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PHD THESIS SUMMARY:
The use of knowledge in comparative economics.

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For most of the twentieth century, comparative economics asked one question: capitalism or socialism? The particulars of the question took many forms, both: positive and normative, from stark contrasts to shaded nuances (e.g., 'the mixed economy'), but the central theme was always planning versus markets. By contrast, the 'new comparative economics' (e.g., Djankov, et al. 2003) draws on diverse sub-disciplines such as law and economics, public choice, and new institutional economics. What makes these comparative exercises 'economics' is their method, not their question.

Contemporary comparative economics, though focused broadly on issues of economic development, is not merely concerned with the proximate causes of the generation of wealth or the production and distribution of goods and services. Rather, it uses rational choice as a constant across institutional contexts to illuminate how different institutions engender different outcomes. Consequently, the capitalism-socialism debate no longer constrains the comparative discussion. Any sort of comparison is fair game: democracy versus dictatorship, common law versus civil law, and even cross-institutional comparisons such as democracy versus markets.

The move to cross-institutional–rational-choice analysis is a large step forward in comparative economics. An insistence on behavioral symmetry—that, absent specified selection mechanisms, the same sorts of agents populate different institutional settings—creates a common grammar in which genuine, non-orthogonal comparisons can be made (as against, for example, comparing neoclassical perfect competition with a Leontieff input-output table). And in contrast with the institutionally antiseptic models of mid-century economics, models by which the profession judged the market socialists as the winners of the economic calculation debate, purely technocratic matters no longer dominate. The importance of property rights, governance, and even culture are now widely recognized. But though the conclusions of the market socialists are no longer in fashion, the new comparative economics has inherited their faulty economic anthropology. It was that faulty model of agency that made the arguments made by Austrian economists Mises and Hayek in the calculation debate fall on deaf ears.

The organizing theme of my dissertation is a simple question: what would the new comparative economics look like if its economic anthropology were more Austrian? Rehashing the calculation debate is not my aim; I take it as given that the Austrians were correct. Rather, I build on the insights gleaned from that debate in order to fill in some of the gaps in the new comparative literature. Doing so requires identifying the unique characteristics of Austrian agents in contrast to market socialist (neoclassical) agents.

Like their neoclassical cousins, Austrian agents confront scarcity and therefore exercise instrumental choice. However, in contrast with traditional rational choice theory, Austrian agents must first subjectively construct (imagine) the opportunity set from which they choose. I identify this condition of ignorance (or non-givenness) of opportunity sets with Frank Knight's concept of uncertainty (Knight 1921). Though Knight is not an Austrian, in the midst of his debate with the market socialists Hayek invokes uncertainty as important to understanding how his opponents were misusing the equilibrium construct (Hayek 1937). Uncertainty, a condition of individual agents, is the microfoundation of (macro-level) Hayekian knowledge problems.

Just as scarcity necessitates choice, uncertainty necessitates imagination. The Austrian literature identifies this additional aspect of agency with entrepreneurship (Kirzner 1982), which is not unique to markets but can take place in any institutional context. This tweak to the standard economic anthropology furnishes the comparative economist with new tools for understanding how institutional contexts differ while keeping behavioral symmetry intact. As shown in figure 1 below, when uncertainty is added to scarcity as a problem facing purposive agents, institutions must not only align incentives to settle disputes over interpersonal resource and rent allocation, but also must generate knowledge to coordinate the potentially divergent expectations of multitudinous agents.

The first essay argues that, as pure rational choice explanations are applied to different social spheres, the possibility of inefficiency—unrealized gains from trade—is progressively excised from economic analysis. The only dollar bills that will not be picked up are those that are not perceived. Inefficiency presupposes Hayekian knowledge problems. Comparing how and how well institutions generate knowledge of potential gains from trade allows for substantive cross-institutional analysis not predicated on universal efficiency or institutional convergence.

Figure 1: The Microfoundations of Comparative Economics

Praxeological Condition		Economic Anthropology		Social Dilemma		Institutional Function
Scarcity	→	Choice	→	Allocation	→	Incentive Alignment
Uncertainty	→	Imagination	→	Coordination	→	Knowledge Generation

The second essay engages in just such a comparative analysis in terms of the environmental feedback that agents receive in evaluating the conjectures on which their actions are based. I argue that in tight feedback environments, agents' mental models converge to perfect substitutes, while in loose feedback environments mental models matter more. Ancient Greeks who believed in fire *daemons* responded much the same way to getting burned as do modern, thermodynamically savvy physicists, but ancient healers—operating in a looser feedback environment with particular mental models—acted very differently from contemporary doctors. I then argue that, in terms of the interpersonal coordination of plans that constitutes social order, markets as an institutional environment offer tighter feedback than democratic polities. Markets enable economic calculation to coordinate activity. Democracy relies on speech acts that communicate intersubjectively valid criteria for evaluating proposals. Ideas about the nature of social order will thus be of significantly greater causal import in the operation of democratic politics than in the operation of markets. Errors made by market actors, like those made by children touching hot stoves, are self-correcting. Democratic error correction, by contrast, requires bringing better ideas to bear.

The final essay is more methodological than theoretical, addressing the relationship between Austrian economics and the critical realist project. The argument explores what I dub the "Austrian Paradox": the peculiar fact that Austrian analysis is rational choice theoretic and yet embraces emergence, open-ended processes, and other salient features of heterodox social ontology. The addition of uncertainty to rational choice allows Austrians to capture the most persuasive elements of mainstream and heterodox economics. Uncertainty serves as the microfoundation for the panoply of heterodox concerns, while a strict Misesian commitment to rational choice is necessary for critical realism's own ontology of social structures (including institutions) to make any sense.

This dissertation is one part of a larger, long-term project applying Knightian uncertainty to modern political economy. Uncertainty as a tool of analysis has traditionally been limited to the study of markets, firms, and entrepreneurship narrowly defined. The purpose of the project is to ask what modern economics would look like if uncertainty were injected into the study of law and economics, public choice, economic development, and institutional economics. My hope is that uncertainty as I have defined it—open opportunity sets—will be a good candidate for introducing traditionally heterodox and Austrian concerns into mainstream analysis since it does not ask economists to abandon rational choice theory.

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