

FEATURES

When the Athenians finally wanted not to give to society but for society to give to them, when the freedom they wished for was freedom from responsibility, then Athens ceased to be free.

—Edward Gibbon

SAVING THE SOUL OF CLASSICAL LIBERALISM

BY JAMES M. BUCHANAN

The 1950s were dark days for classical liberals. Big Government was an idea tolerated across the political spectrum in Western nations. In those years my colleague Warren Nutter often used to say that “saving the books” was the minimal objective of classical liberals. At the very least we had to keep liberal ideas in print. Friedrich von Hayek, the free market’s great advocate, broadened Nutter’s notion to “saving the ideas.”

Both of these objectives have been achieved. Today liberal, free-market books are still read, and the ideas they advance are more widely understood than at mid-century. Today, for example, most thinking Americans know that the core of classical liberalism lies in an understanding that the advancement of the individual can bring more good than any project that focuses on the collective. Many intuitively understand, too, that classical liberalism bears little relation to the postwar “liberalism” advanced by the American left.

Despite these successes, we true liberals are failing to save the soul of classical liberalism. Books and ideas are necessary, but alone, they are not sufficient to insure the viability of our philosophy. No, the problem lies in presenting the ideal.

Thus, for example, George H.W. Bush, during his presidency, derisively referred to “that vision thing,” when someone sought to juxtapose his position with that of Ronald Reagan. The “shining city on a hill,” the Puritan image that Mr. Reagan invoked to call attention to the American idea, was foreign to Mr. Bush’s mind-set. Mr. Bush did not understand what Mr. Reagan meant and failed to appreciate why the image resonated in public attitudes.

In a sense, we can say that Ronald Reagan was tapping into a part of the American soul about



which George Bush remained illiterate. The critical distinction between those whose window on reality emerges from a comprehensive vision of what might be, and those whose window is pragmatically limited to current perceptions, is clear in this comparison.

My larger thesis is that classical liberalism cannot secure sufficient public acceptability when its vocal advocates are limited to this second group of “does it work?” pragmatists. Science and self-interest do indeed lend force to any argument. But a vision, an ideal, is necessary. People need something to yearn and struggle for. If the liberal ideal is not there, there will be a vacuum and other ideas will supplant it. Classical liberals have failed, singularly, in their understanding of this dynamic.

Not that we liberals don’t have material to work from. The writings of Adam Smith and his peers did, for example, create a comprehensive and coherent vision of an order of human interaction. What can be more persuasive than Smith’s description of the “invisible hand,” or his “simple system of natural liberty”? These powerful arguments for liberty and the primacy of the individual still have the power to resonate today.

Precisely because it remains potentially rather than actually attainable, the classic vision of individual liberty satisfies a generalized human yearning for a supraexistent ideal. Classical liberalism shares this quality with its newer archrival, socialism, which also offers a comprehensive vision that transcends both the science and self-interest that its sometime advocates claimed as characteristic features. That is to say, both classical liberalism and socialism have souls, even if their motivating spirits are categorically and dramatically different, one from the other.

No, the problem here lies in the leading

tive. The individual is indeed at the center of the liberal vision: he or she strives to achieve goals that are mutually achievable by all participants in society. Precisely because these goals are internal to the consciousness of those who make choices and take actions, the outcomes they produce are neither measurable nor meaningful, as “social” outcomes. Yet most aggregate numbers that we use are designed with the “social” in mind: think of the distribution tables that American tax analysts use to depict the nation’s tax burden, or the standard unemployment figure that governments issue periodically.

As soon as we lay down a “social” purpose, even as target, we contradict the principle of liberalism itself. Yet classical liberals succumbed. They themselves have confused the discussion by advancing the claim that the idealized and extended market order produces a larger “bundle” of valued goods than any socialist alternative.

To invoke the efficiency norm in so crude a fashion as this, even conceptually, is to give away the whole game. Almost all of us are guilty of this charge, since we know, of course, that the extended market does indeed produce the relatively larger bundle, on any measure. But attention to any aggregative value scale conceals the uniqueness of the liberal order in achieving the objective of individual liberty.

To be sure, we classical liberals can play good defense even in the socialists’ own game. But by so doing, we shift our own focus to their game rather than to our own, which we must learn to play on our own terms, as well as get others involved. Happily, a few modern classical liberals are beginning to redraw the playing fields as they introduce comparative league tables, as in sports, that place emphasis on measuring liberty itself.

Piddling Puzzles

The scholarly field of economics as practiced and promulgated in this century has done its share of damage. Rather than allow the study of economics to offer genuine intellectual adventure and excitement, we have converted it into a complex mathematical and empirical science. This trend was only partially offset during the decades of the Cold War, when the continuing challenge of fighting communism offered motivation to liberals such as Hayek and a relatively small number of his peers. But since then, the discipline has become piddling puzzle solving. How can we make economics come alive again, especially for

those who will never be professionally trained economists?

The beginning of the answer lies with Ronald Reagan and his “shining city on a hill.” Mr. Reagan could not himself solve the simultaneous equations of general equilibrium economics. His economics education was confined to undergraduate courses at Eureka College. But he carried with him a vision of a social order that might be. This vision was and is built on the central, and simple, notion that “we can all be free.” Through Mr. Reagan we see that Adam Smith’s “simple system,” even if only vaguely understood, can enlighten the spirit, create a soul that generates a coherence, and unifying philosophical discipline.

What else is there to know about the nature of liberalism’s soul? A motivating element in the liberal philosophy is, of course, the individual’s desire for liberty from the coercive power of others. But a second element in the liberal soul and spirit is critically important. It is the absence of desire to exert power over others. In the idealized operation of an extended market order, each person confronts a costless exit option in each market. Coercion by another person is drained out; individuals are genuinely “at liberty.”

Of course, even today, markets are not entirely free. But, as an ideal, this imagined order can offer the exciting and relevant prospect of a world in which all participants are free to choose.

There are plenty of images from our history to draw from. Much, for example, has been made of the American frontier spirit. Yet why was the frontier so important, particularly in the first century of the American experience? It was important because it symbolized liberal freedom. The proper economic interpretation of the frontier lies in its guarantee of an exit option, the presence of which dramatically limits the potential for interpersonal exploitation. Today, the territorial frontier is closed. But the operating market order acts in precisely the same way as the frontier; it offers each participant exit options in each relationship.

To restore the soul of liberalism we must step back a bit. Small liberal “victories” on details of legislative policy are not enough. Nor, even, are electoral successes by those who, to an extent, espouse the liberal principles. Just because we manage to ban rent control in our locality, or to elect a Ronald Reagan as President, does not mean that classical liberalism can be said to inform public attitudes. Classical liberals quite lit-

erally “went to sleep” during the decade of the 1980s, and kept sleeping after the death of socialism. The result is that public attitudes today are more shaped by the nanny state, or by paternalist, rent-seeking, mercantilist regimes than they are by liberal ideals.

Creating a new vision, a new soul for liberalism, is our most important task now. I am not here suggesting that attention should be limited to the design of all-inclusive political packages. Politics, for the most part, proceeds in piecemeal fashion, one step at a time. What I am suggesting is that we, those who teach liberalism, focus on the vision, the constitution of liberty, rather merely on pragmatic utilitarian calculus that shows liberalism to yield quantifiably better results than politicized economies.

In other words, liberals should not lean back

and say, “our work is done.” The organization and the intellectual bankruptcy of socialism in our time has not removed the relevance of a renewed and continuing discourse in political philosophy. We need discourse to preserve, save, and recreate that which we may, properly, call the soul of classical liberalism. Without public understanding of its organizing principles, the extended market order will not survive.

James Buchanan, winner of the 1986 Nobel Prize in Economic Sciences, is Distinguished Professor Emeritus of Economics at George Mason University and Distinguished Professor Emeritus of Economics and Philosophy at Virginia Polytechnic Institute and State University. This essay was originally published in the Wall Street Journal on January 1, 2002.

SPEAKING THE TRUTH ABOUT SOCIAL SECURITY REFORM

BY MILTON FRIEDMAN

The journalist Michael Barone summed up the conventional wisdom about reforming Social Security. “The content of the reform is fairly clear—individual investment accounts to replace *part* of the government benefits financed by the payroll tax, later retirement ages, adjusted cost of living increases,” he wrote in the *American Enterprise*. And, he added, “suddenly the money to pay for the *costs of transition* is at hand, in the form of a budget surplus.”

I have italicized “part” and “costs of transition” because they epitomize key defects in conventional wisdom.

Social Security has become less and less attractive as the number of current recipients has grown relative to the number of workers paying taxes, an imbalance that will only get bigger. That explains the widespread support for individual investment accounts. Younger workers, in particular, are skeptical that they will get anything like their money’s worth for the Social Security taxes that they and their employers pay. They believe they would do much better if they could invest the money in their own 401(k)s or the equivalent.

But if that is so, why replace only part and not



all of government benefits? The standard explanation is that this is not feasible because payroll taxes—or part of them—are needed to pay benefits already committed to present and future retirees. That is how they are now being used, but there is nothing in

the nature of things that requires a particular tax to be linked to a particular expenditure.

The Myth of Transition Cost

The link between the payroll tax and benefit payments is part of a confidence game to convince the public that what the Social Security Administration calls a social insurance program is equivalent to private insurance; that, in the administration’s words, “the workers themselves contribute to their own future retirement benefit by making regular payments into a joint fund.”

Balderdash. Taxes paid by today’s workers are used to pay today’s retirees. If money is left over, it finances other government spending—though, to maintain the insurance fiction, paper entries are created in a “trust fund” that is simultaneously an asset and a liability of the government. When the benefits that are due exceed the proceeds from payroll taxes, as they will in the not very distant