

The Role of the State in Global Historical Perspective

HIS 281

ECO 281

PSC 289

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AAS 281

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 (. . . tional 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

In his carefully considered response in defense of the Washington Consensus, John Williamson says,

I think one must concede that some of the East Asian countries, notably Korea and Taiwan, were far from pursuing laissez-faire during their years of catch-up growth, but this does not prove that their rapid growth was attributable to their departure from liberal policies, as critics of the Washington Consensus seem to assume axiomatically. There were, after all, two other East Asian economies that grew with comparable rapidity, in which the state played a much smaller role. Indeed, one of those namely, Hong Kong was the closest to a model of laissez-faire that the world has ever seen.⁴

Stefan Halper brings forcefully into the debate the case of China. In his book, *The Beijing Will Dominate the Twenty-First Century*,⁵ he says the book

explodes the myth that a market economy leads inevitably to democratic government [p. ix].

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 fr Cto tnd wi1 0 0 1 amoment in different countries

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: Routledge, 2005).
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. R. C. Michels, 'The Decline of the Dutch and British Economies, 1585-3: 37-54', *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: Routledge, 2005), pp. 73-83.

- 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 18, 2022:

Discussion of course focus, scope, and requirements, including 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 25, 2022:

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

Main questions for the discussion: i) Under what historical circumstances did they formulate their ideas? ii) What are the main differences between their ideas? iii) What impact did their ideas have on state policy worldwide?

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

5 **February 15, 2022:**

The British Industrial Revolution and the State-Market Debate: I n w E

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 Free 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 University Press, 2002) TJTF3 12 Tf1 00 7 (Cambrid

March 5-13, 2022: Spring Break

8 **March 15, 2022:**

Differing Development Paths of the Economies of Latin America and the United States, 1850-2000.

Main questions for the discussion: i) How important was the role of the state in the economic development of the United States from the late eighteenth century to 1900? ii) What difference did the changing role of the state make to economic development 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) ðVj g'Ucvg."j g'O ctngv."cpf 'Geqqo le'F gxgr o gpv'kp'Ncv'Co gtlecö"*Vgzv" 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 22, 2022:**

Presentation and Discussion of 4-page Essays: Students should write their 4-

11 April 12, 2022:

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 from the 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 19, 2022:

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 19, 2022, and the other half on April 26, 2022):

- 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 26, 2022:

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 3, 2022:

Concluding discussion of the state-market debate:

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

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, *Escape from Empire: Through Heaven and Hell* (Cambridge, Massachusetts: MIT Press, 2007).