

# 1 Loss Aversion & Prospect Theory

This paper seeks to demonstrate the already documented effects of loss aversion and prospect theory on foreign policy decision-making through the use of a specific example. Current literature on the topic indicates that decision-makers tend to be risk-averse when dealing with "promotive" issues (issues that seek to better the status quo) as a result of the endowment effect. Contrary to this, decision-makers tend to be more risk-acceptant when dealing with "preventive issues" (issues that seek to avoid losses from the status quo) <sup>1</sup>. This often leads to decision-makers choosing policies that may not be ideal, given their situation. Importantly, this phenomenon is not unique to decision-makers alone. Rather, it is a commonplace cognitive bias <sup>2</sup>. Decision-makers may accordingly find it beneficial to loss-frame a current issue in order to garner support for their policy dealing with said issue <sup>3</sup>.

To demonstrate this idea, this paper shall investigate the factors surrounding Brexit. Specifically, an investigation will be conducted regarding the original reasons Britain wanted to leave the EU, the way in which the situation was framed to the British public, and the corresponding response of the public. This paper will show that because remaining in the EU was framed as a loss, there was widespread support for leaving the EU even though that was a risky decision.

## 2 Understanding Brexit

Brexit is the term used to refer to Britain's exit from the European Union at the end of 2020. This decision was made through a referendum in 2016, with 51.3% of voters deciding to leave the EU <sup>4</sup>. Despite the referendum being conducted in 2016, the effects of the referendum did not come about until January 31, 2020 under the oversight of British Prime Minister, Boris Johnson <sup>5</sup>.

A departure from the EU meant that Britain would more tightly be able to control all their trade agreements, their immigration policy, their economic policy, and courts. They would also no longer be privy to the benefits afforded by EU membership <sup>6</sup>. At first glance, it seems rather appalling that the Brexit referendum ended up in favor of Brexit. At closer glance, though, the results make sense when loss framing is considered.

## 3 Vote Leave & Loss Framing

Backed by a number of notable individuals in Britain's conservative party, the Vote Leave campaign was Britain's flagship campaign promoting Brexit leading up to the referendum. One of the largest figureheads of the movement was Prime Minister (then London mayor), Boris Johnson <sup>7</sup>.

The Vote Leave campaign made significant use of loss aversion <sup>8</sup>. Specifically, a large part of the campaign was based on emphasizing the discontent British citizens felt towards the status quo. Economically, the Vote Leave campaign argued that the UK was hemorrhaging money to the EU, effectively taking it out of the pockets of UK citizens and handing it to other countries <sup>9</sup>. Socially, the Vote Leave campaign was structured around "taking back control" of Britain <sup>10</sup>. This is critical. By making it seem as if the status quo is a

<sup>1</sup>Nincic, M., 1997. Loss Aversion and the Domestic Context of Military Intervention. *Political Research Quarterly*, pp.97–120

<sup>2</sup>Jervis, R., 1992. Political Implications of Loss Aversion. *Political Psychology*, 13(2), pp.187–204

<sup>3</sup>ibid.

<sup>4</sup>Brexit: What you need to know about the UK leaving the EU. (2020, December 30). <https://www.bbc.com/news/uk-politics-32810887>

<sup>5</sup>ibid.

<sup>6</sup>Henley, J., Rankin, J., amp; O'Carroll, L. (2020, January 27). Brexit explained <https://www.theguardian.com/news/2020/jan/27/brexit-explained-how-it-happened-and-what-comes-next>

<sup>7</sup>Scott, M. (2021, January 04). The Key Players in Brexit. <https://www.investopedia.com/key-players-of-brexit-4584676>

<sup>8</sup>Shipman, A. (2018, July 18). "Why does behavioural economics point to a Hard Brexit?" <https://www.open.edu/openlearn/society-politics-law/economics/why-does-behavioural-economics-point-hard-brexit>

<sup>9</sup>ibid.

<sup>10</sup>Haughton, T. (2020, February 22). It's the slogan, stupid: The Brexit referendum. Retrieved February 09, from <https://www.birmingham.ac.uk/research/perspective/eu-ref-haughton.asp>

loss, Johnson and the Vote Leave campaign were able to convince UK citizens that leaving the EU wouldn't necessarily do good for them, so much as it would avert the current harms.

Framing the argument in this manner, leaving the EU was seen as loss-avoiding behavior rather than gain-seeking. By voting to leave the EU, the UK would be ridding themselves of a current problem in the status quo, not expanding their benefits. As aforementioned, framing an issue as a loss plays upon loss-aversion, making feelings towards the issue stronger than they would be through a gain-seeking perspective.

Not only did loss this loss aversion increase the amount of overall support for Brexit, it also made the idea of taking riskier policy decisions more palatable<sup>11</sup>. Because of the loss framing done by Johnson and the Vote Leave campaign and the inherent nature of loss-aversion, UK citizens on both sides of the issue found the idea of Brexit more acceptable than they might have otherwise. This is because they were willing to take riskier decisions to counteract the perceived loss than they might have if Brexit had been framed as gain-seeking behavior. Indeed, prospect theory confirms that because Brexit is loss-framed, it is considered a preventive issue and individuals will be more risk-accepting when considering it.

## Conclusion

As a whole, then, the UK Brexit referendum's decision to leave the European Union can be seen as an example of loss-aversion being used in order to garner support for a particular foreign policy decision.

This is specifically because Boris Johnson, alongside the Vote Leave campaign, was able to depict the status quo as a loss, with the EU taking both control and money from the UK constantly. Because the status quo was structured as a loss, Johnson was able to use the loss-aversion of UK citizens to garner support for a risky policy - leaving the EU completely so that the UK could fend for itself on the international stage.

It also meant that individuals that saw Brexit through a loss-frame were more likely to be passionate about the issue, more likely to vocally express their opinion and vote in the referendum. This is because loss-aversion is significantly more powerful than gain-seeking. For these reasons, Boris Johnson was able to use loss aversion to cultivate support for Brexit.

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<sup>11</sup>Atikcan, E., Nadeau, R., Bélanger, É. (2020, November 09). Framing Risky Choices <https://blogs.lse.ac.uk/euoppblog/2020/11/03/framing-risky-choices-how-the-leave-campaign-convinced-britain-to-take-a-leap-into-the-unknown>