

WTI Tea Time Talk



Title

Beyond Rational Choice: The Behavioral Political Economy of Protectionism

Speaker

Prof. Dr. Anne van Aaken, Alexander von Humboldt Professor, Chair for Law and Economics, Legal Theory, Public International Law and European Law; Director of the Institute of Law and Economics, University of Hamburg,

When

Thursday
20 June, 2019
16.30-17.30

Where

Anna Nussbaum Auditorium
World Trade Institute
Hallerstrasse 6, 3012 Bern

[For PhD students: This lecture in law is eligible as part of the PhD seminar series.](#)

Abstract

State behaviour to foreign trade is traditionally explained by rationalist approaches, assuming a two-level game. The classic political economy account models the behavior of states or their governments on the international plane by reference to the formation of domestic interests within a given state. Voters, interest groups and politicians are viewed as rational actors in this model, pursuing their economic preferences without cognitive or motivational distortions. Trade policy is understood as an outgrowth of a political process that does not necessarily give rise to aggregate welfare maximization. This article questions the sufficiency of the rational choice model in the formation contemporary trade policy. Rather, we propose to explore the added explanatory potential of behavioral economics and behavioural political economy. Psychological experimental research shows that in contrast to the expected utility model used in economics and international relations theory, actors are only boundedly rational, and systematically have other-regarding preferences (both positive and negative). Decisions also depend on contexts and framing effects that depart from the rationalist axiom of “descriptive invariance.” Prospect theory in particular describes the manner in which people choose between probabilistic alternatives involving risk. Most fundamentally, individuals are loss averse with an asymmetrical attitude towards gains and losses. Loss aversion seems especially promising in understanding the impact of claims of trade deficits in shaping the Trump administration trade policies towards China and other major economic actors like the European Union. There are additional psychological kinks in rationality that are systematically substantiated by scientific experiments in cognitive psychology. For example, under the availability bias, people tend to think that risks are more serious when an incident is readily called to mind. Starting from the political economy story of trade, this article will explore the real world deviations of the rationalist expected outcome by drawing on cognitive psychology; we deem to be able to explain better the current trade wars.