

Political Implication of Loss Aversion

Robert Jervis

Week 6 Note pool

Jiyeoun Song

* This article explains many international affairs, focusing on wars and conflicts among states based on “prospect theory.” Based on this theory, states/leaders are usually much more concerned about their losses rather than their gains. Jervis continuously emphasizes the psychological reason, like “fear” of breaking the status quo, as a crucial variable for a state to determine its foreign policy.

Introduction

* Prospect theory: “People tend to be risk-averse for gains but simultaneously to be risk-acceptant for losses.” (p.23) The peculiarity in this theory is that “ the reference point-usually the status quo-is crucial”(p.23) to explain actors’ behaviors. The theory pays more attention to psychological reason rather than rationality.

General effects of loss aversion

* Prospect theory (more psychological reason) shows better why people would persevere in losing their own property than rationality can explain it. (Based on Jervis’s argument) Examples) the Vietnam War, the Ford administrations’ reaction to the possibility of a swine flue epidemic (pp.26-27)

Effects on Bargaining, Deterrence, and Causes of War

* The responses of actors against losses are more various compared with against gains. These responses against losses can be also applied to the relations-conflicts and bargains-among states.

* Some implications. (pp. 28-29)

- 1) A state will be willing to pay higher price and run higher risks if it is facing losses than if it is seeking to make gains.
- 2) Coercion can more easily maintain the status quo than alter it.
- 3) Conflicts and wars are more likely when each side believes it is defending the status quo.
- 4) It can explain a superpower’s threat to intervene in a local conflict during the Cold War.

War –Peace Decisions

* Historical evidences that “ fear” caused or motivated the wars

Ex) Saddam Hussein’s attack

 Japan’s attack toward Great Britain and the US

 German motivation in 1914(In this case, the motivation was mixed with expansion)

 Israel’s 1967 war

* Some exceptions which “expansion” or “desires” provoked the wars or conflicts.

Ex) Hitler, Bismarck

Although there are some exceptional cases mentioned above, “fear of loss” can generally describe the causes of the wars and a preventive war

* In some cases, the different perception of the “reference point”, which the gap between the desired state of affairs and the current one can lead to high risk-taking.

Crisis Stability

Renormalization

* Renormalization

: The length of time it takes for actors to adjust to a new status quo.(p.35)

Implication for Social Efficiency and Stability

Methodological Difficulties

To evaluate the prospect theory, there are some methodological difficulties related to the *measuring variables and designing research model*. .

- 1) The endowment effect is difficult to verify because states and people in society are not given things like in labs
- 2) The measurement of the added valuation
- 3) Designing the framework for experiments. In reality, frameworks of international issues are constructed by actors themselves, not by other operators.
- 4) The measurement of the subjective utility of various outcomes