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# Introduction

Social scientists and political philosophers are concerned with both how people act, and how they interact. One way to go about studying how people act and interact is to appeal to psychological or social laws that allow us to predict what they will do in certain situations. But we almost always want more than to merely predict the behavior of others—we want to make sense of what they do, to see it as an intelligible way of acting. We seek a genuine *explanation* as well as a *justification* of their behavior.

Making others intelligible to us is closely bound to seeing them as rational. True, sometimes it is intelligible to us why people are not rational, as we can understand all too well, for example, why someone who is drunk accepts a dangerous and silly dare. But usually, when we are confronted by simply irrational behavior, we don't understand what it is really all about. To explain behavior, we need to understand the choices that caused the behavior. And to understand rational choice, we need to understand the reasons that militated in favor of this rather than that choice. Sometimes it is easy to understand the choices of others and to see their reasons for making the choices they did, but sometimes it is not so easy.

Consider the case of Socrates, the most revered of all philosophers. What should we conclude from Socrates' choice to drink hemlock rather than to seek exile or escape? To understand why Socrates did what he did, we can't only look at his choice (drinking hemlock), we also need to look at the underlying reasons he chose that path rather than others that were open to him. From reading Plato's *Apology* of Socrates and the *Crito*, we come to understand how Socrates saw his death as an affirmation of his integrity and his values, and it is his dedication to those values and his courage to philosophize that we still honor today.

At the core intersection of the three disciplines of Philosophy, Politics, and Economics is a concern with understanding rationality and how rational choice and rational belief explain and justify human behavior. Of these, economics has developed the most sophisticated and elegant model of rational

choice. Starting with a set of simple building blocks, we are able to build a model of individual and then strategic choice. By making a few other assumptions, we can then extend that model to collective and political choice. Along the way, we encounter a number of philosophical questions about the status of rationality and the underlying economic model of human nature. It is commonplace to think of economic models of rationality as based on a narrow conception of humans as selfish, or even worse, “greedy,” and such assumptions, even if appropriate to economics, are inappropriate to politics and social philosophy. Economists, in turn, wonder why a model of human rationality that has been so enlightening in one domain should suddenly be inappropriate when applied to others.

This model of human rationality, *Homo economicus*, is at the heart of this book. We seek to understand it and to judge its strengths and weaknesses. In the end, whether one accepts or rejects the general applicability of *Homo economicus* within PPE, we believe that one must understand *Homo economicus*—either to apply it or to reply to and challenge it. In this book, we believe that once we do try to understand *Homo economicus*, what we find is a far more sophisticated model of rational choice than many critics—and indeed supporters—of economic rationality believe. The theory of rational agents at the heart of economics does not inherently imply a “selfish” or “greedy” acquisitive consumer; the model is quite general and encompasses a wide diversity of concerns and goals. And that is why, we think, all students of social interaction must know the basics of the economic approach to society.

PPE is a unified way to make sense of our common social life by using methods and approaches at the intersection of the three PPE disciplines. We see it as an interdisciplinary pursuit meaning that students of PPE will need to understand, from the inside, the economic model of rationality that underlies both economics and political science. But PPE is the study of philosophy, politics, and economics: how does philosophy enter this picture? In two ways. First, reflecting on the nature of rational agency and its explanatory power is essentially a distinctly philosophical enterprise—the philosophy of economics. But second, and far more important, we believe, moral and political philosophy are themselves concerned with questions about how rational people will interact, whether such people will act cooperatively or competitively, and whether they need a sort of “social contract” if they are to live together in peace. Thomas Hobbes (1588–1679) constructed his political philosophy on an analysis of humans as rational agents engaged in strategic interactions, which, as we will see in chapter 5, many believe can be understood in terms of the famous Prisoner’s Dilemma analyzed by economists. But though Hobbes is the most obvious example, all moral and political philosophers must be concerned with understanding what is involved in being a rational agent and

what is required for such agents to live together cooperatively and according to common rules. We do not believe that one can be a good moral or political philosopher without understanding the economic model of rationality and related approaches to social interaction. One of the things that made John Rawls (1921–2002) among the greatest political philosophers of our time was his deep knowledge of economic approaches to studying society. Often Rawls drew on this knowledge in his own work, but even when he declined to do so, his decision was informed by a thorough appreciation of economic analysis and its shortcomings.

Our aims in this book, then, are first to provide an introduction to those areas of the economic approach to society that are of most interest to students of political science, political philosophy, and PPE more generally. Second, we aim to analyze the economic model of rationality, so that we can better understand its presuppositions and commitments. This second task, we believe, should be of special interest to students of economics. In our many years of teaching these topics, we have found that economics students are familiar with basic concepts and theorems, especially in their formal presentations, but often have not reflected on just what they mean. When we have asked students who have completed intermediate microeconomics to explain what they mean by “efficiency,” “utility,” or “cost,” they frequently respond by saying they have not really thought about it. It is our hope that this book will spur them to do so.

In writing this introductory text to philosophy, politics, and economics, we have tried to avoid two extremes. Rather than simply reporting the standard results, we have endeavored to explore the reasoning behind various claims, to show where we think mistakes have been made, and to take positions on some controversial issues where such positions are warranted. When doing so, we have tried to be clear where there is a difference of opinion and why we take the positions we do. Because of this, much of what we say should be of interest to students in economics, as well as to graduate students in philosophy and political science. On the other hand, we have also sought to make this book accessible to undergraduates outside economics. This means, first, that we have tried to survey the main issues and report what we see as the standard results. Second, it means that no mathematics (beyond some basic algebra) is employed. Where there are formal points to be made, we have made them graphically or via simple notation that is explained in the text. This book assumes no prior knowledge of economics, though students who have had several courses in economics will, no doubt, take away more from reading the book.

So, what, specifically, do we discuss in this book? We begin in the first chapter by exploring the concept of rationality that lies at the core of economic analysis. This chapter is the most “philosophical,” since the aim here is to explore the idea of “rationality” itself and the notion of “instrumental” or goal-based

rationality and to see how it relates to “economic rationality.” The second and third chapters continue the analysis of rationality by considering the relation of instrumental rationality to a more precise understanding of utility theory. Utility theory is the foundation for the rest of the book, so it is important to understand just what it means to say that “rational individuals are utility maximizers.” We argue that there is a great deal of confusion about the meaning of this claim. Many people who reject the “economic approach”—and, alas, even many who accept it—do so on the basis of misconceptions about what it means to say that rational agents are utility maximizers. After clarifying the formal characteristics of utility maximization, we close chapter 3 by briefly looking at the work of psychologists and behavioral economists who have investigated whether actual people act in the ways predicted by utility theory.

Chapter 4 introduces the idea of efficiency, another idea about which non-economists tend to have misconceptions. A basic claim of chapter 4 is that efficiency is very closely tied to rationality: rational individuals will seek efficient exchanges. This leads to the important notion of Pareto efficiency. The chapter concludes with a brief discussion of basic failures of efficiency in relation to externalities and public goods.

Chapter 4 also introduces the idea of social interaction between rational individuals in the form of market exchanges and contracts; Chapter 5 and 6 continue this focus on rational interactions as analyzed in the theory of games. Just about every student in the social sciences or political philosophy will at some point encounter game theory, if only in the form of the ubiquitous Prisoner’s Dilemma. Chapter 5 introduces the main ideas in game theory, while arguing that a deeper knowledge of game theory can help us avoid many of the pitfalls and mistakes that characterize the analysis of social life. Chapter 6 complicates the models we introduced in the previous chapter by introducing repeated encounters, evolution, imperfect information and signaling, as well as cooperative bargaining.

Chapter 7 responds to a number of anomalies that we see in rational choice by arguing for the importance of conventions, social norms, and institutions in understanding rationality in the context of social life. We begin by looking at the classic analysis of conventions of coordination developed by the great philosopher David Lewis (1941–2001). Conventions rely on chance and other non-rational factors to generate a coordination equilibrium. As such, they introduce considerable path dependence and contingency into our understanding of rationality in a social context. They also help to explain many of the ubiquitous and enduring phenomena that seem to defy obvious rational explanation. Norms do something similar in the context of cases of conflictual coordination, where there is often an incentive to want to deviate from the cooperative equilibrium. We take our bearings there from the impressive work of Cristina

Bicchieri, while also discussing other accounts of social norms along the way. We conclude chapter 7 by discussing, in a briefer fashion than it deserves, the important role that institutions understood to be sets of norms and guidelines that laid out the “rules of the game” of social interaction play. We argue that conventions, norms, and institutions serve as the “friction” that acts upon the abstract theory of economic rationality and efficiency that we have examined so far.

Chapter 8 turns to the application of economic analysis to large-scale social interaction in the form of collective choice. The chapter commences by examining the contrast between two views of politics, one of the political arena as a sort of market and the other as “forum” in which economic analysis is somehow inappropriate. Although the contrast captures an insight, we suggest that rather too much has been made of it, and even the “forum” view in the end has to see collective choice as having a crucial “economic” component. The chapter then reviews collective choice and democracy in light of the pure logic of collective choice, “axiomatic social choice theory,” which investigates how the preferences of many people might be aggregated into a social decision. The core topic of this chapter is Arrow’s impossibility theorem.

The last chapter brings us back to where we began, namely the question of whether *Homo economicus* is an appropriate unified model of the domains at the core of PPE. James Buchanan (1919–2013) and others have developed what is sometimes called “public choice theory,” which seeks to explain politics by depicting political actors as economic actors in a political context. Politics, on this approach, can be modeled as a form of exchange that differs from economic exchange because of the different rules of the game. As William Riker (1920–1993) emphasized, though, the background rules of political “exchange” often make inefficiency the norm rather than the exception. This led Riker to characterize politics as the “truly dismal science” since mutually advantageous interactions are often not even possibilities. The lesson that Buchanan and his colleagues have drawn from public choice analysis is that if we are going to achieve a politics that avoids these regrettable outcomes, we must fix the rules of the game so that interest of political actors, driven by an economic conception of rationality in the political arena, will align with the public good.

By the close of this work, we hope the reader will have a better grasp of why we think economics, politics, and philosophy are closely related disciplines and why PPE as a unified, disciplinary approach is crucial to a basic understanding of individual rationality and social life. But even those who disagree—who believe that *Homo economicus* and formal models of rationality more generally are not relevant to politics or philosophy—should have a much better idea of just what it is they find inappropriate about the economic approach.

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