

# Chapter 9

## Hope in Economics

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**Abstract** As a topic of research in economics, hope has not been very prevalent. Following the neo-classical paradigm, economists have tended to focus on rationality, self-interest, and universals. A normative and subjective experience such as hope was not believed to fit well with this perspective. However, the development of several heterodox economic approaches over the past decades, such as behavioral economics, has led to renewed attention being given to emotion, subjectivity, and normativity. Economic research on concepts related to hope, such as anticipatory feelings, (consumer) confidence, expectations and aspirations has consequently increased. In general, these studies find that hopeful feelings have a strong motivating power for (economic) behavior. By and large, the effects of hope seem to be positive, ranging from longevity and health to innovation and well-being. Nonetheless, there have also been indications that prompt caution, for example when it comes to false hopes, disappointment, or possible manipulation of societal hope. The field of economics has gained much valuable insight from existing research but we argue that it could gain from further definitional clarity. We discuss the difference between hope and related concepts such as optimism, in particular when it comes to economic research, and suggest topics for future research that could benefit from a focus on hope.

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## 9.1 *Homo Economicus*

Hope is fundamentally a subjective and normative experience. It is about desire, uncertainty, and about what we believe is possible and good (Day 1969; Webb 2007; Martin 2011). However, hope has not been well-covered in the field of economics. This can partly be explained by looking at the common understanding of human nature that economists tend to subscribe to. Within current mainstream economics, the neoclassical approach is still largely dominant. Modeling most of its theories on the prototypical *homo economicus*, this perspective assumes that, universally, people tend to be selfish, behave rationally, aim to maximize their interest, are not influenced by others, and have full information and understanding of their surroundings (Henrich et al. 2001; Dequech 2007). Hence, within this perspective of the calculating, rational human being, emotions or virtues have little explanatory power, and a topic such as hope has received little attention.

However, this is not to say that emotions or virtue do not matter in the field as a whole. Fundamentally, economics is about the production, distribution, and consumption of valuable output. What we regard as valuable can be determined in different ways. The term *utility*, signifying value within economics, was initially part of utilitarian theory developed by philosophical thinkers such as Jeremy Bentham and John Stuart Mill, and was understood to represent the overall pleasure or happiness that we gain from our decisions (Kahneman et al. 1997). Even though the concept has over time been interpreted differently by other economists, utility from its outset was thus meant to represent something as subjective and personal as happiness. In addition, psychological and ethical theory were also important foundations of neo-classical economic thinking from the outset. Adam Smith, for example, deemed virtues such as prudence, temperance, and self-command essential for the correct functioning of the economic system through the pursuit of self-interest (Bruni and Sugden 2013). Moreover, early neo-classical economic thinkers did incorporate psychological constructs into their theories to explain economic behavior, investigating for example human tendencies, the effects of stimuli, pleasure, and sensitivity (Bruni and Sugden 2007). However, during the late nineteenth and early twentieth centuries, economics went through several fundamental changes, leading to an increased focus on mathematical, rational-choice models, and theory, and abandoning its psychological and ethical dimensions, all in an aim to increase the unique value and contribution of economics (Bruni and Sugden 2007). The idea behind this change was that philosophy, sociology, and psychology are worthwhile and relevant fields in their own right, but economics should fulfil its particular “niche” as the scientific field studying the universal rules of logical action. By adopting this focus and making use of empirical data and mathematical models, it was assumed that economics would become simpler, clearer, more relevant in predicting economic phenomena and improving public policy, and avoid the danger of drawing false conclusions based on prepossessed assumptions (Ekelund Jr and Hébert 2002). The consequence of this change has been that emotion, experience, and subjectivity no longer had a place within economic research. This is clear, for

example, in the way economists have approached a topic such as preferences. During the eighteenth century, preferences were largely understood in the way that philosopher David Hume defined the passions: as motivating and unruly feelings following from our experience of pleasure or pain. However, as neo-classical economists tried to develop mathematical, universal, logical, and predictable rules and models of motivation and behavior, preferences were stripped of their individual, context-dependent and subjective characteristics. Rather, economic theory from then on started to assume that preferences were fixed, separate from belief, and completely determined behavior (Arnsperger and Varoufakis 2006).

Nonetheless, in recent decades, the field of economics can be said to have experienced a “counter-revolution” involving heterodox economic approaches, such as behavioral economics, which again swayed attention to the importance of psychology and to accepting complexity and ambiguity in understanding economic behavior (Dequech 2007). Within this school of thought, the idea of the rational *homo economicus* and neoclassical theory focusing on universals is assumed to be too simplistic to predict real life behaviors and therefore in need of reform (Henrich et al. 2001). Thinkers within this approach adopt a different interpretation of human nature, stating that comparisons and framing matter; that altruism can be an important motivator; that people can often behave in a seemingly irrational manner, partly since they often don’t have or correctly process all relevant information when making choices; and that emotions matter (Henrich et al. 2001; Kahneman 2003). This is exemplified in the changing approach to preferences; rather than pre-determined golden rules for behavior, economists have started to frame preferences as dynamic, context-dependent, and subjective experiences (Sent 2004). As part of this change, psychological topics have been increasingly investigated by economists during recent decades, and several strands of research have focused on concepts related to hope.

## 9.2 Research on Hope in Economics

Within the academic economic literature, there are very few publications specifically focusing on hope—in the psychological sense of the word. However, there are some strands of research that focus on related topics. Here, we will discuss the most prominent ones, namely *prospects*, focusing on the way people experience decisions; *consumer confidence*, i.e. the belief that economic circumstances will develop in a positive way for consumers; *expectations*, comprising our assumptions about the future; *aspirations*, relating to what we desire; and discuss how these different states are regarded as a form of capital both on micro and macro levels.

### 9.2.1 *Expected Utility Theory and Prospect Theory*

An important incentive for the further development of behavioral economics has been criticism of the neoclassical *expected utility theory*. This hypothesis states that utility, i.e. the value that people attach to certain goods, can be deduced by observing their choices. Based on the assumption that we cannot objectively and therefore reliably assess the subjective experience of people, e.g. whether and how much we value something, neoclassical economists favored observing behavior as a measure of utility. Choosing a certain amount of one good over another was assumed to reliably represent the value people attach to it. However, as summarized by the opposing *prospect theory*, which has been substantiated by several empirical studies over past decades, people also derive utility from the memory, experience, and anticipation of an event or good. This means that *decision utility*, i.e. what we base our choices on and which is reflected in our behavior, can be and often is different from our *remembered, predicted, instant, or total utility* (Kahneman et al. 1997). When we choose to do something, we might often think very differently about this choice afterwards or beforehand, for example when we regret a decision or when we enjoy the anticipation of a something but decide against it at the last minute. This means that simply observing behavior can draw a very misguided picture of what people really value. Rather, we need to know what people experience, not only at the moment they make a decision, but also before and after they do so. The increasing acceptance of prospect theory within economics over the last decades has paved the way for numerous investigations into the subjective experience of economic agents over time, including the experience of “anticipatory feelings” such as dread, savoring, hope and anxiety (Senik 2008). Although this type of research has only recently really started to flourish, the idea that perspectives on the future matter for our experience and economic behavior has already been around for a bit longer.

### 9.2.2 *Consumer Confidence*

A relatively traditional topic within economics that is related to hope focuses on *consumer confidence*, i.e. the belief that future economic developments will be positive and that it is a good time to make large purchases. The development of the consumer confidence index in the mid-twentieth century was based on the idea that consumers not only react to the current, objective state of the economy, but also to their subjective interpretation of future developments (Katona 1968). Items in the consumer confidence indices typically include questions on the present conditions (e.g., how would you rate present general business conditions in your area? [good/normal/bad]) and expectations (6 months from now, do you think business conditions in your area will be [better/same/worse]?).

The aim of the consumer confidence instrument was to better explain and predict consumer behavior, although over time, it has appeared that the index predicts a

relatively modest amount of variation in future consumer spending (Ludvigsson 2004) and is only substantially better at predicting behavior than traditional objective measures during times of economic shock, such as during financial crises or geopolitical tension. This might be because emotions play a more important role in these contexts, as strong feelings of distrust seem to render inadequate those models based on purely objective measures (De Boef and Kellstedt 2004; Dees and Brinca 2013). To this day, most countries still collect data on consumer confidence, making it possible to analyze trends, make international comparisons, predict behavior and study the relation between people's confidence in the future and their (economic) behavior.

### 9.2.3 *Expectations*

The idea of consumer confidence is closely related to the concept of *expectations*, i.e. the assumptions we uphold about whether the future will be positive or negative, when it comes to a wide possible array of domains, such as household finances, the economy at large, or life as a whole. Within economic research, there is a growing recognition that (positive) expectations are a worthy topic of scientific investigation, since they can explain behavior, are valued by people, and affect several outcomes such as health and longevity. For example, a relatively strong relation has been found between pessimism and negative outcomes such as premature mortality, reported pain, and low labor force participation (O'Connor and Graham 2018; Graham and Pinto 2019). Moreover, optimistic expectations help people endure (economic) hardship; not only are more optimistic people happier, they are also more resilient to negative shocks such as unemployment or political turmoil (Ekici and Koydemir 2016; Arampatzi et al. 2019). Also, research has shown that income expectations and financial security have a strong relationship with our subjective well-being, and at times are even more important than our objective, current income or financial situation (Brown et al. 2005; Frijters et al. 2012; Arampatzi et al. 2015). Together, these results indicate that optimism is generally beneficial to our well-being and health, and helps as a buffer against misfortune. Moreover, rather than being just instrumental, people seem to value optimistic expectations in and of themselves. For example, some seemingly (financially) irrational behaviors, such as lottery participation, can be explained by the finding that people simply enjoy the positive anticipation they engender (Senik 2008; Burger et al. 2016, 2019). However, there is also some evidence that being overly optimistic might be harmful to us: Expecting too much from the future might make us prone to disappointment or societal disillusionment (Easterlin 2001; Gollier and Muermann 2010; Sweeney, Carroll and Shepperd 2006; Kleist and Jansen 2016; Arampatzi et al. 2018). Being overly optimistic might give people a distorted picture of reality and incentivize reckless behavior (Malmendier and Tate 2005). And naïve feelings of optimism without any evidence could be taken advantage of, or leave people

apathetic in the face of serious threat or risk (Ojala 2012; Sleat 2013; Boukala and Dimitrakopoulou 2017).

There is a strong social component to the role of expectations within economics. People are social animals, and constantly examine how they relate to others. For example, when we see that other people's welfare is increasing, we also tend to be more optimistic about our chances of increased prosperity, but we could also become envious (Frijters et al. 2012). In modern capitalist economies, hope for prosperity is often based on the perceived possibility of upward social mobility, and seeing others' progress can be interpreted as a sign that one's own welfare might also soon improve (Hage 2003). However, here also lies an important risk, since optimistic expectations that remain unanswered can transform into disappointment, disillusionment, and envy. This is symbolized in the so-called "tunnel-effect" voiced by economist Albert Hirschman: When waiting in traffic, we might at first become optimistic when we see cars in the lane next to us moving, as this might indicate that we, too, might be able to move soon. However, if nothing changes after a while, people tend to get frustrated, envious and might even start to break the rules, for example to shift lanes. Similarly, economic prosperity can increase people's optimism, but having to wait too long before such expectations are realized can lead to frustration and deviant behavior (Hirschman and Rotschild 1973).

In many societies, there are indications that there are large groups of people who have been structurally disappointed in their expectations of a better life and suffer from negative effects such as ill-health and low well-being (Graham 2017). In a study we conducted among US citizens, for example, we find that people's hope represents little of the American Dream where anything is possible as long as we put our minds to it. When asked for their hopes for the upcoming years, people generally report that they hope for better health, to be able to make it through the year despite (financial) misfortune, or to be able to save enough money for a down payment on a house. Moreover, positive expectations tend not to be evenly distributed among different groups of people in society, meaning that some groups might disproportionately experience pessimism and its related negative consequences (Kleist and Jansen 2016; Graham and Pinto 2019). At a societal level, the "tunnel-effect" has been associated with eruption of popular anger in the form of protests and voting against the incumbent party (Witte et al. 2019).

### 9.2.4 Aspirations

A different strand of research within economics focuses on *aspirations*, i.e. the desire to reach certain goals, for which one is prepared to invest time, effort, and money (Easterlin 2001). Such aspirations are also often heavily influenced by our surroundings, since what we desire partly follows from what we perceive to be possible and what others think is desirable. It has been found, for example, that increased wealth goes together with higher aspirations, so that the richer people become, the more they desire. This can partly be explained by the finding that as

people get wealthier, they quickly adapt to new standards of living and they start to compare themselves to a new, wealthier group of peers (Stutzer 2004). In happiness economics, it is believed that these increasing aspirations cause a hedonic treadmill, i.e. the observed tendency of people to return to a relatively stable level of happiness, despite major positive life changes such as a major income increase (Brickman and Campbell 1971).

On the other hand, very low levels of wealth seem to coincide with lower aspirations. Here, it is assumed that aspirations and effort are jointly determined: high aspirations lead to higher effort to achieve ones goals, but through creating better outcomes, higher effort also becomes a stepping stone towards higher aspirations. However, since people living in poverty have fewer means of achieving positive outcomes with the same effort, for example because of less influential contacts, less wealth that can be used for investments, or less access to information, they are likely to form lower aspirations, which in turn limits the goals they might achieve (Appadurai 2004; Dalton et al. 2015).

### ***9.2.5 Hope as Psychological Capital***

As an increasing number of studies seems to indicate, optimistic perspectives of the future are related to many other positive outcomes, such as wellbeing, health, productivity, but also academic and athletic success (Snyder 2002). Therefore, it is perhaps not surprising that traits such as hope and optimism are increasingly regarded as capital that can be used to achieve greater prosperity and as a buffer against misfortune. This is perhaps most clearly exemplified in the field of business economics, where hope and optimism are seen as positive psychological capital that can help employees flourish, be productive, and stay healthy (Youssef and Luthans 2007). Also, it is theorized that effective leadership styles such as authentic and spiritual leadership are closely related to, and could be strengthened by inducing hope (Helland and Winston 2005). Moreover, it seems that the human tendency to be somewhat overoptimistic plays an important role in investment and entrepreneurship (Flyvbjerg 2008; Sharot 2011). It appears that most people are generally overoptimistic when it comes to economic assessments and decisions, and that this is especially the case for entrepreneurs (Dawson et al. 2014). Moreover, this optimism seems to pay off, since optimistic entrepreneurs tend to be more successful (Ayala and Manzano 2014). Due to its strong perceived motivating power, optimism and hope are often regarded as important resources to teach to youngsters, also for battling societal challenges such as climate change (Ojala 2012).

On the flip side, it seems that pessimism also has some negative consequences, and prevents constructive investment in our future. A field within economics that has focused on the effects of lack of hope is that of development economics (Lybbert and Wydick 2018; Bloem et al. 2018). Here, the focus is on the question whether hope affects whether we invest in our futures and how. For example, the idea of a *poverty trap* implies that in contexts where people see no possibility of improving their

situation, they are likely to become apathetic and refrain from behaviors that could actually make their lives better, whereas offering people hope by creating new possibilities will increase their agency and resourcefulness (Sen 1999; Duflo 2012). This might be explained partly by the fact that people who think negatively about the future in general tend to avoid thinking about it. This might limit the negative effect of focusing too much on what might go wrong, but it can also prevent people from taking precautions against misfortune and from grasping opportunities when they do arise (Duflo 2012).

### 9.3 Hope and Related Concepts

While the field of economics is thus increasingly focused on how perspectives of the future influence behavior and outcomes, there is significant heterogeneity in its approaches and little consensus on terminology; concepts such as optimism, expectation, hope, aspiration, and confidence are often used interchangeably, without paying much attention to the question of whether these concepts do indeed represent the same experiences. Within the fields of philosophy and psychology, hope has been a more prevalent topic, and these disciplines have therefore developed much more detailed definitions, from which we can borrow some conceptual clarification. Within the field of positive psychology, hope is often defined as a desire, agency, and resourcefulness in the face of obstacles on the way to the object of our hopes (Snyder 2002). Philosophical approaches usually follow the orthodox definition of hope, claiming that hope entails desire for a possible, but uncertain event (Day 1969; Martin 2016). Based on our own interdisciplinary literature review of academic articles on the definition and characteristics of hope, we see that the individual experience of hope entails at least three core components; *desire*, a *probability estimate* of attaining this desire, and a way of dealing with the inherent *uncertainty* of whether or not we will attain our hopes (Pleeing et al. 2019). This implies that expressing hope means that we would like to achieve whatever the hope is aimed at, that we think reaching this goal is possible, but not certain, and that we are aware of this uncertainty.

This definition showcases hope as quite a particular phenomenon, that differs fundamentally from related concepts. For example, “expectations” are not at all uncertain, but are actually about expressing certainty, about what we believe is probably going to happen. Having strong positive expectations means an event is likely to happen, whereas having a lot of hope can easily pertain to something quite unlikely (even if our hopes might grow with the increased probability of attaining our goal). Moreover, expectations don’t necessarily involve desire. Although we can certainly form expectations about events we desire, stating that we expect something to happen does not imply that we want it to happen, even if it pertains to something most people regard as positive. Hoping for an event, on the other hand, does always mean that we want it to happen. “Optimism” refers to the tendency to have positive expectations and thus differs from hope in the same way as expectation does (Bailey



et al. 2007; Alarcon et al., 2013). Aspiration on the other hand focuses on desire, and does not relate to any uncertainty. Expressing hope implies that we are aware that we might not get what we want, while aspiring to something does not imply anything regarding our assessment of whether it is probable or not. Similarly, confidence can boost hope, but we can nonetheless also hope for things we believe to be quite unlikely to happen (but not impossible). As pointed out by Swedberg (2017), consumer confidence overlaps to some extent with hope, the most important difference between hope and consumer confidence being that consumer confidence focuses mostly on expectations what will happen, while hope focuses more on aspirations and desires. Although what *will* happen can coincide with what one *wants* to happen, this is not necessarily the case.

These distinctions are important, because it means that hope and its related concepts have quite different meanings and therefore also quite different roles for our behavior and experience. Hope is a very particular phenomenon, with especially important characteristics when it comes to economic behavior. Firstly, hope is about desire, and as such tells us a lot about what people value. Contrary to expectations, asking people about their hopes relates both to what they think will happen, as well as what they want to happen. Secondly, the fundamental uncertainty that underlies hope has a strong motivating power. As long as our hopes are uncertain, we need to take persistent action. Things we already expect to happen on the other hand, require no further initiative. Thirdly, awareness of the inherent uncertainty of our hopes means that hope is often more process-focused than other related concepts such as expectations. Hope is both about what we want to achieve and about how we might navigate the uncertain path towards it. This does not necessarily mean we will always act on our hopes, or even have very specific ideas about how we might achieve them. But it does mean that we are aware of the obstacles between our current state and the one we want to achieve, and will need to navigate our way around them (Snyder 2002). As such, hope tells us a lot about what people want and what will motivate them to behave in a certain way. Although there is no perfect correlation, hope could function as a very strong prediction or explanation of our behavior.

The field within economics that seems to focus most specifically on hope rather than on another related concept, is that of development economics (see also Chap. 14 of this volume). The difference between this strand of research and others, is that in this conceptualization, hope does entail desire, i.e. it is about what people regard as progress, and involves a probability estimate, i.e. whether people perceive their attempts and efforts worthwhile and uncertainty, i.e. that opening up the possibility of change, influences their behavior. For example, several studies theorize that certain interventions aimed at alleviating poverty might be specifically effective because they engender a renewed desire for a better life, increase the perceived possibility of doing so and open up entrenched assumptions to make room for new behaviors. Nonetheless, this research focusing on the role of hope in poverty alleviation is still largely theoretical and lacks empirical substantiation (Duflo 2012).

## 9.4 Future Research on Hope in Economics

While current strands of economic research focusing on expectations, aspirations, and consumer confidence are definitely proving their value, we believe that economic thought could benefit further from a specific focus on hope. Rather than the other concepts, hope implies a strong motivating state, which simultaneously represents desire and subjective assessment of probability of attainment. These characteristics make hope specifically useful for predicting (economic) behavior, since they determine whether people are prepared to invest, either in their future, in an uncertain venture or in collaboration with others. Previous empirical research from fields such as psychology, environmental studies, leadership, and business studies, has found several, mainly positive, consequences of a hopeful disposition. Hopeful people have been found to perform better academically and athletically, to be more creative and innovative, to be better at dealing with change, to be healthier and happier, and to behave more constructively in an organizational setting (Snyder 2002; Reichard et al. 2013). Moreover, hope and optimism have been found to be conceptually different and have their own, unique relation to well-being (Bailey et al. 2007; Pleeing et al. 2019). This is not to say that more hope is always necessarily better, since there can be important negative side-effects to hope, such as false hope, passive hope, or manipulation through appeasement of people's hopes. However, it does tell us that hope has a particularly strong relationship with behavior, especially when it comes to our willingness to improve our future.

Therefore, there are several economic phenomena that will most likely be better understood when we understand how hope plays a role. Possible economic topics that might particularly profit from a focus on hope are types of behavior that rely heavily on investments, such as sustainable behavior, education, and pro-social behavior. Similarly, a focus on hope might provide insight on the behavior of marginalized groups, such as refugees, unemployed people, and people living in poverty. Here, people make decisions based on what they assume to be a possible and better future. Here, there is also a strong social component at play, since hope often relies at least in part on our surroundings: others influence what we deem possible, but also often what we desire. As such, what people hope for often gives some insight into what we perceive as progress within our specific context (Kleist and Jansen 2016). Moreover, hope plays an important role during economic and societal shocks such as financial crises or political turmoil, and could even function as an early signal before there is further societal unrest.

All of this is based on the assumption that it is possible to measure hope. There are currently a wide variety of measures available which tap into how hopeful people feel. Popular multi-item instruments that have been used, mainly within psychological research and nursing studies, are for example Snyders's Trait Hope Scale (Snyder et al. 1991), Herth's Hope Scale (Herth 1992), Beck's Hopelessness Scale (Beck et al. 1974) and the Comprehensive Hope Scale (Scioli et al. 2011). All these scales have proven to be valid instruments for measuring hope. However, little research has been done on possible shorter or simpler instruments or how well

these multi-item scales perform compared to a single-item question. Although there are thus several avenues for increased empirical research concerning hope, there is clearly much to be gained in pursuing them.

## 9.5 Conclusion

Hope has not been a very popular topic in economics throughout history. Although mainstream economic thought was, from the outset, inherently related to psychological functioning and ethical consideration, and thus with how people perceive their surroundings and their future, neoclassical economic theory has tended to focus only on subjects that can be measured objectively and can be generalized to universal rules. However, recent heterodox approaches have started once more to incorporate psychological and philosophical topics and theories in their study of economic phenomena, and as a consequence have embraced subjective topics such as hope. Studies in this field show that humans are much more complex than the traditional image of the calculating, rational *homo economicus* leads us to believe. Life is uncertain, and people constantly try to make sense of their surroundings and behave in accordance with their subjective experiences. Hope is an important emotion in this regard. Positive perspectives of the future have been found to have an impact on our longevity, health, and quality of life and to motivate behavior and increase innovation, creativity, productivity, leadership, and entrepreneurship. Moreover, a lack of hope can induce apathy, rigidity, and myopia. On the other hand, more hope is not necessarily always better. Overly optimistic hopes can lead to disappointment and reckless behavior, and naïve hope can be easily abused. All in all, hope seems to play an important role in many economic phenomena, and the field could probably profit from further study of the topic. However, definitional clarity is necessary to further disentangle the roles of the different types of positive perspectives on the future. Hope, optimism, expectations, aspiration, and confidence are often used interchangeably, but refer to fundamentally different states, all with their unique characteristics and effects on behavior. Nonetheless, economics might become a more hopeful field by incorporating more of the complexity of human behavior and experience.

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