



BACHELOR THESIS

Loss aversion, risk-acceptance, and powerful leaders' deviations from rationality

A prospect-theoretical application to the American escalation
of the Vietnam War

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PUBLIC GOVERNANCE ACROSS BORDERS

Word count: 11531
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July 1, 2020

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Abstract

Civil wars, a global pandemic, climate change, riots and terrorist attacks: the list of current crises is long, and it keeps on getting longer. It is, therefore, vitally important to understand powerful, yet oftentimes irrational leaders' decision-making in crisis situations under risk and uncertainty. With this thesis, I aim at doing just that. More precisely, I apply Kahneman and Tversky's Prospect Theory, which is the most influential descriptive theory of decision-making under risk, to the single-case study of former U.S. President Lyndon Johnson's escalation of the Vietnam War in 1965. The applied research method is a qualitative content analysis of recently de-classified U.S. government documents and public speeches. I show successfully that Prospect Theory's fundamental concepts of loss aversion and risk acceptance, provide a substantial explanatory value of leader's irrational deviations from pursuing the highest expected utility, when making decisions in crisis situations. I conclude that the understanding of a past leader's decision-making process, that this thesis offers, can help understand present leaders' decision-making behavior in current crises, and may even aid to prevent future crises.

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1. Introduction

Armed conflicts are, and always have been, a central feature of the international system and the most problematic consequence of the anarchical structure of the latter. They have built the nation states and the nation states have fought them. Mostly, they have killed, they have wrecked and ruined, and they have traumatized (Levy & Thompson, 2010). Moreover, they continue to attract more public and scholarly attention than any other topic in international politics, while they evolve continuously over time. Within the field of war research, one key scholarly debate with an inherent lack of consensus, is the one on the causes of war (Suganami, 1999). Despite the debate's overall complexity, the respective research is much more homogenous concerning different types of wars. By far the greatest scholarly attention has been given to the conventional interstate type of war (Levy & Thompson, 2010). Since the end of the Second World War, however, the importance and frequency of interstate wars has been replaced by domestic wars and internationalized civil wars (Schimmelfennig, 2008). The changing nature of conflicts suggests a new warfare, new actors and, consequently, new aims and intentions. Thus, new research is imperative. The particular focus of this thesis is on **internationalized domestic conflicts**. More specifically, **it aims to extend current understanding of why presidents of democracies start wars in the periphery**¹. In doing so, it aspires to explain the decision-making process behind one of the most tragic and controversial international interventions of the 20th century, in a peripheral, domestic armed conflict: the American War in Vietnam.

The Vietnam War is the “modern American tragedy” (Logevall, 1999), which cost close to 60 thousand American and three million Vietnamese lives. The Vietnam War is pivotal because it is possibly the best real time documented war of its size since the end of the Second World War. The readily available and recently declassified pool of information makes the Americanization of the Vietnam War an ideal case for probing into the thought processes of key decision-makers pushing for action. Many scholars have tried to understand the American decision to go to war. A large majority agrees that the decision that was taken was wrong, at least, a crime, at worst (Logevall, 1999), while some argue that Lyndon B. Johnson did not possess a ‘real choice’ (See for example: Betts, R. K., & Gelb, L. (1978)). Others acknowledge different possible means of action and try to make sense of the choice using normative Rational Choice models. One such rational model is Bunge’s expected utility model on the Vietnam War. Bunge (1973) concludes that the U.S. decision for war was not rationally logical, because it did not maximize the expected utility. Therefore, the rational model cannot explain the escalation. I argue that the explanatory value of the normative Rational Choice theory is limited in researching causes of war, because of its basic assumption of rationality. More often than not, when decision-makers are confronted with the threat or prospect of war, they are also confronted with time constraints and high levels of uncertainty and risk (Goemans & Fey, 2009). War is a ‘gamble’ in nature (von Clausewitz, 1873), which limits decision-makers’ cognitive abilities and makes them deviate from the predicted most efficient means of actions (Vis & Kuijpers, 2018). Therefore, an alternative theory is needed; one, which allows for irrational deviations and can consequently better explain Johnson’s decision. Here I propose the application of Prospect Theory (Kahneman & Tversky, 1979), and address the following research question:

¹ Periphery, relative to a great power, refers here to an area that is far away from the great power’s borders and is incapable of doing harm to the great power’s territorial base (Taliaferro, 2004).

RQ: To what extent can extent can **Prospect Theory** explain Lyndon Johnson's decision to escalate the Vietnam War?

Applying a careful content analysis on a purposively selected sample of recently declassified government documents, including three chapters of the Pentagon Papers, security memoranda and presidential telephone conversations, as well as two of Lyndon Johnson's most important speeches on Vietnam shortly before the escalation, I successfully develop a prospect-theoretical explanation for Lyndon Johnson's escalation of the Vietnam War. Prospect Theory descriptively adjusts the utility maximization objective to the cognitive constraints of decision-makers (Johnson & Busemeyer, 2010), and predicts them to be more sensitive to losses than to gains and thus risk-acceptant when trying to avert losses. I find that Lyndon Johnson's perceived loss of credibility, implied by 'losing Vietnam' to the communists, made him engage in a more risk-acceptant behavior, and ultimately escalate the war. Therefore, I offer a fuller understanding of the decision making behind a conflict that reshaped how we view foreign intervention in a domestic conflict. This understanding is contemporary, because now more than ever, countries are fighting their wars outside of their own territory (Schimmelfennig, 2008). Further, the rise of seemingly irrational, yet powerful decision-makers all around the world, makes it highly relevant to stress the limits of expected-utility's assumption of rationality, and develop more applicable alternatives for explaining highly risk-acceptant, unstable characters' decision-making in all types of crisis. The fuller understanding of past leaders' decision-making in crisis situations that this thesis offers, can improve our understanding of current crises, and may even help to prevent them.

2. Theory

Real-life decision-making, especially in crisis situations, is typically marked by an insufficient availability of decision-relevant information (Aliev, 2013), resulting in risky and uncertain prospects. Thus, the concepts of risk and uncertainty are essential to crisis decision-making theory (Aimin, 2010). Complex decision-making situations with unknown outcomes of known probabilities are defined as risky, and those with unknown outcomes of unknown probabilities as uncertain (Riabacke, 2006)². The three most basic theoretical approaches to explaining such complex decision-making are classified as normative (utility maximization), descriptive (for example Prospect Theory), and computational (analysis of cognitive and emotional processes, mental and neural operations) (Johnson & Busemeyer, 2010). Scholars of the descriptive and computational approaches continuously develop interesting insights into how humans actually behave when facing risky decisions.

For example:

1. Heilman et al. (2010) show that regulation of emotion has an effect on the decision-maker's risk propensity (the more downregulated the negative emotion, the greater the risk-acceptance).
2. Riabacke (2006) finds that leaders rely more on gut feelings and intuition than information or decisional aides when making decisions under risk and uncertainty.
3. Hey (2002) establishes that the likelihood of decisional errors (caused by not following through with one's plans), increases under uncertainty.

² This thesis does not include a probability weighting function and consequently refrains from speculating on Lyndon Johnson's (subjective) knowledge (or lack thereof) of probabilities. Therefore, risk is here operationalized simply as outcome uncertainty.

4. Pahlke et al. (2015) show that carrying responsibility for others increases risk-avoidance when accounting for gain, and risk-acceptance when accounting for losses.

And yet, despite the descriptive inaccuracies of the normative approach highlighted by the developments of the descriptive and computational theories, Rational Choice models still dominate the literature on decision-making in crisis situations (Vis & Kuijpers, 2018). The core assumption of any rational decision-making model is the rationality of the decision-maker when he or she is in pursuit of his or her objectives. A decision-maker behaves rationally when his or her preferences are (1) complete and (2) transitive. A preference ordering of outcomes x and y is complete, when the decision-maker can rank both; a preference ordering of x , y and z is transitive when the decision-maker prefers x over y , y over z , and consequently x over z (McCarty & Meirowitz, 2012). Rational models were predominantly applied to the US-decision to escalate the war in Vietnam. Mario Bunge developed one such model in 1973. His “Decision Theoretic Model of the American War in Vietnam” is a classic, influential expected-utility model. Expected-utility theory is a Rational Choice model for decisions under risk or uncertainty. It holds that the decision-maker selects the option that presents the highest expected utility compared to other options (Mongin, 1997). Bunge’s application of expected-utility is the point of departure for this thesis’ literature review. He employs the expected-utility model to the escalation of the Vietnam War on the premise that the decision taken by US officials was deliberate and based on carefully weighted goals and means, as well as expected utilities of the former and probabilities of the latter to achieve the goals (Bunge, 1973).

Bunge’s model identifies the six main goals of the decision-makers at the time of the decision (G1: Checking communist expansion, G2: Defending democracy in S.V., G3: Weakening communism in N.V., G4: Preventing blood bath of friends, G5: Keeping U.S. influence in S.V., G6: Saving American Prestige), six unwanted side effects, and the four possible means of achieving the goals, namely ‘Neutrality’, ‘Negotiating’, ‘Advising’ and ‘Total War’. Applying this model, he estimates the utilities of the six goals by applying the method of successive comparisons. The latter method is better known as the “branch method” based on the science of “Muddling Through” (Lindblom, 1959), which is characterized by the narrowing down of the investigation by comparing only single branches, rather than the whole tree. The output of all calculations and guesswork is the expected utility of the four aforementioned means (or possible courses of actions) - and simultaneously Bunge’s main contribution to the field of study. According to Bunge’s model, the one and only efficient trade-off between side-effects and utility for the US administration was negotiations, while all other potential means of action demonstrate to be worse than unprofitable for Washington (Bunge, 1973). Most strikingly, the path that the United States actually took, namely the ‘Total War’ course of action, ends up – based on Bunge’s calculations - being not just the least efficient, but the most “disastrously counter-effective” (Bunge, 1973) means for achieving the goals. *What seems like a contradiction for the expected-utility theory, may well be explained by the application of a different model, which is the aspiration of the academic research at hand.*

The utility of theorizing on rational decision-making in foreign policy is limited mostly because of its most basic assumption of rationality. Most of the time, foreign policy decision-makers have to deal with decisions involving risks and uncertainty, which is why they deviate from the predicted most efficient means of actions. The rational-comprehensive model presupposes a *homo economicus* of a decision-maker, someone who holds the knowledge and intellect to an extent that is practically unavailable to men (Lindblom, 1959). Due to constraints in time and cognitive capabilities, as well as incomplete information, the decision-maker cannot be rational in the sense of the *homo economicus*, but only to an “approximate” (Simon, 1955, p.114) extent. Thus, decisions are more often than not irrational, especially in cases where decisions must be taken rapidly under high stakes. Therefore, political science scholars have concluded the rational decision-making theory of expected utilities to be

incomplete and vague (see Kahneman & Tversky, 1979; Vis & Kuijpers, 2018). In contrast, Prospect Theory provides psychological insights where the rational theory approaches its limits. Prospect Theory has become the most decisive descriptive decision-making theory for political science applications (Mercer, 2005; Haas, 2001; Levy 1992; Levy, 1996).

The most fundamental assumptions, which distinguish the descriptive Prospect Theory from its normative rational alternative, are (1) reference dependence and (2) loss aversion. Reference dependence holds that decision-makers assess outcomes as changes in terms of gains or losses in assets relative to a reference point, rather than net asset levels as predicted by expected-utility (Levy, 1992; Kahneman & Tversky, 1979). Loss aversion implies that individuals are more sensitive to losses than to gains, which leads to risk-seeking behavior when the decision-maker faces loss, and risk-aversion when the decision-maker faces gains (Levy, 2003). When the two psychologists Daniel Kahneman and Amos Tversky developed Prospect Theory in 1979, they argued that the framing of potential outcomes as gains or losses in net asset levels, combined with the phenomenon of loss aversion, biases the individual's risk-taking propensity (Kahneman & Tversky, 1979). In other words, the interpretation of choices, or the perception of outcomes as gains or losses ('framing of outcomes'), puts decision-makers into domains of either loss or gain. Furthermore, based on the observation that ". . . people hate to lose even more than they love to win" (Mercer, 2005, p.3), individuals, who perceive themselves to be in domain framed as a loss, are prone to be more risk-seeking than they would be in a situation framed as a gain (Mercer, 2005). The framing concept is therefore a key component of Prospect Theory, though still underdeveloped in the literature (Mintz & Redd, 2003). This thesis builds upon the evaluative form of framing, meaning that the frame can alter the decision-maker's perceptions of the available options and potential outcomes (Geva et al., 1997). In prospect-theoretical terms, the framing of a possible outcome as a gain or a loss influences the decision-maker's perception and consequently his or her willingness to take risk.

RQ: To what extent can **Prospect Theory** explain Lyndon Johnson's decision to escalate the Vietnam War?

This paper tests if Prospect Theory is indeed more applicable to foreign policy decision-making than expected utility, based on the premise that it better explains deviations of decision-makers by offering an explanation for irrational behavior rooted in political psychology (Vis & Kuijpers, 2018). A number of scholars have applied Prospect Theory to foreign policy decision-making analyses. Applying Prospect Theory to Franklin D. Roosevelt's decision-making during the Munich crisis, Farnham (1992) found that it more convincingly accounts for Roosevelt's behavior than expected utility can, most importantly because of the president's sudden change in preferences, despite a substantially and objectively consistent situation for the United States. While rational decision-making theories reject the possibility of a change in preference that is not based on the introduction of new information leading to a reversal of expected utilities, Farnham (1992) explained the reversal of preferences as resulting from a change in the way they were framed, consistent with prospect theoretical expectations. This extended current thinking on decision-making under risk and uncertainty by acknowledging the correlation between preferences and framing. At the same time, it revealed the demand for a general theory on framing and the reversal of such (Farnham, 1992). McDermott (1992) analyzed Jimmy Carter's decision-making behavior during the Iranian Hostage Rescue Mission. She found that Carter decided in favor of the risk-seeking military mission, despite his intrinsically dismissive attitude towards the use of force, because he was in a domain of loss, which was predictable by Prospect Theory and puzzling for expected utility. Both Farnham (1992) and McDermott (1992) make convincing cases about the applicability of Prospect Theory to complex foreign policy decisions in crisis situations, similar to the one under investigation in this paper (for further relevant prospect-theoretical applications

to crisis decision-making see also: Niv-Solomon, 2006; McInerney, 1992; Weyland, 1996). McHugh (2016) applied framing theory to explain the prolongation of the Vietnam War and found that the shift in the way Nixon framed the consequences of a withdrawal as a great loss, changed the public's opinion and rendered the prolongation of U.S. involvement possible.

To my knowledge, however, there are no comparable single case studies on Lyndon Johnson's decision to escalate the war in the first place. Furthermore, next to the material and convenience criteria, which makes the Vietnam War an adequate case for analysis, it is the literature's suggestion that Vietnam was not a foreign policy issue of national interest to the United States. (Kissinger, 1994), and that America had no colonial or economic aspirations as objectives in Indochina (Bunge, 1973), which makes it an even more interesting case for the prospect-theoretical application. Why would the America go to war in a country it had no intentions for national gain in? Was there another perceived gain for the United States in Vietnam, or were the decision-makers in Washington trying to avert losses? Logevall (1999) suggests that it was Lyndon Johnson's fear of losing credibility, that made him escalate the war. Is loss aversion really the explanation for the decision to escalate? This thesis tackles precisely this question.

By doing so, it intends to answer the following sub-questions:

1. Did Lyndon B. Johnson perceive himself as facing losses or gains relative to a reference point?
2. Which options were available to Lyndon B. Johnson and what were consequences and values of the respective options?
3. Can the framing of options as gains or losses explain Lyndon B. Johnson's choice of action?

It therefore has the following research objectives:

1. Set up a model for the application of Prospect Theory to international intervention to a domestic armed conflict
2. Retrieve and organize materials for study
3. Apply the model by means of content analysis
4. Extend current decision models as applied to armed conflict by integrating insights from Prospect Theory

The next section explains the research design and methods applied to do so.

3. Research design and method

This research is qualitative, as it is situated in a complex, deep rooted and not yet well understood research situation. It is designed as a single-case study. Case studies generally highlight the exact description or reconstruction of one case, based on a broad definition of the term 'case' (Flick, 2016). This research focuses on the Vietnam War as a deviant case with regards to the expected-utility model rooted in traditional rational-choice theory. A deviant case is generally understood to present an unexpected value relative to the common assumption of the theory (Seawright & Gerring, 2008). The common assumption of crisis decision-making theory is the expected-utility model. The deviant case nature of the Vietnam War, as judged relative to the expected-utility model, originates in the incapability of the latter to explain the case.

Accordingly, exploring the applicability of prospect theory instead, will most preferably transform the deviant nature of the case into a typical one (Seawright & Gerring, 2008), for the application of prospect rather than expected-utility theory. A more elaborate explanation of the Vietnam case is provided for in the background section following hereafter.

Within the framework determined by Prospect Theory, the method applied is a qualitative content analysis. The first step is to illustrate the sample and its scope, and to substantiate the sampling approach

(Mayring, 2014). In this research, the sample consists of purposively selected documents. Such purposive sampling selection here follows a sampling strategy based on the ‘convenience criteria’, which implies a selection of samples that are readily available and easiest to access in the prevailing circumstances (Flick 2016). Due to time and resource constraints, the purposive convenience sampling is the only strategy that is applicable in this research and it is realized in the following way:

1. To triangulate and grasp the essence of the research question, the population of relevant documents is narrowed down to four types of documents: security memoranda, selected parts of the Pentagon Papers, presidential telephone conversations and presidential speeches
2. The research’s time frame is set to the years of 1963 to 1965 (the months leading up to the deployment of U.S. ground troops), which ultimately limits the available documents to an extent appropriate to time and resource constraints.

The final sample of documentary material consists of three Pentagon Papers ([Part IV. C. 2. c.] Evolution of the War. Military Pressures Against NVN. November - December 1964, pp.1-17, [Part IV. C. 3] Evolution of the War. ROLLING THUNDER Program Begins: January – June 1965, pp.1-23, [Part V. A.] Justification of the War. Public Statements. Volume II: D—The Johnson Administration, pp. 1-59), two speeches (Lyndon B. Johnson’s “Peace Without Conquest” Address at John Hopkins University (April 7, 1965) and the President’s Message to Congress (August 5, 1964)), two memoranda for the president from Robert McNamara and McGeorge Bundy, dated March 16, 1964 and January 27, 1965 respectively, and lastly transcripts of three telephone conversations between Lyndon Johnson and Robert McNamara, Senator Richard Russell and McGeorge Bundy, respectively, all dated either April or May 1964. While all four types of data are vital to the research, the newly declassified documents (the telephone conversations, the Pentagon Papers and the security memoranda), promise to provide a particularly interesting insight for the advancement of existing research. For instance, Bunge (1973) admits to the limitations of his expected utility model on Vietnam, which are imposed by his lack of access to classified information. Today, we do have access to such classified information. Thus, this academic research will contribute to the existing research by incorporating newly declassified, former highly sensitive governmental documents into its qualitative data analysis.

More precisely, all material is categorized and coded for, by applying a content analysis, which is highly unstandardized and thus always has to be adjusted to the particular case (Mayring, 2014). The content-analytical model, which is the most appropriate for the sampled material of this research, is a structuring-deductive category assignment, that is targeted at abstracting a specific structure from the data under investigation (Mayring 2014). The deductive nature of this approach requires first the definition of a category system consisting of categories and subcategories based on theory (here: Prospect Theory), followed by the formulation of a coding guideline, the actual coding, a revision of the coding process, a final work through and eventually the analysis of the results (Mayring, 2014).

I developed a codebook, coding for potential outcomes in Vietnam as perceived gains or losses based on the literature and extant studies on Lyndon B. Johnson and the Vietnam War escalation. To test for hidden power political motives, ‘imperialist aspiration’ is included in the codebook **despite** the literature suggesting otherwise (see for example Kissinger, 1994). The final codes for the outcomes as deviations from the reference point read as follows:

Table 1:*Codebook for possible outcomes perceived as gains*

| | |
|---|--|
| Outcome (Gain): | “Anchor example” (Mayring, 2014, p.95): |
| Gain credibility (nationally) | “(…) and of course, you'd look pretty good, I guess, going in there with all the troops, sending them all in there“ (doc 1b) |
| Gain credibility (internationally) | “(…) it would put us in a better position in our Asian relations (…) since we would have appeared to Asians to have done a lot more about it“ (doc 2a) |
| Gain (contain communism/ save free world/ save Vietnam) | “(…) the United States is united in its determination to bring about the end of Communist subversion and aggression“ (doc 3a) |
| Gain (occupy Vietnam; imperialist aspiration) | |

Table 2:*Codebook for possible outcomes perceived as losses*

| | |
|---|---|
| Outcome (Loss): | “Anchor example” (Mayring, 2014, p.95): |
| Lose credibility (nationally) | “(…) the Republicans [are] going to make a political issue out of it” (doc 1b) |
| Lose credibility (internationally) | “The integrity of the American commitment is at the heart of the problem as a point of national honor” (doc 2b) |
| Loss (domino theory/ spread of communism) | “(…) Peiping thus appears to feel that it has a large stake in demonstrating the new strategy, using Vietnam as a test case. Success in Vietnam would be regarded by Peiping as vindication for China's views in the worldwide ideological struggle” (doc 2b) |
| Loss (threat to American security) | “The communist "appetite for aggression" through "wars of liberation" threatened not only other Asian countries, but also the United States if left unchecked“ (doc 2b) |
| Loss (war with China) | “(…) and if we get in there on any considerable scale, there is no doubt in my mind that what the Chinese will be in there and we will be fightin' a dang conventional war against our secondary potential threat” (doc 1b) |
| Loss (loss of American lives) | “(…) Yeah, I know, but you go sending a whole lot of our boys out there they'll care something about it” (doc 1b) |

The utilized coding software is Atlas.ti, an established content analysis tool in the social sciences (see Barry, 1998; Friese, 2019). With the research design in mind, I now describe briefly a few important concepts of Prospect Theory, before I turn to the succeeding section, which aims at explaining the case study selection and the background of the case.

1. Risk

To define a fitting concept of risk for prospect-theoretical applications, is as essential as it is difficult. This paper adopts the operationalization of risk offered by McDermott (1998); risk as outcome uncertainty, which implies that a first option of choice is more risk-seeking than the second, when the former entails a more diverse distribution of potential outcomes than the latter, and, thus involves a more uncertain outcome. In other words, the more uncertain the decision-maker is about the outcome of an option when choosing it, the more risk-acceptant is his choice (Vis & Kuijpers, 2018).

2. Domain

The propensity of a decision-maker to choose the riskier option, is greater when he or she perceives him- or herself to be in a domain of loss, as Prospect Theory holds (Levy, 2003). In any prospect-theoretical application, like this one, *domain* therefore refers to the decision-maker's perceived sphere of action as loss or gain (McDermott, 1998). The biggest challenge in determining the decision-maker's domain is the subjective nature of any kind of perception (including risk), even though there are also fairly objective criteria to assess domains (McDermott, 1998). Hence, the sampled documents for this paper's analysis consist of both relatively objective sources (most importantly the public speeches and parts of the Pentagon Papers), as well as heavily subjective sources (most essentially the telephone conversations).

3. Loss aversion

People loathe losing more than they cherish winning (Mercer, 2005), which makes them more risk-acceptant when they perceive themselves to be losing (Levy, 2003). This phenomenon of loss aversion is deeply rooted in every human being and was found to be directly linked to brain activity (Fox et al., 2008). A very simple example of loss aversion in human behavior is the following: a person who loses 100€ on the street, suffers more from that loss, than a person who unexpectedly gains the same amount of money from a windfall profit, will obtain satisfaction. This, combined with Prospect Theory's risk-acceptance, implies that the same person accepts a higher risk to not lose 100€, than they would to gain the same amount of money.

4. Case study background

This thesis applies the concepts of Prospect Theory to the case study of the Vietnam War. Therefore, this section provides an overview of the case.

In 1950, when Indochina was still a French colony, the Soviet Union and newly Communist China started increasing their support for North Vietnam and the National Independence Coalition (Viet Minh), to fight the French, while the United States enhanced their assistance for the French against the Communist parties. Following the French defeat and the Geneva Conference in 1954, Vietnam was divided at the 17th Parallel into Communist North Vietnam and Non-Communist South Vietnam. The unifying elections, that were promised by the Geneva Accords, never took place and the US continued supporting South Vietnam and the government of prime minister Diem against communist threat from the north. In April 1954, U.S. President Dwight D. Eisenhower, introduced the "falling-domino-principle", which was going to guide U.S. foreign policy even after Eisenhower would leave the oval office.

“You have a row of dominoes set up, you knock over the first one, and what will happen to the last one is the certainty that it will go over very quickly. So you could have a beginning of a disintegration that would have the most profound influences. . . . [T]he possible consequences of the loss are just incalculable to the free world” (Eisenhower, 1954).

In 1957 the National Liberation Front (NLF), which was backed by North Vietnam, started an insurgency against the U.S. backed Diem government in South Vietnam and the American administration started referring to the NLF’s military wing as the Viet Cong, which was short for Vietnamese Communists³. As a response to continuing Viet Cong rebellion, newly elected U.S. President John F. Kennedy, steadily and dramatically raised the number of U.S. military advisors in Vietnam from 3,205 (in 1961) to 16,300 by 1963⁴. In November 1963, after having lost confidence in the government of Diem, the United States supported a military coup, which resulted in the death of Diem. Only days later, U.S. President John F. Kennedy was assassinated. He was succeeded by his former Vice President Lyndon B. Johnson, who inherited an administration that was deeply involved in southeast Asia.

In March 1965, months after the Gulf of Tonkin Resolution was passed by Congress, which allowed the President to “take all necessary measures” in Vietnam, recently re-elected President Lyndon B. Johnson launched the air-bombing campaign ‘Operation Rolling Thunder’. Two months later he sent 50,000 additional ground troops to Vietnam, followed by 35,000 more each month, ultimately escalating the Vietnam War.

5. Expectations

Extending the understanding of the case is the aspiration of this research. It also aims at contributing to the development of prospect-theoretical applications in International Relations. One contribution to Prospect Theory, that this thesis makes, is the introduction of the multidimensional reference point.

As mentioned above, reference dependence is one of the key concepts of Prospect Theory and thus, setting a reference point is the first step in any prospect theoretical application. However, provided that the reference point is not always the status quo (Kahneman & Tversky, 1979), and must always be determined on a case-to-case basis (McDermott, 1998), defining the decision maker’s subjective reference point is delicate. It is even more challenging when the decision-maker is confronted with outcomes in multiple dimensions, which is typical in foreign policy and a key factor in the case of the Vietnam crisis. Vis and Kuijpers (2018) offer as a possible solution the approach of defensive realism used by Taliaferro (2004), respectively that the only dimension adopted by foreign policy decision-makers to assess options and their consequences, is the international one.

I challenge that approach and argue that possible outcomes in both the domestic and the international dimension and the framing thereof, made Lyndon Johnson perceive himself to be in a domain of loss and consequently led to the risk-taking behavior of escalating the war in Vietnam. Therefore, the reference point can neither be exclusively domestic nor exclusively international. The multidimensional reference point is a key attribution of this research to existing research, next to the

³ Vietnam War Timeline. Retrieved from <https://www.history.com/topics/vietnam-war/vietnam-war-timeline> (last visited March 31, 2020)

⁴ Vietnam War Allied Troop Forces. Retrieved from <https://web.archive.org/web/20160802134052/http://www.americanwarlibrary.com/vietnam/vwat1.htm> (last visited March 31, 2020)

incorporation of recently declassified information into my proposed alternative to the expected-utility model; Prospect Theory.

Taliaferro (2004) explains the basic features of Prospect Theory and provides a useful framework for research applications. However, he has not yet applied this framework. Thus, by applying it to this thesis, I test its materiality also for future research. The framework is divided into the two phases of prospect theory; the framing phase and the evaluation phase.

5. 1 The framing phase

This first phase is particularly important, because the decision-maker is manipulated in his choice by the way the choice is presented to him (McDermott, 1998). The same choice can be presented in several distinct ways and there are different types of framing (Mintz & Redd, 2003), even within the adopted, evaluative form of framing. The evaluative framing concept most relevant to Prospect Theory, is *risky choice framing*, which implies that choosing between risk-averse and risk-acceptant options is influenced by whether the choices are presented as gains or as losses (Levin et al., 1998). This framing process helps the decision-maker to transform information into a choice more rapidly (Taliaferro, 2004).

5.1.1 Selection of a reference point

As mentioned above, the selection of the reference point is the first part of the framing phase. Lyndon Johnson's reference point is either his idea of the status quo of the United States-Vietnam relations at the time of the decision, the status quo ante of where the United States-Vietnam relations were when he took office, or a prospective or retrospective aspiration level of the relations and their implications, for example 1954, prior to the American take-over of commitment from the French in Indochina.

5.1.2 Framing of outcomes as deviations from the reference point (gains or losses)

This framing of outcomes is the second and possibly most important prospect-theoretical step of the entire framework. It establishes the domain, in which the decision-maker perceives him- or herself to be in. Prospect Theory predicts a domain of loss to result in risk-acceptant behavior. Therefore, this thesis tests whether Johnson perceives himself to be in a domain of loss, or of gain. This consideration leads to proposition 1 and 2:

Proposition 1: America is not in Vietnam to gain in national interest and has no further power political, colonial or economic objectives in Indochina.

Proving this first proposition is the motivation of this study. Thus, the corresponding null hypothesis (H_0) is, that America is in Vietnam primarily for power political objectives. If proposition 1 does not hold and H_0 is not disproved, then there is no incentive for any further prospect-theoretical analysis of the case, because the reason for Johnson's decision to escalate is clear and requires no further theoretical investigation. On the contrary, if proposition 1 holds and H_0 is disconfirmed, this study's motivation to develop an improved explanation of the escalation, is supported.

Proposition 2: *The perceived losses rank higher in value than gains to Lyndon Johnson, in accordance with prospect-theory's assumption of the s-shaped value function⁵. The greatest valued loss to Johnson is the loss of credibility (Logevall 1999).*

Credibility here is a manifold concept and refers to Lyndon Johnson's personal credibility as a masculine president, who is not backing out of a fight (Logevall, 1999), as well as the credibility of the democratic party (especially during the 1964 campaign) in front of its constituents, and the credibility of the United States as the committed savior of the free world in front of allies and enemies. While saving American credibility is an official objective in Vietnam (doc 2b), the fear of being the president responsible for losing it, impacts Johnson heavily (Logevall, 1999), which is why I assume the loss of credibility to be of highest value. In sum, if proposition 2 holds, we should see that the loss of credibility is the most frequently coded for outcome and that overall, outcomes as perceived losses are more frequently coded for than perceived gains are, implying a higher value for losses and, consequently, putting Johnson into a domain of loss.

5.1.3 Identification of available options

The issue concerning the main options, which would have generally been available to Johnson and his closest aides, is possibly the least controversial one discussed in the literature studied. The four means of action theoretically available to Lyndon Johnson before the escalation, which are being considered in the content analysis of this thesis, are: (1) Complete withdrawal from Vietnam; (2) Negotiations; (3) Continuation of current policies and; (4) Total war. The first two options are in accordance with the 1954 Geneva Agreements, which prohibit foreign troop's introduction as a violation of Vietnam's sovereignty and call for a political settlement, based on the rule of law (final declaration of the Geneva Agreements, 1954). Even though neither South Vietnam, nor the United States had signed the Geneva Accords back in 1954, the latter did commit itself to adhere to them. The third possible course of action is the continuation of the Eisenhower-Kennedy policy in Vietnam; proceeding with advising the Army of the Republic of Vietnam (ARVN) and supplying military material. The fourth option, total war, implies the deployment of combat units and a significant build-up of troop levels.

Proposition 3: *If the Rational Model makes sense, Lyndon Johnson should choose to negotiate. Rationally, negotiations are the only effective option for the United States (Bunge, 1973).*

If Lyndon Johnson abandons the only utility-maximizing option, negotiations, the rational model fails to explain his decision-making behavior, because the rational model normatively expects the decision-maker to always maximize his or her expected utilities. Prospect Theory essentially maintains the utility maximation objective, but descriptively accounts for, and concentrates on, the decision-maker's cognitive constraints (Johnson & Busemeyer, 2010), which make it necessary for the decision-maker to take mental shortcuts to simplify his or her choice. In other words, while Prospect Theory does expect the utility maximation objective, it predicts irrational deviations from such, caused by mental shortcuts of framing outcomes as gains or losses. Thus, if we do find negotiations to be abandoned

⁵ Even though I restrict my analysis to the two-fold pattern of prospect theory (risk-reluctance when facing gain and risk-acceptance when facing losses), which only includes the value function and is the most common for foreign policy applications of prospect theory (Vis and Kuijpers, 2018), I want to note that Kahneman and Tversky's revised, cumulative prospect theory from 1992 also includes a probability weighting function as an influence on risk-propensity (for the cumulative theory see Kahneman & Tversky 1992).

irrationally, Prospect Theory holds *only*, if such abandonment is caused by a simplifying mental shortcut, presenting the option as a loss.

5.1.4 Linking possible outcomes and their associated values to the available options

This last subsection of the editing phase is the decision-maker's mental operation of linking potential outcomes as deviations from the reference point to the options available to him or her. This mental operation is the outline of the decision-maker's cognitive shortcut to simplify his or her choice.

Proposition 4: The escalation option is the most risk-acceptant option. At the same time, the greatest valued loss of credibility is a potential outcome for every other option. Therefore, war is risky but the only way to avert the losses implied by any option short of a military escalation.

If this holds, we should find that Lyndon Johnson perceives the loss of credibility to be closely associated with not standing firm in Vietnam, with "tucking tale and running" (Logevall, 1999, p.393), with not escalating. At the same time, I expect to find that the escalation option provides the highest outcome uncertainty, which makes it the riskiest option available to Johnson. Prospect theoretically, it makes sense for Johnson to accept the high risk of the escalation to avert grave losses.

5.2 The evaluation phase

During this last phase, the decision-maker assesses the framed prospects and chooses his or her favored option (Taliaferro, 2004).

Proposition 5: Lyndon Johnson chooses the most risk-acceptant and rationally worst option to escalate the Vietnam War, in order to avert greatly valued losses relative to his point of reference.

When assessing the utilities of choices in terms of costs and benefits, Rational Choice expects leaders to accept risks only to a tolerable extent (Mintz, 1993). However, Prospect Theory suggests that when leaders perceive loss, that is when they will be willing to accept higher risk. Therefore, if Prospect Theory holds, we expect the perception of loss to raise the likelihood of risk taking. Thus, if I detect risk-acceptance in the decision to escalate, caused by the determination to avert losses, then proposition 5 is supported and Prospect Theory provides an explanatory value in this case. At the same time, the support of proposition 5 is the ultimate disproof of any explanatory value of Rational Choice on the Vietnam escalation, because the rational trade-off between utility, side-effects and probabilities assessed the escalation option as disastrously countereffective (Bunge, 1973). If proposition 5 does not hold, but the escalation option is chosen nonetheless, then neither Prospect Theory nor Rational Choice make sense in this case.

In sum, Prospect Theory expects Lyndon Johnson to focus on losses more than gains. It further assumes him to be more risk-acceptant in order to avert losses than to achieve gains (Mercer, 2005). If these assumptions hold, Prospect Theory furnishes us with an improved explanation for why America escalated their involvement in Vietnam.

6. Analysis

The two phases of Prospect Theory guide this analysis. The first phase is the framing phase, which includes the selection of a reference point and the framing of outcomes as deviations from such selected reference point, followed by the identification of available options and concluded by the linking

of the possible outcomes to the available options as well as the associated values and probabilities of both (Taliaferro, 2004). The framing phase is followed by the evaluation phase.

6.1 The framing phase: Selection of a reference point

The reference point is typically the decision-maker's idea of the status quo (Kahneman & Tversky, 1979). Sometimes however, as mentioned above, the decision-maker weighs losses or gains against an aspiration level that he or she prefers over the status quo (Kahneman & Tversky, 1979). What was Lyndon Johnson's reference point, that he used to assess his options relative to in 1965?

Provided that the months leading up to the escalation in mid-1965 were characterized by a continuously deteriorating U.S. position in Vietnam (doc 2a), and that the analysis is focused on Lyndon B. Johnson as the president, I determine Lyndon Johnson's reference point to be the status quo ante of where the US-Vietnam relations were, when Johnson succeeded Kennedy after the latter's assassination on November 22, 1963. The reference point must succeed Lyndon Johnson's succession to the office in time, assuming that his change in occupation brought along a change in his feeling of responsibility and consequently his perception of gain or loss. At the same time, the reference point must be as early in time as possible, in order to cover the biggest change in America's position in Vietnam during the first months of Johnson's presidency up until the escalation of the war.

Furthermore, the reference point is multidimensional, meaning that outcomes faced in the international, domestic and the personal dimension are all evaluated relative to it. This approach holds as long as losses in one dimension do not imply gains in another, or the other way around. In the case that the dimensions do contradict each other, I analyze the multidimensional trade-off involved.

To summarize, the reference point is the state of the United States-Vietnam relations when Lyndon Johnson succeeded to office after John F. Kennedy's assassination in November 1963. The state of United States-Vietnam relations includes the personal, domestic and international implications associated with the involvement at the time. While all potential outcomes are measured as perceived gains or losses relative to this reference point, this is particularly important for the perception of a relative loss or gain of credibility.

6.2 The framing phase: Framing of outcomes as deviations from the reference point

Once the reference point is clear, the next step of the decision-maker is to edit potential outcomes as deviations from such reference point.

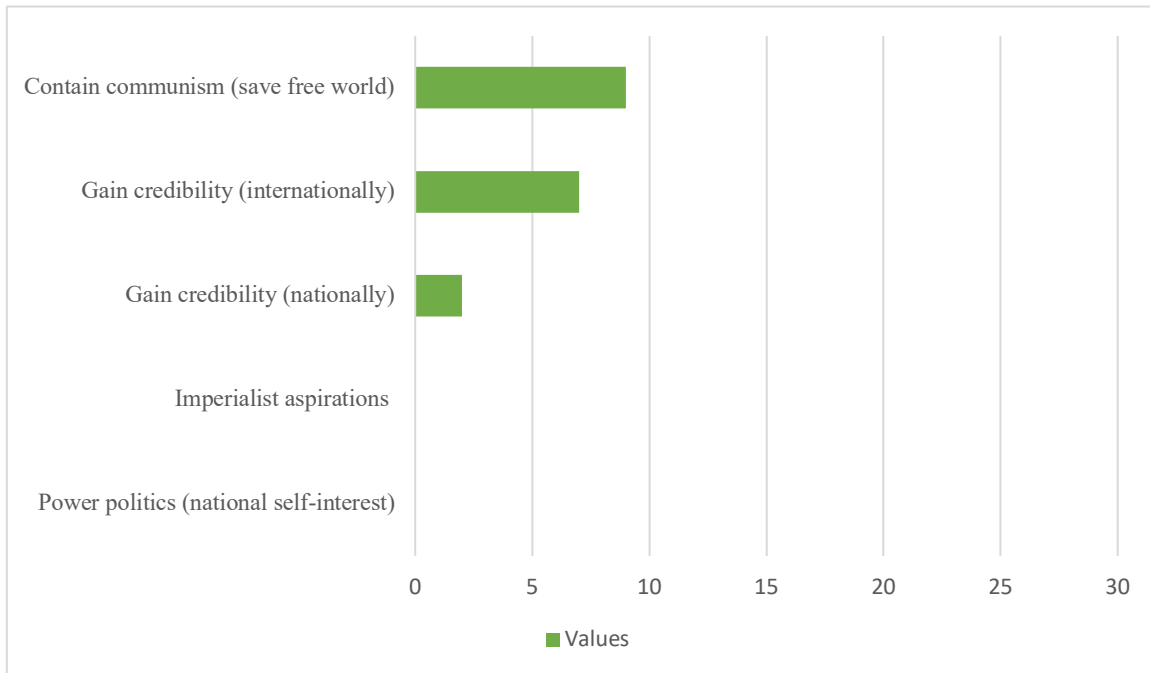
In his address at Johns Hopkins University in April 1965, Lyndon Johnson publicly declared that the U.S. policy in Vietnam was not guided by the seeking of gains for the U.S. national interest as a potential outcome, but that the American role was to save the free world from communism:

"We [the United States] want nothing for ourselves—only that the people of South Vietnam be allowed to guide their own country in their own way" (doc 3b)

Was saving the people of South Vietnam truly a potential outcome of gain guiding Lyndon Johnson's decision-making? The content analysis of the selected public speeches as well as the recently declassified Pentagon Papers, telephone conversations and security memoranda, conveys that saving the free world by containing communism, was indeed the highest ranking potential outcome perceived as a gain by Lyndon Johnson (see Figure 1).

Figure 1:

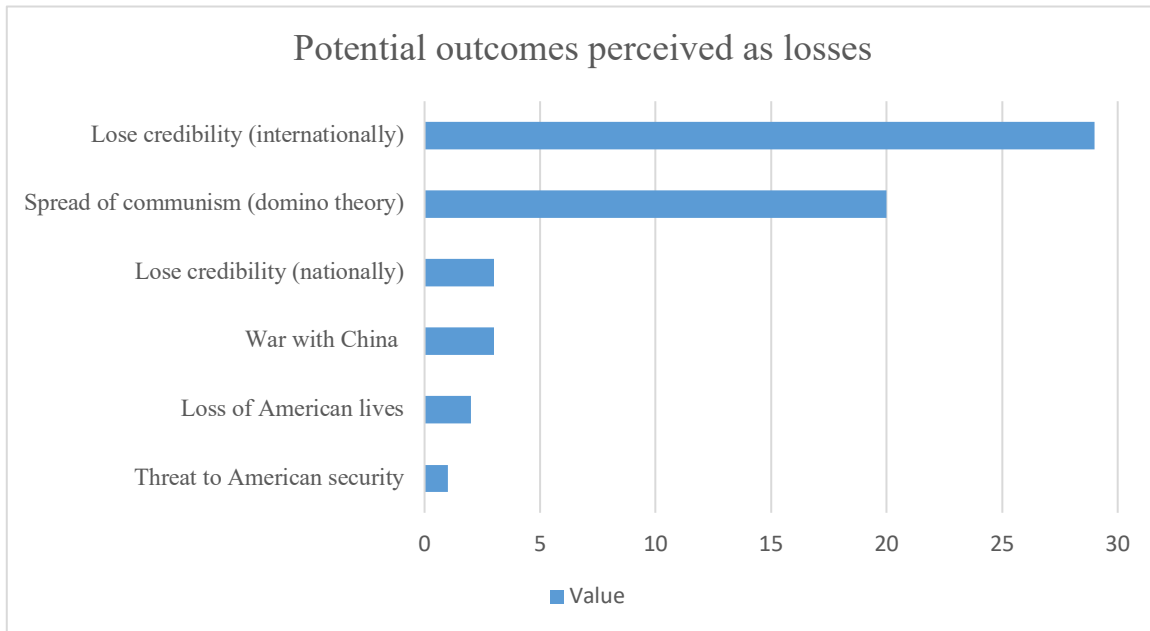
Potential outcomes perceived as gains



Furthermore, Figure 1 shows that the document analysis provides no evidence that the administration had any imperialist aspirations or power political objectives (gains in terms of national interest) as potential outcomes in mind. Thus, **proposition 1 is supported: America was not in Vietnam to promote a national interest and had no colonial or economic objectives in Indochina.** The content analysis of the documents does not provide any reasons to oppose that view. The null-hypothesis is disconfirmed and this study's motivation, to develop an improved explanation of the escalation, is supported. Accordingly, imperialist aspirations and power politics are excluded from the succeeding analysis as genuinely considered potential outcomes in Vietnam perceived as gains by Johnson. This leaves only three potential outcomes perceived as gains (ranked highest to lowest value): containing communism (saving the free world), gaining credibility internationally and gaining credibility nationally. However, all of these gains are outvalued by the two highest valued potential outcomes perceived as losses (see Figure 2).

Figure 2:

Potential outcomes perceived as losses

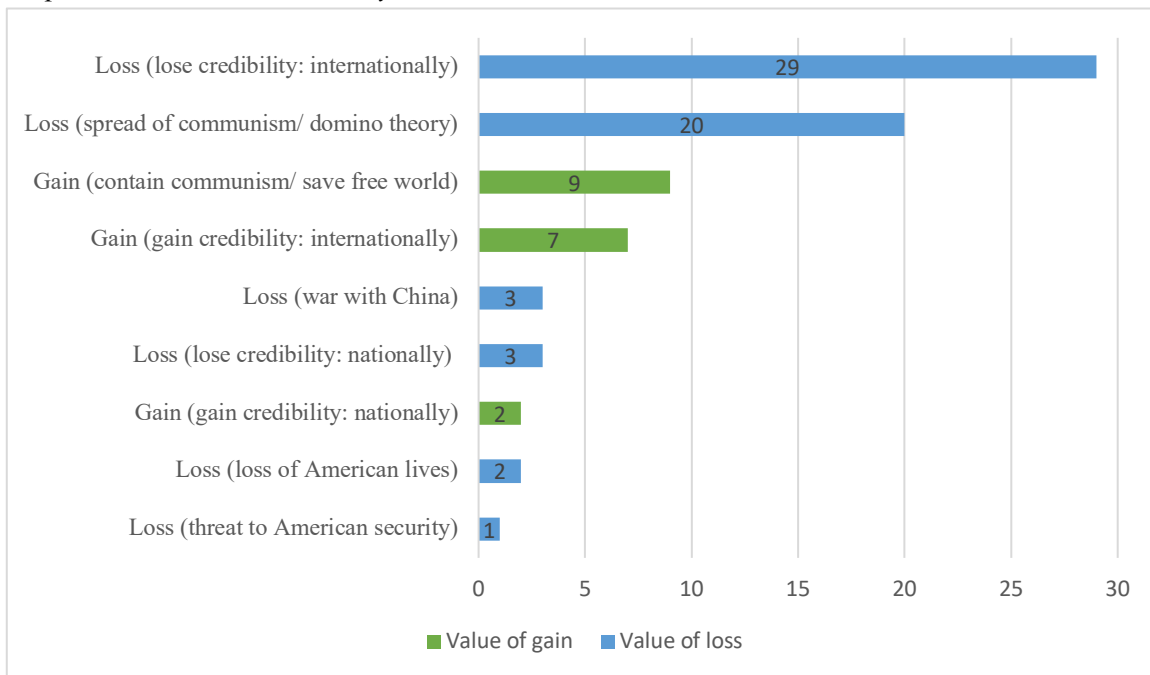


While the content analysis indeed shows that saving the free world by containing communism ranks highest in value for Johnson amongst all potential outcomes perceived as gains relative to his reference point (see Figure 1), the two highest ranked potential outcomes perceived as losses, the loss of international credibility and the spread of communism respectively, far exceed the potential gain of saving the free world in value (followed by perceived losses with lower value, respectively the loss of credibility nationally, war with China, the loss of American lives and the threat to American security; see Figure 2).

The edited list of potential outcomes perceived as gains and losses by Lyndon B. Johnson, are ranked by frequency (value) in Figure 3.

Figure 3:

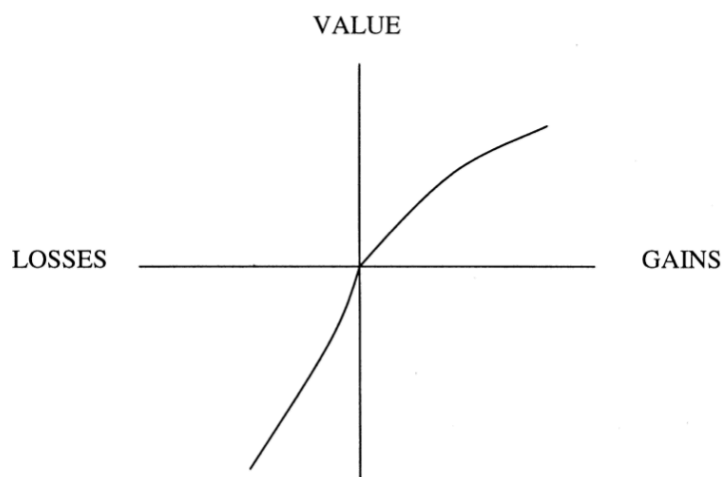
All potential outcomes ranked by value



The ranking shows that outcomes as perceived losses rank highest amongst all potential outcomes with values far exceeding the values of potential gains. Furthermore, the greatest valued loss is the loss of credibility, as proposed by Logevall (1999). Thus, Proposition 2 is supported. This is in line with the s-shaped value function assumed by Prospect Theory (depicted in Figure 4):

Figure 4:

Hypothetical s-shaped value function (source: Haas, 2001, p.249)



The value function in Prospect Theory is notably steeper for losses than gains and the minor value diminishes with the reduction of extent in both gains and values (Levi & Whyte, 1997). The results of the content analysis match the hypothetical prospect-theoretical value function: the losses stand out significantly and are valued extensively greater than the corresponding gains. This indicates

that Prospect Theory explains the decision of the Johnson administration to escalate its presence in Vietnam. Therefore, an interim finding of the analysis is the following: Lyndon Johnson did indeed find himself in a domain of loss, attributing more value to potential outcomes perceived as losses than corresponding gains relative to the reference point.

6.3 The framing phase: Identification of available options

The content analysis of the recently de-classified documents conveys that as early as 1964, two of the four available options ((1) Complete withdrawal from Vietnam; (2) Negotiations; (3) Continuation of current policies and; (4) Total war), had already been neglected by Johnson and his inner circle of advisors. **The first disregarded option was to negotiate, despite it being the rationally best choice with the highest expected utility (Bunge, 1973). Thus, the Rational Model does not hold, which supports proposition 3.** The administration had agreed early on that the “path to peace was not yet open” (doc 2c), because there was no balance of power between North Vietnam and America, which could have “. . . [furnished] the U.S. with a basis for bargaining and Hanoi had no reason to accede to the hard terms the U.S. had in mind. [Therefore,] until military pressures on North Vietnam could tilt the balance of forces the other way, talk of negotiation could be little more than a hollow exercise” (doc 2c). In a memorandum for the president by Robert McNamara, dated March 1964, the Secretary of Defense disregards French calls for negotiations in Vietnam and claims that, “[to] negotiate on this basis . . . would simply mean a Communist take-over in South Vietnam” (doc 4a). In order to avert suffering losses in negotiations due to a weak position of the U.S., facing an “enemy who equated compromise with defeat” (Kissinger, 1994, p.660), Johnson and his closest aides postponed negotiations until the U.S. was no longer in a position of loss. Even the primary U.S. diplomat, secretary of state Dean Rusk, “was as hostile as anyone in the administration to even exploring the possibilities for a diplomatic solution” (Logevall, 1999, p.390).

In summary, the Johnson administration dismissed negotiations due to its weak bargaining position, which would have implied losses, despite calls from international allies to enter negotiations (see Logevall 1999), and despite it being the only rationally effective choice (Bunge, 1973). This is the first milestone in Johnson’s decision-making behavior, which can be better explained by Prospect Theory, compared to the expected-utility model.

The second abandoned option was the continuation of the current policies. This can be explained both rationally and prospect theoretically. Rationally, Bunge (1973) finds the Eisenhower-Kennedy strategy to be inefficient. Prospect theoretically, the Vietnam policy, which Johnson took over from Kennedy when he took office, put Johnson into a perceived frame of loss:

“. . . what we’ve got is what we’ve had since ’54. We’re not getting it done. We’re, we’re losing, so we need something new” (doc 1a).

By May 1964, the U.S. position in Vietnam was “deteriorating”, it was “a hell of a situation” and it was “going to get worse” (doc 1b). Therefore, continuing the Eisenhower-Kennedy policy would have implied losing more and more down the road. In order to avert those losses, Johnson abandoned his predecessors’ policy as an option for further action.

Since neither negotiations, nor a continuation of current policies, provided any actual option to the president by 1965 (the latest), Johnson was left with two options to choose from: “either . . . move in or move out” (doc 1b); in other words: either escalate the war or withdraw completely. In order to evaluate the choice between those two options, it is now the next step to link the available options to the potential outcomes and the latter’s associated values.

6.4 The framing phase: Possible outcomes and associated values of available options

This last subsection of the editing phase is the analysis of the decision-maker's mental operation of linking potential outcomes as deviations from the reference point to the options available to him or her. In this case, I link the possible outcomes perceived by Johnson as losses or gains relative to his reference point, to the two options available to him in 1965: withdraw from Vietnam or escalate the U.S. military involvement and wage a full-scale war. By doing so, I pay close attention to whether any multidimensional trade-off between perceived losses or gains took place.

Figures 5 and 6 illustrate the links of the two options to the potential outcomes and their associated values.

Figure 5:

Potential outcomes of the withdrawal option and the associated values

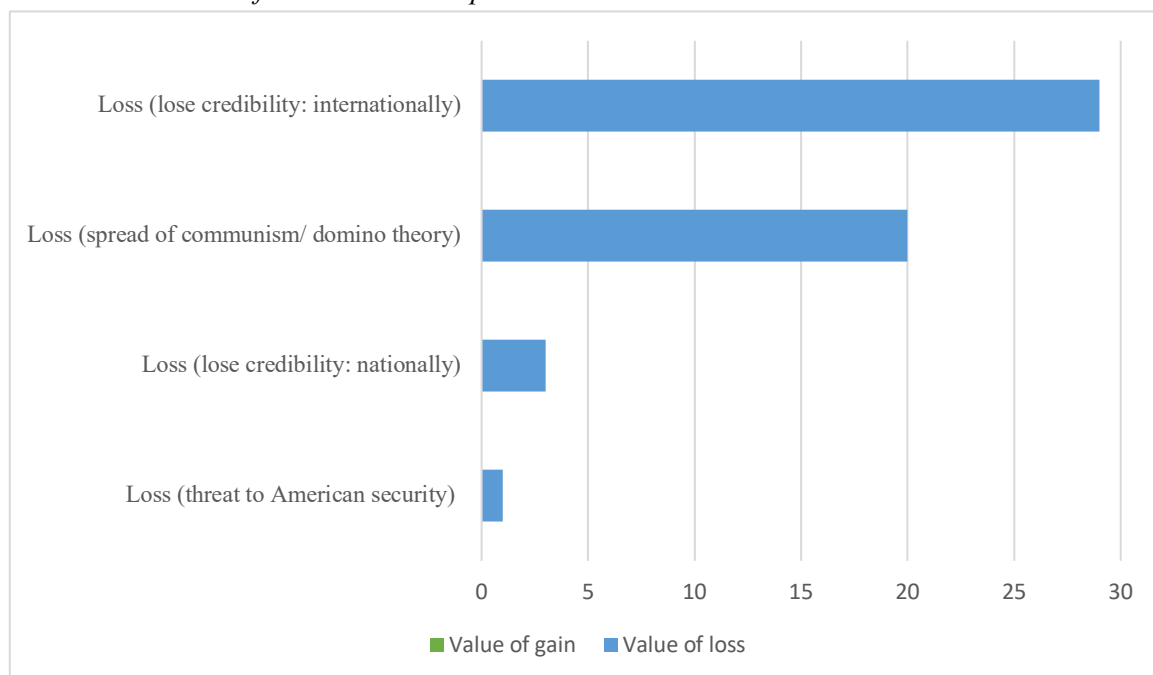
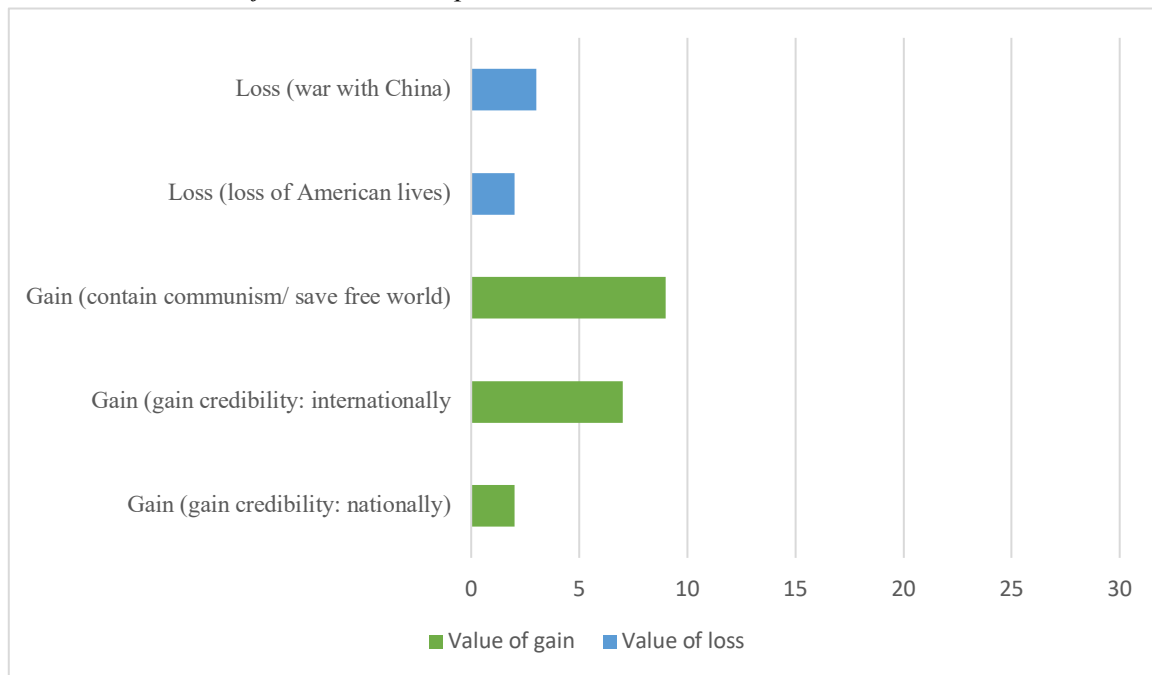


Figure 6:

Potential outcomes of the escalation option and the associated values



There are several important things to highlight from the findings in Figure 5 and 6. First, the perceived loss of credibility (both internationally and nationally), is a potential outcome linked exclusively to the withdrawal option. **Thus, the highest valued loss of credibility is not linked to the escalation option.**

Second, the escalation option includes more diverse potential outcomes, which implies a greater level of uncertainty of outcomes compared to the withdrawal option. Therefore, following the previously elaborated conceptualization of risk as outcome uncertainty, the escalation option is the riskier option of the two options. At the same time, the high value of the losses potentially following the withdrawal (loss of credibility and the loss entailed by the spread of communism), far exceed the perceived losses possibly following an escalation. **Consequently, proposition 4 is supported: while the escalation option is the more risk-acceptant option with the higher outcome uncertainty, choosing this option is the only way to avert the highly valued losses implied by a withdrawal.**

It is here also interesting to recall, that the rational decision-making model did find both options (withdrawal/neutralization and escalation), to be counterproductive. At the same time, it assessed the withdrawal option to be less evil from the American point of view (Bunge, 1973). Thus, the rationally more efficient (or less inefficient), choice of the two was the withdrawal. Nonetheless, Figures 5 and 6 reveal that, while Johnson and his inner circle of advisors were indeed aware of the losses involved following an escalation of the war, they irrationally put more value on the losses implied by a complete withdrawal.

Another important thing to note is that Figure 6 shows two conflicts between the international and the domestic dimension for the escalation option. The first one involves gains in the international dimension (gain credibility internationally and containment of communism), and a loss in the domestic dimension (loss of American lives). The second trade-off occurs between the gain of credibility nationally and the international loss of risking a war with China. Given the marginal value of both the loss and the gain involved in the second trade-off, I disregard that trade-off as not having any actual impact on the decision. As for the first trade-off, the international gains of the escalation fairly exceed

the domestic loss in value (as tragic as it is). Therefore, I argue that the international gains of the escalation option win the trade-off over the domestic loss. However, given that all losses and gains perceived to be following the escalation, weigh so little in value compared to the losses following the withdrawal, I refrain from assigning great importance to either of the trade-offs on the final decision made during the last phase; the evaluation phase.

6.5 The evaluation phase

This evaluation phase is the last part of the decision-making process in Prospect Theory. During this last phase, the decision-maker reviews the prospects framed during the editing phase and selects his or her favored option. The way that the choices were framed in terms of losses or gains all throughout the prior editing phase, now works as an “evaluative anchor” (Mintz & Redd, 2003, p.195) for the decision-maker.

Lyndon Johnson’s final decision-frames are illustrated in Figures 4 and 5 in the previous section. His mental shortcut (the framing phase), left him with two choices for potential courses of action, and biased one of those to imply greatly valued losses as consequences relative to his reference point. In retrospect – and in anticipation back in 1965 by many national and international critics of the escalation (see for example Logevall, 1999) – the option to escalate surely involved greater losses than Lyndon Johnson perceived at the time of his decision (not ‘just’ concerning the tragically high number of lost lives but also his so feared loss of credibility). However, the content analysis suggests that in 1965, Lyndon Johnson decided between the withdrawal option, which, in his biased opinion, involved a great loss of credibility and the spread of communism - or the very risky escalation, which implied losses and gains, both of which however seemingly were not as valuable to him as the loss of credibility potentially following the withdrawal.

In 1965, Lyndon Johnson took the risky choice to escalate. We knew that already. The findings of the analysis now show that he did chose war not primarily to win in Vietnam against the communists, which was the proclaimed objective of the escalation, but most importantly in order to avert the highly valued loss of credibility implied by any other option. **Therefore, proposition 5 is supported: the option to escalate was the rationally worst course (or “curse”, as in Bunge, 1973, p.333) of action, but was chosen nonetheless.** Furthermore, the multidimensional trade-off does not seem to have had a heavy impact on the decision. If anything, it supported it.

Thus, while the rational model fails to explain Lyndon Johnson’s decision to escalate in Vietnam, Prospect Theory predicts that the decision-maker takes the risk-acceptant option in order to avert perceived losses relative to his or her reference point, which is exactly what Lyndon Johnson did, suggested by the analysis. Therefore, Prospect Theory explains Lyndon Johnson’s irrational and risky choice better than the rational model.

7. Conclusion and Discussion

The content analysis of the formerly classified government documents reveals, that all steps of Lyndon Johnson’s decision-making process, up to the decision to escalate, are predictable and descriptively explainable by Prospect Theory. Escalating the war was an irrational and highly risk-acceptant choice, driven by the determination to avoid losses perceived to be implied by any course of action short of a military escalation and proving to be ‘standing firm’ in Vietnam to international allies and enemies, national adversaries and constituents. Right from the beginning of his presidency, Johnson feared and equated the loss of Vietnam to the loss of credibility:

“I am not going to lose Vietnam. I am not going to be the President who saw Southeast Asia go the way China went” (Lyndon B. Johnson, November 24, 1963 – two days after acceding office).

I assess that Johnson’s commitment to avoiding defeat and the implied perceived loss of credibility by moving out of Vietnam, lowered his ability to keep up the distance needed to make rationally objective choices. Ironically enough, *moving in* was the one choice that led to one of the biggest military defeats in U.S. history and to Johnson’s Shermanesque statement in 1968⁶. Nonetheless, looking back on his choice to escalate in Vietnam, Johnson contested his belief to his biographer, that it was Truman’s loss of China that made the former president lose his effectiveness, and that the problems following the loss of China would have been “chickenshit compared to what [might have happened] if we lost Vietnam” (Logevall, 1999, p.76–77).

In sum, I argue that the association of military loss with the loss of (personal) credibility, combined with the reoccurring theme of an “America [that] keeps her word” and the resulting loss of international credibility (doc 2b), as well as Dean Rusk’s assessment that the heart of the problem was the integrity of the American commitment, and his belief that such integrity of the American commitment was the “principal structure of peace throughout the world” (doc 2b), made Johnson willing to accept the risk of a military intervention far away from American shores.

In other words, I find that Lyndon Johnson’s aversion to losses made him initiate a risk-acceptant strategy in Vietnam, in line with Prospect Theory’s predictions.

After an extended and unimaginable period of relative Great Powers’ peace (Levy & Thompson, 2010), peripheral violent conflicts have become more frequent over the course of the last two decades. In particular, internationalized domestic conflicts are becoming more common (Schimmelfennig, 2008). Presidents of Great Powers are taking their disputes out on third-parties’ soils rather than their own territories. Moreover, recent developments within international relations and warfare, like cyberwarfare, provide leaders with even more ways to engage in wars at arm’s-length - and us with further reasons for caution, to say the least. Foreign states’ involvement in the Yemeni Crisis, the Syrian Civil War, the Ukrainian Crisis or the Second Libyan Civil War, are current examples of high-cost, disastrous armed conflicts involving international combat troops. While some foreign interventions (humanitarian interventions), are rationally called for, many are not. The globally growing importance of China, at the expense of proxy wars in Africa (Mumford, 2013), and the rise of seemingly irrational leaders around the world, makes it so relevant to our current situation, to stress the limits of Rational Choice, and develop alternatives with higher explanatory value for unstable, yet powerful characters’ decision-making in crisis situations. This is precisely pressing with regards to the increasingly frequent internationalized domestic conflicts, substituting the decreasingly frequent interstate wars. Especially since the fair majority of scholars of wars and their causes still concentrate their research on the latter, more conventional interstate type of war (Levy & Thompson, 2010).

In this context, the results of this thesis’ research hold particular relevance. By taking a retrospective look at one of the most important internationalized domestic conflicts of the last century, and applying a new theoretical lens to it, I find Prospect Theory adequate to substantially explain irrational deviations from the choice of highest expected utility. While such irrational decision-making behavior, like that of president Johnson when he decided for escalation in Vietnam, is entirely inexplicable for Rational Choice, Prospect Theory predicts exactly this irrationally risk-acceptant

⁶ For the full announcement see: The History Place: <https://www.historyplace.com/speeches/lbj-decision.htm> (last visited June 28, 2020).

behavior as a decision-maker's response to perceived losses relative to his or her point of reference. Moreover, I argue that this finding is applicable to leaders' decision-making in all kinds of crises; the climate crisis, pandemics, economic crises, terrorism, strikes or riots. The list is long.

Beyond the scope of this research, I reckon that Prospect Theory's assumption of the individual, who is more sensitive to loss than to gain, is applicable to many more risk-acceptant, irrational policy decisions of past, present and future leaders in crisis situations. Furthermore, I speculate that especially the perceived loss of credibility, potentially endangering the leader's own political future, is, more often than we would like to believe, the leader's main reason for engagement in irrationally risky behavior.

This speculation is as much relevant for foreign policy as it is for domestic policy. The relevance of leaders' risk-propensity in domestic affairs, can be witnessed everywhere during the COVID-19 pandemic, which is at its global peak at the time of writing. Differently framed domains lead to more or less risk-acceptant or risk-averse responses, leading to differently utile outcomes. The aversion to losing personal credibility in front of potential constituents, and thus putting one's own political future in jeopardy, has encouraged powerful leaders to engage in risky games of denial. Because a shut-down of the economy, which is needed to minimize the population's risk exposure, potentially diminishes prospects for re-election and political survival, leaders accept the risk they put on their nation's population instead. I argue that this is applicable, for example and not exhaustively, to Jair Bolsonaro's crisis 'management' (or mismanagement) in Brazil, president Andrés Manuel López Obrador's behavior in Mexico, or even Donald Trump's initially non-existent crisis response. Even though domestic management during the COVID-19 crisis obviously involves many more factors for consideration, like a trade-off between health risk and economic risk, I postulate that subjective aversions to losses (especially of credibility), result in irrationally risk-acceptant behavior of unstable characters, making life or death decisions for millions of people. I attribute high descriptive and explanatory value to Prospect Theory in understanding this behavior, far beyond the limits of Rational Choice.

However, just like Rational Choice, Prospect Theory has its limitations, and naturally so does this research. Most importantly, this thesis confines Prospect Theory's explanatory and descriptive value by excluding the probability function, which, combined with the value function, is used to determine the decision-maker's risk-propensity. It assumes that people are likely to underrate high probabilities and overrate small probabilities (Rieger & Wang, 2008), for both values and gains. Thus, if a decision-maker is facing a loss of little probability, he or she will be risk-averse rather than risk-acceptant, and when a decision-maker is facing marginally probable gains, they will be risk-acceptant rather than risk-averse (Vis & Kuijpers, 2018). This implies a potential reversal of risk-preferences when including the probability weighting function, compared to the sole incorporation of the value function. Therefore, its neglect is a gratuitous simplification of the theory (Vis & Kuijpers, 2018) in more extensive applications. However, the unavailability of probability estimates for the 1965 decision to escalate, and time and resource constraints diminishing the prospects of me developing them myself, rendered the inclusion unmanageable for this thesis. For future studies, I recommend the use of qualitative evaluations of the decision-maker's subjective probability assessment (see Haas, 2001), when the decision-maker's estimates are unavailable.

Of course, this research is also limited by the general limitations of Prospect Theory itself. One of these limitations of Prospect Theory, relevant to this thesis, is the simplification of complex decision-making processes. However, even though this limitation is not at all straightforward in terms of a wide acceptability of the results, it is unavoidable for reasons of feasibility (Vieider & Vis, 2019).

The research is further limited by Prospect Theory's subjective nature. Starting with the highly subjective concept of reference dependence and continuing all the way through to the determination of a domain for the evaluation of risk-propensity. The entire prospect-theoretical framework builds upon subjective perceptions, which are difficult to assess for the individual case and even more difficult to

generalize, because subjectivity always requires speculation rather than certainty. One way to overcome the subjectivity problem and its demand for speculation, is to identify the subjective perceptions through relatively objective indicators (like the Pentagon Papers in this thesis). Another potential, more general approach, is the ‘pre-registration’ of hypotheses and analysis plans, in the form of a ‘step-wise procedure’, including the development of an ex-ante model. The aspiration of such is the establishment of a more objective, “principled learning process” (Vieider & Vis, 2019, pp. 14–15). While this approach still lacks empirical evidence, it is an auspicious solution for problems of generalizability, caused by subjectivity, for future prospect-theoretical applications.

Prospect Theory is further limited by its inadequacy of addressing the influence of the interaction of individuals in a group, referred to as ‘groupthink’, which was introduced by Irving Janis in 1971. Though this is not exactly a fault of Prospect Theory in the common sense of the word, because Prospect Theory was deliberately designed to be a decision-making model of individual behavior, rather than one of individuals in a group (McDermott, 2004). Still, the extension of the theory to include group dynamics, would be a major contribution to Prospect Theory itself (McDermott, 2004), as well as to this research. In 1972, Janis applied his theory of groupthink to a set of poor policy decisions, including decisions relating to the Vietnam War. He argued, that the Vietnam case indeed shows qualities of groupthink. While his research remains to be validated (see Rose, 2011), his deliberations could be an interesting advancement of this prospect theoretical application to the Vietnam War escalation. Such advancement could investigate the influence of groupthink’s assumed need for conformity of opinion within the group (Janis, 1972), on the framing of options as losses. This influence might explain, why no one powerful and close enough to Johnson, tried to reverse the decision frame of the escalation option, for it to imply worse losses than for any other option.

Additional relevant limitations of Prospect Theory include the lack of a consistent, comprehensive and generally agreed upon theory of framing (including the definition of the reference point), as well as its lack of attention to emotion (McDermott, 2004). The latter is a precisely crucial limitation of Prospect Theory, given the increasing importance of emotion in decision-making theory (see for example Lerner et al., 2015). It is also a prime limitation to this research, because the sampled documents, most importantly the transcripts of Johnson’s telephone conversations, reveal how strongly emotionally involved the president was in his decision to escalate and send troops. And yet, Prospect Theory cannot account for the emotional impact on the decision.

The limitations of Prospect Theory constrain the external validity and generalizability of the findings of prospect theoretical applications to real-life decision-making under crisis and uncertainty (Levy, 1997). However, I agree with McDermott (2004) and am confident, that future research can overcome most of these limitations, in order to eventually fully exploit Prospect Theory’s potential in explaining decision-making under risk. For instance, a variety of experimental possibilities is available to fill the gap of the missing framing theory in the future, and the work on the incorporation of emotion is already on its way (see McDermott, 2004).

This thesis shows that there is great exploitable potential to begin with. More precisely, it illustrates that one of the most dramatic and rationally most useless military escalations since the end of the Second World War, can be traced back to one man’s feared loss of credibility. More generally, notwithstanding its limitations, it reveals Prospect Theory’s advantage over Rational Choice’s expected utility in explaining leaders’ irrationally risky decision-making behavior in crisis situations.

In conclusion, this research offers both an important contribution to the existing literature on decision-making in crisis situations, as well as an incentive for further study and development of loss aversion and risk-acceptance, as more behaviorally relevant alternatives to considerations of highest expected utility, when explaining decision-making behavior under risk and uncertainty.

8. References

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9. Appendix

Appendix 1: Document list of the content analysis

1. Telephone conversations:
 - a. Lyndon B. Johnson and Robert McNamara (April 30, 1964)
 - b. Lyndon B. Johnson and Senator Richard Russell (May 27, 1964)
<https://www.mtholyoke.edu/acad/intrel/vietnam/lbjrr.htm>
 - c. Lyndon B. Johnson and McGeorge Bundy (May 27, 1964)
<https://www.mtholyoke.edu/acad/intrel/vietnam/ljrbundy.htm>
2. Pentagon Papers:
 - a. Military pressures against NVN: November – December 1964 (pp. 1-17)
 - b. Justification of the War – Public Statements: Johnson Administration (pp. 1-59)
 - c. Rolling Thunder Program Begins: January-June 1965 (pp. 1- 23)
3. Public speeches:
 - a. President’s Message to Congress (August 5, 1964)
 - b. Lyndon B. Johnson’s Speech at Johns Hopkins’ University (April 26, 1965)
4. Memoranda:
 - a. Memorandum for the president by Robert McNamara (March 16, 1964)
 - b. Memorandum for the president by McGeorge Bundy and Robert McNamara (January 27, 1965)

Appendix 2: References (content analysis)

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Appendix 3: Codebook

Types of codes:

1. Description of situation → selection of reference point

| | |
|------------------|------------------------------------|
| Situation (loss) | A deteriorating situation |
| Situation (gain) | Positive note on current situation |

2. Framing of outcomes as gains or losses

| Outcome (Gain): | Anchor example |
|---|--|
| Gain credibility (nationally) | “(…) and of course, you'd look pretty good, I guess, going in there with all the troops, sending them all in there“ (doc 1b) |
| Gain credibility (internationally) | “(…) it would put us in a better position in our Asian relations (…) since we would have appeared to Asians to have done a lot more about it“ (doc 2a) |
| Gain (contain communism/ save free world/ save Vietnam) | “(…) the United States is united in its determination to bring about the end of Communist subversion and aggression“ (doc 3a) |
| Gain (occupy Vietnam; imperialist aspiration) | |
| | |
| Outcome (Loss): | |
| Lose credibility (nationally) | “(…) the Republicans [are] going to make a political issue out of it“ (doc 1b) |
| Lose credibility (internationally) | “The integrity of the American commitment is at the heart of the problem as a point of national honor“ (doc 2b) |
| Loss (domino theory/ spread of communism) | “(…) Peiping thus appears to feel that it has a large stake in demonstrating the new strategy, using Vietnam as a test case. Success in Vietnam would be regarded by Peiping as vindication for China' s views in the worldwide ideological struggle“ (doc 2b) |
| Loss (threat to American security) | “The communist "appetite for aggression" through "wars of liberation" threatened not only other Asian countries, but also the United States if left unchecked“ (doc 2b) |
| Loss (war with China) | “ (…) and if we get in there on any considerable scale, there is no doubt in my mind that what the Chinese will be in there and we will be fightin' a dang conventional war against our secondary potential threat” (doc 1b) |
| Loss (loss of American lives) | “(…) Yeah, I know, but you go sending a whole lot of our boys out there they'll care something about it” (doc 1b) |

3. Available options (Code for available option)