

The Role of the State in Global Historical Perspective

HIS 281

ECO 281

PSC 289

IR 289

AAS 281

Spring 2018

Instructor: Joseph E. Inikori (Professor)

Morey Hall, Room 501, Tuesday 2.00-4.40 pm

Office Hours: Wednesday, 3.00-5.00 pm, RRL Room 437

I Course Scope and Focus

The debate on the role of the state versus that of the free market in the socioeconomic process is as old as the history of political economy. Adam Smith is the best known early thinker whose writings became the main focus of the early debate. Alexander Hamilton and Friedrich List were among contributors to the issues raised by Smith. Major shifts in the debate occurred amidst the devastating impact of the Great Depression and World War II, giving rise to what one writer characterized as “The Clash that Defined Modern Economics” — the clash between John Maynard Keynes and Friedrich von Hayek. More recently, the role of the state has become a major political issue among politicians across the globe. This junior seminar attempts to introduce students to this debate. The goal is not to resolve the issues involved in the debate, but rather to build up the conceptual and empirical knowledge needed to be informed participants in this all-important debate.

Selected quotes from the major texts on the subject may give us a general idea of the complex issues debated. Writing in 1776, Adam Smith stated in *The Wealth of Nations* that

every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand [the invisible hand of the free market] to promote an end which was no part of his intention. . . . By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those affected to trade for the public good.¹

¹ Adam Smith, *The Wealth of Nations*, reprinted in George T. Crane and Abba Amawi (eds.), *The Theoretical Evolution of International Political Economy: A Reader* (Oxford: Oxford University Press, 1991), pp. 66-67.

In the 1920s, as Nicholas Wapshott narrates,

Keynes particularly for the unemployed . Hayek believed it was futile for governments to interfere with forces that were, in their own way, as immutable as natural forces. Keynes rejected adherence to the free market as an inappropriate application of Darwinism [the survival of the fittest principle] to economic activities and argued that a better understanding of the workings of an economy would allow responsible governments to make decisions that could iron out the worst effects of the bottom of the business cycle. Hayek eventually came to the conclusion that knowledge about how exactly an economy worked was difficult if not impossible to discover and that attempts to form economic policy based on such evidence were, like a barber practicing primitive surgery, likely to do more harm than good.²

The idea of the “Washington consensus” was added to the debate in the 1990s. Thus, Narcis Serra, Shari Spiegel, and Joseph E. Stiglitz declared in their 2008 edited volume:³

The point of departure in this book is the Washington Consensus — the set of views about effective development strategies that have come to be associated with the Washington-based institutions: the IMF [International Monetary Fund], the World Bank, and the US Treasury. . . . According to Williamson [John Williamson]. “Vj g'Y cij kpi vq'Eqpugpuw'u'y cu'c '000t gur qpug'v'c 'rgcf kpi 't qrg'iqt ” the state in initiating industrialization and import substitution. The Washington Consensus said that this era was over. . . . In the countries that followed Washington Consensus policies, economic growth was limited at best, and disproportionately benefited those at the top. In Latin America, for example, . . . growth under the Washington Consensus was half of what it had been from the 1950s through the 1970s when the region followed other economic policies, such as import substitution. Even in countries where Washington Consensus policies appear to promote growth, such growth was often not accompanied by significant reductions in poverty. Meanwhile, the countries of East Asia followed a quite different set of policies, and had enormous successes. For instance, governments played an important role in promoting particular industries. In some cases, i qxgt po gpv'gpvgt r t kugu'w'ej 'c'u'Mqt gc'au'pc'w'qpcr'lw'ggr'e'qo rcp' +d'geco g'i'iqd'crt' leaders in efficiency. To be sure, governments in the region did maintain macro stability, but they were slow to liberalize trade, and some countries, such as China, still have not fully liberalized capital markets. In short, both theory and evidence weigh heavily against what has come to be called Washington Consensus policies.

² Nicholas Wapshott, *Keynes, Hayek: The clash that defined modern economics* (New York, London: W. W. Norton, 2011), pp. 43-44.

³ Narcis Serra, Shari Spiegel, and Joseph E. Stiglitz, “Introduction: From the Washington Consensus Towards a New Global Governance,” in Narcis Serra and Joseph E. Stiglitz (eds.), *The Washington Consensus*

2008, the Chinese bullet train covers 115 kilometers, or 72 miles, in a mere twenty-

Co gt k c  u'dgw'f c {u'ct g'dgj kpf 'k'cpf 'Ej kpc  u'dgw'f c {u'are ahead of it, have become the subject of watercooler, dinner-party, grocery-line, and classroom conversationu'cet quu'Co gt k c 'qf c {  [pp. 3-5].⁷

These quotes hit the nail on the head — they hit the central issue in the debate: Given that the existence of the market is a necessary condition for national economies to perform at a high level, how large should the role of the state be for the economy to grow and serve the needs of all citizens? What weight do we attach to the role of the state in explaining the performance of national economies over time? How do we explain the differences in

the ongoing state-market debate, it is not as extensive as it appears. Only those aspects of the development process relevant to the role of the state in the selected countries or regions

(B) **Required textbooks to be placed on print reserve**

1. Thomas L. Friedman and Michael Mandelbaum, *That Used to be Us: How America Fell Behind in the World It Invented and How We Can Come Back* (New York: Farrar, Straus and Giroux, 2011).
2. Ian Inkster, *Science and Technology in History: An Approach to Industrial Development* (New Brunswick, NJ: Rutgers University Press, 1991).
3. George T. Crane and Abla Amawi (eds.), *The Theoretical Evolution of International Political Economy: A Reader* (Oxford: Oxford University Press, 1991).
4. Jacques Hersh, *The USA and the Rise of East Asia since 1945* (London, New York: Macmillan, St. Martin's Press, 1993).
5. Joseph E. Inikori, *Africans and the Industrial Revolution in England: A Study in International Trade and Economic Development* (Cambridge: Cambridge University Press, 2002).
6. Paul De Grauwe, *The Limits of the Market: The Pendulum between Government and Market* (Oxford: Oxford University Press, 2014).

Electronic Reserve for Required Readings

1. Patrick K. O'Brien, "Mercantilism and Imperialism in the Rise and Decline of the Dutch and British Economies, 1585-1815," *De Economist* 148, No. 4 (2000), pp. 471-501.
2. Ian Inkster, *Science and Technology in History: An Approach to Industrial Development* (New Brunswick, NJ: Rutgers University Press, 1991), pp. 184-247.
3. Crane and Amawi (eds.), *The Theoretical Evolution of International Political Economy*, pp. 37-54, 65-71.
4. Jacques Hersh, *The USA and the Rise of East Asia since 1945* (London, New York: Macmillan, St. Martin's Press, 1993), pp. 39-73.
5. Joseph E. Inikori, *Africans and the Industrial Revolution in England: A Study in International Trade and Economic Development* (Cambridge: Cambridge University Press, 2002), pp. 89-155.

Required Reading: Wapshott, *Keynes, Hayek: The clash that defined modern economics*.

5 **February 20, 2018:**

The British Industrial Revolution and the State-Market Debate

Main questions for the discussion: **i)** How important was the role of the state in the British Industrial Revolution? **ii)** Would you agree that the British Industrial Revolution confirms the importance of the market in long-run economic development? **iii)** Would you agree that the British Industrial Revolution was the first successful case of cooperation between the state and the market?

Required Reading: Joseph E. Inikori, *Africans and the Industrial Revolution in England: A Study in International Trade and Economic Development* (Cambridge: Cambridge University Press, 2002), pp. 89-155.

6 **February 27, 2018:**

Presentation and Discussion of 4-page Essays: Students should write their 4-page (typed and double-spaced) essays on **any one** of the following questions (half of the essays will be presented and discussed on February 27, 2018 and the other half on March 6, 2018):

- i)** *In what ways does the historical evidence on the British Industrial Revolution support the argument of the proponents of free markets and minimal government?*
- ii)** *To what extent does the role of the state explain why it was England, and not the Netherlands, that launched the Industrial Revolution?*

7 **March 6, 2018:**

Presentation and Discussion of 4-page Essays Continue

Readings for the Essays:

- i)** Inikori, *Africans and the Industrial Revolution in England*, pp. 89-155;
- ii)** P

state in Japan's economic development from the mid-nineteenth century to World War I contribute to our understanding of the issues in the state-market debate?

Required Reading:

Ian Inkster, *Science and Technology in History: An Approach to Industrial Development* (New Brunswick, NJ: Rutgers University Press, 1991), pp. 184-247.

12 April 17, 2018:

Presentation and Discussion of 4-page Essays: Students should write their 4-page (typed and double-spaced) essays on **any one** of the following questions (half of the essays will be presented and discussed on April 17, 2018, and the other half on April 24, 2018):

- i) *Using China, India, and Japan as case studies, show how the*

- 3 Paul Krugman, *The Return of Depression Economics and the Crisis of 2008* (New York: W. W. Norton, 2009).
- 4 Vito Tanzi, *Government versus Markets: The Changing Role of the State* (Cambridge: Cambridge University Press, 2011).
- 5 Jamee K. Moudud, *Strategic Competition, Dynamics, and the Role of the State* (Cheltenham, UK, Northampton, MA, USA: Edward Elgar, 2010).
- 6 Richard Murphy,