

It has been well-known in the literature that we often perceive situations not only as final outcomes, but also changes. And that we focus more on losses than gains, that is, losing 1000 zlotys hurt us more than gaining 1000 zlotys makes us happy. It has been observed more and more that this applies also to policy arena. We perceive policies as changes from a reference point e.g. status quo, and pay attention to how much we lose or gain, not only to how much we have at the end. Gaining and losing influences our support for policies and politicians. Politicians know this and seem to take this into account in deciding on different policies.

In this project we develop tools to make such choices practically possible. We assume that policy makers are concerned with gains and losses and they are averse to losses. They are such either because they hold some normative constraints, such as that the policy must pass the so-called “first, do no harm” principle. Such issues arise often in health policy area, and in fact, as some authors document, played a role now in the development of COVID-19 vaccine and its deployment to general population. Politicians may consider loss aversion also for political economy reasons, that is, when they believe that this is how their voters think and they strive to get their support.

Furthermore, in our project the policy makers care about final outcomes of policies and they are averse to inequality in these final outcomes. That is, they prefer more equal income distributions. This is a standard preference and rising inequality has dominated much of economics research in the last decades. By now we know its disastrous consequences for social cohesion, and potentially for future economic growth as well.

We develop methods that take these two principles into account while comparing policy effects of different policies. Typically policies are compared based on the mean or median income they generate. This, however, removes large part of the information. In particular, with the mean, we do not take into account that there can be a substantial number of people who receive less than mean income. Furthermore, there can be a substantial number of people who actually lose under a given policy. In reality, policies typically lead to different outcomes for different people and often those who gain and those who lose. We extend the toolkit available to economists and policy makers to evaluate the effects of policies.