Comments on:
Values, Votes and Slopes – Political Behavior and the Marginal Utility of Income

(by Andrew Clark and Fabrice Etilé)

Justin Wolfers
Wharton School, U.Penn
CEPR, IZA & NBER

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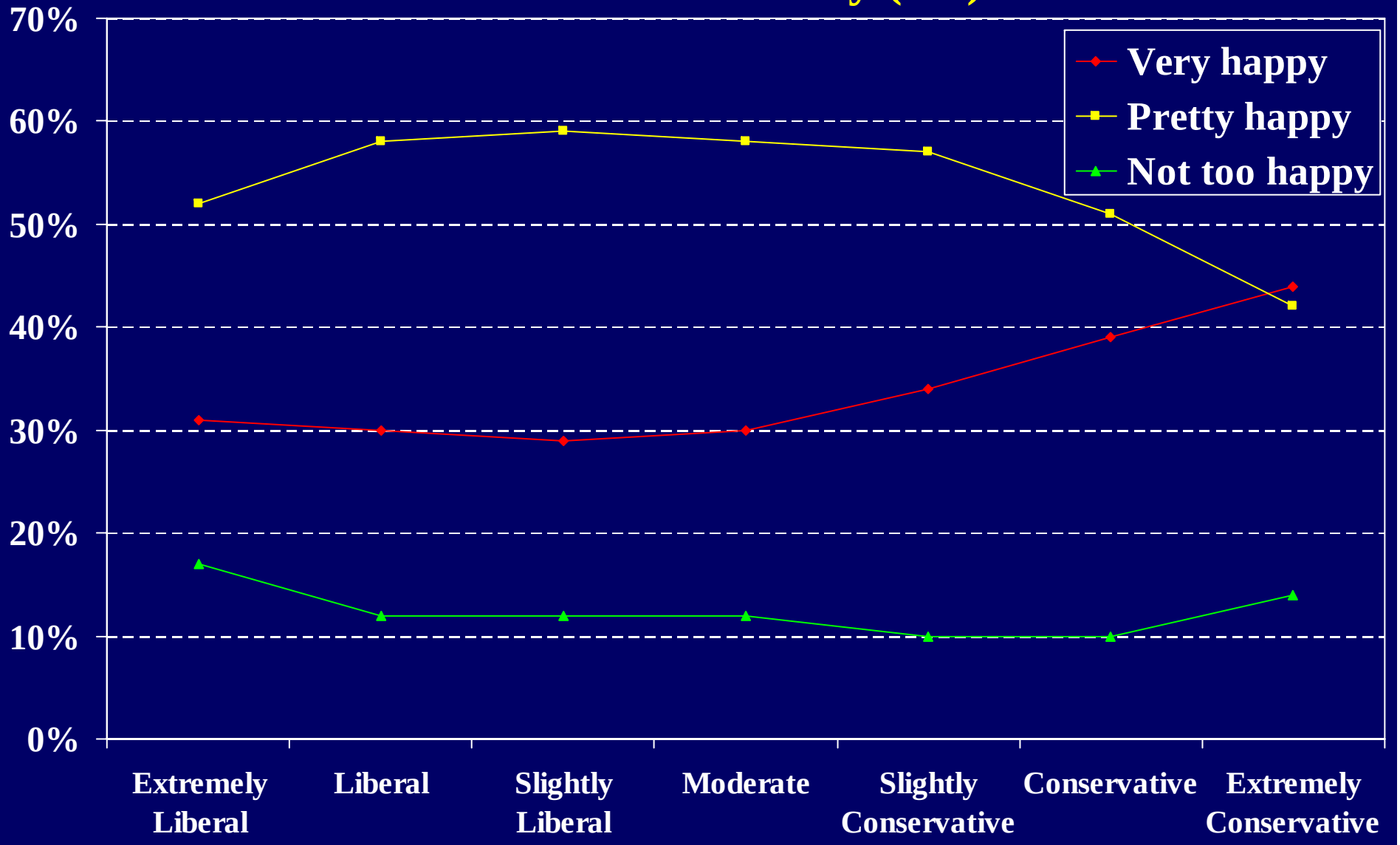
Research Question

- Substantive: Are political preferences related to utility (happiness) functions?
  - Specifically: marginal utility of income
- Methodological: Inference from discrete choice surveys and choices
  - Allowing for heterogeneity in:
    - » How people answer questions
    - » Preferences over income
    - » Underlying wellbeing

Political Views and Happiness

General Social Survey (US)



Theory: Marginal Utility and Politics

1. Purely neoclassical economics
   U=U(C, weather, Red Sox win World Series…, politics)
   - Theory imposes no restrictions on $d^2U/dYdPolitics$
2. Self-interested voters: Purely instrumental interest in politics
   - Rich should vote against redistribution
   - Poor should vote for it
   - Intensity of these political preferences depend on U'(Y)

	Poor	Rich
High U'(Y)	Radical lefty	Right wing nut
Low U'(Y)	Centre-left	Centre-right

3. Utilitarian voters
   - Maximize aggregate societal welfare
     - » Redistribution is important because marginal utility of income varies
   - Vote for redistribution if you believe U''(Y) is large
4. Test of validity of happiness data
   - » "We take this result firstly as a validation of the use of subjective well-being data in Economnics, and more generally as evidence that heterogeneity of both intercepts and slopes is important in explaining political behavior"

Clarke's Concern: Identifying Marginal Utility

Fact

	Justin	Andrew
Rich	Ecstatic	Quite happy
Poor	Miserable	Not so happy

Interpretation 1:

"Slope heterogeneity"

$MU(Y_{Justin}) > MU(Y_{Andrew})$

[Similar cutpoints / reporting behavior]

	Justin	Andrew
Rich	100 Utils	60 Utils
Poor	0 Utils	40 Utils

Interpretation 2:

"Cutpoint heterogeneity"

$Var(Cutpoints_{Justin}) < Var(Cutpoints_{Andrew})$

$[U_{Justin} = U_{Andrew}]$

	Justin	Andrew
75 Utils	Ecstatic	Quite happy
25 Utils	Miserable	Not so happy

Which Marginal Utility?

Regression: Happiness=β*Annual income + controls
What is β?

- Clark: Marginal utility
- But U=U(C), not U(Y)
  - U'(Y)=U'(C) iff $C_t = a+bY_t$
    - » But this is not a very plausible model
  - Permanent Income Hypothesis
- Estimate of β depends on
  1. Utility function
  2. Reporting of happiness | utility
  3. Income process
     - » Forecastable shocks versus unforecastable shocks
     - » Permanent versus transitory shocks
  4. Other features of the utility function
     - » Willingness to smooth across time (time preference)
     - » Ability to smooth across time (Planning horizon)
  5. Institutions
     - » Access to credit (ability to smooth across time)
     - » Insurance (ability to smooth across states of nature)
- Clark shows U'(Y) related to politcal preferences
- But interprets this as "marginal utility" [U'(C)?] being related to politics

Results: Alternative Interpretation

- Interpretation:
  Differences in income preferences are related to differences in political preferences
- Fact:
  Estimates of dU/dln(Y) are correlated with political preferences
- But if, for example, $U=C^{1-p}/(1-p)$ then differences in income generate differences in dU/dln(Y) unless p=1 (Log utility)
- Are "differences in preferences" really just masking differences in the extent to which the happiness model is mis-specified?
  - Is it surprising that this is correlated with political preferences?