

Political Science 124A
International Political Economy
Spring 2018
Royce Hall 190
Tuesdays and Thursdays, 9:30 – 10:45 a.m.
Professor Ron Rogowski
rogowski@international.ucla.edu
3369 Bunche Hall

Office Hours: Wednesdays, 10:30 a.m. to noon, or by appointment

DESCRIPTION OF THE COURSE

During the quarter, we will cover two broad topics in International Political Economy (IPE):

1. Trade in Products
 - The historical evolution of international trade, from earliest times (probably 300,000 years ago)
 - The economic and political rationale for trade policy (tariffs, quotas, trade agreements, international trade regimes)
 - The distributional effects of trade, both within and between countries: who wins, who loses
 - How political institutions and trade affect each other
2. Trade in Factors
 - Labor: international migration and remittances
 - Capital: international finance (exchange rates, cross-border investment, central bank policy)

We will utilize the theoretical tools that analyze these topics to understand crises of the international economy (the Great Depression of the interwar years, the financial crisis of 2007-2009, and the ongoing crises of the Euro and of European sovereign debt) and the more recent backlash against globalization across Western democracies.

As the name implies, IPE combines elements of international economics with an analysis of politics, both international and domestic. Why, in some periods, do most countries practice free trade (the half-century before World War I and the almost quarter-century since the collapse of Communism), but at other times wall off international markets (the 1930s, the Soviet bloc, and many developing countries after World War II)? Why was international migration almost totally unrestricted between 1850 and 1914 but beginning in the 1920s strongly restricted (the U.S. and Europe tightened immigration, the Soviet bloc forbade emigration) and now again a salient issue? How and when do the leading countries of the world agree on the “rules of the road” of international trade and finance (today’s IMF and WTO), and what happens when they fail to agree? And what causes the occasional catastrophic collapses of the international economy (the crash of 1929-31 and the near-death experience of 2007-09)?

As we'll see, causation runs both ways: the international economy affects, and is affected by, domestic and international politics. In the most extreme example, the collapse of the world economy in the 1930s led almost inevitably to Fascism and World War II. But we'll also see that U.S. Populism of the 1890s, European Socialism, Latin American protectionism, and current European and U.S. anti-globalization movements (to name only a few) make a lot more sense in the context of the international economic changes of their time. We'll also see that the international economy and domestic politics are often profoundly affected by technology – by revolutions in transportation and communication, be they railroads, steamships, cargo containers, cheap air travel, or telegraph, telephone, and the internet.

To begin to understand any of this, we'll need a rudimentary grasp of international economics, which is given pretty well by the Grieco-Ikenberry book (see below). I'll supplement that coverage with material in lecture and class discussion. Another good economics reference is the Core Econ project: <http://www.core-econ.org>. The site is organized as an ebook that aims to make cutting-edge research in economics accessible at an undergraduate level and is available for free.

I've assigned two books and one newspaper subscription for this course, all but one of which should be available at the ASUCLA Store:

- Grieco, Joseph M., and G. John Ikenberry, *State Power and World Markets: The International Political Economy*, W. W. Norton & Company, 2003.
- Frieden, Jeffrey, *Global Capitalism: Its Fall and Rise in the Twentieth Century*, W. W. Norton & Company, 2007.
- *The Wall Street Journal*, 15-week subscription, currently at the exorbitant price of \$1 (also gives you access also to their archives).

I would also urge you to look fairly regularly at *The Financial Times* of London, which along with the *WSJ* offers the best day-to-day coverage of international economic events and their domestic repercussions. Both are required reading for policymakers, who also use Op-Eds and interviews in those publications for trial balloons or major policy pronouncements. I'll refer frequently to current news in lectures and the TAs will do the same in section, so it's highly advisable to be up to date with as many of these sources as possible. At several points in the term, you will also be required to find a reading from one of these sources that relates to the topic of the week and respond to it in a one-page essay that will be due the following Monday before lecture (we'll say more about this in lecture and section). This will be superseded by the occasional pop quiz in section on the news of the week from the *WSJ* (as it pertains to IPE in general). This will be included in your final grade, and thus it is critical for both your grade and your understanding of world events that you stay up-to-date with the daily news.

Assigned readings other than the texts will be available as web links, listed usually both in this syllabus and on the course web page. You should have no trouble accessing journal articles from campus (e.g., via JSTOR), since UCLA has site licenses for most, but off-campus you may need to log into a proxy server via BruinOnLine or VPN. In a few cases, noted in the syllabus, access will be available, for copyright reasons, only to enrolled participants in the course.

The course will have two excellent TAs, Ryan Weldzius and Arseniy Samsonov. Weldzius specializes in IPE, Samsonov in CPE. Weldzius worked at the WTO headquarters in Geneva and contributed significantly to their 2014 World Trade Report. Samsonov's undergraduate degree is from the Higher School of Economics in Moscow, and he won distinction in the all-Russian Olympiad in Economics.

COURSE REQUIREMENTS AND GRADING

Grading in the course will depend on: a mid-term and a final examination; preparation for, and attendance and participation in, section discussion (this is crucial); and performance on weekly response papers and pop quizzes. You can receive additional credit for participation in lecture, which I welcome. The final grade in the course will be weighted as follows:

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|---|-------------|
| • Attendance and participation in section | 15 per cent |
| • One-page papers and pop quizzes | 15 per cent |
| • Mid-term examination | 25 per cent |
| • Comprehensive final examination | 45 per cent |

SCHEDULE OF TOPICS AND READINGS

WEEK 1: INTRODUCTION TO INTERNATIONAL TRADE

April 3, 2018: Introduction to International Trade

Required Readings:

- Grieco and Ikenberry (hereafter: G-I), ch. 1
- Bernstein, William J., *A Splendid Exchange: How Trade Shaped the World*, Grove/Atlantic, Inc., 2009: Introduction
- Mandelbaum, Michael, "Trump and the All American Trade Debate," *Project Syndicate*, March 9, 2018.

Optional Readings:

- Helpman, Elhanan, "The Structure of Foreign Trade," *Journal of Economic Perspectives* 13.2, 1999: 121-144. (a great overview of the theories we will cover over the next several weeks)

Questions to Consider:

- Why do countries trade?
- What is the purpose of protecting against trade?

April 5, 2018: David Ricardo and the Theory of Comparative Advantage

Required Readings:

- G-I, pp. 19-43, on the basic theory of comparative advantage

- Ricardo and comparative advantage at 200: <https://voxeu.org/article/ricardo-and-comparative-advantage-200>

Optional Readings:

- Does free trade lead to growth? <https://pseudoerasmus.com/2016/12/25/bairoch/>
- Tutorials: [Core Econ](#), chapters 3, 7, 8
- Note: If you have previously studied international economics, you will be familiar with the material that Grieco and Ikenberry present (but will, I hope, find it a useful refresher). If you have not previously studied the subject, you will find the “analytic tools” of this section daunting, but they more than repay close study. They will underlie the rest of the course, and we will go over them carefully in lecture and section. If you have never encountered indifference curves or production possibility frontiers, a couple of Khan Academy videos will be helpful:
- [Indifference curves](#)
- [Production Possibility Frontier \(PPF\)](#)

Questions to Consider:

- What do countries trade and why?
- Does trade make all countries better off?
- What makes the Ricardo model of international trade unique? How does it differ from Smith?

WEEK 2: FROM TRADE IN FACTORS TO INTRA-INDUSTRY TRADE

April 10, 2018: Distributional implications of free trade: scarce vs. abundant factors

Required Readings:

- G-I, pp. 47-50 (especially important to understand)
- Rogowski, Ronald, “Political Cleavages and Changing Exposure to Trade,” *American Political Science Review* 81.4 (1987): 1121-1137.
- Blonigen, Bruce A., “Revisiting the Evidence on Trade Policy Preferences,” *Journal of International Economics* 85.1 (2011): 129-135.

Optional Readings:

- Anna Maria Mayda & Dani Rodrik, “Why Are Some People (and Countries) More Protectionist Than Others?” *European Economic Review* 49 (2005) 1393–1430, posted on course web page.
- Ina Jäkel and Marcel Smolka, “Individual Attitudes Towards Trade: Stolper-Samuelson Revisited,” *Open Economies Review* 24 (2013): 731-761, posted on course web page (gloss over the econometric specifications, focus on results reported in text and graphs).
- Tutorials: [Core Econ](#), chapter 16

Questions to Consider:

- Who wins and who loses from trade? Why did the Ricardo model imply that nobody lost from trade?
- Do the winners and losers from trade change between generations?
- How can one measure empirically the trade preferences of individuals?

April 12, 2018: “New” trade theory: economies of scale and intra-industry trade

Required Readings:

- G-I, pp. 43-47
- Madeira, Mary Anne. “The new politics of the new trade: the political economy of intra-industry trade.” *Handbook of International Political Economy of Trade* (2014): 113-134.
- Blanchard, Emily, Chad Bown, and Robert Johnson, “Global Value Chains and Trade Policy,” 2017. [skip section 1, Theoretical Framework]

Questions to Consider:

- What gives rise to intra-industry trade?
- Is it present in many sectors, or only a few?
- How does horizontal intra-industry trade differ from vertical intra-industry trade?

WEEK 3: NEW-NEW TRADE THEORY AND INEQUALITY

April 17, 2018: The “new-new” trade theory: intra-industry heterogeneity

Required Readings:

- Kim, In Song, “Political Cleavages Within Industry,” *American Political Science Review* (2017): 1-20.
- Osgood, Iain, “The Breakdown of Industrial Opposition to Trade: Firms, Product Variety, and Reciprocal Liberalization,” *World Politics* 69, no. 1 (2017): 184-231.

Optional Readings:

- Bernard, Andrew, J. Bradford Jensen, Stephen Redding, and Peter Schott, “Firms in International Trade,” *Journal of Economic Perspectives* 21.3 (2007): 105-130.
- Osgood, Iain, “Differentiated Products, Divided Industries: Firm Preferences Over Trade Liberalization,” *Economics & Politics* 28.2 (2016): 161-180.

Questions to Consider:

- How does inter-firm heterogeneity change our predictions about trade preferences?
- How important are large firms in international trade?

April 19, 2018: International trade and inequality within countries

Required Readings:

- G-I, pp. 244-258
- Milanovic, Branko, and Lyn Squire, “Does Tariff Liberalization Increase Wage Inequality? Some Empirical Evidence,” No. w11046. *National Bureau of Economic Research*, 2005.
- Frankel, Jeffrey, “Does Trade Fuel Inequality?” *Project Syndicate*, January 2, 2018.

Optional Readings:

- NPR “Planet Money” podcast on regulatory capture and inequality, March 9, 2018 ([Link](#))
- Goldberg, Pinelopi Koujianou, and Nina Pavcnik, “Distributional Effects of Globalization in Developing Countries,” *Journal of Economic Literature* 45.1 (2007): 39-82.

- Williamson, Jeffrey G., *Trade and Poverty* (MIT Press 2011), chs. 1, 9, 14.

Questions to Consider:

- Does the correlation between increased trade openness and increased inequality within countries imply that trade causes inequality?
- How do industries use regulation to “rig” the economy in their favor?

WEEK 4: TRADE AND INSTITUTIONS

April 24, 2018: How domestic institutions affect trade

Required Readings:

- Henisz, Witold J., and Edward D. Mansfield, “Votes and Vetoes: The Political Determinants of Commercial Openness,” *International Studies Quarterly* 50.1 (2006): 189-211.
- Jansen, Marion, and Hildegunn Kyvik Nordås, “Institutions, trade policy, and trade flows,” (2004).
- Nunn, Nathan, “Relationship-specificity, Incomplete Contracts, and the Pattern of Trade,” *The Quarterly Journal of Economics* (2007): 569-600 (focus on the basic theoretical argument; just skim the empirical section)

Optional Readings:

- Lopez-Cordova, J. Ernesto, and Christopher M. Meissner, “The Impact of International Trade on Democracy A Long-Run Perspective,” *World Politics* 60, no. 4 (2008): 539-575.
- Puga, Diego, and Daniel Trefler, “International Trade and Institutional Change: Medieval Venice's Response to Globalization,” *Quarterly Journal of Economics* 129, no. 2 (2014): 753-821.

Questions to Consider:

- How do domestic political institutions affect trade flows?
- Are the institutions independent or endogenous?
- Is contract enforcement an important determinant of comparative advantage?

April 26, 2018: International institutions and trade

Required Readings:

- G-I, ch. 9
- Rose, Andrew K., “Do We Really Know That the WTO Increases Trade?” *American Economic Review* 94.1 (2004): 98-114. (do not get bogged down by the empirics; understand the argument and conclusion)
- Tomz, Michael, Judith L. Goldstein, and Douglas Rivers. "Do we really know that the WTO increases trade? Comment." *American Economic Review* 97.5 (2007): 2005-2018.
- Jones, Emily, “The WTO’s Reform Crisis,” *Project Syndicate*, October 23, 2014.
- Bown, Chad, “President Trump’s Solar and Washer Tariffs May Have Now Opened the Floodgates of Protectionism,” *Washington Post | Monkey Cage*, January 23, 2018 ([Link](#)).
- Bown, Chad, “Trump Has Announced Massive Aluminum and Steel Tariffs. Here Are 5 Things You Need To Know,” *Washington Post | Monkey Cage*, March 1, 2018 ([Link](#)).

- Browse WTO homepage (<http://www.wto.org/index.htm>); look especially at the tab *Trade Topics/Dispute Resolution* for some up-to-date cases, including the 2012 complaint by Japan, the EU, and the USA against China regarding export of rare earths (D431-D433), and disputes between the EU/Ukraine (DS485, DS494, DS499) ([Link](#)).

Optional Readings:

- Council on Foreign Relations (CFR) backgrounder on the WTO ([Link](#)).
- Mansfield, Edward D., Helen V. Milner, and B. Peter Rosendorff, “Why Democracies Cooperate More: Electoral Control and International Trade Agreements,” *International Organization* 56.3 (2002): 477-513. Carnegie, Allison. “States Held Hostage: Political Hold-Up Problems and the Effects of International Institutions.” *American Political Science Review* 108, no. 1 (2014): 54-70.
- Historically interesting, especially in the current context, is the successful complaint against the Bush Administration’s attempt at steel tariffs: http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds248_e.htm and <http://www.guardian.co.uk/world/2002/mar/22/usa.eu>

Questions to Consider:

- Why do countries enter preferential trade agreements?
- What is the role of the WTO (and the GATT before it) in regulating international trade?
- Is the WTO becoming obsolete? What happens if Trump repudiates it?

WEEK 5: MIGRATION AND REMITTANCES

May 1, 2018: International migration

Required Readings:

- Krugman and Obstfeld, *International Economics*, 7th ed., 2006, pp. 149-154, “International Labor Mobility.”
- Peters, Margaret E., “Open trade, Closed Borders: Immigration in the era of Globalization,” *World Politics* 67, no. 1 (2015): 114-154.
- Acevedo, Jesse, “What Will Happen to El Salvador When the U.S. Ends the Protected Status of Salvadoran Immigrants?” Washington Post | Monkey Cage, February 22, 2018 ([Link](#)).

Optional Readings:

- di Giovanni et al., “A Global View of Cross-Border Migration,” *Journal of the European Economic Association* 13, no. 1 (2014): 168-202.

Questions to Consider:

- Is migration just another form of trade?
- Why and when do countries encourage or restrict it?
- What role do remittances play in the countries that receive them ?

May 3, 2018: Retrospective overview of Trade in Goods, Services, and Labor

Required Readings:

- Frieden, Jeffrey, *Global Capitalism*, Prologue, Chapters 1-3 (pay attention to who supports free trade and why)

- Helpman, Elhanan, “The Structure of Foreign Trade,” *Journal of Economic Perspectives* 13.2, 1999: 121-144. (A great overview of the trade models discussed in the first four weeks; suggested reading from Week 1).

WEEK 6: CURRENCIES, EXCHANGE RATES, AND MONETARY POLICIES

May 8, 2018: Mid-Term Examination (in class; covers all material through 1 May)

May 10, 2018: Monetary Policy and Exchange Rates

Required Readings:

- G-I, pp. 57-75. This material is hard slogging, but you will find it essential to understand what is going on today. A useful supplement is a Khan Academy video: <https://www.khanacademy.org/economics-finance-domain/core-finance/money-and-banking/currency-tutorial/v/currency-effect-on-trade>
- Frieden, *Currency Politics: The Political Economy of Exchange-Rate Policy* (Princeton 2015), Introduction (posted on course web page; for copyright reasons, to be accessed by enrolled course participants only)
- Frieden, *Global Capitalism*, chapter 5 (pay particular attention to that period’s threats to the gold standard).

Optional Readings:

- [Core Econ](#), ch. 14: Inflation and Monetary Policy

Questions to Consider:

- What affects an individual’s or firm’s exchange rate preferences?
- How do exchange rates affect international trade flows?
- What groups opposed the gold standard and why?

WEEK 7: GREAT DEPRESSION, COMPETITIVE DEVALUATIONS, AND TRADE WARS

May 15-17, 2018: What happens when trade collapses?

Required Readings:

- Frieden, *Global Capitalism*, chapter 6, 8-10 (again, pay attention to the groups that are winning/losing from trade and the international economic order).
- Barry Eichengreen, *Golden Fetters: The Gold Standard and the Great Depression, 1919-1939* (Oxford UP, 1992), ch. 1.
- Jeffrey Frankel, “Dispatches from the Currency Wars,” *Project Syndicate*, June 11, 2013 ([Link](#)). (how modern currency wars can occur)

Optional Readings:

- Wolf, Holger C. and Tarik M. Yousef. “Breaking the Fetters: Why Did Countries Exit the Interwar Gold Standard?”, in *The New Comparative Economic History: Essays in Honor of Jeffrey G. Williamson*, Hatton et al., eds. (MIT Press 2007), pp. 241-265.

Questions to Consider:

- What changes an individual’s exchange rate preferences?

- How do currency wars occur, both in the interwar years and today?

WEEK 8: THE INTERNATIONAL BRETTON WOODS REGIME

May 22, 2018: The rise of today's free-trade regime and of "embedded Liberalism"

Required Readings:

- G-I, chapters 4-5
- Frieden, *Global Capitalism*, chapters 11-12
- Bordo, Michael, "The Operation and Demise of the Bretton Woods System: 1958 to 1971," Voxeu.org, April 23, 2017 ([Link](#))

Optional Readings:

- Ruggie, John Gerard, "International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order," *International organization* 36.2 (1982): 379-415.
- CFR backgrounder on the IMF ([Link](#))

Questions to Consider:

- How did the Bretton Woods regime work?
- Why did the international community support the creation of the Bretton Woods regime?
- What is meant by "embedded liberalism?"

May 24, 2018: The collapse of Bretton Woods; the rise of floating exchange rates

Required Readings:

- Frieden, *Global Capitalism*, chapter 15
- Barry Eichengreen, "Global Imbalances and the Lessons of Bretton Woods," *Economie Internationale* 4(100), 2004, pp. 39-50.

Questions to Consider:

- What were the crucial prerequisites of the Bretton Woods regime?
- How did these break down? To what extent was misguided U.S. policy to blame?
- How, despite fears at the time, did international trade continue to expand?

WEEK 9: CAPITAL MOBILITY AND THE SEEDS OF THE GREAT RECESSION

May 29, 2018: Capital mobility and the "Unholy Trinity"

Required Readings:

- G-I, pp. 258-287
- Frieden, *Global Capitalism*, chapters 16-17
- Gregory Mankiw, "The Trilemma of International Finance," *The New York Times*, 11 July 2010. ([Link](#))
- Dani Rodrik, "The False Promise of Financial Liberalization," *Project Syndicate*, January 10, 2017. ([Link](#))

Optional Readings:

- Yu Yongding, "China's Trilemma," *Project Syndicate*, June 13, 2014. ([Link](#)).

- Obstfeld, Maurice, Jay C. Shambaugh, and Alan M. Taylor. "The trilemma in history: tradeoffs among exchange rates, monetary policies, and capital mobility." *Review of Economics and Statistics* 87, no. 3 (2005): 423-438.
- Pepinsky, Thomas B. "Capital Mobility and Coalitional Politics: Authoritarian Regimes and Economic Adjustment in Southeast Asia." *World Politics* 60, no. 3 (2008): 438-474.

Questions to Consider:

- Why can a country not have an independent monetary policy if it has capital mobility and a fixed exchange rate?
- Why, under a floating exchange rate, is fiscal policy usually ineffective?
- Why have central banks become so powerful under floating exchange rates?

May 31, 2018: Financial Crash of 2007-2008: Different from the Great Depression?

Required Readings:

- The *Economist's* introduction to Minsky's theory of financial busts ([Link](#)).
- "The Origins of the Financial Crisis: Crash Course," *The Economist*, 7 September 2013 ([Link](#)).
- "Monetary Policy After the Crash: Controlling Interest," *The Economist*, 21 September 2013.
- "Stimulus vs. Austerity: Sovereign Doubts," *The Economist*, 28 September 2013.
- The *Economist's* primer on Keynesianism ([Link](#)).

Optional Readings:

- Roger Lowenstein, "Triple-A Failure," *New York Times Magazine*, 27 April 2008 ([Link](#)).
- Stephen Laraton, "Agency's '04 Rule Let Banks Pile Up New Debt," *New York Times*, 3 October 2008 ([Link](#)).
- Jon Hilsenrath and Brian Blackstone, "Inside the Risky Bets of Central Banks," *Wall Street Journal*, 12 December 2012 ([Link](#)).
- Rupert Neate, "Ratings Agencies Suffer 'Conflict of Interest', says former Moody's boss," *The Guardian*, 22 August 2011 ([Link](#)).
- On structural reforms: [IMF World Economic Outlook](#) (April 2016).
- Mian, Atif, Amir Sufi, and Francesco Trebbi. "The Political Economy of the US Mortgage Default Crisis." *The American Economic Review* (2010): 1967-1998.

Questions to Consider:

- What were the main causes of the financial crisis? How was this different from the Great Depression?
- What is moral hazard?
- How did the US and other countries respond to the financial crash of 2007-2008? Was this different from the response to the Great Depression?
- What do we mean by "macroprudential regulation?"

WEEK 10: THE RISE OF POPULISM IN WESTERN DEMOCRACIES

June 5, 2018: The European Sovereign Debt Crisis and “Brexit”

Required Readings:

- Mark Blyth, *Austerity: History of a Dangerous Idea*, chap. 1
- Michael Boskin, “A Tale of Two Currency Areas,” *Project Syndicate*, January 24, 2011 ([Link](#)).
- Ballard-Rosa, Cameron, Stephanie Rickard, and Kenneth Scheve, “Liberal Populism: Public Support for Globalization in Post-Brexit United Kingdom,” 2017. ([Link](#))

Optional Readings:

- Becker *et al.* “Who Voted for Brexit? A Comprehensive District-Level Analysis,” 2016.
- Eberhardt, Markus, and Andrea F. Presbitero. “Public debt and growth: Heterogeneity and non-linearity.” *Journal of International Economics* 97 (2015): 45-58.

Questions to Consider:

- What caused the sovereign debt crisis in Europe?
- Is the Eurozone an “optimal currency area” like the United States?
- Why did so many countries embrace austerity as a remedy, and what were its actual effects?
- What were the causes of “Brexit?”

June 7, 2018: The rise of populism in the United States

Required Readings:

- Rodrik, Dani. *Globalization Paradox* (Norton & Co. 2011), ch. 9.
- Jensen, Quinn, and Weymouth, “Winners and Losers in International Trade: The Effects on U.S. Presidential Voting,” *International Organization* 71.3 (2017): 423-457.
- Autor, Dorn, Hanson, and Majlesi, “Importing Political Polarization? The Electoral Consequences of Rising Exposure to Trade,” 2016. ([Link](#))
- Autor, Dorn, Hanson, and Majlesi, “A Note on the Effect of Rising Trade Exposure on the 2016 Presidential Election,” 2016. ([Link](#))

Optional Readings:

- Edward Alden, *Failure to Adjust: How Americans Got Left Behind in the Global Economy* (New York: Rowan & Littlefield, 2017), Chapter 5, “Helping the Losers: The Tragedy of Trade Adjustment Assistance.”
- Brigitte Granville, “The Anatomy of Populist Economics,” *Project Syndicate*, February 24, 2017.

Questions to Consider:

- What has been the major driver of populist politics in the United States?
- Why is populism in most countries strongest among those with the least education?
- Is this anti-globalization push a new phenomenon?
- How has the US tried to deal with the losers from globalization in the past?