

Rational Institutions: Critical Reading Response — Milan Ilnyckyj — 8 October 2013

Rational choice institutionalism is a set of tools and theoretical approaches that seeks to explain the emergence and functioning of political institutions based on a particular model of human nature, and with reference to particular types of problems.¹ Terry Moe summarizes the approach concisely, asking: “How can individuals who are self-interested and opportunistic overcome their collective action problems to cooperate for mutual gain?”² The approach is applicable in many distinct policy areas, including education, the environment, and the regulation of primary resource industries. The approach is largely derived from the study of institutions like the U.S. Congress, and is frequently deployed to analyze deliberative institutions of this type, often in a highly model-driven and quantitative way. It is also deeply associated with economics, both methodologically and in terms of its perspective on how human behaviour can be most parsimoniously and effectively modelled. The power of the approach derives from the wide variety of circumstances in which individuals can be reasonably well modelled as rational and self-interested actors, as well as cases where political problems can be interpreted as a process of organizing collective action. The limitations of the approach arise partly in cases where its underlying assumptions are challenged, as well as in relation to problems not easily or comprehensively modelled as efforts at collective action. The five readings considered here illustrate both the power and limitations of the approach, while raising questions about the way in which it can enrich scholarly understanding of public policy-making.

Along with Moe, the work of Ben Ansell, Marius Busemeyer, Eleanor Ostrom, and George Tsebelis illustrates the character of the rationalist approach and the type of questions toward which it has been directed. Most straightforwardly, rational institutionalist accounts concern some sort of problem of collective action, such as the establishment of a lobby group or the provision of a public good, and then evaluate how coordination is achieved with reference to the interests of individuals. As Moe discusses, institutions cannot always be seen as ‘cooperative’ and ‘mutually beneficial’ from an objective perspective. Rather, the determination of

¹For a concise description of some common assumptions about the nature of actors, see: Ostrom, “Coping With Tragedies of the Commons”, p. 500–1.

²Moe, “Power and Political Institutions”, p. 216.

whether an institution has those characteristics depends on which actors are considered relevant.³ Institutions may, in many cases, be negotiated solutions to some problem of cooperation, but those cooperating may not be everyone affected by the policies that emerge. As Moe highlights, institutions need not be benign from a societal perspective, and they may well provide a mechanism through which ‘winners’ able to control the policy process impose losses on ‘losers’ who are subject to it. This is especially true for policy-making by states, where most individuals have no reasonable prospect of opting out. Moe’s article also provides an informative answer to the puzzle of relative stability in democratic institutions, in terms of how agenda setting power allows for the narrowing of the scope of possibility.

Much of the richly social character of human life comes from the inability of individual humans to achieve major life projects alone. Whether it’s the formation of a voluntary organization, the management of local resources, or the provision of national defence to a vast country, people must find ways to cooperate to provide mutual beneficial goods and services, and to control antisocial behaviours ranging from over-exploitation of common pool resources to violent crime. Rational choice institutionalism provides guidance on how institutions arise to direct, moderate, and constrain human behaviour. It illustrates how the costs and benefits of both the *status quo* and different institutional structures affect the willingness of individuals to commit their efforts to their establishment and maintenance. It also illustrates some of the characteristics of functioning institutions, such as the ongoing mutual efforts of principals and agents to make their counterpart behave in a way that serves their preferences. The rationalist perspective also contributes to the useful delineation between goods of different types, varying according to excludability and exhaustibility, and provides guidance of how human beings will interact with each, over-exploiting common pool resources which are non-excludable but exhaustible while failing to provide public goods which are neither excludable nor exhaustible in insufficient quantities. In cases where interaction is repeated, behaviour can be observed, and the incentives for cooperation are sufficiently large, rationalist accounts can explain the solution of collective action problems through institutions.

Ostrum’s study of how ‘tragedies of the commons’ have been addressed in different societies adds valuable

³Moe, “Power and Political Institutions”, p. 216.

context and empirical information to the general theoretical account of coordinating collective action. She highlights the variety of rule types used to mitigate over-exploitation of finite resources, and notes how the variety of possible rules makes it impossible for the creators and operators of institutions to evaluate every possibility and identify those that are optimal.⁴ Rather, the policy design process must consist of ‘tinkering’ and ‘experiments’, the success or failure of which can often be accounted for through rational choice analysis. The results of policy change can be unexpected. In an interesting illustrative example, Ostrum inverts the conventional logic that the best defence of common pool resources relies in the empowerment of a central authority. Managed incorrectly, such an imposition may even undermine local regimes that had previously been effective. In the end, Ostrum highlights how the tragedy of commons is not a problem that can be ‘solved’, but rather an ineradicable condition that can be managed more or less well across time. This insight corresponds with the theoretical view that it is often through iterated interaction that individuals are able to overcome problems of collective action: returning cooperation with cooperation and defection with sanctions.

While Ostrum’s undertaking is partly a taxonomical categorization of different rule types, Tsebelis provides a comparative analysis of ‘veto players’ within different government structures.⁵ These are actors whose approval must be secured in order to produce policy change, and their number and institutional status affects outcomes including the probability of policy change and the breakdown of costs and benefits between different constituencies. The more players who need to be on board to enact a policy change, the lower the odds it will occur and the greater the odds the *status quo* will prevail (a feature deliberately built into systems of government based on checks and balances, most notably the United States). Particularly in a global system that is experiencing rapid and widespread change, there is reason to ask whether such *status quo* bias impedes the ability of states with powerful and numerous veto players to adapt to changing circumstances, particularly in novel issue areas like climate change. The sheer number of variables that Tsebelis identifies as pertinent is also a challenge to theory-building, given how a large number of possible combinations makes it challenging to generate parsimonious explanations with general applicability.

⁴Ostrum, “Coping With Tragedies of the Commons”, p. 519.

⁵Tsebelis, “Decision Making in Political Systems: Veto Players in Presidentialism, Parliamentarism, Multicameralism and Multipartyism”.

Education involves some features that fit neatly into a rational institutionalist account, along with others that are more challenging and which may be more effectively understood with different tools. Ansell highlights some important dimensions of education that can be understood in a rationalist way, including how its redistributive impact and ability to promote equality of opportunity may be opposed by elites that wish to avoid threats to their influence. Education is also positioned in relation to other societal components and trends — notably, the operation of labour markets that have changing needs.⁶ As Ansell identifies, in a globalized world these trends are no longer confined to particular states. Education as a rational undertaking must therefore be analyzed in relation to domestic economic activity and needs, as well as the shifting structure of the global economy. How much education ought to be provided to citizens, and what form it should take, relates to immediate labour market circumstances, as well as to projections about how the labour market will function in the future.

Busemeyer effectively makes use of education as a mechanism to illustrate varying outcomes in different jurisdictions, with the experience of particular locations reflecting in part the degree of centralization or decentralization in spending and the nature of interjurisdictional competition.⁷ Both ‘races to the top’ and ‘races to the bottom’ are plausible between jurisdictions that are competing on a multidimensional suite of policy choices, including the level of taxation and different degrees of provision of various public goods. This analysis demonstrates how, even in a rational account, competing dynamics can operate simultaneously, with different patterns of one dominating the other emerging at various places and times.

Education may be an especially challenging ‘institution’ to evaluate from a rational choice perspective. First, there are features that concern the establishment and operation of a public education system, incorporating schools, teachers, and curricula. Second, there are public and private payoffs that arise as a result of the type and level of education that has been undertaken by various members of the population. At the same time, there are ideological and ideational features to education that are more challenging to model from a rational institutionalist perspective. While there are certainly strong claims that can be made about the education

⁶Ansell, *From the Ballot to the Blackboard: The Redistributive Political Economy of Education*.

⁷Busemeyer, “The Impact of Fiscal Decentralization on Education and Other Types of Spending”.

system producing a public good, in the form of an educated workforce, there are also ideological purposes being served. Education is not simply a good provided to individuals, but a means of changing how individuals understand themselves, the world, and the state. Education helps to shape the lifetime values held by citizens and represents a realm of contestation among those hoping to implant particular ideological (or even theological) beliefs. The position of education in the ‘culture wars’ of many states may not be feasible to capture in a rational choice account, and may fit more naturally into a more constructivist or discourse-based analysis of how the state operates and perpetuates itself.

One challenge with many forms of analysis that purport to be based on ‘rationality’ is the danger of being tautological. If individuals are defined as being rational — meaning something like ‘capable of formulating and implementing plans that will allow them to satisfy their preferences’ — and utility-maximizing, any behaviour can be interpreted as rational and utility-maximizing. Behaviour or preferences that seem ‘irrational’ can simply be defined away by saying that individuals must be acting on the basis of hidden preferences, or preference structures that are not immediately comprehensible to the outsider. The power of rational models, however, arises from human behaviour being predictable without access to the minds of the people undertaking it. Saying that behaviour like drug addiction, failing to save for retirement, and procrastination are ‘rational’ and ‘utility maximizing’ risks stripping those terms of meaning; at the same time, the observation that humans frequently engage in behaviours that seem contrary to their long-term best interests may limit the applicability of rationalist analyses.

Ostrum’s argument that individuals are generally fallible, boundedly rational, and norm-using — but that they can sometimes be modelled accurately with a “norm-free, complete rationality” model — raises a further practical and methodological problem. If people don’t behave with a single set of rational thought processes, but rather with a suite of approaches that are context-dependent, it becomes challenging to know whether empirical or experimental results in one domain are applicable in another. This challenge is most acute where it pertains to the most artificial settings in which human beings find themselves, such as the ‘dictator game’ experiments beloved of economists, or even famous psychological experiments like the infamous Milgram experiment. Political scientists and others may have been overly quick to generalize from observations made

under such conditions to theories about human behaviour in ordinary circumstances.

The major claim of model builders has never been that they can capture or replicate all the complexity of the world, but rather that they can generate parsimonious accounts that accord with observations of important phenomena and which can generate novel and testable predictions. In evaluating the relative utility of rational choice institutionalism in comparison with a more discursive and historical approach, this caveat must be borne in mind. Nonetheless, rational choice institutionalism has shown itself to be a powerful tool that can contribute positively to the development of policy; few informed policy-makers today would undertake changes in the criminal justice system, tax code, or employment insurance system without contemplating what reactions those changes are likely to provoke among rational and self-interested actors. An interest-based account may fail to fully describe phenomenon which have deeply intersubjective, ideological, or identity-driven characteristics, but they are well-suited to the analysis of issues where people have interests that are comparatively material, where they are presented with different options for collaborating or competing with one another, and where motivations to engage in or refrain from collective actions are explicable in terms of costs and payoffs are reasonably concrete.

While it doesn't generally concern itself directly with normative considerations, rational choice institutionalism can contribute to normative debates by making predictions about how individuals are likely to behave in altered circumstances. At the same time, there is a risk that the assumptions underlying the theory will be accepted uncritically as amoral features of the world. Such an assumption may unduly privilege the *status quo*, for instance by assuming that polluters who have been emitting toxins or greenhouse gases for decades have the right to continue to do so. Furthermore, by frequently ignoring the major differences in bargaining power that exist between people, a rational choice analysis may incorrectly suggest that a relationship is consensual, cooperative, and negotiated when it is really coerced.

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