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Macroprocesses from Microfoundations

(doi: 10.2383/25958)

Sociologica (ISSN 1971-8853)

Fascicolo 3, novembre-dicembre 2007

Ente di afferenza:

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by Margaret Levi

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Kiser and Welser attempt to refine the approach laid out in *Analytic Narratives* [Bates *et al.*, 1998] by specifying its scope conditions. While we never claimed that the rational choice analytic narrative approach was suitable for all historical research, we should have been more careful in clarifying its limits. Kiser and Welser lay out three scope conditions that they believe reduce the effective application of standard rational choice microfoundations and extensive form games. Theirs is a potentially important corrective intended to advance methodological practice.

Kiser and Welser argue that high uncertainty, their first scope condition, precludes the use of our approach, and they applaud us for sticking to situations of moderate uncertainty. While we recognize that analytic narratives apply where “(...) problems of randomness or contingency are not too severe”, we nonetheless emphasize: “(...) that nothing about the method limits us to cases of certainty or modest uncertainty. Extensive form games have long been used to study settings of high uncertainty and contingency” [Bates *et al.* 2000b: 691]. Indeed, the existence of contingency makes strategic action possible.

For Kiser and Welser, two kinds of uncertainty make it hard to use analytic narrative: “objective uncertainty” and “subjective uncertainty.” “Objective uncertainty” pertains to those situations involving a strong strategic component but in a setting sufficiently unique that it is hard to predict the costs and consequences of one’s choices. They claim that the our approach offers little analytic leverage in unique situations, a point with which we decidedly disagree. Subjective probability theory is designed precisely to understand what decision makers do in these cases. Unique situations may imply that decision makers have a less accurate model of the world

and thus a higher likelihood of making choices that make them worse off, but it does not preclude analysis with standard rational choice tools.

One of the primary motivations behind the analytic narrative project was to demonstrate how to explain what happens when no obvious precedent exists. What seems to be at issue among us is just what constitutes uniqueness. The fact that individuals have been rivals before or that kings have had to deal with elites in the past or that states have had to find soldiers in other places and times seems to mean for Kiser and Welser that decision makers can evoke precedents to inform their choices. In most of the cases we study in *Analytic Narratives*, those precedents may not apply after all. Perhaps the most important mistake decision makers make is to believe the situation is similar to those experienced before and to act as if it is. A history of competition among elites and monarchs, unsuccessful peasant rebellions, and protests that are easily repressed may lead decision makers to make poor assessments when it turns out that this time there really is a coup, revolution, or regime transition.

The real problem for standard rational choice is what they call “subjective uncertainty,” or the effects of cognitive limitations on choice. In fact, cognitive limitations are the reason uniqueness is a problem; when uncertain, individuals make judgments and use heuristics that may end up creating more harm than good. One of my favorite examples here is paranoia in the workplace as a “sinister attribution error” that makes the distrustful individual see threats everywhere and thus undermine her capacity for the cooperation that would lead to her promotion [Kramer 1994]. There can also be too much complexity, even in conditions of perfect information. Given the cognitive limitations of actors, calculations are likely to be flawed and the outcomes unpredictable. But again the question arises as to how we determine when complexity is too great or when the complexity matters. Rational choice analysis relies on simplifying assumptions about what is crucial about actors and their utility functions. The argument is in the details. But it is also in better theory. Recently, several leading rational choice scholars began developing the self-confirming equilibrium framework as a means of analyzing historical situations that are complex, unique, and highly uncertain for those who must make the determinations of how to proceed [de Figueiredo *et al.* 2006].

The second scope condition is extremely small individual costs and benefits. Their one example is mass voting, and they argue that values will trump instrumental rationality in such instances. This hardly seems an issue of concern for major historical events that we have an interest in explaining. I could, of course, be proved wrong by a more relevant and elaborated example.

Their final scope condition involves the unit of analysis. They claim that rational choice microfoundations are best suited to collective actors, rather than individuals,

and particularly “organized collective actors like firms, political parties, and states.” What then of price theory, collective action theory, and other great contributions of micro-economists whose theories begin with individual choices? All the analytic narrative essays, it is true, focus on aggregate actors; individuals are divided into classes or categories of actors with common goals. The underlying theory is still one based on individual actors. If the point is understanding why a particular individual rather than a simplified model of an individual makes the decision she does, then the Kiser and Welser claim has some validity. Experimental research is undoubtedly better than rational choice in investigating the variation in responses of particular individuals to the same constraints. The application of behavioral theory outside the laboratory and to macroprocesses is only in its infancy, albeit an extremely promising infancy [e.g. Henrich *et al.* 2004; Jones 1999; 2001].

The main project of the Kiser and Welser paper is to assess whether the cases selected for *Analytic Narratives* represent appropriate applications of standard rational choice microfoundations. Overall, the essays do well on their scorecard. Kiser and Welser do suggest that Rosenthal and Weingast might complement their analyses with behavioral game theory, given the religious preferences that may play a role in the first case and the emotional issue of slavery in the second. They are less sanguine about my chapter. They counter my claim that fairness plays a role in the increased popular denunciation of substitution and commutation in France and the United States by offering a more parsimonious explanation based only on instrumental rationality.

Theirs is a neat argument based on “musical chairs.” I like it but remain unconvinced. They model the probability of resistance as a function of the combination of the percentage of elite able to evade conscription and the numbers for the army needed by the State. Given heterogeneity in preferences to serve, the farther down the list the State goes to select conscripts, the greater the resistance. This might be true if two unlikely conditions exist: the State knows the types of all those in the lottery and can sort the lottery so that those last called are likely to be those least willing to serve, as they presume. Their argument further hinges on questionable facts. Their assumption is that only elites were able to buy their way out; in fact, legal avoidance was also by “commoners” through the purchase of replacements. In the countryside of both France and the US, small farmers and peasants pooled resources in insurance schemes to buy substitutes for their sons and workers who were drafted. In the cities of the US, factory owners paid commutation fees for valued workers. In France, it is true, the elites were largely excused from the lottery or assessed affordable commutation charges. This does, of course, make elite capacity to avoid service high, which is at the heart of the Kiser and Welser claim (but hardly as high as they aver). However, this is where the second uncomfortable fact comes in: the

elimination of commutation and substitution comes in a down time in militarization, not at its peak.

In the US, the assumption of wide-spread elite evasion is even more problematic. During the Civil War, it was often the elites who first signed up to go. This changes the calculations of the Kiser and Welser model of who will sit in which chairs. While commutation was eliminated during the war, replacement through hiring substitutes was retained. A purely instrumental explanation could account for both resistance to conscription in the cities and the maintenance of replacement in the countryside but would fail to capture why people rioted. It was the sense of injustice that drove the populous to the streets.

Kiser and Welser do offer a more parsimonious explanation, which is preferable, *ceteris paribus*. However, the point of the exercise is not only to explain historical events while getting the history right, it is also to offer explanations that are compelling, that capture the underlying processes that have shifted and that will maintain the policy shift over time. Democratization and its commitment to relative equality before the law helps us understand not only the policy shifts of the nineteenth century but also why some survived (France and the United States) and some did not (Prussia).

In fact, all of the chapters of *Analytic Narratives* investigate, albeit not always explicitly, how institutional arrangements and supports are endogenized and become, in the language of Greif and Laitin [2004], “quasi-parameters,” affecting endogenous institutional change. Structural factors are largely exogenous to the cases, as Kiser and Welser note, but at least so far they are also exogenous for behavioral game theory. However, authors involved in some variant of the analytic narrative project are increasingly engaged in trying to understand dynamic change. This means, as Kiser and Welser advocate, the usefulness of a synthesis of more structural accounts with those using strategic interactions, exactly what we see increasingly happening [Katznelson, Weingast 2005; Levi forth.]. It also means better models of endogenous institutional change, and this, too, is beginning to occur [e.g. Bates 2008; Greif 2006].

Kiser and Welser’s major agenda is to promote alternative analytic approaches when the scope conditions are appropriate. When we published *Analytic Narratives* over a decade ago, we recognized that there were alternatives to rational choice theory and the new economic institutionalism for providing the microfoundations of macroprocesses in history. We considered prospect theory [Bates *et al.* 2000a: 697], but there was as yet little evidence of its effective use in investigations of complex historical questions. The essay by Kiser and Welser suggests that there is now adequate advance in either theory or technique (or both) to permit evolutionary and behavioral game theory (based in part on prospect theory) to do the kind of work

we relied on strategic game theory to do. This is good news, especially for those of us concerned with how to model dynamic change and not just comparative statics and for those of us who insist that fairness, emotions, and other non-instrumental concerns have explanatory power.

The prescription is welcome, but Kiser and Welsler provide little guidance about how to implement a non-experimental empirical research program. Each of their contentions deserves fuller elaboration, and I look forward to a paper from these authors that not only offers the methodological advice but also demonstrates the practice. I know of only one piece that does this so far [Schiemann 2007]; I anticipate others. If *Analytic Narratives* continues to stimulate advances in investigating macroprocesses from microfoundations, then its authors have done their job well.

Barry Weingast gave me his usual helpful feedback, doing his best to make this piece stronger.

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Abstract: In this response to Kiser and Welser's piece, Levi reconsiders the scope conditions they lay out for cases to be explained using the analytic narrative approach. She accepts their advocacy for greater clarification of the limits but challenges their notions of uncertainty and uniqueness. She further accepts their call for alternative analytic approaches but questions the extent to which behavioral theory is yet adaptable to macroprocesses.

Keywords: analytic narratives, qualitative methods, game theory, rational choice, behavioral theory.

Margaret Levi is Jere L. Bacharach Professor of International Studies, Department of Political Science, University of Washington. Among her books are *Consent, Dissent, and Patriotism* (1997), *Of Rule and Revenue* (1988) and the co-authored *Analytic Narratives* (1997) and *Cooperation without Trust?* (2005). She is a Fellow of the American Academy of Arts and Sciences. She was a John Simon Guggenheim Fellow (2002-3) and a Phi Beta Kappa Visiting Scholar (2006-7). She is former President of the [American Political Science Association](#) (2004-5). She is the general editor of Cambridge Studies in Comparative Politics and of the *Annual Review of Political Science*.