

DRAFT – DO NOT CITE

Herbert Simon. *Real World Decision Making: An Encyclopedia of Behavioral Economics*. Morris Altman, editor. Santa Barbara: Praeger.

Herbert Simon (1916 – 2001), a polymath of the highest order, had a long and distinguished career that reached its zenith in his becoming Nobel-laureate for economics in 1978. The prestigious Turing Award had already been conferred upon him and his long-term collaborator Alan Newell by the Association for Computing Machinery in 1975. In addition to his foundational work in behavioral economics, Simon made significant and lasting contributions to political science, epistemology, sociology, cognitive science, philosophy, public administration, organization theory and complexity studies. These diverse disciplines were not conventionally discontinuous for Simon but merely different lenses through which Simon approached his central lifelong concern — the theorizing of human behavior, or rationality or decision-making in social environments. His early work in administrative behavior found voice in the eponymously titled *Administrative Behavior* (1947), a work whose themes would inform his celebrated notion of “bounded rationality” that was to become a Simon leitmotif through his career (Simon, 1981).

On Simon’s account, the fiction promoted by orthodox economics as *homo economicus* and the omniscience inherent in central planning rationalism, are epistemologically pernicious. Rationality cannot coherently exist within a vacuum abstracted from social considerations. Rationality must surely be “embedded” or “situated”: agents draw their self-understanding from what is conceptually at hand, be it from social, political, or economic institutions. Simon took issue with the more generalized rationalism that informs much of modern thinking: that is, the Cartesian impulse that demands genuine knowledge is generated solely through the operation of mental states – again, abstracting from any considerations of sociality.

Simon’s critique of the aforementioned rationalisms found early formulation in his work on organizational/administrative behavior. His targets were the progenitor of modern organizational theory – Frederick Winslow Taylor – and the later generation of influential theorists led by Luther Gulick and Lyndall Urwick. Taylor’s “scientific management theory” (Taylorism) gained a great deal of traction in both capitalist and socialist economies in the early part of the 20th century. Gulick and Urwick developed “administrative management theory” or more familiarly, modern management consultancy. For Taylor, since work is supposedly routinized, humans are, in essence, cogs in a machine, automatons if you will. This is not surprising since Taylor was a mechanical engineer by training: all that was needed was a blueprint and accordingly mere implementation. Gulick and Urwick’s hyper rationalism assumed that all the activities that need to be performed within an organization’s department could be specified in advance. For Simon, the unremitting rationalism inherent in Taylor, Gulick and Urwick’s approach was that they crucially overlooked the rich inner life (mental processes) of agents, agents who of course had wants, desires, beliefs and goals shaped by a myriad of socio-cultural contexts.

Simon and March (1958) took the view that one of the most important tasks of organizations was to illuminate the activities to be performed so that the disparate parts of the organizations can be integrated into a unified whole. Since agents are deeply imbued with sociality, behavioral expectations within an organization can never simply be laid out in advance. Agents' rationality is necessarily bounded not only by a conceptual context but by structural cognitive limitations, most notably limited informational processing capacity. Simon coined his term "satisficing" to connote this processing predicament. All this means is that rational agents have to make do with *satisfactory* rather than perfectly optimal decisions which would be beyond their ken anyway. This leads us to consider Simon's philosophical psychology in more detail.

On Simon's view, complexity resides in the environment and not in the mind. Mind is subject to structural limitations, constraints in terms of computational capacity confronted with, at the one extreme plethoric data (complexity), to another extreme, a paucity of data (ignorance). In order to overcome these constraints agents must augment their capacity for seeking and generating knowledge: adaptive evolutionary imperatives demand it. For Simon, the "inner" world (i.e. the mind) has a homeostatic interface (a system that regulates its internal environment towards equilibrium), with the "outer" world modulated through the artifactual environment, most notably social institutions that give conceptual outline to thought and determines action. Sociality is, in effect, an external repository of knowledge that allows one to offload or spread the cognitive burden onto the environment. In this way, agents can negotiate the complexity of the ambient social environment.

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Leslie Marsh, University of British Columbia
Roger Frantz, San Diego State University