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The Role of Homo Oeconomicus in the Political Economy of James Buchanan

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The Role of Homo Oeconomicus in the Political Economy of James Buchanan

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The Role of Homo Oeconomicus in the Political Economy of James Buchanan

by

GEBHARD KIRCHGÄSSNER

Institute for Advanced Study, Berlin,
University of St. Gallen
Swiss Institute of International Economics
and Applied Economic Analysis, Leopoldina, *CES*ifo, and CREMA

Abstract

Whenever the economic model of behaviour is to be applied, the utility function has – at least somewhat – to be specified. Buchanan generally prefers to apply a rather narrow version. However, he acknowledges that it is hardly possible to explain actual behaviour of individuals with such a version, so in performing empirical economic research he accepts that we have to use a more open one. He also acknowledges that people might behave differently in markets than they do in politics; other-regarding behaviour might be more pronounced in politics as compared to markets. Which version should be applied in constitutional economics, however, is a different question. Following a long ongoing tradition in political philosophy, he insists that – for methodological reasons – the narrow version is the correct one to be applied; this is the way to compare different sets of rules when analysing the possible abuse of power by rulers in order to prevent it as far as possible. The same should also be taken into account when analysing the process of policy advice. The narrow Homo Oeconomicus model should, however, not be misunderstood as a normative prescription.

Keywords: Homo Oeconomicus, Economic Model of Behaviour, Empirical Public Choice, Constitutional Economics, Self-Interest, Policy Advice

JEL Classification: B41.

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Mailing Addresses:

Prof. Dr. Dr. h.c. Gebhard Kirchgässner
Wissenschaftskolleg zu Berlin
Wallotstrasse 19
D-14193 Berlin
Gebhard.Kirchgaessner@wiko-berlin.de
University of St. Gallen
SIAW-HSG, Bodanstrasse 8
CH-9000 St. Gallen
Gebhard.Kirchgässner@unisg.ch

1. Introduction

[1] Economists traditionally explain human behaviour (or acting) as utility maximisation under constraints. Looking at it in more detail, there are (at least) four elements involved in this approach. The first one is Methodological Individualism, i.e. the presupposition that only individuals act; there is no collective actor (in the strong sense). Collective acting is derived from the actions of individuals.[1)] The second element is the (Weak) Rationality Principle: people have intentions and some perceptions of their possibilities of action, and they choose those actions which come closest to their intentions.[2)] The third element is assumptions about the concrete intentions, or, to express it in economic terms, assumptions about the content of the utility function. The last element is assumptions about the informational situation of the acting individuals.

[2] Undisputed in economics are both the principle of Methodological Individualism and the Weak Rationality Principle. Depending on the informational assumptions, economic models usually employ rather strong versions of the rationality principle, the extreme being the von-Neumann-Morgenstern concept of subjective expected utility maximization.[3)] Thus, whether individuals really behave 'rationally' in the strong sense is often questioned, whether by the theory of bounded (or procedural) rationality by H.A. SIMON (1955, 1978) or by experimental results in modern behavioural economics. The content of the utility function is also debated; it might be relatively open or restricted to pure-wealth maximization. In any event there are two questions to be decided: (i) Is the individual only self- or also other-regarding? (ii) Does the utility function only contain 'economic' elements or does it contain other elements (or values) as well?

[3] In discussing these questions, J.M. BUCHANAN mainly dealt with the second one. Aside from his elaboration of the 'veil of uncertainty' in constitutional analyses,[4)] in his writings he mostly refers to the motivational assumptions. Thus in discussing J.M. BUCHANAN's position with respect to the economic model of behaviour, in the following we will restrict ourselves to this problem.

[4] Depending on how these questions are answered and which assumptions are made, the literature is populated with many different examples of Homo Oeconomicus. Which one is appropriate depends very much on the purpose of the model; for example, is it to explain the actual behaviour of economic agents or is it to make institutional comparisons. But even in restricting oneself to explaining actual behaviour, for instance, different versions might well be deemed appropriate depending on the institutional setting in which individuals act, for example, in politics versus the marketplace.

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1. On Methodological Individualism, for example, see J. W. N. WATKINS (1958), but also J. M. BUCHANAN and G. TULLOCK (1962, Chapter 2, pp. 16ff.) as well as J. M. BUCHANAN (1979, pp. 48f.; 1987, pp. 244f; 1989, pp. 55ff.).
2. On the Weak Rationality Principle see G. KIRCHGÄSSNER (2013).
3. For example, see P.J.H. SCHOEMAKER (1982).
4. In particular, see J.M. BUCHANAN and G. TULLOCK (1962, pp. 78ff.).

[5] When we try to answer the question as to which role the model of Homo Oeconomicus plays in J.M. BUCHANAN's work, we must first of all take into account his distinction between the constitutional level, where rules are set, and the sub-constitutional level, where we behave according to specific rules that are already in place. He used different terminologies in denoting these. In his early writings, he called the first one 'Political Economy' and the second one 'Economics' or 'Positive Economics'.[5)] He was mainly interested in the former, which he considered the more important one.[6)] In his later writings he called it 'Constitutional Economics' or 'Constitutional Political Economy'.[7)] Let us continue to employ this terminology but call the other one, as far as it relates to political processes, 'Public Choice'. That (empirical) public choice became part of the Virginia School of Political Economy was, as J.M. BUCHANAN (1992, pp. 54ff.) himself wrote, mainly the merit of GORDON TULLOCK.

[6] In the following, we first ask which variant of the Homo Oeconomicus model should be applied in empirical economic research, including empirical public choice (*Section 2*). There might be, however, some differences in terms of whether this model is to be applied to behaviour in markets or in political processes, even if we do not assume that people change their character whenever they switch from one to the other area. Then we discuss the role of the Homo Oeconomicus model in constitutional economics (*Section 3*). Another question, also highly relevant, is which variant should be applied in analysing the process of political advice, be it on the sub-constitutional or constitutional level (*Section 4*). J.M. BUCHANAN's views of this process are rather normative, and he demands highly moral behaviour on the part of the political advisor. Nevertheless, in the spirit of the public choice approach, we should also follow a positive approach and apply the model of Homo Oeconomicus not only with respect to politicians but also with respect to their advisors. Normative problems, which might be connected with applications of the Homo Oeconomicus model, are also discussed by J.M. BUCHANAN (*Section 5*). There do exist some problems, but their existence hardly justifies abandoning this model. We will then conclude with some remarks on the attacks of contemporary behavioural economics on the Homo Oeconomicus model (*Section 6*). These attacks may have relevance for empirical economic (and political) research but hardly any for application of the Homo Oeconomicus model in constitutional economics.

2 Which Homo Oeconomicus?

[7] As mentioned above, when using the economic approach to explain human behaviour, one of the crucial questions is how to specify the utility function. The basic problem here is the trade-off between applicability on the one hand and explanatory power on the other. Leaving the utility function completely open (and without specifying the information that an individual has), every facet of economic behaviour might be explained ex post facto as the result of

5. For example, see J.M. BUCHANAN (1959, 1982).

6. For example: "The task of economic theory is not that of predicting specific patterns of behavior, it is that of providing a structural understanding of the processes within which the divergent behavioral plans of persons are integrated and reconciled." (J.M. BUCHANAN 1976, p. 127)

7. For example, see J.M. BUCHANAN (1987a) as well as G. BRENNAN and J.M. BUCHANAN (1985).

rational decisions. But then the predictive power tends towards zero; nothing can be excluded ex ante. On the other hand, narrowly specifying the utility function by restricting its elements to monetary wealth which is to be maximized, implies high predictive power, but will often fail to explain actual behaviour, is it in markets or politics.

[8] A terminological question is which variant of the economic model of behaviour should in fact be labelled 'Homo Oeconomicus'. This question is answered in a variety of ways by different authors. G.C. HOMANS, for example, calls the narrow version the 'old' and the wider one the 'new' economic man:

> "The trouble with him was not that he was economic, that he used his resources to some advantage, but that he was antisocial and materialistic, interested only in money and material goods, and ready to sacrifice even his old mother to get them. What was wrong with him were his values: he was only allowed a limited range of values; but the new economic man is not so limited. He may have any values whatever, from altruism to hedonism, but so long as he does not utterly squander his resources in achieving these values, his behaviour is still economic. In fact, the new economic man is plain man." (1961, pp. 79f.)

Thus he obviously prefers to work with this 'new' version. G. BRENNAN and J.M. BUCHANAN (1980, p. 19), on the other hand, seem to prefer a rather narrow (old) version when they describe the Homo Oeconomicus as "the selfish brute who devotes himself single-mindedly to maximizing the present value of his measurable wealth."[8)]

[9] But even if it is generally necessary to clear up terminological questions in order to avoid misunderstandings, the main problem is not one of terminology but which variant of the economic model should be applied in which situations. In most of his writings, J.M. BUCHANAN seems to prefer the narrow version often employed in economic analyses, which he calls the "*homo economicus* of classical theory" or the "pure economic man": "The pure economic man must behave so as to take more rather than less when confronted with simple monetary alternatives. He must maximize income-wealth and minimize outlays. He must maximize profits if he plays the role of entrepreneur." (J.M. BUCHANAN 1969a, p. 38) For example he criticizes A.A. ALCHIAN[9)] for employing a completely open utility function and he demands use of a very restrictive formulation that allows solely (traditional) economic (or financial) arguments. 'Alchian ... along with many other economists, does not really want to work within the constraints imposed by the *Homo economicus* assumptions about human motivation." (1979a: 130) Similarly, G. BRENNAN and J.M. BUCHANAN (1981, pp. 157f.) criticize G. STIGLER (1982) because he attributes a descriptive value to the concept of Homo Oeconomicus. Thus in this passage they defend the 'old' concept of economic man in the sense of G.C. HOMANS (1961), whereas G. STIGLER applies the new one.

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8. See also the more drastic formulation: "to put my point differently but more dramatically, in some aspects of their economic behavior, with appropriate qualifications, men are indeed like rats." (J.M. BUCHANAN (1982a, p. 35).)

9. He actually refers to the textbook by A.A. ALCHIAN and W.R. ALLEN (1968).

[10] On the other hand, J.M. BUCHANAN accepts that more general versions of the economic model are possible: "In its most general (if empty) formulation the Homo economicus model presumes nothing beyond the proposition that each individual acts purposefully in pursuit of his own particular ends; for some purposes at least, the end can remain unspecified." (G. BRENNAN and J.M. BUCHANAN 1983, p. 89) He insists, however, that three elements are necessary. First, referring to P.H. WICKSTEED's (1910: 180) principle of 'non-tuism' he demands "that the relationship be *economic*, that the interest of his opposite number in the exchange be excluded from consideration." (J.M. BUCHANAN and G. TULLOCK 1962, p. 17)[10)] Thus, he explicitly excludes altruism towards those persons with whom one is in exchange from the analysis.[11)] Second, "the average individual, when confronted with real choice in exchange, will choose 'more' rather than 'less'." (J.M. BUCHANAN and G. TULLOCK 1962: 17)[12)] Finally, he demands that the utility function should contain at least one monetarily measurable element. "In its least restrictive formulation, the Homo economicus construction requires only that objectively measurable economic value, designated in monetary units, enter as one argument in the representative person's utility function." (J.M. BUCHANAN 1983, p. 116) But this impact is not necessarily dominant: "There is no need to assign net wealth or net income a dominating motivational influence on behaviour in order to produce a fully operational economic theory of choice behaviour, in market or political interaction." (J.M. BUCHANAN 1987, p. 245) But he believes that these 'economic' arguments always play at least some role whenever individuals decide. 'The elementary fact is, of course, that Homo economicus does exist in the human psyche, along with many other men, and that behaviour is a product of the continuing internal struggle among these." (J.M. BUCHANAN 1976, p. 127)

[11] He also acknowledges that the narrow model is hardly suitable for predictive purposes, neither for economic nor for political analyses. In J.M. BUCHANAN (1983), for example, he describes that the narrow version would easily allow for indications of market as well as governmental failure; but while he has doubts as to the extent of market-failure economics in the Pigouvian tradition detects, he expresses even more doubts as to the validity of this

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10. See also G. BRENNAN and J.M. BUCHANAN (1981a, p. 156).

11. P.H. WICKSTEED (1910, pp. 174ff.) does not generally exclude altruism from the individual's motives in economic transactions, but only that the individual does not "further the good of … the person with whom he is dealing." The individual might further the good of all other people in the world. Therefore, "The specific characteristic of an economic relation is not its 'egoism,' but its 'non-tuism'." (p. 180). J.M. BUCHANAN and G. TULLOCK (1962, p. 17) and in particular G. BRENNAN and J.M. BUCHANAN (1981a) are more restrictive: "*Homo economicus*, by construction, is not predicted to act other than in furtherance of his interests, vis-à-vis that of his trading cohort, as he evaluates such interest at the moment in choice." They explicitly exclude that he is "influenced by ethical or moral considerations" (p. 156). – On the consideration of altruism in the economic approach, referring to J. ANDREONI (1988), see G. KIRCHGÄSSNER (2010).

12. See also J.M. BUCHANAN (1969a, p. 38). While this is a usual assumption in economic models and holds in most real situations, it precludes that individuals deliberately restrict their leeway in terms of future actions in order to improve their long-term well-being. In contrast to the remark by J.M. BUCHANAN and G. TULLOCK (1962, p. 17), in the meantime there have not only been observations in this respect but there are also theories which explain why in some situations individuals "will choose 'less' rather than more'." For the economic analysis of such situations see, for example, R.H. THALER and H.M. SHEFRIN (1981) or S. MAITAL (1986).

approach in explaining political behaviour, for in a model applying this approach "voters do not vote; those that do are ill informed; bureaucrats shirk their duties and use their discretionary powers to manipulate budget sizes and budget compositions to their own advantage; elected politicians seek to retain the perks of office and pander to the demands of minimally sized constituencies necessary for re-election; judges enjoy the quiet life and spend little time and effort in their duties." (p. 121)

[12] He does not believe in this caricature of the political world and comes, therefore, to the following conclusion: "that neither markets nor politics can be appropriately modelled in the strict formulation of the Homo economics construction. We must reckon on *other-than-economic* arguments in individual utility functions, both in market dealings and in political dealings. But we must also keep in mind that the *economic* argument always remains in utility functions as an important and relevant argument, in individual behaviour, in markets and in politics. In a somewhat modest, but surely defensible sense, we can say that the methodological lesson to be drawn from Public Choice is nothing more than this admonition." (p. 122)

[13] As mentioned above, to apply the concept of the 'new' economic man comes at a cost: the leeway increases, but the predictive power or informational content decreases; more behaviour is compatible with the economic model of behaviour, but less behaviour can be excluded.[13)] G. BRENNAN and J.M. BUCHANAN (1983, 1985) are well aware of this trade-off and generally weight the loss of predictive power more greatly than the wider range of possible applications. On the other hand, when he wants to explain something, J.M. BUCHANAN (1979a, p. 138) admits that he is "quite willing to fall back on the extended utility function ... to assist me in explanation."[14)] But he does not need such assistance too often because, as mentioned in the introduction, he is much more interested in constitutional questions than in explaining actual behaviour.

[14] J.M. BUCHANAN also acknowledges that people might behave quite differently in different environments, and therefore differently in markets as opposed to politics, these institutions providing quite different incentives.[15)] He insists, however, that the same and not different human beings are acting in these environments, and that the same basic model should therefore be applied, at least so long as we possess no better alternative. It is first of all a question of consistency: "There is at least a strong presumption that individuals do not undergo character transformation when they shift from roles as buyers or sellers in the market-place to roles as voters, taxpayers, beneficiaries, politicians, or bureaucrats in the political process." (1987a, p. 587) G. BRENNAN and J.M. BUCHANAN call this the symmetry argument. It does not necessarily imply that the Homo Oeconomicus model is the appropriate one for analysing human behaviour: "The symmetry argument suggests only that whatever

13. See K.R. POPPER (1935, pp. 84ff.) with reference to R. CARNAP (1932, p. 458).

14. See J.M. BUCHANAN (1979a, p. 138).

15. See also J.M. BUCHANAN (1954).

model of behaviour is used, that model should be applied across all institutions. The argument insists that it is illegitimate to restrict *Homo economicus* to the domain of market behaviour while employing widely different models of behaviour in nonmarket settings, without any coherent *explanation* of how such a behavioural shift comes about." (1985, p. 57) Consequently, J.M. BUCHANAN does "not want to enter into either a defence of or an attack on the usefulness of *Homo economicus* in economics or in any theory of politics." According to him, "the burden of proof should rest with those who suggest that wholly different models of man apply in the political and the economic realms of behaviour. Logical consistency suggests that, at least initially, we examine the implications of using the *same* models in different settings." (1979, p. 49)

3 The Role of Homo Oeconomicus in Constitutional Economics

[15] The question as to which version of the Homo Oeconomicus model is appropriate when it comes to constitutional economics demands a separate answer. In explaining actual behaviour, unrealistic assumptions about human behaviour must not necessarily but can indeed lead to false predictions and, therefore, not only lead to the falsification of a theory but also make it useless for practical (political) purposes. Thus one might discuss how realistic the economic model must be, depending on the concrete situation to be explained, and how far the abstractions might sensibly go.[16)] But the situation is quite different as soon as we turn to constitutional questions: "*Homo economicus*, the individual who populates the models of empirical economics may, but need not, describe the individual whose choice calculus is analysed in constitutional political economy. When selecting among alternative constitutional constraints, however, the individual is required to make some predictions about the behaviour of others than him. And, in such a setting there is a powerful argument that suggests the appropriateness of something akin to the Homo economicus postulate for behaviour." (J.M. BUCHANAN 1990, p. 15)[17)]

[16] Thus in constitutional economics it is clear from the beginning that the Homo Oeconomicus is an abstract model to analyses the possible effects of different (constitutional) rules once they come into effect.[18)] Consequently, G. BRENNAN and J.M. BUCHANAN (1981) "offer a methodological, rather than a predictive ('scientific') defence" of the Homo Oeconomicus approach in this field: "Simply put, our claim is that homo economicus rightly belongs in the analytical derivation of normative propositions about appropriate institutional design. In other words, the model of human behaviour that we might properly use in choosing

16. On the role of 'unrealistic' assumptions in economic analyses, see the seminal contribution of M. FRIEDMAN (1953).

17. There he argues, of course, for the very narrow version of the homo oeconomicus model and not for one of its extended forms which might be applied in empirical analyses. See also G. BRENNAN and Buchannan (1983, p. 90): " … that the Homo economicus model of human behavior may be superior in comparative institutional analysis to a more 'accurate' model of human behavior in the conventional predictive sense".

18. For example, see J.M. BUCHANAN (1987a, pp. 10ff.).

among alternative institutions may be different from the model that would be more appropriate in making predictions about behaviour within existing institutional structures." (p. 159) Or to put another way: "Our use of [the narrow version of] *Homo economicus* stems from our conviction that this model is the most appropriate one for constitutional analysis." (G. BRENNAN and J.M. BUCHANAN 1985, p. 55)

[17] With this argument, J.M. BUCHANAN (together with G. BRENNAN) stands in a long tradition of political philosophy. More than two-hundred years before, DAVID HUME (1741, pp. 42f.) wrote:

> "Political writers have established it as a maxim, that, in contriving any system of government, and fixing the several checks and controls of the constitution, every man ought to be supposed a knave, and to have no other end, in all his actions, than private interest. By this interest we must govern him, and, by means of it, make him, notwithstanding his insatiable avarice and ambition, co-operate to public good. Without this, say they, we shall in vain boast of the advantages of any constitution, and shall find, in the end, that we have no security for our liberties or possessions, except the good-will of our rulers; that is, we shall have no security at all. It is, therefore, a just political maxim, that every man must be supposed a knave: Though at the same time, it appears somewhat strange, that a maxim should be true in politics, which is false in fact."[19)]

G. BRENNAN and J.M. BUCHANAN (1981, p. 164) also cite JOHN STUART MILL in making the following point:

> [18]"the very principle of constitutional government requires it to be assumed that political power will be abused to promote the particular purposes of the holder; not because it is always so, because such is the natural tendency of things to guard against which is the special use of free institutions."[20)]

[19] And similar arguments can be found in KARL POPPER's *Open Society* when he describes the relevant problem of political economy (or philosophy):

> " … that it is not at all easy to get a government on whose goodness and wisdom one can implicitly rely. If that is granted, then we must ask whether political thought should not face from the beginning the possibility of bad government; whether we should not prepare for the worst leaders, and hope for the best. But this leads to a new approach to the problem of politics, for it forces us to replace the question: *Who should rule?* by the new question: *How can we so organize political institutions that bad or incompetent rulers can be prevented from doing too much damage?*" (1945, p. 121).

[20] With their position, J.M. BUCHANAN and G. BRENNAN (1981) consider themselves "directly within the tradition of classical political economy" (p. 163) because: "The purpose for which *Homo economicus* was used in classical political economy was largely that of comparing the properties of alternative socioeconomic arrangements (constitutions) and not

19. Part of this passage is cited by him, for example, in J.M. BUCHANAN (1990, p. 11).

20. J.S. MILL (1861, Chapter XII, pp. 217f.).

that of explaining 'scientifically' (making predictions about) the behaviour of economizing actors" (p. 156). They also refer to ADAM SMITH (1759) who, according to them, "makes it clear that *homo economicus* is not to be conceived as a generalized description of human nature" (p. 163). And they defend themselves against different critiques in the following way: "On empirical grounds, we are surely closer to Adam Smith than our modern critiques, whichever side these critiques come from. We admit freely the possibility and indeed the likelihood of non-selfish behaviour in all institutional settings. But, like Adam Smith, we believe that *homo economicus* remains the appropriate model of behaviour in the derivation of normative propositions about the institutions themselves." (pp. 164f.)

[21] Constitutional Economics follows, for good reasons, this tradition. There are, however, some authors like, for example, B.S. FREY (1997) who argue that, when deciding on a constitution, we should have more trust in the responsibility of the individuals because otherwise civic virtues might be crowded out. This argument has a valid core, but it applies much more to ordinary citizens than to politicians. The leeway of ordinary citizens must also be restricted so as to allow for a well-functioning instead of an anarchical society. Otherwise constitutions would be un-necessary. On the other hand, without at least some moral behaviour of the citizens which can hardly be enforced by legal rules, neither our economic markets nor our political democratic systems could lead to (more or less) satisfactory results.[21)] But this holds (only) for situations where the potential for exploiting other citizens is strongly limited, if present at all. Politicians and bureaucrats (rulers), on the other hand, due to their powerful instruments, have much larger possibilities of exploiting other people. Thus it is much more important to restrict their leeway in order to prevent them from abusing their power. This again justifies the rather narrow version of the economic model of behaviour being applied in constitutional matters.

4 The Economist as Policy Advisor

[22] Policy advice is given by economists in terms of both current political processes and at the constitutional level. Economists often pretend to behave like benevolent and omniscient dictators while occupying this role, but in reality they are neither as benevolent nor omniscient as they believe; they have only limited knowledge of political and economic processes and, what is more important, they have their own preferences which invariably have an impact on their recommendations.

[23] At the sub-constitutional level the only information needed is that of positive economics; the advisor should be able to correctly predict the results of proposed policies. The lack of omniscience might, therefore, 'only' lead to wrong recommendations; the results can be quite different from those predicted. This might or might not be the advisors' fault; depending on, for example, whether they applied a non-appropriate model or whether events happened which could not be predicted. As long as they only make conditional statements,

21. For example, see G. KIRCHGÄSSNER (2008, pp. 121ff.; 2010).

their political preferences should play a minor role, because they have a strong interest in making correct predictions. Otherwise they would risk their reputation. The less unanimity there is among economists about the effects to be expected from applying a specific policy, the more room there will of course be for private political preferences to enter into the economists' recommendations, even if they only make if-then statements.

[24] The advisor's task is much more difficult at the constitutional level. Here the advisor not only has to know the functioning of all possible worlds but also the preferences of all individuals if he really wants – as traditional welfare economics tries – to propose Pareto-improving measures. J.M. BUCHANAN (1959) strongly criticizes this habit. According to him, "This omniscience assumption seems wholly unacceptable. Utility is measurable, ordinally or cardinally, only to the individual decision maker." As long as the ranking of alternatives cannot be revealed by observing actions of individuals, even an independent observer "must remain fundamentally ignorant concerning the actual ranking of alternatives" (p. 126).

[25] Taking this into account, the task of an observer and his assessment of the efficiency of different solutions "must be drastically modified. … The observer may introduce an efficiency criterion only through *his own estimate of his subjects' value scales*. Hence, the maximization criterion which the economist may employ is wholly in terms of his own estimate of the value scales of individuals other than himself. *Presumptive efficiency* is, therefore, the appropriate conception for political economy" (p. 126).

[26] At this point, J.M. BUCHANAN makes strong moral demands on the political advisor. The ideal advisor "accepts these [the citizens'] preferences as *he thinks they exist*. He does not evaluate social alternatives on the basis of individual preferences as he thinks they should be." Thus, "the characteristic behaviour of the political economist is, or should be, ethically neutral" (p.127). One can, of course, demand such behaviour, but we can hardly assume that this ideal situation is the regular case. To assume the latter is to forget that even (constitutional) economists, as political advisors, are Homines Oeconomici with their own political preferences.[22)]

[27] J.M. BUCHANAN first circumvents this problem by assuming that decisions (at the constitutional stage) are being made unanimously. Those who are advised have to accept the economist's proposals and they rarely ask for the advisor's preferences. This would also circumvent the second problem, not discussed in J.M. BUCHANAN (1959), that individual preferences cannot be compared. He justifies this by having "assumed that the social group is composed of reasonable men, capable of recognizing what they want, of acting on this recognition, and of being convinced of their own advantage after reasonable discussion." He is, however, "aware of the limitations of this conception of society". "Insofar as 'antisocial' or unreasonable individuals are members of the group, consensus, even where genuine 'mutual gains' might be present, may be impossible." Thus, "some less definitive rule of relative unanimity must be substituted for full agreement" (p. 134f.).

22. In terms of J. RAWLS (1971), one might say that J.M. BUCHANAN (1959) developed an 'ideal theory' at this point, and the realistic theory is still yet to take shape.

[28] J.M. BUCHANAN is fully aware that this imposes an additional moral obligation on the advisor; “it does place an additional responsibility upon the political economist. He is forced to discriminate between reasonable and unreasonable men in his search for consensus.” J.M. BUCHANAN believes that “this choice need not reflect the introduction of personal evaluation” (p. 135). Despite the fact that he is qualifying this passage somewhat, this is hardly plausible: the discrimination between reasonable and unreasonable men necessarily implies a personal evaluation. And on this the political preferences of the advisor will have a distinctive impact.

[29] J.M. BUCHANAN hopes to mitigate this problem somewhat by referring to the role of political discussion, but he also recognizes that this is not a panacea for achieving consensus, not even among ‘reasonable men’. He nevertheless hopes that such discussions might change preferences. “The purpose of political discussion is precisely that of changing ‘tastes’ among social alternatives.” But this places once again additional moral burdens on the advisor: “The political economist, therefore, in constructing and applying his presumptive efficiency criterion, must try to incorporate the predicted preferences of individuals, not as they exists at a given moment, but as they will be modified after responsible discussion. In other words, he must try to predict ‘what reasonable individuals will reasonably want’ after discussion, not what they ‘do want in a given moment’ before discussion or what they ‘ought to want’ if they agreed in all respects with the observer” (p. 136f).[23)]

[30] In concluding this paper, J.M. BUCHANAN once again denotes the moral obligation of the advisor: “In all this, as an observer, he is ethically neutral. His own evaluations of the alternatives considered do not, and should not, influence his behaviour in any way other than necessarily arising out of the membership in the group” [i.e. the group for which he makes recommendations and of which he is a member] (p. 138). Thus the role of the political advisor is one for which the model of Homo Oeconomicus seems inappropriate; his own preferences should not count. As an ethical demand this might be reasonable, but it is hardly acceptable for analysing the process of political advice, be it at the sub-constitutional or the constitutional level. This is an ‘ideal theory’ assuming an ‘ideal human being’. In reality, however, not only do economic agents and politicians have their own interests but so too economists, even constitutional economists, and this holds true in particular whenever they give political advice. It is of course not the crude model of Homo Oeconomicus which in general correctly describes their behaviour; in most cases the advisors will not only have economic (financial) elements in their utility functions. Here one should follow the recommendations of J.M. BUCHANAN (1983, pp. 121f.) mentioned above. But this does not imply that advisors are now the ‘saints’ that traditional economic theory had often believed politicians to be. Thus when designing the process of political advice, one might counterfactually apply the crude model G. BRENNAN and J.M. BUCHANAN (1983) recommend for the application in constitutional economics, because it could be fatal to confound self-interested policy advisors with saints. Here the same arguments hold for policy advisors,

23. Here he comes quite close to the consensus theory of truth as propagated, for example, by J. HABERMAS (1971) or K.O. APEL and M. KETTNER (1992).

wherever they might come from, as for politicians. When analysing the institutional framework of policy advice the situation is the same as in constitutional economics: "the Homo economicus model of human behaviour may be superior … to a more 'accurate' model of human behaviour in the conventional predictive sense; and that an attack on the use of homo economicus … based solely on direct appeal to observation cannot be decisive, and is largely misconceived." (p. 89)

5 On the Normative Use and Abuse of Homo Oeconomicus

[31] As any model of rational behaviour, the model of Homo Oeconomicus can, at least in one of its stronger versions, also be used for normative purposes. J.M. BUCHANAN (1969, p. 49) states that "in effect, though perhaps inadvertently, the applied economists and the welfare theorist alike accept the behaviour of *Homo economicus* as a value criterion." Some but definitely not all applied economists and welfare theorists fall into this trap. Nevertheless one can easily find such situations, for instance, whenever economists propose some political measures 'for purely economic reasons'. J.M. BUCHANAN explicitly rejects this normative use of Homo Oeconomicus and calls it a fundamental error.

[32] However, as suggested by J.M. BUCHANAN in many of his writings, there is another 'normative' problem in using the homo economicus in its narrow sense. By explaining, for example, politicians as revenue maximizes (Leviathans) in the sense of G. BRENNAN and J.M. BUCHANAN (1980) or bureaucrats as budget maximizes in the sense of W.A. NISKANEN (1971), such behaviour might be considered as being justified. As mentioned above and recognized by J.M. BUCHANAN (1983, pp. 121f.), despite the fact that they have incentives to behave according to these models, in reality most of these individuals behave quite differently. Nevertheless, if these theories are taken as justifications for behaving accordingly, people might change their behaviour and act less responsibly while still yet becoming more self-regarding than before. Such a critique has, among others, been put forward by S. GORDON (1976) and S. KELMAN (1987).

[33] This critique must be taken seriously, as G. BRENNAN and Buchannan (1988) do.[24)] Their answer is threefold. First, one must distinguish between applications of the model to markets and to politics. "In the context of well-functioning markets, this prospect may be of little concern. Within the market, self-interested behaviour, given the appropriate legal constraints, does not necessarily inhibit 'social interest' and may indeed further it. In this institutional setting, any legitimizing of self-interest that economic theory provides need have no moral consequences of any significance." But this no longer holds as soon as this model – in empirical public choice – is employed to explain the behaviour of political actors, be they

24. There is a similar discussion on the role of economic education. As several studies show, economics students seem to be more self-regarding and less other-regarding than students of other disciplines. The question is whether this is due to training and/or self-selection. Probably both play a role. For example, see J.R. CARTER and M. IRONS (1991), G. KIRCHGÄSSNER (2005) or L.WANG, D. MALHOTRA AND J.K. MURNIGHAN (2011)

politicians, bureaucrats, or voters. In such contexts, “any comparable response in the behaviour of political actors may be of considerable normative account.” (p. 83)

[34] A second answer is that this should give incentives to building up ‘good’ institutions, which for example prevent politicians and bureaucrats from abusing their power. However, “as any good Public Choice theorist recognizes, some discretionary political power will remain in the hands of some political agents even under the best of feasible arrangements: constraints are costly, and we must make the best of what we have.” (p. 86)

[35] Their third and main answer is, however, that such concerns are based on a misunderstanding of the role of the Homo Oeconomicus in economic theory and in constitutional economics in particular. As mentioned above, the model of ‘pure economic man’ as employed in the latter can be justified if “we shift attention away from the analysis of policy choices by existing agents within *existing* rules, and towards the examination of alternative sets of rules.” (p. 87) The purpose of such exercises is, of course, not to advice politicians how to maximize social welfare but to find rules which prevent as far as possible political (and economic) agents from abusing their power.

[36] As correct as this answer is, it cannot of course prevent political agents from using public choice theory as a legitimation of immoral behaviour. This is surely not the intention of constitutional economics, but such a misunderstanding could even be used deliberately in order to justify behaviour which violates common social norms. But even if this is the case, such behaviour of politicians and/or bureaucrats is hardly sufficient to justify an abandonment of the Homo Oeconomicus model in constitutional analyses as long as there is no substitute; a substitute that would fit at least as well the purpose of deriving rules for efficiently constraining political actors without restraining these to such a degree that they are no longer able to fulfil their social role. One might even argue that such behaviour makes employing the Homo Oeconomicus model in such analyses even more necessary.

[37] In contrast to others, J.M. BUCHANAN (1978) accepts that monetary considerations have gained influence in recent decades. But he sees the reason for this not in the increased role the economic model of behaviour has played in recent decades not only in economics but also in other social sciences; rather, he observes a general decline of moral behaviour and the diminished importance of stabilizing institutions. He mentions several possible reasons for this, among them increased mobility or the replacement of local with national markets and concludes: “Add to this the observed erosion of the family, the church, and the law – all of which were stabilizing influences that tended to reinforce moral precepts – and we really understand why *Homo economicus* has assumed such a dominant role in modern behaviour patterns.” (p. 367)[25)] One can question whether the increased role of economic arguments and the expansion of markets into areas that were regulated by other mechanisms before are really indications of a general decline of moral behaviour, but J.M. BUCHANAN is with this

25. See also the comparatively negative evaluation of the current moral situation in J.M. BUCHANAN (1976, pp. 132f.).

assessment in line with quite a few (left-wing) authors who complain of the ever increasing importance of (narrowly) economic considerations in our social life.[26)]

6 Concluding Remarks

[38] Considering the very general version of the economic model of behaviour, the utility function is completely open and might contain any argument. But whenever this model is applied, the utility function must be specified, at least to some degree. J.M. BUCHANAN generally prefers applying a rather narrow version, "the selfish brute who devotes himself single-mindedly to maximizing the present value of his measurable wealth." (G. BRENNAN and J.M. BUCHANAN 1980, p. 19) However, he acknowledges that in using this approach it is hardly possible to explain the actual behaviour of individuals, be it in the market or in politics. Thus, despite the fact that he criticizes usage of the Homo Oeconomicus model as a descriptive one, he accepts that in performing empirical economic research we have to use a more open version. He also acknowledges that, due to various constraints, people might behave differently in markets than in politics; other-regarding behaviour might be more pronounced in politics as compared to markets.

[39] But the question as to which version should be applied must be answered quite differently when we come to constitutional economics, the area in which J.M. BUCHANAN is most interested. Following a long and ongoing tradition in political philosophy, he insists that – for methodological reasons – the narrow version is the correct one to be applied, because this is the way to compare different sets of rules when inquiring into the possible abuse of power by rulers and how to prevent this as far as possible. The same holds when analysing the process of policy advice.

[40] In recent years the Homo Oeconomicus model has come under severe attack by behavioural economists. In particular they have criticized the concentration on self-interest and on (exclusively) monetary arguments. In undertaking dictator-games, ultimatum-games and public-good games they were able to show that – at least in some situations – individuals are much less self-regarding and far more other-regarding than traditional economic theory assumes.[27)] Moreover, E. FEHR and K.M. SCHMIDT (1999) show that observable behaviour in labour markets can only be explained if we include relative income (relative to other workers in the same firm) in the utility function.

[41] All these recent critiques of the Homo Oeconomicus model, are they justified or not, can be relevant for empirical economic and/or political research. This of course also holds for empirical public choice. At the latest since A. DOWNS (1957), we have been cognizant of the fact that the high participation rates we observe in elections and referenda, for example, are incompatible with a narrow variant of the Homo Oeconomicus model and particularly with a

26. See, for example, J.R. SAUL (1995). – On the increased role of economic (financial) arguments and markets in modern life and reasons for this, see, for example, G. KIRCHGÄSSNER (1997).

27. For example, see G. KIRCHGÄSSNER (2008, p. 162) and the literature given there.

model allowing only for self-regarding behaviour.[28)] But these arguments do not relate to the application of this model in constitutional economics, which, as mentioned above, can be justified for quite other reasons than empirical applicability. Insofar, these arguments are hardly relevant for J.M. BUCHANAN's work.

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28. See the overview of the discussion in G. KIRCHGÄSSNER (2010). As H. KLIEMT (1986) showed, the same holds for (secret) voting and referendum decisions, because these are made behind a "veil of insignificance".

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