Why do economists not like sheer changing taste?

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The fact that tastes frequently change is one of the most unquestionable features of human behavior. Tastes are fundamentally modified when people grow up discovering new sources of satisfaction and, in particular, when they are educated, but they also fluctuate with fashion or simply with satiation. Whatever the cause of their changes, tastes are far from being stable. Despite this, economists typically leave very little room for such changes in their analyses. Carl Christian von Weizsäcker, one of the rare economists who has devoted a paper to changing tastes, does not hesitate to say that "the overwhelming majority took the attitude that it is not their business to be concerned with these changes of taste". To illustrate his point, he quotes a passage in which Milton Friedman claims that it is "primarily a case of division of labour. The economists has little to say about the formation of wants; this is the province of the psychologist. The economist's task is to trace the consequences of any given set of wants." Weizsäcker challenges such a view on the ground that economists should have something to say about the formation of wants insofar as "influences on tastes may depend more or less directly on certain economic variables" (Weizsäcker, 1971, p. 345). But even if it was true that explaining such influences on tastes was in no way the business of the economist, even if it was true that there was no such thing as endogenous changes of tastes from the point of view of an economist, this does not imply that tastes whose consequences matter so much to economists has to be *given* in such a way that they would be fixed once and for all. And, if tastes are not fixed, their changes also have many *consequences* which, by contrast with questions concerning how tastes are generated, pertain unquestionably to the province of the economist. If changes of tastes, either endogenous or exogenous, affect the results of economic analysis, the economist cannot flatly refuse to consider these *consequences* under the pretext that it is not his business to explain the origin of these changes. Nevertheless, most economists *do* flatly refuse to consider this phenomenon.

It may be said that changing tastes should rest outside the purview of economics because changes of tastes are irrational and unfit to be considered by a science which analyses rational behavior. Such a claim would be very odd however, since rationality is usually associated with adaptability and opposed to rigidity. For example, one of the two types of *irrational* behaviour that Gary Becker distinguished in his famous paper on irrationality in economics was the rigid behaviour of an individual who always react the

same way without considering changes in his (or her) environment (Becker, 1962). For similar reasons, the behaviour of an individual who reacts with such a rigidity in the event of changing tastes — or, if you prefer, in the event of changes in his (or her) own inner environment — would be clearly irrational. Since rationality is usually defined as a propensity to adapt various means to any goal, it would appear reasonable to assume that a rational individual would manage to adapt his (or her) actions to any change in goals resulting from the evolution of his (or her) tastes. David Hume, who is usually credited along with Thomas Hobbes as being the first to posit rationality as the basis of a theory of action, was so far from associating changing tastes with irrationality that he did not hesitate to declare that reason had to adapt itself to serve the fluctuating whims of its master, the passions (Hume, 1978, III, II, §II). Accordingly, those economists who tend to define rationality along similar lines could not systematically exclude discussing the consequences of such exogenous changes of tastes, no more than they could exclude discussing the consequences of exogenous changes in technology. Alfred Marshall, for example, considered not only the consequences of various changes in fashion but he included widespread changes of tastes, for example, among the factors which can affect the demand for meat or fish (Marshall, 1966, p. 308). Carl Menger, for his part, considered changes of tastes and the "capacity of human need to grow" as the decisive factors affecting the very nature of a good, the satisfaction that it can produce. and therefore its subjective value and its attractiveness in the process of exchange (Menger, 1976, pp. 65, 82, 83). But these considerations remain relatively marginal in their analyses and, in any case, these economists were rather exceptional among their colleagues. On the whole, economic theory has been developed with very little attention paid to changes of tastes.

With this as my starting point, I would like to show in this paper that:

1) while rationality as traditionally defined is quite compatible with changing tastes, there is an especially close relation between rationality and *stable* tastes.
2) with the theory of revealed preferences, rationality was made virtually identical to stable tastes.
3) this quasi identification has strongly contributed to marginalizing or to making somewhat paradoxical the interventions of the relatively rare economists who took changes of tastes as their subject-matter.

1) The relation between rationality and tastes

We have seen that with the standard definition of rationality, according to which rationality is associated with the choice of means appropriate to a given goal, changes of tastes tend to be seen just as a condition to which a rational behavior must adapt. This does not mean however that rationality is not closely related to stable tastes. Indeed, economists can take advantage of rational behavior only if tastes are stable. This is so because the reason why rationality is so important for economics is that it allows one to predict behavior on a non-deterministic basis. Suppose I have observed that a lot of people are so fond

of a certain type of wine that most of them are ready to pay $25 every market day to get a bottle of it. Suppose further that, on some occasion, this type of wine is sold for $15 a bottle. I can predict that demand for this wine will increase significantly. I do not have to base my certainty on any deterministic mechanism which will force people to buy more. I can admit that these people are totally free to buy it or not since it is quite enough to assume that these people are rational. In other words, I postulate that they are not stupid enough not to take advantage of such a wonderful opportunity. But now suppose that, during the days preceding this exceptional market day, tastes of most people have changed in such a way that they develop some disgust for wine and a strong attraction to another good for which they think it best to save their money. In such a situation, it is highly probable that my reasonable prediction of an increased demand will not materialize. Naturally, such dramatic changes of tastes are themselves very improbable, especially when many people are involved. For this reason, predictions based on the principle of rationality are pretty safe in most situations of this type.

However, the point which concerns us here is that if it turned out that such changes happened, economists would then lack good reasons to argue that people were behaving irrationally. The possibility of changing tastes cannot be discarded as irrational behavior unless one makes the rather extravagant supposition that rationality implies omniscience and infallibility in a sense that would exclude reassessment or regret resulting from fresh discoveries. Instead, this possibility will be discarded with the help of a *ceteris paribus* clause because it would be too frustrating for the economist to have to start the explanation again each time a change of taste occurs. Look, for example, at the notion of decreasing marginal utility which plays a crucial role in marginalist economics. It is based on the principle of rationality. A rational agent will use the first unit of a good to satisfy his (or her) most pressing need in such a way that the succeeding units will contribute in a less and less intense fashion to the satisfaction of this need. But what happens if his (or her) tastes changes during this process? If such a thing happens, the whole argument collapses. The alcoholic whose taste for alcohol is increased during a drinking binge no longer seems to act in a way compatible with the idea of marginal utility. Accordingly, when Marshall discussed the "law" of decreasing marginal utility, he was careful enough to elucidate the "implicit condition" requiring "that we do not suppose time to be allowed for any alteration in the character or tastes of the man himself" (Marshall, 1966, p. 79). In brief, when defending laws of this type, the economist has to invoke the usual proviso: "tastes remaining the same marginal utility decreases". So, in order to be applied usefully by economists, the notion of rationality has to be closely related to stable tastes, but rationality and stable tastes are nonetheless two quite different things.

2) The introduction of the theory of revealed preferences into the picture

With the theory of revealed preferences, a new concept of rationality became prevalent. In order to expurgate from the idea of rationality all traces of intentional or psychological content, economists,

following the lead of Paul Samuelson, chose to eliminate from its definition any reference to goals and adaptation. They managed to define it only through reference to consistency. According to such an approach, rationality no longer has anything to do with the adaptation of means to a goal. It is defined rather through the idea of sheer consistency in choice making. Since preferences would remain unrevealed by inconsistent choices, the first axiom of the theory of revealed preferences is the so-called "weak axiom" of "minimal consistency" (See Sen, 1987). This axiom, which has been associated with rationality, states that if a good X is revealed superior to a good Y in a first choice, then the good Y cannot in turn be revealed superior to the good X, even if the second choice is made from a larger set including X, Y and eventually other elements. In other versions of this view of rationality, it is the notion of transitivity, or of acyclicity, which is the key element of the definition: if A is revealed to be preferred to B and B to C, C cannot be revealed to be preferred to A. In any case, these two ways of characterizing consistency and rationality can be shown logically equivalent (Sen, 1986, pp. 64-65). The point which concerns us here is that, in contrast with traditional definitions of rationality, they imply the stability of tastes. Indeed, both minimal consistency and transitivity have absolutely no meaning if tastes are allowed to change. If tastes are allowed to change overnight, why might one who has chosen X from the set {X,Y} not choose Y the day after? A similar question can naturally be raised about transitivity. In fact, Robert Sugden has clearly shown that minimal consistency can be violated in a quite rational fashion, even without changes of tastes since the very presence of other elements in the set can change the situation significantly (Sugden, 1985). But for my purposes here, I would like to focus on changes of tastes. The important point is that if rationality is defined in terms of consistency, stable tastes are embodied in the very notion of rationality. Somebody whose tastes fluctuate in some manner is inconsistent (and irrational) by this very fact since this person can typically choose an item from a given set after rejecting it when his (or her) previous state of tastes prevailed. After changing his (or her) tastes, one can quite reasonably — but irrationally according to this view of rationality — choose A over B after having chosen B over C and C over A when guided by different tastes. Conversely, one who has stable tastes cannot behave irrationally unless one chooses what has been revealed to be less preferred, but then how could one thus chooses when guided by tastes which incite one to make the same choice as previously?. In such a view, being rational is nothing but confirming the stability of one's tastes by repeatedly choosing according to the dictates of one's stable tastes. So stable (unchanging) tastes are logically indissociable from consistency and, therefore, from rationality according to the definition adopted by so many post-Samuelsonian economists.

Naturally, in favor of such a view, one can argue that changing tastes is a clear symptom of irrationality since if a person declares today through choices that the merits of A are superior to those of B, why would the same person be foolish enough to have previously chosen B when A was available? But to argue in such a way, one must assume that the person is omniscient since otherwise this person could

discover merits of A unknown up to then and change his (or her) taste about the good accordingly. In fact, even omniscience is insufficient to exclude changes of tastes. An omniscient agent might know perfectly everything about every available goods and even about his (or her) own inner evolution including his (or her) own future changes of tastes and actually *undergo* radical internal changes responsible for changes of tastes. To exclude such a possibility, one should assume that economic agents are Parmenidian unalterable and unchanging entities. However, attributing these godlike features to every economic agent is a high price to pay for the advantage of ridding economic theory of any psychological or intentional content. In any case, those rare economists who have devoted a paper to the question of changing tastes have attempted to cope in various fashions with some embarrassing consequences of the fact that rationality, which is a fundamental trait of economic behavior, has been so closely associated with consistency defined in such a rigid fashion.

The Literature on Changing Tastes

The theoretical problem of changing taste is paradoxical to deal with in a context where the key concept of rationality has been reduced to consistency, a concept which explicitly excludes changing tastes. Thus, any economic analysis of changing tastes amounts to discussing a phenomenon within a framework that postulates its very exclusion. In such a situation, it is hardly surprizing that the problem of changing tastes has been described as "troublesome" (Peleg and Yaari, 1973, 391) and as a field in which "the perils are extreme" (Marschak, 1978, 386) by some of the relatively rare economists who have dealt with it.

The most oft-cited paper concerned with the question of tastes is probably "De Gustibus Non Est Disputandum" written by Stigler and Becker, but the main thesis of this paper is precisely that tastes are stable and does not really change. Indeed, these authors claim that apparently changing preferences result from rational choices made on the basis of stable "preference functions" (Stigler & Becker, 1977, p. 77). Choices whose variations are usually attributed to changing tastes associated with addiction, custom, advertising or fashion are as endogenously derived as any standard economic result. What is usually characterised as taste or preference is presented as an endowment of a particular type of capital. In fact, Stigler and Becker explain in a very clever but not necessarily convincing fashion why demand for a commodity like drugs or music can increase or decrease, not because taste for such commodities change but because their price (including all relevant but usually forgotten variables) for the person who "consumes" them decreases or increases. It is true that this radical dismissal of any variation in taste would provide the required basis for a definition of rationality based on consistency. Those who choose A over B after choosing B over A would be perfectly consistent insofar as their different choices could be explained by differences in prices. However, this heroic attempt to deliver economics from the problem raised by changing tastes did not succeed in explaining why, among people who are supposed to be

endowed with the same basic tastes, some choose to turn to drugs and others to music. Apparently, the only explanation more or less explicitly suggested rests on the fact that people are accidentally exposed either to drugs or to music, but who would admit that sheer exposure to music during a given time determines various peoples's further demand for music in the absence of a predetermined taste for music, the existence of which is denied in the first place? And if specific tastes are reintroduced at this point, the whole analysis collapses: indeed, once they are characterised as preferences for specific commodities, such tastes are subject to change since the intensity of preferences for any commodity clearly varies through time. This is probably the reason why Stigler and Becker insisted on claiming not only that tastes do not "change capriciously" but that they not "differ importantly between people"; they are nothing but "deep-lying preferences" for very general valuables "like nourishment and self-esteem" (McPherson, 1987, p. 402). The point is that if they provide reasons to think that tastes do not change as capriciously as most people think, Stigler and Becker do not really show that these tastes do not differ importantly between people.

If it is Stigler and Becker's paper that first comes to mind when the question of tastes is raised in economics, the paper at the origin of the most important debate over changing tastes in economics is surely "Myopia and Inconsistency in Dynamic Utility Maximization" published in mid fifties by R. H. Strotz. In the paper, Strotz discusses "the general problem of intertemporal utility maximization" (Strotz, 1955-56, p. 166). Since a decision-maker may revise decisions through time, Strotz analyses revisions concerning the manner in which future satisfaction is discounted. When the date of such satisfaction approaches, one can re-evaluate the relative weight assigned to it and modify prior decisions accordingly. However, as Strotz readily admits (p. 173), such modifications do not correspond to change of tastes but rather to changes in the relation between the person who make the decision and his (or her) environment. Since "so many years from now" corresponds, year after year, to a brand new reality, it is normal that the evaluation does not remain the same. However, the important point for Strotz is that this change in the (objective) situation and in its (subjective) consequences for evaluation could be predicted by a sophisticated decision-maker whereas one that is myopic or naive could not. The sophisticated decision-maker may either precommit himself (like Ulysses tied to the mast of his ship) to the plan adopted when the original decision was made or, alternatively, choose to start with a plan which will remain feasible as such at any future time. After discussing these three possibilities (one being associated with myopic and the other two with sophisticated decision-makers), Strotz concludes that true discount functions (those with which people are born) are "sublimated by parental teaching and social pressure" (p. 177). It is through such sublimation that a change in tastes takes place in such a way that a more conservative discount function is adopted. Thus, sheer changes of tastes occur as a result of training and education. Naturally, during the training process, a person is led to make decisions that are inconsistent with previous ones, but such inconsistencies do not affect Strotz's analysis which is concerned exclusively with

the manner in which discounting occurs once a given level of education is reached and tastes taken as granted and not with the training process as such. Why the behavior of people who do not make consistent decisions *within* the time period (such as that in which they are submitted to parental teaching and particular social pressure) during which their tastes are changing are deemed to be typically consistent during other periods remain an open question.

Selected authors have discussed various technical aspect of Strotz's paper, among them Pollak (1968), Blackorby, Nissen, Primont and Russell (1973) and Peleg and Yaari (1973). I will add only a few remarks about Peter Hammond's contribution (Hammond, 1976) which aims to approach the problem on a more general level. Hammond borrows Strotz's distinction between naive and sophisticated choices and analyzes the relations between these notions with both coherence, standardly defined, and what he calls "essential consistency" and "essential inconsistency". The latter notion refers to a situation, illustrated by addiction, which changes tastes in such a way that once in it, it is no longer possible to make the choice which was formerly desired. One who at first wanted to consume some drug and then stop is forced through an involuntary change of tastes to become a drug addict; whereas at the beginning of the choice process, one clearly preferred abstinence to addiction. In an essentially inconsistent situation such as this one, both a naive and a sophisticated choice are incoherent on the grounds that they violate the weak axiom. The naive choice of someone who has not predicted the change of tastes is incoherent because, in the end, the addiction results from a choice among the three possibilities whereas, in a choice between only addiction and abstinence, abstinence would have been chosen. The sophisticated choice of a person who had predicted the change of tastes is incoherent as well since abstinence is chosen among the three possibilities whereas, in a choice between only temporary consumption and abstinence, temporary consumption would have been chosen. However, as Hammond observes (pp. 167-170), in an essentially consistent situation, neither naive nor sophisticated choices need to be incoherent especially if they correspond to a strong ordering. While finely formalized, this result is hardly surprizing since, as observed in the discussion of Strotz's paper, within such a situation there is no longer change of tastes.

Other contributions related to changing tastes focus on comparisons between different tastes (or, if you prefer, between different set of preferences or different utility functions). They refer to metapreferences about the compared set of preferences. Burton Weisbrod (Weisbrod, 1977) resorts to a Rawlsian indifference veil to imagine possible tests that aim to establish that one utility function can be judged preferable to another. T.A. Marschak (Marschak, 1978) raises the problem of justifying policies which can change preferences on the basis of a gain in welfare. But if an individual who has tastes that change is not treated as rational by modern economists (on the ground that the weak axiom is violated), his (or her) economic behavior can hardly be analyzed satisfactorily. Marshak solves this problem by comparing the preferences and expected behavior of three *different* individuals: the first being the

individual before the policy is applied, the second the (otherwise same) individual after the policy is applied and the third the (otherwise same) individual as (s)he would be if the policy was not applied. Marschak resorts equally to a Beckerian household-technology analysis, concluding that, with this interpretation, the policy "does not change this person's true tastes." Clearly, in these analyses of metapreferences, it is crucial to resort to ingenious artifices in order to avoid dealing with individuals whose tastes changed.

The last contribution I would like to briefly discuss is Von Weizsäcker's paper on endogenous changes of tastes which comes closer to analysing change of tastes as such and to associating them with a rational learning process (Weizsäcker, 1971). At first glance, it seems to contradict the view of this paper since Von Weizsäcker claims that his theory on changing tastes is formally analogous with revealed preference theory. However, it is clear that such a formal analogy does not imply that the two theories are compatible. It is true that Von Weizsäcker refers to a consistent (and even transitive) sequence of commodity vectors, each of them being preferred to the previously consumed vector whose consumption (which is no longer preferred in the next phase) is itself responsible for the change of tastes which bring the new set of preferences, and so on (p. 357). In such a process, transitivity concerns the successive choices of sets of preferences, not the choices of various goods throughout the whole period affected by the various sets of preferences. If I choose sweet wine over dry wine in a situation where the very fact of consuming sweet wine, for any reason, contribute to my change of taste in such a way that I later choose dry wine over sweet wine, my behavior clearly contradicts the weak axiom and the transitivity of choices. Consequently, it is totally incompatible with the application of revealed preferences theory (which incidentally implies a kind of transitivity in choices requiring perfect information and what Von Weizsäcker calls "perfect imaginative powers" (p. 359)). However, once I have acquired this new preference, I may consistently never return to the old one. If this is the case, a transitive relation prevails through the succession of preferences, but only if we consider exclusively those successive steps which correspond to states of preferences resulting from successive changes of tastes. Even if the rationality of changing tastes is ruled out by modern economists's very way of arguing, an adaptation of standard economic formalism to such a situation can be helpful as illustrated by Von Weizsäcker's paper.

This admittedly schematic and selective discussion of a few papers related to the question of changing tastes is far from pretending to give a complete survey of the question of changing tastes, as little frequented by economists as it is. The sole goal of this exercise has been to illustrate how, even when explicitly devoted to the question of changing tastes, economic analysis has trouble coping with it. It is not that the theoretical imagination of the authors is not considerable, but rather that economists are forced to be so imaginative largely owing to the fact that they move on shaky ground when they addressed the question of changing tastes. How could it be otherwise when the concept of rationality

which is fundamental to any economic explanation is redefined — in order to make economic analysis both more autonomous and more manageable — through a close association with the idea of stable and unchanging tastes?

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