Economics 852
Public Choice I
Fall Semester 2012
Tuesdays, 1630-1910
Planetary Hall 120

Professor Richard E. Wagner
Office: Enterprise Hall 334
Hours: Tuesday afternoons
Email: rwagner@gmu.edu
Home: mason.gmu.edu/~rwagner

This course is a graduate-level introduction to what is variously described as "public choice" or "political economy." My approach to graduate-level instruction is set forth in my statement of teaching philosophy, which is on my web page. As I explain there, my advanced graduate courses are primarily concerned with the search for ideas that have not yet been articulated and are only secondarily concerned with ideas that have already been articulated. To say this is not to excuse you from acquiring a mastery of what has been written, but is only to explain that the course's emphasis will be forward- and not backward-looking in character.

In my statement of teaching philosophy, I distinguish between "mental transfer" and "joint inquiry" approaches. In my judgment, the mental transfer mode is more suitable for undergraduate and perhaps beginning graduate instruction. This mode involves the instructor in passing along in economical fashion information to students about established formulations within the discipline. This mode entails an expert instructing novices.

Contrary to the presumption inherent in the mental transfer mode, I regard advanced students as beyond novices, and regard them instead as beginning participants in the creation of the economics of the future. Within the joint inquiry mode, my position is a form of *primus inter pares*. This position gives me one privilege while also imposing on me one obligation.

The privilege is that I get to determine the agenda of the course, which I will sketch below. The obligation is that I must read and evaluate your work for the course. In this class I have no option but to read your work. Once you are gone from here, however, you will no longer be guaranteed a readership. You will have to attract readers, which places the burden on you to develop interesting ideas and to express them gracefully.

Course Format

We will meet 14 times this semester, starting on 28 August and ending on 4 December (and with no class on 9 October due to the Columbus Day holiday). The first four sessions will proceed largely in lecture fashion, and will entail my presentation of a broad-brush portrait of public choice and political economy. I envision that portrait as culminating in a book over the next year or so, and which I have tentatively titled *Main Street, Wall Street, and City Hall: the Political Economy of Entanglement*.

The remaining ten sessions will be divided into five two-week units. Each of these units will be devoted to a topic that I think holds strong opportunities for publication in professional journals. For these pairs of sessions, each of us will have work to do. For the first session of each pair, I will present some of my thoughts on that topic, including a preliminary and incomplete draft of a paper I am thinking about. At the end of that session, I will give you a list of questions pertaining to that topic. For the following session, each of you will address one of those questions in a 3-5 page paper.

At each of these five sessions, I will call upon some of you to present your responses and to invite discussion about them. How many of you I will be able to call on will depend on the eventual size of the class, but I will follow this procedure in any case. At the end of those bi-weekly sessions, I will collect your essays and send you my evaluations within 48 hours.

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.

Course Organization

Unit 0: The First Four Sessions

While I will set forth some of the main themes of public choice scholarship during these sessions, my purpose in doing so is to sketch the logic of a different and what I regard as a more coherent approach to that material. Taken together, the two books I have designated as texts for this course reflect that purpose.

Beyond Politics, by Randy Simmons is a masterful and nicely readable presentation of the core ideas of public choice. This book will introduce you to most of the significant themes of public choice.

The Meaning of Democracy and the Vulnerability of Democracies, by Vincent Ostrom is a deeply philosophical meditation that could well have been titled *Beyond Public Choice* to create symmetry with Simmons's title. Over the past 30 or so years, much public choice scholarship has experienced a type of reduction to the closed-form orthodoxy of standard equilibrium analytics. By contrast, Ostrom thinks in terms of open-ended processes, which presents many theoretical challenges that we will explore this semester.

You would be wrong, though, to think that based on the preceding two paragraphs I favor Ostrom's book over Simmons's. I think highly of both books.

The material that Simmons treats is relatively straightforward and easy to work with. Ostrom's material is complex and difficult to work with, but it also raises some challenges that are not easily raised within Simmons's analytical context. Simmons treats forms of democratic pathology conveyed by ideas of rent seeking and rent extraction and which are represented by the idea of faction. These ideas fit well with the comparative statics of alternative equilibriums.

In contrast, Ostrom treats an internally generated democratic pathology that he calls a sickness of the people, in recognition of Tocqueville's treatment of democratic despotism in *Democracy in America*. And if you think democratic despotism is oxymoronic, you might want to think about the so-called soft paternalism of the new behavioral economics, one prominent instantiation of which is underway in New York City. You also might want to reflect a bit on Adolf Hitler: he didn't smoke, he didn't drink, and he didn't eat meat. So in many respects conveyed in some of the new paternalism Hitler would have been exemplary. He also rose to power through a democratic political process. Collective sickness or health in Ostrom's analytical framework is a topic that can be explored analytically, as we will do this semester.

I never give long lists of readings, though I could do so easily just by selecting items from the bibliographies of some of my publications. I prefer to mention only a few items and have you select the rest, and for two reasons. First, you need to cultivate the ability to select useful readings to advance *your* projects. Second, I like a classroom to resemble an improvisational jazz quintet where I offer a few riffs every so often and not a symphony orchestra that I conduct. Some variety among you in the particular things you have read can create interesting forms of classroom interaction that are less likely to occur when everyone has the same readings in mind.

The Calculus of Consent, by James Buchanan and Gordon Tullock is something you should read, as is Vincent Ostrom's *Political Theory of a Compound Republic*, which is like a flying buttress to *The Calculus of Consent*. With regard to Buchanan and Tullock, Liberty Fund offers subsidized volumes of their collected works. Dennis Mueller's *Public Choice III* is more on the order of an encyclopedia than a text, and in any case is a work with which all public choice scholars are familiar. Torsten Persson and Guido Tabellini's *Political Economics* is in numerous respects the antithesis of Ostrom, as you will see from one of my forthcoming papers that I will provide to you. You will not be too far off base if you think of me as trying to bring some modicum of Persson and Tabellini's analytical formalism to bear on the questions and issues that Ostrom explores. Mitchel Resnick's *Turtles, Termites, and Traffic Jams* is a wonderful treatment of how a centralized mindset infects much social theorizing, including public choice theorizing, along with an exploration of how agent-based computational modeling can serve as an antidote. All works mentioned in this paragraph are available in paperback.

Unit 1: Political Competition and the Selection of Qualities

Competition is a process that selects among competitors pretty much according to how suitable the competitors are to the environment in which they are competing. An evolutionary-type treatment of competition leads to two general implications. First, competition selects for higher over lower quality with respect to that environment. Second, different environments will select for different qualities. Whether one wants to be a swimmer or a gymnast, those who are better will tend to survive competition against those who aren't so good. Competitive swimming selects for substantively different qualities than competitive gymnastics. Can something similar be said about a comparison between market and political competition? This unit will apply an evolutionary perspective to political and market competition.

Unit 2: Economic Calculation and Parasitical Politics: Parliamentary Assemblies as Peculiar Investment Banks

All choices, whether made by market entities or political entities, must involve a comparison of options and hence must involve economic calculation. Political enterprises, however, have no enterprise value and mostly avoid direct pricing. Political enterprises exist in a parasitical relationship to market enterprises. Market enterprises generate revenues by sales to customers. Political enterprises do not do this, and instead derive revenues from parasitical attachments to market transactions. This unit will explore some contours of this parasitical relationship within a framework of entangled political economy.

Unit 3: Political Enterprises and the Capital Structure of Production

For approximately a century, the stock of capital invested in political enterprises has grown significantly relatively to the stock of capital invested in market enterprises. An economic explanation of this changing pattern of economic activity must run in terms of changing rates of return to different uses of capital. Political enterprises, however, are nominally of the non-profit form. Yet this doesn't mean that those enterprises fail to capture and return profits; to the contrary, they do both. The challenge of this unit is to explore how this universal quality of profit seeking plays out inside political enterprises which are nonprofit in form, though only in form.

Unit 4: Regulating Money and Credit to Command the Societal Heights

You will recognize that the reference to commanding the societal heights derives from Nikolai Lenin. These days there are probably few areas of economic activity that are governed predominately by private ordering because public ordering has a ubiquitous presence within what is still described as market activity. Probably nowhere, however, has public ordering become as dominant as it has with matters pertaining to money and credit. There is little that a central bank can do that wasn't also done through the clearinghouse arrangements that preceded establishment of the Federal Reserve, except that central banks promote the growth of political enterprises by helping to occupy the commanding heights that is a property of finance. This unit will explore how such regulation generates systemic turbulence as a by-product of profit seeking within an entangled system of political economy.

Unit 5: Constitutional Political Economy when History Has No End

When the aged Benjamin Franklin was asked what kind of government the American constitutional convention had created, he was reported to have answered: "a republic, if you can keep it." It's clear from this statement that Franklin was an evolutionary and not an equilibrium theorist. Equilibrium theory posits an end of history until a new exogenous shock arises; evolutionary or emergent theory posits a continual injection of internally generated change. Much theorizing about constitutional matters by economists has proceeded in terms of a sharp distinction between selecting the rules for playing a game and subsequent plays of the game given those rules. This unit will take more of an evolutionary orientation toward the constitution of governance within societies, returning in the process to some of the themes in Ostrom's meditation on Tocqueville.

My Appraisal of Your Work (Grading)

My evaluation of your bi-weekly essays will count for 60 percent of your course grade, 12 percent per essay. My evaluation of your contributions to classroom discussions will count for 15 percent. The remaining 25 percent of your course grade will be based on my evaluation of a research paper that you must submit no later than 1630 Tuesday 11 December. You can submit these papers electronically. With class sizes of up to about 15, I set aside some sessions for student presentations in seminar-like fashion. The size of this class is too large to do this, at least judged by enrollment figures as of this writing, so I will not offer such sessions.

The substance of your research papers should be derived from one of your earlier essays or from one of the other topics discussed during the semester. My teaching objective in this course is to help to cultivate among you an interest in and talent for advancing scholarship within the tradition of Virginia political economy. The future character of political economy will be forged through competition among theorists who inject competing visions into the scholarly arena. Your research papers should aspire to make such contributions, as well as to help put you in a position to make further such contributions in the coming years.

I evaluate all of your written work on the basis of what I judge to be its publishable potential. I regard each of you as an aspiring participant in the creation of the economic scholarship of the future, and I render my grades based on what I see as the potential in the contribution you have placed before me. In this respect, 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.)

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 we all have to wrestle with in trying to render our intuitive hunches intelligible to others.

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, of course, more on the order of a lifetime project than something to be accomplished during your few short years as students. But you do have post-student life ahead of you, and I think Shackle's statement is, among other things, a lovely summary of an economic theory that occupies the pivotal position within the humane studies that I think it should occupy.