

Philosophy, History, and Methodology of Economics

Rationalizing Capitalist Democracy: The Cold War Origins of Rational Choice Liberalism

S. M. Amadae

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Amadae's thesis is quite clear: Rational choice methodologies and works in social science provided a theoretical basis for liberal democracy in the post-World War II years, a time when there was much doubt about the intellectual vitality of liberal democracy. She states at the end of a careful prologue: "Western economic and political liberalism stand victorious on the world stage, resting on a new base fortified by rational choice liberalism" (23).

While many parts of this book are excellent, the author cannot deliver a complete and compelling defense of this thesis. She certainly shows, for example, that public choice became a prominent and well-respected means of understanding political and economic phenomena, and that formal political theory provided a methodological individualism within political science, which was a welcome alternative to theorizing about abstract social forces. Nevertheless, the author does not show how rational choice theories led to widespread support for liberal democracy within the academy, nor does the work consider the question of the impact of rational choice outside of the academy, where the defense of liberal democracy can be attributed to the popular rhetoric of Ronald Reagan, Margaret Thatcher, public intellectuals, and political activists who did not employ rational choice theory in the defense of liberal democracy.

The first part of the book, which is also the first chapter, describes the emerging infrastructure, which provided a means for the development of ideas that led to rational

choice theories. The chapter, “Managing the National Security State: Decision Technologies and Policy Science,” discusses the founding of the RAND Corporation and its role in incubating elements of rational choice history. The chapter provides an excellent history of this organization, funded by the government to help make Cold War policy and government operations more scientific. RAND’s reports and staff members made important contributions to policy development and implementation. Many of the prominent theorists of rational choice had connections with RAND.

The best part of this work is part 2, which contains four chapters discussing the early works of rational choice theory. The first chapter in this section examines Kenneth J. Arrow’s intellectual work, with a special emphasis on his social choice and individual values (1951). Arrow, a Nobel Prize-winning economist, demonstrated in this work, according to Amadae, that it is a “logical impossibility [to] achieve collectively rational outcomes.” In other words, it is impossible to determine rationally a collective good. If there is no collective good, then the planned economy and welfare economics become remarkably difficult enterprises. That is, there is no scientific way to understand the optimal distribution of goods. Amadae asserts that Arrow, by his critique of a collective utility function, “provid[ed] a platform for American capitalist democracy” (99). The chapter carefully places Arrow within the context of economic theory and science in the 1940s and 1950s and certainly demonstrates that his work was influential among some economists.

The following chapter examines public choice theory within economics and, in particular, the contribution of James Buchanan and Gordon Tullock. Buchanan and Tullock, more clearly than Arrow, put their intellectual talents to the work of defending liberal democracy. After earning a Ph.D. in economics from Chicago in 1948, Buchanan both established a school of economic and political thought known as public choice and participated in the interdisciplinary Public Choice Society, which promoted rational choice methodologies in a variety of disciplines. Amadae shows how Arrow’s critique of welfare economics influenced Buchanan and further shows how Buchanan’s work went beyond Arrow’s.

The author offers an excellent description of Buchanan and Tullock’s main contribution, *The Calculus of Consent*, which was published in 1962. It is in this work that Buchanan and Tullock demonstrate the impact of self-interest on the decisions made by those in the public sector. At the heart of their work was “an unremitting commitment to methodological individualism” (137). Amadae shows Buchanan and Tullock’s defense of democracy as well as their critique of the way that democracy often functions. What is most useful in this discussion is that Amadae shows what is distinctive and new in Buchanan and Tullock’s account of human behavior. He discusses their account of the costs and benefits of collective action as well as the relationship between individual and collective action. Amadae also credits Buchanan and Tullock for encouraging the interdisciplinary use of rational and public choice theories through their support for and participation in interdisciplinary organizations promoting this methodology. To many political scientists, it will be surprising to learn that John Rawls, the

philosophical defender of progressive liberalism, was an active participant in early interdisciplinary discussions involving rational choice. In fact, he presented some of his early work on the theory of justice to rational choice proponents.

Amadae continues with a carefully researched and written chapter on the methodological contribution of William Riker to the study of political science. Riker, like Arrow and Buchanan, also had connections with RAND. As a young political scientist in the late 1950s and early 1960s, he began applying mathematical formalism to the study of politics. Amadae discusses Riker's work *The Theory of Political Coalitions* wherein Riker focuses on decisions made by individuals. In this work and others, Riker primarily focuses on the means of making sense out of political phenomena, but Amadae shows that Riker is not merely a scientific chronicler of political actions but also a proponent of liberal democracy. Amadae then demonstrates Riker's significant influence on the methodological approach within political science, which is certainly significant in the subfields of American politics and international relations.

A fourth chapter in this section considers the theory and practice of liberal democracy in light of rational choice. Amadae rightly recognizes the limitations of rational choice in explaining political behavior. Mancur Olsen's work, *The Logic of Collective Action*, primarily shows that it is hard to explain why collective action ever occurs. Moreover, the rational choice theorists have had repeated difficulty explaining why people vote, an act central to the practice of liberal democracy. For Amadae, there is a limit to which theorists employing rational choice methodologies can understand the phenomena of politics.

Part 3 considers the antecedents to rational choice theory. Herein she provides an excellent discussion of Adam Smith's political and economic thought and, most importantly, shows how it is distinct from the political and economic philosophy of James Buchanan and other rational choice theorists. James Buchanan, according to Amadae, believed that he was extending the tradition of Smith, but Amadae shows that that is not exactly the case. The essential difference between Smith and rational choice theorists, Amadae argues, is that Adam Smith does not see man as only acting on rational self-interest. According to Amadae, there is in Smith an important place for justice, prudence, and beneficence, which enable us to "act in accordance with the behavioral principles set before us by the impartial spectator" (215).

Another lengthy chapter considers the history of economic thought and shows that rational choice theorists' concept of man has its roots in the marginalist economics of the late nineteenth century—in the development theories of marginal utility and the consideration of the actions of individuals in particular circumstances. Rational choice theorists go beyond the work of those economists, however, by comprehending more complex motives and explanations of human behavior. Amadae certainly has a command of nineteenth-century economic theory.

The final section considers the work of what may be called the second generation of rational choice theorists. In this section, Amadae more fully explores the influence of rational choice on the work of John Rawls and examines the thought of Amartya Sen,

Russell Hardin, and several other defenders of rational choice liberalism. Amadae elucidates not only the lines of commonality but also the distinctions among these scholars.

There is no doubt to this reviewer that Amadae possesses an excellent knowledge of the intellectual history of rational choice theory. The difficult texts in the canon of rational choice theory are discussed with clarity and insight. For those who want to know this intellectual history, this is the book to read. The problem with this book is that too much is claimed. Rational choice may have fortified the belief in liberal democracy for some in academia, but the question of how many is not addressed. It may be impossible to collect precise data to answer such a question, but, in light of the possibility that the answer is “not many,” it ought to be considered. Moreover, it seems that, especially for people such as James Buchanan, rational choice provides a method of fortifying inclinations and positions already held. Buchanan was not a Marxist who discovered mathematical formalism and then had a “conversion.” Buchanan developed a methodological approach to verify impressions already held. That rational choice provided a foundation for some Cold War liberals is important and worth understanding. This book provides the means for such understanding.

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Economic Methodology: An Inquiry

Sheila C. Dow

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Sheila Dow is currently Professor and Director of the Department of Economics at Stirling University. Her original and present field of study is economics. Before working in methodology, she had proved her worth as an academic economist, writing or editing more than ten books, forty articles, and fifty chapters in books published in the fields of macroeconomics and methodology. She works from a post-Keynesian perspective, aligned with ideas of evolutionary economics and those of Tony Lawson’s critical realism.

This book is a clear, up-to-date and in-depth introduction to the methodological issues of economics. Moreover, its presentation and evaluation of the various contemporary approaches are balanced. It is no mean task to point out the merits and limits of those approaches in such an even-handed manner.

Before briefly exposing the content of her book, let me highlight two virtues that are especially remarkable in it because they are rare species in this area of study. First, Dow stresses the idea that methodology depends on an implicit ontological position (cf. 136, 151, 154, 159, 164). Second, her constant concern is to address real-world economic problems (cf. 15, 130-1).

Economic Methodology begins with a discussion about the difficult issue of the nature and scope of the science of economics. Jokes about economists are widespread