books

Democracy in Deficit

By James M. Buchanan and Richard E. Wagner.
New York: Academic Press. 1977.
195 pp. $14.50

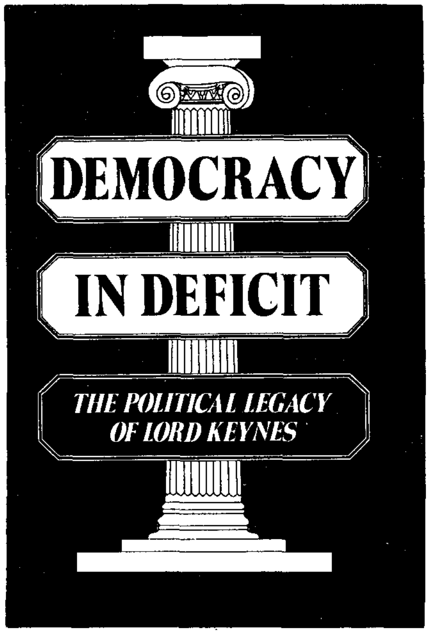
Reviewed by Joe Cobb

The issue of amending the US Constitution to force the balancing of the federal budget will gain momentum in the coming year. The politics of the presidential race and the tax-cut movement will intertwine. In the long run, we may see an amendment to limit government spending—along the lines advocated by Milton Friedman—rather than an amendment to balance the budget; but the real issue for libertarians has little to do with the arguments advocated on either side of the debate.

Buchanan and Wagner have written an impressive, scholarly book on public finance. Subtitled "The Political Economy of Lord Keynes," the discussion in *Democracy in Deficit* ranges between the economic theory of public finance and the political principles implicit in modern macroeconomic theory. Their conclusion is that the popular neo-Keynesian theory that a central government budget deficit is necessary to stimulate the economy is not only false but, in a democratic society, dangerous. The true price of government-provided services is held at an artificially low level when deficit financing is the means of paying the bill. The taxpaying public is in the short term fooled into supporting welfarist politicians.

We might agree that government budgets should be balanced but disagree over the method of achieving that balance or disagree over the appropriate time frame. Even the Keynesian approach advocates balancing the budget over the business cycle: running a surplus during a boom and a deficit during a bust.

The method of achieving that balance, regardless of the time frame, is an even more sticky issue. Would anyone, besides President Carter, advocate balancing the budget by increasing taxes? This idea might indeed be the net result of an amendment to the Constitution that required an annual balanced budget. Pro-



fessor Laffer has argued, with good logic and empirical evidence to support it, that cutting tax rates at the margin will so stimulate the supply of goods and services that government revenue would in fact increase, leading to a balanced budget. This is the Kemp-Roth approach.

Just for the record, the radical libertarian approach to public finance advocates a deficit budget—as a corollary consequence of tax resistance. Milton Mueller, director of the Students for a Libertarian Society, advocated as much in a recent issue of *Libertarian Review* when he suggested that instead of attempting to elect a legislative majority to cut the size of the State, the popular support for libertarian ideas could better be marshaled and realized if the people who otherwise might vote for a libertarian legislator would instead, via direct action, merely stop paying taxes.

Milton Friedman, hardly a radical libertarian, supports a variant of this same idea when he argues that government spending can only be reduced when the budget is in the red, because elected officials will always be led by an invisible hand to spend every available cent they collect. He supports tax cuts regardless of the deficit situation, as a way of forcing cuts in spending. His proposal to limit government spending absolutely, regardless of the budget deficit, is another version of this central idea.

This debate will go around in circles, without any clear resolution. Libertarians will be found in every corner, with the radical libertarians plaguing all who support taxation in any form.

Buchanan and Wagner, however, in one excellent chapter entitled "The Presuppositions of Harvey Road," raise the issue of government economic policy itself. The presuppositions that underlie the theory that budget deficits are necessary to "fine tune" the economy over the business cycle are fundamentally totalitarian. Keynes and his followers believed that a wise, aristocratic elite can run the economic policy of the government, much as a benevolent despot would, to assure full employment, prosperity, and welfare benefits for all. The relative immunity of this wise elite from democratic processes is the assumption behind their proposal for budget surplus during the boom years—a phenomenon that never surfaces in the real world.

More significant, however, than the specifics of the false theory of the neo-Keynesians is the constructivist fallacy on which it is based. This is the contribution of Prof. F. A. Hayek to modern social theory. The constructivist fallacy is the belief that by specific design and direct action the government *can* improve society. The fallacy assumes that society is static, or mechanistic, in its functioning. Because society is dynamic and made up of individuals, of course, the constructivist point of view is erroneous; but this has never stopped economists from proposing one gimmick after another to "fine tune" the system. Buchanan and Wagner, by arguing for an amendment to the Constitution to outlaw deficit financing, are in fact advocating that constructivist economic policy be forever banned from these shores.

Not surprisingly, many economists are opposed to the idea of a constitutional amendment to achieve this. Milton Friedman's proposal, for example, to limit spending but not to require a balanced budget retains elements of the constructivist fallacy. His well-known formula for limiting the rate of growth of the money supply is another example, because it stipulates a rate of increase "consistent with long-run stability of the price level." Both F. A. Hayek and Ludwig von Mises would argue that a stable price level is a nonsense concept, and tinkering with the supply of bank reserves—even under a "monetary rule"—is an attempt to outsmart the market process.

The market process cannot be outsmarted or improved upon by government economic policy. It can only be constrained and forced to a lower level of economic welfare for the society as a whole by government restraints on trade. Buchanan and Wagner, to their credit, have now carried this argument to the macroeconomic level. Not only will free markets and unrestrained trade optimize the allocation of resources and general welfare of every participant in the market, the "chains of the Constitution" clamped upon the meddlesome hands of the macroeconomic policymakers will produce a healthful climate for economic freedom and genuine economic growth without inflation. ▣

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Markets and Morals

Edited by Gerald Dworkin, Gordon Bermant, and Peter Brown.
New York: Halsted Press, John Wiley & Sons. 1977. 195 pp. $12.50.

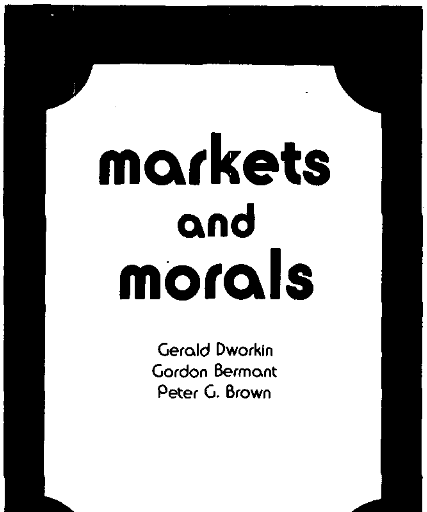
Reviewed by Eric Mack

If you are looking for a representative sampling of what current academics will say if invited to discourse on the topic of markets and morals with special regard for the proper role of free markets in the "provision" of health care, this is the book for you. Although the essays collected here were originally written in 1974, they still provide an accurate gauge of how much libertarianism there is and isn't in the ivy halls.

One knows from the first sentence of the introduction that this anthology will be loaded with annoyingly unrecognized collectivist assumptions. For that first sentence speaks of "the appropriate criteria that should govern the production and consumption of various goods." Notice the assumption that there are such aggregative things as "the production" and "the consumption" of various goods. Then there is the more invidious assumption that there is some angelic perspective from which people (or depersonalized "criteria") can and should decide what shape and size this production and consumption is to have. Whether or not "the market" is to be allowed depends upon whether or not its operation conforms to these angelic "appropriate criteria."

The editors, no doubt, think that they're being open-minded. They're prepared to consider the claims of any collective social goal that might present itself as defining "the appropriate criteria." That there may be no such goals and no use for them because the proper freedom of individuals is not to be read off from such a collective end is beyond their consideration. So, implicitly for the editors and explicitly for most of the contributors, it is in terms of conformity to some collective and angelically appreciated end that these questions, for example, are to be answered: "Should people be allowed to buy drugs or sex? Should people be allowed to sell blood or organs of the body?" Allowed by whom? By the omnipresent "we"—the mythical being who grooves on "the appropriate criteria" and exacts the fitting sacrifices from mere individuals.

Not a single essay in this collection questions that there is a right to health care—or at least a right to the means of acquiring health care. Free-market relations are, however, given some defense as useful social devices. James Buchanan's essay suggests that many complaints against the market really, from the perspective of those complaining, ought to be directed against the unequal endowments with which individuals enter market relationships. But why do we find that contemporary liberals push for inefficient market interferences instead of "efficient" direct transfers of wealth? Buchanan suggests that inefficient State interferences decoy such liberals away from direct attacks upon the underlying inequalities, and he seems to think that this is for the best. But it is unclear who is decoyed and who is decoying. Are these liberals really interested in social utility —but too stupid to opt for the efficient route? Or is their first love control and



domination? See, below, the case of Lester Thurow.

Reuben Kessel's essay traces the scarcity of physicians and of medically useful blood to the absence of true markets in medicine. In their introduction the editors so expect their readers to find Kessel's claims astonishing, that they feel the need to italicize "*too little* free enterprise." Can you imagine? Someone actually thinks that the State might be too extensive! The editors and their anticipated readers can take solace, however, in Kessel's acceptance of the State as an instrument of forced redistribution.

In contrast to these two essays, papers by Bernard Barber and Walter Weisskopf illustrate only how much slop one can get away with if it's conventional slop. Gerald Cohen labors extensively and successfully at presenting to us, once again, the Carlylian-Marxian account of the corruption of the world by Money.

Lester Thurow's essay is a gently fascistic illustration of the principle that he who pays the piper calls the tune. Thurow is out to argue against mere cash redistribution and in favor of actual government provision of various goods and services (in-kind benefits). His essay partially reveals why modern liberals will always prefer massive welfare programs and state "social services" to Friedmanite negative income taxes. Thurow's argument is simple. Given normal assumptions, cash grants involve greater utility gains for their recipients (the "donees") than would comparably expensive grants in-kind. For cash grants allow the "donees" to purchase whatever they most prefer. But, says Thurow, we must also consider (but not *too much*) the utility of the "donors." Maybe they don't derive utility from the donees' utility. It could be they are only satisfied if the donees receive certain specific goods (e.g., air bags) or services (e.g., civics lessons). The donees' interests are to be advanced—but only in ways that please the donors.

What gives the donors the right to insist that their "donations" be used in ways that advance their own utility? Not the fact that the donors have a right to these resources, for they *must* "donate" them. Who or what, then, decides how these "donations" will be employed? You guessed it. The great we—"society" with its "social norms." Furthermore, "society" has the noble task and right of preserving itself by means of in-kind succor which promotes reverence for "society" and its mission. So we must have public schools to inculcate "the basic values of society." And drugs must be prohibited and State rehabilitative systems maintained because "society requires positive commitments to its