

Emotion-Driven Negative Policy Bubbles

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Do Emotions Play an Important Role in Bubble/Crash Dynamic?

- What is the role of emotions for the formation of expectations?
- What is the role of emotions in feedback processes?
- Under what conditions does one type of emotion dominate another?
- To what extent does one type of emotion affect the magnitude of bubbles relative to other types and a neutral condition?
- To what extent does inducing positive/negative mood lead to higher deviation from fundamental values?

Examples of Systematic Undersupply of Public Policy

- The response of the U.S. government to the AIDS epidemic
- The response of the U.S. government to the poverty of African American mothers (*The Politics of Disgust*, Hancock 2004)

Definitions

- Emotions refer to particular feelings (e.g., sadness, anger) that are “intense, short-lived, and usually have a definite cause and clear cognitive content” (Forgas 1992, 230).
- Emotional sentiments represent enduring emotional dispositions towards a person, group, or symbol (Arnold 1960; Frijda, 1986, 1994).

Why Focus on Emotions?

- Emotions constitute a central element of the human repertoire
- Emotions play a pivotal role in shaping individual and societal responses to events
- Emotion contribute to the evolvement of a social context that maintains the emotional climate and collective emotional orientation that have developed

(Bar-Tal et al. 2007)

Information Processing and Emotions

- Pervasive shortcomings in human judgment
 - Dual models of information processing (e.g., Finucane et al. 2003; Kahneman 2011)
 - The John Q. Public model of information processing and motivated reasoning (Lodge and Taber 2013)
 - “[...] all thinking is suffused with feeling, and these feelings arise automatically within a few milliseconds [...] of exposure to a sociopolitical object or event” (p. 19)

Mechanisms Leading to Systematic Undersupply of Policy

- Institutional frictions, which result from the interaction of decision costs and cognitive costs (Jones and Baumgartner 2005; Baumgartner et al. 2009)
- Policy drift, which results from the failure of policy makers to update policies due to pressure from actors exploiting veto points in the political process (Hacker 2004)
- Loss aversion, which results from the tendency of individuals to strongly prefer avoiding losses to acquiring gains (Weaver 1986; Hood 2010)
- Trade-offs over time, which result from governmental unwillingness to inflict immediate pain on citizens for gains that will only arrive over the long run (Jacobs 2011).

Why Focus on Negative Emotions?

- Powerful barriers to compromise (Hatred, Despair, Disgust, Apathy, Anger, Fear/Anxiety)
- Historically, the core focus of studies regarding emotions in conflictual situations has been on the role of negative rather than positive emotions

Why Use the Term “Negative Bubble”?

- The term negative bubble is common in finance where it refers to a process characterized by pressures towards panic accompanied by strong herding leading to disproportionate selling (e.g., Sornette and Cauwels 2014).

What are negative policy bubbles? (1)

- A *negative policy bubble* refers to government underinvestment in a policy instrument below its instrumental value in achieving a policy goal which is sustained by self-reinforcing processes over a relatively long period of time

(adapted from Jones et al. 2014)

What are negative policy bubbles? (2)

- *A negative policy bubble* refers to policy underreaction which is propelled by self-reinforcing processes over an extended period of time (Maor 2015).
- *Policy underreaction* refers to
 - “systematically slow and/or insufficient response by policymakers to increased risk or opportunity, or no response at all” (Maor 2014, 3).
 - **a policy whose actual net utility** (i.e., the difference between objective and subjective benefits and objective and subjective costs of policy) **is smaller than a counterfactual net utility** (the difference between the objective and subjective benefits that would have occurred if there had been a response, and if this response had been sufficient and timely, and the objective and subjective costs that would have been incurred if there had been a response, and if this response had been sufficient and timely (Maor 2014).

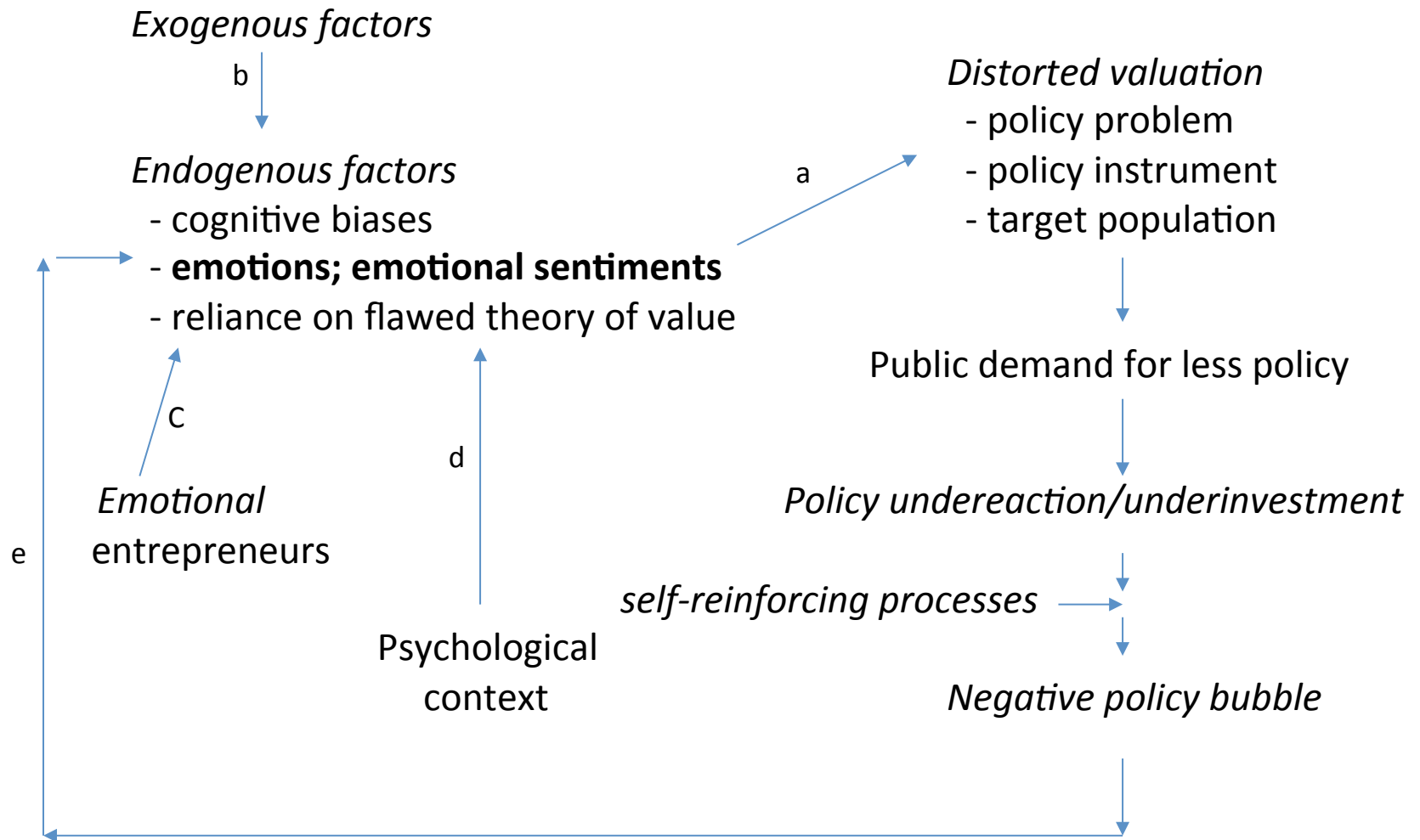
Social Construction; Emotions

- Negative bubble in policy problem: when we regard a problem as less important than it is objectively
- Negative bubble in policy instrument: when a certain instrument becomes deflated in its value relative to objective merit
- Negative bubble in target population: when we regard a target audience as less deserving than it is objectively

Causes of Negative Policy Bubbles

- A negative policy bubble is derived from a negative bubble in a policy problem (and reinforces it)
- A negative policy bubble is derived from negative bubble in a policy instrument (and reinforces it)
- A negative policy bubble is derived from a negative bubble in target group (and reinforces it)
- A negative policy bubble is derived from combination of the aforementioned factors

How Do Emotion-Driven Negative Policy Bubbles Start?



How Do Emotion-Driven Negative Policy Bubbles Grow?

- Cognitive and Emotional Evaluation
- Policy Calibration
- Social Information Processing (Simon 1983)
- Emotional Contagion
- Herd Behavior

Lock-in Effect

- External threats paralyze decision makers
- Loss aversion behavior
- Blame avoidance considerations
- Problem denial
- Congealed preferences
- People internalize the causal story of policy
- People become emotionally committed to policy
- Policy monopolies
- Bureaucratic incentives

How Do Emotion-Driven Negative Policy Bubbles Burst?

- Self-reinforcing processes may be interrupted or terminated following modest changes
 - Endogenous, such as a shift in public attention, declining pessimism
 - Exogenous, such as positive external events
- Emotion down-regulation by emotional entrepreneurs
(Maor and Gross 2015)
- Negativity bias is reduced when the information environment becomes predominantly negative; “when things are particularly bad, we start focusing on the positive” (Soroka 2014).

Identifying Emotion-Driven Negative Policy Bubbles

- An Attentional Perspective
- A Transmission Perspective
- An Attitudinal Perspective
- An Experimental Perspective

Research Agenda

- What is the role of emotions for the formation of expectations?
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