

## **BUCHANAN James M (1919- )**

James McGill Buchanan was born in Murfreesboro, Tennessee on 3 October 1919. Buchanan was educated at a local public school and then the local college, Middle Tennessee State College where he earned a B.A. in 1940. He also earned an M.S. from the University of Tennessee in 1941. After being drafted into the United States Navy in 1941 and serving through 1945 he returned to school on a GI subsidy earning a Ph.D. in economics from the University of Chicago in 1948. After graduation he taught at the University of Tennessee for three years until he moved to Florida State University where he stayed until 1956. After 1956, Buchanan had three main professional associations with academic institutions in Virginia. He spent twelve years at the University of Virginia (1956-69) and fourteen years at Virginia Polytechnic Institute (1969-1983) where he established 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.

A self-described “libertarian socialist” on his arrival at Chicago Buchanan was "converted" to classical liberalism after six-weeks of price theory with Frank Knight. The libertarian values remained, but now Buchanan understood through Knight that the market (not government) was the organizational form most consistent with those values. Knight became Buchanan’s intellectual role model.

Also at Chicago, Buchanan discovered Knut Wicksell's principle of just taxation while browsing Harper Library. Buchanan's work to a large extent can be summarized as the persistent and consistent development of the two intellectual influences from Knight and Wicksell. The final intellectual influence on Buchanan was the Italian tradition of public finance that he was exposed to during a Fulbright Fellowship year (1955-56). This tradition emphasized "real" as opposed to ideal politics - as such, the final piece of the intellectual puzzle that led to Buchanan's development of public choice theory was in place.

From Knight, Buchanan got his basic economic theory framework and the idea that economics is not a science in the traditional meaning of that term. From Wicksell, Buchanan learned that politics needs to be understood in an exchange framework. Efficiency in the public sector would be guaranteed only under a rule of unanimity for collective choices. From the Italians, Buchanan learned that public finance theory must necessarily postulate a theory of the state, and that it would be best to reject either the Benthamite utilitarianism or the Hegelian idealism in postulating such a theory. In retrospect, once these three elements were brought together, the necessary foundational framework for Buchanan's contributions to the economics of the public sector were there. What remained was working out the implications.

By recasting the questions of public finance in light of this Knight/Wicksell/Italian connection, Buchanan was able to challenge the received wisdom of his day on several fronts. For example, the Keynesian theory of functional finance met perhaps its most fundamental challenge in Buchanan's *Public Principles of Public Debt* (1958). Buchanan challenged the Keynesian doctrine on methodological and analytical grounds. The level of aggregation in Keynesian fiscal theory, for example, strained imagination, violated the political norms of democratic society, and fundamentally misconstrued the nature of the debt burden. By confining their focus to the aggregate unit, fiscal theorists were unable to address the problem of who will have to pay for the

creation of public goods and when payment will be made. The problem was an elementary one - the principle of opportunity cost and economic decision-making was forgotten in the Keynesian analysis.

The controversy over the burden of debt issue forced Buchanan to re-examine the conceptual foundations of economic science. This led to his slim, but broad in implication, volume, *Cost and Choice* (1969). The consistent pursuit of the opportunity cost logic of economics would lead to surprising results on a broad range of issues, from the burden of debt to issues concerning the military draft to the problem of externalities to the choice context of bureaucratic decision-making.

It is *The Calculus of Consent* (1962), Buchanan and Gordon Tullock's comprehensive examination of the political market that deserves credit for shifting scholarly focus. Before Public Choice, it was common place in economic theory to postulate an objective welfare function which "society" sought to maximize, and to assume that political actors were motivated to pursue that objective welfare function. The Buchanan/Tullock critique amounted to simply pointing out that (1) no objective welfare function exists, (2) that even if one existed "societies" do not choose, only individuals do, and (3) that individuals within the political sector, just as in the private sector, base their choices on their private assessment of costs and benefits.

Many of the major insights of modern political economy flow from these three elementary propositions including the vote motive, the logic of dispersed costs and concentrated benefits, the shortsightedness bias in policy, and the constitutional perspective in policy evaluation. Politics must be endogenous in any reasonable model of economic policy making, and realistic political processes are not something to be romanticized. But the intellectual spirit of the age (the 1950s and early 1960s) was one of overly zealous optimism about the beneficial nature of politics. The Buchanan warning of democratic folly, and the need for constitutional constraint was one that did not sit well with the intellectual/political idealist of the day. In the wake of the Vietnam War and Watergate, as well as the failed economic policies that have emerged from both Democratic and Republican administrations during the post WWII era, it is now difficult to imagine a non-cynical view of politics. This is not an endorsement of apathy and malcontent with politicians. Nowhere in the Buchanan body of work is it suggested that politicians are any worse than the lot of us. Rather, his work simply stressed that politicians are just like the rest of us - neither sinners nor saints, but a bit of both.

During the 1970s, Buchanan's work shifted to social philosophy. *Limits of Liberty* (1975) is his statement of the contractarian perspective in political economy. This was followed by collections of essays in *Freedom in Constitutional Contract* (1977), *Liberty, Market and State* (1986), and *The Economics and the Ethics of Constitutional Order* (1991).

On a methodological front, Buchanan employed the assumption of economic man within politics not as a description of the motivation of any particular political actor, but rather as a modeling strategy in constitutional design. In developing models of public finance, as noted above, Buchanan learned from the Italians (and from Wicksell) that one must postulate a theory of the state. By postulating the revenue maximizing Leviathan, Buchanan was able to address the political rules of the game which would constrain the behavior of individuals within politics. In particular, if government officials are revenue maximizing, then the question becomes what rules of the game are necessary to transform

revenue maximizing behavior into wealth maximizing behavior? This is a question of constitutional design -- one that affects the time preference of rulers and the range of policy choices at their disposal for pursuing their interests. In both his books with Geoffrey Brennan, *The Power to Tax* (1980) and *The Reason of Rules* (1985), Buchanan employed the economic man assumption to establish rules which guard against "worst case" scenarios in politics. Even if rulers were sinners, then it would be an important political theory result to design a constitution that would compel these sinners by constraints to act more like saints.

There is a surprising unity in Buchanan's research purpose throughout his career and the basic propositions which guide his work can be summarized neatly (see Buchanan 1979, pp. 280-282).

1. Economics is a "science" but not like the physical sciences. Economics is a "philosophical" science and the strictures against scientism offered by Frank Knight and F. A. Hayek should be heeded.
2. Economics is about choice and processes of adjustment, not states of rest. Equilibrium models are only useful when we recognize their limits.
3. Economics is about exchange, not about maximizing. Exchange activity, arbitrage, that should be the central focus of economic analysis.
4. Economics is about individual actors, not collective entities. Only individuals choose.
5. Economics is about a game played within rules.
6. Economics cannot be studied properly outside of politics. The choices among different rules of the game cannot be ignored.
7. The most important function of economics as a discipline is its didactic role in explaining the principle of spontaneous order.
8. Economic is elementary.

From his early critique of social choice theory and welfare economics to his most recent writings on constitutional design, Buchanan's work persistently stresses these eight points.

Finally, it is important to recognize the basic methodological schema that Buchanan employs to address questions in political economy and how this schema allows him to weave these eight propositions into a coherent framework for social theory. He emphasizes that we must distinguish between pre- and post- constitutional levels of analysis. Pre-constitutional analysis opens up the discourse over the rules of the game, while post-constitutional analysis reflects an examination of the strategies players adopt within the defined rules. Political economy, properly understood, is the tacking back and forth between these two levels of analysis. Successful application of modern political economy to the world of public policy demands that the analyst adopt such a *constitutional* perspective. In this regard, Buchanan introduces the vital distinction for applied political economy of "policy within politics" and the systematic change in the rules of the game. Lasting reform, Buchanan argues, results not from policy changes within the existing rules (or changes in people), but rather from systemic changes in the rules of governance. Thus, far from the "conservative" intellectual that many falsely believe him to be, Buchanan is an intellectual radical seeking to get at the root cause of

social/political ills. This final point is apparent upon examination of how Buchanan has re-focused the research attention of a generation of scholars.

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