

**Economics 881
Theory of the Market Process II
Spring Semester 2021
Mondays 1630-1910
On Zoom**

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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, this course will theorize in terms of *non-equilibrium processes* of internally generated change. This alternative analytical orientation is not antagonistic to equilibrium theorizing. Rather, the two orientations are non-commensurable because they pertain to different universes of discourse. A theorist can employ both orientations over some interval of time, only not simultaneously.

Equilibrium theory proceeds axiomatically by positing a set of mutually consistent actions that satisfies some stipulated conditions. 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, *process 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* 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 theory is to explain the orderliness of a crowd of pedestrians leaving a stadium after an event. In contrast, equilibrium theory treats its task as explaining the orderliness of a parade. For process theories, census-like data cannot be instruments of explanation because these data emerge through human interaction and so are themselves objects for theoretical explanation and are not the starting point for explanation. There is room for measurement, statistics, and econometrics in process theory; however, the data must be relevant for the examination of processes. For a good illustration of this distinction, examine Oskar Morgenstern’s *The Accuracy of Economic Observations*.

Where equilibrium theory inserts exogenous shocks into a situation to generate change, process 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 meteor strikes. 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. Process theory focusses on human interaction and the associated practices of governance, with resource allocations being emergent by-products of those processes. Furthermore, process 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. Very strongly do I believe that systems-theoretic ideas will continue to make inroads into economic theory, eventually dominating economic theory.

The other book is Randall Holcombe's *Advanced Introduction to the Austrian School of Economics*. There may be nothing in this book that remains unfamiliar to you after having taken Professor Coyne's 880 class. In any case, this book is, as its title announces, an advanced introduction to Austrian-style economics.

In mid-December 2020, the Fraser Institute published *The Essential Austrian Economics* by Professors Coyne and Boettke. This book is shorter and covers more topics than the book by Holcombe and is written at an introductory level. This book is also a fine review of some of the central presuppositions of economic theory within the Austrian tradition, though I suspect these are now all familiar to you.

While invariably I adopt some text in conjunction with what I teach, I never teach directly out of those texts. I use those texts to supply background

knowledge. By contrast, the course foreground is always populated by exploratory writing, much of which I will do and some of which you will do. I organize my advanced theory classes around an exploration for new conceptual articulations, and in pursuing this exploration I am willing to assume you have a reasonable familiarity with some of the relevant published literature. My prime objective when we reach the end of the semester is for each of us to be able to say that we have explored some new lines of thought, and with some of those even proving helpful as you move forward in your studies and subsequent careers.

Course Format

The class will meet 14 consecutive Monday afternoons starting on 25 January and ending on 30 April. As you are surely aware, there will be no spring break this year. This 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 distinct from individuals, as objects of theoretical inquiry, and with the book by Laszlo figuring prominently during these two sessions.

The next 10 sessions will entail preliminary explorations into ten topics that I will include in a book I project completing in 2022, and which I have tentatively titled *Power and Trade in a Social Theory of Political Economy*. I would note two things about this title. First, I do not limit economics to trade. In my judgment, power is as much a feature of human societies as is trade, though power can manifest in subtle ways. Second, I refer to a social theory of political economy. To describe something as a social theory is to do something different than reduce a society to a set of trades among maximizing individuals.

For these ten sessions, I will start each session by presenting some line of thought that I anticipate eventually including in the book. After I make my presentation, I will turn the session over to you for Q&A, discussion, and the like. After each period, half of you will have a short writing assignment that will be due by 0500 on the following Thursday which I will describe further later in the syllabus.

I should note that 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 *The 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 your 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 ran something like "what word or sound do you

hate.” Another question ran 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

The past three years teaching 881, I developed the manuscript for *Macroeconomics as Systems Theory: Transcending the Micro-Macro Dichotomy*. This semester I will start developing the manuscript for what I am projecting will be titled *Power and Trade in a Social Theory of Political Economy*. With the 2-10-2 scheme I have announced, I will devote the first two sessions to a form of methodological warmup.

In particular, I would like each of you to read through Oskar Morgenstern’s “Thirteen Critical Points in Contemporary Economic Theory,” *Journal of Economic Literature* 10 (1972): 1163-89. This paper will be the primary text for the first two sessions. I am *not* asking that you master this paper, for I think that some but not all of Morgenstern’s points are significant and worth examination. My main interest in having you read this paper is for you to expose yourself to a restless mind, for I think cultivation of a posture of restlessness is a *sine qua non* for developing a notable scholarly profile.

Starting with 8 February, I will send you sets of pages for ten consecutive weeks which I project will make it into the book in some fashion. There is both a primary and a secondary purpose in my doing this. My *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.

My *secondary purpose* is to illustrate how even the act of theorizing or thinking is not a Crusoe-like activity because we learn much from other people even if we are oblivious to such facts of social life. It is for this reason that I never like to present material I have previously published—those items are now settled in my mind and I want to spend my time fussing with ideas that unsettle me.

The final two class sessions will occur on 23rd and 30th April. There, you will each make presentations of your semester papers, fashioned in the mode of one of Morgenstern’s 13 points. These should range between two and three thousand words. If registration remains where it is now, 12, you will each be able to devote about 20 minutes to your presentations, including discussion. Your final papers will be due on the 3rd of May at 1630, which is the date and time scheduled for the final exam, though this class will not have a final exam.

Your Work and My Appraisal of it (Grading)

Each of you will write five thought essays and one exploratory paper. For the thought essays, I am thinking in the range of 1000 to 1500 words; for the exploratory essay I am thinking in the range of 2000 to 3000 words. For the thought essays, the class will be divided into green and gold groups. The green group will be first responsible for the essay stemming from the class on 8 February and continuing on an every-other-week basis through the class on 5 April. The gold group will be responsible for the essay stemming from the class on 15 February and continuing on an every-other-week basis through 12 April.

Each of these essays will count for ten percent of your course grade. These thought essays will be due by 0500 on the Thursday immediately following the Monday presentation. 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.

Your exploratory essay will be due when the final exam is scheduled, which is Monday the third of May at 1630. This essay will count for 30 percent of your course grade. The final 20 percent of your course grade will be reserved for my evaluations of your contribution to classroom discussions, of which I made notes at the end of each class session. My evaluation of your essays will be based on your ability to convince me that you have an idea that points in an analytically fruitful direction.

I evaluate all your written work by what I judge to be its publishable potential. 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.