

Kenneth A. Schepsle, “Studying Institutions: Some Lessons from the Rational Choice Approach”

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1 Citation

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2 Abstract

Kenneth Schepsle, an adherent of the rational choice wing of the “New Institutionalism” that emerged following the mid-20th century’s behavioral revolution, provides an account of why institutions matter in political life. Institutions prescribe the rules according to which (1) players are identified, (2) prospective outcomes are determined, (3) alternative modes of deliberation are permitted, and (4) the specific manner in which revealed preferences, over allowable alternatives, by eligible participants, occurs. Specifically, Schepsle’s own contribution is to portray institutions as generating *structure-induced equilibria* that are resistant to change due to the transaction costs associated with the bargaining required to alter the extant rules of the game. The rational choice study of institutions therefore involves the interrelated problems of (1) institutional selection (motivated by individuals who seek cooperative solutions that minimize transaction costs) and (2) institutional maintenance, facilitated by the transaction costs involved in any institutional renegotiation.

3 Details

Kenneth Schepsle considers himself to be a part of the rational choice wing of the “New Institutionalism” approach to the study of politics, and he begins his essay explicating the rise of the New Institutionalism. Through the mid-20th century, political science was unsystematic, or “literary,” and legalistic - focused on formal institutional structures without any relation to individual behavior (Schepsle 1989: 133). In response, by the mid-20th century the behavioral revolution, borrowing heavily from sociology and behavioral psychology, “sought to understand empirical regularities by appealing to the properties and behavior of individuals” (ibid). Yet the behavioralists committed a theoretical unforced error, expressing “a profound disinterest in institutions at all,” contending that they were epiphenomenal of individual behavior (ibid). Traditional rational choice theory embraced this approach: In place of the structurally responsive, passive sociological man, it substituted a purposive, proactive agent that maximizes privately held values (ibid: 134). The sources of said preferences or values was not probed; and there was no account of how private preferences “get summed into social outcomes . . . there is no glue holding the atoms together; there is no society” (ibid). Sociologists responded to this critique by focusing on interrelationships amongst social actors; rational choice theorists, on the other hand, turned to institutions, and the rational choice wing of the New Institutionalism was born.

The premise of rational choice institutionalism is that “politics takes place in context, often formal and official (as in a legislative, judicial, or bureaucratic proceeding) but often informal as well (as in a club or faculty meeting)” (ibid: 134-135). Specifically, rational choice institutionalism specifies that institutions delimit the context in which individuals maximize their private utility functions, by specifying the rules according to which “(1) players are identified, (2) prospective outcomes are determined, (3) alternative modes of deliberation are permitted, and (4) the specific manner in which revealed preferences, over allowable alternatives, by eligible participants, occurs” (ibid: 135).

Schepsle’s personal contribution, which was developed with Barry Weingast, was to specify how institutions serve as equilibrium outcomes: an institution generates a “structure-induced equilibrium” (ibid: 136). Before the New Institutionalism, rational choice theorists influenced by Kenneth Arrow’s impossibility theorem assumed that in politics typically no equilibria exist, and as such politics is inherently unstable (ibid). Yet “as a student of congressional politics,” Schepsle notes, “I found these general conclusions inapposite. All was not flux; final outcomes were not arbitrary” (ibid). The sequence of individual choices within an institutionally prescribed setting matters, and this interacts with the identity of individuals in inducing the moves that will be selected from the menu of possible strategic action (ibid: 137). Specifically, an institutionally generated *structure-induced equilibrium* can be defined “as an alternative (a status quo ante) that is invulnerable in the sense that no other alternative, allowed by the rules of procedure, is preferred by all the individuals, structural units, and coalitions that possess distinctive veto or voting power” (ibid).

If institutions generate structure-induced equilibria, then two obvious questions need to be tackled: (1) how are institutions selected? And (2) how are institutions sustained? For Schepsle, institutional selection involves an “*ex ante* bargain the objective of which is to enhance various forms of ‘cooperation’ and to facilitate the enforcement of agreements” (ibid: 139). This choice is of course problematized by the “twin obstacles” of imperfect institutional enforcement and imperfect foresight of future contingencies (ibid: 140). Indeed, sometimes institutional agreements include flexibility clauses that allow their structure to be adapted to changing circumstances. Yet all is not up for grabs when it comes to institutional change, for institutions are often resistant to change. Specifically, “an institution may be said to be *renegotiation proof* if, even as experience unfolds and some previous uncertainties are resolved, no decisive coalition of agents wishes to alter the institution” (ibid: 142). A slightly weaker form of institutional robustness is the notion that an institution is “essentially” in equilibrium if “changes transpired according to an *ex ante* plan (and hence part of the original institution) for institutional change” - that is, when institutional change occurs according to the amendment rules prescribed by the institution itself (ibid: 143). In general, both of these forms of institutional robustness may emerge because bargaining over institutional change incorporates two transaction costs that act as “taxes”: (1) impatience, or the deferred gratification from the change due to the “haggling” that takes place during negotiations; (2) risk of breakdown, or the potential that the parties won’t come to an agreement and will thereby have to bear the sunk costs of negotiation (ibid: 144). In short, following the logic of Ronald Coase’s “Coase Theorem,” “the transaction costs of change provide an institution with something of a cushion, giving it a stability it might not otherwise enjoy in a transactions-cost-free world” (ibid: 144).

4 Preliminary Critique

Although Schepsle critiques traditional rational choice theory for insufficiently probing where private preferences come from, he does not do an adequate job of specifying these origins within his framework. Institutions may well prescribe the subset of choices open to individual actors, but it is not clear that rational choice institutionalism can then explicate the selection of a particular choice. In particular, institutions are characterized primarily as constraints on individual behavior, rather than potentially constitutive of individual behavior. Sociological institutionalism, one of the other branches of the New Institutionalism, has more seriously probed the institutional construction of interests.