

Bounded Rationality and Global Solidarity Economy

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Bounded Rationality and Global Solidarity Economy

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ABSTRACT

The mainstream economic assumptions are based on a rational framework that each party gets the greatest benefit (maximizing) and this should be enjoyed for all elements. However, it seems that humans are not rational creatures as the mainstream economic view assumes. Human rationality has the limits of ability; called as bounded rationality. Human decision making is oriented to the best results that can be achieved (satisficing). Thus, humans have limitations in knowing all alternatives or the consequences of each alternative because of limited information and knowledge. However, do humans in today's digital era experience the limited information? In fact, the abundance of information allows all people to be connected to each other, including information about the economic impact of the Covid-19 pandemic. This indicates that global solidarity should be better transmitted through the availability of information at the present time. The obstacle that appears is not limited access to the information, but the cognitive structure that blocks the information itself. Humans choose the type of information that can satisfy their interests. Unfortunately, there is no exchange of information in building global solidarity; it is dominated by one-way narrative development. The reason is more to ideological differences as a closed knowledge system rather than asymmetric information reasons. Thus, this is closing the understanding of the existence of unwanted 'others'. The economic assistance to the poor may not be based on the principles of equality and justice, but based on grouping of the same cognitive zones. As a consequence, this situation can hinder the solidarity movement globally, in the era of information abundance.

Keywords: Bounded rationality, irrational behavior, solidarity economy

“I need to be blunt and honest that the world is not treating the human race the same way. Some are more equal than others. And when I say this, it pains me. Because I see it. Very difficult to accept but it's happening.”

(Tedros Adhanom Ghebreyesus, Head of WHO, BBC News)

INTRODUCTION

Is it true that humans act rationally in making decisions? The WHO chief's concern is about humans who often act differently towards one another. Even if information is equally available and easily accessible to anyone at this time, there is a human tendency to choose what is more satisfying than use knowledge to make decisions in aiming to maximize expected utility. The world is not only about the conflict between Ukraine and Russia, two European

countries that have been at war since February 2022. It grabs the attention of social media and mainstream medias, because they believe that this conflict has a huge impact to the world. Ironically, there are humanitarian crises that have occurred in other parts of the world for years, such as the crisis in the Tigray province of Ethiopia, which has experienced hunger since the horizontal conflict broke out in 2020 and has lasted almost 30 years. Under these conditions, those who are the weakest such as women and children, are always the first victims, both murdered and suffered from sexual violence. Moreover, in the Middle East, the conflict in Afghanistan has killed 24 million people who need help to survive. Likewise, the civil war in Syria has lasted 11 years and has killed approximately half a million people and millions more have to exit the country because of the endless conflict. Why is the decision making of both world organizations, countries, and the participation of individual world citizens not the same? Why do we tend to be selective on similar humanitarian crises?

Solidarity is an attitude that is driven by the nature of one feeling that shows feelings of the same fate both in favorable and unfavorable conditions. This attitude departs from a conscious decision from a process that is based on facts and values that involves the behavioral activity of choosing from one or more alternatives with a view to achieving the desired goal (Harrison, 1987). Most theories regarding decision making are influenced by expected utility which is based on the assumption that individuals are inherently rational. If they had all the relevant information, humans would make decisions that yield the maximum expected utility. The utility refers to a person's goals (Goldstein, 2011). The intended purpose is a goal that is able to provide satisfaction obtained from consuming information.

In making decisions, individuals not only identify as many alternatives as possible, but also choose the best alternative that is in accordance with their goals, desires, political preferences, and values based on their beliefs and culture. Therefore, people will make a decision when they have started a series of behaviors that are directed at something they prefer to or the most common is that they have made a decision about what to do in a certain situation after considering various alternatives.

However, individual decisions are often not based on the above concept of utility. Although people can find the best solution to a problem, the demand to process all information related to the problem, generate all possible solutions and choose the best single solution is beyond the capabilities of most individual decision makers. These decisions are generally heuristic in nature, with limited data available, tend to be practical and want to be fast. The result occurs with a short cut of the decision-making process.

Bounded Rationality and Bias Decision of Global Solidarity Economy

Herbert A. Simon stated the term bounded rationality to explain that individual rational choices sometimes experience limitations in terms of cognition and capacity to process knowledge. Individuals consciously accept that the possible outcome is not the best. The choice

of alignments can also consciously create new gaps (suboptimal). When decisions are made in the organization, organizational constraints result in suboptimal decisions because it is not possible to make ideal decisions. The reason can be an effort to avoid unintentional negative influences on other aspects. This reinforces the concern of the WHO chief, who said that it appears that the world is inclined to side with and to be concerned about the conflict between Ukraine and Russia because its economic and political impact is greater on the world, compared to conflicts and crises that occur in other parts of the world. The world's dependence on wheat and oil brings more partiality and solidarity to the conditions of this war, while other countries which experience the same thing, but do not contribute to the global economy, will not receive global solidarity. In this context, it seems that concern is very much determined by the weighted average of forming global benefits from each country or region economically.

Furthermore, individuals look for alternatives only until a solution that meets the minimum requirements is found, and then stop looking for a better one (satisfaction). As a result, actions often stop at and are limited to satisfaction and adequacy of actions in their respective measures. Individuals fail to go beyond something that can be more jointly pursued, as if cognitive limitations prevent individuals from acting bigger. The cognitive limits are not simply limitations on specific information. They are also limitations on the adequacy of the scientific theories that can be used to predict the relevant phenomena. The assumption of a utility function postulates a consistency of human choice that is not always evidenced in reality. The assumption of maximization may also place a heavy (often unbearable) computational burden on the decision maker. Unfortunately, economically speaking, the global wealth is not public goods that must be provided and accessible to all people. It always considers the cost and benefit from every action.

The global wealth should represent an imperative point of reference that individual or organizations/countries use to make major strategic choices and policy decisions. These non-financial goals capture the endowment effect of global ownership. Thaler (1980) defines the endowment effect as a pattern in which people often demand much more to give up the object than they would be willing to pay to acquire it. In this context, the object is global wealth. In particular, the endowment effect could be applied to see how the differences for each regions' condition shape the decision making process. Since individual owns and controls the global wealth, they would value the other people prosperity more regarding their ownership and involvement. However, today's perception of the value of the others is less likely to be in line with what it is supposed to be. The irrelevant matters sometimes determine the decision. As a result, people make suboptimal decision because of bias valuation.

With its limitations, economically, every additional activity or effort is categorized as a cost. Here lies the link between limitations and costs that prevent humans from pursuing a greater joint effort. Even though the greater available information in this digital era helps reduce cognitive work, this convenience does not seem to necessarily drive global solidarity. People

tend to choose actions or movements based on experience, collective memory or assorted knowledge. In contrast to Simon's assumption that the cause of individuals not being able to make optimal decisions is due to limited cognition and information processing, in the current digital era, the availability of abundant information and applications should facilitate cognitive work. There should be a massive global solidarity movement happening at this time, unless people live in covered satisfaction.

There are two aspects that influence the solidarity movement to be less than optimal in solving humanitarian crises: imperfect information and environmental structures. Firstly, individuals have a limited ability to process the various available information. Considerations of transaction costs influence the choice of action. Action diversity initiatives can be like 'angel investors' who only act once in an activity or those who do it repeatedly (regular donors). The difference in the decision for the two is determined by the equivalence between the transaction costs incurred and the expected value of the benefits that will result from solidarity activities. How can the logic of the formation of these costs not understood by individuals? They only understand that the assistance will be handed over to which institution or where. Whether aid was delivered as intended or what the impact of the aid was, the information available is limited. Therefore, the rationality of behavior is limited by the available information, the ability to process information and also the time required to process the information. In this case, Simon tries to avoid the concept of optimization and calculation, replacing it with the concept of the individual as a developer and modifier of habits so that he accidentally abandons the idea of rationality (Rutherford, 1994). Experience and habits of doing social movements can be the basis of individual information. Quality information will assist individuals in choosing a movement or action that is more impactful. The problem is, the nature of the solidarity movement initiative is voluntary not mandatory; the nature of the action or movement is more persistent in the short term and not necessarily constant in the long term.

Secondly, another aspect is the environmental structure that frames the perception that is captured by the individual. It is difficult to understand the conditions of cognitive limitations in an era where information can be accessed properly and abundantly to build global solidarity. Unfortunately, there is no exchange of information in building global solidarity; it is dominated by one-way narrative development. All parties provide and disseminate information, but they fail to communicate with each other. The reason is more to ideological differences as a closed knowledge system rather than asymmetric information reasons. The world today is divided by beliefs, national borders, races and economic conditions. People may only be concerned with the similarity of individual characteristics, thus closing the understanding of the existence of unwanted 'the others'. The economic assistance to the poor may not be based on the principles of equality and justice, but based on grouping of the same cognitive zones. As a consequence, this situation can hinder the solidarity movement globally, in the era of information abundance. This environmental structure actually exacerbates the global solidarity gap.

Society is more dominated by taking action by matching personal interests and the demands of society in general. What is meant by community demands does not mean social interests, because what is meant by social interests are often only voiced by those who are active on social media. Preference will be calculated based on benefits and costs according to their habits and routines. In this case, the definition of costs becomes narrower as far as what they want to do and get individual satisfaction. The calculation is more towards short-term than long-term benefits. As long as individuals experience routines or habits that do not lead to greater actions, the calculation of solidarity costs will also be modest. In addition, the nature of the assistance or the form of solidarity, whether material or immaterial, will also influence individual decisions in mobilizing social solidarity. How big is the magnitude of the solidarity movement?

What Do We Do Next?

After various arguments about bounded theory, it gives an understanding that ⁴ humans are not completely rational but to achieve this rationality, humans must have information on the decisions making. People basically still have instincts and altruism in acting. The decision process uses stages such as interrelated links between mental processes and information held by individuals.

In order to dismantle the two barriers in the form of imperfect information and environmental structures that hinder the solidarity movement, a nudge (encouragement) is needed. Humans are often driven by other humans. Sometimes big social changes, in markets and politics, start with small social impulses. Giving a nudge basically provides a stimulus to human habits and attitudes, especially in caring for others, so that decisions taken are not based on rational attitudes that they are not aware of. According to Thaler & Sunstein (2009), social influence has two basic categories, namely involving information and involving environmental pressure (peer pressure).

Involving information will stimulate individuals to convey information about what is best to do and think. When information is involved, there is an urge for individuals to reflect on situations experienced by others in their own corridors. As a result, the individual's imagination will awaken and begin to form empathy for others. Next, when empathy is built, concern for what other people think becomes the impetus to follow the crowd to get other people's sympathy or avoid other people's anger (peer pressure). Humans become easily pushed by other humans. The most likely reason is because humans like uniformity. This is the explanation why the solidarity movement is selective or assorted in determining the direction of its assistance.

What kind of nudge can be done so that the solidarity movement can at least get out of the assorted solidarity crisis? The impulse that stimulates individuals to carry out continuous reconstruction, so that bounded rationality in terms of limitations in the ability to retrieve, store

and process information, is constantly being challenged. This challenge will prevent individuals from getting to certain pieces of information, ignoring others and being content to find solutions to problems at hand, which are mostly based on their past experiences. This urge will lead individuals to continue to explore, not only to face alternative choices to choose, but to question the existing choices.

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