

Chapter 1

The “Organismic” versus the Individualistic Conception of Collective Choice

Vague and general terms, such as “social utility” and “social welfare,” are of little use in the discussion of policy problems. The theoretical steps in the maximizing of social utility offer little or no direct guidance to governmental fiscal authorities.

— James M. Buchanan, “The Pure Theory of Government Finance”
(1949)

In his intellectual biography *James M. Buchanan and Liberal Political Economy*, Richard Wagner, Buchanan’s student, long-time colleague, and co-author, explains how all of James Buchanan’s work is an offshoot of one of Buchanan’s first professional publications: an article titled “The Pure Theory of Government Finance: A Suggested Approach.” Published in 1949 in the prestigious *Journal of Political Economy*, this article’s core ideas have grown from a sapling over the course of six decades into a massive and sturdy oak with countless limbs. And “countless” is only a slight exaggeration. Over the next 63 years—until just before he died in January 2013—Buchanan was an incredibly prolific scholar.

His *Collected Works*, which include nothing that he wrote after 2000, fill 19 thick volumes (not counting the volume that is the index). Nor do these works include a 1970 book (co-authored with Nicos Devletoglou) on the state of academia, or a basic economics textbook that Buchanan co-authored in 1954 with Clark Allen and Marshall Colberg, or Buchanan’s own 1960 textbook on public finance. Also excluded are the many volumes that Buchanan edited,

and all but a tiny fraction of Buchanan's vast correspondence. Yet, remarkably, the great majority of the many comments, speeches, articles, and books that Buchanan wrote over the course of his long scholarly career is an outgrowth of the fundamental insights that he offered in 1949.

Most foundational among these 1949 insights is this: because neither the state nor society is a singular and sentient creature, a great deal of analytical and policy confusion is spawned by treating them as such. Collections of individuals cannot be fused or aggregated together into a super-individual about whom economists and political philosophers can usefully theorize in the same ways that they theorize about actual flesh-and-blood individuals. Two or more people might share a common interest and they might—indeed, often do—join forces to pursue that common interest. But two or more people are never akin to a single sentient individual. A collection of individuals, as such, has no preferences of the sort that are had by an actual individual. A collection of individuals, as such, experiences no gains or pains; it reaps no benefits and incurs no costs. A collection of individuals, as such, makes no choices.

Instead, Buchanan contended, only individuals possess preferences. Only individuals experience gains and losses. Only individuals act and, hence, only individuals make choices.

Professional economists might shrug and say that Buchanan was merely avowing the importance of the scientific stance of “methodological individualism”—that is, the insistence that a proper understanding of all social phenomena requires that these phenomena be traced back to, or “reduced to,” the choices of individuals whose actions give rise to the phenomena. Perhaps everyone—economists and non-economists—will regard Buchanan’s insistence on this reality as nitpicky and arcane.

But the fact that Buchanan’s article was published in a leading academic journal suggests that, at least in 1949, he was offering more than a fussy restatement of widely accepted truths. And indeed he was.

For starters, Buchanan insisted on the then-unusual stance that the same methodological individualism that economists use so productively to analyze commercial markets should be used also to analyze the operation of government and political decision-making. People are people are people; they don’t change fundamentally when moving from the private sector to the

political sector or vice-versa. And as we'll see in later chapters, Buchanan modeled political activities—or at least those in democratic societies—as being a means by which individuals can engage in exchange with each other, with each party to such exchanges aiming to improve his or her own or family's well-being.

In addition, Buchanan warned against imputing to any collective a singularity of purpose. You as an individual have preferences which you purposefully attempt to satisfy as fully as possible by using whatever means are at your disposal. Ditto for your next-door neighbour. But despite being residents of the same country (and province or state, and town, and neighborhood) you and your neighbor share no one, singular purpose. There is nothing—no one *thing* that is analogous to your individual preferences—for you and your neighbour to “maximize.”

Furthermore, when analyzing the groups that individuals form when they come together to pursue collective outcomes, Buchanan insisted that close attention be paid to the details of how these individuals constitute themselves as a group—and most especially, to the decision-making procedures they choose for their group. The failure of economists and political scientists to analyze the details of how collective decision-making groups form, operate, and change denies to these scholars the ability to make sense both of how individuals in the groups act and of why collective outcomes are what they are.

Each of these three propositions in 1949 ran very much against the grain of academic thinking.

To understand why, consider two important features of the timing of Buchanan's arrival on the professional scene. First, by the late 1940s the style and content of economics that was ascendant was that of John Maynard Keynes (1883-1946). Second, the democratic United States had just helped to win a world war against fascist regimes and then found itself, along with other democracies, in a cold war against a totalitarian communist state. The combination of these two features made for some dubious economics and political philosophy.

Keynesianism

Among Keynesianism's contributions was the introduction of aggregative thinking—or, rather, its re-introduction, albeit in a much more sophisticated form—that had largely been exorcised from economics ever since Adam Smith

exposed the fallacies of mercantilism. The adherents of this dusty and debunked doctrine—the popularity of which peaked roughly from 1600 until the publication in 1776 of Smith’s monumental work *An Inquiry Into the Nature and Causes of the Wealth of Nations*—assumed that the interest of the state is identical to that of society. Thus, any policy that strengthened the state was believed to strengthen society.

Aggregative thinking lumps together a great many individuals into large categories such as “the nation” or “the government” and then treats each of these categories as if it is a unitary thinking, choosing, and acting individual. This manner of analysis, the spirit of which was revived by Keynesians, renders unnecessary the kind of economic analysis that was inspired by the work of Adam Smith (1723-1790). Analysis done in the tradition of Smith examines how multitudes of individuals, all pursuing their own individual interests and possessing only their own unique bits of knowledge, come to have their plans and actions coordinated—chiefly by adjustments in market prices and the resulting profits and losses—in ways that are not only economically orderly and highly productive of material goods and services, but also unplanned *and unplanable*.

With aggregative thinking, “the social welfare” is promoted by “the government,” with the latter treated as if it’s an organism possessing a brain, and as if that brain’s main interest lies not in serving itself but, rather, in serving the nation. Overlooked are the processes—all churning with assorted incentives and constraints—that lead individuals with diverse interests to undertake actions such as forming governments, becoming government officials, and dealing with government both as citizens who receive benefits from it and who incur costs to sustain it and to affect its activities.

Buchanan called such aggregative thinking the “organismic” notion of collectives—that is, the collective as organism. From the very start, nearly all of Buchanan’s lifetime work was devoted to replacing the organic approach with the individualistic one—a way of doing economics and political science that insists that choices are made, and costs and benefits are experienced, only by individuals. As we will see in the next chapter, for example, Buchanan wrote his first sole-authored book to debunk a myth about government debt

that had become widely accepted only because of Keynesianism's organicist assumptions.

Democracy's zenith

In the immediate post-WWII free world, widespread acceptance of the organicist conception of state and society was almost certainly encouraged by the use in those countries of regular elections—a key feature of democracy—as the means of choosing government leaders. The thinking was this: Because in a democracy the People choose government officials (and, thus, ultimately government policies), and because each voter has just as much say as every other voter, governments chosen democratically reflect the will of the People. Such governments, therefore, are good because they embody the general will.

Significantly, such governments are also the opposite of those of the West's evil Cold War enemies. Communist regimes in eastern Europe, east Asia, and Latin America were modern-day versions of seventeenth century monarchies whose leaders had the audacity to arrogantly pose as embodying their nations' wills. The only real difference between seventeenth century monarchs such as France's Louis XIV and twentieth century dictators such as the Soviet Union's Joseph Stalin (other than the latter's greater access to weapons of mass slaughter) is that the former boasted of being ordained by God while the latter declared themselves to be anointed by history.

Aware that tyranny and poverty were the common lot of all citizens of communist countries—a lot correctly understood to be diametrically opposite to that enjoyed by citizens of the democratic west—it was easy to recognize democracy's genuine and significant superiority to one-party, tyrannical rule. Trouble is, this correct recognition of democracy's superiority to autocracy morphed into an unrealistic and romantic fantasy about democracy's nature, abilities, and benefits.

Majority rule was believed then (and still believed by most people now) by its very nature to discover and implement the will of the People—as if a collection of people has a will in the same way that an individual has a will. From this organicist belief, it's a short step to the conclusion that as long as government officials are chosen democratically in regular, open, and fair elections, society will express its will, and government will carry it out.

Of course, just like any ordinary individual, the People occasionally make choices they later regret. And the government charged with carrying out the will of the People will occasionally err in performing its assigned task. But apart from these mundane imperfections, the results of democratic decision-making can no more be legitimately second-guessed or criticized than can an individual's choice of which kind of car to buy or which style of clothing to wear.

Just as those of us in the modern, liberal West respect the freely made choices of individuals, we must respect the choices that the People, as a collective, freely make and express through democratic processes. Such was the thinking when Buchanan began his career.

From its start, Buchanan's entire career can be understood as a constructive scholarly reaction to the analytical errors of Keynesianism on the one hand, and excessively romantic beliefs about democracy on the other.

Buchanan the democrat

Because much of what follows about Buchanan's scholarship might appear to careless readers to be an attack on democracy—or at least an expression of deep skepticism about it—it's important at the start to avoid this confusion. Although Buchanan was no capital "D" American Democrat (or capital "R" Republican) he was a *democrat* to his core. Buchanan believed deeply that each individual is morally equal to every other individual. Because no person is superior, ethically speaking, to any other person, no person's opinions or preferences should be given special advantage over those of other persons. As Buchanan repeatedly expressed this sentiment one way or another, "We cannot claim to play as God" (Buchanan, 1975a: 15).

Buchanan believed that this conclusion holds fast despite the undeniable fact that some individuals are smarter, or better educated, or wealthier, or higher-born than others. For Buchanan, society improves normatively the more reliably it gives to each individual, regardless of intelligence, wealth, rank, or any other distinction, an equal say in the affairs of government, with the scope and powers of government determined by the consent of the governed.

Buchanan's extensive investigations of majority-rule democracy and of other methods of collective decision-making revealed to him the many ways

that, in practice, such decision-making can, and very often does, lead to outcomes that are at odds with the desires of voters. Majority-rule democracy, if not governed by sound constitutional rules, will produce outcomes that, ironically, harm majorities and satisfy only small minorities.

Buchanan sought to expose the flaws in majority-rule democracy not to discredit democracy but, instead, to persuade people to correct these flaws by crafting appropriate constitutional rules. Among Buchanan's normative goals was to strengthen democracy to better enable it to live up to what he believed were the admirable ideals of James Madison and others of America's founding generation.

Reconstructing public finance

In 1949, the fuller pursuit of these endeavors lay only in Buchanan's future. When he wrote "The Pure Theory of Government Finance: A Suggested Approach," Buchanan almost certainly didn't foresee the extent to which its few simple but powerful themes would later unify nearly all of his scholarly work. This early paper was in the rather narrow field of what economists call "public finance," the branch of economics devoted to the study of government budgeting. These days, public-finance scholars examine both the causes and consequences of government's taxing decisions and spending choices.

But in Buchanan's day, among mid-twentieth century English-language scholars of public finance, government was simply *assumed* to operate with the goal of promoting the public interest as fully as possible.¹ So they gave little attention beyond mere description to government spending decisions.

Analyses of the tax side of the budget were a bit better in the mid-twentieth century, although not much. Compared to the almost non-existent use of economic analysis to gain a deeper understanding of government's spending decisions, economists did dive more deeply into analyses of taxation. The major questions they asked included, "What are the different consequences of different taxes on the private economy?" "What consequences do different

1 We single out English-language scholars not because Buchanan was an American who spent his entire career at American universities, but because Buchanan himself contrasted Anglo-American public-finance scholarship with the works of many Italian scholars in the field. As we will see in Chapter 3, Buchanan found in the works of the Italians an approach far more realistic and therefore far more descriptive and useful than he found in the works of most English-language public-finance theorists.

systems of taxation have on income distribution?" and "What are the appropriate criteria for imposing taxes?" Nevertheless, as with its spending decisions, government was *assumed* in its taxation decisions to be motivated only by the goal of furthering the public interest.

Buchanan was unhappy with economists treating the spending and the taxation sides of the budget so differently. (In chapter 3 we'll look in more detail at how Buchanan proposed to remedy this problem.) But he was even unhappier with economists' failure both to critically investigate the motives of the flesh and blood individuals who make fiscal decisions, and to recognize the role that citizen-taxpayers play in prompting government officials to tax and to spend as they do.

George Mason University economist Richard Wagner summarizes Buchanan's 1949 paper nicely:

Buchanan (1949) is a form of call to arms in which he sets forth a bottom-up approach to public finance wherein people are construed as governing themselves, in contrast to the orthodox approach to public finance where the state is treated as some inscrutable entity that magically injects taxes and spending into society, and with individuals responding to those injections but in no way causing them.... Buchanan wanted to reconstruct public finance to render it suitable for democratic regimes where people governed themselves as opposed to being governed by a class of rulers. (Wagner, 2017: 4-5)

You will see in the following chapters the common themes that resonate in all of Buchanan's work and that were first sounded in his pioneering 1949 paper.