

Buchanan and Homo Oeconomicus

by

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Abstract

Whenever the economic model of behaviour is to be applied, the utility function has – at least somewhat – to be specified. J.M. 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. Thus, in performing empirical economic research, he accepts that we have to use a more open one. He also acknowledges that people might behave differently on markets and in politics; other-regarding behaviour might be more pronounced in politics compared to markets. Which version should be applied in Constitutional Economics has, however, to be answered quite differently. Following a long on-going 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 asking for the possible abuse of power by the rulers and how such an abuse can be prevented 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.

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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 acting 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 an assumption about the concrete intentions or, to express it in economic terms, an assumption about the content of the utility function. The last one is an assumption about the informational situation of the acting individual.

[2] In Economics, the Principle of Methodological Individualism is undisputed as well as 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 maximisation. Thus, whether individuals really behave 'rational' in a strong sense, is often questioned, be it by the theory of bounded (or procedural) rationality by H.A. SIMON (1955, 1978), be it by experimental results in modern Behavioural Economics. The content of the utility function is also debated; it might be rather open, or it might be restricted to pure wealth maximisation. There, two questions are 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] When discussing these questions, J.W. BUCHANAN mainly dealt with the second one. Aside from his elaborations about the 'veil of uncertainty' in constitutional analyses,³⁾ in his writings he mostly refers to the motivational assumptions. Thus, in discussing J.M. BUCHANAN's position, in the following, we will only deal with this problem.

[4] Depending on how these questions are answered and which assumptions are made, the literature is populated with many different exemplars of the Homo Oeconomicus. Which one is appropriate depends very much on the purpose of the model; is the latter, for example, to explain actual behaviour of economic agents, or is it institutional comparisons. But even for the same purpose as, for example, explaining actual behaviour, rather different versions might seem to be appropriate, depending on the institutional setting in which individuals act, be it, for example, in Politics or in the Market Place.

1. On Methodological Individualism see, for example, J.W.N. WATKINS (1958), but also J.M. BUCHANAN and G. TULLOCK (1962, Chapter 2, pp. 16ff.), J.M. BUCHANAN (1979, p. 48f.) as well as J.M. BUCHANAN (1987, pp. 457ff; 89, pp. 55ff.).

2. On the Weak Rationality Principle see G. KIRCHGÄSSNER (2013).

3. See, in particular, J.M. BUCHANAN and G. TULLOCK (1962, pp. 78ff.).

[5] When we try to answer the question which role the model of Homo Oeconomicus plays in J.M. BUCHANAN's work, first of all, we have to take into account his distinction between the constitutional level, where rules are set, and the sub-constitutional level, where we behave given specific rules. To denote these, during his life-time, he used different terminologies. In his early writings, he called the first one "Economics" or "Positive Economics" and the second one "Political Economy".⁴⁾ He was mainly interested in the second one, which he considered to be the more important one,⁵⁾ and in his later writings called 'Constitutional Economics'. Let us follow this terminology but call the first one 'Public Choice'. That (empirical) Public Choice became part of the Virginia School of Political Economy was, as J.M. BUCHANAN (1992, p. 54ff.) himself wrote, mainly GORDON TULLOCK's merit.

[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 whether this model is to be applied for behaviour on markets or in political processes, even if we do not assume that people change their character whenever they switch from one into 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 is to be applied to analyse the process of political advice, be it on the sub-constitutional or on the constitutional level (*Section 4*). Buchanan has high moral demands on the political advisor, but in the consequence of the Public Choice approach we should apply the model of Homo Oeconomicus not only with respect to politicians but also with respect to their advisors. Normative problems, which also might be connected with the application of the Homo Oeconomicus model are also discussed by J.M. Buchanan (*Section 5*). There exist some problems, but their existence does not justify giving up this model. We conclude with some remarks on the attacks of recent Behavioural Economics on the Homo Oeconomicus model. These attacks might have some relevance for empirical economic (and political) research, but they do not have relevance for the 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 behind this is the trade-off between applicability on the one and explanatory power on the other hand. Letting the utility function completely open (and without specifying the information the individual has), every facet of economic behaviour might be explained ex post as the result of rational decisions. Then, however, the predictive power tends to zero; nothing can be excluded ex ante. On the other hand, a narrow specification of the utility function as given, for example,

4. See, for example, J.M. BUCHANAN (1959, 1982).

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

by restricting its elements to monetary wealth which is to be maximised, implies high predictive power, but will often fail to explain actual behaviour, be it on markets or in politics.

[8] A terminological question is which variant of the economic model of behaviour is named as ‘Homo Oeconomicus’. This question is answered quite differently by different authors. G.C. HOMANS, for example, calls the narrow version the ‘old’ and the wide one the ‘new’ economic man when he writes:

“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 version when they describe the Homo Oeconomicus as “the selfish brute who devotes himself single minded to maximising the present value of his measurable wealth.”⁶⁾

[9] The main problem is, however, not a terminological one, even if it is generally necessary to clear terminological questions in order to avoid misunderstandings. The main problem is which variant of the economic model should be applied in which situations. In most of his writings, J.M. BUCHANAN seems to prefer the rather narrow version often employed in economic analyses, which he calls the “*Homo Oeconomicus* 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 maximise income-wealth and minimise outlays. He must maximise profits if he plays the role of entrepreneur.” (J.M. BUCHANAN (1969a, p. 38).⁷⁾ Along this line, he criticizes, for example, A.A. ALCHIAN⁸⁾ for employing a totally open utility function and he demands to use a very restrictive formulation, which allows as elements of the utility function only (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.”⁹⁾ Similarly, G. BRENNAN and J.M. BUCHANAN (1981, p. 54f.) criticize G. STIGLER (1982), because he attributes the concept of Homo Oeconomicus a descriptive value. 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.

6. See also the following, even more drastic formulation: “to put my point differently but more dramatically, in some aspects of their economic behaviour, with appropriate qualifications, men are indeed like rats.” (J.M. BUCHANAN (1982, p. 35).)

7. See also J.M. BUCHANAN (1969, p-f, pp. 17f.).

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

9. See J.M. BUCHANAN (1979a, p. 130).

[10] On the other hand, 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.” (J.M. BUCHANAN and G. BRENNAN (1983, p. 89).) He insists, however, that two elements are necessary. First, whatever they want, individuals prefer more than less.¹⁰ Second, he demands that the utility function should contain at least one monetary 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). This impact is, however, 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. 459). But he believes that these ‘economic’ arguments always play at last some role whenever individual decide. “The elementary fact is, of course, that Homo Oeconomicus 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 to point to market failure as well as government failure, but while he has doubts on the extent of market failure Economics in the Pigouvian tradition detects, he expresses even more doubts upon the validity of this approach in explaining political behaviour, because 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 that this admonition.” (p. 122.)

10. See again 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 future action leeway in order to improve their long-run wellbeing. For the economic analysis of such situations see, for example, R.H. THALER and H.M. SHEFRIN (1981) or S. MAITAL (1986).

[13] As mentioned above: to apply this new concept comes, however, with a cost: the leeway increases, but the predictive or informational content decreases; more behaviour is compatible with the economic model of behaviour, but less behaviour can be excluded.¹¹⁾ G. BRENNAN and J.M. BUCHANAN are well aware of this trade-off and generally weight the loss of predictive power larger than the wider range of possible applications. On the other hand, if 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.”¹²⁾ 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, also on markets and in politics, because these institutions provide quite different incentives.¹³⁾ He insists, however, that the same and not different human beings are acting in these environments, and that, therefore, the same basic model should be applied, at least as long as we do not have a better alternative. This 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.” (1987, p. 10f.) He does, however, “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] Which version of the Homo Oeconomicus model is appropriate when we come to Constitutional Economics demands a separate answer. In explaining actual behaviour, unrealistic assumptions about human behaviour must not, but can lead to false predictions and, therefore, not only lead to a falsification of a theory but also make it useless for practical (political) purposes. Thus, one might discuss how realistic the economic model has to be, depending on the concrete situation to be explained, and how far the abstractions might sensibly go.¹⁴⁾ “*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 himself. And, in such a

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

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

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

14. On the role of ‘unrealistic’ assumptions in economic analyses see the seminal contribution of M. FRIEDMAN (1953).

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)¹⁵⁾

[16] Thus, in Constitutional Economics it is clear from the beginning, that the Homo Oeconomicus is an abstract model to analyse the possible effects of different (constitutional) rules once they come into effect.¹⁶⁾ 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 among alternative institutions may be different from the model that would be more appropriate in making predictions about behaviour within existing institutional structures.” (p. 56)

[17] With this argument, J.M. Buchanan stands in a long tradition of political philosophy. More than 200 years before, DAVID HUME (1741, pp. 42f.) already 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.”¹⁷⁾

[18] G. BRENNAN and J.M. BUCHANAN (1981, p. 62) also cite JOHN STUART MILL in making the following point:

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.”

And similar arguments can be found in KARL POPPER’S “*Open Society*” when he describes the relevant problem of political economy (or philosophy) as:

“ ... 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 organise political institutions that bad or incompetent rulers can be prevented from doing too much damage?*” (1945, p. 121).

15. There he argues, of course, for the very narrow version of the Homo Oeconomicus model and not for one of its extended forms.

16. See, for example, J.M. BUCHANAN (1987a, p. 10ff.).

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

[19] With their position, J.M. BUCHANAN and G. BRENNAN (1981) consider themselves as being “directly within the tradition of classical political economy” (p. 61), 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 that of explaining ‘scientifically’ (making predictions about) the behaviour of economising actors” (p. 52). They also refer to ADAM SMITH (1759) who, according to them, “makes it clear that *Homo Oeconomicus* is not to be conceived as a generalised description of human nature” (p. 61) 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 Oeconomicus* remains the appropriate model of behaviour in the derivation of normative propositions about the institutions themselves.” (p. 63)

[20] 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 has to be restricted as well, to allow for a well-functioning instead of an anarchical society. Otherwise, constitutions would be unnecessary. On the other hand, without at least some moral behaviour of the citizens which can hardly be enforced by legal rules neither our economic market nor our political democratic systems could lead to (more or less) satisfactory results.¹⁸⁾ But this holds (only) for situations where the potential for exploiting other citizens is strongly limited, if not empty at all. Politicians and bureaucrats (rulers), on the other hand, due to their powerful instruments have much larger possibilities to exploit other people. Thus, it is much more important to restrict their leeway in order to prevent these from abusing their power. This again justifies that the rather narrow version of the economic model of behaviour is to be applied in constitutional considerations.

4 The Economist as Policy Advisor

[21] Policy advice is given by economists at both levels, the one of the current political process as well as at the constitutional level. In this role, economists often pretend to behave like benevolent and omniscient dictators. In reality they are, however, neither as benevolent as they believe nor as omniscient; they have only limited knowledge about political and economic processes and, what is more important here, they have their own preferences which, nearly unavoidable, have an impact on their recommendations.

[22] 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

18. See for this, for example, G. KIRCHGÄSSNER (2008, pp. XXff.; 2010).

different from those predicted. This might or might not be the advisors' fault; depending on, for example, whether he applied a non-appropriate model or whether events happened which could not be predicted. As long as he only makes if-then-statements, his political preferences should play a minor role, because he has a strong interest in making correct predictions. Otherwise he would risk his reputation. The less unanimity among economists exists about the effects to be expected by applying a specific policy, the more room is, of course, for private political preferences to enter into the economist's recommendations, even if he only makes if-then-statements.

[23] The advisor's task is much more difficult at the constitutional level. Here, the advisor does not only have to know the functioning of all possible worlds, but also the preferences of all individuals if he really wants, as traditional Welfare Economics does, 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. 5).

[24] 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 maximisation 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. 5).

[25] At this point, 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. 6). One can, of course, demand this, 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.¹⁹⁾

[26] BUCHANAN first circumvents this problem by assuming 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, "well 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

19. 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 has still to be done.

be present, may be impossible.” Thus, “some less definitive rule of relative unanimity must be substituted for full agreement” (p. 13).

[27] 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.” He believes that “This choice need not reflect the introduction of personal evaluation” (p. 13f.). Despite the fact that he is qualifying this passage somewhat, this is hardly plausible: the discrimination between reasonable and unreasonable men implies necessarily a personal evaluation. And for the latter, the political preferences of the advisor will have a distinctive impact.

[28] BUCHANAN hopes to mitigate this problem somewhat by referring to the role of political discussion, but he also recognises that this is not a panacea to reach 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 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 exist 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 respect with the observer” (p. 15).²⁰

[29] When concluding this paper, 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. 17). Thus, the role of the political advisor is one for which the model of Homo Oeconomicus does not seem to be appropriate; his own preferences should not count. As an ethical demand, this might be reasonable, but to analyse the process of political advice, be it at the sub-constitutional or the constitutional level, this is hardly acceptable. This is an ‘ideal theory’ assuming an ‘ideal human being’. In reality, however, not only economic agents and politicians have their own interests, but also economists, even constitutional economists, and this holds in particular whenever they give political advice. It is of course not the crude model of Homo Oeconomicus which generally describes correctly 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, p. 121f.) mentioned above. But this does not imply that advisors are the ‘saints’ traditional economic theory often believed politicians are. Thus, when designing the process of political advice, one might counterfactually apply this crude model as G. BRENNAN and J.M. BUCHANAN (1983) recommend for the application in Constitutional Economics, be-

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

cause it could be fatal to confound self-interested policy advisors with saints. Here, the same arguments hold for policy advisors, wherever they might come from, as for politicians. When analysing the institutional framework of policy advice the same holds generally 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

[30] 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 this situation whenever, for example, economists propose some political measures ‘for purely economic reasons’. BUCHANAN explicitly rejects this normative use of Homo Oeconomicus and calls it a fundamental error.

[31] There is, however, another ‘normative’ problem by using the homo economicus in its narrow sense, as suggested by J.M. BUCHANAN in many of his writings. To explain, for example, politicians as revenue maximisers (Leviathans) in the sense of G. BRENNAN and J.M. BUCHANAN (1980) or bureaucrats as budget maximisers in the sense of W.A. NISKANEN (1971) might justify such behaviour. As mentioned above, despite that they have incentives to behave according to these models, in reality most of these individuals behave quite differently; as mentioned by J.M. BUCHANAN (1982, p. 122). Nevertheless, if these theories are taken as justifications for behaving accordingly, people might change their behaviour and act less responsible but more self-regarding than before. Such critique has, for example, been put forward by S. GORDON (1976) or S. KELMAN (1987).

[32] Such critique has to be taken seriously, and G. BRENNAN and J.M. BUCHANNAN (1988) take it seriously.²¹⁾ Their answer is threefold. First, one has to distinguish between the applications of the model on markets and in 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.” This does, however, no longer hold as soon as this model is – in empirical Public Choice – employed to explain the behaviour of political actors, be it politicians, bureaucrats, or voters. In such contexts, “any compa-

21. There is a similar discussion on the role economic education. As several studies show, Economics students seem to be more self- 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. See for this, for example, J.R. CARTER and M. IRONS (1991) or G. KIRCHGÄSSNER (2005)

rable response in the behaviour of political actors may be of considerable normative account.” (p. 83)

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

[34] 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 particular, in Constitutional Economics. 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 advise politicians how to maximise social welfare, but to find rules which prevent as far as possible political (and economic) agent to abuse their power.

[35] As correct as this answer is, it can, of course, not prevent political agents to use Public Choice theory as a legitimation for immoral behaviour. This is surely not in the intention of Constitutional Economics and is based on a misunderstanding, and 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 a 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 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.

[36] In contrast to others, J.M. BUCHANAN (1978) accepts that monetary considerations have gained influence in recent decades. He sees the reason for this, however, not in the increased role the economic model of behaviour has gained in recent decades not only in Economics, but also in other social sciences, but in a general decline of moral behaviour and diminished importance of stabilising institutions. He mentions several possible reasons for this, among them increased mobility or the replacement of local by national markets and concludes: “Add to this the observed erosion of the family the church, and the law – all of which were stabilising influences that tended to reinforce moral precepts – and we really understand why *Homo oeconomicus* has assumed such a dominant role in modern behaviour patterns.” (p. 366)²²⁾

22. On the increased role of economic (financial) arguments and markets in modern life and the reasons for this see, for example, G. KIRCHGÄSSNER (1997).

6 Concluding Remarks

[37] Considering the very general version of the economic model of behaviour, the utility function is totally open and might contain any argument. But whenever this model is applied, the utility function has – at least somewhat – to be specified. J.M. BUCHANAN generally prefers to apply a rather narrow version, “the selfish brute who devotes himself single minded to maximising the present value of his measurable wealth.” (G. BRENNAN and J.M. BUCHANAN (1980, p. 19).) However, he acknowledges, that it is hardly possible to explain actual behaviour of individuals, be it on the market or in politics. Thus, despite the fact that he criticises the 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 different constraints, people might behave differently on markets and in politics; other-regarding behaviour might be more pronounced in politics compared to markets.

[38] The question which version should be applied has, however, to be answered quite differently when we come to Constitutional Economics, the area BUCHANAN is really interested in. Following a long-on-going 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 asking for the possible abuse of power by rulers and how such an abuse can be prevented as far as possible. The same holds when analysing the process of policy advice.

[39] In recent years, the Homo Oeconomicus model came under severe attack by behavioural economists. In particular, they criticised the concentration on self-interest and on (exclusively) monetary arguments. Undertaking dictator-, ultimatum- and public good-games they showed that – at least in some situations – individuals are much less self- and much more other regarding than traditional economic theory assumes.²³⁾ Moreover, E. FEHR and K.M. SCHMIDT (1999) show that observable behaviour on labour markets can only be explained if we include relative income (relative to other workers in the same firm) into the utility function.

[40] All these recent critiques of the Homo Oeconomicus model, be they justified or not, are only relevant for empirical economic and/or political research. This, of course, also holds for empirical Public Choice. As we know at least since A. DOWNS (1957), the high participation rates we observe in elections and referenda, for example, are incompatible with a narrow variant of the Homo Oeconomicus model and, in particular, with a model allowing only self-regarding behaviour.²⁴⁾ These arguments do, however, 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.

23. See, for example, G. KIRCHGÄSSNER (2008, p. 162) and the literature given there.

24. 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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