

**MGT 627/PLSC717/PLSC447**  
**Business and Government After Communism**

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Fall 2015, Tuesdays 3:30 – 5:20

2210 Evans Hall, 165 Whitney

The collapse of the USSR and its satellites recast business-government relations across the former communist world. New markets were manufactured, state assets were privatized, and novel business ventures were created. Even China, which retained its Communist political system, joined the capitalist economic order with a vengeance at home and abroad. The end of the Cold War also reshaped business-government relations in the West, as the threatening shadow of an alternative to capitalism “out there” vanished. The neo-liberal resurgence, which had seen extensive deregulation plus privatization of government monopolies in the 1980s, gathered momentum. Financial markets were freed up and privatization extended to core government functions like prisons and the military. Gated communities proliferated, spawning novel forms of private local government. Business took on new roles in developing counties as well, filling gaps in public service provision from weak states, and sometimes even reshaping political regimes themselves.

This course explores the business-government nexus in this evolving context. The goal is to rethink business’s place in society, and its relations with government, in an era when alternatives to capitalism are moribund. The motivating thought is that unless business is part of the solution to major social and political challenges – ranging from sustaining democracy to feeding populations and managing environmental threats – it will likely be part of the problem. We examine cases in which new business roles have been more and less successful, to chart parts of the emerging landscape and develop accounts of best practices and pitfalls to avoid.

Requirements:

**All students:** At least three 1 page reading responses to be circulated 24 hours before class discussions.

**SOM Students:** choose one. Option A: Two 5-6 page memos (30 percent each) which outline business plans for a firm to effect some a constructive social or political change, a final exam (20 percent) & participation (20 percent). Option B: A research paper, topic to be agreed with the instructor (80 percent); participation (20 percent).

**Graduate Students** choose one. Option A: Two 6-8 page papers (30 percent each), final exam (20 percent) & participation (20 percent). Option B: Research paper, topic to be agreed with the instructor (80 percent), participation (20 percent).

**Yale College Students** Midterm (25 percent), one 8-10 page paper (25 percent), final exam (30 percent); participation (20 percent).

Books are available at the Yale bookstore. Other materials are on the classes v2 server.

**Statement regarding plagiarism.** Misrepresenting the work of others as your own is plagiarism, as is failing to acknowledge any and all sources on which you draw. It will be reported to the relevant university authority. No exceptions. For relevant rules and expectations see <http://writing.yalecollege.yale.edu/advice-students/using-sources/understandng-and-avoiding-plagiarism>

## Course Outline and Schedule of Classes

### ***Week 1 [September 8]. Introduction and Housekeeping.***

### ***Week 2 [September 15]. Business Oligarchs in Russia after Communism.***

Much of the literature on post-communist Russia has focused on powerful oligarchs who operated in close alliance first with Boris Yeltsin and then with Vladimir Putin to the detriment of Russia's nascent democracy. Recent research suggests that, long before outsiders knew that the Soviet political system was crumbling, individuals and groups within the CPSU and the KGB began siphoning state assets into secret private accounts – many of them offshore. This is how the oligarchs were created. In this class we will trace this evolution and its subsequent impact of Russia's political institutions.

#### Required:

Bill Browder, *Red Notice: A True Story of High Finance, Murder, and One Man's Fight for Justice* (Simon & Schuster, 2015), Chapters 1-9, 21-24

Karen Dawisha, *Putin's Kleptocracy: Who Owns Russia?* (Simon & Schuster, 2014). Chapter 1

#### Suggested:

Dawisha, the rest.

### ***Week 3: [ September 22] Business and South Africa's transition to Democracy (Guest: Tumi Makgetla, PhD candidate, Yale Political Science).***

South Africa's emergence as a democracy in 1994 is one of the fabled success stories of recent democratic transitions. Less well known is the vital role played by business groups in developing relationships with the African National Congress, initiating talks and brokering deals between the opposition and the Apartheid government, and managing potential spoilers right up until the April 1994 founding election. We will compare the roles of political and business leaders, with particular attention to the Consultative Business Movement (CBM) on the transition, and the associated restructuring of South Africa's economy and society.

#### Required:

Itumeleng Makgetla, Jean Rosenthal, and Ian Shapiro, "Business leadership in South Africa's 1994 reforms," Yale School of Management raw case. <http://nexus.som.yale.edu/south-africa-transition/?q=node/87>

#### Suggested:

James Read and Ian Shapiro, "Transforming power relationships: Leadership, risk and hope," Vol. 108, No. 1 (February 2014), pp. 40-53.

Craig Charney, "Civil society, political violence, and democratic transitions: Business and the peace process in South Africa, 1990 to 1994, *Comparative Studies in Society and History*, Vol. 41, No. 1 (January 1999), pp. 182-206.

**Week 4 [September 29]. Business and the Israel/Palestine Conflict (Guest: Tumi Makgletla, PhD candidate, Yale Political Science).**

Until recently, business leaders, firms, and organizations have avoided involvement in the Israel/Palestine conflict. That changed in 2012 with the formation of Breaking the Impasse (BTI), a group of some 300 Palestinian and Israeli business leaders and employers led by Palestinian magnate Munib Masri and Israeli tech billionaire Yossi Vardi. We will examine the formation and evolution of BTI in light of South Africa's CBM, with an eye to enumerating lessons from the South African experience for this ongoing effort in the Middle East.

Required:

Klaus Schwab, "Breaking the Impasse in the Middle East," *The Huffington Post* (May 27, 2013) [http://www.huffingtonpost.com/klaus-schwab/breaking-the-impasse\\_b\\_3344033.html](http://www.huffingtonpost.com/klaus-schwab/breaking-the-impasse_b_3344033.html)

Niv Elis, "Breaking the Impasse, at an Impasse," *The Jerusalem Post* (May 14, 2014) <http://www.jpost.com/Business/Business-Features/Breaking-the-Impasse-at-an-impasse-352207>

David Horowitz, "Business-led peace initiative unveiled in Jordan," *The Times of Israel* (May 26, 2013) <http://www.timesofisrael.com/business-led-peace-bid-unveiled-in-jordan/>

Transcript of "Breaking the Impasse" Keynote Luncheon, Middle East Institute (November 26, 2013) <http://www.mei.edu/content/transcript-breaking-impasse-keynote-luncheon>

Secretary of State John Kerry, "Remarks to the Special Program on Breaking the Impasse," King Hussein Convention Center, Dead Sea, Jordan (May 26, 2013) <https://london.usembassy.gov/midest317.html>

Ora Cohen, "Israeli businesspeople launch campaign for peace with Palestinians," *Haaretz*, (May 24, 2015) <http://www.haaretz.com/news/diplomacy-defense/.premium-1.571310>

Suggested:

Courtney Jung, Ellen Lust, and Ian Shapiro, "Problems and Prospects for democratic settlements: South Africa as a model for the Middle East and Northern Ireland," in Ian Shapiro, *The Real World of Democratic Theory* (Princeton University Press, 2012), pp. 80-142.

**Week 5 [October 6]. State and Business in India under Socialism and Reform (Guest: Gautam Nair, PhD candidate, Yale Political Science).**

The era of economic reforms that began in the 1980s and accelerated in the 1990s has been one of unprecedented economic growth and dynamism in India. Indeed, India's economy recently overtook China's to become the fastest growing big economy. We examine three sets of issues. First, how and why politicians liberalized the Indian economy with particular attention to politicians' changing relationship with business. Second, whether economic growth has improved living standards for most or has whether it has principally benefited politically connected firms and families. Third, whether the influence of business in politics has grown in the reform era and whether this has led to a narrowing of India's democracy.

Required:

Atul Kohli, *Poverty amid Plenty in the New India* (Cambridge University Press, 2012), Part 1, Part 2, and Part 3 Section I (19-159).

Jagdish Bhagwati and Arvind Panagariya, *Why Growth Matters: How Economic Growth in India Reduced Poverty and the Lessons for Other Developing Countries* (Council on Foreign Relations 2013), Preface (vii-xxii), Chapters 3, 4, 5, 7, 8, 9, 13 (11-80, 95-128, 149-156).

Suggested:

Bhagwati and Panagariya, Chapters 14-17 (157-200).

Kalpna Kochhar, Utsav Kumar, Raghuram Rajan, Arvind Subramanian and Ioannis Tokatlidis. "India's pattern of development: What happened, what follows?" *Journal of Monetary Economics* (2006), 53 (5), pp. 981-1019.

Aravind Adiga. *The White Tiger: A Novel* (Free Press, 2008).

P. Sainath. *Everybody Loves a Good Drought* (Penguin, 2000). See also: <http://www.ruralindiaonline.org/>

Rakesh Mohan. *Growth with Financial Stability: Central Banking in an Emerging Market* (Oxford, 2011). Chapter 12, Economic Reforms in India: Where Are We and Where Do We Go.

***Week 6 [October 13]. Land Acquisition and Walmart's (Failed) Entry into India (Guest: Gautam Nair, PhD candidate, Yale Political Science).***

For businesses around the world, India's rapidly expanding economy and market are an unprecedented opportunity. Yet, the country's complex politics pose unique challenges for foreign companies and home-grown firms. We consider these challenges in the context of two distinct cases: Tata Motors' efforts to acquire land for a factory manufacturing its ultra-low priced Nano car and Walmart's failed attempt at entering the Indian retail market. We explore the idea that there is no escaping the political context in which businesses operate, how these political risks might be understood and managed, the thorny normative and policy issues around land acquisition and economic liberalization, and the role that both democracy and business can play in producing better or worse outcomes.

Required

Samuitra Jha, "Analyzing political risks in developing countries: a practical framework for project managers." *Business and Politics* 15(1): 2013, 117-36.

Laura Alfaro and Lakshmi Iyer. "Special Economic Zones in India: Public Purpose and Private Property." Harvard Business School Case Study 9-709-027 (2012).

Saumitra Jha and Debra Schifrin. "Managing Local Political Risk: Parking the Tato Nano." Stanford Graduate School of Business Case Study P-78(A) (2012).

Karthik Ramanna and Vidhya Muthuram. "Walmart Lobbying in India?" Harvard Business School Case Study 9-114-023 (2015).

***Week 7 [October 20]. FAS Workshop session on student projects***

No class for SOM and students. FAS students will meet to brainstorm about student projects.

***Week 8 [October 26] Ad hoc extra session on Russian Privatization, 7:00 – 8:30 in Room 203 Luce Hall, 34 Hillhouse with dinner provided (Guest: Paolo Zannoni, Head of Goldman Sachs, Moscow).***

Required:

Thane Gustafson, *Wheels of Fortune* (Harvard UP, 2012), chapter 6.

***Week 8 [October 27] Business Interests in the Arab Spring***

The Arab Spring is widely portrayed as having floundered due to the rise of Islamist extremism. The prospects for democracy were never strong in many of these countries, but recent research suggests that corrupt business interests were consequential in undermining the emerging regimes' legitimacy, rendering them vulnerable to Islamist assault. We will explore this question by comparing aspects of business state relations in Morocco, Tunisia, and Egypt since the 1990s.

Required:

Sarah Chayes, *Thieves of State: How Corruption Threatens Global Security* (Norton 2015), chapters 1, 6-8.

Suggested:

Chayes, *Thieves of State*, the rest.

Much has been made of state-led privatization of the Chinese economy, with the communist government "picking winners" and retaining control of the economy's commanding heights. But recent research suggests that semi-independent economic actors have played larger roles than previously thought. We will explore the evolving Chinese model of government-business relations through the lens of this debate, asking what are its implications for Chinese politics?

***Week 9: November 3. China in Africa [November 3]***

***Class will not meet at the regular time. Instead Professor Deborah Brautigam, Professor of International Political Economy at Johns Hopkins, will lecture in Luce Hall Auditorium at 4:30 followed by a working dinner with her.***

New Chinese business interests, sometimes heavily underwritten by the Chinese state, are also shaping politics and economics beyond China's borders. Particularly in Africa, where weak state governments have sought to privatize floundering or failed public sector enterprises left over from the socialist era, Chinese companies have moved in to build infrastructure and fill vacuums. Initial Chinese interests in mining and other extractive industries have been

supplemented by diversification into agriculture, services, and manufacturing. Joint ventures with African and other foreign interests are proliferating. In this class we will consider these developments, with particular attention to their impact on African politics.

Required:

Deborah Brautigam, *The Dragon's Gift: The Real Story of China in Africa* (Oxford University Press, 2010), Prologue, chs. 1-5, 7-8, 11.

Suggested:

Brautigam, *Dragon's Gift*, the rest.

Howard French, *China's Second Continent: How a Million Migrants are Building a New Empire in Africa* (Vintage, 2015).

**Week 10 [November 10]. Business-State Relations in China (Guest: Yuhua Wang, Assistant Professor of Government, Harvard University).**

Much has been made of state-led privatization of the Chinese economy, with the communist government "picking winners" and retaining control of the economy's commanding heights. But recent research suggests that semi-independent economic actors have played larger roles than previously thought. We will explore the evolving Chinese model of government-business relations through the lens of this debate, asking what are its implications for Chinese politics?

Required:

Yuhua Wang, *Tying the Autocrat's Hands: The Rise of the Rule of Law in China* (Cambridge University Press, 2015), c h. 4.

Regina Abrami, William Kirby & F. Warren Flannigan, "Why China can't innovate and what it's doing about it," *Harvard Business Review* (March 2014): 107-11.

Jie Chen and Bruce Dickson "Allies of the State: Democratic Support and Regime Support among China's Private Entrepreneurs," *China Quarterly* (December 2008): 780-804.

Bruce Dickson, "Integrating wealth and power in China," *China Quarterly* (December 2007): 827-54.

Suggested:

Wang, *Tying the Autocrat's Hands*, the rest.

Nicholas Lardy, *Markets Over Mao: The Rise of Private Business in China* (Peterson Institute for International Economics, 2014).

Yasheng Huang, *Capitalism with Chinese Characteristics: Entrepreneurship and the State* (Cambridge University Press, 2008).

Yuhua Wang, "Judicial hierarchy and judicial outcomes: Evidence from a natural experiment in China." Working paper, Harvard. August 2015.

**Week 11 [November 17]. Business, government, and low income Housing in the U.S. (John Geanakoplos, James Tobin Professor of Economics, Yale University).**

In the 1990s and early 2000s, successive Democratic and Republican administrations actively incentivized banks to make home-ownership available to low-income families. The result was the subprime mortgage crisis that came to a head in 2007, precipitating the global financial meltdown the following year and longer-term net losses for the intended beneficiaries of the original efforts: poor and minority homeowners. We will consider the crisis and its aftermath with particular attention to the role business and government could play in expanding access to housing without courting the kind of catastrophe that unfolded here.

Required:

Gretchen Morgenson and Clinton Rosner, *Reckless Endangerment: How Outsized Ambition, Greed, and Corruption led to Economic Armageddon* (Times Books, 2011), pp. 31-40, 59-62, 114-117, 142-145 .

Josh Rosner, "Housing in the new millennium."

John Geanakoplos, "Solving the present crisis and managing the leverage cycle," Yale University Cowles Foundation working paper # 1751 (January 2010)  
[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1539488](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1539488) [10-31-2010].

Suggested:

John Geanakoplos, "The leverage cycle," Yale University Cowles Foundation Discussion Paper # 1715 (July 2009) [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1441943##](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1441943##) [10-31-2010].

**Week 12 [December 1]. Business, Governments, and Welfare: The Case of Health Insurance in the U.S. (Guest: Peter Swenson, C.M. Saden Professor of Political Science, Yale University).**

It is common to think of business as opposed to expanding welfare, as the public debate over President Obama's Patient Protection and Affordable Care Act of 2010 ("Obamacare") seems to suggest. Recent research reveals more complex relations between business and welfare state expansion in capitalist democracies, suggesting that significant expansions of welfare provision do not occur without at least tacit support from major business interests. We explore these debates through the lens of health insurance in the U.S. from Medicare to Obamacare.

Required:

David Broockman, "The 'problem of preferences:' Medicare and business support for the welfare state," *Studies in American Political Development* (October 2012), pp. 83-106.

Peter Swenson, "Business interests and the healthcare state: Medicare and Obamacare in historical and comparative perspective," mimeo, 2015.

Peter Swenson, *Capitalists Against Markets* (Oxford University Press, 2002), Capitalists against Markets pages 3-29, 38-40, 47-70, and 189-244.

Suggested:

Peter Swenson and Scott Greer “Foul weather friends: Big business and healthcare reform in the 1990s in historical perspective,” *Journal of Health Politics, Policy and Law*, Vol. 27, No. 4, (August 2002), pp. 606-38.

***Week 13 [December 8] Privatizing Core Government Functions: Local Government and the Military***

**A. Local Government**

Business is generally thought of as the private sector; government the public sector, but in recent decades financially strapped governments have ceded much territory to private business enterprise. We begin our examination of this trend by focusing on local government in the U.S., where privatization has proliferated as a byproduct of the needs of fiscally strapped cities to supply housing. Once created, these ventures take on lives of their own, reshaping government itself.

Required:

Evan McKenzie, *Beyond Privatopia: Rethinking Residential Private Government* (Urban Institute Press, 2011), chs. 1, 4

Suggested:

Evan McKenzie, *Beyond Privatopia*, the rest.

**B. The military**

Nothing is closer to a core function of government than the monopoly of coercive military force. But recent wars have been fought with increased reliance on private military contractors, partly to cut costs and partly to avoid the electoral sanction when voters and their families lack enthusiasm for fighting. We will examine this with particular reference to the U.S. wars in Afghanistan and Iraq.

Required:

P.W. Singer, *Corporate Warriors: The Rise of the Privatized Military Industry* (Cornell University Press, 2007), Chs 1-2, 5, 7

Case: Rebecca Dunning, “Heroes or Mercenaries? Blackwater, Private Security Companies and the U.S. Military. Kenan Institute of Ethics, Duke University.”  
[http://psm.du.edu/media/documents/reports\\_and\\_stats/think\\_tanks/duke\\_kenan\\_dunning\\_heroes-or-mercenaries.pdf](http://psm.du.edu/media/documents/reports_and_stats/think_tanks/duke_kenan_dunning_heroes-or-mercenaries.pdf)

Suggested:

Singer, *Corporate Warriors*, The rest.