

AN INTERNATIONAL HISTORY OF ECONOMIC POLICY

Professor: Jacek Rostowski
Academic Year 2017/2018* : Fall semester

SHORT BIOGRAPHY

Jacek Rostowski became Finance Minister in the first cabinet of Donald Tusk in 2007, serving until 2013. He became Deputy Prime Minister in 2013. In 2011 he was elected to the Sejm as Deputy for Warsaw, which he left in November 2015. Mr Rostowski is Poland's longest serving Finance Minister. During his term, Poland achieved the highest growth rate of any EU or OECD country. In the years 1995 – 2000 and 2005 – 2006 he was Head of the Economics Department at Central European University in Budapest. During 1992 – 1995 he worked at the Centre for Economic Performance at the London School of Economics. From 1988 to 1995 Mr Rostowski was lecturer at the School of Slavonic and East European Studies, University College London.

From 1989 to 1991 Mr Rostowski was Economic Adviser to the Deputy Prime Minister and Minister of Finance Leszek Balcerowicz. From 1997 to 2001 he chaired the Macroeconomic Policy Council at the Polish Ministry of Finance and from 2002 to 2004 he was Adviser to the Chairman of the National Bank of Poland. Mr Rostowski was also Macroeconomic Policy Adviser to the Government of the Russian Federation in 1991-2. Mr Rostowski is the author of numerous publications on enlarging the European Union, monetary and exchange rate policies and on the transformation of post-communist economies.

COURSE OUTLINE

L'avant guerre

- "Paleoliberalism" and its exceptions: Free trade, balanced budgets and the gold standard under Gladstone, Franz Josef II and the Third Republic.
- US populism and Prussian protectionism: the "cross of gold" and the iron cross.

The 20 year Crisis

- After the Great War: Four great inflations and how to stop them.
- From Capitalism to Socialism (Part 1: the pioneers): War Communism, the "Scissors Crisis" and the New Economic Policy, the First Five Year Plan and forced industrialisation.
- The socialist calculation debate: Hayek v Lange.

- Explaining the Great Depression at the time: Protectionism and the collapse of World Trade, Hayek, Keynes and Fisher.
- Stopping the Great Depression: The methods of Roosevelt, Chamberlain and Hitler.
- Ex-post explanations of the Great Depression (Part 1): Friedman and Bernanke.
- Ex-post explanations of the Great Depression (Part 2): Cartelisation and Kindleberger.
- The "Total War Economies": Great Britain, Germany, the USA and the USSR. The Success of Post-War military-civilian conversion.

L'après guerre

- The "Great Bifurcation", from war economies to socialism and capitalism.
- From Capitalism to Socialism (Part 2: the bureaucrats): the growth and decay of the classical socialist system.
- The Anglo-Saxon world: fears of a post-War depression, the neoclassical synthesis, vulgar Keynesianism and pension reform.
- The Bretton Woods system: financial, price and trade repression v. Keynes's vision of "ordered openness". The struggle over ending rationing and freeing prices and trade.
- France v Germany: indicative planning v "ordoliberalismus" during the "trente glorieuses".
- Western Europe: the "dollar shortage", the long road to convertibility, the European Payments Union and the EEC.

After l'après guerre

- Milton Friedman and the monetarist counterrevolution: the Vietnam War, the first oil shock and the collapse of the Keynesian System.
- Latin American populism and its collapse.
- The fall of "Real Existing Socialism" in the Soviet Union and Eastern Europe.

The triumph of "neo-liberalism"

- Thatcher and Reagan: stabilisation and liberalisation in the Anglo-sphere.
- From Socialism to Capitalism: the dilemmas of "Transition".
- The fall of Communism, the rise of China and the great moderation.
- Central bank independence and the "Great Moderation": the growing sphere of rules v discretion.
- Putting finance at the heart of macroeconomics: banking crises and regulation, preventing v "mopping up" financial crashes.
- Separating Central Banks from Financial Regulators: no institutional fixes.

The financial crash and the Eurozone crisis.

- The Eurozone crisis: the failure of the "rules based" approach.

- Secular stagnation and Quantitative Easing.

READINGS

Books:

- Martin Wolf, *The Shifts and the Shocks*, Penguin, 2015
- Daron Acemoglu and James Robinson, *Why Nations Fail*, Crown Business, 2012.
- A1. "Paleoliberalism" and its exceptions: Free trade, balanced budgets and the gold standard under Gladstone, Franz Josef II and the Third Republic.
- De Cecco, M. "Gold Standard" in *The New Palgrave Dictionary: The World of Economics*, John Eatwell, M.Milgate and P.Newman, Macmillan (1991).
- Allen, W.A. "Mercantilism" in *The New Palgrave Dictionary: The World of Economics*, John Eatwell, M.Milgate and P.Newman, Macmillan (1991).

US populism and Prussian protectionism: the "cross of gold" and the iron cross.

- Friedman, M. (1990). *The Crime of 1873*. *Journal of Political Economy*, 98(6), 1159-1194. Retrieved from <http://www.jstor.org/stable/2937754>
- Spiegel, H.W. "National System" in *The New Palgrave Dictionary: The World of Economics*, John Eatwell, M.Milgate and P.Newman, Macmillan (1991).

After the Great War: Four great inflations and how to stop them.

- Bordo, M. "The Equation of Exchange" in *The New Palgrave Dictionary: Money*, John Eatwell, M.Milgate and P.Newman, Macmillan (1990)
- Sargent, T. "The Ends of Four Big Inflations" in *Rational Expectations and Inflation* Harper and Rowe (1986).
- Cagan P. "Hyperinflation" in *The New Palgrave Dictionary: The World of Economics*, John Eatwell, M.Milgate and P.Newman, Macmillan (1991).

From Capitalism to Socialism (Part 1: the pioneers): War Communism, the "Scissors Crisis" and the New Economic Policy, the First Five Year Plan and forced industrialisation.

- Glyn, A. "Marxist Economics" in *The New Palgrave Dictionary: The World of Economics*, John Eatwell, M.Milgate and P.Newman, Macmillan (1991).
- Nove, A. *An Economic History of the USSR*, caps. 3,4, and 8.
- Wiles, P.J.D. *The Political Economy of Communism*, Chapter 2, Blackwell.

The socialist calculation debate: Hayek v Lange.

- Mises, L. "Economic Calculation in the Socialist Commonwealth" (1920) in *Socialist Economics*, eds. A. Nove and M. Nuti.
- Lange, O. "On the Economic Theory of Socialism" (1936-7) in *Socialist Economics*, eds. A. Nove and M. Nuti.
- Lange, O. "The Computer and the Market" (1967) in *Socialist Economics*, eds. A. Nove and M. Nuti.

Explaining the Great Depression at the time: Protectionism and the collapse of World Trade, Hayek, Keynes and Fisher.

- Hingstman, D and G.T. Goodnight "From the Great Depression to the Great Recession: The 1932 Hayek-Keynes Debate: A Study in Economic Uncertainty, Contingency, and Criticism", *Poroi*, vol. 7, issue 1 (2011).
- Fisher, I. "The Debt Deflation Theory of Great Depressions", *Econometrica* vol.1, no.1, pp 337-357 (1933).
- Phalan, T. "The Smoot-Hawley Tariff and the Great Depression", Foundation for Economic Education, <https://fee.org/articles/the-smoot-hawley-tariff-and-the-great-depression/>

Stopping the Great Depression: The methods of Roosevelt, Chamberlain and Hitler.

- Tooze, A. *The Wages of Destruction: The Making and Breaking of the Nazi Economy*, Cap 1: Recovery. Allen Lane, 2006, paper: Penguin 2008.
- Ritschl, A. "Reparations, Deficits, and Debt Default: The Great Depression in Germany", LSE Working Papers No. 163/12, June 2012, <http://www.lse.ac.uk/economicHistory/workingPapers/2012/WP163.pdf>
- Hingstman, D and G.T. Goodnight "From the Great Depression to the Great Recession: The 1932 Hayek-Keynes Debate: A Study in Economic Uncertainty, Contingency, and Criticism", *Poroi*, vol. 7, issue 1 (2011).
- *The Forgotten Man: A New History of the Great Depression*, Conversation with A. Schlaes, video, Council for Foreign Relations, http://www.cfr.org/financial-crises/forgotten-man-new-history-great-depression/p34257_2007.

Ex-post explanations of the Great Depression (Part 1): Friedman and Bernanke.

- Friedman M. and A. Schwartz *A Monetary History of the United States 1867-1960*, Princeton University Press, 1960.
- Bernanke, B. "The Macroeconomics of the Great Depression: a comparative approach" Chapter 1 in *Essays on the Great Depression* by B. Bernanke, Princeton University Press, 2000.
- Eichengreen, B. and D. Irwin (2009) "The protectionist temptation: Lessons from the Great Depression for today", *VOX*, CEPR's Policy Portal, <http://voxeu.org/article/protectionist-temptation-lessons-great-depression-today>

Ex-post explanations of the Great Depression (Part 2): Cartelisation and Kindleberger.

- Ohanian, L. "What - or Who - Started the Great Depression?" NBER Working Paper 15258 (2009), <http://www.nber.org/papers/w15258>
- Cole, H. And L. Ohanian, "The Impact of Cartelisation, Money, and Productivity Shocks on the International Great Depression" NBER Working Paper 18823 <http://www.nber.org/papers/w18823>
- Charles Kindleberger, *The World in Depression, 1929-39*, Chapter 14, "An Explanation of the 1929 Depression", (Berkeley: University of California Press, 1973), pp. 291-308

The "Total War Economies": Great Britain, Germany, the USA and the USSR. The Success of Post-War military-civilian conversion.

- Harrison, M. The Economics of World War II, Chapter 1, Cambridge University Press (2000).
- Eichengreen, B and M. Uzan "The Marshall Plan: Economic Effects and Implications for Eastern Europe and the USSR" in Economic Policy No. 14, pp. 14-75, Cambridge University Press, April 1992.

The "Great Bifurcation", from war economies to socialism and capitalism.

- Hayek, F. The Road to Serfdom, Routledge (1944) or any subsequent edition.
- Glyn, A. "Marxist Economics" in The New Palgrave Dictionary: The World of Economics, John Eatwell, M. Milgate and P. Newman, Macmillan (1991).

From Capitalism to Socialism (Part 2: the bureaucrats): the growth and decay of the classical socialist system.

- Wiles, P.J.D. The Political Economy of Communism, Caps. 11, 13, and 15. Blackwell.
- Montias, J. M. (1959) "Planning with material balances in Soviet-type economies" in Socialist Economics, eds. A. Nove and M. Nut I, Penguin.

The Anglo-Saxon world: fears of a post-War depression, the neoclassical synthesis, vulgar Keynesianism and pension reform.

- Hicks, J. "Mr Keynes and the Classics: a suggested interpretation" Econometrica, vol. 5, pp 147-59 (1937).
- Eatwell, J. "Keynesianism" in The New Palgrave Dictionary: The World of Economics, John Eatwell, M. Milgate and P. Newman, Macmillan (1991).
- Mercuzzo, M.C. "Keynes and the Welfare State" mimeograph, La Sapienza, http://www.ie.ufrj.br/datacenter/ie/pdfs/seminarios/pesquisa/texto_02_12.pdf

The Bretton Woods system: financial, price and trade repression v. Keynes's vision of "ordered openness". The struggle over ending rationing and freeing prices and trade.

- Skidelsky, R. "The Future of the World Monetary System in Historical Perspective" (2003), <http://www.skidelskyr.com/site/article/the-future-of-the-world-monetary-system-in-historical-perspective/>
- Skidelsky, R. "Keynes, Globalisation and the Bretton Woods Institutions in the Light of Changing Ideas about Markets", World Economics, vol. 6, no. 1, (2005). http://oxonia.org/WE%20articles/WE_skidelsky.pdf
- Eichengreen, B and M. Uzan "The Marshall Plan: Economic Effects and Implications for Eastern Europe and the USSR" in Economic Policy No. 14, pp. 14-75, Cambridge University Press, April 1992.
- Klapholz, K. "Rent Control" in The New Palgrave Dictionary: The World of Economics, John Eatwell, M. Milgate and P. Newman, Macmillan (1991).

France v Germany: indicative planning v "ordoliberalismus" during the "trente glorieuses".

- Eatwell, J. "Import Substitution and Export-led Growth" in The New Palgrave Dictionary: The World of Economics, John Eatwell, M.Milgate and P.Newman, Macmillan (1991).
- Bofinger, P. "German macroeconomics: The long shadow of Walter Eucken", in VOX: CEPR's Policy Portal, 2016. <http://voxeu.org/article/german-macroeconomics-long-shadow-walter-eucken>
- Kindleberger, C.P. "French Planning" in National Economic Planning, ed. Max F. Millikan, pp. 279 - 303, NBER, (1967). <http://www.nber.org/chapters/c1426>

Western Europe: the "dollar shortage", the long road to convertibility, the European Payments Union and the EEC.

- Eichengreen, B. and Jorge Braga de Macedo, "The European Payments Union : History and Implications for the Evolution of the International Financial Architecture", OECD Development Centre, Paris, 2001. <http://www.jbmacedo.com/oecd/triffin.html>
- Historical events in the European integration process (1945–2014), cvce.eu by uni.lu (2016). <http://www.cvce.eu/en/education/unit-content/-/unit/02bb76df-d066-4c08-a58a-d4686a3e68ff>

Milton Friedman and the monetarist counterrevolution: the Vietnam War, the first oil shock and the collapse of the Keynesian System.

- Friedman, M. "A monetary and fiscal framework for economic stability" in Essays in Positive Economics, University of Chicago Press (1953).
- Friedman, M. "The case for flexible exchange rates" in Essays in Positive Economics, University of Chicago Press (1953).

Latin American populism and its collapse.

- Dornbusch, R. and S. Edwards "The Macroeconomics of Populism" in The Macroeconomics of Populism in Latin America, eds. R. Dornbusch, and S. Edwards, Chicago UP (1991).
- Kaufman, R. and B. Stallings "The Political Economy of Latin American Populism" in The Macroeconomics of Populism in Latin America, eds. R. Dornbusch, and S. Edwards, Chicago UP (1991).
- Cardoso, E. and A. Helwege "Populism, Profligacy and Redistribution" in The Macroeconomics of Populism in Latin America, eds. R. Dornbusch, and S. Edwards, Chicago UP (1991).

The fall of "Real Existing Socialism" in the Soviet Union and Eastern Europe.

- Sachs, J. Poland's Jump to the Market Economy, Chapter 1, MIT Press (1993).
- Rostowski, J. "Comparing Two Great Depressions: 1929-33 and 1989-93" in Lessons from the Economic Transition ed. S. Zecchini, Kluwer (1997).

Thatcher and Reagan: stabilisation and liberalisation in the Anglo-sphere.

- Sargent, T.J. "Stopping moderate inflations: the methods of Poincaré and Thatcher" in Rational Expectations and Inflation Harper and Rowe (1986).
- Sargent, T.J. "Reaganomics and credibility" in Rational Expectations and Inflation Harper and Rowe (1986).

From Socialism to Capitalism: the dilemmas of "Transition".

- Sachs, J. Poland's Jump to the Market Economy, Chapters 2 and 3, MIT Press (1993).
- Boycko, M., A. Schleifer and R. Vishny "Privatising Russia" in Brookings Papers on Economic Activity, vol. 2 (1993).

The fall of Communism, the rise of China and the great moderation.

- Bean, C. "The Great Moderation, the Great Panic and the Great Contraction", Bank of England (2009),
<http://www.bankofengland.co.uk/archive/Documents/historicpubs/speeches/2009/speech399.pdf>

Central bank independence and the "Great Moderation": the growing sphere of rules v discretion.

- Goodhart, C. "Central Bank Independence" in The Central Bank and the Financial System, Palgrave, Macmillan (1995).

E5: Putting finance at the heart of macroeconomics: banking crises and regulation, preventing v "mopping up" financial crashes.

- INTERNATIONAL MONETARY FUND "Lessons of the Global Crisis for Macroeconomic Policy", prepared by the Research Department (in consultation with the Fiscal Affairs and the Monetary and Capital Markets Departments), approved by O. Blanchard (2009),
<https://www.imf.org/external/np/pp/eng/2009/021909.pdf>
- Tobin, J. "Financial Intermediaries" in The New Palgrave Dictionary: Finance, John Eatwell, M.Milgate and P.Newman, Macmillan (1989).
- Goodhart, C. "Can we Improve the Structure of Financial Systems?" in The Central Bank and the Financial System, Palgrave, Macmillan (1995).

Separating Central Banks from Financial Regulators: no institutional fixes.

- Goodhart, C. "Institutional Separation between Supervisory and Monetary Agencies" in The Central Bank and the Financial System, Palgrave, Macmillan (1995).

The Eurozone crisis: the failure of the "rules based" approach.

- De Grauwe, P. Economics of Monetary Union, Chapter 9, OUP (2000).
- Rostowski, J. "How to Reform the Stability and Growth Pact" in The Eastern Enlargement of the Eurozone eds. M.Dąbrowski and J.Rostowski, Kluwer Academic Publishers, pp185-198, Boston (2005).
- Goodhart, C. "The Political Economy of Monetary Union" in The Central Bank and the Financial System, Palgrave, Macmillan (1995).
- Goodhart, C. "A European Central Bank" in The Central Bank and the Financial System, Palgrave, Macmillan (1995).

Secular stagnation and Quantitative Easing.

- Summers, L. "The Age of Secular Stagnation: What It Is and What to Do About It", Foreign Policy (2016). <https://www.foreignaffairs.com/articles/united-states/2016-02-15/age-secular-stagnation>, and <http://larrysummers.com/2016/02/17/the-age-of-secular-stagnation/>

- Koo, R. "Why US Quantitative Easing worked better than other QEs" (2016), <http://ftalphaville.ft.com/2016/07/19/2170198/koo-why-us-quantitative-easing-worked-better-than-other-qes/?siteedition=intl#recommended-h-996651470307899000>
- McCrum, D. "I'm from the Central Bank, and I'm here to help", (2016), <http://www.ft.com/cms/s/0/283971b6-5a20-11e6-8d05-4eaa66292c32.html?siteedition=intl#axzz4GSN6BYt3>.
- Skidelsky, R. "A tweak to helicopter money will help the economy take off", (2016), <https://next.ft.com/content/a36c5a26-5997-11e6-9f70-badea1b336d4>.

Suggested holiday reading:

If you have not done economics before, I suggest that you look at *one* of the textbooks listed below, with particular attention to supply and demand, marginal cost and marginal utility, and producer, consumer and total social surplus.

You should also look at the Acemoglu and Robinson and Woolf books recommended.

If you have done some economics, it is suggested that (apart from the Woolf and the Acemoglu and Robinson) you read four to six of the recommended articles.

If you have done a lot of economics previously, then you should read more of the recommended articles (ideally all 13 of them).

Textbooks:

Economics

- Parkin, Michael (1939-....)
- Pearson, 2014, <http://catalogue.sciencespo.fr/ark:/46513/sc000125408>

Economics

- Nordhaus, William D., Samuelson, Paul-Anthony (1915-2009)

McGraw-Hill, 2010, <http://catalogue.sciencespo.fr/ark:/46513/sc0001231928>

Economics

- Wells, Robin, Krugman, Paul (1953-....)
- Worth Publishers Macmillan Higher Education, 2013, <http://catalogue.sciencespo.fr/ark:/46513/sc0001254429>

Principles of economics

- Mankiw, N. Gregory
- Cengage Learning, 2014, <http://catalogue.sciencespo.fr/ark:/46513/sc0001261981>

Books:

- Daron Acemoglu and James Robinson, *Why Nations Fail*, Crown Business, 2012.
- Martin Wolf, *The Shifts and the Shocks*, Penguin, 2015.

Articles:

- De Cecco, M. "Gold Standard" in *The New Palgrave Dictionary: The World of Economics*, John Eatwell, M.Milgate and P.Newman, Macmillan (1991).
- Spiegel, H.W. "National System" in *The New Palgrave Dictionary: The World of Economics*, John Eatwell, M.Milgate and P.Newman, Macmillan (1991).

The 20 year Crisis

- Bordo, M. "The Equation of Exchange" in *The New Palgrave Dictionary: Money*, John Eatwell, M.Milgate and P.Newman, Macmillan (1990)
- Sargent, T. "The Ends of Four Big Inflations" in *Rational Expectations and Inflation* Harper and Rowe (1986).
- Cagan P. "Hyperinflation" in *The New Palgrave Dictionary: The World of Economics*, John Eatwell, M.Milgate and P.Newman, Macmillan (1991).
- Nove, A. *An Economic History of the USSR*, caps. 3,4, and 8.
- Lange, O. "On the Economic Theory of Socialism" (1936-7) in *Socialist Economics*, eds. A. Nove and M. Nuti.
- Fisher, I. "The Debt Deflation Theory of Great Depressions", *Econometrica* vol.1, no.1, pp 337-357 (1933).
- Tooze, A. *The Wages of Destruction: The Making and Breaking of the Nazi Economy*, Cap 1: Recovery. Allen Lane, 2006, paper: Penguin 2008.
- *The Forgotten Man: A New History of the Great Depression*, Conversation with A. Schlaes, video, Council for Foreign Relations, <http://www.cfr.org/financial-crises/forgotten-man-new-history-great-depression/p34257%202007>

Ex-post explanations of the Great Depression (Part 1): Friedman and Bernanke.

- Bernanke, B. "The Macroeconomics of the Great Depression: a comparative approach" Chapter 1 in *Essays on the Great Depression* by B. Bernanke, Princeton University Press, 2000.
- Charles Kindleberger, *The World in Depression, 1929-39*, Chapter 14, "An Explanation of the 1929 Depression," (Berkeley: University of California Press, 1973), pp. 291-308
- *The "Total War Economies": Great Britain, Germany, the USA and the USSR. The Success of Post-War military-civilian conversion.*
- Harrison, M. *The Economics of World War II*, Chapter 1, Cambridge University Press (2000). Eichengreen, B and M. Uzan "The Marshall Plan: Economic Effects and Implications for Eastern Europe and the USSR" in *Economic Policy* No. 14, pp. 14-75, Cambridge University Press, April 1992.