

**Economics 849  
Public Finance  
Fall Semester 2010  
Tuesdays 1630-1910  
Enterprise Hall 318**

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Governmental activity, mostly taxing and spending, comprises the subject matter of public finance. There are, however, two distinct analytical windows through which the subject can be examined. The most commonly used window treats public finance as applied statecraft, with the aim of public finance being to set forth rules for statecraft. The alternative window, the one used in this course, treats public finance as operating in parallel with market theory, with both types of theory being necessary to explain the coordination of economic activities when no entity in society possesses the knowledge necessary to achieve the coordination of economic activities.

Two texts have been ordered for the course, and these serve quite different purposes. One text is the 3<sup>rd</sup> edition of *Public Finance and Public Choice*, by John Cullis and Philip Jones. This book presents a polyphonic treatment of alternative orientations toward public finance as applied statecraft. It examines a wide variety of topics that are treated under the rubric of public finance, and so provides an encyclopedic reference to public finance that can supply you with paths into numerous particular topics over the coming years.

The other text is my *Fiscal Sociology and the Theory of Public Finance*. This book treats public finance as an aspect of a theory of economic coordination and not as applied statecraft. The book's subtitle describes it as "An Exploratory Essay." In his review of the book [*Quarterly Journal of Austrian Economics* 12 (2009): 88-94] [[http://mises.org/journals/qjae/pdf/qjae12\\_1\\_9.pdf](http://mises.org/journals/qjae/pdf/qjae12_1_9.pdf)], Adam Martin took issue with the subtitle, asserting that "it reads more like a manifesto for a budding research program than an exposition of particular propositions." I think Martin is right about this, and I use this book as a point of departure for undertaking the explorations that will occupy our attention this semester. In this respect, I might also note that Martin closed his review by asserting that "the good news for young scholars seeking inspiration is that its [the book's] ideas tend to be more under- than over-developed."

I regard graduate-level courses as venues for exploring new lines of thinking where we are looking for ways to articulate what has not yet been articulated; I do not regard them as venues for explaining what is widely regarded as settled knowledge. You need to survey what is regarded as settled, but that serves only as a point of departure for the genuine work of the course. If we were playing music, I would like us to resemble a jazz quintet where I insert some riffs here and there, in contrast to being a sympathy orchestra where I am the conductor.

It is important to read widely, but I don't supply lengthy reading lists even though I could easily do so just by taking bibliographies from some of my publications. I do not aspire to have everyone on the same page, so to speak, because I think wrestling with different articulations stimulates our imaginations. For this reason, I try systematically to err on the side of under-specifying your reading. I will suggest a few items, but I also encourage you to create your own readings in light of your particular interests.

In any case, I hope you will cultivate the practice of filtering your readings through your imaginations to generate new insights that might lead you to interesting analytical places. Students become accustomed to reading published work with an eye to taking exams. While I recognize that exams are part of our educational system, though not in this course, 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.

With respect to our work over the semester, let me offer two quotes for you to keep with you on your journey; they should stand you in good stead.

- The first is buried in my long ago past. I believe I read it in reference to Isaac Newton, but I wouldn't swear by this. The quote, as I recall it, goes: "To see what all have seen; to say what none have said." This is mostly what I think we are trying to do in escaping the shackles of conventional thought. The phenomena are in front of us, plain to see, but we have to articulate them differently. After all, Archimedes most certainly was not the first person to have taken a bath.
- The second comes from Albert Einstein via Roger Koppl. The quote goes: "If we knew what we were looking for, we wouldn't call it research, would we?" If you feel confident about where you are heading before you start writing, you might be doing journalism but you aren't doing research. You need to learn to live with the ambiguity that this quote implies; indeed, you should learn to revel in that ambiguity, for only in the presence of such ambiguity is it possible that you are traveling someplace different.

Each of us will have work to do this semester. Indeed, each of us will do the same type of work in that we will be wrestling with theoretical articulations that might prove suitable as contributions to a theory of public finance. I regard graduate instruction as a form of master-apprentice relationship: I conduct my scholarly activities during the semester (drafting a book in this case), and you develop your scholarly capacities as you participate in those activities by presenting your own work as well as by discussing my work and that of your colleagues.

My work for the semester will entail writing a draft of a book that carries the working title, *Grazing the Budgetary Commons: The Elusive Quest for Fiscal Responsibility*. I will pass out chapter drafts sequentially as I complete them over the first part of the semester. The Preface to the book is attached to this syllabus.

Your work for the semester will likewise revolve around this project, and will take on two forms. One form will entail your preparation of eight short essays (3-4 pages), each of which extends or elaborates themes you find in the draft manuscript. Each class session will proceed in seminar fashion, where I will start by presenting some material from the chapter under examination and you will have opportunity to bring forward your thoughts.

The other form of work will entail your preparation of a research paper (20-25 pages) that makes significant progress in a publishable direction, and which you will present before your colleagues during the last few weeks of the semester. These papers will be due by 1630 on 14 December. Let me also mention that I neither accept late work nor assign incomplete grades. If you had a proposal to give a paper accepted at a conference but you weren't ready when the conference was scheduled, you would not be given an incomplete and allowed to present at a later date. It's the same in my class. (While I'm on matters of schedule, let me mention that there will be no class on 9 November.)

The eight short essays collectively will count for 40 percent of your course grade. My standard of grading will be that of a conference organizer who is looking for creative and thoughtful work, particularly work that contains surprises in contrast to well-constructed work that nonetheless has a pedestrian quality. A grade of A indicates that if I would invite you to present the paper. A grade of B indicates that I wouldn't invite you but that I acknowledge that the proposal exhibits decent understanding and workmanship all the same (but it doesn't contain imagination-induced surprises). A grade of C is a residual category whose meaning you can infer (and with a grade of F being attached to no-shows and their equivalents). While I think in this discrete fashion, almost invariably there will be cases that hover near some borderline which compel me to affix a plus or a minus to the grade.

Another 40 percent of your course grade will be given for my judgment about the quality of your research paper. The same publication-based grading framework will apply to these papers as I will apply to your shorter essays, only these papers will be judged on accomplishment whereas the shorter essays will be judged more on promise. This paper should run about 20-25 pages when submitted in standard manuscript format (double spacing, normal margins, etc.). Rather than thinking of me as a conference organizer who is looking for people to invite, you should think of me as the editor of a volume titled *Explorations in Enterprise-Based Public Finance*. What I mean by enterprise-based public finance should be clear from my *Fiscal Sociology* and also the first few class sessions.

The final 20 percent of your course grade will depend on my evaluation of your contributions to classroom discussion throughout the semester.

**Ten Valuable References for this Course** (all available in paperback)

1. 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 finance. It appears most prominently when theorists attribute collective outcomes to a median voter. It is through trying to articulate an enterprise-based public finance that I am seeking to escape the centralized mindset.

2. Thomas Schelling, *Micromotives and Macrobehavior*. This has become an iconic work on how macro-level patterns can emerge that can provide 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 proceeds in this framework.

3. 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.

4. 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 public finance has developed mostly as exercises in the economics of control. My alternative vision is a public finance of liberty or civil society, in contrast to a public finance of control.

5. Vincent Ostrom, *The Meaning of Democracy and the Vulnerability of Societies*. This long book bears a family resemblance to Gellner’s; moreover, Ostrom is cited often throughout *Fiscal Sociology*, so 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.

6. 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 budgeting as taking place on a fiscal commons.

7. 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 finance, particularly with its focus on process and not equilibrium states.

8. Walter Hettich and Stanley Winer, *Democratic Choice and Taxation*. This book seeks to explain tax structures as equilibrium responses to competition among politicians and parties within a framework of probabilistic voting. While this framework does not mesh well with my enterprise-based framework, it does raise interesting questions worth further thought about taxation as providing the means by which the fiscal commons is stocked.

9. Gordon Tullock, *The Politics of Bureaucracy*. This book is available inexpensively through Liberty Fund as an item in Tullock's Collected Works. 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 politics as orders and not as organizations.

10. 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 are now available inexpensively from Liberty Fund. These books sought to pursue a positive 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 *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.