Course Outline and Readings
For
The Role of Government in Modern Economy

By Ha-Joon Chang

The course covers a range of theoretical and empirical issues relating to the role of the state in modern economy, especially that relates to economic development. There will be 31 hours of teaching, divided up into 6 modules of varying sizes (3-10 hours).

Module 1: Historical Background (5 hours)
This module will provide the historical background, both in terms of the history of economic policy and in terms of the history of economic thought, to the course. It will first review the historical experience of the developed countries during their early days of development (say, between the beginning of the industrial revolution and the First World War) and reject the widely-held perception that most of these countries developed on the basis of free-market, free-trade policies. It will then examine the changes in the theories and the practices of state intervention, both in the developed countries and in the developing countries during the 20th century – the period during which we saw the rise of interventionist theories (during the interwar period), the rise of state interventionism (following the Second World War), the rise of neo-liberalism (since the 1980s), and the recent rise of criticisms against neo-liberalism.

Readings
*Chang, H-J., Kicking Away the Ladder, forthcoming (2002), Anthem Press, especially chapters 1 & 2.
Module 2: Theories of the State (5 hours)

This module reviews the main theories of the state, and provides an alternative theory of state intervention that overcomes the limitations of the existing theories. First of all, the main existing theories of state intervention – Welfare Economics, Neoclassical Political Economy, Marxist theories of the state, the Libertarian-Austrian theories – are examined. It is argued that these theories, in different ways, fail to properly model the inter-relationship between the market, the state, and other institutions. Based on the criticisms of these existing theories, a new theory of state intervention, which we call the Institutionalist Political Economy

Readings

Buchanan, J., Liberty, Market and State, 1986, Wheatsheaf Books (Libertarian theory of the state)
Caporaso, J. & Levine, D., Theories of Political Economy, year, Cambridge University Press


Cullis, J. & Jones, P., Microeconomics and the Public Economy: A Defence of Leviathan, year and publisher

*Evans, P., Embedded Autonomy - States and Industrial Transformation, 1995, Princeton University Press, especially chs. 1-3


Jessop, B., The Capitalist State, 1982, publisher (Marxist state theories)


Module 3: The Role of the State in East Asian Economic Development (5 hours)

This module looks at the debates surrounding the role of the state in East Asian economic development, which has been variously interpreted as the example of free-market policy, market-friendly intervention, or state-led development. It first examines the debate surrounding the East Asian “miracle” and then looks at the more recent debates following the 1997 financial crises in the region. A comparative perspective is emphasised so that useful lessons can be drawn for other countries that wish to learn from the East Asian success.

Readings

East Asian Miracle

Akyuz, Y., Chang, H-J. & Kozul-Wright, R., New Perspectives on East Asian East Asian Development, Journal of Development Studies, vol. 34, no. 6, August, 1998 (other articles in the same issue are also very useful)

Amsden, A., Asia’s Next Giant, 1989, Oxford University Press, especially chs. 1-6

Rodrik, R., King Kong Meets Godzilla, CEPR Discussion Paper, no. 944

East Asian Crisis
*Cambridge Journal of Economics*, vol. 22, no. 6, 1998 (a special issue on the Asian crisis)

**Module 4: Industrial, Trade, and Technology Policy Issues (10 hours)**

This module looks at a number of key issues regarding trade, industrial, and technology policies. The issues that are examined include trade policy, industrial policy, intellectual property rights (and TRIPS agreement in the WTO), privatisation, and de-regulation. First, mainstream arguments are critically examined both in terms of theoretical foundations and empirical evidence. And then alternative policy proposals are made, drawing on various heterodox theoretical traditions and a more critical reading of the empirical evidence.
**Readings**

**Trade Policy**

*Helleiner, G., Trade Strategy in medium-term Adjustment, World Development, 1990, no. 6*


**Industrial Policy**

*Chang, H-J. The Political Economy of Industrial Policy, 1994, Macmillan Press, ch. 3 (for theoretical backgrounds)*

*Chang, H-J. Industrial Policy and East Asia – The Miracle, the Crisis, and the Future, a paper presented at a World Bank conference on “Rethinking East Asian Miracle”, February, 1999 (second draft, May 1999)*

**Intellectual Property Rights and TRIPS**


**Privatisation**
*Chang, H-J. & Singh, A., Public Enterprises in Developing Countries and Economic Efficiency, UNCTAD Review, 1993, no. 4


*World Bank, Bureaucrats in Business, 1995, Oxford University Press, chapter 1 (see the critical review by H-J. Chang & A. Singh, Can Large Firms be run without being Bureaucratic?, Journal of International Development, 1997, no. 6)

Deregulation

Banuri, T. (ed.), Economic Liberalisation, 1991, Oxford University Press, especially see the chapters by Singh & Hughes, Taylor, and Fishlow


*World Bank, World Development Report, 1987, Part II (esp. chs. 3-7)


**Module 5: Globalisation and the Changing Role of the State (3 hours)**

This module examines the proposition that globalisation has made it impossible for national governments to pursue policies that deviate from the “norm” of Neo-Liberal policies. First of all, the current state and the historical origin of globalisation are critically examined. Then two key questions are examined. The first is the proposition that the increasing importance of transnational corporations has made it impossible for national governments to pursue independent industrial policy. The second is the proposition that the establishment of the WTO has made it impossible for national governments to pursue independent trade policy.

**Readings**

Globalisation

Bairoch, P. & Kozul-Wright, R., Globalisation Myths: Some Historical Reflections on Integration, Industrialisation and Growth in the World Economy, UNCTAD Discussion Paper, no. 113


**Transnational Corporations**


*Helleiner, G., Transnational Corporations and Direct Foreign Investment in H. Chenery & T.N. Srinivasan (eds.), *Handbook of Development Economics*, vol. 2, 1993 (check the year), Elsevier Publisher

*Julius, D., International Direct Investment: Strengthening the Policy Regime* in G. Kenen (ed.), *Managing the World Economy*, year and publisher


UNCTAD, *World Investment Report*, various years since 1993

**WTO**


Amsden, A., *Industrialisation under New WTO Law*, a paper for the UNCTAD X meeting, 12-19 February, 2000, Bangkok (you can find this from UNCTAD X website, [http://www.unctad-10.org](http://www.unctad-10.org) and look under “High Level Roundtable”)

Evans, P., Economic Governance Institutions in a Global Political Economy, a paper for the UNCTAD X meeting, 12-19 February, 2000, Bangkok (you can find this from UNCTAD X website, [http://www.unctad-10.org](http://www.unctad-10.org) and look under “High Level Roundtable”)

Jackson, J. *The World Trade Organisation* (the legal and the organisational details)


*Toye, J., details needed*

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**Module 6: Concluding Session (3 hours)**

This module concludes the course and provides an opportunity to the students to engage in in-depth discussions on particular issues that they want to explore further.