

Fehr–Schmidt Inequality Aversion in the RICE Integrated Assessment Model

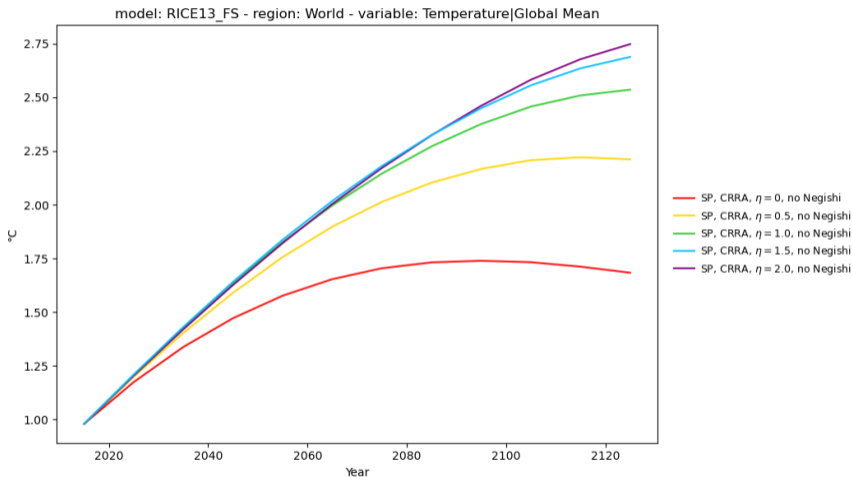
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Telling the Social Planner with CRRA Utility to Decrease Inequality ($\eta \uparrow$)



Less total abatement, total temperature goes up with inequality aversion!

One Parameter, Two Jobs in RICE

Problem

- In regional IAMs, there are two types of inequality
 - across regions
 - across generations (due to technological growth)
- Under standard CRRA, the curvature parameter η governs both
- However, it should not: Stated preferences are different (Atkinson et al., 2009)

Question

- Can we separate the tuning of interregional and intergenerational inequality aversion?

My solution

- Use Fehr–Schmidt inequality aversion preferences (with a discounting adjustment) instead of CRRA preferences
- Result: Optimal burden-sharing paths with different interregional equity concerns and CRRA-comparable intertemporal weighting

Literature and Contribution

- One parameter for risk, spatial inequality, and time does not reflect preferences well (Atkinson et al., 2009)
 - I allow disentangling in RICE
- Alternative approach: Interregional and intertemporal inequality can be disentangled in SCC analysis (Anthoff and Emmerling, 2019)
 - But they do not generate regional abatement paths
- Fehr–Schmidt preferences have been brought to RICE before (Rogna and Vogt, 2022)
 - I add homogeneous parameter sweeps, heterogeneous calibration, discounting adjustment, customizability

RICE Environment

Inequality Across Regions and Generations

Rank	Region	Relative consumption index in 2015	Relative consumption index in 2105
1	USA	100	321
2	Other High Income	76	266
3	Japan	75	263
4	EU	67	252
5	Russia	35	157
6	Latin America	24	146
7	Middle East	23	120
8	China	18	113
9	Eurasia	15	108
10	Other Asia	8	83
11	India	8	72
12	Africa	5	54

Baseline for both indices is US 2015 = 100.

- Reduce inequality between regions (mainly) by having rich regions abate instead of poor regions
- Reduce inequality between generations by abating less

Social Planner Solution

The Social Planner Chooses Regional Abatement Paths

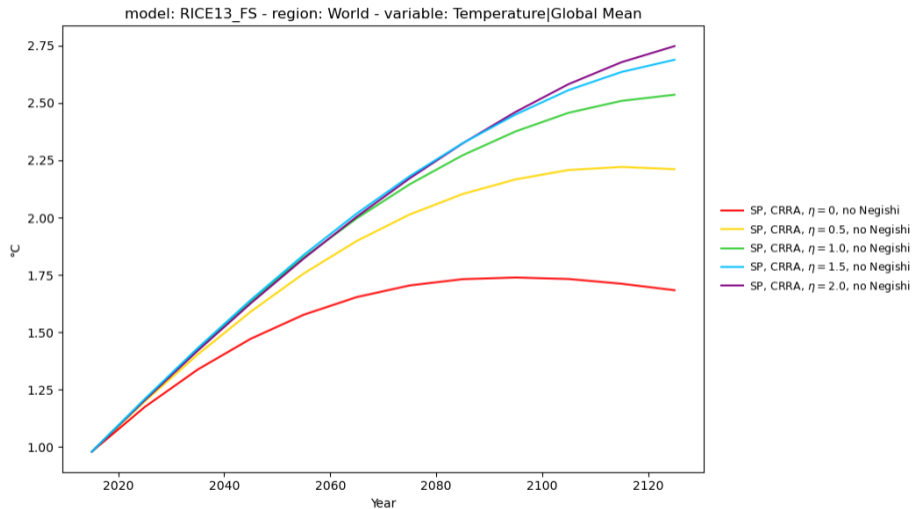
Objective:

$$W = \sum_{t=1}^T \sum_{r=1}^{12} \frac{1}{(1 + \rho)^t} N_{rt} L_{rt} u(c_{rt})$$

- A social planner chooses all regional abatement paths to maximize the welfare objective
- Savings paths are held fixed at the benchmark CRRA solution
- Comparison: $u^{CRRA}(c_{rt})$ versus $u^{FS}(\vec{c}_t)$

Problem of Intertwining in the CRRA Benchmark

CRRA Benchmark: Higher η Raises Temperature



Solution: Planner
Utility: CRRA
Negishi: off

CRRA η Determines Welfare Weights Depending on Consumption

- Higher consumption \implies lower welfare weight
- Both across generations and across regions

Simple Ramsey rule across generations:

$$r^{\text{CRRA}} \approx \rho + \eta g$$

Across Generations

- pure rate of time preference + inequality aversion weighted consumption growth
- increasing η decreases richer future's weight

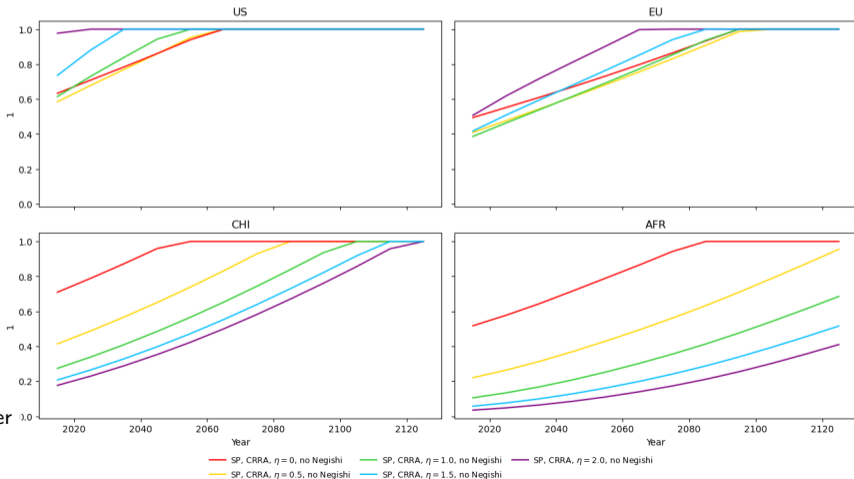
Across Regions

- Only the ηg part
- Richer regions have lower weight
- increasing η shifts abatement burden to richer regions

Cannot change either without changing the other!

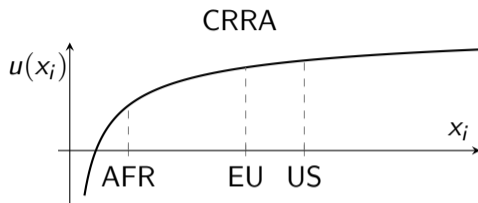
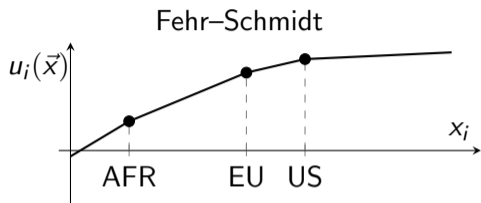
Higher η Affects Both Interregional Equity and Intergenerational Weighting

- Poor regions: The two forces both lead to less current abatement
- Rich regions: The two forces point in opposite directions
- In the aggregate, intergenerational weighting dominates



My Solution: Fehr–Schmidt Inequality Aversion

Fehr–Schmidt (FS) Preferences: Disutility from Inequality



$$\begin{aligned}
 u_i(\vec{c}) = & c_i && \text{(own consumption)} \\
 & - \alpha \cdot \frac{1}{N-1} \cdot \sum_{j \neq i} \max\{c_j - c_i, 0\} && \text{(envy)} \\
 & - \beta \cdot \frac{1}{N-1} \cdot \sum_{j \neq i} \max\{c_i - c_j, 0\} && \text{(guilt)}
 \end{aligned}$$

$$u_i(c_i) = \frac{c_i^{1-\eta} - 1}{1-\eta}$$

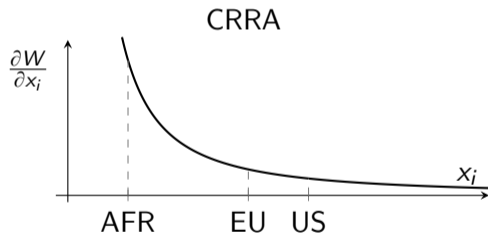
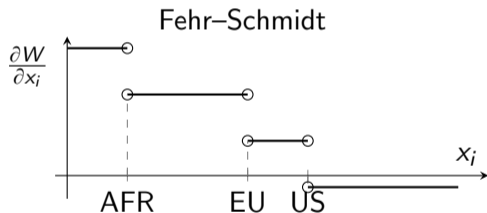
Under Fehr–Schmidt, contemporaneous interregional comparisons enter directly
 Under CRRA, all inequality concerns enter only through consumption curvature

Interregional Equity Concerns with FS and CRRA

Within the same period:

- CRRA: welfare weight decreasing in consumption
- Fehr–Schmidt: welfare weight follows from **within-period** rank

Welfare contribution of individual consumption:

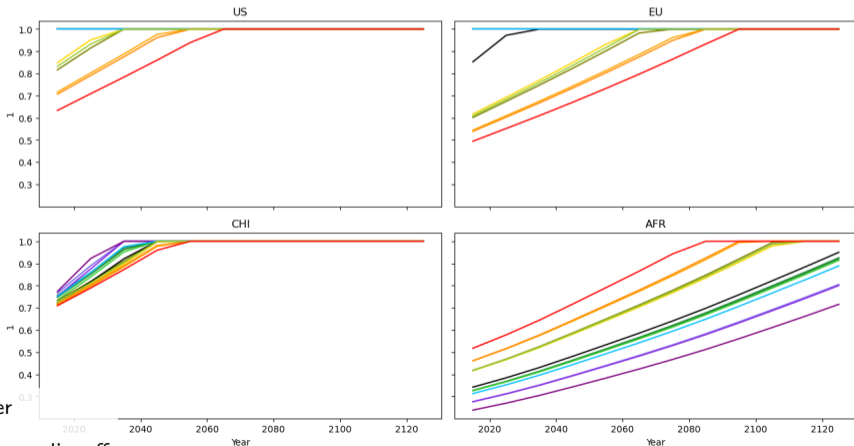


Across periods:

- CRRA: Weight of the richer future is lower
- FS: Ranks rarely change over time \Rightarrow Weights stay the same
- For now: no growth-based intergenerational weighting in FS

Stronger Interregional Equity Concerns Shift Abatement Toward Richer Regions

Higher α or β : Only interregional equity concerns increase
 \implies shift of burden from poorer to richer regions

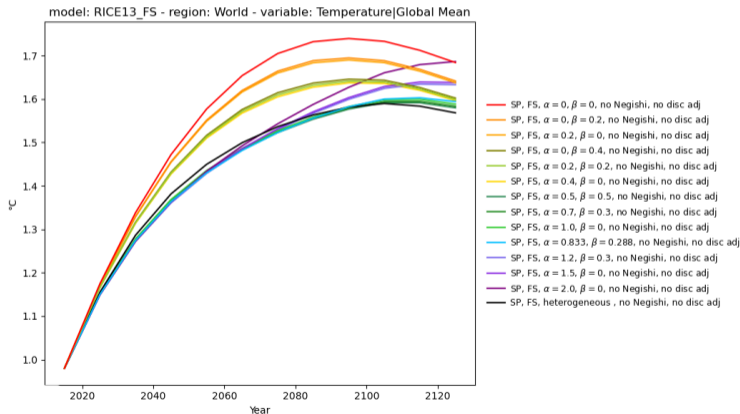


Solution: Planner
 Utility: FS
 Negishi: off · Disc. adj.: off

— SP, FS, $\alpha = 0, \beta = 0$, no Negishi, no disc adj
 — SP, FS, $\alpha = 0.4, \beta = 0$, no Negishi, no disc adj
 — SP, FS, $\alpha = 1.2, \beta = 0.3$, no Negishi, no disc adj
— SP, FS, $\alpha = 0.5, \beta = 0.5$, no Negishi, no disc adj
— SP, FS, $\alpha = 1.5, \beta = 0$, no Negishi, no disc adj

Changing Interregional Equity Concerns Alone Changes Total Temp Non-Monotonically

- Poorer regions are hit harder \rightarrow higher FS inequality aversion raises abatement benefits
- Later reversal once richer regions approach the full-abatement cap



Solution: Planner
Utility: FS
Negishi: off · Disc. adj.: off

Raw FS is missing growth-based intergenerational weighting

Discounting Adjustment

Discounting Adjustment: Match CRRA's Intertemporal Weighting

- Raw FS isolates interregional equity, but has no growth-based intergenerational weighting
- Keep FS for **within-period** comparisons
- Choose ρ_{rt}^{FS} so FS matches the CRRA benchmark's one-period social discount factor

$$\frac{1}{1 + r_{r,t+1}^{CRRA}} = \frac{1}{1 + \rho} \left(\frac{c_{r,t+1}^{CRRA}}{c_{rt}^{CRRA}} \right)^{-\eta} \quad \text{(Simple Ramsey rule)}$$

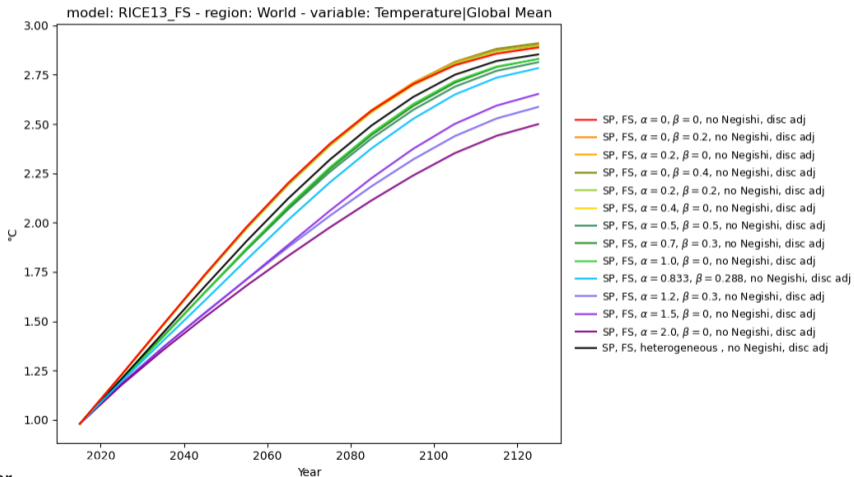
$$\frac{1}{1 + r_{r,t+1}^{FS}} = \frac{1}{1 + \rho_{rt}^{FS}} \cdot \frac{MU_{r,t+1}^{FS}}{MU_{rt}^{FS}} \quad \text{(corresponding FS object)}$$

Choose ρ_{rt}^{FS} so that $r_{r,t+1}^{FS} \stackrel{!}{=} r_{r,t+1}^{CRRA}$

- Equivalent view: Match the CRRA benchmark's welfare weights on future consumption

The Adjustment Brings FS Back Into the CRRA Aggregate Range

FS moves back into the CRRA range in the aggregate



Solution: Planner

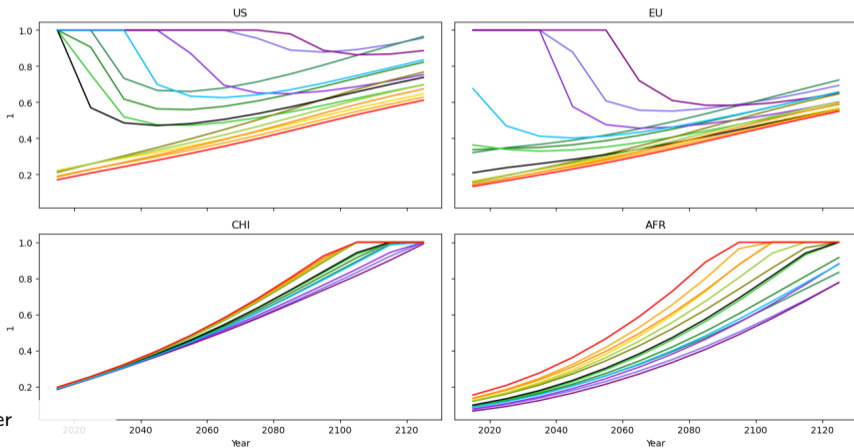
Utility: FS

Disc. adj.: on · Negishi: off

The Adjustment Preserves the Rich-Poor Ordering, but Changes Paths

Restored intergenerational weighting shifts abatement down overall

Some rich-region paths bend downward later because fast-growing poorer regions receive less future weight.



Solution: Planner
Utility: FS

Disc. adj.: on · Negishi: off

- SP, FS, $\alpha = 0$, $\beta = 0$, no Negishi, disc adj
- SP, FS, $\alpha = 0.4$, $\beta = 0$, no Negishi, disc adj
- SP, FS, $\alpha = 0.5$, $\beta = 0.5$, no Negishi, disc adj
- SP, FS, $\alpha = 0.7$, $\beta = 0.3$, no Negishi, disc adj
- SP, FS, $\alpha = 1.2$, $\beta = 0.3$, no Negishi, disc adj
- SP, FS, $\alpha = 1.5$, $\beta = 0$, no Negishi, disc adj
- SP, FS, $\alpha = 2.0$, $\beta = 0$, no Negishi, disc adj

Conclusion

Answer to the Research Question

- CRRA in RICE moves two levers at once: interregional equity and intertemporal weighting
- I separate them by combining Fehr–Schmidt preferences with a discounting adjustment
- This generates new optimal burden-sharing paths
- Stronger interregional equity concerns (larger $\alpha + \beta$) shift abatement toward richer regions, while intertemporal weighting remains comparable to CRRA

Backup Slides

Negishi Weights

Why Negishi Weights?

Should climate policy also carry interregional redistribution motives?

- Negishi weights make the planner locally neutral to redistribution at the reference distribution
- They are calibrated so marginal welfare contributions are equal at that reference point
- Therefore, at that reference distribution, the planner has no first-order CRRA-style motive to redistribute across regions
- Away from that reference distribution, a redistribution motive reappears and points back toward it

A Simple Negishi Example

Three regions with reference consumption levels $c_A = 1$, $c_B = 3$, and $c_C = 4$, and CRRA utility with $\eta = 1.5$

$$u'(c) = c^{-1.5}$$

$$u'(1) = 1, \quad u'(3) \approx 0.19, \quad u'(4) = 0.125$$

Without welfare weights,

$$W = u_A + u_B + u_C$$

so the planner has a first-order incentive to shift consumption from B and C toward A

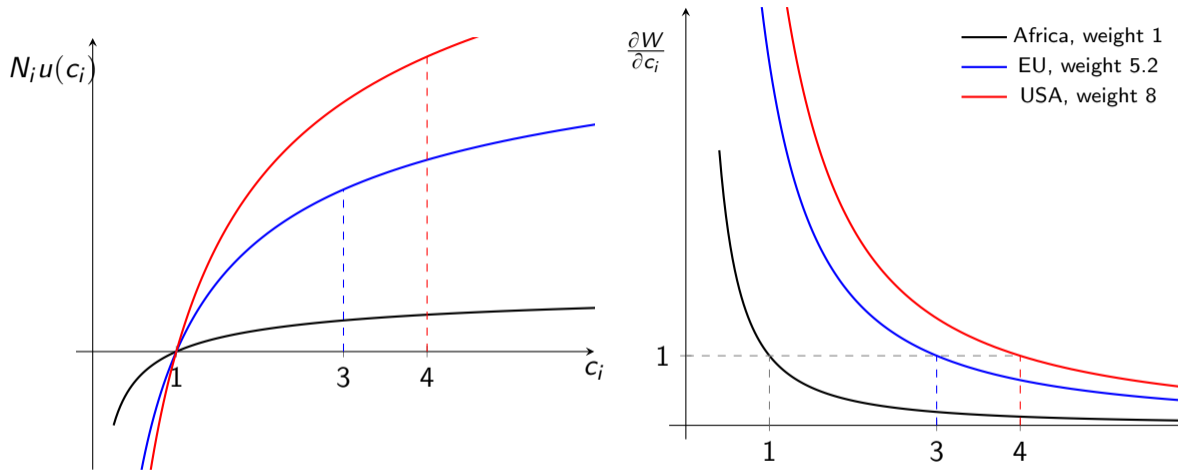
Choose Negishi weights to equalize marginal welfare contributions:

$$N(1) = 1, \quad N(3) = \frac{1}{0.19} \approx 5.2, \quad N(4) = \frac{1}{0.125} = 8$$

$$W = N(1) \cdot u_A + N(3) \cdot u_B + N(4) \cdot u_C$$

At the reference distribution, the planner has no reason to redistribute

Illustration of How Negishi Weights Work

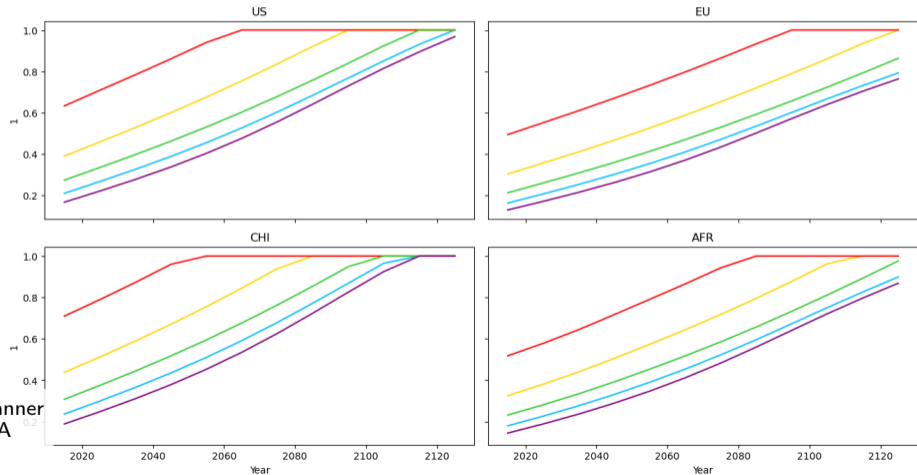


Negishi weights tilt the planner objective so that marginal welfare contributions are equal at the reference distribution

CRRA With Negishi: Mainly Intergenerational Weighting Remains

Negishi removes the benchmark CRRA redistribution motive, so higher η mainly strengthens intergenerational weighting

Abatement therefore falls more broadly across regions

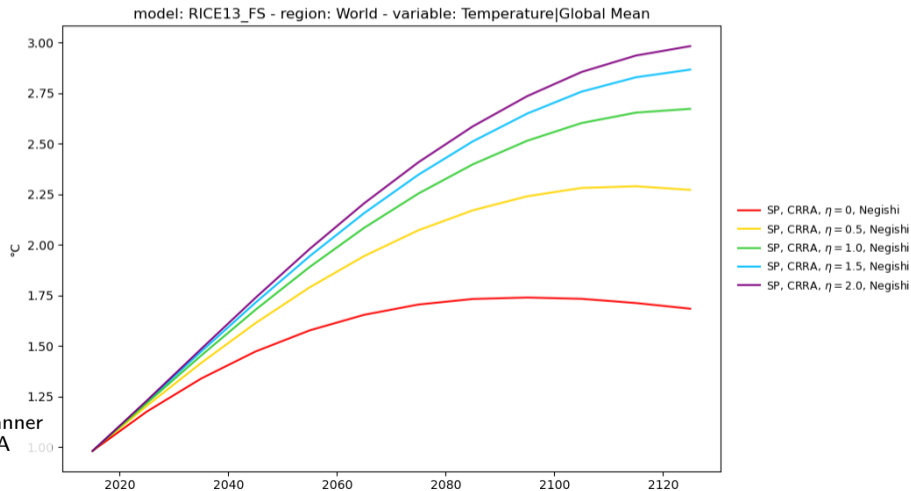


Solution: Planner
Utility: CRRA
Negishi: on

CRRA With Negishi: Total Temperature

Clearer ordering: Higher η leads to less abatement

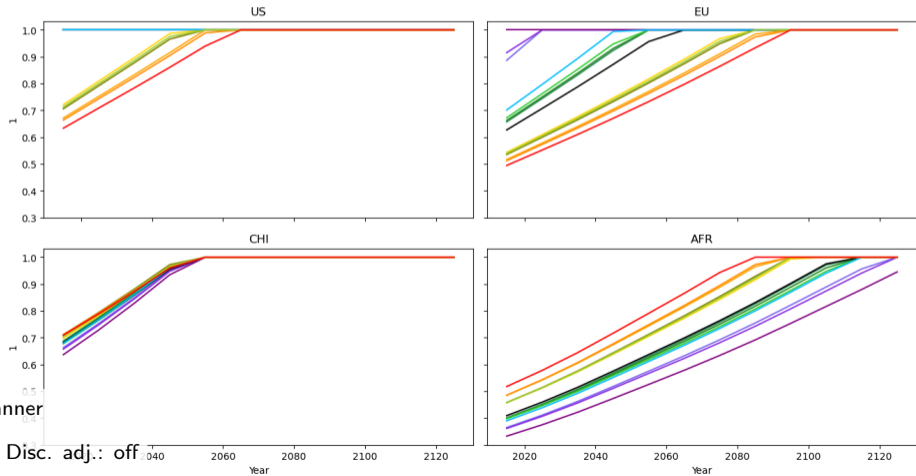
Total temperature goes up as benefit of abatement, making poor regions richer, is weighted less



FS With Negishi: The Comparison Externality Survives

Negishi removes the CRRA-style marginal-utility redistribution channel, but not the FS comparison externality

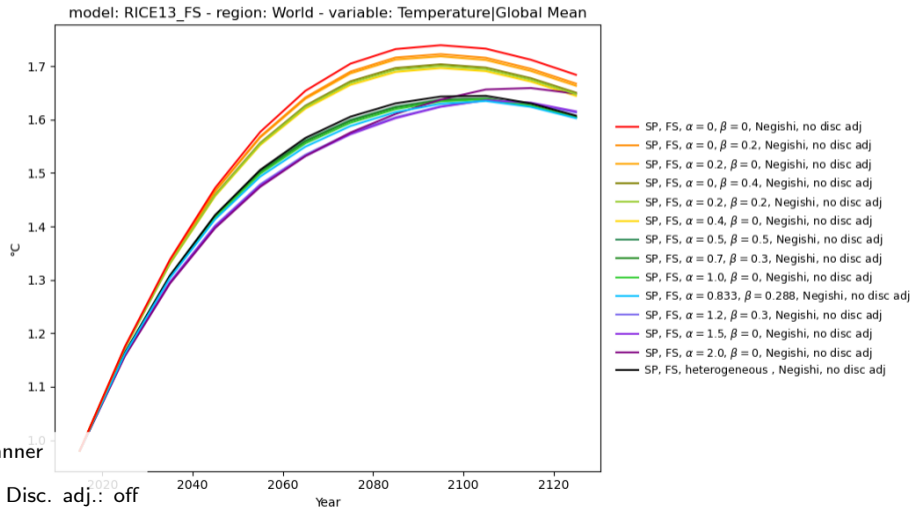
So stronger FS inequality aversion still shifts burden toward richer regions



Solution: Planner
Utility: FS
Negishi: on · Disc. adj.: off

FS With Negishi: Total Temperature

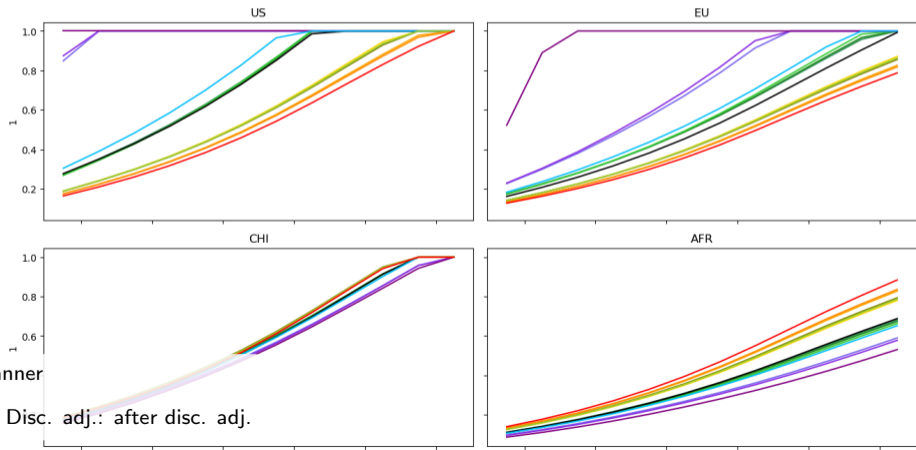
Because the interregional equity concerns are only weakened, total temperature is still non-monotone in the FS parameters



FS With Negishi and Discounting Adjustment

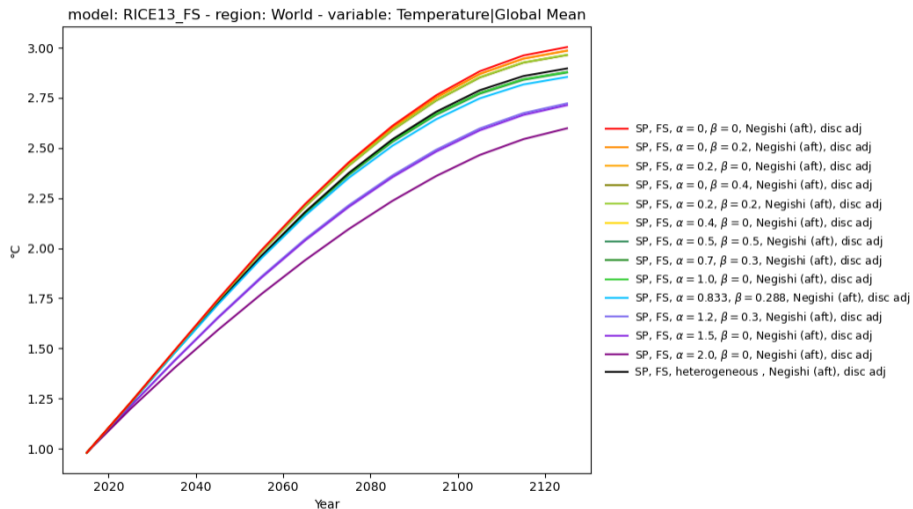
Adding back intergenerational weighting lowers abatement more broadly, while the rich-poor ordering remains

So Negishi changes the benchmark redistribution target, but it does not eliminate the two separate levels



Solution: Planner
Utility: FS
Negishi: on · Disc. adj.: after disc. adj.

FS With Negishi and Discounting Adjustment (after)



Solution: Planner

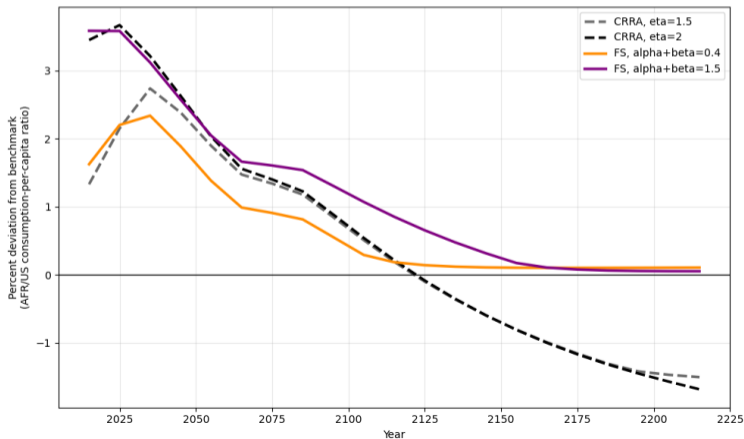
Utility: FS

Negishi: on · Disc. adj.: after disc. adj.

Consumption Gap

Consumption Convergence Supports the Burden-Shifting Interpretation

- y-axis: 0 is the consumption gap between Africa and the US in the $\eta = 0$ benchmark
- Line above means the consumption gap is smaller
- CRRA: Borrow consumption from the future
- FS: Shift consumption from richer to poorer contemporaries



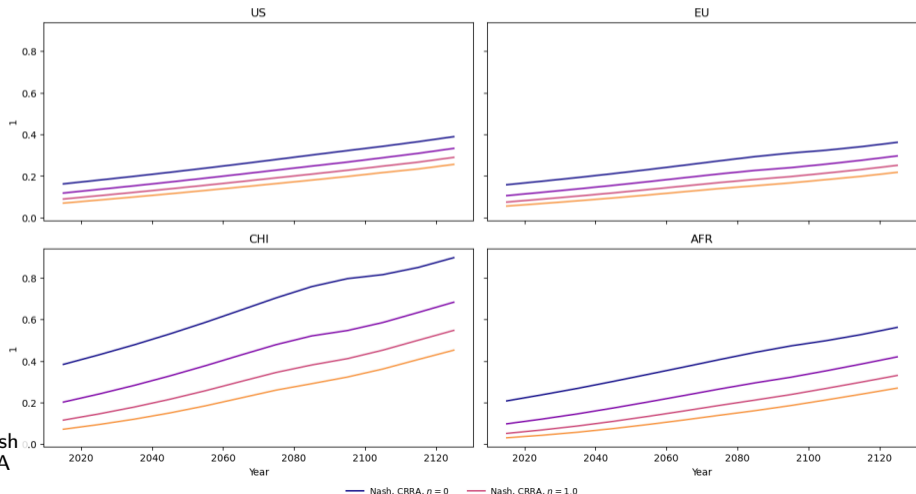
Solution Concept II: Nash (No Cooperation)

From Planner Weights to Strategic Incentives

- Planner: The modeler aggregates regional welfare into a global objective
- Nash: Each region takes others' abatement as given and maximizes its own objective
- Under CRRA, that objective depends only on own consumption over time
- Under FS, relative regional outcomes also enter the objective
- Question: Once regions act strategically, do envy and guilt affect their incentives to free ride?

Under CRRA, Nash Only Has the Intertemporal Channel

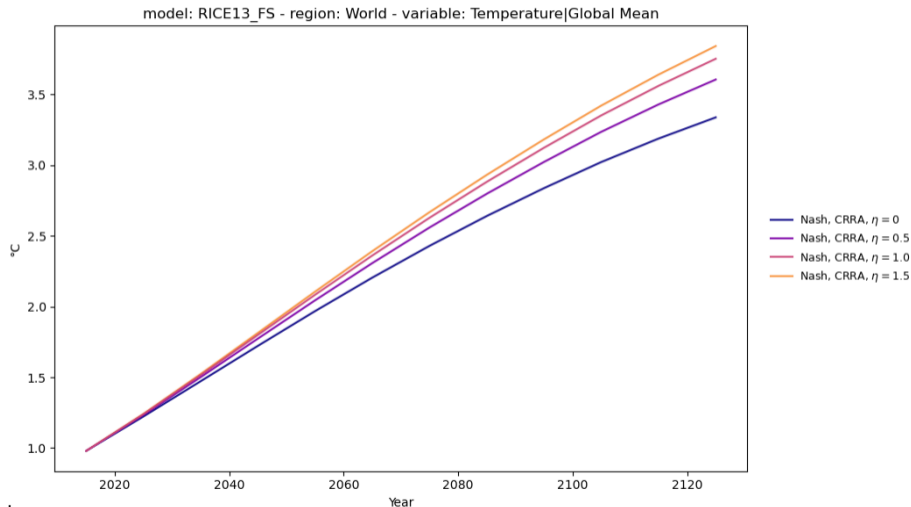
- Each region responds only to its own intertemporal trade-off
- There is no concern for interregional equity
- As η rises, richer future utility gets less weight, so abatement falls in all regions



Solution: Nash
Utility: CRRA

Nash Under CRRA: Temperature Increase

Therefore, higher η makes the global temperature go up



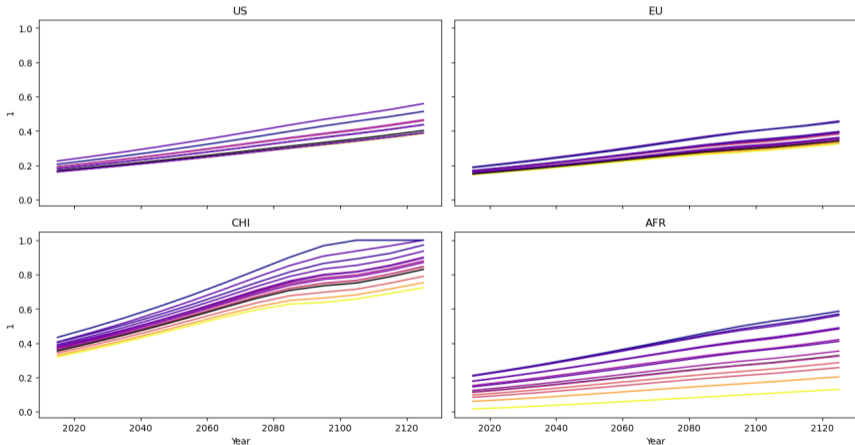
Solution: Nash
Utility: CRRA

Under Nash, Envy and Guilt Move Abatement in Opposite Directions

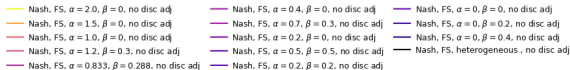
- Regions still maximize their own utility, but utility now contains social comparison
- FS now works through strategic incentives (instead of welfare aggregation)
- Envy: Consuming more closes the gap and lower abatement harms the richer regions
 $\alpha \uparrow$: less abatement
- Guilt: Consuming less closes the gap and higher abatement helps the poorer regions
 $\beta \uparrow$: more abatement

The Relative Strength of α and β Depends on the Income Rank

- Richer regions are driven more by guilt β , poorer regions more by envy α
- For the richest region, US, only β matters. For the poorest region, Africa, only α matters

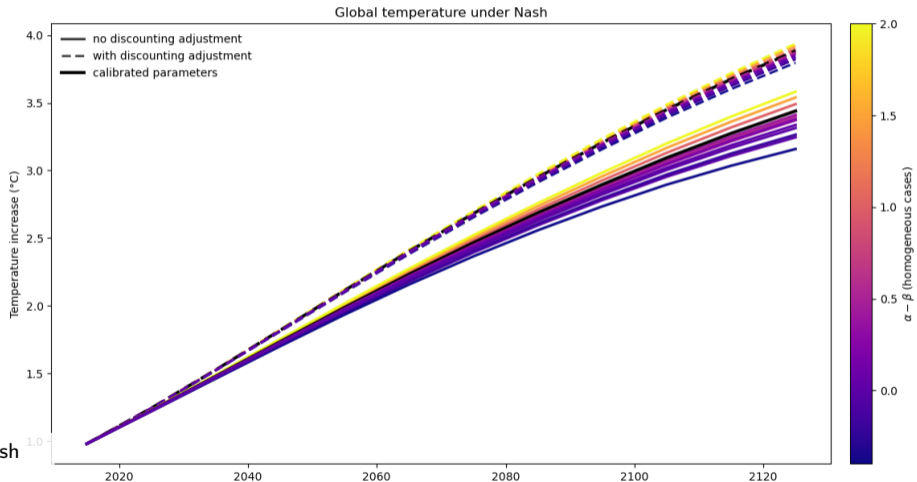


Solution: Nash
Utility: FS
Disc. adj.: off



FS Adds an Aggregate Margin That CRRA Does Not Have

- Under Nash, the envy-guilt balance changes equilibrium temperature
- The discounting adjustment raises temperature overall, but does not undo this FS ordering



Solution: Nash
Utility: FS
Disc. adj.: on/off

Nash Takeaway: The α/β Split Matters, but Free-Riding Remains

- Under CRRA, Nash only has the intertemporal channel
- Under FS, envy lowers abatement and guilt raises it, so the α/β split matters strategically
- In the calibrated benchmark, envy dominates slightly, so pure Nash remains too warm

	Nash
FS, $\alpha = \beta = 0$, no disc	$T = 3.02$
FS, no disc	$T = 3.09$
CRRA	$T = 3.42$
FS, $\alpha = \beta = 0$, disc	$T = 3.42$
FS, disc	$T = 3.45$

Nash outcomes in 2105 for the calibrated FS parameters. $\alpha = \beta = 0$ removes interregional equity concerns from FS. $T =$ Temperature ($^{\circ}\text{C}$).

- Next question: Individually, not sufficient guilt, but can it stabilize partial cooperation?

Solution Concept III: Climate Coalitions (Partial Cooperation)

Coalitions Mix Cooperation Inside and Nash Outside

- Regions can join a coalition or stay outside
- Inside the coalition, members choose abatement jointly
- Outside the coalition, regions choose abatement individually
- Coalition and outsiders then interact strategically

Stable Coalitions Are Usually Small and Weak

- Internally stable: no member wants to leave unilaterally
- Externally stable: no outsider wants to join unilaterally
- Fully stable: both

- Standard benchmark: Barrett's paradox

“When cooperation is possible, it does not matter, and when it does matter, cooperation is not possible.” (Jeppesen et al., 1998, p. 70)

Can FS Relax Barrett's Paradox?

- In public-good settings, guilt can help sustain cooperation
- But the calibrated world here is not especially guilt-rich, so we should not expect large stability effects
- Under the CRRA benchmark, no coalition with more than two regions is internally stable
- Most FS specifications remain similarly pessimistic
- Exception: with FS, discounting adjustment, and Negishi weights computed after the adjustment, larger stable coalitions appear
 - 7 internally stable coalitions with more than two members
 - 1 fully stable coalition with seven members

(US, JAP, RUS, CHI, MEST, LAM, OTH)

Coalition Takeaway: Some Exceptions From Barrett's Paradox

- Under CRRA, stable coalitions stay close to Nash
- Under FS, coalitions are stable in a few cases
- In the benchmark FS specification, the best stable coalition improves on Nash, but remains far from the planner

	CRRA benchmark $\eta = 1.5$, Negishi	FS benchmark calibrated, disc. adj., Negishi after
Nash	$T = 3.42$	$T = 3.45$
Best fully stable coalition	$T = 3.35$	$T = 3.20$
Planner	$T = 2.76$	$T = 2.79$

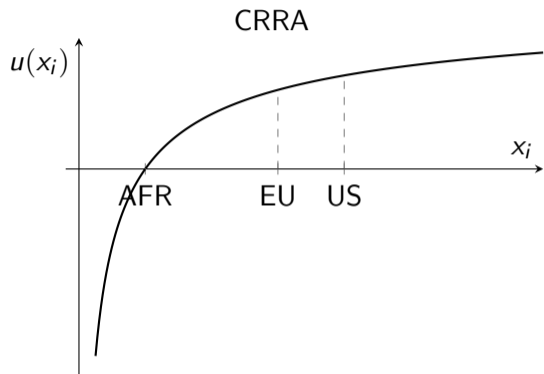
Coalition outcomes in 2105. T = temperature increase ($^{\circ}\text{C}$).

Fehr–Schmidt Preferences

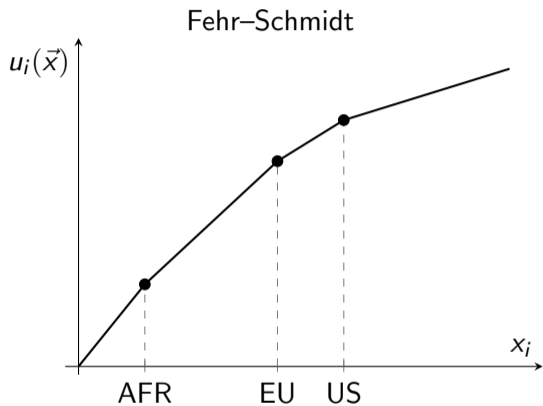
$$u_i(\vec{x}) = \begin{array}{ll} x_i & \text{(own consumption)} \\ - \alpha_i \cdot \frac{1}{N-1} \cdot \sum_{j \neq i} \max\{x_j - x_i, 0\} & \text{(envy)} \\ - \beta_i \cdot \frac{1}{N-1} \cdot \sum_{j \neq i} \max\{x_i - x_j, 0\} & \text{(guilt)} \end{array}$$

- Envy: others doing better hurts
- Guilt: doing better than others hurts
- Standard restriction: $\alpha_i \geq \beta_i \geq 0$
- Strategic implication: willingness to pay to reduce payoff differences relative to oneself

How CRRA and FS Differ



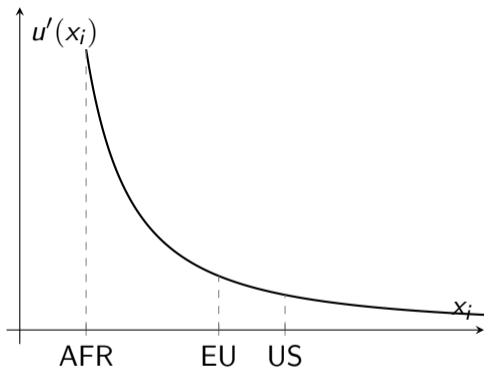
$$u(x) = \frac{x^{1-\eta} - 1}{1-\eta}$$



depends on others' incomes,
kinks when the rank changes

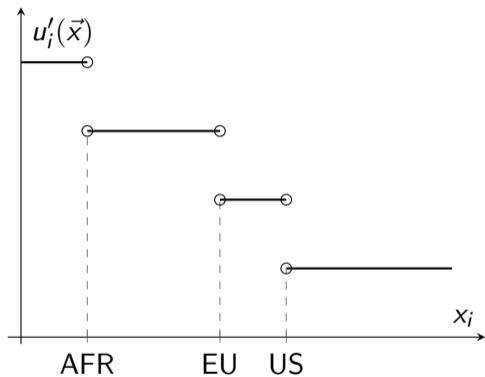
Marginal Utilities and Planner Redistribution

CRRA



CRRA: marginal welfare contribution depends on own consumption

Fehr-Schmidt

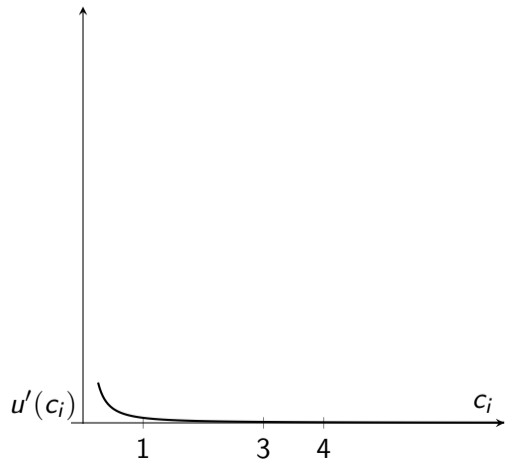
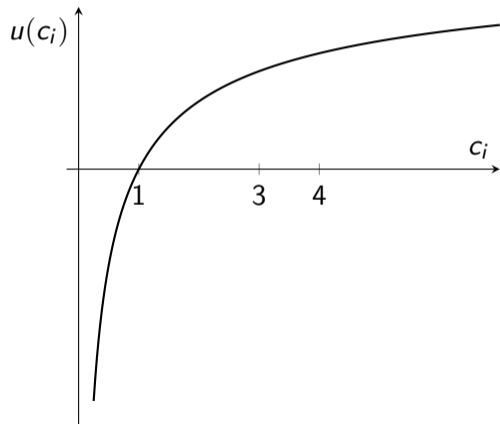


FS: marginal welfare contribution depends on relative position and on comparison effects on others

CRRA Utility (Backup)

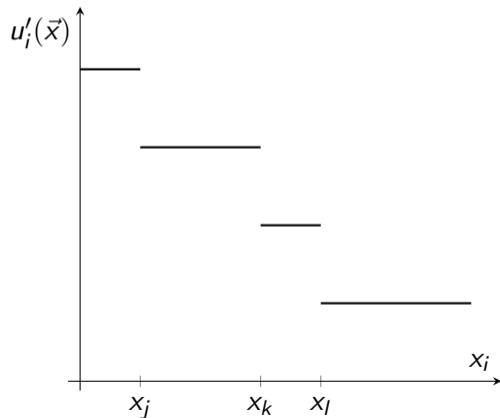
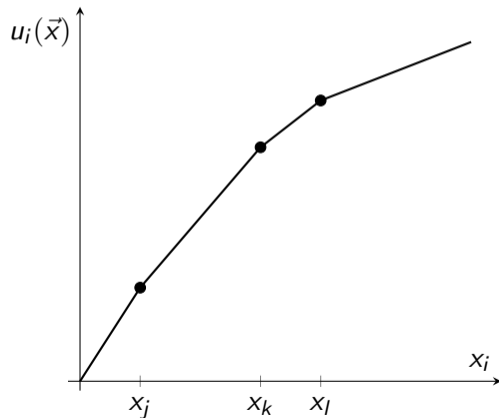
$$u(c) = \frac{c^{1-\eta} - 1}{1-\eta},$$

$$u'(c) = c^{-\eta}.$$



Fehr–Schmidt Utility (Backup)

- Piecewise linear in own consumption within a given rank
- Kinks at others' consumption levels
- No CRRA-style growth-based decline in marginal utility within a rank



Negishi Calculation Example

$$\eta = 1.5, \quad u'(c) = c^{-1.5}.$$

$$u'(1) = 1$$

$$u_1(c) := 1 \cdot u(c)$$

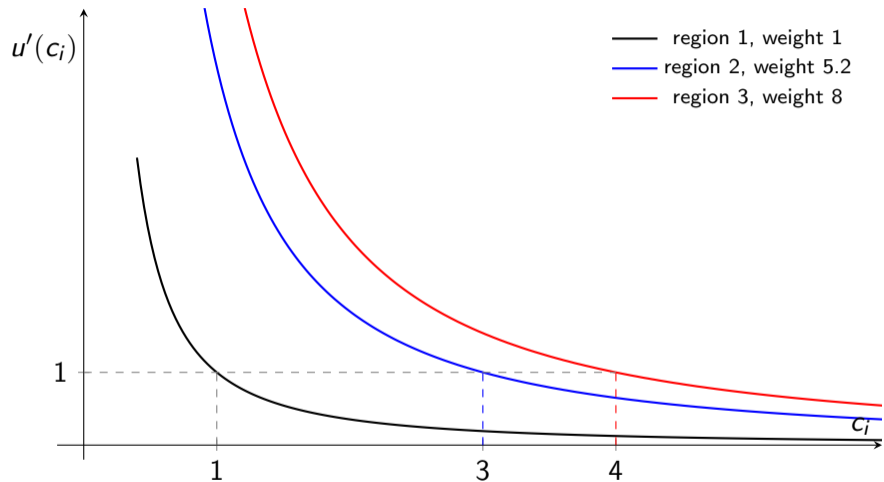
$$u'(3) = 3^{-1.5} \approx 0.19 \Rightarrow \frac{u'(1)}{u'(3)} \approx 5.2$$

$$u_2(c) := 5.2 \cdot u(c)$$

$$u'(4) = 4^{-1.5} = 0.125 \Rightarrow \frac{u'(1)}{u'(4)} = 8$$

$$u_3(c) := 8 \cdot u(c)$$

How Negishi Weights Work (Backup)



→ weighted marginal utilities line up at the benchmark allocation.

Discounting Adjustment: Full Derivation

Match one-period welfare weights:

$$\frac{1}{1 + \rho_{rt}^{FS}} \cdot \frac{MU_{r,t+1}^{FS}}{MU_{rt}^{FS}} \stackrel{!}{=} \frac{1}{1 + \rho} \cdot \left(\frac{C_{r,t+1}^{CRRRA}}{C_{rt}^{CRRRA}} \right)^{-\eta} .$$

Solving for the adjusted FS discount factor gives

$$1 + \rho_{rt}^{FS} = (1 + \rho) \cdot \frac{MU_{r,t+1}^{FS}}{MU_{rt}^{FS}} \cdot \left(\frac{C_{r,t+1}^{CRRRA}}{C_{rt}^{CRRRA}} \right)^{\eta} .$$

RICE Equations: Economy

$$Q_{r,t} = A_{r,t} K_{r,t}^{\gamma_r} \left(\frac{L_{r,t}}{1000} \right)^{1-\gamma_r}$$

$$AB_{r,t} = \theta_{1,r,t} \mu_{r,t}^{\theta_{2,r}} Q_{r,t}$$

$$Y_{r,t} = Q_{r,t} - AB_{r,t} - D_{r,t}$$

$$I_{r,t} = s_{r,t} Y_{r,t}$$

$$C_{r,t} = Y_{r,t} - I_{r,t} = (1 - s_{r,t}) Y_{r,t}$$

$$c_{r,t} = 1000 \cdot \frac{C_{r,t}}{L_{r,t}}$$

$$K_{r,t+1} = (1 - \delta_r^K) \Delta K_{r,t} + \Delta I_{r,t}$$

RICE Equations: Climate

$$E_t = \sum_r \left[\sigma_{r,t} (1 - \mu_{r,t}) Q_{r,t} + E_{r,t}^{land} \right]$$

$$M_{t+1}^{at} = b_{11} M_t^{at} + b_{21} M_t^{up} + \Delta E_t$$

$$M_{t+1}^{up} = b_{12} M_t^{at} + b_{22} M_t^{up} + b_{32} M_t^{lo}$$

$$M_{t+1}^{lo} = b_{23} M_t^{up} + b_{33} M_t^{lo}$$

$$F_t = \eta \log_2 \left(\frac{M_t^{at}}{M_{1900}^{at}} \right) + f_t^{ex}$$

$$T_{t+1}^{at} = T_t^{at} + c_1 \left(F_t - c_2 T_t^{at} - c_3 (T_t^{at} - T_t^{lo}) \right)$$

$$T_{t+1}^{lo} = T_t^{lo} + c_4 (T_t^{at} - T_t^{lo})$$

In the RICE equations, η is “Estimated forcings of equilibrium CO2 doubling” (while the CRRA curvature is α)

RICE Equations: Sea-Level Rise and Damages

$$SLR_t = SLR_t^{TE} + SLR_t^{GSIC} + SLR_t^{GIS} + SLR_t^{AIS}$$

$$D_{r,t} = Q_{r,t} \frac{\Phi_{r,t}}{1 + \Phi_{r,t}^{\omega^D}}$$

$$\Phi_{r,t} = \Phi_{r,t}^T + \Phi_{r,t}^{SLR}$$

$$\Phi_{r,t}^T = 0.01 \left[d_{1,r} T_t^{at} + d_{2,r} (T_t^{at})^{d_{3,r}} + \chi_r \left(\frac{T_t^{at}}{\bar{T}_r} \right)^{\xi_r} \right]$$

$$\Phi_{r,t}^{SLR} = \psi_r \left(d_{1,r}^{SLR} SLR_{t-1} + d_{2,r}^{SLR} SLR_{t-1}^2 \right) \left(\frac{Q_{r,t-1}}{Q_{r,0}} \right)^{1/\varepsilon_{SLR}}$$

Planner Outcomes in 2105

	No Negishi	Negishi before	Negishi after
FS, no disc	$T = 1.59$	$T = 1.64$	–
CRRA	$T = 2.56$	$T = 2.76$	–
FS, disc	$T = 2.75$	$T = 2.78$	$T = 2.79$

T = temperature increase in 2105 (°C).

Nash Outcomes in 2105

	Nash
FS, $\alpha = \beta = 0$, no disc	$T = 3.02$
FS, no disc	$T = 3.09$
CRRA	$T = 3.42$
FS, $\alpha = \beta = 0$, disc	$T = 3.42$
FS, disc	$T = 3.45$

T = temperature increase in 2105 ($^{\circ}\text{C}$).

Coalition Stability Details

- 12 regions imply $2^{12} - 1 = 4,095$ non-empty coalitions
- CRRA benchmark: no coalition with more than two regions is internally stable
- FS without Negishi and without discounting adjustment: (RUS, EUR, AFR) is fully stable
- FS with discounting adjustment and Negishi after: 7 larger internally stable coalitions; the best fully stable coalition has seven members

Program Settings I: Horizon, Tags, Paths

```
# RICE-2013 --- Main Config
# Example usage:
# python -m RICE13_V2.cli --config RICE13_V2/config.yaml --log-level "DEBUG"

# --- Horizon (data available up to 59 decades = 590 years) ---
T: 59 # integer, must be <= 59. No tstep (decadal is implicit).

# --- Tags (for use in the pyam scenario analysis) ---
tags:
fs_params:
fs_disc_param: onepass
crra_params:
note:

# --- Paths ---
project_root: .
data_path: ./RICE13_V2/Data
results_dir: ./RICE13_V2/nodisc_A15
diagnostics_dir: ./RICE13_V2/Diagnostics
output_dir: ./RICE13_V2/nodisc_A15
```

Program Settings II: Negishi and FS Options

```
# --- Negishi (used by planners and coalitions if enabled) ---
negishi_use: false
negishi_source: bau # 'bau' | 'fs_after_disc' | 'file'
negishi_file_crra_path: ./RICE13_V2/exogenous_negishi_crra_test.csv
negishi_file_fs_path: ./RICE13_V2/exogenous_negishi_fs_test.csv

# --- FS-specific option (for Fehr--Schmidt aggregation only) ---
population_weight_envy_guilt: true
fs_disc_enabled: false
fs_disc_mode: file # off | file | one_pass | two_pass
fs_disc_file: ./RICE13_V2/exo_disc_path.csv
```

Program Settings III: BAU and Cooperative Planners

```
# =====  
# 1) BAU  
# =====  
run_bau: true  
  
# =====  
# 2) Cooperative planners  
# =====  
  
# 2a) CRRRA planner  
run_planner_crra: true  
planner_crra_S_mode: bau # 'optimal' | 'bau' | 'file'  
planner_crra_S_file: ./RICE13_V2/exogenous_S_test.csv  
  
# 2b) FS planner  
run_planner_fs: true  
planner_fs_S_mode: bau # 'optimal' | 'bau' | 'crra' | 'file'  
planner_fs_S_file: ./RICE13_V2/exogenous_S_test.csv
```

Program Settings IV: Nash and Coalitions

```
# =====  
# 3) Noncooperative Nash  
# =====  
  
# 3a) CRRA Nash  
run_nash_crra: false  
nash_crra_seed: data  
nash_crra_S_mode: bau # 'optimal' | 'bau' | 'file' | 'planner_crra' | 'planner_fs'  
nash_crra_S_file: ./RICE13_V2/exogenous_S_test.csv  
  
# 3b) FS Nash  
run_nash_fs: false  
nash_fs_seed: data  
nash_fs_S_mode: bau # 'optimal' | 'bau' | 'file' | 'planner_crra' | 'planner_fs'  
nash_fs_S_file: ./RICE13_V2/exogenous_S_test.csv  
  
# =====  
# 4) Coalitions  
# =====  
run_coalition_crra: false  
coalition_crra_S_mode: bau  
coalition_crra_S_file: ./RICE13_V2/exogenous_S_test.csv  
  
run_coalition_fs: false  
coalition_fs_S_mode: bau  
coalition_fs_S_file: ./RICE13_V2/exogenous_S_test.csv  
  
mega_run: false  
coalition: 'US, JAP, RUS, CHI, MEST, LAM, OTH'
```

Program Settings V: Diagnostics, Cache, Solver, Convergence

```
# --- Stability / diagnostics ---
stability_eps: 1.0e-7
diagnostics_level: false

# --- Parallelism ---
parallel: 5

# --- Coalition cache (SQLite) ---
cache_dir: ./RICE13_V2/Cache
cache_namespace: nodisc_A15
cache_allow_mismatch: false

# --- IPOPT / solver ---
ipopt_executable: null
tol_ipopt: 1.0e-7
max_iter_ipopt: 10000

# --- Iteration / convergence (Nash/coalition fixed-point loop) ---
max_iter_nash: 500
tol_mu_nash: 1e-5
nash_relax: 0.75
ignore_last_k_periods: 10
```

Calibration Logic

- Inequality aversion can be seen in the willingness to redistribute
- Domestically, there is redistribution through institutions, lenience in negotiating, taxes; diluting economic incentives (the Big Tradeoff Okun 1975)
- Internationally, there is foreign aid giving
- One anchor country is used to recover the common auxiliary parameters in the calibration.

Big Tradeoff: Preference Side

Under homogeneous FS preferences, the sum of individual utilities simplifies to a Sen-like object (Schmidt and Wichardt, 2018):

$$W(\mu, G) \approx \mu(1 - (\alpha + \beta)G).$$

Big Tradeoff: Cost Side

Leaky bucket (Okun, 1975):

- More equality comes at the cost of losing economic incentives to use resources efficiently
- Mean income gets reduced

Assume reducing the Gini coefficient is quadratically costly in terms of mean income,

$$\mu_0 - \frac{\kappa(1 - G)^2}{2} \mu_0.$$

Assume: Same cost parameter for all countries!

Big Tradeoff: First-Order Condition

Then the implied first-order condition is

$$(\kappa(1 - G)\mu_0)(1 - (\alpha + \beta)G) - \left(\mu_0 - \frac{\kappa(1 - G)^2}{2}\mu_0\right)(\alpha + \beta) = 0.$$

Lower Gini coefficient \iff Larger $\alpha + \beta$

Foreign Aid and IDA

- World Bank's International Development Association collects money and donates or loans cheaply to the poorest countries
- Collective decisions and rules determine which country gets money
ra rather inequality aversion than strategic reasons (Alesina and Dollar, 2000) for giving?

FS and Voluntary Giving

- Standard FS predicts very little voluntary giving: With many players, transfers barely reduces average guilt
- I therefore add an additional giving motive: Psychological guilt cleansing, parameterized by $\rho \geq 0$
- After showing that optimal giving is directed only to poorer countries, country i chooses only total giving per domestic inhabitant, \hat{T}_i
- \check{T}_i is received transfers per inhabitant

$$U_i = c_i - \alpha_i \sum_{j \neq i} \omega_{ij} \max\{c_j - c_i, 0\} - \beta_i \sum_{j \neq i} \omega_{ij} \max\{c_i - c_j, 0\} + \beta_i \rho \hat{T}_i$$

$$c_i = x_i + \check{T}_i - \hat{T}_i, \quad \omega_{ij} = \frac{L_j}{L_{-i}}, \quad L_{-i} = \sum_{k \neq i} L_k$$

Foreign Aid: Marginal Utility

In the voluntary-transfer / IDA contribution game, the marginal utility of giving one more dollar per domestic inhabitant is

$$\frac{\partial U_i}{\partial \hat{T}_i} = \underbrace{-1}_{\text{lower material utility}} \quad \underbrace{-\alpha_j R_j}_{\text{larger envy from becoming poorer}} \quad \underbrace{+\beta_j P_j}_{\text{lower guilt from becoming poorer}} \quad \underbrace{+\beta_j \frac{L_j}{L_{-j}}}_{\text{lower guilt from making recipient richer}} \quad \underbrace{+\beta_j \rho}_{\text{additional guilt cleansing}}$$

Assume: Same guilt-cleansing parameter for all countries!

- R_j : share of richer people in the rest of the world
- P_j : share of poorer people in the rest of the world
- L_j : domestic population
- L_{-j} : total foreign population

Back-Backup-up: Why does the term $\frac{L_i}{L_{-i}}$ appear?

Giving one more dollar per domestic inhabitant means:

$$\text{total transfer} = L_i \cdot 1 = L_i$$

If recipient j has population L_j , its per-capita consumption rises by

$$\frac{\partial c_j}{\partial t_{ij}} = \frac{L_i}{L_j}$$

Country j enters country i 's FS comparisons with population weight

$$\omega_{ij} = \frac{L_j}{L_{-i}}$$

Hence the effect on the weighted guilt term is

$$\omega_{ij} \frac{\partial c_j}{\partial t_{ij}} = \frac{L_j}{L_{-i}} \cdot \frac{L_i}{L_j} = \frac{L_i}{L_{-i}}$$

- Larger recipient countries j get more weight in guilt
- But the same transfer is spread over more people in j
- These two effects cancel exactly

Foreign Aid: First-Order Condition

Within a fixed consumption-rank interval, the marginal utility of giving is constant:

$$\frac{\partial U_i}{\partial \hat{T}_i} = -1 - \alpha_i R_i + \beta_i P_i + \beta_i \frac{L_i}{L_{-i}} + \beta_i \rho$$

If country i gives more, it may fall below another country in the consumption ranking. Then

$$R_i \uparrow, \quad P_i \downarrow$$

so the marginal utility drops.

Hence, the marginal utility is a weakly decreasing step function in \hat{T}_i .

This gives the optimum condition:

$$\hat{T}_i = 0 \quad \Rightarrow \quad \left. \frac{\partial U_i}{\partial \hat{T}_i} \right|_{0^+} \leq 0$$

$$\hat{T}_i > 0 \text{ and no tie in consumption} \quad \Rightarrow \quad \frac{\partial U_i}{\partial \hat{T}_i} = 0$$

Foreign Aid: How Does It Help to Calibrate α_i and β_i ?

Within a rank, the marginal utility is

$$\frac{\partial U_i}{\partial \hat{T}_i} = -1 - \alpha_i R_i + \beta_i P_i + \beta_i \frac{L_i}{L_{-i}} + \beta_i \rho$$

Comparative statics within a rank:

$$\frac{\partial}{\partial \alpha_i} \left(\frac{\partial U_i}{\partial \hat{T}_i} \right) = -R_i < 0$$

$$\frac{\partial}{\partial \beta_i} \left(\frac{\partial U_i}{\partial \hat{T}_i} \right) = P_i + \frac{L_i}{L_{-i}} + \rho > 0$$

So:

- more envy lowers the incentive to give
- more guilt raises the incentive to give

Anchor Country

Remaining problem: κ and ρ are unknown

Assume knowing the α and β of a region (that contributes to IDA) to back the parameters out from the FOCs

- Meta-study Nunnari and Pozzi (2025) collects dozens of FS experiments
- In their main regression of α and β , they have coefficients for all kinds of experimental settings, including *Location: US*
- Use this regression to predict the parameters of a median non-student person in the US
- Use the resulting predicted parameters as an anchor

$$\alpha^{US} = 1.039, \quad \beta^{US} = 0.072.$$

These are then used to recover the common cost / guilt-cleansing terms in the calibration exercise

Table 6 from Nunnari and Pozzi (2025)

Table 6: Explaining Heterogeneity

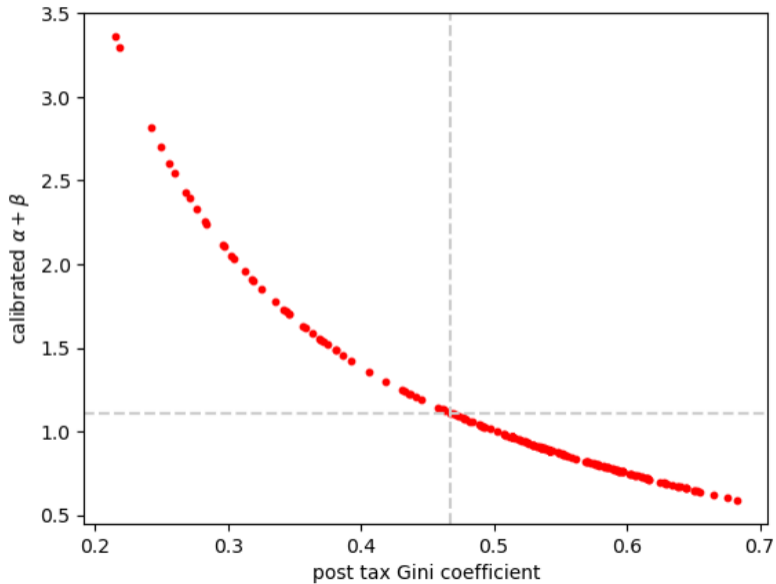
	Disadvantageous Inequality (α)				Advantageous Inequality (β)			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Constant	0.266*** (0.096)	0.363*** (0.104)	0.323*** (0.106)	0.496*** (0.143)	0.387*** (0.038)	0.367*** (0.038)	0.440*** (0.070)	0.452*** (0.068)
Experimental Task: Strategic	0.461** (0.192)	0.452** (0.189)	0.489*** (0.146)	0.611*** (0.195)	-0.173** (0.074)	-0.184** (0.075)	-0.207** (0.101)	-0.170* (0.098)
Type of Estimate: Median		-0.195* (0.105)	-0.194* (0.105)	-0.195* (0.108)		0.007 (0.033)	0.007 (0.034)	0.005 (0.033)
Type of Estimate: Aggregate		-0.183*** (0.065)	-0.186*** (0.063)	-0.141** (0.052)		0.077* (0.041)	0.072* (0.042)	0.075 (0.046)
Type of Estimate: Finite Mixture		-0.148** (0.059)	-0.150** (0.056)	-0.122** (0.050)		0.027 (0.031)	0.032 (0.034)	0.033 (0.039)
Geographic Location: North Europe			0.003 (0.148)	-0.096 (0.193)			-0.081 (0.094)	-0.096 (0.087)
Geographic Location: USA			0.053 (0.324)	0.009 (0.323)			-0.028 (0.119)	-0.020 (0.116)
Geographic Location: China			-0.481*** (0.136)	-0.462** (0.201)			0.092 (0.158)	0.093 (0.171)
Geographic Location: Multiple			-0.403** (0.189)	-0.562** (0.221)			0.201 (0.157)	0.175 (0.155)
Implementation: Online			-0.295 (0.233)	-0.328 (0.286)			0.029 (0.146)	0.024 (0.155)
Subject Population: Non Student			0.433** (0.214)	0.474* (0.271)			-0.168* (0.085)	-0.167* (0.094)
Estimation: Logit				-0.356* (0.202)				-0.028 (0.069)
Estimation: Probit				0.051 (0.109)				0.016 (0.132)
Estimation: Other				-0.399 (0.514)				-0.114 (0.097)
I^2_{within}	8.47	8.82	8.10	8.67	38.45	40.48	42.90	41.10
$I^2_{between}$	91.52	91.17	91.89	91.32	60.97	58.93	56.48	58.31
$pseudo-R^2_{between}$	8.68	13.52	4.90	10.40	13.84	18.92	26.21	19.86
Observations	149	149	149	149	144	144	144	144

Calibration

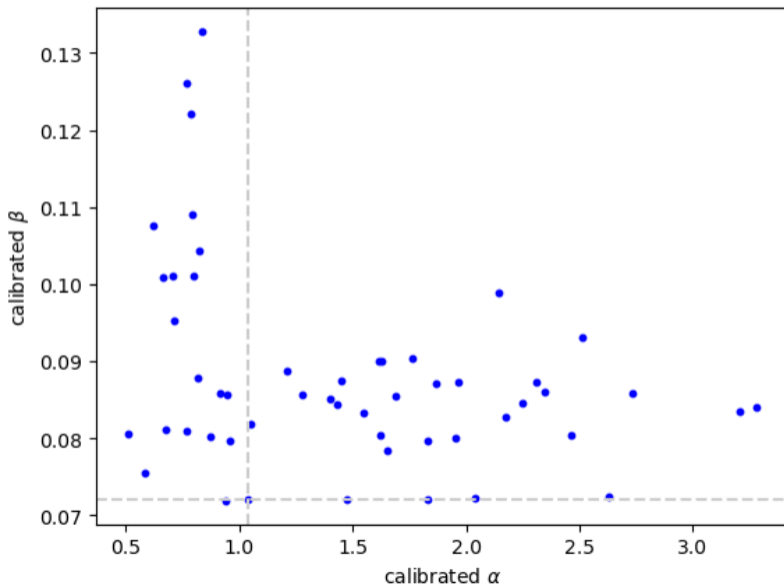
Combining both FOCs

- Domestic post-tax Gini coefficient pins down $\alpha + \beta$
- Contribution to IDA pins down how they are split
- No contribution to IDA \rightarrow only get the sum and an upper bound for β

Calibrated $\alpha + \beta$ from Big Tradeoff



Calibrated α , β from Both



Calibration of Regional FS Parameters

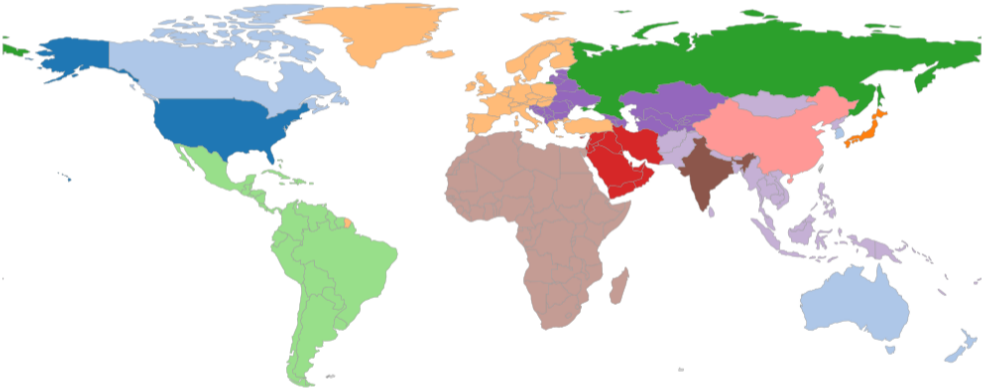
- Domestic redistribution: post-tax Gini, assuming quadratic redistribution cost
- Foreign aid: IDA contributions, assuming additional guilt cleansing
- Anchor country: Estimate US values from meta study Nunnari and Pozzi, 2025
- RICE regions represented by dominant countries

RICE Region	Dominant country	α	β
US	USA*	1.039	0.072
EU	Germany	1.833	0.080
JAP	Japan	1.402	0.085
RUS	Russian Federation	0.766	0.081
EUR	Ukraine**	1.531	0.088
CHI	China	0.817	0.088
IND	India	0.620	0.108
MEST	Saudi Arabia	0.586	0.075
AFR	Egypt	0.800	0.101
LAM	Argentina	0.913	0.086
OHI	South Korea	1.433	0.084
OTH	Indonesia	0.704	0.101

- Ukraine**: No country in EUR contributes to IDA, so I set $\beta_{Ukraine}$ to the average
- All parameters in the range that is plausible for lab experiments, rather envious, little guilt

RICE Aggregates the World Into 12 Regions

Countries by RICE region



RICE region					
US	Japan	Russia	Middle East	Eurasia	India
Other High Income	EU	Latin America	China	Other Asia	Africa

Inequality Across Regions

Rank	Region	Consumption per capita in 2015	US = 100
1	USA	36,883	100
2	Other High Income	28,035	76
3	Japan	27,779	75
4	EU	24,731	67
5	Russia	12,973	35
6	Latin America	8,866	24
7	Middle East	8,572	23
8	China	6,714	18
9	Eurasia	5,490	15
10	Other Asia	2,971	8
11	India	2,827	8
12	Africa	1,938	5

Inequality Across Generations

Rank	Region	Consumption per capita in 2105	2015 = 100
1	USA	118,499	321
2	Other High Income	98,141	350
3	Japan	97,161	350
4	EU	92,995	376
5	Russia	57,845	446
6	Latin America	53,817	607
7	Middle East	44,178	515
8	China	41,587	619
9	Eurasia	39,902	727
10	Other Asia	30,583	1,029
11	India	26,686	944
12	Africa	20,095	1,037

Why Negishi Weights?

Should climate policy also carry interregional redistribution motives?

- Negishi weights make the planner locally neutral to redistribution at the reference distribution
- They are calibrated so marginal welfare contributions are equal at that reference point
- Therefore, at that reference distribution, the planner has no first-order CRRA-style motive to redistribute across regions
- Away from that reference distribution, a redistribution motive reappears and points back toward it

A Simple Negishi Example

Three regions with reference consumption levels $c_A = 1$, $c_B = 3$, and $c_C = 4$, and CRRA utility with $\eta = 1.5$

$$u'(c) = c^{-1.5}$$

$$u'(1) = 1, \quad u'(3) \approx 0.19, \quad u'(4) = 0.125$$

Without welfare weights,

$$W = u_A + u_B + u_C$$

so the planner has a first-order incentive to shift consumption from B and C toward A

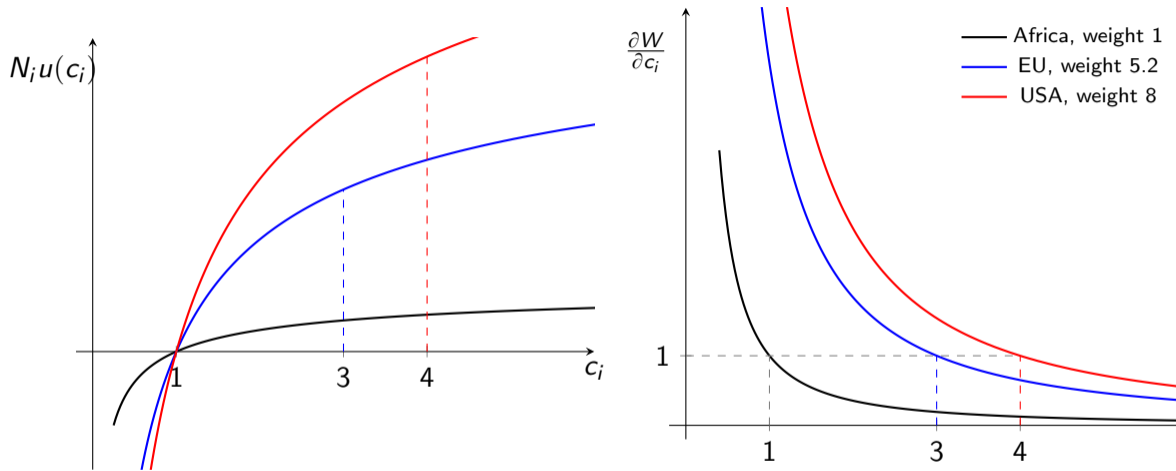
Choose Negishi weights to equalize marginal welfare contributions:

$$N(1) = 1, \quad N(3) = \frac{1}{0.19} \approx 5.2, \quad N(4) = \frac{1}{0.125} = 8$$

$$W = N(1) \cdot u_A + N(3) \cdot u_B + N(4) \cdot u_C$$

At the reference distribution, the planner has no reason to redistribute

Illustration of How Negishi Weights Work

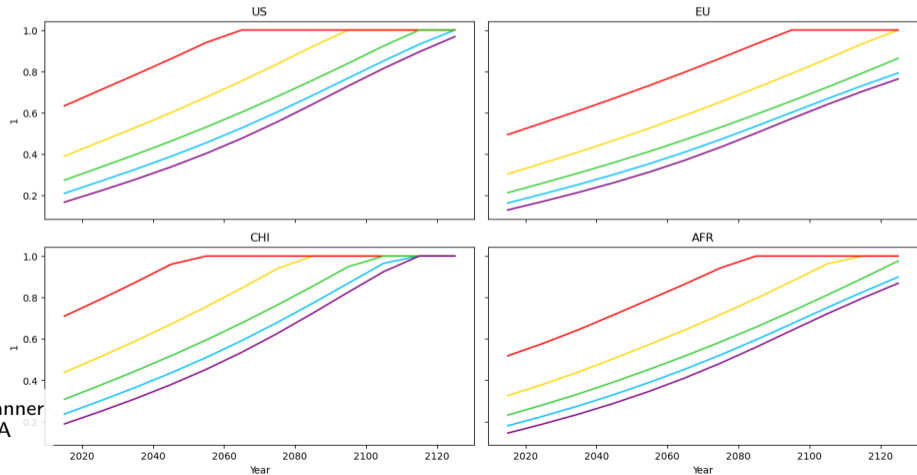


Negishi weights tilt the planner objective so that marginal welfare contributions are equal at the reference distribution

CRRA With Negishi: Mainly Intergenerational Weighting Remains

Negishi removes the benchmark CRRA redistribution motive, so higher η mainly strengthens intergenerational weighting

Abatement therefore falls more broadly across regions

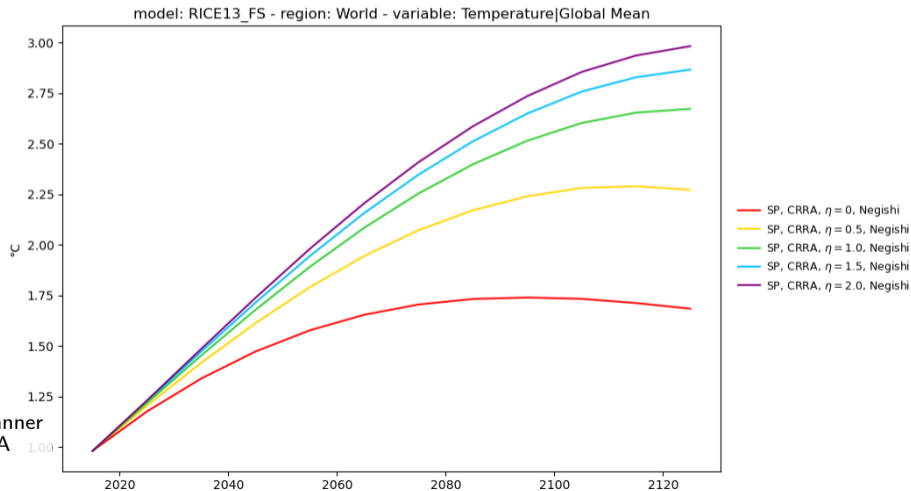


Solution: Planner
Utility: CRRA
Negishi: on

CRRA With Negishi: Total Temperature

Clearer ordering: Higher η leads to less abatement

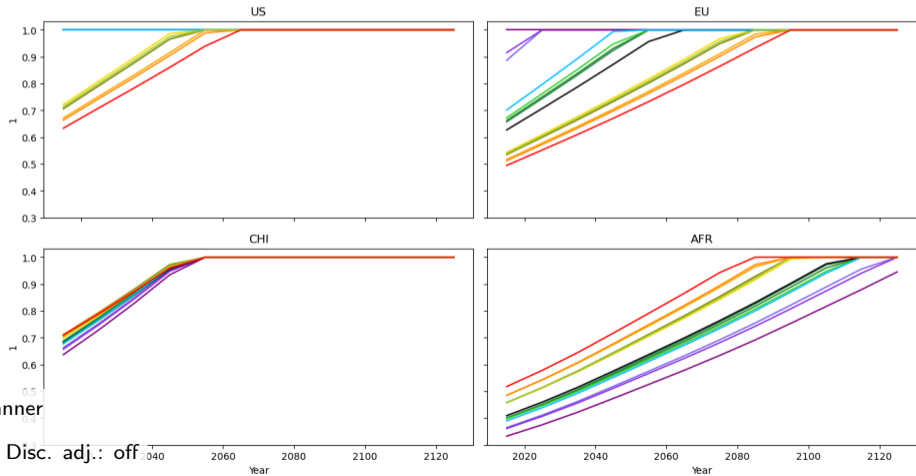
Total temperature goes up as benefit of abatement, making poor regions richer, is weighted less



FS With Negishi: The Comparison Externality Survives

Negishi removes the CRRA-style marginal-utility redistribution channel, but not the FS comparison externality

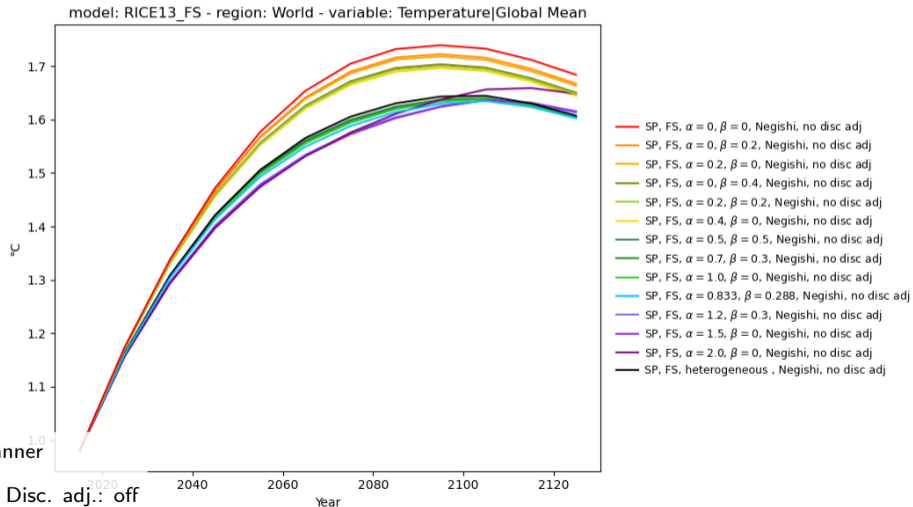
So stronger FS inequality aversion still shifts burden toward richer regions



Solution: Planner
Utility: FS
Negishi: on · Disc. adj.: off

FS With Negishi: Total Temperature

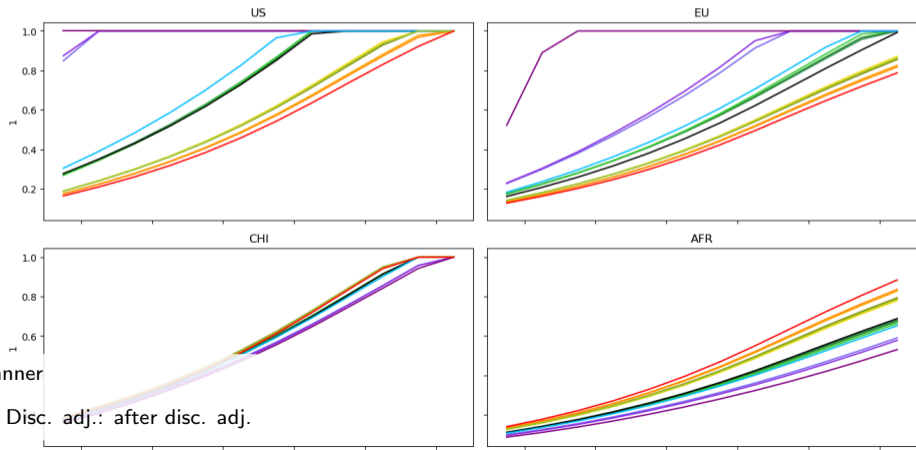
Because the interregional equity concerns are only weakened, total temperature is still non-monotone in the FS parameters



FS With Negishi and Discounting Adjustment

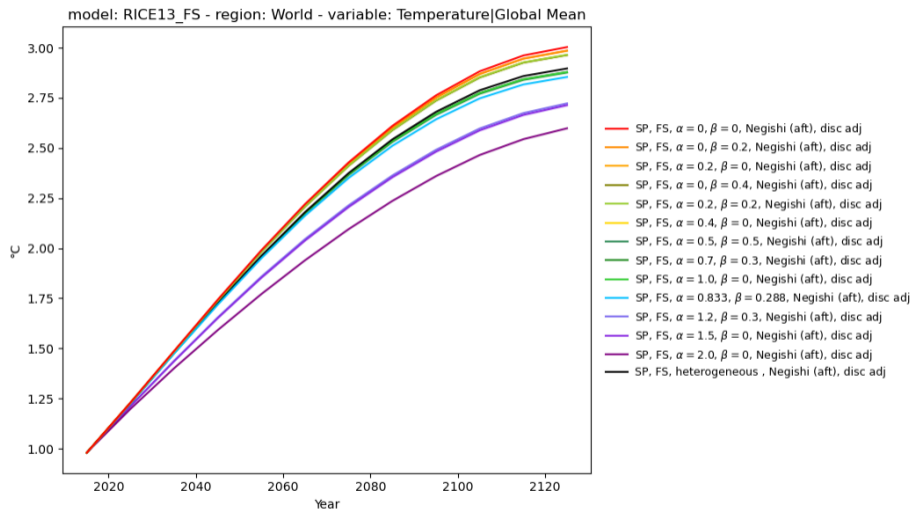
Adding back intergenerational weighting lowers abatement more broadly, while the rich-poor ordering remains

So Negishi changes the benchmark redistribution target, but it does not eliminate the two separate levels



Solution: Planner
Utility: FS
Negishi: on · Disc. adj.: after disc. adj.

FS With Negishi and Discounting Adjustment (after)



Solution: Planner

Utility: FS

Negishi: on · Disc. adj.: after disc. adj.

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