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ECONOMICS IN THE POST-SOCIALIST CENTURY*

James M. Buchanan

My title specifically suggests that the focus of scientific inquiry in our discipline is not independent of history. Nor are the events of history independent of developments in economics. Both in our roles as citizens (public choosers) and as economic analysts, we have learned from this century's experiments in politicised direction of economic activity, and this learning must, itself, affect both socio-political processes and the shape of further scientific inquiry. In both of these symbiotically related capacities, we simultaneously learn from and make our history.

The verb 'make' deserves emphasis, because it points to the basic difference between the subject matter of the social and the natural sciences. There is no set of relationships among persons that we can label to be 'natural' in the definitional sense of independence from human agency. The political economy is *artifactual*; it has been constructed by human choices, whether or not these have been purposeful in any structural sense. And the political economy that exists is acknowledged to be subject to 'unnatural' change. As the great experiments of this century demonstrate, attempts can be made to *reform* social structures, in the proper meaning of the term. By comparison and by contrast, it would be misleading to use the word 'reform' with reference to the natural world even with the dramatic advances in our scientific understandings. From the artifactual quality of that which is the subject of inquiry in economics, we infer, firstly, the necessary interdependence between science and history and, secondly, the relatively more direct linkage between science and purposive design.

In Section I, I shall argue that the post-socialist century will be marked by a convergence of scientific understanding among those who profess to be economists. This convergence will contrast starkly with the sometime acrimonious controversy that described discourse in the century past. This relatively clear difference in the economics of the two centuries will, itself, prompt inquiry into the sources of the earlier conflict. Section II previews the possible re-evaluative enterprise that may take place in ensuing decades and introduces the suggestion that in such an enterprise, profound methodological transformation may be accomplished. The convergence of understanding will also modify the relevance of the positive-normative distinction that became familiar only in this century. Section III elaborates the argument, and here I suggest that the political economy of the next century will indeed become more normative in the now conventional meaning of this term. But the normative focus will necessarily be quite different from that which seemed appropriate in

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the setting where all economies, to greater or lesser degrees, were subjected to politicised direction and control. The revised normative focus will be on the constraints within which economic actors, individually or corporately, make choices among alternatives. And the accompanying, and indeed prior, positive analysis will involve comparisons among alternative sets of constraints, or rules. As Section V suggests, 'constitutional economics' will command increasing scientific attention in the upcoming century, whether or not the relevant research programmes are explicitly classified under this particular rubric. Section VI adds a postscript.

I. TOWARD A SCIENTIFIC CONSENSUS

Consider the following statement by a widely respected observer:

They (the diverse parties in Eastern Europe in 1990) are also saying – and for the left this is perhaps the most important statement – there is no 'socialist economics,' there is only economics. And economics means not a socialist market economy, but a social market economy.

Timothy Garton Ash, 'Eastern Europe: the year of truth',
New York Review of Books, vol. 37, No. 2 (15 February 1990), p. 21.

In 1990 few, who profess to call themselves economists in East or West, will challenge the elementary proposition to the effect that economies that are described by individual (private) ownership of the means of production work better than economies where individual ownership is absent. And there exists widespread agreement on what is meant by the descriptive predicate 'work better'. More goods and services are produced, with 'more' being measured in terms of the values placed on such goods and services by individual participants. This convergence of scientific judgment within economics has already been evident for three decades. Since the 1960s, there have been relatively few claims advanced by economists concerning the superiority of centrally planned economies. And, indeed, few modern economists are either old enough or honest enough to recall the frequency of such claims during the middle decades of the century. This still-emerging consensus on the relative efficiency of market and socialist systems of economic order will characterise the first several decades of this JOURNAL's second century.

Since the emergence of economics as an independent discipline, there has been near-unanimity in analysis of the effects of particularised constraints on voluntary exchange. The destruction of potential value generated by tariffs, price floors or ceilings, or prohibitions on entry and exit – the demonstration of this result has remained a central emphasis over two centuries and can be predicted to remain in place over a third. But scientific advances have been made in understanding why collectivities impose such value-reducing constraints, and, in addition, economists can now measure the opportunity losses more accurately. Differences will continue as analysis comes to be applied and especially if policy alternatives are presented in piecemeal fashion. But emerging scientific consensus will be indicated by the crossing of the intellectual-

analytical bridge between the acknowledged failure of socialist organisation in the large and the inefficacy of politicisation in the small (market by market).

Predictions of convergence seem more dicey when attention shifts to macroeconomics, the domain of inquiry opened by the Keynesian revolution. Market organisation works but within what set of parameters? And how detailed need political direction be in determining the values of the relevant parameters here? Controversy rather than consensus describes the state of play in the early 1990s. What might be projected for the 2000s?

Convergence here will occur in what might seem a reverse order. Economists will attain broad consensus on choices among policy options *before* observed agreement on underlying analytical models of macroeconomic interaction. The lasting Keynesian contribution will be the emphasis on the dominance of man's 'animal spirits' in the subjectively-derived definitions of the expectational environment within which entrepreneurs, in particular, make future-oriented choices. The attempted extension of rational choice models to intertemporal and interdependent choices within an equilibrating adjustment framework will, ultimately, be deemed a failure. Both strands of inquiry here will converge early in application to policy. Those economists who stress expectational instability will move toward recognition that only structural reform can serve the implied macroeconomic purpose. And those who extended rationality precepts have already restricted reform efficacy to structural parameters.

Ultimately, this convergence on policy norms will be matched by broader consensus in the underlying analytical exercise. And here the Keynesian heritage will win the day even if, in yet another sense, the implied results may seem non-Keynesian. The limits on man's capacity to choose rationally in any operationally meaningful way must, finally, be reckoned with and the scope for subjectively determined choice behaviour acknowledged. At the same time, however, those and additional limits on the choice behaviour of political agents, and the interaction of these agents within the institutions of politics, will be incorporated into the whole macro-analysis.

II. RE-EVALUATION OF THE ECONOMICS OF THE SOCIALIST CENTURY

If my central prediction proves accurate, economists must, increasingly, begin to raise – and try to answer – the following set of questions: Why did economists share in the 'fatal conceit' (Hayek, 1989) that socialism represented? How were economists, who claimed scientific competence in analysis of human choice behaviour and the interdependent interactions of choices within institutional structures, duped or lulled into the neglect of elementary principles? Why did economists, who model man as *homo economicus* in analysing markets, fail to recognise that incentives remain relevant in all choice settings? Why did economists forget so completely the simple Aristotelian defence of private property? Why did so many economists overlook the psychology of value, which locates evaluation in persons not in goods? Why did so many professionals in choice analysis fail to recognise the informational requirements of a centrally controlled economy in both the logical and

empirical dimensions? Why was there the near total failure to incorporate the creative potential of human choice in models of economic interaction?

These and similar questions will occupy many man-years of effort in the century ahead. In the examination of the flaws in economics over the socialist century, the perspective of the discipline itself will be challenged and perhaps changed in dramatic fashion. Economists may come to recognise, finally, that the dominance of the implicitly collectivist allocationist paradigm, elaborated in a setting characterised by developing mathematical sophistication, lies at the root of much of the intellectual confusion. The alternative perspective that conceives of the economy as an *order* of social interaction (see my essay in Sichel, 1989) should gradually gain adherents. The accompanying mathematical representations will shift, and game theory's search for solutions to complex interactions under complex sets of rules will surely replace extensions of general equilibrium analysis at the frontiers of formalism.

The shift toward emergent order as a central perspective will be paralleled by a corollary, even if not necessary, reduction of emphasis on equilibrium models. The properties of systems in dynamic disequilibrium will come to centre stage, and especially as economics incorporates influences of the post-Prigogine developments in the theory of self-organising systems of spontaneous order, developments that can be integrated much more readily into the catallactic than into the maximising perspective.

III. A RECOVERY IN NORMATIVE RELEVANCE

A predictable by-product of the ideologically-driven controversy that characterised the socialist century was concerted effort to separate positive from normative elements of the economists' enterprise. Methodologists variously reiterated the is-ought and fact-value distinctions. With controversy receding, we can predict some increase in reasoned discourse in defence of normative standards. Such a return to respectability of normative argument applying economic analysis can serve to re-invigorate the discipline for aspiring young scholars who have been turned away by the antiseptic aridity of a science without heat. A bit of the excitement that described the zeniths of both classical political economy and early Keynesian macroeconomics seems well within the possible.

No direct challenge to the logic of the naturalistic fallacy need be invoked in the recognition that the very definition of the 'is', which itself depends critically on the perspective adopted in looking at the subject matter, will influence the shape of the 'ought', which emerges when a value ordering is applied to the analysis of the 'is'. The possible 'deconversion' of economists away from the allocationist-maximisation-equilibrium paradigm and toward some vision of the economic process in subjectivist-catallactic-disequilibrium terms must, in itself, have implications for the sort of institutional change that *any* ultimate value stance might suggest as appropriate. The complementary shift in the perspective on politics and political process, a shift that has already occurred, will force normative evaluation to incorporate comparisons among institutional

alternatives that remain within the possible. From this evaluation there must emerge, even at the level of practical proposals for reform, a much wider range of agreement among economists than that which described the past century.

IV. TOWARD A REVISED NORMATIVE FOCUS ON INSTITUTIONAL CONSTRAINTS: THE EMERGENCE OF 'CONSTITUTIONAL POLITICAL ECONOMY'

The predicted convergence of attitudes among economists at the level of normative evaluation will only take place within, and in part because of, a dramatically revised focus of the whole of the enterprise. A century ago, Knut Wicksell warned his fellow economists against the proffering of normative policy advice to government implicitly modelled as a benevolent despot (Wicksell, 1896). He suggested that improvements in policy results could emerge only from changes in the structure of political decision making. The normative attention of the economists must be shifted from choices among alternative policy options within given sets of rules to choices among alternative sets of rules.

As we know, Wicksell's advice was totally ignored during the first two-thirds of this JOURNAL's first century. Only since the middle of this century have economists increasingly come to appreciate the force of Wicksell's message. In several research programmes, economists have commenced to turn some of their attention to *choices among constraints* and away from the exclusive focus on the familiar *choices within constraints*. At the level of individual behaviour, the economics of self-control has emerged as a viable research programme on its own. And at the much more important level of collective action, constitutional economics or political economy has come to command increasing scientific interest, especially in the 1970s and 1980s. These research programmes, along with the closely related programmes in the 'new institutional economics', broadly defined, seem almost certain to become more dominant in the next century.

The extension in the range of possible agreement on the ranking of alternatives, whether treated at the level of the analysts' normative discourse or at the level of direct choices by participating and affected persons, is a logical consequence of the shift of focus away from in-period, or within-rules, choices to choices among constraints or sets of rules. The necessary increase in uncertainty over the predicted sequences of outcomes generated by the workings of differing rules will force any rational chooser to adopt more generalisable criteria for choices among rules than for choices among outcomes. Any attenuation of identifiable interest produces this convergence effect; the conceptual model need not extend to the limits of the familiar Rawlsian veil of ignorance.

Wicksell was the most important precursor of the public choice 'revolution' in the analysis of politics and political process. His call for attention to structure, to constitutional rules, reflected an early recognition of interest-motivated choice behaviour in politics that might be incompatible with ideally

preferred results. By contrast, the normative economics of both the classical and the ordinal utilitarians incorporated comparisons between imperfect markets and idealised politics. Almost in tandem with the development of public choice, which in its positive analysis simply extends the behavioural models of economics to persons in varying roles as public choosers, the events of history during the last decades of the century have offered observers demonstrable evidence of the failure of politicised direction of economic activity.

As this JOURNAL enters its second century, economists in their normative capacities must, by necessity, compare institutional alternatives on a pragmatic basis, as informed by an understanding of organisational principles in the large. They will be unable to rely on the crutch of an idealised political order which seemed to make the task of their predecessors, the theoretical welfare economists, so easy and, in consequence, made their arguments so damaging to the standards of discourse. As they enter the second century of publication of this JOURNAL, the economists will find, because of the emerging consensus in both positive and normative elements of their task and in both micro and macro applications, a greater role to play in political dialogue.

Economists, almost alone, understand the notion of choice itself, and the simple intrusion of opportunity cost logic into continuing debates provides, on its own, sufficient *raison d'être* for the profession's existence. And, having got their intellectual house in order after the internal confusion that described almost the whole of the first century, with a renewed inner-disciplinary confidence economists can expose the arguments of the intellectuals who discuss policy alternative as if there are no limits on the possible.

V. POSTSCRIPT

I acknowledge that my predictions are tinged with hope. I sense some moral obligation to believe that preferred developments remain within the set of possibles. Little would be gained by speculation about worse-case scenarios, especially when I do not consider myself to be issuing precautionary warnings.

One caveat: I have limited discussion to possible developments that retain at least some relevance to economic reality. I have not speculated about the intellectualised irrelevancies that will continue to command some 'economists' attention so long as the discipline's ultimate *raison d'être* fails to exert positive feedbacks on the structure of inquiry.

A more significant qualification to projections here, and to those advanced by my peers, stems from the necessary limits imposed by temporal constraints. We can, perhaps, speculate meaningfully about developments in research programmes that have emerged or are emerging, and we may offer up descriptive narratives that extend over three or possibly four decades. But even to imagine developments over a full century must reckon on the emergence of research programmes that remain now within the unthinkable.

An instructive exercise is one in which we imagine ourselves to be time-transported to 1890, and to suppose that we were then asked to speculate about developments in economics over the century, 1890–1990. The record would

tend to confirm the hypothesis set out earlier; the subject matter of our discipline was, indeed, influenced strongly by the events of history, and, to some much lesser extent, these events were themselves influenced by the scientific inquiry of economists. But history, inclusively considered, also embodies technological change. And who could question the critical importance of the information processing revolution in shaping the very questions that economists ask and attempt to answer? The veritable rage for empirical falsifiability of the ordinary sort may be near to running its course. But the still-developing technological frontier has enhanced economists' ability to simulate interactive behavioural results in complex institutional arrangements. Experimental economics, and especially as applied to imaginative game-like settings, seems to be a research programme in its ascendancy.

As an end note, let me suggest that prediction, in any strict sense, is impossible. Rational expectations models have reemphasised the point that all information we can have about the future is contained in the data that we now observe. Any prediction will, therefore, be nothing more than an articulation of that which already exists. But, if 'the future', as embodied in such predictions, exists 'now', we are frozen in the time-space of the present. If we accept real time, we must acknowledge that the real future remains unknowable for the simple reason that it does not yet exist, (Shackle, 1972).

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