

Economics 821/Fall 2016  
Mason Hall D100  
Tuesday 4:30-7:10  
TA: Mr. Ennio Piano

## History of Economic Thought II

Professor Peter Boettke

### **Course Description**

The last time I taught this course the focus was on the evolution of modern price theory from Marshall to Milgrom, with a significant focus on the central contributions made by Mises, Hayek, Kirzner to that evolution.\* The contributions of the “Austrian” economists are often neglected by post WWII economists because they fail to appreciate the pre-WWII contribution to price theory that post-WWII developments such as mechanism design, linear programming, and even econometrics on the one hand, and law-and-economics, public choice, and New Institutional Economics, on the other, were motivated by. That class experience sought to under-earth what was “common knowledge” in price theory training in the period between 1900 and 1950, and then what in that previous “common knowledge” was lost, and then to see what of that “common knowledge” was partially recovered post 1989.\*

As the dates I have highlighted in this narrative might suggest, something significant happened in economic theory, and this class will explore what that significant event was in economic theory that so radically shaped post-WWII microeconomic theory. In this narrative, the critical scientific/scholarly event in question was the socialist calculation debate set in motion by Ludwig von Mises 1920 paper and further elaborated by F. A. Hayek and Lionel Robbins in the 1930s and 1940s. This debate spawned not just the model of market socialism, but entire lines of research in economics from mechanism design theory to linear programming to econometrics. The history of the Cowles Commission (at Chicago and then at Yale), the history of operations research, the history of welfare economics are all connected to this debate, and cannot be appropriately understood unless that context is recognized. Sadly, the vast majority of practicing economists are

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\* See my paper with Rosolino Candela (2015) “Price Theory as Prophylactic,” GMU Working Paper #16-05 ... [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2710201](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2710201) This paper is primarily focused on the evolution of Chicago Price Theory, but directs attention to the contributions of Alchian, Buchanan and Coase – as these figures blend the main ideas as developed in Vienna and Chicago, and emphasize the dynamic adjustments and adaptations guided by the price system, and the institutional framework within which economic activity takes place.

\* On the problem with translation of the Austrian project into the language of modern economics see Boettke and O'Donnell (2013) “The Failed Appropriation of F. A. Hayek by Formalist Economics,” *Critical Review* 25 (3-4): 305-341. On the more general problem of what was lost in translation as intellectual traditions migrate from one scientific/scholarly context to another see Dekker (2016) “Left Luggage: Finding the Relevant Context of Austrian Economics,” *Review of Austrian Economics* 29 (2): 103-119.

unaware of this context, and thus fail to grasp the critical issues at stake. The debate had implications at the level of methodology, analytical methods, and practical political economy and we will hope to draw them out throughout our discussions. The lessons from the debate are still not fully appreciated for the modern practice of economics and political economy as we will explore throughout this class.

One final note, it is fashionable in the history of economic thought community these days to practice scholarship in the field as *history of economics*; a branch of *science studies*. This is in many ways a healthy development, and I appreciate archival research as well as anyone. I also found some of the older style “internalist” history of thought problematic, but while there are benefits, there are also costs. The main cost is lack of connection with actual *economic reasoning*. Moreover, I am personally not persuaded that the most meaningful debate is between “internalist” interpretations and “externalists” interpretations in intellectual history of economic theory, but rather the doing of intellectual history as an input into contemporary theory construction in economics. Context is a necessary aspect, but not a sufficient component in the construction of economic theory that can command attention today. We aren’t trying to recover the past, as much as learn from the past to chart an intellectually productive future. This idea was laid out by Kenneth Boulding in a beautiful essay published in *History of Political Economy* (1971) entitled “After Samuelson, Who Needs Smith?” Boulding’s answer was “we all do” and the reason is that Smith still speaks to us through an “extended present” and those ideas have evolutionary potential. This is the way I have thought about the history of economic ideas ever since I read Boulding’s paper before I even started graduate school (and before I had the good fortune to be his student). Boulding stands in stark contrast to Paul Samuelson and George Stigler, but his position is also different from the currently fashionable science studies approach. If you decided to work in this field, you will have to make a choice about your own approach.\*

## Reading

The literature in the socialist calculation debate is vast. In 2000, I edited a 9 volume reference collection on the up to then literature entitled *Socialism and the Market: The Socialist Calculation Debate Revisited*. Rather than give a wide set of readings, I have decided to ask you to get Don Lavoie’s *Rivalry and Central Planning* (Mercatus Center, 2015) as background reading, and each week we will read 2-3 articles in depth and discuss the details of the argument.

## Semester Schedule

DATE	TOPIC	READING
30-Aug	Introduction & Lessons to Be Learned	Boettke (2000) “Toward a History of The Theory of Socialist Planning.”  Kirzner (1988) “The Economic Calculation Debate: Lessons for Austrians.”

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\* See Boettke, Coyne and Leeson (2014) “Ear(w)hig: I Can’t Hear You Because Your Ideas Are Old,” *Cambridge Journal of Economics* 38 (3): 531-544.

6-Sep	The Marxian Project and Neoclassical Economics	Bohm-Bawerk (1896) Karl Marx and the Close of His System. Wicksteed (1894) An Essay on the Coordination of the Laws of Distribution.
13-Sep	The Planner's Problem	Hayek (1935a) The Nature and History of the Problem. Mises (1920) Economic Calculation in the Socialist Commonwealth. Hayek (1935b) The Present State of the Debate.
20-Sep	The Failure of Central Planning (No class as Prof. Boettke is out of town)	Lavoie (1982) The failure of central planning.  Watch: <a href="https://www.youtube.com/watch?v=ehLq-da3hkQ">https://www.youtube.com/watch?v=ehLq-da3hkQ</a>  Write a short essay relating Lavoie's argument to the neoclassical critique as well as the Mises-Hayek critique. Due 9/27/16
27-Sep	The Model of Market Socialism	Lerner (1934-5) Economic Theory and Socialist Economy. Lerner (1937) Statics and Dynamics in Socialist Economies. Lange (1936-37) On the Economic Theory of Socialism, Part I and Part II
4-Oct	The Market Process Answer	Hayek (1940) Socialist Calculation: The Competitive Solution. Mises (1949) <i>Human Action</i> , 689-715
11-Oct	COLUMBUS DAY Break	
18-Oct	Mechanism Design Theory	Hurwicz (1969) On the concept and possibility of informational decentralization. Hurwicz (1973) The Design of Mechanisms for Resource Allocation.

25-Oct	Optimal Planning	Gardner (1990) L. V. Kantorovich: The Price Implications of Optimal Planning. Bergson (1967) Market Socialism Revisited.
1-Nov	Whither Socialism?	Grossman and Stiglitz (1980) On the impossibility of informationally efficient markets. Sah and Stiglitz (1986) The Architecture of Economic Systems.
8-Nov	Knowledge NOT Information; Guides NOT Surrogates	Lavoie (1986) The Market as a Procedure for Discovery and Conveyance of Inarticulate Knowledge. Lavoie (1990) Computation, Incentives and Discovery.
15-Nov	Problem Solving in a Complex World	Harford (2012) Adapt. Watch: <a href="https://www.youtube.com/watch?v=NO6tdRpSJKU">https://www.youtube.com/watch?v=NO6tdRpSJKU</a> Write a short essay on how, and to what extent, the ideas from the socialist calculation debate are reflected in the discussion of problem solving in a complex world? Due 11/22/16
22-Nov	The Scale and Scope of Government Action	Buchanan (1949) The Pure Theory of Government Finance. Kalt (1981) Public Goods and the Theory of Government.
29-Nov	The Quality of Government (No class as Prof. Boettke is out of town)	Shleifer (2012) The Quality of Government. Watch: <a href="https://www.youtube.com/watch?v=m_MAMUuatw">https://www.youtube.com/watch?v=m_MAMUuatw</a> Write a short essay discussing Shleifer's ideas on the quality of government and public good provision to the theory of government planning. Due 12/6/16

6-Dec	Market Socialism Once More	<p>Bardhan and Roemer (1992) Market Socialism: A Case for Rejuvenation</p> <p>Shleifer and Vishny (1994) The Politics of Market Socialism.</p> <p>Bardhan and Roemer (1994) On the Workability of Market Socialism.</p>
13-Dec	How Do We Understand the Market?	<p>Makowski and Ostroy (2001) Perfect Competition and the Creativity of the Market.</p> <p>Roth (2008) What Have We Learned From Market Design?</p>

## Grading

There is no exam in this class. But you will be asked to write 3 short essays (4-6 double-spaced type pages) and write a research paper dealing with some aspect of the theoretical issues connected to the long history of the socialist calculation debate. The essays will be worth 1/3 of your grade, and your research paper will be worth 2/3 of your grade.

## References

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