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Erosion of belief in “social rationality”: How game theory and social choice theory changed the understanding and modeling of social rationality*

ABSTRACT. This article discusses how the developments in game theory and social choice theory profoundly transformed our understanding and modeling of social rationality in the social sciences due to the erosion of the concept of social optimum. I discuss the Prisoner’s Dilemma and relevant examples of social situations, analyze the difficulties that arise when games are repeated, and finally, check how the main results of social choice theory influenced our understanding of the “best” social outcome.

KEYWORDS: rationality, Prisoner’s Dilemma, Arrow’s Theorem, folk theorems, social optimum.

1. Introduction

One of the long-lasting byproducts of the Age of Enlightenment was the confidence in social rationality and linear progress. Bernard Mandeville (1705) firmly believed that individual vices necessarily produce social good. In Adam Smith’s (1776) more refined analysis, the concept of an “invisible hand” represented the universal mechanism of aggregating multitudes of individual activities. Unconstrained markets were smart and good. Selfishly motivated actions were automatically and miraculously converted by markets into “optimal,” or at least “near-optimal,” social outcomes – this was an implicit

* The author is grateful for comments to Barbara Kataneksza. The support of the Center for the Study of Democracy at the University of California, Irvine is gratefully acknowledged.