

***Ethics and Economic Progress.* By James M. Buchanan. Norman, Okla. and London: University of Oklahoma Press: 1994.**

A line of tension runs through much of James Buchanan's work on ethics and economics. On the one hand, he views ethics as subjective: he appeals to no external standards that dictate to individuals what they ought to prefer. Thus, he makes no attempt, in the present book, "to say just how much 'should' be saved, in the aggregate, despite the proposition that we 'should' save more than we do" (p. 35).

On the other hand, he refuses to leave individuals entirely to their own devices. Quite the contrary, he has strong ethical views of his own, which he does not hesitate to recommend. Here lies the tension: if ethics is subjective, why are Buchanan's recommendations more than a reflection of his own tastes? In *Ethics and Economics*, he launches an ingenious, though I think unsuccessful, attempt to show that he can justify certain ethical prescriptions without casting aside subjectivity of preference.

His argument proceeds as follows: If people increase their hours of work, then, other things being equal, they will benefit others as well as add to their own stock of goods. As people work more, the market expands; this permits the division of labor to proceed apace. Buchanan appeals here to Adam Smith, who "advanced, as a general principle, the notion that the division of labor depends on the extent of the market" (p. 15). Those who labor generate positive externalities for others, but not so those who withdraw into idleness.

If increased work leads to such benefits, a further question arises: How many individuals should be induced to accept the

David Gordon is a senior fellow at the Ludwig von Mises Institute and book review editor for the *Review of Austrian Economics*.

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gospel of work? Buchanan looks to the Puritan ethic: if certain virtues associated with the Puritans receive due attention in popular moral education, the blessings of an expanded market lie within reach. Thus, Buchanan can "suggest that individuals, acting strictly in their own interest," should follow the course of action he advocates.

Buchanan's description of the Puritan ethic is in one respect unusual. He remarks: "Much the same logic . . . could be extended to those familiar precepts that call for honesty in dealings, for promise keeping, for truth telling, for respect for person and property, for sobriety, for tolerance. In short, we could readily include the whole set of constraints summarized within the rubric 'the Puritan virtues'" (p. 79). The Puritans have rarely been praised for their exceptional tolerance; Buchanan's inclusion of this trait as a Puritan virtue would surely surprise Roger Williams. Fortunately, Buchanan's slip leaves his main argument unharmed.

That argument must face an obvious objection, one which Buchanan knows full well. In a competitive economy, individuals balance the benefits of labor and leisure as they wish. If someone wishes to play golf rather than work an extra hour in his medical consulting room, how can Buchanan say that he would be better off, from his own point of view, if his preferences shifted?

Buchanan replies that the "basic neoclassical model," on which the objection just given rests, fails to apply to the case at hand. In the neoclassical model, someone who works an increased amount "receives precisely the value of the addition to the value of product that the extra work generates" (p. 22). This holds true only if inputs are assumed fixed; since the economy in fact grows as labor time increases, the decision to work more benefits others besides the worker himself.

Buchanan's point may be granted, but it fails adequately to respond to the objection. Even if the person who works more does generate positive externalities for others, the question remains: is he better off, in his own eyes, after doing so? Unless the move accords with his own preferences, the answer appears to be no. The economy may be larger; but unless *his* share of goods rises sufficiently to compensate him for his loss of leisure, *he* has failed to benefit.

Buchanan notes and explores a tendency among economists to take preferences as given. Although economists should consider preferences for most purposes "relatively absolute absolutes" (p. 76), this does not require them to abandon all questions

of preference formation to the psychologist. Economists must be free to analyze how changes in incentives alter preferences.

Once more Buchanan's point may be granted, and once more the key objection remains without answer. However flexible or subject to analysis an individual's preferences may be, he cannot be pried apart from the actual set of preferences he has. To say, as Buchanan does, that someone *would* be better if he had other preferences misses the point. For a consistent subjectivist, gains or losses in utility can be assessed only against a set of preferences. Put bluntly, for the economist an individual *is* his set of preferences. To compare someone's actual utility with his utility under different preferences stands on precisely the same footing as an interpersonal utility comparison. If Buchanan thinks that people should work more, or save more, these are ethical judgments of his own, not the outcome of *wertfrei* economic analysis. Insofar as he makes value claims, Buchanan is an ethicist or he is nothing: *tertium non datur*.

Further, Buchanan has pushed his argument for more than it is worth. Suppose he is right that increased work generates positive externalities, while increased leisure does not. In like manner, let us assume him correct on the benefits of saving against spending, which he defends by an analogous argument. Has he shown that individuals who wish for a more productive economy should work rather than loaf, save rather than spend? I do not think so. He has at most shown an advantage of working and saving against their respective alternatives. This hardly suffices for an assessment of total benefits and total costs—one advantage does not make an evaluation. Professional wrestling exacts more physical demands than does teaching (except in the inner cities); does it follow that teaching is 'better'?

And is Buchanan correct that working more generates positive externalities? Yes; but on one condition. The "externalities" add to utility only if consumed; as Adam Smith long ago pointed out, the end of production is consumption.

This obvious truth does not show that Buchanan errs in calling for more work and saving. But it limits the scope of his conclusion: his analysis holds valid only if some people actually consume the increases in productivity his Puritan virtues make possible. (I omit here the complication of satisfaction just from an increase in work—Puritanism with a vengeance). If they do not, Keynes's famous image of the capitalist cake growing ever-larger but never being eaten, though false for nineteenth century Britain, will apply to Buchanan's Puritan Commonwealth.

One last step in Buchanan's case requires a closer look. Suppose, once more, that he is correct about the benefits of increased labor. It does not follow at once that preaching the Puritan virtues has been justified. This is so even if the preaching effectively inculcates the desired values. Once more, Buchanan has not considered the full picture: what has become of the costs imposed by the training in Buchananite virtue? Buchanan tells us that he was able to justify watching four professional football games in one weekend only when he thought of the happy expedient of cracking walnuts as he viewed the games. Thus he assuaged his guilt about wasted time (pp. 7–8). The increased self-consciousness and anxiety, what one might term the "internal Taylorism," that Puritan education seems liable to produce, must be weighed against its good effects.

Buchanan's short book includes an application of his ideas to taxation policy and a criticism of personal service work, in which the notion of increasing returns figures prominently. His originality and ability to apply economic theory to new subjects inspire respect and admiration; but I cannot think that his revamped Moral Rearmament offers much promise.

David Gordon
Ludwig von Mises Institute