

# THE CLASH OF ECONOMIC IDEAS

Lawrence H. White Cambridge University Press, 2012

Highlighting a fascinating new history of thought

In the aftermath of the financial crisis, the confidence about the long-term viability of Western-style capitalism seems to have plummeted.

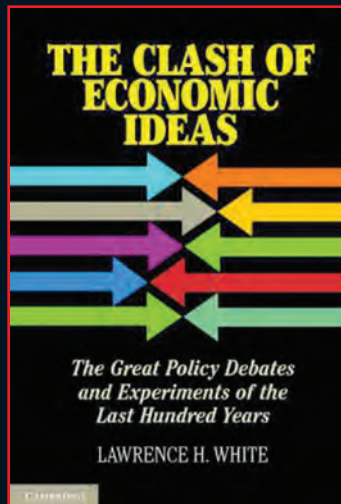
While opinions widely diverge about proposed solutions, everyone seems to agree that the status quo is unsustainable.

Meanwhile, the success of East Asian Tigers, the rise of China, and the stagnation in Japan have opened new questions about the best paths to development. In this context, *The Clash of Economic Ideas* provides a great intellectual service.

The book takes on a daunting task; to present the key economic debates over the past century about the interactions between markets and states in a way that is subtle, avoiding either cartoonish depictions or heavy-handed, deceptive dichotomies, while at the same time keeping the presentation accessible to undergraduate students of economics or interested laypersons. Professor White achieves this goal successfully.

Any reader is guaranteed to learn a great deal from this book. Students will get a very good roadmap to otherwise complex macroeconomic dilemma, while advanced readers are bound to learn plenty of surprising facts and unexpected connections.

As a general framework, the book is written as an economic history. However, this economic history is more of a narrative device, rather than a goal in itself. History provides the pretext for delving into the theoretical details of competing economic perspectives, with each historic episode providing an anchor to an otherwise very analytical presentation that goes back and forth from Adam Smith to



newly minted research.

This narrative gimmick, alongside interesting anecdotes illustrating the points and the short biographies of various economists and public figures, makes the book highly readable.

The book covers the following topics:

- The move away from laissez-faire following the Bolshevik revolution and the Great Depression, covering the socialist calculation debate, the New Deal and the old institutionalist school, the Road to Serfdom interpretation of the rise of Nazism, Keynesian theory of the Depression and the Austrian business cycle theory, and the modern debate on the role of the government in providing public goods and solving externality problems.
- The importance of ideology, covering the success of the Fabian Society, the attempted counter-reaction of the Mont Pelerin Society, the success of German Ordoliberalism, and the great ideological debates in India about the best path to development.
- The role of government in managing money and the attempts

to smooth the business cycle, covering the Bretton Woods system, stagflation and the rise of monetarism, and the current sovereign debt crisis faced by several countries.

• The problem of public choice, describing the tension between hoping for benevolent government interventions that would fix market failures or promote equality, and the fact that politicians are in fact self-interested people like everyone else.

This is covered throughout the book as a concern that affects most of the issues. It plays a particular role in the discussion of the rise of Nazism as an example of “why the worst get on top”, as a relevant constraint in the chapter on Indian development, in the chapters on money, explaining the tendency of governments to engage in deficit spending and inflation, rather than transparent taxation, and especially in chapters discussing the argument for free trade versus the infant industries argument for protectionism and the general reasons behind the growth of government.

*The Clash of Economic Ideas* is a highly recommended book. All history is to some extent stylized history as authors have to decide what is important enough to include in their presentation and how to “connect the dots”, but all too often stylized histories turn into mere caricatures.

By contrast, White succeeds in laying out a fascinating history of thought that brings to life his characters, be they economists or economic theories. His story is one of a long debate between imperfect but improving ideas, of misguided and often tragic experiments, and of the uneasy relationship between science and ideology.

**Vlad Tarko**

George Mason University  
Economics Department  
[Vladtarko@gmail.com](mailto:Vladtarko@gmail.com)

Researched and selected by **ANTHONY EVANS**

Looking  
back at a  
groundbreaking  
classic

# THE CALCULUS OF CONSENT

*James M. Buchanan and Gordon Tullock*

*Michigan University Press, 1962*

A half century ago, Buchanan and Tullock fired a shot across the bow of traditional political science, with *The Calculus of Consent*.

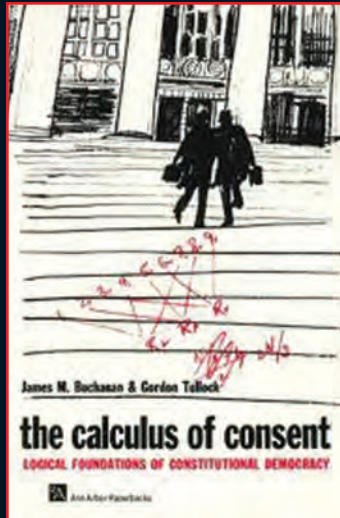
They were not the first to engage in economic analysis of politics; precursors included Anthony Downs and Duncan Black, Knut Wicksell, and the 19th century Italian School of public finance.

But the *Calculus* established “public” choice theory (as opposed to the more traditional economic study of private choices). While the application of economics to politics may not seem so revolutionary, we must recall that, prior to the *Calculus*, it was assumed that politicians served some “common good” through a neutral state. The *Calculus* replaced “politics as romance” with “politics as exchange.”

The *Calculus* is divided into four parts.

**Part One** establishes methodology. First, methodological individualism (“only individuals act”) rather than attribution of volition to groups. Second, methodological symmetry (“people are people” – and respond to incentives, rather than being selfish in markets and selfless in politics). And third, the recognition that individuals act rationally in the pursuit of their self-interest, but rationality can be broken in the political process.

**Part Two** moves to analysis of “the realm of social choice”, refined by the new methodology. The authors propose that the choice among voluntary, cooperative, and political action depends on a cost-benefit analysis (in terms of efficiency, externalities and decision-making costs). If individual action is cheapest, a purely private solution will emerge. If voluntary cooperation is cheapest, market solutions will also prevail – unless there are prohibitive bargaining costs. If governmental action is expected to be cheapest, it



will be chosen.

We can dispute the exact calculations (a rich literature is sceptical that governmental action will ever be more desirable – once all the costs and unintended consequences are taken into account, in the spirit of Bastiat and Mises); but the framework is more useful than a romantic approach. The section concludes with an analysis of the trade-offs of various rules: a unanimity rule provides better protection of minority interests and individual rights, but is terribly inefficient – and vice-versa, for majority rule.

**Part Three** examines decision-making rules in greater detail. If politics is exchange, it is possible for political action to enhance overall welfare. However, it is also possible for a majority to impose its will on a minority, through “legalised plunder”, or exploitation through the political process. As a solution, *Calculus* proposes that a constitution – the rules about rule-making, and the framework for collective action – be adopted by unanimity (for the sake of individual protection), while action within constitutional boundaries be

adopted by majority (for the sake of expediency).

In **Part Four**, *Calculus* shows that there exists an inverse relationship between the strength of interest groups and the generality of legislation, in a vicious circle. As pressure groups gain power, legislation becomes decreasingly general; as legislation increasingly favours particular interests, pressure groups gain power. The authors lament the rise in American politics of such groups, which distort the calculus of consent by profiting from the extended range of collective action.

*Calculus*, in its conclusion that governmental action can sometimes be most efficient, is probably too optimistic – even if rational individuals think that government can correct (alleged) market failure, there is a vast literature that questions this; we need only start with Bastiat’s “what is seen and what is not seen,” Mises’ “dynamics of intervention”, Hayek’s “knowledge problem” and Demsetz’s “Nirvana fallacy.”

Nevertheless, the *Calculus* was ground-breaking, as it enjoined us to stop thinking of “public servants” as selfless angels, or the political process as detached from the laws of economics, and thus of reality.

Alas, James Gwartney, one of Buchanan’s star students, and author of a superb economic principles textbook, *Economics: Private and Public Choice* (note the subtitle!), recently lamented the fact that mainstream economics persists in modelling government as an omniscient, benevolent, social planner available to impose ideal solutions.

Just as Buchanan and Tullock moved political analysis from fantasy to reality, it remains for us to nudge a reluctant mainstream •

**Nikolai G. Wenzel**  
Florida Gulf Coast University  
[nwenzel@fgcu.edu](mailto:nwenzel@fgcu.edu)