

AN INTERVIEW WITH PETER J. BOETTKE ON THE CONTRIBUTIONS OF JAMES M. BUCHANAN ON LAW AND ECONOMICS AND AUSTRIAN SCHOOL OF ECONOMICS

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Q. In one of your paper written together with with your colleagues you call Buchanan “properly trained economist.” What does it really mean? Who was James M. Buchanan and why is he significant?

Boettke. Buchanan is invoking a contrast between a natural economist (such as Gordon Tullock) and properly trained economist (such as G. Warren Nutter). The “natural economist” sees constraints and maximizing behavior just by their native intuition, and they see that in every walk of life. This is a powerful lens through which to see the World. But the “properly trained economist” has mastered the nuances of price theory and is able to observe and recognize the subtle adaptations and adjustments guided by relative prices and the lure of profit and the discipline of loss. As he argues the “properly trained economist” because of their deep understanding of the price system is able to become an observational genius; while

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a genius unassisted by the principles of economics is too often unable to understand even the basics of the phenomena upon which they gaze. In fact, they are more often than not reduced to a “jibbering idiot” as Buchanan put it. In his lifetime, the classic examples of this were discussions around public debt, market vs. government failure, the operation of the Soviet economy, and the problems of economic development.

Q. In your opinion, what is James Buchanan’s most significant contribution to the field of law and economics? Would you please remark on the breadth and the depth of Buchanan's contributions to law and economics?

Boettke. Perhaps Buchanan’s most important contributions can be pinpointed with his shifting of the analytical attention of economists to the “Rules Level of Analysis”. Buchanan sought to develop what he called in his book *The Demand and Supply of Public Goods*, a “genuine institutional economics”. Economics as it developed in the second half of the 20th century had treated the institutional framework provided by law, politics and society as fixed and given for any moment of analysis. Buchanan changed that, and argued that economist cannot be content making those assumptions, but instead must treat the institutional framework itself as an object of choice. This was critical to his discussions of collective action. In his classic paper “Positive Economics, Welfare Economics, and Political Economy”, Buchanan argued that economists focused on reform must limit their proposals to changes in the structural rules of the game, and put forth their proposals as hypotheses to be “tested” in the democratic process of collective decision making. Economists have NO STANDING to impose their proposals on other citizens, but they can put forth those proposals and seek agreement through the democratic process. This was quite a radical challenge to the economist as expert/savior model that was championed with the neoclassical synthesis following the Great Depression and WW2.

Q. As an economist specializing in the Austrian school, could you explain the connection between Buchanan's social and economic philosophy and the views of the Austrian school of economics?

Boettke. At the beginning of Buchanan’s career, the ideas of Menger, Bohm-Bawerk, Mises, and Hayek were simply part of the common knowledge of modern neoclassical economics. There were differences, but in general the style and

substance of the economics in Mises was very close to the economics of Frank Knight, and this stood in contrast to the emerging Keynesian consensus. However, in addition to Keynesian macroeconomics a transformation of microeconomic theory took place between 1930-1950 with the further elaboration of the model of General Competitive Equilibrium and Welfare Economics. Formal modeling rather than nuanced verbal reasoning became the standard practice among the new generation of economists. Such modeling, however, tended to obscure or neglect the subtleties that were part of the common knowledge of economics from Adam Smith to Hayek related to social cooperation without command, and the nature of value, costs, expectations, knowledge and the role of the price system in negotiating the subjective evaluations of individuals in the marketplace. Buchanan became increasingly aware of this lost scientific knowledge first through his work on public debt, but then also bureaucratic decision making, and ultimately the very exchange and process nature of the market system itself. His “Austrian” side becomes more and more pronounced in Works like *Cost and Choice* and “What Should Economists Do?” To Buchanan’s great credit, he saw the value of the Austrian approach and the need for a revival of that approach when the tradition was at its lowest point in its history in terms of scientific acceptability (1950-1970).

Q. The Austrian school of economics and the Virginia school of political economy have a long history of interdependence, methodological, analytically, and ideologically. Would you please explain those links in brief?

Boettke. Ideologically might be too loaded a term. But certainly what Schumpeter referred to as “vision” – a pre-analytic cognitive act – that provides the raw material. So one could say that to this group of economists the explanandum of economics was *social cooperation under the division of labor and the explanans was rational choice institutionalism*. The invisible hand proposition is derived from the rational choice postulate via institutional analysis. That research program is one that focuses on methodological individualism, subjectivism, and market process. The story of this approach to economics and political economy can take too many twists and turns for me to detail here, but I have tried in several articles and books. But for the purpose here, just play out the thought experiment of the challenges to the Samuelsonian hegemony in the period between 1950-1980 other than Milton Friedman and monetarism. The monetarist counter-revolution was focused on macroeconomics, and stressed monetary rules rather than discretion, etc. But there was another counter-revolution afoot during their period as well that can be seen

in the work of Coase and Law and Economics, Alchian and Property Rights Economics, Buchanan and Public Choice Economics, and Kirzner and Market Process Economics. Buchanan's genius both research and educational was to see these different approaches not as in contestation with one another, but as reconciled with one another and as an alternative to the Samuelsonian transformation of economics that had taken place since the mid-1940s. At UVa he institutionally sought to build a research and graduate education center that once more united political economy and social philosophy as the discipline was practiced between Adam Smith and JS Mill, but updated with the tools of the early neoclassical tradition of price theory (see earlier discussion of properly trained). When he moved to VPI the focus was narrowed to working out the implications of the economics of politics (public choice), and Buchanan's own project in Constitutional Political Economy. Upon moving to GMU, Buchanan re-envisioned the earlier effort at UVA and sought to develop an institutional base which promoted sound economics, political economy and social philosophy. In this regard the focus was on again methodological individualism, exchange and process in both the market and politics, and the institutional level of analysis. The notion of a free society Buchanan invokes is the older republican ideal of a society of the free choosing of the citizenry, and the criteria is a political structure that exhibits neither discrimination, nor relationships of domination. Buchanan is not trying to champion a libertarian vision of society, but instead a radically democratic vision of society, a society of individuals capable of self-governance. As David Levy and Sandra Peart put it in their brilliant book – *an economics of natural equals*. Buchanan took seriously Adam Smith's claim that the only difference between the Street porter and the philosopher was in the mind of the philosopher. We are all one another's dignified equal, and equal things demand equal treatment. This radically democratic aspects of Buchanan's thought must be stressed. The economist in his model has NO SPECIAL status that enables him/her to stand outside of the system and pronounce that is "good". Buchanan practiced economics from the "Inside-Out" and not from the "Outside-In" as the expert model demands.

Q. You have an avowed sympathy for Hayek. Was Hayek a greater thinker than Jim Buchanan?

Boettke. I am happy to answer. I think they are both part of a research tradition that starts with Adam Smith (at least) and provides us with a window into the human condition that is unmatched.

Q. Some other provocative questions: Is Buchanan's constitutional economics paradigm more important than the scholars working in the field of law and economics, economic analysis of law, institutional economics etc. Buchanan vs. Coase. Buchanan vs. North... Buchanan vs. Posner etc...

Boettke. I would seek to reconcile the work of Buchanan with Coase and North, and to distance with the work of Posner, etc. Why? Because Buchanan and the others are seeking to understanding how alternative institutions impact economic performance, not necessarily use the tools of economic reasoning to judge the efficiency of different institutional structures. This is a subtle point I believe, but vital to understanding the intellectual lines that must be drawn to make progress in the field of political economy.

Q. Can Buchanan be considered a subjectivist in the context of the Austrian school of economics?

Boettke. Definitely, his work on this draws explicitly on the LSE tradition that Hayek helped to forge during his time there, and the more radical implications were drawn out by Hayek's students Lachmann and Shackle.

Q. Do you think Buchanan's *Cost and Choice* approach has close links with the cost theory of Austrians and marginalists?

Boettke. Yes, he explicitly draws on their work. There are 2 aspects that got lost in the over-formalization of economics, as well as the excessive aggregation – the subjectivity of value, costs, and expectations, and the context dependent nature of choice. Buchanan corrects both of those oversights.

Q. Considering Buchanan's proposals on constitutional rules such as a fiscal constitution or a tax constitution, to what extent do you think these proposals have been accepted worldwide? Can it be said that Buchanan has achieved success in this regard?

Boettke. Like Hayek, I think unfortunately for the World Buchanan's ideas are more talked about than listened to and followed. His success is amazing with regard

to academic World, but not as significant in the actually World of public policy. Milton Friedman is the individual most responsible for that.

Q. When we consider Coase's frequently cited "transaction cost economics" alongside Buchanan's "constitutional economics perspective" attributed to him in academic circles, what are your thoughts on the importance of the economic analysis of law in the process of lawmaking?

Boettke. Political economy in its finest hours seeks to understanding how alternative institutional arrangements either promote or hinder productive specialization and peaceful social cooperation among free individuals. Commerical life never exists in a vacuum but always within an institutional context framed by law, politcs and society. Again, I see Buchanan and Coase as working together in addressing these issues, not at odds.

Q. Many legal scholars criticized the dominant law and economics paradigm. Why do some or most of the constitutional lawyers ignore constitutional economics?

Boettke. There is a new movement called Law and Political Economy, and I have published in the last year a piece with Alex Salter and Dan Smith criticizing what they dubb Law Macro, and with Rosolino Candela criticizing their critique of Law Micro. These articles explain how the Posnerian program helps invite the criticism, but that the Buchanan and Coase version actually is far more robust against the criticisms and more powerful a lens through which to understand social reality.

Q. And the last question: As who has worked extensively in the field of public choice, how has your own thinking been shaped or challenged by Buchanan's intellectual legacy?

Boettke. As a graduate student, I listened very intently to every word Buchanan uttered in our classes and I read as much of his writings as I could. But at the time, I did not complete appreciate the depth of his analysis. That resulted when my research moved from the economic history of socialism to the study of the transition from socialism. That switch made me intently aware of the struggle as well as potential of developing what Buchanan had called a genuine institutional economics. I think Buchanan gets us along that path as well as any thinker in the history of political economy. I would like to think of myself as being influenced by Hume/Smith; Say/Mill; Menger/Mises/Hayek; and Buchanan. Of course many

other influences come in to the mix, especially Israel Kirzner and Don Lavoie, or more recently Deirdre McCloskey. But the core ideas can be found in the mainline tradition of economics and political economy that I lay out in my book *Living Economics*, and Buchanan certainly plays a central role in that story.