

“Observations on Buchanan and Economic Policy”
James M. Buchanan: A Celebration of Scholarship
George Mason University
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Lord Keynes taught us that “The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist.”

That sentiment is appropriate here today, since Jim Buchanan was not a back-slapper who spent time coddling politicians. Nor did he serve in government, except where it really mattered – to help win a war. He didn’t run for office, he didn’t serve on any commissions or advisory boards, nor did he solicit audiences with the supposed great and powerful. In fact, Jim had a fairly low opinion of such people.

Yet, Jim Buchanan had, is having, and will have considerable influence on economic policy. His influence stems from two sources: first, his ideas; and second, his students.

Let me give you a few examples of his influence through ideas. Not so long ago it was fashionable to regard federal deficits and specifically the debt as benign, possibly even desirable. Weren’t we all taught that “we owe it to ourselves,” and, moreover, that Treasury notes were the elixir that made Wall Street function? Almost single-handedly, Jim Buchanan exploded this myth and went quite beyond to explain that debt-financing has significant effects on the efficiency of government, including the propensity to spend owing to the lower perceived costs of financing. Buchanan also stressed the burden that debt financing lays on future generations.

Today, by contrast, debt financing by government is almost universally viewed in the negative. Those who support initiatives leading to debt nearly always phrase their support as requiring deficit financing “as a last resort.” Of course, what many of them really prefer is higher taxes!

This revolution in thinking, unfortunately, has not led to a cessation of deficit finance. Quite the contrary: the deficits of the past few years have tripled the nation’s debt. However, I would argue that the intellectual battle over the goodness or badness of deficit finance has been won. It’s just a matter of time before we have “practical men” in sufficient numbers to reverse the trend.

A second Buchanan influence is the emergence of decision institutions reflecting a basic understanding of public choice. How do you harness the avarice of politicians to vote for projects benefitting their constituents – and thus

themselves -- while voting for others to bear the costs? For many years, appropriations committees increasingly voted for more spending – to get their “fair share” of the budget pie. Consequently, the pie kept expanding, amid egregiously wasteful spending. The year 1974 saw enactment of legislation that requires each House to pass a resolution at the beginning of the fiscal cycle specifying total discretionary spending and limiting totals for each of the 13 appropriations subcommittees. Although the act was infirm, inasmuch as the subcommittees found ways around its limits, it represented a courageous application of Public Choice 101.

Then came the 1987 Gramm-Rudman-Hollings law, which established declining deficit targets – which, if not met otherwise, would be met by means of an across-the-board “sequester” of spending resources. This worked famously the first year – the deficit fell by \$72 billion -- but Congress got cold feet and forced President Reagan to accept more modest targets for subsequent years. And in 1990 Gramm-Rudman-Hollings was replaced by a “Pay-Go” law that required any initiative increasing the deficit to be offset by spending cuts elsewhere and/or increases in tax revenue. Even more recently, Congress, in theory at least, has outlawed the unique form of pork spending known as earmarks.

As you know, none of these laws have worked perfectly, but the fact they were enacted, often over vile objections by committee leaders, is an indication of the superior logic of what we live and teach every day – and for that Jim Buchanan deserves a load of credit.

Third, Buchanan was an early and forceful champion of constitutional amendments to limit undue intrusion of the federal government. While many others deserve credit for promoting such devices – Milton Friedman and Bill Niskanen, to mention only two -- the intellectual firepower for such initiatives was provided by Professor Buchanan. And though there have been setbacks, note the recent surge of interest in Mark Levin’s new book, The Liberty Amendments.

Now, the other major way Jim Buchanan has influenced policy is through his students. And through his students’ students. Bob Tollison at the Council of Economic Advisers and at the Federal Trade Commission. Tom Willett at the Council of Economic Advisers and at Treasury. John Snow at Treasury, and before that at the Department of Transportation. Mark Pauly at the Office of Management and Budget. Frank Forman at the Department of Education. Gordon Brady of Congressional committee staffs. John Peterman at the Federal Trade Commission. Same for Richard Higgins. And Ed Rastatter at the Office of Management and Budget, just to name a few of my generation.

And students of Buchanan’s students. Paul Pautler, student of Bob Tollison, at the Federal Trade Commission. Jeff Eisenach, student of Tom Willett, at the Federal Trade Commission and the Office of Management and Budget. Mark

Crain, student of Bob Tollison – and also colleague of Jim’s here at George Mason at the Office of Management and Budget. I’m sure you could add innumerable names to both lists.

Such people play an important role in government – eliminating waste, establishing priorities, but more importantly designing institutional arrangements that will induce others to make appropriate decisions.

But, sadly, two of Jim Buchanan’s major teachings have yet to take hold in government. The first is that the economics of the public sector is as important and as worthy of study and understanding as that of the private sector. In the latter, resources are allocated by individual action. In the public sector, resources are allocated by collective action. It always amuses and frustrates me when I see Members of Congress grouse about “market failures” while being oblivious to wholly more significant failures in public decision making. To make matters worse, they often condemn monopolies in the private sector, all the while establishing government monopolies and erecting barriers to competition for political representation! Some are quick to propose “solutions” to market failures, but haven’t the slightest idea of why and how to remedy failures in collective decision making. Of course, there is increasing understanding in the public sphere that attempts to remedy market failures may actually make matters worse. At least that’s a start.

Also, there seems to be little appreciation among our political leaders, much less those in the media, that current institutional arrangements are biased toward the establishment and maintenance of a public sector that is “too large,” at least defined by conventional standards of economic efficiency. Of course, there is an on-going battle between liberals and conservatives over spending, regulation, and other dimensions of government, but the rhetoric is over who is right and who is wrong. Seldom do they address shortcomings in the decision making institutions and how remedying these could lead to better outcomes without the constant bickering that increasingly the public finds so off-putting.

So, my friends, there is more work to do. And one might hope that Jim Buchanan will inspire this work and that his influence will be far and wide.