

AFFECTIVE PUBLIC CHOICE

Frans van Winden
CREED – Department of Economics
University of Amsterdam
f.a.a.m.vanwinden@uva.nl

March 2006

José Casas Pardo and Pedro Schwartz (eds.)
Public Choice and the Challenges of Democracy
Edward Elgar, 2007, pp. 45-61

1. Introduction

The economic theory of political decision making, also labelled public choice or political economics, has seen an impressive development over recent decades. It is no longer (strongly) contested that political agents deciding on government policies are no exception to the motivations driving economic behavior in the private sector. But, what are these motivations, more precisely? Even allowing for the presence of people that are not only promoting their own narrow selfish interests, the following phenomena are puzzling:

- 1) mass protests and mass voting even if those involved run a serious risk to lose their lives (like recently in Iraq, Ukraine, Lebanon, Belorussia);
- 2) the explosion of riots in the *banlieues* of Paris;
- 3) the socio-political impact of terrorism;
- 4) suicide bombing;
- 5) maintenance of a costly monarchy with related national rituals in full-blown democracies where the monarch has no formal power;
- 6) Soviet premier Nikita Khrushchev removing his shoe and banging it on the table during a UN conference in 1960 (calling Filipino delegate Sumulong “a jerk, a stooge and lackey of imperialism”).

The first two phenomena are puzzling if one assumes, as in the theory of collective action, that political participation is the outcome of a rational cost-benefit analysis. Why would people risk their lives in that case? And why all of a sudden these French riots, without any clear changes in the individual economic benefits and costs of participation? The third phenomenon is hard to understand in view of the small chances of getting involved in terrorist attacks. The others are also difficult to explain from a rational point of view, although not always impossible with a stretch of the imagination.¹

In this paper I will argue that it is due to our neglect of the affective side of human decision making that we find it difficult explaining these and other political economic issues to be addressed below. For example, I will claim that taking into account the action tendencies of emotions like resentment, hatred, shame, fear, and hope makes the kind of behavior mentioned under the first four points better understandable and predictable. Similarly, to understand phenomena like those mentioned under points five and six it seems helpful to

¹ For example, the belief in an attractive afterlife may explain suicide bombing if the perceived chance to get there is sufficiently high.

reckon with the affect component of social identity and the impact of anger, respectively. To phrase the goal of this paper in a more polemical way: *he who cannot stand the heat should stay out of politics (and public choice)*.

The organization of the paper is as follows. Section 2 starts with some historical methodological issues. Then, section 3 briefly addresses the nature of emotions. The next three sections are concerned with the significance of affect for some broad functional areas of public finance: taxation and regulation (section 4), expenditure (section 5), and collective action (section 6). Section 7 concludes.

2. Back to the roots

A important decision taken by the pioneers of public choice (Downs 1957; Buchanan & Tullock 1974 [1962]) was to equate the behavioral motivation of *homo politicus* with that of *homo economicus*. Whereas the latter model agent, with its determining characteristic of rational self-interested utility maximization, figured pre-eminently in the way economists studied the behavior of producers and consumers in the private sector, the assumption of a benevolent dictator dominated in Public Finance. It was a daring step, with wide-ranging implications, to apply the same fundamental behavioral assumption to politicians and bureaucrats in the public sector. It revolutionized the way economists thought about politics.

From a research-strategic point of view, the consistent claim that these pioneers made was the best they could do, given the reigning paradigm of neoclassical economics. However, they could have taken an even more daring step, challenging simultaneously the maintained view of how people behave in the private as well as the public sector. They could have opted for a ‘warmer’ model agent, an agent with a ‘heart and a mind’. And they would have been in some very good company, pleading for such a view. It is gradually realized among economists that the second great book written by founding father Adam Smith – *The Theory of Moral Sentiments* [1759/1790] – is equally important for understanding economic decision making (Smith, 1998; Ashraf et al., 2005). Especially, if markets are not involved, for which *The Wealth of Nations* [1776] may be more appropriate. According to Adam Smith, morality is rooted in feelings, like shame and guilt, which play an important role in decision making.

Perhaps even more appropriate would be to refer to Spinoza. In an appendix to his path-breaking work with Gordon Tullock – *The Calculus of Consent* –, James Buchanan notes: “Spinoza’s work, in many respects therefore, may be taken as the most appropriately chosen classical precursor to that of this book.” Reading Spinoza’s *Tractatus Politicus* [1677] makes this perfectly clear. But Spinoza went much further. The next two quotes from the English translation by Elwes (1951) illustrate Spinoza’s position: “For they [philosophers] conceive of men, not as they are, but as they themselves would like them to be. Whence it has come to pass that (...) they have never conceived a theory of politics, which could be turned into use (...)” (p.287); “And that I might investigate the subject-matter of this science [politics] with the same freedom of spirit as we generally use in mathematics, I have laboured carefully, not to mock, lament, or execrate, but to understand human actions; *and to this end I have looked upon passions, such as love, hatred, anger, envy, ambition, pity, and the other perturbations of the mind, not in the light of vices of human nature, but as properties (...)*” (p. 288; my emphasis). Incidentally, according to Schumpeter (1972, pp. 126-127) every economist ought to be able to repeat the last sentence on his deathbed.

Thus, we find two great scholars, that can be regarded as founding fathers of (political) economics, pleading for the incorporation of affect in our conception of what drives human beings. How to deal with this? Of course, one could argue that emotions and the like are just noise or correlates of what economists already take into account. As Buchanan and Tullock rightly emphasized, the crucial insight is that: “A shift of activity from the market sector [to the political sector] cannot in itself change the nature of man (...)” (*op. cit.*, p. 306). But, they also wrote: “The ultimate defense of the (...) behavioral assumption must be empirical” (*op. cit.*, p. 28). So, let the data speak. To prepare our discussion, we will first say something about the nature of emotions in the next section.²

3. Emotions

An emotion arises when an individual appraises an event as being relevant to an important concern or interest (e.g. Oatley and Jenkins 1996).³ If the interest is advanced, a positive

² Affect is a general term for emotions, moods, feelings, sentiments. Because we do not need a stricter definition in this paper, we will use the terms affect and emotion interchangeably.

³ This section borrows van Winden (2001).

emotion arises. If the interest is thwarted, a negative emotion is generated. Emotions have a direct hedonic quality. Although emotions may entail a conscious feeling, the processes underlying emotions are unconscious and are not cognitively penetrable. In this sense, they are involuntary or unbidden; one cannot simply choose an emotion. Emotional processes are accompanied by physiological changes (arousal, visceral responses) and may lead to bodily changes, like facial expressions. Central to an emotion is an action tendency, an urge to execute a particular action. According to Frijda (1986), these action tendencies – of the approach or avoidance type – can be considered as programs that have a place of precedence in the control of action and of information processing. Whether an action tendency will actually lead to some action depends on the influence of further appraisals regulating the emotional process. It involves a more refined context evaluation, the checking of coping possibilities, and the measuring out and trading off of the possible implications for the individual's interests. The impact of these higher-order appraisals (Lazarus 1991) depends on the intensity of the emotion, determined by factors like the importance of the interest involved, the reality and proximity of the emotion eliciting event, the level of arousal, and the degree of unexpectedness (Ortony, Clore, and Collins 1988). If the intensity is strong it may surpass a point of no return or regulation threshold (Frijda 1986), leading to a mode of operation where we just react rather than think. Goleman (1996) speaks of emotional hijacking, in that case.

In the sequel, we investigate the significance of emotions for several functional areas of government decision making.

4. Taxation and Regulation

This section is concerned with the most characteristic government function: taxation. Taxation stands for forced transfers, implying the use of coercion. Regulation can be seen as a form of taxation, because, through the constraints that it imposes, it enforces a change in the utility or profits of the regulated (“taxation by regulation”). Classical authors like Hobbes and Smith already pointed at the emotional dimension of taxation. According to Hobbes (1973 [1651], p. 53): “(...) 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.” Adam Smith, in his maxims with regard to taxation, even explicitly referred to the excess burden of the “vexation” caused by taxation: “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).

Smith’s observation brings me to a novel issue concerning government policies: *emotional hazard* (Bosman & van Winden 2002). Emotional hazard refers to welfare losses (excess burdens) due to emotional responses to the decisions of policymakers.⁴ We will illustrate this below with experimental evidence from a decision situation capturing some fundamental aspects of taxation: the power-to-take game. Taxation involves the coerced appropriation of resources. As argued by Hobbes and Smith, psychologically this induces the emotion of anger on the side of the taxpayer, characterized by an action tendency of aggression, which may lead to welfare losses. Manifestations of anger by taxpayers include the well-known phenomena of the destruction of crops by farmers and road blockades by truckers. Tax revolts, with a strong emotional component, are historically a steady companion of taxation. Dramatic cases in point are the levy by the Duke of Alva which sparked the 80-year war between the Dutch and the Spanish, the American revolution against England, and (albeit less dramatic) the more recent revolt against the poll tax that contributed to the fall of Mrs. Thatcher. Welfare losses related to emotional responses to taxation may show up directly - as in case of the destruction of crops - but also indirectly. The latter happens when the frustration caused by taxation leads to an emotional response to reduce effort (labor supply) which is to be distinguished from the (reasoned) price-distortion induced substitution effect acknowledged in tax theory. Note, furthermore, that these behavioral responses make lump-sum taxation no longer a guaranteed efficient tax instrument, one of the main tenets of the theory of optimal taxation.

In addition to anger, taxation may also evoke the emotions of shame and guilt, both in the taxpayer and the levier of the tax (the taxman), with an action tendency to make up for one’s misbehaviour (if this is perceived to be possible). These emotions are triggered if a (social) norm is violated. This may happen to the taxpayer in case of tax evasion (see, e.g., Erard & Feinstein, 1994) and to the taxman if taxpayers react angrily to a tax. It follows that if shame and guilt are underdeveloped in those involved or if norms related to taxation or tax evasion

⁴ More generally, these effects may also be related to a lack of emotional responses (as in case of the absence of shame or guilt; see section 5). In principle, emotional responses can also lead to welfare gains (negative losses).

are weak (or insufficiently internalized) these emotions cannot bite. In those circumstances, less inhibition of tax evasion and excessive (grabbing hand) taxation can be expected.⁵

Note that in making their decisions people may anticipate their emotions. In case of anticipated emotions like anger and shame, with a negative hedonic value, an additional cost will be perceived, which makes the activity concerned less likely. For example, concerning tax evasion, Erard & Feinstein (1994) incorporate the anticipated moral sentiments of guilt and shame directly into the utility function, hypothesizing that a taxpayer will feel guilty when s/he underreports and escapes detection and will feel ashamed when s/he underreports and gets caught. Their results indicate that accounting for moral sentiments helps explain compliance behaviour.

Evidence from power-to-take experiments

We will now illustrate the importance of anger and shame (guilt) in situations resembling taxation with evidence from experimental studies of the power-to-take game (introduced in Bosman & van Winden 2002). The (basic) power-to-take game is a one-shot, two-person, two-stage game, in which a proposer and a responder are randomly and anonymously matched. Both the proposer and the responder are endowed with an equal amount of money or income. At the first stage of the game, the proposer can make a proposal of how to divide the responder's [!] income. Then, at the second stage, the only action the responder can take is to destroy own income and (s)he can do this in any proportion, ranging from 0 to 1. More formally, let the proposal of the proposer at the first stage of the game be indicated by the *take rate* $t \in [0, 1]$, which is the part of the responder's income E_{resp} that will be transferred to the proposer after the second stage. At the second stage, the responder decides on the *destruction rate* $d \in [0, 1]$, the part of E_{resp} that will be destroyed. For the proposer the payoff of the game thus equals the transfer $t(1-d)E_{resp}$, generating a total earnings of: $E_{prop} + t(1-d)E_{resp}$ (where E_{prop} denotes the proposer's income at the start of the game). For the responder, the payoff equals $(1-t)(1-d)E_{resp}$, which also determines this player's total earnings. Note that the initial income of both the proposer (E_{prop}) and the responder (E_{resp}) is exactly the same ($E_{prop} = E_{resp}$) and leaves no doubt about property rights.

⁵ Moral hazard in insurance may be a form of emotional hazard, because the change in risk attitude once insured (e.g. less careful behavior) can be due to a lack of shame and guilt (moral sentiments).

The following behavior is typically observed.⁶ The mean as well as the median take rate of the proposer is about 60% (which amounts to a claim of 80% on total income). Responders destroy about 8% of their income when the proposer’s claim is below 60%, whereas 58% is destroyed if the claim exceeds 80%. Furthermore, in several experiments concerning this game emotional arousal was measured using self-reports and skin-conductance measures.⁷ A consistent and robust observation is that destruction of income is significantly related to the experience of anger-like emotions (anger, irritation, contempt), as illustrated by Figure 1.⁸ This relationship bears out the emotional hazard involved in taking. Moreover, it turns out that responders’ destruction and anger are particularly related to being negatively surprised (the gap between take rate and expected take rate) and *not* to the perceived unfairness of the take rate; see Figure 2.⁹ The figure shows that people who did not destroy were typically ‘pessimists’, that is, they expected a higher take rate than the one they were confronted with, while ‘optimists’ (who expected a lower take rate) typically destroyed their income.

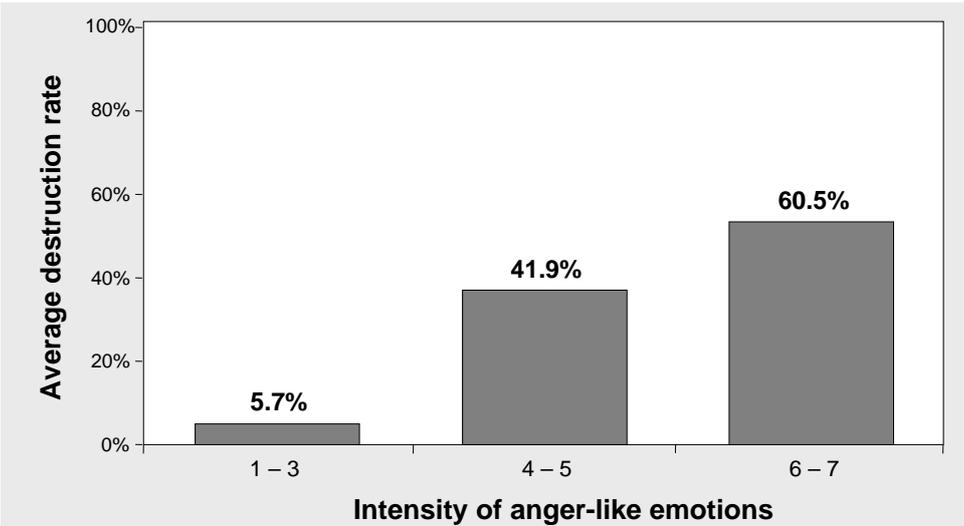


Figure 1. Anger and destruction

⁶ See Bosman et al. (2005). The results are taken from the (‘no-effort’) case where income is not earned but simply given as an endowment.

⁷ See van Winden (2001), Bosman & van Winden (2002), Ben-Shakhar et al. (2004), Bosman et al. (2005), Reuben & van Winden (2004), Reuben & van Winden (2005). According to Robinson & Clore (2002, p.934): “Self-report is the most common and potentially the best (...) way to measure a person’s emotional experiences”.

⁸ Based on data from the experiment of Reuben & van Winden (2004).

⁹ See Reuben & van Winden (2004). In Reuben & van Winden (2004, 2005) proposers and responders were asked at the end of the experiment what they considered to be the fair take rate.

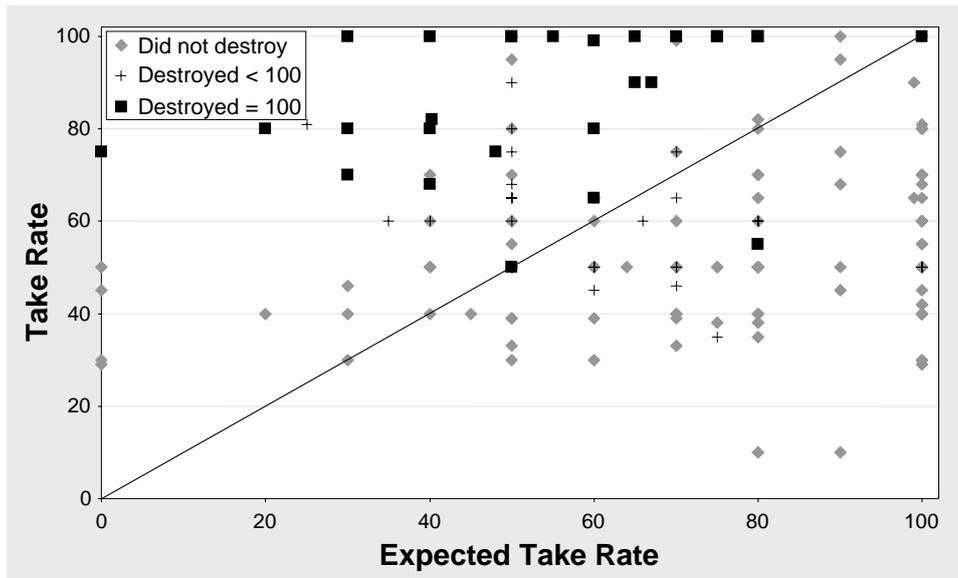


Figure 2. Destruction: optimists vs. pessimists (similar results for anger)

Whereas anger plays a significant role in the responder's retaliation decision, shame appears to be important in the proposer's (taker's) decision to choose a lower take rate. Its role is linked to the take rate that the proposer perceives as fair. The following results come from a repeated power-to-take game, where participants had to play the game twice (Reuben & van Winden 2005). Proposers who lowered their take rate in the second game (against a new randomly chosen responder) were in particular those who experienced a high intensity of shame at the end of the first game. Moreover, the experience of shame was particularly strong if the chosen take rate exceeded the perceived fair take rate *and* destruction was observed.¹⁰ Figure 3 illustrates.

¹⁰ Similar results are obtained for guilt. Proposers who increased their take rate typically did so after facing no destruction and the experience of regret.

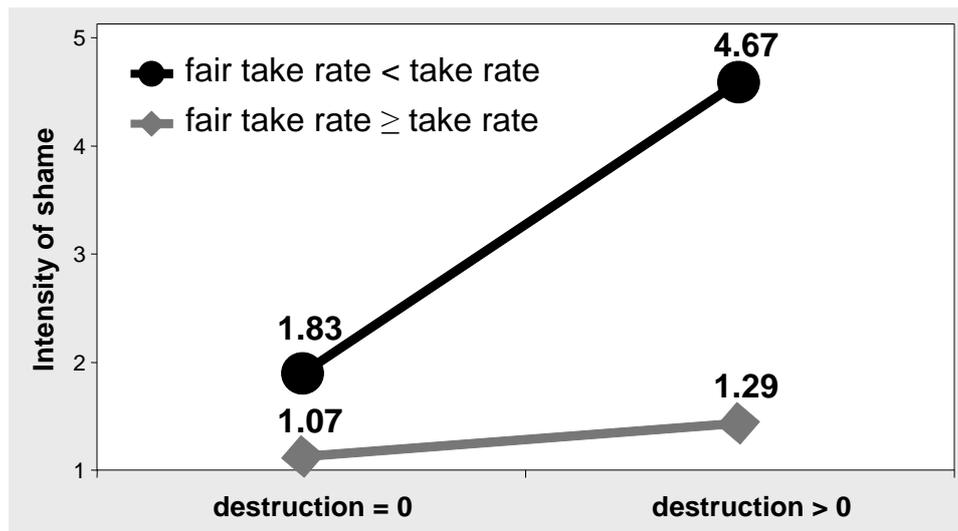


Figure 3. Fairness, retaliation, and shame

For taxation these findings suggest, on the one hand, that (the threat of) retaliation by angry taxpayers functions as a means to enforce norms regarding taxation. On the other hand, the anticipation of shame or guilt can motivate taxmen to restrain themselves, that is, to comply to an existing norm.

5. Expenditure

In this section I want to discuss three issues related to government expenditure. The first issue deals with an asymmetry in the emotional responses to taxation and expenditure, the second concerns entitlements, and the third relates to moral hazard.

Good vs. bad

Whereas taxation – the coerced transfer of resources – in itself is likely to generate negative affect, the benefits that taxpayers derive from government expenditure may induce positive affect (like joy or gratitude). Although for a formal economist expenditure may be like negative taxation, from an affective point of view this symmetry does not hold. Positive emotions are different than negative emotions.¹¹ Different brain systems appear to be involved. Whereas negative emotions stimulate attention and focusing, positive emotions are more associated with exploring, experimenting, and creative problem solving. Also, people's

¹¹ See, e.g., Leith & Baumeister (1996), Ashby et al. (1999), Raghunathan & Pham (1999), Cacioppo et al. (2004).

perception, thoughts (memories), and judgement tend to be biased toward greater negativity (positivity) in case of a negative (positive) mood, an effect known as mood congruency. Moreover, whereas at low levels of activation positive stimuli appear to have a greater impact, a negativity bias shows up at higher emotional intensity levels (Cacioppo et al. 2004; see also Offerman 2002). One potentially important consequence of this asymmetry is that it can help explain why incumbents are hurt more by deteriorating economic conditions than they are helped by improving economic conditions, as observed in election studies (see, e.g., Bloom & Price 1975; Kiewiet & Rivers 1984; Ansolabehere et al. 1999).

Entitlements

Granted that adverse conditions, for which politicians are held responsible, affect voting by triggering negative emotions (like anger or revenge), this mechanism can be exploited proactively by incumbents in the following way (Romer 1996). Promises play an important role in politics, for instance, in the form of entitlements. An entitlement can be defined as a transfer bundled with an explicit, credible promise (commitment) from the government about the duration and level. If created for a sufficiently large number of voters, it may significantly shape the subsequent political dynamics. The reason is that if a successor reduces the transfer under the entitlement program, this will induce anger and thereby an action tendency in voters that are hurt to take revenge (retaliate) by voting for the opposition. The standard economic model does not allow for such a distinction between transfers and entitlements. Romer (1996) argues that creating a strong sense of entitlement played an important role in the development of the U.S. social security program and the rhetoric in which it was clad, particularly the emphasis on pension *insurance* and payroll *contributions* (instead of welfare benefits and income tax). Voters strongly believed that they had earned their benefits as a matter of right, and showed a tendency to react furiously when these perceived rights were encroached upon (as under the Reagan administration). Roosevelt seems to have anticipated this correctly: "We put those payroll contributions there so as to give the contributors a legal, moral, and political right to collect their pensions ... With those taxes in there, no damn politician can ever scrap my social security program" (*op. cit.*, p. 198). Similar reactions by voters have been observed in other countries where this type of state pension system has been implemented.¹² This

¹² There is substantial evidence showing that people are prepared to make costs to punish those who violate their concerns, even if they cannot profit from an induced change in the behavior of the punished (see, e.g., Fehr & Gächter 2000, 2002).

mechanism whereby preferences get influenced by affective states has two important political economic consequences. On the one hand, it can generate an emotional hazard (potential social welfare losses due to emotional responses) that politicians may want to take into account. On the other hand, it offers politicians an instrument to change the future political landscape by influencing the values (concerns/interests) of voters, reckoning on the affective responses that this will generate in the future. Note that there can still be stability of ‘preferences’ at a higher mental level, due to the non-random way in which emotions are triggered and influence behavior. Furthermore, it is noted that emotions can also work as a commitment technology on the side of the policymakers themselves. For example, the anticipation of guilt or shame may guarantee threats and promises (see Hirshleifer 1987, Frank 1988).

Moral hazard

Moral hazard refers to the fact that people may change their risk attitude once they are insured (e.g., by becoming less careful). Not surprisingly, it is an important concept in insurance theory. Several major public expenditure categories are vulnerable to moral hazard. Think of health care and social insurance (unemployment, disability), for example. In *The Theory of Moral Sentiments* Smith claimed that feelings are the source of morality. In a neglected part of *A Theory of Justice*, a similar position was taken by the philosopher Rawls (1983) arguing that moral sentiments are crucial for the viability of justice principles. A recent survey of psychological (including neurological) studies concludes that moral action covaries with moral emotion more than with moral reasoning (Haidt 2001). From this perspective, moral hazard, with its concomitant chance of welfare losses, may be a special case of emotional hazard. In this case, however, it would be a lack of emotional responding – insufficient inhibition by moral emotions (guilt and shame) – causing the change in risk attitude. This is another instance where the political economic importance of values (here, internalized norms) shows up, due to the functioning of emotions.

6. Collective action

Why would an individual bother to participate in collective action – like voting in large scale elections or mass demonstrations with serious risks – if the chance of being decisive is negligible? For homo economicus the relevant cost-benefit calculus, based on expected utility theory, is typically predicted to show a negative outcome. Prospect Theory (Kahneman & Tversky 1979) offers some help by allowing small probabilities to be overestimated and by assuming that people become risk seeking in bad times (the loss domain). Other instances of bounded rationality, like voters taking their own single vote as diagnostic for millions of votes (Quatrone & Tversky 1988) may also explain part of this puzzle. Here, however, I want to focus on affect as a neglected driving factor.

Whereas De Toqueville and Schumpeter already pointed to the role played by emotions in political behavior (see the quotes in Mueller 1989, pp. 348-349), more recently several theoretical and empirical studies have appeared concerning the significance of emotions for collective action. For example, Roemer (1979) argues that demonstrations and riots may often be the expression of bottled-up anger with no instrumental purpose. Romer (1996) and Glazer (1998) present formal analyses of how voting behavior can be influenced through the anger and frustration of potential voters concerning broken promises and relative status, respectively. Javeline (2003) argues that how people understand causal relationships and attribute blame for a grievance plays a crucial role in their decision to redress the grievance through protest (see also Chong, 1991). Interestingly, according to Raghunathan and Pham (1999), angry people show higher assessments of blameworthiness and lower assessment of risk, in contrast with fearful people who demonstrate the reverse. Krueger & Malečková (2003) – who find little evidence of a connection between education, poverty, and terrorism – write: “We suspect their primary motivation results from their passionate support for their movement. Eradication of poverty and universal secondary education are unlikely to change these feelings. Indeed. Those who are well-off and well-educated may even perceive such feelings more acutely” (p. 123). Marcus & MacKuen (1993) demonstrate that anxiety (fear) and enthusiasm play an influential role during campaigns. Anxiety stimulates attention, moves people to learn policy-related information about candidates, and discourages reliance on habitual cues for voting, while enthusiasm stimulates interest and involvement without much deliberation in campaigns (see also Marcus, 2000). Abelson et al. (1982) find that affect scores of presidential candidates are highly predictive of political preferences (see also Rahn et al. 1990). A related, and long standing issue, concerns the importance of emotional arousal in persuasion, providing emotionally intelligent politicians the opportunity to affect opinions

and thereby the chances of their policies and their political position (see Glaser & Salovey, 1998). One way in which affect influences beliefs is via mood-congruent biases: we are more likely to notice, encode, remember, and make use of information that is congruent with a prevailing mood (Frijda et al., 2000).

When emotions are allowed for in the analysis, collective action becomes easier to explain. As discussed in section 3, emotions have some direct hedonic value and can be difficult to control. Regarding the former, suppose on election day one feels angry about the government. In that case, turning out to vote gives the opportunity to do something about one's negative emotional state, which may be worth the cost of voting. Moreover, the greater the emotionality the more likely it becomes that one just acts without thinking (emotional hijacking). The anticipation of emotions, like the feeling of guilt or shame if one does not live up to a social expectation or one's identity (Akerlof & Kranton, 2000), may have a similar effect. In a sense, it requires the traditional (monetary) cost-benefit calculus to include affective costs and benefits. For our understanding of how collective action comes about, another important affective mechanism concerns 'emotional contagion', defined as: the tendency to automatically mimic and synchronize expressions, vocalizations, postures, and movements with those of another person's and, consequently, to converge emotionally (Hatfield et al., 1993). This mechanism can explain 'ripple effects' in social groups (Barsade, 2002).

An interesting issue in this context is whether people with social ties behave differently than people that are strangers to each other. Are the former better able to overcome the free-rider problem of collective action, because of the influence of affect? To investigate this issue, Reuben & van Winden (2004) ran a three-player power-to-take game experiment, with two instead of one responder randomly matched to (again) a single proposer. Note that in this situation punishment through the destruction of income is like a public good for responders, which may induce free riding and thereby too little destruction (from the responders' perspective). In one of the experimental treatments the responders were strangers to each other, whereas in another treatment the responders were friends. Emotions concerning the take rate selected by the proposer (which had to be identical for both responders) as well as regarding the destruction of own income by the other responder were again measured with self-reports. The main finding is that friends destroy more and are better at coordinating their punishment. Interestingly, it turns out that the emotional response towards the other responder

facilitates the coordination among friend-responders but not among stranger-responders. Whereas stranger-responders experience stronger negative emotions if they notice that they destroyed more than the other responder than when they destroyed less, emotions are similar for friend-responders in these cases. In addition, and in contrast to stranger-responders, friend-responders get a positive emotional boost if they succeed in coordinating on the same level of punishment. Because of these emotional mechanisms, the situation resembles a coordination game with punishment being the risk-dominant choice for friend-responders, whereas *no* punishment is the risk-dominant choice for stranger-responders. Thus, it appears that affective ties are important for overcoming the free-riding problem in norm enforcement.

7. Conclusion

In this paper, we have argued that affect (emotions, moods, feelings, sentiments) play an important role in politics. We have illustrated this for some broad areas of relevance to public choice: taxation and regulation, government expenditure, and collective action. Because of the space constraint, some other important topics had to be left out, like the role of affect in social welfare and justice (see van Winden, 2006). In his recent book *Politics and Passion* Walzer (2004, p. 130) writes: “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 negative side of passions in politics may be illustrated by referring to the politics of hatred and fear, issues that political economists have recently begun to explore (Glaeser, 2005; Lupia & Menning, 2005).

Our discussion has an important methodological consequence for the theory of public choice. As argued by Buchanan and Tullock (see section 2), the ultimate defense of the behavioral assumption maintained by public choice must be empirical. We think that by now sufficient evidence exist to replace homo economicus by homo sapiens, a boundedly rational and emotional agent, in the private sector as well as the public sector. This has also implications for the foundation of democracy, for, to cite these pioneers of public choice once more: “The

assessment of the nature of man himself will, or should, determine the respective importance that is placed on institutional-constitutional restraint (...)” (Buchanan & Tullock, 1974, p. 306).

Finally, we would like to point at some research and policy implications of affective public choice. First, emotional hazard, as defined and illustrated in the previous sections, becomes a phenomenon to be reckoned with in analyses of policymaking. Although more empirical research is needed before we can be more secure about its relevance, it is likely to affect some basic tenets in public economics, like the efficiency of lump-sum taxation, which is no longer guaranteed. Second, granted the significance of affect, the dynamics of emotions becomes an important issue. When do they arise and when do they cool off? Which factors determine their intensity? How does our emotional memory of political events work? What is the role played by psychological traits (like a fear or anger trait), habituation, and behavioral contagion? Third, given that homo sapiens is boundedly rational and is typically confronted with scarce information in matters of politics, the significance of affect in communication requires more attention. How does persuasion work, and what is the role of the various media in this context? What amount and kind of information is optimal, and for whom? Clearly, much work remains to be done, but one conclusion seems safe: Those who cannot stand that homo sapiens is emotional should stay out of public choice!

References

- Abelson, R.P., Kinder, D.R., Peters, M., & S.T. Fiske (1982), Affective and semantic components in political person perception, *Journal of Personality and Social Psychology*, 42, 619-630.
- Akerlof, G.A., & R.E. Kranton (2000), Economics and identity, *Quarterly Journal of Economics*, 65, 715-753.
- Ansolahehere, S.D., Iyengar, S., & A. Simon (1999), Replicating experiments using surveys and aggregate data: The case of negative advertising, *American Political Science Review*, 93, 901-909.
- Ashby, F.G., Isen, A.M., & U. Turken (1999), A neuropsychological theory of positive affect and its influence on cognition, *Psychological Review*, 106, 529-550.
- Ashraf, N., Camerer, C.F., & G. Loewenstein (2005), Adam Smith, Behavioral Economist, *Journal of Economic Perspectives*, 19, 131-145.
- Ben-Shakhar, G., G. Bornstein, A. Hopfensitz and F. van Winden (2004), Reciprocity and emotions: arousal, self-reports, and expectations, CREED working paper, University of Amsterdam.
- Bloom, H.S., & H.D. Price (1975), Voter response to short-run economic conditions: The asymmetric effect of prosperity and recession, *American Political Science Review*, 69, 1240-1255.
- Bosman, R. and F. van Winden (2002), Emotional hazard in a power-to-take experiment, *Economic Journal*, 112, 147-169.
- Bosman, R., M. Sutter and F. van Winden (2005), The impact of real effort and emotions in the power-to-take game, *Journal of Economic Psychology*, 26, 407-429.
- Buchanan, J.M., & G. Tullock (1974), *The Calculus of Consent*, University of Michigan Press, Ann Arbor.
- Cacioppo, J.T., Larsen, J.T., Smith, N.K., & G.G. Berntson (2004), The affect system, in: A.S.R. Manstead, N. Frijda & A. Fischer (eds.), *Feelings and Emotions*, Cambridge University Press, Cambridge, 223-242.
- Camerer, C. (2003), *Beh Game Th*
- Chong, D. (1991), *Collective Action and the Civil Rights Movement*, University of Chicago Press, Chicago.
- Downs, A. (1957), *An Economic Theory of Democracy*, Harper & Row, New York.

- Elwes, R.H.M. (1951), *Benedict de Spinoza: A Theologico-Political Treatise and A Political Treatise* (translated from the Latin), Dover, New York.
- Erard, B., & J.S. Feinstein (1994), The role of moral sentiments and audit perceptions in tax compliance, *Public Finance/Finances Publiques*, 49 (Supplement), 70-89.
- Fehr, E., & S. Gächter (2000), Fairness and retaliation: The economics of reciprocity, *Journal of Economic Perspectives*, 14, 159-181.
- Fehr, E., & S. Gächter (2002), Altruistic punishment in humans, *Nature*, 415, 137-140.
- Frank, R. H. (1988), *Passions within Reason*, Norton, New York.
- Frijda, N.H. (1986), *The Emotions*, Cambridge University Press, Cambridge.
- Frijda, N.H., Manstead, A.S.R., & S. Ben (2000), *Emotions and Beliefs*, Cambridge University Press, Cambridge.
- Glaeser, E.L. (2005), The political economy of hatred, *Quarterly Journal of Economics*, 120, 45-86.
- Glaser & Salovey
- Glazer, A. (1998), Political equilibrium under group identification, in: B. Grofman (ed.), *Information, Participation, and Choice*, University of Michigan Press, Ann Arbor.
- Goleman, D. (1996), *Emotional Intelligence*, Bantam, New York.
- Hatfield, E., Cacioppo, J.T., & R.L. Rapson (1993), Emotional contagion, *Current Directions in Psychological Science*, 2, 96-99.
- Hirshleifer, J. (1987), On the emotions as guarantors of threats and promises, in: J. Dupré (ed.), *Latest on the Best: Essays on Evolution and Optimality*, MIT, Cambridge.
- Javeline, D. (2003), The role of blame in collective action: Evidence from Russia, *American Political Science Review*, 97, 107-121.
- Haidt, J. (2001), The emotional dog and its rational tail, *Psychological Review*, 108, 814-834.
- Hobbes, T. (1979), *Leviathan*, Dent, London.
- Hopfensitz, A. and E. Reuben (2005), The importance of emotions for the effectiveness of social punishment, CREED working paper, University of Amsterdam.
- Kahneman, D., & A. Tversky (1979), Prospect theory: An analysis of decision under risk, *Econometrica*, 47, 263-291.
- Kiewiet, D., & D. Rivers (1984), A retrospective on retrospective voting, *Political Behavior*, 6, 369-399.
- Krueger, A.B., & J. Malečková (2003), Education, poverty, and terrorism: Is there a causal connection?, *Journal of Economic Perspectives*, 17, 119-144.

- Leith, K.P., & R.F. Baumeister (1996), Why do bad moods increase self-defeating behavior?, *Journal of Personality and Social Psychology*, 71, 1250-1267.
- Lupia, A., & J.O. Menning (2005), When can politicians scare citizens into supporting bad policies? Emotions and strategies in an equilibrium of fear, mimeo, University of Michigan.
- Marcus, G.E. (2000), Emotions in politics, *Annual Review of Political Science*, 3, 221-250.
- Marcus, G.E., & M.B. MacKuen (1993), Anxiety, enthusiasm, and the vote: The emotional underpinnings of learning and involvement during presidential campaigns, *American Political Science Review*, 87, 672-685.
- Mueller, D.C. (1989), *Public Choice II*, Cambridge University Press, Cambridge.
- Oatley, K., & J.M. Jenkins (1996), *Understanding Emotions*, Blackwell, Oxford.
- Offerman, T. (2002), Hurting hurts more than helping helps, *European Economic Review*, 46, 1423-1437.
- Olson, M. (1971), *The Logic of Collective Action*, Harvard University Press, Cambridge.
- Ortony, A., Clore, G.L., & A. Collins (1988), *The Cognitive Structure of Emotions*, Cambridge University Press, Cambridge.
- Quattrone, G.A., & A. Tversky (1988), Contrasting rational and psychological analyses of political choice, *American Political Science Review*, 82, 719-736.
- Raghunathan, R., & M.T. Pham (1999), All negative moods are not equal, *Organizational Behavior and Human Decision Processes*, 79, 56-77.
- Rahn, W.M., Aldrich, J.H., Borgida, E., & J.L. Sullivan (1990), A social-cognitive model of candidate appraisal, in: J.A. Ferejohn and J.H. Kuklinski (eds.), *Information and Democratic Processes*, University of Illinois Press, Urbana.
- Rawls, J. (1983), *A Theory of Justice*, Oxford University Press, Oxford.
- Reuben, E. and F. van Winden (2004), Reciprocity and emotions when reciprocators know each other, CREED working paper, University of Amsterdam.
- Reuben, E. and F. van Winden (2005), Negative reciprocity and the interaction of emotions and fairness norms, CREED working paper, University of Amsterdam.
- Robinson, M., & G. Clore (2002), Belief and feeling: Evidence for an accessibility model of emotional self-report, *Psychological Bulletin*, 128, 934-960.
- Romer, P. (1996), Preferences, promises, and the politics of entitlement, in: V. Fuchs (ed.), *Individual Social Responsibility*, University of Chicago Press.
- Schumpeter, J.A. (1972), *History of Economic Analysis*, Allen and Unwin, London.
- Smith, A. (1982) *The Theory of Moral Sentiments*, Liberty Fund, Indianapolis.

- Smith, A. (1971) *The Wealth of Nations*, Vol. 2, Dent, London.
- Smith, V.L. (1998), The two faces of Adam Smith, *Southern Economic Journal*, 65, 1-19.
- van Winden, F. (2001), Emotional hazard exemplified by taxation-induced anger, *Kyklos*, 54, 491-506.
- Van Winden, F. (2006), Affect and fairness in economics, *Social Justice Research* (forthcoming).
- Walzer, M. (2004), *Politics and Passion*, Yale University Press, New Haven.