

The

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*A Journal of Political Economy*



## The Economics of Health Care and Health Insurance

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## *A Journal of Political Economy*

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# *The Calculus of Consent* at Fifty *Insights for Liberalism*

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NICLAS BERGGREN

**T**he *Calculus of Consent: Logical Foundations of Constitutional Democracy*, published by James Buchanan and Gordon Tullock in 1962, has become a modern classic as a founding work for the research fields of public-choice and constitutional economics. Its novel analytical approach to politics, in essence making creative use of the tools of economics for this purpose, certainly made a scientific contribution—which is why the book was cited prominently by the Prize Committee when Buchanan was awarded the Nobel Prize.

However, its significance goes beyond strictly scientific contributions. It is of great relevance for liberalism in at least four areas: constitutionalism, generality, robust political economy, and Paretian constructivism.<sup>1</sup>

What do I mean by the term *liberalism*? One starting point is Gerald Gaus and Shane Courtland’s “fundamental liberal principle”: “[F]reedom is normatively basic, and so the onus of justification is on those who would limit freedom, especially through coercive means” (2011). That is to say, all kinds of liberalism value freedom highly and at least see it as the most important value *prima facie*. One way for this

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1. This is not to say that liberalism features explicitly in the book: in fact, the term *liberal* occurs only five times in it, and *liberalism* occurs only once (and in no case is the term *liberal* used to describe the book’s message).

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paper to be relevant to liberals is to say that most of the issues presented here in one way or other relate to freedom. However, because the concept of freedom itself is multifaceted, I also think it worthwhile to consider what John Gray regards as features of all types of liberalism:

Common to all variants of the liberal tradition is a definite conception, distinctively modern in character, of man and society. What are the elements of this conception? It is *individualist*, in that it asserts the moral primacy of the person against the claims of any social collectivity: *egalitarian*, inasmuch as it confers on all men the same moral status and denies the relevance to legal or political order of differences in moral worth among human beings; *universalist*, affirming the moral unity of the human species and according a secondary importance to specific historic associations and cultural forms; and *meliorist* in its affirmation of the corrigibility and improbability of all social institutions and political arrangements. It is this conception of man and society which gives liberalism a definite identity which transcends its vast internal variety and complexity. (1995, xii)

It will become clear in the following section how the *Calculus* enterprise, broadly conceived, fits nicely into this characterization of liberalism.

How can a work in social science be of relevance to a political ideology? Social science tends to work with hypothetical imperatives, or with means–end analysis. *Calculus* makes explicit use of certain ends and takes those as given for the ensuing analysis of means. For example, the first sentence of the preface reads: “This is a book about the political organization of a society of *free men*” (Buchanan and Tullock 1962, v, italics removed and emphasis added).<sup>2</sup> The authors also write: “The acceptance of the right of the individual to do as he desires so long as his action does not infringe on the freedom of other individuals to do likewise must be a characteristic trait in any ‘good’ society” (303). I take this to imply that freedom is a basic starting point of the analysis: it, properly interpreted, is presumed to be the end that the means (i.e., the ways in which constitutional democracy is set up) are to serve. Buchanan comments on the normative character of *Calculus*: “Furthermore, and importantly, these two stands of inquiry [the emphasis on the rules within which choices are made and the economists’ model of the behavior of political agents] were imbedded in a normative framework that confused and irritated our critics. The book was as much political philosophy as it was either economics or political science, and we did not, then or now, deny or even apologize for its location within the Madisonian vision of the American experience” (1992, 98).

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2. From this point, *Calculus* is cited by page number only, except when it is not named explicitly in the text.

My use of the phrase “properly interpreted” refers to the *Calculus* construct of first and foremost starting from a situation of freedom at the constitutional level of decision making; it is freedom *in and through constitutional contract*. As Viktor Vanberg puts it, “[T]his ideal of individual liberty is about *individual sovereignty in defining the rules* under which a group of persons chooses to live, rules that among free and equal individuals can only be chosen by voluntary agreement” (2011, 9).

In a similar manner, ideologies also tend to feature both ends and means or values and facts, where the former are normative and ascientific but the latter are scientifically based. The main difference is that in a pure work of social science ends are not affirmed in a definitive way, whereas an ideology is *defined* in terms of the values it affirms. To summarize, social science often incorporates values as postulates for a positive analysis, and ideologies incorporate facts to guide its adherents in deciding what political positions to form *given* their values. Having a goal is one thing; knowing how to best achieve it is another, no less important.

In an engaging piece on the soul of classical liberalism, Buchanan writes: “Science and self-interest, especially as combined, do indeed lend force to any argument. But a vision of an ideal, over and beyond science and self-interest, is necessary, and those who profess membership in the club of classical liberals have failed singularly in their neglect of this requirement” (2000, 112). Maybe Buchanan is right that liberalism needs a clearer vision. My feeling, however, is not that liberalism lacks normative ideals, but rather that it needs to be strengthened on the scientific side. Without grounding in a vibrant and open research program, any vision will have a hard time withstanding critical scrutiny. *Calculus* and the research it has inspired can contribute to the vision of liberalism in this regard.

## Four Areas of Inspiration for Liberalism

There are four areas in which I think *Calculus* has the potential to inspire liberalism. One might write extensively on each area, but, eschewing any ambition for systematic completeness, I focus on select aspects that I consider important. I begin by reiterating some main points from *Calculus* for each area, after which I present what I take that area to imply for liberalism.

### *Constitutionalism*

The most central message of *Calculus* is that institutions matter for what collective decisions will be taken and that individuals will therefore want a decisive say in how these decisions are designed in order to make sure that they are in accordance with the individuals’ preferences to the largest possible extent.<sup>3</sup> The approach is to start from

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3. By “institutions,” I mean, following Douglass North, “the rules of the game in a society or, more formally, . . . the humanly devised constraints that shape human interaction” (1990, 3).

a few basic assumptions—methodological individualism and rationality in particular—and to ask what individuals would do if they were in a stateless society and wished to introduce a state for handling certain collective affairs. They would then want to establish certain rules—which taken together can be called a “constitution”—through which they can make collective choices and constrain those given power through the state. The aim is to secure net benefits from this move into government land, and to the extent that each individual who participates in the “constitutional calculus” thinks that such benefits are forthcoming, agreement as to the establishment of the rules can be expected.

*Calculus* specifically makes clear that political decision making takes place on two distinct and separate levels. Buchanan summarizes this analytical approach:

The central contribution of this book [*Calculus*] was to identify a two-level structure of collective decision-making. We distinguished between “ordinary politics,” consisting of decisions made in legislative assemblies, and “constitutional politics,” consisting of decisions made about the rules for ordinary politics. . . . From the perspective of both justice and efficiency, majority rule may safely be allowed to operate in the realm of ordinary politics provided that there is generalized consensus on the constitution, or on the rules that define and limit what can be done through ordinary politics. It is in arriving at this constitutional framework where Wicksell’s idea of requiring unanimity—or at least super majorities—may be practically incorporated. (2003, 14–15)

If one is concerned about “ordinary politics,” it thus seems a serious oversight not to be at least as concerned about “constitutional politics”—not because constitutional politics has a value of its own divorced from the value of political outcomes, but because constitutions affect what kinds of political decisions are made and, thereby, political outcomes. Buchanan goes as far as to argue as follows: “One way of stating the difference between the Wicksellian approach and that which is still orthodox in normative economics is to say that the *constitution* of policy rather than policy itself becomes the relevant object for reform. A simple game analogy illustrates the difference here. The Wicksellian approach concentrates on reform in the rules, which may be in the potential interest of *all* players, as opposed to improvement in strategies of play for particular players within defined or existing rules” (1987a, 247).

In *Calculus* (chap. 7), to exemplify what kind of rules people would agree to, Buchanan and Tullock discuss primarily the basic rule for making collective decisions. The initial premise, thus, is that legitimacy in establishing political institutions derives from (symbolic or conceptual) unanimous consent.<sup>4</sup> However, the outcome of such

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4. Furthermore, agreement is more probable on constitutional than on other issues: see Buchanan and Tullock (1962, 77–79); Brennan and Buchanan (1985, 28–31); Buchanan (1987a, 248).

a basic unanimous decision will not be one in which the decision-making rule for everyday politics requires everyone to agree all of the time. Rather, net benefits will be maximized where the sum of two expected costs are minimized: external costs (the costs associated with having a decision taken that one dislikes) and decision-making costs (the costs associated with reaching a collective decision). In a group of  $N$  people, this will not in general occur at  $N/2 + 1$  or at  $N$ , but at some intermediate point (*Calculus*, chap. 6).

Important for any evaluation of constitutional alternatives—be it completely new ones or reforms of already-existing ones—is knowledge about their effects. Buchanan and Vanberg (1989) make a distinction between two components of constitutional preferences: an interest component, which consists of values or subjective evaluations of expected outcomes, and a theory component, which consists of predictions about what the outcomes of factual institutional alternatives will be. In order for a constitutional preference to form, then, it does not suffice to have a certain goal (e.g., one consonant with liberalism), but one also needs knowledge about how this goal can (best) be met.

This directly relates to the development of the institutional and constitutional economics research fields since the publication of *Calculus*. One of the clearest results is that protection of private-property rights is important for growth and development to occur.<sup>5</sup>

There is less consensus about the economic effects of political institutions or constitutions.<sup>6</sup> Torsten Persson and Guido Tabellini (2003) find that the electoral system matters: majoritarian systems have a smaller size of government, a smaller welfare state, and a lower budget deficit compared to systems with proportional representation. Also, the size of government and the size of the welfare state are smaller in presidential regimes than in parliamentary regimes. Not all of these results have turned out to be very robust (as shown in Blume et al. 2009 and Dahl 2012), but the findings on the type of electoral system hold up better than those that concern the type of government (presidential or parliamentarian).

Another type of institution that has been studied is bicameralism, regarding which Roger Congleton (2006) reports that political decisions seem to be more in line with the median voter's long-run preferences in bicameral systems. John Bradbury and Mark Crain (2002) find that the stronger the bicameral element of U.S. state legislatures, the smaller the size of government tends to be; Thomas Plümper and Christian Martin (2003) have obtained the same result in a cross-country setting.

Bicameralism is an instance of there being a division of power as well as checks and balances. More generally, *Calculus* advances arguments that a more elaborate organization of the political system may bring with it certain advantages, such as reduced influence for interest groups (285–86, 300–01, 313–14). The empirical

5. See, for example, Berggren (2003); Asoni (2008); and Besley and Ghatak (2010).

6. For a comprehensive survey, see Voigt (2011).



results are mixed. Hans Pitlik (2011) finds that stronger constraints on executive political action have a positive effect on the scope of liberalization after crises. Casper Hunnerup Dahl (2012), however, finds that the strength of veto players, which is a way of measuring the degree of checks and balances, is associated with larger government. The latter result might be explained, for example, by logrolling (in which different veto players collude) or by the inability of a system with large government to undertake reform in the presence of actors who block executive action.

As these examples illustrate, the empirical results are less clear for political than for economic institutions protecting private property, but the research field is still quite young, and as more results accumulate, more clarity may emerge. The powerful insight of *Calculus*, that constitutions relate to outcomes that people value (positively or negatively), certainly seems to hold, although we do not (yet) fully know what the robust relationships are.

Before offering some conclusions about how the constitutionalist message of *Calculus* is valuable for liberalism, I would like to point to three possible problems with this message. First, one theme largely missing from the *Calculus* setting is the endogeneity of constitutions; that is, not only do constitutions causally affect other variables, but those same variables (and other variables) can causally affect constitutions.<sup>7</sup> This problem needs to be explored further theoretically and empirically (which is tricky) because the results of such analysis may very well affect insights about how to implement, or not implement, institutional reforms.<sup>8</sup>

Second, from a liberal perspective it may seem problematic to assume, as in *Calculus*, (the formation of) a *unitary* state that is governed by *a* constitution. This critique gains force from considering liberal models of society such as Robert Nozick's (1974) utopia and Chandran Kukathas's (2003) liberal archipelago or, for that matter, traditional federalist ways of organizing a state. Why, indeed, imagine it desirable to have one set of rules for everyone? If one instead imagines there being a number of jurisdictions in a country between which people can choose, there would presumably be a different set of rules in each. However, the analytical apparatus in *Calculus* can still be applied in an amended manner. The constitution for which unanimity can be expected would be something akin to Nozick's meta-utopia: a mere specification of metarules that apply to any number of jurisdictions and that give them the freedom to decide their own rules (in all areas that do not concern interjurisdictional issues). Each jurisdiction, then, has its own constitution. However, the precise design of these institutions would differ between the jurisdictions in accordance with varying constitutional preferences, according to which people tend to sort

7. Stefan Voigt (2011) identifies endogenization as the most important way in which to extend the constitutional-economics research program at the moment. Buchanan (1999) readily admits that this aspect is missing in *Calculus*.

8. Bernd Hayo and Stefan Voigt (2013) find that in their sample of 202 countries, constitutional reforms occurred in 101 of them; these reforms were related to characteristics of the political system, internal and external political conflicts, and political leaders.

themselves (before *and* after the formation of the jurisdictions). Unlike *Calculus*, this constitutional model would not require as strict a veil of uncertainty for consensus to emerge because people need only agree on the overall framework and not on the precise institutional details, which may vary quite a bit between jurisdictions. This expanded model also more readily encompasses mechanisms for constitutional change, not least through a process of institutional competition. In a sense, this facilitates continual consent in that people who dislike a certain institutional setting may simply relocate to another one.

Third, the question asks to what extent formal institutions explain what is going on in the world, not least with regard to economic development. Do these institutions really matter, as *Calculus* critically presumes, or do they rather just reflect more deep-seated, underlying cultural patterns? For example, Deirdre McCloskey (2006, 2010) seems to hold that property rights were not as central for the development of the West as many others claim, suggesting that bourgeois virtues and certain ethical practices evolved to shape behavior. These virtues and practices can be seen as an instance of informal institutions. Clearly, *Calculus* is in no way inconsistent with informal institutions playing a large role in shaping individual and aggregate behavior, but it stresses the predominant importance of formal institutions. Here, one might point to a potential problem: Why should self-interested and rational actors be supposed to see a need for common rules that are appealing to all? If they try to secure differential favors in ordinary life, why should they not wish to do so when it comes to deciding rules for the political game? Geoffrey Brennan and Buchanan recognize this tension and argue that in constitutional decision making *a norm* will dominate over self-interest: “That is to say, persons must be alleged to place positive private value on ‘public good’ for the whole community of persons, over and beyond the value placed on their own individualized or partitioned shares” (1985, 147). However, it is not entirely clear where such a norm comes from and how it fulfills its role.

So what are the main insights of *Calculus* for liberalism in the area of constitutionalism? I would summarize them as follows:

- Pay great attention to institutions and constitutions and not only to policy.
- When proposing institutional or constitutional reform, aim at securing net benefits for all.
- Pay great attention to empirical research on the effects of institutions and constitutions, but beware of the methodological difficulties in identifying such effects.
- Note the central importance of the protection of private-property rights and a high-quality legal system for an economy to flourish.
- Certain political institutions are relevant for how dominant the state becomes: in particular, majoritarian electoral systems and bicameralism seem negatively related to the size of government and the welfare state; presidentialism sometimes stands in such a relationship to the government variables as well. For liberals, it is also worth noting that strong checks and balances need not be

associated with smaller government: such institutional features can, in fact, conserve an already large government.

- Think not only about how institutions affect such things as economic growth but also about what factors affect institutions in order to provide a firm foundation for the political game.
- Even if not all of *Calculus* is accepted, use it selectively as an input of relevance. For example, even meta-utopias and liberal archipelagos can benefit from aspects of the contractarian constitutionalism it proposes.
- Complement its approach with analyses of culture, norms, and other informal institutions to better grasp what makes some societies prosper and others decline.

### *Generality*

A strong feature of *Calculus* is the conviction that people in a kind of original position would reach consensus about the basic constitution because identifiable interests are difficult to associate with different institutions that encompass many areas of life and that operate over extended periods of time. Not knowing, for these reasons, how one is personally affected by a constitution would in turn entail a desire for *general* institutions—that is, institutions that affect citizens in an equal manner, although the decision rule that would be likely to guarantee complete generality, unanimity, will probably not be adopted due to the costs of reaching agreement (see chaps. 6 and 19). Clearly, in the idealized *Calculus* analysis, generality is desirable and is affected by the design of political institutions.<sup>9</sup>

However, what we see in real-life constitutions is a predominant role for the simple-majority rule, which enables narrow majorities to implement nongeneral rules and policies quite easily, influenced sometimes by interest groups, sometimes by groups of voters. As stated in *Calculus*, “[I]t is the opportunity to secure differential benefits from collective activity that attracts the political ‘profit-seeking’ group. Moreover, these differential benefits may be secured in either of two ways. First, activities may be approved which cause benefits to accrue to selected individuals and groups but which impose costs generally on all members of the community. . . . Secondly, activities may be approved which provide general benefits to all members of the community but which impose costs on certain selected individuals and groups” (291–92).

Why is generality preferable? First, it provides benefits for people whose basic intuition of fairness is better satisfied—that is, for those who agree that politics should not be used to secure favors for one’s own group at the expense of others. Second, incentives for rent seeking are reduced, so that welfare gains as resources that otherwise would have been used for lobbying can be used for productive activities. Third,

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9. Hayek (1960) forcefully argued for general laws as well, but *Calculus* and especially Buchanan and Congleton’s book *Politics by Principle, Not Interest* (1998) take the idea further and apply it to all political decision making. Berggren (1999) shows that generality can also be motivated on preference-utilitarian grounds.

political decision makers will be affected and desist from allocating public funds on the basis of group concerns rather than on the basis of general-efficiency concerns.

Buchanan and Congleton discuss many applications of the principle: suffice it here to mention the tax and transfer scheme they regard as most consistent with a generality principle. On the tax side, they argue in favor of proportional taxation:

[T]he levy of a uniform or flat rate of tax on the defined base retains almost all of the properties of generality, even if the principle, as applied, is quite different from that present in market interaction. In our treatment to this point, we have assumed that a standard or flat-rate tax on a designated source or base, itself tied to the individual who is personally liable, meets the generality criterion. Such a characterization is acceptable, provided that it is understood to require that the exemption or exclusion of any particular subsource or person becomes equivalent to the levy of zero rates and, hence, must violate any version of a generality norm. If, for example, personal income is to be the base upon which tax liabilities are imposed, generality requires imposition of the same rate on all sources of income, to all persons, with no exceptions and for any reason. (1998, 93)

On the transfer side, Buchanan and Congleton argue that if transfers are to be made, they should primarily be in the form of demogrants: that is, lump-sum redistribution. Tax revenues are then divided on an equal basis (in dollars) among the citizens. This approach effectively rules out some group's securing of differential favors at the expense of others: everyone gets the same amount. One can argue about whether the combination of proportional taxation and demogrants is the most general tax-and-transfer system, but it is a great deal more general than the system in place in any modern welfare state.

One extension of the generality paradigm not directly covered in *Calculus* or in Buchanan and Congleton (1998) is nondiscrimination in other settings than fiscal policy. I argue that the theme of nondiscrimination is essential to liberalism, both as a general attitude, which relates to the traditional liberal value of toleration (as stressed in Kukathas 2003, chap. 1), and as a characteristic of law (as stressed in Hayek 1960). In this theme, liberalism differs from important strands of conservatism, which tend to have a fondness for authority, embrace social hierarchies more readily, and stress traditional values that stem from a time when certain minorities were treated differently than others.

More specifically, I would argue that generality should be just as important for social matters as for economic matters, implying, among other things, equal legal opportunities for women, people of a different race, people of different religious beliefs and for gays, lesbians, and transgendered people.

It may be asked if generality, given that we agree what it means and entails, is *always* desirable. Probably not. I would say that generality is a *prima facie* norm—that

it is (or should be) a liberal's default position, which, however, can be overridden by countervailing arguments. Perhaps it is better in certain situations to act non-generally for pragmatic reasons. Take the example of tax policy. Even if a more general tax system is preferable to a less general one (and the tax reforms of the 1980s and 1990s did increase generality, as analyzed in Buchanan 1987b), a political opening for a selective tax cut may manifest itself and may be better than no tax cut at all, especially if it can be expected to stimulate a wish for continued reforms in a general direction.

What can be learned from the advocacy of generality in *Calculus*? I suggest the following:

- Take the generality principle seriously, both as a potential constitutional rule and as a guide for a liberal value system more broadly conceived.
- Consider how constitutional reform can increase generality.
- Strive toward a general tax and transfer system: opt for reforms with broad tax bases and proportional rates; opt for a general welfare system if a welfare system is to be had.
- In contrast to some strands of conservatism, apply generality generously to social issues as well, first and foremost treating minorities equally in the law, but also in terms of attitudes.
- Recognize the limits of generality, such as its being vague and hard to define, and the countervailing arguments that sometimes override it, but do so with an attitude of regret.

### *Robust Political Economy*

People can be characterized in terms of their motivation, on the one hand, and their cognitive capacity, on the other hand. By “motivation,” I mean the degree to which people pursue goals that further their self-interest. By “cognitive capacity,” I mean the degree to which people’s knowledge and rationality are imperfect. *Calculus* addresses these matters for people (and groups of people) in politics. In so doing, it is an early instance of what can be referred to as *robust political economy*. This term refers to social analysis that subjects a political system to “worst-case” assumptions about motivation and cognitive capacity. It asks how well a certain political system functions if we assume that politicians (as well as voters, interest groups, and bureaucrats) are self-interested and are not very knowledgeable or rational. A system is robust if it works well even under such circumstances.<sup>10</sup>

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10. On robust political economy, see Boettke and Leeson (2004) and Pennington (2011). *Review of Austrian Economics* also has a special issue on this topic: see the introductory article by Peter Leeson and Robert Subrick (2006).

How does *Calculus* treat these issues? A basic starting point is methodological individualism (chaps. 1 and 2): to regard individuals as the primary actors to be analyzed. More precisely: “Having rejected the organic conception of the State and also the idea of class domination, we are left with a purely individualist conception of the collectivity. Collective action is viewed as the action of individuals when they choose to accomplish purposes collectively rather than individually, and the government is seen as nothing more than the set of processes, the machine, which allows such collective action to take place” (13). Without the individualist approach, it would make little sense to discuss motivation and cognitive capacity. The outcomes of the processes of government can be seen as a function of the characteristics of the individuals who make up government.

As for political actors’ motivation, the authors of *Calculus* are careful to maintain that they do not necessarily view people in politics as actually being purely self-interested and as embracing self-interest as a norm, but also that they find it a useful assumption to make. They write: “In our more rigorous analytical models we have adopted the extreme assumption that each participant in the political process tries, single-mindedly, to further his own interest, at the expense of others if this is necessary. We were able to show that, even under such an extreme behavioral assumption, something closely akin to constitutional democracy as we know it would tend to emerge from rational individual calculus. We believe that this in itself is an important proof that should assist in the construction of a genuine theory of constitutional democracy” (305). This is quite in the spirit of robust political economy. Buchanan and Tullock proceed to analyze, to be “on the safe side,” what effects for constitutional decision making the self-interest assumption has.

What about cognitive capacity? *Calculus* devotes chapter 4 to this issue as applied to the individual citizen, and for our purposes it especially bears noting that rationality is thought to be present to a lesser degree in politics than in the market. The authors write:

A second and important reason why individuals may be expected to be somewhat less rational in collective than in private choices lies in the difference in the degree of responsibility for final decisions. The responsibility for any given private decision rests squarely on the chooser. The benefits and the costs are tangible, and the individual tends to consider more carefully the alternatives before him. In collective choice, by contrast, there can never be so precise a relationship between individual action and result, even if the result is correctly predicted. . . . For these reasons, and for certain others that may become apparent as the analysis is developed, we should not expect models based on the assumption of rational individual behavior to yield as fruitful a result when applied to collective-choice processes as similar models have done when applied to market or economic choice. (38–39)

The message is that voters do not really have strong incentives to become knowledgeable or apply strongly rational methods of analysis to the political process (see Caplan 2007). A possible effect is that these principals will tend to influence or allow the politicians qua agents to act in ways that do not benefit most of them over time. One can add that politicians themselves tend to be plagued by a cognitive-capacity problem, as Mario Rizzo and Glen Whitman (2009) argue.

This issue of robust political economy is prescient at present due to the popularity of behavioral economics and the paternalism it sometimes gives rise to. Because empirical research documents that ordinary people display low degrees of knowledge and rationality, some draw the conclusion that politicians and bureaucrats need to help them make better decisions, either by hard or soft paternalism (the latter entailing nudges rather than prohibitions). To this argument, one can reply that, on the one hand, decision makers themselves may not have the cognitive capacity or, indeed, the motivation to devise helpful schemes and, on the other hand, that the problems of rationality may not be all that severe in the market. In *Calculus*, Buchanan and Tullock state: “We know, of course, that in the economic as well as the political relationship, individuals are not entirely rational, they are not well informed, and they do not follow self-interest in all circumstances. Yet we can observe that people purchase more goods at lower prices, that wage rates for similar occupations tend to equality, that the return on investment will tend to be equalized in different employments, and many other propositions of ‘positive’ economics that can be subjected to empirical testing” (298). This reasoning is akin to that of Vernon Smith (2000), who argues that institutions induce economic actors to act *as if* they were rational. In short, institutions and market experience affect how a given level of rationality translates into actions and outcomes.

Even though the knowledge problem in politics is recognized in *Calculus*, one aspect not really addressed concerns the implications of this problem for the very ideal of constitutional choice and agreement. It is not just that we must choose rules that enable us to deal with the knowledge problem (possibly by allowing markets to function relatively freely), but that we must also recognize that cognitive limitations plague those who are to agree on what those rules are. Can people, given such limitations, be expected to agree on constitutional rules? If they can be expected to agree, what justificatory power does such agreement, not based on thorough knowledge and understanding, entail? These are tricky and interesting questions that, however, are largely beyond the scope of this paper.

In all, *Calculus* is a pioneering work for analyzing social phenomena in individualist terms, applying assumptions of self-interest and less-than-perfect cognitive ability. How is this relevant for liberalism? My suggestions:

- Liberalism should not be defended with claims that economic actors are always rational and do the right thing. They do not—but neither do they when they are voters, and neither do political decision makers. Problems with knowledge and



rationality may speak in favor of *less* political intervention, as Edward Glaeser (2004) argues, not least because if political decisions are mistaken, the effects are so great to the coercive and all-encompassing nature of politics.

- Liberals should not say that everyone is (purely) self-interested because they are not—not in the market and not in politics. However, liberals should apply an assumption of self-interest in thinking about how to devise institutions.
- The robust political economy approach can be used to forcefully question pleas for paternalism. (Paternalist economists themselves do not pay attention to the cognitive challenges facing political decision makers, as shown in Berggren 2012.) If decision makers are assumed to be self-interested and imperfectly knowledgeable and rational, can paternalism work at all?

### *Paretian Constructivism*

What is the proper role of the economist or, more generally, the social scientist? *Calculus* touches on this issue: “The welfare or political economist may construct operational propositions about specifically proposed policy changes; he may advance a proposal as ‘presumed Pareto-optimal.’ This proposal then takes the form of a hypothesis subject to testing, subject to conceptual refutation. The test lies in the degree of support that the proposal obtains. The attainment of consensus in support of the change would lend support to the hypothesis; failure would tend to refute the hypothesis” (93–94).<sup>11</sup>

In another work, Buchanan applies a version of this description to the rules of the political game: “Normatively, the task for the constitutional political economist is to assist individuals, as citizens who ultimately control their own social order, in their continuing search for those rules of the political game that will best serve their purposes, whatever these might be” (1987a, 250). Here, the role of the social scientist is relatively humble and nonelitist. He should not advance specific proposals of reforms of institutions or policy as clearly desirable or claim that they will clearly increase social welfare. Rather, he should, at least as a conceptual exercise, develop proposals that are subjected to the citizens for consideration on the expectation that they all will approve of (some of) them. If they do, the proposals satisfy the Pareto criterion and are desirable (given the contractarian normative basis of *Calculus*).

Clearly, though, it is hard to apply this approach in practice: all decisions cannot be voted on by everyone; very few, if any, proposals would in any case be accepted by everyone; and if voters are not very rational, one may question their ability to properly assess different proposals. One practical way forward might be to aim at “compromises, side-payments, deals, many-issues adjustment” (Buchanan 1985, 29). This way may point to a modified Kaldor-Hicks criterion, where gains by some must outweigh

11. See Buchanan (1959). On applying the Pareto notion in the design and reform of institutions, see also Buchanan (1962) and Buchanan and Tullock (1962, 319).



losses by others for a policy change to be desirable and where compensation is paid to those who lose out on deals. The social scientist can include such schemes when developing reform proposals and when decision makers try to assess whether these proposals would meet with popular approval.

Hence, the status quo is where the exercise necessarily starts, and unless there is widespread acceptance of a departure from this state of affairs, change is not considered desirable (Buchanan and Tullock 1962, 260–62; Vanberg 2004). Although this system can be expected to be less reform prone than a system that more readily follows reformist social scientists' advice, it is still in general one in which reform proposals are very welcome and where implementation of them is gladly accepted if people (can be assessed to) accept them (see Brennan and Buchanan 1985, chap. 1, sec. 4).

This reform-friendliness differs from the more basic reform skepticism of conservatives, who assign a positive value to the status quo as such, according to Buchanan (2005, 2), and of Hayek, who warns against “constructivist rationalism” or “rational constructivism” (1978, chap. 1). In *Calculus*, Buchanan and Tullock instead exemplify the meliorist attitude mentioned by John Gray (1995): “With the philosophers of the Enlightenment we share the faith that man can rationally organize his own society, that existing organization can always be perfected, and that nothing in the social order should remain exempt from rational, critical, and intelligent discussion. Man’s reason is the slave to his passions, and recognizing this about himself, man can organize his own association with his fellows in such a manner that the mutual benefits from social interdependence can be effectively maximized” (306).

How is this view relevant for liberalism? In these ways, I suggest:

- By clarifying that research from social science is important. Reform proposals should be developed on the basis of the best available knowledge.
- By stressing that one should beware of social scientists who present proposals as welfare improving on the basis of a utilitarian or social welfare function–type calculus. One should ask: Given the research findings that document effects of alternative proposals, which proposals would reasonably attain the most (preferably unanimous) support? This question indicates a humble liberalism.
- By encouraging liberals themselves to apply some of the recommendations when developing policy proposals, not least to think about compensation and side payments as part of reform packages.
- By inspiring liberalism to adopt an open attitude to reforms and, especially, reform proposals: to embrace a humble constructivism.

## Conclusion

This paper constitutes an attempt to present certain elements of James Buchanan and Gordon Tullock’s *The Calculus of Consent*, some fifty years after its publication, as insights of relevance for liberalism (but perhaps also for other ideologies). These

elements do not form a complete liberalism in any sense but provide building blocks that can be added, jointly or individually, to more comprehensive ideological constructs. Nor do they necessarily represent the most important features of liberalism as a whole, but I do hold that they are important. In my view, liberalism can be vitalized and can learn from this book in at least four areas, implying a constitutionalist, generalist, robust, and constructivist liberalism. Any ideology probably needs rejuvenation and openness to change, of the kind *Calculus* can provide.

Finally, why does liberalism need new inspiration? I would like to suggest two reasons, one internal and one external. The internal reason is that a system of thought that is not constantly challenged and discussed by its followers and others risks becoming stale, obsolete, and petrified. This relates to John Stuart Mill's argument for freedom of thought and expression (1879, chap. 2). The second reason is that in order for the liberal program to be thought relevant by people who are not yet liberals, it is important to see how it can be developed to match modern attitudes and preferences to a larger degree (without sacrificing basic normative elements). I hope that this exposition and the book it draws inspiration from can aid in both ways.

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