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Teaching Economics, Appreciating Spontaneous Order, and Economics as a Public Science

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James M. Buchanan has argued that the primary role that the economist plays in society is a pedagogical one. The job of the economists is to teach students the principles of economics, most notably an understanding of spontaneous order and the role of the price system in generating that order within the market. The didactic purpose is simply to teach students so they may in fact become informed participants within the democratic process of collective choice. It is in our job as teachers of the basic principles of economic science, and not as pure researchers, let alone as policy experts who act as saviors, that justifies the public expenditure on the discipline. Economics to Buchanan is a 'prophylactic against popular fallacies' and not a tool of social control.

JEL: A10; B31; D70; P16

Given the principle of freedom, as active freedom of association, the notion of scientific control of society is a palpable contradiction. ... In a democracy, the notion of control is not merely unethical, it is excluded, ipso facto. ... When a man or group asks for power to do good, my impulse is to ... cancel the last three words, leaving simply "I want power"; that is easy to believe.

- Frank Knight (1951)

Introduction

James Buchanan is fond of telling the story that when he entered the University of Chicago PhD program in economics he was of socialist leanings, yet within 6 weeks of Frank Knight's price theory course, he was no longer a socialist. What was it that Knight taught that had such a transformative effect on Buchanan and several (but not all) of his

* University Professor of Economics, and BB&T Professor for the Study of Capitalism, George Mason University, Fairfax, VA 22032. This paper was written for the FSSO conference honoring James Buchanan for his lifetime contributions to spontaneous order studies. I have benefited greatly from the comments with Chris Coyne, Bill Dennis, Peter Leeson, Shruti Rajagopalan, and Virgil Storr. The usual caveat applies.

classmates? This question has inspired, and vexed, Buchanan throughout his career as an economics professor.

Frank Knight taught economic students the basic principles of the discipline; the idea of scarcity, the necessity of choice, the role of relative prices in guiding adjustment to changing circumstances, and the importance of competition in the self-organization of the market economy. “Economic principles,” Knight (1951, p. 7) argued, “are simply the more general implications of the single principle of freedom, individual and social, i.e., free association, in a certain sphere of activity.” The freedom of association that Knight is referring to, is that of exchange, which serves as the basis of social order. As he would stress in *Intelligence and Democratic Action* (1960, p. 1), the elementary point that requires continual emphasis is that an exchange is an exchange is an exchange. Exchange is voluntary, and it is mutually beneficial. Unless both parties benefit from the interaction, it would not be an exchange because it would not be voluntarily entered into and agreed to. It is exchange that gives rise to the division of labor, and it is exchange that guides production plans and satisfies consumption demands. The subject matter of economics is ultimately about exchange relationships among freely choosing individuals and the institutions within which those exchanges take place.

Unfortunately, the task of communicating that elementary point to students and the public is not always easy because of ignorance and vested interest. As Knight (1951, p. 4) says:

The serious fact is that the bulk of the really important things that economics has to teach are things that people would see for themselves if they were willing to see. And it is hard to believe in the utility of trying to teach what men refuse to learn or even seriously listen to.

But we must, and do, find utility in trying to teach economics, even if it is only in our capacity to serve as an antidote to the poison being disseminated by the anti-economists that surround us in our schools and universities, in the churches and on the street, and in

the courts and in the legislature.

Henry Simon's in his class at University of Chicago, inspired by Knight's teachings, taught a generation of students that "economics is primarily useful, both to the student and to the political leader, as a prophylactic against popular fallacies." (1983, p.

3) Within a system of private property rights, freedom of contract, and monetary stability, the market economy will work through relative price adjustments and profit and loss accounting to guide individuals in their economic decisions to take into account the relevant information about relative scarcities and exchange opportunities. Mutually beneficial exchange is wealth creating, and the market economy through relative price adjustments is self-correcting.

It is from Knight, that Buchanan learned his understanding of the economic process; of how the market economy through the incentives and information of property, prices, and profit/loss is the prime example of a spontaneous order. And in those first 6 weeks at University of Chicago under Knight's tutelage, Buchanan moved from a passionate populist to a zealous advocate of the market order. As he has put it: "I was converted by the power of ideas, by an understanding of the model of the market. The experience shaped my attitude toward the use and purpose of economic instruction; if I could be converted so could others." (1999 [1986], p. 15)

It is this aspect of Buchanan's career --- that of the economic educator in the broadest meaning of that term --- that I want to explore in this paper. But my focus is not so much on his efforts at building research centers to encourage advanced study in the field of public economics and public choice at University of Virginia, Virginia Tech, and George Mason; nor will I focus on his role as a PhD supervisor to some 40+ students that

include significant and innovative scholars in fields such as experimental economics, law and economics, public finance, health economics, industrial organization, and, of course, public choice, and constitutional political economy; nor will I stress his role in organizing professional associations such as the Committee on Non-Market Decision Making, the Public Choice Society, and in the establishment of the scientific journals, *Public Choice*, and *Constitutional Political Economy*.¹ Instead, my focus is really on Buchanan's emphasis on elementary or basic economics, and the role of the 'teacher' in communicating those principles to students and the general public, and how those principles can inform and improve the democratic process of collective decision-making.² To put it bluntly, James Buchanan argues that our primary purpose as economic educators, and the only justification for the public support of our efforts, is to teach our students (and the general public) the basic principles of economics and to cultivate in them an appreciation of the spontaneous ordering of economic activity, so that they in turn can become informed participants in the democratic process.

¹ For an excellent discussion of Buchanan's institution building efforts to professionalize graduate education and research in public choice and constitutional political economy see Steve Medema's discussion in *The Hesitant Hand*. (2009, pp. 125-159) Also see Richard Wagner's (2004) discussion of public choice as an academic enterprise and the experience at UVA, VPI and GMU.

² This emphasis on basic principles also explains Buchanan's close affinity with the Austrian school of economics throughout his career. It is not just the thoroughgoing subjectivism of the Austrians that attracted Buchanan's intellectual interests, though as he argues in *Cost and Choice* (1999 [1969], p. xiv, the problem with modern economists is that they too often "rush headlong into the intricacies of analysis while overlooking certain points of elementary economic logic." In this instance, Buchanan was stressing the consistent and persistent application of opportunity cost reasoning. In general it is important to remember throughout that Buchanan, besides being a subjectivist, is a methodological individualist social scientist, an exchange theorist in market and politics, an institutional theorist in law, politics and society, a spontaneous order theorist of the market, a positive political economist in public finance, and a social contract theorist in political science. But in all these endeavors, Buchanan demands that we come back to the elementary economic logic and pursue it consistently and persistently throughout the analysis. One of the empirical curiosities of the modern profession of economics, Buchanan notes, is that the Austrian economists seem to have a comparative advantage in communicating this elementary economic logic to students. See Buchanan's generally positive reaction to the revival of interest in Austrian economics that began in the 1970s. (Buchanan 1999 [1979], pp. 47-48)

What Should Economists Do?

The economist looking out into the world of a commercial society is immediately struck with two primordial facts: individuals pursue their self-interest, and modern commercial society with its vast division of labor is orderly. It is not from the benevolence of the butcher, the baker and the brewer that we get our dinner. Despite the disparate purposes being pursued by economic actors in the market, ‘Paris gets fed’. In short, the first task of the economist is to explain how these two facts of commercial life --- self-interest, and social order --- are consistent with one another. If one cannot explain the consistency, then one has failed in the first task of being an economist.

It is important to stress that this does not commit the economist to the Panglosean fallacy. There can be much that is wrong in society that could benefit from collective action, and I will talk about that in the next section. But understanding the “invisible hand” proposition of economics is the first task that must be accomplished otherwise all other questions cannot be addressed adequately.

Not only must the “invisible hand” or “spontaneous order” proposition be understood, but it has to be understood in a dynamic, rather than static, sense if it is going to be helpful. We must not try to understand the overall order in the economy as if it was chosen by a benevolent social planner who is choosing the optimal allocation of resources for society. Instead, the order we are trying to understand is the composite outcome of the striving of a multitude of individuals each striving to realize their plans, often in conflict with one another, and reconciled through the exchange process.

The central message of Buchanan's classic paper "What Should Economists Do?" (1999 [1962], p. 29) is that theory of exchange and not the theory of resource allocation should take center stage in economics.³ Economists, Buchanan argues, have to face up to their basic disciplinary responsibility and understand their subject matter. That subject matter is "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." It is this particular form of human activity and the institutional arrangements that arise because of this activity that is the proper subject of the economist's study. The dominant allocation problem approach, on the other hand, misleads economists into viewing the economic problem in society as one of applied mathematics that can be addressed by social engineers entrusted with the policy levers of control.

But the economic problem of society is decidedly not one of allocating scarce means to obtain a defined end.⁴ When elementary economics is taught in this optimal allocation manner, the message is easily communicated to students that someone or some group must be in charge at the levers of social control and manage the economic system.

³ See the symposium in the *Review of Austrian Economics* for a contemporary treatment of this point, Wagner (2007).

⁴ See, e.g., Hayek (1948 [1944], p. 77-78; 80; 82; 91). "The economic problem of society is thus not merely a problem of how to allocate 'given' resources – if 'given' is taken to mean given to a single mind which deliberately solves the problem set by these 'data'. It is rather a problem of how to secure the best use of resources known to any of the members of society, for ends whose relative importance only these individuals know. Or, to put it briefly, it is a problem of the utilization of knowledge which is not given to anyone in its totality." Hayek, later stresses not only that the knowledge he is talking about is not abstract and technical knowledge, but "knowledge of the particular circumstances of time and place" that is revealed only within the context of the market process. Furthermore, he is quick to stress this knowledge is constantly changing to reflect the changing circumstances of economic life. The economic problem that society faces is not one that lends itself to representation in the optimal solution to a system of simultaneous equations. "It is, perhaps, worth stressing," Hayek states, "that economic problems arise always and only in consequence of change." The price system works its marvels in the context of responding to, reflecting and ultimately guiding day-to-day adjustments. Hayek does not deny a useful role for equilibrium analysis in economics, but he does suggest that something is fundamentally wrong with an approach that "habitually disregards an essential part of the phenomena with which we have to deal: the unavoidable imperfections of man's knowledge and the consequent need for a process by which knowledge is constantly communicated and acquired."

Students are often taught that all economic system must answer the questions of how, what, and for whom --- how are goods going to be produced; what goods are going to be produced; and for whom are the goods going to be produced. Students are then taught that the market system through the incentives of clearly defined and strictly enforced property rights, and the guiding force of prices and profit and loss accounting statements answer these questions so effectively that exchange efficiency and production efficiency are simultaneously achieved. All the gains from exchange will be realized, prices will reflect the full opportunity cost of production, and the least cost technologies will be employed in production. No possible arrangement of economic affairs could improve the situation. Unless, of course, there are imperfections in the market mechanism caused by monopoly, imperfect information, and/or externalities, which will prevent the market from achieving an efficient allocation of resources. Gains from trade will go unexploited; price will not reflect opportunity costs; and production will not employ the least cost technologies. Opportunities for social improvement abound, but cannot be realized within the market due to the imperfections; the needed reform must come from outside the system. When confronted with such imperfections, the typical student is then taught that the economic role of government is to address through public policy the problems of market structure and the conflicts over resource use. Government provides the corrective to the imperfections of the market economy. The structure-conduct-performance paradigm in anti-trust economics is one such example of government as corrective, Pigovian welfare economics is another, and consumer protection is yet another still. The market economy, students are taught in most economics classes, is great when it works, but its ability to work is limited to situation where a set of highly restrictive assumptions

hold. Where there are deviations from the ideal pattern in allocation, the government acts proactively to align prices with costs, and align private and social costs in decisions.

A lot in this elementary tale of the economic system is important information for students to learn. For the spontaneous and complex coordination of market activity to be achieved the induced variables of the market (prices and profit/loss) and the underlying variables of the market (tastes, technology, and resource availability) must exhibit a strong tendency to dovetail, otherwise the “order” of the market would not be that orderly. In other words, the relationship between prices and costs, and private and social costs are important to understand in talking about private and public choices. Social cooperation under the division of labor emerges as individuals within an economic system strive to realize the gains from trade and the gains from innovation guided by the ordinary motivations of men, and the informational signals provided by relative prices and profit and loss accounting. In the limit, when all those gains are in fact realized, resources would indeed at that precise moment be allocated to highest valued users and all least cost technologies would be employed. But “efficiency” is not the goal or purpose of the market. The market economy itself does not possess a teleology, though the individuals participating in the market have their own purposes and plans they are striving to achieve.⁵

As Buchanan stresses: “The ‘market’ or market organization is not a *means* toward the accomplishment of anything. It is, instead, the institutional embodiment of the voluntary exchange processes that are entered into by individuals in their several

⁵ For a more recent elaboration on the non-teleological nature of the market economy see Buchanan and Vanberg (2001 [1991]). It is critical to remember the phraseology highlighted by Hayek (1967) to capture spontaneous order --- “of human action, but not of human design.” The order itself has no purpose, but the participants in the order have multiple purposes that they are pursuing. This is one of the key characteristics of spontaneous orders in the social world, as opposed to the physical world.

capacities. This is all that there is to it. Individuals are observed to cooperate with one another, to reach agreements, to trade. The network of relationships that emerge or evolves out of this trading process, the institutional framework, is called ‘the market’.” (Buchanan 1999 [1962], 38) The “order” of the market is defined within the process of its emergence. There is no order capable of being defined independent of the process itself. Neither allocation nor distribution are outcomes of an economic system that can be defined outside of the context of the trading behavior and exchange relationships that produce it. (see Buchanan 1999 [1982])

The constellation of relative prices that actors within the economy face in making decisions provide them with both an incentive and a signal that is essential in their assessment of the situation as they choose this path or that. The existing array of prices, in other terms, provide the *ex ante* information about relative scarcities that economic actors use to infer alternative use of resources and methods of production. The market price that is paid for the good or service, and the profit and loss statement revealed in the market from offering those goods and services, provide economic actors with an *ex post* assessment of the appropriateness or inappropriateness of the enterprising decisions made. And, the very discrepancy between the *ex ante* expectations, and the *ex post* realization in the market, motivates the *discovery* or *learning* by economic actors of better ways to match their production plans with consumption demands. If this process of production and exchange doesn’t take place, the knowledge and incentives required to produce the complex coordination of the market would not exist. It is not just that the information would be difficult to surmise; it is literally that it would not exist.

The fundamental point that Buchanan's emphasizes on the emergent nature of the "order" of the market, is that absent the market process there is no economic order to define. It is the buying and abstaining from buying; the haggling; the bargaining; the trucking, the bartering, and the exchanging the produces the market "order". In short, we must always come back to stress as economists that the subject matter of economics is exchange and the institutions within which exchange takes place.

The juxtaposition of the exchange approach to economics with the approach to economics that emphasizes optimal societal allocation and just distribution as products of a benevolent social planner sets the stage for Buchanan's distinction between economics and politics, as well as the emphasis on rules and the institutional framework. Questions of "just distribution" are never about particular distributions of resources, but instead always about the choices over the rules of the game which engender a pattern of exchange, production, and thus distribution. Fairness is about rules, not outcomes; justice is about process, not end-states.

Similarly, the market economy is not competitive by assumption, but becomes competitive. "It is this *becoming* process, brought about by the continuous pressure of human behavior in exchange, that is the central part of our discipline, not the dry-rot of postulated perfection. A solution to a general-equilibrium set of equations is not predetermined by exogenously-determined rules. A general solution, if there is one, *emerges* as a result of a whole network of evolving exchanges, bargains, trades, side payments, agreements, contracts which, finally at some point, ceases to renew itself. At each stage in this evolution towards solution, there are *gains* to be made, there are

exchanges possible, and this being true the direction of movement is modified.”
(Buchanan 1999 [1962], p. 37)

Economics as a science of exchange cannot yield precise predictions about exact points, but instead yields pattern predictions about tendencies and direction of change. The market is a spontaneous order, and the consistency of that order originates within the process itself, and thus any attempt to construct the order independent of that process is meaningless. We as economists have no way of knowing what the market will choose in advance of the process, it will choose, as Buchanan has put it, what it will choose. (see Buchanan 1999 [1954], p. 101) Economics is about the social relations of freely-contracting actors, politics, on the other hand, is about social relationships where individuals deal with one another in a coercive or potentially coercive manner. Buchanan’s unique take on politics, however, is to stress the potential for changes in the rules of governance within the coercive or quasi-coercive institutions that can provide the basis for improvement in the economic-political game. The task of the economist is to study the exchange relationship that evolve within the market process, the task of the political economist is to propose changes in the rules that will yield greater gains from trade and gains from innovation within the on-going market process so institutionally defined. It is in this sense, that Buchanan squares the entrepreneurial theory of the market with its emphasis on the continual evolution of the exchange process, with the contractarian theory of the state with its emphasis on the pre-constitutional level of choice among rules and the post-constitutional level of political activity within the given set of rules.

What Role for the Economist and Political Economist in Society?

The exchange paradigm that Buchanan advocates challenges the pretensions of social engineers. Economists must never proffer advice to politicians as if they were offering advice to a benevolent social planner, and they also must never assume the role of benevolent social planners themselves. The wisdom of classical political economy was to resist such delusions of grandeur.⁶ As Adam Smith (1976 [1776], Bk IV, Ch. 2, p. 478) warned, politicians who attempt to control the economy would not only be operating without the knowledge of the local situation that businessmen and entrepreneurs possess, but would necessarily load themselves with a level of power over others in society that could not be safely trusted to no individual lawgiver or council or senate of lawgivers, and would nowhere be as dangerous as in the hands of those who “had folly and presumption enough to fancy himself fit to exercise it.” Smith’s (1982 [1759], p. 233) “man of systems”, who is “wise in his own conceit” is the object of scorn in the Buchanan framework as it obviously was for Smith.

Politics cannot be viewed as a process of achieving “truth judgment” unless we want to risk tyranny at the hands of the conceited ‘elite’ who believe they are in possession of truth.⁷ Much of 20th century economics and public policy developed to fit this progressive elite intellectual agenda. Consolidation of governmental units and centralization of bureaucratic entities combined with rule by trained experts defines the

⁶ My colleague David Levy argues that “saving ideas” was a significant motivation for the institution building effort of James Buchanan and G. Warren Nutter at the University of Virginia and the Thomas Jefferson Center for Political Economy. Buchanan and Nutter had vowed to each other during their student days that if they ever had the opportunity to work together in the same department, they would in fact work to “save the ideas” of classical political economy. The UVa effort must be, judged on all conventional measures, a fantastic success. See Buchanan (2001 [1983]).

⁷ See Buchanan’s discussion of the debate between Knight and M. Polanyi (1999 [1967]) and his further elaboration on the potential for tyranny in politics as science (2001 [1986a]).

professionalization of modern governance and public administration. (see V. Ostrom 1973)⁸ The role the economist plays in the progressive intellectual agenda must be that of a technical expert who is entrusted with the tools of social control. The “good society” results from exercising those tools of social control optimally. The economist *qua* social engineer follows naturally from the progressive intellectual and public policy agenda. And the way mainstream economics developed *after* the Great Depression, and the post-WWII consensus on the neo-Keynesian synthesis, feed directly into this progressive agenda often quite unconsciously, but at other times explicitly so. The “invisible hand” of the market was said to have been demonstrated to have been a “palsied hand”, and thus in need of the “visible hand” of the state to accomplish the task of steering the economy.

Economic regulators were to use the tools of the state to correct for microeconomic inefficiencies and fiscal and monetary policies were going to be used to correct for macroeconomic instability. The perspective communicated in either Abba Lerner’s *The Economics of Control* (1946) or Paul Samuelson’s classic text, *Economics* (1948), saw the role of the economist as that of potential savior equipped with the appropriate scientific/engineering tools to right social ills and guide the ship of state. But, of course, such a perceived role of the economists makes sense, only if the state is perceived as an active agent in the economy, and the discipline of economics is more akin to engineering than philosophy. Such a view of the economist as societal savior is to be subject to ridicule in a world where the government is seen as limited in scale and scope,

⁸ Aligica and Boettke (2009, pp. 5-51) provide an overview of the metropolitan reform debate in public administration and political economy.

just as the view of the economist as a philosopher and student of society makes himself/herself irrelevant in world where the state is expected to play an active role in the economic game. The following matrix may illustrate the situation:⁹

	State as Referee	State as Player
Economist as Student	Classical Liberalism	<unstable>
Economist as Savior	<unstable>	Activist Government

Buchanan’s perspective is described by the upper left cell, and in that cell the economist is not granted any privileged position in society. The economist is in the much more humble position of being a student of society, a teacher of the knowledge gleaned from his/her study, and at times a social critic of existing practice in his citizen capacity. What he/she is never permitted to do is claim to have a direct line to god-like truth, never mind god-like powers, which justify imposing his/her vision on fellow citizens. Instead, as mentioned earlier, the primary role of the economist is to teach students the basic principles of economics so that they may become informed participants in the democratic process. Now remember that “teacher” in this context is being more broadly defined to include a variety of activities that go far beyond the classroom proper; including the presentation of refined research to one’s scientific peers, the presentation of policy analysis to decision makers, public commentary on current affairs in newspapers, and

⁹ See Boettke and Horwitz (2005), Boettke and Coyne (2006), and Boettke, Coyne and Leeson (2006) for a further elaboration on these ideas about the role of the economists in society.

classroom instruction at a variety of levels from principles classes to advanced seminars for PhD students. In short, we are always engaged in “studying” and “teaching”, but not “preaching” let alone “imposing”.

The reformist thrust of economics is beyond the reach of the economist proper, though the political economist does have an important role in reform efforts even in the Buchanan framework of the humbled worldly philosopher.¹⁰ Again, that role is far different from the one conceived of for the economist as savior. The political economist, Buchanan stressed, works at the level of rules, not at the level of active play within the rules. The subtle position Buchanan develops is laid out in his classic paper “Positive Economics, Welfare Economics, and Political Economy.” (1999 [1959])

The intellectual dilemma that faces economics as a discipline, Buchanan argues, is that in the interest of the scientific stature of the discipline the pure economist must maintain strict value-freedom, limit their analysis to means-ends assessment, and the deriving of testable hypotheses. The professional economist has a very small in the policy formation process. But, due to the nature of the discipline and its central importance in political debate, the professional will continue to attract young minds to its ranks who desire to assist the policy formation process, and to do so with the aid of the scientific discipline of economics.

The Buchanan restatement of political economy is an attempt to provide the solution to this intellectual agenda. To capture the imagination of the young and

¹⁰ Humility is not to counsel despair. Buchanan’s teacher Frank Knight would say that to call a situation hopeless, is to call it ideal. Since the world is far from ideal, the situation must not be hopeless. Humility and political economy reform need not conflict with one another, but we always must be on-guard for hubristic ambitions sneaking in if we want to avoid reform efforts being derailed by constructivism.

ambitious social reformer, but to steer them toward an analysis of policies that do not violate the value-freedom strictures of positive economics. The critical step in this endeavor is the rejection of the omniscience assumption that is implicitly accepted in both old and new welfare economics.¹¹ The observing economist is not in a privileged position to judge the system from above against some idealized standard of ‘efficiency’. Once the privileged position is rejected, the efficiency concept that the economist can discuss is one of voluntary agreement among the participants in the process. Nothing more, nothing less. To go back to Knight again, an exchange is an exchange is an exchange. So what then can the economist say?

As Buchanan puts it: “The political economist is often conceived as being able to *recommend* policy A over policy B. If, as we have argued above, no objective social criterion exists, the economists qua scientist is unable to recommend. Therefore, any policy discussion on his part appears to take on normative implications. But there does exist a positive role for the economist in the formation of policy. His task is that of diagnosing social institutions and presenting to the choosing individuals a set of possible changes. He does not recommend policy A over policy B. He presents policy A as a

¹¹ In a brilliant passage that anticipated much of the subsequent development of the economic and political economy analysis of socialism and the social democratic welfare states, Ludwig von Mises (1966 [1949], p. 692) argues that the inference that the state should be in control of the economy follows inescapably once intellectual perfection as well as moral perfection is attributed to government officials. Once we assume not only best of intentions, but omniscience, then it is obvious that the infallible state will do better than erring individuals in the conduct of business and ordinary life. One way to understand the relationship between Austrian economics as developed by Mises-Hayek-Kirzner was to challenge the assumption of omniscience in economic analysis while for value-freedom purposes leaving the assumption of benevolence in place. While much of the subsequent development of public choice theory in the 1950s and 1960s did the opposite, left the neoclassical assumption of omniscience in place but challenged the benevolence assumption. As we see here in Buchanan’s classic paper on the role of the political economist, he is challenging both assumptions and this is the analytical path that those working on developing robust political economy are following as well. See Boettke and Leeson (2004), and Boettke and Coyne (2009).

hypothesis subject to testing. The hypothesis is that policy A will, in fact, prove to be Pareto-optimal. The conceptual test is *consensus* among members of the choosing group, not objective improvement in some measurable social aggregate.” (1999 [1959], p. 195)

The policy task of the economist is to offer possible changes in the rules of the economic game that are acceptable to all parties and will produce Pareto improvement. Political economy, therefore, deals with a particular form of social change, that of collective action. The deliberation among members of a social group over the rules that govern their interactions with one another in their attempt to live better together. The spontaneous adjustments that arise within production and exchange activity due to shifts in tastes, technology or resource availability are not the subject of collective action deliberation. These changes in the market guided by relative prices and profit and loss accounting occur constantly against the backdrop of an existing set of property rights rules and their enforcement. The economist qua economist is a student of this dynamic process of accommodating changes guided by relative prices and disciplined with feedback from profit and loss statements; a student of the spontaneous order of the market. The economist qua economist as a social critic can point out possible problems with the existing structure of property rights and/or government policies and how due to incentive incompatibilities and/or distortions in the informational processing and feedback the existing rights and policy regime may in fact be preventing gains from trade to be realized or gains from innovation to be pursued. And the political economists qua political economist on the basis of the scientific knowledge of spontaneous order and the analysis of means-ends that the discipline of economics provides can offer hypothetical changes to

the rule structure that would yield Pareto improvements subject to the constraint of consensus among members of the collective action unit.

As we stressed earlier, the role of the economist is not as a savior to society; he/she is not a technical expert to be relied upon to fix ills through social engineering. No, the role of the economist is the far humbler one; that of a student of society and teacher of the basic principles of the discipline. His/her primary task is to communicate to students and the general public a basic appreciation of the spontaneous order of the market and the core ideas of choice against constraints and mutually beneficial exchange. The knowledge of the discipline of economics is essential to helping his/her ‘students’ becoming informed participants in the democratic process of collective choice.

Why Constitutional Craftsmanship Is Consistent with Spontaneous Order?

Alexander Hamilton (1787) argued in *The Federalist #1* that the critical question that confronted his generation in America was whether good government can be a consequence of reflection and choice, or will it forever remain a consequence of accident and force. This political question of Hamilton’s remains an essential one to answer. In modern times, the exploration of the US constitutional experience became the research agenda of political economists such as F. A. Hayek (1960) and James M. Buchanan (see Buchanan and Tullock 1962). In their hands, it is an effort in developing a theory of “robust political economy” and it is synonymous with the development of the field of constitutional political economy (see Boettke and Leeson 2004). To put it simply, can we take men as given with their ordinary motivations and their limited knowledge and find a set of rules that effectively ties the hands of the rulers in a way that allows them to

govern, but not abuse the power so entrusted, creating the conditions under which members of society can freely engage in the complex coordination of economic activities to realize the gains from trade and innovation?¹²

As points of emphasis in their respective works, Hayek concentrated on the limits on man's knowledge at the abstract level, and the contextual nature of the knowledge residing in the economy at the concrete level, while Buchanan stressed the institutional/organizational logic of politics and the systemic incentives that different rule environments generate. In both, however, the central message of same players, different rules, produce different games is seen throughout their work in comparative political economy. To Hayek the puzzle was how to limit the rationalistic hubris of men, to Buchanan the puzzle was how to limit the opportunistic impulse of men. Both found hope in what they called a "generality norm" embedded in a constitutional contract --- no law shall be passed, or rule established, which privileges one group of individuals in society.¹³ Hayek (1960) seemingly relies on an evolutionary process of trial and error in rule regimes that selects for those rules that enable group success and weeds out those that derail group progress, while Buchanan proposes a constitutional 'convention' that

¹² See Hayek (1948 [1946], p. 11-14) where he argues that "the main point about which there can be little doubt is that Smith's chief concern was not so much with what men might occasionally achieve when he was at his best but that he should have as little opportunity as possible to do harm when he was at his worst." The Scottish Enlightenment philosophers searched for a "social system which does not depend for its functioning on our finding good men for running it, or on all men becoming better than they are now, but which makes use of men in all their given variety and complexity, sometimes good and sometimes bad, sometimes intelligent and more often stupid. Their aim was a system under which it should be possible to grant freedom to all, instead of restricting it, as their French contemporaries wished to, to 'the good and the wise.'" The great intellectual discovery of these 18th century political economists and social philosophers was that "the system of private property did provide such inducements [to direct the ordinary motivations of men to pursue their self-interest by contributing to the betterment of others] to a much greater extent than had yet been understood." Man with his ordinary motivation of self-interest and with his limited cognitive capacities is nevertheless directed toward pursuing actions which result in the the common good through the institutional setting of private property and freedom of competition in the marketplace.

¹³ See the fascinating interview between Hayek and Buchanan from 1978, now available online in video at: http://www.hayek.ufm.edu/index.php/James_Buchanan.

employs a ‘veil of ignorance’ construct to ensure fairness in the social contract and strives for a social contract that exhibits conceptual unanimity. In actual practice, we do not see either evolution or social contract in pure form, but instead, some combination where constitutional contracts are based on evolved social norms if they are to “stick” in any given society (see Boettke, Coyne and Leeson 2008). What we see is an interaction between creative constitutional craftsmanship and codification of existing norms into formal law. The subordinate state of constitutionalism finds its legitimacy in the inhibited state of cultural norms and methods of social sanction; if the formal rules of governance are not grounded in the informal rules embedded in norms and social conventions, then the cost of enforcement would be prohibitive.¹⁴

The normative thrust of classical political economy is to craft rules that both bind government power and establish an environment that promotes social cooperation under the division of labor. In thinking about the constitutional contract, it is useful to use Buchanan’s (2000 [1975]) distinctions between the protective state (law and order), the productive state (public goods), and the redistributive state (rent-seeking), and to see the basic conundrum as to whether or not we can find a set of rules of governance that enables the protective and the productive state without unleashing the redistributive state.

Rules must bind the behavior of politicians even though they don’t transform human nature. In other words, men remain presumed to be knaves¹⁵, but the rules of good governance within which men interact with one another discipline their knavery to

¹⁴ See Boettke (2001 [1994]) on the infrastructure of economic development and also the work of Claudia Williamson (2009) on informal and formal institutions.

¹⁵ David Hume (1985 [1758], p. 42) counseled that when political economists design rules of governance, and propose constitutional constraints and checks and balances they should do so under the working assumption that all men are knaves. This way the rules would work in such a manner that bad men can do least harm. Also see Brennan and Buchanan (2000 [1985], pp. 53-75).

such an extent that knavish behavior is held in check to the point of non-existence. Rules of good governance can also limit the rationalistic hubris of politicians that is evident in their efforts to exercise command and control over the economy.

The important point to stress for our present purposes is that there is no conflict between the exercise of constitutional craftsmanship and the appreciation of the spontaneous order within a market economy with clearly defined and enforced property rights and freedom on contract, and the recognition of the socio-evolutionary processes that occur in any society to produce norms and mores that enable individuals in groups to cooperate with one another even sometimes in very difficult circumstances. Constitutional craftsmanship, properly understood, cannot step outside of history and propose imaginary scenarios of completely new rules. Buchanan's strictures against omniscience in political economy cut against the constructivist impulse, just as his work on the relevance of the status quo in political economy gives us the guideline for where the exercise in constitutional craftsmanship must begin.

The status quo in Buchanan's framework possesses no normative weight, but it does possess analytical weight. It is what it is. We begin from the here and now, and not some imaginary start state where the problems that plague the existing structure of rights could be safely assumed away. The task of the political economist in constitutional craftsmanship remains that of proposing hypothetical rule changes that must generate agreement among the members of the collective action unit, including those who currently benefit from the status quo. Politics as exchange seeks to find the Pareto improving deals that can produce agreement, and the compensation principle is a significant guide in that process of collective choice.

That constitutional craftsmanship begins with the here and now means it is constrained by history, but it doesn't mean it is a slave to history. The relationship between culture and political economy is a nuanced one; culture is neither perfectly rigid nor perfectly malleable. But culture is omnipresent and cannot be escaped. To use Eric Jones's phrase, we see *Cultures Merging* (2006) throughout history with respect to institutional change and economic growth.¹⁶

When Hayek (1960) included his appendix "Why I am Not a Conservative?" the message he was trying to communicate was that like Hamilton he was unwilling to acquiesce to accident and force, when proper reflection and choice could be employed to improve the human condition. *The Constitution of Liberty*, as part of a larger project in Hayek's mind concerning "The Abuse of Reason" (see Caldwell 2004, pp. 232-260), did attempt to disabuse intellectuals of their hubris. Hayek sought to 'use reason to whittle down the claims of Reason' as he put it. But, again, the point of the book was to persuade others that a change in rules – both general rules over the nature of government, and particular rules, such as monetary policy or labor policy, were needed if western civilization was going to continue to advance along a trajectory of peace and prosperity. Hayek's main insight, and a point which Buchanan would develop even further, was that the particular rules of policy must be consistent with the general rules of governance if we are to make progress. Government was to be bound by rules, not run by interests.

But in coming to this critical assessment, Hayek conceded an important epistemological point in the effort to get sound social change of the rules of good governance. While the social scientist should be critical of all social conventions and

¹⁶ See Boettke (2009b) review of Jones's book.

existing patterns of social rules, he/she cannot be critical of all of them at the same time. To take the critical rationalist stance, Hayek argued, one must hold as given the background a host of existing behaviors and criticize not root and branch all of social rules. The rational constructivist proposes root and branch social transformation, Hayek argues that such an effort is hubristic and doomed to frustration and failure. On the other hand, Hayek -- despite how some (including Buchanan at various times) have interpreted him to be saying -- does not counsel that constitutional craftsmanship is doomed to such frustration and failure. Far from it, otherwise how could he have written such works as *The Constitution of Liberty*, let alone the 3rd volume of *Law, Legislation and Liberty*. (see Hayek 1979) Freedom to Hayek, as it is to Buchanan, is to be found in the constitutional contract that binds the hands of the rulers, and yet establishes the institutional framework that enables us to live better together; it is the institutional framework provided by the constitution that turns situations of social conflict, into opportunities for social cooperation.

Buchanan (2000 [1993]) confronted this Hayekian epistemic problem in social change in his reflections on post-socialist political economy. The ‘tacit presuppositions of political economy’, Buchanan argued had to be explicitly recognized and examined in light of the radically different historical experience of the people under socialist regimes. History matters in doing institutional analysis; as Buchanan puts it: “History, and the historical imagination that it shapes, matters.” (2000 [1993], p. 422) It is the lived history of a people that forms the status quo from which social change through constitutional craftsmanship must be accomplished.

Root and branch constitutional construction is to be rejected as suffering from the “fatal conceit”, but constitutional craftsmanship from within an existing status quo, and negotiated within an ongoing process of collective action is an intricate part of establishing a liberal order.¹⁷ And it is through this ongoing process that an appreciation of spontaneous order not only doesn’t conflict with constitutional craftsmanship, but gives economic content to the rule structure toward which our efforts at craftsmanship must strive if it is the desire of the citizenry to live better more meaningful and self-directed lives.¹⁸ There may indeed be many ways for individuals to live, but there are actually few ways for them to live together and simultaneously achieve individual autonomy, peaceful social relations, and generalized prosperity.¹⁹

Conclusion

We have seen that James Buchanan puts great emphasis on the economist’s role as student of society and teacher of basic principles of economics. The task of the economist and political economist is never conceived as that of the social engineer in command of the levers of social control in the polity and over the economy. As our

¹⁷ As Buchanan states: “Hayek’s strictures against the rational constructivists are directed at those putative scholar-reformers who would ignore the boundaries established by these culturally evolved abstract rules for behaviour, who would, quite literally, seek to make ‘new men,’ who would overturn the eighteenth-century discovery of the essential uniformities of human nature upon which any understanding of, and hence prospect for reform of, social interaction must rest.” (Buchanan 2001 [1986b], p. 317)

¹⁸ Boettke (2009a) argues that not only must the rules be binding, they must signal specific content if they are going to produce social change in the direction of peace and prosperity.

¹⁹ Dani Rodrik (2007) may want to insist that there is ‘one economics with many recipes’, but if recorded human history is the guide there is actually ‘one economics and few recipes for peace and prosperity’. Private property, freedom of trade, freedom of contract, monetary stability and fiscal responsibility is the basic recipe. Of course, this recipe has to be adopted and modified according to local conditions rather than being imposed from afar by Washington technocrats, and in that sense Rodrik’s central point is not off mark. The only path to reform is an indigenous one, but not all indigenous paths are productive ones to pursue. The development debate, like all modern economic policy debates, was adversely impacted by the “Keynesian divergence” and continues to suffer from this intellectual legacy of aggregate analysis and policies of social control.

epigraph from Knight argued, such a conception of the role of the economists is at odds with the very notion of democratic governance and within a democratic system actually is unethical. Who actually agreed to privilege the economist in the political discourse?

Instead, the economist and political economist has the far humbler, yet essential role to play in a free society. As economists we teach students (broadly defined) the basic principles of our scientific discipline so that they may in fact become informed participants within the democratic process. As Buchanan (2001 [1977], p. 96) explicitly states:

I have often argued that there is only one principle in economics that is worth stressing, and that the economists' didactic function is one of conveying some understanding of this principle to the public at large. Apart from this principle there would be no basis for general public support for economics as a legitimate academic discipline, no place for economics as an appropriate part of a liberal educational curriculum. I refer, of course, to the principle of the spontaneous order of the market, which was the great intellectual discovery of the eighteenth century.

The political economist, on the other hand, as we have argued, proposes hypothetical changes in the structure of rules that are subjected to the test of consensus of others within the collective choice arena. Order is not imposed, order results from agreement.

The order of the market is spontaneous, and emerges from the exchange behavior of individuals within a pre-existing structure of property rights and rules of engagement and mechanisms of enforcement. It is an on-going process within rules. At a different level of analysis, there is the choice over the rules that frame this process and help that order continually define and redefine itself is a consequence of conscious deliberation. Buchanan's great contribution to political economy and social philosophy, was to reconcile the emphasis on economic processes and the strategic behavior of individuals

within the economic game, and the choice over the rules of the game, the enforcement of those rules and in general the constitutional level of analysis. In so doing, Buchanan demonstrates how only through the utilization of a value-neutral science of economics, can we construct a value-relevant vision of political economy and social philosophy. To put this another way, economics focuses on the play within any given set of rules; while social philosophy reflects on questions of justice and the “good society”. Political economy insists that questions of justice and the “good society” cannot be addressed independently from the recognition that politics is never about particular distributions of resources, but always about rules of the social game that engender a pattern of exchange, production and distribution. Questions of “fairness” and “justice” are not about distributional outcomes and end-states, but about rules and the process of social interaction within those rules. Ultimately, social philosophers may be asking “what is a good game?”, but it is the science of economics that answers the question of “how players play the game given the rules of the game.” Political economy as a discipline is about the tacking back and forth between the rules and the strategies, and the recognition that the answer to “what is the good game?” cannot be provided unless we examine how the players are going to play that game given those rules. Economics provides necessary (not sufficient) information to social philosophy, without which social philosophic discourse will prove irrelevant for answering the questions asked concerning the “good society.”

Economics is a public science in two senses. If the knowledge produced by the discipline results in better laws, rules and institutions, then the public appellation is justified. But, Buchanan stresses, there is another sense in which economics is a public

science. It is an educational endeavor where the transmission of the basic knowledge of the discipline improves the ability of the students to be informed participants in the ongoing democratic process of the selection of the parametric constraints within which economic interaction takes place. (see Buchanan 2000 [1996], p. 48)

In both senses of economics as public science, spontaneous order theorizing is not at odds with the intellectual exercise of constitutional craftsmanship. In fact, rather than in contradiction, they exist in a symbiotic intellectual relationship to one another. The spontaneous order of economic play within the market is structured by the framework of law and order established, and the framework of law and order that is self-sustaining is one that is legitimated in the history and culture of a people. It does come, as Hamilton suggested, down to us to see our constitutions as a product of reflection and choice rather than accident and force. But history and culture do in fact matter. As Buchanan has recognized in a variety of different contexts, it is history and culture that represent the status quo from which all political negotiation must begin. The “here and now” is what it is, no normative weight attributed to it, it just is. But that means that all bargaining must begin there, and not at some mythical start state.

Constitutional craftsmanship begins with this recognition of the previous evolution, and proposes rules that hypothetically will enable us to live better together, subject to the agreement of parties to the collective action, and so established will realize the hypothesized Pareto improvements by creating an economic environment where the spontaneous ordering of the market realizes the gains from trade, and realizes the gains from innovation that follow from the promotion of social cooperation under the division of labor. Not only is there freedom in constitutional contract, there is also the promise of

peace and prosperity. That is an important lesson that economics has to offer to our fellow citizens as they engage in the ongoing practice of democratic self-governance. And, it is a lesson that is taught perhaps clearer than in any other writer in the history of our discipline by the work of James M. Buchanan.

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