

Brexit and the power of wishful thinking

By Tim Harford, Undercover economist

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So what happens now? As the aftershocks of the Brexit vote rumble on, people keep asking me to predict the future. I am not sure that is a useful exercise. But there's a lot to be learnt from examining the recent past. The unexpected result has important lessons for anyone who wishes to see what might be ahead.

The first is that wishful thinking is surprisingly powerful. A few years ago, economist Guy Mayraz conducted a simple experiment at the University of Oxford's Centre for Experimental Social Science. Mayraz ran sessions in which the participants were shown 90 days of "wheat prices" (actually based on historical price data) and asked to predict the price of wheat on the 100th day. In addition to being paid for accurate forecasts, half the participants were told they were "bakers" who would profit if the price of wheat fell, and half were "farmers" who would make money if the price of wheat rose.

Logically, a farmer should make the same forecast as a baker, since the forecast does not change the outcome, and both of them are paid for accuracy. If people want to hedge even these small bets, farmers ought to forecast a lower price so that if the unwelcome outcome happens, at least they're rewarded for their forecasting.

But that's not what Mayraz found. Instead, nearly two-thirds of farmers predicted higher-than-average prices, and nearly two-thirds of bakers predicted lower-than-average prices. People tended to predict that the dreams would come true.

The same seems to have happened to Remain supporters - a group that included most of the British and international political and business establishment. Months before the vote, betting markets suggested that the chance of a Leave vote was about one-third. Given the likely consequences of such a vote - including the collapse of the pound, the resignation of the prime minister and a prolonged period of rudderless uncertainty - a one-third chance was worth taking seriously. Yet most of the elite seemed unwilling to countenance it. That is wishful thinking at its finest.

The betting markets, influenced as always by the weight of money, may have been displaying some wishful thinking of their own. Even during a mid-June run where nine out of ten polls showed the Leave side ahead, the markets never gave Leave much more than a 40 per cent chance. With hindsight that seems odd.

The second lesson is that confirmation bias is everywhere: we are quite capable of clinging on to our beliefs by picking whatever facts support them. Remain voters now see the

catastrophe they expected; Leave voters see a gratifying shake-up that will turn out fine in the end. Contrary evidence is easily dismissed.

Eurosceptics claim that a drop in street footfall, a drying-up of job adverts and the emergency lockdown of property funds are not because real economic damage is in prospect, but because of gloomy Europhiles talking Britain down. The convenient thing about this argument is that it can never be falsified: recessions can always be blamed on the lack of faith of unbelievers.

I'm as guilty as anyone of confirmation bias. Like most economists, I expected that the consequences of a Leave vote would be ugly. The collapse of the pound and the FTSE 100 made me feel I was right, although really they demonstrated nothing more than the fact that traders shared my view. Yet when the FTSE 100 recovered, that did not reassure me. The index contains largely global companies and says little about the UK's economic prospects. I accepted bad news when it chimed with my beliefs, and dismissed good news when it did not.

Perhaps the most important lesson is that we spend too much energy trying to foretell the future, and too little trying to be resilient whatever happens. The referendum result was unpredictable but the likely short-term consequences of a Leave vote were clear. Former deputy prime minister Nick Clegg, aka "Mystic Clegg", outlined them in an article on the eve of the referendum that now seems clairvoyant. But most of what Clegg wrote could have been foretold by any well-informed observer who bothered to think through the consequences.

Perhaps Clegg learnt the trick of thinking things through from Vince Cable, his former colleague. Cable and I briefly worked together in the scenario planning department at Shell, a fascinating place to think about the future. Rather than making forecasts, good scenario planners sketch out possibilities and bring together people with different perspectives to work through the details. The end result will be several plausible, internally consistent and emotionally compelling stories about the future. The scenarios will highlight hidden connections and make distant consequences seem real. But, importantly, the scenarios will also contradict each other.

It's time for more serious scenario thinking about the UK's future in Europe. Because scenarios are persuasive stories, they can help us face up to uncomfortable prospects and think clearly about possibilities we would rather ignore. And because scenarios contradict each other, they force us to acknowledge that, in the end, we cannot actually see into the future. As a result, we move from a sterile question to a fertile one – from "What will happen?" to "What will we do if it does?"

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