For this course I assume that you have mastered the readings that Professor Coyne said you should have mastered for 880. While my interest is in economic theory without much direct interest in the genealogy of the theorists or theories, I also think that Carl Menger’s vision for economic theory was superior to the other visions that were put in play in the late 19th century when the modern era of economic theory began. Unfortunately in my judgment, Menger’s vision was shunted into a cul-de-sac by the Walrasian-inspired flood of equilibrium-grounded theories characterized both by their presumption that societies are equally simple objects as the individuals through which they are constituted and by their complementary fascination with hyper-formalistic modes of expression.

There is now, I believe, good reason to think that the Walrasian flood is receding. What the theoretical landscape will look like in the aftermath of this recession remains to be established, and will be established through competition among interested participants. The analytical challenge this course embraces is to probe for theoretical formulations that will carry forward the core of the Mengerian theoretical vision, recognizing that this effort will require new conceptual formulations and patterns of thought. The purpose of this course is to search for new lines of theoretical articulation that have potential for pushing economics forward in a generally Mengerian direction.

Course Organization and Format

We will meet 14 times this semester. The first meeting will cover some methodological preliminaries, the main reading for which will be the first chapter of my *Mind, Society, and Human Action: Time and Knowledge in a Theory of Social Economy*. (This book is not yet available in paperback, so I will send out a copy of the manuscript version of the chapter.) This session will entail a quick overview of some matters of scope and method that pertain to the construction of social theories centered on emergent processes of continual development, in contrast to orthodox theoretical treatments based on presumptions of societal simplicity as described by notions of equilibrium that are analyzed through the method of comparative statics.

I should perhaps also explain that I don’t pass out long reading lists though I could easily do so merely by taking samples from the bibliographies in some of my writings. While I will suggest particular readings from time to time, in large measure I prefer to let you determine your readings. For one thing, I think there are many different readings that can get you to roughly the same theoretical place. Beyond
this, I think 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. To recur to an image I have often used, 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.

The session on methodology will be followed by ten sessions devoted to exploration of five particular topics, with two sessions devoted to each of the topics. Each of these pairs of sessions will have the same format: for the first session I will present some thoughts and writing on the topic; for the second session you will do the same. In particular, each of you will write and present an exploratory paper that runs in the 3-5 page range. The point of these exploratory papers is to sketch the rudiments of a paper which has potential for being expanded in accordion-like fashion into a publishable paper. Not all acts of exploration yield exploitable deposits of scientific articulation, of course, but you will never locate such deposits without having undertaken suitable explorations.

The final three sessions will be devoted to exploitation, where you make a seminar-type presentation on one of your earlier exploration topics. These papers should generally run in the 20 page vicinity, and must be submitted electronically no later than 2100 on Sunday, 15 May. I should also mention that late or incomplete work is not acceptable; the organizer of a conference where you have been invited to present a paper will not postpone the conference to give you more time to finish your paper, and neither will I.

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

The five exploratory essays collectively will count for 40 percent of your course grade. Your subsequent exploitative essay will likewise count for 40 percent. The remaining 20 percent will be based on my evaluation of your classroom contributions throughout the semester.

I grade the exploratory essays on the basis of what I judge to be their potential down the road, and do so by adopting the posture of an organizer of a conference where you have responded to my call for papers. An A signifies that I think you have sketched a line of thought with sufficient clarity and cogency that I would invite you to prepare a paper for the conference. A B indicates that while you have not convinced me to invite you, you have nonetheless convinced me that you have a reasonable grasp of your subject matter. A C means that I don’t come away with a clear idea of what you are trying to accomplish, and might even think you are blundering around a bit. An F is also a possible graduate grade, but I hope I won’t find it necessary to explain what I mean when I find it necessary to assign that grade. (Various pluses and minuses are also possible grades, and I think you can attach reasonable meaning to those grades by extrapolation.)
My evaluation of your exploitative papers follows the same outlook, only now I adopt the posture of the editor of a scholarly journal that is devoted to promoting a neo-Mengerian orientation toward economics. My evaluation of your work thus differs only in the standard of calibration, for the exploitative essays are judged against a standard of publishability instead of just their potential to reach publishability.

**Five Topics for Exploration**

Each of these topics is a macro-type topic, at least as I make the distinction even if this isn't the conventional distinction. In this I follow Carl Menger who distinguished between simple phenomena associated with individual action and complex phenomena that arose through interaction among acting entities. Hence, micro pertains to praxeological action and macro pertains to catallactical interaction. Among other things, the relation between micro and macro is treated as scale-free, which brings ideas about complexity and emergence into the analytical foreground.

**Exploration #1: A Macro Economy as an Ecology of Plans**

While a good number of macro-theoretical efforts seek to provide micro foundations for macro theorizing, they do so mostly by reducing society to Crusoe. This happens directly through the articulation of models of representative agents; it happens indirectly whenever social explanation is pursued through a program of relating average variables directly to one another. These orthodox efforts seek to bridge the micro-macro chasm by ignoring it. In contrast, this unit accepts the gap as genuine and seeks to construct bridges through conceptual formulations based on theories of emergence and scale-free networks.

*Readings:*

Mitchel Resnick, *Turtles, Termites, and Traffic Jams.* This is a wonderful explanation of the deceptive allure of the centralized mindset by which the outcomes of spontaneous interaction are attributed to some acting entity. Macro theory these days is dominated by the centralized mindset, but so also is much of the rest of economics.

Richard E. Wagner, “A Macro Economy as an Emergent Ecology of Plans.” This manuscript is currently under review, and I will send you a copy. Among other things, the emergent-theoretic framework used in this paper will set the analytical tone for the remaining four units.

**Exploration #2: Conflict among Plans and Forms of Institutional Reconciliation**

The ecology of plans notion asks us to analogize a society to a continually changing and moving crowd of pedestrians passing through a piazza, in contrast to equilibrium theories that treat societies as if they were parades. Where orthodox
theory has no room for the internal generation of conflict among the owners of plans, the alternative formulation brings conflict and its resolution into the analytical foreground. Within this alternative formulation, the manner in which societies deal with conflict among plans becomes a significant element in influencing the progressive character of societies. The Edgeworth Box, we should remember, can be viewed from outside as well as from inside, which gives two distinct views that call for reconciliation or at least dialectical treatment.

Readings:

Ludwig Lachmann, *The Legacy of Max Weber*. This is available online from the Mises Institute. What is particularly notable about Lachmann’s treatment is his avoidance of reducing institutional arrangements to some kind of point-mass status, along with his recognition of both a hierarchy among institutions within a society and incongruity among those institutions.


Richard E. Wagner, *Mind, Society, and Human Action*, Ch. 2, explores the different orientations toward property rights. I will make manuscript versions available to each of you. I will also send you manuscript versions of Ch. 8, as this also has some relevance for how I will approach this unit.

Exploration #3: The Macro Policy Shell Game: Oskar Morgenstern Revisited

My reference to Oskar Morgenstern is to the 1962 version of his *The Accuracy of Economic Observations*. In 2005, moreover, Kevin Brancato wrote a dissertation on *Errors in Macroeconomic Data* that pursued some themes from Morgenstern. Macro theory takes as its object of explanation the data that are reported in various macro series. But if macro variables do not act directly on other macro variables, so-called macro policy would seem to have features of a shell game in that it promotes observations to be placed elsewhere than on what is truly generating the observations. We are thus faced with a situation where the theoretical categories in play do not speak directly to objects of human action, but rather speak to indirect and ideological discourse, which brings us to Pareto’s famous formulation in terms of derivations and residues, where the residues that motivate are constant but the derivations by which people justify their actions jump all over the place.
Readings:


Oskar Morgenstern was a genuine Austrian both in origin and in intellectual orientation, and yet he thought there was significant scope for formalization while also recognizing that formalization could also lead thinkers astray. For a wonderful illustration of Morgenstern in this respect, see his commentary on economic theory as he appraised it from 40 years ago: “Thirteen Critical Points in Contemporary Economic Theory,” *Journal of Economic Literature* 10 (1972): 1163-89.

Richard E. Wagner, “Politics and Macro Variability: Toward Conceptual Reconstruction,” draft paper presented at Public Choice Society, 2010, treats aspects of the misdirection of attention that arises from theoretical frameworks that do not reflect the processes actually at work in a society. I will send this paper to you.

Jürgen Backhaus, “Pareto on Public Choice,” *Public Choice* 33 (1978): 5-17, is a short exposition of Pareto’s fascinating treatment of ideology in society and the work it does. I might note that Pareto turned from economics to sociology because he wanted to understand the limited place that free and open exchange held in society in the face of what he thought were convincing economic-theoretic arguments. One of his major products was his 2000 page opus, *Mind and Society*, originally presented in four volumes and later repackaged as two.

Exploration #4: Money and Credit: Top-Down vs. Bottom-Up Formulations

This unit will explore some leads Joseph Schumpeter set forth in distinguishing between a monetary theory of credit and a credit theory of money, and will relate both of these to the generation and also the evaporation of trust within a society. These matters appear quite differently depending on whether they are explored from the top down or from the bottom up. Where Carl Menger worked with a bottom-up formulation, contemporary theorists mostly embrace a top-down formulation. As does the preceding unit, this unit raises questions concerning what kind of social phenomena might arise if the actual social processes at work that generate our observations diverge from “official” theoretical descriptions of those processes.

Readings:

Richard E. Wagner, *Mind, Society, and Social Order*, Ch. 7. Again, I will send you the manuscript version of this chapter.

Emphasis on knowledge as some scalar quantity is a hallmark of modern growth theory. Questions concerning the use of knowledge have no place in such an analytical framework because such use is assured by the presumption of pre-coordination of activity. To allow room for such questions to breathe requires some network-based framework where knowledge is a vector of qualities. A preliminary exploration along this line is Richard E. Wagner, “Retrogressive Regime Drift within a Theory of Emergent Order,” *Review of Austrian Economics* 19 (2006): 113-23.

Paul De Grauwe, “Top-Down versus Bottom-Up Macroeconomics,” *CESifo Economic Studies* 56: 465-97, makes the significant distinction between top-down and bottom-up approaches, only turns away from approaching some of the ecological implications of the bottom-up approach he otherwise favors.

**Exploration #5: Form vs. Substance in Welfare Economics**

Welfare economics is almost universally presented in formal terms, as captured nicely by such comparative static propositions as equalities between marginal rates of transformation and substitution. One significant problem with such formalistic discourse is its inability to connect with substantive interests that people have in their living together in geographical proximity, for what arises is pretty much just sterile debate about whether something is a public good or an externality. This unit will probe the prospect of a substantive orientation toward the concerns and interests that led initially to the field of discourse now known as welfare economics.

*Readings:*


Richard E. Wagner, *Fiscal Sociology and the Theory of Public Finance*, Ch. 8. I will send you a copy of the manuscript version of this chapter.

Richard E. Wagner, “Economics: Rational Action or Social Science? Marshall vs. Edgeworth in re ‘The Social Question.’” This is a manuscript from summer 2010 that treats these matters but which I haven’t yet been able to revisit.

Richard E. Wagner, “Raising vs. Leveling in the Social Organization of Welfare,” *Review of Law and Economics* 6 (2010), issue 3, article 6. This paper covers some of the material covered in the preceding item, so there is some duplication between the items.