

Subject: Pandemic's Impact on Economic Behavior  
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Will the pandemic cause a permanent shift in the behavior of consumers? A common assumption is that the benefits of social distancing will make people less likely to risk being in crowds in the future, and the financial hardships endured will make people more likely to increase their emergency savings. This is the rational response when consumers are faced with significantly higher risks to their health and finances. Similarly, these risks are assumed to revert to the lower prior levels after a vaccine is made available and finances restored. Once the elevated risk disappears, economic theory holds that consumers' pre-existing preferences would again determine their decisions, with their economic behavior comparable to the past.

What is missing in the usual analysis of people's choices is how emotions also shape behavior. Passion has always been seen as the enemy of reason. Most believe that inserting passions into decisions would guarantee poor judgements. In fact, just the opposite is true. No decision is possible without guidance from an individual's emotions, motivations, and goals. Moreover, when ambiguous information prevents rational risk evaluations, as it did in the early stages of the virus, emotions serve as the functional equivalent of people's cognitive faculties. As detailed in my book on *Consumer Expectations*, people regularly utilize a mixture of their two independent mental faculties to make decisions, their cognitive and their emotional resources. No decision is possible based on only one of their mental faculties. The use of their full mental capacity does not guarantee optimal decisions, as inaccuracies could originate in either or both mental subsystems. The two mental resources operate independently and automatically, and sometimes come to different conclusions. It is a common experience that people sometimes make a cognitive based decision that nonetheless sparks feelings that the decision was incorrect, amounting to a unique form of decision uncertainty. If both systems come to the same conclusion, a greater sense of confidence attaches to the decision.

The affective mental resources, sometimes called the emotional brain, are much older in evolutionary terms, and as a result, are more equal across people. The prefrontal cortex, which enabled conscious rational deliberation, developed much later and shows wide variations in capacities across people. There are a few critical differences. The affective resources can process information faster than people's cognitive resources, and the information reaching conscious awareness is accompanied by an automatic evaluation, especially of any personally relevant information. These automatic evaluations can be reversed by a conscious review, although such reversals are relatively rare given that these evaluations are learned and revised based on people's actual experiences.

Depending on the specific information, some evaluations are more or less responsive to change. The least responsive are those evaluations founded on basic emotions, such as threats to one's health and finances that the pandemic represents. Long after a vaccine ends the pandemic, some people may still automatically attach a negative evaluation to events that involve crowded venues, for example. However much a person had preferred to travel by air, commute to work by mass transport, shop at malls, attend concerts, sports events, choose urban residential and work locations, their future decisions may not overcome the attached negative emotions due to the pandemic. A key issue is whether these associations will fade over time across all people, or if it will represent a lasting generational impact similar to the Great Depression. Moreover, the automatic emotional attachments may heighten fears of other events that would not have warranted such concerns in the past.

The current pandemic mood of consumers cannot be easily or quickly reversed. Moods are remarkably independent of conscious control. Moods result from nonconscious learning, and their strength and stability encourages consistency in behavior. The impact of mood results from its influence on how information is processed and what evaluations are automatically attached to the information prior to conscious awareness. To be sure, moods do shift and transform how information is perceived. The American Dream was an example of a mood that exerted a significant impact on how economic information was processed and how positive interpretations were automatically attached to ongoing economic developments.

Perhaps the most important implication of the pandemic is how it will alter judgements about appropriate economic policies. The pandemic highlighted the basic mismatch between the current economic policy dependence on growth and market efficiency and the new emphasis on equity, not only of income and wealth, but also in the availability of health care, and educational opportunities. These sentiments were once enshrined in the study of Political Economy, established long ago by Adam Smith. Smith put a high value on "Moral Sentiments" (published in 1759) as a guide for economic policy rather than advocating for the sole reliance on rationality. The pandemic underscores that those moral sentiments should again serve as an appropriate additional guide for economic policies.