

CHOOSE WISELY: RETHINKING THE PHILOSOPHICAL ORIGINS OF RATIONAL CHOICE THEORY IN 21ST CENTURY MARKETS

Keshav Agarwal

St. John's High School Chandigarh

DOI: 10.46609/IJSSER.2022.v07i07.017 URL: <https://doi.org/10.46609/IJSSER.2022.v07i07.017>

Received: 11 July 2022 / Accepted: 21 July 2022 / Published: 28 July 2022

ABSTRACT

The authenticity and validity of the rational choice theory has been a contention of debate since the beginning of its conception in the eighteenth century. A lot has been discussed with regard to its origins — whether it is embedded in the philosophical or not — and its application (or perhaps neglect) to accurately infer theories and postulations. With the onset of the global Pandemic, these debates have further been fuelled. This research, with this exact intent in mind, reassess and reevaluates the philosophical origins of the theory, and its contemporary-day applications. To carry out this study, the background of the theory was revisited, and this background was discussed against the backdrop of critically re-approaching the theory, and its novel tenets.

Keywords: philosophical, social science, pandemic, environmental influence .

Introduction

Introduced in the eighteenth century by philosopher and political economist Adam Smith, the rational choice theory is based on the tenet of human tendency – the notion that individuals are not guided by irrational buying habits driven by unconscious, environmental influences, but instead, these decisions are a result of rational considerations, and the weighing of benefits and risks that is associated with that purchase (Online MSW Programs, 2022). Although the rational choice theory's practicalities are embedded in economic conceptualisations, its theoretical explorations that assess an individual's rationality of choices and decisions are deeply impacted by the theory's philosophical evaluation (Ogu, 2013). These decisions are inherently driven by individualistic notions of benefits and risk, and therefore, have long been understood to be entangled with the philosophical.

Although the rational choice theory has for long informed economics and other disciplines of its conception of decision-making in the standardised economy, the onset of the global Pandemic has altered market-structures altogether, and therefore, the decisions that are made in the contemporary market-structure. The COVID-19 pandemic constrained the salaries of many, and imposed lockdowns and social-distancing rules and regulations, essentially shifting people's shopping ecosystems from in-person to online. With this change in market structure, criticism surrounding the rational choice theory, especially with respect to its philosophical origins has become all the more consequential to debate. This specific motivation has sparked the intent behind this research, which will embark upon the convoluted task of revisiting and reassessing the rational choice theory in the twenty-first century, against the backdrop of the global Pandemic. Further, it will also critique its philosophical origins against this background, arguing the study of renewed understandings of the rational choice theory.

Background

Rational choice theory, whether existing in its inherent, economic realm, or expanding to other social science disciplines such as sociology and criminology, consists broadly of two components: an individual in a decision-making situation recognises alternate options to the choice that is being made, and that the individual, identifying these possible substitutes, further recognises these substitutes' consequences (such as price, pleasure derived from the choice, et cetera) (Burns and Roszkowska, 2016). These components are based on the spirit of rationality, and further emboldened by the self-interest of the concerned individual. Although these components are traditionally used in the economic sphere to understand why and how certain decisions are taken – with regard to purchasing – its multidisciplinary implications have carved the way to understand why criminals behave the manner in which they do, why individuals vote for a particular political party over the other, and why people behave in a certain manner in social situations. The theory, therefore, is employed to provide reason behind unexplained actions and motivations.

This ambition to explain the unexplainable has historically relied on the philosophical, with Smith too establishing the rational choice theory via the influential means of Thomas Hobbes' Leviathan – where the philosopher elucidated upon the nature of political institutions as a result of individual choices (Online MSW Programs, 2022). This trend of identifying economic conceptualisations against philosophical reflections is not a modern phenomenon, but has existed since the scholarship of Aristotle. Although Aristotle was a philosopher and not an economist, his formative ideas on praxis and poiesis form an ethical and political character of economics, in specific, through understanding means of production (Crespo, 2010). Further, his frequent use of

the term *oikonomiké* to refer to the tenets of wealth (even though contemporary translators translate the term to “household management”), especially in the public polis, assures us that the notion of financial prosperity was used frequently by the philosopher to engage with and, comprehend wealth in both the “household and the civil community” (Crespo, 2008).

While this entanglement of the philosophical with the economic can be discussed in the case of other such philosophers such as René Descartes, David Hume, and as mentioned before, Thomas Hobbes, one can also argue that philosophy plays an intellectual role in the understanding of economics. Economic reasoning, in its essence, makes consequential, ethical presumptions about the buyer to understand the rise and fall of the market (Philosophy of Economics, n.d.). The theoretical claims that are made in the field of economics are based on empirical assumptions, such as a buyer will always act in their own self-interest, or that a certain product’s value will be high only because it is ‘in-fashion’ (Tirole, 2019). Economic theories are based on multiple of such ethical claims that may or may not be true to all preferences and contextualizations. It is for this reason that philosophy has always been understood to be intertwined with economics. However, has this relationship between the two fields evolved stagnantly?

Contemporary research informs us that the conception of economics as a philosophy of trade and income distribution is “virtually dead”, and has been replaced by, what some may call, “economic engineering” (Sharma, 2020). A series of events beginning from the 16th century have played vital roles in this demise of the philosophical economy, however, an increasingly significant event in this process is the post-Marshallian era, in the twentieth century. During this time, the “social dimension of the economic development policy had altogether been neglected”, and there had been an increased reliance on quantitative fields such as mathematics to determine commodities, markets, and income distribution (Sharma, 2020). The division of economics into the sub-fields of macroeconomics and microeconomics is evidence of this detachment of the economic from the philosophical. Therefore, while Smith too was a philosopher and economist by profession, the rational choice theory’s dependence on a supposed maximisation of utility, and constraint of income and profit is a hypothesis that largely thrives by the means of modern economics, one that disregards the philosophical origins of economics and its societal ecosystem (Sharma, 2020).

Discussion

Prior to the introduction of modern economics, when the field was entangled with all aspects of social life, and therefore, philosophy, the notion of human agency or choice was at the core of economic understanding: “From its very inception as a subject of inquiry, economics has been

studied as the product of human agency under conditions of scarcity. These were understood to be real actions of real human persons” (Wincewicz-Price, 2020, p. 118). This is exceedingly imperative to note in the etymology of these fields too, which were earlier designated as ‘moral sciences’, unlike the now known ‘human sciences’ (Wincewicz-Price, 2020). According to this categorisation then, the aspects of morality and ethics were at the centre of pre-modern economics — emphasising a significant amount of human nature on the understanding of needs and wants, and therefore, the economic and financial aspects of livelihood.

However, as economics evolved into its modern and neoclassical identity, this notion of choice began shifting from a matter of individual preference, to “aggregate variables, equilibrium analysis and societal groups” (Sharma, 2020). This meant that choice was beginning to be understood as not a product of individual preference, but in fact, quantitative, societal generalisations. In this sense, while Smith’s conception of the rational choice theory is assumed to be embedded in the notion of choice, its glaring presumptions about the rationality of choice confirm that they are, in fact, a product of modern economic thought, one that are disjointed from its philosophical origins.

This phenomenon of choice is increasingly captivating to view against the backdrop of a large-scale destruction such as the global Pandemic. Firstly, the choices made during a global calamity such as this one, scholars of psychology argue, are “colored by emotions” (Courage, 2020), and hence, cannot be justified as rational. For instance, even though the sale and supply of different household items continued during the pandemic, individuals, in a state of panic, hoarded items such as hand sanitizers and toilet paper (Jaworsky, 2021). Moreover, with the uncertainty of the volatile supply chain, individuals were eagerly purchasing over-priced items and products. In this sense, the choice to obtain these items were neither made by rational logic, nor were they made by the means of a cost-benefit analysis. In these unprecedented moments, the notion of rational choice undergoes a drastic shift.

This notion of rational choice is further burdened by the components that were introduced in the ‘Background’ section of this paper, which draws upon the idea that individuals or groups make choices knowing the full extent of other alternatives, and the consequences related to the choice and the alternatives. While this was already problematic in the regular, non-Pandemic market — where individuals can never know the full extent of their preferences — this was additionally catastrophic during the Pandemic when waves of misinformation had engulfed us all. In this sense, the notion of choice in the rational choice theory is not only worthy of criticism in the established, normative structure, but is further calamitous in unprecedented and uncertain situations such as a global Pandemic, and even conflict situations. Rational choice, by this,

cannot be generalised as it has been in modern economics, and requires an individualised understanding of the concept, as was in the norm in pre-modern times. Rationality is based on reason, and if the reasons are not clear (as was the case during the Pandemic), a rational choice cannot be made.

Even though the philosophical roots of the rational choice theory can be debated — given its dependence upon the notion of assumptions and its contemporary reliance on mathematical models — its contributions to the field of experimental economics is noteworthy to mention: “The fact that the theory predicts incorrectly does not mean that it is not valuable. The theory must only be considered a good starting point for predictions about behavior” (Schotter, 2006, p. 502). Although the assumptions laid out in the rational choice theory may not serve as a reliable model to draw conclusions, its experimental nature has allowed researchers and theorists to postulate further predictions about behaviour in the economic ecosystem. It has provided future theorists with a foundation that offers a set of predictions, which have then been tested and factually laid out (Schotter, 2006). The rational choice theory has emerged victorious in paving the way for other, experimental theories.

Further, its utility in different academic disciplines is one that has paved the way for comprehending ideas and theories from interdisciplinary perspectives — a tool that is needed to advance the legitimacy of a certain postulation. For instance, in the field of criminology, the rational choice theory, in studying specific cases, is especially imperative. If one is not making general assumptions about criminals and their behaviours — as proposed by the regular model of rational choice theory — but instead, acknowledging and taking into account the individual circumstances and perceptiveness of the individual — as proposed by the ‘thick’ conception of the rational choice theory (Steele, 2015) — it can essentially prove to be an exhaustive unpacking of the individual being studied. In this sense, while the original model of theory may contain fallacies, its utility in different contexts, which comprehend the specificity of each situation, can prove to be beneficial.

Conclusion

Although the rational choice theory was born from a philosopher, its reliance on generalised assumptions and on a supposed maximisation of utility proves that its origins may not be as philosophical as some would suggest. Moreover, the theory’s inconsistency in contemporary markets, especially with respect to the growth of the digital age and the onset of the global Pandemic proves that the theory is only a starting point, and that it cannot be used in diverse

situations. The rational choice theory's significance is meant to serve a very specific point of inquiry.

Irrespective of this specificity, the starting point of the theory is specially relevant for the advancement of sub-fields such as experimental and behavioural economics, where the theory has been used to further test and factually lay out contemporary theories and postulations. In addition, the various conceptions that the theory has been able to manifest, such as the 'thick' rational choice theory, which considers an alternative to the assumptions laid out and makes note of the individual actions of the subject in question (Hechter and Kanazawa, 1997), can prove to be beneficial to various studies across disciplines. In conclusion, while the philosophical origins of the theory may be flawed, and therefore its applications, the rational choice theory's reassessment and reevaluation can manifest accurate and multidisciplinary approaches, and draw logical inferences, even in unforeseen and uncertain circumstances such as the global Pandemic.

References

1. Burns, T., and Roszkowska, E. (2016). Rational Choice Theory: Towards a Psychological, Social, and Material Contextualization of Human Choice Behavior. *Theoretical Economics Letters*, 6(2), 195-207. Retrieved from <https://www.scirp.org/journal/paperinformation.aspx?paperid=65511>
2. Courage, K.H. (2020). How we make decisions during a pandemic. *Knowable Magazine*. Retrieved from <https://knowablemagazine.org/article/mind/2020/how-we-make-decisions-during-pandemic>
3. Crespo, R.F. (2008). 'The Economic' According to Aristotle: Ethical, Political and Epistemological Implications. *Found Sci*, 13, 281-294. Retrieved from <https://link.springer.com/article/10.1007/s10699-008-9136-9>
4. Crespo, R.F. (2010). Aristotle on the Economy. *Philosophia*, 39-68. Retrieved from <https://dialnet.unirioja.es/descarga/articulo/4970318.pdf>
5. Hechter, M., & Kanazawa, S. (1997). Sociological Rational Choice Theory. *Annual Reviews*, 23, 191-214. Retrieved from <https://www.jstor.org/stable/2952549>
6. Jaworsky, A. (2021). Irrational Behavior and COVID-19: Its Origins and Lasting Impact. *Michigan Journal of Economics*. Retrieved from <https://sites.lsa.umich.edu/mje/2021/11/29/irrational-behavior-and-covid-19-its-origins-and-lasting-impact/>

7. Ogu, M.I. (2013). Rational Choice Theory: Assumptions, Strengths, and Greatest Weaknesses in Application Outside the Western Milieu Context. *Arabian Journal of Business and Management Review*, 1(3), 90-99. Retrieved from https://www.arabianjbm.com/pdfs/NG_VOL_1_3/9.pdf
8. Online MSW Programs. (2022). Introduction to Rational Choice Theory in Social Work. Retrieved from <https://www.onlinemswprograms.com/social-work/theories/rational-choice-theory/>
9. Philosophy of Economics (n.d.). *Routledge Encyclopaedia of the Philosophy of Science*. Retrieved from <http://www-personal.umd.umich.edu/~delittle/Encyclopedia%20entries/Philosophy%20of%20Economics.htm>
10. Schotter, A. (2006). Strong and Wrong: The Use of Rational Choice Theory in Experimental Economics. *Journal of Theoretical Politics*, 18(4), 498-511. Retrieved from <https://journals.sagepub.com/doi/10.1177/0951629806067455>
11. Sharma, S. (2020). The death of *Political Economy*: A retrospective overview of economic thought. *Economic Research-Ekonomsk Istraživanja*, 33(1), 1750-1766. Retrieved from <https://www.tandfonline.com/doi/full/10.1080/1331677X.2020.1761854>
12. Steele, R. (2015). How Offenders Make Decisions: Evidence of Rationality. Retrieved from <https://mmuperu.co.uk/bjcj/articles/how-offenders-make-decisions-evidence-of-rationality/>
13. Tirole, J. (2019). Assumptions in Economics. *Philosophy Reflections on Core Assumptions in Business Research and Education*. Retrieved from https://www.tse-fr.eu/sites/default/files/TSE/documents/doc/by/tirole/assumptions_in_economics_15_10_19.pdf
14. Wincewicz-Price, A. (2020). Economic Choice Revisited: Lessons from Pre-Modern Thinkers. *Words, Objects and Events in Economics*, 6, 117-137. Retrieved from https://link.springer.com/chapter/10.1007/978-3-030-52673-3_8