

The Commentary below by Professor Herb Emery, who is the Vaughan Chair in Regional Economics at the University of New Brunswick, was first published in The Daily Gleaner on August 5, 2020 under the title “New Brunswick isn’t interested in positive change”. CARE is publishing the commentary under the title “Understanding Support for the Provincial Economic Status Quo in Atlantic Canada” which in my opinion better reflects the commentary’s insights into our choices based on the understanding of human decision-making by two Nobel-winning psychologists. I believe it provides an insight into why many, if not most, people in NL do not become particularly concerned about our current fiscal circumstances. Additionally, I accept Edward Roberts belief based on his political experiences, that Ottawa will continue to help us out.

Doug May

Understanding Support for the Provincial Economic Status Quo in Atlantic Canada

New Brunswick today has a status quo of no growth, an aging population, stalled resource development, de-industrialization, and high and growing public debt. Despite all that New Brunswickers are happy with the way things are and believe that the way things are can carry on indefinitely. I am more pessimistic about the province’s economy so to help inform policy decisions I believe that the best thing I can do is provide statistics and information for New Brunswickers to consider. That’s not working very well for putting us on a better economic path so what am I missing?

Recently I read Michael Lewis’ biography of Daniel Kahneman and Amos Tversky. “The Undoing Project: A Friendship That Changed Our Minds” describes the research partnership of two psychologists recognized by the Nobel Prize for economics in 2002. Their work about how people judge situations and make decisions when the future is unknowable has interesting insights for why New Brunswick has such a strong preference for the status quo even though without change, economic stagnation is the best outcome we can expect.

In “The Undoing Project”, Lewis highlights the absurdity of our lives in that we have no way of predicting the future but we need to believe that we can so that we can make decisions about just about everything we do in life like who to marry, whether we should exercise, not smoke and eat healthy, or buy an electric or gas powered car.

Michael Lewis points out that economists like me must believe that we are all capable of processing statistics and information to accurately guesstimate probabilities of future outcomes. With my world view, people make mistakes with their predictions, but that isn’t a problem if they are random, and not systematic occurrences.

Kahneman and Tversky showed that people aren’t very good at assessing probabilities and rely instead on rules of thumb and other strategies to judge how likely something is to happen. For example, we may look to similar situations faced by others or that we have previously experienced and use what happened then as the best guess for what will happen this time. You

see this a lot lately where media discussion seeks to compare the current economic situation with other recessions to determine if we are in trouble or not.

We may rely on theory, ideology or belief to make our prediction about whether we can keep borrowing or if federal transfer payments will be cut. We may look to others to see what their best guess of the future is which could be “leaders”, “trusted experts”, friends and neighbours, the crowd around you, or media attention. Sometimes we interpret the passion, the heat and the volume of the statement of someone’s prediction as useful information for understanding what will happen in the future.

But these subjective approaches to evaluating probabilities are fraught with problems and can lead to systematic errors with our decisions. This is why the use of data analytics that uncovers what the market is blind to has proven so profitable as described in Michael Lewis’ other books like “Moneyball” and “The Big Short”.

Our decisions are subject to “confirmation bias” where we aren’t great at seeing all things and our minds can be more inclined to see what we expect to see. When we rely on what we remember about the past, we are at risk of distorting our judgement of the future if our memories are selective or fuzzy.

And we are often limited by our imagination, which also leaves us open to manipulation. Michael Lewis describes the situation where “We often decide that an outcome is extremely unlikely or impossible, because we are unable to imagine any chain of events that could cause it to occur.” Lewis then points out a situation where people who did not believe that nuclear was a big risk watch a movie that dramatizes nuclear war, and then they felt that it was more likely that nuclear war could happen. Lewis cautions that “The sheer volatility of people’s judgement of the odds--their sense of the odds could be changed by two hours in a movie theater--told you something about the reliability of the mechanism that judged those odds.” For more concrete examples that you have likely experienced, how did you react to Al Gore’s “An Inconvenient Truth” when assessing if we had a climate change challenge or a crisis?

Daniel Kahneman’s research and experience working with policy makers led him to conclude that we don’t want numerical best estimates of the odds of something happening when we prefer to rely our on “gut instinct”. Kahneman interpreted this situation as reflecting that a person’s understanding of numbers is so weak that numbers don’t communicate anything to them. “Everyone feels that those probabilities are not real—that they are just something on somebody’s mind.” Kahneman argued “No one ever made a decision because of a number. They need a story.”

The psychologists argued that people do not choose between things. People choose between descriptions of things. Amos Tversky argued that for most people metaphors “are vivid and memorable, and because they are not readily subjected to critical analysis, they can have considerable impact on human judgment even when they are inappropriate, useless, or misleading”. The psychologists assessed from their research that “The stories people told themselves, when the odds were either unknown or unknowable, were naturally too simple.”

Simple stories may be easy to understand but they can also be misleading and falsely lead to “a feeling of certainty about inherently uncertain things.”

If I learn how to tell a better story to make New Brunswickers aware of the perils of the way things are for our maintaining our standard of living, then would that be more likely to inspire change? Not likely. People who are happy with the status quo of the economy aren't interested in my gloomy and pessimistic stories. Kahneman and Tversky determined that “Happy people did not dwell on some imagined unhappiness the way unhappy people imagined what they might have done differently so that they might be happy.”

Kahneman summarized that “the general point is that the same state of affairs (objectively) can be experienced with very different degrees of misery, depending on how easy it is to imagine that things might have turned out differently.” What protects us from being miserable is that we can never be absolutely sure that we would have been happier if we had chosen a different career or to marry someone different.

The psychologists concluded that people do not seek to avoid other emotions with the same energy they seek to avoid regret which led them to propose a set of rules for understanding regret. The feeling of regret was stronger when someone “came close” but failed. Regret was closely linked to feelings of responsibility – the greater control you believe you have over the outcome of a gamble, the greater the feeling of regret if it turned out badly.

Perhaps this explains New Brunswickers strong belief that our economic disadvantages are beyond our control. “Market forces” get blamed a lot for business losses even when no actions were taken to help businesses deal with the market forces. This is a province where someone, or something, else is always responsible for bad outcomes. This may be what leads many to conclude that we lack “leadership” if a leader is someone who takes action when needed and the responsibility for the outcome whether it was in their control or not.

The aversion to feeling regret skews a person's decision to choose a “sure thing” over a gamble. Kahneman and Tversky proposed that people interpret the status quo as the “sure thing” -- something that we can have with certainty even if we take no action – whether that is true or not. With a feeling that the status quo is something we have with certainty, the psychologists observed that the additional happiness we would feel with an improvement in our situation is smaller than the unhappiness we would feel if our situation with the status quo got worse.

If people are happy with the status quo then taking action for change is a gamble with some chance of things being better and some chance of things being worse. According to Lewis, Kahneman and Tversky found that “The pain that is experienced when the loss is caused by an act that modified the status quo is significantly greater than the pain that is experienced when the decision led to the retention of the status quo. When one fails to take action that could have avoided a disaster, one does not take responsibility for the occurrence of the disaster.”

We would rather take no action and live with an opportunity cost -- the “one that got away” – rather than taking an action and risk losing something we believe that we have. Not many of us

seem bothered about the \$40 billion in investment projects that did not take place in the province since 2006 or the fate of the proposed \$1.5 billion Maritime Iron project.

After reading “The Undoing Project”, a great story, I now judge that the changes we need to make to improve our chances of avoiding an economic crisis in New Brunswick will not happen. And I now understand why my approach of presenting data and information to inform public discussion and maybe even decisions is likely a complete waste of time.