E/S/N 2000/2001*

Course Syllabus

I. Introduction: Globalization and The Great Divide

1. Globalization: Theory and Performance
   Readings:
   Lant Pritchett, *Divergence Big Time*
   Hard copy of slides #s 1 to 46

   Study Questions:
   (1) Why is it that neo-classical theory predicts a convergence of incomes in a global economy?
   (2) Why is it that some countries seem to be on the convergence path, and others not?
   (3) Consider Pritchett’s comment, page 14, that:
       Almost nothing that is true about the growth rates of advanced countries is true of the developing countries…
       What questions does that raise for us in this course?
   (4) On page 15 he identifies four key questions that need to be addressed by any theory of development, and doubts that there is a single theory that will deal satisfactorily with all four. Would you agree?

2. Economic Strategy in a Global Economy?
   Readings:
   Hernando de Soto: *The Mystery of Capital*, Chapter 1
   Dani Rodrik: *Can Integration into the World Economy Substitute for A Development Strategy?*
   Hard copy of slides #s 47 to 68

   Study Questions:
   (1) What are the implications of the slides on investment flows, patents, and trade?
   (2) Evaluate de Soto’s notion that unmobilized capital in developing countries is vastly greater than all foreign investment.
   (3) Evaluate Rodrik’s notion that income convergence is likely to require economic strategies in some of the lower income countries.

II. The Role of Institutions in Economic Development

3. Institutions as Obstacles to Economic Development
   Readings:
   John Coatsworth, “Economic and Institutional Trajectories in Nineteenth-Century Latin America” in *Latin America and the World Economy Since 1800*, ed Coatsworth & Taylor
   Mancur Olson, *Power and Prosperity*, Chapter 3, pages 45-67
   Slides #s  33 to 36
Study Questions:
(1) What explains Latin America’s near stagnation from 1700 to 1900?
(2) What explains Latin America’s failure to converge during the twentieth century?
(3) Evaluate Olson’s critique of the Coasean theory of markets as applied to politics and the quality of government.

4. Three Phases in Institution Building in the USA

Reading:
David Moss, “Introduction” from When All Else Fails”

Study Questions:
(1) Which of the U.S. government’s risk management policies seem most constructive, least constructive and why?
(2) Using limited liability and product liability as examples:
   • What was the risk to be dealt with?
   • How was it shifted?
   • How was this shift effected or paid for?
   • How was behavior to be monitored for moral hazard?
   • What was the purpose of shifting the risks?
(3) Appraise the three phases of risk management in Exhibit 1
(4) What lessons might other countries draw from this analysis?

5. Italy as a Metaphor for the World Economy

Case: One Country - Two Systems: Italy and The Mezzogiorno (A) 9-701-068

Study Questions:
(1) How well has Italy performed, since World War II, compared to its European neighbors?
(2) When did the Mezzogiorno fall behind, and why?
(3) Evaluate the attempts of the central government to solve this problem? Did it do too much, too little, or perhaps some wrong things?
(4) Are the problems of the Mezzogiorno essentially rooted in culture, as Putnam claims, and if so are they largely unreachable by economic reforms?

6. Italy (Continued)

Case: One Country - Two Systems: Italy and The Mezzogiorno (B) 9-701-143 Slides #s 80 to 89

Study Questions:
(1) What is meant by the transition from the First Republic to the Second, and what caused it?
(2) What was the role of improved law enforcement in the change?
(3) Did Italy experience a “cultural transformation” in 1992? If so, where and why?
(4) How does the Italian experience since World War II compare with U.S. experience since 1865?
(5) What are the implications of this analysis for the future of globalization?
7. Capitalism as a Social System

Readings:
- BRS, Chapter 4 “Capitalism as a Social System” from Sovereign But Unequal: The Great Divide in the Global Village (Unpublished)
- Mancur Olson, Power and Prosperity, Chapter 4, pp. 69-88

Study Questions:
1. What is at stake in the case of Stowell vs. Flagg? As a Massachusetts judge, what remedy would you award Stowell for the flooding of his land caused by Flagg’s dam?
2. Could private markets have solved this dispute as well or better than a court, as suggested by Coase?
3. Can a country build comparative advantage in its institutional foundations as well as in its firms?

8. The Origins of Capitalism

Readings:
- BRS, Chapter 5 “The Origins of Capitalism” from Sovereign But Unequal: The Great Divide in the Global Village (Unpublished)
- Samuel Huntington, Political Order in Changing Societies, Chapter 2
- Slides #69 to 79

Study Questions:
1. Why were Italian cities among the early leaders?
2. Why did they fade after 1600?
3. Why were London and Amsterdam able to avoid a similar fate?
4. How might these events have been different if European countries had been protected by the U.N.?

9. The “Malaysian Dilemma”

Case: Malaysia (A), pages 1-23, 29 N9-792-101 (N.B. Skim the exhibits for general impressions only)

Study Questions:
1. Evaluate Dr. Mahathirs notion of the “Malay dilemma,” page 19.
2. Evaluate Dr. Mahathirs notion of the Malaysian dilemma, page 29.
3. Could Malaysia become an Islamic model and, if so, how?

10. The Role of Culture in Economic Development

Readings:
- Mancur Olson, Power and Prosperity, Chapter 5, pp. 89-100
- Michael Field, The Arab World, pp. 3-7, 188-194, 251-262, 312-321
- Edward Said, “The Clash of Ignorance”
Study Questions:
(1) Evaluate Field’s notions of the prospects for democracy and institutional change in Arab countries.
(2) How does Olson’s theory of sub-optimal government fit with or differ from this analysis?
(3) What implications do you see for the impact of globalization on Arab countries?

11. Culture and Economic Development (Continued)
Readings:
Ronald Inglehart, “Culture and Democracy”, in Harrison, et al, ed. Culture Matters
Michael Field, The Arab World, pp. 322-344
Katarina Pistor, The Standardization of Law and Its Effect on Developing Economies

Study Questions:
(1) Consider Iglehart’s notion of the correlation between culture and economic development. What are the implications?
(2) Is time itself a cure, as suggested by Field’s analysis of development in Saudi Arabia?
(3) How useful is it to try to transplant institutions from one society to another?

III. Economic Models

12. Inward Orientation: A Very Popular Model
Readings:
BRS Chapter 9 from Sovereign But Unequal: The Great Divide in the Global Village
(Unpublished)
Add exhibits from Norway)
Optional: Kreuger, “Trade Policy and Development: How We Learn”

Study Questions:
(1) Why do inward-oriented or import substitution strategies seem to work well for a time?
(2) Why do they get into trouble?
(3) Evaluate Kreuger’s notions of what should have been learned from these circumstances.

Case: The Beveridge Plan and the Welfare State  9-388-032

Study Questions:
(1) What were some of the basic premises behind the welfare state?
(2) Why did it seem to be so popular in Britain for a while?
(3) With the advantage of 20-20 hindsight, what were the weaknesses of the original model?
14. The “Washington Consensus” Model
Case: New Zealand: The Wonder Down Under 9-700-022

Study Questions:
(1) What were the key reforms implemented from 1984 onward?
(2) How well have they worked?
(3) What lessons can developing countries draw from this experience?

15. The Asian Catch-up Model
Case: Taiwan: Only the Paranoid Survive 9-700-039

Study Questions:
(1) Evaluate Taiwan’s competitive advantages for entry into semiconductors as of 1970.
(2) What roles were played by the private and public sectors in launching the Taiwanese semiconductor industry?
(3) What seems to have been the key factors in Taiwan’s post-war economic success?

16. The Asian Catch-up Model (Cont’d)
Readings:
World Bank Policy Research Report, The East Asian Miracle, Overview plus Chapter 1, Tables 1-6

Study Questions:
(1) Evaluate the World Bank’s explanation of the basics of high growth. (Overview, page 8)
(2) What is the “revisionist” argument, and how important is it?
(3) Evaluate the Bank’s view of the proper role of state intervention. (page 11) How would it apply to the Taiwanese entry into semi-conductors?

17. The Asian Catch-up Model (Cont’d)
Readings:
World Bank Policy Research Report, The East Asian Miracle, Chapter 1
Fishlow and Lewin, Lessons for the East Asian Experience 1-796-020

Study Questions:
TBA

IV. Case problems in economic development

18. Industrial Policy for Sweden
Readings:
The Boston Consulting Group (BCG): A Framework for Swedish Industrial Policy, pp. iii-44 (2-793-003)
Per-Martin Meyerson, The Welfare State in Crisis -- The Case of Sweden, pp.5-21 (2-793-013)
Study Questions:

(1) What was Sweden’s Competitiveness problem as seen by BCG?
   • For the declining sectors?
   • For the growing sectors?
(2) What was Sweden’s competitiveness problem as seen by Meyerson and how does it compare with BCG? Please give particular attention to wages policies, job losses and job creation.
(3) Compare Sweden’s wage costs with those of Germany and the US, as shown in exhibits 10 and 11. Is Sweden’s pattern of “high wages” in declining sectors distinctive? Is it advantageous or disadvantageous?
(4) What is your understanding of Sweden’s policy of “wage solidarity”? What impact, if any, would it have on the wage pattern shown in BCG exhibit 11?
(5) Evaluate Meyerson, page 16, “We have increasingly been forced to replace a profit directed industrial expansion… with a tax financed subsidy policy.”

19. Industrial Policy for Sweden, continued

Readings:
BCG and Meyerson, continued

Study Questions:

(1) Evaluate BCG’s premises for industrial policy, page 4:
   • A country chooses the products it will export
   • Industrial strategy focuses on assessing the competitive position of export sectors…
   • Instead of focusing on aggregate measures, it is essential for national industrial planning to distinguish the different forces driving competitive cost position in each of the country’s key industrial sectors…
(2) Evaluate BCG, page 74, “Governments could not accept the massive employment losses (that were) inevitable if market forces were allowed free play…”
(3) Compare BCG’s description of how wage setting works in Sweden, page 3, with Meyerson’s diagnosis of the “collapse” of the EFO model. Are they talking about the same wage setting model.
(4) Evaluate BCG’s conclusion, page 71, that the low levels of Swedish investment resulted from a lack of opportunity, not from a shortage of saving. What measures would you use to evaluate “opportunity”?
(5) Would you agree with BCG, page 89, that “The most important role of government in assuring the correct pattern of investment is to provide the leadership in creating a consensus with management and unions on overall direction of industrial development. This implies…”

20. Industrial Policy at a Regional Level

Case: Austin, Texas: Building a High-tech Economy  9-799-038

Study Questions:

(1) What were the “essentials” of the transformation of the economy of Austin?
(2) How would you explain the “failure” of high tech development adjacent to Cornell, the U. of Illinois, the U. of Michigan, and various universities in New York City?
(3) What lessons would you suggest for industrial policies in other rich countries?
21. Economic Reform in the Czech Republic

Case: Economic Reform in the Czech Republic: Velvet Revolution or Velvet Blanket? 9-700-100

Study Questions:
(1) Evaluate the “starting position” of the Czech economy relative to other East European economies in 1990: was it better positioned or worse?
(2) How well did the Czech Republic perform in the 1990s?
(3) Evaluate their reforms in terms of promoting stability, “getting the prices right”, getting the institutions right, and promoting growth
(4) What lessons might be drawn from this case?

22. Economic Reform in the Peoples Republic of China

Case: China: Facing the 21st Century 9-798-066
(This is a chance to review a case that many of you had in B.G.I.E. last year.)

Study Questions:
(1) What were some of the basic reforms in addition to the family responsibility system?
(2) What role was played by monetary policy, fiscal policy and the exchange rate regime?
(3) Was China right to delay privatization of its SOE’s?

V. Does Income Convergence Imply Convergence in Financial Systems and Corporate Governance?

23. The U.S. Financial System and the Pressures for Corporate Renewal

Case: Corporate Renewal in America N9-702-018

Study Questions:
(1) What were some of the key changes in the US economy in the period 1970-2000?
(2) What were some of the key changes in the financial system and corporate governance?
(3) How well did the US economy perform in the 1990s?

24. The Japanese Financial System and the Pressures for Corporate Renewal

Case: The Japanese Financial System: From the Post War to the New Millennium 9-700-049

Study Questions:
(1) How well did the Japanese economy perform in the 1990s?
(2) How well did its major firms perform, its major banks?
(3) How did the Japanese financial system work in the 1960s and 1970s?
(4) What went wrong thereafter and why?
25. The German Financial System and the Pressures for Corporate Renewal

Case: Germany 2000: Financial System, Corporate Governance and Economic Performance 9-701-042

Study Questions:
1. How well did the German economy perform in the 1990s?
2. How well did the major German firms perform?
3. How does the German financial system and corporate governance compare with that of Japan?
4. What changes, if any, should they be considering?

26. The Dutch adjust their economic model:


Study Questions:
1. How well has the Dutch economy performed since the mid-1980s?
2. To what factors do you attribute this performance?
3. How does the Dutch experience compare with that of Sweden and the U.S.?
4. To what extent might the Dutch economy serve as a model for other European countries?

27. The Impact of Shareholder Capitalism on the Third World

Case: The Standard Bank of South Africa and Nedcor Ltd.: Two Strategies Collide N9-701-034

Study Questions:
1. Has shareholder capitalism been a source of competitive power for Nedcor?
2. Has an ambitious social agenda been a source of competitive weakness for Stanbic?
3. As an advisor to the South African government what lessons would you draw from this takeover attempt?
4. Does this takeover bid raise any broad questions of developmental strategy for other developing countries?

28. Review of the U.S. Financial System and Its Impact on Corporate Governance

Readings:
The Economist: “The Debt Trap”
Fortune Magazine: “The Amazing Stock Option Sleight of Hand”, “This Stuff is Wrong”

Study Questions:
1. To what extent was the rise of the US stock market a speculative bubble?
2. What evidence is there that the pursuit of shareholder value enhanced US economic performance during the period?
3. What overall conclusions would you draw from the US experience with its increased emphasis on shareholder value?
VI. Review and Summary

29. Review

Reading:
Moss & Scott: "Rebuilding Kosovo One Stone at a Time"

Study Questions:
(1) What is the basic problem in Kosovo?
(2) How and why might a special economic zone help?
(3) What lessons, if any, might one draw for promoting development in other “failed states”?

30. Globalization reviewed

Reading:
Foreign Affairs: "The Great Divide in the Global Village"
Review slides

Study Questions:
(1) What is the basic thesis of the article in Foreign Affairs?
(2) How does this argument with respect to the distinctive problems facing developing countries compare with that of Anne Kreuger on the same subject? (See assignment for class #12.)
(3) What questions does this course suggest with respect to the “wisdom” of the current “system architecture”?