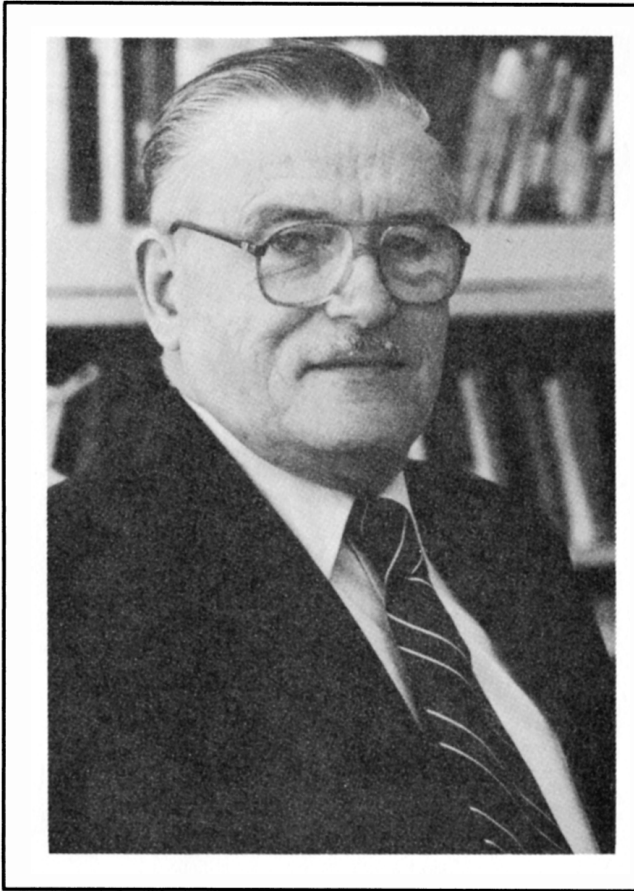


What Should Economists Do?

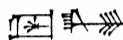


James M. Buchanan is the Holbert L. Harris University Professor and the General Director of the Center for Study of Public Choice at George Mason University. His distinguished teaching career has included positions at the University of Tennessee, Florida State University, the University of Virginia, and Virginia Polytechnic Institute and State University. His many books include *The Calculus of Consent* (1962) with Gordon Tullock, *Cost and Choice* (1969), *The Limits of Liberty* (1975), and *The Reason of Rules* (1985) with Geoffrey Brennan. He has been president of the Mont Pèlerin Society, the Western Economics Association, and the Southern Economic Association. In 1986 he received the Nobel Prize in Economics.

What Should Economists Do?

James M. Buchanan

Preface by
H. Geoffrey Brennan and
Robert D. Tollison



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The cuneiform inscription that serves as our logo and as the design motif for our endpapers is the earliest-known written appearance of the word “freedom” (*amagi*), or “liberty.” It is taken from a clay document written about 2300 B.C. in the Sumerian city-state of Lagash.

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Preface

This collection of essays was gathered for two purposes. First, and most importantly, it provides relatively easy access to a group of significant papers on methodology in economics, written by a man whose work has spawned a methodological revolution in the way economists and other scholars think about government and governmental activity. Second, it provides a means to honor a distinguished colleague at a stage in his career when such tributes are deemed appropriate.

The significance of James Buchanan's contributions to economics is undeniable. As a founder of the burgeoning subdiscipline of public choice, as a moral and legal philosopher, as a welfare economist who has consistently and at times almost singlehandedly defended the primacy of the contractarian ethic, and as a public finance theorist and father of a modern school of public finance, Buchanan's work has had worldwide recognition, and it is not too much to expect that in the years ahead his influence will significantly change the face and direction of modern economics. Underlying all these aspects of his work there has been a consistent set of beliefs about the nature of eco-

nomics, about the appropriate subject matter of the discipline, and about the appropriate method for dealing with that subject matter.

To bring together Buchanan's important essays on method, many of which have not previously been published, therefore seemed to us an important and worthwhile task. The resulting collection provides not only an insight for understanding the work of an important scholar, but also a blueprint for vigorous and significant scholarship by others.

The papers themselves and the occasion for their publication are self-explanatory and require no comment. There are, however, two points that should be made about the volume. First, the selection of essays and their organization primarily reflect our judgment and not Buchanan's. We prevailed on him to provide the brief postscript essay, but in all other respects he was simply an innocent bystander. He cleared the papers that we chose and gave them a quick tidying-up, but he did not select, organize, and edit them in the way he might have done had he been producing the book entirely under his own aegis. For this reason any criticisms of selection and organization should be directed to us, not at the author.

Second, this book is meant to honor James Buchanan's vigorous ongoing academic life. Since important ideas continue to flow at an unabated rate from Buchanan's work, it is much too early to talk of his legacy to scholarship, and we do not attempt to do so here. One thing, however, is clear. A significant dimension of that legacy does not, and will not, lie on paper, but rather in the minds and spirits of his students. More than most teachers, Buchanan has been able to scatter around the universities and research centers

of the world, men and women who bear identifiably the marks of their intellectual heritage—creative thinking, a concern with ideas rather than tools, and a passion for hard work and academic integrity. We join with those students in dedicating this book to Buchanan because, like this book, they are the fruit of his own hands.

H. GEOFFREY BRENNAN

ROBERT D. TOLLISON

Blacksburg, Virginia

October 1979

What Should Economists Do?

Part One

Scope and Method

What Should Economists Do?

But it is not the popular movement, but the traveling of the minds of men who sit in the seat of Adam Smith that is really serious and worthy of all attention.

LORD ACTON, *Letters of Lord Acton to Mary Gladstone*,
ed. Herbert Paul (London: George Allen, 1904), p. 212

I propose to examine the “traveling of the minds of men who sit in the seat of Adam Smith,” those who try to remain within the “strict domain of science,” and to ask the following questions: What are economists doing? What “should” they be doing? In these efforts to heed the counsel of Lord Acton, I proceed squarely against the advice of a modern economist whose opinions I regard with respect, George Stigler. He tells us that it is folly to become concerned with methodology before the age of sixty-five. As a value statement, Stigler’s admonition can hardly be discussed. But, as a hypothesis, it can be refuted, at least by analogy with an ordinary roadmap. I remain notorious for my failure to look quickly enough at highway-route maps,

This chapter was initially presented as the Presidential Address to the Southern Economic Association at its annual meeting in November 1963. It was subsequently published in *Southern Economic Journal* 30 (January 1964): 213–22. Permission to reprint the paper in this volume is gratefully acknowledged.

hoping always that some intuitive directional instinct will keep me along the planned pattern of my journey. I learned many years ago that “optimal” behavior involves stopping soon after one gets “lost,” after uncertainty beyond a certain limit is reached, and consulting a properly drawn map. The analogy with scientific methodology seems to be a close one. Unless we can, for some reason, accept the ever-changing activities of economists as being always a part of the necessary evolution of the discipline through time, as being “on the highway,” it is essential that we look occasionally at the map or model for scientific progress that each of us surely carries around, consciously or unconsciously, in his head.

By proposing to examine critically what economists do I am also, you will note, rejecting the familiar proposition advanced by Jacob Viner that “economics is what economists do,” a proposition that Frank Knight converted into full circle when he added that “economists are those who do economics.” This functional definition of our discipline begs the very question that I want to raise, if not to answer here. Economists should, I think, face up to their basic responsibility; they should at least try to know their subject matter.

Let me call your attention to a much-neglected principle enunciated by Adam Smith. In chapter two of *The Wealth of Nations* he states that the principle which gives rise to the division of labor, from which so many advantages are derived, “is not originally the effects of any human wisdom, which foresees and intends that general opulence to which it gives occasion. It is the necessary, though very slow and gradual, consequence of a certain propensity in human nature which has in view no such extensive utility; the pro-

propensity to truck, barter, and exchange one thing for another.” Somewhat surprisingly, it seems to me, the relevance and the significance of this “propensity to truck, barter, and exchange” have been overlooked in most of the exegetical treatments of Smith’s work. But surely here is his answer to what economics or political economy is all about.

Economists “should” concentrate their attention on a particular form of human activity, and upon the various institutional arrangements that arise as a result of this form of activity. Man’s behavior in the market relationship, reflecting the propensity to truck and to barter, and the manifold variations in structure that this relationship can take—these are the proper subjects for the economist’s study. In saying this, I am, of course, making a value statement that you may or may not support. Consider this paper, if you will, as an “essay in persuasion.”

The elementary and basic approach that I suggest places “the theory of markets” and not the “theory of resource allocation” at center stage. My plea is really for the adoption of a sophisticated “catallactics,” an approach to our discipline that has been advanced earlier, much earlier, by Archbishop Whately and the Dublin school, by H. D. Macleod, by the American Arthur Latham Perry, by Alfred Ammon and still others.¹ It is not my purpose here, and it is not within my competence, to review the reasons for the failures of these men to convince their colleagues and their descendants. I note only that the view that they advanced,

¹ For a review of this approach in terms of the doctrinal history, see Israel Kirzner, *The Economic Point of View* (New York: D. Van Nostrand, 1960), chap. 4. This book provides a good summary of the various approaches to the “economic point of view.”

and one that has never been wholly absent from the mainstream of thinking,² is perhaps more in need of stress now than during the times in which they worked.

In a brief treatment it is helpful to make bold charges against ideas or positions taken by leading figures. In this respect I propose to take on Lord Robbins as an adversary and to state, categorically, that his all too persuasive delineation of our subject field has served to retard, rather than to advance, scientific progress. You are, of course, all familiar with the Robbins statement of the definition of the economic problem, the one that has found its way into almost all of our textbooks. The economic problem involves the allocation of scarce means among alternative or competing ends. The problem is one of *allocation*, made necessary by the fact of *scarcity*, the necessity to *choose*. Only since *The Nature and Significance of Economic Science*³ have economists so exclusively devoted their energies to the problems raised by scarcity, broadly considered, and to the necessity for the making of allocative decisions.

In Robbins' vision, our subject field is a problem or set of problems, not a characteristic form of human activity. We were better off, methodologically speaking, in the less definitive Marshallian world when economists did in fact study man in his ordinary business of making a living. In his attempt to remain wholly neutral as to ends, Robbins left economics open-ended, so to speak. Search him as you will, and you will not find an explicit statement as to *whose*

² For a recent paper in which the exchange basis for economic analysis is plainly accepted, see Kenneth E. Boulding, "Toward a Pure Theory of Threat Systems," *American Economic Review* (May 1963): 424–34; esp. 424–26.

³ London: Macmillan, 1932.