

FREE MARKET IN CRISIS

I-DEV/IR GT&H/EUROPEAN STUDIES 700.732

SPRING 2011 ▪ THURSDAYS 2:15PM – 4:15PM ▪ ROME 202

Professor Mitchell A. Orenstein

Office Location: Rome 523

Phone: 202-663-5798 (office); 202-415-4066 (cell)

Email: morenstein@jhu.edu

Office Hours: W and Th 10:20am-12:20pm and by appointment

COURSE OVERVIEW

Some believe that the depression of 2008-10 marks the end of an era of free-market or “neoliberal” economic ideology worldwide. Whether or not free market idealism recovers, major changes are afoot in the world economic system, including the rise of state capitalism in the developing world, reform of the international financial institutions, and re-regulation of policy areas deregulated over the past 30 years. This course analyzes the international political economy of neoliberal policy reform from the perspective of different regions of the world, including those that most thoroughly embraced its tenets and those that most squarely opposed them or developed alternative paradigms of economic policy. The course emphasizes the role of power and perception in economic development and how the world is being reshaped to reflect new realities.

COURSE REQUIREMENTS

Attendance and Class Participation 40%

Students are expected to attend class, complete the readings each week, and contribute actively to class discussions. Active participation is 20% of grade; attendance is 20%.

Written Assignments 40%

Students are required to submit a 1-2 page reaction paper every other week and one 10-20 page research paper analyzing the impact of the global financial crisis on a particular governmental, non-profit, or business organization and making recommendations on how they should respond.

Reaction Papers 10%. Reaction papers provide a summary of main points and propose questions for discussion. Reaction papers should be distributed to the instructor and other students by email at least one day before class to allow for feedback and discussion.

Research Paper 30%. Research papers are expected to be 10-20 pages in length. Topics must be approved by the instructor and papers submitted initially and revised on time.

Final Exam 20%

The final exam is a short answer exam that evaluates knowledge of the course readings.

THE RISE OF FREE MARKET ECONOMICS

[1] JANUARY 27 ▪ A THEORY OF ECONOMIC DEVELOPMENT POLICY

Questions for Discussion:

Why do countries adopt and/or change economic policy paradigms?

What is the role of power and perception in these choices?

Do countries make economic policy decisions based on economic best practice or theory?

To what extent do countries emulate others in their policy choices? Why and how?

Assignments:

Prepare recommended readings and distribute reaction papers.

Recommended Readings:

Mitchell A. Orenstein, "Three Models of Contemporary Capitalism," in Birdsall and Fukuyama, New Ideas on Development after the Financial Crisis, JHU Press, 2011.

Dani Rodrick, One Economics, Many Recipes: Globalization, Institutions, and Economic Growth, Princeton University Press, 2007.

Peter Hall, "Policy Paradigms, Social Learning, and the State," Comparative Politics, 1993.

Kurt Weyland, "Theories of Policy Diffusion: Lessons from Latin American Pension Reform," World Politics, 2005.

[2] FEBRUARY 3 ▪ FROM EMBEDDED TO FREE MARKET LIBERALISM

Questions for Discussion:

What is free market or "neoliberal" ideology?

What were the political and economic conditions for its rise?

What were its greatest successes and failures?

In what ways has it set the stage for new thinking in development policy?

Assignments:

Prepare recommended readings and distribute reaction papers.

Required Readings:

David Harvey, A Brief History of Neoliberalism, Oxford University Press, 2004.

Recommended Reading:

Paul Krugman, Peddling Prosperity, Norton, 1994.

Naomi Klein, The Shock Doctrine: The Rise of Disaster Capitalism, Henry Holt Publishing, 2007.

John Ruggie, International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order, International Organization 36, 1982, 379-415.

Andrew Gamble, "Privatization, Thatcherism, and the British State," Journal of Law and Society 16:1, 1988, 1-20

Buiter and Miller, "Changing the Rules: Economic Consequences of the Thatcher Regime," Brookings Papers on Economic Activity 2, 1983, 305-79.

Paul Pierson, The New Politics of the Welfare State, World Politics 48:2, 1996, 143-79.

YouTube Video:

David Harvey Interview 2010 (BBC):

<http://www.youtube.com/watch?v=YtyZY9sKv2w&feature=related>

[3] FEBRUARY 10 ▪ THE WASHINGTON CONSENSUS AND ITS CRITICS

Questions for Discussion:

What is or was the Washington consensus?

What were its problems in the eyes of its critics?

To what extent have these criticisms proven accurate?

How did thinking about the Washington consensus evolve over time?

Assignments:

Prepare readings and distribute reaction papers.

Required Readings:

John Williamson, "What Washington Means by Policy Reform" in John Williamson, ed. Latin American Adjustment: How Much Has Happened? Washington, DC: Institute for International Economics, 2002.

John Williamson, "The Strange History of the Washington Consensus," Journal of Post Keynesian Economics, Armonk, Winter 2004/2005, Volume 27, Issue. 2.

Joseph Stiglitz, "Moving towards the Post-Washington Consensus," 1999.
<https://inef.uni-due.de/PolitikOn/Stiglitz.pdf>

Moises Naim, "Fads and Fashion in Economic Reforms: Washington Consensus or Washington Confusion?" Foreign Policy Magazine, October 26, 1999

Charles Gore, "The Rise and Fall of the Washington Consensus," World Development 28:5, 2000, pp. 789-804.

Recommended Readings:

Anne O. Krueger, The Political Economy of Policy Reform in Developing Countries, MIT Press, 1993.

FREE MARKET POLICIES AROUND THE WORLD

[4] FEBRUARY 17 ▪ LATIN AMERICA: NEOLIBERALISM AND BEYOND

Questions for Discussion:

Why did Latin America embrace neoliberalism?

What impact did neoliberal policies have on Latin American countries?

What are the different left reactions and when did they take shape?

Assignments:

Prepare readings and distribute reaction papers.

Required Readings:

Evelyn Huber, Fred Solt, "Successes and Failures of Neoliberalism," Latin American Research Review 39:3, 2004, 150-164.

Marion Fourcade-Gourinchas and Sarah L. Babb, "The Rebirth of the Liberal Creed: Paths to Neoliberalism in Four Countries," The American Journal of Sociology 108:3, 2002, 533-79.

Kenneth M. Roberts, "Neoliberalism and the Transformation of Populism in Latin America: The Peruvian Case," World Politics 48, 1995.

Jeffrey M. Chwieroth, "Shrinking the State: Neoliberal Economists and Social Spending in Latin America," in Abdelal, Blyth, and Parsons, eds., Constructing the International Economy, Cornell University Press, 2010.

Matt Cleary, "Explaining the Left's Resurgence," Journal of Democracy 17 (4) (2006) pp.35-49.

Recommended Readings:

Kurt Weyland, The Politics of Market Reform in Fragile Democracies: Argentina, Brazil, Peru, and Venezuela, Princeton University Press, 2002, chs. 1-3.

Kurt Weyland, "Neoliberalism and Democracy in Latin America: A Mixed Record," Latin American Politics and Society 46:1, 2004, 135-57.

Susan Stokes, Mandates and Democracy: Neoliberalism by Surprise in Latin America, Cambridge University Press, 2001.

[5] FEBRUARY 24 ▪ FREE MARKET REFORM AFTER COMMUNISM

Questions for Discussion:

How was free market policy reform pursued in the postcommunist countries?

What were the results?

Why is reform often perceived to have succeeded in Poland and failed in Russia?

Assignments:

Prepare readings and distribute reaction papers.

Required Readings:

Jeffrey Sachs and David Lipton, Poland's Economic Reform, Summer 1990, Foreign Affairs.

Johanna Bockman and Gil Eyal, "Eastern Europe as a Laboratory for Economic Knowledge: The Transnational Roots of Neoliberalism," American Journal of Sociology 108:2, 2002, 310-52.

M. Steven Fish, "The Determinants of Economic Reform in the Post-Communist World," East European Politics and Societies, Vol 12 No 1, 1998, pp.31-78.

Mitchell Orenstein, "What Happened in East European (Political) Economies?," East European Politics and Societies 23:4, 2009.

Magazine Articles:

Economist Article: Jeffrey Sachs, "What is to be Done?," January 13 1990, pp. 19-24.

Economist Article: "Will more of Eastern Europe adopt the flat tax regime?," January 18 2008.

Recommended Readings:

Olivier Blanchard, The Economics of Post Communist Transition, Oxford University Press, 1998.

Dorothee Bohle and Bela Greskovits, "Neoliberalism, Embedded Neoliberalism and Neocorporatism: Paths towards Transnational Capitalism in Central and Eastern Europe," West European Politics, 2007.

Juliet Johnson, "Russia's Emerging Financial-Industrial Groups," Post-Soviet Affairs, 1997.

Mitchell Orenstein, Out of the Red: Building Capitalism and Democracy in Postcommunist Europe, University of Michigan Press, 2001.

Gil Eyal, Ivan Szelenyi and E. Townsley, eds, Making Capitalism without Capitalists: The New Ruling Class in Eastern Europe, London, Verso, 1998.

Anders Aslund, Russia's Capitalist Revolution: Why Market Reform Succeeded and Democracy Failed, Peterson Institute for International Economics, 2007.

[6] MARCH 3 ▪ CLASS CANCELLED

[7] MARCH 10 ▪ THE EAST ASIAN MIRACLE

Questions for Discussion:

Why has growth been higher in East Asia than in any other region of the world in the past decades?

To what extent can the East Asian Miracle owe to free market economic policies? State intervention?

What did the World Bank say about this? To what extent did politics play a role in these conclusions?

How has this debate progressed over the years?

What was the impact of the Asian financial crisis on these debates?

Assignments:

Prepare readings and distribute reaction papers.

Required Readings:

Robert Wade, "Japan, The World Bank, and the Art of Paradigm maintenance: The East Asian Miracle in Political Perspective," New Left Review, 1996.

World Bank, The East Asian Miracle: Economic Growth and Public Policy, 2003.

Dani Rodrik, "King Kong Meets Godzilla: The World Bank and the East Asian Miracle," CEPR Discussion Papers, 1994.

Fukuyama and Marwah, "Dimensions of Development," Journal of Development 11:4, 2000.

Joseph E. Stiglitz, "Some Lessons from the East Asian Miracle," The World Bank Research Observer 11:2, 1996, 151-77.

Steven Radelett and Jeffrey Sachs, "The East Asian Financial Crisis," Brookings Papers on Economic Activity, 1998.

Recommended Readings:

Paul Blustein, The Chastening: Inside the Crisis That Rocked the Global Financial System and Humbled the IMF, Public Affairs, 2001, 2003.

Stiglitz and Yusuf, eds., Rethinking the East Asian Miracle, The World Bank, 2000.

Stephan Haggard, The Political Economy of the Asian Financial Crisis, Institute for International Economics, 2000, particularly "Introduction."

Robert Wade, "East Asia's Economic Success: Conflicting Perspectives, Partial Insights, Shaky Evidence," World Politics 44:2, 1992, 270-320.

Paul Krugman, "The Myth of Asia's Miracle," Foreign Affairs, November/December 1994.

[8] MARCH 17 ▪ THE COLLAPSE AT THE CORE

Questions for Discussion:

What were the causes of the 2008-09 financial crisis?

What legacies has it left for the US and UK economies?

Has the crisis forced changes to the neoliberal economic model?

Assignments:

Prepare readings and distribute reaction papers.

Required Readings:

Simon Johnson, "The Quiet Coup," *The Atlantic*, May 2009.
<http://www.theatlantic.com/doc/200905/imf-advice>

Richard Posner, *The Crisis of Capitalist Democracy*, University of Chicago Press, 2010, chs. 1-6.

The Financial Times, "The Future of Capitalism," Feature includes multiple articles and videos.
<http://www.ft.com/indepth/capitalism-future>

Recommended Readings:

Michael Lewis, *The Big Short: Inside the Doomsday Machine*, Norton, 2010.

George Soros, Judy Woodruff, "The Financial Crisis: An Interview with George Soros," *New York Review of Books* 55:8, May 15, 2008.
<http://www.nybooks.com/articles/21352>

Simon Johnson, "The Words on the Street." http://www.washingtonpost.com/wp-dyn/content/article/2009/12/23/AR2009122301670_2.html?hpid=opinionsbox1

[8] MARCH 24 ▪ SPRING BREAK

THE RISE OF STATE CAPITALISM

[9] MARCH 31 ▪ THE RISE OF STATE CAPITALISM

Questions for Discussion:

What is state capitalism?

What are the main varieties of capitalism in the world today and how does state capitalism compare?

Assignments:

Prepare readings and distribute reaction papers. PAPER DRAFTS DUE.

Required Readings:

Ian Bremmer, *The End of the Free Market*, Portfolio, 2010, chs. 1-3.

Ian Bremmer, "State Capitalism Comes of Age," *Foreign Affairs*, May/June 2009.

Peter Hall and David A. Soskice, "An Introduction to Varieties of Capitalism," *Varieties of Capitalism*, Oxford University Press, 2001.

Slavoj Zizek, "China's Valley of Tears: Authoritarian State Capitalism the Future?," *In These Times*,
http://www.inthesetimes.com/article/3425/chinas_valley_of_tears/

Newspaper Articles:

Financial Times: Martin Wolf, "The brave new world of state capitalism," October 16 2007.

Financial Times: Jeffrey Garten, "The unsettling zeitgeist of state capitalism," January 14 2008.

Recommended Readings:

Financial Times: In-Depth Feature, "State Capitalism," <http://www.ft.com/indepth/statecapitalism>

Vivien Schmidt, "Putting the Political Back into Political Economy by Bringing the State Back in Yet Again," *World Politics*, 2009.

[10] APRIL 7 ▪ FORMS OF STATE CAPITALISM

Questions for Discussion:

To what extent do the economic models adopted in China, Dubai, Singapore, and other states reflect neoliberal policy?

In what ways do they diverge?

Are these models of capitalism more or less robust?

Does they constitute a new paradigm for social and economic policy?

Assignments:

Prepare recommended readings and distribute reaction papers.

Required Readings:

Ian Bremmer, *The End of the Free Market*, ch. 4.

David Harvey, *A Brief History of Neoliberalism*, ch. 5 ("Neoliberalism 'with Chinese characteristics'"), Oxford University Press, 2005.

Mike Davis, "Fear and Money in Dubai," *New Left Review* 41, September/October 2006.

C. Davidson, "Abu Dhabi and Dubai: Contrasting Roles in the International System," *Asian Affairs* 38:1, 2007.

Anders Aslund, "Russia's Economic Transformation under Putin," *Eurasian Geography and Economics* 45:6, 2004.

Harley Balzer, "The Putin Thesis and Russian Energy Policy," *Post-Soviet Affairs* 21:3, 2005.

Magazine and Newspaper Articles:

Financial Times: Joshua Ramo, "China has Discovered Its Own Economic Consensus," May 7 2004.

The Financial Times: Francesco Guerrera, "On Asia: China's different idea of capitalism," July 02, 2004.

The Financial Times: Martin Wolf, "Asia's giants take different routes," February 22 2005.

Financial Times: Jeffrey Garten, "We need rules for sovereign funds," August 6 2008.

Francis Fukuyama, "US democracy has little to teach China," January 17, 2011.

<http://www.ft.com/cms/s/0/cb6af6e8-2272-11e0-b6a2-00144feab49a.html#axzz1Bb3100MO>

Recommended Readings:

Gurcharan Das, "The India Model", *Foreign Affairs*, July/Aug. 2006, Vol. 85.

Alan Richards and John Waterbury, *A political economy of the Middle East*, Boulder, Colorado, Westview Press, 3rd edition 2007 Chapters 3, 7-9.

Vedi Hadiz and Richard Robison, "Neo-liberal Reforms and Illiberal Consolidations: The Indonesian Paradox," *Journal of Development Studies* 41:2, 2005, 220-41.

Steffen Hertog "New Corporatism in Saudi Arabia" in Khalaf and Luciani eds., *Constitutional Reform and Political Participation in the Gulf*, GRC Dubai 2006.

Michael Ross "Does Oil Hinder Democracy?", *World Politics*, Vol. 53, No. 3, April 2001, pp. 325-361.

B. Naughton, *The Chinese Economy: Transitions and Growth*, MIT Press, 2007.

Kumiko Okazaki, "Banking System Reform in China. The Challenge of Moving Toward a Market-Oriented Economy," Rand Corporation 2007.

[11] APRIL 14 ▪ INFLUENCE OF STATE CAPITALISM

Questions for Discussion:

Which countries follow or are likely to follow the state capitalist model?

Are China's foreign economic policies in Africa a serious threat to the Washington consensus?

In what ways do they differ? Will they be successful?

Will state capitalism work better to promote development? What are its strengths and weaknesses?

Assignments:

Prepare readings and distribute reaction papers.

Required Readings:

Barry Sautman and Yan Hairong, "Friends and Interests: China's Distinctive Links with Africa," *African Studies Review*, 50, no 3. (2007) pp.75 – 114.

Chris Alden, "China in Africa," *Survival* 2005, 47 (3), pp.147–64.

Harry G. Broadman, "China and India Go to Africa: New Deals in the Developing World," *Foreign Affairs*, March/April 2008.

Which Way is History Marching: Debating the Authoritarian Revival, *Foreign Affairs*, July/August 2009.

Online Resources:

Deborah Brautigam, "Is Chinese Investment Good for Africa?," Council on Foreign Relations, 2007, Online debate: http://www.cfr.org/publication/12622/is_chinese_investment_good_for_africa.html

Financial Times, In-Depth, "China in Africa," <http://www.ft.com/indepth/africachina>

Financial Times, In-Depth, "China Shapes the World," <http://www.ft.com/indepth/china-shapes-the-world>

Recommended Readings:

Chris Alden, and Martyn Davies, "A Profile of the Operations of Chinese Multinationals in Africa" South African Journal of International Affairs 13 (1) 2005, pp83–96.

Harry Broadman, Africa's Silk Road: China and India's New Economic Frontier. Washington, D.C. World Bank, (2006).

Joshua Eisenman, and Joshua Kurlantzick, "China's Africa Strategy," Current History 105 (691), (2006), pp.219–24.

Phillip Liu, "Cross-Strait Scramble for Africa: A Hidden Agenda in China-Africa Cooperation Forum," Harvard Asia Quarterly, Spring, 2001, pp. 39–45.

Joseph Nye, "The Rise of China's Soft Power," Wall Street Journal Asia, December 29, 2005.

Joshua C. Ramo The Beijing Consensus: Notes on the New Physics of Chinese Power, London: Foreign Policy Centre, 2005.

Denis Tull "China's Engagement in Africa: Scope, Significance and Consequence," Journal of Modern African Studies 44 (3), 2006, pp.59–79.

FUTURE OF THE FREE MARKET MODEL

[13] APRIL 28 ▪ REFORM OF THE INTERNATIONAL FINANCIAL SYSTEM

Questions for Discussion:

Has the global financial crisis led to serious reform of the international financial system?

What are the main proposals for reform? Are they different than those proposed before the crisis?

What reforms are likely to happen in the years ahead?

Assignments:

Prepare recommended readings and distribute reaction papers.

Required Readings:

G-20 Ministers Agree 'Historic' Reforms in IMF Governance,
<http://www.imf.org/external/pubs/ft/survey/so/2010/new102310a.htm>

Cooper and Heleiner, "Advances in Global Economic Governance," Social Europe,
<http://www.social-europe.eu/2011/01/advances-in-global-economic-governance-amid-the-obstacles-at-the-seoul-g20-summit/>

Randall D. Germain, "Global Financial Governance and the Problem of Inclusion," Global Governance 7, 2001.

Ngairé Woods, "Making the IMF and the World Bank More Accountable," International Affairs (Royal Institute of International Affairs 1944), Vol. 77, No. 1 (January 2001), pp. 83-100.

Moisés Naím, "A Talk with Michel Camdessus about God, Globalization, and His Years Running the IMF," Foreign Policy, No. 120 (September - October 2000), pp. 32-45.

Kenneth Rogoff, "International Institutions for Reducing Global Financial Instability," Journal of Economic Perspectives 13:4, 1999, 21-42.

Martin Feldstein, "Refocusing the IMF," Foreign Affairs, 1998.

Recommended Readings:

IMF, Reforming the International Financial System Website, multiple papers and resources, <http://www.imf.org/external/NP/EXR/key/quotav.htm>

Allan H. Melzer, "Report of the International Financial Institution Advisory Committee," USG Printing Office, 2000.

Ngaire Woods, The Globalizers: The IMF, World Banks and Their Borrowers. Ithaca, N.Y. Cornell University Press, 2006

Film: The International Monetary Fund financial cure or catastrophe? Princeton, NJ : Films for the Humanities & Sciences, 1999.

Magazine and Newspaper Articles:

Financial Times: Jeffrey Sachs, "The IMF is a Power unto itself," December, 11 1997.

Financial Times: Jeffrey Sachs, "How the fund can regain and sustain global legitimacy," April 20, 2006.

Economist Article: "The IMF downsizes: It's Mostly Firing," February 7 2008

Economist Article: "The World Bank - That empty-nest feeling," September 6th 2007.

Economist Article: "The International Monetary Fund Fait accompli," July 12 2007.

NY Times Opinion, "First, Reform the IMF," April 24, 2009, <http://www.nytimes.com/2009/04/25/opinion/25iht-edweisbrot.html>

Johannes Linn, "Reform the IMF and the World Bank," March 30, 2009, <http://blogs.reuters.com/great-debate/2009/03/30/reform-the-imf-and-world-bank/>

[14] APRIL 29 ▪ CHALLENGES AND IMPLICATIONS FOR THE LIBERAL PROJECT

Questions for Discussion:

Will neoliberalism survive the crisis of 2008-09?

Does it face a moral crisis? Or a practical one?

Will the leading neoliberal countries continue in a neoliberal direction?

Will other countries follow their lead or diverge?

Assignments:

Prepare recommended readings and distribute reaction papers.

Required Readings:

Ian Bremmer, The End of the Free Market, chs. 5-6.

Richard Posner, The Crisis of Capitalist Democracy, chs. 7-12.

Remarks of Paul A. Volcker at a Luncheon of The Economic Club of New York, April 8, 2008.

Simon Johnson, "Paul Volcker Picks up a Bat," Baseline Scenario Blog Posting,
<http://baselinescenario.com/2009/12/17/paul-volcker-picks-up-a-bat/>

Newspaper Articles:

Ronnie Chan, "The West's Preaching to the East Must Stop," The Financial Times, January 3, 2010.

Financial Times: Martin Wolf, "The end of lightly regulated finance has come far closer," September 16 2008.

The Financial Times: Philip Stephen, "The financial earthquake has shaken global politics," October 2 2008.

The Financial Times: Bertrand Benoit, "US will lose financial superpower status", September 25 2008.

Financial Times: John Thornhill, "The World must look to Europe as capitalisms clash," July 24 2008

Financial Times: "Brown says his warnings were ignored," September 22 2008.

Financial Times: Lionel Barber, Bertrand Benoit and Hugh Williamson "March to the middle: Merkel celebrates Germany's social market model," June 10 2008.

Recommended Readings:

John Thornhill, "Europe's market misgivings reach monstrous proportions," FT, May 16 2008.

Fareed Zakaria, "The Rise of Illiberal Democracy", Foreign Affairs, Vol 76 No 6, 1997, pp.22-43.

Dominique Moisi, "Trends and Trendiness at Davos" <http://www.project-syndicate.org/commentary/moisi26>

IMF Global Financial Stability Report, most recent edition, Executive Summary.
<http://www.imf.org/External/Pubs/FT/GFSR/2009/02/index.htm>

Stephen Haseler, Detlev Albers and Meyer Henning, "Social Europe: a continent's answer to market fundamentalism," European Research Forum at London Metropolitan University.

Andre Sapir, "Globalization and the Reform of European Social Models," JCMS Université Libre de Bruxelles (ECARES) and Bruegel

[14] MAY 5 ▪ FINAL PAPERS DUE

[14] TBD ▪ FINAL EXAM