

The Normative Foundations of Kaldor-Hicks Reasoning: Why Willingness-To-Pay Both Avoids and Does Not Avoid The Problem of Interpersonal Utility Comparisons

Introduction

- Bigger project: ethical evaluation of optimality and maximization methods in social decisions.
- Here, I draw on contrary perspectives on the problem of interpersonal utility comparisons (IUCs) to explore the normative foundations and applicability of Kaldor-Hicks (KH) criteria.
- I argue interpretations in which WTP is seen as addressing IUC problems undermine forms of normative support for KH-reasoning, especially when seen in light of a decision procedure.

Kaldor-Hicks optimality

- KW-criteria used in context of policy, public decision-making, and economic evaluation.
- Use of KH criteria typically begins with "contingent valuation" where people are asked what they are willing to pay (WTP) to gain or avoid some outcome.
- A change is a KH-improvement if those who gain could compensate those who lose for their loss and still be made better off; KH-optimal when no further available KH-improvements
- If this compensation were in fact paid, the change would become a Pareto improvement -- one that benefits at least one person but leaves no one worse off. But if the compensation is not paid, KH-improvements allow for losers as well as winners and thus raise normative difficulties beyond those of Pareto criteria (Coleman 2003).
- KH optimality may be seen as a decision procedure maximizing benefits relative to costs or as identifying only one component in a more complex process (e.g., "weak welfarism").

KW-optimality used as a decision-procedure and conflicting views of WTP

- One common framing for seeing KH optimality in light of a full decision procedure is that it preserves the aspects of utilitarianism that make it "appealing" while "sidestepping" utilitarianism's problems (see, e. g., Pi and Parisi 2023).
- Central among these problems is that of IUCs. Utilitarianism seems to require assessments of utility comparable from one person to another. But how can we know what is going on in someone's head? By contrast, the use of KH-criteria use only ordinal preference rankings, where rankings can be observed through behavior.
- In this standard narrative, "skepticism about comparability is what motivated the development of the Kaldor-Hicks standard" (Adler 2014).
- But Coleman (2003) expresses a seemingly opposing view: "If the worries about interpersonal comparability are legitimate, Kaldor-Hicks reintroduces them; it does not solve them."
- How does WTP both avoid and not avoid the problem of ICUs?

Resolving the conflict: two views of the "benefit" associated with WTP

- I propose: the divergence may be explained by seeing these as different "problems" of IUCs.
- If the "problem" is we can't compare utilities, WTP avoids it.
- If the "problem" is that being unable to compare renders utility maximizing impossible, then WTP does not avoid it, it reintroduces it.

- In the first framing, we may focus our attention on whatever it is that WTP is measuring this avoiding utilities and thus IUCs. The benefit of WTP may be seen as reflecting a quantity of "social benefit" or "wealth" (not requiring IUCs; see Posner 1978 and Parisi and Pi 2023).
- In the second framing, WTP is seen as a potentially imperfect proxy for utility in the sense of well-being (requiring IUCs; see Adler 2006).
- Imperfections include that WTP assessments typically take no account of potential differences in the utility of money from one person to another (as arise with the marginal utility of money). A KH-improvement may lower total utility (Boardman et al. 2017).

WTP as a measure of social benefit or wealth: problems for foundations

- Rest of this talk focuses on first framing. Here, the "social benefit" or "wealth" interpretation may be used to justify seeing KH in light of a decision procedure (see Zerbe 2002).
- WTP is seen as reflecting the value of an outcome, distinct from individual well-being, so that maximizing benefits relative to costs via WTP maximizes value overall.
- But I argue that this interpretation undermines attempts to interpret KH-reasoning as preserving the "appealing" normative foundations of utilitarianism.
- In the context of utilitarianism, a utilitarian maximizing decision procedure is justified by saying that it is rational and ethical to apply to everyone the same reasoning we apply to ourselves: since we want our own preferences to be satisfied, we should aim for everyone's preferences to be satisfied (Singer 2005 and 2011).
- But given the wide range of priorities people have beyond wealth maximization, this normative foundation does not carry over. Also risk of adding "apples and oranges" (Nyborg 2020).
- Ultimately, WTP cannot help KH preserve the aspects of utilitarianism that make it "appealing" while "sidestepping" utilitarianism's problems.

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