



Carl Christian von Weizsäcker, 2011, *Homo Oeconomicus Adaptivus*

Lecture review

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“*Homo Oeconomicus Adaptivus*” is the title under which between 17th and 20th October 2011 the prestigious professor Carl Christian von Weizsäcker² held a series of four lectures in the Graz Schumpeter Lectures³.

Since 1995, every year the Graz Schumpeter Society organize a prestigious conference and the written version of the lectures is published by Routledge (London). The *Graz Schumpeter Lectures* aim to bring in front of the public a series of leading representatives of Economic and Social sciences to debate their own research papers. In the past years the lectures have covered a wide variety of topics including *Evolutionary Economics and Creative Destruction* (Metcalfe Stanley, 1995), *Consumption takes time: implications for economic theory* (Steedman Ian, 1999), *Democracy, Education and Equality* (Roemer John, 2003), *Culture and Economic History* (Mokyr Joel, 2010) etc.

Without getting into the deep economic and mathematical demonstrations that came along with Professor von Weizsäcker’s presentation, I consider useful a short sociological insight into some of the theoretical guidelines. The transferring of the concept of “adaptive preferences” in different fields of analysis has proved to be a useful digression for a better understanding of the contemporary democratic societies and of the processes in which the government decisions are taken, but also the typical

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² Details regarding the prestigious academic career and a part of Professor Carl Christian von Weizsäcker’s papers can be found at http://www.coll.mpg.de/team/page/carl-christian_von-weizsaecker.

³ Further information about The Graz Schumpeter Lectures and details about the list of guests from 1995 until 2011 are available at <http://www.uni-graz.at/vwl3www/schumpeterlectures.htm>. The four lectures offered by Professor Carl Christian von Weizsäcker are within reach on the same website.

mechanisms of free markets of products and services⁴. Taking into consideration the extent of the theoretical framework and the diversity of the concepts which have been used in the analysis of “preferences”, the approach of Professor von Weizsäcker can be easily placed on the list of those which show the need of an interdisciplinary approach into the economic behavior analysis. In the context in which the contemporary society was labeled as a “consumer society” (Baudrillard, 1970) and the “*new means of consumption – cathedrals of consumption*” (Ritzer, 1999) have changed the features of this process, it is important to analyze the nature of preferences and the way in which these are formed and change themselves.

Carl Christian von Weizsäcker aims from the beginning to bring into discussion a different perspective on consumer behavior than that of fully rational individual. Thus, the “*homo oeconomicus myth*” is analyzed and brought to a closer form to the daily realities of the contemporary societies. The conceptual approach of alternative and complementary angles was developed on four main themes: (I) “*Freedom, Rationality, Welfare and Adaptive Preferences*” (II) “*The Hypothesis of Adaptive Preferences: Foundation in Psychology and Human Evolution*” (III) “*Schumpeterian Innovation: Justification of Decentralized Decision Making under Adaptive Preferences*” and (IV) “*The State, the Market, Social Philosophy, and Adaptive Preferences*”.

The main question which should be answered in the series of lectures can be associated with the way in which the change of preferences of consummation is possible in contemporary societies and how this change occurs. Since the beginning of the lectures von Weizsäcker points out that: “(...) in the following I use the term *homo oeconomicus* for the model in which people maximize utility in a fully rational way in which the utility function is exogenously given, be it fully egoistic or partially altruistic. “(I: 1). I also consider that it is necessary to provide some clarification about how the concept of “preference” is defined and then used: “In my view this concept is intimately related to the idea of freedom of action. The concept of preferences is the path by which normative economics introduces the idea of freedom or liberty into its theory of human interaction.” (I: 2)

Lastly, I consider useful to point out Weizsäcker’s distinction “between the research programme of positive economics and the research programme of normative economics”. The interest is on stressing the significance of “preferences” and this perspective is possible only from a normative approach on this research field. Taking into discussion the work of Stigler and Becker (1977) “*De Gustibus Non Est Disputandum*”, von Weizsäcker emphasizes that in this type of analysis the preferences do not have an important role in explaining behavior. To provide another perspective on the role of preferences, we could bring into discussion the Zinam Oleg's article⁵ which states that preferences are a strategic variable in a systemic analysis of the economic realities.

⁵ Oleg Zinam suggested a theoretic framework of social change developed on five levels: “(I) Organization; (II) Power; (III) Ideology; (IV) Preference; and (V) Freedom. Organization and Power contribute primarily to the formation of opportunity, while ideology and preference represent a basis for preference function. Effective freedoms are the outcomes of the interaction of preference and opportunity functions of the decision-making units involved in processes of completion or conflict.” (Zinam, 1974: 342)

I. “Freedom, rationality, welfare and adaptive preferences”

The author starts from the way in which Stigler and Becker relate to “preferences” in order to discuss some of their assumptions. Thus, the inert and exogenous character of preferences is replaced by what Professor von Weizsäcker calls “adaptive preference”, which “are a lot of motion of preferences” (I: 2). From this point of view, there are some significant differences between “normative economics” and “positive economics”: “Two basically different concepts of the term “preferences” are involved. Preferences in positive economics are the unexplained remnant of a science that tries to explain as much as possible concerning human behavior. Preferences in the research programme of normative individualism represent the realm of legitimate decisions of the individual, irrespective of their causes.”(I: 3).

To understand the way in which Professor von Weizsäcker defines the concept of preferences we look at the main concepts involved in this process. The first lecture was directed to delineate three main factors which are important. The first one “preference conservatism” defined as “a tendency to stick where they are.” This seeks to differentiate between two different ways of relating preferences: one that involves the inert nature of preferences and one that takes into account their past without denying the possibility of change in the consumer’s preferences.

And from this point of view, the main implication of this is that “preferences of a person are only influenced by her own past consumption” (I: 4). Without stressing on this aspect, the demonstration of Professor von Weizsäcker starts from objects seen as “*N-dimensional space of preference characteristics*”. The second main factor involved in this demonstration is the “improvement path” and its implications in the way in which preferences change⁶ can be rendered through the following words: “basically it is a development of consumption baskets through time such that any change in the basket is considered to be an improvement or at least a change to which the person is indifferent relative to the *status quo*”(I: 6). The way in which this element is used in the analysis implies that “given the choice between an improvement path and a stationary consumption path, people prefer the improvement path” (I: 6). The third factor involved in this demonstration can be associated to the characteristic of “non-circularity of improving”. This assumption precludes the possibility than an “improvement path” defined through a series of changes of preferences to have a similar end point with the starting point.

The final part of the first lecture was focused on the myth of the complete rational individual and on the modality in which this can be reinterpreted. Even if individuals can not have a permanent rational model for their behavior, the approach of Professor von Weizsäcker emphasizes on the individual willingness to be rational. However, “*I thus suggest viewing “rationality” not so much as state, which human beings lack or enjoy, but as a process of being unfolded. The degree of success of such unfolding depends on the*

⁶ With this argument, professor Weizsäcker suggests a different position towards the mainstream economists. Thus, “meta-preferences” as Becker or Sen defined them are fundamentally different from the “adaptive preferences” approach because “the assumption of the meta-preference approach is that meta-preferences are fixed, are exogenously given” (I: 7).

individual himself, but also to a large extent on his social environment” (I: 14). Thus, the individual can find himself on an “improvement path” not only if his consumption conditions have improved, but also as a result of a higher degree of rationality. These two opportunities of change do not exclude each other, which may lead to a complementary situation. This kind of economic analysis should take into account that rational choice requires accurate information regarding opportunities on the market⁷.

II. “The hypothesis of adaptive preferences: foundation in psychology and human evolution”

The second lecture starts with what is known as an “endowment effect” which in this case can be associated with the assumption according to which: “(...) if the *status quo* is ownership of the object I have a higher preference for it than if the *status quo* is that I don’t own the object” (II: 1). The argument of the adaptive character of preferences starts from the possibility that they can be anti-adaptive or fixed. In accordance with the demonstrations of Professor von Weizsäcker, adaptive preferences proved out to have a competitive advantage over the other two types of preferences. Thus, even if anti-adaptive preferences exist, they could not “survive”.

In this context, two main mechanisms are presented for this process: the first is “individual and social learning”, and the second “is evolution in the biological sense of the word”. From a sociological point of view, it is important to point out the relationships between imitation and adaptive preferences: *Interpersonal influences on preferences obviously are very important. It is not only by one’s own past experience that one “learns” preferences. It is also from other people that one “learns” preferences. Apart from verbal communication it is also by imitation that one adapts to acts and thoughts of other people*” (II: 2).

For a better understanding of the relationship between imitation and “adaptive preferences” it was chosen the specific case conceived on the following hypothesis “*The more a person sees a particular good being consumed by others the more the person is inclined to consume it herself*” (II: 3). In this topic can be highlighted the way in which a few perspectives were constructed on the social determinism approach of this relationship. The individual loses any kind of freedom (in many cases he or she kept only the illusion of freedom) and his or hers behavior was only the result of belonging to a certain social class⁸. Of course, this stratified analysis of the society renders a higher

⁷ Anders Liljenberg (2005: 1010-1011) starts from the point in which Kirzner analyze the relationship between knowledge and opportunities. From this perspective we can differentiate between multiple types of knowledge. One of these is described in the following paragraph: “(...) someone’s knowledge here stems from relatively less “market ignorance” than others display. To know more than others pays off. This is not a uniquely Austrian insight, but what renders it special is the particular kind of knowledge, originating in discovering and not search, that matters. One does not know what one does not know, but one can be “alert” by exposing oneself to potential market opportunities. This alertness appears in light of others’ “sheer ignorance”, their not realizing their lack of insight, regarding the market potential”.

⁸ Frenzen, Hirsch, and Zerrillo (1994: 411) makes a brief review of the main points of view which can be associated with this perspective: “Douglas and Isherwod (1981), Mujerki (1983), Schudson (1984), Sherry (1991), Wallendorf and Arnould (1988) and Appadurai (1986), whose studies all agree that “consumption is eminently social, relational, and active rather than private, atomic, or passive” (Appadurai, 1986: 31).

significance for the social class than the individual itself. In counterpart to this we can place the perspective of social stratification based on status and from this point of view in the discussion regarding the process of preference formation an important role can be assumed by a dimensional analysis of status⁹.

A brief digression into the field of behavioral economic proves to be useful to highlight some essential elements in the analysis of adaptive preferences. Thus, four concepts are presented to support this approach:

Table1. Four arguments provided by behavioral economics (the whole text belongs to the second lecture of Professor von Weizsäcker)

The Default Option	“Decision problems of persons predominantly are of the kind that one way or another some decision is taken. If no explicit decision is taken then “default option” will be interpreted as the choice taken by the decision maker.”
Framing effects	“The framing effect can be understood as the result of a guidance in terms of the distance of any option from one option which we may identify with the default option.”
Loss aversion	“A salient inconsistency with von-Neumann-Morgenstern ¹⁰ axioms is one which has come to be called “loss aversion”. It means that, relative to v-N-M behavior, people pay a premium for avoiding losses if they have the choice between different risk bearing options.”
Satisficing	“(…) people are not utility maximisers. Rather they are “satisficers”. That is, in an environment where multidimensional goals are relevant, they set themselves quantified goals of achieving an improvement in each of the different goal dimensions. (…) Once they have acted and have seen the results of their activities they revise their goals upward in those dimensions in which they had no difficulty of attaining the former goal and they revise their goals downward in those dimensions in which they could not attain the former goal.”

III. “Schumpeterian innovation: justification of decentralized decision making under adaptive preferences”

With the introduction of the concept of Schumpeterian innovation it is important to notice a change of perspective. Thus, preferences cannot be analyzed anymore by simply referring to the individual, to its past and to the manifested influence upon the social environment, but we should also consider the innovative and dynamic behavior of those who provide goods and services on a free market.

⁹ A short introduction in Lenski’s (1954) approach should take into account the way in which Lenski highlights the significance of different levels of status dimensions. His approach can be considered a counterpart to class determinism perspective.

¹⁰ As a brief introduction into the subject we can look at the following paragraph from Bowles: “The maximization of expected utility requires more than the simple ordering of each possible state (that suffices to determine behavior under certainty) as it uses information about how much better one state is than another. In a pioneering work on game theory, John von Neumann and Oskar Morgenstern (*The Theory of Games and Economic Behavior*, 1944) showed that an expected utility maximizing individual’s choices are invariant for additive or linear transformations of the utility function.” (Bowles, 2004: 104).

The Schumpeterian entrepreneur¹¹ is able to influence at his turn the consumer's behaviors of the buyers. In this respect, this must show not only a good knowledge of the past and current market realities, but should have also the ability to see beyond these, to predict how consumer preferences will change. Of course this can use a number of mechanisms to influence preferences to the extent that resources would allow it.

This is definitely one of the specific factors of entrepreneurial behavior in terms of contemporary democracies. The lecture points out the fact that both consumers and manufacturers or bidders use as a main way of choosing between different existent possibilities the cost-benefit analysis, but of course taking into account that these imperfect markets may not lead to an absolute rationality. In this context, it is important the shade that decentralized decision making introduces in the ability to correctly assess and anticipate the introduction of a new product on the market: "(...) it is important to understand that decentralized decision making also generate the possibility of diverging opinions about the future. It may be one of the most important social roles of the Schumpeterian entrepreneur to differ from the majority opinion concerning future consumer preferences." (III: 9).

IV. "The state, the market, social philosophy, and adaptive preferences"

The two perspectives that were analyzed to this point, the buyer and the bidder require a third complementary perspective to them. What is the relationship between state and market from the perspective of adaptive preference? In a certain extent the state retains the role of moderator of the relationship between the two parties mainly trying to avoid abuse by the party which is in a position to exhibit such behaviors given the fact that those who offer their goods for consumption can easily mobilize efforts and may be organized to achieve market advantages. From this point of view, one of the main things stressed on the lecture may be associated with the reactive character of the state. The State, through its regulatory institutions responds to the changes in society. While contemporary democratic governments need in one way or another that the people vote to change the essential components of organizational systems, Schumpeterian entrepreneurs do not need a majority vote to introduce changes on the market. According to Professor von Weizsäcker, all these features of the reality lead to a higher probability of achieving local institutional balances (and not global) and to a high degree of "collective conservatism"¹².

¹¹ This analysis takes into account the broad perspective on Schumpeterian entrepreneur which can be associated with the concept of innovation. "This concept covers the following five cases: (1) The introduction of a new good (...) or of a new quality of a good. (2) The introduction of a new method of production (...). (3) The opening of a new market (...). (4) The conquest of a new source of supply of raw materials or half-manufactured goods (...). (5) The carrying out of a new organization of any industry, like the creation of a monopoly position (for example through trustification) or the breaking up of a monopoly position." (Schumpeter, 2002: 51-52)

¹² It would be interesting to see which is the level of compatibility of "collective conservatism" with the one proposed by Inglehart (1997). Starting from a perspective in which cultural, economic, and politic systems are interdependent, he emphasizes on the difficulties of transformation of some systems which are functional in a society: "Culture is resistant to change, partly because people tend to believe whatever their society's institutions teach them. But one's worldview is also influenced by one's firsthand experience – and

In line with professor's Weizsäcker multidisciplinary approach we conclude that these different angles used for this analysis conceive a complex perspective on individual consumption behaviors. This analysis managed individual factors (the own consumption past, the individual wish for a high level of rationality), social factors (social environment influence, imitation), and economic factors (the characteristics and mechanisms from free markets, regulations for market relations). In the four lectures, starting from one of the main issues introduced into the economical analysis by neoclassical economists¹³ (Kurz and Salvadori, 1998) professor von Weizsäcker points out some of the most important moments in the evolution of the concept of "preferences" and also offers a path of using "adaptive preferences" in the contemporary studies about consumption behaviors.

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if the two are in conflict, one's firsthand experience may have even greater credibility than what one is told" Inglehart (1997:66).

¹³ One of the main differences between the way in which neoclassical economics and classical economics have built their economical analysis consisted in the fact that the neoclassic economists took into account the relevance of consumer preferences. "The data from which neoclassical theory typically begins its reasoning are: (i) The set of technical alternatives from which cost-minimizing producers can choose; (ii) The preference of consumers. (iii) The initial endowments of the economy with all 'factors of production', including 'capital', and the distribution of property rights among individual agents." (Kurz and Salvadori, 1998: 10)