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## **Buchanan on Culture: Victorian Budgetary Ethics and 'Puritan Ethics'**

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## Buchanan on Culture: Victorian Budgetary Ethics and ‘Puritan Ethics’

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### ABSTRACT

James M. Buchanan began work in the 1940s as a positivistic economist but gradually shifted ground over the next fifty years. Buchanan had an interest in cultural norms from early in his career but the full development of his work in this area began in 1986, the year that he won the Nobel Prize for Economic Sciences. In this paper I discuss Buchanan’s examination of culture, focusing on the Victorian ethical constraints on deficit spending and Puritan ethics (primarily the work ethics and the savings ethics). Buchanan argues, in *Ethics and Economic Progress*, and other mature works, that the Puritan ethics has ‘economic value.’ He suggests that we must all pay for the ‘preacher’ to inculcate Puritan ethics. Buchanan went so far as to call for a restoration of a close relationship between economics and ethics. Clearly, over the course of fifty years, he completed a major shift from his early, enthusiastic support for positivism.

**Keywords:** Culture, Buchanan, Victorian budgetary ethics, Puritan ethics, ethical norms, savings ethic, work ethic

**JEL Classification:** A11; A13; B31

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For most economists culture is irrelevant. For others, such as many of the New Institutional Economists, it may be relevant but taken as given in the analysis (North 1991, p. 111; Williamson 2000, p. 596). James M. Buchanan,<sup>1</sup> by contrast, sees culture as relevant and worth serious study. In early work Buchanan showed an interest in cultural norms, such as law and law-abiding as public social capital (Buchanan [1975] 2000, pp. 136-64). This was taken further when he turned to the Victorian capital stewardship/fiscal norm (Buchanan and Wagner [1977] 2000, pp. 10-24). The ‘full development of [Buchanan’s] interest in the economics of ethical norms’ began in 1986, the year that he won the Nobel Prize for Economic Sciences (1994, p. 91). In this paper I will focus on Buchanan’s view of the Victorian ethical norm opposing public deficits and the Puritan ethics (the work ethic, the saving ethic, and some related virtues).

Buchanan’s interest in the Victorian ethical norm opposing public deficits is scattered throughout various works. Nevertheless, he does build an argument which I will reconstruct. Much of Buchanan’s constitutional economics is designed to show why this norm collapsed and to advocate a legal replacement. More important for my theme, however, is Buchanan’s detailed examination of what he calls Puritan ethics. Buchanan’s work here constitutes a more systematic inquiry into culture; it is evident in various papers written in the 1980s and 1990s, and especially *Ethics and Economic Progress* (Buchanan 1994). Buchanan’s interest in the work ethic and the savings ethic takes on added urgency because he feels that there has been a decline in the strength of these in recent times (1994, pp. 28-9; see pp. 53).<sup>2</sup> Buchanan is at great pains to stress ethical aspects related to hard work, saving, and so on, and how this approach diverges sharply from mainstream economics (1994, p. 4). This discussion clearly falls under Sen’s category of the ‘ethics-related view of motivation’ (Sen 1987, p. 4).

The remainder of the paper comprises five sections. Section 1 presents some background on Buchanan and his work. Section 2 sketches his foundational assumptions. Section 3 discusses Buchanan’s view of public debt, focusing on the Victorian ethical constraints on peace-time public budget deficits. Section 4 provides a summary of his views on the Puritan ethics (the savings ethic and the work ethic). Finally, Section 5 provides some concluding remarks.

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<sup>1</sup> Unless otherwise stated, citations in this paper are to Buchanan.

<sup>2</sup> Many have made similar points about the erosion of the cultural foundations of capitalism (Kristol 1978 and Bell 1979). Buchanan puts blame for the decline of the savings rate in the US on ‘large and persistent budgetary deficits’ of the federal government, the expansion of the welfare state (especially schemes designed to provide income support for retirees), inflation, the decline of the family, and Keynesians (1994, pp. 38, 54-7). I will elaborate on his objections to Keynesians below.

## 1. BACKGROUND ON BUCHANAN AND HIS WORK

Buchanan's work has covered a wide range of areas in economics, starting with Public Finance. He helped to create the new sub-disciplines of Public Choice,<sup>3</sup> and Constitutional Political Economy, and to some extent New Institutional Economics. The foundations of Buchanan's approach to economics I have presented elsewhere (Alvey forthcoming). In the current paper I build on that work.

As early as the 1950s we can see the outlines of Buchanan's 'contractarian' approach to economics. He began to advocate understanding markets in a 'gains-from-trade' framework; potential gains, of course, had to be secured by enforced contracts (1959, p. 129; 1975b, p. 229). Within a few years Buchanan was calling for economics to focus on catallactics, or exchange (1964a, p. 214).<sup>4</sup> The next step was to take the contractarian approach and apply it to politics; politics was also viewed as a type of exchange. Thus his gains-from-trade/contracting approach was foundational for his constitutional economics programme. Buchanan's approach (in markets and in politics) was to start from the *status quo* and look for Pareto gains.

Consistent with the dominance of positivism in the post-war period, much of Buchanan's work is positive analysis. He was a methodologist and tried to consistently apply positivistic doctrines to his own work. Buchanan was also quite happy to criticize others for failing to adhere to the prevailing positivistic strictures. Thus, in the 1960s, he claimed that public goods theory, 'can be, and should be, wholly *wertfrei* [value free] in an explicit sense' (1967, p. 197). I will show below that his positivism softened over time.

Buchanan's Nobel Prize was awarded 'for his development of the contractual and constitutional bases for the theory of economic and political decision-making.' In his Nobel Lecture, Buchanan makes it clear that economic policy must be considered within the context of the political decision-making framework and that a model of the state and politics is needed *before* considering the effects of different policy choices (1987a). Given his earlier, enthusiastic adoption of positivism, it is astonishing that Buchanan admitted frankly that in investigating the relation of the individual to the state, his goal was 'ultimately normative'; Buchanan added that economists investigating this central topic must place their discussion within the 'more comprehensive realm of discourse' of political philosophy (Buchanan 1987a, p. 335; see also 1991, p. 4). As we will see below, by the 1990s, he went so far as to call for a closer relationship between economics and ethics (Buchanan 1994, pp. 82-3). By the time he reached his late 60s

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<sup>3</sup> Buchanan's Public Choice contributions are part of the tradition of economics as imperialistic social science (see Duhs 2005). One major consequence of that work is to take economics further away from the two strands of the ethical tradition outlined by Sen (1987, pp. 2-7). Self-interested behaviour is now hypothesized in new areas. Bureaucrats, politicians and voters are assumed to 'utility maximize' but the results are not socially beneficial. Hence, 'government failure' is endemic.

<sup>4</sup> Buchanan was following in the tradition of Whately and others. See Kirzner 1960, Ch 4.

and early 70s (surely we can call these his mature views), Buchanan seems to be very much at odds with those who claim that anything worthwhile in ‘economics’ is value-free engineering.

Although he denies that there can be any such thing as what Sen calls ‘social achievement’ (Sen 1987, p. 4), I will show that Buchanan sought to re-establish the ethical claims of economics in other ways. In various contexts, even before his ‘ethical turn’, Buchanan had addressed what Sen calls ‘the ethics-related view of motivation’ (Sen 1987, p. 4). Some of the ethical threads he wove in early writings on the size of the polity (1965; 1978); the minimal state (see Buchanan [1975] 2000); taxation (1984); and debt (see Buchanan and Wagner [1977] 2000, pp. 10-24); and constitutional (and other) limitations on democratic politics (1987c, pp. 587-8; Buchanan and Wagner [1977] 2000, pp. 180-93; Buchanan and Wagner 1978, pp. 634-5). New richer threads began to be woven from the mid-1980s when he extended his work on several of these fields, and turned to new fields such as debt default (1987d), and to the Protestant ethics (see below). In 1991 Buchanan published *The Economics and the Ethics of Constitutional Order* and three years later he published *Ethics and Economic Progress*. The titles indicate his ‘ethical turn.’

Buchanan has made a great effort to make the ethical case for his type of economy and society (liberal capitalist but with a set of institutions closer to those in evidence in the nineteenth century in Britain and the US).<sup>5</sup> He makes a strong case and deserves to be listened to by orthodox economists who are fond of reciting positivistic slogans.

## 2. FOUNDATIONAL ASSUMPTIONS

Some assumptions underpin all of Buchanan’s work; others are adapted to the particular context. Elsewhere (Alvey forthcoming) I listed and briefly discussed eleven assumptions that I take to be his fundamental assumptions. I will provide a summary here. These foundational assumptions fall into two groups. The first six relate to the individual in isolation or in the interaction in markets. The remaining five assumptions refer to the individual in a market or social choice setting.

First, Buchanan holds strict subjectivism: that there is no distinction between the individual’s utility function and his behaviour (1991, p. 225). Individual choice is all that there is (1991, pp. 225-6). Second, Buchanan assumes methodological individualism: only autonomous individuals choose and act; social influences are limited (1987c, p. 586; 1991, p. 14). Third, he says ‘the ultimate sources of value’ lies ‘exclusively in individuals’ (1987c, p. 586). (See also assumption eight below.) As we will show below, Buchanan adopts a more nuanced view in his recent work on culture. Fourth, he puts supreme value on freedom. For Buchanan, the goal is maximal freedom within the constraints one gives oneself individually or by agreement with others (the

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<sup>5</sup> On this point, see my analysis of Buchanan’s *The Limits of Liberty* in Alvey forthcoming.

incorporation of ethical constraints consistent with one's interests tends to be the focus of later works). Fifth, he assumes *homo economicus* i.e. individuals 'seek their own interests' defined in a 'non-tautological' way (1987c, p. 587). Sixth, Buchanan assumes rational choice i.e. all economic agents are able to choose between alternatives in an 'orderly manner' (1991, p. 15).

Seventh, cooperative behaviour can secure mutual gains (1964a, p. 218). Exchange, trade, and specialization are what he has in mind by 'cooperation.' Gains from trade is one of the main themes of his economics. Eighth, Buchanan holds 'normative individualism,' which assumes that 'individuals are the ultimate sovereigns in matters of social organization' (1991, pp. 225, 227). Ninth, the political unit is assumed to be a manifestation of a social contract. Tenth, in social decision making, he attributes 'equal weighting' to 'individual evaluations'; Buchanan is a democrat (1991, p. 16). Finally, to prevent abuses by democratic majorities, Buchanan adopts constitutional democracy (1987c, p. 586). In various areas, he adopts rules which are stricter than the simple majority rule (1959, pp. 127-8, 135, 137; 1991, p. 47).

With this background in mind, let us now turn to my two case studies. The next section discusses Victorian ethical constraints and Section 4 discusses Puritan ethics.

### **3. CULTURE I: VICTORIAN ETHICAL CONSTRAINTS**

Public debt and default have been major issues in the history of economics and especially in the Public Finance literature. While Hume and Smith saw these matters important, it was Ricardo who gave them detailed attention. Much of the work by economists could be seen as existing within the engineering tradition but there are normative principles even here. In his work as a public finance specialist, Buchanan wrote on a wide range of aspects of public debt and default, using both engineering and ethical approaches. Buchanan developed eight propositions on debt.<sup>6</sup> My focus in this section will be on the ethical and the ethical/legal propositions. I will conclude with a discussion of his view of the ethics of default. To some degree, this section falls under Sen's 'ethics-related view of motivation.'

The first of Buchanan's propositions on public debt, deriving from positive analysis, is that *future* rather than current taxpayers bear the burden of today's public debt (1958, pp. 31-47, 114-22; 1964b, pp. 486-7; 1964c, p. 49; 1964d, pp. 60-2; Buchanan and Wagner 1978, p. 629; Buchanan 1987b, p. 182; 1987d, p. 372; see Tempelman 2007, pp. 436-40). The second positive proposition is that, given that most of the public expenditure since World War II has been used for consumption rather than for infrastructure (and other capital), public debt has a negative effect on capital accumulation and on the net wealth of society (1986, pp. 180-5, 192-3; [1986]

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<sup>6</sup> I am in broad agreement with the analysis of Tempelman 2007, who lists seven propositions that emerge from Buchanan's work on public debt. I have split Tempelman's fourth proposition on Keynesian macroeconomics into two: these are my fourth and fifth propositions.

2000, p. 447; see Tempelman 2007, pp. 438-9).<sup>7</sup> Debt is ‘equivalent to “eating up” of capital’ (1987b, p. 182; see 1986, p. 180). The third proposition is that people suffer from ‘fiscal illusion’ and prefer debt to taxation (1964e, p. 161; Buchanan and Wagner 1978, p. 629; see Tempelman 2007, p. 440).<sup>8</sup>

The first three positive propositions provide the basis for Buchanan’s defence of balanced budgets but a latent moral undertone is detectable. The fourth proposition makes the ethical content explicit. Given the first three propositions, and the Public Choice theory conclusion that democratic politicians are biased towards public deficits (1986, pp. 179; Buchanan and Wagner [1977] 2000, pp. 4, 26, 95-6), restraints must be imposed on their actions. The tendencies toward debt creation can be limited by what amounts to an ‘effective fiscal constitution,’ where a norm is adhered to rigidly (1987b, p. 183). One such constitutional norm would be that ‘capital, once accumulated, should be maintained and transmitted to future generations’; the current generation has a duty of stewardship over capital (1987b, p. 184). Something along these lines was exactly what emerged in Victorian Britain’s ‘rules for fiscal prudence’ (1987b, p. 184). Thus, the fourth proposition is that financing public consumption by debt, ‘behaving collectively in a manner that effectively “eats up” the income stream of future citizens, was ‘immoral in the pre-Keynesian world’ (1987b, pp. 183-4).<sup>9</sup> Such morality (or religion<sup>10</sup>), institutionalized as the Victorian balanced-budget norm, served as a real moral constraint on behaviour of the Victorians; ‘[i]t was a “sin” to create deficits prior to the Keynesian period’ (1995; see 1987b, pp. 183-4).<sup>11</sup> Such a norm was an asset, a type of social capital (1987b, pp. 184-5). This argument is clearly analogous to an idea that Buchanan developed earlier in *The Limits of Liberty*.<sup>12</sup>

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<sup>7</sup> Buchanan says that debt is ‘equivalent to an “eating up” of our national capital value’ ([1986] 2000, p. 447). He refers to the ‘national capital stock,’ ‘national debt,’ ‘national income,’ and so on (1986, pp. 181, 193). These usages are clear breaches of Buchanan’s opposition to aggregative terms and macroeconomics (1964a, p. 215; 1964d, pp. 61-2; 1975b, pp. 226-7, 229; 1991, pp. 33-4).

<sup>8</sup> According to Buchanan, people lack clear-sighted expectations of the future (rational expectations); fiscal illusion ensures that ‘Ricardian equivalence’ (i.e. the equivalence of a public debt burden with taxation when the quantities are carefully calculated) does not hold. In this instance, Buchanan is clearly out of step with modern macroeconomics (but in tune with contemporary psychology). In one place (Buchanan 1964c), he argues that there is a ‘burden,’ even without fiscal illusion.

<sup>9</sup> The pre-Keynesian constraints were ‘the product of biological evolution, cultural evolution, and, possibly, rationally calculated moral pre-commitment’ (1987b, p. 183).

<sup>10</sup> Buchanan calls it ‘the Victorian fiscal religion’ (1986, p. 193). Elsewhere, Buchanan calls this ‘the old mythology’ or ‘the old-time fiscal religion’ (Buchanan and Wagner [1977] 2000, Ch 2, p. 38; Buchanan 1995).

<sup>11</sup> Public debt for war was regarded as essential and a sort of emergency breach of the norm. With varying degrees of success, attempts were made to pay off the public debt in subsequent years of peace.

<sup>12</sup> Legally imposed norms are a substitute for ethical norms ([1975] 2000, pp. 149-50). In the large-number context, however, ethical norms tend to break down ([1975] 2000, pp. 153-5). Law and law-abiding behaviour are like capital that must be maintained over time. Departures from ‘traditionally honoured limits for behaviour’ are like ‘eating up’ capital ([1975] 2000, p. 160; see pp. 21, 159).

The fifth proposition concerns the demise of the moral constraints and Buchanan's attribution of blame. The Victorian moral norm was fragile<sup>13</sup> and collapsed once Keynesian economists began to argue for more debt for macroeconomic (stabilization) purposes. Keynesian arguments neglected Public Choice considerations, which was fatal. Once the constraints were destroyed, politicians felt liberated and could then meet their constituent's demand for greater spending without fully compensatory tax increases. Budget deficits became normal due to the Keynesian view that deficits were legitimate half of the time, during recessions (Buchanan and Wagner [1977] 2000, pp. 38, 95-6; see Tempelman 2007, p. 441). Buchanan had theoretical and ethical objections to Keynesianism.

The sixth proposition is that once the moral constraints were removed, without an 'adequate replacement,' Public Choice considerations lead to the conclusion that public debt will be permanent (Buchanan 1986, p. 179; Buchanan and Wagner [1977] 2000, pp. 95-6; Buchanan and Wagner 1978, p. 636; Tempelman 2007, p. 442-3). In the seventh proposition, Buchanan makes explicit and justifies his ethical claim that it is immoral for one generation to burden another for its own benefit (1987b, p. 370; see Tempelman 2007, p. 444). As he stated in his Nobel Prize address, '[i]t is almost impossible to construct a contractual calculus in which representatives of separate generations would agree to allow majorities in a single generation to finance currently-enjoyed public consumption through the issue of public debt that insures ... utility losses on later generations of taxpayers' (1987a, p. 343; see 1987d, pp. 368-9, 372).<sup>14</sup> It could not pass Rawls's 'veil of ignorance' test (Rawls 1971, p. 12). In addition, there was a further argument that Buchanan proposed that was traced back to the American Revolutionaries: no taxation without representation. Public-debt financing 'is unjust' because it is impossible for future generations to *participate* in current tax deliberations, even though they must bear the burden of decisions arising from such deliberations (1987b, pp. 188-9; see Tempelman 2007, pp. 444-5; 1987d, p. 366).<sup>15</sup>

Buchanan's positive and normative economics-- as well as his views on constitutional political economy, Keynesianism and intergenerational ethics-- merged in the final proposition: the need for a constitutional (or higher law) provision prohibiting budget deficits. He argued that because the Victorian moral constraint had been shattered, and there is continuing pressure on politicians to spend more than they tax (shown by Public Choice), restoration of that norm is hard to imagine. Thus, a new institution which had a similar constraining effect was required.

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<sup>13</sup> The national budgeting constraint was based on the analogy to household budgeting (1987b, pp. 183-4). Just as households must balance the books, so must governments. That analogy came under severe attack subsequently. Buchanan admits that the analogy is not really valid (1987b, p. 184). It was a useful constraint nonetheless.

<sup>14</sup> Buchanan makes the same claim about the modern welfare state: its 'transfer programs' amount to an implicit debt obligation (1987a, p. 343).

<sup>15</sup> In addition, for deficits that finance consumption expenditures (which Buchanan said was the norm in the welfare state), future generations receive *none* of the benefits from the associated expenditures (1987d, pp. 366, 372).

Buchanan turned to a *legal rule* to produce a similar result to the Victorian ethical constraint: the balanced-budget ethical norm had to be entrenched in some higher or constitutional law (Buchanan and Wagner [1977] 2000, pp. 9, 182-93; Tempelman 2007, pp. 445-6). Buchanan clearly believes that the prohibition on public deficits is another of those rules of the game that people would support behind a Rawlsian ‘veil of ignorance’ (see Rawls 1971, p. 12).

We should also note that Buchanan became actively involved in the campaign to secure a balanced-budget amendment to the US constitution and indeed this was almost the only area on which he was active as a policy advocate (1995; Tempelman 2007, p. 436). In the US the debate over a balanced-budget amendment to the constitution gradually lost momentum toward the end of the 1990s. Buchanan has stated that he ‘didn’t get very far’ with his campaign (1995). He lost his one battle in the ‘fury’ of policy debate in the 1980s (1967, p. 193). The widespread adoption of deficit spending in the current global economic turbulence raises important questions for the future.<sup>16</sup>

What has been left out of the discussion of public deficits above is what happens if nothing is done. Clearly, as debt rises, eventually default becomes likely. There are political, economic, and ethical issues here.<sup>17</sup> The spectre of default, was of great concern to the classical economists. Again, I will focus on the ethical issues, notably on Buchanan’s ‘The ethics of debt default’ (1987d).

Buchanan investigates several moral bases for meeting past commitments. First, he says that there is a ‘powerful moral-ethical argument’ favouring the honouring of debt obligations: ‘any contract initiated on ... genuine quid pro quo terms’ should be honoured (1987d, p. 363). This is the commutative justice argument of market exchange extended to cover a specific financial relationship between the state and citizens that has a quasi-market flavour. Second, Buchanan raises the issue as to whether the state is a moral community, like the family. In such a ‘moral community’ the individual member feels a sense of ‘loyalty’ toward the group and its actions (1987d, p. 364). If there is ‘a sense of personal responsibility’ for actions taken by a member of the group, one member may feel responsible for the debts incurred by other members of the group (1987d, p. 364). Buchanan quickly dismisses this possible understanding of the state. Third, there is also a broader argument based on ‘the moral legitimacy of law’ (1987d, p. 372). ‘Unless there is a general set of attitudes that embodies respect for past legal commitments, the very essence of an ongoing legal-political order is called into question’ (1987d, p. 365). One

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<sup>16</sup> Buchanan, along with about two hundred other economists, signed a letter of protest against the Obama administration’s ‘American Recovery and Reinvestment Act of 2009’; this letter, which was funded by the Cato Institute, appeared in the *New York Times* and the *Wall Street Journal* on January 28, 2009 (Cato Institute 2009). Part of the complaint was that the plan would increase public debt.

<sup>17</sup> ‘At some point, the annual interest charge will come to equal and then exceed the annual deficit. Once this critical threshold is passed, the simple economics of default come into play’ (1987d, p. 361).

default may not ‘pull down the whole legal-political house of cards’ but two or three defaults might (1987d, p. 365).

The fourth possibility is that there is a sense of individual responsibility for collective decisions; this is only likely to occur 1) when the individual actually participates in such decisions, or 2) at least has ‘full rights of participation’ in such decision-making processes (1987d, p. 366). As we have seen above, Buchanan says that this argument breaks down for those in ‘the “next generation” who did not participate in the initial decisions’ (1987d, p. 367).<sup>18</sup> Nor did they have any ‘right’ of participation. Could the debt be a valid obligation using the conjectural ‘veil of ignorance’ process? As we have seen, this approach shows debt obligations to finance ‘ordinary public consumption’ are ‘immoral’ (1987d, p. 372). Once again, moral arguments against default on this ground fail.

Thus, there is a weak basis in these moral arguments for opposition to a single default. He admits that if there is a ‘questionable moral status’ to borrowing in the first place, the moral case against default is weakened (1987d, p. 370). That just leaves the bond holders (see the first argument above).

‘The strongest moral argument’ for honouring debt obligations ‘lies in the legitimacy of the claims that are held by the polity’s creditors’ (1987d, p. 370). The bondholders ‘rights would be violated’; the government would ‘behave unjustly towards those persons’ (1987d, p. 370). For Buchanan, ‘the act of lending to government deserves’ no ‘moral censure’ (1987d, p. 370). The bondholders ‘gave up purchasing power’ in exchange for ‘interest and amortization payments in the future (1987d, p. 371). Not to make the payments, at least ‘from the perspective of those who hold the debt instruments,’ would be ‘fraudulent’ (1987d, p. 371). This is exactly what Ricardo (and other classical economists) said.

Several mechanism for default are available. Two obvious means are open declaration of default and concealed default through inflation. Buchanan says that the US government did ‘default on a large scale through inflation’ during the 1970s (1987b, p. 191).<sup>19</sup> In the 1980s, he predicted that the US government would default again, ‘either directly or through the inflationary process’ (1987d, pp. 372-3).<sup>20</sup> The current level of American debt has led to public concerns being raised by the President of China (AFP-JIJI 2009). He is concerned that the US will default in part or in

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<sup>18</sup>Some obligation applies to immigrants because they arrive recognizing ‘the existence of debt claims’ (1987d, p. 367).

<sup>19</sup> The US government has *openly* declared partial defaults twice before. In one case, it delayed some interest payments (in 1790); in the other case, following a depreciation in the currency, it breached an understanding that it would repay in gold (in 1933) (see Ip 2009).

<sup>20</sup> Buchanan argues that the general threat of inflation (especially incentive effects) is worse than a one-off explicit default: ‘In terms of criteria for capital accumulation and preservation, ... explicit repudiation of public debt seems clearly preferable to default by means of inflation’ (1986, p. 192).

full. The likelihood is that there will be concealed default again. The morality of the default, however, has not been openly debated.<sup>21</sup> The current crisis must surely awaken a public debate on the ethics of public deficits and the need for constitutional limitations on deficits and debt. Buchanan's analysis of the ethics of public deficits and default must play a part in that debate.

#### 4. CULTURE II: PURITAN ETHICS

In this section I want to focus on another aspect of Buchanan's work on culture/ethics. Buchanan's discussion of the Puritan ethics is located in Chapters 1-3 and 5 in *Ethics and Economic Progress*.<sup>22</sup> The presentation in these chapters assumes an economic growth model. After discussing that growth model and some other background, I will present Buchanan's argument in a series of sub-sections. The first sub-section discusses the work ethic and the second sub-section the savings ethic. The third sub-section discusses his view that we should pay for the preaching of puritan ethics. The fourth sub-section discusses some other applications. The fifth sub-section considers an objection to his argument about preaching. The sixth sub-section provides an overview of the section.

The three theoretical foundations for Buchanan's economic models, in the first three chapters in *Ethics and Economic Progress* (where the Protestant ethic is discussed), seem to build on insights from A.C. Pigou and Adam Smith. First, Buchanan stresses the existence of externalities (developed by Pigou) in a wide range of relevant contexts. The second and third assumptions are: the great engine of productivity is the division of labour but that division is limited by the size of the market; and there are 'generalized or economywide increasing returns'<sup>23</sup> to specialization (Buchanan 1994, p. 6; see pp. 12-7, 25, 133; Smith [1776] 1976). Buchanan's increasing returns assumption is broadly shared with a range of economists who have focused on economic growth in the last twenty years.<sup>24</sup> In Buchanan's case, he specifically assumes that there are 'increasing returns ... to [the] size of the whole economy, as measured by the quantities of inputs employed' because specialization is associated with technological improvements (Buchanan 1994, p. 25; see pp. 6, 14, 21, 133).<sup>25</sup>

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<sup>21</sup> As default becomes more likely, a risk premium is likely to be included in the expected 'rate of return' (1987d, p. 371). In such an environment, Buchanan conceded, even the obligation to bondholders 'loses some of its force' (1987d, p. 372).

<sup>22</sup> Unless otherwise stated, citations in this section refer to this work.

<sup>23</sup> With constant returns, if all inputs increase by a certain proportion (say 10%) output increases by the same proportion (10%). In the standard Cobb-Douglas production function, constant returns are assumed. With increasing returns, output will increase at a faster rate than inputs.

<sup>24</sup> See Buchanan 1994, pp. 144-5. In recent times 'new growth theory' arose which is based on this assumption (Romer 1986, 1987, 1990).

<sup>25</sup> This approach seems to contradict Buchanan's general opposition to social aggregation, macroeconomics, and macroeconomic aggregation (1964d, pp 61-2; 1991, pp. 33-4).

The model that Buchanan develops with these assumptions, and uses in his analysis of the Protestant ethic, is, in effect, Buchanan's interpretation of Adam Smith's growth model ([1776] 1976). Expanding the market allows for greater division of labour, improvement in the technology of production, improved productivity of all inputs and more output; the division of labour allows for an *unending* upward spiral of economic growth (pp. 12-3, 21, 23, 133).<sup>26</sup> Conversely, forces can be set in train which lead to a vicious, downward spiral. The causes of these spirals will be elaborated upon shortly. For now, all that needs to be said is that, in both cases, the actions of one person, acting on their own interest, have spillover economic benefits (the virtuous circle) or costs (the vicious circle) on others. The action that one takes in the former case leads to all others receiving a higher reward for their inputs; in the latter case, it leads to lower rewards for their inputs. The spillover story applies to both labour and savings.

Economic interdependence in the growth context means that my actions can *improve* the lot of all other persons in the economy; acting the opposite way can *harm* all others. The former aids the common good but the latter harms it; the former is ethical but the latter is not. Here is Buchanan's first ethical angle: the economic interdependence of people has *ethical effects*.

The second ethical angle occurs when Buchanan considers how to respond to the existence of the externality. Rather than 'politicized solutions' to externalities, such as government taxes and subsidies recommended by Pigou-type welfare economists, he seeks means which 'internalize the externality.' In the applications that follow, Buchanan recommends 'ethics' to correct for the spillovers.

### --The Work Ethic

Buchanan's argument about the Protestant work ethic was developed in many stages (Buchanan 1988a; 1988b; 1989, pp. 47-51; 1991, pp. 159-78; 1994, pp. 5-30, 60-88, 112-28; and Buchanan and Yoon 1994) and his willingness to return to the theme frequently suggests its importance to him.<sup>27</sup> It culminates in Chapters 1 and 5 of *Ethics and Economic Progress* and I use the presentation in Chapter 1 as the framework for this section. The work ethic means an 'ethical commitment<sup>28</sup> to work hard' in the economy for pay rather than spending time in leisure (1994, p. 9). Thus, Buchanan focuses on the trade-off between time spent supplying 'labour to the market and all other uses of an individual's time' (p. 11). Hence, the work ethic means that we work harder at the margin than 'our naked preferences [for leisure] might dictate' (p. 12).

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<sup>26</sup> Actually, Smith postulates the emergence of a stationary state (see Smith [1776] 1976, pp. 90, 97-100, 109-3; Hollander 1987, pp. 162-5; Alvey 2003, pp. 221-4). So too do other classical economists.

<sup>27</sup> Buchanan says that his essay on the work ethic is the most important in *The Economics and the Ethics of Constitutional Order* (Buchanan 1991, p. vi).

<sup>28</sup> Like Buchanan, Sen also refers to commitment to work; he cites it as an example of the ethics-related view of motivation (Sen 1977, pp. 333-5). Both see work commitment as lying outside of the mainstream of economic thinking and both see this as a failure on its part.

Next, Buchanan investigates the economic value of working harder than our ‘naked preferences’ dictate, by setting up the model of economic growth sketched above. He then considers the effect of working harder (increasing the hours of work supplied to the market). By doing so, an individual increases the quantity of goods and services produced and he or she earns more (individually), which is spent on more goods and services. This supply-side effect of increased labour effort increases the size of the market, which promotes further division of labour, improvements in the technology of production and productivity (see pp. 16, 21). It is at this point that Buchanan draws the moral of the story: ‘*I am ... made better off, in my own reckoning, if others in the economy work more*’ because ‘my own inputs’ of labour will eventually be able to purchase more goods ‘than would be the case if other persons should supply fewer [labour] hours to the market’ (p. 16 emphasis added).

Buchanan rejects the neoclassical theory in as far as it claims that welfare is maximized when individuals are left alone in the competitive market (pp. 21, 24).<sup>29</sup> First, he says the neoclassical theory is inapplicable because it simply assumes ‘fixity in the supply of inputs’ (p. 23). Second, if ‘voluntary adjustments’ are allowed at the margin between work and leisure, there may not be Pareto improvements (p. 24). ‘[A]n economy in which all persons simply allow their naked preferences to dictate their choices between work and nonwork will not be efficient’; everyone ‘can be made better off ... by a scheme’ that increases everyone’s (voluntary) ‘supply of work’ (p. 24). Why? Because ‘[t]he individual’s decision to work more generates external benefits to others; the individual’s choice to work less generates external harm to others’ (pp. 24-5). It is here that his third assumption of increasing returns enters.

Given the externality in the work-leisure choice, each individual has an economic interest in the work-leisure choice *of others*. Adjustments at the margin according to ‘naked preferences’ produce inefficient results; by contrast ‘we could all do better by agreeing to work more’ (p. 27; 1988a, p. 61). The work ethic, which tells us that ‘work is good and loafing is bad,’ is a ‘means through which we “internalize the work choice externality”’ (1994, p. 27). Buchanan concludes that through ‘a long process of cultural evolution’ this ethical norm, which does ‘benefit us economically,’ was acquired (pp. 27-8).<sup>30</sup> This ethical constraint on our behaviour enhances our ‘economic well-being’ but it is one of many ethical constraints that does so (p. 28).

Buchanan says that his analysis of the work ethic was ‘primarily positive’; it was designed to show ‘the economic content of the work ethic’ (pp. 8, 52). Nevertheless, Buchanan does see working hard as having *ethical consequences*; it is in the common good (one of the Aristotelian

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<sup>29</sup> According to mainstream theory ‘there is no ethical content in the work-leisure choice of an individual’ (1989, p. 48).

<sup>30</sup> See also Hayek 1981. Otteson in his interpretation of Adam Smith suggests that some sort of evolutionary process can be seen in Smith’s work, where behaviours and traits which enhance social utility survive, and others die out (Otteson 2002).

categories).<sup>31</sup> He provides ‘an analytical defense’ of a key component of ‘Puritan ethics’ (p. 31). The externality of hard work is internalized through the work ethic. Leisure is a sort of public bad which makes everyone worse off.<sup>32</sup> Much earlier, by contrast, from very different ethical perspectives, Aristotle and Marx had made the case for leisure as an essential ingredient in human flourishing (Aristotle 1980, p. 262; Aristotle 1984, pp. 64, 73, 78; Marx 1973, p. 542 cited in Burkett 2003, p. 15). While the arguments differ, Aristotle, Marx, and Buchanan, each in his own way sees an ethical angle in labour supply issues.

### --The Savings Ethic

The argument about the savings ethic is found in Chapter 2 of *Ethics and Economic Progress*. The savings ethic is another component of the Puritan ethic and the logic of Buchanan’s argument is analogous to that for the work ethic.

As in the work ethic, Buchanan considers welfare consequences of individual choices within an ‘individualistic evaluative framework’ (1994, p. 35).<sup>33</sup> His claim is that savings release resources from production of consumer goods to capital formation ‘and this increase in capital inputs into the market operates’ like ‘an increase in the supply of labour inputs’ seen earlier (p. 45).<sup>34</sup> The same supply-side effects occur and the same virtuous circle begins (the size of the market expands, the division of labour increases, and technology can be improved). As the ‘economic value of output per unit of input expands, ... all persons in the economic nexus ... are made better off and on their own terms’ (p. 45).

Initially, only the composition of production changes. Over time, however, the aggregate changes also. ‘[C]apital goods produce a surplus, over and above their cost of production’ (p. 48).<sup>35</sup> The individual saver gains ‘a larger value in the future than the value that must be given up today’ (p. 49). In addition, like the labour supply example, there is a ‘spillover’ benefit ‘from the saving decision’ (p. 50). The total value of the economy’s production increases, due to the ‘net product of the capital investment’; as the size of the economy increases, more scope is given to specialization and technological advances (p. 50). Individuals benefit from savings in two

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<sup>31</sup> On Aristotle’s common good or general justice, see Young 1997, pp. 110, 118, 157.

<sup>32</sup> Buchanan admits, however, that the ethical constraints may become ‘overly severe,’ reducing ‘individual’s well-being’; breaching assumption 1, he pontificates that this may be the case in modern Singapore and Taiwan (p. 28).

<sup>33</sup> In the analysis he does not consider ‘obligations ... to future generations’ but the implications of savings on our own interest spread over time (p. 34). Including those obligations, he says, may or may not strengthen his case (p. 43).

<sup>34</sup> Buchanan concedes here that in his analysis he assumes that funds saved find their way into the hands of investors, who purchase new capital goods to that value (pp. 46-7). Keynes disagreed, as do most Keynesians. I will return to his disagreements with Keynesians shortly.

<sup>35</sup> Cost of production is understood as ‘the value that is given up or sacrificed’ in producing or acquiring this capital (p. 48).

ways: *directly* through the return on funds lent to investors; and *indirectly* through the complex set of interdependencies (increased savings is linked to increased size of the market, and new technology). It is with respect to the second that the spillover occurs and Buchanan says that individuals ‘can increase their own well-being’ by effectively incorporating ‘in their own behaviour the interdependencies’ in savings decisions discussed above (pp. 50-1).

Buchanan claims that his approach, differs from mainstream macroeconomics (see p. 32). Part of the reason is the latter’s Keynesian origins. He held Keynesianism in contempt from the start of his career in 1948. ‘Keynesian ideas ... [are] partially responsible for the change in attitudes toward saving’ that has occurred since the 1940s (p. 34). According to the Keynesian ‘paradox of thrift’ argument, attempts to increase the rate of savings out of current income by an individual may succeed but, if all tried to do so, the result may be lower actual saving due to the consequent fall in income (Buchanan 1994, p. 39). This argument is actually ‘the great Keynesian delusion’ (p. 39). Allegedly, Keynesians blamed the Great Depression on ‘underconsumption’ and their remedy was increased spending (p. 40). Keynesians sought to shift public opinion ‘toward generalized praise for expressed willingness to spend’ (p. 40). They ‘misled’ individuals into believing, in effect, that consumption spending deserved ‘praiseworthy social status’ while savings deserved ‘a social stigma’ (p. 41). Keynesian views influenced politicians ‘in their institutional treatment of incentives’ and individuals in their ‘spending habits’ (p. 54). Not only were Keynesians conceptually wrong in understanding economics,<sup>36</sup> but they were ethically wrong.

Again Buchanan says that his work in this chapter was ‘primarily positive,’ investigating ‘the economics of the saving ethic’ and especially the spillover from that ethic (pp. 31, 52). Once again we can make a case that it shows how more savings serves the common good. ‘Naked preferences’ do not deliver the common good but ethical savings preferences do. The externality involved in the savings choice is internalized ‘through ethical constraints’ (p. 35).

### **--Preaching Puritan Ethics**

The peak of Buchanan’s discussion occurs in the third chapter of *Ethics and Economic Progress*. Buchanan ignores constraints which arise through acts of self constraint (the restraint is imposed without any agreement that others do likewise) and bargains with others (each agrees to certain constraints in exchange for all others doing likewise). Rather, it is ‘in the individual’s desire for constraints on the behaviour of others’ that he looks for the genesis of ethical constraints (p. 62).<sup>37</sup>

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<sup>36</sup> Keynesians were wrong to see the economy in terms of aggregates and hence in the development of macroeconomics (and the associated interventionist policy) (1991, pp. 29, 33-4). They were also wrong about the ‘paradox of thrift.’

<sup>37</sup> In this chapter he rejects the view of Hayek (who is much more Burkean on this point); according to Hayek, the origin of moral constraints is mysterious due to the long period over which such rules evolve (Buchanan 1994, p. 63; Hayek 1981; Burke 2001).

Buchanan's argument runs as follows. Assume that there are two people: you and me. Each of us has something, say you have X and I have Y. I want your X. In the exchange situation, where you want my Y, we trade X and Y. Even better for me, Buchanan suggests, is if you *give* me X. I have an 'economic interest' in inducing you to provide a gift to me but you would only be willing to do so if you felt compelled 'by some internal ethical norm' (p. 67). This next step is critical. He argues that I have an interest in instilling an ethic *in you* which gives me the gift and 'I am willing [up to the value of X to me] to invest resources to secure these results' (p. 67). Once this approach is extended to cover 'social interaction,' Buchanan claims that he has found a new origin for 'ethical constraints' (p. 68).

Mutual gift-giving, in an environment where trading has not yet emerged, leads to similar results to that of trading but without interdependence.<sup>38</sup> Buchanan argues that all parties 'will find it advantageous to invest resources in modifying the preferences of others' in order to realize the desired change in their behaviour (p. 70). 'The preacher' is the term that Buchanan uses to stand for the 'institutions of moral-ethical persuasion' (p. 70). Hence, to the extent that preachers effectively change the preferences of others so as to deliver the 'spillover ... benefits' desired, each party will be willing to 'pay the preacher' (p. 70).

Mutually desired results may be achieved through exchange (which is the usual focus for Buchanan and most economists), *or* through ethical constraints. They may be considered as alternatives. There are contexts in which exchange, bargains or contract would be complex or difficult to enforce; here it is *as if* trade is not available and ethical norms come into their own (p. 71). Buchanan says that this is the situation with respect to work effort and savings. Everyone else will gain if one person 'works harder or saves more than his or her naked preferences might dictate' (p. 72). Despite the possible mutual gains to be had from everyone agreeing to work hard and save hard, arranging and enforcing such a contract is virtually impossible. Rather than 'politicized' solutions to this problem, Buchanan turns to ethics (pp. 72-3).

The 'ethical internalization' of work and savings externalities is Buchanan's solution. Buchanan says that this solution may be even better than exchange because I benefit from your additional work and savings without the necessity of doing likewise (p. 73). On the other hand, in order to gain some of the spillover benefits, I have an incentive to 'pay the preacher' (p. 74).<sup>39</sup>

There is a rational foundation for ethics within the 'rational choice' perspective, where individuals recognize that his or her own economic welfare 'depends on the behaviour of others' and 'that this interdependence extends beyond ... ordinary contractual institutions' (p. 74).

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<sup>38</sup> Apparently Buchanan is unaware that Adam Smith made a similar argument about the origins of trade in gift-giving (Smith [1776] 1976, pp. 27-8; Smith 1978, pp. 348, 493; Alvey 2003, pp. 64-6).

<sup>39</sup> Buchanan admits that free-riding may occur (p. 74) and this is discussed below.

Preaching, to the extent that it may affect the behaviour of others, may be ‘privately productive for me’ (p. 62).

His overall discussion of preaching is interesting on two grounds. Before discussing these, let me remind the reader that Buchanan said that there are two levels of ‘preferences’: regular preferences (e.g. preferred type of toothpaste) and ‘ultimate’ values (ultimate views on freedom, etc). First, he says that most economists assume both types are fixed. By contrast, Buchanan says that both types are variable. Buchanan holds (recall assumption 2) that preferences are modified by ‘socialization and acculturation’ but not to the extent of communitarians, who allegedly hold that preferences are perfectly malleable, determined entirely by social influences (1994, p. 76 see p. 77).<sup>40</sup> Second, the ‘ultimate’ values are variable and at the same time he says that they arise from individuals (recall assumption 3). This doctrine, that we create our own values, follows from the German philosopher Friedrich Nietzsche.<sup>41</sup> If we consider the work ethic as an ‘ultimate’ value, we have reached a twist on Buchanan’s foundational view that these ‘ultimate’ values arise exclusively in the minds of each individual. In this new environment, ‘preachers’ persuade people on behalf of the others (the society?) to adopt ‘ultimate’ values. This seems to me to have a kinship with Aristotle, who held that all regimes educate/inculcate relevant virtues.<sup>42</sup> For Buchanan, the regime as such does not preach (understood ‘organismically’) but preachers preach the Protestant ethics and alter preferences on behalf of others (the society, understood contractually to represent the individual members). Hence, the source of ‘ultimate’ values is the preachers who act on behalf of society (understood individualistically as embodied in the social contract). In this refined formulation, ‘ultimate’ values arise from both the individual *and* society (albeit that the latter is understood in some individualistic manner) (1949, p. 496). To some degree, Buchanan has brought some shadowy view of society back into play. Late in life, Buchanan seems to have shifted from his radical individualistic view.

### **-- Other Applications**

Buchanan says that the logic of preaching the work and savings ethics can easily be extended to other virtues. He says that the payment to the preacher could be extended to include the ‘call for honesty in dealings, for promise keeping, for truth telling, for respect for persons and property, for sobriety, [and] for tolerance’ (pp. 78-9). Hence, Buchanan concludes that the preaching could include a variety ‘of constraints summarized within the rubric [of] “the Puritan virtues”’ (p.

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<sup>40</sup> Buchanan agrees with mainstream economists to the extent that regular ‘preferences’ may be treated as “relatively absolute absolutes” for much ordinary analysis’ (p. 76).

<sup>41</sup> After announcing the death of God, Nietzsche developed the concept of the value-creating Übermensch (Nietzsche [1883-5] 1976). Buchanan seems to adopt a democratized Nietzschean view.

<sup>42</sup> These virtues are regime specific (see Aristotle 1984, pp. 62, 98, 103, 229).

79). '[W]e should support' those institutions that promote 'the norms that serve to constrain ... opportunistic behaviour ... in the economy' (p. 80).<sup>43</sup>

Buchanan is cautious to say, however, that his economic argument is restricted to the inculcation of a *limited* set of virtues. '[W]e should ... all pay the preacher ... if he preaches that which upholds and furthers our [i.e. each individual's] economic interests' (p. 78). 'We should ... be willing to invest something in support of all those preachers who shout out' the Puritan 'virtues from their pulpits' (p. 78). If preaching is limited to promoting the Puritan virtues, Buchanan believes that a good case can be made for it. Unfortunately, he says that actual religious preachers (rather than Buchanan's 'preachers' of social ethics) do not restrict their sermons to such virtues and often their teachings reduce the value of the economy (pp. 4, 79).<sup>44</sup>

In Chapters 4 to 6 of *Ethics and Economic Progress* Buchanan discusses three other applications of the logic presented above. Chapter 4 concerns taxation of income from labour;<sup>45</sup> Chapter 5 concerns idleness (of human labour and natural resources); and Chapter 6 considers qualitative differences in the types of labour input.<sup>46</sup> Of these, I would argue that only part of Chapter 5 is directly relevant to the Puritan ethics.<sup>47</sup> Hence, I will comment briefly only on this aspect.

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<sup>43</sup> Of course, opportunistic behaviour is exactly what is assumed in Public Choice economics. After making a career out of Public Choice economics, Buchanan's sudden conversion to idealism seems like a death-bed conversion.

<sup>44</sup> At first glance, Buchanan seems to refer to otherworldliness, and self-sacrificing ideals praised in various religions. On closer inspection, his reference to 'sermons' suggest that he has in mind Christianity.

<sup>45</sup> This application was developed almost thirty years earlier and is not couched in the same Smithian supply-side economic growth framework as the other five chapters. The chapter considers the welfare effects of taxation. Relative to a lump-sum tax, all other tax types reduce welfare by a greater amount. Other economists have focused on the welfare loss (for the *individual* who is taxed) arising from taxes that are less efficient than lump-sum taxes. By contrast, Buchanan considers the welfare consequences for *others* of the taxed individual reducing his contribution to the aggregate tax bases by reducing work effort (p. 96). This takes us back to the externality discussed in the sub-section on the work ethic. Let us say that the one who is reducing his or her work effort is *you*. The inefficient tax reduces your work incentive and (because you work less) the total value of tax base declines in value; as a result, there are less public goods for *me* (and others) to enjoy. My welfare declines due to your response to the inefficient tax. Buchanan then argues that we will both be benefitted if I provide some compensation to you in exchange for you limiting your substitution away from paid labour (p. 96). He then investigates ways in which work effort can be increased even at the cost of horizontal or vertical equity (pp. 103-11).

<sup>46</sup> This application considers the possibility that not all types of labour (or other inputs) generate increasing returns and the virtuous circle of growth. Inputs that produce increasing returns can be called 'productive' and those inputs that do not do so can be called 'relatively unproductive'; a shift of demand toward productive or 'relatively productive' inputs may increase welfare (p. 142). This story builds on Smith's distinction between productive and unproductive labour, which Buchanan admits is virtually universally rejected by mainstream economists (pp. 129-30; see Smith [1776] 1976, pp. 330-49).

<sup>47</sup> The argument concerning natural resources follows the same pattern as the others. Leaving natural resources idle harms people other than the owner of the idle resources (pp. 118-28).

Chapter 5, 'The Economics and the Ethics of Idleness,' is devoted to the idleness of human *and* natural resources. While the focus is on the latter, some of the chapter reprises the earlier discussion about the externality in the work-leisure choice. We recall that in that earlier discussion the focus was on the public good aspect of hard work. In Chapter 5 the focus is on the obverse case: loafing.<sup>48</sup> According to the earlier discussion loafing puts the economy into a vicious circle: the division of labour is less than it might have been; technology which could have been deployed is now not viable; costs of production increase; and the returns to inputs are less than otherwise (p. 120). The choice to loaf 'necessarily *harms* others in the system' (p. 118 emphasis added). If harming others is used as a standard for 'immoral behaviour,' the choice of loafing over work in paid employment is 'immoral' (p. 118). Hence, someone who reduces work (thus reducing their taxable income) simply to indulge in leisure should be taxed *more* not less (pp. 125-6). What is needed is an 'ethical norm that treats work as praiseworthy and treats loafing as blameworthy' because this 'increases the well-being of every one of us' (1988a, p. 59; see 1988b, p. 51).

### **-- An Objection to Preaching**

Before closing this section on the Protestant ethics, I should mention that Buchanan discusses a possible objection to his argument, one that may have troubled the attentive reader: the free-rider problem which is important in various areas in economics, including Public Choice theory. The free-rider logic of Buchanan's own Public Choice school would seem to make 'paying the preacher' irrational (1994, p. 81).

Buchanan concedes that, contrary to the logic of Public Choice theory,<sup>49</sup> many people do vote and many are informed about general political issues. He suggests that the tendencies predicted by Public Choice theory are overcome to *some* degree by 'an active ethical discourse that encourages individuals to surmount the large-number cooperative dilemma in such cases' (p. 82). Exhortations to vote and participate *do* have an effect.<sup>50</sup> By contrast, Buchanan says that there is no 'ethically directed, economically motivated argument that encourages individuals' to adhere 'to the Puritan virtues' (p. 82). He is arguing for action to limit the free-riding tendencies identified by Public Choice theory.

### **-- Overview**

Buchanan's analysis of Puritan ethics has some similarity to that of Max Weber and he acknowledges that there is some complementarity (Weber 1930). Weber traced the origins of the

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<sup>48</sup> Elsewhere, Buchanan says that he likes the term 'loafing' because it 'carries a pejorative impact' (1988a, p. 59; see also 1989, p. 50).

<sup>49</sup> Public Choice predicts that in the large-number context, where the individual has little effect on an election outcome, people will still act rationally; they will tend not to vote and they will tend not to be well-informed about politics (rational ignorance) (Downs 1957; Tullock 1967; Buchanan 1991, p. 236).

<sup>50</sup> This was seen, for example, during 2008 in the voter mobilization conducted by supporters of Barack Obama's Presidential campaign.

capitalist spirit to Calvinism but Buchanan thinks that evidence in post-war Asia shows that such a thesis is overly restrictive (p. 84). Nevertheless, he agrees with Weber that the Protestant virtues are important in generating and maintaining 'economic progress' (p. 85). *Ceteris paribus*, the greater the adherence to Puritan virtues that a society demonstrates, the 'more successful' the society will be in economic terms (p. 85). Preaching, and hopefully restoring the Puritan ethics, may help promote economic progress.<sup>51</sup>

For Buchanan, people are not only economically but ethically 'interdependent' (p. 86). For him it is clear that an economy in which fraud is common will be economically less successful than in one in which people are generally honest (p. 86). Buchanan admits that mainstream economists may concede this point but they would not go as far as he has concerning the work and savings ethics.

Overall, Buchanan's work, especially *Ethics and Economic Progress*, shows a serious interest in the work ethic and the savings ethic and their relevance for economics. For a radical individualist, Buchanan has made an astounding concession in admitting the importance of culture and in advocating that we should all contribute to paying for the preaching of the Puritan virtues. Just as important is his assessment that it is economists themselves who are to blame for not understanding the need to pay the preacher; the problem is traced back to the fact that economists separated their discipline 'from its initial moorings as a part of moral philosophy' (p. 82). Further, it is only if they bring economics 'back into its proper relation to ethics,' that we can expect support for the policy of paying the right sort of preacher (p. 83). In calling for a return to what Sen calls the ethical tradition of economics (Sen 1987, pp. 2-7), Buchanan has completed a major shift from his position in the 1960s.

## 5. CONCLUSION

Buchanan is a sort of paradox. Much of his work is positivistic; his development of Public Choice theory is an extended exercise in cynicism. Yet there is something more to Buchanan, as his gradual escape from positivism shown above proves. Culture is important as a framework for ethics. Two such broad cultural frameworks discussed above (the Victorian fiscal ethical constraints and the Puritan ethics) show that ethics is important for economics.

Buchanan is an economist but political philosophy and ethics are relevant to his understanding of economics. Interdependencies exist 'among the economic, ethical, and political environments within which persons interact' (p. 145). Due to Buchanan's work and that of others, economists have come to accept that 'institutions matter' and Buchanan urges them to go further and accept

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<sup>51</sup> Part of the rationale for preaching arises because of Buchanan's sense that there has been an erosion of social capital, including ethical norms. The consequences of this erosion will be a decline in the growth rate of the 'productivity of the economy'; Americans (and others suffering from a decline in the savings ethic) will 'become relatively poorer' (pp. 29, 54; see pp. 28, 53).

that ‘ethics [embedded in culture] also matter’; if economists heed his advice ‘[i]n both respects [the focus on institutions and culture/ethics], we are returning to the classical tradition of Adam Smith’ (p. 145).

Buchanan’s overall message in (at least some of) his mature works is fairly clear. He wants to take us back some of the way towards the Smithian ‘institutional and ethical’ approach to economics. Buchanan has argued in his mature works that cultural/ethical considerations are relevant to economics in a wide range of areas, including the Victorian fiscal norms and the Puritan ethics. Given the current state of the discipline, his mature views represent a more balanced approach than what we have come to expect from many economists. Nevertheless, even this approach seems often hemmed in by the Robbins strictures (see Buchanan 1994, p. 43). It represents only a partial return to Adam Smith and to a rich ethical approach to economics (see Alvey 2007).

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