

**Economics 854
Public Choice II
Fall Semester 2007
Tuesdays, 1630-1910
Enterprise Hall 275**

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This course is the second of a two-semester sequence, and your knowledge of the material from the first semester is taken as a given datum. The subject matter for the course is bounded by the three textual items that have been ordered: (1) *Political Economics*, by Torsten Persson and Guido Tabellini, (2) *The Meaning of Democracy and the Vulnerability of Democracies*, by Vincent Ostrom, and (3) the manuscript version of the forthcoming book *Fiscal Sociology and the Theory of Public Finance*, by me, and to be published in June 2007 by Edward Elgar.

While details concerning the material and how it will be approached will be provided during the first class session, you can get some good prior insight by reading my statement of teaching philosophy. In short, I approach this class not within an expert-novice framework but rather within a framework of mutual and interactive learning. I don't see my task as one of transferring content from my mind onto yours. Rather, I see us all engaged in an interactive process of learning, where my position is a form of *primus inter pares*. This position entails one privilege and one obligation. The privilege is that I can set the initial course agenda. The obligation is that I must assign course grades, which requires in turn that I read and comment on your work.

My cardinal presumption in this course is that you aspire to be participants in the creation of what will comprise public choice in the future. While some knowledge of what has been created in the past is important in providing orientation to your efforts, participation in the creation of scholarship is different in many ways from observation of other people's scholarly products. I assume that you can read and understand whatever has been written, so I make no effort to explain previously published work in class. Rather, I use such work as a springboard for exploring and articulating that might be capable of future publication. As my statement of teaching philosophy makes clear, I regard us as participants in the creation of future public choice scholarship and not as spectators who are observing what others have previously created.

I will discharge my obligation to assign grades at the end of the semester by applying an editorial metric to the two forms of written work you will produce during the semester. One form will be a research paper. I will read your paper as if I was the editor of a professional journal, and I will send you my editorial review within a few days of your submission. Your paper should be formatted in customary manuscript style, and generally run between 15 and 25 pages (these limits are advisory and not mandatory, though you should also realize that length is important because editors are presented with much more material than they

can possibly publish). This paper must be submitted in hard copy no later than 1630 on 8 May. This essay will count for 40 percent of your course grade. You must select your topic and secure my approval before the start of class on 6 March, which you can do by sending me a short (two page max) abstract and outline of what you propose to do, including two or three pertinent references. [You should do this before 6 March in case I don't find your initial submission adequate.]

The task of graduate grading is pretty much one of my putting your work into one of three categories, corresponding to the A-B-C scale. An "A" means that I think you have articulated a potentially publishable idea, and would encourage you to revise it in light of my editorial suggestions. A "B" means that I think you have displayed good technical competence without, however, having articulated some line of thought that could easily be revised to render it publishable. A "C" means not only that I don't see some direct path to publication in your paper but also that I think that your conceptual framework is deficient in some significant respect.

For much of the semester you will also write weekly mini-essays. These will call for thoughtful conceptualization but not research, and will be assigned at the end of one class period and due at the end of the next class. These eight mini-essays will collectively count for 40 percent of your course grade. Part of each class period will address this essay topic, and some of you may be asked to offer commentary on your work for that week. [**Bold typeface** on the dates below indicates when mini-essays are due, and with the subjects of those essays announced the preceding week]

People in the petroleum business distinguish between exploring for sites that might contain oil and exploiting sites that have been previously discovered through exploration. This distinction between exploration and exploitation applies as well to scholarly activity. Where your research essays are exploitive efforts at bringing forth scholarly value, these short, weekly essays are exploratory efforts to try to locate potential venues for possible exploitation.

For these essays I will send you a short reaction, typically of three or four sentences, within a day or two of submission. An "A" means that you have sketched an idea that I think is worth further exploration. A "B" means that I find nothing wrong with your argument, but neither do I find any reason to encourage you to pursue the idea further. A "C" means that I find some significant holes or failings in your argument.

The remaining 20 percent of your course grade will be assigned according to my evaluation of your various oral contributions throughout the semester.

I should perhaps also explain why I don't pass out long bibliographies. I could easily do this by collecting the references from my various books and

papers, but you can do this as easily as I can. More to the point, I operate in terms of combinatorial and distributed knowledge and not in terms of uniform or common knowledge. Insight is generated through dealing with differences along numerous dimensions, and so I am not greatly interested in having everyone “on the same page” so to speak with respect to what will take place in class. Wide ranging reading is important because of the potential exposure through interaction to different ideas. To pick a different analogy, I do not see the class as an orchestra with me as the conductor. Rather I see us as a jazz ensemble where I simply start things off, recognizing pragmatically that the scope for improvisation varies inversely with the size of the class. (The class will make extensive use of concepts relating to emergence and agent-based computational modeling, and a short bibliographical sketch is appended.)

COURSE OUTLINE

- 23 Jan. Course Overview and Methodological Background
- 30 Jan. Order, Organization, and Social Theorizing
REW Ch. 1
VO Ch. 1
P&T Ch. 1
- 6 Feb.** Conceptualizing Property and Property-Governed Relationships
REW Ch. 2
VO Chs. 2-3
- 13 Feb.** A Tale of Two Hyatts
REW Ch. 3
VO Ch. 4
P&T Chs. 2-4
- 20 Feb.** Profit and Political Entrepreneurship
REW Ch. 4
VO Chs. 5-7
P&R Chs. 5-8
- 27 Feb.** Organizational Arrangements for Political Enterprise
REW Ch. 5
VO Ch. 8
P&T Ch. 9
- 6 March** Architectonics of Budgetary Bridges
REW Ch. 6
P&T Ch. 10

- 20 March** Tax Philosophy and Fiscal Realism
 REW Ch. 6 (carried forward)
 P&T Chs. 11-14
- 27 March** Politics and Monetary Organization
 P&T Chs. 15-17
- 3 April** Polycentricism, Subsidiarity, and Federalism
 REW Ch. 7
 VO Chs. 9-10
 P&T Ch. 18
- 10 April Fiscal Sociology and Political Economy
 REW Ch. 8
 VO Ch. 11
 P&T Ch. 19
- 17 April Mini-seminars Set A
- 24 April Mini-seminars Set B
- 1 May Mini-seminars Set C
- 8 May Papers Due in hard copy by 1630

Topics for Short Essays

Assignment #1, due 2/6: “The Social Evolution of Property Rights: XXXX as an Illustrative Example”

Explanation: My interest throughout this course is in exploring emergent and not teleological approaches to collective action. People universally seek to attain more desired states and circumstances, and this search occurs within settings of societal interaction. My prime interest is to get away from the orthodox comparative static framework by trying to develop a framework for examining collective phenomena that would involve themes about emergence, evolution, networks, and polycentricity. In saying this, it should be noted that such an alternative motif could always be told ex post as an exercise in comparative statics, but your focus should be on theorizing from the inside looking out and not from the outside looking in. In my Chapter 2 I mentioned several possible illustrations, including lighthouses, flooding, refuse collection, and animal ownership. The reference to XXXX is simply to note that you will

almost surely find it helpful to think in terms of some concrete, substantive setting, even though your formulation will be abstract and generalizable.

Assignment #2, due 2/13: : “Mutualistic and Parasitical Relationships within the Ecology of Enterprises: the Organizational Dynamics of XXXX.”

Explanation: My Chapter 3 explores a two-forum type of architecture for conceptualizing societies. Moreover, those forums are connected through a type of parasitical relationship. Neither wholly private nor wholly collective property is a historical possibility. The organization of activity through private property requires some modicum of common or collective property; organization through collective property is impossible without information generated through private property. The resulting relationship is thus parasitical, recognizing that this can entail both mutualistic and antagonistic relationships. Again, the XXXX denotes that you will almost surely find it helpful to think in terms of some concrete setting in pursuing your thinking. I would not be surprised if many of you explore this topic as a continuation of your preceding topic; now that I think about it I will say the same for the next topic as well, and possibly for other topics as well when I get to them.

Assignment #3, due 2/20: “Entrepreneurial Action and Evolutionary Transformation within the Social Ecology of Enterprises, with Specific Reference to XXXX”

Explanation: As before, XXXX denotes simply that you might want to develop your conceptualization with reference to some concrete example. I would also note again that the challenge is to get away from teleology and comparative statics. The enterprise ecology of airports is different today than it was 40 years ago. It also differs considerably throughout the world. The analytical challenge is to arrive at formulations that generate the world we experience, in contrast to the standard procedure of simply assuming it. My interest in this respect resides in thinking about a nexus or ecology of enterprises, and the place of entrepreneurship in generating that ecology. For example, an airport is not a single unit, private or public. It is a networked collection of entities, some private and some public, and with both supportive and antagonistic interests and relationships in play. It's the same for water supply, recreation, and nearly anything else you might think of.

Assignment #4. due 2/27: “The Organization of Executive Tournaments on Public Squares”

Explanation: As I note in my Chapter 5, the various literatures on corporations that deal with such themes as agency or competence all place considerable emphasis on the transferability of ownership, along with the information and incentive that such transferability entails. There is thus some basis for thinking that a process of filtering through time is at work in managerial

selection in market-based firms, and there even exists what we call head-hunting firms that specialize in recruiting executive talent. Selection processes are likewise at work in political enterprises, and those processes must work so as to support the survival of the enterprise, though very little has been done in this regard. In developing your thought you might find it helpful to think in terms of some specific example; for instance, of all the people who enter a park service or a police department during some interval, some rise higher and faster than others. What are the selection principles at work and how do they map into organizational survival? (There is also a question concerning the external requisites of survival, but that comes in the next assignment.)

Assignment #5, due 3/6: “The Institutional Organization of Public Square Catallaxy”

Explanation: This assignment arises out of my reflection on some of the penumbra around Figure 6.3. The challenge is to explain budgeting as a competitive, bottom-up process and not some top-down reflection of some sentient creature’s choice. The peculiar investment bank that is a parliamentary assembly can act only through some framework of parliamentary and institutional rules. What emerges out of this peculiar investment bank is thus governed significantly by the constitutive rules that govern relations among the partners in the assembly, as well as of the relations between those various partners and outside supporters of those partners. The individual enterprises that receive support through the public square are competitive with one another and engage in such things as advertising and public relations work to improve their position. Your challenge here is to sketch in inchoate form some line of exploration that would point in the direction of an emergent or generative theory of budgeting, in contrast to the orthodox teleological, choice-theoretic orientation.

Assignment #6, due 3/20: “A Template for an Emergent Theory of Tax History”

Explanation: This assignment likewise arises out of the material in my Chapter 6. The same feature of evolution and change that characterizes the ecology of enterprises within a society characterizes the tax codes that emerge within a parliamentary assembly. Various people have written on tax history, and I list a few in footnote number 9. However, these are mostly articulated within a teleological and not an emergent orientation, and the point of this assignment is to think a bit about how an emergent orientation might be brought to bear on tax history. For instance, it’s hard to avoid hearing references to the complexity of tax codes. On occasion, they are simplified for a spell, but then complexity returns. Within a framework of legislative assemblies as peculiar investment banks, how might you go about trying to characterize the general increase in complexity, along with occasional reformist efforts to simplify the tax system?

Assignment #7, due 3/27: “A Non-teleological Theory of Central Banking”

Explanation: The literature on central banking is overwhelmingly teleological in character. While there is considerable dispute in this literature over whether central banking is beneficial or detrimental, as well as about how to make it more beneficial, there is little effort to explain the salient characteristics of central banking from a social theoretic orientation. Within this alternative orientation, central banks would be participants within the ecology of enterprises, and not overlords of that ecology. This change in orientation leads to a number of alternative lines of possible inquiry. For instance, who are the primary investors in a central bank and what is the size and the character of the returns they receive? Alternative, how might you account for a central bank's pattern of activity, given that only a small share of it has anything to do with monetary management (even if you accept the proposition that money won't manage itself)?

Assignment #8, due 4/3: "The Industrial Organization of the Public Square: Generating the Map"

Explanation: The orthodox literature on public choice and public finance treats federalism and subsidiarity as a matter of systems design, and with the designer seeking to create some map that exhibits some hypothesized welfare-theoretic features. My interest lies instead in exploring what I have called the industrial organization of the public square. What is the public sector analogue to mergers, acquisitions, and spin-offs? At any instant there will exist some mapping from activities to units of government, just as there is from activities to firms. Within the market, this map is continually changing, and with one of the central features being a growth in the total number of firms. By contrast, this map seems to change more slowly within a nation's public square, and in a manner that generally reduces the number of governments. My interest here isn't in teleology and welfare economics, but rather is in trying to render a coherent account of this map from an IO-type point of view.

Emergence and Complexity: A Few Bibliographic Suggestions

Here are a few references to emergence- and complexity-based theorizing. This list is a brief point of departure. If the subject interests you, you can develop your own bibliographies in far more depth and can tailor them to your particular interests. (Most of these are available in paperback, and they all might be for all I know.)

For an economist, this orientation can be dated to Thomas Schelling's *Micromotives and Macrobehavior*. This is one of the texts I used when I taught the 715 course for four years, and reflects what I think is the right way to theorize about macro matters, which most definitely is not to theorize in terms of one macro variable acting directly upon another macro variable, though I

acknowledge that statistical relationships can be found among such variables over some range of observation.

John Holland is a leading figure associated with this orientation, though he comes from the natural sciences and not economics. One of his easily accessible books is titled *Emergence*. Another is titled *Hidden Order*. A more popular style but longer work that covers a wide variety of substantive illustrations is *Complexity: The Emerging Science at the Edge of Order and Chaos*, by M. Mitchell Waldrop. Somewhat similar in orientation, though more fully from the natural science side, is *Sync: The Emerging Science of Spontaneous Order*, by Steven Strogatz. For a similar orientation with respect to the social sciences, there is *Critical Mass*, by Philip Ball and *Nexus*, by Mark Buchanan. *Small Worlds*, by Duncan Watts has become a classic in this genre.

Let me mention two other books before moving on, though these are relatively lengthy compared to the others. *One is A New Kind of Science*, by Stephen Wolfram. Among other things, Wolfram is the founder of Mathematica. He seeks here to locate discreteness and computation as the general method of science by relegating models based on continuity to the background. Most people seem to treat evolutionary or emergent thinking as the alternative to equilibrium thinking. I don't. Rather I treat them as complements, though giving priority to emergence, as in foreground versus background. *The Collapse of Chaos: Discovering Simplicity in a Complex World*, by Jack Cohen and Ian Stewart reflects pretty well my own attitude in this regard, though I would note the qualifier "pretty well."

Many of these ideas are being worked with and explored through agent-based computational modeling. If you look at the homepage of Nicolaas Vriend you will find a referenced to a careful survey article on agent based modeling as well as a paper on Hayek in relation to agent based modeling. The last time I checked this link still worked: [<http://alpha.qmul.ac.uk/~ugte173/index.html>].

While many people treat agent-based modeling as offering a potentially better approach to policy planning, I think these techniques potentially allow for a deeper probing into the operation of coordinative processes in the presence of ubiquitous heterogeneity and in a world where there is nothing even remotely resembling tâtonnement.

I have experimented with four platforms, all freely available. These are StarLogo from MIT, NetLogo from Northwestern, RePast from Chicago, and MASON from GMU. For NetLogo and RePast, a good deal of valuable and comparative information is available at <http://complexityworkshop.com/>. C++ is also widely used; for instance, it was used by Clower and Howitt in a paper on the emergence of money that was published in JEBO a few years ago.

The primary inspiration for pretty much all such efforts is Thomas Schelling's *Micromotives and Macrobehavior*. Mitchel Resnick's *Turtles, Termites, and Traffic Jams* is by the developer of StarLogo and is a nice introduction to some of the analytical possibilities of using agent-based modeling to understand decentralized, polycentric systems. Joshua Epstein and Robert Axtell's *Growing Artificial Societies* is a well received effort that points toward large scale simulation (it's written in yet another language, Ascape, though they all have the same general look and feel). Michael Wooldridge's *An Introduction to MultiAgent Systems* is a solid general introduction. Nigel Gilbert and Klaus Troitzsch's *Simulation for the Social Scientist* is a compendium of tools for simulation. I would also mention *Small Worlds*, by Duncan Watts, though I don't know if it is available in paperback. *Individual Strategy and Social Structure*, by Peyton Young, is available in paperback, and is an effort to bring concepts and formulations from game theory to bear on institutional evolution. I think there are some interesting analytical opportunities in seeking to connect some of these concerns with some ideas from agent-based modeling.