

## Review—Yi Wen's basic argument for the China Miracle

1. Government fements the mass market, lays foundation with infrastructure. Pro-business, mercantilist government. Specialization and division of labor limited by the size of the market.
2. Convincing peasants to forgo their own control over food security, to go to work in an organized workforce (in factories). Coordination problem.

## How Does Wen explain the Industrial Revolution? Why did it happen in England and not somewhere else?

1. Who had amassed a large collection of colonies and control of the oceans? England.
2. Who passed laws to enforce consumption of domestically produced goods? England
3. Who had the infrastructure to move goods to the mass market? England.
4. Who overcame the coordination problem? The merchants. They financed and organized the village industries. Merchants engaged and recruited the peasants to work cooperatively.

## Other issues to strengthen Wen's argument

1. After the IR in England, when mechanization spread across Western Europe, did institutions in these countries suddenly change? No.
2. Why not India? High transport costs means no mass market.

## What does Wen say in response to AR's argument that extractive societies won't innovate and won't be on the technological frontier? (specifically about China)

1. What's wrong with always being second in the technology ladder?

2. This was the US model for a long time. IN the 1800s, the US was backward. People studied British steel making and science based industries.
3. Wen argues that the industrial revolution wasn't a revolution in science. It was a revolution in practical knowledge. In organization and manufacturing skills, changing the way people produce, distribute and communicate.

#### Other supporting examples

1. Interstate commerce act and development of a US mass market
2. NAFTA, the European Community. Two other examples of the belief that a mass market is key.
3. Even the US government actively engages to promote US business.

#### What we tried to achieve in this class

1. Historical China. Once the wealthiest, and highly developed societies. Xi Jinping would like to restore China to this place in the world.
  2. Period of decline and humiliation, became dirt poor.
  3. Communist takeover, centrally planned economy, planning disasters.
  4. Economic reforms under Deng. The miracle, then the reversal, which is the current model.
  5. Smaller more technical economic issues
    - Efficiency and Pareto Optimality—comparing central planning and decentralized decision making (consumption insurance).
- Midterm
- Allocative efficiency, distortions due to favoritism and bias. Willingness to work for low wages doesn't mean efficiency.

Explored efficiency of Chinese firms in Hsieh and Klenow paper.

- International trade and income inequality.
- Demographic transition
  - i. Demographic dividend
  - ii. Saving
  - iii. Sex imbalance

6. Hong Kong

7. Big Picture View. Exploit the China Miracle to learn about the wealth and poverty of nations. Two views

- Institutional theory
- Mercantilist pro-business government