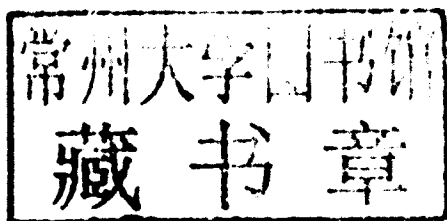


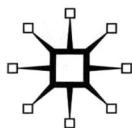
Rational Choice Theory

Potential and Limits

Lina Eriksson



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LINA ERIKSSON

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Chapter 1

Introduction

Few approaches in social science have generated as much controversy as rational choice (RC) theory. The ‘economic approach to politics’ has been hailed as finally making political science *scientific*, and some have expressed the conviction that there is not any other theory worth taking seriously (Riker 1990). RC theory has spread across the social sciences in general and political science in particular, earning itself a reputation for being imperialistic. But this newcomer became the target of passionate attacks. According to the critics, it was non-scientific nonsense advocated by people who wanted to show off their maths skills but who could not test a theory empirically. The debate really took off after Donald Green and Ian Shapiro published their book *The Pathologies of Rational Choice* (1994) which criticizes RC theory for being unfalsifiable or outright false. Empirical results do not seem to settle the matter: with the same conviction that RC theorists claim great empirical successes, critics argue that the theory does badly when tested. There will always be some disagreement over theories in social science, but the debate about RC theory – especially since the publication of *Pathologies* – has been characterized by particular vehemence. For example, only a few years ago the so-called *Perestroika* movement brought talk of conspiracies, secret meetings and people hiding behind anonymity in fear of retaliation: according to this movement, RC theory and quantitative methods had taken over political science and made life miserable for everyone else.

The tone of debate has not been helped by the early claims that RC theory would finally make political science scientific (Riker 1990), or that there really is no alternative to RC theory. Claims like these – no matter what you think of their truth – are bound to rile those who take themselves to be doing perfectly legitimate research along those slandered alternative lines.

Critics, on the other hand, have been equally uncompromising, and the common normative overtones have not exactly made them less so. The main problem is that RC theorists often, even if not necessarily, have assumed that agents are self-interested, and some critics seem to assume implicitly that we explain the behaviours of others on the basis of our self-knowledge. Advocating a scientific theory that assumes that people are self-interested would thus render you morally suspect. In fact, critics have sometimes warned that the very teaching of RC theory in universities brings about character degeneration, citing studies that economics students are more self-interested and calculating in their relation to others than other students (Marwell and Ames 1981; Zey 1992). Together, these phenomena have not contributed to a friendly discussion. Neither has the fact that some RC theorists, especially the Virginia school represented by for example Buchanan and Tullock, have been quick to draw right-wing policy implications from their work, inspiring (among others) the Reagan and Thatcher governments' emphasis on small government. (It should be noted that not all RC theorists support right-wing policies, and many RC analyses have been taken to support left-wing policies instead.)

There is also a marked and rather striking difference in the extent to which RC theorists and critics assess the success of RC theory. Clearly the theory is not perfect, so maybe we should see it as just one theory among many. Certainly many – both advocates and critics – do. But at the same time, although RC theorists acknowledge that the theory is far from perfect, some of them nevertheless claim that it has an advantage over alternative theories – be it rigour, a micro-level mechanism or something else. Some critics, on the other hand, go to the opposite extreme and claim that the theory has close to nothing to contribute. Consider for example the following exchange between Kenneth Shepsle on the one hand and Donald Green and Ian Shapiro on the other. Shepsle argues that there are no alternative theories worth considering and that this gives us reason to embrace RC theory regardless of its imperfections: 'A long time ago, when I took philosophy of science in graduate school, I remember reading or hearing about the first law of wing walking. Simply stated, it advises: "Don't let go of something until you have something else to hold on to"' (Shepsle 1995, p. 217). To which Donald Green and Ian Shapiro answered: 'Shepsle's appeal to the first law of wing walking would be easier to take seriously if one could develop a degree of confidence that the aircraft in question

were indeed airborne' (Green and Shapiro 1995, p. 256; see also the discussion in Friedman 1996).

What is rational choice theory? A short intellectual history

RC theory came out of micro-economic theory and is often referred to as 'the economic approach to politics' (or to sociology etc.) (Downs 1957; Monroe 1991). Even though RC theory sometimes is connected to behaviourism it is not a behaviouristic approach. Instead of studying patterns between inputs and outputs in an inductive way, RC theory relied on deduction from assumptions about agents' motives, beliefs and incentives to conclusions about the rational course of action. Not even the methodologies were always similar: behaviourism used quantitative methods whereas RC theorists paid much more attention to the construction of formal models based on theoretically based predictions. What both research traditions shared, however, was a focus on behavioural 'laws', predictive principles that could be applied across many cases, and some RC theorists have showed behaviourist tendencies in being reluctant to interpret their assumptions as true or false statements about what goes on inside agents' heads.

RC theory was initiated by some economists and a key political scientist – William Riker – who began to use an economic approach to study politics in the 1950s and 1960s. Quickly several classic texts emerged. One of them was Anthony Downs's (1957) *An Economic Theory of Democracy*, in which he analyses party competition (in a two-party system) as the result of rational vote maximization. Downs's book has been enormously influential as the beginning of the spatial theory of party competition. It was followed by William Riker's (1962) equally famous book *The Theory of Political Coalitions*, which dealt with the formation of government coalitions and argued that the coalitions formed will be the minimally winning ones, so that the benefits of having office will be split between as few as possible. Exploring a slightly different path was Duncan Black, who in 1948 published a paper on the rationale of decision-making in groups, which laid the foundations for the median voter theorem. This was followed by Kenneth Arrow's *Social Choice and Individual Values* (1951), in which Arrow proved that no aggregation method that takes individuals'

preferences and turns them into a collective decision (for example, voting rules) can be guaranteed to result in an outcome that corresponds reasonably to those preferences. Arrow spurred a wave of work on aggregation methods and the conditions under which the will of the people is or is not reflected in collective decisions. This literature is known as 'social choice' (considered part of RC theory by some, an independent field by others). Arrow's famous (im)possibility theorem later inspired Riker to write *Liberalism against Populism* (1982) in which he argued that Arrow's insights showed that the notion of the will of the people was incoherent and could not constitute the basis of our concept of democracy. The most important work on collective action problems – indeed the book that has often been credited for defining such problems – is Mancur Olson's (1965) *The Logic of Collective Action*. Olson discusses the basic structure of collective action problems and argues that, unless there is coercion or some other device to make rational, self-interested agents cooperate, they will (unless the group is small) fail to act in their collective interest. His book has given rise to an important tradition of work on collective action problems as they face agents in political life and on possible solutions to them.

One important line of research within RC theory has concerned the incentive structures in the political and bureaucratic system. This field is often called 'public choice', although that term is also used more widely to refer to everything this book includes in RC theory. The main question here has been whether the political system is set up in such a way that it delivers what the people want, or whether it is biased or inefficient. One question concerns the workings of the bureaucracy, which is supposed to implement political decisions. William Niskanen (1971) famously argued in *Bureaucracy and Representative Government* that bureaucrats are budget maximizers and that, as a result, public service organizations become both huge and inefficient. Almost nobody nowadays argues that bureaucrats are budget maximizers but the book has nevertheless inspired both a research agenda and right-wing politics aimed at decreasing the size of government.

Another important question concerns whether the electoral system is set up so that it will deliver what voters want or whether the incentive structure biases outcomes, for example through the influence of lobby groups, pork barrel politics and log-rolling. This field is also referred to as 'political economy'. One of the main focuses is how constitutions, if constructed the right way, can help

to reduce the inefficiencies and biases in the system and make it more responsive to the welfare of the citizens. One of the major books is *The Calculus of Consent* by James Buchanan and Gordon Tullock (1962). This set the tone for what was going to be known as the ‘Virginia school’; a group of economists who studied politics and government. They used neoclassical micro-economic theory to analyse politics, comparing what they saw as inefficient political institutions to markets that allowed individuals to engage in mutually beneficial exchange. The focus on political failures and problems and a belief in the efficiency of markets led most Virginia School theorists to advocate small governments.

Other seminal work, notably by William Riker, had a different focus. Riker was one of the founders of the Rochester School, a group of political scientists who primarily used game theory and mathematical modelling to study government. They put less emphasis on exchange and more on conflicts of interest, and were less interested in normative policy issues than in understanding how real institutions for elections, legislatures, etc. work. An influential group of economists in Chicago, including Nobel laureates Stigler, Becker and Coase, were also looking at political phenomena (as well as a range of other social phenomena) with the help of neoclassical micro-economic theory, acquiring an imperialist reputation for taking on other fields’ research questions.

‘Rational choice theory’ or ‘public choice theory’ can thus be seen as encompassing different schools of thought. But most people still agree on a canonical list of the most important works and authors for RC theory. However, as we will see in the next chapter, this agreement on the RC theory canon does not bring with it an agreement about what RC theory really is or what it assumes. Nor does it follow that there is agreement on what these works have established: whether as empirically confirmed hypotheses, empirically falsified hypotheses or simplified characterizations of interaction problems and basic dynamics.

Most of the articles and books included in the RC theory canon are characterized by formal models based on assumptions that agents have consistent preference rankings and maximize utility – and often that their utility consists of what is in their self-interest and/or that they calculate costs and benefits carefully when making decisions. These models, then, describe the incentive structures that face agents in various situations and derive predictions about aggregate outcomes based on what it would be rational for agents with

that payoff structure to do, and what the interaction effects will be. For example, Downs's work on two-party systems investigates (i) the incentive structure that parties face in such systems when it comes to setting their policy agenda; and (ii) the curious predicted aggregated effect that the party agendas, under some conditions, will converge. But RC theory does *not have to be* overly formal. Arguments about incentive structures and their aggregated effects often can be and sometimes are made informally.

Confusion despite the apparent consensus

On the basis of such a 'canon' one would expect consensus on what RC theory is. But contrary to expectations, there is no such consensus. I have over the years talked to quite a number of RC theorists about how they understand their project and what it is they take themselves to be doing. We have talked about how they think about the nature of the assumptions made, and indeed what those assumptions are. These discussions have shown the following:

1. most of them believe there is a standard view of RC theory;
2. most of them take themselves to represent it;
3. their views differ widely and fundamentally.

Some emphasize basic assumptions of human nature and advocate a self-interest assumption; others emphasize common-sense explanations in terms of goal-directed behaviour and have no commitment to self-interest; some think RC theory is about individual psychology; others that it has no commitments to particular views about psychology; some think that the micro-level mechanism (see Chapter 8) is important; others that it is merely a convenient way of specifying correlations that lead to phenomena at the macrolevel; some think that RC theory is about rational behavioural outcomes regardless of the decision-making process; others that the theory is about the rationality of the decision-making process itself. No wonder then that most RC theorists feel that their view is constantly misunderstood and that critics' arrows often miss their aim. And no wonder that critics often feel that RC theorists are dismissive of their criticism: more often than not, the particular RC theorists hearing the criticism do not recognize their project in what is being criticized. The result is frustration on both sides. RC theo-