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Introduction

Rational action of individuals has a unique attractiveness as the basis for social theory. If an institution or a social process can be accounted for in terms of the rational actions of individuals, then and only then can we say that it has been "explained." The very concept of rational action is a conception of action that is "understandable," action that we need ask no more questions about. And social theory can accept the purposive individual as the acting unit, although psychology might want to probe within that system, to discover what makes its actions coherent, or "purposive."

Certain phenomena derive rather directly from the conception of rational action of individuals. Most direct is individual choice behavior, under certainty, risk, or uncertainty. The problems here are not trivial. Within that domain there are important issues, as indicated in the work covered in Kahneman, Tversky, and Slovic (1982), Luce (1959), Edwards (1967) and others. Yet it is when rational action must be taken in the context of other actors' actions that social phenomena emerge. The simplest and most direct of those arises from voluntary action of two persons engaging in social exchange. It is this structure of action that forms the basis for all of classical and neoclassical economic theory; and it is this structure of action on which the basic processes of economic systems are grounded. In addition, much social behavior outside an economic arena can be usefully conceptualized as social exchange, as evidenced in the work of Becker (1976), Homans (1958), Blau (1964), Lindenberg (1984) and others.

It is, however, when social phenomena consist of something beyond voluntary exchange on the part of two individuals that the greatest challenge arises for social theory based on rational action. This is evident in work on accounting for collective decisions by rational theory. That work has confronted serious obstacles, and there is nothing approaching satisfactory theory in this area. Similarly, when the consequences of a social transaction cannot be restricted to the parties who are direct participants in it, extensive problems are created for theory – as well as practical problems such as the "free rider" phenomenon.

Yet it is this most theoretically intractable realm of social phenomena which constitutes a large part of the functioning of social and political systems. All political processes, most social institutions, collective behavior such as fads and panics, organizational functioning, status systems, systems of norms, and a host of other phenomena cannot be treated merely as extensions of economic systems involving exchange of private goods. In fact, everyday language points to a phenomenon wholly outside that domain: the emergence of another class of "actors" which cannot be identified with any single physical person. Whenever we speak of "a family" moving from one city to another, "a firm" lowering its prices, "a union" going on strike, "a nation" going to war, we are speaking of a class of actors other than individual persons, but speaking of them "acting," just as we would speak of an individual person.

One theoretical strategy, then, is to accept the direction indicated by everyday language, to conceive of actors that are not coterminous with physical persons, and to allow our theoretical models of social systems to be populated by both physical persons and these other actors (which I shall call "corporate actors").

To give an idea why rational action of individuals appears to me to be a fruitful basis for social theory, it is useful to sketch the steps through which I have come to pursue this course. I did not begin with this orientation to social theory; for some time I believed that the most promising path lay in the directions pointed by the work of Durkheim, that is the consequences of social and economic structures for individual action (in *Suicide*) or for other aspects of social organization (in *Division of Labor* and *Elementary Forms of Religious Life*).

However, in the late 1950s, I was attracted by George Homans' first work in social exchange (1958), though it was too micro-social for my interests in social theory. From the perspective of this approach, other orientations to social theory appeared to be nothing more than statements of observed empirical regularities. By contrast, in this approach, the starting point was a general principle of individual action, from which non-obvious implications could be drawn about action when two or more such individuals were in interaction. Then, in the early 1960s, beginning with an interest in games which simulated social processes (legislative decision-making, bargaining, the functioning of an economic system), I came to feel that in establishing the rules of a game, I was getting close to the activity one engages in when specifying the postulates of a social theory.[1] And in observing and recording the play of the game and the outcomes of play, I felt that these results were something like the deductions one makes in theory.

There was, of course, one major difference, and that was in the players themselves. They were not abstractions, but were real persons. However strongly they were urged to "play their best," and to pursue as well as possible the goals specified for the role they were playing in the game, the actual course of the game differed from one play to another, and the way the game was played differed among different persons. Some of these differences were due to personality and ability differences, some were due to personal relations among particular players which had their basis outside the game, and some were due to unique events in the course of play.

One could imagine, however, games played by "idealized" persons, like real persons but without the individual differences and particular relations imported from the outside world. With such players, the impact of the social-theoretical postulates built into the game in establishing the rules could become more apparent. Such games would constitute a closer analogue to social theory. I even engaged in some half-hearted attempts to program the choice mechanisms of such idealized players into a computer, so that a reasonably complex social simulation game could be played by computer players. Those attempts, however, I abandoned quickly, as it became apparent that the task of devising such players was far from a simple one for any but the most

[1] Some of this work in game construction and play is reported in Coleman (1967, 1969). In this volume chapters 1 and 4 report on the structure and functioning of one of the games, a collective decisions game.

simple social situations.[2] The difficulties may now be sufficiently reduced that such a program would be a profitable one for social theory; but it did not seem so in the early 1960s.

A second alternative was to turn to theory-construction proper; and in doing that, it became apparent that the closest correspondence to the directions I was pursuing lay in the paradigm of micro-economic theory, with the abstract conception of rational economic man as the central element of the theory. In considering the differences between the economist's conception of a rational actor in a social system and the real players that I observed in social simulation games, it became clear that there were two classes of attributes held by the real players that were not held by rational man as used in economic theory. One class consisted of the multitude of individual differences and particular relationships that real players brought into a game from the outside. These were clearly attributes that one would like to eliminate in the idealized player that would be valuable for social theory. The second class arose from deficiencies of the model of rational man used by economists in their paradigm. The conception of rational action is poorly developed in various ways. Rationality is defined only in restricted and well-defined situations. One of these is choice among a set of specified alternatives when the chooser is certain of the consequences of his choice – the economist's conception of rational action under certainty. Another is choice among a set of specified alternatives when the chooser knows that his choice will only partially determine the outcome – the economist's conception of rational action under risk or uncertainty. Another, which is theoretically much less well developed, is the conception of rational action in the presence of one or more others whose actions are mutually contingent, with the outcome dependent on the actions of all. There are still other deficiencies, such as the absence of any recognition that attention of

[2] I was well acquainted at the time with the work of Herbert Simon in developing a General Problem Solver on the computer. The complexities involved in that work led me to feel that despite the promise of this work, and despite the interesting capabilities of list processing languages for pursuing it, work in the development of computer players would lead me to spend my time in developing a theory of individual action and be distracted from the task of developing social theory. It is, of course, not difficult to program the choices of a player in a very restricted environment, such as those characteristically dealt with in game theory, and some work of that sort has been done. Perhaps the most interesting is the tournament of repeated prisoners dilemma games set up by Robert Axelrod (1984).

a person is limited and largely sequential rather than parallel, the poorly-developed treatment of information acquisition and of calculating costs, and the fact that the conception is less well suited to initiation of action than to reaction.

This second class of attributes that real players exhibit but the economist's rational man does not (and I have only listed a subset of them here) consists of attributes that one would like to retain in the idealized player to be used in social theory. They constitute undesirable deficiencies in the conception of rational man used by economists. Nevertheless, it appeared to me then, as it does now, that this conception of rational man, even with its deficiencies, was the most promising starting point for a theoretical program that was analogous to the construction and play of social simulation games, which itself was analogous to the construction and functioning of actual social systems.

The first paper that I published in this theoretical direction, "Collective Decisions" (chapter 1), was in a journal issue devoted to George Homans' work. This paper addressed a problem that I saw of fundamental importance for the functioning of social systems, the problem addressed by Hobbes, of how it is that persons do not engage in unlimited conflict (a "war of all against all"), given that they have conflicting interests, but instead manage to live in some semblance of order, and in fact come to some agreements about common courses of action. The theoretical model to account for this was one in which persons gave in on matters that were of less importance to them in return for others' giving them their way on matters which were of more importance to them – in short, a model of social exchange applied to collective decisions.

Although there was little or no work in sociology that examined these questions from this perspective, there were two bodies of literature that addressed related problems using this perspective. One was in economics. It included work in public finance toward a method of assessing an optimum tax, beginning with Wicksell (1898) and his student Lindahl (1958), and included welfare economics, where the work of Kenneth Arrow's *Social Choice and Individual Values* (1951) had recently opened up a new set of questions. The second body of literature was work in political science, focussing on how political choices could be made when persons began with conflicting interests. Anthony Downs' *Economic Theory of Democracy* (1957) and Buchanan and Tullock's *Calculus of Consent* (1962) had initiated much of this work, though some of the ideas were evident in Bentley's *Process of Government* (1953(1908)).

These two bodies of work were both concerned with the aggregation or amalgamation of choices of rational individuals with differing preferences to arrive at a social choice: in Wicksell's and Lindahl's case, a tax level, in Arrow's case, a social welfare function that reflected individual preferences; in Downs' and Buchanan and Tullock's case, a political choice which reflected individual voter preferences.

Although the substance differed in all these cases, the formal properties of the problem were nearly alike. (In the case of the optimum tax, the structure is somewhat different, as evidenced by recent work toward a solution of that problem (see Tideman and Tullock, 1976) through "demand revelation" (Margolis, 1982, shows the defect of that solution). This work, however, does not address the general problem of social choice among alternatives for which different voters have different preference orders.) This formal similarity of the problems has led to a convergence of the literature under the general rubric of "social choice."

However, the particular substantive context within which the problems arise in economics and political science – in welfare economics, a single collective choice of a social state (a "welfare function"), and in political science, a single political choice – led to a certain myopia about how such problems are solved in ongoing social systems. I addressed the same problem from the broader context of the functioning social system (see chapters 2, 3, and 5), and arrived at somewhat different results. These are addressed in more detail in chapter 6.

In pursuing that problem, I developed a conception of a generalized system of social exchange, a model that has formal similarities to the neoclassical model of general equilibrium in economics. This model, presented in chapter 4 and referred to in several other chapters, has served since that time as the basic model for much of my theoretical work (see Coleman, 1972, *The Mathematics of Collective Action*, and chapter 4).

The chapters of Part I of this book are papers which address the problem of social choice as described above as a fundamental problem in the functioning of social systems. The first was published in 1963, the last in 1983; yet all address some aspect of this problem. In chapter

6 I review the ideas contained in these chapters, in the context of developments in the knowledge of this problem in the work of economists and political scientists.

A second stream of work within the general framework of individual rational action and social system consequences can be described under the general label of power. That work constitutes Part II of this book. The problems addressed here can be best seen by reference to a paper which first focussed my attention on the problems. Here the origins are within sociology, although as will be evident, using ideas from economics as well as political science.

Talcott Parsons (1963) published a paper on the concept of influence, and I published an extensive comment on the paper (1963). Parsons drew an analogy between influence in social life and money in economic systems, seeing "influence" as a general medium through which persons were able to get their way, and visualizing expansion and contraction of influence in social systems, like the expansion and contraction of money supply in economic systems. Parsons had abandoned his early use of the paradigm of rational action (see Parsons, 1937, p. 77, for a programmatic statement), so the paper did not take that perspective. Nevertheless, and despite serious defects in the paper, the necessity to deal with the question at some length in my critique of it led me to an interest in analysis of the properties of money, and its comparability with other means through which power is exercised. The first fruits of this work are found in chapter 7, "Political Money." It led me to an examination of new forms through which power may be exercised in a social or political system, such as "bank accounts" of fungible votes, and vouchers, as intermediate forms with some of the properties of money, but some of the properties of votes. This direction of work remains largely unexplored, though I discuss it in the later parts of this chapter.

None of the work on power in subsequent chapters (chapters 8–12) continues this focus on forms of power; it addresses instead the power relations between two kinds of actors in social systems: persons as actors, and the corporate actors (or as the law sometimes terms them, "fictional persons") created when two or more persons combine some portions of their resources to create an acting entity that is distinct from any one of them. As corporate actors have proliferated in modern society, and have come to take on many different forms (including corporations, conglomerates, communes, trade unions, secret societies, associations), the question of how they can continue to be under the control of persons becomes an important one. The dilemma is a serious one: if a corporate actor is too extensively restrained by the wills of the natural persons from whom its resources originally came, then it cannot exercise its power toward the outside; if it is insufficiently constrained by these persons, it can use its resources against them, exercising its power to subvert their purposes.[3]

The question, then, is how best to resolve this dilemma. Chapter 8 develops a measure of power that takes into account both horns of the dilemma, and chapter 9 applies that measure in a concrete instance.

Another question, arising when persons combine resources to form corporate actors, is what effects the boundaries of corporate actors have on the exercise of different forms of power. It is illegal in the United States, for example, for a legislator to accept money for personal use in return for an agreement to vote in a particular way. Why is this so? What is it about the forms and sources of power that limits their use to certain arenas? These questions are examined in chapter 10.

Within the examination of power, there are some interesting questions about power drifts. The forms of social organization which have developed in recent history (most extensively over the past century) have led to the splitting apart of certain rights that were once bound together. A. A. Berle and Gardiner Means (1940) stated that the modern corporation has "split the atom of private property." That split has been into two sets of rights, which I term "usage right," or rights to control use of that property, and "benefit rights," which include both the right to benefit from use of the property and the right to dispose of the property.[4]

[3] An excellent example of the dilemma can be found in the takeover struggles between Bendix Corporation and Martin Marietta Corporation. Bendix called a special meeting of its stockholders to modify the company's charter to give the incumbent management of Bendix more power to oppose a takeover offer by Martin Marietta. But this power (as an advertisement by Martin Marietta in *New York Times*, 16 September 1982, states to the Bendix stockholders) is designed to "limit your own rights to sell shares at a premium price to a potential takeover bidder and defeat your own desires."

[4] In the example of the Bendix–Martin Marietta takeover struggle, the holders of the usage rights to Bendix property, the management, are attempting to increase their rights to include a portion of the disposal rights as well. They are able to use the power inherent in the usage rights to aid them in doing so.

But with this separation of rights, there arises the question whether holders of the benefit (and disposal) rights might see those rights drift further away from their origins, and find them difficult to recover. The processes of migration or drift of usage rights are discussed in chapter 11.

This drift can have extensive consequences for the distribution of resources among persons in modern society. If corporate actors engaged in production are the loci within which value is created in the society, then the question arises, what happens to that value, and who ultimately benefits? Each of the transaction partners of the corporate actors (suppliers of capital, labor, and materials, and customers) benefits to some degree, because each finds it in his interest to engage in the transaction. But the various markets in which a corporate actor carries out these transactions are differently organized, and as a consequence different parties benefit differentially from the transactions. Since these modes of organization of different markets are not random but systematic, this can lead to a differential movement of value toward some persons in society, due purely to the power that they are able to exercise through the organization of markets. Chapter 12 begins research for studying the phenomenon, by examining effects of concentration in the supplier and labor markets of manufacturing industries on the price at which those transactions take place.

A set of questions that follow rather directly from those discussed in the chapters of Part II are questions about the creation of constitutions, and the rights that are allocated in constitutions. Part III of the book addresses some of these questions. The questions are in part positive (What kind of constitution will make for viability of a corporate actor or of the governing body of a social system?) and in part normative (What kind of constitution will achieve certain goals, such as equality?). The first chapter of Part III (chapter 13) focuses primarily on positive questions, asking what kind of political system in a society would best allow persons to realize their interests, and yet be safe from the dangers of having lost all their individual power to the state. The remaining chapters focus more closely on normative questions, in particular the balance between equality and liberty in society. This, as it turns out, is closely related to the positive questions, because both turn upon the central question of what rights are given over by individuals to the state, and with what constraints on their usage.

The specific questions about the balance between equality and liberty arose in the 1970s with the publication of John Rawls' *Theory of Justice* (1971). The widespread interest that this book aroused outside of philosophy, and particularly within economics, is accounted for by its use of the paradigm of rational action to generate its results, and the fact that these results were directly relevant to economists' long-term interests in a social welfare function. Rawls conceived of the constitution of a just society being devised by rational persons behind a veil of ignorance about what their future positions in that society would be. Thus it provides an answer to the question of what kind of constitution would be constructed by rational actors all viewing the question with the same set of interests.

Chapter 14 examines Rawls' solution to this question, and finds it seriously deficient on several grounds. In the later part of this chapter I develop further the conception of an appropriate mode of constitution formation that is initiated in the preceding chapter.

Robert Nozick, a philosopher who also found Rawls' solution wanting, but who similarly took the paradigm of rational action as a starting point, published *Anarchy, State, and Utopia* in 1974, largely as a response to Rawls' theory. Chapter 15 examines Nozick's solution, and finds it deficient as well, for partly the same and partly different reasons from those involved in the analysis of Rawls' theory. Yet Rawls and Nozick provide valuable attempts, which suggest that it may be possible to address both the normative and positive questions of constitution formation from the perspective of rational action, and that a successful enterprise of this sort could have important practical applications to political practice.

In the last chapter, chapter 16, I address such a practical question, the question of school desegregation, from both the perspective of Rawls' theory and that of Nozick's theory. The two perspectives give useful viewpoints, both because they allow one to see the practical question of school desegregation policy from the broader perspective of rights in society, and because they would provide such different answers to the practical questions. The use of this practical question as a test case shows the deficiencies of both theories (and perhaps of any which are based on absolute principles).

Altogether, the chapters of this book constitute attempts to investigate some of the most important problems of sociology – and thus of