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**Working Paper**

## Two kinds of political economy: Utility-individualism vs. choice-individualism

Freiburger Diskussionspapiere zur Ordnungsökonomik, No. 25/3

**Provided in Cooperation with:**

Institute for Economic Research, University of Freiburg

*Suggested Citation:* Vanberg, Viktor (2025) : Two kinds of political economy: Utility-individualism vs. choice-individualism, Freiburger Diskussionspapiere zur Ordnungsökonomik, No. 25/3, Albert-Ludwigs-Universität Freiburg, Institut für Allgemeine Wirtschaftsforschung, Abteilung für Wirtschaftspolitik und Ordnungsökonomik, Freiburg i. Br.

This Version is available at:

<https://hdl.handle.net/10419/319640>

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## **Two Kinds of Political Economy: Utility-Individualism vs. Choice-Individualism**

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# Two Kinds of Political Economy: Utility-Individualism vs. Choice-Individualism<sup>1</sup>

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**Abstract:** This paper contrasts two kinds of political economy, represented by welfare economics and social choice theory on the one hand and James M. Buchanan's constitutional political economy on the other hand. It posits that the difference between the two kinds has its roots in the different normative premises on which they are based, premises that I refer to as *utility- or preference-individualism* and *choice-individualism* respectively. And I show that, because of their different normative starting points, the two kinds of political economy pursue fundamentally different research agendas.

## 1. Political Economy as Applied Economics

Economists studying the working principles of economic systems have rarely been content with confining their work to describing and explaining the economic realities they observe. Their ambitions always extended to passing judgments on the policies that shaped these realities and to providing guidance for what politicians ought to do to improve economic matters.<sup>2</sup> *Political Economy*, the name under which economics originated, explicitly reflects the close connection of explanatory and policy concerns.

Being aware of David Hume's reminder that the logical gulf between statements about "what is" and statements about "what ought to be" does not allow them to simply deduce their policy judgments from their factual conjectures, economists faced the challenge to specify on what grounds they extend the authority they may claim for their scientific findings to the judgements they pass on policy issues.<sup>3</sup> In their aspiration to establish their field of study as a

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<sup>1</sup> Prepared for the panel "History of Economic Thought and Public Choice," Public Choice Meetings, Louisville, Kentucky, March 6-8, 2025. – This paper summarizes the arguments elaborated in my introduction to Viktor J. Vanberg (ed.), *Choice and Economic Welfare*, The International Library of Critical Writings in Economics 358, Cheltenham, UK: Edward Elgar 2019, xiii-cix, also published as a separate monograph: *Individual Choice and Social Welfare: Theoretical Foundations of Political Economy*, Cheltenham, UK: Edward Elgar 2019.

<sup>2</sup> Samuelson (1947: 203): "Beginning as it did in the writings of philosophers, theologians, pamphleteers, special pleaders, and reformers, economics has always been concerned with problems of public policy and welfare." – Arrow (1951: 923): "Prescriptions for economic policy have been an integral and, indeed, controlling part of the economists' activities since the days of Jean Bodin."

<sup>3</sup> Myrdal (1953 [1932]: 1): "The task of economic science is to observe and describe empirical social reality and to analyze and explain causal relationships between economic facts. ... But the propositions that one state of society, actual or imagined, is politically preferable to another can never be inferred from the results of scientific work."

“science” on equal footing with the natural sciences they put increasing emphasis on the separation between what they are concerned with in their role as scientists and policy issues. It was only a natural consequence of the discipline’s concerns for its recognition as a *science*, that by the late 19<sup>th</sup> century, symbolized by Alfred Marshall’s textbook *Principles of Economics* (1890), the term *political economy* was in fact discarded and replaced by *economics*.<sup>4</sup>

That the adjective *political* was eliminated from their field’s name did not mean, though, that economists would no longer address policy issues. This would have meant, after all, to give up the claim that their theoretical findings are of practical-political relevance, a claim economists ostensibly wanted to uphold.<sup>5</sup> Faced with this issue, economists have occasionally suggested to divide the field in two parts, a *positive* economics and a *normative* economics devoted to practical-political issues. This replaces, though, only one challenge by another, namely having to explain what kind of enterprise such a *normative* economics is supposed to be, and on what authority it may pronounce its policy judgments.<sup>6</sup>

The ambiguities that have surrounded, and still surround, much of the profession’s debate on this issue can, however, be easily avoided by distinguishing between *two kinds of value judgments*, namely *hypothetical* or *conditional* value judgments or imperatives on the one side and *categorical* or *unconditional* value judgements or imperatives on the other. Categorical imperatives are of the form “X should be done,” hypothetical imperatives are of the form “X should be done *if* one wants to achieve Y.”

While the policy recommendations that applied economics may provide are necessarily *based* on normative premises, the recommendations themselves can be purely *factual* claims when they are stated as *hypothetical imperatives*, i.e. as statements like “If problem A is to be solved, B should be done.” Such claims can be subjected to the same kind of critical examination on empirical and theoretical grounds to which positive scientific statements are generally subjected. They can be proven *wrong* if B is not a suitable means for solving A; they

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<sup>4</sup> Backhouse and Medema (2009: 224): “For Alfred Marshall, the main supporter of the term ‘economics,’ this renaming of the subject was part of establishing economics as a professional scientific field”.

<sup>5</sup> Myrdal ([1932] 1953: 191): “There is, on the other hand, wide agreement that economics ought to be ‘practical.’ How then can the results of economic inquiry be made to serve practical purposes?”

<sup>6</sup> In his 1932 discussion on *The Political Element in the Development of Economic Theory* G. Myrdal ([1932] 1953: 13) noted: “The general thesis that economic science, if it is to be scientific, should refrain from attempting to establish political norms, has been accepted by leading economists for about hundred years and is a commonplace to-day. But the full significance of this postulate is apparently not generally grasped and the political doctrines are still with us.”

can be shown to be *insufficient* if other means for solving A exist; and they are irrelevant for addressees who do not care to know how A might be solved.

The hypothetically presumed value premise that a political economist chooses to adopt provides the focus for his or her research efforts, but it does not need to “infect” at all the products of these efforts, which can be entirely limited to factual claims.<sup>7</sup> It will mean, though, as indicated, that the research effort and its fruits will be of interest only for those who consider the chosen value premise a worthwhile guide for scientific inquiry.

Issuing hypothetical imperatives is the ordinary business of every applied science. In this regard, political economy conceived as applied economics is not different from applied disciplines in the natural sciences whose status as value free scientific enterprises is unquestioned.<sup>8</sup> It may be looked at as being what Myrdal ([1932] 1953: 199) refers to as “economic technology,” noting:

Such an economic technology is in the best tradition of political economy, which has always aimed at social policy. It would have to become more relativistic, i.e. it would have to be related to explicit and concrete value premises.<sup>9</sup>

And just as a technological discipline, such as engineering, is regarded as “applied” rather than “normative” physics, political economy in the above-described sense should be called “applied” and not “normative” economics.

## **2. Political Economy and Normative Individualism: Utility- or Preference-Individualism vs. Choice-Individualism**

In dealing with policy issues economists appear to share a *normative individualism* as their hypothetical premise, i.e. the premise that policies should be judged in terms of their effects on individuals’ well-being or, in other terms, that the evaluations of the individuals involved

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<sup>7</sup> Albert (1986: 91): “*Political* economy can as a comparative analysis of social control systems perfectly get by without value judgments – though not without hypothetically presumed criteria” (my translation, V.V.).

<sup>8</sup> Buchanan ([1982] 2001: 41): “Science is about the ‘is,’ or the conjectural ‘is,’ not about the ‘ought.’ ... Why does science have ultimate ‘social’ value? ... By more or less natural presumption, ‘science’ is valued because it is precursory to its usefulness in control. Physics, as positive science, is antecedent to the miracle of modern technology”.

<sup>9</sup> Albert (1979: 27): “Applied science (technology, including social technology) can at best show *possible courses of action* and – with regard to the problem of social order – *possible kinds of institutional arrangements* and their *general mode of functioning*. If a science of legislation is possible at all, it must at least contain a social technology of this kind. Going back two hundred years, we find a book which at that time was looked upon as an important contribution to the science of legislation – Adam Smith’s *Wealth of Nations*.”

should be the relevant standard for assessing policy measures<sup>10</sup>. As K. Arrow (1987: 124) has put it:

It has been granted in virtually all economic policy discussions since the time of Adam Smith, if not before, that alternative policies should be judged on the basis of their consequences for individuals.<sup>11</sup>

Yet, as much as economists appear to agree on normative individualism as the premise in their treatment of policy issues, on closer examination it is apparent that this premise is given two critically different interpretations, namely, as I propose to call them, as *utility-* or *preference-individualism* on the one side and *choice-individualism* on the other. While both versions of normative individualism posit that the evaluations of the individuals involved should be taken as the measuring rod against which alternative policies are to be judged, they differ in how they specify this measuring rod.

Under the rubric *utility- or preference-individualism* I classify approaches to policy issues that interpret the premise that individuals' evaluations are to count to mean that "individuals' utilities or preferences are to count." The paradigmatic example of this version of normative individualism can be traced back to the utilitarianism of Jeremy Bentham who circumscribed its central claims as follows:

By the principle of utility is meant that principle which approves or disapproves of every action, whatever, according to the tendency which it appears to have to augment or diminish the happiness of the party whose interest is in question ... not only of every action of a private individual, but of every measure of government. ... The community is a fictitious *body*, composed of the individual persons who are considered as constituting as it were its *members*. The interest of the community then is what? – the sum of the interests of the several members who compose it (Bentham [1789] 1982: 11f.).

According to this concept, what actions government should take should be assessed by determining the net effects that potential policy measures are predicted to have on individuals' utilities, and by aggregating the resulting individual utility measures across the community (ibid.: 39f.). This means, the "members" of the community count only with their utility values, they need not be actively involved in political decision-making. Their utility values

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<sup>10</sup> Harrod (1938) calls this "the criterion that individuals should get what they prefer" (ibid.: 394), a criterion on which he comments: "In appraising institutions and practices and making recommendations, the economist has this criterion in mind; it constitutes the standard of good and bad."

<sup>11</sup> Arrow (1994: 1): "(T)he typical economist's argument today for government intervention ... rests on individualistic valuations." - Likewise, P. Samuelson (1947: 223) has stressed the role played in economists' outlook at policy issues by the "assumption, which stems from the individualistic philosophy of modern Western Civilization ... that individuals' preferences are to count."

are supposedly assessed by the analyst doing the utility-accounting for the community. It is in the same spirit that, about hundred years after Bentham's pronouncement, Léon Walras ([1874] 1954:256) stated in his founding treatise of neoclassical economics:

In our theory each trader is assumed to determine his own utility or want curves as he pleases. Once these curves have been determined, we show how prices result from them under a hypothetical régime of absolutely free competition.

Vilfredo Pareto, Walras' successor on the Lausanne chair, stated likewise: "once we have determined the means at the disposal of the individual and obtained a 'photograph' of his tastes ... the individual may disappear."<sup>12</sup>

In reference to the current practice in economics Robert Sugden (2004: 1017) notes:

It is a folk saying in the discipline that, as far as theory is concerned, an individual is a preference ordering: everything the theorist needs to know about a person is contained in that person's preference.

By contrast, from a *choice-individualist* perspective, paradigmatically advanced by James Buchanan, the normative premise that individuals' evaluations are to count in the assessment of policy measures is interpreted to mean that individuals' *choices*, rather than their utilities or preferences, are to be respected as the relevant input in political choice processes. The hypothetical criterion of evaluation on which a choice-individualist political economy bases its analysis is that "individual persons are the ultimate decision-makers" (Buchanan [1968]: 2000: 4), that they "are the ultimate sovereigns in matters of social organization" (Buchanan [1991] 1999: 288). From such perspective the measuring rod for policy choices is not to be constructed from individuals' utilities or preferences, it is to be derived from their *actual choices*.

The difference between the two versions of normative individualism has significant implications for the direction into which economists' research efforts are guided, and for the nature of the theories they propose in order to bridge the gap between the level of individuals' evaluations and the level of policy choices. The principal research issues a utility- or preference-individualist approach faces are, firstly, how to determine individuals' utilities or preferences and, secondly, how to aggregate or combine them into a measure of "social utility" or "social preference." The predicted *outcomes* of policy choices are the *direct* object

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<sup>12</sup> Quoted from Georgescu-Roegen (1971: 343). As Georgescu-Roegen (ibid.) adds: "The individual is thus reduced to a mere subscript of the ophelimity function  $\Phi_i(x)$ ." – After having described how an individual's indifference curves may be represented Pareto ([1911] 1955: 61) notes: "Thereafter, the individual may disappear, we do not need him any longer in order to determine economic equilibrium".

of evaluation, the procedures through which choices come about are only *indirectly* evaluated in terms of their capacity to generate valued outcomes.<sup>13</sup> In contrast, for a choice-individualist approach the principal research issue is how collective, political choices can be derived from, or grounded in, choices of the individuals who constitute the polity.<sup>14</sup> The *choice procedures* are the *direct* object of evaluation, judged in terms of their capacity to enable individuals to exercise their authority as ultimate sovereigns, while *policy outcomes* are judged only *indirectly* in terms of the nature of the procedures from which they result.

Utility- or preference-individualism has been the dominant normative premise on which, influenced by Bentham's utilitarianism, economists who concerned themselves with policy issues based their arguments. It provides the basis for *welfare economics* and *social choice theory* as the discipline's two sub-fields explicitly devoted to these issues. The choice-individualist perspective has always been present in economic discourse, yet it remains mostly an implicit concept that has rarely been given noteworthy attention. It has found its most explicit and systematic elaboration in the research program of *constitutional political economy* pioneered by James M. Buchanan. In the remainder of this paper the different research programs will be compared in terms of how successful they are in yielding – on the basis of their respective versions of normative individualism – a measuring rod against which public policies can be evaluated, and in terms of how relevant these measuring rods appear for informing actual political decision-making in democratic society. From such perspective, *welfare economics* is to be looked at as a research program that explores what can be said about policy measures *if* individuals' *utilities* are taken as the relevant normative criterion. *Social choice theory* is understood as a research program that explores what can be said about policy measures *if* individuals' *preferences* provide the measuring rod. *Constitutional political economy* is seen as a research program that explores what can be said about politics *if* individuals' choices provide the standard for evaluative judgments.

### **3. The Utility-Individualism of Welfare Economics and the Preference-Individualism of Social Choice Theory**

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<sup>13</sup> Hausman and McPherson (1996: 69): "Economists typically evaluate outcomes in only one way – in terms of individual welfare. ... Since the evaluation of outcomes rests exclusively on their consequences for individual welfare, the theory of individual welfare is crucial to normative economics."

<sup>14</sup> Buchanan (1960: 5f.): "In an individualistic society, collective choice must represent some composite of individual choices."



Utilitarian moral philosophy is generally considered to have “constituted the basis of economic thought” (Myrdal [1932] 1953: 8) in its early stages,<sup>15</sup> and it can be said to have had an enduring influence on economists’ outlook at their subject matter, in particular their treatment of policy issues.<sup>16</sup> This is notably true of *welfare economics*,<sup>17</sup> the subfield in economics to which the practical-political concerns of classical political economy have been delegated<sup>18</sup> when, as noted above, economists renamed their discipline to *economics* in order to stress its nature as a purely theoretical science.<sup>19</sup> As A. Sen (1996: 21) has put it:

Utilitarianism has been the ‘official’ theory of welfare economics in a peculiarly unique way, and a good deal of standard welfare economics is still largely utilitarian. Even when the approach used is not fully utilitarian, it tends to incorporate central features of utilitarianism, such as exclusive reliance on utility information to evaluate social states (what has been called ‘welfarism’) and exclusive reliance on the evaluation of the goodness of social states to assess actions, institutions and other choice variables (what is called ‘consequentialism’).<sup>20</sup>

The ‘utilitarian’ features of welfare economics that Sen points out are of particular interest for comparing and contrasting its utility-individualism with a choice-individualist perspective, namely that *individual utilities* serve as normative reference point, that *social states* are considered the principal object of evaluation, and that choice procedures, rules and institutions are evaluated only *indirectly* in terms of the *outcomes* they bring about.

As Atkinson (2009: 800) summarizes this outlook:

The standard welfare economic approach is to assume that the domains are reduced to a single number representing individual welfare or utility, and the aggregation issue involves combining these into a single overall level of social welfare.

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<sup>15</sup> Myrdal (ibid.) speaks of the “objective social philosophy of utilitarianism, of which economic science was but one specific elaboration.”

<sup>16</sup> Myrdal (ibid.: 17): “If the moral philosophy of the utilitarians still survives in a fairly systematic shape, it owes this to the loving care with which it has been preserved in economic theory.”

<sup>17</sup> Arrow ([1951] 1963: 24) speaks of “Benthamite social ethics and its latter-day descendant, welfare economics”. – Baujard (2016: 611f.): “Utilitarianism ... may be considered as the genuine root of welfare economics.”

<sup>18</sup> Scitovsky (1951: 303): “Welfare economics is that part of the general body of economic theory which is concerned primarily with policy. ... Welfare economics supplies the economist – and the politician – with standards ... by which to appraise and on the basis of which to formulate policy. Hence, whenever the economist advocates a policy ... he makes a welfare proposition.”

<sup>19</sup> Albert (1967: 156): “These issues had since long been central problems of political economy, yet today they appear to be sourced out to a special field, the so-called welfare economics” (my translation, V.V.).

<sup>20</sup> Sen (1997: 19): “Traditional welfare economics has tended to be ‘welfarist’ in the sense of assessing the merits of social states of affairs as a function of individual utilities. Combined with ‘consequentialism’, this leads to the assessment of all social decisions (about actions, institutions, etc.) in terms of the values of the associated utilities.”

Kenneth Arrow's *Social Choice and Individual Values* ([1951] 1963) is generally credited with having given birth to modern social choice theory. Next to Arrow, Amartya Sen is presumably the most prominent among the advocates of this research program. This chapter deals with the perspectives from which these two major representatives of the field approach their subject.

According to Arrow, the problem social choice theory deals with "is the aggregation of the multiplicity of individual preference scales about alternative social action" (1969: 223). Its purpose is "to analyze policy decisions" with the intention "to provide a rational framework for decisions that, for whatever reason, have to be made collectively" Arrow (1997: 3). When he speaks of social choice theory's concern with "the justification of economic policy" (1987: 124), Arrow explicitly adopts the premise of normative individualism as providing the criterion in terms of which legitimacy is to be judged. As he puts it:

The individual plays a central role in social choice as the judge of alternative social actions according to his own standards. We presume that each individual has some way of ranking social actions according to his preferences for their consequences" (1969: 221).

While the project of welfare economics is about how measures of individual utility or welfare can be aggregated or compounded into a *social welfare function*, Arrow's approach is concerned with the aggregation of individuals' preference orderings into a *social preference ordering*:

(L)et  $R_i$  be the ordering relation for alternative social states from the standpoint of individual  $i$ . ... Similarly, society as a whole will be considered provisionally to have a social ordering relation for alternative social states, which will be designated  $R$ . ... Throughout this analysis it will be assumed that individuals are rational ... The problem will be to construct an ordering relation for society as a whole that will also reflect rational choice-making ([1951] 1963: 19).<sup>21</sup>

Arrow sees his inquiry into *rational social choice* as a contribution to the project of welfare economics and defines the procedure for deriving a social ordering from individual orderings as a *social welfare function*:

By a *social welfare function* will be meant a process or rule which, for each set of individual orderings  $R_i, \dots, R_n$  for alternative social states (one ordering for each

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<sup>21</sup> Arrow (1950: 335): "(T)he whole social ordering relation  $R$  is to be determined by the individual ordering relations for social states,  $R_1, \dots, R_n$ ."

*individual*), states a corresponding social ordering of alternative social states,  $R$  (ibid.: 22).

Whether such aggregation exercise should indeed be called a social welfare function and, accordingly, be considered a contribution to welfare economics, has been the subject of considerable controversy. Very much at the center of this controversy is the issue of what the core-piece of Arrow's work, the so-called impossibility theorem, implies for the welfare economics project.<sup>22</sup>

In an early comment Ian Little (1952: 427) had censured Arrow for failing to draw "an important distinction" by calling "his function a social welfare function and a decision-making process." Little (ibid.: 432) concluded that, because it is in fact about the latter, "Arrows work has no relevance to the traditional theory of welfare economics." It was in particular Samuelson who persistently charged Arrow with misusing the label "social welfare function" for his preference-aggregation rule, noting for example:

I shall argue again here the thesis that the Arrow result is much more a contribution to the infant discipline of mathematical politics than to the traditional mathematical theory of welfare economics (Samuelson 1967: 42).

According to Samuelson (1983: xxii), what Arrow has called a social welfare function he should have called instead a "Constitutional Voting Function" or "Constitutional Function." As he notes:

What Arrow has proved ... is the impossibility of what I prefer to call 'a political constitution function', which would be able to resolve *any* interpersonal differences brought to it while at the same time satisfying certain reasonable and desirable axioms. (Samuelson 1968: vii-viii).

Arrow did in fact rename his aggregation rule, stating:

It would perhaps have been better for me to use a different term from 'social welfare function' for the process of determining a social ordering or choice function from individual orderings ... I will therefore now use the term 'constitution' (Arrow 1963: 104f.).

He still insisted, though,

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<sup>22</sup> It is in particular because of what he called "The General Possibility Theorem" ([1951] 1963: 46ff.), and what is generally referred to as the *impossibility theorem*, that Arrow's approach became the founding contribution to social choice theory.

that any attempt to divide welfare economics ... from the theory of social choice must be artificial. ... [I]t is hard to see how any study of the formation of social decisions can have 'no relevance to' or 'no bearing on' welfare economics (ibid.: 108).

By renaming his preference-aggregation rule a *constitution* Arrow may have avoided the objections raised by welfare economists, yet he invited new objections. Social choice theory is concerned with democratic politics, and constitutions of democratic polities are commonly understood to specify, in one way or another, how decisions made on behalf of the polity derive their legitimacy from the *votes* of the ultimate sovereigns, the citizens, not from their *preferences* as assessed by some observer.<sup>23</sup> Arrow blurs this difference when he states that "the construction of a constitution" is about the "fundamental problem of public value formation" (1969: 225), that a constitution "assigns to any set of individual preference orderings a rule for making society's choices" (ibid.), and that "in a general sense all methods of social choice are of the type of voting" (ibid.: 227). Apart from Arrow, Amartya Sen is presumably the next most prominent among the advocates of this research program. He describes its main question as follows:

If there is a central question that can be seen as the motivating issues that inspires social choice theory, it is this: ... How can we find any rational basis for making such aggregative judgments as 'the society prefers this to that,' or 'the society should choose this over that,' or 'this is socially right'" (Sen 1999: 349).<sup>24</sup>

The typical social-choice theoretic format is that of transforming a set (in fact, an  $n$ -tuple) of individual preference orderings into a social preference relation or a social choice function (1986: 214).

Like Arrow with his "impossibility theorem," Sen has spurred an extended debate among social choice theorists with an impossibility theorem of his own, called "the impossibility of a Paretian liberal" (1970). The theorem posits that there is a conflict between individual liberty and the Pareto principle, the, as Sen notes, "cornerstone of welfare economics which insists that unanimous individual preference rankings must be reflected in social decisions" (1983:

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<sup>23</sup> Arrow's "constitution" does not require the actual participation of the constituents as voters in the political process. Once their preference orderings are registered, they are no longer needed in order to make policy choices. Arrow ([1951] 1963: 30) speaks, in analogy to "the usual concept of consumer's sovereignty", of "citizens' sovereignty", but what he means by this term is that individuals' preferences are to count in the aggregation exercise, not that individuals' choices are to be respected. As he notes at the beginning of a section titled "The condition of citizens' sovereignty": "We certainly wish to assume that the individuals in our society be free to choose, by varying their values, among the alternatives available" (Arrow 1950: 338).

<sup>24</sup> Sen (1987: 382): "Social choice theory, pioneered in its modern form by Arrow (1951), is concerned with the relation between individuals and society. In particular, it deals with the aggregation of individual interests, or judgments, or well-beings, into some aggregate notion of social welfare, social judgment or social choice."

5). Specifically, the theorem says that there is no social decision function that can simultaneously satisfy the conditions U (Unrestricted Domain), P (Pareto Principle) and L (Liberalism) (1970: 153). A “social decision function” Sen defines as a “collective choice rule,” as “a functional relationship that specifies one and only one social preference relation  $R$  for any set of  $n$  individual orderings (one ordering for each individual)” (1970: 152).<sup>25</sup> The individual orderings are supposed to be “over the set  $X$  of all possible social states, each social state being a complete description of society including every individual’s position in it” (ibid.).

Due to the nature of social choice theory as “a subject in which formal and mathematical techniques have been very extensively used” (1999: 353),<sup>26</sup> much of the debate on Sen’s – as well as on Arrow’s – impossibility theorem has been in such formal and mathematical terms. There is no need in the present context to cover this part of the debate. Of interest here are those contributions that address the theoretical-conceptual foundations of Sen’s argument, such as his use of the term “liberty.”

It is significant that Sen defines the “liberalism”-condition in his “impossibility theorem” in terms of individual *preferences*, namely as demanding

that for each person there is at least one pair of social states, say,  $x$  and  $y$ , such that his preference over that pair must be decisive for social judgment; i.e., if he prefers  $x$  to  $y$ , then  $x$  must be acknowledged to be socially better than  $y$  and correspondingly if he prefers  $y$  to  $x$  (1976: 218).

To respect individuals’ liberty apparently means in Sen’s theoretical framework to respect their *preference orderings over social states*. It is his very use of the term “liberalism” that critics have censured to be in contrast to the common use of these terms.<sup>27</sup> Authors like B. Barry have pointed out that liberalism is not about individuals’ preferences over social states but “a doctrine about who has what rights to control what” (Barry 1986: 15). To restate this

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<sup>25</sup> Sen (1983: 8): “A *social decision function* determines a complete and consistent (free from cycles) social preference defined over the set of alternative social states for any set (in fact,  $n$ -tuple) of individual preference orderings (one ordering per person). A social decision function has an *unrestricted domain* if it works for any logically possible  $n$ -tuple of individual preference orderings. The impossibility of the Paretian liberal is the theorem establishing that there cannot exist a social decision function satisfying unrestricted domain, the Pareto principle (even in its weak form), and minimal liberty ML.”

<sup>26</sup> Sen (1997: 15): “Social choice theory is an analytical discipline which makes extensive use of axiomatic methods. Many of the strengths and weaknesses relate precisely to this analytical character, including the strength arising from its interpretational versatility and the weakness of a tendency towards formal neglect of substantive issues.”

<sup>27</sup> Rowley and Peacock (1974: 2): “Even Amartya Sen ... in our view remains confused as to the true nature of liberalism, which is not concerned, as he would have it, with the primacy of individual preferences, but rather with the maintenance and extension of individual freedom, defined as the absence of coercion of certain individuals by others.”

charge in terms of the distinction that is of principal interest in the present context, namely between preference-individualism and choice-individualism: Sen treats as belonging to one normative dimension what in fact are two paradigmatically different principles, one requiring that individuals' *preferences over outcomes* (social states) are to be respected, the other requiring that individuals' *choices among actions* are to be respected

There is another part of Sen's contribution to social choice theory that has found considerable attention, a part that is of particular interest in the present context as it pertains directly to the viability of the preference-individualist paradigm. He has persistently advocated a social choice theory that frees itself from the "informational constraint" of a "welfarism" that requires taking individual utilities as *the* starting point for normative judgments on social matters.<sup>28</sup> As he reasons:

(I)t is convenient to distinguish between 'utility information' in the general sense (including information about preference rankings) and 'nonutility information' regarding other features of states of affairs. ... In his original formulation of the problem of social choice, Kenneth Arrow was moved by the view, common in positivist philosophy that was then influential in welfare economics, that 'interpersonal comparisons of utilities have no meaning' (Arrow 1951, p. 9).

This is a momentous informational exclusion, the removal of which can open up many constructive possibilities (2010: 35).

In Sen's view, trying "to make social welfare judgments *without* using any interpersonal comparison of utilities, and *without* using any nonutility information, is not a fruitful enterprise" (1985: 8). Accordingly, Sen seeks to advance a social choice theory that allows for both, interpersonal comparisons and nonutility information.<sup>29</sup>

As Sen recognizes, the original dispute about the interpersonal comparability of utility was, of course, about the comparability of *mental states*, an issue that had its place within the *subjectivist-individualist paradigm* as the traditional trademark of economic theory and political economy. Distancing himself from what he calls an "overconcentration on

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<sup>28</sup> Sen (1979a: 471): "(W)elfarism ... can be seen as imposing an 'informational constraint' in making moral judgments about alternative states of affairs." – Sen (2010: 36): "Welfarism, narrowly defined is the demand that social welfare (or whatever is taken as the social maximand) depends only on individual utilities; other features of states of affairs have no direct influence on social welfare (or the social maximand)." – Sen (1979b: 548): "In its uncompromising rejection of the relevance of non-utility information welfarism is indeed a very limited approach."

<sup>29</sup> One of Sen's claims is that with such removal of the informational restrictions the "impossibility problem" of Arrow's theorem disappears. See Sen 1979b: 539, 543; 1995: 8).

comparisons of mental states” (1999: 365) Sen calls for objectively identifiable welfare-indicators,<sup>30</sup> noting:

We do care about the size and distribution of the overall achievements; we have reason to want to reduce deprivation, poverty, and inequality; and all these call for interpersonal comparisons – either of utilities or of other indicators of individual advantages, such as real incomes, opportunities, primary goods, or capabilities (1995: 8).

Sen is surely right in claiming that abandoning the “informational constraint” of traditional welfarism allows him to make judgments on research issues that would be excluded if he would stick to the premise that welfare judgments are to be based on the evaluations of the individuals involved themselves. But it also means, as noted above, that he abandons the “rules of the game” that defined, since its utilitarian origins, the research program of classical political economy and its offspring, welfare economics and social choice theory, namely the premise that policies are to be judged in terms of how the individuals *themselves* judge their merits. A social choice theory as advocated by Sen that allows judgements on policy issues to be based not only on individual values but on “some other characteristics of the respective individuals,”<sup>31</sup> may well have its own merits, but it provides no longer answers to the problem that political economists, welfare economists and social choice theorists traditionally struggled with, namely how to build a bridge between individuals’ subjective values and collective-political choices.

#### **4. The Choice-Individualism of Constitutional Political Economy**

Even though the research program of *Constitutional Political Economy* became known under this name only in the 1980s, its origins can be traced back to one of the first publications of its principal founder, James M. Buchanan. In his 1949 paper on “The Pure Theory of Government Finance” he challenged, as he put it in retrospect, “the still-dominant orthodoxy in public finance and welfare economics” (1987: 243)<sup>32</sup> by advocating an *individualistic* theory for which “the state has no ends other than those of its individual members” and state decisions are “the collective decisions of individuals” ([1949] 1999: 122f.).

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<sup>30</sup> In addition to allowing for nonutility information Sen also wants the motivation behind persons’ preferences to be considered in judgments on social choices. See Sen 1976: 219, 239; 1979a: 478, 482f.; 1979b: 550;

<sup>31</sup> Sen (2010: 30): “(A)ll the social choice problems have the shared feature of relating ‘social’ - or group-assessments to the values, preferences, choices, or some other characteristic of the respective individuals who form the collectivity.”

<sup>32</sup> References in this section without author name are to Buchanan’s works.

Characteristic of the CPE paradigm is its consistent individualism, both in its positive-explanatory (*methodological individualism*) and in its normative-applied dimensions (*normative individualism*). Methodological individualism is commonly regarded as an attribute of economic theory in general,<sup>33</sup> but it is, as Buchanan charges, not always consistently adhered to, notably in public finance and in welfare economics, when it comes to account for *collective action*, the actions and decisions of organized collectivities or “corporate actors” (Vanberg 1992), in particular of “the state.”<sup>34</sup>

When Buchanan describes his approach as a “purely individualistic conception of the collective” (ibid.: 13), this means specifically that individuals’ *choices* – rather than individual *utilities* or *preferences* – are taken as the starting point for *explanation* as well as for the *evaluation* of collective phenomena. The principal focus of constitutional economics “in its positive aspects”, as an *explanatory* enterprise, he describes as the “analysis of the working properties of ... alternative sets of rules and institutions that serve to constrain the choice behavior of participants” ([1989] 2001: 270). Taking individuals’ choices as starting point for the *evaluation* of collective phenomena means to respect individuals as “ultimate sovereigns” ([1991] 1999: 288) in matters of collective choice. Accordingly, the “normative” task of constitutional economics as applied science is “to assist individuals, as citizens, who ultimately control their own social order, in their continuing search for those rules of the political game that will best serve their purposes whatever these might be” (1987: 250).

When he speaks of a “normative task,” Buchanan leaves no doubt that this is not meant to claim for the constitutional political economist any authority to pronounce judgments on “what should be” as *categorical* imperatives.<sup>35</sup> It means that proposing solutions to practical problems is seen as an essential task of political economy,<sup>36</sup> and that in

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<sup>33</sup> Buchanan (1990: 13): “(M)ethodological individualism, as a presupposition of inquiry, characterizes almost all research programs in economics and political science; constitutional economics does not depart from its more inclusive disciplinary bases in this respect.”

<sup>34</sup> Buchanan and Tullock (1962: vi): “The analysis (in this study, V.V.) can perhaps be described by the term ‘methodological individualism.’ Human beings are conceived as the only ultimate choice makers in determining group as well as private action. Economists have explored in considerable detail the process of individual decision-making in what is somewhat erroneously called the ‘market sector.’ Modern social scientists have, by contrast, tended to neglect the individual decision-making that must be present in the formation of group action in the ‘public sector.’”

<sup>35</sup> Buchanan (1959: 137): “Positive science is concerned with the discovery of ‘what is,’ normative science with ‘what ought to be.’ Positive economics, narrowly conceived, overly restricts the ‘what is’ category. Political economy has a non-normative role in discovering ‘what is the structure of individual values.’ The political economist, in accomplishing this task, can remain as free of personal values judgments as the positive economist.”

<sup>36</sup> Buchanan (1959: 128): “Propositions advanced by political economists must always be considered as tentative hypotheses offered as solutions to social problems.” – Buchanan (1962a: 308): “We seek to learn how the social world works in order to make it work ‘better,’ to ‘improve’ things: this is as true for physical science as it is for social science.”



taking on this task one must hypothesize some value judgment that defines the focus of inquiry, the criterion for what one considers the “problem” for which a solution is to be sought. And in Buchanan’s case this value judgment is, as noted, a *normative individualism*, a premise that, in its general interpretation, he shares with the above discussed research programs of welfare economics and social choice theory. Yet, as noted before, the way Buchanan specifies this premise is characteristically different from theirs. And the differences in the respective specifications of what a *normative individualism* entails have significant implications for how the three research programs – Buchanan’s choice-individualism, welfare economics’ utility-individualism and social choice theory’s preference-individualism – define the problem for which they seek a solution and, accordingly, the foci of their inquiry.

In welfare economics, the premise of normative individualism is interpreted as the postulate “that individuals’ preferences are to ‘count’” (Samuelson 1947: 223). Accordingly, this research program seeks to show how one can arrive at judgments on policy issues by amalgamating individuals’ preferences into some measure of aggregate welfare. Similarly, in social choice theory, the premise of normative individualism is interpreted to mean that “individual values are the raw material out of which the welfare judgments is manufactured” (Arrow 1963: 104). And the problem to be solved concerns “the aggregation of the multiplicity of individual preference scales” (Arrow 1969: 223) into a social ordering.<sup>37</sup>

By contrast, in Buchanan’s *choice-individualism* the premise of normative individualism means that individuals’ *choices* are “the ultimate sources of evaluation” ([1985] 2001: 245), that the individuals composing a collective unit are viewed as “the ultimate sovereigns in matters of social organization” ([1991] 1999: 288) from whom any legitimacy to decide or act on behalf of the collective unit derives.<sup>38</sup> Accordingly, the problem to be solved is how *collective decisions* can be derived from *individual choices* and how, starting from individuals’ choices, one can arrive at judgments on policy issues or social matters generally. Taking the *subjectivism* that has been a core component of economists’ traditional outlook requires one to recognize that individuals’ values or interests are not directly accessible for the observing economist but can only be inferred from actual choices.

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<sup>37</sup> Arrow (2010: 26): “Social choice theory strips down the properties of the members to their preference scales.” – Buchanan (1954: 119): “Arrow is primarily interested in individual values as the units of account to be used in deriving social welfare functions.”

<sup>38</sup> As Buchanan ([1991] 1999: 288) comments, “the normative premise of individuals as sovereigns” means that individuals “are the beings who are entitled to choose the organizational-institutional structure under which they live.”

In supposing that the “observing economist is ... able to ‘read’ individual preference functions,” Buchanan (1959: 126) charges, “welfare economists, new and old,” have generally imputed an unfounded “omniscience in the observer” (ibid.).<sup>39</sup> In these constructions, he notes, “‘utility’ ... has a presumptive existence that is independent of any exercise of choice itself” ([1991] 1999: 282) and “can, at least conceptually, be objectified and separated from individual choice” (ibid.: 283). To such constructions he objects:

From a subjectivist perspective, a ‘utility function,’ as such does not exist which, even conceptually, could be observed and recognized independently of an individual’s choice behavior ([1991] 1999: 286).<sup>40</sup>

Buchanan’s choice-individualism with its above-described characteristics has two principal interrelated implications for the research agenda that it informs. Firstly, what may count as ‘socially desirable’ cannot be determined in terms of presumed individual utilities or preferences but can only be inferred from *voluntary agreement* among the individuals concerned. Secondly, if agreement is the relevant normative criterion, the focus of analysis must be on the *process* through which, and the *rules and institutions* under which, policy choices are made rather than on the resulting outcomes per se. Buchanan ([1985] 2001: 249) refers to these two attributes when he speaks of his approach as a “contractarian-constitutionalist paradigm.”

With the “*contractarian*” component of his paradigm Buchanan claims that the *ultimate* normative criterion in judging “politics and political order” can be no other than the *voluntary consent* of the individual members of the polity. Applying this criterion at the level of politics

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<sup>39</sup> Buchanan (1959: 126): “Utility is measurable, ordinally or cardinally, only to the individual decision-maker. It is a *subjectively* quantifiable magnitude. While the economist may be able to make certain presumptions about ‘utility’ on the basis of observed facts about behavior, he must remain fundamentally ignorant concerning the actual ranking of alternatives until and unless that ranking is revealed by the overt action of the individual in choosing.”

<sup>40</sup> In a textbook on *Welfare Economics* the author notes: “The technical problems of the existence of a utility function that represents an individual’s preferences is discussed in Appendix 1B. In the text, we shall for the most part take the existence of a utility function for granted” (Ng 1979: 15). – De Graaff ([1963] 1968: 35) claims for his approach to welfare economics: “(T)he utility function is primarily an expository device enabling us to talk about indifference curves without abandoning a behaviorist approach to welfare... Our definition of individual welfare still runs in terms of conjectural choices. But when economists were interested in explaining choices ... it seemed natural to suppose that a man would choose *A* rather than *B* if he anticipated greater satisfaction, or utility, from the former. Then ‘preference’ meant something more than ‘conjectural choice’.” – It reads like a comment on Graaff’s argument when Buchanan (1959: 126) says about welfare economics: “The observing economist is considered able to ‘read’ individual preference functions. Thus, even though an ‘increase in welfare’ for an individual is defined as ‘that which he chooses,’ the economist can unambiguously distinguish an increase in welfare independent of individual behavior because he can accurately predict what the individual would, in fact, ‘choose’ if confronted with the alternative under consideration.”

is, as he insists, nothing more than a consistent extension of the economist's standard outlook at market transactions to the political realm:

The political analogue to decentralized trading among individuals must be that feature common over all exchanges, which is *agreement* among the individuals who participate. The unanimity rule for collective choice is the political analogue to freedom of exchange of partitionable goods in markets (1987: 247).

To be sure, there are obvious differences between the bilateral *exchange contracts* upon which the decentralized network of market transactions rests and the multilateral or inclusive *social contracts* that constitute political communities or, more generally, systems of deliberately organized cooperation. The exchanges that the latter types of contracts involve can be characterized as *exchanges of commitments* through which the members of a polity – or, more generally, an organization – mutually submit to binding rules, tied to the membership status. And the mutual benefits they expect in return are the fruits predicted to result from their compliance with these rules. By such joint commitments, Buchanan notes,

individuals choose to impose constraints or limits on their own behavior ... as a part of an *exchange* in which the restrictions on their own actions are sacrificed in return for the benefits that are anticipated from reciprocally extended restrictions on the actions of others with whom they interact (1990: 4).<sup>41</sup>

Yet, the difference between the types of exchanges, and their contractual compliments, that characterize the two arenas, markets and politics, does not change the fact that, from a choice-individualist perspective, in political exchange no less than in market exchange, agreement is the source of legitimacy and the ultimate test of efficiency. As Buchanan insists:

Individuals acquiesce in the coercion of the state, of politics, only if the ultimate constitutional 'exchange' furthers their interests. Without some model of exchange, no coercion of the individual by the state is consistent with the individualistic value norm upon which a liberal social order is grounded (1987: 246).

With its emphasis on agreement as the source of legitimacy the research program of constitutional political economy finds its place in the tradition of social contract theories of the state. Buchanan also notes the affinity of his approach to political economy with John Rawls' modern restatement of social contract theory.<sup>42</sup>

With the "*constitutional*" component of his paradigm Buchanan takes account of the fact that unanimity, while indispensable as ultimate *legitimizing principle*, is impracticable as *decision rule*. As he points out:

Under a genuine rule of unanimity, individuals will be led to invest resources in strategic bargaining, investment which will, in the net, prove wasteful to the group as a whole. ... Under unanimity some agreement might ultimately be reached at each stage on the way to a final outcome, but serious resource wastage might occur, the most important element of which would be measured in the costs of delaying agreement.

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<sup>41</sup> Buchanan (1990: 12): "In agreeing to be governed, explicitly or implicitly, the individual exchanges his own liberty with others who similarly give up liberty in exchange for the benefits offered by a regime characterized by behavioral limits."

<sup>42</sup> Buchanan (1987: 249): "(T)he research program of political economy merges into that of contractarian political philosophy, both in its classical and modern variations. In particular, my own approach has affinities with the familiar construction of John Rawls."

Decision-making in groups, bargaining, is a costly process at best, and costs may become prohibitively high under a rule of unanimity, despite the acknowledged relevance of the rule ([1967] 1999: 288.

Considering the impracticability or, in more neutral terms, the costs of deciding policy issues by unanimity, the members of a polity – or, more generally, of any cooperative organization – will have rational reasons to agree on decision-making rules that allow ordinary policy choices to be made by less-than-unanimity, such as simple or qualified majority rules.

The distinction between *sub-constitutional* choices, choices *within* rules, and *constitutional* choices, choices *of* rules, is central to the research program of constitutional political economy. The distinction applies to any two adjacent levels within a multi-tier system of collective decision-making, such as, e.g. a federal political system with local, state, and national government, or to social systems with rules constraining particular choices, rules for changing these rules, rules for changing rules for changing rules, and so forth. The choice-individualist paradigm allows for less-than-unanimous decisions and for the delegation of decision-making authority to agents, but requires that such practices be legitimized by agreement at the ultimate constitutional level (Buchanan and Tullock 1962: 77, 286f.).<sup>43</sup> As noted above, in spite of conflicting interests in particular instances individuals will be able to agree to rules for dealing with certain types of issues if, and to the extent that, they are uncertain about how they will be personally affected in unknown future cases. Accordingly, since with increasing generality of rules the veil of uncertainty tends to thicken, the prospects for agreement to be reached increase as one moves upwards in a decision-making hierarchy, with the ultimate constitutional level being most favored in this regard.

Shifting decisions from the level of particular choices to the constitutional level – or, more generally, to move upward to a higher level of a constitutional hierarchy – can serve as a strategy for dealing with issues on which, due to distributional conflicts, consensual solutions cannot be achieved at the given level of choice. As Buchanan argues:

It is necessary to distinguish sharply between day-to-day political decision making, where the struggle often does reduce simply to that among conflicting individual-group interests, and ‘constitutional’ decision making, where individuals may be thought of as participants in choices of rules under which subsequent day-to-day decisions are to be made. ... (A)t this stage, it becomes possible to reconcile separate individual interests with something that could, with some legitimacy, be called the ‘public interest’ were it not for the confusion that this particular usage might generate (1966: 29).<sup>44</sup>

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<sup>43</sup> Buchanan and Tullock (1962: 96): “The individualistic theory of the constitution that we have been able to develop assigns a central place to a single decision-making rule – that of general consensus or unanimity. The other possible rules for choice-making are introduced as variants from the unanimity rule. These variants will be rationally chosen not because they will produce ‘better’ collective decisions (they will not), but rather because, on balance, the sheer weight of the costs involved in reaching decisions unanimously dictates some departure from the ‘ideal’ rule.”

<sup>44</sup> The constitutionalist approach, Buchanan ([1967] 1999:221f.) argues, “allows some reconciliation of the purely individualistic and the public interest conception of political order. If the choosing individual is placed in the position of selecting among institutions, among alternative rules of the game, and if he cannot predict with any degree of accuracy his own particular position on subsequent rounds of play, his own private interest will ... lead him to choose rules that will be efficient for the group, taken as a whole. ... This analysis suggests, therefore, that if individuals are appropriately placed in positions where they are required to choose

The subjectivist, choice-individualist perspective – requiring the political economist to respect individuals as sovereigns – directs, as Buchanan stresses, the evaluative focus necessarily to the procedures through which social outcomes are reached rather than to these outcomes *per se*.

The focus of evaluative attention becomes the process itself, as contrasted with end-state or outcome patterns. ‘Improvement’ must, therefore, be sought in reforms in process, institutional change that will allow the operation of politics to mirror more accurately that set of results that are preferred by those who participate. (T)he constitution of policy rather than policy itself becomes the relevant object for reform (1987: 247).<sup>45</sup>

The task of the political economist is seen in “locating possible flaws in the existing social structure and in presenting possible ‘improvements’” (1959: 137).<sup>46</sup> Put differently, his social role is seen in “securing more intelligent legislation” (*ibid.*: 124) in the sense in which Adam Smith ([1776] 1981: 468) defined political economy as “the science of a legislator.” The measuring rod for what may count as “more intelligent legislation” or as “improvement” in the institutional structure is the degree to which reforms enhance the prospects for the individuals involved to realize mutual gains, in terms of what they themselves count as gains. This means, as Buchanan phrases it

institutions must be designed so that individual behavior will further the interests of the group, small or large, local or national. The challenge to us is one of constructing, or reconstructing, a political order that will channel the self-serving behavior of participants towards the common good in a manner that comes as close as possible to that described for us by Adam Smith with respect to the economic order ([1978] 2000: 53f.).<sup>47</sup>

From the choice-individualist perspective of constitutional political economy the general aim of institutional reform should be to secure and enhance the authority of individuals as ultimate

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‘constitutionally,’ they can be led, by their own self-interest, to act as if they are furthering the general or public interest in some properly meaningful sense.”

<sup>45</sup> Nutter (1968: 169): “There is much to be said for encouraging economists to abandon altogether the field of welfare economics as it has developed and to substitute more sophisticated study of alternative economic systems. Let economists raise the question of what system works best ... and not what specific policies are desirable regardless of the system. ... If welfare economics is to be something more than bickering about day-to-day actions on the part of government in carrying out its role in the economy, it must focus on constitutional issues. It must be supplanted, in other words, by political economy in the classical sense.”

<sup>46</sup> While discussing it in detail would be beyond the scope of the present contribution, it should at least be mentioned that Buchanan’s constitutionalism is quite similar to the research program of the Freiburg School of Economics (Vanberg 1998) which also emphasizes that economic policy should be primarily concerned with providing a suitable institutional framework for, instead of directly interfering into the market process (see Vanberg 1988 and Leipold 1990).

<sup>47</sup> Buchanan and Tullock (1962: 23): “Adam Smith and those associated with the movement he represented were partially successful in convincing the public at large that, within the limits of certain general rules of action, the self-seeking activities of the merchant and the moneylender tend to further the general interests of everyone in the community. An acceptable theory of collective choice can perhaps do something similar in pointing the way toward those rules for collective choice-making, the constitution, under which the activities of the political tradesmen can be similarly reconciled with the interests of the members of the social group.” – On Adam Smith and “those associated with the movement he represented” Hayek (1948: 12f.) has commented: “The chief concern of the great individualist writers was indeed to find a set of institutions by which man could be induced, by his own choice and from motives which determined his ordinary conduct, to contribute as much as possible to the need of all others.”

sovereigns. In this sense Buchanan ([1991] 1999:288) says about “the normative premise that individuals are the ultimate sovereigns in matters of social organization”:

In accordance with this premise, the legitimacy of social organizational structures is to be judged against the voluntary agreement of those who are to live or are living under the arrangements that are judged. The central premise of *individuals as sovereigns* does allow for delegation of decision-making authority to agents, so long as it remains understood that individuals remain as *principals*. The premise denies legitimacy to all social-organizational arrangements that negate the role of individuals as either sovereigns or principals. On the other hand, the normative premise of individuals as sovereigns does not provide exclusive normative legitimacy to organizational structures that – as, in particular, market institutions – allow internally for the most extensive range of separate individual choice. Legitimacy must also be extended to ‘choice-restricting’ institutions so long as the participating individuals voluntarily choose to live under such regimes (ibid.).

## 5. Conclusion: Policy Advice in Democratic Society

The comparative assessment of the two kinds of political economy to which the preceding sections have been devoted, welfare economics and social choice theory on the one hand and constitutional economics on the other, is based on the presumption that political economy should be looked at as an *applied* rather than as a *normative* branch of economics. As an applied science that pronounces *hypothetical* rather than *categorical* imperatives, political economy remains within the limits set for any science that submits its claims to logical examination and empirical testing.<sup>48</sup>

For the variants of political economy considered here, it is obvious that they are meant to serve their role in advising politics in a *democratic* society. They are all based on the premise of a normative individualism – even if differently interpreted, as utility- or preference-individualism in the case of welfare economics and social choice theory, or as choice-individualism in the case of constitutional political economy –, and this individualism is typically seen as implying a democratic concept of politics.

In regard to welfare economics, for instance, it is said:

The assumption that the social welfare function is determined by the utilities of all individuals ... is a cornerstone of democratic society (Just, Hueth, Schmitz 2004: 40).

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<sup>48</sup> As Harsanyi (1958: 306) notes in reference to hypothetical imperatives: “(T)hey must make reference to the addressee’s ends to have any prospect of being effective.”

In regard to a social choice theory that views the “social good” as “a composite of the desires of individuals” Arrow ([1951] 1963: 23f.) notes that a “viewpoint of this type serves as a justification of both political democracy and ... an economic system involving free choice.” And Sen (2010: 32) speaks of “the democratic foundations of social choice theory.” Most obviously, constitutional political economy “rests squarely on a democratic foundation” (Buchanan 1990: 15).

If democratic society is the forum in which political economists mean to serve as advisors in policy matters, there are, in principle, three potential candidates to whom such advice may be addressed: The citizenry at large, political agents who exercise decision-making authority on citizens’ behalf, or interest groups as sub-sections of the citizenry. Advising the latter on how to advance their particular interests politics political economists have typically not considered as one of their proper tasks.<sup>49</sup> Of relevance are the citizens as *ultimate* and political agents as *proximate* addressees.

In addressing citizens at large such advice must, in order to be effective, appeal to interests that all members of the polity supposedly share. In addressing political agents, it must appeal to interests that they harbor, which will, first of all, be directed at being successful in competing for office.<sup>50</sup> In *ideally* working democratic politics, the constraints of political competition would assure that citizens’ common interests and political agents’ interests are perfectly aligned. In its actual operation democratic politics will fall short of such perfect alignment, with the potential for conflict between citizens’ common interests and the immediate interests of political agents.

The preceding comments provide the basis on which welfare economics, social choice theory and constitutional political economy may now be examined in light of the following questions:

- To whom are their respective hypothetical imperatives supposed to be addressed?
- Are the measures they suggest suitable means for achieving the hypothesized aim?
- Can the supposed addressees be assumed to have an interest in achieving the hypothesized aim?

On reviewing the relevant literature, it is apparent that welfare economists have been notoriously ambiguous as to whom they mean to address whatever advice they have to offer.

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<sup>49</sup> Vining (1984: 3): “In his most characteristic role as practitioner, the economist is a specialist advisor to legislators and citizens in a legislative frame of mind. The advising of business firms and other administrative organizations or agencies with well-defined ends to attain is an altogether different activity.”

<sup>50</sup> Whatever else political agents may aim at, gaining and staying in office is the necessary precondition for achieving such other aims through the political process.

With the apparent intent so sound provocative, Samuelson, in his textbook's famous chapter on welfare economics, answers the question of whose interests his welfare functions are meant to address in these words:

Without inquiring into its origins, we take as a starting point for our discussion a function of all the economic magnitudes of a system which is supposed to characterize some ethical belief – that of a benevolent despot, or a complete egoist, or ‘all men of good will,’ a misanthrope, the state, race, or group mind, God, etc. Any possible opinion is admissible ... We only require that the belief be such as to admit of an unequivocal answer as to whether one configuration of the economic system is ‘better’ or ‘worse’ than any other or ‘indifferent,’ and those relationships are transitive (Samuelson 1947: 221).

Noting that, if welfare economics is to be of relevance, it cannot be based “on a definition of social welfare that appeals to no one,” Ng (1979: 5) states in his textbook on the subject:

Thus, what a welfare economist can do is to use either a concept of social welfare which he himself believes to be the right objective or one that most people or the government believe to be so, or some compromise (ibid.: 6).

In a more recent comment on the prospects of welfare economics to find interested addressees for its hypothetical imperatives Atkinson arrives at a sober assessment:

However, many economists are clearly addressing policy-makers, governments and international organizations. If that is the case, then the criteria should presumably reflect that of these decision-makers. Yet it is far from clear that the typical decision-maker would even recognize the social welfare functions typically employed, still less accept them as embodying all their concerns. This becomes even more the case where the objectives are supposed to be those espoused by individual citizens (Atkinson 2011: 159).

Welfare economics has commonly been understood to be about *social* welfare. Accordingly, it has always been understood as providing advice on what serves the *common weal* of a community. Only for welfare economics so understood the question of whom it means to address is of relevance. And it is in regard to its potential role in advising *democratic* politics that welfare economics has long been charged by public choice theorists to ignore the incentives that participants in real world democratic processes are facing. Referring to Wicksell as precursor of public choice theory Buchanan (1987: 243) states:



Stripped to its essential, Wicksell's message was clear, elementary, and self-evident. Economists should cease proffering policy advice as if they were employed by a benevolent despot, and they should look at the structure within which political decisions are made.<sup>51</sup>

In his textbook on welfare economics Ng recognizes the Wicksell-Buchanan critique, noting:

As in most studies in welfare economics, this book concentrates on analyzing what is socially optimal in some sense, as though presuming that governments will pursue social optimality. Over eighty years ago, Wicksell (1896) admonished economists for their failure to recognize the fact that governments don't behave like a benevolent despot. ... This point has been repeatedly emphasized by Buchanan ... Despite substantial work in this area ... the impact upon orthodox economic writings has been small. This is partly due to the complicated nature of actual public choice processes and partly due to the fact that the simple social optimality approach can still be usefully serve as an ideal to aim at, a standard to compare with, and a foundation to base further analysis on (Ng 1979: 281f.).

The addressee issue that plagues welfare economics resurfaces in similar form in social choice theory. Commenting on Arrow, Bergson (1954: 243) states:

Writings on welfare economics might often be construed as being directed at counseling the 'community as such,' viewed as something above and beyond individuals. With its references to 'rational behavior on the part of the community,' and the like, Arrow's study is a case in point. But a moment's reflection makes clear that such a conception cannot be very meaningful. After all, even if one prefers to think of the community as an 'organic entity,' he must still concede that in the last analysis all decisions are made by individuals. If one does not counsel individuals, who is there to counsel?

The same objection that Bergson directs at Arrow is invited when Sen (1987: 382) defines the project of social choice theory as determining 'social preferences' in the sense of judgments on whether "society is better off in state x than in state y," "judgements of the well-being of

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<sup>51</sup> Buchanan ([1982] 2001: 53): "Economic theory,' as it emerged and has developed, has been almost entirely devoted to analysis of persons within markets ... Prior to the 'public choice revolution,' there was essentially no comparable theory of the interaction of persons within politics. In the absence of such a theory, persons who act on behalf of the sovereign were implicitly modelled as saints, with the predicted consequences. There was a total loss of the 18<sup>th</sup>-century wisdom that recognized the necessity of constraints on the agents of government."

the community” (ibid.: 383). As Sen (1999: 355) posits, for such judgments “we cannot rely” on voting systems ... because, even “with the active involvement of every one in voting exercises, we cannot but be short of important information needed for welfare-economic evaluation” (ibid.). Given that democratic politics must necessarily be based on voting systems through which citizens-members exercise their decision-making authority as ultimate sovereigns, it is difficult to see who in actual politics, be it citizens or political agents, might have an interest in the recommendations that a social choice theory, as defined by Sen, may produce.

It is in the research program of constitutional political economy that the question of who is the intended addressee of policy advice finds the most obvious and unambiguous answer. It is clearly implied in the outlook at politics it takes, an outlook that Buchanan describes in these words:

In my vision, or my model, individual persons are the ultimate decision-makers, and if we want to discuss government decision processes we must analyze the behavior of individuals as they participate in these processes. (Buchanan [1968] 2000: 4).<sup>52</sup>

The conclusion to be drawn from this outlook at democratic politics for the addressee-issue is obvious:

If individuals are considered the ultimate sovereigns, it follows directly that they are the *addressees* of all proposals and arguments concerning constitutional-institutional issues. Arguments that involve reliance on experts in certain areas of choice must be addressed to individuals, as sovereigns, and it is individuals’ choice in deferring to experts-agents that legitimizes the potential role of the latter, not some external assessment of epistemic competence as such (Buchanan [1991] 1999: 288f.).

With its choice-individualist perspective a constitutional political economy naturally focuses its attention on the institutional framework within which policy choices are made, rather than on the content of these choices per se.<sup>53</sup> It sees its primary task in assisting “individuals, as citizens who ultimately control their own social order, in their continuing search for those

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<sup>52</sup> Buchanan ([1967] 1999: 174f.): “If the analyst chooses to work within the confines of the democratic model, he must commence at the level of the individual citizen-voter, and he is obligated to explain how the choices of this citizen-voter are translated into collective decisions.”

<sup>53</sup> Buchanan ([1968] 200: 4f.): “The social function is not that of improving anything directly; instead, it is that of ... improvements in the political process itself. ... It is wholly beyond his task for the economist to define goals or objectives of the economy or of the government and then to propose measures designed at implementing these goals.”

rules of the political game that will best serve their purposes, whatever these might be” (Buchanan 1987: 250). Constitutional political economists consider their efforts to be best invested in exploring the potential for reforms in the institutions of politics that promise to better align political agents’ immediate interests with citizens’ common interests. Or, as Buchanan (1993) has put it in an essay title, their principal interest is in finding answers to the question:

*“How Can Constitutions Be Designed So That Politicians Who Seek to Serve ‘Public Interest’ Can Survive and Prosper?”*

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