

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

John P. Bonin Fall 2022 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 second half of the twentieth century during which capitalism and market ideology have become ubiquitous. We first examine the origins of the nexus between capitalism and markets in works by two Nobel Prize winning economists, the Austrian economist, Friedrich Hayek and the American economist, Milton Friedman. 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 on interventionist policies. The New York Times editorial columnist specializing in economics, Binyamin Appelbaum, examines the growing influence of economics on public policy over the last four decades of the twentieth century. 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 unwanted economic outcomes.

The tutorial continues to analyze the connection between economic thought and economic policy with a focus on inequality first by considering the interplay of money, finance and politics in public policy. The views of Boushey and the French economist now a professor at NYU, Thomas Philippon, are contrasted with that of Friedman. By considering the differing perspectives of Boushey, Friedman and Philippon, labor's diminishing share of national income in the U.S. is analyzed with an eye on the diminishing bargaining power of labor. Consideration of this issue is supplemented using a policy pamphlet by the American scholars, Joseph R. Blasi, Richard B. Freeman and Douglas L. Kruse, advocating for a fair citizen's share of national output and with a journal article by the American economists Gregory Dow and Louis Putterman that provides an explanation for why capital usually hires labor. An analysis of corporate power and the rationale for regulation is undertaken considering differences between the U.S. and Europe across several sectors, e.g., technology, to draw policy conclusions.

The tutorial moves 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. The pros and cons of globalization are analyzed by contrasting the perspectives of the American Nobel-Prize-winning economist, Joseph Stiglitz, and the Indian-American economist, Jagdish Bhagwati. The future of capitalism is explored by introducing a new voice, the American economist and former U.S. Secretary of Labor, Robert Reich, and by considering a comprehensive work on the historical variants of capitalism by Milanovic to address the potential for a more humane, equitable system.

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.)

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** (integrative theme) that you will develop.
- The paper should be written in **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.
- Any readings or sources used that are **not assigned** should be **documented fully** in a brief bibliography.

Tutorial papers are to be submitted in Word format as an email attachment to the tutor before the weekly tutorial discussion begins.

Topics

- Week #1: Markets, Capitalism and Free Choice
- 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: Global Governance vs. Laissez Faire?
- Week #8: The Future of Capitalism: For Better or Worse; Richer or Poorer?

Week #1: Markets, Capitalism and Free Choice

Readings

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

Bruce Caldwell (ed.), *Introduction to the Definitive Edition*, 2007 (Moodle)

Friedrich A. Hayek, *Foreword to the 1956 Edition & Preface to the 1976 Edition* (Moodle)

Milton Friedman, *Introduction to the 1994 Edition* (Moodle)

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

Binyamin Appelbaum, *The Economists' Hour: False Prophets, Free Markets, and the Fracture of Society*. Introduction and Chapter 1.

The Tutorial Essay: Are Markets and Capitalism Inseparable to Promoting Free Choice?

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 of choice. The New York Times editorial columnist specializing in economics, Binyamin Appelbaum, provides an example of the influence of these ideas on public policy by discussing the end of the military draft in the United States.

Your essay should focus on the nexus between capitalism and markets. Capitalism is defined as an economic system based on private ownership of property (e.g. the means of production). Markets are tools for coordinating individuals' choices. Would Hayek and Friedman agree that the two are inseparable in promoting free choice? Explain the fundamental basis for their agreement. What role does information play? Conclude with your own assessment of this nexus supporting the principle of individual free choice; you may wish to refer to the case study of the military draft in the U.S. from Appelbaum as an example to support your argument.

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. Chapters 2, 3, & 4

The Tutorial Essay: Active Economic Policy: 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. Friedman favored a rule-based policy with no discretionary role for policy makers. Keynes argued that discretionary policy intervention was necessary because market adjustments were insufficient famously opining that “in the long run, we are all dead!”. 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 to focus on policy targeting. “We are all Keynesians now” is a famous phrase attributed to Milton Friedman in Time magazine in December 1965; it was repeated by U.S. President Richard Nixon in 1971. 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. Based on your analysis, in what sense is Boushey a Keynesian? Using information from Appelbaum, characterize tax policy in the post-war U.S. economy. Which of the antagonists would support such policy? What about Boushey? Explain the reasoning leading to your assessments.

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

The Tutorial Essay: The Impact of Finance on Economic Policy: Does Money Talk Twice?

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. Consequently, he is well-placed to compare financial systems in Europe and the U.S.. Heather Boushey focuses on the impact of money and lobbying on economic policy decisions in the U.S.. Milton Friedman provides an historical account of international finance and advocates for floating exchange rates. Binyamin Appelbaum provides supplementary material on U.S. financial regulation and the history of exchange rate policy. Your essay should address the interconnectedness of domestic and international policy.

Consider initially and succinctly the influence of money in politics by comparing (and contrasting) the arguments of Boushey and Philippon. When appropriate, include information from Appelbaum to support your analysis. Philippon claims that a major difference in financial regulation between Europe and the U.S. is the unique role played by the U.S. dollar in international finance. Characterize briefly the reason for Friedman’s support of a free exchange rate system versus the fixed exchange rate system of the Bretton Woods Agreement. Using information from Appelbaum, develop the reasoning behind Europe’s adoption of a currency union, i.e., the Euro. Conclude by discussing briefly what you think would be the positions of Friedman, Boushey and Philippon on the Euro and explain your reasoning.

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: sections to be determined

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 Essay: Workers' Wellbeing: What Are the Prospects for American Workers?

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 argues that a paradigm shift has altered the bargaining power of workers in the U.S.. Friedman focuses on freedom of individual choice in education and employment contracts whereas Philippon focuses on the structure of the labor market as affected by corporate power. Dow and Putterman present an overview of the economic literature explaining why capitalists hire workers (usually). Blasi, Freeman and Kruse advocate for policies that provide labor with what they contend would be a fair share of national output.

Discuss initially the points of agreement and disagreement between Boushey and Friedman regarding education (human capital), discrimination (inequality and the gender gap) and workers' shrinking bargaining power. How does Philippon's brief description of monopsony help to elucidate the issue of bargaining power? Dow and Putterman consider the nexus between control and ownership of the workplace. Which of their arguments do you find most persuasive in explaining capital's ownership and control? How do any of the proposals by Blasi, Freeman and Kruse provide labor with a stronger bargaining position relative to capital? Conclude by characterizing any reforms in the structure of the labor market in the U.S. that would give labor more agency.

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

“E.U. Takes Aim at Big Tech’s Power With Landmark Digital Act” *New York Times*: 3/25/2022 (Moodle)

“It’s Scary How Dominant Apple Has Become. But How Scary?” *New York Times*: 4/1/2022 (Moodle)

The Tutorial Essay: Is The Gradual Erosion of Competition in the U.S. Reversible?

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 less competition lowers investment, discourages technological advances and reduces workers’ wages. Heather Boushey relates market structure to increased inequality and lower innovation in the U.S.. Writing at an earlier time, Milton Friedman sees no problem with concentration and contends that any government intervention would be problematic. Binyamin Appelbaum provides illustrative examples of how economists took over the regulatory policy agenda in the U.S. giving pride of place to consumers with a focus on lower prices.

Philippon reports that the question that led him to his inquiry into the decline in competition in the U.S. is: Why do U.S. consumers get a worse deal than their European and Asian counterparts with respect to cellular service? He attributes this perceived complete reversal from competition in the U.S. to policy choices leading him to conclude that government regulation can play an important role in countering this trend. Develop Philippon’s argument in your own words. Would Boushey agree? Why or why not? Explain clearly why Friedman would argue that regulation with its resulting government intervention in markets is NOT 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 his preface; please make sure that you follow his advice in your paper by supporting your arguments with evidence from the 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 #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 as evidence** when relevant in your essay.

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

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

The Tutorial Essay: Inequality Everywhere; Will It Ever Disappear?

Branko Milanovic distinguishes within-nation from across-nation inequality and 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. To characterize within-nation 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 attempting to mitigate within-nation inequality. Concerning across-nation inequality, Milanovic discusses the growth convergence hypothesis and its implication for an emerging global middle class.

Milanovic states that his observation that the Gini coefficient is higher for the global economy than it is for any single country motivated much of his book. He introduces the Lucas paradox concerning capital flows across nations. In your essay, characterize the Gini coefficient and explain in your own words the main reason for Milanovic's observation. Does the Lucas paradox play a role? How do within-nation Gini coefficients change after the Industrial Revolution and what does this mean for the functional distribution? 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 within-nation inequality. Conclude by addressing some of the following questions. What do you find to be the most important aspect of global inequality? Why does Milanovic think that globalization will not make inequality disappear? Which of the policies suggested by Milanovic do you find most convincing for mitigating inequality?

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

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: Global Governance vs. 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 (review); Chapter 9

The Tutorial Essay: Can Globalization Make the World Great Again?

Jagdish Bhagwati asserts that the impetus for writing his book in defense of globalization was the protest in Seattle in November 1999 against the World Trade Organization (WTO). Shortly thereafter in 2002, Joseph Stiglitz published the first edition of his book presenting the case against globalization from the perspective of developing countries as the discontents. 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 grave 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 earlier defense of globalization. Both Stiglitz and Bhagwati discuss governance institutions and appropriate policies to manage globalization. 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 bad domestic government policy, e.g., the Chicago boys' takeover in Chile, is the culprit when free trade does not deliver on its promises. Between the extremes of unfettered globalization and an omnipotent supranational 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: pro-globalization or anti-globalization? Defend your position using material from the readings. Remember that a solid defense requires pre-empting the arguments on the other side so be sure to explain why you find the opposing 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.

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

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

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 Essay: Capitalism: What Is To Be Done?

Robert Reich sees the major threat to capitalism to be the undermining of trust in the fairness of market institutions. He attributes this phenomenon to the demise of the countervailing power of 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 current 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 liberal (meritocratic) brand to evolve into a more humane version of people’s capitalism while the other branch involves the convergence of liberal and political capitalism into a single hybrid mode. Revisiting the perspectives of three of the authors we have read, Boushey, Friedman and Philippon, sheds light on this choice.

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. In the conclusion to your essay, conjecture about which branch each of the authors listed above would see as more desirable to take. Explain why you think each would make this choice.

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

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