Reasons for Preferences

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People find multiple normative principles appealing

- Feldman and Zahler (1992), Saez and Stantcheva (2016), Weinzierl (2014, 2016a;b)
- Frohlich, Oppenheimer, Eavey (1987)

"individuals treat choice between principles as involving marginal decisions. Principles are much like economic goods inasmuch as individuals are willing to trade off between them"

Our question: How do people balance competing principles?
Importance of Reasons

- Burgeoning literature on understanding prevailing policy objectives
- Much of this literature focuses on revealed preferences
  - Saez and Stantcheva’s Generalized Marginal Social Welfare Weights
  - Inverse optimum literature (Bouriouinonon and Spadaro, Hendren)
- But what are the reasons behind these preferences?
  - Reasons are a way to understand, not just measure preferences
  - Economists are only beginning to wrestle with reasons (Sher 2017)
- We will think of competing normative principles as competing reasons
  - How do people balance competing reasons for their preferences?
Not obvious how people balance reasons

At least three options:

1. I would choose the policy recommended by the principle that I think is a more important guide to tax policy.
2. I would choose a policy that is close to the recommendation of the principle that I think is a more important guide to tax policy, but I wouldn’t ignore the recommendation of the other principle.
3. I would choose a policy that compromises between the recommendations of the two principles, giving weight to each according to how important a guide I think it is to tax policy.

We elicit—both implicitly and explicitly—which option people use.
Respondents do four things:

1. Rate the importance for tax policy of two competing principles
2. Indicate how they use these principles when deciding on taxes
3. Engage with these principles’ differing implications for taxes
4. State their preferred taxes

Goal: understand how people balance competing reasons.
Example from pilot survey (Step 1)

Thanks for participating! In this survey we will ask you about taxes. Please take your time reading the questions and thinking about your answers.

One purpose of taxes may be to redistribute resources between people, for example from the rich to the poor. Here are two possible principles related to whether and how taxes should be designed for this purpose:

- Large inequalities of income tend to be unfair and should be offset by policy.
- Ordinarily, people are entitled to the incomes that they earn.

Please read these principles again, paying close attention to what they say.
Here is one of the principles from the previous screen. To what extent do you think this principle is an important guide to the design of taxes?

Large inequalities of income tend to be unfair and should be offset by policy.

Here is the other principle from the previous screen. To what extent do you think this principle is an important guide to the design of taxes?

Ordinarily, people are entitled to the incomes that they earn.
These principles will typically give differing recommendations for tax policy. Below, we've listed three ways that people have described using these principles when designing taxes. Which best describes how you would think about it?

I would choose the policy recommended by the principle that I think is a more important guide to tax policy.

I would choose a policy that is close to the recommendation of the principle that I think is a more important guide to tax policy, but I wouldn't ignore the recommendation of the other principle.

I would choose a policy that compromises between the recommendations of the two principles, giving weight to each according to how important a guide I think it is to tax policy.
Example from pilot survey (Step 3)

Now, please consider the following hypothetical situation.

This situation concerns two people, Person A and Person B. Person A’s income is $120,000 and Person B’s income is $40,000. We'd like you to think about assigning taxes to Person A and Person B. You can assume that the government doesn't need to raise tax revenue from these persons, so any tax that one person pays will be transferred to the other person.

First, we'd like you to think about assigning taxes according to the first principle from before, which we repeat here for your reference:

- Large inequalities of income tend to be unfair and should be offset by policy.

Same step taken for second principle
Please complete the table below by entering what amount would be best, **according to this principle**, for Person A to pay. The three remaining boxes will fill in automatically so that whatever one person pays, the other will receive, and you will be able to see how much each person ends up with.

To get a sense for how the results change depending on what you enter, please try a few numbers for what Person A pays before deciding on your answer.

<table>
<thead>
<tr>
<th>Starting incomes</th>
<th>Pays</th>
<th>Ends up with</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Person A</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$120,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Person B</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$40,000</td>
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</tbody>
</table>

**Large inequalities of income tend to be unfair and should be offset by policy.**
Now, we want to know *your* opinion. Please think again about both principles:

- Large inequalities of income tend to be unfair and should be offset by policy.
- Ordinarily, people are entitled to the incomes that they earn.

After considering both principles, please complete the table below with what amount *you* think it would be best for Person A to pay. Again, the three remaining boxes will fill in automatically so that whatever one person pays, the other will receive, and you will be able to see how much each person ends up with.

<table>
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Results

- We want to relate two quantities:
  - Rating Difference: The R’s rating of the egalitarian principle’s importance less the R’s rating of the libertarian principle’s importance
  - Weight on Egalitarian Principle:

    \[
    \text{weight} = \frac{A_R - A_L}{A_E - A_L}
    \]

  - In words, this is the ratio of two differences: 1) that between R’s choice of Apays and R’s belief about the libertarian principle’s preferred Apays; 2) that between R’s belief about the egalitarian principle’s preferred Apays and R’s belief about the libertarian principle’s preferred Apays

- We plot "Rating Difference" vs. "Weight on Egalitarian Principle"
Results are...unclear
Sanity check: respondents seem to understand these principles
Other treatments

- Also ask about principles for allocating costs of public expenditure

One purpose of taxes is to pay for what government does, such as build and maintain infrastructure, support education, and provide for national security. Here are two possible principles for how taxes can be designed to pay for these activities:

- Taxes should be higher on those who have more income, because a dollar matters more in the hands of someone with less.
- Taxes should be tied to how much each person benefits from what government does.

- For these principles, also have a treatment where we pre-specify the principles’ recommended policies.
Interpretation

- We have some work to do on the survey
  - As many as 1/3 of respondents seem to be quite confused
    - Associate principles with the same allocations
    - Give preferences outside the bounds (weight > 1) to a principle

- Simplification
  - Fewer numbers, more sliders
  - More pre-specified information, less respondent-determined
    - Though this introduces some complications in interpretation

- Deeper
  - A longer survey that has respondents engage more with principles
  - More "real-world" examples, like top marginal tax rate?

- Your suggestions!