I. Course Description

This course is an introduction to the study of the major issues of international economic relations today: globalization, trade, monetary relations, imperialism, debt, foreign direct investment, resource cartels, development, international migration, the environment, and the global business cycle. Emphasis will be placed on analyzing competing theories of international political economy. In addition, the class will participate in simulated diplomatic bargaining exercises on current issues of international economic relations.

II. Requirements

There will be three research papers. The format of the course will be principally discussion. Classes will be preceded by preparation sheets which will highlight the major issues of discussion. Weights and due dates are as follow:

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<th>Requirement</th>
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Participation will be evaluated based on the quantity and quality of comments, and familiarity with the readings. There will be a grade for the entire class and also a grade for each individual. Responsibility encompasses all aspects of participation in the course: attendance, timeliness in giving in assignments and coming to class, corresponding in a timely manner, supporting an equitable load in group projects, and all other expectations related to the responsible execution of duties connected to this course.

III. Readings
All readings listed on the syllabus are required and are on reserve at the Olin Library Reserve Room. Most of the readings not recommended for purchase are also on electronic reserve. The following are recommended for purchase at Broad Street Books:

Charles Kindleberger, The World in Depression
Joan Spero and Jeffrey Hart, Politics of International Economic Relations, 6th Ed
Rondo Cameron and Larry Neal, A Concise Economic History of the World, 3rd Ed

IV. THE POLITICIZATION OF ECONOMIC RELATIONS

Economic processes and relations do not exist in a vacuum. Given the fact that political leaders are entrusted with guiding the material fates of their societies, the execution of macroeconomic and foreign economic policy in nations today is susceptible to the ebbs and flows of political discretion. The simplified models of economists often assume political forces away, thus arriving at what they would consider to be the optimal modes of managing the flow of goods and services both nationally and internationally in anything but a real-world setting. There are many examples of how politics influence (positive economists would prefer to say "soil" rather than "influence") economic processes and policy, some will be discussed in this course. The political business cycle is one example. Economists have found that inflation tends to rise toward the end of U.S. presidential terms (i.e., rise previous to re-election periods). Is this just a coincidence? Public choice economists think not. Empirical studies show that voters have become increasingly sensitized to, and therefore driven by, the performance of political leaders in terms of the economic prosperity of their nations.

One indicator that often determines voting preferences is the level of unemployment. Inflating an economy can bring large political benefits because it acts to increase unemployment in circa three-quarters to one year. Incumbents therefore derive substantial utility from causing inflation before elections, and using the safe haven of the post-election period to bring inflation down. Hence, to the extent that monetarist economists are correct in their theories about how economies work, we can expect the business cycle to be predictably synchronous with elections: it is boom before elections and bust afterward. Moreover, empirical studies have also shown that there is a predictable relationship between macroeconomic policy and political ideology, especially in the developed world. Right-wing governments tend to pursue low-inflation, high-unemployment policies; while left-wing governments do the opposite. The transition in political structures in the OECD from the 1970s to the 80s roughly confirms this trend.

The thrust of the analysis of international political economic issues from the "political" side will emanate from this theme. The political forces that shape international economic relations will be sought and critically examined in terms of their influence and their relationship to the more conventional economic forces that shape policy and exchange. In studying the evolution of trade policy in the developed world across the 19th century, we see an interesting cycle in the trade policies of European nations and the U.S. There were various political forces that were brewing and influencing trade policy at the time. Most of those forces continue today. Similarly, the imperialism of the late 19th century has conventionally been explained as the international manifestation of advanced capitalism (a purely economic explanation). But much was going on in international politics that suggests there were many political advantages (in terms of the balance of power) in securing overseas territory.

The interwar Depression was an economic phenomenon, but Kindleberger argues that the length and depth of the Depression were the result of the U.S. being unwilling to lead the international system as an economic underwriter. What was at the root of U.S. reluctance? This was a period of intense tariff politics according to Schattschneider: groups were trying to use
trade policy to redistribute income toward themselves. The building of Bretton Woods presents a similar situation, but in this case the U.S. literally built and ran a world economic system. Many point out the economic advantages, but what of the political advantages? A rebuilt Europe provided a pro-U.S. buffer between the Soviet Union and the U.S. Furthermore, there were many who believed that depression causes war. A prosperous world was supposed to be a more peaceful one.

In the area of cartels, people often talk about the economic preconditions of a successful cartel, i.e., low price elasticity of demand, nonperishable goods, a large market share. But what of the political preconditions? Can we say that the success of OPEC owes more to favorable political and cultural conditions? In the area of foreign direct investment, the standard business school curriculum stresses the reasons for creating equity abroad and the way in which international structures of production are configured. Political scientists are much more concerned with relational issues such as the ways in which MNCs and their host countries bargain. In this bargaining for advantage, there is a playing out of a large constellation of political and economic forces.

Finally, many think that LDCs are poor because they lack the economic means for progress. Students of development have conventionally approached underdevelopment as an economic problem. The solutions to underdevelopment, they claim, are therefore to be found in the economic realm: providing more productive capital or technical training in regions starved for machines and skilled labor; or increasing lending to areas where there are shortages of money. In any case, solutions converge around the "smart" economic thing to do. But when we look at African states, for example, we see the following things. Agriculture in African states is both subsidized and taxed. States make it cheaper to buy farming equipment, but at the same time reduce the disposable income resulting from the sale of farm products. States explicitly pursue modernization by keeping the prices of farm products depressed, but agriculture is the most important sector in African economies.

Much recent research has been done on the politics of economic policy in underdeveloped nations. Overwhelmingly, it shows that political factors often drive the configuration of development policy. It explains the strange outcomes we witness (i.e., above examples) as politically sensible: what is often economically irrational, is politically rational. In this sense, it may be as important to fight underdevelopment with political reform as with economic reform.

V. Course Outline

Introductory Class
(September 6)

1. Theoretical Issues: Competing Approaches to International Political Economy
(September 8)

Robert Gilpin, U.S. Power and the Multinational Corporation,
Chapters 1,9

Robert Gilpin, The Challenge of Global Capitalism (2000), Chapter 1

Robert Gilpin presents the three major theories (or, scholarly traditions) of international political economy: liberalism, Marxism, and mercantilism. How does each theory describe the nature of international economic relations? What are the strengths and weaknesses of each theory? Read Gilpin’s account of the
modern international economic system (The Coming of the Second Age of Capitalism): which will best
describe economic relations in this modern age of capitalism?

2. Imperialism
   (September 13)

   D.K. Fieldhouse, "Imperialism: An Historiographical Revision"
   Economic History Review 14 (1961)

   John Gallagher and Ronald Robinson, "The Imperialism of
   Free Trade" Economic History Review 6 (1953)

   J.A. Hobson, Imperialism, Chapter 6

   Stanley Lebergott, "The Returns to U.S. Imperialism" in Jeffry Frieden and David Lake, eds.,
   International Political Economy

   Rondo Cameron and Larry Neal, A Concise Economic History of the World, Chapters 6, 12

From 1870 to 1914 there was an extraordinary increase in colonization on the part of powerful nations. In
this age of high imperialism, about 1/5th of the world's land mass and 1/6th of the world's population came
under colonial rule. How do we explain this extraordinary event? Until recently, a Hobson-Leninist
explanation has dominated the debate. For Hobson there was a "taproot of imperialism." What was this
taproot? What is the logic of Hobson's argument? How does it stand up to your own critical views? How
does it stand up to Lebergott and Fieldhouse's evidence? How does Gallagher and Robinson's work bear on
this question? What alternative or additional explanations of imperialism can you offer?

3. The Interwar Period
   (September 15)

   Charles Kindleberger, The World in Depression, Chapters
   1,2,5-7,9,14

   Rondo Cameron and Larry Neal, A Concise Economic History of the World, Chapter 14

Samuelson argues that the Great Depression of the 1930s, like most depressions, is essentially explicable as
stochastic phenomena. There are rarely any patterns that suggest the possibility of a systematic modeling of
trends in global and national business cycles. The 1930s was the result of ebbs and flows in unconnected
national macroeconomic trends, and resulting microeconomic (firms, investors, banks) reactions to those
trends. For Samuelson, depressions are accidents. Milton Friedman argues that the U.S. Federal Reserve
policy managing the growth of U.S. money was to blame. The shock started in the U.S. because of "bad"
federal policy (i.e., being too loose in a period of intense speculation in the stock market and too tight after
the downturn), and spread internationally. Hence, for Friedman, such global depressions may be
systematically explained and predicted by observing the monetary policies in dominant economic nations.

Kindleberger takes a completely different approach. He argues that a necessary condition for international
economic stability is the avoidance of international depressions. In order for this to happen, system needs a
"big brother nation" or what some refer to as a hegemon. This nation, normally the dominant economic
power in the world, takes responsibility for getting international economies out of severe downturns like the
1930s by serving various functions related to central banking (providing loans in times of need by
discounting in crisis and serving as a lender of last resort). The reason that the Depression of the 1930s was
so long and so deep, says Kindleberger, is because the British were no longer strong enough to play this role
and the U.S. absolutely refused to do so. To what extent was this reluctance attributable to domestic politics?

Where does the ultimate fault lie? Carefully sift through the reading and assess the evidence for each argument. In the final analysis, who was to blame?

**Assignment:** You are an investment banker and have been asked to prepare a one-page memo on whether such a great depression could occur today. Using the recent bank meltdown as a source of lessons, write up a memo.

4. The Post-War Order: The Rise of Bretton Woods

(September 20)

Fred Block, *The Origins of International Economic Disorder*, Chapters 1, 3


After World War II the world followed the lead of the U.S. in building an international economic regime: Bretton Woods. This represented a set of rules and norms by which the trade and monetary relations of the world were to be organized. Unlike the interwar period, a willing hegemon (the U.S.) rose to underwrite the international economic system. It is interesting that if we look at the problems of the interwar period (unstable exchange rates, no lenders of last resort, restrictions on trade), we can exactly predict the form which this regime would take. The three institutional pillars of Bretton Woods (IMF, IBRD, GATT) were configured around preventing a recurrence of the interwar years. But the liberal normative bases on which the regime was built seem to reflect prevailing American views on how economic systems work (pro free enterprise, pro free trade). Can this be explained only by the interwar problems being in the "evoked sets" of policymakers? Politically strong capitalist elements in the U.S. found such an organization of economic exchange quite favorable. In a liberal world, American manufactures would "clean up" owing to greater capacity to produce and cost advantages.

Also, the security interests of the U.S. in the bipolar world dictated that all means (economic or otherwise) be used to check the spread of communism. Maintaining open markets is antithetical to the planning which characterizes communist nations. Would not a liberal world be a more democratic world also? Furthermore, would not a rebuilt Europe serve as a strategic buffer between the Soviet Union and the United States?

We will discuss the growth of the Bretton Woods regime in terms of formative causes. Are political causes more important than economic causes? Of all the causes of the rise of this regime, which is the most important? How would you explain America's refusal to lead the system in the early 1970s?

5. Global Society

(September 22)

Walter LeFeber, “Michael Jordan and the New Global Capitalism”

LeFeber and Sklair talk of the global society being created by modern capitalism. The modern transnational corporation is spreading both goods and ideas, such that national boundaries will crumble in the wake of common images and practices. Gallarotti, Krugman, and Huntington think that there is more resilience to the state and cultural identity than the globalist perspective admits. The future world will still have divisions, such that states will remain strong and cultures vibrant. Which view do you think is correct? Are we moving to a new global society or are things going to remain the same?

6. Issues in International Trade Relations

A. The Nature of Trade Relations
(September 27)

Mordechai Kreinin, "Why Nations Trade"

Peter Lindert, International Economics, Chapters 13

Paul Krugman, “The Illusion of Conflict in International Trade” in Pop Internationalism

Giulio Gallarotti, "Toward a Business-Cycle Model of Tariffs"
International Organization 39 (Winter 1985)

Joan Spero and Jeffrey Hart, Politics of International Economic Relations, Chapter 3

Kreinin explains the pure theory of trade. According to this theory or explanation, the best possible situation for the entire world is for nations to be trading freely (i.e., don’t impose quotas on goods nor tax them). What is the essential logic of this vision of trade? What are the advantages of free trade for this nation? What are the disadvantages for this nation? Do the advantages outweigh the disadvantages? Krugman believes that the conflictual side of trade is over-blown. If indeed free trade is the best policy, why does no major nation practice free trade? What is Gallarotti’s and Lindert’s explanation for trade barriers? Does it fully explain why trade barriers exist? What is the single most useful explanation of the nature of trade relations?

Assignment: Teams of four, with each picking an LDC, and proposing an optimal trading policy for that country. Each team must provide a two-page memo.

B. Free Trade versus Protectionism: Competing Choices for U.S. Trade Policy
(September 29, October 4)

We will watch and discuss the special Firing Line program "Talking Tough to Tokyo" which debates current issues in U.S.-Japanese trade relations.
The film reveal a wide variety of issues involving the course of future U.S. trade policy. What are the most important trade issues facing the U.S. today? What specifically are the most important concerns of the trade specialists? Which side (free traders or protectionists) in your opinion won the debate? Which individuals made the most persuasive and interesting arguments? Based on your view of the evidence, what is the most desirable trade policy for the U.S. to follow in the short-run? What is the best policy in the long-run? Based on the specific arguments about U.S.-Japanese trade relations, how does U.S.-Japan trade fit into your preferred policy?

C. Simulated bargaining session on U.S.-Japanese trade materials will be handed out before class
   (October 6,11)

First Paper due October 13

7. Issues in Monetary Relations: the IMF

A. The IMF
   (October 13)

   We will watch the documentary "One World, One Economy", which explores the basic lending and stabilization functions of the IMF in its recent programs for Mexico, Poland, and Ghana.

B. We will discuss the film and following readings:
   (October 20)

   Graham Bird, “The IMF and Developing Countries” International Organization 50 (Summer 1996)
   Joan Spero and Jeffrey Hart, Politics of International Economic Relations, Chapter 6
   Ismail-Sabri Abdalla, “The Inadequacy and Loss of Legitimacy of the IMF” Development 1980
   Kenneth Rogoff, “The IMF Strikes Back” Foreign Policy (January/February) 2003
   Allan Meltzer, “What’s Wrong with the IMF? What Would Be Better” The Independent Review (Fall) 1999

Consider the films and readings carefully with respect to the following questions:

   What are the main strategies that the IMF uses to solve the debt problems?
   Are these strategies effective?
   Are the sacrifices made by the borrowing nations greater than the benefits they receive?
   How would you, as new head of the IMF, change their
approach to better attend not only to the debt problem,
but also the problem of underdevelopment?

**Assignment:** Teams of four with each looking to reform a different function of the IMF and generate a two-page memo on it.

8. Multinational Corporations  
(October 25)

Joan Spero and Jeffrey Hart, *Politics of International Economic Relations*, Chapter 4, 8

D. Bennett and K. Sharp, "Agenda Setting and Bargaining Power"  
*World Politics* 32 (October 1979)

Theodore Moran, "Transnational Strategies of Protection"  
*International Organization* 27 (Spring 1973)

The standard school curriculum in a business education looks at foreign direct investment (e.g., MNCs) in a very a-political way. It concentrates on why businesses would want to open branches in other nations. The politics of foreign direct investment is a much more controversial issue, one that concerns political scientists and economists. One of the central issues which is of a political nature is the relative strengths of MNCs and the less-developed nations they invest in. Many (especially Marxists) believe that the MNCs are much more powerful than the LCDs they invest in. Hence, when bargaining, the advantages always go to the MNCs. Others argue that no private actor could ever be as strong as the nation in which they are investing, and therefore the LCDs always have the advantage in bargaining. Consider both these views in light of the evidence in the readings of Spero, Moran, Bennett, and Sharp. Which side do you find that you agree with more?

**Assignment:** Teams of four, pick an LDC and write up a risk assessment of the nation as a potential target for foreign direct investment. Generate a two-page memo.

9. OPEC and the Politics of Resources  
(October 27)

Stephen Krasner, "Oil is the Exception" and C. Fred Bergsten “The Threat is Real” *Foreign Policy* 14 (Spring 1974)


Jahangir Amuzegar, *Managing Oil Wealth*, Chapter 3


What were the formative forces leading to the creation of OPEC? The history of resource cartels tells us that they are usually unsuccessful, except for OPEC. What it is about OPEC that has allowed it to succeed where others have failed? How are things changing for OPEC at present (e.g., are conditions changing so
as to make it weaker or stronger)? What does the future look like for OPEC? What positive impact has OPEC had on the world? Would its demise be a good thing or bad thing?

Assignment: You are a special consultant asked to state how you would manage the future of energy in the US. Write a two-page memo.

10. International Migration
   (November 1)

   Peter Lindert, International Economics, Chapter 24

   Glenn Withers, “Migration” in Peter Kenen, ed, Managing the World Economy (1994)

   Samuel Huntington, “Jose Can You See?” Foreign Policy, March/April 2004

   Devesh Kapur and John McHale, “Migration’s New Payoff” Foreign Policy, November/December 2003

   Bob Davis, “Despite His Heritage” Wall Street Journal, April 26, 1996 (packet)

Consider carefully the issue of the international movement of people: i.e., international migration. What are the most important political-economic concerns regarding migration? What is migration's impact on labor markets in both the sender and host country? Which country benefits more from the migration? Are the gains mutual or zero-sum in nature? Is migration a positive force in enhancing economic performance in the host country? What factors account for the controversy over migration?

Assignment: You are a special consultant asked to state how you would manage the problem of migration into the US. Write a two-page memo.

11. Environmental Relations
   (November 3)


   Wilfred Beckerman and Joanna Pasek, “The Equitable International Allocation of Tradable Carbon Emission Permits” Global Environmental Change 5,5 1995

   Martin Soroos, ”The Commons in the Sky: The Radio Spectrum and Geosynchronos Orbit as Issues in Global Policy” International Organization 36 (Summer 1982)


One of the most pressing new issues (and certainly the most perplexing perhaps) in international economic relations is that of the global environment. Preserving the global commons is seen as a top priority for nations all around the world. Why do you believe there is a problem? How does it relate to the famous “commons” problem of the middle ages? What are the economic causes of the problem? Many people blame the market (i.e., business) for much of the environmental problem. Is it valid to do so? Or, does the market hold the key to solving the environmental problem?
Assignment: You are an EPA staffer and have a suggestion on how the US should solve its environmental problems over the next decade. Write a two-page memo.

12. North-South Relations: The Causes of Underdevelopment
   (November 8, 10)

   November 8
   We will watch Ali Mazrui's documentary "The Tools of Exploitation" which explores the relationship between African underdevelopment and Western colonialism.

   November 10
   We will discuss the specific causes of underdevelopment in light of the film and following readings:

   Jared Diamond, Guns, Germs and Steel, Introduction and Chapter 2

   Lawrence Harrison, Underdevelopment is a State of Mind, Chapters 2,3,4,9

   Theotonio Dos Santos, "The Structure of Dependence" American Economic Review 60 (May 1970)

   Robert Bates, Markets and States in Tropical Africa, pps. 119-132

   Walter Rodney, How Europe Underdeveloped Africa, Chapter 4

   Joan Spero and Jeffrey Hart, Politics of International Economic Relations, Chapter 5

   Rondo Cameron and Larry Neal, A Concise Economic History of the World, Chapters 9, 10

   The question “What are the roots of underdevelopment?” is as controversial today as it ever was. The readings and film present differing views of the causes of underdevelopment. What are the fundamental arguments of each (in the readings they are stated quite explicitly)? Consider very carefully both the strong points about each argument and the weak points? Which argument is the Best? Which is the Worst? How could these differing theories of the causes of underdevelopment be combined to form a new super-theory?

Assignment: Teams of 8, pick an LDC and based on your knowledge of underdevelopment, map out a strategy to promote prosperity in that nation. Write a two-page memo.

13. Team presentations on solutions to development
   (November 15, 17)

   Second Paper Due November 22

14. Presentations and Discussion of Research Projects
   (November 22-December 6)

15. Reassessing the Nature of International Economic Relations: Concluding Class and Review
   (December 8)
Re-read Robert Gilpin, *U.S. Power and the Multinational Corporation*, Chapters 1, 9

Rondo Cameron and Larry Neal, *A Concise Economic History of the World*, Chapter 16

Joan Spero and Jeffrey Hart, *Politics of International Economic Relations*, Conclusion


Review Gilpin's three schools of international political economy: liberalism, marxism, mercantilism. Consider each issue-area we studied (trade, money, foreign direct investment, resource cartels, the environment, development) in light of these theories. Which of Gilpin's schools best explains relations in each issue-area? Is Fukuyama correct in calling capitalist-democracy the end of history?

### Assignments

### First Paper

Pick any issue in international economic relations (trade, money, development, MNCs, cartels, etc). Which of the three schools of thought in international political economy (Liberal, Marxist, Mercantilist) does the best job explaining relations in that issue?

Please restrict your answer to a 5-page, double-spaced paper.

### Second Paper

Pick a present or past case in international economic relations in which nations have encountered a problem in their relations, or a present issue in economic relations which carries a potential problem. An example of a past case might be the chicken war which say the US and the European Community engaged in a trade war because the Community was blocking the importation of American chickens and chicken parts. An example of a present issue might be the problem of the ozone layer depletion, which is leading nations to fight over the allocation of responsibility for halting the deterioration of the layer.

Write a 7-page, double-spaced research paper on your chosen topic according to the following format.

1) Use 1 or 2 pages to describe to the reader the background of the case or issue. For example, in the case of the chicken war, you would describe some of the crucial events that led up to the actual trade war. If you were describing the ozone issue, you would summarize the present environmental situation that faces nations and why it will create a problem in international relations.

2) Critically discuss the way in which the problem was handled or is being handled. In the case of US-Japanese trade, for example, you might believe that negotiated protection between the US and Japan (i.e., maintaining even limited quotas) is an inferior solution to the problem because it does nothing to increase
the productivity in the US, while doing little for Japanese businesses and American consumers. In the case of the ozone layer, you might believe that in solving the problem we should not be concerned with which nations are most responsible for the ozone depletion because such information will lead to accusations which will make cooperation on the environment more difficult.

If you feel that the problem was handled or is being handled quite successfully, explain why the solution is a good one.

3) If you feel the solution was deficient (either in whole or in part), state how you would have changed the solution to make it a better one. In the US-Japanese trade issue, for example, you might argue that the best solution is for the US and Japan to open their markets while requesting Japanese cooperation in helping to increase the efficiency of American firms (this would be good for consumers and producers). On the ozone problem, you may argue that the best solution would be on asking the nations to cut the production of CFCs according to their level of income, without asking who the biggest polluters are (this would place the burden on rich nations, which would be better able to shoulder the economic sacrifices necessary to cut CFC production).

Please restrict your answer to 7 double-spaced typed pages.

**FINAL PAPER**

Consider all the issue-areas we have studied: trade, monetary relations, foreign direct investment, resource cartels, migration, the environment, and development. In which issue-area would you say relations between nations are most favorable (i.e., stable, ordered, least conflictual)? In which issue area would you say relations are least favorable (i.e., least stable and most conflictual?) How would you account for the great difference in the nature of relations between these two issue-areas?

Please restrict your answer to 7 double-spaced typed pages.