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Symposium on James M. Buchanan and Classical Liberalism

Introduction

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Nobel Laureate economist James M. Buchanan passed away on January 9, 2013, at the age of ninety-three. We want to reflect on some of his key contributions to classical liberalism. In this introduction, I provide some background on Buchanan's life and touch upon some of the main writings and themes in his research program to provide context to the articles that follow in this issue.

James McGill Buchanan was born in Murfreesboro, Tennessee, in 1919. He attended Middle Tennessee State College, where he earned a B.A. in 1940, followed by an M.S. from the University of Tennessee at Knoxville in 1941. In that same year, Buchanan was drafted into the United States Navy, serving until 1945. He then returned to school, earning a Ph.D. in economics from the University of Chicago in 1948. Upon graduation from Chicago, he held teaching positions at the University of Tennessee (1950–51) and Florida State University (1951–56). Following his time at Florida State, he spent twelve years at the University of Virginia (1956–69), where he cofounded (with Warren Nutter) the Thomas Jefferson Center for Studies in Political Economy in 1957. After a year at the University of California at Los Angeles in 1969, Buchanan joined the faculty at Virginia Polytechnic Institute (1969–83), where he established, along with Gordon Tullock, the Center for the Study of Public Choice. In 1983, he moved with the Public Choice Center to George Mason University, where he would spend the rest of his career. At all three universities, the University

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of Virginia, Virginia Polytechnic Institute, and George Mason, he showed a remarkable combination of individual innovation and collaborative institution building. He was awarded the Nobel Prize in Economics in 1986 “for his development of the contractual and constitutional bases for the theory of economic and political decision-making” (“James M. Buchanan” n.d.).

The foundations of Buchanan’s research program were influenced by three important events, two of which occurred during his time as a graduate student at the University of Chicago. The first was his price-theory class with Frank Knight. When he arrived at Chicago, Buchanan was a self-described “libertarian socialist.” However, after several weeks of Knight’s price-theory class, he became a staunch supporter and advocate of the free market.

The second key event was Buchanan’s discovery of Knut Wicksell’s work on the principle of just taxation, which he chanced upon while browsing the shelves of the Harper Library. As Buchanan told the story, the slim volume (*Finanztheoretische Untersuchungen* [Investigations in public finance]) would not have been available to him had he not learned German as a requirement for the completion of his degree at Chicago. Buchanan was so moved by Wicksell’s insights that he later translated the work and facilitated its publication in English for the first time (see Wicksell [1896] 1958).

The third occurred after Buchanan left Chicago. During 1955–56, while on a Fulbright grant, Buchanan studied in Italy, where he was exposed to the Italian tradition of public finance. Those working within this tradition emphasized actual, as opposed to ideal, politics. In its entirety, Buchanan’s research program can be understood largely as the application and extension of the intellectual influences of Knight, Wicksell, and Italian public-finance scholars.

From studying with Frank Knight, Buchanan learned economic theory and the idea that economics is indeed a science, but not in the traditional use of the term. For Buchanan, economics is not a science like the physical sciences, but rather a philosophical science. From his reading of Wicksell, Buchanan concluded that politics should be analyzed within an exchange framework. For Wicksell, efficiency in the public sector would be guaranteed only under the conditions of unanimity over collective choices. Finally, from the Italian public-finance scholars, Buchanan learned that public finance required a theory of the state. In assuming a revenue-maximizing state, he placed focus on the rules of the political game, which constrained the behavior of individuals acting within political institutions.

By studying public finance through the combined insights of Knight, Wicksell, and Italian public finance, Buchanan was able to challenge the existing wisdom of the day. For example, in *Public Principles of Public Debt* (1958) he challenged the Keynesian theory of functional finance on both methodological and analytical grounds. He argued that the level of aggregation in Keynesian fiscal theory violated the political norms of democratic society and fundamentally misconstrued the nature of the debt burden. The worst mistake, in Buchanan’s view, was the then common

(and still frequent) argument that the debt could never be a problem because the debt is simply money that “we owe to ourselves.” In general, Buchanan noted that by focusing narrowly on the aggregates, fiscal theorists were unable to address the problem of *who will have to pay* for the creation of public goods, *who will get paid*, and *when* payment will be made. The problems that Buchanan identified were elementary—the principles of opportunity cost and economic decision making—but had been forgotten by many economists.

The debate over the burden of debt led Buchanan to reconsider the theoretical foundations of economic science. The result was *Cost and Choice* (1969), which—though slender in size—yielded broad and important implications. Buchanan noted that the consistent application of opportunity-cost logic led to surprising results on a range of issues, including not only the burden of debt, but also the military draft, externalities, and bureaucratic decision making.

Buchanan’s best-known book is *The Calculus of Consent* (1962), coauthored with Gordon Tullock, who was trained as a lawyer but who, according to Buchanan, was a “natural economist.” Prior to the public-choice revolution, the standard practice was for theorists to postulate an objective welfare function, which society aimed to maximize. Further, it was assumed that actors in political contexts benevolently pursued the maximization of this function. Buchanan and Tullock pointed out that: (1) there is no objective welfare function; (2) even if such a function existed, only individuals, not societies, are reasoning beings capable of making choices; and (3) political actors, like private actors, respond to private assessments of the relevant costs and benefits they face. These three core propositions underpin many public-choice insights, including the vote motive, the logic of dispersed costs and concentrated benefits, the shortsightedness bias in policy, and the constitutional perspective in policy evaluation.

In the 1970s, Buchanan again turned his attention to issues of the public debt. In *Democracy in Deficit: The Political Legacy of Lord Keynes* (1977), Buchanan and Richard Wagner argued that Keynesian economics had eroded the long-standing “fiscal constitution.” Under this tacit constitution, public debt was justified for only two reasons—national emergencies or long-term investments involving significant startup costs. According to this tradition, public debt was to be used sparingly and wisely to avoid burdening future generations. However, the rise of Keynesian economics shattered this tradition by recasting the federal budget as a mechanism for influencing the economy.

According to the logic of Keynesianism, budget deficits could be used to stimulate aggregate demand during recessionary periods, and surpluses during economic booms could be used to pay down the debt. Buchanan and Wagner, however, pointed out that this notion of “functional finance” ignored the incentives facing politicians. Politicians, they argued, would run deficits during both good and bad times in order to please constituents and not have to raise taxes, which were costly in terms of votes lost. This argument led them to conclude that the U.S. government would generate

increasing deficits and debts absent a return to a fiscal constitution that constrained such behavior.

In addition to these works and many others, Buchanan also placed a strong emphasis on social philosophy and the foundations of a free society. Indeed, along with Amartya Sen, Buchanan must be considered one of the most philosophically connected economists of his generation. For example, he developed his contractarian perspective for political economy, partly in sympathy with but also partly in conflict with philosopher John Rawls, in *The Limits of Liberty* (1975) and *The Reason of Rules* (Brennan and Buchanan 1985). He also published several collections of essays on liberty, ethics, and markets, including *Freedom in Constitutional Contract* (1977); *Liberty, Market, and State* (1986); and *The Economics and the Ethics of Constitutional Order* (1991).

In addition to his work on constraining government through rules, Buchanan wrote explicitly about issues in classical liberalism. For example, in his article “The Soul of Classical Liberalism” (2000), which appeared in the *Independent Review*, Buchanan emphasized the importance of embracing and communicating a moral vision of the goodness of the classical-liberal society. Classical liberalism and the numerous benefits that it generates can endure only when people understand and appreciate those principles that animate the extended order of markets. Such understanding and appreciation require a grand vision of liberalism that will capture the minds and souls of citizens. Buchanan encouraged classical liberals to recognize this issue and actively address it by developing and communicating a cohesive message that would excite the minds of citizens.

In a subsequent paper, “Afraid to Be Free” (2005a), Buchanan emphasized the central importance of a culture of individual responsibility for the feasibility of a free and liberal society. Although collectivist ideas had failed on efficiency grounds, he argued that the collectivist mentality would persist because citizens were comfortable ceding control over their lives to the state in order to avoid having to take personal responsibility. Finally, in *Why I, Too, Am Not a Conservative: The Normative Vision of Classical Liberalism* (2005b), he paid homage to Friedrich Hayek’s “Why I Am Not a Conservative” (1960), where he argued that the central distinction between conservatives and classical liberals was an appreciation and dedication to the rule of law. Here, too, Buchanan emphasized that attitudes of equality, reciprocity, and self-responsibility underpin and are necessary prerequisites for a sustaining classical-liberal society.

The contributors to this symposium were invited to share their thoughts and reflections on the theme “James Buchanan and classical liberalism.” In doing so, the papers focus on different aspects of Buchanan’s research program. Geoffrey Brennan and Michael Munger search for the “soul of James Buchanan” by discussing the principles that animated his wide-ranging intellectual endeavors. They attempt to reconcile the “Buchanan of the Soul” with the “Buchanan without Romance,” who was always cautious about making normative commitments. Peter Boettke discusses the

importance of several themes—justice, vision, and liberty and responsibility—in Buchanan’s writings on classical liberalism. He offers a reconstruction of Buchanan’s political economy, emphasizing that instead of taking the rules of the game as given, political economists must focus on the emergence and establishment of the rules by focusing on bottom-up constitution making by individuals seeking to gain through cooperation and exchange. Randall Holcombe explores how Buchanan makes the move from the individualism underpinning a classical-liberal society to collective action, which requires coercion or the threat of coercion to ensure that individuals follow the dictates of government. In doing so, Holcombe discusses some of the aspects of Buchanan’s constitutionalism that might be at odds with his notion of classical liberalism. Niclas Berggren focuses on Buchanan and Tullock’s *The Calculus of Consent* (1962). Although most rightfully appreciating this classic work’s scientific contributions, Berggren focuses on its relevance for liberalism in four key areas: constitutionalism, generality, robust political economy, and Paretian constructivism. After reviewing the main insights from *The Calculus of Consent* for each of these areas, he discusses how they can contribute to advancing the liberal project. Finally, Hartmut Kliemt provides a reconsideration of the foundations of Buchanan’s classical liberalism. In contrast to Buchanan’s own view, Kliemt argues that Buchanan’s political liberalism cannot arise from his notion of “contractarianism.” Instead, he argues that it is more accurate to characterize Buchanan as a “communitarian philosopher” whose philosophical use of the unanimity principle led him to his classical-liberal position.

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