

RESEARCH ARTICLE

James M. Buchanan: from Chicago to Virginia and Knight's influence on Buchanan

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This paper examines the influence of Frank Knight on James Buchanan during the latter's time as a student at the University of Chicago through to the successive periods of his life. We maintain that Knight's approach to economics and politics – in which individual freedom, (institutional) rules of the game and ethical rules are all paramount in explaining behaviours in both the market and the public sector – strongly influenced Buchanan's interdisciplinary intellectual enterprise. In this context, we stress Knight's influence on Buchanan's catallactic approach to both the formation of rules at the constitutional level and ordinary level, as well as for the behaviour of individuals interacting in the market and public sector. In this inheritance, the relevance of ethical values for economic progress and protection of a good, free society increased during Buchanan's last period of scientific research, with positive and normative levels always carefully distinguished, as in the Frank Knight tradition.

Key words Knight • Buchanan • rules • constitutional economics • catallactic approach
• ethics

JEL: H3, K16, P16

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Introduction and background

In 1959, James Buchanan, Professor of Economics and Chairman of the Department of Economics at the University of Virginia, decided to jointly author with Gordon Tullock¹ a book on the fiscal and monetary rules of democratic constitutions written in line with Wicksell's principle of quasi-unanimity. This project would combine their closely related research perspectives on the voting rules in the context of collective

choices.² They aimed to resolve the dilemma between the unanimity rule, which implies a unanimous consensus but requires a time-consuming process to reach a not-always-possible agreement, and majority rule, which may provide a timely solution but could also give rise to the exploitation of the minority. In their book on the *Calculus of consent*,³ the authors resolved this dilemma by proposing a two-layer democratic public choice construct formed by

- a fiscal and monetary constitutional stage in which, under a veil of uncertainty about the distant future, parties agree on the basic rules of the society according to the (quasi-) unanimity rule of Wicksell, thereby reaching the consensus albeit with high time-consuming transaction costs, and
- a post-constitutional stage, in which majority rule is adopted for an efficient and effective decision making.

The *Calculus of consent* deals with agreement among the voters under the quasi-unanimity rule for constitutional principles. This rule plays a central role in the veil of uncertainty about the future, which greatly reduces the differences in positions of the contracting parties. Clearly, the uncertainty assumption regarding longer-run choices draws heavily from Frank Knight's theory of choices under uncertainty, which differ from those under risk, as the latter rely on the probability calculus.⁴ Another central feature of the agreement in the *Calculus* is the existence of 'logrolling games' among contracting parties.

The shaping of public choice contracting at both the constitutional and post-constitutional level by game paradigms is also a 'Knightian' insight: Frank Knight's paper on 'The ethics of competition' outlined business as a game and discussed the standards for judging these games.⁵ On the other hand, Knight had criticised Polanyi's idea that consensus among constituents regarding the best social order could resemble the consensus in the scientific community about discoveries. Even facing uncertainty about future personal situations, as well as those of their children and children's children, which makes each individual's status similar to everyone else's, different persons may have different preferences regarding the good society and different beliefs about the operational effects of the various rules under discussion. It follows that a political agreement has, as a subjective component, a difference of preferences that makes it unlike from the objective agreement that occurs in the scientific community.⁶ The constitutional calculus of consent of Buchanan and Tullock follows Knight's view, not Polanyi's.

As James Buchanan wrote two decades later in a paper on Tullock's scientific contributions,⁷ their *Calculus of Consent* contains a tension between two different conceptions of the individual behaviour: the individual's own, which takes into account the ethical principles to which that person may feel to be conditioned, and the purely selfish one adopted by Tullock.⁸ In making their choices, Buchanan's individuals consider how they could affect others. Tullock's individuals, in contrast, are able to reach agreement with others in constitutional decisions only if they correspond to their own utility, strictly defined.

Here, too, Knight's influence matters. Indeed, while completing the *Calculus* with Tullock,⁹ Buchanan wrote a paper on majority voting,¹⁰ in the hypothetical case of a community of farmers facing the decision to repair a system of private roads by sharing the costs among all. Each farmer could vote to either repair only the roads used by

them personally or to also repair the roads used only by the others. If the farmers had been ethically sympathetic with the other members of their community, they would vote to incur the costs of repairing all the roads and thus share the benefits equally. If the farmers were strictly selfish, then they would form particular coalitions with the users of the same roads to repair only those roads in order to maximise their own benefits. However, this selfish behaviour would in fact most likely not have maximised the benefits of these coalition participants because the unit costs for their repairs would be higher due to the lack of economies of scale. Pro-social behaviours motivated by ethical principles would have likely given better economic results. Here too we see the influence of Knight, who argued in 'Ethics and economic interpretation' and in 'The ethics of competition'¹¹ that ethical rules are a moral capital that produces extremely important immaterial goods, with a per se non-economic value, but that are nonetheless vital for economic progress.

At no stage when writing the *Calculus* did Buchanan or Tullock feel that they had 'invented' or 'discovered' totally new or novel ideas. However, they did perceive themselves to be filling in a gap in political science, the very existence of which had surprised them:¹² an interdisciplinary work, in Knight's tradition.

The analysis of the book was normative in its suggestions regarding institutional structures required to reach the optimal results in public choices, but positive in its examination of the workings of alternative rules within individualistic presuppositions. Again, the influence of Knight's methodology can be seen.

Because of its constitutional emphasis, the *Calculus* provided a starting point for the emerging field of inquiry called 'constitutional economics' and became the backbone of the new public choice approach to economics, political science, ethics, law and sociology. This interdisciplinary field of research came to increasingly occupy Buchanan's attention, drawing his focus to economic, political and ethical issues. Tullock's work focused also on the legal¹³ and political-sociological perspectives¹⁴ and took other related directions, such as that of environmental economics¹⁵ and sociobiology.¹⁶

In his acceptance speech for the Nobel Prize in Economic Science, Buchanan expressed a debt to Swedish economist Knut Wicksell.¹⁷ In fact, Buchanan's discovery of Wicksell's individualistic microeconomic approach to fiscal phenomena in a non-market exchange framework occurred because of his exposure to Knight. Wicksell's insights provided Buchanan with a first taste of the seminal work of the Italian public finance theorists, such as De Viti de Marco, and later the Pavia school of Benvenuto Griziotti as introduced and facilitated by Francesco Forte.

As one can see from the two books by Buchanan, *Public principles of public debt* (1958) and *Fiscal theory and political economy* (1960),¹⁸ the roots of the public choice school of the University of Virginia form a triangle consisting of the Chicago school of Frank Knight, the Italian school of 'scienza delle finanze', and Wicksell.

The rest of the paper, consisting of two sections, shall focus on Frank Knight's influence on Buchanan. The next section concerns Buchanan's formative period, his exposure to Knight at the University of Chicago, and Knight's impact on Buchanan's subsequent scientific formation and early theoretical contributions to the economics of public finance. The third section concerns Buchanan's discovery of Wicksell in Chicago, his visit to Italy to broaden the Wicksellian perspective and, following that visit, the emergence of the Virginia school of public choice, as well as constitutional economics and the lasting influence of Frank Knight's thought on Buchanan's

interdisciplinary scientific enterprise. Conclusions follow, with particular emphasis on the ethics exhibited by a good, free society.

From Nashville to Chicago and after

James McGill Buchanan, Jr, was born in 1919 near Nashville, Tennessee, on the 'Buchanan estate', a sizeable house and farm held as joint tenancy¹⁹ by the six brothers and sisters forming the well-connected Buchanan family of politicians and a university president. His middle name, McGill, was the family name of his grandmother Frances McGill.

Buchanan's grandfather, a lawyer, had been a populist political leader and governor of Tennessee in 1891–93, a period characterised by farmer and miner revolts. Buchanan's prominent family was well-educated. Lila Scott Buchanan, his mother, a schoolteacher, had training ranging from Latin to calculus. Buchanan's uncle John McGill was President of the University of Oklahoma. James's family viewed his future career as a lawyer and political leader like his father and grandfather, and planned for him a solid education and admittance to Vanderbilt University's school of law for training in law and political science.

In his youth, James was idealistic and a pro-labour populist. He liked the idea of getting a doctorate degree in law and political science. However, he did not see his future as being an active politician. In any case, the Great Depression of the 1930s made it impossible for him to attend Vanderbilt, as originally planned.

Instead, in 1936, at age 18, James enrolled in Middle Tennessee State University College near Nashville. He worked on the family farm to earn money for 'fees and books' for Middle Tennessee State, and lived at home while attending. By 1940, he had accumulated majors in mathematics, English and social sciences, including economics.

Following his bachelor's degree, Buchanan received a one-year fellowship for a Master's degree at the University of Tennessee. After completion of his Master's degree in the summer of 1941, James' plans to apply for a statistics fellowship at Columbia University changed dramatically because he was instead drafted into the US Navy. James considered himself very lucky to be assigned to the operations staff of Admiral Chester Nimitz, Commander of the Pacific Fleet.

His first station was Pearl Harbor, the fleet headquarters. Next came deployment to Guam, where he met and married Ann, of Norwegian ancestry. After the war, James, although having the option to continue in the Navy, chose to take advantage of the GI Bill to enrol for a doctorate at the University of Chicago.

His choice was, at least partly, due to his earlier studies under a professor at the University of Tennessee who held a PhD from Chicago. Another important factor was the fact that the agriculturally rich Midwest was more amenable to his values.

James later described his politics upon his arrival at Chicago in 1946 as a mixture of 'libertarian socialism', anti-state and anti-establishment. However, his naval service had instilled in him a dedication to the high ethical duties of defending the democratic order and freedom. In addition, within six weeks of enrolling in Knight's course on price theory, he became, as he often repeated in writing and in person, 'a zealous advocate of the market order'.

Buchanan gleaned many insights from Knight. First of all, Knight instilled in his pupils 'the willingness to question anything, and anybody, on any subject any time;

the categorical refusal to accept anything as sacred; the genuine openness on all ideas; and finally, the basic conviction that most ideas peddled about are nonsense or worse when examined critically'. Descriptively, Knight's methodological principle was that of the 'relatively absolute absolutes'.²⁰

Knight's economics emphasised the organisational structure of the market, which consisted of the rules of the game, and elevated exchange as the coordination principle of the market to centre stage due to its continued stimulus of economising-maximising behaviour.

The relevance of this Knightian approach emerged in his solution to the divergence of private costs and social costs in the specific case considered by Pigou in the first edition of *The economics of welfare* (1920), namely that of external diseconomies of road congestion. Pigou demonstrated this divergence by illustrating the case of two roads, one of good quality and the other of low quality. Individuals' free choice would lead to congestion on the good road while leaving the bad road unused. Pigou showed that this occurred because the social costs (imposed on others) by the external diseconomies (congestion) resulting from the traffic on the good road, were not included in private costs incurred by road users.

Knight²¹ argued that the introduction of tolls for use of the road would remove the congestion by acting as a way to ration demand for the quasi-public good. More generally, Knight's reply to Pigou suggested that individual choices may be improved by changing the institutional setting in which they take place.

Knight's critique of the relevance of Pigou's contraposition between social costs and private costs, and Knight's own emphasis on the organisational structure of market institutions, not only influenced Buchanan's critique of the Pigouvian approach to external economies and diseconomies, but it also greatly affected the development of his scientific research into fiscal policy. Indeed, the idea of using tolls to price highways led Buchanan to demonstrate that public debt is a burden on future members of the community. Because the government may finance highways either by levying new taxes or by issuing public debt repaid by future toll roads, it is clear that using tolls created a debt that becomes a burden for future payers.

An additional 'snowball effect' of Knight's paper on social costs was adapted by Buchanan in his theory of clubs offering specific goods for exclusive collective use by their members.²² Toll roads are not the only example of institutions supplying goods for collective use only by those who become members, that is, pay on an individual basis for access at least once. Schools, both private and public, may be another example, depending on location. Local governments too may appear as clubs offering specific goods only to members if they may choose to belong to them or to opt for another local government, without prohibitive costs.²³

According to Buchanan – who was clearly speaking of Knight's methodology too – Knight was 'institutionalist in the proper sense of the word'.²⁴ In terms of their institutional design, both Buchanan and Knight were constructivists but held a pragmatist view à la Hayek²⁵ or à la Hume, in which spontaneous conventions may matter in drawing the legal rules.²⁶ However, they were not 'Austrians' (or Humean) regarding the social relevance of 'conventions', which they tended to replace by rules derived from a process of democratic choice with a contractarian nature, and by ethical rules as a moral capital, which produce extremely important immaterial goods without economic value. The persistence of these values, however, is vital for economic progress.

Knight developed this thesis in ‘Ethics and economic interpretation’ and ‘The ethics of competition’,²⁷ where he argued that a free market economy, under competition, is the best economic system, not because it provides the best results in terms of maximum efficiency or social equity, but because it assures the necessary liberties.

Knight, therefore, argued that the market should be considered a moral order. Efficiency resulting from mere material utility pursued by maximising the production of material goods and services does not imply the maximisation of the human preferences, because ‘progress’ consists of the satisfaction of higher wants such as aesthetic or spiritual needs. Therefore, ‘progress’ cannot always express itself in terms of market values. In addition, ‘there is some truth in the allegation that unregulated competition places a premium on deceit and corruption’.

To Knight, the family as a social unit held intrinsic individual value ‘because it enables inheritance of wealth, culture, educational advantage and economic opportunities but tends to increase inequality’.

The dissolution of moral values endangers the market’s function as a moral order and must be condemned not only in terms of the market’s ‘satisfactory’ functioning.

Given all this, one might ask why Buchanan chose Roy Blough as Chair for his doctoral dissertation. Blough represented the view that the role of public finance was to train efficient tax administrators, and thus held views of the role of the government and economic policy that differed greatly from those of Knight and that permeated Buchanan’s views.

Blough had served as public finance expert in the Roosevelt administrations and worked for the Truman administration from 1947–49.²⁸ From 1938 to 1946, he worked as Director of the Tax Research Office, in the Treasury Department, and as Assistant to the Treasury Secretary. Drawing on this expertise, he had written on US federal finances in *The Federal Taxing Process*.²⁹

Therefore, although no connections existed to Buchanan’s view of economics that could explain the link between Buchanan and Blough, Buchanan had other motivations for choosing Blough for his doctoral dissertation committee. Buchanan told one of the present co-authors (Brady) that although Blough had little to do with his dissertation and at that time was on leave from Chicago for a fellowship at the Brookings Institution, he had been interested in Blough’s experience in central and decentralised governmental tax policies. Through the principles of fiscal decentralisation, Blough connected Buchanan’s individualistic approach to the tradition of defence of individuals against the concentration of powers.

In his dissertation on fiscal federalism (1948), and in his papers on the equalisation grants of 1950 and of 1952,³⁰ Buchanan argued on efficiency grounds that these grants would discourage the outmigration from lower-income, less-productive states to higher-income, more-productive states, which would in turn distort the correct allocation of economic resources. In truth, this perspective is germane to Knight’s advocacy of broad competition and his stance against concentration, as well as to his view of equality of opportunity as a vehicle for long-run efficiency.

Virginia, the birth of public choice and beyond

Buchanan’s discovery of Wicksell’s individualistic microeconomic approach to fiscal choices occurred as a point of departure from his formative period at the University of Chicago. He had to translate a work from German in order to complete his foreign

language course. From the scaffolding of the Department Library, which contained works in German, he chose Wicksell's work on just principles of taxation,³¹ which argues that voting by the unanimity rule allows members of a parliament to choose the public services and their tax prices with an allocation similar to that in the market exchanges.

Buchanan's interest in Wicksell was in synergy with his exposure to Knight, who had theorised that appropriate institutions could solve the problems of the (negative) externalities of market goods with a social (negative) component in their use, such as overcrowded good roads.

Exploring Wicksell's work led Buchanan along a new, fruitful path. Through Wicksell, Buchanan was introduced to the seminal works of the Italian public finance theorists of the late 19th and early 20th centuries, from Pantaleoni and Mazzola to De Viti De Marco, Montemartini, Puviani, Griziotti and Einaudi. He found a connection between Wicksell's unanimity rule and the Pareto principle of welfare maximisation, whereby a community can reach choices that improve the overall level of welfare for everybody, without worsening the welfare of anybody else.³²

After Chicago, Buchanan's academic career advanced rapidly because of the reputation he acquired due to his papers on fiscal federalism, and with his new Wicksellian-Italian scientific work on public finance in a fiscal exchange paradigm similar to that in the market. Thus, Buchanan, who in 1948–50 had been associate professor at the University of Tennessee, became full professor in 1951–52 and head of the Department of Economics at Florida State University until 1956, when he was appointed full professor at the University of Virginia's Department of Economics.

Buchanan told co-author Brady the story of how he arrived at UVA. Professor Tipton Snively, who served as chair of UVA's Economics Department, made an ongoing effort to identify promising young scholars in economics. He had made inquiries with prominent scholars such as Seligman at Columbia University and Knight and Friedman in Chicago. Buchanan was mentioned as an up-and-coming scholar – that is to say, one he should contact. Snively therefore invited Buchanan to Charlottesville.

When planning a trip to Italy in 1956 for a NATO fellowship, Buchanan decided to take him up on the offer simply as a courtesy. At that time, much travel was undertaken by train, and Charlottesville was a convenient stop on the Southern Railroad, a primary rail artery to the hinterlands of central Virginia. The University was a short walk from the train station. At the meeting, Buchanan claimed he was flattered by the inquiry but quite happy in Florida even with the heavy administrative responsibilities of chair. He met Snively and some members of the department before continuing his travels to Italy. Not long after this visit, Buchanan received an offer, which he could extend until his return.

The NATO fellowship for a year of scientific research in Italy enabled Buchanan to explore the roots of the highly advanced work by the Italian public finance theorists, with whom he had acquired familiarity through Wicksell, while improving his knowledge of the Italian language.

Buchanan had chosen the Rome Research Office of the Bank of Italy as his research headquarters because of the richness of its library. He met the head of the Research Office, Giannino Parravicini, who was then associate professor at the University of Pavia, where he had earned his doctoral degree under the guidance of Benvenuto Griziotti, a then-famous professor of public finance. Parravicini told Buchanan that

the famous head of the Italian economic school of public finance, a former president of the Republic, Luigi Einaudi, whose chair was located at the University of Torino, could be contacted in Rome where he partially resided.

However, Parravicini suggested that Buchanan concentrate his research in Pavia, where Professor Griziotti, who had retired from ordinary teaching the previous year, was still the head of the Institute of Public Finance of the University and ran an interdisciplinary journal of law and economics of public finance. Pavia was home to very good documentation on the Italian 'economic school' of public finance, considered in the exchange paradigm. In fact, at the end of the 19th and first period of the 20th centuries, professors at Pavia University included Antonio de Viti De Marco, Ugo Mazzola, Maffeo Pantaleoni and Giovanni Montemartini. Buchanan followed Parravicini's suggestion and went to Pavia to visit Griziotti.

Griziotti, in turn, tasked an assistant professor with the duty of helping Buchanan in his research and his visit to the surrounding Lombardy area. This assistant professor of the Institute is the co-author of this paper, Forte.

Forte earned his PhD from the University of Pavia and was a product of the university from which the Italian tradition of public finance emerged. Of Buchanan's many colleagues during his formative years, Forte stands out as an influence equal to Knight, but in a different way.³³ When Buchanan met Forte, the latter was the youngest professor of economics in Italy, and he was acting professor of public finance at the University of Milano, in addition to being assistant professor in Pavia. Forte had firsthand experience with the scholars who developed the view of public finance based on taxes as prices of non-market goods. Griziotti told Buchanan that Forte had particular knowledge of the subject, having done his doctoral dissertation on the benefit principle in taxation. He was currently studying that topic in the context of taxes in relation to the specific benefit that they give to the taxpayers, such as motor vehicle and gasoline taxes, which, in addition to the tolls, are related to highway services.³⁴

Forte's primary contribution of that period, in addition to his research on the benefit principle in taxation, focused on public finance institutions from the Constitution downward, by means of a law and economics approach.³⁵ However, from studying taxes as prices of public goods, Forte was moving to their theoretical welfare economics frame with an individualistic approach, concentrating on the social welfare function as derived from the procedural rules of collective choices.³⁶

This work of Forte's was vital to Buchanan's synthesis, which would lead to the Virginia School of Political Economy and to Public Choice, with Gordon Tullock.

Forte's connection to the Italian tradition of public finance contributed to the factors giving rise to a snowball effect starting with Knight's influence on Buchanan's scientific enterprise, as with his book *Public principles of public debt* (Buchanan, 1958), in which he modelled that debt is a burden on future taxpayers. This realisation came to him by reading a paper by Benvenuto Griziotti, recommended by Forte, which presented an anti-orthodox view that considered public debt as a present burden (if any).

This is another example of the cumulative effect ('snowball effect') of Buchanan's reflection upon Knight's paper on social costs. The central idea in Buchanan's book on public debt – that public debt is a burden on the future taxpayers – came to him while descending the stairs of Albergo di Inghilterra in Rome. Buchanan associated the public debt paradigm with that of financing toll roads through a loan to be paid

back by tolls from users, as in the Frank Knight solution to the social costs problem in his controversy with Pigou.

From 1956 to 1966, Buchanan held a position in the Department of Economics at the University of Virginia and at the Thomas Jefferson Center for Studies in Political Economy and Social Philosophy, of which he was co-founder with fellow Chicagoan G Warren Nutter.³⁷ Other Chicago influences were already at the University of Virginia – many of whom, such as Nutter, along with Ronald H Coase and Francesco Forte, and in the latter period Gordon Tullock – were to reinforce the Chicago connection through interaction with D Rutledge Vining.³⁸ The Knight influences took productive root in this fertile environment during the early part of Buchanan's time at Virginia, and became one of the main reasons why the *Calculus of consent* became the foundation of the public choice school. Indeed, the programming guidelines leading to the rise of the Virginia School of Political Economy as the bedrock from which arose the public choice analytical framework to economics, law, economics, ethics and political science, may be presented by the following four points, which exhibit a clear Knightian flavour:

1. A microeconomic individualistic approach in which individual choices by contractarian devices are the core, not only of the market economy but also of the public economy (constitution as a contract, an agreement obtained among voters by logrolling).
2. Because institutions matter, economic models and their application must consider the interconnections among economics, politics, law and ethics (rules, values and power are objects of pure positive economics).
3. Comparison of the likely outcome of the different institutional arrangements allows adoption of the ones that may give rise to the best choices (only the unanimity rule allows for the satisfaction of everybody and hinders exploitation of minorities).
4. The analyst recognises that the only way to turn economic failure into success lies in creating conditions in which the preferred institutional arrangements may operate satisfactorily. The unanimity rule may function satisfactorily for choices involving the distant future because the veil of ignorance eases the agreement while time-consuming transaction costs do not damage their efficiency.

Clearly, these guidelines are all directly inspired by or conform to the Frank Knight Chicago approach to economics. Buchanan and other members of the group, then working in the Thomas Jefferson Center of Political Economy, such as Routledge Vining³⁹ and the older co-author of this paper, considered the ethical component relevant. Tullock, with his quasi-biological conception of the utility-maximising individual, did not share the ethical component. Neither did Warren Nutter, follower of Friedman's viewpoint.⁴⁰ Coase did incorporate the ethical component in his analysis when questioning why the polluter should necessarily pay for the pollution; in several cases, it may indeed be more efficient for the maximum welfare of the society, defined in Paretian terms, to adopt the opposite solution according to the compensation principle.

This position, even if presented in positive economics terms, fits perfectly with Knight's 'ethics of competition as a moral order' because the contracting parties make a free choice that fosters economic (and technological) progress.

The Virginia School of Political Economy was labelled (negatively!) as ‘neo-liberal’ because it originated not only by public choice. It was also considered arbitrarily as right-wing because it conceived ‘politics without romance’ and adopted a view of public debt as a burden on the future community, against Keynesian fiscal policy.

Coase too was condemned as a preacher of the right-wing gospel. His theorem on the internalisation of externalities by contracts between the parties, with the same allocative satisfactory equilibrium with either the principle that the polluter has to take care of the pollution or vice versa, was considered as spreading a ‘right-wing’ message because it was ‘pro-business’.⁴¹

Concluding remarks on Buchanan as a Knightian

Buchanan, as a Knightian, was a constructivist in a Chicago-school positive anti-intellectualistic way.⁴² Both thought that institutions do matter, but they were not institutionalists in the traditional sense of the term. Because of uncertainty and limited human knowledge, they were quasi- ‘Austrians’ in considering, similar to Hayek, the rules born in the spontaneous order, that is, the ‘conventions’ in Hume terminology as relevant experiences to use to set and apply legal rules.⁴³ However, they were not ‘Austrians’ as they conceived the legal rules from the catallactic point of view. They did consider both the ethical rules and ethical capital of the members of the community through the flow of generations as paramount for the order of the market, as well as for the social and political order in general.

Knight’s (1922) ‘Ethics and economic interpretation’, as already noted, argued for relevance of the ethical rules and ethical capital as follows:

1. *The necessary liberties*: a free market economy under competition should be considered the best economic system not because it provides the ‘best’ results in terms of maximum efficiency or social equity, but because it assures the ‘necessary liberties’.
2. *The importance of the family*: the family, as a social unit, has an intrinsic individual value.
3. *Progress as gratification*: what individuals in modern societies call ‘progress’ largely consists of ‘the satisfaction of higher wants’ as gratification of aesthetic or spiritual needs, which *cannot* always be reflected in market values.
4. *Efficiency*: when seen merely as maximising the production of physical goods and services, efficiency does not imply the maximisation of the human preferences. Therefore, the efficiency criteria of market outcomes must be judged in different terms than mere economic outcomes.
5. *Frailties of capitalism competition as of every social organisation even if less than the other ones*: ‘there is some truth in the allegation that unregulated competition places a premium on deceit and corruption’ and that ‘inheritance of wealth, culture, educational advantage and economic opportunities tends to progressive increase of un-equality’. Thus, corrective measures will be needed.

The relevance of ethical values and of the necessity to preserve and reassert them occupied an increasing place in Buchanan’s work over the years. Regarding the contractarian approach to the constitutional rules, Buchanan co-authored a paper with Victor Vanberg (Vanberg and Buchanan, 1989), in which he introduced Habermas’

notion of dialogue by which the parties recognise, via a cognitive approach, an objective criterion of fairness upon which they all agree. Thus, ethical integration occurs between the so-called logrolling and the veil of uncertainty in the long-run perspective as basic ways to reach agreement on the constitutional rules laid down in the book the *Calculus of consent*.

An entire section of Buchanan's 1986 book *On the economics and ethics of the constitutional order* is devoted to this theme. However, its most important chapter, in terms of the Knightian conception of ethics as a factor of economic progress and of the virtues that *per se* have great intrinsic value, is the one relating to the 'work ethic'. Here exists the foreshadowing of Buchanan's new original construct of the relation between the ethics of working more and saving more on the one hand and increasing returns on the other that would be developed in two books written in 1994 and 1995, *Ethics and the economic progress* and *The return to increasing returns*.⁴⁴

Similar to Knight, Buchanan maintains that the ethical values held by members of the society have an important external economic effect on other society members. He focuses on the ethics of work and saving, arguing that a society that shares these values enjoys a higher rate of economic growth, which implies a larger size of the market and a greater division of labour, and, consequently, increasing returns.⁴⁵ Consequently, he argues that we should pay the preacher of this ethics: a solution apparently similar to that suggested by Marshall and Pigou of subsidising increasing return industries, the basic difference being that, instead of specific government interventions, the individual behaviours would change because of the change in (ethical) rules, as in Knight's teachings.

In his last book, *Why I, too, am not a conservative* (Buchanan, 2005), Buchanan solves in Chapter I the dilemma between the unanimity rule and majority rule by the ethical postulate of classical liberalism, namely that humans are born equal. It follows that the hierarchical structure of the society based on the status quo proper of the conservatives contrasts with the ethical postulate of equality of human beings. A majority rule is sometimes necessary to change the status quo to allow better chances in order to reduce the de facto hierarchical structures of society. The classical liberal society, therefore, must be 'a democracy with a small d'.

All of Buchanan's papers collected in this book, written by him in the last part of his life, are devoted to ethical issues. At the end of the concluding paper, titled 'The emergence of a classical liberal: a confessional exercise', he writes:

Economics is indeed amoral in the sense that the subject remains the behaviour of the persons as observed, not the behaviour as it should be, as determined by some set of moral standards. Nevertheless, economics emerged from and intrinsically requires a moral stance or a predisposition that views social relationships among persons, including those explicitly labelled as economic, as relationships between and among moral equals. In its very foundations economics is equalitarian rather than hierarchical, a distinction that must be interpreted as a moral one.

In 2007, Buchanan asked the older co-author of this paper, through their common friend Hartmut Klimt,⁴⁶ to organise a conference in Frankfurt with his European friends on the topic 'Money, markets and morals', published in honour of Buchanan as

a booklet under the same title,⁴⁷ to stress the relevance of ethical virtues to economic and non-economic progress.⁴⁸

Notes

- ¹ Gordon Tullock, then assistant professor at the University of South Carolina, in 1958–59 had been the first Thomas Jefferson postdoctoral fellow at the Department of Economics at the University of Virginia, during Buchanan's tenure as Head of Department. As head of the department, Buchanan, together with Warren Nutter as president of the Thomas Jefferson Center of Political Economy, created the Thomas Jefferson postdoctoral fellowship to promote an interdisciplinary approach to economics, law and political science and bring an international perspective in the renewed Virginian Department of Economics. Tullock, after a degree in law at the University of Chicago in 1947, had been in the Diplomatic Service in Korea until 1956. He had written two papers on the Korean monetary system, and a paper on hyperinflation in China. See Tullock (1957, 393–407), Campbell and Tullock (1957, 336–40), and Campbell and Tullock (1954, 236–45).
- ² In the 1949–54 period, Buchanan wrote three papers on the contractarian approach to public finance: Buchanan (1949, 496–505); Buchanan (1954a, 114–23); Buchanan (1954b, 334–43). After his period in Italy, he completed a monograph on 'The Italian tradition in fiscal theory', published in *Fiscal theory and political economy* (Buchanan, 1960), together with the three papers previously mentioned and other articles. In 1959, Tullock published an innovative paper on majority voting, with and without logrolling – that is, 'voting trade' – in the *Journal of Political Economy* (Tullock, 1959, 571–79). Clearly, Tullock was applying the concept of 'logrolling' as a trade of votes as a contractarian paradigm to the formation of the legislative activities.
- ³ Buchanan and Tullock (1962).
- ⁴ Knight (1921). For an early application of the game paradigms to the choice of the (ethical) rules by the individuals, see Buchanan (1965, 1–13). For a systematic adoption by Buchanan of game theory to explain why constitutional rules are needed, see Brennan and Buchanan (1985).
- ⁵ Knight (1923, 579–624).
- ⁶ See the successive reflections of Buchanan on Knight's criticism of Polanyi (1949) in Knight (1949, 271–84).
- ⁷ Buchanan (1987).
- ⁸ Brady and Tollison (1994).
- ⁹ The book was written by correspondence between Charlottesville, VA, and the University of South Carolina in Columbia, SC, where Tullock was teaching during the 1959–60 academic year.
- ¹⁰ See Marciano (2015), in which Marciano is dealing with Buchanan (1961).
- ¹¹ Knight (1922, 454–81; 1935, 579–624).
- ¹² Although at Thomas Jefferson's Center of the Department of Economics of the University of Virginia, Buchanan and Tullock's approach was more consistent with the Constitutional views of James Madison rather than of Jefferson.
- ¹³ Tullock (1980; 1990).
- ¹⁴ Tullock (1965; 1972; 1987).
- ¹⁵ Tullock (1991).
- ¹⁶ See, among others, Tullock (1971; 1979 ; 1990; 1994).
- ¹⁷ The reference is mainly to Wicksell (1896). An English translation of the basic parts of Wicksell's seminal contribution has been done by Buchanan for Musgrave and Peacock (1958, chapter 6). Buchanan's first paper on Wicksell marginal pricing was

- Buchanan (1951), then he applied Wicksellian marginal cost pricing to the collective consumption of roads in Buchanan (1952c; 1956).
- ¹⁸ Buchanan (1958; 1960), see also note 2.
- ¹⁹ Joint tenancy is a type of homeownership in which each member on the title has an undivided interest.
- ²⁰ Buchanan (1968).
- ²¹ Knight (1924)
- ²² Buchanan (1965b).
- ²³ On Buchanan's theory of club goods, see Sandler (2013).
- ²⁴ Buchanan (1990, 8).. See also Buchanan (1968, vol 19, 91): 'Knight's avowed skepticism of any extended application of theory places him alongside the American institutionalists. This question-ridden, almost answerless set of essays shows that he is a rare theorist who is also an institutionalist, an institutionalist who is not a data collector'.
- ²⁵ On the influence of Hayek on Buchanan, see Boettke (1987).
- ²⁶ See Forte (1991).
- ²⁷ Knight (1922; 1935).
- ²⁸ As a member of President Truman's Council of Economic Advisers from 1950 to 1952, Blough had a good connection to the Washington elite academic circles, which included Brookings and other academic institutions.
- ²⁹ Blough (1952).
- ³⁰ Buchanan (1950; 1952a; 1952b).
- ³¹ Brady and Tollison (1994).
- ³² See the series of papers on the fiscal exchange paradigms in public finance under the influence of Wicksell and of the Italian school of Pantaleoni, Mazzola, Viti de Marco, Einaudi, in a Pareto maximum economic welfare perspective mentioned in note 2
- ³³ Gordon Brady wrote the following paragraph to highlight the importance of Professor Forte's contributions to Buchanan's exposure to Italian public finance theorists.
- ³⁴ Forte (1952; 1956a; 1954).
- ³⁵ Forte (1956b; 1957).
- ³⁶ This work of Forte's was done in the Department of Economics at the University of Virginia in the years 1959–60 and 1960–61 when he was postdoctoral Thomas Jefferson fellow and, subsequently, associate professor of theoretical welfare economics, and was collected in Forte (1961).
- ³⁷ In autumn 1957, when Buchanan arrived at UVA, Nutter, a Chicago PhD, also arrived to fill a position in industrial economics and growth. Nutter was not from the Knight school, but from that of Friedman, a pro-market positivist and rationalist to the extreme. Nutter had first taught at Lawrence College and subsequently had been appointed Associate Professor of Economics at Yale University.
- ³⁸ Snively and Vining, in search of differentiation, hired Coase (1910–2013), a British economist, in 1956. In his best-known paper, 'The nature of the firm' (1937), Coase explained vertical organisation by business enterprises as a remedy to excessive transaction costs of exchange arising within an organisation based on contract. Transaction costs play a central role in Buchanan's and Tullock's *Calculus of consent*. He had also criticised the marginal cost pricing in a market economy approach to firms, because even if theoretically correct in the short run, this type of pricing would lead to the disregard of average fixed costs, which are marginal costs in the long run.
- ³⁹ Rutledge Vining, in *On appraising the performance of an economic system* (1984), argues that the science of normative economics cannot consist of end and means maximisation by a superior chooser or by a professor of theoretical welfare economics. Normative

economics is the search for the institutions that could produce the preferred individual decisions.

- ⁴⁰ Unlike Knight, Friedman saw no particular relevance for ethical norms. Equity was, basically, the result of the market under competition. Unlike for Knight, a competitive market would not increase inequality.
- ⁴¹ However, Austrian scholars like Murray N Rothbard (1989) criticise Coase's theorem because of his presumed lack of respect for acquired property rights, in name of the efficiency.
- ⁴² See note 6 above on Knight and Buchanan's criticism of Polanyi.
- ⁴³ Tullock, on the other hand, did not believe in the spontaneous legal order; see Tullock (1997).
- ⁴⁴ Buchanan (1994); Buchanan and Yoon (1995).
- ⁴⁵ Buchanan (1994, 1–6). Buchanan, meeting Forte, in October 1994, in Cambridge, MA, told him that after reflecting on Adam Smith's theory of division of labour as conditioned by the extent of the market, he had changed his ideas about the general relevance of the theory of constant on decreasing returns in the general economic equilibrium.
- ⁴⁶ A Buchanan scholar, co-editor of the *Collected Works of James M Buchanan* for the Liberty Fund, and a professor of philosophy and economics in Frankfurt.
- ⁴⁷ Forte (2008).
- ⁴⁸ If Nancy MacLean had read carefully the works of Buchanan until the last one she would not have written the book (MacLean, 2017) in which she presents Buchanan as the architect of a radical right immoral intellectual conspiracy. Besides the fact that following Nancy MacLean's reasoning, Hayek's and Knight's works too are mere radical right intellectual conspiracies, she does not realise that the 'unanimity rule', that Buchanan adopts, is the principle of 'just taxation' of Wicksell, who had been a card-carrying socialist, even imprisoned in Sweden for his left-wing political ideas.

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