

“Future-choice” decisions: How do we really handle the future?

Robin H. Hogarth
Universitat Pompeu Fabra
Barcelona, Spain

Consider a social planner deciding which route to use in constructing a new highway. How far into the future should such a decision look? What volumes of traffic are likely to develop on alternative highways? What currently unknown technological advances could change costs and benefits? Will public preferences remain stable? What are the possibilities of different natural or social disasters? And so on. The list of possibilities and complications is endless. Imagine further a 23-year old planning a career and ways of acquiring capital across her life. How can she evaluate different career paths? How can she predict changes in her personal situation as well as health? How can she assess tradeoffs between “capital” and “consumption” at different times?

These situations are both examples of “future-choice” decisions, decisions that have three important sources of complexity. First, actions taken today can have unknown consequences at future horizons that are difficult to specify. Second, decisions imply difficult inter-temporal tradeoffs. And third, it is problematic to specify relevant states of the world let alone assess their probabilities. Today, the “standard” economic model for dealing with these situations is the discounted utility (DU) model. However, from both descriptive and prescriptive perspectives, extensive empirical evidence shows that this model has little to recommend itself.

This paper suggests a research agenda for studying future-choice decisions. The goal is to identify factors that people “should” and “can” take into account when considering these actions. The intended outcome is a framework for decision making to replace the discounted utility model as a prescriptive guide for future-choice decisions. However, this is unlikely to take the form of an alternative maximization model. Instead, I believe it is more realistic to uncover qualitative principles that will (a) have normative appeal to decision makers, and (b) be feasible to implement.