

Preference versus Constraints

A Commentary on von Weizsäcker's
'The Influence of Property Rights on Tastes'

by

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1. Introduction

Sociologists should be delighted. A leading economist has imaginatively reaffirmed his commitment to a classical sociological precept: people's wants are social products and thus endogenous to the social and economic system. In von Weizsäcker's words: preferences are adaptive, i.e. responsive to a positive feedback loop from consumption.

As a somewhat unorthodox sociologist, I remain very sceptical of this sociological precept, even in the hands of such an accomplished economist. In particular, I have two kinds of criticism. First, his explanation (summarized in Figure 1) of the substantial increase in environmental protection in the last twenty-five years remains unconvincing. Secondly, and more importantly, the strategy involved in a research program based on adaptive preferences is, I think, heuristically inferior to the strategy generated by the Stigler-Becker program that von Weizsäcker would like to replace. Let me expand on both points, although the bulk of this paper will be devoted to the second point.

2. Cognitive Dissonance and Preference Change

Why should people's preference for a clean and natural environment change at all? I grant von Weizsäcker that people directly involved in compensation negotiations have an incentive to overstate their true preference, given high transaction costs. But will they start believing what they say in the sense that they will be willing to put their money where their mouth is? According to cognitive dissonance theory, a substantial attitude change will only come about if there is a substantial cognitive dissonance. Why does von Weizsäcker believe that this is the case when people have a substantial incentive to misrepresent their true preference? Why don't I say what I truly believe? Answer: because it is very rewarding to misrepresent my true beliefs; I will get a higher compensation that way. There is no cognitive dissonance being produced.

Every society produces situations in which incentives for misrepresenting one's own preferences are present. For example, politicians encounter many situations in which they expect higher rewards for saying what they don't believe. Will they adapt their preferences to what they say? To my knowledge, there is no evidence that politicians are more idealistic than anybody else. It is an entirely different matter that people (including politicians) sometimes do act according to their false statements (and thus are willing to incur costs at the margin that are higher than their original preference would have made us predict). In such "lobster trap" situations (see LINDENBERG [1979]), the original cost-reward structure has changed as a consequence of the false statement. Again, no preference change has to be assumed to explain this phenomenon.

Within the cognitive dissonance research, the question of lying has been explicitly studied (see FESTINGER and CARLSMITH [1959], BREHM and COHEN [1962]). While the evidence is sometimes controversial, the basic thrust of the theory and of many findings is that attitude change is much less likely with substantial incentives to lie than with very small incentives to lie. The controversies around these findings are no solace to von Weizsäcker because it is uncertain whether cognitive dissonance ever creates the kind of attitude change we could equate with preference change. There is some evidence that if changes occur at all, they are to be interpreted as changes in evaluative response rather than preference (see NUTTIN [1975]). In short, the crucial link in the positive feedback loop, viz. changing preferences due to reduction in cognitive dissonance (see Fig. 1), is too weak to sustain von Weizsäcker's explanation, no matter how attractive his theory is on account of its neat simplicity.

3. Preference-Centered Versus Constraint-Centered Heuristics: The Warning Example of Sociology

A look at the last hundred years of development in sociology can show us at a glance that the employment of changing preferences (or "values", as they call them) as a prominent theoretical tool has some major and ironic consequences. First, it draws attention away from constraints; second, it changes the model of man employed with considerable loss of explanatory power; third, it ultimately leads to the assumption of autonomous value change (an ironic reversal of the original position). Let me briefly expand on these three points, necessarily exaggerating a bit in order to make the point as clearly as possible. Let me also add that in my opinion sociologists have done also many useful things which do not really emerge until put into a constraint-centered context.

In principle it is possible to distinguish carefully between changes in constraints and changes in preference. But this is true only in principle. Given

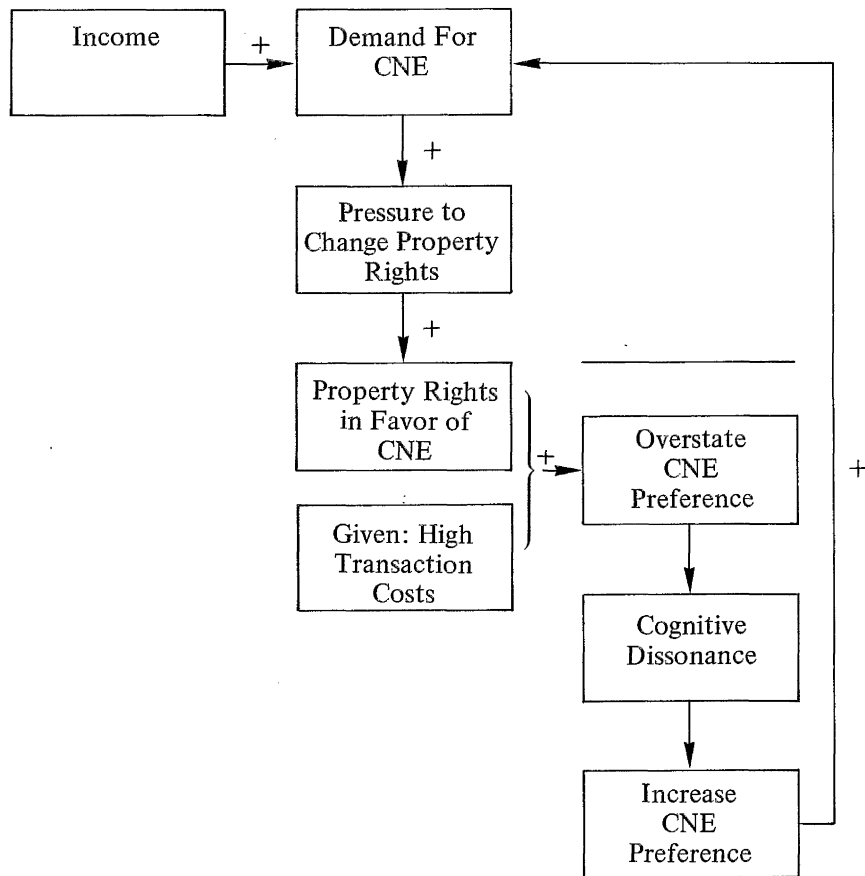


Figure 1: Schematic Presentation of Weizäcker's Theorie.
CNE = Clean and Natural Environment.

the relatively inexact nature of the social sciences, the heuristics involved in searching for one or the other are too different to be combined in practice. If you are looking for changes in constraints in order to explain a change in behavior, then the heuristics of that search leads you to look at income and price changes and changes in production functions. If you cannot explain the behavioral change, the heuristics does not allow you to "fill in" the gap with an assumed preference change. Rather, you are driven to examine the economic and social structure more carefully, searching for as of yet neglected kinds of income, goods, prices or shadow prices, costs, production functions and interdependencies among these items. If you are committed to assuming preference changes, the heuristics of the search leads you away from constraints and into episodes of socialization. There is no urgent need to analyze

the economic and social structure more thoroughly. Nobody can trace an exact combination of price and income changes on the one hand and preference changes on the other. Therefore a preference-centered heuristics will drive out detailed attention to constraints. Ironically, while the concept of endogenous preference changes was meant to focus *more* attention on the system, by disallowing influences not related to the system, it turns out to draw attention away from it. Not surprisingly, many sociologists looked at concepts such as prices and income as something alien and at best useful for elements of the context of socialization (the famous Socio-Economic-Status). For some hundred years, sociology and economics thus followed divergent paths, to the detriment of both.

While preference seems to be the very heart of choice, the history of sociology has shown that it is not. To the contrary, a preference-centered heuristics effectively eliminates the concept of choice because constraints (i.e. alternatives) play virtually no *explanatory* role. In order to reintroduce the semblance of constraints, sociologists have assumed that people learn to want what they have to do anyway, given the system. In other words, people play socially determined roles. In terms of a model of man, all the attention is now focused on this learning of roles, viz. socialization (see LINDENBERG [1981]).

Once you have replaced choosing man by role playing man, *all* explanations of changes in behavior have to emanate from descriptions of changes in the system which affect socialization. But the irony of it all is this: how do you describe the system (and system changes) if not in terms of constraints? A preference-centered heuristics does not allow or at least systematically discourages the description of systems in terms of constraints; and the adapted model of man (i.e. role playing man) cannot be combined with such descriptions in an explanatory way even if they were available. A good example is the blossoming of network analysis in sociology. While this analysis becomes technically more and more advanced, it cannot furnish any explanations unless it is taken as an analysis of constraints in combination with choosing man, not role playing man. To repeat the question: how can a system be described if not in terms of constraints? There is ultimately only one way out: the system is described in terms of structured values (or preferences or cultures and subcultures). Changes in behavior are equivalent to changes in the system of roles which emanate from changes in the system of values which, in turn, changes autonomously (see LINDENBERG [1983]). The loss in explanatory power in this kind of research program is obvious, and contemplating this development in sociology, an increasing number of sociologists abandon this program in favor of a constraint-centered heuristics. To their surprise (?), they find that many of their sociological insights can be better put to work in the new context. Only in social psychological models in which preference is interpreted as "motivation" does it make sense to concentrate on changes in preference, but then the purpose is decidedly not an analysis of the social or economic system.

It is obvious that von Weizsäcker does not intend to follow the footsteps of sociology. He intends to hold on to constraints and simply add endogenous preference changes. Thus, he allows for rising income to increase demand for a clean and natural environment (a constraint-driven change) and he uses a change in preference only to explain the “explosive development” in demand for such an environment in the last twenty-five years. Yet, the incompatibility of heuristics is already obvious: his structural analysis is minimal. He never identifies the “substantial methodological as well as substantive difficulties” associated with a constraint-centered program and he offers only two alternative explanations both of which are weak in terms of structural analysis: a) a high income elasticity of demand for clean and natural environment and b) an increasing awareness of the health hazards of environmental pollution. None of his creative search for an explanation is directed towards improving the structural analysis. Rather, an assumed preference change takes the place of such an analysis. Let us look at some possibilities a constraint-centered heuristics *could* have explored.

4. Some Constraint-Centered Suggestions

4.1 Higher Market Prices

An increased demand for a Clean and Natural Environment (or CNE for short) due to increases in income will drive the market price of CNE up. Since CNE is limited in supply and since the total possible supply is even reduced by ongoing industrialization, urbanization and expansion of transportation facilities, there is no way that supply can keep up with a steadily increasing demand. Demand will outstrip given supply at an accelerating rate and the price of CNE as a private good will increase at an accelerated rate. For example, as more and more people can afford to buy houses away from airports, shipyards, highways and smokestacks, new houses will be built in the countryside surrounding the low-CNE areas. Soon these areas will be built up and farther outlying areas will be developed for CNE housing. Not only will the commuting cost drive up the price of CNE, the houses will also become more and more expensive. After some time, newcomers will have almost no chance to buy CNE on the market (cf. HIRSCH [1977]).

Clearly, as a consequence, the endowment of people with CNE becomes more valuable to them. If you live in an area with CNE, whether or not you paid for living there, any plans to reduce CNE in this area would threaten to decrease your highly valued endowment and therefore threaten to decrease your total income considerably (see BECKER [1976], p. 257). Therefore, you are willing to spend more to prevent realization of these plans than when CNE was cheap, without any preference change.

4.2 Transaction Costs Lowered

When exit becomes more expensive and loyalty is out of the question, voice becomes a more attractive alternative, as we know from Hirschman's analysis. This means that as CNE as a private good becomes more expensive, people are more willing to protest rather than move away, which reduces the transaction costs for collective action. As a result, collective protests against plans to lower the CNE endowment of some area will increase; and entrepreneurs for organizations that monitor and analyze CNE threatening plans and legislation will receive more funding through voluntary contributions, thereby lowering the cost for collective protest even more since information relevant to collective action becomes increasingly cheaper. This should draw even lower income groups into the action who would not have joined any collective action while transaction costs were high.

Assume that in response to this mounting pressure property rights are gradually changed in favor of CNE. This will further reduce transaction costs because the size of a group necessary to block a CNE threatening plan is thereby reduced. In principle, one individual going to court is sufficient.

4.3 Confounded Goods

In addition to these developments, it is likely that there are processes that create the *semblance* of a preference change: the confounding of goods. Imagine we normalize all exponents in a Douglas-Cobb kind of utility function such that the exponents add to unity. Imagine further that CNE is one of the utility arguments with an exponent of $1/1000$. Then, according to the normal analysis, no more than $1/1000$ th of somebody's income is spent on CNE. Unless preferences change, no development in constraints will make people spend more than $1/1000$ th of their income on CNE. Structural analysis of constraints would not be very interesting in this case. But should we jump to the conclusion that if the fraction of income spent on CNE increases, preference for CNE will necessarily have increased as well?

In my opinion, something else is happening: under certain conditions, goods become confounded, i.e. they take on relevance for various other utility arguments. Imagine the following scenario. As CNE becomes scarcer relative to demand, it will also become a prestige good. Thus, it will be one among many goods that confer status. As its price increases further (as we have assumed), it will become a more important status good, displacing many other status goods and finally it may become a status multiplier so that a low level of CNE consumption will reduce the status conferred by all other status goods. Needless to say, the portion of income spent on CNE will increase because status is almost certainly also a utility argument and very likely an argument with a much higher exponent than CNE. CNE and status have

become confounded more and more, but preference for either one has not changed.

With involvement in collective action for the preservation of some CNE level in an area, further confounding is likely to happen. CNE may now become involved in doing good and the production of a positive self image, purposeful social interaction and camaraderie.

If property rights change in favor of CNE, the goods will be even further confounded. If the right is on your side and you proclaim it to be important then you will become the object of ridicule and lose self image if you let other people violate that right.

Confounding means basically that one utility argument appears (more or less prominently) in the production function of other arguments in the utility function. This necessarily enlarges the portion of income spent on the confounded good.

The death blow to so many social movements is the reverse process whereby goods are gradually separated again. Unless all bridges have been burnt (as is the case with many terrorists and some activists), the increasing marginal cost of acquiring the confounded good through collective action and/or the decreasing marginal benefit achieved by this action will make people search for cheaper alternatives for the various utility categories, thereby separating the production functions again. While a change in property rights and specific CNE organizations at first aid the emergence of collective action, they will after a while also make collective action less necessary and thereby aid in the process of separating the goods. No reduction in preference for CNE has to be assumed. Von Weizsäcker's positive feedback loop of preference change does not allow for this toning down and routinization. According to him, the world will soon care about little else but CNE, a prediction that cannot possibly be supported by empirical evidence and is contrary to what we know about CNE movements.

My suggestions are not meant to provide an alternative for von Weizsäcker's theory. Rather, they are meant to show in what direction a constraint-centered analysis could go.

5. Conclusion

Many interesting points about CNE movements have not even been mentioned, most notably the fact that many people involved in protest actions (say, concerning the Frankfurt Airport Project) are not at all involved in property rights issues and compensation negotiations. They come by the bus load from other cities, often from far away. Clearly even more structural analysis is needed in order to explain this involvement (see LINDENBERG [1984]). But one thing seems obvious to me: a preference-centered research program will not yield even the most rudimentary structural analysis necessary to ex-

plain the rise of CNE related activity and a change in property rights. Such a program will also not lead to any imaginative combination of economic model building and sociological issues and insights. For example, the inclusion of social endowments in the definition of income (see BECKER [1976]) or a theory of conditions for the confounding and separation of goods will only come from a constraint-centered program. Without belittling the contributions of Stigler and Becker, it should be pointed out again that such a program was already developed by Adam Smith and it enabled him to be the outstanding social scientist most of us admire.

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