MODERN POLITICAL ECONOMY

FALL 2013

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Office Hours (M & W, 9:00 a.m. to Noon)

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The purpose of this course is to help you understand, predict, adapt to and shape the evolving system of political economy. If you don’t, others will—and not necessarily to your well-being.

The structure of the course is as follows. Part One examines the theoretical foundations of modern political economy laid by four grandmasters of the discipline--Adam Smith, Karl Marx, John Maynard Keynes, and Joseph Schumpeter, each of whom has been widely misunderstood or, worse yet, falsely interpreted by intellectual charlatans. Part One sets the record straight about each of them.

Part Two focuses on the evolution of American political economy in the post-WW II era, including the rise and decline of the state-centric era and the continuing debate between the followers of Keynes and our fifth grandmaster, Milton Friedman, over the relationship between state and market in American political economy.

Part Three is concerned with international political economy. The U.S. emerged from the Cold War era as the dominant world power, but the distribution of international power is changing. These changing relationships and their implications for the world we live in are the central concerns of Part Three.

You’ll be evaluated on the basis of two closed-book examinations, one of 30 minutes after Part One (worth 1/6 of the final numeric grade) and one of 60 minutes after Part Two (worth 1/3), plus a final paper (worth 1/2). The final paper should not exceed 7.5 double-spaced pages, not counting tables and appendices, and is due on the last day of class. You should develop your paper topic after meeting with me during office hours, meetings the Teaching Assistant will coordinate. Student contributions to learning, in class and/or via Canvas, will determine final grades that otherwise fall on the numeric borderline between one grade and another. For more information on grading and my expectations about your performance and mine, consult my “Rules of the Game for MPE.”

Required and recommended readings are included in two readings books and are also available via Canvas. In addition, you are encouraged to read one or more of the following publications on a regular basis: Wall Street Journal, New York Times, Financial Times or The Economist.

**CONNECTION WITH THE CORE:** The course draws on material from three core courses: Lead: People, Teams, Organizations (on the nature and importance of leadership); Global Economic Environment (on fiscal and monetary policy); and Corporate Finance (on the theory of efficient markets).

**PART ONE THE FIRST FOUR GRANDMASTERS**

### 9/3 & 9/5 Smith’s Theory

**Required:** Adam Smith, An Inquiry into the Nature and Causes of the Wealth of Nations (Indianapolis: Bobbs-Merrill, 1961), Book I, Ch. 1; Book IV, Ch. 2; and Book V, Ch 1. **Recommended:** Robert L. Heilbroner, The Worldly Philosophers (New York: Simon & Schuster, 1999, 7th ed.), Ch. 3.

#### 9/10 & 9/12 Marx’s Prognosis

**Required:** Karl Marx, Capital (London: Penguin, 1976), Volume 1, Ch. 25; Karl Marx and Friedrich Engels, The Communist Manifesto (New York: Bantam Books, 1992), Parts 1-2. **Recommended:** Heilbroner, Ch. 6; David Harvey, “Crises of Capitalism,” <http://www.youtube.com/watch?v=qOP2V_np2c0>.

#### 9/17 & 9/19 Keynes’s Remedy

**Required:** John Maynard Keynes, The General Theory of Employment, Interest and Money (London: Macmillan & Co., 1951), Chs. 10, 12 and 24. **Recommended:** Heilbroner, Ch. 9; “Hayek on Keynes,” <http://www.youtube.com/watch?annotation_id=annotation_371834&feature=iv&src_vid=VqU-AZh-wqU&v=Oqhe4K1Jz-8>.

### 9/24 Schumpeter’s Prophecies

**Required:** Joseph A. Schumpeter, Capitalism, Socialism and Democracy (New York: Harper & Row, 1950, 3rd ed.), Chs. 11-14. **Recommended:** Heilbroner, Ch. 10; Thomas K. McGraw, Prophet of Innovation: Joseph Schumpeter and Creative Destruction (Cambridge, MA: Harvard University Press, 2007), Epilogue.

# PART TWO EVOLUTION OF AMERICAN POLITICAL ECONOMY

### 9/26 Mid-Term Examination (first 30 minutes of session)

### Managerial Capitalism and the Theory of Consumer Control

**Required:** Alfred D. Chandler, Jr., The Visible Hand (Cambridge, MA: Harvard University Press, 1977), Introduction and Conclusion.

10/1 Depression, the New Deal, War and the Rise of State-Centric Political Economy

**Required:** William E. Leuchtenberg, Franklin D. Roosevelt and the New Deal (New York: Harper and Row, 1963), Ch. 14.

10/3 Managerial Capitalism, Stage Two

**Required:** John Kenneth Galbraith, The New Industrial State (Boston, MA: Houghton Mifflin, 1972, 3rd ed.), Chs. 5-8, 10-14; **Recommended:** Robert M Solow, “The New Industrial State or Son of Affluence,” The Public Interest (Fall, 1967), pp. 100-108.

10/8 Interest Group Politics and the Theory of the Limited State

**Required:** Theodore J. Lowi, The End of Liberalism (New York: W.W. Norton, 1969), Chs. 3-4; **Recommended:** Jonathan Rauch, “Demosclerosis,” National Journal (September 5, 1992); Nicholas Lemann, “Conflict of Interests,” The New Yorker, August, 11, 2008.

10/10 Protectionist Politics: Lessons of the New York City Fiscal Crisis

**Required**: Charles Brecher and Raymond D. Horton, Power Failure: New York City Politics and Policy Since 1960 (New York: Oxford University Press, 1993), Ch. 2.

10/22 The Fifth Grandmaster, Friedman, and the Rise of Market-Centric Political Economy

**Required:** Milton Friedman, Capitalism and Freedom (Chicago: University of Chicago Press, 1962, 2nd ed. 1982), Chs. 1, 2, 4, 5 and 8. **Recommended:** Friedrich von Hayek, The Road to Serfdom (Chicago: University of Chicago Press, 1944), Chs. 2 –3; Nicholas Wapshott, Keynes Hayek: The Clash That Defined Modern Economics (New York: W. W. Norton, 2011), Ch. 16.

10/24 The Turnaround in the 1980s and the Halcyon 1990s

**Required:** Andrew Romano, “What Would Reagan Really Do?” Newsweek, July 8, 2010;Jeffrey Frankel and Peter Orszag, eds., American Economic Policy in the 1990s (Cambridge, MA, MIT Press, 2002), Introduction.

10/29 The Terrible 2000s

**Required:** Joseph E. Stiglitz, “Reversal of Fortune,” Vanity Fair**,** November 2008; John Cassidy, How Markets Fail: The Logic of Economic Calamities (New York: Farrar, Strauss and Giroux, 2009), Introduction.

10/31 Review Class

11/7 Mid-Term Examination (60 minutes)

**PART THREE INTERNATIONAL POLITICAL ECONOMY**

11/12 Theoretical Foundations

**Required:** John J. Mearsheimer, The Tragedy of Great Power Politics (New York: W.W. Norton, 2001), Introduction; Paul Kennedy, The Rise and Fall of the Great Powers (New York: Vintage, 1989), pp. 514-535; G. John Ikenberry, “The Future of the Liberal World Order,” Foreign Affairs (May/June 2011), pp. 56-68.

11/14 International Relations Post-WW II

**Required:** Charles P. Kindleberger, “International Public Goods Without International Government, “American Economic Review, Vol. 76, No. 1 (March 1986), pp. 7-13; Samuel Huntington, “The Lonely Superpower,” Foreign Affairs (March/April 1999), pp. 35-49; Charles Krauthammer, “The Unipolar Moment Revisited,” The National Interest (Winter 2002/03), pp. 5-17.

11/19 A Framework for Thinking Ahead

**Required:** Paul Kennedy, “American Power is on the Wane,” WSJ.com; Joseph S. Nye, Jr., “The Future of American Power,” Foreign Affairs (November/December 2010), pp. 2-12.

11/21 Plausible Hypotheses

**Required:** Richard N. Haass, “The Age of Nonpolarity,” Foreign Affairs (May/June 2008), pp. 44-56; Niall Ferguson, “A World Without Power,” Foreign Policy (July/August 2004). **Recommended:** “China Takes Aim at Western Ideas,” New York Times, August 19, 2013, p. 1.

11/26 Europe and China: Views from the Classroom

12/3 Guest Lecturer: Dean Hubbard

**Required:** Glenn Hubbard and Tim Kane, Balance: From Ancient Rome to Modern America (New York: Simon & Schuster, 2013), Chs. 2 and 13.

12/5 Conclusion