

Ethical Public Policy Decisions when Decision-Makers Make Mistakes

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At the intersection of economics and philosophy, the traditional analysis of optimal public policy decisions has relied on the idea that the decision-makers who are affected by the policy are “rational.” A utilitarian analysis (e.g. Harsanyi 1955) maximizes the ex ante sum of individuals’ utilities. But the notion of a utility function itself relies on a stable preference ranking of a “rational” individual. Later developments in Social Choice Theory, which aimed to give axiomatic foundations to welfare analysis of public policy, typically assumed decision-makers who maximized stable preference relations (e.g. Arrow 1951).¹ Similarly, “mechanism design theory” seeks to understand how to design public policy optimally given the incentives that rational decision-makers face (e.g. Green and Laffont 1979).

By contrast, the project I am undertaking aims to characterize optimal public policy when the decision-makers who are affected by the policies can make mistakes. The project will develop a framework for thinking about policy in the presence of errors in decision-making that will be general enough to illuminate how our thinking on a variety of policy issues would change in the presence of behavioral errors by the people affected by the policy decisions.