



LTIC
VENICE
FORUM

Long-Term Investors Club
Venice Forum

Towards a Sustainable Future: The Role of Long-Term Investment

Thursday 28 October and Friday 29 October 2010
Venice, Island of San Clemente

Jeffrey FRIEDEN
Harvard University

**“The Swinging Boundaries Between State And
Markets: A Historical Perspective”**



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States and markets: Political economy and history

Jeffrey A. Frieden
Harvard University
October 2010

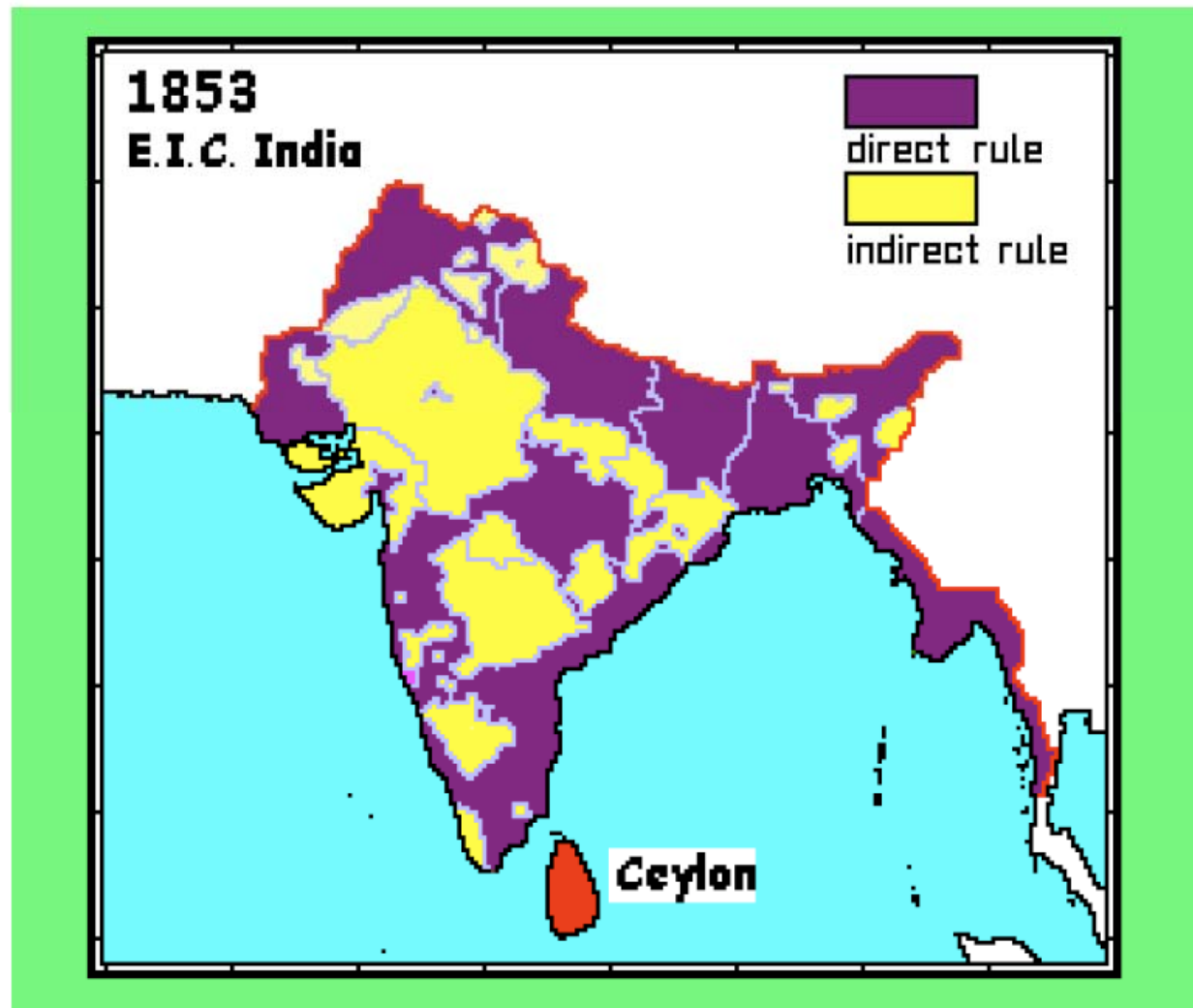
States and investments

- What should be: the public interest
- What is: political economy
 - Governments need support
 - Constituents: particularistic interests, generals, noblemen, voters
 - Broader constituencies → more general-purpose policies, public goods

Mercantilism and monopoly

- Political order
 - Monarchy backed by powerful economic interests
- Government aims
 - Develop new regions
 - Cement power of crown
 - Build alliance with merchants and financiers
- Charter companies
 - Quasi-public (often monarch as CEO)

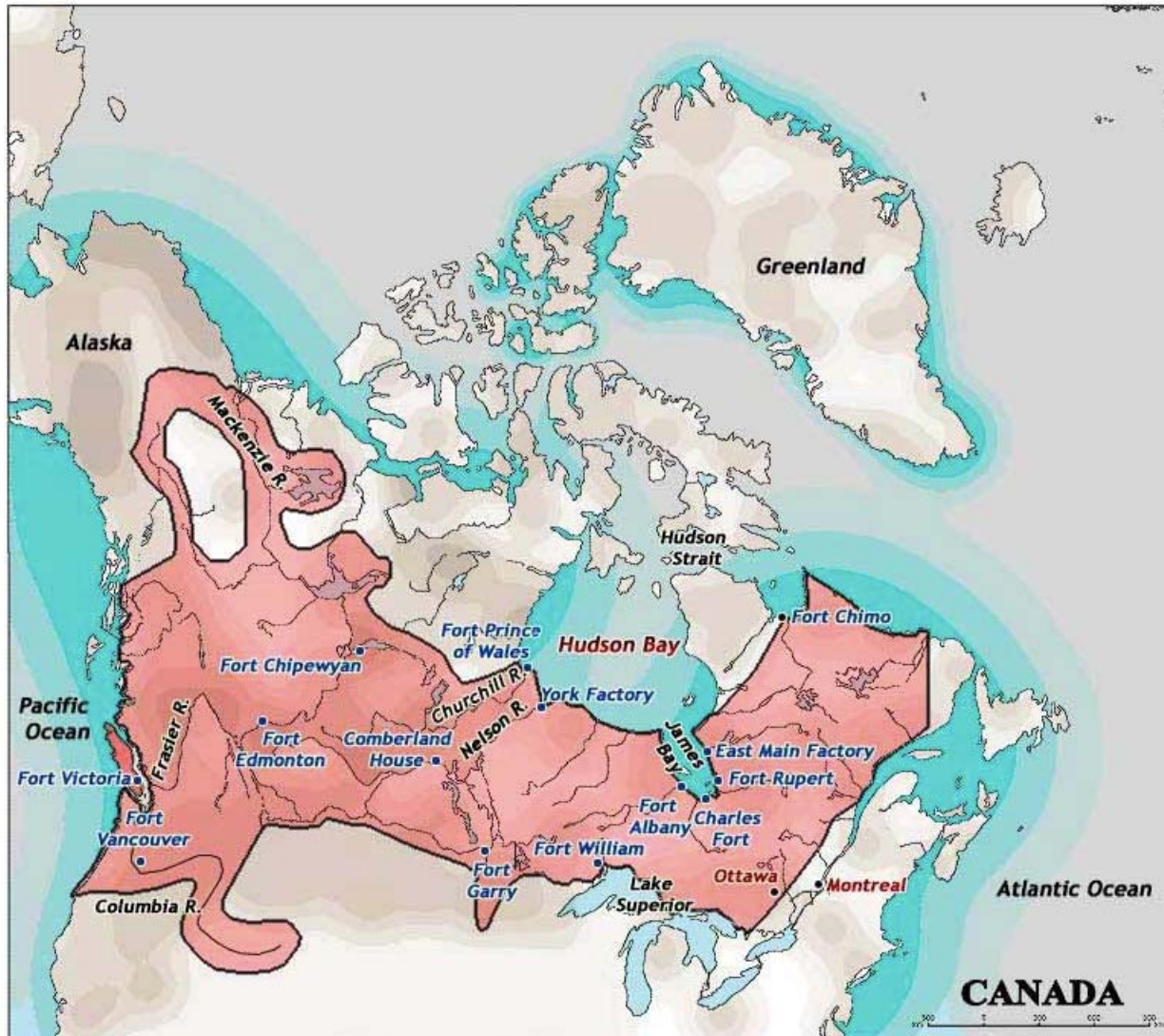
British East India Company



Mercantilism and monopoly

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 - Monopolistic supply of trade, primary production, infrastructure, judiciary, armed forces

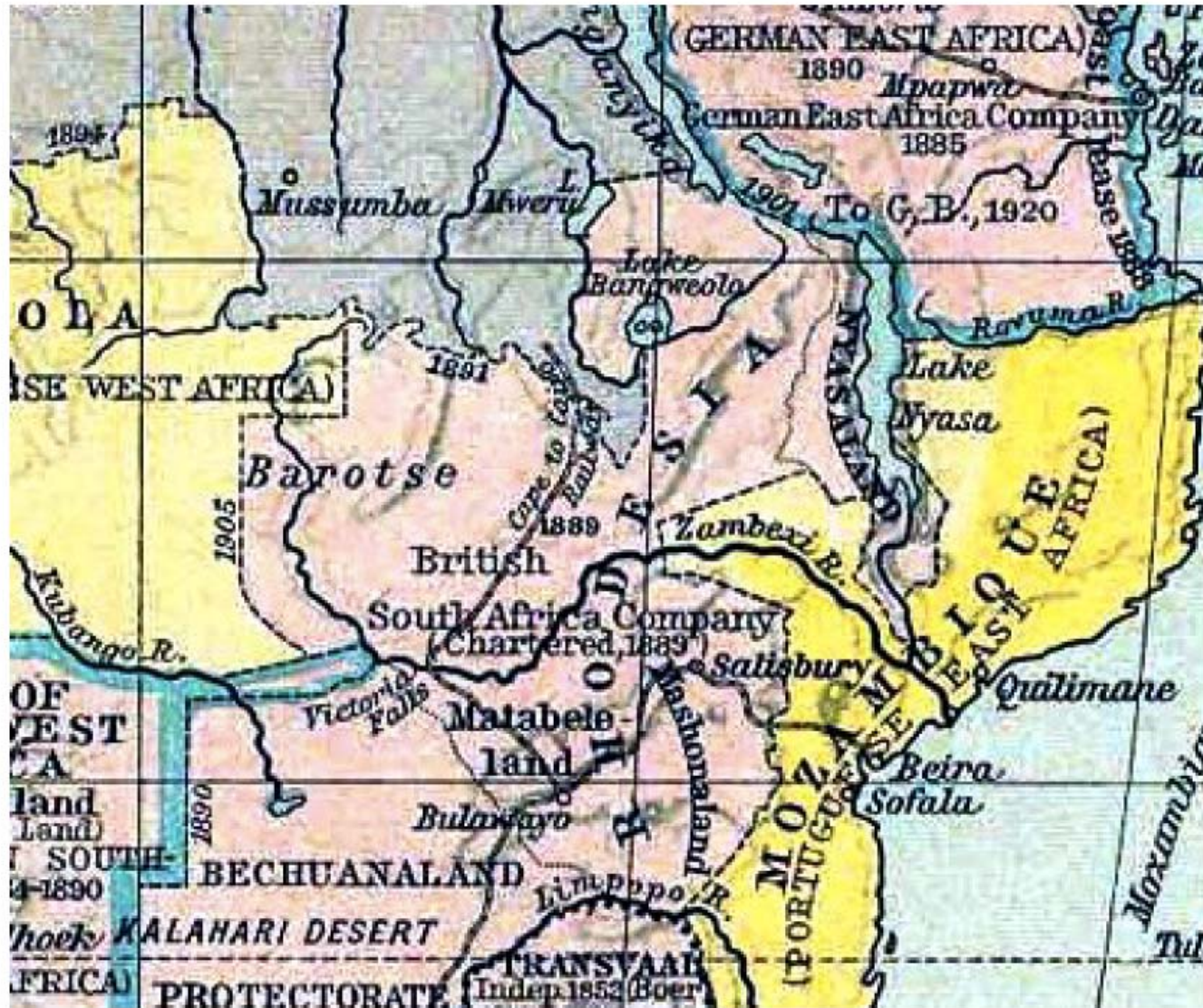
The Hudson's Bay Company



Mercantilism and monopoly

- Government aims
 - Development of new regions
 - Cement power of crown
 - Build alliance with merchants and financiers
- Charter companies
 - Quasi-public (often monarch as CEO)
 - Monopolistic provision of infrastructure, judiciary, armed forces, primary production, basic industry
 - Rents divided between state and investors

British South Africa Company



Economic change, political change

- Objections from new groups
 - Competitive industries
 - Middle classes
- Electoral reform extends franchise to business interests and middle classes
- Colonial rebellions over rent extraction and repression
- Changed political economy, changed state goals: the end of mercantilism

American infrastructure investment, 19th century

- Massive public works needed
- State finance: Erie Canal, 1817-1825

The Erie Canal



American infrastructure investment, 19th century

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- The canal boom

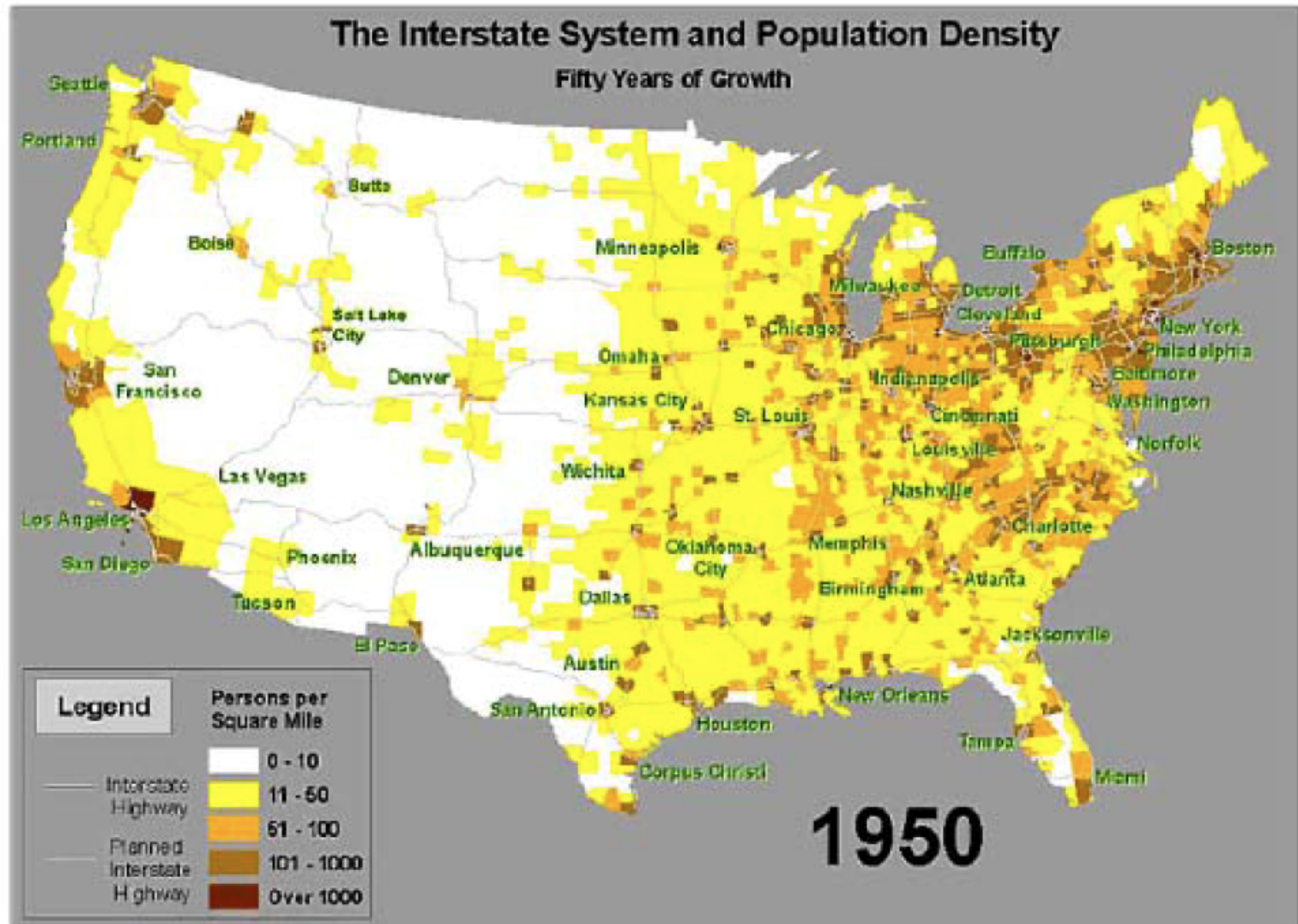
American infrastructure investment, 19th century

- Massive public works needed
- State finance: Erie Canal, 1817-1825
- The canal boom
- Regional conflict over Federal infrastructure investment
- Regional differences, political differences
 - North and Midwest
 - South

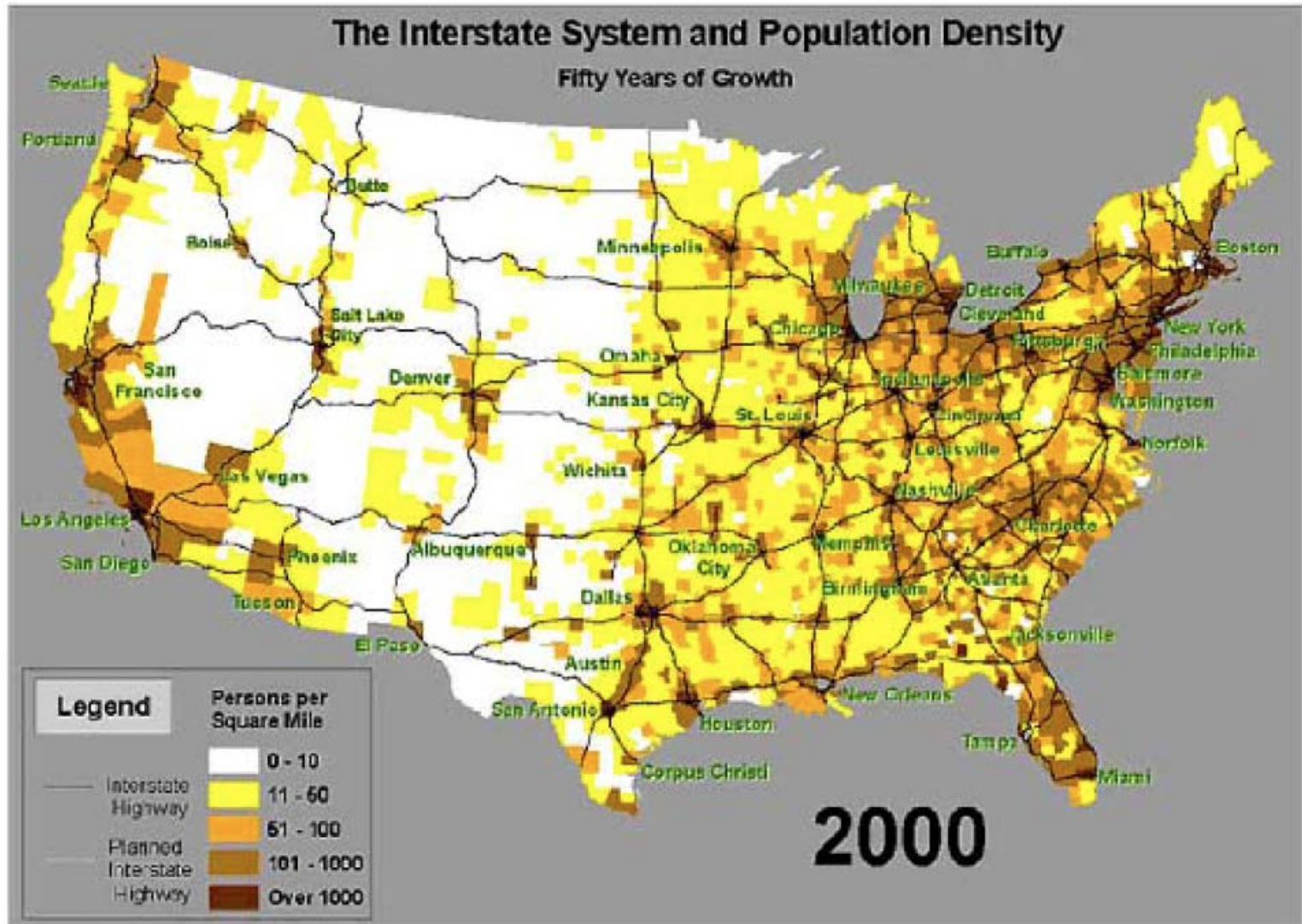
American infrastructure investment, 20th century

- Continued political controversy
- 1930s movement toward Federal provision
- Interstate Highway System: massive project with massive effects

America's population centers, 1950



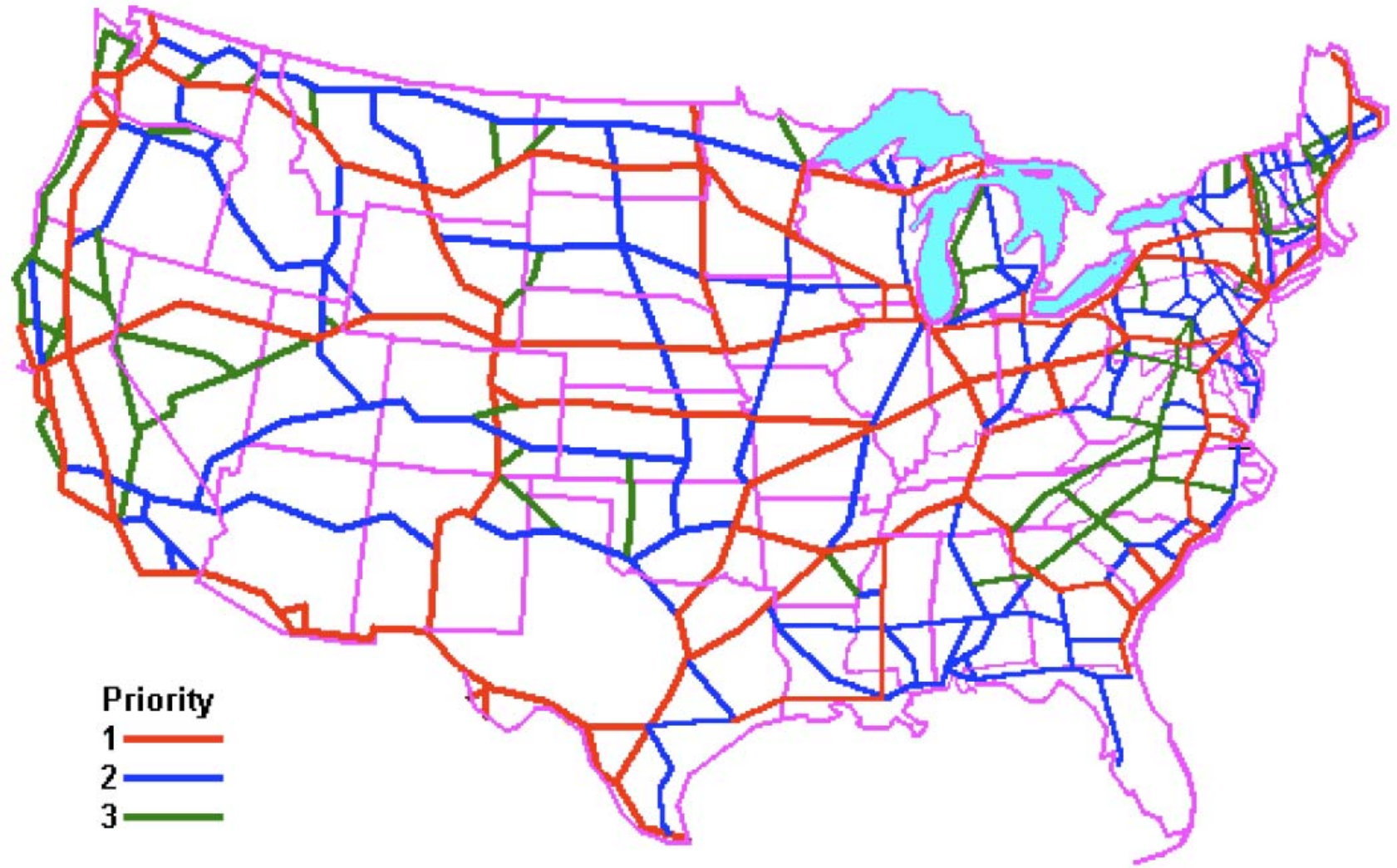
America's population centers, 2000



American infrastructure investment, 20th century

- Continued political controversy
- 1930s movement toward Federal provision
- Interstate Highway System: massive project with massive effects
- Why the shift? Changing state goals.
 - National business interests (transport, auto)
 - Mass political pressure (suburbanization)

General Pershing's map, 1922



Interstate highways, 2000



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- Interstate Highway System: massive project with massive effects
- Why the shift? Changing state goals.
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 - Mass political pressure (suburbanization)
 - National security
 - But still partisan politics

Evaluating public investment

- Purely economic standard useful baseline
- Equally relevant to know whether and how it achieves goals – and what those goals are
- When goals are government goals, purpose is always and everywhere political.
- Political economy of public investment central to broader evaluation