I. Course Description

This course is an applied introduction to the study of the politics of the major issues of international economic relations today: globalization, trade, monetary relations, imperialism, debt, foreign direct investment, resource and energy, development, international migration, and the environment. Emphasis will be placed on learning about the main issues of international economic relations through reading, discussing issues, but principally by applying what has been learned in real-life scenarios.

II. Requirements

There will be three research papers. The format of the course will be principally applied with significant teamwork. Weights and due dates are as follow:

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<th>Requirement</th>
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<tr>
<td>Class Participation</td>
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<td>Individual Participation</td>
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<td>Responsibility</td>
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<td>Memos</td>
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<td>Final project</td>
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Participation will be evaluated based on the quantity and quality of comments, familiarity with the readings, and especially the level of engagement in the applied exercises. 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 and Assignments
All readings listed on the syllabus are required and are on online reserve at ERES. The following book is recommended for purchase at Broad Street Books and is not on ERES:

Joan Spero and Jeffrey Hart, Politics of International Economic Relations, 7th edition

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 (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. Hence boosting the economy before an election gives an incumbent a greater advantage.

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 present roughly confirms this trend.

The impact of political factors on economics shows a long legacy across modern history. 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

1. Theoretical Issues: Competing Approaches to International Political Economy
   (January 27)

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


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? We will watch videos that capture the essences of differing visions of international political economy.

2. Global Society
   (February 3)

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

Sam Huntington “The Clash of Civilizations” in The Globalization Reader


Paul Krugman “The Localization of the World Economy” in Pop Internationalism

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 much more resilience to the state and to 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?

Team Assignment: Teams will pick one developing nation and explore the impact of globalization on its economy and society. Write a two page memo.

3. Issues in International Trade Relations
   (February 10)

   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"

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


Kreinen 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: Class will prepare for the trade negotiations between the US and China

4. Simulated bargaining session on U.S.-China trade-materials will be handed out before class
   (February 17 )
5. Issues in Monetary Relations: the IMF
   (February 24)

   Video on the IMF (will be online)

   Graham Bird, “The IMF and Developing Countries”

   Joan Spero and Jeffrey Hart, Politics of International Economic Relations, Chapter 6

   Ismail-Sabri Abdalla, “The Inadequacy and Loss of Legitimacy of the IMF”

   Kenneth Rogoff, “The IMF Strikes Back

   Allan Meltzer, “What’s Wrong with the IMF? What Would Be Better”

*Team Assignment: Each team will recommend reforms to the IMF program in the following areas: trade liberalization, currency devaluation, tax reform, subsidies, privatization, economic liberalization, social relief services. Please write a two-page memo.*

6. Multinational Corporations
   (March 2)

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

   D. Bennett and K. Sharp, "Agenda Setting and Bargaining Power"

   Theodore Moran, "Transnational Strategies of Protection"

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?

*Team Assignment: Pick a large MNC and do a political risk analysis of its operations. Write up a two two-page memo.*

7. Politics of Resources and Energy
   (March 23)

Moises Naim, “The Devil’s Excrement”

Daniel Yergin, “It’s Still the One”

Michael Grunwald, “Seven Myths about Alternative Energy”

David Rothkopf, “Is a Green World a Safer World? Not Necessarily”

What is the present state of energy in the world? Is the future of energy still dominated by oil? What prospects are offered by alternative energy sources? Which are the most promising and which have limited impact? The readings offer a number of ideas about the state of energy and the prospects for escaping fossil fuel dependence.

Assignment: You are a special consultant asked to devise an energy plan for the future for the US. Write a two-page memo.

8. International Migration
   (March 30)


Glenn Withers, “Migration”

Samuel Huntington, “Jose Can You See?”

Devesh Kapur and John McHale, “Migration’s New Payoff”

Bob Davis, “Despite His Heritage”

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 devise a new immigration policy for the US. Write a two-page memo.

9. Environmental Relations
   (April 6)
Robert Solow, “Sustainability: An Economist’s Perspective”

Giulio Gallarotti, “It Pays to be Green: The Managerial Incentive Structure and Environmentally Sound Strategies”

Wilfred Beckerman and Joanna Pasek, “The Equitable International Allocation of Tradable Carbon Emission Permits”

Martin Soroos, ”The Commons in the Sky: The Radio Spectrum and Geosynchronos Orbit as Issues in Global Policy”

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? Solow believes it does.

Team Assignment: You are an EPA staffer and are charged with creating an environmental plan for the future of the US. Write a two-page memo.

10. North-South Relations: The Causes of Underdevelopment
   (April 13)

   Joan Spero and Jeffrey Hart, Politics of International Economic Relations, Chapter 5, 7

   Peter Bauer and Anthony Daniels, "No Aid at All"

   Amartya Sen, Development As Freedom, pp. 1-53

   Joyce Jacobson, “A Key Global Challenge: Reducing Losses due to Gender Inequality”

   Elizabeth M. King, The Challenge of Women and Development

   N. Anne Hill and Elizabeth King, “Women's Education and Economic Well-Being”

   Marguerite Robinson, The Microfinance Revolution, pp. 6-45

Underdevelopment has long been addressed with one principal weapon: government-to-government aid. Nothing has yet shaken the solution of aid from its lofty perch. Yet, by almost all accounts, this solution has failed miserably in promoting development (see Bauer and Daniels reading). More recent thinking has espoused more grass-roots solutions to the problem of poverty in the developing world. Marshaled on the rhetoric of human development (Sen), these solutions have sought to substitute visions of bottom-up development for the trickle-down strategies which underlie government-to-government aid. The goal here is to invest in social capital and infrastructure, thereby producing more capable and prosperous individuals, which in turn will galvanized local economies. Eventually, the local growth will manifest itself on a national
level. On a more logistical level, the idea has latched onto microfinance as a viable champion. Through small-scale lending at the local level, the foundations for national development can be created. One interesting twist to the story is the role of women. In fact, some microfinance arrangements have been directed exclusively at groups of women with what many think have been stellar results (the Grameen Bank in India). The logic of the work of Jacobson, King and Hill on women and development suggests that the liberation of women would represent a crucial economic engine of growth for the economies of less developed nations.

**Assignment: Preparation for upcoming negotiation.**

11. Negotiation on Development  
   (April 20)

   North-South bargaining sessions in UNCTAD:  
   instructions and background materials will be distributed  
   before the first meeting

12, 13. Team presentations on business/organization projects  
   (April 27, May 4 )

**Final Assignment and Due Date: To Be Announced.**