

**Economics 881**  
**Theory of the Market Process II**  
**Spring Semester 2020**  
**Mondays 1630-1910**  
**Buchanan Hall D180**

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This course pursues an alternative orientation toward some of the material you will have studied in your first-year micro and macro classes. Rather than theorizing in terms of states of equilibrium, I theorize in terms of *non-equilibrium processes* of internally generated change. These alternative analytical orientations are not antagonistic; they are non-commensurable. A theorist can employ both orientations, only not simultaneously.

Conventional *equilibrium theory* proceeds axiomatically by positing a set of mutually consistent actions. This type of theory is illustrated nicely by the various proofs of the existence of a competitive equilibrium, by search theory, and by myriad other theoretical models with which you are familiar. All such models seek to explain observed data through the method of *comparative statics*, with this method being “interpreted” as portraying history through its comparison of alternative data observed at  $t_1$  and  $t_2$ .

By contrast, *non-equilibrium theory* takes the interval  $[t_1-t_2]$  as comprising the relevant unit of observation. This difference in analytical orientation brings in its analytical train several differences in the construction of economic theories. For one thing, economic theory entails internally generated change in economic data for which the relevant method is *emergent dynamics* or analytical narratives and not comparative statics. Furthermore, the data relevant for economic theory reside in the plans that people create and pursue, as against being represented in census-like data. Even more, economic action is not synchronized within society, which means in turn that continual turbulence is a feature of any society.

To recur to an image I have used for many years, the challenge facing a process-oriented economic theory is to explain the orderliness of a crowd of pedestrians leaving a stadium after an event. In contrast, orthodox economic theory treats its task as explaining the orderliness of a parade. Among other things, we do not start with census-like data that are to be explained by comparative statics because those data emerge through economic interaction and so are themselves objects for theoretical explanation, and not the starting point for explanation.

Where equilibrium theory inserts exogenous shocks into a situation to generate change, non-equilibrium theory treats change as an ordinary and emergent feature of interaction among economizing agents and their plans. For a process-oriented economic theory, exogenous shocks to a social system are rare, perhaps as illustrated by a meteor strike. What are described as exogenous

shocks within the confines of equilibrium theory are, to the contrary, manifestations of the continual clashing of plans that are a feature of open-ended processes of creative activity.

Equilibrium theory focusses on resource allocations and reduces economics to acts of choice. Non-equilibrium theory focusses on processes of human interaction and their governance, with resource allocations being emergent by-products of those processes. Furthermore, non-equilibrium theory operates through complex ecologies of networks, in contrast to the field-based simplicity that characterizes equilibrium theories. I should also note that I do not regard the two types of theorizing as entailing a choice between right and wrong. To the contrary, I regard them as entailing a distinction between the foreground and the background of the contents of a theorist's mind.

### Course Texts

I have asked the bookstore to order two texts for this course. One is *The Systems View of the World*, by Ervin Laszlo. This book surveys the idea of systems as objects of theoretical inquiry. This course will reflect a systems-theoretic orientation toward economic theory. Laszlo's treatment includes physical, biological, and social systems. I recommend this book for its succinct systems-theoretic orientation and not because I accept all of its formulations.

The other book is my *Mind, Society, and Human Action: Time and Knowledge in a Theory of Social Economy*. This book is mostly a meta-theoretical examination that explores some core ideas in economic theory from an emergent or non-equilibrium rather than a choice-theoretic or equilibrium orientation. This book was composed while I taught 881 a few years ago, and this course seeks to move forward from the formulations presented there.

On some earlier occasions when teaching this course, I used the book edited by Professor Boettke, *Handbook on Contemporary Austrian Economics*. This book contains ten chapters divided into three parts: methodology, micro theory, and macro theory. All of the chapters are written by people who received their degrees from GMU. When I recommended this book on past occasions, I noted that students could judge their scholarly progress by comparing their course papers with the papers presented in that *Handbook*. I still recommend you try to make that comparison, but I have not recommended this book as a text because I am assigning something else in its place.

That something else is the penultimate version of the manuscript of my book, *Macroeconomics as Systems Theory: Transcending the Micro-Macro Dichotomy*. This manuscript is scheduled for publication by Palgrave Macmillan around November 2020. I will send each of you a copy of the penultimate version of the manuscript soon after the course is underway.

## Course Format

The class will meet 14 times starting on 27 January, with there being no class on 9 March due to spring break. The course will follow a 2-10-2 pattern, with the digits referring to the number of sessions. The first two sessions will focus on methodological challenges confronting the treatment of societies as objects of theoretical inquiry, and with the book by Laszlo figuring prominently during these two sessions. The next 10 sessions will cover my manuscript, one chapter per session. These sessions, however, will not be simple presentations of these chapters, but will entail our efforts to push the material with which I am wrestling beyond where I have taken it as reflected in the draft manuscript. The final two sessions will be devoted to your presentations of drafts of the research papers you will write this semester.

I regard advanced graduate courses as venues for exploring new lines of thinking where we are looking for ways to articulate what has not yet been articulated, and not as venues for explaining what is widely regarded as settled knowledge. Like Shakespeare in *Tempest*, I embrace the idea that the past is merely prologue to what lies before us. You need to survey what is currently regarded as settled knowledge but doing this serves only to provide a point of departure for scholarly work. Our primary course objective is to create new text; mastering old text is but a secondary by-product. Hence my classroom approach is one of “joint inquiry” and not “mental transfer.”

While it is important to read widely, I don't supply lengthy reading lists though I will suggest enough material to keep you busy during the semester. I also hope you read other materials and, more significantly, mix those readings with your imaginations to generate new insights that might lead to interesting analytical places. In my judgment, students become too accustomed to read published work with an eye to taking exams. I suggest that you cultivate the practice of reading with an eye that continually looks for new ideas that you can articulate, as against absorbing old ideas that you can recollect. I am not terribly reverential toward the past and the figures who populated that past. While I read a fair number of old books, I do so with a focus on what I can learn that I think has contemporary analytical usefulness.

## My Teaching Philosophy for Advanced Graduate Classes

My approach to higher education is better represented by a model of *joint inquiry* than one of *mental transfer*. While I assign textual material, neither do I go directly over that material in class nor do I test your absorption of that material. I assume that you can read whatever has been written. You don't need me to read it for you, or at least you shouldn't at this point in your student life. The mental

transfer approach presumes a faculty expert who effectively owns the course material, and who transfers it onto the minds of the students. This transfer is attempted through lectures and texts, and the success of that transfer is judged by examinations.

The joint inquiry approach is one where the course substance emerges out of interaction among course participants. My position as instructor is a form of first-among-equals, where I have both the privilege of setting the initial course agenda and the obligation of assigning grades when the course is over. This privilege and obligation aside, I regard a graduate classroom as a setting where each of us is probing our understanding of a subject of mutual interest. A good understanding of the economic literature that has been created to date, which you get by reading, is instrumental in the generation of the new scholarship that I hold as the primary objective of graduate education. What is most significant in this respect, however, is that you think of yourselves as participants in the generation of the economic literature of the future. My classes thus place heavy emphasis on writing and on oral participation, recognizing that class size can supply pragmatic limits. Both in my assignments and in the conduct of my classes, I seek to cultivate an orientation toward the articulation of what has not yet been articulated. The way I conduct my classes is easy to see if you keep this orientation in mind.

Some of you might have seen the television show that until recently was shown on *Bravo* for some 20 years, *Inside the Actors Studio*, hosted by James Lipton. Toward the end of the show, Lipton would ask each guest the same few questions. One of the questions runs something like “what word or sound do you hate.” Another question runs something like “what word or sound do you love.” If I were asked what sound I hate, I would answer the sound of a student asking, “will this be on the exam?” If I were asked what sound I love, I would answer the sound of a student asking, “here’s an idea I find intriguing, what do you think I might be able to do with it?”

## **Course Substance**

I regard *Macroeconomics as Systems Theory* as using ideas from systems theory, complexity theory, agent-based modeling, and related ideas to reorient the traditional Austro-Swedish approach to economic theory, transcending the micro-macro dichotomy in the process. The first two class sessions will probably take on more of a lecture orientation than will the rest of the semester, as I will be setting forth some ideas from systems theory that might be relatively new to some of you.

Starting with 10 February, we will work through my manuscript on a chapter-per-week pace. I have both a secondary and a primary purpose in doing this. The *secondary purpose* is to review what I have accomplished with this manuscript, including exploring ambiguities, defects, or problems of exposition.

*The primary purpose* is to help expand your insights into economic theory, and with economic theory construed as a general theory of society approached through principles of economizing action. Within this orientation, economics becomes the lynchpin for all branches of the humane and social studies, and not merely a treatment of the material aspects of life.

The final two class sessions will be devoted to your presentations of research papers. These will take place on 27 April and 4 May. The length of time you will have for your presentations will depend on the size of the class, as I will divide presentation time evenly among you.

### **Your Work and My Appraisal of it (Grading)**

Each of you will write five thought essays and one research paper. For the thought essays, the class will be divided into green and gold groups. The green group will be responsible for Chapter 1 (February 10), with the groups alternating responsibility through the 20<sup>th</sup> of April. Each of these essays will count for nine percent of your course grade (45 percent of your course grade in the aggregate).

Your essays must be submitted to me electronically by 1900 on the Wednesday after the session devoted to that chapter. I will read your essays and send you my appraisals on that Thursday unless the disruptions of travel slow me down. The purpose of these essays is to help you cultivate the practice of articulating your way through points of uneasiness you encounter in your reading. It is through such articulation that new themes are developed, and the universe of academic discourse changed.

In all of your writing this semester, you should think of me as editing a book titled *Economics as Social Theory: A Systems-theoretic Exposition*. For your thought essays, you might think of me as sponsoring a workshop on this subject and have invited people to submit proposals for me to consider for possible inclusion in the volume. These thought papers should be three pages at most (700 or so words) and which sketch a reasonable vision of a paper you think you can develop. My evaluation will be based on your ability to convince me that you have an idea that points in an analytically fruitful direction.

Your research papers will count for another 45 percent of your course grade. These must be prepared in standard manuscript style (double spaced) and must not exceed 20 pages of text. These are due by 1630 on 11 May, which is the time that is assigned for our final exam, though I will not give a final exam. You must submit your papers electronically. I will send you editorial reports on your papers which explain the basis for my evaluations. (The remaining 10 percent of your course grade will be based on my appraisal of the value of your contributions to classroom discussion.)

I evaluate all your written work by what I judge to be its publishable potential, recognizing that judging that potential is different for three-page essays than for 20-page papers. In either case, 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.)

Please note that 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 the conference will not be rescheduled to accommodate you. So don’t ask for incompletes or turn in late work.

### **Three Quotations to End the Syllabus on an Advisory Note**

For several years I have been appending the following quotations to my syllabi because I think they provide useful orientation and even solace for graduate students.

**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 with which we all have to wrestle in trying to render our intuitive hunches intelligible to others, as well as to ourselves.

**Second**, from Albert Einstein via Roger Koppl comes 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 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 in 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 more on the order of a lifetime project than something to be accomplished during your few short years as students. But you will have a life after you have finished your student days, and Shackle's statement is a lovely summary of an orientation toward economic theory that would allow economics to occupy the pivotal position within the humane studies that I think it should occupy, and with contemporary economics presently precluding occupancy of that position.