

CSS 220 (01): Economic Thought in Practice in the 20th Century

John P. Bonin Fall 2021 Friday: 2:00 p.m. - 4:00 p.m.

Course Information

Description

The tutorial considers the interplay between economic thought and economic policy in the twentieth century. Capitalism and market ideology have become ubiquitous in the latter half of the century. We examine the origins of this phenomenon in works by earlier thinkers, namely, the Austrian economist and Nobel Prize in Economics recipient, Friedrich Hayek, the American economist, Milton Friedman, and the Hungarian economist, Janos Kornai. The Great Depression from 1929 to the beginning of the Second World War led the British economist, John Maynard Keynes, to argue for an active role of government in promoting employment and stimulating the economy. We explore the relationship between markets and government by considering the contrasting view of Keynes and Friedman. The New York Times editorial columnist specializing in economics, Binyamin Appelbaum, provides an overview of the controversy. The American economist, Heather Boushey, currently a member of the President Biden's Council of Economic Advisors, adds insights into the role played by the government in mitigating economic cycles.

The tutorial continues the discussion of economic policy with a focus on inequality. First, we consider the interplay of money, finance and politics in stabilization policy. Work by Boushey and the French economist, Thomas Philippon, is supplemented with the viewpoints of Friedman and Kornai. Next, we turn to a discussion of labor's diminishing share of national income in the U.S., by considering the differing perspectives of Boushey, Friedman and Philippon. We supplement this with a policy pamphlet by the American scholars, Joseph R. Blasi, a sociologist, and the economists Richard B. Freeman and Douglas L. Kruse in which they advocate for a fair citizen's share of national output. As a segue to the next topic, we consider work by the American economists Gregory Dow and Louis Putterman that provides an explanation of why capital usually hires labor. An analysis of corporate power and the rationale for regulation based on contributions from several of the aforementioned authors concludes this section.

The tutorial moves on to a comprehensive discussion of inequality both within a nation state and globally across nations based on work by the Serbian-American economist, Branko Milanovic. Milton Friedman provides a somewhat contrary perspective. Following this, we analyze globalization from the perspectives of the American economist and Nobel Prize laureate, Joseph Stiglitz, and the Indian-American economist, Jagdish Bhagwati. Appelbaum provides an overview of the pros and cons of globalization. The tutorial concludes by considering the future of capitalism as an economic system. We introduce a new voice into the discussion, the American economist and former U.S. Secretary of Labor, Robert Reich, supplemented with a comprehensive work by Milanovic. We include conclusive comments from many of the authors we have been reading throughout the tutorial yielding a collection of proposals for a more equitable and humane form of capitalism for this final forum.

Required Texts (available for purchase at R.J. Julia on Main Street)

Binyamin Appelbaum, The Economists' Hour: False Prophets, Free Markets, and the Fracture of Society, Little, Brown and Company (New York, NY) 2019 ISBN: 978-0-316-51232-9
LCCN:2019933753

Jagdish Bhagwati, In Defense of Globalization, Oxford University Press (New York, NY) 2007
ISBN-13: 978-0-226-73479-8 (pbk.)

Joseph R. Blasi, Richard B. Freeman and Douglas L. Kruse, The Citizen's Share: Reducing Inequality in the 21st Century, Yale University Press (New Haven CT) 2014 ISBN: 978-0-300-20933-4 (pbk.)

Heather Boushey, Unbound: How Inequality Constricts Our Economy and What We Can Do About It, Harvard University Press (Cambridge MA) 2019 ISBN: 9780674919310

Milton Friedman, Capitalism and Freedom, The University of Chicago Press (Chicago IL) 2020
ISBN: 978-0-300-20933-4 (pbk.)

Janos Kornai, The Road to a Free Economy: Shifting from a Socialist System – the Example of Hungary, W.W. Norton & Company (New York NY) 1990 ISBN: 0-393-30691-7 (pbk)

Branko Milanovic, The Haves and the Have-nots, Basic Books (New York, NY) 2011 ISBN:
978-0-465-01974-8 (pbk.)

Branko Milanovic, Global Inequality: A New Approach for the Age of Globalization, The Belknap Press of Harvard University Press (Cambridge MA) 2016 ISBN: 9780674984035 (pbk.)
LCCN: 2015043601

Branko Milanovic, Capitalism, Alone: The Future of the System that Rules the World, The Belknap Press of Harvard University Press (Cambridge MA) 2019 ISBN: 978-0-674-98759-3

Thomas Philippon, The Great Reversal: How America Gave Up on Free Markets, The Belknap Press of Harvard University Press (Cambridge MA) 2019 ISBN: 9780674237544 LCCN:
2019018624

Robert B. Reich, Saving Capitalism: For the Many not the Few, Vintage Books (New York, NY) 2016 ISBN: 978-0-345-80622-2 (pbk.)

Joseph E. Stiglitz, Globalization and its Discontents Revisited: Anti-Globalization in the Era of Trump, W.W. Norton and Company (New York, NY) 2018 ISBN: 978-0-393-35516-1 (pbk.)

Recommended Readings (not required to purchase – see below)

F.A. Hayek, The Road to Serfdom: Text and Documents – The Definitive Edition, (ed. Bruce Caldwell) The University of Chicago Press (Chicago IL) 2007 ISBN: 978-0-226-32055-7 (pbk.)

John Maynard Keynes, The General Theory of Employment, Interest, and Money, Harcourt, Brace & World, Inc. (New York, NY) 1964

Other Readings

Readings from sources other than the above list of required texts will be provided on Moodle.

Writing Assignments: The Tutorial Paper

A four-to-six-page tutorial paper is expected each week based on the assigned readings. The topics for the eight weeks are listed below. Please pay attention to the following specifications when preparing a tutorial paper.

- The paper should begin with an introductory paragraph that frames the topic and concludes with the particular **theme** that you will develop.
- The paper should be written in the **your own voice** so that verbatim quotes from the readings should be avoided.
- When stating a viewpoint or argument from the readings, **paraphrasing** is appropriate.
- Any **citation** to the readings should be **minimal** with the author's name and a page number if relevant in parentheses, e.g., (Friedman, p. 23).
- **No full citations** to any of the readings and **no bibliography** should be included. The reader is already familiar with the assigned material on which the paper is based.

Tutorial papers are to be submitted in Word format as an email attachment to the tutor before the tutorial discussions begin.

Topics

- Week #1: Markets, Capitalism and Freedom
- Week #2: Markets, Government and Employment
- Week #3: Money, Finance and Politics
- Week #4: Labor's Share: Human Capital and Workers' Agency
- Week #5: Corporate Power: Regulation vs. Oligarchs
- Week #6: Inequality: Wealth and Poverty
- Week #7: Globalization: Governance or Laissez-Faire?
- Week #8: The Future of Capitalism: For Better or For Worse?

Week #1: Markets, Capitalism and Freedom

Readings

Friedrich A. Hayek, *The Road to Serfdom* condensed version as it appeared in the April 1945 edition of *Reader's Digest* (Moodle)

Milton Friedman, *Capitalism and Freedom*. Foreword, Preface and Introduction; Chapters 1 & 2

Janos Kornai, *The Road to a Free Economy: Shifting from a Socialist System – the Example of Hungary*. Foreword and Preface; Chapters 1, 3 & 4

The Tutorial Paper: Are Markets and Capitalism Inseparable?

The Austrian economist, Friedrich Hayek, provides a compelling case for the close relationship between markets and a free economy in his critique of planning and fascism. The American economist, Milton Friedman, argues for a strong link between capitalism and freedom. The Hungarian economist, Janos Kornai, writes as Hungary is emerging from a bureaucratically planned economy as a former member of the defunct Soviet bloc. Kornai focuses on the role of ownership on the road to a free economy.

Your essay should focus on the nexus between capitalism and markets. Capitalism is defined as a system based on private ownership of property (e.g. the means of production). Markets are tools for coordinating individuals' choices made freely. Are the two inseparable? How do you think Hayek, Friedman and Kornai would answer the question? If they would agree, explain the basis for their agreement. If they would disagree, clarify the reason(s) for any disagreement. Conclude with your own assessment based on which of the authors you find more convincing.

Expected Length: Four (4) to six (6) double-spaced typewritten pages in **standard font** of **normal size**, with standard page margins. **Please paginate.**

Week #2: Markets, Government and Employment

Readings

John Maynard Keynes, The General Theory of Employment, Interest, and Money (Moodle)
Preface: Chapters 1, 2, 3, 5, 6, 7, 8 & 9

[LINK http://www.marxists.org/reference/subject/economics/keynes/general-theory/index.htm](http://www.marxists.org/reference/subject/economics/keynes/general-theory/index.htm)

Milton Friedman, Capitalism and Freedom. Chapters 3 & 5

Heather Boushey, Unbound: How Inequality Constricts Our Economy and What We Can Do About It. Chapter 5

Binyamin Appelbaum, The Economists' Hour: False Prophets, Free Markets, and the Fracture of Society. Introduction; Chapters 1, 2, 3, & 4

The Tutorial Paper: Are We All Keynesian Now?

Milton Friedman and John Maynard Keynes are considered to be the primary antagonists in the debate about active economic policy. Binyamin Appelbaum points to the current prevalence of market ideology in economic thinking and considers its impact on economic policy. Heather Boushey adds the importance of considering inequality in the debate over the government's role in responding to cyclical changes. "We are all Keynesians now" is a famous phrase attributed to Milton Friedman in Time magazine in December 1965 and was repeated by U.S. President Richard Nixon in 1971 after the U.S. left the gold standard. Milton Friedman wrote a letter to Time magazine in February 1966 to clarify his statement saying it had been "In one sense, we are all Keynesians now; in another, nobody is any longer a Keynesian."

Your essay should focus on the debate about active economic policy and fiscal intervention initially by characterizing the salient differences between Keynes and Friedman. With which of the renditions of the Friedman phrase would Appelbaum agree? Is Boushey a Keynesian? Support your answers as fully as you can. Conclude with your own assessment of active economic policy based on the arguments that you find more convincing.

Expected Length: Four (4) to six (6) double-spaced typewritten pages in **standard font of normal size**, with standard page margins. **Please paginate.**

Week #3: Money, Finance and Politics

Readings

Thomas Philippon, The Great Reversal: How America Gave Up on Free Markets. Chapters 9, 10 & 11

Milton Friedman, Capitalism and Freedom. Chapter 4

Heather Boushey, Unbound: How Inequality Constricts Our Economy and What We Can Do About It. Chapters 3 & 6

Binyamin Appelbaum, The Economists' Hour: False Prophets, Free Markets, and the Fracture of Society. Chapters 8 & 10

Janos Kornai, The Road to a Free Economy: Shifting from a Socialist System – the Example of Hungary. Chapter 2

The Tutorial Paper: Two Aspects of Finance: Which Road to Take?

Thomas Philippon is professionally active on both sides of the “pond”; currently a professor at Stern Business School, he is a member of the Monetary Policy Advisory Panel of the Federal Reserve Bank of New York and a Board Member of the French Prudential Regulator overseeing the stability of the French financial system and well-placed to compare financial systems in Europe and the U.S.. Heather Boushey focuses on the impact of money and lobbying on political decisions in the U.S. to elaborate on the first theme. Milton Friedman provides an historical account of international finance to introduce the second theme. Janos Kornai presents the problems of introducing modern macroeconomic finance to a transitioning bureaucratically managed economy with a strong argument for a “big bang” stabilization program in Hungary in 1990. Binyamin Appelbaum provides supplementary material for both themes. Your essay should focus on only one of these themes but also recognize their interconnectedness.

As a first option, consider the analysis of the influence of money in politics undertaken by Boushey and Philippon. Compare and contrast their arguments. Philippon argues that a major difference between Europe and the U.S. is the unique role that the U.S. dollar plays in international finance. Conclude by assessing the importance of this special role on the impact of money on politics; you may wish to include material from other authors in the readings.

As a second option, consider the system of international finance. Both Friedman and Kornai argue for a free exchange rate market. Develop their rationale while considering any differences that a freely floating exchange rate has for the U.S. and for a small European country like Hungary. You may wish to include information from Appelbaum to support your analysis. Conclude by linking a free exchange rate market to the role of money in politics based on the Boushey and Philippon readings.

Expected Length: Four (4) to six (6) double-spaced typewritten pages in **standard font of normal size**, with standard page margins. **Please paginate.**

Week #4: Labor's Share: Human Capital and Workers' Agency

Readings

Heather Boushey, Unbound: How Inequality Constricts Our Economy and What We Can Do About It. Preface & Introduction; Chapters 1 & 2

Thomas Philippon, The Great Reversal: How America Gave Up on Free Markets. Chapter 15

Milton Friedman, Capitalism and Freedom. Chapters 6 & 7

Joseph R. Blasi, Richard B. Freeman and Douglas L. Kruse, The Citizen's Share: Reducing Inequality in the 21st Century

Gregory K. Dow and Louis Putterman, "Why capital suppliers (usually) hire workers: what we know and what we need to know" Journal of Economic Behavior & Organization Vol. 43 (2000) 319–336 (Moodle)

David Leonhardt "Is the U.S. suffering from a labor shortage? If so, capitalism has an answer." New York Times editorial (Moodle)

The Tutorial Paper: Two Aspects of Workers' Wellbeing: Which Road to Take?

The readings focus on the labor's declining of national income in the U.S. as evidenced in the New York Times article by David Leonhardt. Boushey, Friedman and Philippon focus on the structure of the labor market. Dow and Putterman present an overview of the economic literature explaining why capitalists hire workers (usually). Blasi, Freeman and Kruse advocate policies that provide labor with what they contend would be a fair share of national output.

The first aspect involves education (human capital), discrimination (inequality and the gender gap) and workers' shrinking bargaining power (monopsony and unions). If you choose this road, discuss fully the points of agreement and disagreement between Boushey and Friedman. Does Philippon's brief description of monopsony help to resolve any disagreement? Conclude by explaining how any of the proposals by Blasi, Freeman and Kruse would alter the structure of the labor market in the U.S. to give labor more agency.

The second aspect involves a consideration of the nexus between control and ownership of the workplace. Which of the arguments of Dow and Putterman do you find most persuasive in explaining capital's ownership and control? How do any of the proposals of Blasi, Freeman and Kruse provide labor with a stronger bargaining position relative to capital? Would Friedman and Boushey agree that the citizen's share proposed by these authors is fair? Why or why not?

Expected Length: Four (4) to six (6) double-spaced typewritten pages in standard font of normal size, with standard page margins. Please paginate.

Week #5: Corporate Power: Regulation vs. Oligarchs

Readings

Thomas Philippon, The Great Reversal: How America Gave Up on Free Markets. Preface & Introduction; Chapters 1 through 8 & 12 through 14

Heather Boushey, Unbound: How Inequality Constricts Our Economy and What We Can Do About It. Chapter 4

Milton Friedman, Capitalism and Freedom. Chapters 8 & 9

Binyamin Appelbaum, The Economists' Hour: False Prophets, Free Markets, and the Fracture of Society. Introduction; Chapters 5, 6 & 7

The Tutorial Paper: How Serious Is The Gradual Erosion of Competition in the U.S.?

Thomas Philippon presents a comprehensive account of the decline in competition in U.S. markets over the last two decades following his arrival for his PhD training at MIT in 1999. He argues that lower competition lowers investment, technological advances and workers' wages. Heather Boushey relates market structure to inequality. Philippon addresses the question of how regulation can improve the situation. Writing at an earlier time, Milton Friedman sees no problem with concentration and contends that any government intervention would be problematic. Binyamin Appelbaum provides insights about regulation from illustrative examples.

Why do U.S. consumers get a worse deal than their European and Asian counterparts with respect to cellular service? This is the question that Philippon claims led him to his inquiry into the decline in competition in the U.S. He attributes this market reversal to policy choices and concludes that regulation can play an important role in countering the trend. Develop his argument in your own words. Would Boushey agree? Why or why not? Explain why Friedman would disagree that regulation and government intervention in markets is desirable. Based on the examples of regulation found in Philippon and Appelbaum, do you find Friedman's argument persuasive? Remember that Philippon advocates strongly for "following the facts" in the preface; please make sure that you follow his advice in your paper.

Expected Length: Four (4) to six (6) double-spaced typewritten pages in **standard font of normal size**, with standard page margins. **Please paginate.**

Week #6: Inequality: Wealth and Poverty

Readings

Branko Milanovic, The Haves and the Have-nots. **Read:** Introduction & essay for each section.

Skim: Vignettes; but **use judiciously** in your paper.

Branko Milanovic, Global Inequality: A New Approach for the Age of Globalization.

Milton Friedman, Capitalism and Freedom. Chapters 10, 11 & 12

The Tutorial Paper: Inequality Everywhere; What Can be Done?

Branko Milanovic distinguishes within-nation and across-nation inequality; he then combines the two to characterize global inequality. Milanovic argues that inequality depends on both market outcomes and political power. Within-nation inequality is based on the functional distribution between labor and capital. Concerning across-nation inequality, Milanovic notes the role of the Lucas paradox, namely that capital flows among the rich countries and also recently from the poor countries to the rich countries. To analyze global inequality, Milanovic redefines the Kuznets' hypothesis, namely that inequality decreases with the level of economic development, by constructing what he calls "Kuznets' waves". Milton Friedman argues that government policy does more harm than good in alleviating inequality.

Milanovic claims that the question of why the Gini coefficient is higher for the global economy than it is for the country having the highest inequality motivated much of his book. Address this question by first explaining what the Gini coefficient measures and then providing your own understanding of his answer to the question. What role does the Lucas paradox play? How do within-nation Gini coefficients change after the Industrial Revolution and what does this mean for the functional distribution? What does the notion of a "citizen's share" mean in the context of the global economy? Address Friedman's point that the government is the problem and contrast it with Milanovic's assertion that political power is an important contributor to inequality. What do you find to be the most important aspect of inequality? Which of the policies suggested by Milanovic do you find most convincing in addressing this issue?

Don't forget to use information from the vignettes that Milanovic provides when appropriate to support the points in your paper.

Expected Length: Four (4) to six (6) double-spaced typewritten pages in standard font of normal size, with standard page margins. Please paginate.

Week #7: Globalization: Governance or Laissez-Faire?

Readings

Jagdish Bhagwati, In Defense of Globalization.

Joseph E. Stiglitz, Globalization and its Discontents Revisited: Anti-Globalization in the Era of Trump.

Binyamin Appelbaum, The Economists' Hour: False Prophets, Free Markets, and the Fracture of Society. Introduction; Chapter 9

The Tutorial Paper: Can Globalization Make the World Better Again?

Jagdish Bhagwati asserts that the impetus for writing his book was the protest in Seattle in November 1999 against the World Trade Organization (WTO). Joseph Stiglitz published the first edition of his book presenting the case against globalization from the perspective of developing countries in 2002. In the updated version of his book, Stiglitz claims that the discontent has now spread to the developed world so that the prevailing opinion in the global economy is one of misgivings with globalization. In an afterword to the 2007 edition, Bhagwati claims to have addressed both the economic and social concerns with free trade in his defense of globalization. Both Stiglitz and Bhagwati discuss governance institutions and appropriate policies to manage globalization properly. Stiglitz criticizes the Bretton Woods institutions for mishandling this task. Binyamin Appelbaum considers two cases studies of trade liberalization in developing countries, i.e., Chile and Taiwan; he argues that domestic government policy is the culprit when free trade does not deliver on its promises. Between the extremes of unfettered globalization and an omnipotent global policing institution lies the likely resolution to avoiding the re-emergence of worldwide protectionism that was rampant during the Great Depression.

Which side of the debate do you find more compelling: globalization or anti-globalization? Defend your position using material from the readings. Remember that a solid defense requires pre-emption of the arguments on the other side so be sure to explain why you find the opposite arguments unconvincing. Conclude either by presenting and defending the policies proposed by the authors to mitigate any negative impacts of globalization if you take a supporting position or by criticizing these proposed solutions as insufficient if you take the anti-globalization side.

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Week #8: The Future of Capitalism: For Better or For Worse?

Readings

Branko Milanovic, Capitalism, Alone: The Future of the System that Rules the World.

Robert B. Reich, Saving Capitalism: For the Many not the Few.

Thomas Philippon, The Great Reversal: How America Gave Up on Free Markets. Conclusion

Heather Boushey, Unbound: How Inequality Constricts Our Economy and What We Can Do About It. Conclusion

Milton Friedman, Capitalism and Freedom. Chapter 13 (Conclusion)

Binyamin Appelbaum, The Economists' Hour: False Prophets, Free Markets, and the Fracture of Society. Conclusion

The Tutorial Paper: What Is To Be Done?

Robert Reich sees the major threat to capitalism as the undermining of trust in the fairness of market institutions. He attributes this phenomenon to the demise of countervailing power for citizens relative to corporate business. He argues that the government is charged with setting the rules of the game that determine how markets are organized. His prescription to save capitalism is for “new rules”. Branko Milanovic asserts that the uncontested dominance of the capitalist mode of production today is due to its alignment of individual and systemic objectives. Milanovic considers two breeds of capitalism, namely liberal (meritocratic) and political (authoritarian). His analysis of the political (authoritarian) brand uses China as a poster child for state-led capitalism. Milanovic’s vision of the future road that capitalism may take has two branches; the first branch requires the evolution of the liberal (meritocratic) brand into a more humane version of people’s capitalism and the other branch involves the convergence of liberal and political capitalism into a single hybrid mode.

Standing at the fork in Milanovic’s road, which branch do you think is the more desirable one to take? Can new tools and new rules save liberal capitalism? Is political capitalism sustainable given its contradictions that Milanovic identifies? What would hybrid capitalism look like? These questions should guide your decision about which branch to take in your paper. As a conclusion, which branch would each of the authors listed above see as more desirable to take? Explain why you think each would make their respective choice.

With apologies to Robert Frost for adapting the notion of “The road not taken”
and to Vladimir Ilyich Lenin for stealing his title!

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