

## BOOK REVIEWS

**Liberty, Market and State: Political  
Economy in the 1980s**

James M. Buchanan

New York: New York University Press, 1986, 274 pp.

Most economists read more than they write. James Buchanan manages to write more than most economists can read. Because his varied writings on social philosophy and political economy are necessarily scattered among publications around the globe, Buchanan's latest book, *Liberty, Market and State*, should prove to be a valuable collection to Buchanan watchers. It brings together his writings under the rubric of "constitutional political economy," or what I prefer to call "constitutional economics."

This book is of significance to the readers of this journal for two fundamental reasons. First, it breaks irrevocably with the conventional wisdom among economists, namely, that economics as a discipline, per se, has little or nothing to contribute to our understanding of normative matter, including justice, fairness, and morality.

Economists are able to assume the role of the detached observer-analyst largely because the rules of the market and/or political game are assumed to be given, meaning the distribution of power, an intrinsically ethical matter, has already been determined. With matters of power given by assumption, economists are largely free to discuss how people trade to improve their lot. "The predictive 'science of economics,'" Buchanan writes, "is positively valuable to government agents, business firms, and private individuals. Persons can 'play better games' if they can predict their opponents' strategy more accurately" (p. 33).

However, the realm of the "science of political economy" has, according to Buchanan, a much different purpose: "to evaluate the structure of the constraints, 'the law,' with some ultimate objective of redesign or reform aimed at securing enhanced efficiency in the exploitation of the potential mutuality of alternative systems" (p. 33). The science of (constitutional) political economy cannot sidestep normative matters or even the question of how alternative systems of constraints can and should be evaluated.

Throughout the book, Buchanan espouses general agreement as the critical normative test for adoptions of social systems or reforms in those systems:

If politics is to be interpreted in any justificatory or legitimizing sense without the introduction of supra-individual value norms, it must be modelled as a process within which individuals, with separate and potentially differing interests and values, interact for the purpose of securing individually valued benefits of cooperative effort. If this presupposition about the nature of politics is accepted, the ultimate model of politics is *contractarian*. There is simply no feasible alternative [p. 240].

The task of the economist is to correctly predict how people will behave, given exogenous policy or market changes. The task of the political economist, on the other hand, is to devise reforms in the *system* so relevant parties can achieve meaningful consent: "If I cannot come up with some such proposal for change, I should be forced to acknowledge that the existing state of affairs is Wicksell efficient [Pareto optimal] no matter how much my own dislike for this state of affairs may be" (p. 80). Such an admonition applies to reform of the federal debt problem, discussed over the course of several chapters, or reform of the welfare state, a basic concern of almost all the chapters. While the reader will quickly sense that Buchanan has definite and strong views on what specific reforms should be considered, he repeatedly attempts to stay detached from policy proposals in order to keep the focus of his analysis on the conceptualized criteria and process for reform.

Second, Buchanan seeks in *Liberty, Market and the State* to divert the attention of economists from the "science of economics" to the "science of political economy." He wants to elevate the importance of the "rules of the game" as a standard for judging the fairness and justice of specific behavior of individuals, acting alone and in groups, and of specific government policies. Imbued with their academic training in calculating the costs and benefits assumed by their hypothetical *homo economicus*, many economists have grown accustomed to assuming the absence of any external criteria for judging people's behavior. Indeed, most economists know colleagues who maintain that virtually any trade, regardless of whether it violates agreed-upon rules, has moral content simply because it is, at the time, mutually beneficial to the parties involved. Hence, crime is "wrong" only to the extent it may not pay. Alumni making side payments to college athletes is "right" because athletic talent is allocated more efficiently by such payments. Federal deficits have no moral content. The reader will hardly finish this book without repeatedly being reminded that the moral worth of individual and group actions can be judged by the extent to which they are consistent with basic principles.

The essential message of Buchanan's writings during the 1980s is remarkably simple: Rules (formal or informal) matter. They restrain people's short-run temptation to veer from their individual and collective long-run interests. They also matter as an important, if not penultimate, normative standard. This theme, which is a throwback to the Founders, will probably go down as James Buchanan's major contribution to modern social philosophy. It is at the heart of constitutional political economy, which may some day rival the technocratic science of economics as the preferred intellectual interest of economists.

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