

# Rational Economic Man

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Economists still analyse the behaviour of rational economic man. He is constantly maximising. At work, he steers a balance between the pain of additional effort and the joy of additional reward. In the supermarket, he rushes from aisle to aisle comparing price and marginal utility. In the extreme variant put forward by some University of Chicago economists, this behaviour is universal. We refrain from stealing only when the expected penalty exceeds the value of the loot. We marry to gain economies of scale from living together. We commit suicide when the net value of future utility is no longer positive.

Students, and other critics, have always protested that no-one is really like that. Real people have family, friends and colleagues, and they care about them. Even when our economic behaviour is selfish, as it often is, it is as much concerned with our status and the respect of our peers as with material rewards.

Their teachers have offered two answers. One is that rational economic man is not necessarily self-centred, only consistent. When he gives money to beggars he is still maximising his utility: he shows only that the welfare of beggars is as much part of his utility as his own satisfactions. The weakness of this position is that it explains everything we have done after we have done it, but predicts nothing.

A better explanation is that the behaviour of rational economic man is an 'as if' hypothesis. We do not really have the single-minded objectives that the model assumes, but we mostly act as if we do. The reasoning is that the modern market economy favours rational economic man and rewards the decisions that rational economic man would make. So even if we are not naturally inclined that way, the behaviour of rational economic men becomes dominant.

Today's evolutionary biology makes these kinds of argument far more persuasive. Our genes are not really selfish - they have no motives or intentions at all - but the hypothesis that they behave selfishly is a powerful way of understanding the process of evolution. What we call selfishness is simply the survival-oriented behaviour which is favoured by our environment.

Yet there are two big differences between an evolutionary explanation of economic behaviour and the hypothesis of intrinsic rational self-centredness. One is that in evolutionary theory it is the gene, rather than the individual, that appears selfish. The other is that our evolutionary habits were acquired, not on Wall Street and at the Harvard Business School, but on the savannahs where modern economic man emerged from the apes.

Often, these two differences are not important. Idle man, who was discouraged by the labour of hunting and discounted the pleasures of the kill, did not prosper on the African grasslands. His genes were not spread widely. Nor were those of workaholic man, who

expended more energy pursuing animals than he gained from eating his quarry, and returned home exhausted to find others had cornered all the women. Well adjusted man, who judiciously balanced effort and reward, propagated his genes more effectively than either. And family man, who caught enough food to look after not only himself but his wife and children, did best of all. That kind of rational economic man also does well in modern society.

But other things have changed. There was little need or opportunity to assess probabilities on the savannah. When big game was in prospect, bands of tribesmen would hunt together. Perhaps that is why even today psychologists have found that we give disproportionate weight to the possibility of extreme but unlikely outcomes, and are unduly swayed by the enthusiasms of others. A trait that may have served us well in Africa 100,000 years ago, but can lead us astray when we buy a lottery ticket or subscribe for shares in lastminute.com.

Grassland hunting was more productive when groups of hunters pooled their knowledge of animal spoor and shared their catch. But here they faced the dilemma which bedevils rational economic man today. Co-operative behaviour was in the general, but not the individual, interest. Rational economic man took all the information he could from others but kept his own information for his own benefit.

Imagine two tribes, one of which is mainly made up of co-operative men. The other is populated by rational economic men. Co-operative man is friendly, with natural instincts to socialise at work and to share his good fortune with others. Rational economic man is always calculating his own advantage. Rational economic men hunt alone, because although they understand the benefits of working together they always cheat on each other. Co-operative tribes catch more animals per head. And the more food they gather, the more people like them there will be in subsequent generations.

If - as must also have been true in our ancestors' time - tribes consisted of mixtures of co-operative men and rational economic men, then the analysis is more complex. The best situation of all is to be the only rational economic man in a tribe of co-operative men. But that is only if your genial colleagues cannot identify your true nature. When they do, you will find yourself on your own. Tribes will divide into co-operative and non-co-operative groups, and the former will usually eat better.

So genetics favour co-operative man over rational economic man. Man is a social animal. This is not simply a cliché, but an observation by biologists who have compared human behaviour with other species. And if man were not a social animal he would not be as economically successful as he has been. People who marry because they have genuine love and affection for others are more likely to pass on their genes than those who want to marry to reap economies of scale in household production. Rational economic man dies out because no-one much wants to mate with him.