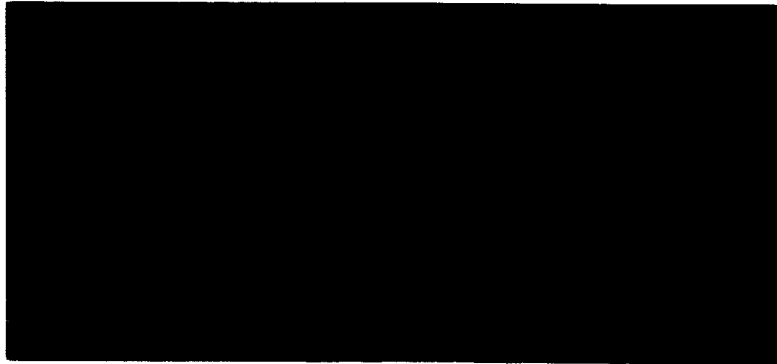




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DOES RATIONAL CHOICE HAVE UTILITY
ON THE MARGINS?

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CSST Working
Paper #25

CRSO Working
Paper #388

April 1989

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An earlier version of this paper was presented in May 1988, Toronto, Canada, at the conference on The Political Economy of the Margins.

ACKNOWLEDGEMENTS:

The author wishes to thank Teodor Shanin, Harriet Friedman, Gustavo Esteva, Margaret R. Somers, Ran Lahav, Ilan Yaniv, Nilufer Isvan, Pam Meil, Rheza Kamali, Cindy Buckley, Fatma Müge Goçek and Michael Kennedy for their insightful comments.

I. THE THEORETICAL CHALLENGE OF MARGINAL ECONOMIES

A specter is haunting the developed world, the specter of marginal economies¹. It is a real ghost, duly buried and eulogized, but it is back and spooking the high priests of industrialization, modernization and economic development. The size and importance of marginal economies both in socialism and capitalism is, by now, the subject of a large body of research. Marginal economies are often discussed under such labels as underground, subterranean, submerged, second or informal economies. These terms refer to a set of economic institutions that do not conform to the logic of industrial mass-production in either market capitalist or state socialist societies.

In recent years sociologists began to develop an interest in rational choice models. (For critical reactions see Oberschall and Leifer 1986 and Hirsch et al. 1987.) This approach is carrying two related promises. First, it promises to turn the structuralist tide in sociology, as the rational choice approach looks at individuals as actors, rather than just playthings of social forces; it conceives of them as people with wills, intentions, goals and purposes². Second, some

1 Teodor Shanin calls marginal economies "expoliary" economies. [Shanin 1988]

2 The rationality is used both as a prescriptive and a descriptive concept. Usually there is a 'division of labor' which deploys the normative concept at the individual level and the descriptive notion at the aggregate level (March 1986). But only when it is used in a normative sense, does rationality allow for choice and can it avoid the overdetermined world of structuralist sociology (Wrong 1961). Were rationality a description of how things are, were it a description of the operating rule of society that forces us all to behave in certain ways, it would lead us back to a structuralism, back to an individual robbed of his choices, intentions and freedom.

Still, a descriptive concept of rationality could serve as model, or ideal type, to which one can compare reality. In this comparison correspondence or lack of correspondence to this model can provide new insights into the underlying structure of decision making.

sociologists believe [Coleman 1986] these models could provide the link that explains how individual action constitutes societal phenomena as opposed to the structuralist model where societal level phenomena impose on individuals.

There are very few areas in sociological research where this link is more sorely missing than in research on the margins. In most other areas, actors associate, create or use organizations which mediate between them and the polity, economic structure or overall culture of society. In the core, people have their clubs, unions, associations, lobbies, newspapers, representatives, forums and conferences which put them into contact with other people living at considerable physical distances, with people who happen to share one or two characteristics of theirs, but not their lives. As a consequence, these people hold operative ideas, conceptions and values about the larger institutions of society and even about society in general.

The margins are different. Far from being atomized, marginal economies are local economies and marginal actors rarely have organizations. They themselves hold no beliefs about how their lives or actions can influence society in general, because they rarely get a chance to enter the stage as corporate or even as collective actors³.

3 I make a distinction between corporate, collective and aggregate actors. Corporate actors are legal entities, with formalized internal structure. They have their interests of their own that can be completely divorced from the interests of the individuals constituting it. Membership and authority is clearly defined [Coleman 1974]. Collective actors act together with a common purpose somehow negotiated among them. Collective actors form coalitions rather than corporations. Aggregate actors, on the other hand, act individually, but their actions produce an aggregate result. Even though aggregate actors act as individuals, they do not act alone. In other words, in their actions they recognize actions of other individuals, present and past. Their actions are contingent on the circumstances they find themselves in, which are the result of actions of others in the past, and they adjust their behavior to actors, corporate, collective or aggregate, they face in the present.

Studies of the unionized working class interested, say, in the relationship between what workers do and did and how the welfare state developed can and should draw on the history of unions and other labor organizations, that most commonly linked the individual worker to political change. Students of marginal workers do not have this option. Furthermore, the lack of organizational and ideological linkage between individuals and macro-level institutions not only deprives the scholar of an important tool of analysis, but it also inhibits the development of a macro-horizon for marginal actors. Indeed, their actions, aggregate "behind their backs". To understand how that happens is a mighty challenge. In this paper, rather than applying the rational choice approach to some specific example, I will consider some of the limits of rational choice theories in marginal economies. I will argue that the narrow concept of calculative rationality requires a certain kind of institutional environment. In marginal economies these institutions are not present, thus the individual cannot and do not take advantage of the decision rules rational choice postulates.

No one aggregate actor has enough power to influence the aggregate outcome [Schelling 1978]. On a completely free labor-market workers act as aggregate actors, when they begin to organize they become collective actors and once they form unions they constitute themselves as corporate actors.

It is also important to see that the same group of people can act as corporate, collective or aggregate actor, depending on the situation. Consider the residents of a metropolitan area, who act as a corporate actor when they commission the construction of an airport, as collective actors when they demonstrate against a nuclear plant to be built in their vicinity and as aggregate actors when they drive around town creating traffic problems.

Furthermore, corporate actors at a lower level can be aggregate actors at a higher level (but not the other way around). Industrial firms [corporate actors], for instance, are aggregate actors on a competitive market or when it comes to pollution or protection of the environment.

II. WHAT IS MARGINAL ECONOMY ? A POSITIVE, INSTITUTIONAL DEFINITION

Studies of marginal economies cover baby-sitting pools and prostitution, artisans and subsistence farming, do-it-yourself and neighborhood help, scavenging and free-lance tutoring.

Most of the common elements of this motley bunch are simple contradistinctions against the prevailing mode of large-scale, bureaucratic production. It is very likely that as the phenomenon develops our theoretical efforts will begin to focus more on the internal dissimilarities of these forms and the term 'marginal' will be replaced by a much more detailed nomenclature.

Still, there are some positively identifying characteristics of these economies which can be grasped at different levels. At the individual level one could see marginal economies as particular labor market strategies. In less developed countries a large part -- often the larger part -- of the population earn their livelihood outside the job-system. In the service sector street vendors, shoeshines, day-workers, fixers, pushers and hustlers try to make ends meet as labor entrepreneurs, less by choice than by necessity, mostly because of the lack of employment. In small-scale production we find traditional 'self-employed' artisans, like shoemakers, handicraftsmen, weavers, tailors of all sorts, but also small family farmers, herb and mushroom gatherers and fishermen. All of them live and work from day to day, without the security and shackles of employment contracts. They rarely possess any formal organization to protect themselves or to represent common

interests, but this also make them elusive and invisible to the powers that be.

'Off-the-books' labor or "Schwarzarbeit", is flourishing in Western countries as well. In the early 1980s about 8% of the workers in the Federal Republic of Germany had undeclared paying jobs. This proportion was estimated to be twice as high in Sweden. In France over a million workers tried their luck outside the job-system, and in Italy estimates range from 2 to 4 million (De Grazia, 1982). Unemployment, insufficient wages, boredom on the job, high taxes, strong unions, the inflexibility of the job-system share the responsibility for the steady increase in the numbers of people turning to alternative ways of utilizing their labor. In socialist economies the list of reasons skips unemployment, but contains new items, such as inflexible and depressed wages, the physical unavailability of basic necessities, like food and shelter, shortage of and the poor quality of consumer goods and services⁴.

By approaching marginal economies from this perspective one will end up with a colorful collection of beggars and private architects, after-work gardeners and moonlighting plumbers, homeworking women and moonshine distillers, free-lance artists and little children peddling Chicelets and candy. Taking a macro-economic perspective, the margins are a complement to the core, and one can define the margins through a series of functional and dysfunctional interdependences. The margins can be seen as a depository of a 'surplus population', an army of potential

⁴ Shortage, as opposed to scarcity, means that the reason for the unavailability of goods or services is not the lack of the means to procure them, but their physical absence. Citizens of socialist countries often have the purchasing power to buy, yet what they want is absent. The producer of missing services or goods in socialism, therefore, faces a large, pent-up demand. [Kornai 1980]

laborers standing by, whose existence disciplines the 'lucky ones', who were admitted into the job-system [Mattera 1985]. Others contend that the margins are filling the cracks of mass-production. Small and flexible, marginal economies can better cope with risk, provide customized services and production and are cheaper to operate [Piore and Sabel 1984]. Some emphasize the autonomous viability of marginal economies, and some stress that marginal economies are often appendages of mass production and large producers externalize some of their costs at the expense of the margins, which makes them indispensable in a system of large-scale production.

However, the most fruitful approach, to my mind, is an institutional one. One can define marginal economies through their institutional characteristics, i.e. through the most important rules people follow in marginal economies. I propose the following ones:

1. Marginal economies lack the tendency to grow and they have a peculiar form of accumulation which tends to be social rather than economic. In most cases, this no-growth tendency is not just a whim, but a result of clear obstacles. The limits could be self-exploitation, uncertainty both of the political and economic kind, restricted availability of capital or technology. But marginal economies are not producing for the sake of expanding production. The moonlighter does not moonlight to be able to moonlight more. Yet, there is a form of accumulation taking place in marginal economies. In rural labor exchanges, where families are helping each other with building homes or doing the harvest, a strange sort of accumulation takes place: an

'accumulation' of trust, respect and obligation. This accumulation is necessary for carrying out the economic activity. One will not be able to build his house, if he did not help others, when they needed help. There are other, more individualistic ways of social accumulation. Many participants in the margins 'invest' in their children, or their prestige through conspicuous consumption, if they belong to the more fortunate part of the margins. Yet, this accumulation does not take place according to a rational calculus. People feel that these investments are useful but the actual utility of these investments compared to other possible ones is highly uncertain.

2. The second feature is that the household and business are not separate, and it is the household budget that serves as the matrix of economic calculation. This is true for simple wage labor too, as factory workers try to maximize the return on their labor power considering the interests of their household. In a large business only the owner makes a distinction between his household and business budget. Yet, the wage laborer's economic calculations rarely involve production decisions. Wage workers can choose only between menus, while the workers on the margins can cook. Moreover the household is not just the matrix of calculation, but often turns into the locus of production, as well. Household farmers, homeworkers, typists who take home their after-hours work operate at home, and even street vendors keep their supplies where they are living.

3. Marginal economies use little capital and usually need little material input, and the importance of labor input is almost exclusive⁵. Indeed the biggest assets a marginal worker can possess are skill, time and physical aptitude.

4. These economies operate by an informal internal organization or rather, without formal internal organization. This is what makes them so hard to tax, regulate or control by central authorities. And conversely, criminalization or any other attempt of interfering abets informality, by making the creation of a formal organization impossible or just too costly.

5. Finally, marginal units are incredibly flexible. They can spring up or disappear, switch products or line of services as conditions permit or demand. This is partly the result of their scant use of capital. They are also flexible at using labor, for instance household farming can use any fraction of time a person can spare to attend to the pigs, collect the eggs, clean the cow stable. All these can be done in the evening between dinner and the nightly news on TV. In general, time-use at the margins is more task than 'clock oriented', and thus workers are not trapped in the rigidities of highly structured industrial time.

⁵ There are some exceptions, like trafficking in gold or expensive contraband, but those are usually larger operations, involving 'employers' and 'employees', and just because they are illegal I would not necessarily treat them as marginal economies. However, illegality usually constrains size and -- as no formal contract can be enforced among the participants, it fosters an informal organization.

Marginal economies are geared to be able to operate outside the legally protected sphere of the market. Some forms like subsistence farming or do-it-yourself avoid the legally sanctioned market altogether. Other forms like street vendors, moonlighters or homeworkers participate in the market but without legal protection. In socialist economies the legally protected market is replaced by bureaucratic redistribution a different kind of a formally protected system of exchange. A formally protected system of exchange creates the security that allows for productive accumulation. The first and third characteristics of marginal economies are related to the lack of this security. But for formally protected systems of exchange to operate it has to create explicit rules and clear boundaries that isolates production from other aspects of human life. The second, fourth and fifth characteristics reflect the absence these clear boundaries.

III. RATIONALITY AND MARGINAL ECONOMIES

A. BROAD AND NARROW OR CALCULATIVE CONCEPT OF RATIONALITY

While the literature on marginal economies driven by the interest of the State to measure, tax and regulate gives ample consideration to their overall volume⁶, to the best of my knowledge, there is little theoretical or empirical research on the kind of individual or micro-level logic actors in marginal economies follow. Will rational choice theory help us understanding marginal economies ? Thus the theoretical question I pose is: what is the nature of economic rationality and "calculation" and what role can they play in marginal economies ?

Any course of action can be seen as a link between certain initial givens and a particular set of final outcomes. Rational action is one kind of such an active link. It is necessary, though not sufficient, for an act to be rational to serve its purpose. In fact, mostly it is simply a claim of adequacy, a much weaker claim than either optimality (you cannot get better) or unicity (you found the best) [Elster 1981]. The claim of adequacy⁷ still leaves us with the question of why the actor did no better or why she did not choose another, equally optimal course of action. To give rationality will empirical content we have to independently ascertain the intention of the actor and compare it to the outcome of her action.

⁶ See for instance, Gaertner and Wenig 1985, Tanzi 1982, or Schroeder and Greenslade 1979

⁷ Adequacy is the result of 'satisficing' behavior [Simon 1978].

This notion of rationality is still very naive, and even in its crudest forms it is always complemented by some consistency⁸ criterion. Rational actors act not only with a reason but they pursue their goals with "method". Most of the analytical treatments of rationality emphasize this point of consistency, sometimes to the detriment of considerations of adequacy or optimality. It is perfectly conceivable that an act is completely consistent yet it does not serve its purpose, or that it results in suboptimal results, as in the famous Prisoner Dilemma. In this example the incentives are structured in a way that each prisoner following the rules of rational decision making will end up worse than he would had both of them violated these decision rules. Yet, given the other person's choice the rational decision yields always better results, which illustrates that the optimality of consistent systems hinges on what is taken as exogenous or given. If cooperation or solidarity rather than opportunism is taken as given in the two prisoners, they can reach the optimal solution following consistent decision rules.

Rationality can be either real or conceptual. It can be seen both as a pattern of behavior and a method of modelling what people do. The distinction between real and conceptual rationality is an important one. We can ask whether people are actually consciously following a rational course of action. In this case rationality is an empirical question and empirical evidence will decide whether or not they are rational according to some criteria.

⁸ In fact, adequacy can be seen as a consistency criterion itself. It asserts the consistency of the outcome with the actor's preferences.

Rationality is also a modelling technique, a conceptual device. As a language with its own syntax and vocabulary it treats people "as if" they were rational. In this case, rationality is not an empirical issue any more; rather it is a tool of simplification. In this simplification subjectivity is assumed away. People get reduced to the shortest explanatory link between the initial givens and final outcomes. It is a language replacing the language of causality. All actions are or can be modelled as rational. For instance, tipping the ambulance doctor, frequent in Hungary, can be explained as rational, because the person feels the discomfort of desperation and the act of handing over a couple of banknotes gives some relief from an intense anxiety, even though there is nothing the ambulance can do differently depending on the tip. Explanations of this kind can be manufactured for just about anything. In this sense rationality means simply that the causes of the act are thought to be known. Taken in this sense, rationality becomes something describing not the action itself, but the state of our inquiry into the action. It means that we understand the causes of the action and we assume these causes to be the actor's own real intentions.

In economic theory the actor is rational if she manages to maximize some utility dear to her heart. Modern neo-classical economic theory takes institutions, available technologies, endowments and preferences as exogenous variables. Once these are given, the process of deciding becomes a matter of analytical modelling developed from game theory, probability theory and statistical principles.

Since people can rarely foresee the future, models bow to realism and conceive of the functions, not in terms of actual, but expected

utility. Uncertainty is included in the model in the form of probabilities. Expected utility,-- the average utility one would achieve in the long run -- is then simply calculated as the product of the utility value and the probability assigned to it. Once the utilities and probabilities are thought to be known and we have decided which utility function to fit, we can relate the initial givens with the final outcome by finding the course of action yielding the highest expected utility. ⁹

The procedures used assume that there are no values of the exogenous variables that make maximization inappropriate. There are no preferences, no endowments, no technologies and, most importantly, no institutional contexts (i.e. sets of rules) that would render this kind of modelling impossible or useless. As Gary Becker put it:

"... all human behavior can be viewed as involving participants who maximize their utility from a stable set of preferences and accumulate an optimal amount of information and other inputs in a variety of markets." (Becker 1986, p.119)

But if all human behavior can be viewed as rational then rationality as an empirical concept becomes vacuous. If rational models can be built for any social phenomenon with equal plausibility, how do we explain that in certain circumstances they seem like so real that people begin to use them in their decision making, and in others they look forced and nobody in his right mind would sit down to do the prescribed calculations ? Rational choice models are appropriate in situations where the actors themselves are able to build and use such

⁹ Maximizing expected utility is a procedure that has certain intellectually pleasing characters. It is based on simple and quite plausible principles and it is able to make its formulations usefully in mathematical terms. (For the axioms see Luce and Raiffa 1957 pp.23-31.)

models. Social settings where real rationality is possible, but not necessarily present, can be analyzed well with rational choice models. In settings where real rationality can be imputed only post hoc, as an exercise in modelling one should not expect much from these models.¹⁰

Are rational choice models useful under the institutional conditions of marginal economies ?

B. RATIONALITY AND INSTITUTIONS

Institutions are sets of rules or logics. I have drawn the boundaries of the marginal economy in terms of its peculiar rules. Neo-classical economist believe that once their homo oeconomicus understands the institutional context of his action together with the other givens, utility maximization can be applied.

Recent developments in institutional economics questioned this assumption (Williamson 1975). There must be a reason, institutional economists argue, that there exists a variety of institutional settings for economic transactions. They recognize that there is a relationship between institutional arrangements and the efficiency that rationality produces. In other word, they have noticed that under certain institutional conditions rational decision making leads to inefficient or undesirable results, that consistency will clash with adequacy. To demonstrate the problem I chose three obstacles to satisfactory rationality: improper motivation, uncertainty and excessive transaction cost.

¹⁰ For a collection of such post hoc rationalizations see Becker and Stigler [1977] and a for a refutation Simon [1978].

Coleman [1988] tries to find an alternative explanation to Olson's free-rider paradox [Olson 1965]. How is it possible that in times of war there are people fighting (some voluntarily, even with excess zeal) in the trenches, when the free-rider paradox would lead us to believe that nobody would? Simply, Coleman says, people are "encouraged" to fight and this encouragement mends the improper incentive structure. Then he elaborates how different types of networks can deliver positive and negative encouragement. However, without the intervention of these structures, no self-interested individual would fight for his country.

Williamson [1981] claims that asset specificity will create need for long term relationships. If the nature of a transaction is such that it requires a big investment that cannot be converted to other uses, the supplier who has to make the investment has to trust his partner that their relationship will last, and the initial investment will be recovered with profit. Without that trust, secured by a legal contract, the transaction will never materialize.

North [1977] reinterpreting Karl Polanyi, offers an institutionalist explanation on why certain societies did not develop markets by arguing, that the transaction cost of enforcing market rules is too high. Rational transactions under market rules would yield highly unsatisfying results. Thus "reciprocity societies can be considered as least-cost trading solutions where no system of enforcing the terms of exchange between trading units exists". [North 1977 p. 713] The informality of marginal economies, thus can be seen as a rational, least cost solution to excessive transaction costs.

However, in a functionalist manner, all three explanations assume that the needs of satisfactory rationality create the proper

institutional arrangements when, in fact, the proper institutional arrangements are the precondition of such a rationality. If the institutional arrangements are not present rationality [rational calculation] cannot function. The frustration over the non-satisfactory results of rational calculation CAN be one of the motivating forces that create the institution that makes satisfactory rationality possible, however, as sociology teaches us, the development of institutions is a much more complex historical process. Indeed, when institutional economists explain institutions as a result of the rational urges of people, they have the causal order backwards. The laws and nationalistic fervor that "encourage" people in times of war to participate cannot be derived from the rationality of citizen participation in the war. In the absence of "encouragement" everybody would stay at home, including the enemy. Indeed, this would be a much more satisfactory solution. The legally binding long term contract is in the interest of the supplier, because that will lock his customer into the transaction. This explains, according to Williamson why these long term contracts exist, and why they replace market transactions in such instances.

But the interest of the supplier really does not explain all why the contract come into being. The legally binding long term contract may be in the interest of the supplier, but it is precisely, because it is against the interest of the customer to stick with the supplier unless penalized for deserting him. The customer would shop around, and choose the cheapest supplier each time. Opportunism, however, is overridden in this model by reference to long term mutual gains. Why would anybody sacrifice short term gains to longer term gains and what is the proper

length of terms is a question utilitarianism is unable to answer, and which makes this kind of analysis perfectly arbitrary.

Finally, transaction costs, like any cost or price, are endogenous variables in economic theory. The transaction cost of enforcing property rights or legal contracts is the function of the endowments, technologies, preferences and institutions of the system. To put it differently, what cost is depends, among other things, on whether one lives in a market or reciprocity society. The transaction cost approach is also vague on who incurs the cost. Take labor as an example in the family and in the factory. Factory workers are legally contracted for their labor. The cost of enforcing labor contracts to the employer is small. To get your brother to help you to feed your pigs on a regular basis when he prefers to spend his time differently can be much more "expensive", because the personal dependence between brothers will raise costs that don't exist in a formal employment relationship. To keep within the language of this approach, there are "emotional costs", "security costs", "status costs", "costs of cohesion within the family" and so on. Furthermore, it is unclear who bears the transaction cost and why the losses of those actors are singled out. The objection I raised to Williamson's argument with respect to opportunism, and short and long term interest, applies here too.

All three authors recognize that under certain institutional conditions rational calculation with satisfactory results becomes impossible (because of faulty incentive structure, uncertainty or excessive transaction cost), but they show that there are institutional solutions to these problems that will necessarily evolve out of the tension between the need for and the impossibility of rationality.

But this is not how nationalism, states, long term legal contracts or markets develop. In East-European countries the Communist governments are changing laws to create a more stable environment for a large part of the marginal producers who until recently were barred from utilizing the legal system and who not infrequently faced ideological and even criminal persecution. Uncertainty had prevailed, but the new laws created a new set of uncertainties. First, change per se, is a source of uncertainty, at least in the short run. People knew their ways in the old system, when and how to bribe officials, how much to ask for goods and services delivered to private customers. Now they have to learn new ways. Second, the new situation created new uncertainties. In Hungary these reforms were linked to the introduction of the personal income tax. Before, what you made on the margins was yours; now you have to hide it from the tax man. Third, uncertainties abound on the side of the Communist authorities, as well. By acknowledging the need for non-State sector activities they erode their ideological basis, lose control over the planning process, as well as their work-force, and they may allow the development of a new elite which eventually might contest their power directly. [Rona-Tas 1989] Of course, one could feel that old uncertainties were worse than new ones, that is one could have preferences for a certain type of ambiguity. But the ambiguity preferences of the East-European Communist elites are far from unified, which in turn introduces yet a new element of uncertainty.

It is also not true, that the same problem necessarily leads to the same solution. Williamson [1975] argues, that uncertainty will increase bureaucratization. But the solution to a problem within one

institutional context can be the source of that very same problem in a different one. As an example of the context-dependent nature of the relationship between institutions and uncertainty, Stark [1986] describes the enterprise business work partnerships [EBWP] in Hungary. EBWP's are voluntary brigades that subcontract certain tasks in their off hours from their firms. EBWPs get the jobs through competitive bidding. In a planned economy, Stark argues, the main source of uncertainty is the bureaucratic planning process with its bottlenecks, shortages, seemingly capricious changes in directives etc. . To decrease this uncertainty, managers can resort to market-like transactions. Another example is the 'fabbrica diffusa', the extended system of subcontracting in Italy. Large firms find it not just less expensive, but more calculable to farm out work tasks ranging from motorcycle engine part production to garment and shoe manufacturing, because the failure of one of the small suppliers is of little consequence and substitution is easy to find, while accumulating a large workforce in one unit brings all the perils of organized strikes.[Mattera 1985, Brusco 1982] To sum it up: the proper institutional environment is the precondition of rationality and not a consequence of it. Institutions are not created solely by needs for rational action. Institutions within different contexts can have different value for rationally minded actors.

The standard literature on rational decision making or rational choice, in my opinion, ignores the fact that rationality is a "luxury", made possible by and contingent upon certain institutional arrangements. Calculative rationality requires a legally protected system of exchange.

Even if it is inherent in the human mind, either as a potentiality or as an actuality, or if it is an underlying metaphysical reality, what makes it feasible or useful is a set of historically evolved institutional arrangements that allow the basic notions of economic rationality to operate. Whenever those institutional preconditions are not given, the formulations of rational choice as tools of decision-making become useless, the calculations based on them become impossible. The only utility rational choice may preserve in such circumstances is the utility of a failed model which in its failure could yield new theoretical insights.

IV. THREE PROBLEMS WITH RATIONAL CHOICE THEORY IN MARGINAL ECONOMIES

At this point I will raise three questions touching on the three elements of expected utility theory which stand at the heart of rational choice models: utilities, probabilities and the possibility of long term expectations. For the model to be calculable all three elements must be present¹¹. I am going to discuss, 1. the problem of intractable utilities, 2. the problem of unique events and 3. the problem of term expectations.

¹¹ There is a growing literature on decision making under ambiguous circumstances. In those cases, however, there are several equally rational strategies. [McKenna 1986]

A. INTRACTABLE UTILITIES

How is it possible to assign effective utilities to goods or services when those goods or services have no alternative use, when they have no exchange value? Domestic labor, for instance, understood in the broadest possible way to include work in the family business, can be assigned shadow prices based on different calculations. But there are many different ways of performing these calculations and one arrives at very different results depending on the method chosen [Hawrylyshyn 1978, Goldschmidt-Clermont 1982]. This is as much a theoretical as a methodological point.

Intractable utilities, of course, do not mean that these things are not valued or useful or desired or avoided. It simply means that these values simply do not lend themselves to rational calculation in this very narrow sense. In fact, utilities are tractable only in situations where there is exchange among several independent economic agents with goods that can be substituted for by other goods. This is a special case of the market. To the extent to which marginal economies do not participate in such a market at all, they are faced with the problem of intractable utilities. Labor exchange in residential construction and agricultural harvest in rural Hungary until recently had been based on the reciprocity of mutual help [Sik 1984]. The value of one's friend's labor was incalculable, because there was no alternative way of getting the work done with a professional, and for the helper there was no alternative to lending a hand to the neighbor or relative in need. Recently, as market for labor and consumer services expanded, people are

increasingly likely to calculate the pros and cons of employing someone for money or to buy their obligations to others off. Nevertheless, most of the labor exchange is still built on reciprocity, where "accounting" is done in rough terms of time spent working, a measure of justice, rather than a measure of utility.

B. UNIQUE EVENTS

How is it possible to assign effective probabilities to future "economic" events? Standard treatments of probability in game theory always assume a priori probabilities. A priori probabilities are very convenient but very hard to come by in real life. Flipping fair coins, playing cards or the lottery and throwing dice comprise a very small segment a human life. Most of the time, when we talk about probabilities in the real world, we have to fall back on a posteriori probabilities. One need not get entangled in the philosophical problem, that this method does not allow for the concept of a "future", -- since future is conceived as the most likely past ahead of us, -- even though induction from past to future is especially problematic in the case of historical events. To describe the future as an objective probability distribution means that the future in principle is knowable and is independent of the autonomous decisions of human agents [O'Driscoll and Rizzo 1985 p.4.]. At this point the theory revokes agency from humans and sinks the ship it travels on. The basic assumption, even more, the *raison d'etre* of the theoretical enterprise, -- human choice -- goes down like the Titanic.

It is sufficient to note that these calculations assume that the event on hand is not unique. Either itself or something similar had

already happened before, not once, not twice but several times. In Eastern Europe, for instance, to enter the legally sanctioned second economy one has to assess the probability that next month all private activities will be denounced as anti-socialist. A protective and credible legal system is necessary to create the continuity that is necessary to draw on past experience and thus to predict the future. To assess the likelihood of an event we have to define a set of similar events. Similarity and repetition is not a property residing in the events themselves. They are the results of a standardization process that can be either conceptual or institutional or both. We can see something as repetitive because our intellect grasps some underlying similarity. Many times there are institutional mechanisms that standardize events, that make them similar, comparable, repetitive. One example is bookkeeping. Bookkeeping allows us to treat objects as similar, because it reduces them to simple categories. The question is whether treating a hammer as inventory will or will not suffice in our economic action. Can we discard the other details, for instance its color, size or weight ? Marginal economies often 'suffer' from the problem of uniqueness. Because the economic transaction is not isolated from other aspects of human life, the complexity of each situation is far greater than in the standardized world of industrial mass-production. This is not to say that in marginal economies everything is unique. Uniqueness is a matter of perspective. A marriage is a unique event for the person, but it is just another case for the demographer. All depends on what one believes to be the smallest detail that still has significant practical value in a given situation.

C. LONG TERM EXPECTATIONS

Rational choice is a long-term strategy where people maximize expected utilities in the long run. But, as Keynes mercilessly put it, "in the long run, we will all be dead". This is especially true for marginal economies. Most marginal economies, as opposed to large scale mass production, cannot wait out the long run. As Chayanov [1986] and later Scott [1976] has pointed out in the context of the peasant subsistence economy, these economies lead a precarious existence, trying to minimize disaster as opposed to maximizing expected gains.

What from one angle appears as flexibility can be seen from another as fragility. This fragility is one of the important reasons why marginal economies do not expand, do not accumulate productive resources even when they would have the resources to do so. The major source of this fragility, this "short-term" frame of mind depends on the dominant political economy. In socialism, the main threat to the survival of marginal economies is political, the constant insecurity of an end of toleration by an ideologically hostile regime. In capitalism, marginal economies do not face such risks. There, the main threat to their survival is the market, where forces beyond the marginal actor's control are at work. In socialism, market risk is virtually non-existent because of the constant shortages generated by the core of these economies. Being supply constrained, these economies favor sellers over buyers, and therefore in economic terms marginal economies in socialism are mostly prosperous.

The reason why utilities are tractable and why events can be seen as similar or "standardized" and why long-term strategies are possible in the core is that there are a series of institutions that create tractable utilities and standardized events. The market, bookkeeping and bureaucratic administration, modern law, the credentialling system are all institutions that maintain the possibility of rational calculation. These together with large-scale production, standardized products, mass-markets and the stability of core firms leave a larger space for rational calculation. Of course, marginal economies are not excluded from many of these institutions, yet they make much less use of them. Furthermore, marginal economies are not isolated from the core. They do business with it, they depend on it.

V. CONCLUSION

Marginal economies are embedded in the social fabric of human life. This creates serious difficulties for calculative rationality by creating ambiguity, complexity and uniqueness, which prevents humans of bounded rationality to trust their fates to utility functions. Only when the economy becomes institutionally isolated from the totality of life does such rational calculation become possible. Then problems become isolated from the countless different aspects of human life and become amenable to calculative rationality.

I believe that the institutional separation of the economic from the rest of society's concerns starts with the separation of the work-

place and the living space, the household and the business [Weber 1978] and it has been promoted by the increase in scale and complexity. Polanyi recognized that the complexities of industrial production required the commoditization of land, labor and money and thus the expansion of the market from the narrowly defined field of commerce to the whole of industry and reached the conclusion that this was the "inevitable consequence of the factory system". [Polanyi 1944 p.75] Yet Polanyi's target was not the factory system or large-scale industrialization itself, but the market.

Commoditization reduces the complexities of objects and humans to their exchange value. Hayek [1945] calls it the 'marvel' of market prices. Commoditization removes the social fabric from around neighbors, oranges, grandparents, crucifixes, homes, lunches, trees, dogs and dogcatchers and reduces them to a simple measurable quantity. In other words, it creates tractable and calculable utilities. Formalization is the parallel of commoditization in bureaucratic institutions. The analogue of money is the pre-printed form. Formalization or classification reduces the complexities of individual objects the same way commoditization reduces the diversity of incommensurable use values to an exchange value. It defines similarities and thus erases the uniqueness of objects, people and events. Thus formalization is the precondition of predictability. How hard it is to create the necessary conditions for calculative rationality is readily apparent once we look at the most commoditized and formalized core of the economy. Even there we find that transactions are embedded in social relations [Granovetter 1986] though to a lesser degree than they are in the margins.¹²

¹² I believe that the problem of 'decision framing' that now receives attention in the psychological literature is the psychological aspect of

Rational choice models have little utility for marginal actors because marginal economies lack the institutions that make calculative rationality possible. Rational choice models, therefore, have little utility for sociologists if they want to understand the intentions of marginal actors. From the sociological point of view rational choice does not provide a theoretical solution, but raises a new and fascinating problem: what are the institutional conditions under which calculative rationality makes sense, that is it is possible and leads to desirable results ? The persistence of marginal economies is a reminder that this problem cannot be swept under the rug of elegant analytical assumptions.

this very same problem of embeddedness. Tversky and Kahnemann [1986] have found that axioms of rational decision making are satisfied only in very transparent situations. Otherwise different framings or the contexts of analytically identical problems can create different perceptions of what is the most rational strategy. The question sociologists must ask: what allows for the existence of 'transparency' in the real world.

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