

**Economics 852
Public Choice I
Fall Semester 2020
Mondays, 1630-1910
Online via Webex**

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This course is an advanced graduate-level exploration into what is variously described as “public choice” or “political economy.” At this advanced level of instruction, your knowledge of economic theory should be sufficiently strong to enable you to understand the relevant scholarly literature. Therefore, this course will use existing literature only as background for the primary purpose of this course, which is to pursue new lines of inquiry. This course will emphasize the public choice of the future over the public choice of the past. While it is important to become familiar with the work we have inherited from the past, it is the work yet to be written that will govern your positions within scholarly world of the future. My primary objective in teaching this course is to help you cultivate the talents and capacities that can help catapult you into whatever scholarly prominence you aspire to attain.

We will meet 14 Mondays this semester starting on 24 August and ending on 30 November. Please note that we will not meet on Monday 7 September and that our meeting scheduled for 12 October will be shifted to the 13th to accommodate the Columbus Day holiday. All class sessions will be online through the **Webex** platform. During the semester, discussions with you either individually or in clusters will be on the **Zoom** platform.

Each of our 14 sessions will focus on the particular topics I describe below. Those sessions, moreover, will each be split in half. During the first hour or so, I will deliver a lecture on the topic of the day. The remaining time will be occupied by my addressing your questions, comments, and other reactions where you probe your understanding of the material. For this part of the class, I encourage questions that reflect imaginative engagement with the material in contrast to questions that ask for review of existing publications. [If you wonder about this distinction, you should look at my essay “James M. Buchanan and Me” which is the Appendix to my book on Buchanan and is also available on my SSRN page.]

Each of the 14 topics emphasize future analytical possibilities and not past accomplishments. My presentations will entail my trying to lay new trails through the material that comprises the forest of public choice and political economy. One week prior to each session I will distribute a short text of around a thousand words that introduces my presentation. I will also provide references to two or three items of mine to further frame the topic. Each of these sessions will explore topics that I believe contain opportunities for scholarly publication, though realization of that opportunity requires conversion of a preanalytical vision into a coherent exposition.

Each week, half of you will submit a short essay of around 800 or so words where you sketch a line of thought that you think might be capable of being expanded in a publishable direction. You should remember that I am looking to create new trails as against walking along well-trod paths. These essays will be due by 0500 on the Thursday after the Monday class. This will allow you 58 hours of elapsed time to prepare your essays and will allow me to devote Thursdays from the time I arise to reading your essays. You might find it useful to think of these assignments as a sketch of an idea you are submitting in an attempt to secure an invitation to present your paper before a professional meeting.

You might think of this class as setting each of you in a position similar to that in which the members of Lewis and Clark's Expedition must have found themselves when they set out from St. Louis in May 1804 to explore the Louisiana territory all the way to the Pacific Ocean. Lewis and Clark began their journey with only modest knowledge of what lay ahead of them, gained mostly from reports from French missionaries and explorers. They returned in September 1806 with reports of adventures they could not have imagined in any specific detail.

Similarly, I hope your adventure this semester will entail your articulating ideas you had never thought to articulate. Through your first-year courses, you have acquired reports about the territory of Economic Theory, including the territories occupied by public choice and political economy. Those reports, however, are incomplete, and in some instances might even be misleading. Your task in any case is to contribute to a deepening of that knowledge.

In none of your writing assignments will you find that I have some "perfect response" in mind that it is your job to discover. To the contrary, I am looking to be pleasantly surprised by reading responses that point future work in imaginative and potentially fruitful directions. If this were a math class, I would not give you explicit problems to solve. Rather, I would ask you first to create a problem and then to solve it. My appraisal of your work would depend on two factors: (1) the quality of the creative imagination your problem projects and (2) and the logical quality of your answer. To leave you with an alternative image in case you are uncomfortable with the math image, if this were a class in diving, I would judge your work on two factors: (1) The difficulty of your dive and (2) the quality with which you executed your dive.

Friedrich Hayek once claimed that progress in economic theory typically entailed the replacement of objective with subjective concepts and categories. I concur with Hayek's claim. Let me illustrate by giving a partial quote from a well-known author:

This paper analyzes ... **intragovernmental bargains** ... where there are **democratic pressures** that **motivate or constrain** the **procedures and constraints** that the **legislature and bureaucracy** use for adopting fiscal policies. When **democratic impulses are strong** **Electoral pressures** and **stable**

procedures ... generate a complex political bargaining equilibrium

The bolded words in this excerpt reflect the objectivist style of thought that presently dominates economics. All of the bolded concepts pertain to aggregate resultants of human action. To the contrary, a subjectivist mode of analysis would seek to penetrate into those concepts to discern the actions that are occurring to render sensible those objectivist formulations. The subjectivist theoretical mode explores the *generation or emergence* of those bolded relationships. For instance, standard public choice theory mostly treats voting as optimizing the preference satisfaction of a median voter. A subjectivist alternative would start with recognition that the act of voting stands at the end of some process of interaction that led to a vote, and with significant analytical work to be done in uncovering the operation of that process.

General Course Texts and Readings

For a text, I have adopted my *Politics as a Peculiar Business* because this book sets the tone for the semester in pursuing the material from a subjectivist orientation. I have also recommended Randall Holcombe's *Advanced Introduction to Public Choice* because this book gives a solid and succinct presentation of standard public choice. To be sure, I think public choice is becoming standardized, regularized, and ossified, as you can see if you read my review article about the *Oxford Handbook of Public Choice* [*Constitutional Political Economy* 30 (2019): 467-79]. Still, Holcombe's book is a good place to go to obtain a succinct exposition of orthodox public choice theory from an objectivist orientation.

There are two books from the early 1940s that will also be significant in this course because those books are filled with unexplored insights. One book is Joseph Schumpeter's *Capitalism, Socialism, and Democracy*, which originally was published in 1942. Two chapters in Part IV titled "The Classical Doctrine of Democracy" and "Another Theory of Democracy" offer a pathway into a realistic theory of democracy that can overcome the aspirational orientation that dominates contemporary political economy as well as the historical development of political philosophy.

The other book is James Burnham's 1943 *The Machiavellians: Defenders of Freedom*, which Amazon presently lists as being free through Kindle. This book opens with chapters on Dante and Machiavelli. The chapter on Dante is titled "Politics as Wish," which supports an aspirational motif for politics. In contrast, the second chapter is on Machiavelli and is titled "The Science of Power," which is also the theme of Schumpeter's chapter on "another theory of democracy." The closing chapter of Burnham's book is titled "politics and Truth," and it provides a dramatic choice over options for pursuing a theory of political economy.

A third book which I value as highly as the books by Schumpeter and Burnham is Vincent Ostrom's 1997 *The Meaning of Democracy and the Vulnerability of Societies*.

This book is long and challenging, and I believe you will find it repays careful examination—though I also realize that the 14 weeks of a semester pass very quickly.

One last book that reflects the objectivist-subjectivist dichotomy and which I have found quite illuminating is Ruth Kastner's *Understanding Our Unseen Reality: Understanding Quantum Riddles*. Kastner explores what she calls the transactional interpretation of quantum theory which explores connections between the observed reality expressible through real numbers and the subjective realm of possibility that require imaginary numbers. Besides this 2015 publication, Kastner has also published the related titles *The Transactional Interpretation of Quantum Mechanics: The Reality of Possibility* (2012) and *Adventures in Quantumland: Exploring Our Unseen Reality* (2019).

My Appraisal of Your Work (Grading)

My evaluation of your seven short essays will each count for 10 percent of your course grade. An additional 10 percent will be given by my evaluation of your contributions to in-class discussions during the second half of the class sessions. The final 20 percent will be based on your expansion of one of your seven short essays during the semester. This essay will expand that essay not into a full paper but into a form suitable for an informal, brown-bag type of presentation. These essays should be a maximum of 3,000 words, and must be submitted by 1630 on Monday 14 December, which is the time scheduled for our final exam, though this paper will stand in lieu of a final exam.

The future character of political economy and public choice will be forged through competition among theorists who inject their visions into the scholarly arena. I evaluate all of your written work on the basis of what I judge to be its potential for publication, recognizing that judging this potential differs depending on the length of the work. Regardless of length, 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.)

My interest in the work we do this semester resides 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 submit late work.

In case you are wondering, I have abandoned my long-standing practice of reserving the final two weeks of the semester for your presentations of drafts of your research papers. Instead, I am assigning seven rather than five short essays, along with asking you to submit one half-sized paper. Among other things, I am proceeding under the hypothesis that within the online environment your preparation of seven short essays on discrete topics will do more to awaken your creative imaginations than would your preparation of a longer essay. I will collect evidence and impressions regarding this hypothesis as the semester proceeds.

Therefore, the first half of you ordered by alphabet will have a short writing assignment due by 0500 Thursday the 27th of August, and this pattern will continue throughout the semester. By Monday the 20th of August I will have sent you my first topical sketch as well as having given you the dividing line between the two halves of the alphabet for this class.

Three Quotations to End the Syllabus on an Advisory Note

You are in the midst of a great adventure. That adventure can be exciting and fulfilling, but it can also be discouraging and frustrating. Below I append two quotations that I have carried with me forever it seems, and which speak to the persistence you must somehow muster to overcome the frustration that often accompanies efforts to engage in extraordinary science where you are not simply cleaning up after someone else.

Joseph Schumpeter famously noted in his *History of Economic Analysis* that theorizing starts with some pre-analytical cognitive vision that speaks to our uneasiness about existing formulations. We start by trying to articulate our uneasiness to ourselves and then to others. Two centuries before Schumpeter, Samuel Johnson recognized this situation crisply when he remarked that

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 must wrestle in trying to render our intuitive hunches intelligible to others, as well as to ourselves. Doing this isn't easy and is often frustrating and can even be tedious at times.

Without doubt, looking for that proverbial needle in the haystack epitomizes an activity that resides at the pinnacle of tediousness. All the same, Albert Einstein offered this sage counsel:

If we knew what it was that 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 frustration are features of the research process, and you must learn to persist in the face of such setbacks.

Besides these two directly relevant quotations with respect to the importance of employing persistence to overcome frustration, let me mention a third item that speaks to a lifetime orientation toward the scholarly life. 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 it was rare for women to study 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 a lifetime project and not something for you to accomplish 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: 14 Specific Course Topics

Here are the 14 specific topics we will explore this semester. At least one week prior to a class session, I will send out my thousand or so word sketch of the theme I will present. I will also include two or three reading suggestions, mostly taken from things I have done, and which should provide further insight into the topic of the day. As you will undoubtedly notice in looking over this list of topics, the topics move from relatively general and philosophical to relatively specific and detailed. As of this writing the GMU library is closed. In preparing this syllabus and my approach to class this semester, I have assumed the library will remain closed. For this reason, the references I give you throughout the semester will all be available electronically.

Week 1, August 24

Is human social organization necessarily feudalistic?

In other words, must not all societies conform to a universal template that reflects the feudalistic template of lords overseeing manors? Contemporary theories of political economy mostly separate societies into two distinct domains of polity and economy. This intellectual separation is an idealization of the emergence of liberalism out of feudalism starting in the 18th century. Despite this idealization, that emergence was never complete nor was it ever anything other than an escape from the reality of power in human affairs. After all, we are one of the higher mammals, all of which are social creatures where power-based interactions have significant presence. Entangled political economy reaches back to Machiavelli, Shakespeare, and Hobbes, to refer to Andrew Moore's *Machiavelli, Shakespeare, and Hobbes: Dead Body Politics*, and joins them with some contemporary analytical models to unify politics and economics within the general rubric of social theory. In many respects, this alternative vision represents a replacement of the neoclassical tradition in economics with a continuation of the classical vision as supplemented with some contemporary analytical tools and modes of thinking. It also leads to replacement of a language of aspiration with a language of understanding.

Week 2, August 31

Is political economy more insightfully approached objectively or subjectively?

Social scientists typically adopt the analytically objectivist posture of seeking to separate themselves from their objects of inquiry. Metaphorically speaking, they pretend they live on some Mt. Olympus like the Greek gods of old and seek to pronounce on society from their position outside society. In contrast, the subjectivist posture we will pursue this semester seeks to penetrate into our objects of inquiry. With respect to the block quote earlier in the syllabus, each of those bolded terms refers to outcomes of some process of interaction. Within a subjectivist orientation, those bolded terms are not data but are phenomena that emerge through processes of interaction that remain to be uncovered, recurring to Hayek's claim that nearly all progress in economics has entailed movement from objective to subjective analysis of our material of interest. Within a setting where no person can apprehend the entirety of a society, as against pretending to do so, is there really any alternative to the subjectivist orientation?

Week 3, 14 September

Does rationality differ from rationalization in political economy?

In the early 20th century, Vilfredo Pareto turned from economic theory to sociology because he wanted to understand why market arrangements didn't hold a more robust position within western societies. To pursue his query, Pareto distinguished between logical and non-logical action, the former pertaining to markets and the latter to politics and religion. This unit will explore the significance of Pareto's distinction for political economy and social theory. Reason is a human faculty, but rationality can transmute into ideology, perhaps rendering rationality and rationalization indistinguishable in the process.

Week 4, 21 September

Are not parasitism and tectonics natural features of entangled political economy?

In 1911, Pareto's close friend Maffeo Pantaleoni published a two-part paper in the *Giornale degli economisti* titled (in translation) "Consideration of some properties of a system of political pricing." Pantaleoni recognized that political enterprises do not support themselves by receiving payment directly from customers. To the contrary, those enterprises attach themselves parasitically to market transactions through the extraction of taxes. This parasitical relationship, furthermore, suggests that a system of entangled political economy will have turbulent or tectonic character in consequence of those parasitical attachments, and most certainly will not reflect the placidity implicit in equilibrium theory.

Week 5, 28 September

Is the language of public policy honest or does it resemble a shell game?

There are two languages through which public policy can be conveyed, and with this linguistic distinction mapping onto James Burnham's earlier noted distinction between Dante and Machiavelli. One is an imagined language of general or public interest. The other is a substantive language that addresses particular interests. For instance, tax reform typically is addressed in such terms as making the economic system more productive, just, or whatever other sympathetic term you choose to invoke. You never see it addressed in terms of supporters getting more of what they want by paying less, which in turn means that other people must pay more. What if you were to apply a translation test to public policy discussions, by which a language stated in universal averages would be translated into a language that describes who does what to whom?

Week 6, 5 October

How might the 19th century interest in "the social question" be relevant today?

The "social question" was a European concern raised in the 18th and 19th centuries pertaining to the absorption of large numbers of people from farms and villages into cities, where thriving in a city called on different talents and capacities from thriving on a farm or in a village. In the presence of a continually shrinking globe, this might be a good time to look again at that older concern with the social question. To be sure, contemporary concerns are typically reduced to concerns about equality and

redistribution, whereas the older concern focused on problems of soulcraft, although questions pertaining to the globalism-localism divide are also in play.

Week 7, 13 October (Tuesday)

In what ways are hotels, shopping centers, and industrial parks like cities?

Cities are known at law as “municipal corporations.” They have charters just as do commercial corporations. Having corporate form, the city persists even in the face of a complete turnover in the identity of its residents. In the literature on business firms, capital structure is important for understanding the operation of firms. Today’s presentation will raise a similar line of inquiry for municipal corporations. Mostly, cities, as governmental agencies generally, are characterized aspirationally or normatively, and not realistically. For instance, cities are often described as cooperative associations organized along one man-one vote lines. To the contrary, this presentation starts from recognition that all political entities have *de facto* capital structure through which effective control over the operation of political enterprises is invariably unequally distributed, leading all democratic governance to take the form of the few leading, directing, or controlling the many.

Week 8, 19 October

What is there about democratic budgeting that makes it seem so unmanageable?

The literature on political budgeting is dominated by aspiration as encapsulated by notions of fiscal responsibility and balanced budgets. In contrast, this presentation looks to realism. For instance, within the US 49 of the 50 states operate with a constitutional requirement of a balanced budget, yet few states actually operate in this manner. In 1978, moreover, the federal government enacted legislation (Byrd-Grassley) that prohibited budget deficits after 1981, and with that legislation never having been repealed. The divergence between constitutional stipulation and actual practice surely calls more for explanation of underlying causal realities than for exhortation to do better. Within this alternative scheme of thought, a budget is what it is and not something else because it is the largest that can be obtained within that parliamentary assembly. Nicholai Lenin once remarked that “promises are like pie crusts; they are meant to be broken.” Once again, we confront a disjunction between aspirational and explanatory language.

Week 9, 26 October

How might the aspirational ideology of taxation be replaced by explanation?

Economic theories about taxation are dominated by concepts rooted in ideology and aspirational politics. To the contrary, this presentation explores some possible schemes of thought through which taxation might be taken in an explanatory direction. In this respect, I have in several places located the origin of public choice with an 1888 book by the Italian economist Antonio de Viti de Marco, *Il teorico dell'economia finanziaria* [The Theoretical Character of Public Finance] setting in motion a short-lived Italian tradition that sought to locate taxation, and also public expenditure, as manifestations of the universality of economizing action within society. This tradition flourished for roughly 50 years, until revived in part, but only in part, by public choice in

the late 1960s. This presentation will probe how that tradition might be revived by relating some of its themes to motifs from evolutionary and complexity theories.

Week 10, 2 November

With public debt, who owes what to whom?

Monarchs of old could be indebted, but democratic legislatures cannot. Yet public discourse uses a language that refers to public indebtedness all the same. Public debt would thus seem to be an instance of a shell game, in that the language describes something other than the reality to which the language pertains. A simple conceptual experiment entails envisioning a comparison between two regimes: one regime entails governments issuing bonds in their name; the other regime entails governments imposing taxes and then leaving it up to taxpayers to decide whether to borrow or pay cash to discharge their liability. The challenge for an explanatory theory is not to pronounce one regime superior to the other but is to discern some of the unseen dynamics that operate differently between the two regimes.

Week 11, 9 November

What do central banks do within a system of entangled political economy?

Central banking is typically portrayed in aspirational and not realistic terms. This presentation reverses this portrayal by exploring some lines of thought that locate central banking inside an explanatory theory of economic organization. Central banking is typically portrayed as necessary to provide monetary stability. But ask yourself what size of staff would be necessary to do that, and then compare that answer with the actual number of people employed, even excluding those involved in clearing operations. As a realistic matter, a central bank will persist so long as support for the bank dominates opposition. Within this simple observation lies a suggestive hint for pursuing an explanatory theory of central banking.

Week 12, 16 November

What do political parties accomplish within a democratically organized polity?

Public choice theories mostly treat the ballot box as the site where democratic choices are made. Yet a person cannot get on the ballot box by announcing that he or she would like to be a candidate for some office. Among other things, election rules and standards are determined through legislation. Even more, political parties have much to say regarding which candidates will be considered for election. This presentation will treat political parties as economic organizations that exert much influence over the selection of candidates for voters subsequently to choose among. Political parties, moreover, are organized as nonprofit organizations, though it is also good to remember that it is individuals associated with an organization and not the organizations themselves that initiate action in the name of the organization.

Week 13, 23 November

What insight can public choice bring to our Covid-19 environment?

Public health has long served to illustrate ideas about public goods, especially with respect to contagious diseases like Covid-19. This presentation will go beyond the simple public goods models to explore some of the hidden relationships and processes

that have been set in motion with the advent of Covid-19. In thinking about this topic in an explanatory manner, you should keep in mind the wise injunction that you should never let a good crisis go to waste. To be sure, that injunction is of general political usefulness and is not limited to Covid, but Covid presents a good opportunity to illustrate the injunction's explanatory merit.

Week 14, 30 November

Are social systems causal or passive agents?

Democratic action is continually accompanied by claims regarding knowledge and its use, recognition of which calls to mind Hayek's papers on "Economics and Knowledge" and "The Use of Knowledge in Society." This presentation closes the semester by exploring some of the ways in which public choice might be adapted to issues regarding the use of knowledge. Among other things, this leads to inquiry into whether societal governance is something that belongs to the realm of the natural, as illustrated by breathing, sleeping, and digesting? Or might it be better treated as a talent or capacity, which can be learned or forgotten and performed better or worse, as with such activities as writing poetry or roller skating—as these talents are shaped through processes of collective interaction. In other words, can we plausibly think of systems as causal agents, as against systems being nothing but aggregations of agents?