

Brown University

**Economics 180
The Politics of Finance
Summer Semester, 2006**

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Office: Economics Department, Room 223, Blistein House
Office Hours: Tuesday, 10:00 –12:00
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Course Objectives:

This course is designed to familiarize students with the dynamic interaction between states and transnational financial organizations in the global economy. Most observers and scholars agree that the government policy makers, directors of international organizations, and executives of multinational firms are constrained by contemporary global financial regimes. These formal systems that govern repeated financial interactions in the international economy were developed under the liberal internationalist paradigm. While the construction of contemporary monetary began during the 1940's, the theoretical underpinnings of these institutions are a progression of the political economic philosophy of Adam Smith, Immanuel Kant, Joseph Schumpeter, John Maynard Keynes, and Robert Triffin.

We will investigate earlier attempts to construct international financial and trade regimes particularly in early 19th century period of British Hegemony. The salience of hegemonic stability theory will be debated. The identity and preferences of the state actors that shaped and constructed historic and contemporary international financial and trade regimes will be explored. We will study further the strength of these structural constraints upon domestic state monetary and fiscal economic policy. Also, have the “great states” lost control of and sovereignty to these new organizational constructs?

Students taking this course will be expected to integrate their previous studies in economic and international relations theory to salient global financial problems. In particular, you will be expected to come to class and debate the merits of the assigned readings. I will also anticipate that you will thoroughly read, research and understand the assigned case materials. My approach in utilizing case studies in this course is to allow you to apply theoretical literature to the problem illuminated by the case, **not** just repeat the facts or issues in the case. This procedure is designed to encourage you to borrow from appropriate theoretical social science literature to 1) ascertain the key variables that shape the problems illustrated in the case 2) formulating a meaningful strategy to address

these questions. Importantly, we will endeavor to rely on theory and learn **to avoid ad-hoc** policy formulation.

Major Texts:

Spero, Joan E. and Jeffrey A. Hart. 2003. *The Politics of International Economic Relations*. (6th edition) Belmont California: Thompson / Wadsworth

Stiglitz, Joseph E. 2002. *Globalization and its Discontents*, New York: W.W. Norton.

Yergin, Daniel, and Joseph Stanislaw, *The Commanding Heights, The Battle Between Government and the Marketplace that is remaking the Modern World*

Reading and Case Study Packets

In addition students will purchase case study packets (must be ordered) from the Allegra Copy Center.

Course reading packets will be available at Allegra copy center located at the corner of Waterman and Thayer streets. Please note that these packets must be ordered one day in advance of pickup.

Reserve Reading

Copies of the course texts and assigned readings will be placed on reserve in the Rockefeller Library.

Grading Policy

The course grade for students will be determined as follows:

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|--------------------------|-----|
| 1. Final Examination | 40% |
| 2. Class participation | 40% |
| 3. Short response papers | 20% |

Questions for the short response papers (2 pages) covering the assigned reading material in modules I-VI will be distributed each week. The questions will be due at the beginning of the following weeks first class (Tuesday). Late papers (without a written medical excuse) will not be accepted. A student must complete all 6 of these papers.

The research paper of 10 pages will be due at the end of the summer session reading period in the Economics Department office in Robinson Hall (place in my mailbox).

Module I : The Construction of the Post War Global Financial System

June 20,21,22

Readings:

- The Global Economic Environment
- The Global System and the Nation State
- Classifying the Global System
- Political Foundations of the International Economic Order
- Analyzing the Preferences of State Actors
- The Level of Analysis Approach

Readings:

1. Yergin op.cit Chapters 1-2
2. Stiglitz, op.cit. Chapters 1-2
3. Spero-Hart op.cit Chapters 1-2
4. Political Economy: case to be handed out in class

Module II: Terrorism and Global Finance

June 27,28,29

June 27: How do concerns about national security affect international political economy?

- Michael Mastanduno, "Economics and Security in Statecraft and Scholarship," *International Organization*, Vol. 52, No. 4, Autumn 1998, pp. 825-54.
- *The National Security Strategy of the United States of America*, September 2002.

June 28: Reregulation in an era of deregulation? The origins of the anti-money laundering regime

- Brent Bartlett (2002) The negative effects of money laundering on economic development. *Platypus Magazine* (Journal of the Australian Federal Police), No. 77, pp. 18-23.
- Eric Helleiner (2000) "The Politics of Global Financial Reregulation: Lessons from the Fight against Money Laundering." Working Paper Series III, No. 15.

- Center for Economic Policy Analysis, New School for Social Research.
- Michael Levi (2002) Money Laundering and Its Regulation. *Annals of the American Academy of Political and Social Sciences*, 582: 181-94.
 - The Financial Action Task Force on Money Laundering, "The 40 Recommendations," (Incorporating the amendments of 22 October 2004).

June 29: From money laundering to terrorist financing: financial regulation and national security after 9/11

- Thomas J. Biersteker with Peter Romaniuk (2004) "The Return of the State? Financial Re-regulation in the Pursuit of National Security After September 11," in John Tirman (ed.) *Maze of Fear: Security and Migration After 9/11*, New York: The New Press, pp. 59-75.
- Jonathan M. Winer and Trifin J. Roule, "Fighting Terrorist Finance," *Survival*, Vol. 44, No. 3, Autumn 2002, pp. 87-103.
- Schott, P.A. (2004) *Comprehensive Reference Guide to AML/CFT*, 2nd edition. Washington, DC: World Bank, ch. 10 ("World Bank and IMF Initiatives to Fight Money Laundering and Terrorist Financing").
- The Financial Action Task Force on Money Laundering, "Special Recommendations on Terrorist Financing," (22 October 2004).
- The Financial Action Task Force on Money Laundering, "Annual Report 2004-05" (10 June 2005).

Module III: The Rise of Developing Economies

July 5,

- International Financial Flows
- Petrodollar Recycling
- The Global Financial Revolution

Readings:

1. Spero, Joan E. and Jeffrey A. Hart op.cit. Chapters 4,5 6.
2. *Recycling Problem: International Bank Lenders in the 1970's*. Harvard Business School Publishing (1995) case # 9-796-131.

3. Kapstein Ethan (1999) “Resolving the Regulators’ Dilemma: International Coordination of Banking Regulations,” *International Organization*
4. Harvard Business School Case # 9-286-067 Note on Foreign Exchange
5. Harvard Business School Case # 9-292-043 Note on Foreign Currency Swaps
6. Harvard Business School Case # 9-286-073 Currency Swaps

July 6

- The International Debt Crisis
- Oil, Commodity Cartels and Power
- The Nexus Between Under-development and Debt Crisis

Readings:

1. Spero, Joan E. and Jeffrey A. Hart. *The Politics of International Economic Relations* (5th edition), New York: St. Martin’s Press (1997) Chapter 9.
2. Harvard Business School Case #9-700-061, *Menem and the Populist Tradition in Argentina*
3. Harvard Business School Notes: *Background and Agreements on Foreign Direct Investment*.

July 11

- Responses of International Institutions
- Responses of States: Economic Reforms

Readings:

1. Mexico (A): From Stability to Debt Crisis, Harvard Business School Press (1997) case # 97-797-096
2. *Mexico (B): Escaping the Debt Crisis*. Harvard Business School Press (1997) case # 9-797-105
3. *Mexico(C): Stabilization and Retrenchment 1994-1995*, Harvard Business School Press (1997) case # 9-797-050.
4. *Mexico(D): Stabilization and Retrenchment*, Harvard Business School Press(1997) Case# 9-797-051
5. *Responding to 21st Century Financial Crisis: How Should the International Community Respond?* Harvard Business School Publishing (1998) notes # 9-798-090.
6. Biersteker,op.cit Chapters 1-3, 5 (in course packet)
7. Stiglitz, Joseph (1998) “The Private Uses of Public Interests: Incentives and Institutions,” *Journal of Economic Perspectives*.

Module IV: The Globalization of the International System

July 12

- The Limits of Sovereignty: Who Governs Financial Institutions?
- One Alternative: Reshape International Financial Institutions
- Facilitating International Cooperation

Readings:

1. Kapstein, Ethan B. "International Cooperation: The Basil Accord," in his *Governing the Global Economy: International Finance and the State*, Cambridge: Harvard University Press, (1994) pp. 103-128. (in course packet)
2. Stiglitz, op.cit. Chapter 4
3. Hong Kong Univeristy Case #HKU093, The Asian Financial Crisis: Indonesia and the Currency Board Proposal

July 13

- Responses of the International Institutions
- Shaping International Regimes
- American Leadership: A resurgence of Hegemony?

Readings:

1. Oye. Kenneth A. "Explaining Cooperation Under Anarchy: Hypothesis and Strategies," in his *Cooperation Under Anarchy*, Princeton: Princeton University Press (1986) pp. 1-24.
2. Harvard Business School Case, #9-287-058 *Walt Disney Co's Yen Financing*, Harvard Business School Note # 9-796-148, *Background and Agreements on Foreign Direct Investment*

Module V: International Institutions, Global Responsibility

July 18, 2005

- Economic Development: The Global Impact
- Transnational Practices in the Third World
- The Third World Transnational Capitalist Class

Readings:

1. *World Bank Under Siege*, Harvard Business School Publishing (1995) case # 9-797-022
2. Russett, Bruce, Harvey Starr and David Kinsella, "Limits of Sovereignty: Humanity and the Commons," in their *World Politics: The Menu for Choice* (6th edition) New York: Bedford/St. Martin's (2000) pp. 445-473.

July 19-20, 2005

- Environmental Impact of International Financial Institutions
- The World Bank: Establishing New Performance Criteria
- The Collective Action Problem
- The Tenancy of the Commons

Readings:

1. *World Bank: Mission Uncertain*, Harvard Business School Publishing (1992) case # 9-792-100
2. Esty, Daniel C. "The Case for a Global Environmental Organization," in *Managing the World Economy: Fifty Years After Bretton Woods*, Kenen, Peter B. ed. Washington: Institute for International Economics (1994) pp. 287-310.
3. Stiglitz, op.cit. chapters 7-9.

Module VI: The Future Global Economic System

July 25, 2005

- European Financial Integration
- The Abrogation of Economic Sovereignty
- The Domestic Political Impact

Readings:

1. *European Monetary Union*, Harvard Business School Publishing (1999) case# 9-799-131.
2. *European Monetary Union* (supplement) Harvard Business School Publishing

July 26, 2005

1. *Italy: From Welfare State to Market Economy*, Harvard Business School Publishing, case # 9-700-129.
2. Russett, Bruce, Harvey Starr and David Kinsella, "Regional Economic Integration and Globalization," in their *World Politics: The Menu for Choice* (6th edition) New York: Bedford/St. Martin's (2000) pp. 376-405

July 27, 2005

Course Wrap Up

1. Case assignment: distributed prior to class

Final Take Home Exam

Due at Economics Department office, Robinson Hall Room 101, Thursday August 3, 2006: 1500:00 hours.