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Itai Sher
Matthew C. Weinzierl

Working Paper 22-013



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Itai Sher

University of Massachusetts, Amherst

Matthew C. Weinzierl

Harvard Business School

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Funding for this research was provided in part by Harvard Business School.

Most Individuals Prefer to Compromise among Competing Normative Principles of Taxation

Itai Sher and Matthew Weinzierl*

September 3, 2021

Abstract

We use a novel survey to gather direct and indirect evidence on how individuals reconcile their simultaneous support for opposing normative principles when forming their policy preferences. Our evidence suggests that, when choosing policy, a minority (approximately one-third) of individuals follow the recommendations of the principle they most strongly support, while the majority of individuals prefer, instead, to compromise. Those who compromise give multiple competing principles weights that roughly correspond to their relative levels of support for them.

A robust finding across the social sciences over the last three decades is that normative diversity best describes how individuals judge economic policy: that is, most of us find multiple normative principles appealing and have policy preferences that are best explained as compromises among them. For example, Frohlich, Oppenheimer, and Eavey (1987) write: "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."¹ The implications of this finding for modern economic analysis, which is dominated by the welfarist normative approach, are potentially substantial. It suggests that rigorous consideration of multiple normative principles may be required for policy analysis to reflect the views of the people it is meant to benefit.

We gather indirect and—new to this paper—direct evidence on the mechanism through which support for multiple normative principles gets translated into policy preferences. We create a survey in which respondents rate the normative importance of two contrasting philosophical principles for the design of taxes. Then, we ask them to specify the quantitative implications of each principle in a hypothetical scenario. As a result, when we then ask them to state their personal preferences over tax policies in that scenario, taking into account these principles, we are able to infer the implicit weights they give to each principle. By comparing these weights to the ratings each individual gave to the two principles, we can indirectly characterize how they convert their views on principles into their preferences. And, new to this paper, we also ask these individuals to self-classify their approach to using multiple principles when forming policy preferences, allowing us to check whether our indirect evidence aligns with this direct evidence on the mechanism with which individuals manage normative diversity.

*University of Massachusetts, Amherst; Harvard Business School and NBER

¹On normative diversity, see also the findings of Feldman and Zahler (1992), Weinzierl (2014, 2017), and Saez and Stantcheva (2016). On the idea of "reasons" and their relation to preferences, see See Dietrich and List (2013), and Sher (2019). Also relevant is the relatively young "inverse optimum" literature that studies apparent prevailing policy objectives through preferences "revealed" by existing policy (see Bourguignon and Spadaro 2012, Bargain et al (2014), Lockwood and Weinzierl 2016, and Hendren 2016).

We are thus able to address a number of specific, *quantitative* questions about normative diversity both indirectly and directly. If an individual finds one of those principles a bit more appealing than the other, does the preferred principle win out, or is a compromise struck? Are individuals with more extreme opinions on principles more or less likely to strike such a compromise?² Are individuals' beliefs about how they would answer these questions consistent with their revealed policy preferences?

Our results directly confirm the prevalence of normative diversity and help us to better understand its mechanisms. A large majority of our respondents rate the two competing—and sharply opposed—principles no more than 2 points apart on the 0-4 scale of importance for the design of taxes. Moreover, most individuals compromise among principles which they find appealing. Only one-third of respondents adopt a "lexical" approach in which they strictly follow only their preferred principle's recommendations even if they found the other principle appealing, as well. And we show that these direct self-classifications align with policy preferences: the minority of lexical individuals are substantively different in other ways from the majority of respondents: they hold more extreme opinions on principles and form more extreme preferences from them.

1 A novel survey on reasons for preferences

We use income taxation as the specific policy setting for studying how people respond to and then use competing principles when forming policy preferences. The income tax is a salient policy that applies nearly universally and over which public debate is both substantial and explicitly normative. As such, it is at least possible that our respondents will be able to engage meaningfully with what is a rather subtle and abstract set of exercises. The survey proceeds in four steps.³

In Step 1, respondents are asked to read closely two classic philosophical principles for income taxation, as shown in the following screen capture:

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:

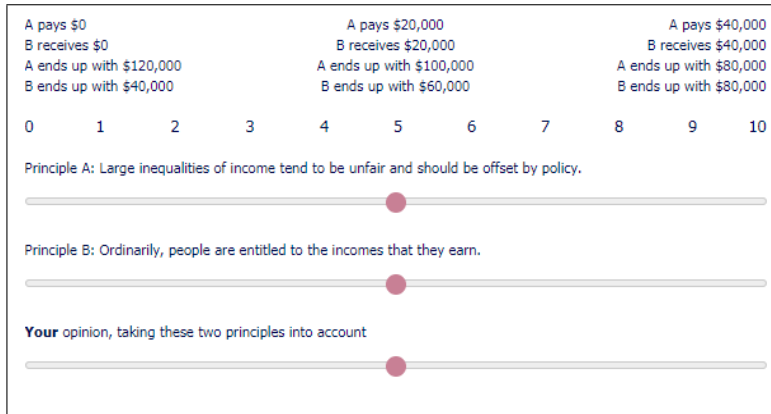
- Principle A: Large inequalities of income tend to be unfair and should be offset by policy.
- Principle B: Ordinarily, people are entitled to the incomes that they earn.

Please read these principles again, paying close attention to what they say.

We will refer (in this paper, not the survey) to Principle A as "egalitarian" and Principle B as "libertarian" in reference to their philosophical bases.

²Philosophers have been asking related questions about reasons for some time. As Robert Nozick wrote in 1993, "A person might have differing amounts of confidence in various principles of decision...I suggest we go further and say not merely that we are uncertain about which one of these two principles...is (all by itself) correct, but that both of these principles are legitimate and each must be given its respective due. The weights, then, are not measures of uncertainty but measures of the legitimate force of each principle."

³We administered our survey using Amazon Mechanical Turk. The survey was approved by Harvard University's Institutional Review Board as project IRB17-1536. It was launched in the summer of 2018 and we obtained 83 responses, each of whom was paid \$3.00. The survey, including its consent forms, can be found at https://hbs.qualtrics.com/jfe/form/SV_72K60SAkq81a4Pb.



The range of possible responses extends from what might be called a fully libertarian policy (at 0, with no redistribution) to a fully egalitarian policy (at 10, with full redistribution).

Step 4 is the most novel. We ask respondents to classify their own approaches to turning opinions on principles into preferences over policies. We offer two options: *lexical* and *proportional*. Under a *lexical* approach, an individual will adhere strictly to the policy recommended by the principle that the individual thinks is a more important guide to policy. Under a *proportional* approach, an individual will choose a policy that compromises between the recommendations of the two principles, giving weight to each according to how important a guide the individual thinks it should be to policy.

Below, we've listed two ways that people have described using principles such as these when designing taxes. Which better describes how you used them when choosing the policies you thought were best?

In each situation, I chose the policy recommended by the principle that I think should be a more important guide to tax policy.

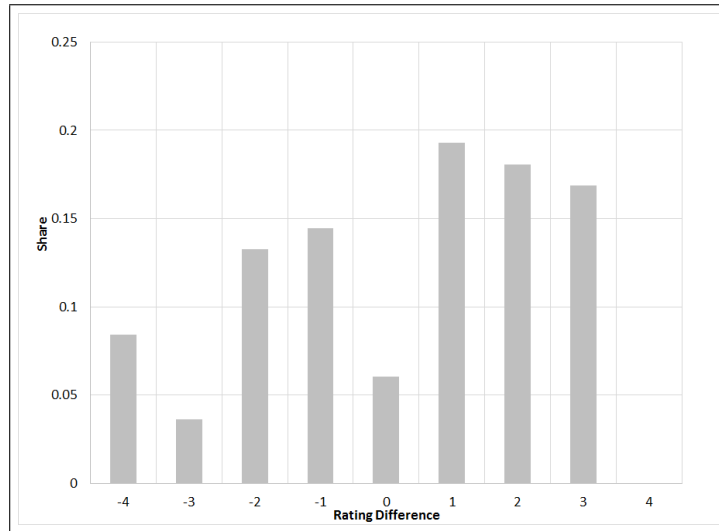
In each situation, I chose a policy that compromises between the recommendations of the two principles, giving weight to each according to how important a guide I think it should be to tax policy.

We also provide respondents with an opportunity to mention (on a text entry screen) other factors that influenced their views, outside of the principles we had them consider.

2 Results

Our survey results can be summarized as follows: most people are normative purists neither in their support for principles nor in how they translate principles into policy preferences. We present our results in three parts to ease presentation.

First, we present evidence that most individuals support multiple, competing principles of tax design. Consider the histogram of differences between the ratings of the two principles, defined as: $R_E - R_L$, which is simply the respondent's rating of the importance of the egalitarian principle (Principle A) less the respondent's rating of the importance of the libertarian principle (B).



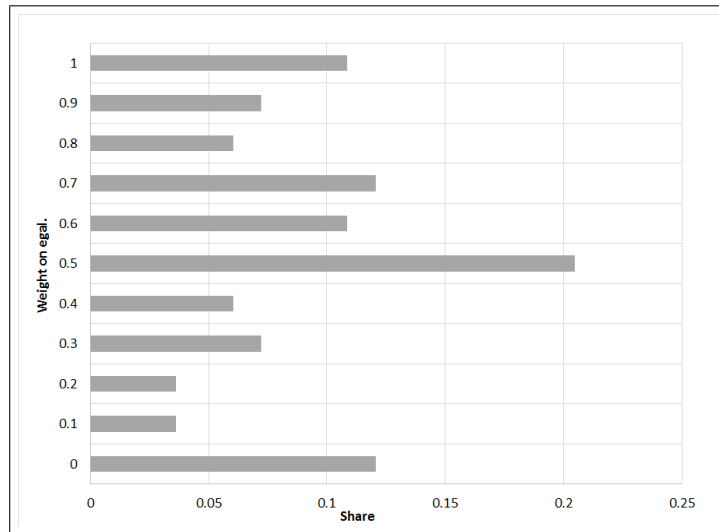
This figure shows that more than 70 percent of respondents rate the two competing principles no more than 2 points apart on a 0-4 scale, despite more than 90 percent of respondents rating the two principles differently. Given the stark differences between these principles, this degree of ambivalence amid differentiation is striking. Recall that the scale for these ratings runs from 0="An unimportant guide [to tax policy]" to 4="A very important guide".

A couple of specific observations stand out. More respondents believe the egalitarian principle should be of greater importance to tax design than the libertarian principle. That is, 54 percent of respondents stated a positive rating difference, while only 40 percent stated a negative rating difference. At the same time, no respondent who rated the egalitarian principle 4 rated the libertarian principle 0 (there are zero respondents with a rating difference of positive 4). The prevalence of normative diversity among those who strongly support egalitarianism is consistent with the findings of Feldman and Zaller (1992), who find that "Ambivalence with respect to social welfare policy is more pronounced among welfare liberals...They end up acknowledging the values of economic individualism even as they try to justify their liberal preferences." On the other hand, 8 percent of respondents are at the other extreme, rating the libertarian principle a 4 and the egalitarian principle a 0.

Second, we find that most respondents prefer, both rhetorically and in practice, to compromise among principles they support. In particular, when we ask respondents how they used the competing principles when deciding on their preferred tax policy, 65 percent responded that they compromised among principles, rather than that they chose based on the recommendation of their more-preferred principle. In other words, nearly two-thirds of respondents self-classified as using the proportional approach rather than the lexical approach to turning reasons into preferences.

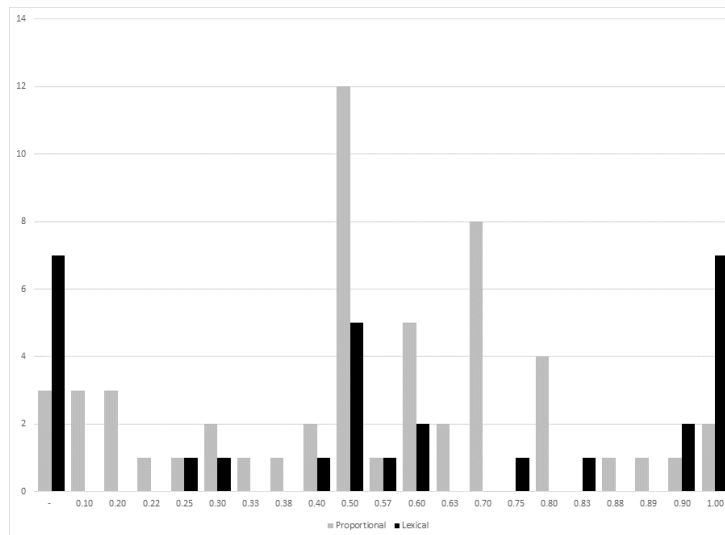
The following figure presents evidence consistent with the predominance of compromisers. We plot the share of respondents (on the horizontal axis) for each implicit weight on the egalitarian principle implied by their preferred tax policy choices in Step 3 of the survey. To infer these implicit weights, we calculate $\frac{A_R - A_L}{A_E - A_L}$. This expression is the ratio of two differences in how much the respondent has person A pay in the hypothetical scenario from the survey. That is, the numerator is the difference between the respondent's own preferred amount for person A to pay and that respondent's belief about what the libertarian principle would have person A pay; the denominator is the difference between that respondent's beliefs about what the egalitarian and libertarian principles would have person A pay. When this ratio is large, the respondent's

opinion aligns closely with the respondent's own beliefs about what the egalitarian principle would recommend. When it is small, the respondent's opinion is closer to the libertarian principle's recommendation. Note that all of these amounts are defined by the respondent.



As this figure shows, 33 percent of respondents choose policies implying extreme values for weights: either 0.0, 0.1, 0.9, or 1.0. The remaining two-thirds of respondents choose more moderate weights. These shares are similar to those self-identifying as using the lexical and proportional approaches.

Finally, the policy preferences that individuals express confirm that their self-classifications are at least roughly accurate. That is, individuals who claim to be lexical thinkers choose policies in a qualitatively different way from those who self-classify as proportional. For example, nearly three-quarters of the respondents who implicitly put a weight of either 0.0 or 1.0 on a principle confirm that they use a lexical approach. The full distribution of implicit weights by self-classified approach is shown here:

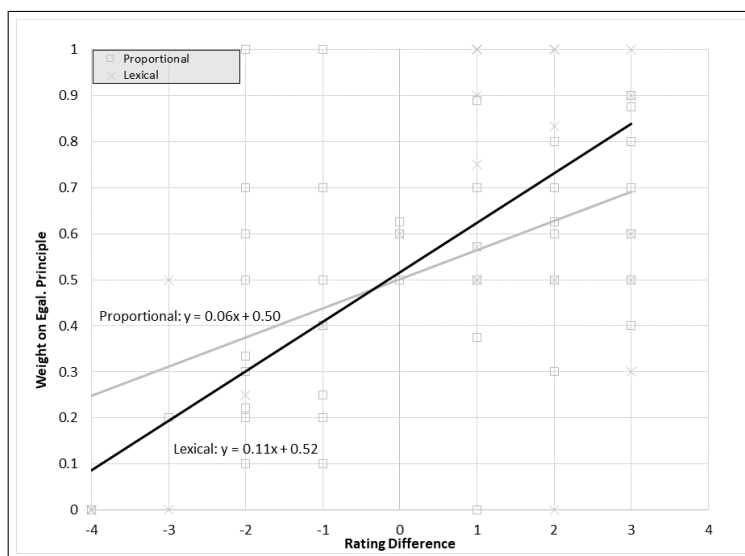


As this figure shows, the lexicals cluster substantially at the extremes of the weights range, while the proportionals are concentrated toward the center.

This difference is due to two factors, both shown in the following table. First, lexicals having more polarized opinions on the principles, as shown by the cumulative shares of the two types across the differences in ratings between principles (the proportionals first-order stochastically dominate the lexicals). Second, lexicals give somewhat more extreme implicit weights to the principle they prefer *conditional* on their difference in rating (see especially the average implicit weights for ranking differences of 1 and 2).

Ranking difference (absolute value)	Cumulative share of proportional	Cumulative share of lexical	Average implicit weight of proportional	Average implicit weight of lexical
0	0.07	0.03	0.42	0.40
1	0.43	0.34	0.50	0.76
2	0.78	0.59	0.59	0.73
3	0.96	0.83	0.71	0.69
4	1.00	1.00	1.00	1.00

To learn more about this second factor, we can estimate the relationship between rating difference and implicit weight on the egalitarian principle. We plot the estimated linear best fit lines for each self-classified type on a scatterplot of all responses here:



As might be expected, the slope relating these two measures of preferences is greater for lexicals; that is, those who self-classify as using the lexical approach give more extreme-valued weights to their preferred principles than do those who self-classify as proportionals.

3 Conclusion

Past research has shown that most individuals' preferences over economic policy imply that they support and compromise among contradictory normative principles. We confirm these findings using a more direct method: we ask respondents for their views on two opposing, classic principles of tax design, and we ask

them how they use them when forming policy preferences. We find that a substantial majority—nearly two-thirds—of respondents state that they use the principles in proportion to their support for them, while only a minority use a lexical approach and follow the dictates of their more-preferred principle. Moreover, the survey shows that this self-classification corresponds to choices: those who self-classify as lexical (rather than proportional) give more extreme weights to principles conditional on their ratings of the principles.

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