

In the 1920s, as Nicholas Wapshott narrates,

*Keynes believed it was a govern hat it could to make life easier, 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 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, government enterprises (ional steel company) became global 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 Reconsidered: Towards a New Global Governance* (Oxford, New York: Oxford University Press, 2008), pp. 3-4.

become the subject of watercooler, dinner-party, grocery-line, and classroom conversation [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 role of the state between one country and another over time? How does the inter-play between economics and politics (*political economy*) feature in the explanation? How important are the differing historical experiences that created the differing economic and political conditions that influence the size and role of the state over time? Why have major economic and political thinkers differed on the issue of the role of the state versus that of the market in the socioeconomic process? Why has the role of the state versus that of the market become a burning issue among politicians across the globe (particularly in the United States) since the 1980s? These and related questions constitute the central focus of the course.

For purposes of clarity at the onset, some elements of the foregoing questions need a brief elaboration. One such element pertains to notable economic and political thinkers. Historians of ideas generally agree that to understand why particular thinkers thought and wrote the way they did we must examine their life experiences, the prevailing socio-political conditions under which they thought and wrote, and the dominant intellectual traditions that shaped their intellectual development. The other element concerns policy debate and choices among politicians. On this, the role of vested interests and their relative bargaining power is crucial. In a democracy (*government of the people, by the people, and for the people*), this creates a potential conflict between what should be done (the theoretically ideal policy) and what can be done, something that Adam Smith recognized. The historical process, which created over time different interest groups with differing relative bargaining power at a given moment in different countries, is, therefore, pertinent to our understanding of the issues debated.

Because the course focuses on major issues of our time, students are encouraged to think freely and debate the issues among themselves in and outside the classroom. There are no right and wrong arguments. Emphasis is on the amount of relevant information gathered

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

- 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 Abba 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).
7. Abhijit V. Banerjee & Esther Duflo, *Good Economics for Hard Times* (New York: Public Affairs, 2019).

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.

IV Course Outline

1 **February 2, 2021:**

Discussion of course focus, scope, and requirements, including specifics on students' 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 **February 9, 2021:**

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

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11 April 13, 2021:

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 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 20, 2021:

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 20, 2021, and the other half on April 27, 2021):

- i)** *Using China, India, and Japan as case studies, show how the consequences of colonization and semi-colonization help us understand the issues in the state-market debate.*
- ii)** *In what ways does a comparative study of economic growth in China and the United States since the 1970s help us understand the issues in the state-market debate?*

13 April 27, 2021:

Presentation and Discussion of 4-page Essays Continue

Readings for the Essays:

- i)** 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), pp. 3-49.
- ii)** Halper, *The Beijing Consensus*, pp. ix-x, 1-73.
- iii)** Ian Inkster, *Science and Technology in History: An Approach to Industrial Development* (New Brunswick, NJ: Rutgers University Press, 1991), pp. 184-247.
- iv)** Other readings found by students.

14 May 4, 2021:

Concluding discussion of the state-market debate:

1. Summary statement of the positions of our selected notable thinkers on the state-market debate:

Adam Smith – the pursuit of self-interest and the invisible hand of the free market.

Alexander Hamilton and his opponents – comparative advantage in manufacturing is historically created with the help of the state in the early stages;

response of his opponents: agriculture is the most productive sector of the economy; the state should not artificially force the movement of resources 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 the age of imperialism.

