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Abstract

In this paper we provide decision-theoretic foundations for other-regarding preferences, i.e., preferences of decision makers who care about others' outcomes in addition to their own. What appears paradigmatic about the choice behavior of such decision makers is a propensity to care about the "process" or "procedure" by which allocations are determined. Consider, for example, Machina's famous example of a mother who has a single indivisible treat which she can give either to her daughter or her son. She is indifferent between her daughter getting the treat or her son getting it, but strictly prefers tossing a coin to determine who gets the treat. Indeed, experimental evidence corroborates such insights. For instance, it is not uncommon to find decision makers giving another person some chance of getting an indivisible good, though they strictly prefer that they rather than the other person receive the good. Such behavior, although compelling, cannot be accommodated by existing models of decision making under risk, expected utility and non-expected utility alike, because they violate the core consequentialist property of stochastic dominance (or monotonicity) that is at the very heart of these theories. The decision model that we develop in this paper accommodates such evidence. The key innovation it introduces is a concern for "procedures" - decision makers may care not just about what the outcomes of others are but also about how these outcomes are generated. Our axioms provide a sharp characterization of how a decision maker evaluates lotteries over allocations by expressing "payoffs" as a weighted average of the expected utility of the lottery and another component that captures her concerns for procedure. The weight used in evaluating this weighted average is uniquely determined from choice behavior and it quantifies the relative importance of procedural concerns. The decision model is therefore only one parameter richer than expected utility, and reduces to it in the special case in which procedural concerns are absent. We use our decision model to provide an "expressive" theory of voting that sheds some light on the subject of people voting against their self-interest.