

INTERNATIONAL RELATIONS/ PS/GS 125 International Political Economy

First Draft

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Office: MW 1:30-2:15 & by appt.

International Political Economy (IPE) is an introduction to the politics of the global economy. *IPE* emphasizes the interactions between political and economic phenomena as well as between international and domestic affairs. We begin by tracing historical efforts to understand the global political economy and to shape its basic economic, political, social and institutional structure. Later, we will consider the problems encountered by both developed and less developed nations as they seek to adapt to the global system's continuing evolution. Because some background in both economics and international relations is necessary, students are expected to have completed at least one course each in Economics and International Relations.

COURSE OBJECTIVES

- [1] To demonstrate that many contemporary international phenomena make it impossible to distinguish foreign policy from domestic policy and unwise to separate politics from economics.
- [2] To give students a general understanding of the most important phenomena of contemporary international political economy so that they may better understand the meaning, the causes, and the consequences of ongoing events and trends.
- [3] To acquaint students with the basic concepts and theories of international political economy, allowing them to pursue further study of international politics, economics, and political economy. (The course is a prerequisite for further IR courses in IPE.)

READINGS

- Bruce E. Moon, *The Dilemmas of International Trade*, 2nd edition, Westview Press, 2000.
- Thomas D. Lairson and David Skidmore, *International Political Economy: The Struggle for Power and Wealth*, 3rd edition, Thompson Wadsworth, 2003.
- A third required "text" consists of readings available on [CourseSite](#).
- The student is also expected to keep up with current events in international political economy by regularly reading a *high-quality* news source. The best dailies are the *New York Times*, *Wall Street Journal*, and *Washington Post*. The best weekly is *The Economist*.

STUDENT RESPONSIBILITIES

Course grades will be determined principally by two midterm exams and a comprehensive final exam. Participation and Black Board postings will also be considered. **There will be no make up exams in the absence of a written and documented emergency.** [See health warning.](#)

Contact me as soon as possible if illness or other emergency will cause you to miss an exam. Students should not make plans to be away from campus during the final exam period (9 - 17 December) until they know their exam schedules.

If you have a disability for which you may be requesting accommodations, please contact both me and the Office of Academic Support Services, University Center 212 (610-758-4152) as early as possible. You must have documentation from Academic Support Services (Cheryl Ashcroft) before accommodations can be granted.

Students are required to attend class. **ATTENDANCE IS MANDATORY!** Moreover, students are required to come to class **PREPARED**. This means you have done the readings, identified problems you would like to discuss, considered any discussion questions raised in the previous session, and formed tentative answers to those questions. The instructor reserves the right to administer unannounced quizzes if necessary to enforce compliance with the attendance and preparation requirement or to verify students understanding.

SCHEDULE OF TOPICS, ASSIGNMENTS, AND EXAMS

The following course outline indicates the topics to be covered and the approximate date of the lectures on each topic. The reading assignments are to be completed **BEFORE** the indicated lecture. **The student is forewarned, however: these dates are subject to change and it is the responsibility of the student to know where we are in the syllabus.**

SECTION ONE: PERSPECTIVES ON INTERNATIONAL POLITICAL ECONOMY

30 August - 15 September

Monday, 30 August. Administrative introduction to the course: books, assignments, expectations, etc.

Very briefly, "international political economy (IPE)" is the study of distinctive phenomena at the intersection of economics and politics, and involves both domestic and foreign policy. Proper analysis requires us to blend theory concerning economy, polity, and society. *"Economic theory doesn't provide all the answers because it doesn't ask all the questions."*

First Day.125

Reading (ideally to be completed before the first class):

- Lairson, chapter 1
- Robert Kuttner, "The Poverty of Economics," *Atlantic Monthly* Feb. 1985: 74-84.

Recommended: • Christopher Hayes, "What we learn when we learn economics: Is a little economics a dangerous thing?" *In These Times* 27 Nov. 2006

Review: • Lairson, chapter 2. If this seems difficult to you, you may be in the wrong course. See the instructor immediately.

Remedial: • Charles L. Schulze, Selections from *Memos to the President: A Guide Through Macroeconomics for the Busy Policymaker*.

Wednesday, 1 September. Political economy can be variously defined in terms of distinctive phenomena, distinctive processes, competing values, competing interests, and competing institutions. We will emphasize alternative means of allocating social values, especially through the state and the market, though also through the institutions of civil society. We will discuss the strengths and weaknesses of each

States&Markets

form of allocation, which requires that we examine alternative theories of the market. We will emphasize Polanyi's view of the role of the market in system design. Market behavior is much more complex than economic theory recognizes: the Bovine Mystique illustrates the multidimensional character of the market in political/economic/social/cultural terms.

- Reading:**
- Karl Polanyi, "Societies and Economic Systems" and "The Self-regulating Market and the Fictitious Commodities: Labor, Land, and Money"
 - Various Polanyi commentaries
 - James Ferguson, "The Bovine Mystique"

Note: Polanyi's perspective is a touchstone for the course. Be prepared to read these passages and commentaries before the lecture and then again after the lecture: it is *that* important.

Monday, 6 September. Labor Day. No class

Wednesday, 8 September. A central theme of the course is the question of how much market and how much state is desirable in creating and maintaining the domestic and global political economy. Alternative theories of the state inform alternative views of the strengths and weaknesses of state allocation. An important component of our "tool box" for studying IPE involves five lessons of political economy which describe the interaction of political/social structure and economic process. #1: Interests and values affect theory. #2 (Structure and process): Structures are necessary, especially the state. #3-5 (Dynamic interactions): Structures bias Outcomes --> Outcomes affect Actors (Markets allocate power)--> Actors shape Structures --> ...

state vs. market allocation

Lessons_IPE

five lessons

- Reading:**
- Ernest Mandel, "Marxist Theory of the State", foreword, parts 1 and 2;
 - David Gold, Clarence Lo, and Erik Olin Wright, "Recent Developments in Marxist Theories of the Capitalist State;" (HINT: emphasize this one)
 - Claus Offe, "The Theory of the Capitalist State and the Problem of Policy Formation," (read pp.125-127, skim remainder).

TradeIntro
Ref: Trade deficits

3Schools_IPE

Monday, 13 September. Twin questions which guide the course: (1) How should one *evaluate* the foreign economic policies of nations and individuals? (2) How can we *explain* the choice of these policies? The importance of trade can be illustrated by the trade challenges which face the U.S.

five policy approaches

three dilemmas

We will add to our "tool box" a description of four (or five) policy approaches to trade, which partly reflect three theoretical views of IPE: realist/mercantilist, liberal, radical/structural. We will discuss determinants of the choice of trade policy, introducing a conceptual scheme which we will apply to different eras and to different countries.

German vs. Anglo-American vision

These choices respond to the dilemmas posed by trade.

- Reading:**
- Review Moon, chapter 1.
 - James Fallows, "How the World Works"
 - Robert Gilpin, "Three Ideologies of Political Economy"
 - Lairson, chapter 1 (pp. 11-13)

three ideologies

Recommended: • Karl Marx and Frederick Engels, *The Communist Manifesto* <http://marx.org/archive/marx/works/download/manifest.pdf> There is no easy introduction to Marxism, but this comes closest.

Optional Assignment: Scenario: you are in the market for a new car and have narrowed your choice to one American and one Japanese model. Aside from typical consumer criteria (e.g., price and quality), what additional considerations, if any, are appropriate? Why?

Last Drop w/o W:9/10
Last Pass/Fail:9/17

[TradeIntro](#)

Wednesday, 15 September. We will use this session to catch up and review our “tool box”.

[A Toolbox for Trade Policy Analysis.pptx](#)

SECTION TWO: ORTHODOX (LIBERAL) TRADE THEORY AND ITS CRITICS: HISTORICAL ORIGINS AND EVOLUTION 20 September - 13 October

Monday, 20 September. The form and motivation of classical mercantilism. Understanding mercantilism as a choice concerning the three dilemmas of trade. Change exemplified by the enclosure movement.

[TradeIntro](#)

Reading: • Moon, chapter 2 (pp. 33-51).

Review: • Moon, chapter 1 (pp 20-31).

determinants of trade policy

[TradePolicyEras.pptx](#)

Recommended: • Stephen Krasner, “State power and the structure of international trade”

Wednesday, 22 September. The classical case for free trade: comparative advantage and the gains from trade. The costs of protection. Domestic political processes and protectionism. Britain’s “golden age of free trade” as a choice concerning the three dilemmas of trade. Polanyi on the Great Transformation. Specific manifestations in the Corn Law debate of the conceptual scheme for trade policy choice and the five lessons of political economy. Historical eras of liberalism and mercantilism.

[Trade theories.pptx](#)

historical eras & regional variations

Reading: • Moon, chapter 2 (remainder)

• Lairson, chapters 2 (pp 17-22) & 3

Recommended: • C. Ford Runge and Edi DeFrancesco "Exclusion, Inclusion, and Enclosure: Historical Commons and Modern Intellectual Property" *World Development* Vol. 34, No. 10, pp. 1713–1727, 2006.

Optional Assignment: Come to class prepared with questions concerning the exposition of absolute advantage, comparative advantage, and protectionism by Moon and/or Lairson.

Monday, 27 September. Sources of comparative advantage: the modern (liberal) trade theory of Heckscher-Ohlin and the (not-so-liberal) dissenters.

theories of distributional consequences

[Trade theories.pptx](#)

Considerations of comparative advantage in the Third World. Stolper-Samuelson Theorem and alternative theories of the distributional consequences of trade.

Radical views concerning the effect of trade on distribution/inequality as manifested in the globalization debate. Empirical patterns: who favors free trade? protectionism? the welfare state?

Reading: • Moon, chapter 3 (especially pp. 65-78).

• Ronald Rogowski, “Political Cleavages and Changing Exposure to Trade”

Wednesday, 29 September. The dynamics of political economy: specific manifestations in the early 20th century decline of liberalism. Why did extreme protectionism arise in the 1920s? Applying conceptual schemes to the late nineteenth and early twentieth century. The historical background

[TradePolicyEras.pptx](#)

to Bretton Woods: rising protectionism, the Great Depression, monetary chaos, World War II. The perceived need for greater management by international institutions.

Reading: • Moon, chapter 3 & 4
• Lairson, chapter 4.

Monday, 4 October. Causes of Bretton Woods. Trade dilemmas, again. The Bretton Woods institutions. Understanding Bretton Woods as an amalgam of liberalism and mercantilism. Understanding Bretton Woods as an amalgam of state and market allocation. The American role in Bretton Woods. Hegemonic stability theory and alternative explanations of Bretton Woods.

BrettonWoods

Reading: • Lairson, chapter 4; chapter 6 (pp. 161-165)
• Moon, chapters 3 & 4.

Assignment: Provide one essay question and one objective question for the exam. *Please note that the next assignment is due soon.*

*** **FIRST EXAM - Wednesday, 6 October** ***

Assignment (due by Friday 8 October, 9:00 am): What was the hardest question on the exam? Why? What was the best question on the exam? Why?

Pacing Break : Monday, October 11. NO CLASS

Wednesday, 13 October. Exam debriefing. *Note: This is a very important session.*

MidtermGrades:10/20

SECTION THREE: INTERNATIONAL INSTITUTIONS AND GLOBAL FINANCE

18 October - 1 November

Monday, 18 October. Bretton Woods and its evolution. Determinants of trade policy choice, again. Seeing the WTO as the outcome of power and prevailing theories. Seeing the Battle of Seattle as an expression of attitudes toward the dilemmas of trade and distributional theories.

FinanceIntro

Wednesday, 20 October. Definitions of key terms in the analysis of international finance. The relationship between balance of payments and currency valuation. The exchange rate as the linchpin among trade policy, macroeconomic policy, and development policy. Budget deficits, trade deficits and global monetary flux. The optimal value for a currency. Dangers of exchange rate volatility.

Reading: • Lairson, chapter 2 (pp 23-42).
• Charles Schulze, "Memos 9 & 10"
• Jeffrey Frieden, "Exchange Rate Politics: Contemporary Lessons From American History"

Assignment: What are the distributional implications of a decline in the value of the U.S. dollar?

Monday, 25 October. The effect of the exchange rate on the same trade-offs that constitute the dilemmas of trade. The effect of currency valuation on trade. The effect of a trade deficit on the value of the currency. The exchange rate as a mechanism that minimizes trade imbalances like the specie flow adjustment mechanism. The effect of currency valuation on distributional patterns, especially generational. Why does currency valuation matter to a political economist? Explanations for national choices of the desirable exchange rate.

FinanceIntro

FinanceIntro

Wednesday, 27 October. Four determinants of currency valuation. Policy instruments available to nations in achieving the desired exchange rate. Five options. The costs and benefits of each option. Foreign exchange markets and the global monetary order. Bretton Woods attitudes toward alternative national policies. The East Asian currency crash of the 1990s. Contemporary imbalances and the IMF.

Reading: • Lairson, chapter 5; chapter 6 (pp. 155-159)

Monday, 1 November. Catch up.

A DIGRESSION PRIOR TO SPRING REGISTRATION: THE NORTH-SOUTH DIVISION

NorthSouth Intro
.wp .ppt

Wednesday, 3 November. The North-South division. A simple sketch of standards of living in poor countries. Poverty in multiple dimensions. The implications of low income for other values. Differences in the political economy of First and Third World countries. Spring development courses: IR 222 and IR 322.

Reading: • Lairson, chapter 8.

SECTION FOUR: THE ECONOMIC RELATIONS AMONG DEVELOPED COUNTRIES

8 November - 22 November.

Trade Tensions

Monday, 8 November. Trade tensions and policy coordination among developed states. Linkages between open macro economies: currency values, employment, growth, inflation, interest rates, asset prices. Bretton Woods, again. Globalization, again. Polanyi, again. Trade dilemmas, again. Determinants of trade policy choice, again.

Reading: • Moon, chapter 5.

- Lairson, chapter 7, chapter 6 (pp 147-165), chapter 2 (pp. 17-18, 23-42), chapter 1 (pp. 8-9).
- Schulze, "Memos 12, 16, 17"

Wednesday, 10 November. Japanese trade policy. Determinants of trade policy choice, again. Structure and process, again. The impact of cultural norms and domestic political, economic, and social structures on foreign trade and investment. Strategic trade theory. Industrial policy. Trade dilemmas, again. The American-Japanese relationship. Perspectives of Fallows, again. U.S. trade relations with China. Trade, democracy, human rights, labor rights. Does trade promote democracy?

Japan

Reading: • Lairson, chapter 7 (pp. 198-222), chapter 3 (pp.55-57).

NAFTA.EU

Monday, 15 November. Regional integration as a particular amalgam of liberalism and mercantilism. Trade dilemmas concerning national autonomy. Differences and similarities between the EU and NAFTA. Why intermediate levels of regional integration tend to be unstable. NAFTA and proposals to extend NAFTA. Trade dilemmas concerning inequality, insecurity. The Mundell-Fleming constraint as an explanation for the tensions within regional communities and variations in pacific liberalism and mercantilist nationalism. Mundell-Fleming as a review of the forces involved in trade tensions, macroeconomic "transmission belts", and the connections among macroeconomic aggregates, capital flows, and currency values.

Reading: • Moon, chapter 6

- Lairson, chapter 6 (pp. 165-191).

Review session, TBA

*** **SECOND EXAM - Wednesday, 17 November** ***

Registration:
11/8-11/19

Monday, 22 November. Exam De-briefing

Wednesday, 24 November NO CLASS, Thanksgiving Break

SECTION FIVE: NORTH/SOUTH ECONOMIC RELATIONS

29 November - 8 December

Monday, 29 November The North-South division. Dependency theory and modernization theory.

NorthSouth Intro
postlogue

Dependency understandings of the nexus between the domestic and the foreign and the nexus between the national and systemic levels of analysis. Misunderstandings of dependencia.

Modernization
& dependency

Development goals and strategies. Schemas for characterizing development theories: the questions that must be answered by every development strategy. Development under globalization. Outward oriented development strategies, commodity chains, and multinational corporations. The example of Thailand. Trade dilemmas in the choice of development strategy.

Reading: • Lairson, chapters 8 & 9, chapter 5 (pp. 116-146).
• Moon, chapter 7.

Wednesday, 1 December. Primary product specialization. The Commodity Problem and the Natural

Development
Strategies2.ppt

Resource Curse: does product specialization matter? Differences between trade theory and development theory concerning product specialization. Dynamic aspects of trade and long-term growth prospects. Why a nation would want to **avoid** specializing in its comparative advantage.

Problems of Third World development. Development goals and strategies. Controversies over the role of trade and investment. Controversies over the role of the state.

Reading: • Lairson, chapter 9.

Monday, 6 December. Growth theory and recent research results. The Asian Miracle. There are no miracles. Capital flows. Foreign aid. Multinational corporations. Debt.

Ref: Requisites from
factors

Reading: • Lairson, chapters 10, 11, 12.

Wednesday, 8 December. The Southern view of the contemporary global system and its institutions. The New International Economic Order. Proposals for a new global financial architecture. Tobin tax. Poverty and sustainable development. The new international division of labor.

Alternative
Systems

Reading: • Moon, chapter 8.

• Lairson, chapter 13.

• Moon, "From Seattle and Doha to Cancun"

Assignment: Scenario: You are the minister of finance for a Latin American nation attending the Bretton Woods conference. How would your vision of an ideal international structure differ from Bretton Woods?

Monday, 13 December. Review/Consultation/Study Period. Meet as usual. Review.

Bonus session - fit in where/if possible. America and the future in a changing global economy.

Final Exams:
Tu12/14-W12/22

Reading: • Lairson, chapter 14.

• Moon, "The United States and Globalization: Struggles with Hegemony"