Welfare Assessments with Heterogeneous Individuals

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This paper develops a new approach to make welfare assessments based on the notion of Dynamic Stochastic weights (DS-weights for short). For a large class of dynamic stochastic economies with heterogeneous individuals, we introduce an aggregate additive decomposition that satisfies desirable properties and that allows us to exactly decompose welfare assessments into four components: i) aggregate efficiency, ii) risk-sharing, iii) intertemporal-sharing, and iv) redistribution. We leverage DS-weights to i) revisit how welfarist (e.g., utilitarian) planners make interpersonal welfare comparisons and ii) formalize new welfare criteria that are exclusively based on one or several of the components that we identify.

**Url:**<https://www.nber.org/papers/w30571>