Intrapersonal Utility Comparisons as Interpersonal Utility Comparisons

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  - credibly identify "de-biased" choices

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- Lack of consensus on how to address this problem limits applications of behavioral welfare analysis to specific settings
  - find clearly identifiable mistakes, and/or
  - credibly identify "de-biased" choices
- I argue that this problem resembles a much older problem: **interpersonal comparisons of utility**

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- We model normative judgments.
- Then we can separate *empirical questions* from *normative judgments*:
  - empirical: taxable income elasticity, Pareto parameter
  - normative: Pareto weights
  - $\Longrightarrow$ optimal top income tax rate (Saez 2001)
- How might we separate empirical questions from normative judgments for behavioral policy problems?

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- **Basic proposal:** model normative judgments.
- I will illustrate this approach with three examples
  - Default effects (Carroll et al 2009; Bernheim Fradkin Popov 2015; Goldin & Reck 2022)
  - Reference dependence (Reck & Seibold 2023)
  - Probability weighting (Lockwood, Allcott, Taubinsky, Sial 2023)
- I will focus on a common element of these examples: biases versus strange preferences.

Default Effects

- Individuals act "as if" they face fixed costs of opting out of a default option:

$$U(x, d) = u(x) - \gamma 1\{x \neq d\}$$

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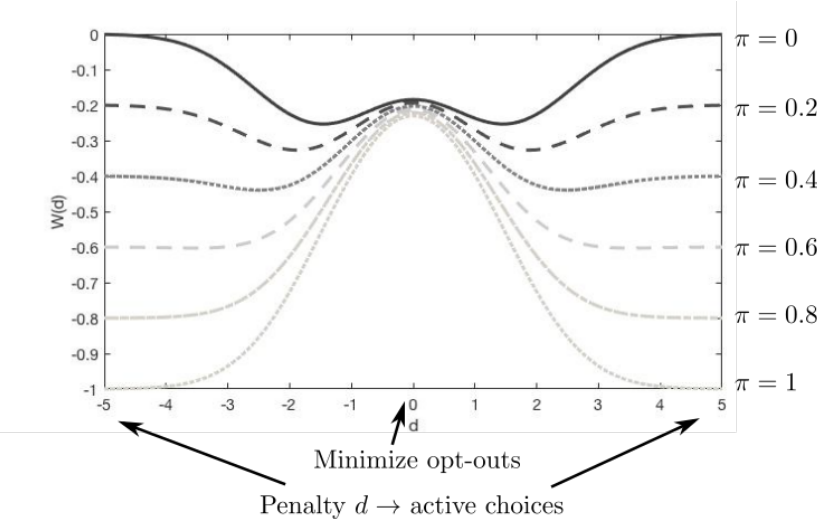
- Aside: this setup does not allow active choosers to make mistakes, e.g. to under-save (relaxed in Goldin & Reck 2022).

Illustration: Utilitarian Social Welfare



- $U_i(x, d) = -\alpha(x - x_i^*)^2 - \gamma 1\{x \neq d\}$
- x_i^* normally distributed with mean 0
  $\implies d = 0$ minimizes opt-outs

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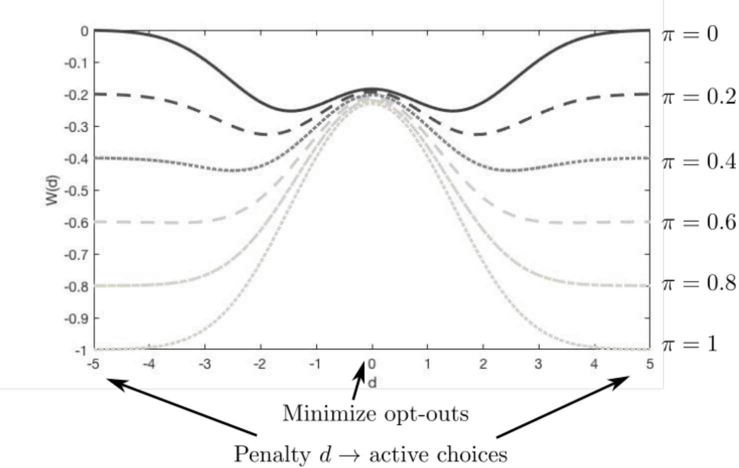

- Minimizing opt-outs is a local optimum for any judgment & the global optimum $\pi = 1$
- Most agents get a good option and avoid opting out

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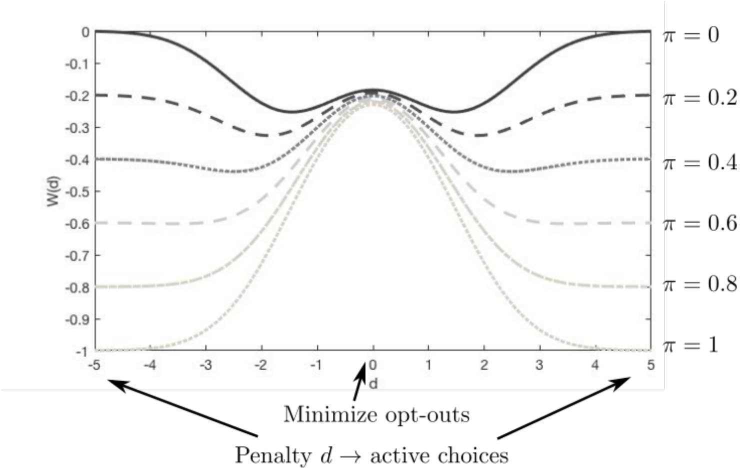

- Minimizing opt-outs is a local optimum for any judgment & the global optimum $\pi = 1$
- Active choice policy maximizes welfare under $\pi = 0$, *minimizes* it under $\pi = 1 \implies$ **risky**

Reference Dependence (Reck and Seibold 2023)

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- Under *diminishing sensitivity,* extremely high reference points:
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  - Optimal for $\pi = 0$, terrible for $\pi = 1$, akin to active choice!

Probability Reweighting (Lockwood, Allcott, Taubinsky, Sial 2022)

$x = \{p_k, w_k\}_k$ is a lottery with obj. probs. p_k and Bernoulli payoffs w_k.

$$u(x) = \sum_k \hat{p}_k w_k$$

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- $\pi = 1 \implies$ welfare is expected utility.
- $\pi \in [0,1]$ captures extent to which re-weighting reflects a bias.
  - e.g. is large weight on jackpot payoff a bias or a preference?

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  - (Goldin & Reck 2020; Allcott Lockwood Taubinsky 2019)
- c.f. identifying interpersonal Pareto weights
  - Ineq. Aversion survey measures, consumption & value of social insurance

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  $\rightarrow$ **paternalistic hedging**?

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- We can build on a strong tradition of separating normative judgments from empirical questions to do better.
- Do think hard about normative judgments over individual welfare when analyzing optimal policy problems
- Embrace normative ambiguity! Parameterize normative judgments and map them to optimal policy!

THANK YOU!

Questions/comments:
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