

Course Outline and Readings
For
The Role of Government in Modern Economy

By Ha-Joon Chang

The course covers a range of theoretical and empirical issues relating to the role of the state in modern economy, especially that relates to economic development. There will be 31 hours of teaching, divided up into 6 modules of varying sizes (3-10 hours).

Module 1: Historical Background (5 hours)

This module will provide the historical background, both in terms of the history of economic policy and in terms of the history of economic thought, to the course. It will first review the historical experience of the developed countries during their early days of development (say, between the beginning of the industrial revolution and the First World War) and reject the widely-held perception that most of these countries developed on the basis of free-market, free-trade policies. It will then examine the changes in the theories and the practices of state intervention, both in the developed countries and in the developing countries during the 20th century – the period during which we saw the rise of interventionist theories (during the interwar period), the rise of state interventionism (following the Second World War), the rise of neo-liberalism (since the 1980s), and the recent rise of criticisms against neo-liberalism.

Readings

*Chang, H-J., Kicking Away the Ladder, forthcoming (2002), Anthem Press, especially chapters 1 & 2.

- *Chang, H-J. & Rowthorn, B., Introduction (chapter 1) in H-J. Chang & B. Rowthorn (eds.), The Role of the State in Economic Change, 1995, Oxford University Press.
- Deane, P., The State and the Economic System, 1989, Oxford University Press, especially chs. 7-8
- Glyn, A., Hughes, A., Lipietz, A. & Singh, A., The Rise and Fall of the Golden Age in S. Marglin & J. Schor (eds.), The Rise and Fall of the Golden Age, 1990, Oxford University Press.
- Hirschman, A., Rival Views of Market Society, Journal of Economic Literature, 1982, no. 4
- *Polanyi, K., The Great Transformation, originally published in 1944, various subsequent editions
- Reinert, E., Competitiveness and Its Predecessors – A 500-year Cross-national Perspective, Structural Change and Economic Dynamics, 1995, vol. 6
- *Sachs, J. & Warner, A., Economic Reform and the Process of Globalisation, Brookings Papers on Economic Activity, 1995, no. 1
- Toye, J., Dilemmas of Development, 1987, Blackwell, especially chs. 2-4
- Weiss, L. & Hobson, J., State and Economic Development, 1995, Polity Press.

Module 2: Theories of the State (5 hours)

This module reviews the main theories of the state, and provides an alternative theory of state intervention that overcomes the limitations of the existing theories. First of all, the main existing theories of state intervention – Welfare Economics, Neoclassical Political Economy, Marxist theories of the state, the Libertarian-Austrian theories – are examined. It is argued that these theories, in different ways, fail to properly model the inter-relationship between the market, the state, and other institutions. Based on the criticisms of these existing theories, a new theory of state intervention, which we call the Institutional Political Economy

Readings

Buchanan, J., Liberty, Market and State, 1986, Wheatsheaf Books (Libertarian theory of the state)

Caporaso, J. & Levine, D., Theories of Political Economy, year, Cambridge University Press

*Chang, H-J., The Political Economy of Industrial Policy, 1994, Macmillan Press, chapters, 1 & 2

*Chang, H-J. Breaking the Mould – An Institutionalist Alternative to Neo-Liberal Theory of the Market and the State, Cambridge Journal of Economics, forthcoming (2002)

Cullis, J. & Jones, P., Microeconomics and the Public Economy: A Defence of Leviathan, year and publisher

*Evans, P., Embedded Autonomy - States and Industrial Transformation, 1995, Princeton University Press, especially chs. 1-3

Hayek, F., The Fatal Conceit, 1988, Routledge (Austrian theory of the state)

Jessop, B., The Capitalist State, 1982, publisher (Marxist state theories)

Stiglitz, J. The Rebel Within – Joseph Stiglitz and the World Bank, edited with a commentary by H-J. Chang, 2001, Anthem Press, chapter 3

Module 3: The Role of the State in East Asian Economic Development (5 hours)

This module looks at the debates surrounding the role of the state in East Asian economic development, which has been variously interpreted as the example of free-market policy, market-friendly intervention, or state-led development. It first examines the debate surrounding the East Asian “miracle” and then looks at the more recent debates following the 1997 financial crises in the region. A comparative perspective is emphasised so that useful lessons can be drawn for other countries that wish to learn from the East Asian success.

Readings

East Asian Miracle

Akyuz, Y., Chang, H-J. & Kozul-Wright, R., New Perspectives on East Asian East Asian Development, Journal of Development Studies, vol. 34, no. 6, August, 1998 (other articles in the same issue are also very useful)

Amsden, A., Asia's Next Giant, 1989, Oxford University Press, especially chs. 1-6

*Chang, H-J., The Political Economy of Industrial Policy in Korea, Cambridge Journal of Economics, 1993, no. 2

- *Evans, P., Embedded Autonomy, 1995, Princeton University Press, chs. 1-3
- Felipe, J., Total Factor Productivity Growth in East Asia: A Critical Survey, Journal of Development Studies, 1999
- *Krugman, P., The Myth of East Asian Miracle, Foreign Affairs, Nov./Dec. 1994
- Rodrik, R., King Kong Meets Godzilla, CEPR Discussion Paper, no. 944
- Stiglitz, J. Some Lessons from the East Asian Miracle, The World Bank Research Observer, vol. 11, no. 2 (August 1996)
- Toye, J., Dilemmas of Development, 1987, Blackwell, chs. 4 & 5
- Wade, R., Governing the Market, 1990, Princeton University Press, especially chs. 1-3 and 10-11
- *World Bank, The East Asian Miracle: Economic Growth and Public Policy, 1993, Oxford University Press

East Asian Crisis

- Cambridge Journal of Economics, vol. 22, no. 6, 1998 (a special issue on the Asian crisis)
- *Chang, H-J., The Hazard of Moral Hazard – Untangling the Asian Crisis, World Development, 2000, April
- Furman, J. & Stiglitz, J., Economic Crises: Evidence and Insights from East Asia, Brookings Paper on Economic Activity, 1998, no. 2
- Radelet, S. & Sachs, J. The East Asian Financial Crisis: Diagnosis, Remedies and Prospects, Brookings Paper on Economic Activity, 1998, no. 1
- *Stiglitz, J. The Rebel Within – Joseph Stiglitz and the World Bank, edited with a commentary by H-J. Chang, 2001, Anthem Press, chapters 1 & 5

Module 4: Industrial, Trade, and Technology Policy Issues (10 hours)

This module looks at a number of key issues regarding trade, industrial, and technology policies. The issues that are examined include trade policy, industrial policy, intellectual property rights (and TRIPS agreement in the WTO), privatisation, and de-regulation. First, mainstream arguments are critically examined both in terms of theoretical foundations and empirical evidence. And then alternative policy proposals are made, drawing on various heterodox theoretical traditions and a more critical reading of the empirical evidence.

Readings

Trade Policy

Evans, D., Visible and Invisible Hands in Trade Policy Reform in C. Colclough & J. Manor (eds.), States or Markets?, 1990, Oxford University Press.

*Helleiner, G., Trade Strategy in medium-term Adjustment, World Development, 1990, no. 6

*Krueger, A., Trade Policy as an Input to Development, American Economic Review, 1980, Papers and Proceedings; also discussion by Diaz-Alejandro

Rodriguez, F. & Rodrik, D., Trade Policy and Economic Growth – A Sceptic’s Guide to the Cross-National Evidence, NBER Working Paper, no. 7081 (1999)

Smith, S. & Teye, J., Three Stories about Trade and Poor Economies, Journal of Development Studies, 1979, no. 3.

Industrial Policy

Amsden, A. & Singh, A., The Optimal Degree of Competition and Dynamic Efficiency in Japan and Korea, European Economic Review, 1994, vol. 38, nos. ¾.

*Chang, H-J. The Political Economy of Industrial Policy, 1994, Macmillan Press, ch. 3 (for theoretical backgrounds)

*Chang, H-J. Industrial Policy and East Asia – The Miracle, the Crisis, and the Future, a paper presented at a World Bank conference on “Rethinking East Asian Miracle”, February, 1999 (second draft, May 1999)

Intellectual Property Rights and TRIPS

*Chang, H-J., Intellectual Property Rights and Economic Development – Historical Lessons and Emerging Issues, Journal of Human Development, July 2001, vol. 2, no. 2.

Machlup, F. & Penrose, E., The Patent Controversy in the Nineteenth Century, Journal of Economic History, 150, vol. 10, no. 1.

UNDP, Human Development Report, 1999 and 2001.

Privatisation

- *Chang, H-J. & Singh, A., Public Enterprises in Developing Countries and Economic Efficiency, UNCTAD Review, 1993, no. 4
- Cook, P. & Kirkpatrick, C. (eds.), Privatisation in Less Developed Countries, 1988, Harvester Wheatsheaf, the chapters by Cook & Kirkpatrick and by Millward
- Vickers, J. & Yarrow, G., Privatisation: An Economic Analysis, 1988, The MIT Press
- *World Bank, Bureaucrats in Business, 1995, Oxford University Press, chapter 1 (see the critical review by H-J. Chang & A. Singh, Can Large Firms be run without being Bureaucratic?, Journal of International Development, 1997, no. 6)

Deregulation

- Banuri, T. (ed.), Economic Liberalisation, 1991, Oxford University Press, especially see the chapters by Singh & Hughes, Taylor, and Fishlow
- *Chang, H-J., The Economics and Politics of Regulation - A Critical Survey, Cambridge Journal of Economics, 1997, November
- *World Bank, World Development Report, 1987, Part II (esp. chs. 3-7)
- World Bank, World Development Report, 1991

Module 5: Globalisation and the Changing Role of the State (3 hours)

This module examines the proposition that globalisation has made it impossible for national governments to pursue policies that deviate from the “norm” of Neo-Liberal policies. First of all, the current state and the historical origin of globalisation are critically examined. Then two key questions are examined. The first is the proposition that the increasing importance of transnational corporations has made it impossible for national governments to pursue independent industrial policy. The second is the proposition that the establishment of the WTO has made it impossible for national governments to pursue independent trade policy.

Readings

Globalisation

- Bairoch, P. & Kozul-Wright, R., Globalisation Myths: Some Historical Reflections on Integration, Industrialisation and Growth in the World Economy, UNCTAD Discussion Paper, no. 113

Berger, S. & Dore, R. (eds.), National Diversity and Global Capitalism, 1996, Cornell University Press

*Evans, P., “The Eclipse of the State? Reflections on Stateness in an Era of Globalization” World Politics, 1997, vol. 50, no. 1, draft version available at <http://sociology.berkeley.edu/faculty/evans/index.html>

*Hirst, P. & Thompson, G., Globalisation in Question, 2nd edition, **year**, Polity Press

*Sachs, J. & Warner, A., Economic Reform and the Process of Globalisation, Brookings Papers on Economic Activity, 1995, no. 1

UNCTAD, Trade and Development Report, 1997, Part II

Weiss, L., The Myth of the Powerless State, 1998, Polity Press

Transnational Corporations

*Chang, H-J., “Globalisation, Transnational Corporations, and Economic Development” in D. Baker, G. Epstein & R. Pollin (eds.), Globalisation and Progressive Economic Policy, 1998, Cambridge University Press

Evans, P., Class, State, and Dependence in East Asia: Lessons for Latin Americanists in F. Deyo (ed.), The Political Economy of the New Asian Industrialism, 1987, Cornell University Press

*Helleiner, G., Transnational Corporations and Direct Foreign Investment in H. Chenery & T.N. Srinivasan (eds.), Handbook of Development Economics, vol. 2, 1993 (**check the year**), Elsevier Publisher

*Julius, D., International Direct Investment: Strengthening the Policy Regime in G. Kenen (ed.), Managing the World Economy, **year and publisher**

Kozul-Wright, R., “Transnational Corporations and the Nation State” in J. Michie & J. Grieve Smith (eds.), Managing the Global Economy, **year**, Oxford University Press

UNCTAD, World Investment Report, various years since 1993

WTO

*Akyuz, Y., Chang, H-J. & Kozul-Wright, R. 1998. New Perspectives on East Asian Development, Journal of Development Studies, vol. 34, no. 6

Amsden, A., Industrialisation under New WTO Law, a paper for the UNCTAD X meeting, 12-19 February, 2000, Bangkok (you can find this from UNCTAD X website, <http://www.unctad-10.org> and look under “High Level Roundtable”)

- *Blackhurst, R., The WTO and the Global Economy, World Economy, 1997
- Evans, P., Economic Governance Institutions in a Global Political Economy, a paper for the UNCTAD X meeting, 12-19 February, 2000, Bangkok (you can find this from UNCTAD X website, <http://www.unctad-10.org> and look under “High Level Roundtable”)
- Jackson, J. The World Trade Organisation (the legal and the organisational details)
- *Khor, M., Globalization and the South: some critical issues, UNCTAD Discussion Paper, no. 147, downloadable at www.unctad.org/en/pub/dplist2000.htm
- Martin, W. & Winters, A. (eds.), “The Uruguay Round and the Developing Economies”, World Bank Discussion Paper, no. 307
- *Toye, J., **details needed**

Module 6: Concluding Session (3 hours)

This module concludes the course and provides an opportunity to the students to engage in in-depth discussions on particular issues that they want to explore further.