

The Influence of Society on Preferences

Changes in preferences in response to changes in social institutions may be central to economic and societal change

Nearly all work in economics is built on the theory that individual preferences are fixed, stable, and the same for all people. But a new paper by Fehr and Hoff argues that the opposition in economics to explaining changes in behavior in terms of changes in preferences is ill founded. Recent progress in economic methodology makes it possible to investigate influences from policies and institutions on preferences that drive individual action.

Among the sources of influence on preferences are “anchors” and “frames”—observables that are irrelevant in the rational assessment of alternatives but nonetheless affect behavior by triggering a particular way of thinking about a choice, for example, by evoking a self-concept, norm, or worldview. Extensive evidence now exists that slight differences in situations can cue different mental frames and lead to the expression of different preferences. From the society in which we live, we have learned a variety of roles that can be situationally evoked, and different contexts can evoke different roles by acting as a “frame switch.” Chinese Americans are more cooperative, more patient, and less individualistic when the Asian aspect of their identity is primed in experiments. In India, where segregation between high-status and low-status castes is a marker of civic privileges and disabilities, an experiment finds that high-caste junior high school students work less hard when they are segregated from low-caste students.

While framing effects make preferences dependent on particular situational cues, other factors—for example, wars, repression, and legal changes—can have long-term effects on preferences that persist after the learning stimulus is removed.

- Recent experiments in war zones

suggest that war increases altruism within groups, which may make people more likely to contribute to collective action against the enemy and thus perpetuate the conflict between groups.

- In India the historical legacy of the denial of basic social and economic rights to Untouchables may be to diminish the repressed group’s willingness to punish violations of cooperation norms and therefore its ability to sustain collective action, which perpetuates the vulnerability and exploitability of the group.

- Experimental findings suggest that minimum wage laws create an entitlement effect: subjects who have once experienced a minimum wage, which is no longer in force, are less willing than before to work for a low wage.

- Theoretical and empirical findings suggest that the welfare state diminishes the incentives of parents to instill preferences for hard work in their children.

Moreover, differences in the remote past can shape cultures in ways that lead to large differences across groups in attitudes toward government policy, such as the demand for social insurance. Switzerland is well suited to an analysis of such differences because the country has two language groups—German and “Latin” (French, Italian, and Romansh)—that occupy different regions of Switzerland, have different histories, but face similar laws and economic conditions. The two groups are at opposite ends of a scale defined by the average national responses in a worldwide survey to the question whether government should do more to redistribute income. Analysis of votes in 30 years of national referenda finds large, systematic differences in the demand for social insurance, controlling for many other variables.

An anomaly that has attracted a great deal of attention is the effect of default options on decisions. Default options appear to have large consequences for choices that people make on retirement savings, insurance plans, and organ donation. For example, in

Austria consent to being an organ donor is the default option, so that not consenting requires an active decision to opt out. Here the effective consent rate is 99.98 percent. Just over the border in Germany, where being an organ donor requires opting out of the default option, the share of the population who are organ donors is 12 percent. A recent experiment finds that the power of the default option arises because, contrary to economists’ standard assumption, many individuals construct their preferences only at the time of making an active decision. These individuals favor the default option because it avoids the cost of making an active decision.

Within the possible set of assumptions about preferences that can be used in explaining economic outcomes, the standard assumption that individual preferences are not susceptible to social influences is but a special and not very plausible example. There is growing evidence that preferences change in response to changes in social institutions, and that these changes in preferences may be central to the process of economic and societal change—for example, in the degree and persistence of group inequality, the tenacity of hostilities between warring groups, and the pressures on the welfare state.