**SATISFICING**

J. Barkley Rosser, Jr.

James Madison University

[rosserjb@jmu.edu](mailto:rosserjb@jmu.edu)

June, 2021

**The Origin of Satisficing**

Herbert A. Simon (1955) established *behavioral economics* based on *bounded rationality*. People are unable to fully optimize due to costs of information being too high for most people and their inability to compute such behavior for mathematical and logical limits, arguing that most people follow heuristic rules of thumb to achieve an aspirational level they hold. Most firms seek a level of profit acceptable to owners rather than a possible maximum profits level. He labeled this approach to be satisficing (Simon, 1956), noting this word is in the *Oxford English Dictionary* from a Northumbrian dialect, basically meaning “satisfy.” But he redefined it to describe how people behave using bounded rationality.

**Is Satisficing Really Different from Optimizing?**

Some defenders of the view that economic agents fully optimize argue that all Simon did was to highlight information costs (Stigler, 1961). When it looks like people are satisficing they are actually optimizing because they are using the optimal amount of costly information. But determining how much time one should spend gathering information raises the additional problem of determining how much time one should spend on how much time should one should use in determining how much information one should gather, with this then raising an infinite regress of such problems that is fundamentally unsolvable (Conlisk, 1996), with Simon noting such issues as connected to the incompleteness theorem of Gödel. This search for information must be arbitrarily cut off; thus implying one must satisfice on this effort to determine how to optimize.

A variation on this argues that satisficing may actually be optimal often. Baumol (2003) advocates this position, noting from his observations as a witness in legal cases regarding predatory pricing how high the costs are to real world firms of knowing their own marginal costs and the elasticities of demand they face needed for achieving theoretical profit maximization. He notes remarks he often heard from Chief Financial Officers of corporations in such cases along the lines of “I assume you have never worked with a company whose data are as bad as ours” (Baumol, 2003, p. 64). He argues that the value of satisficing is that it avoids costs that might be induced by trying to determine an optimum among possible alternative behaviors. One such cost is undermining the morale of existing workers and suppliers of a firm who might view even considering numerous alternatives raises the possibility they may lose their jobs or contracts, with this undermining their productivity. A satisficing approach avoids such costs.

**The Endogeneity of Aspirational Levels**

While Simon posed it as involving trial and error approaches following rules of thumb, some have argued that satisficing may imply optimization when formally posed as a system of maximizing subject to achieving the aspiration levels of the agents as a constraint (Radner, 1975). This then focuses on what those aspiration levels are and where they come from. Simon always posed satisficing as tied to these aspiration levels. But some observers have highlighted how these are essentially arbitrary and endogenously evolve over time as a firm or individual engages in satisficing conduct over time (Bianchini, 1990).

**Did Keynes Advocate Satisficing?**

Keynes died in 1946, a decade before Simon introduced this term into economics. However, some students of his thought have argued that Keynes was fundamentally a behavioral economist (O’Donnell, 2014-15), although Simon himself did not discuss macroeconomics or Keynes. O’Donnell’s formulation of this is that Keynes emphasized human abilities and characteristics as epistemologically limiting their ability to have certainty about how to behave. Recognizing that agents cannot definitely optimize in the face of unavoidable uncertainty, Keynes (1936) argued that people rely on *conventions* in their conduct in the face of uncertainty. It is reasonable to see this following of conventions as consistent with satisficing conduct, if perhaps not having specific aspiration levels involved.

**References**

Baumol, William J. 2003. “On rational satisficing.” In M. Augier and J.G. March, eds. *Models of a Man: Essays in Memory of Herbert A. Simon*. Cambridge: MIT Press, 57-66.

Bianchini, Marina. 1990. “The unsatisifactoriness of satisficing: From bounded rationality to innovative rationality.” *Review of Political Economy* 2, 149-167.

Conlisk, John. 1996. “Why bounded rationality.” *Journal of Economic Literature* 34, 1-64.

Keynes, John Maynard. 1936. *The General Theory of Employment, Interest and Money*. London: Macmillan.

O’Donnell, Rod. 2014-15. “A critique of the ergodic/nonergodic approach to uncertainty.” *Journal of Post Keynesian Economics* 37, 187-210.

Radner, Roy. 1975. “Satisficing.” *Journal of Mathematical Economics* 2, 253-262.

Simon, Herbert A. 1955. “A behavioral model of rational choice.” *Quarterly Journal of Economics* 69, 99-118.

Simon, Herbert A. 1956. “Rational choice and the structure of the environment.” *Psychological Review* 63, 129-138.

Stigler, George J. 1961. “The economics of information.” *Journal of Political Economy* 69, 213-225.