Rational and moral action: a critical survey of rational choice theory

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PREFACE

Robbins' definition of economics in the 1930s as the science which studies human behavior as a relationship between ends and scarce means which have alternative uses, had major consequences for economic theory and paved the way for rational choice theory. Robbins defined economics not as a domain, but in terms of an ever-present aspect of human behavior, namely: scarcity. In all human activities rational people should try to use their means (resources) efficiently. Robbins merged the ordinary world and the economic world, rather than holding them apart. In this way, he transformed economics into ‘a branch of practical reason’. (Meikle, 2001, 53) "The extent of the change was dramatic, as it involves no less than the idea itself of what economics stands for: from the specific analysis of markets, prices and quantities to the general investigation of incentive-led behavior in all situations of social interaction." (Giocoli, 2003, 345) "[T]oday economists can define their field more broadly, as being about the analysis of incentives in all social institutions." (Myerson, 1999, 1068)
Economists promoted rational choice theory as the analytical framework for social science in general, but it was also purposeful imitated in the other social sciences. What attracted them was that rational choice theory portrays actors/agents as acting rationally, and that it has a rather elementary theoretical structure. Its core concepts are 'preferences' and 'constraints' supplemented with an 'extremum principle' that has to warrant that behavior becomes predictable. Starting from this basic model several variants are possible. (see Van Parijs, 1981)¹

Robbins’ definition of economics raises important questions about the scope and nature of rational choice theory. This book is focused on three objectives. The first, is to present an overview of rational choice theory, to reveal its diversity, to critically assess its merits and inadequacies and to formulate proposals for modifying it. The second is to outline an institutional approach to rational choice theory. The third is to demonstrate how economic science can fruitfully discuss the normative (especially the moral) aspects of individual and collective choice behavior. I present, moreover, a comparative analysis of theories about justice that are compatible with rational choice theory. A by-product is to show that when we try to develop an institutional theory of rational choice, we can construct two theories that have quite different implications when applied to non-market settings.

Having its roots in consumer theory and welfare theory, rational choice is concerned both with individual choice and social choice. It is in principle an analytic as well as an ethical theory; it is wedded to the ethical doctrine of utilitarianism as the foundation for judgments about social welfare. Rational

¹ These variants make certain demands on the basic concepts, on the extremum principle and/or on the beliefs of the actors. In the economic model stable preferences are assumed and the set of opportunities vary. In some sociological models the constraints are fixed and the preferences are variable. In some variants the extremum principle is weakened or extra demands are put on the expectations in the form of rational expectations. (see Parijs, Ph. van (1981).
choice theory is not a descriptive theory but rather a prescriptive theory. It does not describe how people act, but it supplies the criteria for a rational choice.

Harsanyi (1986) envisaged a general theory of rational behavior that is composed of three interlocking theories:

a) decision theory, which is the theory of individual behavior under certainty, risk and uncertainty.

b) game theory, which is the theory of rational behavior by two or more interacting individuals.

c) ethics, which he defined as the theory of rational value judgments.

What is striking in Harsanyi's list of subjects is what is missing. Harsanyi’s general theory is exclusively micro oriented. There is no reference to the unintended consequences of actions or a macro-domain. Another omission is that Harsanyi neglects the normative aspects of choices. This is partly due to the fact that ends are taken as given. It is curious that a theory about choice behavior does not deal with the most important choices people make, the choice of their objectives. I thus discuss at length the moral aspects of individual and collective choice and explore the capacity of rational choice theory to explain them, i.e., to discuss ends.

Harsanyi's design of rational choice theory consists of two parts (individual choice and social choice). The construction that I propose is divided into four parts. Part I is mainly concerned with individual choice. Part II discusses the unintended consequences of individual actions. The normative aspects of individual choice, in particular the justification of choices, are the main theme in Part III. And Part IV is a comparative analysis of ethical theories about collective well-being and social justice. I conclude with an Epilogue in which I discuss the idea of a free choice within the context of theories about positive and negative liberty.

The most outstanding observations in Part I are first that utility theory is stripped of all references to psychological factors. Second that choice behavior often conflicts with the axioms of expected utility theory. Third that rational choice
theory neglects the relationship between the conditions for actions and the effects of actions, and fourth that ethics is narrowed to prudential considerations, that is to say that it is instrumental to the realization of non-moral ends.

In Part II I discuss the unintended consequences of intentional actions or, in other words, the macro manifestations of the interplay of individual actions. Since Adam Smith we use the metaphor of the invisible hand to deal with unintended consequences. The metaphor of the invisible hand assures that the actions of the multitude of individuals only concerned with their own well-being are somehow coordinated and the aggregated outcome is beneficial for all. There are two devices, which guarantee the coordination of individual actions: the price mechanism and emergent institutions. Thus we have two approaches to the invisible hand: one in which the price mechanism coordinates actions and one in which institutions fulfill this function. In general equilibrium theory the price mechanism not only coordinates the actions of consumers and producers, it also promises an optimal allocation. In the institutional approach institutions chiefly guarantee social order, but transaction costs theory also explains how considerations of efficiency have led to hierarchies (firms) next to markets.

I introduce the institutional approach in Part II. As a correction of micro institutional approaches, I present an outline of an institutional-individualist approach. The institutional-individualist approach offers an explanation for the problem that institutions are both products of human actions and conditions for human action. This is about the interaction between conditions of actions and effects of actions. This problem is also known as the agency-structure relationship. I present two theories that deal with the agency-structure problem, namely Critical Realism (Bhaskar/Lawson) and Structuration Theory (Giddens).

In the chapter about micro-institutional theories I distinguish the neo-institutional approach and the new institutional approach. The first is based on the property rights school that propagates the incentive-led approach that
underlies the definition of Myerson and Giocoli. The second advocates a comparative analysis of governance structures and institutional arrangements. I call them respectively the competitive and the comparative (institutional) theories of rational choice. Instead of favoring market solutions *a priori* the comparative approach can be used to evaluate the relative merits of alternative governance arrangements.

Substantive theories of practical reason answer questions like: what considerations should I look to in making decisions. What is the rational way to figure out what I shall do? Moral theories answer questions like: what is it morally permitted for me to do? What actions are morally required? What kind of person should I be? Moral considerations enter rational choice theory in two ways. In personal choice when the question is raised about how agents can justify their preferences/objectives and in social choice when either a collective moral preference is articulated (the social welfare function) or moral principles are formulated which would regulate a well-ordered society. I discuss these issues in Part III and Part IV respectively.

I start in Part III with the discussion about justifying actions. Not everything agents desire is desirable and not everything that is desirable is desired. It is this area of tension between desired and desirable that raises the question whether preferences are justified. Besides considering ends agents may also want to act in a proper way. They pursue, as it were, two ends: to realize a certain state of affairs and to preserve their self-respect. As a consequence they place some restrictions on the way they realize the state of affairs. Ends and means become inseparable. Agents also consider the normative expectations in their community. There are rules, conventions and norms they have to obey in certain situations. This has repercussions on their ends and on the means they employ. All this balancing of rights and obligations of pro and cons of decisions invites the agent to consider the question whether his or her ends are justified.

Can ends or preferences be discussed? My view is that preferences (tastes) can be discussed, not because their value
can be established objectively, but because the reasons we value them are open for rational and critical discussion. People do not just desire things because they have a desire for them; quite often they believe that these things are desirable. What makes a thing desirable or what makes an action right can be discussed in the same way as we can discuss what makes a book worthwhile to read or a football match pleasant to watch.

In Part IV I discuss three ethical theories (those of Harsanyi, Gauthier and Rawls) that are compatible with rational choice. Harsanyi takes moral behavior to be instrumental to the acquisition of material comfort and social status. In the moral theory of Gauthier morality is approached as a set of rational, impartial constraints on self-interested behavior for the sake of realizing cooperative projects. Considered from both points of view moral behavior is just part of rational behavior. There is nothing that sets moral behavior apart from rational behavior. Rational agents are only committed to moral conventions when it is in their interest to do so and there is no room for public commitments or for other-regarding actions. An example is the unconcern with distributional issues. Only in Rawls’s *Theory of Justice* does it occupy a central place, for in his theory justice is concerned with the way the benefits and burdens of social cooperation are shared. I finish Part IV with a chapter in which I discuss distributive justice not by referring to a hypothetical construct like an original position, but by a direct reference to the concepts of liberty and equality. I conclude that Rawls's difference principle is supported by a direct appeal to these concepts.

I round off this examination of rational choice theory with an epilogue about the idea of a free choice in relation with political concepts of liberty. Rational choice theory is wedded to the negative conception of freedom, namely non-interference. The counterpart of an extensive sphere of non-interference is a minimal state. I trace the roots of this particular interpretation of freedom in the writings of libertarians like Hayek and Friedman.
This book is an example of a multi-disciplinary approach; it combines views and concepts from economic science, philosophy and sociology. For the most part it is an exposition and an appraisal of other's people work. What is unique in this work is the synthesis it provides and the questions it raises about the scope and nature of rational choice theory. The central question is what modifications of traditional rational choice theory are required to turn it into a theory about choice behavior in which rational and (non-instrumental) moral considerations can be joined together. The ‘engineering’ stream of economics should be reconciled with an ‘ethics related view’, as Sen once formulated it.

I approach the scientific discourse in this manuscript as a conversation about theoretical and social problems. I present the opinions of many scholars, their arguments and the counterarguments of other scholars who participate in the debate. Like Rorty and McCloskey, I see science as a marketplace of ideas in which the interaction of individuals, each with different knowledge and views, constitutes the life of thought. McCloskey argues that an academic community's knowledge depends on the willingness and ability of its members to listen and speak to one another, i.e., the ability to engage in continuous conversation, testing one another, discovering hidden presuppositions, and changing one's mind when there are reasons for doing so. Economics is, in this view, a civilized conversation among equals.