

Professor Peter Boettke
Econ 828/Spring 2017
Mondays 7:20-10:00pm
Mason Hall D100

Constitutional Economics

Revisiting Liberalism in an Age of Conflict

In *The Calculus of Consent* (1962), James Buchanan and Gordon Tullock make an important qualifying point to their analysis of the general theory of constitutions. As they put it:

The evolution of democratic constitutions from the discussion of rational individuals can take place only under certain relatively narrowly defined conditions. The individual participants must approach the constitution-making process as "equals" in a special sense of this term. The requisite "equality" can be insured only if the existing differences in external characteristics among individuals are accepted without rancor and if there are no clearly predictable bases among these differences for the formation of permanent coalitions. On the basis of purely economic motivation, individual members of a dominant and superior group (who considered themselves to be such and who were in the possession of power) would never rationally choose to adopt constitutional rules giving less fortunately situated individuals a position of equal participation in governmental processes. On noneconomic grounds the dominant classes might choose to do this, but, as experience has so often demonstrated in recent years, the less fortunately situated classes will rarely interpret such action as being advanced in their favor. Therefore, ***our analysis of the constitution-making process has little relevance for a society that is characterized by a sharp cleavage of the population into distinguishable social classes or separate racial, religious, or ethnic groupings sufficient to encourage the formation of predictable political coalitions and in which one of these coalitions has a clearly advantageous position at the constitutional stage.*** (emphasis added)

But who can deny that the tensions we see throughout the world today are brought about due to such divisions along racial, religious, ethnic, and socio-economic lines. We live paradoxically in an era of globalization characterized by a fractured universe. All that was solid has indeed melted into air. Yet, as the world is torn apart, the ideal of a liberal cosmopolitan order where there would be strangers nowhere in this world seems more and more remote. This is evident in both the rise of extremist movements, and the counter-reaction in terms of right-wing populism throughout the democratic west.

The liberal project evolved throughout the 18th and 19th centuries into the constitutional project. As Lionel Robbins's *The Theory of Economic Policy in British Classical Political Economy* the development of economics as a discipline co-evolved with the institutional infrastructure of the liberal order. In the 20th century various historical events – namely WWI, the Great Depression, and WWII – derailed this liberal constitutional project, and led temporarily to the intellectual divorce between economics and the institutional infrastructure within which economic activity takes place. The rise of left (communist) and right (fascist) authoritarian regimes in Europe in the 1930s compelled liberal intellectuals to rethink the project.

In 1937 Walter Lippmann published *The Good Society*, and in 1938 the Walter Lippmann

Colloquium was organized in Paris, where 26 of leading liberal intellectuals throughout Europe gathered to discuss the challenges current events represented to the future of the liberal project. The disruption of WWII meant that this Colloquium had little direct influence on either 'the life of the mind', or 'the affairs of men', but it did inspire F. A. Hayek, who was one of the participants in France in '38. Persuaded of the critical importance of a modern restatement and reconstruction of liberalism, Hayek founded in 1947 The Mont Pelerin Society (<https://www.montpelerin.org/statement-of-aims/>). MPS can count among its members several Nobel Prize winners in economics, but 3 stand out and their work came to reflect the fundamental challenge and purpose of MPS: Hayek, Friedman and Buchanan. And it is these works that will form the basis of our reading to begin the class.

We will read these works in chronological order from 1944-2013 so we can contextualize the reconstructed liberal project historically. The evolving nature of the liberal project is seen not only in the efforts of Hayek, Friedman and Buchanan, but also Nozick's classic statement of libertarianism, Ostrom's effort to restate the democratic project in the wake of the collapse of communism, Kukathus and the challenge of multi-culturalism, and Tomasi and the critique of capitalist injustice.

The required books are:

Hayek, *Road to Serfdom*, University of Chicago Press, 1944.
Hayek, *The Constitution of Liberty*, University of Chicago Press, 1960.
Hayek, *Law Legislation and Liberty*, University of Chicago Press, 1973, 1976, 1979 v. 1-3.

Buchanan & Tullock, *Calculus of Consent*, University of Michigan Press, 1962.
Buchanan, *Limits of Liberty*, University of Chicago Press, 1975.

Milton Friedman, *Capitalism and Freedom*, University of Chicago Press, 1962.
Milton and Rose Friedman, *Free to Choose*, HBJ, 1980.
Milton and Rose Friedman, *The Tyranny of the Status Quo*, Houghton, 1984

Chandran Kukathas, *Liberal Archipelago*, Oxford, 2007.

Robert Nozick, *Anarchy State and Utopia*, Basic Books, 1974.

John Tomasi, *Free Market Fairness*, Princeton University Press, 2013

Vincent Ostrom, *The Meaning of Democracy*. University of Michigan Press, 1997.

Grading Policy

One of the critical ideas in the modern reconstruction of the Tocquevillean project of self-governing democratic society is *co-production* of the local public goods that constitute the social order. Consistent with this idea, 50% of your grade for the class will be determined based on class participation. By class participation I am expecting: (a) complete each weeks reading well in advance, (b) formulate each week at least 5 critical questions based on the reading, (c) each week share those questions with the class, and (d) listen respectfully, but critically to the questions and insights of others and respond accordingly during the class discussion.

Richard Wagner likes to say that thinking without writing is like daydreaming. I agree with that sentiment, so the other 50% of your grade will be based on a research paper. In addition, I am

firmly convinced that liberalism is a research program in political economy and social philosophy, and it is not necessarily merely an ideological endeavor. Moreover, my view is that unless the best and the brightest work on topics related to the liberal project – even when the presentation cannot be pursued with the same scientific precision that more tractable problems can be. Finally, I would argue that those who believe their commitment to scientific precision compels them to avoid such questions are deluding themselves. This delusion is not their fault, it is part of the acculturation process of the modern economists. But it is based on an intellectual error. One of Buchanan’s great insights was that any theory of public finance is implicitly based on a political philosophy because it is in the political philosophical discussions that the appropriate scale and scope of government is determined. To say these are exclusively “technical” questions is to take on-board without critical examination a political philosophy. Much better to get these questions into the open in the political economy discourse, than to leave them hidden from critical examination under some scientific delusion.

I encourage you to come and talk within the first month of the semester to settle on your topic so as to give you adequate time to pursue the project in a serious manner.

Semester Schedule

Date	Topic	Readings
January 23	The Walter Lippmann Colloquium, The Mont Pelerin Society, and Reconstruction of The Liberal Order	
January 30	Socialism and Democracy	Hayek 1944
February 6	Positive Program for Laissez Faire	Hayek 1960
February 13	Economic Efficiency and the State	Friedman 1962
February 20	The Logical Foundations of Constitutional Democracy	Buchanan and Tullock 1962
February 27	Modern Liberalism and Libertarianism	Hayek 1973 Nozick 1974, 1-2
March 6	Between Anarchy and Leviathan	Buchanan 1975
March 13	SPRING BREAK	
March 20	The Market Order	Hayek 1976
March 27	Political Economy of a Free People	Hayek 1979
April 3	Freedom in Constitutional Contract	Friedman and Friedman 1980
April 10 *No Class Due to APEE*	The Rent-Seeking State and the “Iron Triangle”	Friedman and Friedman 1984
April 17	Self-Governing Democratic Order After Communism	Ostrom 1997
April 24	Multi-culturalism, Toleration, and the Liberal Order	Kukathus 2007 Nozick 1974, 9-10
May 1	Justice as Fairness	Tomasi 2013 Nozick 1974, 7-8
May 8	Research Papers Due	