The Daily Capitalist

Economist James M. Buchanan Dies

By: Jeff Harding - January 10th, 2013

The great economist James M. Buchanan died yesterday. He was truly a great thinker. You can read about his importance by comments from Robert Higgs and and Tom Dilorenzo.

Here are some excerpts from Cato that discuss the importance of his work.

Nobel Prize-winning economist James M. Buchanan died on Wednesday at the age of 93. Buchanan was one of the most influential and important economists of the 20th century. He was a founder and profound contributor to the discipline of public choice, the branch of economics that examines how governments actually make policies. Prior to his work, many economists focused on market failures, assuming that government actions would bring efficiency. Buchanan argued that self-interested individuals decided both private and public matters. Government failure was a likely outcome in response to market problems. After Buchanan, economists could not blithely assume that government had a solution for every problem on the public agenda.

James M. Buchanan, RIP By David Boaz

James M. Buchanan, Nobel laureate in economics and Distinguished Senior Fellow of the Cato Institute, has died at the age of 93. We join his family, his many students, and scholars around the world in mourning his loss.

I'm sure my more scholarly colleagues will have more to say about his work. For now, I'm going to post the complete short text of a brilliant little article he wrote in the Cato Institute's Literature of Liberty in 1982. Don Boudreaux describes it as "Word for word, the most insightful thing I've ever read." Buchanan makes the point, contrary to the way some economists describe the market process, that there is no end-state or perfect order which the market approaches. Rather, 'the "order' of the market emerges only from the process of voluntary exchange among the participating individuals. The "order" is, itself, defined as the outcome of the process that generates it." The market process best serves human needs, but those needs are always changing, and even a perfectly free market would never "reach" some perfect satisfaction of needs.

You can find the article in its entirety here:

James M. Buchanan, "Order Defined in the Process of its Emergence"*

*A note stimulated by reading Norman Barry, "The Tradition of Spontaneous Order," Literature of Liberty, V (Summer 1982), 7-58.

Norman Barry states, at one point in his essay, that the patterns of spontaneous order "appear to be a product of some omniscient designing mind" (p. 8). Almost everyone who has tried to explain the central principle of elementary economics has, at one time or another, made some similar statement. In making such statements, however, even the proponents-advocates of

spontaneous order may have, inadvertently, "given the game away," and, at the same time, made their didactic task more difficult.
I want to argue that the "order" of the market emerges only from the process of voluntary exchange among the participating individuals. The "order" is, itself, defined as the outcome of the process that generates it. The "it," the allocation-distribution result, does not, and cannot, exist independently of the trading process. Absent this process, there is and can be no "order."

What, then, does Barry mean (and others who make similar statements), when the order generated by market interaction is made comparable to that order which might emerge from an omniscient, designing single mind? If pushed on this question, economists would say that if the designer could somehow know the utility functions of all participants, along with the constraints, such a mind could, by fiat, duplicate precisely the results that would emerge from the process of market adjustment. By implication, individuals are presumed to carry around with them fully determined utility functions, and, in the market, they act always to maximize utilities subject to the constraints they confront. As I have noted elsewhere, however, in this presumed setting, there is no genuine choice behavior on the part of anyone. In this model of market process, the relative efficiency of institutional arrangements allowing for spontaneous adjustment stems solely from the informational aspects.

This emphasis is misleading. Individuals do not act so as to maximize utilities described in independently existing functions. They confront genuine choices, and the sequence of decisions taken may be conceptualized, ex post (after the choices), in terms of "as if" functions that are maximized. But these "as if" functions are, themselves, generated in the choosing process, not separately from such process. If viewed in this perspective, there is no means by which even the most idealized omniscient designer could duplicate the results of voluntary interchange. The potential participants do not know until they enter the process what their own choices will be. From this it follows that it is logically impossible for an omniscient designer to know, unless, of course, we are to preclude individual freedom of will.

The point I seek to make in this note is at the same time simple and subtle. It reduces to the distinction between end-state and process criteria, between consequentialist and nonconsequentialist, teleological [The use of ultimate purpose or design as a means of explaining phenomena] and deontological [Ethical theory concerned with duties and rights] principles. Although they may not agree with my argument, philosophers should recognize and understand the distinction more readily than economists. In economics, even among many of those who remain strong advocates of market and market-like organization, the "efficiency" that such market arrangements produce is independently conceptualized. Market arrangements then become "means," which may or may not be relatively best. Until and unless this teleological element is fully exorcised from basic economic theory, economists are likely to remain confused and their discourse confusing.