

INTERNATIONAL POLITICAL ECONOMY

Government 329

Wesleyan University

Spring 2006
M, W 1:10-2:30
Room PAC 421

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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:

Participation	25%	
First Paper	25%	Due March 6
Second Paper	25%	Due April 17
Final paper	25%	Due during final exam period

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 (Jan 25)

1. Theoretical Issues: Competing Approaches to International Political Economy (Jan 30)

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

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

2. Imperialism (Feb 2)

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 Jeffrey Frieden and David Lake, eds.,
International Political Economy

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

3. The Interwar Period
(Feb 6)

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

4. The Post-War Order: The Rise of Bretton Woods
(Feb 8)

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

Rondo Cameron and Larry Neal, A Concise Economic History of the World, Chapter 15

Joan Spero and Jeffrey Hart, Politics of International Economic Relations, Chapter 2

5. Global Society
(Feb 13)

Walter LeFeber, "Michael Jordan and the New Global Capitalism"

Giulio Gallarotti, "The Advent of the Prosperous Society: The Rise of the Guardian State and
Structural Change in the World Economy" Review of International Political Economy Vol 7, no.
1 (February 2000)

Sam Huntington "The Clash of Civilizations" in The Globalization Reader

Leslie Sklair, "Sociology of the Global System" in The Globalization Reader

Paul Krugman "The Localization of the World Economy" in Pop Internationalism

6. Issues in International Trade Relations
(Feb 15-Mar 1)

A. The Nature of Trade Relations
(Feb 15)

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

B. Free Trade versus Protectionism: Competing Choices for U.S. Trade Policy
(Feb 20, 22)

We will watch and discuss the special Firing Line program "Talking Tough to Tokyo" which debates current issues in U.S.-Japanese trade relations

C. Simulated bargaining session on U.S.-Japanese trade-materials will be handed out before class
(Feb 27, Mar 1)

First Paper due March 6

7. Issues in Monetary Relations: the IMF
(Mar 6,8)

A. The IMF
(Mar 6)

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:
(Mar 8)

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

Additional articles are in your packet

8. Multinational Corporations
(Mar 27)

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)

9. OPEC and the Politics of Resources
(Mar 29)

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

Theodore Moran, "Modeling OPEC Behavior: Economic and Political Alternatives" International Organization 35 (Spring) 1981

"OPEC 2000: The Cartel That Fell Out of the Drivers Seat" Economist February 4, 1989 (packet)

Erle Norton and Martin Du Bois, "Don't Call It a Cartel" Wall Street Journal June 9, 1994 (packet)

Jahangir Amuzegar, Managing Oil Wealth, Chapter 3

Joan Spero and Jeffrey Hart, Politics of International Economic Relations, Chapter 9

Giulio Gallarotti and Peter Rutland, "Sanctions, U.S. Policy and the Caspian Sea" in Irwin Stelzer, ed., Geopolitics, Energy and the Future (1999)

10. International Migration
(April 3)

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)

11. Environmental Relations
(April 5)

Giulio Gallarotti, "It Pays to be Green: The Managerial Incentive Structure and Environmentally Sound Strategies" Columbia Journal of World Business 30,4 (Winter 1995)

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 Geosynchronous Orbit as Issues in Global Policy" International Organization 36 (Summer 1982)

Robert Solow, "Sustainability: An Economist's Perspective" in Robert Stavins, ed, Economics of the Environment (2000)

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

April 10

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

April 12

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

Second Paper Due April 17

13. Presentations and Discussion of Research Projects
(April 17-May 4)

14. Reassessing the Nature of International Economic Relations: Concluding Class and Review
(May 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

Francis Fukuyama, "The End of History" National Interest (1989)