

Order & Violence



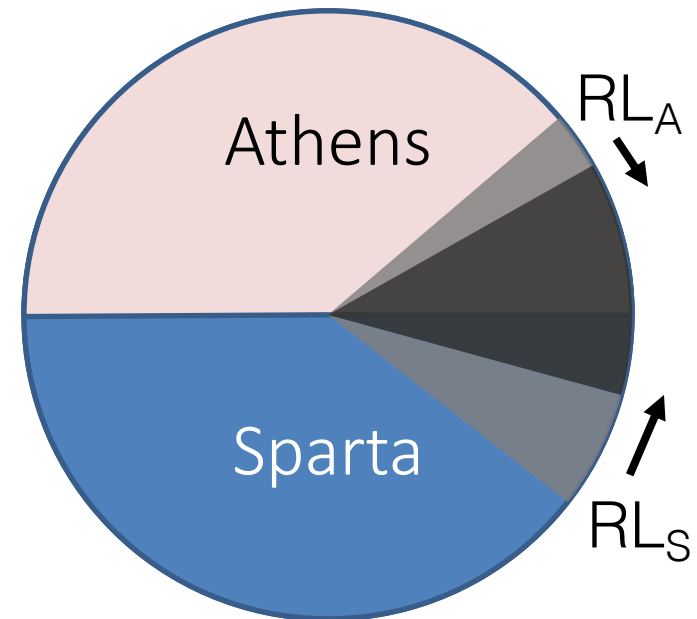
Lecture 6: Intangible incentives & Misperceptions

Chris Blattman

1. Unchecked leaders
2. Uncertainty
3. Commitment problems
- 4. Intangible incentives**
5. Misperceptions

Preference-base explanations share a common feature: There are some circumstances where violence becomes its own reward

- There are times when violence is **intrinsically valuable**
 1. Direct utility
 2. Indirect utility
- This will offset costs, narrowing the bargaining range
 - At minimum, makes peace more fragile
 - In the extreme, the bargaining range could disappear
- If fighting is intrinsically valuable, then bargaining breakdown is no mystery



Varieties of violent tastes I

Sources of direct utility from violent actions

- Conditional on enemy's actions
 - Vengeance
 - Pleasure in agency, righteous action
- Not necessarily conditional
 - Status, glory and esteem
 - Absolute levels of status
 - Relative status / dominance
 - Aggressive drives
 - Pleasure in violence
 - Scapegoating and sacrifice
 - Social bonding, camaraderie
 - Parochial altruism / out group antipathy

Varieties of violent tastes II

Sources of indirect utility from violent actions

- “Value rational” violence
 - Actions “determined by a conscious belief in the value for its own sake of some ethical, aesthetic, religious, or other form of behavior, independently of its prospects of success” (Weber 1978)
 - Of course, doesn’t have to be independent of prospects of success
 - One is merely willing to pay an extremely high price
- Identity and ideological examples
 - The elimination or subjugation of an ethnic rival
 - The extermination of a heretic ideology or religion
- Unwillingness to compromise
 - Where the idea of compromise on some ideological principle is abhorrent
 - Liberty and self-determination
 - Property rights
 - The idea of a just distribution

What kinds of intangible incentives might plague the conflicts we have been discussing?

- China—Taiwan
- US—Taliban
- India—Pakistan
- Mexican state—Drug cartels
- Israelis—Palestinians
- US urban gangs

Note: Nothing about these preference-based explanations are necessarily “irrational”

- The actors are still maximizing, calculating, with stable preferences, intelligent and accurate information processors
- With violent values, we’ve simply opened up standard economic preferences (selfish, material) to social preferences and non-material payoffs
 - Even emotional reactions to injustice are rational if they are well-defined and stable, and rational actors know to expect at least some people to behave this way
- We can get awfully far with just these rational standard and rational non-standard explanations
- But a whole range of explanations for war violate the idea that we are calculating, optimizing, information processors with consistent preferences

Some common objections to “irrationality” as an explanation for war (and to behavioral game theory in general)

1. Hard for game theory to handle
2. A worry that it over-fits cases
 - Rather than having a small number of tractable models and assumptions
3. Too little falsifiability
 - Worries that opening up the utility function and talking about preferences, or a grab bag of irrational explanations, allows us to explain anything
4. When stakes are high, people should become more like rational calculators
5. Individuals are prone to biases, but nations and governments should not
 - Especially in more decentralized, inclusive organizations

Nonetheless, misperception and mistakes are perhaps the most common explanation in journalistic and historical takes on war.

1. Unchecked leaders
2. Uncertainty
3. Commitment problems
4. Intangible incentives
5. **Misperceptions**

Of “fast thinking” biases, highly relevant are decision-making under emotion & errors in belief formation

Economic decision-making under uncertainty are founded on rational expected utility:

$$\max p(s)U(x|s)$$

Two sources of “irrationality”:

1. Persistent errors in belief formation over $p(s)$
 - Misperceiving ourselves
 - Overconfidence
 - Misperceiving others
 - Misprojection
 - Misattribution
2. Emotional arousal and decision-making (failure to $\max p(s)U(x|s)$)
 - Anger, fight or flight responses
 - More importantly: Elevates problems of belief formation

Economists are beginning to think of all of these errors as a form of “limited attention” or “bounded rationality” (e.g Gabaix 2018)

- Initially, behavioral science was a grab bag of heuristics, biases, and errors in decision-making
- What does “limited attention” mean?
 - Decision-making requires people to process a flood of information and make challenging judgments
 - This information and calculation is costly, and it makes sense that people economize on what they pay attention to and how much time they spend on the problem
 - Humans should even have evolved systems of “fast” thinking to economize naturally
- A range of anomalies and questions can be thought of as a limited attention problem
 - Reduced response to a new incentive or cost
 - Overconfidence (optimism and precision)
 - Fail to predict how will react (e.g. in state of arousal)

A big question: How is it that groups have limited attention?

- Points to organizational dysfunction or cultural issues, rather than individualistic explanations

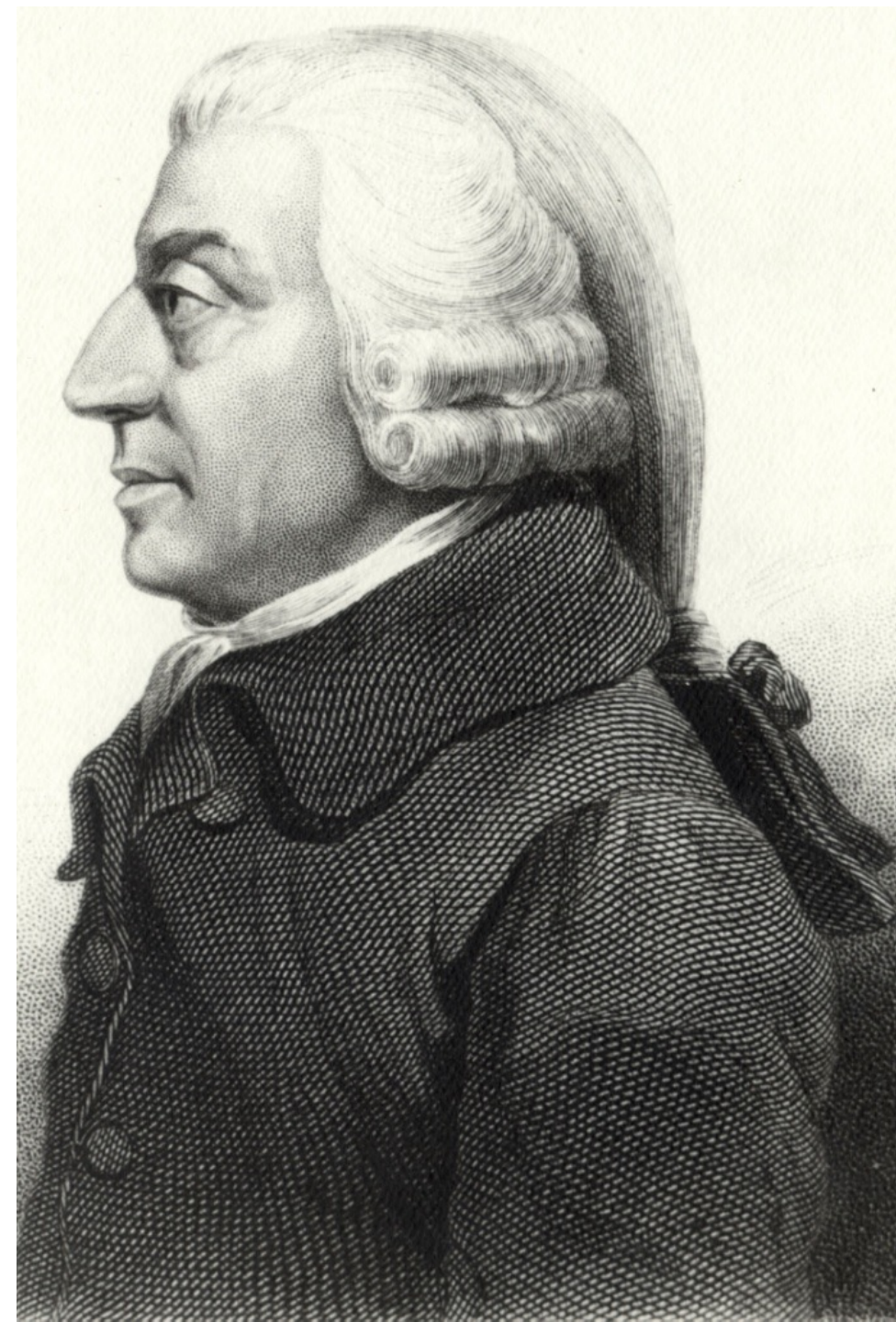
Before we get into the details: What kinds of misperceptions might plague the conflicts we have been discussing?

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- US—Taliban
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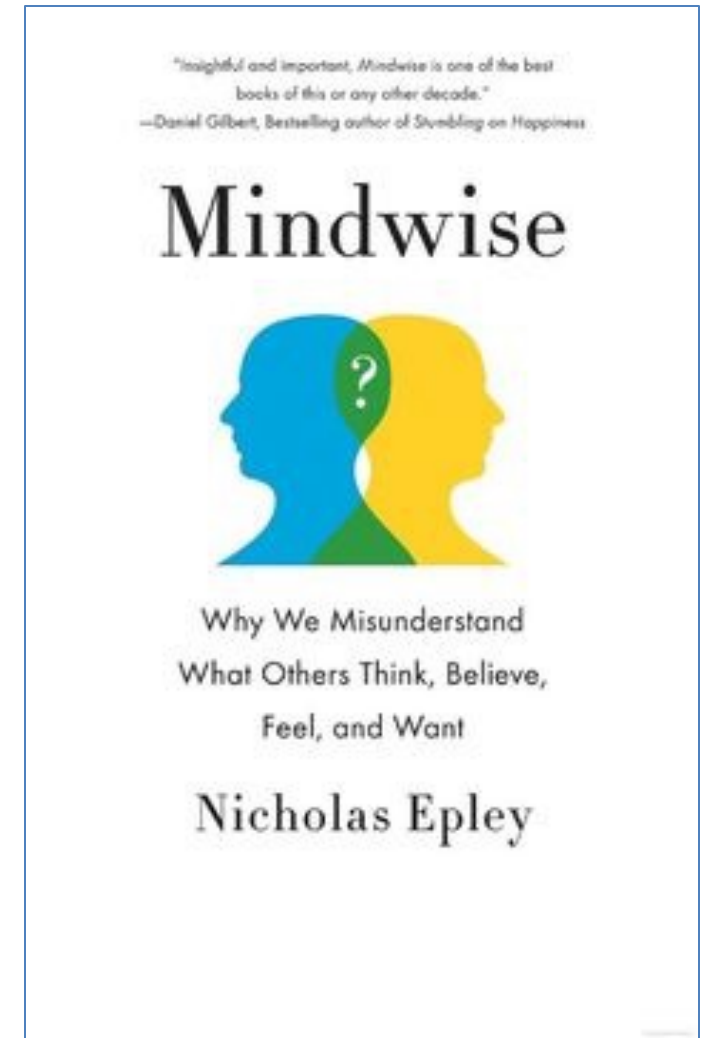
Let's talk about overconfidence

“The over-weening conceit which the greater part of men have of their own abilities.”

— Adam Smith



An example from everyday life: The (not so) Newlywed game



But even high-stakes decisions are vulnerable: Overestimating the mean and underestimating the variance

- Most entrepreneurs think that their startup is more likely to succeed than their peers' startups
Cooper et al 1988
- Overconfident CEOs believe their company is undervalued and are more likely to attempt high-risk actions, experience bad outcomes
Malmendier & Tate 2005, 2008; Kim et al 2016
- Economic forecasters are often far too confident in their precision
Alpert & Raiffa 1982
- National security analysts tend to underestimate level of certainty
Morell, 2015, Friedman & Zeckhauser 2017

Overconfidence is a common refrain in many wars

“ The usual pattern of warfare between Greek states was for one phalanx to march into enemy territory, where it would be met by its foe’s phalanx. The two armies would clash and, within the span of a single day, the issue that precipitated the conflict would be decided.

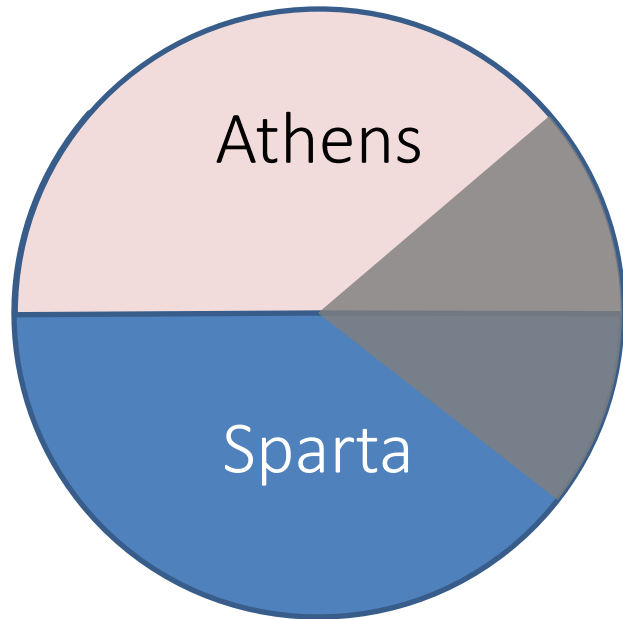
Since Sparta’s forces would greatly outnumber those of the Athenians, the Spartans had every reason for confidence if the Athenians engaged them in the typical manner. Most Spartans **had no doubt** that they would.

...the Spartans **were certain** that a year, or two, or three, of ravaging Athenian territory would bring either the decisive battle they sought or an Athenian surrender.

At the beginning of the war, the Spartans, as well as the rest of the Greeks, **were convinced that** this simple offensive strategy guaranteed swift and sure victory. Had they believed they would need to fight a long, difficult, costly war of uncertain outcome, as the Athenians and Achidamus tried to persuade them would be the case, they might have acted differently.

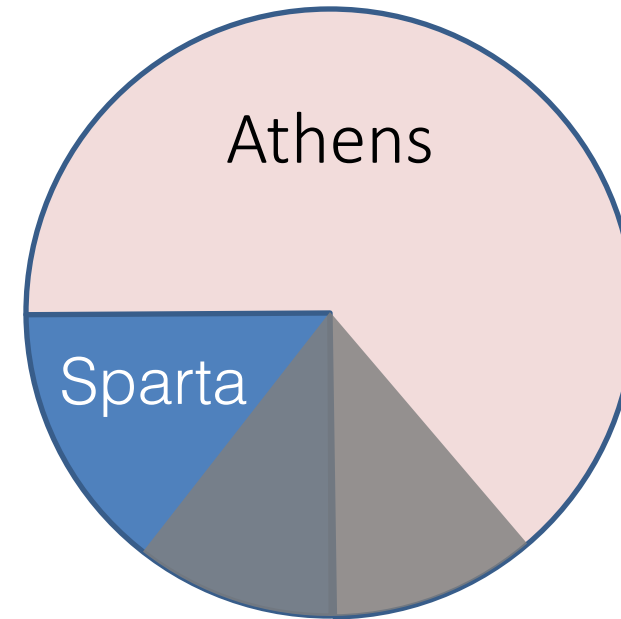
— Kagan (2003, p. 51)

Akin to the problem of noise, where rivals start with different priors
Except here the problem is one of misperception of probabilities



What Sparta believes

- Sparta feels it evenly matches Athens, and each as a 50% chance of winning a fight
- So Sparta's bargaining range is \$40-60



What Athens believes

- Athens thinks Sparta is weak, and that they have a 75% chance of winning
- So Athens' bargaining range is \$15-35

How does this fare as an explanation of war?

On the one hand...

- This seems like it could be the most common cause of conflict in human history
- Easy to see contemporary examples
 - US invasion of Iraq
 - US invasion of Afghanistan
 - ...
- Maybe *this* is what the historian Geoffrey Blainey meant when he said that all great wars are disagreements about relative power

On the other hand...

How does this fare as an explanation of war?

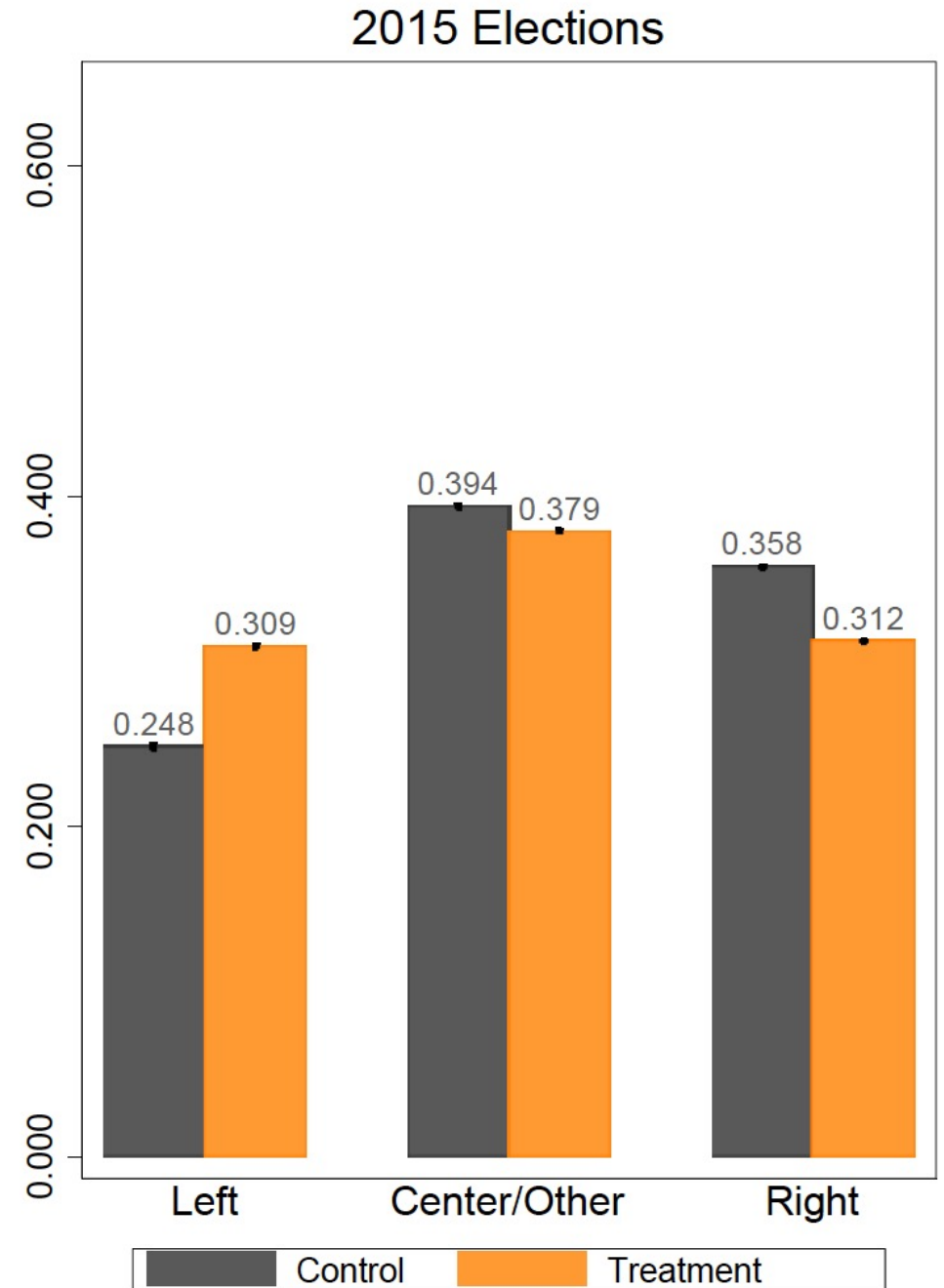
On the other hand...

- Like noise, it raises questions
 1. Why doesn't the overconfidence correct itself after the first battles?
 2. Why don't enemies send credible signals in advance? (No one wants to be underestimated)
 3. And once overconfident leader sees enemy making demanding offers, maybe they should update?
- Suspicious, because it gives us easy, human villains to blame
 - Over and over again, we seem prone to see and overestimate the human folly, and overlook more complex strategic forces
- Where I come down
 - Might help us get to the eve of war, but 5 years in? We need something more
 - Persists perhaps only with the most dysfunctional bureaucratic processes, or polarized enemies

Provocative evidence comes from efforts to eliminate biased beliefs

Jha & Shayo 2018:

- Israelis who follow a stock portfolio of Israeli and Palestinian stocks learn and internalize the costs of conflict
- Shifts vote share to the left by 5 percentage points



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Projection bias:

A toxic mix with vengeance and uncertainty?

People exaggerate the extent to which others think, feel, and act as they do

- e.g. Conservatives tend to think other people are more conservative than they are

People even mispredict their future selves

- Underappreciate taste changes Loewenstein, O'Donoghue, and Rabin 2003

Some evidence that perspective-taking and empathy exercises reduce bias

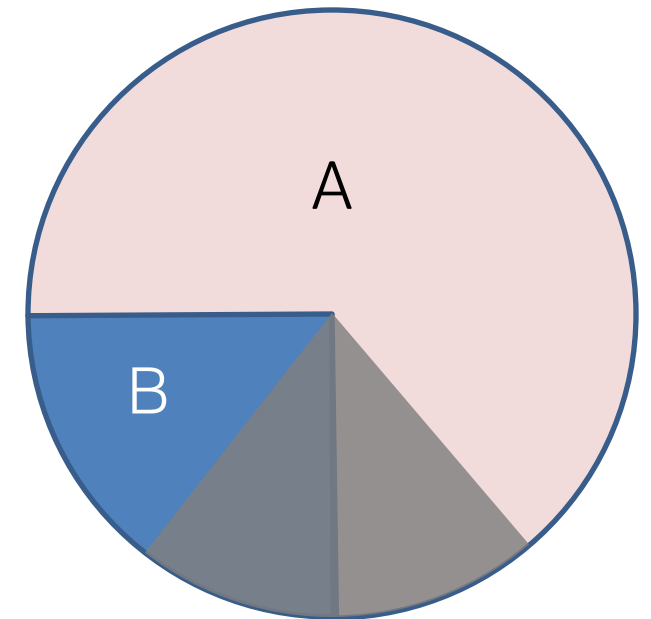
Might we systematically mispredict:

- What our rivals perceived as an unjust act?
- How competitors will respond to aggression?

Think about a simple strategic interaction

(Note: To my knowledge, this is a model waiting to be written)

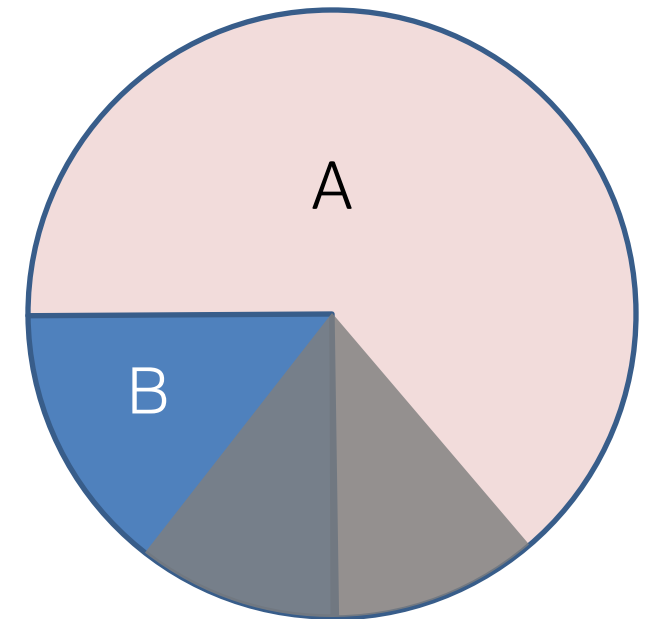
- Minority group B protests the tyrannical majority group A
 - Continued protest could improve B's mobilizational power over time (shifting the bargaining range)
- A must decide whether to allow B's protests to continue, or repress them through crackdowns and imprisonment
- But suppose people have an ingrained taste for punishing perceived injustices
 - Repressing B could eliminate part of the bargaining range favorable to A
 - It might even push some B over the edge, to desiring violence against A for its own sake, leading to a long war
- Why would A ever take that first repressive action?
 - By backwards induction, may not be the optimal move
 - Better to buy off B and dissuade them from protesting



Think about a simple strategic interaction

(Note: To my knowledge, this is a model waiting to be written)

- First, this assumes there is no uncertainty about B's preferences for punishing injustice
- Second, it assumes that A makes an accurate forecast of this probability
 - They can see the conflict from B's point of view
 - They can imagine the outrage B would feel at certain actions
- Unfortunately, we have no models and little empirical data to say whether these assumptions are correct, and how sides will behave strategically under these circumstances



Any strategic choice requires us to predict what the other side believes and what they will do

- Unfortunately, humans often forget that others hold different beliefs or have alternative versions of events
 - We unconsciously project our own minds onto theirs
 - We assume they have the same information as we do
 - We underrate the events and offenses from the past that matter to the other side
 - We forget that they interpret history differently
- But this may be a universal. The question should be: When do we do this more? And what makes it persist?
 - What political structures?
 - What organizational cultures and decision-making systems?
 - What inter-group qualities or relationships?

Let's return to the conflicts we have been discussing

- China—Taiwan
- US—Taliban
- India—Pakistan
- Mexican state—Drug cartels
- Israelis—Palestinians
- US urban gangs

Main takeaways I would emphasize

- Handle misperceptions with care
 - (Ironically) We have a natural tendency to demonize those who launch wars, and overconfidently attribute a conflict to human failings
- Think as much as possible in terms of organizational failures rather than individual ones
 - Seldom do individual biases get groups to war
- How much does your proposed bias stand up to the costly realization of conflict?
 - You might explain a few weeks of violence with misperceptions, but can you explain years of incessant conflict?
- The best case for stubborn misperceptions?
 - Highly polarized groups, with hardened antipathy towards the outgroup
 - An intersection with intangible incentives
 - Insulated, dysfunctional bureaucracies
 - Unchecked
 - High turnover