**Economics 852 Professor Richard E. Wagner**

**Public Choice I Office: Mason Hall D115**

**Fall Semester 2016 Hours: Monday afternoons**

**Mondays, 1630-1910 Email:** [**rwagner@gmu.edu**](mailto:rwagner@gmu.edu)

**Enterprise Hall 275 Home: mason.gmu.edu/~rwagner**

This course is a graduate-level introduction to what is variously described as “public choice” or “political economy.” The course’s subject is collectively organized activity, mostly but not exclusively governmental. The course’s analytical orientation is explanatory and not hortatory. For instance, Amtrak typically receives over $1 billion through federal budgetary appropriation. From a hortatory orientation, one might argue that this expenditure is wasteful. From an explanatory orientation, however, it must be recognized that Amtrak secures this appropriation in competition with other claimants for appropriations, and the analytical challenge is to develop an economically sensible explanation of the transactional nexus that enables this type of outcome.

The analytical framework that I use to explore this transactional nexus is what for around ten years I have been calling “entangled political economy.” There is a weak analogy with quantum entanglement, though I don’t believe in theorizing by analogy because I think the humane sciences should be approached in *sui generis* fashion. Most economic theory and political economy operates at the atomic level by postulating relationships among such holistic entities as markets, firms, prices, demands, supplies, property rights, and numerous other familiar variables. None of these variables are primitive variables, for they all derive from primitive interactions among entities at the sub-atomic level. For instance, the billion or so appropriation that Amtrak receives stands at the end of transactional interaction among the particular individuals who participate in generating this outcome within a societal ecology where other people are trying to generate different outcomes.

While the course focusses on explanatory topics, economic theory also has relevance for hortatory matters because its central object of interest is the experienced qualities of the living together in close geographical proximity that societies entail. My particular hortatory belief in this respect is that societal cancers are products that emerge from inside the organism that is society. To explore those emergent properties requires a scheme of thought that enables theoretical penetration into the inner workings of societies, and this penetration cannot be obtained from conventional theoretical perspectives because those perspectives take as data what must be the object to be explained.

Entangled political economy is approached directly in *Politics as a Peculiar Business: Insights from a Theory of Entangled Political Economy*. This book is available electronically at a paperback price from Edward Elgar; however, a paperback version won’t be available until 2017, so I am not asking you to obtain the hard-cover version. The fall 2016 issue of the *Cato Journal* will contain an encapsulation of that book’s argument, “The Peculiar Business of Politics,” and you can download this from my SSRN page [<http://ssrn.com/author=238919>]. As an alternative text, I have adopted my 2007 book*, Fiscal Sociology and the Theory of Public Finance*. When I wrote that book, I used the disjunctive-conjunctive polarity to express the alternative analytical orientation that subsequently I described by the additive-entangled polarity. Both polarities express the same bottom-up idea about the relationship between private and collective action.

Entanglement seeks to generate the world we experience through both conflict and cooperation among economizing entities, and with action propelled by individuals from inside those entities. This is where the quantum analogy comes into play. For a theory of political economy, entanglement means that a firm can’t determine sound commercial conduct without accounting for relevant political entities, any more than political entities can determine their conduct independently of relevant commercial entities. Moreover, it is not the entities that make that determination, but rather is particularly situated individuals inside those entities. For instance, most legislation is written in conjunction with representatives of business firms or trade associations.

Entanglement leads back to the classical recognition that economics is a theory of society organized around the ubiquity of economizing action, and not a theory of rational individual action. Yes, individual action there is, though once other individuals become objects toward which any particular individual acts, you are theorizing about society and not some representative individual within that society. In other words, you cannot get to society through a simple summation over individuals once you recognize that structured patterns of relationships have significant analytical work to do, and with those structured patterns having arisen through prior interaction.

Long ago, Friedrich Hayek asserted that nearly all progress in economics has resulted from movements toward increasing subjectivism. Entangled political economy embraces this direction of movement by ascribing all action to identifiable individuals acting within particular arenas of action. Indeed, entangled political economy is not some new development. It is rather an effort to escape the narrowing and debilitating character of the neoclassical period in economic analysis wherein the object of economic theory became some imagined rational individual and not society.

I regard advanced graduate courses as venues for exploring new lines of thinking where we are looking for ways to articulate what has not yet been articulated, and not as venues for explaining what is widely regarded as settled knowledge. You need to survey what is regarded as settled, but doing this serves only to provide a point of departure for scholarly work. Our primary course objective is to create new text; mastering old text is but a secondary by-product. Hence my classroom approach is one of “joint inquiry” and not “mental transfer” from me to you.

You will gain further insight into this distinction if you look at the earlier part of my essay “James Buchanan and Me: Reminiscing about a 50-Year Association,” which was published in 2013 in the *Journal of Public Finance and Public Choice* and is available on my SSRN page. (The later part of that essay, moreover, is directly relevant to this course and my orientation toward public choice, and also social theory more generally.)

While it is important to read widely, I don’t supply lengthy reading lists though I will suggest enough material to keep you busy during the semester. A baker’s-dozen of items is listed at the end of the syllabus, though you will see that I managed to cram about twice as many items into that list. These are all books that treat broad themes related to the course material, and each is available in paperback. While I hope that you will examine some of these, I also hope you read other materials as well and, more significantly, mix those readings with your imaginations to generate new insights that might lead to interesting places. In my judgment, students become too accustomed to reading published work with an eye to taking exams. I suggest you cultivate the practice of reading with an eye that continually is looking for new ideas that you can articulate, as against absorbing old ideas that you can recollect.

**Course Format**

The class will meet 14 Mondays during the semester; starting on 29 August and ending on 5 December. Due to the Columbus Day holiday, the class scheduled for 10 October will meet on Tuesday the 11th. (There will also be no class on 5 September, as this is Labor Day.)

The first 3.33 sessions will be devoted to my summarizing standard public choice and the alternative of Virginia political economy. The remainder of the semester will follow a B/A pattern weighted .67/.33. A denotes the first one-third of a class session; B denotes the second two-thirds. During each B part, I will present a draft paper, which I will also make available to you. During the A part, which will occur to start class the following week, half of you will offer comments on the preceding session, and hand in short essays. This procedure will continue for ten weeks, so each of you will have five such assignments.

For the opening 3.33 sessions, you should have read the items I mentioned above, and also Chapters 1-3 of *Fiscal Sociology*. I further suggest you read the short item titled “Has the U.S. Economy Really Recovered? A Curmudgeonly Answer.” This item will shortly be on SSRN, and will be forthcoming in the next issue of *The Global Analyst* (Hyderabad), and is a useful complement to my aforementioned piece in the *Cato Journal.* I further recommend you read my piece on Virginia political economy and Italian public finance, which is also on SSRN.

The remaining 10.67 sessions will be organized as a set of working paper presentations by me followed by commentaries and discussions by you. My presentations will occur during the last 90-100 or so minutes of the session. Your presentations will occupy the first 40 or so minutes of each following session. This procedure will bring us to of your presentations on 5 December. The remainder of that final session will be devoted to a kind of taking stock and looking ahead with respect to public choice and Virginia political economy.

**My Appraisal of Your Work (Grading)**

Each of you will submit five short essays along with your oral presentations. Each of these essays will count for 10 percent of your course grade. You will also submit a research paper that will count for 40 percent of your course grade. These must be prepared in standard manuscript style and must not exceed 18 pages, including references. They are due by 1630 on 19 December, which is the time that is assigned for our final exam, though I will not give a final exam. You can submit your papers electronically in either Word or PDF. In case you are wondering, the 18-page limit is pragmatic: in addition to evaluating your papers, I will send you editorial evaluations; moreover, I must submit course grades within 48 hours of the scheduled final exam. Given the class size at the time I am writing this syllabus, I have settled upon the 18-page limit to enable me to complete this work in timely fashion. In any event, pithiness is generally a good quality. The remaining 10 percent of your course grade will be based on my evaluation of your contributions to classroom discussions and presentations throughout the semester.

For your course papers, you should think of me as editing a book on “entangled political economy.” The point of this book is to present papers that illustrate the insight that the entangled vision of political economy can help to generate. Most likely, these papers will be an elaboration of one of your earlier essays, though they need not be. With respect to this conference title, volume 18 (2014) of *Advances in Austrian Economics* consisted of papers presented at a conference titled “Entangled Political Economy,” for which I presented the keynote address which is available on my SSRN page.

The future character of political economy and public choice will be forged through competition among theorists who inject competing visions into the scholarly arena. I evaluate all of your written work on the basis of what I judge to be its publishable potential, recognizing that judging this potential is different for three page essays than for 15-page papers. In either case, a grade of **A** signifies that I think what I have read points in a publishable direction if carried to what I judge to be its destination. A grade of **B** indicates that while you have convinced me that you show good understanding of your material, you have not shown me that you are headed in a publishable direction. A grade of **C** means that I detect some significant holes in your knowledge and understanding of your material. A grade of **F** is a “none of the above” judgment that I hope I don’t have to make. (Various pluses and minuses are also possible grades, and I think that by extrapolation you can attach reasonable meaning to those grades.)

Please note that my interest in the work we do this semester is in helping you to acquire the habits and practices of success. I have no interest in failure. For this reason, I do not accept late work nor do I give incomplete grades. Tardy work and incomplete grades are facets of a repertoire of failure which I will not countenance. If you are scheduled to give a paper at a conference but find you aren’t ready to do so, you won’t be given an incomplete and have the conference rescheduled. So don’t ask for incompletes or turn in late work.

**Tentative Topic List for B-parts of A/B Sessions**

For ten sessions starting 26 September, I will make seminar-style presentations of working papers, and on which half of you will offer thoughts and comments to start the following session. Most of these are available on my SSRN page, or else they soon will be. Also, it’s possible that I will make a substitution here or there. In any event, I will send you precise bibliographic information the week before I make my presentation.

9/26: “Logical and Non-Logical Action in a Theory of Political Economy: Pareto Redux”

10/3: “Dispute Resolution when Rationalities Conflict: Cost and Choice with Commercial-Guardian Commingling”

10/11: “The Social Construction of Theoretical Landscapes: Some Economics of Economic Theories”

10/17: “Regarding the Use of Knowledge in Political Economy: Paretian Insight into a Hayekian Challenge”

10/24: “Parliamentary assemblies as peculiar investment banks: Budgetary Money Laundering and the Art of the Deal”

10/31: “Explanation vs. Ideology in the Theory of Public Finance”

11/7: “Fiscal Crisis as a Quality of Progressivist Democracy”

11/14: “Public Debt and the Corruption of Promising: Excising the Keynesian Cancer”

11/21: “Political Business Cycles: An Emergent-Dynamic Reformulation”

11/28: “Liberty, Federalism, and Global Political Economy: the EU Reprised”

**Three Quotations to End the Syllabus on an Advisory Note**

First, from Samuel Johnson comes this recognition that fits well with Joseph Schumpeter’s statement that theorizing starts with a pre-analytical cognitive vision that we try to articulate, with varying degrees of success:

Every man has often found himself deficient in the power of expression, big with ideas which he could not utter, and unable to impress upon his reader the image existing in his own mind.

Dr. Johnson describes a situation with which we all have to wrestle in trying to render our intuitive hunches intelligible to others, as well as to ourselves.

Second, from Albert Einstein via Roger Koppl comes this sage counsel:

If we knew what it was we were looking for, we wouldn’t call it research, would we?

Research doesn’t always yield happy endings. We write many more pages than we publish. The process of writing triggers thoughts that often lead us to recognize that where we thought we were heading isn’t such a desirable place after all. So we change our angle of attack. Dead ends, cul-de-sacs, and just plain old frustration are part of the research process, and you must learn to persist in the face of such setbacks.

Third, during my student days I came across this statement from George Shackle’s *Uncertainty in Economics* about what it takes to be a good economist (to be sure, Shackle wrote this in the 1950s, when few women studied economics):

To be a complete economist, a man need only be a mathematician, a philosopher, a psychologist, an anthropologist, a historian, a geographer, and a student of politics; a master of prose exposition; and a man of the world with experience of practical business and finance, an understanding of the problems of administration, and a good knowledge of four or five languages. All this is, of course, in addition to familiarity with the economic literature itself.

As for the type of person best suited to the study of economics, Shackle later suggests it is

. . . the outstanding intellectual all-rounder with some leaning towards the arts rather than the natural science side. The person who finds mathematics fascinating without, perhaps, marching through the school course with that instinctive and professional certainty that would mark him as an out-and-out mathematician; who betrays a connoisseurship of words and a delight in language, a gift for expression in English and a sufficient pleasure in the classical languages to awaken thoughts of scholarships, without really promising to become a Porson’s prizeman; who can find in every chapter of the history book the universal and eternal problems of man’s dependence on his fellow-men side by side with his rivalry and conflict with them, and can see with the historian’s eye the age-long empirical struggle to reconcile self-interest and enlightened compassion; who delights in maps and finds them, perhaps, more interesting than test tubes—this is the potential real economist.

What Shackle describes is more on the order of a lifetime project than something to be accomplished during your few short years as students. But you will have post-student life ahead of you, and Shackle’s statement is a lovely summary of an orientation toward economic theory that would allow it to occupy the pivotal position within the humane studies that I think it should occupy.

**Appendix: A Baker’s Dozen of Valuable References** (all available in paperback)

1. James M. Buchanan and Gordon Tullock, *The Calculus of Consent*. Without doubt, this book is the Ur-text of Virginia political economy. It is now available inexpensively and yet handsomely through Liberty Fund, and in two distinct versions: as a volume in the collected works of James Buchanan and as a volume in the collected works of Gordon Tullock. The other books by Buchanan or Tullock that are listed below are also available from Liberty Fund.

2. James M. Buchanan, *Public Finance in Democratic Process*; James M. Buchanan, *Demand and Supply of Public Goods*. These books were originally published in 1967 and 1968 respectively, well before such fields as public choice and constitutional economics appeared on the intellectual landscape. These books sought to pursue an explanatory theory of public finance at a time when the intellectual environment was much more hostile to such efforts than it is now. Buchanan’s work subsequently moved in a more normative and constitutional direction. On several occasions, I have thought of my *Fiscal Sociology and the Theory of Public Finance* as an effort to bridge a 40-year gap in the articulation of an alternative vision for a theory of public finance. To these books by Buchanan, I would add *Cost and Choice*. This slim book makes a simple point: cost and choice are reciprocal. While the point is simple, the implications for political economy are huge. Among other things, aggregate budgetary magnitudes have no independent meaning or significance because meaning and significance resides in the appraisal of options by people in positions to make choices.

3. Gordon Tullock, *The Politics of Bureaucracy*. While the subject is bureaucracy and team production, Tullock is not concerned to develop comparative static statements about equilibrium conditions. Rather, he is concerned to explain the characteristic features of team production processes in the absence of market prices and firm values, and to do so within an environment where there is rivalry within organizations and not just rivalry among organizations. In other words, Tullock’s theory of bureaucracy is situated within a treatment of polities as orders and not as organizations.

4. Vincent Ostrom, *The Meaning of Democracy and the Vulnerability of Societies*. Ostrom is cited often throughout *Fiscal Sociology*, and I have great respect and affinity with his approach toward this material. If there is any place where I differ from Ostrom, it is probably in my elevation of some such construction as civil society or civic republicanism over democracy. In any case, Ostrom is well worth reading on the problems and challenges of liberal governance. I should also mention two other books by Ostrom: *The Political Theory of a Compound Republic*, which is a kind of flying buttress to *The Calculus of Consent*, and *The Intellectual Crisis in American Public Administration*. Both of these works operate from a framework of distributed knowledge and treat polities as orders and not organizations.

5. Elinor Ostrom, *Governing the Commons*. Ostrom presents a variety of cases where people have been able to work out arrangements for governing a commons that encompasses the participants. What she describes is quite at variance with portraits of the tragedy of the commons. What enables commons governance to proceed well in some cases and tragically in others will be a prime topic of exploration this semester in light of my conceptualization of *Politics as a Peculiar Business*.

6. Carolyn Webber and Aaron Wildavsky, *A History of Taxation and Expenditure in the Western World*. This is a fine book, full of interesting and thoughtful material. It’s also lengthy. It is a history woven around a presumption that societies are arenas of continuing contestation, which I find far more appealing and enlightening than presumptions grounded in concord and the placidity of equilibrium where everything of interest is an injection into rather than a feature of the conceptual framework that the analyst is using.

7. Norbert Elias, *The Society of Individuals*. Elias was a sociologist from the early to middle 20th century who worked with notions of spontaneous order (which have been pretty much absent from sociology for a good half-century, though a revival seems in the offing), and who was deeply thoughtful about the reciprocal character of the I-We relationship. He is best known for *The Civilizing Process*, which is much longer and which is a spontaneous order treatment of the evolution of manners and customs. Elias was displaced to London in the 1930s, where he roomed with Asik Radomysler, who died way too young, having published but one paper, in *Economica* in 1946, and which I commend strongly to all of you.

8. *Ernest Gellner, Conditions of Liberty: Civil Society and its Rivals*. This book advances a concept of civil society as a form of human governance, and which he contrasts with three other forms of governance. In 1944, Abba Lerner published *The Economics of Control*, and contemporary political economy has developed mostly as exercises in the economics of control. My alternative vision is a political economy of liberty. Gellner’s treatment of civil society offers fecund insight into this challenge. So, too, does Bertrand de Jouvenel’s *On Power*. Jouvenel explains that power in democracies is not a matter of a few thugs terrorizing the many but rather is something that emerges through widely held presuppositions.

9. Jane Jacobs, *Systems of Survival: A Dialogue on the Moral Foundations of Commerce and Politics*. This book unfolds as a dialogue among several characters over the claim that human action and social life involves a continuing contest between two moral syndromes, which she labels as commercial and guardian. She also explores what she calls “monstrous moral hybrids” where the syndromes commingle. Her later book, *Dark Age Ahead*, also in paperback, also pursues some themes of relevance for an entangled orientation toward political economy.

10. Mitchel Resnick, *Turtles, Termites, and Traffic Jams*. Resnick argues that people are overly eager to attribute what they sense to be orderly patterns to some source of organizing power. He describes this willingness as “the centralized mindset.” This centralized mindset is at work in political economy and public choice. It appears most prominently when theorists attribute collective outcomes to a median voter. It is through trying to articulate an enterprise-based public choice that I am seeking to escape the centralized mindset. Agent-based computational modeling provides an analytical platform for escaping the centralized mindset, a recently published text on which is *Agent-Based Modeling*, by Uri Wilinsky and William Rand. (Wilinsky, by the way, developed the Net Logo platform for agent-based modeling, which is wonderfully easy to work with.)

11. Thomas Schelling, *Micromotives and Macrobehavior*. This has become an iconic work on how macro-level patterns can emerge that often provide little or no information about the underlying micro-level actions or preferences that generated those patterns. Most economic theory reduces macro to micro by invoking equilibrium and a representative agent. Schelling sketches an alternative program of emergence-based theorizing, and Resnick and Wilinsky and Rand proceed within in this type of framework, as do I.

12. Mancur Olson, *The Logic of Collective Action*. This is a well-cited classic of public choice, and deservedly so despite some critical comments I registered (and still hold) in the very first edition of what became *Public Choice*, and which then was titled *Papers on Non-Market Decision Making*. Olson’s central claim is that free riding can be overcome by large groups by creating tied relationships between public and private goods.

13. *David Primo, Rules and Restraint: Government Spending and the Design of Institutions*. This book treats government not as an acting entity whose actions reflect some objective function but as a process of interaction among many participants where the course of that interaction is shaped by some framework of governing rules. This framework fits well my enterprise-based orientation toward public choice and political economy, particularly with its focus on process and not equilibrium states.