MODERN POLITICAL ECONOMY

Spring 2016

**ROUGH DRAFT: FOR BIDDING PURPOSES ONLY**

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Warren 208

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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 appropriate relationship between state and market.

Part Three is concerned with international political economy. The U.S. emerged from the Cold War era as the dominant world power and the architect of what has been called “the liberal international order,” but the distribution of international power appears to be changing in the 21st century. These changing relationships, particularly but not exclusively between the U.S. and China, and their implications for the world you will 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 (which is 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 our 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 in the course, consult my “Rules of the Game for MPE.”

Required and recommended readings are available online via Canvas. In addition, you should 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**

### 9/1 & 9/3 Smith’s Alternative to Mercantilism

**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.

#### 9/8 & 9/10 Marx’s Alternative to Capitalism

**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; Thomas Piketty, Capital in the Twenty-First Century (Cambridge, MA: Harvard University Press, 2014), Introduction; David Harvey, “Crises of Capitalism,” <http://www.youtube.com/watch?v=qOP2V_np2c0>.

#### 9/15 & 9/17 Keynes’s Alternative to Socialism

**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; Julia Barmeier, “Can the Keynesian Multiplier Persist in an Age of Globalization?” unpublished MPE paper, December 5, 2013.

### 9/17 & 9/22 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; Raymond D. Horton, “Schumpeter’s Conception of Entrepreneurship Then and Now,” October 2012.

# PART TWO EVOLUTION OF AMERICAN POLITICAL ECONOMY

### 9/24 Mid-Term Examination (first 30 minutes of session)

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### Managerial Capitalism Stage One

**Required:** Alfred D. Chandler, Jr., The Visible Hand (Cambridge, MA: Harvard University Press, 1977), Introduction and Conclusion. **Recommended:** Richard N. Langlois, The Dynamics of Industrial Capitalism: Schumpeter, Chandler, and the New Economy (London: Routledge, 2007), Ch. 1.

9/29 Signal Events 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. **Recommended**: David Kennedy, Freedom from Fear: The American People in Depression and War (New York: Oxford University Press, 1999), pp. 615-655.

10/1 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.

10/6 The Parallel Rise of Protectionist Politics

**Required:** Jonathan Rauch, “Demosclerosis,” National Journal (September 5, 1992). **Recommended:** Mancur Olson, The Rise and Decline of Nations (New Haven: Yale University Press, 1984 ed.), Ch. 3.

10/8 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. **Recommended:** Joseph Stiglitz, “Greece, the Sacrificial Lamb,” New York Times, July 25, 2015.

10/22 Friedman’s Alternative to State-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; <https://www.youtube.com/watch?v=LucOUSpTB3Y>;

10/27 The Heyday of Market-Centric Political Economy

**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;Thomas Smejkal, “The Rise of Market-Centric Political Economy Revisited,” unpublished MPE Paper, May 5, 2014. **Recommended:** “How Increasing Income Inequality is Dampening U.S. Economic Growth, and Possible Ways to Change the Tide,” Standard & Poor’s Ratings Services, August 5, 2014.

10/29 America’s Prospects

Guest Lecturer: Glenn Hubbard, Dean, Columbia Business School

**Required**: Glenn Hubbard and Tim Kane, Balance: The Economics of Great Powers from Ancient Rome to Modern America (New York: Simon & Schuster, 2013), Ch.13. **Recommended:** Lawrence Summers, “U.S. Economic Prospects: Secular Stagnation, Hysteresis, and the Zero Lower Bound,” Business Economics (Vol. 49, No. 2, 2014), pp. 66-73.

11/5 America’s Prospects Continued

**Required**: William A. Galston, “The New Challenge to Market Democracies,” The Brookings Institution, October 2014. **Recommended**: “Political Polarization in the American Public,” Pew Research Center, June 12, 2014.

11/6 Review Class

11/10 Mid-Term Examination (60 minutes)

**PART THREE INTERNATIONAL POLITICAL ECONOMY**

11/12 International Relations in Theory

**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), Epilogue; G. John Ikenberry, “The Future of the Liberal International Order, “ Foreign Affairs (May/June 2011), pp. 56-68; Richard N. Haass, “The Age of Nonpolarity,” Foreign Affairs (May/June 2008), pp. 44-56; Samuel P. Huntington, “The Clash of Civilizations,” Foreign Affairs (Summer 1993), pp. 3-27.

11/17 International Relations in Practice

**Required:** Charles P. Kindleberger, “International Public Goods without International Government, “American Economic Review, Vol. 76, No. 1 (March 1986), pp. 7-13; Francis Fukuyama, “The End of History?” The National Interest (Summer 1989), pp. 222-248; Paul Kennedy, “American Power is on the Wane,” WSJ.com, January 14, 2009.

11/19 The Changing Distribution of Global Power

**Required:** Adrian Wooldridge, “State Capitalism,” The Economist, January 21, 2012. Recommended: Robert D. Kaplan, The Revenge of Geography (New York: Random House, 2013), pp. 29-37.

11/21 The U.S., China, and the Currrent International Order

**Required:** Joseph S. Nye, Jr., “The Future of American Power,” Foreign Affairs (November/December 2010), pp. 2-12; Clifford Kraus and Keith Bradsher, “China’s Global Ambitions, With Loans and Strings Attached, New York Times, July 24, 2015; Walter Russell Mead, “The Return of Geopolitics,” Foreign Affairs (May/June 2014).

12/1 & 12/3 Views From Abroad (Student Presentations)

12/8 Conclusion