control debate can be viewed as a microcosm of the debate about globalization and international trade.

Some of the best analysis of trade agreements comes from the Peterson Institute for International Economics. Its examination of the pending Trans-Pacific Partnership is 119 pages and describes how the deal among the United States and 11 Pacific Rim nations will affect different industries and the economy as a whole.

It projects that the deal will add $131 billion a year to Americans’ incomes by 2030, or 0.5 percent of G.D.P. It will neither create nor destroy jobs, but is projected to add to churn — job changes — in the economy as work moves into higher-paying, more export-centric industries. The authors predict that the trade deal will mean an extra 53,700 job changes a year, but they note that 55.5 million people a year in the United States change jobs for all sorts of reasons, and that this extra churn will barely change those overall numbers.

But for a window into how this plays out among real people, consider an article in The Wall Street Journal in February. In that account, a woman named Andrea Howell holds down a good job at BMW’s manufacturing plant in South Carolina, making her one of globalization’s winners. She supports Mr. Trump, she said, because she doesn’t want other countries to beat the United States at trade, and because two uncles lost their jobs at a cotton mill that closed in the 1980s, presumably because of globalization.

To economists, 53,700 jobs churned each year is a small cost to be paid for a richer overall economy. To people who are among those 53,700, the pain may be enough to drive someone’s niece to vote for an antitrade candidate 30 years later.

So what’s a policy elite to do? Of course the only way a society can become richer over time is to increase national income. And if rigorous analysis shows that Policy X is the way to do it, the fact that Policy X is going to disadvantage a few thousand people often isn’t a reason to abandon the idea.

But there’s an obligation to think about individual lives. Life isn’t just about money, and jobs aren’t just about income. A sense of stability, of purpose, of social standing — all these things matter in ways that economic models don’t do a very good job of taking into account.

If there is one crucial lesson from the success of Mr. Trump and Brexit, it is that dynamism and efficiency sound a lot better to people who are confident they’ll always end up being winners.