



# Political economy with affect: On the role of emotions and relationships in political economics



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## ABSTRACT

This paper discusses and provides experimental evidence on the role of emotions and, in particular, the neglected role of endogenous affective relationships (bonding) in three key areas of political economy: (i) appropriation, with compliance or resistance as response; (ii) competition for access to appropriation and its potential for escalation and de-escalation of the inherent conflict; and (iii) determinants of (large scale) collective action. To that purpose, a series of experiments on power-to-take games and public good games are presented and put into perspective. Furthermore, the relevance of an affective social ties model for explaining these experimental findings is investigated. Finally, some important political economic implications are addressed.

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## 1. Introduction

Behavioral political economy fits into a broader recent strand of literature, labeled behavioral economics, which is trying to adapt the way behavior is modeled in economics. Instead of the exclusively self-regarding and extremely rational *homo economicus*, gifted with sheer unlimited calculative capacity and skills, a more realistic *homo sapiens* with severely constrained cognition and emotions, facing uncertainty rather than risk, is presently being carved out as model agent.

From an evolutionary perspective, the primate brain has developed more reflective (deliberative, cognitive) mechanisms only very recently, not as part of a complete overhaul of the brain, but as an adaptation of older more reflexive (impulsive, emotional) systems. For most of the time, these older systems (apparently) served us well to survive. Through innate behavioral repertoires like the fight-flight response, simple stimulus–response reinforcement learning, and affective bonding to beneficial others (e.g., attachment to caregivers),<sup>1</sup> they enabled us to cope with environments characterized by deep uncertainty, complexity, and danger.

In stark contrast, economic theory has developed an extreme focus on highly sophisticated (strategic) reasoning, often assuming unrealistic amounts of information, and taking a purely individualistic and self-regarding approach. Even though classic scholars like Spinoza (*Tractatus Politicus*), Smith (*The Theory of Moral Sentiments*) and Edgeworth (*Mathematical Psychics*) have already emphasized

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<sup>1</sup> Affective bonding involves kin as well as non-kin (friendships), see Seyfarth & Cheney (2012).

the importance of emotions and sentiments towards others, it is only now that more rigorous new theory, acknowledging these evolutionary old mechanisms, is taking shape through the efforts of behavioral economists.

Behavioral public finance and behavioral political economy have joined forces (McCaffery & Slemrod, 2006; Weingast & Wittman, 2006; van Winden, 1999, 2007). Cognitive issues that are being addressed are, for example: Do people focus on marginal effects (like marginal taxes) or more on average effects? Do people have sophisticated beliefs and long time horizons, or are they rather naive and myopic? Are individual choices consistent or – perhaps in particular contexts – subject to biases and heuristics? Can the influence of social groups be captured via standard methodological individualism? Important topics regarding emotions are: To what extent, and under what circumstances, can emotions (impulsivity) be controlled? Are emotions at best not costly or are they (sometimes) beneficial? Many scholars have argued that – for better or for worse – emotions play an important role in political economic matters (Rawls, 1983, Marcus, 2000, Walzer, 2004, Glaeser, 2005, Moisi, 2009, Nussbaum, 2013, Jasper, 2014). According to Walzer (2004, p130): “No political party that sets itself against the established hierarchies of power and wealth, no movement for equality or national liberation, for emancipation or empowerment, will ever succeed unless it arouses the affiliative and combative passions of the people at the lower end of the hierarchies. The passions that it arouses are certain to include envy, resentment, and hatred (...) They are also the emotional demons of political life (...)”

This paper focuses on emotions and, particularly, the neglected role of endogenous affective relationships (bonding) in three key areas of political economy: (i) appropriation, with compliance or resistance as response, (ii) competition for access to appropriation and its potential for escalation and de-escalation of the inherent conflict, and (iii) determinants of collective action. To that purpose I will discuss a series of experiments on power-to-take games and public good games and the relevance of a social ties model for explaining the experimental findings. Because of my focus and the space constraints of a single paper no exhaustive treatment of the role of emotions in political economy can be given. References should help the interested reader to navigate to additional literature.<sup>2</sup>

The organization of the paper is as follows. Section 2 goes into appropriation and the role of emotion in the response to comply or resist. It discusses the power-to-take game and the main experimental findings obtained with this game so far. Section 3 addresses the incentives and consequences of competition for access to appropriation. Section 4 goes into collective action and the role of relationships. An affective social ties model is presented and discussed regarding its scope and performance in explaining collective action in public good contexts. Section 5 uses the estimates of this model to explain some of the main findings presented before. Section 6 concerns important determinants of large(r) scale collective action related to emotions and relationships, while Section 7 ends the paper with some concluding remarks.

## 2. Appropriation and emotion<sup>3</sup>

Appropriation of others' resources is intimately connected to politics. It can be with or without the consent of the people that are targeted. Taxation easily comes to mind as an example. More generally, it involves the regulation and intrusion of people's life space, including such components as freedom of speech. In the past people have endured substantial appropriation against their will (including slavery), albeit with resistance where feasible (such as via tax evasion) and occasional outbreaks of revolt (Passarelli & Tabellini, 2013). Timely examples are the Arab Spring revolts and demonstrations in countries harshly hit by the Euro crisis. Such protests often show a large element of seemingly emotion driven behavior, although part of it – for instance, protest leadership – may be based on cold, calculative, strategic behavior (Kuran & Sunstein, 1999, Schram & van Winden, 1991).<sup>4</sup> It is important to improve our understanding of the driving factors of such responses to appropriation because of the material and non-material (psychological) costs involved. Due to its neglect of emotions, standard expected utility theory is not well equipped to do so.

Interestingly, classical writers like Thomas Hobbes and Adam Smith explicitly referred to emotions in the context of taxation. In *Leviathan* it is argued that: “(...) in all places, men that are grieved with payments to the Publique, discharge their anger upon the Publicans, that is to say, Farmers, Collectors, and other Officers of the publique Revenue.” (Hobbes, 1979 [1651], p53). In his maxims with regard to taxation in *The Wealth of Nations* Smith even suggested an emotional excess burden of taxation, due to vexation: “though vexation is not, strictly speaking, expense, it is certainly equivalent to the expense at which every man would be willing to redeem himself from it” (Smith, 1971, 1776, Book V). Manifestations of anger evoked by taxation and regulation abound in history (van Winden, 2007).

Anger is not the only emotion that is to be reckoned with, however. Two other prominent emotions are shame and guilt, which are evoked if the violation of a (social) norm is involved, in which case they trigger an action tendency to hide and to make up for one's misbehavior, respectively (Tangney & Dearing, 2002). These emotions may be relevant for understanding both the taxpayer's and the tax authority's behavior. For example, the taxpayer may experience guilt when evading taxes (Erard & Feinstein, 1994, Coricelli et al., 2010), while the tax authority may feel ashamed if confronted with enraged tax payers. When anticipated, these emotions may inhibit the behavior that will trigger them, because of the foreseen hedonic cost.<sup>5</sup> If the underlying brain mechanisms

<sup>2</sup> For an excellent introductory textbook on emotions, see Oatley & Jenkins (1996). An emotion arises when an event is being appraised as relevant to one's interests. Emotions have a direct hedonic quality. The processes underlying emotions are unconscious and cognitively impenetrable. One cannot simply choose an emotion. Emotions involve physiological changes (arousal, visceral responses) and bodily changes, like facial expressions. Central to an emotion is an action tendency. Affect is a general term for emotions, moods, feelings, sentiments.

<sup>3</sup> This section borrows from van Winden (2007).

<sup>4</sup> Passarelli & Tabellini (2013) take as starting point the idea that political unrest is largely motivated by emotions: “Individuals participate in costly political protests because they are aggrieved and feel that they have been treated unfairly.” (Passarelli & Tabellini (2013), p2).

<sup>5</sup> Erard & Feinstein (1994) incorporate guilt and shame directly into the utility function, assuming that a taxpayer will experience guilt when s/he underreports and escapes detection, and shame when s/he underreports and gets caught. Their results show that accounting for moral sentiments this way helps explain tax compliance behavior. See also van Winden & Ash (2012).

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