Political Science 2321:  
Politics of the World Economy

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Course description: This course examines the politics of international economic relations. As a field of study, international political economy (IPE) examines the interactions of states and markets, focusing on the role of politics in explaining the origins and operations of regimes for international trade, international finance and monetary affairs, and development. The course is arranged in four parts. In the first part, we begin with a basic introduction to IPE as a field of study, review the various theoretical approaches to the field, and provide a brief, panoramic introduction to international economic history focusing on the “rise and fall” of the Bretton Woods system of international trade and monetary relations. In the second part, we examine the issue of international trade, including the domestic and international politics of trade policy, the operation of the World Trade Organization (WTO), and the growth of economic regionalism and preferential trading agreements. Third, we survey the political economy of the international monetary and financial system, including the evolution of the exchange-rate regime, the creation of a single currency in the European Union, the issue of capital market liberalization, and the financial crises of the 1990s and of 2008-2009. The fourth and longest section of the course, finally, examines various issues related to economic globalization, economic development, the efficacy of foreign aid, and the political economy of climate change.

Course requirements: The requirements for this course are:
(1) four 1-2 page response papers on the weekly readings, in response to the study questions for Weeks 1-12 below. These papers should be based primarily and explicitly on the readings for the course, demonstrating knowledge of those readings and answering the questions in light of the knowledge gained from them. These essays are due at the start of class on the first day of the week for which they are assigned, and late papers will not be accepted (40% of the grade);
(2) three in-class mid-term exams, on February 25th, March 30th, and May 2nd (45%);
(3) a library assignment to be handed out during the semester, due on April 25th (5%);
(4) attendance and informed participation in class discussion (10%).

Required readings: The following book, marked with an asterisk in the weekly readings, is on order at the Temple University Bookstore:

The book has also been ordered for a four-hour borrowing period at the Paley Reserve Desk. Please be sure to read the fourth edition, since the third edition (not to mention earlier editions) will out of date, and the pagination will not match that given in the syllabus.

All other required readings will be made available via electronic reserve.

In addition to these required readings, the syllabus lists a small number of recommended readings on various topics. These readings will generally not be discussed in class, but are included for students with an interest in doing extra reading in one of these areas.

Finally, please note that all readings are subject to revision as new and more up-to-date sources are published. In addition to these readings, students are strongly encouraged to read a daily newspaper such as the Financial Times (http://www.ft.com), The New York Times (http://www.nytimes.com) or the Wall Street Journal (http://www.wsj.com), all of which have excellent web sites.

Disability policy: Any student who has a need for accommodation based on the impact of a disability should contact the Student Disabilities Service to make any necessary arrangements.

Note on Academic Misconduct. All students in this class are expected to adhere to the Temple University standards on academic conduct. In recent years, I have had increasing experience with students plagiarizing work from either printed sources or internet web sites, and I therefore consider it important to clarify the course policy regarding plagiarism and other types of academic misconduct. All students should, in all assignments, fully and unambiguously cite sources from which they are drawing important ideas and/or sizable quotations (for example, more than eight consecutive words or more than 50% of a given sentence or paragraph). Failure to do so constitutes plagiarism, which is a serious act of academic misconduct and will result in a failing grade for the course, as well as the possibility of notification of the infraction to the Dean of Students and academic dismissal. Similarly, cheating during exams, copying written assignments from other students, or providing answers to others during exams are considered acts of academic misconduct. Given the seriousness of these infractions, there will be no second chances and no leniency. Please avoid them at any cost. If you are unfamiliar with policies about plagiarism or other types of academic misconduct, you may wish to consult the Temple Writing Center’s on-line guide to APA style, which includes an explicit discussion of plagiarism and how to avoid it, at http://www.temple.edu/writingctr/handouts/citationguides/APAGuideColor.pdf; or if you still have remaining doubts or specific questions, raise them directly with me.
Part I: Introduction to International Political Economy

Introduction (Jan 19)

Week 1: What is IPE? (Jan 21, 24, 26; no class Jan 28)
   A. Introduction: What is IPE?
   B. Theoretical Approaches

Required Readings


Total pages: 61 plus film

Study Questions (Answer only one, not both! Due in class on January 24th)

This week’s introductory readings feature different authors’ takes on a number of overlapping concepts, including (a) the definition of political economy, comparative political economy, and IPE; (b) the three “traditional” theoretical approaches to IPE, and a new approach, constructivism; and (c) the two-stage “interests and institutions” approach taken in Oatley’s textbook. We will discuss these questions in class, but for the moment, consider the following questions for a first essay:

1. International political economy is relatively young as a field of study, and our understanding of what it is have changed somewhat over time. What is international political economy, according to your readings? What empirical phenomena does it study, and what theoretical and methodological tools does it use to do so?
2. Oatley cites mercantilism, liberalism, and Marxism as the three “classical” theories of IPE (see also Gilpin and Balaam and Veseth in recommended readings), yet he also suggests that these traditional approaches have been largely supplanted in contemporary IPE by a two-stage approach focusing on interests and institutions. What role do each of these two concepts play in contemporary IPE theory? Note also that Lake and Hall each add one additional core concept to Oatley’s two-part formulation: Which concept does each of them add, and why do they do so?

**Recommended Readings**


Week 2:  **International Economic History in a Nutshell** (Jan 31, Feb 2, Feb 4)
   A.  Introduction, and the Rise and Fall of Pax Britannica  
   B.  Bretton Woods and Beyond: A History in Three Acts

**Required Readings**


Total pages: 59

**Study Question**

1. One of the core hypotheses of modern IPE is the concept of hegemonic stability theory. What are the key tenets of this theory? When, and under what conditions, does it predict an open, liberal world economy? How, according to your readings, has this theory performed in explaining global economic outcomes over the past two centuries?

**Recommended Readings**


Part II: International Trade

Week 3: Theory and History, from GATT to WTO (Feb 7, 9, 11)
   A. The International Politics of Free Trade, from GATT to WTO
   B. The Domestic Politics of Free Trade: Interests and Institutions

Required Readings


Total pages: 127

Study Question

1. Traditional liberal economic theory predicts that free trade should be mutually beneficial to states, yet in practice we observe that a reduction in protectionist tariffs has been historically elusive. Why, according to international relations theorists, do states find it difficult to cooperate over free trade? Given these difficulties, how might international institutions like the GATT or the WTO help states to cooperate?

2. The World Trade Organization is often said to promote the rule of law rather than the rule of the powerful, both in the negotiation stage (where decision is by consensus with each state getting a single vote and a potential veto) and in dispute resolution (where all states are bound by WTO legal rulings). Does power play any role in such a system? If so, how so?

3. A growing number of “societal” or domestic theories of political economy look at the challenges of “resisting protectionism” in domestic politics, identifying potential “winners” and “losers” from free trade, and seeking to understand the domestic bases of support and opposition to free trade accordingly. What roles do “interests” and “institutions” play in explaining when and why the United States government embraces or rejects free trade at various times in its history?

Recommended Readings


Week 4: Economic Regionalism, PTAs, and the European Union (Feb 14, 16, 18)

A. Economic Regionalism, PTAs and their Effects

B. Making an Internal Market: The European Union

Required Readings


Total pages: 58

Study Questions (please answer just one, not both)

1. It has become commonplace to note that preferential trading agreements have proliferated in recent years, although scholars differ on whether this is a good thing. In a brief essay, discuss (a) why states have been motivated to adopt increasing numbers of PTAs, and (b) whether this development is likely to have positive or negative consequences for multilateral trade liberalization at the WTO.

2. One of the longest-running and certainly the most ambitious of contemporary PTAs is the European Union. What are the core activities and functions of the EU today, and how has the Union gone about producing not just “free trade” but a purported “internal market” among 27 different member states?

Recommended Readings


Week 5: The WTO at Work (Feb 21, 23, 25)

A. WTO Dispute Resolution
B. The Doha Development Agenda
C. Mid-Term on Feb 25

Required Readings


Pages: 82

Study Questions

1. Why, according to Goldstein and Steinberg, Stiglitz, and the authors of the University of Chicago Law School Faculty Blog, have multilateral negotiations at the WTO become so difficult in recent years? Under these circumstances, does it seem as though the Doha Development Round is likely to produce an agreement to further liberalize world trade? Why or why not?

2. How does WTO dispute resolution work? Who can bring cases, how are those cases decided, and why should any state comply with the decision of an international court? Finally, how and why do Goldstein and Steinberg believe that WTO dispute settlement has helped to promote free trade?

Recommended Readings


Part III: International Finance and Monetary Affairs

Week 6: Theory and History: From the Gold Standard to Bretton Woods (Feb 28, March 2; no class March 4)
   A. Monetary Theory and Exchange-Rate Regimes
   B. Domestic Politics, Monetary Policy, and Exchange-Rate Regimes

Required Readings


Pages: 91

Study Question

1. It is Oatley’s claim that the “interests and institutions” approach can illuminate the domestic politics of monetary and exchange-rate policy. Summarizing as clearly as you can, what are the basic interest groups in society, according to Oatley, and what kinds of monetary and exchange-rate policies do they want?

2. Following the collapse of the Gold Standard, negotiators at the Bretton Woods conference sought to establish a new regime that would stabilize exchange rates yet retain greater flexibility than the 19th-century Gold Standard regime. How did the Bretton Woods exchange-rate regime work in practice, and why did that regime, too, collapse within three decades?

Recommended Readings


Week 7: Beyond Bretton Woods: Financial Crises and Global Governance (March 14, 16; no class March 18th)

A. Beyond Bretton Woods: Floating Rates and the Euro
B. The Debt Crisis of the 1980s and the Asian Financial Crisis
C. Understanding the IFIs: In section

Required Readings


Pages: 84

Study Questions

1. In the decades since the collapse of the Bretton Woods currency system, the member states of the European Union have struggled to restore stable exchange rates within the EU’s internal market. In 1999, many (though not all) of the European Union’s member states a single currency, the euro. Who does “Economic and Monetary Union” work in practice? How, basically, does it work, and why have many of the EU’s member states have been willing to give up their national currencies in favor of the Euro?

2. During the last third of the 20th century, a growing number of developing countries moved to liberalize capital movements, producing sharp debates over the purported advantages of liberalization, the causes of the financial crises of the 1990s, and the wisdom (or lack thereof) of international responses to those crises. What went wrong in the Asian Financial Crisis of the late 1990s, and what policy lessons should we learn from those crises?

3. Much of postwar international political economy has been shaped by the International Financial Institutions (IFIs) established at Bretton Woods. For this reason, explaining the preferences of these IFIs, their influence over states, and their successes and failures has been one of the primary questions in the study of contemporary IPE, and there is a large and growing literature on the subject. How does Ngaire Woods explain the preferences, influence, and successes and failures of the IMF and the World Bank in their “globalizing” mission?
Recommended Readings


Week 8: The Global Financial Crisis and Global Governance (March 21, 23, 25)

A. Origins of the Global Financial Crisis
B. Global Governance after the Crisis: the G20 and the Sovereign Debt Crisis

This week, we only sample some of the huge literature on the causes and consequences of the global financial crisis of 2008 to the present, starting with its origins in the US housing and credit markets and spreading to the rest of the world. Much of the coverage focuses on the response of US government institutions like the Treasury and the Federal Reserve to the crisis, although we will also be interested in the responses of foreign governments, international financial institutions like the IMF and the European Union, and a relatively new international organization, the G20. We will also focus briefly on the sovereign debt crisis in Europe and beyond.

Required Readings

Frontline, Inside the Meltdown,

The New York Times, The Credit Crisis – the Essentials,
http://topics.nytimes.com/top/reference/timestopics/subjects/c/credit_crisis/index.html. An excellent brief and updated summary of the crisis, with links to hundreds of relevant Times stories and other sources. Read the summary, and click around on other stories according to your interests.


The New York Times, G20 page,
http://topics.nytimes.com/top/reference/timestopics/organizations/g/group_of_20/index.html?scp=1&sq=G20%20financial%20crisis&st=cse. The G20 has been the primary forum within which states have sought to coordinate their responses to the crisis, with summits held in Washington in November 2008, in London in March 2009, and in Pittsburgh in November 2009. Read the overview, and click on some of the subsequent articles, looking in particular for articles that help you answer question 2, below.

Wikipedia contributors, 2008–2009 Keynesian Resurgence,
Wikipedia contributors, *2010 European Sovereign Debt Crisis*, http://en.wikipedia.org/wiki/2010_European_sovereign_debt_crisis. Decent summary of the EU’s sovereign debt crisis (about which I will also lecture), including both its causes and consequences. What does this entry suggest about the Keynesian resurgence?

**Study Question**

1. What happened in the United States to bring on a severe financial crisis? And how, specifically, did this US crisis translate into a global financial and economic crisis?

2. When the financial crisis hit in 2007, different countries were affected to different extents and in different ways, and each country responded somewhat differently in terms of its own macroeconomic policies. Why, according to Stiglitz, should the United States and other countries coordinate their policy responses to the crisis? What specifically might these countries do together that could be helpful? What are the key policy issues that have been taken up in the G20 and other international cooperation forums, and how successful have they been in promoting such cooperation?

**Recommended Readings**


Andrew Ross Sorkin, *Too Big to Fail: The Inside Story of How Wall Street and Washington Fought to Save the Financial System—and Themselves* (New York: Viking, 2009). One of several excellent laymen’s accounts – see also McLean and Nocera, Wessel, and Tett below – of the origins of the financial crisis in the United States. Sorkin’s book is the most comprehensive; Wessel focuses on the actions of the Fed both before and during the crisis; and Tett looks back at how investment banks laid the seeds of the crisis through financial innovations like collateralized debt obligations and credit default swaps.

Bethany McLean and Joe Nocera, *All the Devils are Here: The Hidden History of the Financial Crisis* (New York: Portfolio Hardcover, 2010).


Wikipedia contributors, *Late 2000s Recession*, [http://en.wikipedia.org/wiki/Late_2000s_recession](http://en.wikipedia.org/wiki/Late_2000s_recession). Not as good as the previous entry, and heavily overlapping, so read only the following very short sections: “Credit creation as a cause” (interesting invocation of Hayek!); and “Asia-Pacific policy responses” and “European policy responses” (decent review, with links, of responses by Asian and European governments as well as the G20).

Part IV: Globalization and Development

Week 9: Globalization 101 (March 30, April 1; optional speaker March 28th)
   A. Mid-Term 2 (March 30th)
   B. The Globalization Debate

Required Readings

Jagdish Bhagwati, *In Defense of Globalization* (New York: Oxford University Press, 2004), Chapter 1, pp. 1-13 only; Chapters 2 and 3, pp. 28-35; Chapter 5, pp. 51-67; Chapter 16, 228-239.


Pages: 90

Study Question

1. In the readings for this week, Jagdish Bhagwati offers a defense of globalization, arguing that it is both economically and socially beneficial. What does he mean by this claim, and how does he justify this claim? By contrast, Joseph Stiglitz is critical of globalization as it has unfolded in the past several decades, and argues that “another world” is possible, while Dani Rodrik argues that globalization must be “saved” from its “cheerleaders” (like Bhagwati?). What do Stiglitz and Rodrik think is wrong with globalization today, and what kind of policies do they propose to improve it? Which author makes the strongest arguments, in your view, and why?

Recommended Readings


Week 10: Development in a Neoliberal Age (April 4, 6; no class April 8th)
A. Development, ISI, and Reform
B. The Triumph of Neoliberalism, or of State Capitalism?

Required Readings


Study Question

1. What was “ISI,” and why did so many developing countries first turn towards it during the middle of the 20th century? Why did so many countries then turn away from ISI and embrace the global economy in the final decades of the century, according to your readings?

2. The embrace of the global marketplace by emerging economies like China and India have caused many to declare the arrival of a global neoliberal consensus, while others question whether the free market really has won out. How do your readings (and viewing) this week come down on this question? Which position do you find most convincing, and why?

Recommended Readings


Week 11: The End of Poverty? (April 13, 15, 18; optional speaker April 11)
   A. The Foreign Aid Debate
   B. Global Public Health

Required Readings


Pages: 80

Study Questions. Please answer one of the following questions:

1. Why, according to Jeffrey Sachs, have the countries of Africa lagged so far behind much of the rest of the world economically, and what can the advanced industrialized world do to alleviate poverty and promote growth in Africa? Why does William Easterly believe that his analyses and proposals are flawed, and what do they suggest should be done? Which view do you find more convincing, and why?

2. In a famous 1971 essay, the utilitarian philosopher Peter Singer controversially argued that each of us has a significant moral obligation to relieve human suffering throughout the world, and Singer takes up that argument, and responds to his many critics, in this week’s reading. What is Singer’s core argument? Do you find it convincing? Why or why not? (Either way, please give reasons for your position – don’t simply say that Singer’s arguments are absurd or stupid.)
Just as importantly: If Singer is right, kinds of policies should advanced industrialized countries pursue?

3. Spending on global public health aid has increased dramatically in recent years, although (as is the case for development aid generally) the effectiveness of such aid is disputed. Is global public health a good investment in general? If so, what problems might nevertheless decrease the effectiveness of public health aid, and what is the best way for donors to contribute?

**Recommended Readings**


William Easterly, *The White Man’s Burden: Why the West’s Efforts to Aid the Rest Have Done So Much Ill and So Little Good* (New York: Penguin Press), Chapter 1, pp. 3-30.


Week 12: The Political Economy of Climate Change (April 20, 22)

A. The Domestic Politics of Climate Change
B. Climate Change and Global Governance

In this final substantive week of the term, we focus on a slightly unusual topic for an IPE course: the problem of climate change and states’ responses to it. By and large, existing approaches to climate change have taken either a political-science perspective or an economic perspective, but a truly integrated IPE approach is rare, and I’d like us to spend some time, and this week’s study questions, exploring together what such a perspective might look like, and what insights it might give us.

In the classic political science perspective, which you may have already encountered in other classes, climate change is approached, much like international trade, as a global public good, the provision of which constitutes a Prisoners’ Dilemma game, with rational incentives for states to free ride, and with the hope that international institutions can create iteration, enforcement, and trust, and hence promote cooperation. You can see this view spelled out clearly in many political science readings, such as the following:

- Owen Greene, “Environmental Issues,” in The Globalization of World Politics, in John Baylis and Steve Smith, eds. (Oxford University Press, 2004), pp. 451-478 [on Blackboard; focus in particular on the sections from page 459 to 472 on the “tragedy of the commons,” the ozone layer, and climate change].

Among economists, the debate tends to be about the economic costs and benefits of climate change, with some economists arguing that a major push to reduce greenhouse gas emissions is cost-effective, and others disagreeing. More specifically, economists also spar about the effectiveness of different types of regulations, such as a carbon tax vs. a cap-and-trade system. A very brief flavor of this debate is provided by the following two readings:

- Stern Review, “Executive Summary,” in The Economics of Climate Change (2006), available at the website of the Treasury of the United Kingdom, http://www.hm-treasury.gov.uk/independent_reviews/stern_review_economics_climate_change/stern_review_Report.cfm, pp. vi-ix [on Blackboard].


But if those are the classical political science and economic perspectives, what might an IPE perspective look like? Well, if we take our cue from Oatley, an IPE perspective will focus (1) on winners and losers from climate change and climate policy, and it will study (2) how interests and institutions shape state policies toward climate change. From there, according to Lake, an IPE perspective would further study (3) bargaining among states, with a particular focus not just on a Prisoners’ Dilemma-style search for efficient
cooperation, but also a Battle of the Sexes-style distributive conflict over the terms of such cooperation.

If IPE scholars like Lake and Oatley are correct, an IPE perspective should give us important insights into both the domestic politics of US climate-change policy, as well as the subsequent international negotiations among states in agreements like the Kyoto Protocol and the subsequent December 2009 negotiations at Copenhagen, Denmark and the subsequent December 2010 meeting at Cancun, Mexico.

On the domestic side, please read the following:


On the international negotiations from Rio to Kyoto to Copenhagen, please read the Greene chapter referenced above, plus the following:

- Elizabeth Kolbert, “The Climate of Man – III: What Can Be Done?” *The New Yorker*, May 9, 2005, pp. 52-63 [On Blackboard – most of the first half of the article focuses on the science, the last half on the politics].

This is a lot of articles, but most of them are very short and easily readable. For the latest on climate change in both domestic and international politics, you can check out the New York Times “Global Warming” page, at: http://topics.nytimes.com/top/news/science/topics/globalwarming/index.html.

Study Questions

On the basis of these readings, please answer one the following questions:

1. Based on the articles you’ve read about domestic U.S. legislation in the House and the Senate, what patterns do you see in terms of U.S. societal interests: do we see actors lining up and lobbying government on the basis of their economic interests, as the model predicts? If so, how do actors line up: in terms of factors of production, or sectors, or some other way? And how about institutions? How, if at all, have U.S. Congressional institutions helped to aggregate those interests into specific policy outcomes? Does Oatley’s approach work as well in climate change politics as it did in describing U.S. trade politics?

2. Based on the readings about the international bargaining over climate, what evidence do you see of a PD-style concern about free-riding and enforcement? What evidence do you see for a Battle-style distributive conflict over the specific terms of any proposed international agreement? Do either or both of these perspectives help us understand why international agreement on climate change has proven so elusive in recent years?

Recommended Readings


Week 13: Conclusions and Review (April 25; 27, 29; last mid-term May 2)

Required


No study questions this week.