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# The Limits of Homo Economicus in Public Choice and in Political Philosophy

Abstract: This paper argues that there are areas of political behavior for which the usual assumption of wealth maximizing homo economicus is to narrow to generate convincing explanation of behavior. In particular, it is argued that for many political decisions, people choose according to some set of moral preconceptions while for others, people have insufficient information to make economic choices even if they were inclined to do so. This implies that normative public choice can only be part of a political decision process in which non-pecuniary concerns influence choices. Finally, constitutional economics insofar as it is conceptually conceived, must presume some set of moral and informational properties of the parties to the social contract.

## 1. Introduction

In recent years, the subdiscipline of public choice has made dramatic inroads into the traditional fields of political science and political philosophy. By applying a consistent model of human action originally developed in order to study behavior in market settings to the study of behavior in political settings, public choice economists have to a large extent 'taken the blinders off' the way we look at our political institutions. By making the simple assumption that the same kind of people act in political settings as act in markets, the field of public choice has deromanticized our view of government. We have come to see not only economic reasons behind much public behavior, but also the way in which public trusts can be and have been used for private purposes. Public choice teaches us to be skeptical of public professions of ideological motivations and apparent selfless actions. We have come to expect that in public life, people say one thing and mean another. The implication drawn is that good science requires us to assess what people actually do and what the consequences of their actions are rather than what they say they want and what they expect will happen. In public life as in market settings, saying is not be trusted. Doing is what matters.

 

And what do people do? The assumption behind positive public choice models is that individuals are narrow self-interested maximizers who do not restrain their self-seeking according to any ideological or moral principles. This model of man as homo economicus is of course derived from economic theory[1] which, when properly interpreted, has generated so many fruitful theories of market phenomena. The point of this paper is to argue that homo economicus is not equally sufficient to generate fruitful theories about some important areas of the political process. While there is no question that economic science owes its success to a stylized view of human nature, it is not also true that the same stylized view is equally applicable to all empirical settings nor that it allows us to say everything there is to say about human action. The position I will argue below is that there are areas of political action that can only be understood if one takes the moral and ideological views of the actors into account. I further argue that one cannot make any policy prescription at all without presupposing some moral or political philosophy as the guide to the good.

## 2. The Generality of the Economic Paradigm

Economic analysis and its subset, public choice, begins with a simple and perfectly general model of human action. Indeed, it is the simplicity and the generality of the model that gives economic analysis its explanatory and its predictive edge over other social sciences. Economists conventionally begin with the empirical given that human beings, by the nature of the material world within which they live and their finite life spans, are confronted with scarcity and hence cannot have everything (or even much of) what they want. Hence, humans must make choices. From that simple beginning, economists add empirical observations to their basic framework in order to try to provide satisfying accounts of why some choices are made with predictable frequency while others are not. In order to carry out this program, they start from the premise that individuals are rational or 'self-interested', but at this level of generality, all self-interest means is that individuals have purposes and projects which they wish to accomplish. These purposes and projects are not necessarily confined exclusively to those that will bring personal benefit in a narrow sense. It is perfectly within the scope of the self-interest assumption for individuals to want to improve the welfare of others rather than their own.[2] To say that individuals choose rationally among alternatives to achieve their purposes simply means that individuals will never knowingly sacrifice a greater end for the sake of a lesser one or will never knowingly choose a more expensive means to their end than is necessary. Both are ways of saying that rational action means economizing action.

The formal neoclassical statement of these assumptions is the constrained maximization formulation where individuals are modeled as maximizing their 'utilities' subject to the constraints they face. As is well known, at this level of generality, the formulation is empty of any content and any real explanatory power. It simply says that individuals choose what they choose because that's what they want. 'Rationality' in this context can be made consistent with any kind of action imaginable so long as the actor is conscious and not mentally deranged.[3] We impose the rationality construct on human choices because it is the only way we can make sense out of individual actions. Indeed, at this level of generality, the rationality formulation is simply a translation of what human beings recognize and define as an explanation of a human action. To say someone acts rationally is simply to say that his choice had a recognizable purpose (von Mises 1963, 18-21).

In order to develop predictive theories about human action, it is necessary to fill the framework of rationality and self-interest with content, to specify the purposes and to identify the constraints that individuals face. The particular assumption that positive economics generally makes is that human beings have a strong preference for material wealth, or rather, he kind of wealth that can be evaluated in money terms. While most people, including most economists, would recognize that the preference for money wealth is not the sole preference individuals exhibit, most people, including non-economists do recognize that the preference is an important one. Much of the debate between economists and those who accuse them of methodological imperialism, then, seems to revolve around the relative weights one observes people giving to pecuniary and non-pecuniary preferences and to what extent non-pecuniary preferences can be said to dominate individual choices.

Clearly, the hypothesis that the desire for pecuniary wealth explains all human action is demonstrably false. Where they have real choices, individuals are often observed to choose alternatives other than those that maximize monetary wealth. For example, we observe people choosing leisure over work when they have the option of working more, choosing to specialize in occupations that are financially less rewarding than real alternatives, choosing to give money away to charities, engaging in acts of kindness that either do not add to or may even detract from pecuniary wealth and a host of other non money-wealth enhancing activities. While real hard-line advocates of the wealth maximizing hypothesis might try to argue that some of these activities are directed toward long run wealth improvement, that approach is impossible to sustain for all such activities.

Economists generally recognize this and argue that people observed to be engaged in activities that do not maximize their money wealth are actually maximizing their subjective wealth. This, of course, brings us back to the general formularization of self-interest and hence, as analytically precise as this may seem to say that an economic actor is maximizing subjective wealth, the fact is that saying that people maximize subjective wealth is simply another way of saying that people want many different things some of which are of a non-pecuniary nature. These non-pecuniary things might include not only leisure, but also good fellowship, love, social status, association with others of a like nature, a sense of rectitude or personal integrity, any one of which could dominate specific choices and falsify economic predictions.[4]

Unless we have some notion of what it is that people want, we cannot devise predictive theories of choice; we can at best share a language with which to discuss people's actions ex post. The positive economist who assumes pecuniary wealth maximization to explain action knows this and is making an empirical generalization that need not be totally descriptively accurate to make his point. It need only be 'good enough'. The point of this paper is simply that this particular empirical generalization is less likely to be fruitful for genuine explanations of events when applied to political action than when it is applied to market activity. There are two reasons I have to offer for this assertion. The first is that in political action more than in market action, people's values and ideas of what constitute the good society enter into their choices. The second reason is that in analyzing and describing political choice, the application of the model of deliberative rational choice itself becomes problematic. Citizens have limited and faulty information about the consequences of political choices and hence often have no idea what would constitute a rational decision even if they were disposed to make one.

In order to discuss the first claim, that moral and ideological beliefs influence political choice, we must first consider how to account for notions of morality in our standard model of human behavior. Homo economicus, broadly conceived, has preferences and is limited by constraints. To which category do we relegate moral values: to preferences or constraints? The answer to this question has implications for the kinds of public choice models one can fruitfully construct.

Consider the following situation: Two men are engaged in a heated argument. They hurl insults at each other until it seems inevitable that they will come to blows. One of the men, however, with great effort, controls his temper and walks away from the confrontation. In the language of revealed preference, the economist might say that obviously, the man who walked away preferred to give up rather than to fight. While on one level that is correct, on another level, it violates conventional discourse to describe the situation in that way. The man himself might claim that he really preferred to fight, but he knew that was wrong and so could not permit himself the luxury of punching his opponent. In the first instance, we describe the moral behavior in terms of preferences, while in the second, the moral conviction is a constraint on behavior. It seems more in concert with conventional language to accept the second characterization where the moral code is a constraint on behavior, but to do this means the observer must believe the participant's verbal account of his behavior rather than relying only on observation alone, something positive economists are reluctant to do. Treating morals as rules that constrain behavior, then, must of necessity place us outside of the positive economists' world right from the beginning.

If people conduct themselves according to rules of personal behavior to which they ascribe moral weight so that following these rules may result in short term sub-optimal choices, clearly it is not descriptively accurate to model them as narrow pecuniary maximizers in any setting. However, the descriptive inaccuracy is more pronounced, it seems to me, in modeling political action than in modeling market action. Markets are useful to actors precisely because they aid people in enhancing their material wealth. The polity, on the other hand, is valued by individuals for other reasons as well. Public choice emphasizes the Hobbesian aspects of the state, the delegation of authority to create the order that makes wealth possible. The state also seems to many people to be symbolic of shared values and shared notions of the good life. Since political action is as much concerned with establishing the rules by which citizens will live as with the exploiting of the rules for one's own benefit, it seems obvious that people will choose rules at least partly for their moral content. If this is so, then politics cannot be successfully modeled purely as economics.

## 3. Economic Man and Political Choices

One obvious area in which narrow economic analysis has failed to provide an interesting explanation of political behavior is the analysis of voting behavior. It is a well-known irony that public choice theory, the theory of how public goods are demanded, produced and allocated in a democratic society, cannot provide a satisfactory explanation of why people vote.[5] Economic theory predicts that since the likelihood of any one person's vote influencing the outcome of an election is almost infinitesimal, as long as there are any costs at all associated with voting, it is irrational for an individual to vote. Yet we commonly observe individuals turning out to vote in huge numbers in national elections. Why?

The fact is, the paradox is only a paradox if one insists on looking at voting as an act of choice among real alternatives open to the individual the purpose of which is wealth maximization. Few citizens seriously believe that his/her vote will decide an election, yet people vote nevertheless. Common explanation in the literature all must move outside of the model of pecuniary advantage to provide an explanation. Buchanan and Brennan, for example, compare voting to a kind of consumption activity like rooting for a sports team (Brennan/Buchanan 1984). It is also possible that people vote because they have a sense of civic responsibility that only allows them to approve of their own behavior if they take the time to vote. They vote at some immediate cost to themselves not because it is an act of consumption but because their internalized set of moral constraints makes voting something that is not a matter of immediate choice. They provide evidence to themselves and to their peers that they are 'good' citizens.[6] Whatever the explanation, the act of voting can only be explained by some appeal to non-pecuniary values. One can think of other examples of civic behavior that do not fit the normal calculus; for example, volunteering for the army in war time, and carrying litter to a litter basket rather than dropping it on the ground are two that range from the dramatic to the mundane.

This is not to argue that the economists' cost benefit calculations are irrelevant to the individual's political acts. At the margin, one would expect to observe less of the behavior in question when the costs are higher than when they are lower. For example, election turn-outs are higher in good weather than on rainy days, enlistments are higher when the threat of the draft is more imminent and more litter ends up in baskets on beaches when the baskets are placed at convenient intervals.[7] However, the average amount of such behavior is largely a function of the moral values and ideologies of the actors. It is always in one sense 'irrational' to hold litter for the litter basket when rationality means maximizing pecuniary advantage (see the article by Vanberg/Buchanan in this issue). Clearly however, that is not the sum total of what motivates human action.

The positive public choice economist might counter that in economic theory, it is margins, not averages that count. Even though individuals claim to hold values that do not maximize their pecuniary wealth, the fact is that at the moment of choice, the model of pecuniary maximization will predict behavior better than any other. Hence, it makes scientific sense to ignore non-pecuniary interest. This is, of course, an empirical question, but there is at least some evidence that exists in the literature to support the a priori appealing notion that ideology or non-pecuniary values do count in the way people vote (Rubin/Kau 1979). Indeed, there are good reasons why individuals could not even formulate an opinion about the relative merits of various candidates in an election without some set of moral presuppositions to guide them.

I am not disputing that pecuniary wealth maximization is a goal of individuals acting in a political setting. That is, I am not arguing that public choice has missed the boat entirely. It seems perfectly appropriate to model individuals as wealth maximizers within a system of established rules. Hence, positive public choice models are useful for explaining such things as lobbying behavior and productivity and labor relations in a bureaucracy, for example. However, when it comes to modeling the way in which individuals choose their rules, (and their representatives) or how the basic structure of a political society is developed, positive public choice is simply inadequate. There are other goals besides pecuniary wealth maximization which people expect the political system to provide for them and these goals affect behavior and outcomes.

## 4. Ideology and Public Choice

My second claim was that for some political choices that individuals make, the application of a deliberative choice model is probably inadequate because choosers have very little information upon which to base a deliberate choice. Political ideologies and, on a more immediate level, political parties seem to be the natural implication of the limited information and the radical uncertainty faced by voters in a democracy.

There are obviously many political decisions individuals must make for which they have very poor information, or where they would be unable to calculate their self-interest even if they had good information. For instance, are the interests of world peace served by the Star Wars defense system currently advocated by the Reagan administration? If in principle, interests are served, is the system technologically feasible and is it worth to cost? Does the public debt have important consequences and if so, is it better to reduce the debt by increasing taxes or reducing spending? Both these questions are examples of problems where the 'experts' do not agree on even the theoretical level of the problem. Clearly, the non-expert citizen is totally incapable of making a correct decision on the merits of any proposal that requires his consent. It is even more unlikely that the citizen could take a position on these question that reflected his pecuniary self-interest in the matter. What, then, is the citizen to do?

In markets, where information is poor and difficult to obtain, entrepreneurs have a financial incentive to provide that information. Competition among entrepreneurs insures that where accurate information is possible, accurate information is generated and made available to an otherwise ignorant public. Or perhaps it would be better to say that the market process of competition allows consumers to discover the information relevant to their own needs. In political settings, however, the kind of information that people need in order to make intelligent decisions is often the kind that no one knows even in principle. Individuals must not only assess what public goods it is in their interest to demand (a far more difficult problem than assessing what kind of car one should buy), they must also determine which elected representative will best serve their purposes and what the consequences of present legislation is likely to be for their own future welfare.

While there are plenty of political entrepreneurs willing to offer voters their opinions on the answers to these complex questions, there is no effective testing process in politics to weed out errors and incorrect information comparable to the competition in markets. Political entrepreneurs supply individuals with what they think they want, but what they think they want may have very little resemblance to what they would want if they were correctly informed. Since on many of these issues, information is only in the form of untested theories, voters are led to economize on this very difficult decision process by adopting a political ideology to aid them in their choices. Even if the public choice theorist were to assume that men are solely pecuniary wealth maximizers, he could not hope to understand the political decision process without understanding the information individuals ascribe to their ideologies.

Achieving this understanding is no easy task. Political ideologies usually consist of statements of broad values (like "political equality is a good thing", or "people shouldn't be poor") and of theories about how those values can be accomplished (like "allowing eighteen year olds to vote will promote equality and redistribution of income will reduce poverty"). Actual political party platforms, on the other hand, are imperfect translations of those values and theories into specific sets of policies that may or may not be either internally consistent or empirically workable. What people think the ideological and practical implications of a party platform are may be different from what they really are. The public choice theorist has generally conducted his analysis of public policy by first applying his theory to calculate the policy's consequences and then assuming that those who support the policy understand the consequences and have a pecuniary interest in them even if the predicted consequences are different from those supporters claim they will be.[8] They tacitly assume that anyone who supports the policy for non wealth maximizing reasons is lying in order to conceal his potential gain from others. While this may often be the case, it may also be the case either that policy advocates simply do not understand the wealth implications as well as the public choice theorist understands them, or it may simply be the case that advocates of a particular policy support it for non money wealth maximizing reasons. Their reasons for supporting a particular policy may simply be what they claim them to be.

For example, assume that it is calculated that a bill to subsidize higher education will increase the expected incomes of college teachers and redistribute wealth to the middle class. From this the public choice theorist might try to predict the disposition of the bill according to the size and political clout of the coalition. Note that there are two parts to this formulation, an explanatory and a predictive. If the public choice economist ignores ideology where ideology happens to be important to making a decision, he will construct a model that provides an inaccurate explanation of events even if the predictions of the model hold - which may or may not be the case.

First of all, it may be the case that many higher educators genuinely believe that it is appropriate national policy to provide higher education to anyone regardless of ability to pay and do not understand the redistributive consequences of their actions. Or they may understand them but think, nevertheless, the consequences are fair. While the educators may be beneficiaries of the bill also, it is simply not accurate to explain their actions solely in terms of the pecuniary income they can expect as a consequence. Secondly, voters may also believe that higher education should be subsidized regardless of the fact that university faculty and middle class families with children benefit disproportionately. They may fully believe that the importance of widespread access to higher education supercedes any redistributive consequences.[9]

The public choice theorist might argue that whether or not he is correct in the motives he ascribes to individual actors, the predictive power of his model is nevertheless protected. The fact is that regardless of what people say, at the margin, pecuniary self-interest is a good predictor of resource allocation. Yet, if for some goods, either because information is so incomplete or non-pecuniary values are so important, people choose according to ideological considerations rather than self-interest, the strict application of homo economicus can only be correct by accident. The fact is, there are always people who support public measures even when they don't gain; even, in fact, when they personally may stand to lose.[10]

Consider, again, the widespread support for public education. It is of course true that most voters believe they and their children will be better off financially if the cost of education can be spread to all tax-payers rather than borne by themselves alone. But the demand for public education seems also have another component to it that is far more prevalent in political decisions than in market choices; that is, a desire to affect the way others behave. A typical argument for public education is that society is 'better' if more people are literate and educated. Here, 'better' means not only wealthier, but also more stable and better governed. While, I suppose 'more stable' and 'better governed' could be translated into 'wealthier' as well, I believe the sense of the argument has more to do with the kinds of people with which one wants to live. The non-pecuniary value of having others behave in certain ways is very important to political choices. Clearly such values are self-interested, but only in the tautological sense in which all values are held by a self. Politics is largely about creating a society of shared values and establishing a set of shared behaviors. In political society, 'utility' is a function of the behavior of others as well as of one's measurable wealth. Economists sometimes call the demand for shared values and shared behaviors "meddlesome preferences" (Sen 1970), but this seems to miss the central point of human culture. We are interested in each other's behavior because that is how we define and judge ourselves. The simple narrow model of homo economicus cannot do justice to this important characteristic of human beings.

## 5. Efficiency and Social Institutions

One may grant that individual human beings act according to many values some of which are not self-interested in the narrow sense, and still argue that positive economic analysis provides the best tools for explaining social phenomena including political institutions. One argument that has been made is that the outcomes of social action do not depend so much on the ends that human beings pursue as on the constraints they face. In this view, largely associated with the Chicago School although not limited to it, no matter what individuals hold as moral beliefs and no matter what kinds of non-pecuniary goods they may choose in the short run, in the long run the only thing that explains social change are changes in relative prices brought about by shifts in constraints. The implication is that the only economic, political and social institutions that will survive are those that maximize the pecuniary wealth of the population (or some important segment thereof?). In saying this, I am creating something of a straw man since it is difficult to find any one economist who will hold to this line without wavering. As we have noted above, most economists argue that men maximize utility, not pecuniary wealth. However, utility is not a useful concept for positive economics unless we are able to specify the arguments in the utility function. Those economists who postulate material wealth as the maximand at least are saying more than people try to get the most of what they want. What this argument seems to say is that no matter what they think they want, what they get is maximum pecuniary wealth since action that leads to that particular end will be differentially rewarded in a competitive struggle (for example, see North/Thomas 1973).

Such 'survivalist' arguments borrow the language of evolutionary biology and interpret social institutions as the result of some form of competition in which only the fittest or most efficient can survive. Any attempt to explain a phenomenon in evolutionary terms must however, describe a process by which competing elements are selected and inefficiencies weeded out. For social institutions, it would be important to explain how innovative social arrangements are introduced and how humans act to select among these institutions either consciously or unconsciously. In the argument under consideration, there is some vague notion that social institutions compete much in the same way that firms compete, and hence efficient institutions will drive out inefficient ones in the competitive struggle. But what is an efficient institution?

It is tautologically true that in evolutionary explanations, the efficient survive, but only because survival is the definition of efficiency. One might apply the same reasoning to social institutions but only with some difficulty. For instance, the social scientist could observe what institutions and societies have in fact survived competition and then search for explanations for why the survivors are adaptive to their environment. Those who hold that only efficient social institutions can survive may hypothesize that wealth maximization is the major explanatory variable in institutional survival. In that case, it would be imperative for the theorist to specify how he defines wealth and then to describe a process by which maximizing this definition of wealth leads institutions to survive before the proposition is tested. So far, no one has attempted to follow such a procedure.[11]

Discussion of the efficiency of economic institutions whose major purpose is to allow individuals to improve their economic well-being at least makes some intuitive sense because we have a theory that allows us to define what constitutes an efficient economic institution (it allows individual actors to effect more transactions at lower cost than without it) and to describe a process by which efficient institutions survive and others fail (those institutions like business firms that are profitable survive while those that make losses fail). More inclusive institutions like a banking system or a stock exchange, that is institutions that consist of regularized trading arrangements, survive that improve the profits of the individuals who use it for their own purposes. In either case, the fact that individuals who choose to participate in the institution have purposes they wish to satisfy and have a clear measure, profit, by which to judge whether or not the institution is serving their needs, allows us to describe a process by which efficient institutions can envolve. An evolutionary approach to the study of economic institutions, then, may prove fruitful because we can hypothesize a recognizable goal and describe a process by which efficient institutions are selected by the competition among self-interested human actors. However, when one attempts to describe an economic process by which other forms of social institutions are selected, the problem is not nearly so clear cut.

What is an efficient political organization? If we wish to be consistent with our notion of economic efficiency, then it must in some way reduce the costs of individuals pursuing their own interests (as, for example, Hobbes and Locke explained the reason for government). Clearly, we can see how some political organization may be better than no political organization, but this is not the same thing as arguing that the most efficient political organization from the perspective of the wealth maximizing activities of individual citizens necessarily is the one that will survive international competition. An evolutional theory of political organization might start from the hypothesis that those political organization that can command the greatest number of resources in times of stress are the most efficient and hence most likely to survive political competition. This seems a reasonable empirical hypothesis but it does not have any readily apparent connection to the wealth maximizing actions of individuals. And it certainly does not imply that individuals cannot successfully pursue other goals besides pecuniary wealth maximization. The course of human events has been altered more than once by the ideas and values of individuals who were not pursuing either individual or national material wealth.[12]

Political organizations are systems of power as well as economic resources. A successful polity probably depends as much on variables such as intelligent military strategy, willingness to wage defensive wars, canniness of leaders in world and domestic affairs, a sense of national purpose based on shared values, and a host of other intangibles that cannot be adequately proxied by measures of wealth. Given the wide variety of relatively long-lived political institutions of all different shapes and sizes, it seems clear that wealth maximization alone cannot account for the survival of all of them.

## 6. Public Choice, Public Policy, and the Choice of Institutions

So far, this paper has been concerned with the limitations of the narrow homo economicus assumption for positive public choice, the economic theory of individual political behavior. Now we turn to the difficulties associated with assuming narrow homo economicus in normative public choice, the exercise of divising political institutional rules to improve the way that government functions to serve the purposes of its citizenry.[13]

Normative public choice begins with the assumption that insofar as individuals want government to provide public goods, the public choice economist is in a position to design institutional rules to help them achieve their purposes more efficiently. I rather call this activity 'prescriptive' public choice since it prescribes methods for achieving given goals; it is not strictly positive science since it does not attempt simply to analyze and explain what is, nor is it normative policy since it does not explore goals or values nor does it choose among them. It does, however, presuppose the norm that using fewer resources to achieve one's goal is better than using more.

One method by which to engage in prescriptive public choice is to apply a simple calculus of benefits and costs to all public policies, and to attempt to design rules and procedures that maximize the ratio of benefits to costs.[14] The calculations are made in money terms and non-market values are given money proxies. The presumption in this exercise is that all preferences count equally and that all consequences can be effectively measured in money terms. So, for example, if it would have been cheaper to buy up all the slaves in the antebellum South and manumit them than to fight the civil war, prescriptive policy would have argued for the former course of action.

There is much merit in this approach to public policy. It provides some framework for comparing the consequences of alternative policies and some rough and ready measure of the magnitudes of those consequences. Calculating the potential costs of a war and then figuring out how much you could pay the opposing soldiers not to fight at least gives the citizenry some basis upon which to judge the degree to which they believe the war is in their national interests. It might even open up a debate on possible peaceful alternatives. If one views the public policy economist's (or the prescriptive public choice theorist's) role as offering some measure of the relative costs of various policies, cost-benefit analysis is useful and important. However, given the multiplicity of values people hold as citizens, it should not be surprising if the so-called 'efficient' policy is not followed. What is efficient in terms of money calculations may not be efficient in terms of the non-pecuniary goals individuals as citizens hold.

When it comes to designing political institutions, however, the cost/benefit approach to prescriptive policy cannot even in principle be applied. To say something is efficient implies that one is judging it according to some end one has in view. We have already argued that the goal of political institutions is not limited to promoting wealth maximization of the citizens of a polity <u>even in the eyes of the citizens themselves</u>. Hence applying a rational calculus to devising, say, voting rules or distributions of rights is meaningful only in a very general sense. Certainly, a rational calculus based on pecuniary wealth maximization could easily lead to the development of rules that conflict with individuals' notions of fairness or rights.

Consider, for example, the controversy surrounding the Coase theorem. Coase showed that in any conflict of externalities that is to be settled by specifying property rights, who gets the right to the property in question is irrelevant from the perspective of efficiency. Regardless of who gets the right to use the hitherto common resource, the person who can make most efficient use of it (that is, generate the most market income from its use) will end up with it so long as the property is tradeable in the market. Clearly, however, even if the terms of the settlement of the property right are irrelevant to the eventual emergence of efficient use of the resource, it is not irrelevant in terms of rights. It is not legitimate to infer from the Coase theorem that maximizing market value is the only - or even the most important - consideration in solving disputes over property (Coase 1960).

Efficiency is an end-state notion. It implies that the desired outcome should be arrived at in the cheapest possible way. It also implies that the ends and the means to achieving them are known to the decision maker. The rules of political society, on the other had, are process notions. Part of the 'end' that is desired is a way of living and a way of doing things. The rules of social order are important precisely because there is no one agreed upon set of ends for the society as a whole that are to be maximized nor are the full consequences of rules known at the time of adoption. Hence the term "efficient rules" would seem to be an oxymoron - that is, self-contradictory.[15]

It is the difficulties with the conventional notions of efficiency that motivates James Buchanan's contractarian approach to government or "constitutional economics".[16] Buchanan's contractarian model is partly prescriptive in nature, although it is different from the uncomplicated utilitarianism of cost/benefit analysis. Generalizing from subjectivist insights into the choice process, Buchanan realizes that individual evaluations of alternatives are always subjective and that money equivalents can't always reflect individual subjective evaluations. Consequently, Buchanan argues that the only test of the efficiency of either immediate policies or of more long run institutional - in his case, constitutional - rules is the agreement of participants in the institution. This is a generalization from the subjectivists' insight that the only evidence we have of the gains from trade is that the trade was entered into voluntarily (Buchanan 1985a).

Buchanan recognizes that for the exercise of prescriptive public choice especially at the constitutional level, the simple calculation of money gains and losses may not be a good guide to the kinds of policies and rules to which a collection of individuals will agree. So, for instance, in the case of the civil war, Buchanan's approach can accomodate the fact that Southerners and Northerners both saw values like moral rectitude, regional autonomy and ingrained life-styles at stake, and a policy of 'buying out the opposition' would have been unacceptable to either side. This is not to say that at the level of immediate policy, calculating benefits and costs in money terms is not a useful exercise to aid decision making. Indeed, it may be the only way for decision makers to understand the trade-offs involved in some policies. However, at the level of constitutional design, the level of deciding what actions are permissible and impermissible to the state and to individuals, the simple calculation of money benefits and costs is impossible. It begs all the questions of mine and thine that must be answered before money values have meaning.

Buchanan's alternative to the utilitarian brand of prescriptive public choice is to attempt to devise constitutional rules that might command agreement if actually put to the test. The rules he proposes are long range constitutional rules where calculation of immediate gains and losses to individuals is difficult, but where procedures for making decisions and limitations on government power can be agreed to because of the uncertainty each person faces about his own position in the future. Since Buchanan does not believe there is a spontaneous order by which political processes lead to unintended beneficial outcomes for citizens, his contractarianism is a way of designing constitutions that provide the benefits that spontaneous processes generate in market settings. The constitutional contractarian serves a useful role in this political process specifically because there is no benevolent spontaneous order; there are no processes by which information about the characteristics and consequences of constitutions can be generated in order for individuals to make informed choices, nor is there a process by which an analysis of the unintended consequences of individual actions leads to the discovery of this information in an unambiguous manner. The constitutional-contractarian, then, himself serves as a political entrepreneur who 'discovers' information about constitutions and, having discovered the information, is in a position to serve as a political broker offering potential bargains until the right one is struck among political traders. Given the fact that the constitutional broker does not know the preference functions of individual parties to the bargain, he only knows if he has hit on an efficient trade if the bargain is in fact made.

At this level, Buchanan provides the prescriptive public choice theorist with a role to play in public policy formation that has its justification in a information failure in the political process. It is practical in this exercise (and not misleading) to use the homo economicus construct as a first approximation to arrive at potential political bargains since actual human beings will be deciding just how close to the mark the proffered bargain is to their own value structure. At another level of abstraction, however, Buchanan's contractarianism moves out of the range of prescriptive public choice and into the realm of normative political philosophy. At this level, homo economicus is not nearly so benign an assumption to make. We arrive at this level through the discussions of the conceptual contract.

Buchanan argues that because it is impossible to actually put constitutional rules to the test of actual agreement, the constitutional political economist must devise constitutions that could in principle command unanimous agreement among those who will be governed by the constitution. He starts from the normative premise familiar to economists that only individuals count and that all individuals count equally regardless of their preferences (or moral values or personal characters?), and that the only moral basis for a political society is agreement. However, since we don't have actual empirical tests of agreement to legitimize governments, we must model those humans who might participate in the social contract in order to theorize about the kind of government upon which they might be able to agree.

The only legitimate governments are governments upon which real human beings would be able to agree. Notice that the moral presuppositions of this approach are minimal, but strong. Individual values are not to be questioned. All individuals must count equally in the contract, negotiation is the only legitimate process and agreement the only way to legitimize an outcome.

Since the conceptual contract is never put to the market test, yet is intended to serve as a means of judging existing or potential constitutions, the characteristics of the people one presumes are party to the contract is important. If we begin with the subjectivist assumption that no one but the individual himself can know his utility function, then finding the appropriate model of the human beings who are a party to the contract can be problematic. Buchanan solves this problem by peopling his social contract with beings that look remarkably like homo economicus. Buchanan's contractors all have different tastes and different endowments to begin with, but the long run nature of constitutional rules tends to mute these differences as the consequences of adopted rules are only realized in the future. More significant are the characteristics they all have in common. They are all rational, adult, mentally competent, and concerned exclusively with their material well-being. More significantly, they know everything the economist knows about the functioning of society. Even more importantly, they have no interest in the behavior of others except insofar as it directly affects their own pecuniary interests. They are not real people but ideal types who capture the essence of rational, economic man.

We have already argued that narrow economic man is descriptively incorrect and analytically too restrictive a concept to judge economic policy. Certainly, it is even more off the mark to model men in this narrow way for the purpose of devising conceptual contracts. By definition, the conceptual contract is conceptual because the contract cannot in fact be put to the test. Hence, it is all the more important to take seriously the subjectivist presumption that people not only have different tastes and preferences, but also different moral beliefs and different ideologies. People think differently about the world.

To model men in the conceptual contract as strictly homo economicus either presumes that that is in fact the best description of human beings or it implies that that is the way men should behave. We have already argued that the first alternative is incorrect. It is doubtful that any contractarian would want to subscribe to the second alternative. Hence, unless we want to assume that some rational ethic can be built into the social contract[17] which puts us further away from a real contract and blunts the individuality of persons even more than the fictional social contract normally does, we must assume something about the moral philosophies that these rational beings will bring to their bargaining. Otherwise it is impossible to come up with criteria by which to judge existing or potential contracts in the absence of actual agreements. The contractarian who takes individuals as the source of all values, I think, must logically take individuals as the source of information about values as well. This implies that moral presuppositions must be assumed to be part of the package that individuals bring to the social contract. This, of course, makes the role of the contractarian philosopher far more difficult than that of the contractarian economist. If the requirements of the differing moral systems must be added to the calculations of the different alternative rules in order to have some rational basis for judging their efficiency in the absence of actual agreement, how do we deal with conflicting moral systems?

The contractarian position is that all individuals who are a party to the contract must be counted equally in arriving at the rules of the game. Yet, there may be some cases involving the definition of common standards of behavior (as for example, whether or not abortion is legitimate) where coming to agreement may be almost impossible.[18] One also must question whether all moral beliefs, no matter how repugnant to other members of the community, must be counted equally. Should the beliefs of the primitive tribesman who takes it as religious dogma that infant girls should be sexually mutilated command the same respect in the social contract as the beliefs of those who oppose the practice simply because both want to live in the same political order? While a large degree of moral relativism is necessary in a pluralistic society, it is not clear that a philosophical contractarian can be totally agnostic on the question of which moral values count.

## 7. Conclusion

This paper has been concerned with the limits of the narrow model of homo economicus that ignores the role of moral rules and ideological commitments in the actions of human beings. The recent fashion in economics is to extend the model of homo economicus into other fields besides economics, to engage in a proud kind of economic imperialism. In general, there is something to be gained from this adventure, especially in those fields like political science and sociology where the effects of narrow economic calculation had hitherto been completely ignored. However, this essay is offered as a cautionary tale to those crusaders of the economics faith who long to spread the Word into all corners of the intellectual world. The economists model does not translate perfectly into other languages or other cultures, and to fail to recognize the truth of this observation can lead to a total misperception of the phenomenon under consideration. In the specific case of the analysis of political activity, the economists has made great gains in understanding the way in which special interests can use the political process to gain an advantage. But to say that this is the only useful way of understanding the political process is in itself an ideological position that would command little agreement among participants in the intellectual debate.

Notes

1. This is an extreme version of what economists seem to believe. Very few would actually adhere to such a hard line if they were forced to do so explicitly, but the argument is implicit in the way in which some economists dismiss the investigations of all other disciplines such as philosophy or sociology with a contemptuous wave of the hand. In the typical lunch time conversation among 'hard nosed' economists, the typical attitude suggests that only economic self-interest is important in explanation - or appropriate personal behavior.

2. Kirzner 1963, 5. Kirzner's formulation follows von Mises' view of a man as a purposeful animal, and it is far superior to the more standard self-interest formulation since it implies nothing about the content of interests. People may or may not be selfish, but they do have ends or purposes for which they will choose among alternative means. Jack Wiseman prefers to model men as making plans that are subject to revision thereby including the notion of time and learning in human action. See Wiseman 1983, 18-20.

3. Gary Becker, for instance, has modeled altruistic behavior within families by assuming that individual utility functions depend in part on the utility of other family members. See Becker 1981.

4. Merely including such arguments in individual utility functions does not eliminate the possibility of economic explanation in the broad sense since one can still want more or less of these values at different 'prices', but it does suggest that a convention empirical economics of, say, love or duty will be problematic since act performed for the sake of love or duty may not be amenable to analysis with money proxies.

5. For a brief summary of arguments on the paradox of voting, see Mueller 1979, 120-123.

6. It might be argued that both rooting for a team and exercising one's 'civic responsibility' are just two forms of consumption. However, it is at least likely that they are fundamentally different forms of behavior in that the individuals behave differently in response to changes in incentives. While a marginal increase in the price of voting from, say, rain or distance from the polls will normally reduce voter turn out in an election, an increase in the price of voting from political repression or violent confrontation has induced some people to increase rather than decrease their voting behavior. Insofar as voting is considered a right of citizenship, attempts to thwart its exercise can lead to more rather than less assertion of that right.

7. James Buchanan uses the example of the litter on a beach to illustrate the need for rules of social order. Law and the Invisible Hand, in Buchanan 1977.

8. This is the tacit assumption of the interest group theory of public policy. While I do not disagree with much of the empirical results that follow from this assumption, I think it is overly ambitious to assume that it explains all policies. There are cases where there are simply unintended redistributive consequences to public policy that are secondary to the main purpose of the policy. Gordon Tullock makes this point in Tullock 1983, 9-10. Of course, Tullock points out that once a mistake is made, the benefitted group is likely to fight to keep its benefits.

9. Or they may not think of it as redistributive. The public might regard higher incomes for university faculty as payment for services rendered, and subsidies to middle class taxpayers as an unavoidable consequence of making higher education available to all citizens.

10. I suppose one could argue that the reason something is of over-riding importance is precisely because the costs are difficult to calculate and that if the calculation could be made in a way that would capture the attention of the voter, the 'importance' of the goal would diminish greatly.

11. I understand from verbal reports that Friedrich Hayek is working on an evolutionary explanation of political societies where population maximization is the survival principle. While at the moment this sounds an unpromising line of argument, one can only wait until the full elaboration is published to judge fairly.

12. This argument is not to be confused with the interest group theories of the state mentioned above that attempt to explain particular policies according to which interest groups gain within a state. The argument I am criticizing here tries to explain the survival of a particular state itself in terms of wealth maximization.

13. The theory of normative public choice is outlined in Buchanan/Tullock 1962.

14. This is the position that Gordon Tullock takes. See Tullock 1971.

15. On the inability to define an efficient political institution, see Coleman 1984.

16. The best statement of Buchanan's position is in Buchanan 1975.

17. This is exactly what David Gauthier tries to do in his 1986 book, Morals by Agreement.

18. James Buchanan took a step in that direction in his recent paper (1985b), in which he included behind the veil a recognition that men would become attached to the goods they produced. In other words, he worked out some implications of an emotional attachment to a primitive notion of property for the social contract.

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