

**Wilfried-Guth-  
Stiftungsprofessur für  
Ordnungs- und  
Wettbewerbspolitik**



**Diskussionsbeiträge /  
Discussion Paper Series**

No. 2017-03

Back to Buchanan? Explorations of Welfare and  
Subjectivism in Behavioral Economics

Malte Dold

June 2017

**Back to Buchanan?**  
**Explorations of Welfare and Subjectivism in Behavioral Economics**

Malte F. Dold<sup>1</sup>

Version: June 26, 2017

**Abstract:** In light of behavioral findings regarding inconsistent individual decision-making, economists have begun to re-conceptualize the notion of welfare. One prominent account is the preference purification approach (PP), which attempts to reconstruct preferences from revealed choices based on a normative understanding of neoclassical rationality. Using Buchanan's notion of creative choice, this paper criticizes PP's epistemic, ontological, and psychological assumptions. It identifies PP as a static position that assumes the satisfaction of given 'true preferences' as the normative standard for welfare. However, following Buchanan, choice should be understood dynamically as a process whereby preferences constantly regenerate. Accordingly, the meaning of welfare emerges from an ongoing quest for individual self-constitution. If this holds true, then rationality axioms cannot serve as a priori normative standards. Instead, creative imagination and learning processes must remain central to any understanding of welfare in economics.

**Keywords:** Behavioral Welfare Economics; Creative Choice; James M. Buchanan; Rationality, Methodology; Subjectivism

**JEL:** B41; D03; P46

---

<sup>1</sup> Email: [malte.dold@vwl.uni-freiburg.de](mailto:malte.dold@vwl.uni-freiburg.de). Address: University of Freiburg, Wilhelmstrasse 1b, 79085 Freiburg. I express my gratitude to both Ratna Behal and Christian Schubert for helpful comments on a draft of this paper.

## 1. Introduction

“... modern economic theory forces upon us patterns of thought that make elementary recognition of the whole ‘becoming’ part of our behavior very difficult to analyze and easy to neglect.”

J. M. Buchanan (1979: 247)

In standard economics, welfare is equated with the satisfaction of given, rational preferences, which are ‘revealed’ in observable choices. The influential field of cost-benefit analysis, for example, is built on this notion of welfare and the neoclassical assumption that people generally exhibit well-defined, welfare-enhancing choices in markets (revealed preferences) or surveys (stated preferences). In doing so, welfare economists infer what people want from what they choose.

Behavioral economics adds a twist to this story. One of its fundamental insights is that people do not reveal well-defined preference sets in their behavior. Rather their choices systematically violate the fundamental axioms of rationality: they devour the tiramisu after a pasta dinner, although they had committed to abstain from carbs and sweets for Lent. In such a situation many behavioral economists (like their neoclassical counterparts) would still say that good (i.e., welfare-enhancing) choice depicts time-consistency between the expressed and revealed preference. In this case, they argue that one should either commit to a Lenten fast and abstain, or forego fasting in the first place and enjoy the meal. In general, they argue that welfare-enhancing choices would display fewer such inconsistencies (Whitman and Rizzo 2015).

Admittedly, this example is a stylized description of time-inconsistent choice. Yet, in *behavioral welfare economics*,<sup>2</sup> the criterion of choice consistency is the main rationale for welfare assessments (Berg 2014). If individuals violate the axioms of completeness and transitivity, they are not acting in a consistent ‘welfare-optimal’ way. Thus, although behavioral economics challenges the positive validity of rationality axioms in describing human behavior, it maintains those axioms as normative standards for ‘good behavior’ (Berg and Gigerenzer 2010). Consequently, behavioral economics became a field that refers to deviations from rational choice as ‘biases’ and ‘errors’ (Rizzo 2017).

A prominent approach of behavioral welfare economics tries to reconstruct the individuals’ ‘true preferences’ as a basis for welfare analysis. Here, true preferences are defined as those

---

<sup>2</sup> Behavioral welfare economics is the attempt to modify rational choice-based welfare economics so that it can be reconciled with insights from behavioral economics. The central question is: How can economists make coherent statements about welfare when the choices to which they look are inconsistent? For a more advanced overview, see Bernheim (2016).

preferences that individuals would have acted on, had their reasoning not been impaired by psychological biases. This approach of preference purification is popular among prominent behavioral economists (Kőszegi and Rabin 2007; Beshears et al. 2008; Salant and Rubinstein 2008; Thaler and Sunstein 2008; Chetty et al. 2008; Bernheim and Rangel 2007, 2009). However, it faces at least two fundamental challenges. First, if a person holds inconsistent preferences, it is hard to discern from the outside which of the conflicting preferences reflect her true preferences (epistemological problem). Second, and more fundamentally, if we accept that individual preferences are context-dependent and generally formed during the process of choice (Buchanan 1979, 1991), then there is no underlying, stable set of preferences that might reflect an individual's true self (ontological problem). Consequently, a reconstruction of welfare as revealed and true preferences is invalid, simply because these preferences do not exist in the first place. This paper addresses the ontological issue in greater depth. Based on Buchanan's idea of the 'becoming individual', the paper suggests a different framework to conceptualize welfare in normative economics that rests upon a dynamic notion of individual agency.

The structure of the paper is as follows: section two briefly describes the preference purification approach to behavioral welfare economics and uncovers its philosophical and psychological assumptions. Section three reconstructs Buchanan's notion of the individual, in which he proposes a subjectivist justification of normative individualism and advocates an understanding of choice as a creative process that cannot be modeled by invariant, stable utility functions. Based on Buchanan's framework, chapter four criticizes the main assumption of the preference purification approach and emphasizes the normative significance of processes over outcomes in welfare economic analysis. Section five outlines normative implications that are fundamentally different from the usual behavioral public policy recommendations. The final section explores avenues for future research in the field of behavioral normative economics.

## **2. Preference Purification Approach**

In *neoclassical* welfare economics, the normative standard for welfare is preference satisfaction. Preference satisfaction conceptions assume that individuals hold stable and context-independent preferences over all economically relevant outcomes and behave as utility maximizers. Thus, they always pick the maximal element in the preference set subject to budget constraints (Stigler and Becker 1977). Against this background, economists can perform welfare analysis based upon the assumption that utility functions (i.e., preferences) are stable through time and invariant among persons. The motivations behind preferences are left open to interpretation,

and references to any substantive psychological or philosophical theory of well-being are intentionally eschewed (Hausman and McPherson 2009).<sup>3</sup>

*Behavioral* welfare economics acknowledges that rational choice theory is empirically not robust: individuals reveal messy preferences in their choices that violate the transitivity and completeness axioms of rationality. Those choices, however, are treated as “decision errors” since an individual presumably failed to realize her true preferences. The welfare-relevant domain, i.e., decisions that merit deference since they are welfare-enhancing, can still be restricted to choices that are mutually consistent, and practical welfare analysis can be built on internal choice consistency as the primary (and in most cases sufficient) welfare criterion (Berg 2004).<sup>4</sup>

This approach rests upon a dualistic theory of the individual, in which the ‘psychological self’ continuously struggles to express and act upon the well-defined preference set of the inner ‘rational self’ (Infante et al. 2016a). It is assumed that individuals attempt to optimize utility according to their true preferences, but encounter cognitive or emotional conditions that trigger systematic mistakes. In their ‘nudging approach’, Thaler and Sunstein follow this concept of the individual. They argue that

“... individuals make pretty bad decisions – decisions that they would not have made if they had paid full attention and possessed complete information, unlimited cognitive abilities, and complete self-control.” (2008: 5)

The rational agent is given normative authority over the psychological self (“bad decisions”). Consequently, welfare is seen as being advanced only by those decisions that the individual would have made in the absence of any psychological or computational distortions, thereby satisfying the rational agent’s true preference set.<sup>5</sup>

---

<sup>3</sup> The dominant view in standard welfare economics follows this Samuelsonian logic. There have also been other theoretical attempts within economics that developed psychological (mental states) or philosophical (objective lists) theories of welfare. In psychological theories, welfare consists of specific types of mental states. Happiness economics is the most prominent account to mental-state welfare (e.g., Frey and Stutzer 2010 or Kahneman et al. 2004, 1997). With regard to philosophical attempts, objective list accounts assume that certain goods or experiences contribute to an individual’s well-being regardless of whether they bring about particular mental states or satisfy the individual’s preferences (Nussbaum and Sen 1993). Since both of these approaches have not been absorbed by behavioral economists, I will not discuss them further in this paper.

<sup>4</sup> ‘Choice consistency’ means that an individual acts on well-defined preferences that fulfill the rationality axioms of completeness and transitivity. Completeness, means that between any two alternatives A and B, an individual either strictly prefers A to B, strictly prefers B to A, or is indifferent between A and B. Transitivity means that for any three alternatives A, B, and C, if A is preferred to B and B is preferred to C, then A must be preferred to C. Both axioms “serve to rule out internal contradictions and to impose a form of consistency over the entire set of preferences” (Whitman and Rizzo 2015: 412).

<sup>5</sup> In the parlance of dual-process theory, this is similar to privileging an individual’s planning “System 2” self, as opposed to the short-term preferences of the spontaneous and affect-driven “System 1” self. Although there is some affinity between dual-self models and the model of the inner rational agent that underlies the preference purification approach, they should not be confounded. Proponents of the dual process theory admit that System 2 can lead to decision errors (Kahneman 2011: 45).

Following this logic, the task for behavioral welfare economists is then to reconstruct the true preference set and to use the satisfaction of these reconstructed preferences as a basis for welfare-enhancing policy proposals. Hausman (2012) refers to this strategy of uncovering true preferences as the *preference purification approach*, in that a messy set of revealed preferences must be ‘purified’ first in order to reconstruct what the agent really prefers.

Many scholars of behavioral welfare economics have proposed different methods of reconstructing true preferences within the literature. Thus far, Bernheim and Rangel (2007a, b; 2008; 2009) have developed the most sophisticated and coherent account of preference purification. They begin with the assumption that choices of individuals are often inconsistent, whereby the acting self is impaired in her decision making by some cues in the choice architecture (referred to as ‘ancillary conditions’). These cues are properties of the choice environment that may affect behavior, but are seen as normatively irrelevant from the perspective of the rational self (e.g., methods of displaying food in supermarkets or emotional triggers in TV commercials). If ancillary conditions influence choice, then the rational self is rendered unable to navigate through the fog of psychological impairments and, consequently, the revealed preference remains outside the subset of true preferences (e.g., when candy is strategically placed near the cashier, the individual buys it; otherwise she chooses the apples). However, if the choice between objects is unaffected by changes in these ancillary conditions, then the underlying preference will be accepted as a true preference (e.g., no matter how or where food is displayed in the supermarket, the probability of an individual buying candy is the same). In effect, this approach purifies all observed choices from ‘erroneous’ ones, where ‘error’ is defined relative to true preferences that the individual would have revealed if not subject to psychological impairments or false judgments. Considering only the purified data, the revealed preferences are considered a reflection of welfare-enhancing choice, which, in turn, are assumed to satisfy principles of rationality (completeness, transitivity, context independence).

### *Three premises of Preference Purification*

There remains an ongoing debate about the normative and psychological assumptions of the approach sketched above (Hausman 2016, Infante et al. 2016a, 2016b, Sugden 2016). Summarizing this discussion, one can distill three crucial assumptions of Preference Purification (PP):

*A1 Revealed choices should be respected, since they are an indicator for welfare.*

*A2 Individuals hold true preferences.*

*A3 True preferences are context-independent and time-consistent.*

All three stipulations must hold if PP can legitimately identify purified choice data as the basis for individual welfare. While the first remains constitutive for many revealed preference approaches in welfare economics, the second and third prerequisites apply specifically to its behavioral version. Let us consider each assumption in more detail:

*A1 Revealed choices should be respected, since individuals know best what realizes their welfare (epistemic assumption).*

This assumption has two components. First, it entails an instrumental justification for choice: choice is good because it advances welfare. Second, since individuals hold an epistemic privilege in choosing actions that advance their welfare, their revealed choices should be respected.<sup>6</sup>

PP is a choice-centric approach rooted in the tradition of standard welfare economic analysis suggesting the inference of welfare from choices; however, it attempts to extend the revealed preference paradigm to settings where choices express preferences only imperfectly. While choice may be an imperfect proxy for well-being, this approach argues that no better proxy is available (Bernheim 2008: 30). Welfare as a “subjective experience is inherently private and not directly observable. This state of affairs renders each of us uniquely qualified to assess our own well-being” (Bernheim 2016: 17). Accordingly, PP assumes that revealed choices are a reliable indicator for welfare since individuals know better than anyone else what is best for their own welfare. If there were only a random connection between choices and subjective welfare, the instrumental justification for normative individualism and the idea of a choice-based welfare criterion would lose their plausibility from the outset.

*A2 Individual hold true preferences (ontological assumption).*

Preference Purification assumes that true preferences exist. Bernheim and Rangel state:

“We adopt the perspective that preferences are ‘real’ objects. In our view, the concept of preference is something that we all understand in concrete terms. Even if we are limited to inferring others’ preferences from their choices, this does not call the existence of preferences into question.” (2007b: 6)

In general, PP interprets preferences as expressing individuals’ subjective judgements about their welfare; they are not synonymous with choice, yet they are causally connected to it.<sup>7</sup> Since

---

<sup>6</sup> Bernheim (2016) mentions that there are also non-instrumental justifications for choice as a normative benchmark in behavioral welfare economics. However, I believe that in PPAs the welfarist and epistemic arguments remain the main justification strategy for normative individualism.

<sup>7</sup> This is in line with a tradition of quasi-psychological interpretation of utility in welfare economics derived from the work of John Hicks and R.D.G. Allen. In the Hicks-Allen story, utility is given a mentalistic interpretation, insofar as it is assumed that individuals hold preference orderings over the available options *in their mind*. This

true preference, as a subset of all preferences, embody perfect knowledge of the causal connection between the available goods and their effects on individual welfare, the normative criterion for welfare in PP is the satisfaction of true preferences.

The assumption of true preferences corresponds with a dualistic model of the individual, in which an inner rational agent is trapped inside a psychological shell. If individuals lack a stable set of true preferences or routinely become impaired by psychological factors, the notion of ‘preference purification’ would lose its ontological basis. In other words: the rational self must exist in order for the normative theory to work.<sup>8</sup>

*A3 True preferences are context-independent and time-consistent (psychological assumption).*

PP assumes “that people attempt to optimize given their true preferences, but randomly encounter conditions that trigger systematic mistakes” (Bernheim and Rangel 2007b: 11). These conditions are characteristics of the decision frame that can bias instantaneous preferences,<sup>9</sup> but are assumed to have no relevance for individual welfare. While instantaneous preferences can be biased, underlying true preferences are by assumption not prone to inconsistency or context-dependency.<sup>10</sup> They pre-exist independently of the act of choice and the particular framing of the choice problem.

In spite of this predilection for error, individuals are assumed to have potential access to some cognitive process that uncovers their true preferences which satisfy conventional principles of consistency (completeness, transitivity, context independence). Rationality is seen as constitutive for subjective welfare reasoning. Hence, the economist can restrict the welfare-relevant choice domain to well-defined revealed preferences in the neoclassical sense.<sup>11</sup>

---

contradicts Samuelson’s construction of utility functions. In the Samuelsonian world, a utility function is a summary of observed choice data. For Samuelson, the utility function does not causally explain individual choices; it only describes the preferences of the agent in a mathematically tractable way (Rizzo 2014). PP supports the Hicks-Allen material interpretation of utility where welfare does not equal choice and mental preferences exist prior to the moment of choice.

<sup>8</sup> At this point, one could argue that hypothetical “meta preferences” can still constitute a normative ideal and serve the function of a “guiding fixed star at the choice horizon”. I believe, however, that such an approach to welfare would violate the “ought implies can principle”. A *subjectivist* notion of welfare should be grounded in facts about how behavioral agents do attain their goals in a behavioral world, not an ideal one. On this naturalist position, see Rich (2016).

<sup>9</sup> Preferences that are revealed at the moment of choice but that do not directly map true preferences.

<sup>10</sup> A context-dependent choice would be the following: an individual picks A instead of B in C, but B instead of A in D, where C and D are normatively equivalent choice-frames. A classic example of the violation of this axiom is ‘preference reversal’ in cases of lotteries with low probabilities but high stakes in which the framing of the question (method of elicitation) controls the answers of the players.

<sup>11</sup> In his most recent paper, Bernheim (2016) deviates from A2 and A3. The welfare-relevant domain now includes all choices apart from ‘characterization failures’. These are choices where an individual fails to correctly connect options with outcomes. Bernheim then constructs a welfare criterion based on the properties of choices within that

If true preferences were context-dependent and, thus, a function of the choice situation, they could not serve as an independent welfare criterion upon which choice errors could be identified. Such a preference set would be vulnerable to the same inconsistency problems it tried to solve in the first place at the level of the psychological self. It would become arbitrary to single out any subset of all revealed preferences as an indicator for individual welfare.<sup>12</sup>

The following section will introduce James M. Buchanan's notion of the individual that serves as a fundamental challenge to the assumptions of the purification approach in behavioral welfare economics. It will focus on two articles, *Natural and Artificial Man* (1979) and *The Foundations for Normative Individualism* (1991).<sup>13</sup> Therein, Buchanan advocates a radically different view from standard revealed preference accounts to welfare economics. He stresses three interrelated points: first, Buchanan posits that an instrumental justification for normative individualism is deficient since it rests upon a fragile argument involving the epistemic privilege of the individual decision-maker. Second, he questions the validity of utility functions as the foundations of choice theory. Third, Buchanan advocates the understanding of choice as a creative process in which individuals' preferences change along with the constraints they face and the choices they make.

If Buchanan's claims hold true, it makes little sense to build a normative theory of welfare upon a stable set of true preferences since preferences remain inextricably linked to choice. Assuming that choice is a genuinely creative process in time, the consistency requirement as a normative criterion for welfare reasoning loses its plausibility. Processes and agency instead of outcomes and consistency become the focus of welfare consideration in economics.

---

domain. While this ambitious project now addresses "choice inconsistencies", Buchanan's subjectivist critique (presented in the following section of this paper) still applies.

<sup>12</sup> Consider decisions involving ordered lists of options (such as items on a menu in a restaurant): if all potential orderings distort the expression of an individual's preferences, then any pick of a true preference would be random.

<sup>13</sup> The chosen paper are not necessarily representative for Buchanan's oeuvre in general. Much of his work in public choice (together with Gordon Tullock) is explicitly built on a rational choice model of the individual. However, Buchanan himself had a "restless mind" and he always focused on the "problems, blind spots and errors" in a given area (Rizzo 2014: 136). I will not deal with the inner tension between Buchanan 'the subjectivist' and Buchanan 'the public choice theorist', but focus on his unorthodox contributions to the conceptualization of the individual in economics. See Vaughn (2004) for an integrative discussion of both aspects of Buchanan's work.

### 3. Buchanan's Model of Man

Buchanan's notion of the individual is influenced by Frank Knight's idea of the 'becoming man' developed in his 1922 essay *Ethics and the Economic Interpretation*. Buchanan acknowledges that his own account merges the Knightian "discussion of man's desire to modify his own being, with what may be called a subjective or even neo-Austrian theory of time and choice" (1979: 253). In the latter, he has been influenced by G.L.S. Shackle's 1972 book *Epistemics and Economics*.

#### *The natural and artifactual man*

Buchanan starts with the observation that individuals are 'natural' and 'artifactual' beings:<sup>14</sup>

"I shall call anyone of us a 'natural and artifactual' animal, or, perhaps preferably, an artifactual animal bounded by natural constraints. We are, and will be, at least in part, that which we make ourselves to be. *We construct our own beings*, again within limits. We are artifactual" (1979: 247; italics added).

The 'natural' part of an individual consists of the genetic-biological constraints and the culturally evolved rules of conduct and social institutions that rigidly bind individual behavior. In contrast, the 'artifactual' part is synonymous with individual *agency*, i.e., the ability of an individual to engage in creative self-constitution over time.<sup>15</sup> According to Buchanan, self-constitution describes an intentional act, in which an individual invests in becoming the person she wants to become.<sup>16</sup> It can take place on two levels, "the 'constitution of private man', which roughly translates as 'character', as well as 'the constitution of public men', which translates into the necessary underpinning of a free society, the 'character' of society, if you will." (1979: 252). While Buchanan acknowledges that individuals are constantly influenced and constrained

---

<sup>14</sup> Buchanan borrows the term 'artifactual' from Vincent Ostrom who uses the term artifact to distinguish the purposefully created, i.e., artifactual, political constitution from the evolved legal order. See, Ostrom 1980.

<sup>15</sup> Buchanan himself does not use the term 'agency'. However, I believe that it perfectly matches his notion of "an artifact, who constructs himself through his own choices" (1979: 258). Schubert (2015b) points out that economists usually understand agency as 'consumer sovereignty', i.e., an individual's freedom to act on given preferences. This, of course, is of little help in a behavioral world and would wrongly narrow down our normative concern to freedom from external manipulation of the true preference set. Agency, as reflected in the model of the artifactual individual, is explicitly based on the notion of preference formation and active choice where preferences are always endogenous to individual development and institutional environments. For an in-depth discussion about the difference between the concepts of *agency* and *autonomy*, see Davis (2011). Korsgaard (2009) presents a philosophical theory that resembles Buchanan's conceptualization of the individual. She develops an account of *agency* in which individuals face the task of 'making something' of themselves, i.e., of constituting their identity through active choices and reason.

<sup>16</sup> Put differently, self-constitution consists of making the experience, on an ongoing basis, of trying out new preferences, discarding some of them, and keeping others. This may be referred to as a process of preference learning, see Schubert (2015a).

by their socio-biological environment, they are still able to imagine themselves as products of their own making and act accordingly:

“Once all of the possible constraints are accounted for (historical, geographic, cultural, physical, genetic, sexual), there still remains a large set of possible persons that one might imagine himself to be, or might imagine himself capable of becoming. There is room for ‘improvement,’ for the construction of what might be.” (1979: 250)

Buchanan identifies the “sense of becoming as a central part, indeed probably the most important part, of life itself” (1979: 247). Life gains meaning when individuals construct their future in active, i.e., purposeful and self-determined, choices.

### *Choice as a creative process*

Buchanan points out that in the post-Robbins era economics as a discipline has been defined as the “study of the allocation of scarce means among alternative ends, and the idea of maximization under constraints becomes central to all that we do” (1979: 256). This teleological conceptualization is directly applied to individual choice. Yet, for Buchanan this is unfortunate, since it wrongly assumes that “‘utility’, or more generally ‘that what is maximized,’ has a presumptive existence that is independent of any exercise of choice itself” (Buchanan 1991: 282). Buchanan is advocating a radically different view. In Buchanan’s view, individuals do not hold preferences that exist prior to or independent of the choice process. He states that “... *not even* individuals have well-defined and well-articulated objectives that exist independently of choices themselves” (1979: 258).

In his conception of the individual, Buchanan is distancing himself from the teleological approach to individual decision-making. Buchanan asserts that it is not the satisfaction of one’s given preferences that drives individual choice, but human prospects of becoming different:

“[The] prospects of becoming are sufficient to channel action, to divert resources away from the automatic routine that utility maximization, as normally presented, seems to embody. And choices made in becoming a different person are irrevocable, regardless of their productivity, when viewed *ex post*. We move through time, constructing ourselves as artificial persons. We are not, and cannot be, the ‘same person’ in any utility maximization sense.” (1979: 251)

Choice is a *forward-looking* investment process, where the imagined future prospects of becoming different motivate actions. Choice is also *creative* in the sense that it changes the individual who makes the choice. Referring to Heraclitus, Buchanan notes that “man does not step into the same river twice, first, because the stream has passed, and, second, because man too

has moved forward in time” (1979: 257). Choice as a process in time is inseparably connected to the self-development of the individual.

### *Strict subjectivist ontology*

Since choice is a creative process and preferences emerge in the moment of choice, Buchanan supports a ‘strict subjectivist ontology’ that does

“not allow any conceptual separation or distinction between an individual's choice behavior and his or her utility function. ... From a subjectivist perspective, a ‘utility function,’ as such, does not exist which, even conceptually, could be observed and recognized independently of an individual’s choice behavior.” (1991: 286)

Buchanan believes that his ontological position has radical methodological and normative implications. First, it is pointless to model individuals by invariant utility functions since stable preferences do not exist.<sup>17</sup> Consequently, he dismisses the welfarist position that choice derives its normative value from the potential satisfaction of pre-existing preferences.<sup>18</sup> And lastly, Buchanan adds, it makes no sense to raise any epistemic arguments in favor of the individual decision maker (“the individual is privileged as a choice maker because he or she knows better than anyone else what is ‘best’ in terms of a given utility function”, 1991: 282), since individual choices and the utility function do not exist as separate entities.

Buchanan builds his normative individualism on the premise that individuals are the *ultimate sovereigns in matters of choice* “by their very being as individuals” (291), irrespective of any connection between choice, knowledge, and welfare. He links this normative premise to the individuals’ responsibility for their own actions that are not to “be protected from their own folly” (1991: 291).

Buchanan asserts individuals have an intrinsic interest in freedom of choice, not because they want to maximize their well-being, but because they want to creatively choose what version of themselves they want to become in the future. He concludes:

---

<sup>17</sup> In addition, Buchanan thinks that his framework has more explanatory power than the Stigler-Becker model of rational choice. Buchanan points out (1979: 249) that stable preferences cannot reasonably account for the act of shifts in tastes. To him, the explanation of an individual’s shift in music consumption (let’s say from punkrock to jazz) makes only sense if we allow for an individual’s capability to imagine herself to be other than she is and take respective actions to achieve the imagined state. Buchanan stresses the importance of habituation in this process. In the Buchanan framework, an individual develops into the being she wants to be through intentional, repeated choices: “Insofar as man is wise or good, his ‘character’ is acquired chiefly by posing as better than he is, until a part of his pretense becomes a habit” (Knight quoted in Buchanan 1979: 254). In the Stigler-Becker, there is no place for a forward-looking process of habituation and self-development. An individual is assumed to act upon given preferences; she cannot choose to develop a different set of preferences in the future and act accordingly in the present.

<sup>18</sup> In general, a welfarist position can be characterized as a consequentialist approach that restrict “the judgments of states of affairs to the utilities in the respective states” (Sen 1999: 59).

*“Man wants liberty to become the man he wants to become. He does so precisely because he does not know what man he will want to be in time. Let us remove once and for all the instrumental defense of liberty, the only one that can possibly be derived directly from orthodox economic analysis. Man does not want liberty in order to maximize his utility, or that of the society of which he is a part. He wants liberty to become the man he wants to become.”* (1979: 259, italics in original)

The voluntary consent, i.e., active choice, becomes the central criterion for all organizational structures under which the individual will live since it allows the individual to freely define the boundaries of her own becoming process.

#### **4. The Buchanan-Critique of Preference Purification**

In summarizing Buchanan’s framework, one can distill three fundamental challenges to PP (and behavioral welfare economics, in general):

*C1 Revealed choices should be respected because they express individual agency.*

*C2 Preferences are formed during the process of choice.*

*C3 The meaning of welfare emerges in individual processes of self-constitution.*

These statements describe the main elements of Buchanan’s own (more or less implicit) account to normative economics. If these claims are valid, then PP remains problematic on epistemic, ontological, and psychological grounds.

*C1 Revealed choices should be respected because they express individual agency.*

Preference Purification is rooted in a revealed-preference tradition that defends normative individualism on epistemic grounds. The fundamental claim of PP is that the individual is given normative authority as a choice maker *because she knows better* than any third party what choices are best in bringing about her own welfare. According to Buchanan, this is a fragile foundation for individualism since the normative justification for freedom of choice rests upon the validity of the welfarist (‘choice generates welfare’) and the robustness of the epistemic (‘individuals know best’) parts of the argument.

One might argue that, if the epistemic privilege of individual decision-making did not hold, limits to individual choice could be justified upon the emergence of some measures that are more effective in maximizing individual welfare than individuals’ free choice. Buchanan notes that benevolent paternalism would be perfectly compatible with “individual welfare as utility” (1991: 284). One could imagine informed experts who knew better which available choice options satisfy a person’s given welfare goals in highly specialized fields and therefore be given

authority to steer individual consumption.<sup>19</sup> Such a claim would be exclusively based on welfarist and epistemic arguments.

However, such a rationale lacks significance in Buchanan's subjectivist defense of normative individualism. In Buchanan's subjectivist ontology, freedom of choice is not instrumental in bringing about utility or welfare. Rather, it is an expression of individual agency: the individual's ability to engage in creative self-constitution over time. Consequently, Buchanan rejects both the welfarist justification and the epistemic foundation of normative individualism. It is not the connection between choice/preferences, individual knowledge, and welfare that is normatively significant.<sup>20</sup> Instead, the source for normative individualism is the individual's freedom to become the person she wants to become.

While C1 challenges the first epistemic assumption of PP, it also provides a more fundamental criticism of the approach. If one takes Buchanan's subjectivist ontology seriously, then it does not make sense to restrict the welfare-relevant domain to any subset of "rational choices," unless the individual herself desires it.

### *C2 Preferences are formed during the process of choice.*

Preference Purification assumes that individuals hold true preferences that exist prior to and are independent of the moment of choice. PP advocates concede that instantaneous preferences can be biased by internal (e.g., emotions, cognitive shortcuts) or external (e.g., framing, informational obfuscation) impairments. Therefore, revealed preferences must be evaluated by the degree to which they are in line with the stable set of true preferences. Only those choices that satisfy true preferences are considered to be welfare-enhancing.

In contrast, Buchanan challenges the assumption that 'there is something' (namely a stable utility function or a true preference ranking) that exists independently of individual choice processes. Individuals do not discover pre-existing preferences in their minds while they make decisions. Rather, preferences are formed during the process of choice and depend on a set of

---

<sup>19</sup> One could also think of a technological 'super nudge' where a computer algorithm perfectly nudges individual consumption to its welfare-optimal point by means of visual or emotional choice framing. Buchanan (1991: 284) replies: "Arguments that involve reliance on experts in certain areas of choice must be addressed to individuals, as sovereigns, and it is individuals' choice in deferring to expert-agents that legitimize the potential role of the latter, not some external assessment of epistemic competence, as such" (288). For an agency-centric discussion of this sort of outsourcing of self-governance to experts or technological nudges, see Schubert (2015a), specifically referring to Valdman (2010).

<sup>20</sup> Buchanan states: "Individuals are to be allowed to choose among potentially available alternatives simple because they are the ultimate sovereigns. And this conclusion holds independently of the state of knowledge possessed about either means or ends." (1991: 288).

different aspects relevant to the specific decision situation.<sup>21</sup> Moreover, individuals can imagine becoming different, i.e., they have the power to influence their own future preferences through intentional thoughts and actions.

Consequently, Buchanan rejects the idea that choice can be successfully modeled by invariant utility functions. He describes choice-making as an essentially creative and dynamic process in which the individual changes along with the constraints she faces and the choices she makes. Individuals, post choice, are different from the individuals who made the choice. If Buchanan is correct, then ‘true preferences’ cannot be a starting point to identify the welfare-relevant choice domain.

### *C3 The meaning of welfare emerges in individual processes of self-constitution.*

At this point, one might argue that a choice-centric approach to welfare economics need not be based on the assumption that true preferences actually exist. Instead, individuals construct preferences only when they are called upon to do so for a given purpose. Then, those constructed preferences that are context-independent and consistent count as welfare-enhancing (i.e., the welfare-relevant domain is the consistent subset of all constructed preferences). This conceptual maneuver does justice to the ontological critique of the existence of true preferences. However, in doing so, PP proponents still subscribe to the premise that the individual acts “as if” she were guided by a rational inner self. Moreover, the context of the choice-situation still ought to be irrelevant if a preference counts as welfare-relevant.<sup>22</sup>

Buchanan’s argument is, however, that choices are a function of the individual’s unique constitution at discrete moments in time, i.e., preferences are tied to the decision-making process and co-evolve with the decision environment that is supposed to be normatively irrelevant in PP. Moreover, the use of consistency and context-independence as criteria wrongly projects some external teleology onto individual decision making. Buchanan, therefore, deems this an

---

<sup>21</sup> Current experimental evidence seems to support Buchanan’s view: people form their preferences only when confronting decision problems; context-dependent choice patterns are ubiquitous in experimental data (see, e.g., Miller and Krosnick 1998, Guala 2005, Lichtenstein and Slovic 2006).

<sup>22</sup> Bernheim (2016: 43) admits: “... one can of course imagine environments in which choice mechanisms always distort preferences. However, we cannot accept such formulations without implicitly licensing all manner of mischief ... Absent any setting that is free from an alleged distortion, we ought to question whether the associated conception of preference is merely a contrivance.” In spite of his more nuanced framework, we think that Bernheim (2016) still subscribes to the notion of ‘latent rationality’. He accepts preexisting modes of rational reasoning, in some form, as the normative standard, despite an initial qualification of the consistency criterion.

“*imposed* rational choice reconstruction” (1991: 287).<sup>23</sup> In focusing upon rationality as a precondition for welfare, the economist fails to see the situation- and agent-specific motivations for behavior that increase the individual welfare as she sees it.<sup>24</sup> According to Buchanan, rationality axioms are logical relations between preferences, they are not necessarily part of individuals’ reasoning about ‘what is best for them’.

If Buchanan’s assertions are valid, it follows that restricting the welfare-relevant choice domain to context-independent, consistent choices might leave the economist with a small or empty choice set. Individuals ‘choose what they choose’ and there is neither *ex ante* nor *ex post* any external welfare standard against which choices should be classified as ‘correct’ or ‘erroneous’.

“If it is acknowledged that any person, post choice, is necessarily different from the person that made the choice, and that the difference is produced, in part, by the act of choice itself, it becomes absurd to apply criteria of ‘correctness’ directly to choice.” (1991: 287)

Self-constitution, as a series of active choices, is an *open-ended process* in which there is no final, rational *telos*. Preferences (and knowledge about oneself and the world) are constantly created anew; therefore, what is considered good and valuable undergoes transformation. The meaning of welfare emerges in individual processes of self-constitution.

In summary, the Buchanan critique of PP is as follows: a welfarist position based on epistemic arguments is a defective starting point for normative economics. Assuming a stable and well-defined set of true preferences misrepresents the evolving nature of individuals. Furthermore, it is inappropriate to apply time- and context-independent criteria of ‘correctness’ (read: consistency and independence) as standards for welfare. Following Buchanan’s subjectivist ontology, the welfare notion must remain indeterminate at the level of preferences or choices. Welfare is not a state that can or has to be achieved. This, in turn, implies that neoclassical rationality axioms in PP lose their normative significance since they either apply to preferences or outcomes. In contrast, Buchanan’s framework suggests the normative importance of the circumstances in which preferences are formed.

---

<sup>23</sup> Besides subjectivist concerns, there is a purely economic reason against consistency as a normative criterion: the process of forming preferences is costly, it involves considerable (cognitive and non-cognitive) information costs. Therefore, a reasonable, i.e. cost-minimizing, person will not reveal a complete and transitive preference order in a world with positive transaction costs (Whitman and Rizzo 2015: 418).

<sup>24</sup> In PP, the possibility that individuals might actually not want to hold a well-defined preference set is misleadingly assumed away. A person who imagines what person she wants to become might come to the conclusion that she does not want to act rationally. Her choices then look like they contradict each other when judged from the outside, however, the person herself may be totally fine with it.

## 5. Normative Implications: Processes, Ideas, and Education

Buchanan's argument shifts the economist's attention away from preference satisfaction to the character of the process of individual preference formation ('the outcomes').<sup>25</sup> According to Buchanan

"[t]hat is 'good' which 'tends to emerge' from the free choices of the individuals who are involved. It is impossible for an external observer to lay down criteria of 'goodness' independently of the process through which results or outcomes are attained. *The evaluation is applied to the means of attaining outcomes, not to the outcomes as such.*" (1975: 6; italics added)

Applying this to the processes of preference formation, one should note that only parts of those processes can in fact be influenced by institutional arrangements under the control of third parties. In Buchanan's view, economists (in their role as political economists) should focus on "the structure of institutions that allow the exercise of voluntary choice" (1991, 291). It is important to note that these institutional structures should only secure individuals' *opportunities* to intentionally pursue possible avenues of personal development, but not aim at dictating any set of actual paths of self-constitution.

In general, one might think that the process of self-constitution requires certain external 'essential means' like health, income, freedom of movement, basic rights and liberties etc. (e.g. in form of Rawls' primary goods). In *Natural and Artificial Man*, Buchanan does not address these material means for agency, but he is primarily concerned with the necessary 'inner prerequisites' (imagination, valuation) that motivate individuals' ongoing quest for self-constitution.<sup>26</sup>

### *The role of ideas and education*

Based on his positive idea of the individual, Buchanan normatively defends the notion of negative liberty. He notes that the artifactual individual has

"a clear interest in seeing that the choice set, the set of alternative imagined futures, remains as open as naturally possible, and, if constrained, that the constraints be also of his own

---

<sup>25</sup> This is in line with a constitutional approach in behavioral normative economics most recently advanced by Hargreaves Heap (2013, 2017).

<sup>26</sup> In doing so, Buchanan follows a mentalistic tradition in welfare economics. Current findings in psychology support Buchanan's focus on mental capacities as prerequisites for welfare. Folk notions of *personal identity*, for example, are largely informed by *mental faculties* with a particularly keen focus on moral traits (Strohming and Nichols 2014). Naturally, people do not only need the right mindset paired with the corresponding institutional setting, but also the material security for thinking and reflecting about self-constitution. See Hargreaves Heap (2017) for a discussion of some material prerequisites for individuality from a behavioral economic perspective. See also chapter 12 in Sen (2009) for a more inclusive discussion over what (material) resources are required for agency capability. Sen calls it 'basic capabilities' to refer to the real opportunity to avoid poverty or to meet or exceed a threshold of well-being.

choosing. The deliberate closing off of future options by the introduction of apparently irrelevant constraints, externally imposed, must damage the individual who knows that he must choose among uncertain prospects continually though time.” (1979: 259)

However, Buchanan also emphasizes the important role of ideas to foster the creative imagination that lie at the heart of the artifactual individual’s capability to become the person she wants to become. Buchanan mentions that “the idea may be more important than the reality ... in exerting influences on behavior.”<sup>27</sup> When individuals are confronted with an ‘idea of betterness’ they are able to imagine themselves to be other than they are and take respective actions to achieve the imagined state of being. For Buchanan, the cultural-value environment, in which individuals live, largely contributes to the process of creative imagination (e.g., the American dream established generally accepted standards of ‘betterness’ that contributed to a creative mindset that motivated individuals to become better persons).<sup>28</sup> Buchanan points out that creative imagination is necessary for progress and warns that individuals should not “place exclusive faith in empirical demonstrations or in evolutionary processes” since this would contribute to a social “process of deterioration” (1979: 254).

Buchanan asserts that “persons must recapture an ability to imagine themselves capable of becoming ‘better’ persons than they are” (1979: 254) in order to avoid the deterministic path of “natural man”. Besides the wider cultural environment, Buchanan emphasizes the importance of education when he asserts that

“the ranking of prospects requires valuation. ... The role of education is to provide persons with both an array of *imagined prospects* and some *means of valuation*” (1979: 254; italics added).

According to Buchanan, the purpose of educational institutions should not be to steer individuals toward a pre-defined goal, let’s say utility or income maximization. Instead the aim should be “to make them over into persons ‘better’ than and different from those they would be without the educational process” (1979: 248), again, where ‘better’ means that individuals learn the *internal capabilities* to creatively imagine and critically evaluate their own uncertain future.

---

<sup>27</sup> Buchanan mentions J. B. Bury’s classic book *The Idea of Progress* as an example and adds: “The hopes for man, individually and collectively, held out by the post-Enlightenment social philosophers may have been naive, especially when viewed from our age. But the lesson to be drawn is surely and emphatically not one of resignation to man’s fate as a natural animal.”

<sup>28</sup> At this point, Buchanan does not clarify what exactly he means by ‘betterness’. Instead, Buchanan simply points out, on an abstract level, that shared ideas about progress can substantially contribute to individual welfare. Buchanan’s point is complementary to Deirdre McCloskey’s view presented in *Bourgeois Equality* (2016) that liberal ideas of equal liberty and dignity, not the accumulation of capital or institutions are the main drivers for prosperous social developments.

From the individual's perspective, education "must somehow be modeled as 'spending on becoming' – on becoming the person that we want to be" (1979: 248). An individual is not investing time and money with the primary aim to increase future income streams, but she is investing in becoming the different person she envisages herself to be when she acquires knowledge.<sup>29</sup>

Buchanan's vision of education resonates with the Benthamite idea of the educator as a 'scout'<sup>30</sup> whose primary task is to illustrate different consequences of different courses of action and thereby support individuals in their evaluation of different imagined future alternatives.<sup>31</sup> The idea of a 'scout' can be contrasted with that of a 'schoolmaster' who teaches students about what is good for them and pretends to be "strong and wise and knowing and virtuous" while the students are "weak and foolish and ignorant and vitious" (1983: 252). In this sentiment, welfarist economists (such as PP proponents) can be thought of as "schoolmasters" who teach individuals what is good for them (viz., "Rationality!"). In contrast, economists of an agency-centric approach can be understood as "scouts" since they focus on the identification of learning environments that give individuals feedback on their perceived imagined future and the means to reflect upon future prospects of becoming different persons.<sup>32</sup>

From a PP perspective, learning must be understood as a collection of factual knowledge about rationality that contributes to a decreasing impact of psychological impairments. Learning itself can be modeled as a discovery of the rational self. Normatively, learning processes shall not contribute to a dynamic self-narrative of the individual, but only help to establish consistency between the different selves in time.

If we take Buchanan's idea of the 'becoming individual' seriously, then learning cannot be modeled as a discovery of that which is 'out there', since individual's preferences always adjust to what is learned. Consequently, learning can be understood as a voluntary 'acquisition' of

---

<sup>29</sup> In this process, "the relationships between prospects that might be achieved and the costs of achieving these may not be at all clear, indeed they could not be" (1979: 250).

<sup>30</sup> Bentham's defines the educators role as "neither more nor less than that of a *scout*; a man who having put himself upon the hunt for consequences, for such consequences of a particular kind as have been found apt to result from a particular species of course, collects them as he can, and for the use of those who feel themselves disposed to accept of his services, spreads them out in their view." (1983: 251).

<sup>31</sup> In Bentham's view, the purpose of education is "[for] the use of each man to lay before his eyes a sketch of the probable future more correct and compleat than, without the benefit of such suggestion, ... to assist them in making reflections and drawing comparisons – in taking a correct and compleat account of the past – and from thence in drawing inferences and forming eventual calculations and eventual conjectures in relation to the future" (1983: 251).<sup>31</sup>

<sup>32</sup> Matusov et al. (2016) developed a pedagogical approach that is explicitly built on Buchanan's idea of the individual. In their *authorial agency account* "becoming, transcending, and transformation" are seen as the central aims of education.

new preferences based on experimentation and reflection.<sup>33</sup> There is no *telos* toward which the process can be predicted to move, which implies that any external diagnosis of failure or success is meaningless.<sup>34</sup> The fact that individuals' preferences may change during learning processes, or that their current preferences may contradict each other, does not provide any justification for the educator to question the sovereignty of the learning individual. They might only give reasons for providing individuals with tools that enable them to have a more realistic understanding of the likely future consequences of their actions.

Buchanan himself thinks that creative imagination acquired in learning processes on the first level of self-constitution ('the private man'), can also be applied on the second level ('the public man') to positively influence social institution. Education helps to imagine different social environments and thereby establish the prerequisite for the individual to positively shape it:

"If man can envisage himself as a product of his own making, as embodying prospects for changing himself into one of the imagined possibilities that he might be, it becomes relatively easy for him to envisage changing the basic rules of social order in the direction of imagined good societies." (1979: 258)

Different from the static PP position, in which individuals are in no position to change or develop their welfare-relevant choice domain, Buchanan acknowledges an active role for the individual. By interacting with their institutional environment and by engaging in active choices among rules, agents reconstitute their preference sets again and again. An individual becomes the person she wants to become when she is free to think about who she wants to be and when she can engage in active choices among rules that shape the constraints of her own future actions.<sup>35</sup>

---

<sup>33</sup> This idea is also reflected in Schubert (2015a) and Davis (2011: 158ff.). It also resonates with Buchanan and Vanberg (1991, 2002) who apply the same rationale to individuals in the market process. They see the market as particularly valuable from the perspective of individuals who develop their preferences since they provide the chance to try out different preferences over time.

<sup>34</sup> Based on Buchanan's framework, it might be difficult to formally model individual learning processes since individual learning standards themselves are endogenous and are determined by the development of the individual. To illustrate, what is considered a "correct treatment" of a piece of information can change since individual preferences are contingent to the idiosyncratic trial-and-error based project of self-constitution.

<sup>35</sup> In order to fulfill the full potential of self-constitution, Buchanan points out that individuals need to develop a *constitutional attitude*: the 'artifactual man' must bear the responsibilities for the creation of his own social environment, as he is in the position to "make his own history" (1979: 257). It remains an open question how institutions would look like that foster such an attitude. Buchanan (1989) states that individuals need to learn some sort of "ethical responsibility" for constitutional decision-making. See Sunstein (2016) for a recent discussion about how to design incentives that could encourage citizens' constitutional attitude.

## 6. Conclusion

Behavioral economics has changed not only how economists model individual decision-making, but has also influenced ideas about how to conceptualize welfare. In the last several years, there have been many attempts to reconcile neoclassical welfare economics with behavioral findings that acknowledge the messiness of actual revealed preferences. Among these attempts, the preference purification approach (PP) of Bernheim and Rangel is widely regarded as the most sophisticated. This paper discussed and criticized the epistemic, ontological, and psychological assumptions of this approach. Using Buchanan's notion of the individual, it identified PP as a static welfarist position that assumes the satisfaction of true, consistent preferences as the normative standard for welfare-relevant choices. In doing so, this approach, disregards the fact that choice is a creative process in which preferences are constantly regenerated and endogenous to time and circumstances. In contrast, Buchanan asserts that the meaning of welfare emerges from dynamic processes of self-constitution: active choices based upon an individual's deliberate thinking about what type of person she wants to become. If this assertion holds true, then there is little reason to apply time- and context- independent rationality criteria as standards for welfare. Instead, creative imagination and learning processes that lead to ever changing preference sets must remain central to any notion of welfare in economics.

*What might we learn from Buchanan to enrich welfare discussions in behavioral economics?*

*Methodologically*, Buchanan's framework involves a shift away from an outcome-oriented analysis of rational choices in PP. Rather, it favors a procedural perspective of decision-making that assesses institutional and psychological prerequisites for individual active choices and learning processes. Buchanan's appreciation of the 'artifactual man' reminds economists that the manner in which we model individual behavior affects the way we design social institutions.

*Normatively*, Buchanan's puts individuals' artifactual capabilities (i.e., real opportunities for active, forward-looking choices) at the center of welfare considerations.<sup>36</sup> The *value of active choice* in PP depends on its instrumental contribution to the revelation of true preferences. In Buchanan's view, where preferences are endogenous, active choice is inherently valuable, it is intrinsically tied to the processes of becoming the person an individual wants to become. Buchanan's normative position refrains from establishing external criteria from which revealed

---

<sup>36</sup> Some economists might argue that the acceptance of agency is a value judgment that is not part of economics but belongs to moral philosophy. Rizzo (2014) gives a convincing answer to this critique: advocating agency is a value judgment just like the advocacy for preference satisfaction would be. For any construction of a normative theory of the individual, the decisive litmus test is whether individual value agency or the satisfaction of rational preferences.

preferences of individuals ought to be judged or possibly overridden by paternalist attempts. In contrast to PP, it does not presuppose any kind of inner rational human agency for which there is no convincing psychological or normative foundation.

*Practically*, Buchanan emphasizes a need to establish the conditions required to maintain individuals' ongoing active choices, on the personal and institutional level. Buchanan himself does not come up with a list of which institutional settings will best support artifactual capabilities.<sup>37</sup> Following Buchanan's framework, agency-friendly institutions "would seem naturally to be concerned with the conditions (e.g., the educational system, the media, the family, vibrancy of the arts world) that support reflection on what preferences to hold" (Hargreaves Heap 2013: 996). Buchanan mentions the pivotal role of education in exposing individuals to means of *imagination* and *valuation* that nurture their critical faculties. In this regard, Buchanan's ideas not only resonate with Bentham, but also resemble Wilhelm von Humboldt's liberal vision of *Bildung*.<sup>38</sup> The Humboldtian understanding of education allows individuals to build character by choosing their own way rather than providing professional skills along a predefined path (von Humboldt 1792).

One possible avenue for future research would be to empirically clarify what drives learning processes and how preferences co-evolve when individuals are interacting with their socio-economic environment. In this context, Buchanan's normative account of the 'becoming individual' can be combined with theoretical and empirical work in the economics of human development that analyzes in greater detail the prerequisites and the dynamics of (active) preference formation (Bisin and Verdier 2001, Heckman and Corbin 2016).

The distinction between processes or circumstances on one hand and preferences or outcomes on the other hand might be difficult to uphold when individual choices are inseparably tied to the process generating them (Hargreaves Heap 2017). Nevertheless, Buchanan's focus on the importance of procedural aspects of decision-making might contribute to an advanced understanding of the endogeneity between the self-constituting individual ('the artifactual world') and its socio-economic environment ('the natural world') that would be neglected if

---

<sup>37</sup> In a later article with Victor Vanberg, Buchanan states: "If there is one central constitutional implication of radical subjectivism, it is the recognition that a constitutional framework which accounts for the creativity of the human mind has to be one that allows for, and provides, favorable conditions for learning and adaptation at all levels." (2002: 128).

<sup>38</sup> *Bildung* describes both the educational process and a state of mind arrived at through education. According to Humboldt, *Bildung* enables individuals to cultivate reason as a creative faculty for self-development. For Humboldt, the two prerequisites for self-development are (a) the freedom to follow one's individual aims; and (b) the exposure to a variety of circumstances and social experiences. The influence individuals take from others is not for the purpose of conformity, but enhances their own unique development. Individuality, in turn, allows men to see others as sovereign individuals, too. See, Spong (2011: 18ff.).

economists focused on choice outcomes alone. In other words: while procedures are needed to constitute agency, they can also compromise it. Buchanan's perspective encourages economists to study this complex interdependency. In this context, realist social theory might give (behavioral) economists some important theoretical background about the interdependencies between human intentional agency and social structure. Here, agency and structure are understood as being recursively related, each being a necessary condition for, and a consequence of, the other (Lewis and Runde 2007).<sup>39</sup>

Furthermore, one might investigate the limits of Buchanan's normative framework of self-constitution. Is his account of agency academically biased, in that it focuses primarily on internal prerequisites for self-constitution, but neglects concrete material necessities (e.g., a basic income or health) and economic motives (e.g., wealth or prestige)? Might one imagine economic systems that produce 'too much agency' at the expense of social coordination? Is Buchanan's focus on agency an objective account to welfare given that it sets the value of self-constitution as a normative absolute? Finally, one might ask whether the underlying agency model is motivationally too demanding. Buchanan assumes that individuals *enjoy* making choices for themselves, *develop an interest* in reflecting upon their potential consequences, and *feel responsible* for their institutional environment.<sup>40</sup>

Buchanan's plea for the 'artifactual individual' is challenging. Yet, it might also be rewarding if institutional mechanisms are built upon its premises and individuals internalize its logic. Buchanan himself laconically summarizes the merits for individuals who embrace the artifactual aspect and actively construct their own life: "A determined and programmed existence is replaced by the uncertain and exciting quest that life must be" (1979: 258).

---

<sup>39</sup> Buchanan's distinction between the deterministic (*natural*) and creative (*artifactual*) parts of human decision-making resonates with the agency model in realist social theory: "A key feature of this view is that it avoids the polar extremes of *voluntarism* (social structure portrayed as the mere creation of, and so is ontologically reducible to, human agency) and *determinism* (human agency portrayed as totally determined by, and so reducible to, social structure)." (Lewis and Runde 2007: 179).

<sup>40</sup> Behavioral economic insights might back Buchanan at this point. Individuals seem to value agency *per se*: they experience procedural utility when they are engaged in active, consenting choices (Deci & Ryan 2000; Frey et al. 2004) and exhibit preferences against having their preference-formation process influenced by third parties (Sugden 2016).

## References

- Bentham, J. (1814/1983). Mode of exercising the function of the practical moralist. In: Goldworth, A. (ed.): *Deontology together with A Table of the Springs of Action and The Article on Utilitarianism*. Oxford: Clarendon Press, 250-255.
- Berg, N. (2014). The consistency and ecological rationality approaches to normative bounded rationality. *Journal of Economic Methodology*, 21(4), 375-395.
- Berg, N., & Gigerenzer, G. (2010). As-if behavioral economics: Neoclassical economics in disguise?. *History of Economic Ideas*, 133-165.
- Bernheim, B. D. (2008). Behavioral Welfare Economics. *NBER Working Paper Series*.
- Bernheim, B. D. (2016). The Good, the Bad, and the Ugly: A Unified Approach to Behavioral Welfare Economics 1. *Journal of Benefit-Cost Analysis*, 7(1), 12-68.
- Bernheim, B. D., & Rangel, A. (2007a). Toward choice-theoretic foundations for behavioral welfare economics. *The American Economic Review*, 464-470.
- Bernheim, B. D., & Rangel, A. (2007b). Behavioral public economics: Welfare and policy analysis with nonstandard decision makers. In: Diamond P. and Vartiainen H.: *Behavioral economics and its applications*, 7-84. Princeton: Princeton University Press
- Bernheim, B.D., & Rangel, A. (2008). Choice-Theoretic Foundations for Behavioral Welfare Economics. In: A. Caplin and A. Schotter (eds.), *The Foundations of Positive and Normative Economics*, Oxford: Oxford University Press.
- Bernheim, B. D., & Rangel, A. (2009). Beyond revealed preference: choice-theoretic foundations for behavioral welfare economics. *Quarterly Journal of Economics* 124: 51-104.
- Beshears, J., Choi, J. J., Laibson, D., & Madrian, B. C. (2008). How are preferences revealed?. *Journal of Public Economics*, 92(8), 1787-1794.
- Bisin, A., & Verdier, T. (2001). The economics of cultural transmission and the dynamics of preferences. *Journal of Economic Theory*, 97(2), 298-319.
- Buchanan, J. M. (1975). *The Limits of Liberty - Between Anarchy and Leviathan*. Chicago: The University of Chicago Press.
- Buchanan, J. M. (1979). Natural and artifactual man. In: *The Collected Works of James M. Buchanan*, Volume 1: The Logical Foundations of Constitutional Liberty. Indianapolis: Liberty Fund, Inc., 1999, 246-259.
- Buchanan, J. M. (1989). The ethics of constitutional order. In: *The Collected Works of James M. Buchanan*, Volume 1: The Logical Foundations of Constitutional Liberty. Indianapolis: Liberty Fund, Inc., 1999, 368-373.
- Buchanan, J. M. (1991). The Foundations of Normative Individualism. In: *The Collected Works of James M. Buchanan*, Volume 1: The Logical Foundations of Constitutional Liberty. Indianapolis: Liberty Fund, Inc., 1999, 281-291.
- Buchanan, J. M., & Vanberg, V. J. (1991). The market as a creative process. *Economics and Philosophy*, 7, 167-186.
- Buchanan, J. M., & Vanberg, V. J. (2002). Constitutional implications of radical subjectivism. *The Review of Austrian Economics*, 15(2), 121-129.
- Chetty, R, Looney, A., & Kroft, K. (2009). Salience and Taxation: Theory and Evidence. *American Economic Review*, 99(4), 1145-1177.
- Davis, J. B. (2011). *Individuals and identity in economics*. Cambridge University Press.
- Davis, J.B. (2014). Bounded rationality and bounded individuality. *Working Paper 2014-03, Dep. of Economics, Marquette University*.
- Deci, E. L., & Ryan, R. M. (2000). The “what” and “why” of goal pursuits: Human needs and the self-determination of behavior. *Psychological inquiry*, 11(4), 227-268.
- Frey, B.S., & Stutzer, A. (2010), *Happiness and economics: How the economy and institutions affect human well-being*. Princeton University Press.

- Frey, B. S., Benz, M., & Stutzer, A. (2004). Introducing procedural utility: Not only what, but also how matters. *Journal of Institutional and Theoretical Economics*, 160(3), 377-401.
- Guala, F. (2005). *The methodology of experimental economics*. Cambridge University Press.
- Hausman, D. M. (2011). *Preference, value, choice, and welfare*. Cambridge University Press.
- Hausman, D. M. (2016). On the econ within. *Journal of Economic Methodology*, 23(1), 26-32.
- Hausman, D. M., & McPherson, M. S. (2009). Preference satisfaction and welfare economics. *Economics and Philosophy*, 25(01), 1-25.
- Hargreaves Heap, S. P. (2013). What is the meaning of behavioural economics? *Cambridge Journal of Economics* 37: 1-16.
- Hargreaves Heap, S. P. (2017). Behavioural Public Policy: the Constitutional Approach. *Behavioural Public Policy* 2.
- Heckman, J. J., & Corbin, C. O. (2016). Capabilities and Skills. *Journal of Human Development and Capabilities*, 17(3), 342-359.
- Von Humboldt, W. (1792). *Ideen zu einem Versuch, die Grenzen der Wirksamkeit des Staates zu bestimmen*. In: Flitner, A., & Giel, K. (1960). Wilhelm von Humboldt. Werke in fünf Bänden.
- Infante, G., Lecouteux, G., & Sugden, R. (2016a). Preference purification and the inner rational agent: a critique of the conventional wisdom of behavioural welfare economics. *Journal of Economic Methodology*, 23(1), 1-25.
- Infante, G., Lecouteux, G., & Sugden, R. (2016b). ‘On the Econ within’: a reply to Daniel Hausman. *Journal of Economic Methodology*, 23(1), 33-37.
- Kahneman, D. (2011). *Thinking, fast and slow*. Macmillan.
- Kahneman, D., Wakker, P. P., & Sarin, R. (1997). Back to Bentham? Explorations of experienced utility. *The Quarterly Journal of Economics*, 112(2), 375-406.
- Knight, F. H. (1922). Ethics and the economic interpretation. *The Quarterly Journal of Economics*, 36(3), 454-481.
- Korsgaard, C. M. (2009). *Self-Constitution – Agency, Identity, and Integrity*. Oxford: Oxford University Press.
- Kőszegi, B., & Rabin, M. (2007). Mistakes in choice-based welfare analysis. *American Economic Review*, 97, 477-481.
- Lewis, P., & Runde, J. (2007). Subjectivism, social structure and the possibility of socio-economic order: The case of Ludwig Lachmann. *Journal of Economic Behavior & Organization*, 62(2), 167-186.
- Lichtenstein, S., & Slovic, P. (2006). The Construction of Preference. In Sarah Lichtenstein & Paul Slovic (Eds.), *The Construction of Preference*. Cambridge: Cambridge University Press.
- Matusov, E., von Duyke, K., & Kayumova, S. (2016). Mapping concepts of agency in educational contexts. *Integrative Psychological and Behavioral Science*, 50(3), 420-446.
- McCloskey, D. N. (2016). *Bourgeois equality: How ideas, not capital or institutions, enriched the world*. University of Chicago Press.
- Miller, J. M. & Krosnick, J. A. (1998). The Impact of Candidate Name Order on Election Outcomes. *Public Opinion Quarterly*, 62(3), 291-330.
- Nussbaum, M., & Sen, A. (1993). *The quality of life*. Oxford University Press.
- Ostrom, V. (1980). Artisanry and artifact. *Public Administration Review*, 40(4), 309-317.
- Rich, P. (2016). Axiomatic and ecological rationality: choosing costs and benefits. *Erasmus Journal for Philosophy and Economics*, 9(2), 90-122.
- Rizzo, M. J. (2014). James M. Buchanan: Through an Austrian window. *The Review of Austrian Economics*, 27(2), 135-145.
- Rizzo, M. J. (2017). Rationality – What? Misconceptions of Neoclassical and Behavioral Economics. Working Paper.
- Salant, Y., & Rubinstein, A. (2008). (A, f): Choice with frames. *Review of Economic Studies*, 75, 1287-1296.

- Shackle, G. L. (1972). *Economics and Epistemics*. Cambridge: Cambridge University Press.
- Schubert, C. (2015a): Opportunity and Preference Learning. *Economics and Philosophy* 31, 275-295.
- Schubert, C. (2015b). On the ethics of public nudging: Autonomy and agency. *Joint Discussion Paper Series in Economics*, No. 33-2015.
- Sen, A. K. (1999). *Development as Freedom*, New York: Knopf.
- Sen, A. K. (2009). *The Idea of Justice*, Cambridge: Harvard University Press.
- Spong, H. (2011). Individuality and freedom: from aesthetic individualism to a modern approach. *NYU Journal of Law & Liberty*, 6, 1.
- Stigler, G. J., & Becker, G. S. (1977). De gustibus non est disputandum. *The American Economic Review*, 67(2), 76-90.
- Strohmingner, N., & Nichols, S. (2014). The essential moral self. *Cognition*, 131(1), 159-171.
- Sugden, R. (2016). Do people really want to be nudged towards healthy lifestyles?. *International Review of Economics*, 1-11.
- Sunstein, C. R. (2017). *# Republic: Divided Democracy in the Age of Social Media*. Princeton University Press.
- Thaler, R., & Sunstein, C. (2008). *Nudge: Improving decisions about health, wealth, and happiness*. New Haven, CT: Yale University Press.
- Valdman, M. (2010). Outsourcing self-government. *Ethics* 120: 761-790.
- Vanberg, V. J. (2014), Evolving preferences and welfare economics: The perspective of constitutional political economy. *Journal of Economics and Statistics* 234: 328-349.
- Vaughn, K. I. (2014). Buchanan as Subjectivist. *Southern Economic Journal*, 80(4), 918-925.
- Whitman, D. G., & Rizzo, M. J. (2015). The problematic welfare standards of behavioral paternalism. *Review of Philosophy and Psychology*, 6(3), 409-425.

## Aktuelle Diskussionsbeiträge / Recent discussion papers

2017-03	Malte Dold	Back to Buchanan? Explorations of Welfare and Subjectivism in Behavioral Economics
2017-02	Malte Dold, Tim Krieger	Competition or Conflict? Beyond Traditional Ordo-Liberalism [To appear in: Joerges, C.; Hien, J. (eds.): <i>Ordoliberalism: An Irritating German Idea</i> . Hart Publishing, Oxford.]
2017-01	Wilfried-Guth- Stiftungsprofessur	Jahresbericht 2016
2016-07	Malte Dold, Tim Krieger	Ordoliberalism is not Responsible for Jihadist Terrorism in Europe – A Reply to Van der Walt (2016) [To appear in: <i>New Perspectives</i> .]
2016-06	Tim Krieger	Der Ordoliberalismus: Chance oder Gefahr für Europa? Einführende Bemerkungen [To appear in: <i>Baden-Badener Unternehmergegespräche</i> (ed.): <i>Der Ordoliberalismus: Chance oder Gefahr für Europa?</i> . Ch. Goetz-Verlag, München.]
2016-05	Daniel Meierrieks, Laura Renner	Stymied Ambition: Does a Lack of Economic Freedom Lead to Migration? [Published in: <i>Journal of Population Economics</i> 30(3), 2017, pp. 977-1005.]
2016-04	Tim Krieger, Daniel Meierrieks	Land Grabbing and Ethnic Conflict [Published in: <i>Homo Oeconomicus</i> 33(3), 2016, pp. 243-260.]
2016-03	Carsten Hänisch, Jonas Klos	Long-run Effects of Career Interruptions: A Micro-Simulation Study
2016-02	Malte Dold, Tim Krieger	Informationelle Selbstbestimmung aus ordnungsökonomischer Sicht [Published in: Friedewald, M.; Roßnagel, A.; Lamla, J. (Hrsg.) (2017): <i>Informationelle Selbstbestimmung im digitalen Wandel</i> . Wiesbaden: Springer Vieweg, pp. 181-198.]
2016-01	Wilfried-Guth- Stiftungsprofessur	Jahresbericht 2015
2015-09	Tim Krieger, Daniel Meierrieks	Political Capitalism: The Interaction between Income Inequality, Economic Freedom and Democracy [Published in: <i>European Journal of Political Economy</i> 45, 2016, pp. 115-132.]
2015-08	Tim Krieger, Martin Leroch	The Political Economy of Land Grabbing [Published in: <i>Homo Oeconomicus</i> 33(3), 2016, pp. 197-204.]
2015-07	Malte Dold	Condorcet's Jury Theorem as a Rational Justification of Soft Paternalistic Consumer Policies [To appear in: Mathis, K., and A. Tor (eds.): <i>Nudging - Possibilities, Limitations and Applications in European Law and Economics</i> . Springer International Publishing, Heidelberg etc., 2017, pp. 39-58.]