

The Role of the State in Global Historical Perspective

HIS 281

ECO 281

PSC 289

IR 289

AAS 281

Spring 2019

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 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 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

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] . . . the role for 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,

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*

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

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 will be of concern to us in the readings. Where necessary, the professor will provide the basic facts. The interpretation of those facts and their employment to develop arguments in the state-market debate will be left largely to the students, with some guidance by the professor.

II Course Requirements

The weekly meetings in the course outline are centered on specific aspects of the course, each of which has a set of questions to guide the reading and the discussion. Students are advised to pay close attention to these questions in their readings and preparation for each meeting. There are three sets of four-page essay questions (two questions each). As stated in the course outline, students have to choose one of the two questions in each of the three sets. Readings for the essays are listed in each case. The question chosen will determine which readings to select. Students are expected to be resourceful and discover relevant texts or sources of information, beyond those listed, in their preparation for the weekly meetings and for the production of the four-page essays. As shown in the course outline, the essays will be formally presented and discussed in class. Students are expected to revise their essays following the class discussion and submit them the class. Students are

- 5 Paul De Grauwe, *The Limits of the Market: The Pendulum between Government and Market* (Oxford: Oxford University Press, 2014).

(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, 1973).
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 Dutch and British Economies, 1585-1688. *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, 1973).
- 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.

IV Course Outline

1 **January 22, 2019:**

Discussion of course preparation for and participation in class discussion. The main material for this introductory class is the course outline containing some details about the course. These details should be studied closely before the class.

2 **January 29, 2019:**

The Washington Consensus, the Beijing Consensus, and the political debate on the role of the state versus that of the free market. Among other things, the discussion focuses on what is meant by the Washington Consensus and the Beijing Consensus, and a brief history of the debate, including the role played by President Ronald Reagan of the United States and Prime Minister Margaret Thatcher of the United Kingdom.

Main questions for the discussion: i) What are the essential differences between the Washington consensus and the Beijing consensus? ii) What would you consider the long-lasting contributions of President Reagan and Prime Minister Thatcher to the state-market political debate? iii) From what we know so far, where does the Trump presidency stand in terms of the state-market debate?

Required Readings: Serra and Stiglitz (eds.), *The Washington Consensus Reconsidered*, pp. 3-30; adered

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

5 February 19, 2019:

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 26, 2019:

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 26, 2019 and the other half on March 5, 2019):

- 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?*

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in Latin America between 1850 and 2000? **iii)** To what extent does the differing role of the state explain the differing levels of development of the economies of Latin America and the United States between 1800 and 1900?

Required Reading:

- i) Price Fishback, et al, *Government and the American Economy: A New History* (Chicago: University of Chicago Press, 2007), pp. 157-187, 338-349, 385-421, 557-568.
- ii) Prepared for the Class by Joseph E. Inikori).
- iii) Erik S. Reinert, *How Rich Countries got Rich and Why Poor Countries Stay Poor* (New York: PublicAffairs, 2008), pp. vii-ix, xvi-xxix.

9 March 26, 2019:

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 March 26, 2019, and the other half on April 2, 2019):

- i) *In what ways does the path of socioeconomic development in the United States from the late eighteenth century to the present contribute to our understanding of the issues in the state-market debate?*
- ii) *In what ways does the path of socioeconomic development in Latin America from 1850 to 2000 contribute to our understanding of the issues in the state-market debate?*

10 April 2, 2019:

Presentation and Discussion of 4-page Essays Continue

Readings for the Essays:

- i) Price Fishback, et al, *Government and the American Economy: A New History* (Chicago: University of Chicago Press, 2007), pp. 157-187, 338-349, 385-421, 557-568.
- ii) Prepared for the Class by Joseph E. Inikori).
- iii) Erik S. Reinert, *How Rich Countries got Rich and Why Poor Countries Stay Poor* (New York: PublicAffairs, 2008), pp. vii-ix, xvi-xxix.
- iv) Other readings found by students.

11 April 9, 2019:

Socioeconomic development in Asia (China, India, Japan), 1850-2000 and the state-market debate.

Main questions for the discussion: **i)** What can we learn about the role of the state from the effect of quasi colonial rule on economic development in China in the nineteenth century? **ii)** What can we learn about the role of the state from the effect of British colonial rule on economic development in India? **iii)** What does the role of the

from agriculture to manufacturing; at the appropriate moment the free market will move resources to manufacturing.

Friedrich List: Late industrializers need state intervention to catch up with the leading nations, after which universal free trade can be established under a universal republic (a world federal government constituted by all nations of the world, making laws that govern all nations).

John Maynard Keynes and Economic Downturn: The state must act responsibly to minimize the adverse effects and get the economy back on its feet.

Friedrich von Hayek: The free market should be allowed to run its course without state interference during an economic downturn.

2. The empirical evidence from our historical investigation:

The State and the Market in the Industrial Revolution in Great Britain:

Taxes, public capital formation, national debt, and the size of government in industrializing Britain; the state and import substitution; the state and the growth of overseas markets for British entrepreneurs through imperialism of protection (1650-1850) and imperialism of free trade (1850-1950).

The State and the Market in the United States Industrialization: 1790-1860; 1870-1914; 1930-1970; 1970 to the present.

The State and the Market in Latin America Industrialization: 1850-1912; 1930-1980; 1990-2000; 2002 to the present.

_____ : 1800-1900; 1949-1970; 1970 to the present.

_____ : 1857-1947; 1950-1980; 1990 to the present.

The State and the Market in _____ : 1868-1914; 1950-1970; 1970 to the present.

3. The implication of the empirical evidence from our historical investigation for the state-market debate: To be discussed in the context of Paul De Grauwe, *The Limits of the Market: The Pendulum Between Government and Market* (Oxford: Oxford University Press, 2017).
4. As stated in the course outline, this course is an introduction to the all-important debate on the role of the state and that of the unfettered free market in socioeconomic development. I hope the issues discussed and the way they were discussed have been worth your time and effort. I thank you all for your effort and perseverance.

Recommended Further Readings Placed on Print Reserve

- 1 Erik S. Reinert, *How Rich Countries got Rich and Why Poor Countries Stay Poor* (New York: PublicAffairs, 2008).

- 2 Bill Clinton, *Back to Work: Why We need Smart Government for a Strong Economy* (New York: Alfred A. Knopf, 2011).
- 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, *The Courageous State: Rethinking Economics, Society and the Role of Government* (London: Searching Finance, 2011).
- 7 Pedro-Pablo Kuczynski and John Williamson (eds.), *After the Washington Consensus: Restarting Growth and Reform in Latin America* (Washington, DC: Institute for International Economics, 2003).
- 8 Jomo K. S. and Ben Fine (eds.), *The New Development Economics: After the Washington Consensus* (London, New York: Zed Books, 2006).
- 9 Shahid Javed Burki & Guillermo E. Perry, *Beyond the Washington Consensus: Institutions Matter* (Washington, DC: World Bank, 1998).
- 10 Alex Callinicos, *The Revenge of History: Marxism and the East European Revolutions* (University Park, PA: Pennsylvania State University Press, 1991).
- 11 Tony Cliff, *State Capitalism in Russia* (London, 1988).
- 12 Victor Bulmer-Thomas, *The Economic History of Latin America Since Independence* (3rd ed., Cambridge: Cambridge University Press, 2014).
- 13 Patrice M. Franko, *The Puzzle of Latin American Economic Development* (3rd. edition, New York: Rowman & Littlefield, 2007).
- 14 Alice H. Amsden, *Through Heaven and Hell* (Cambridge, Massachusetts: MIT Press, 2007).