

**Political Science 672: International Political Economy**  
**Winter Semester 2022, Wednesdays 11:35 am - 2:25 pm, Leacock 541**

Prof. Krzysztof Pelc  
Office: Leacock 521  
E-mail: [kj.pelc@mcgill.ca](mailto:kj.pelc@mcgill.ca)

Office hours: Wed 2:35 - 4:30 over Zoom.

### **Course Description & Objectives**

Political economy can be usefully conceived as a study of constraints. This graduate research seminar examines how political constraints at the domestic and international level shape—and often distort—outcomes in domestic economic reform, international trade, foreign investment, and financial and monetary affairs. In doing so, the course draws on readings from political science, economics, and law. While the seminar's emphasis is on theory, much of the work we will look at is empirically motivated, and we will draw on examples from contemporary events as often as possible.

Beyond the course material, the seminar's objective is to get students to practice presenting a research puzzle and pushing an argument. Students will do this first by taking turns in leading the first part of the seminar, and then by presenting a research design of their own to the seminar's participants.

### **Prerequisites**

A good understanding of basic principles of economics and international relations theory is required. Moreover, much of the scholarly work covered in the course assumes a solid practical understanding of statistical methods, and familiarity with concepts of game theory.

### **Requirements**

- (i) This is a research seminar: everyone is expected to come to class ready to argue the merits of the week's readings.
- (ii) Every student will lead one meeting of the seminar. This entails sending all seminar participants a *max* 3-page (double-spaced) review of the week's material on the Wed before 2pm, and making a short presentation of the readings at the start of class. Additionally, students will write **two additional** 3-page reviews on weeks of their choice.
- (iii) A research design (max. 18 pages, double-spaced) will make up the final requirement of the seminar, and is expected at semester's end. Three weeks prior to the due date, students will present an abstract of their research design to the class. The research design is due at midnight, **May 1st, 2022**.

**Grades are determined as follows:**

Participation, including leading one seminar:	15%
Short Papers (3):	45%
Research Proposal Presentation:	10%
Final Research Proposal:	30%

**The Fine Print**

*McGill University values academic integrity. Therefore, all students must understand the meaning and consequences of cheating, plagiarism and other academic offences under the Code of Student Conduct and Disciplinary Procedures. (see [www.mcgill.ca/students/srr/honest/](http://www.mcgill.ca/students/srr/honest/) for more info)*

*In accord with McGill University's Charter of Students' Rights, students in this course have the right to submit in English or in French any written work that is to be graded.*

*Instructors who adopt the use of text-matching software to verify the originality of students' written course work must register for use of the software with Educational Technologies and must inform their students before the drop/add deadline, in writing, of the use of text-matching software in a course.*

*Late work will be penalized one full letter grade per day. No distinction is made between being an hour late and being 23 hours late, so be strategic.*

*Remote learning: since this is a seminar, there should not be any reason to record the discussion. In the event of any change in this respect, you will be advised. If you are not comfortable being in a recorded session in such cases, you may choose not to take part. Students who log off will be able to watch the video recording in MyCourses.*

*For pedagogical reasons and for the enrichment of the experience of all students, attendance may be monitored and/or active participation may be expected or required during fixed (synchronous) class time. As such, you may be asked to turn on your camera and audio. If you do not have the necessary resources (e.g., adequate Internet bandwidth or equipment) to do so, make this known at the beginning of term so that appropriate accommodations can be made.*

## Course Outline

Readings marked with an asterisk are optional, but recommended, especially for students writing comprehensive exams.

### Session 1. Wednesday Jan 5th Introduction

Jeffrey Frieden and Ronald Rogowski, "Modern Capitalism: Enthusiasts, Opponents, and Reformers," *The Cambridge History of Capitalism* Ed Jeffrey Williamson (New York: Cambridge University Press, 2014)

Oatley, Thomas. *International Political Economy*. 2019. Chapter 1.

North, Douglass. *Institutions, Institutional Change and Economic Performance*. Cambridge. 1990. pp.1-26.

### Session 2. Jan 12th Making Commitments Credible

Elster, Jon. 2000. *Ulysses Unbound*. Cambridge. Ch 1: 1-45.

Putnam, Robert D. 1988. "Diplomacy and Domestic Politics: The Logic of Two-Level Games." *International Organization* 42.3: 427-460.

Simmons, Beth and Allison Danner. 2010. "Credible Commitments and the International Criminal Court". *International Organization*, 64(2): 225-256.

Stasavage, David and Dominique Guillaume. "When Are Monetary Commitments Credible? Parallel Agreements and The Sustainability of Currency Unions." *British Journal of Political Science* 32.1 (Jan. 2002): 119-147.

Hurd, Ian. "The Strategic Use of Liberal Internationalism: Libya and the UN Sanctions, 1992-2003." *International Organization* 59(3): 495-526.

\* Nielson, D.L. and Tierney, M.J. 2003. "Delegation to international organizations: Agency theory and World Bank environmental reform." *International Organization* 57(2): 241-276.

\* Kindleberger, Charles P. 1986. *The World in Depression 1929-1939* Revised and Enlarged Edition (Berkeley: University of California Press), pp. xiii-xvi, 1-13, 208-305.

\* Keohane, Robert O. 1984. *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton: Princeton University Press), pp. 135-216.

\* Blinder, Alan S. 1999. "Central Bank Credibility. Why Do We Care? How Do We Build it?" NBER working paper 7161.

**Session 3. Jan 19th                      Economic Liberalization: The Demand Side**

Anna Maria Mayda and Dani Rodrik, "Why Are Some People (and Countries) More Protectionist Than Others?", *European Economic Review* 49 (2005), 1393-1430.

Mansfield, Edward and Diana Mutz. 2009. "Support for Free Trade: Self-Interest, Sociotropic Politics, and Out-Group Anxiety." *International Organization*. 63 (3), 425-457.

Busch, Marc L. and Eric Reinhardt. 2000. "Geography, International Trade, and Political Mobilization in U.S. Industry." *American Journal of Political Science* 44 (4): 720-732.

Bechtel, M.M., Hainmueller, J. and Margalit, Y., 2017. Policy design and domestic support for international bailouts. *European Journal of Political Research*, 56(4), pp.864-886.

Margalit, Y., 2013. Explaining social policy preferences: Evidence from the Great Recession. *American Political Science Review*, 107(1), pp.80-103.

\* Scheve, Kenneth and Matthew Slaughter. 2001. "What Determines Individual Trade-Policy Preferences." *Journal of International Economics* 54: 267-292.

\* Hiscox, Michael. 2006. "Through a Glass and Darkly: Attitudes toward International Trade and the Curious Effects of Issue Framing". *International Organization*. 755-780.

\* Hays, Jude C., Sean D. Ehrlich, and Clint Peinhardt. 2005. "Government Spending and Public Support for Trade in the OECD: An Empirical Test of the Embedded Liberalism Thesis," *International Organization* 59: 473-494.

**Session 4. Jan 26th                      Economic Liberalization: The Supply Side**

Ruggie, John G. "International Regimes, Transactions, and Change: Embedded Liberalism and Post-War Economic Order." *International Organization* 36.2 (Spring 1982): 379-415.

Kono, Daniel Y. 2006. "Optimal Obfuscation: Democracy and Trade Policy Transparency." *American Political Science Review* 100 (3): 369-384.

Ross, Michael. 1999. "The Political Economy of the Resource Curse". *World Politics*. 51:297-322.

Mansfield, Edward D., Helen V. Milner, and B. Peter Rosendorff. "Why Democracies Cooperate More: Electoral Control and International Trade Agreements." *International Organization* 56(3): 477-513.

- \* Edward D. Mansfield, Helen V. Milner, and Jon C. Pevehouse. 2007 "Vetoing Cooperation: The Impact of Veto Players on International Trade Agreements." *British Journal of Political Science* 37(3): 403-432.
- \* Guisinger, Alexandra. 2009. "Determining Trade Policy: Do Voters Hold Politicians Accountable?" *International Organization* 63 (3): 533-557.

**Session 5. Feb 2<sup>nd</sup> Ideas, Identities, and Ideologies**

Smith, Adam. *The Theory of Moral Sentiments*. Part IV, Chapter 1.

Judith Goldstein, "Ideas, Institutions, and American Trade Policy," *International Organization* 42:1 (Winter 1988), 179-217.

Shayo, Moses, 2009. A model of social identity with an application to political economy: Nation, class, and redistribution. *American Political Science Review*, 103(2), pp.147-174

Ash, Elliott, Sharun W. Mukand, and Dani Rodrik. "Economic Interests, Worldviews, and Identities: Theory and Evidence on Ideational Politics." HKS Faculty Research Working Paper Series RWP21-032, November 2021.

Atkin, D., Colson-Sihra, E. and Shayo, M., 2021. How do we choose our identity? a revealed preference approach using food consumption. *Journal of Political Economy*, 129(4), pp.1193-1251.

Blyth, M. and Mark, B., 2002. *Great transformations: Economic ideas and institutional change in the twentieth century*. Cambridge University Press. (Chapters 1-2).

**Session 6. Feb 9<sup>th</sup> International Pressures and the Domestic System**

Alicia Adserà and Carles Boix. 2002. Trade, Democracy, and the Size of the Public Sector: The Political Underpinnings of Openness. *International Organization* 56(2): 229-262.

Irfan Nooruddin and Nita Rudra. 2014. Are Developing Countries Really Defying the Embedded Liberalism Compact? *World Politics* 66 (4): 603-640

Mosley, Layna. 2000. "Room to Move: International Financial Markets and National Welfare States." *International Organization*. 54(4): 737-773.

Rickard, Stephanie. "Welfare versus Subsidies: Governmental Spending Decisions in an Era of Globalization" (2012) *The Journal of Politics* 74(4): 1171–1183.

Arel-Bundock, Vincent. 2015. "Network Externalities, Power Asymmetry, and the Taxation of Multinationals". *International Organization*.

**Session 7. Feb 16th                      The Design of Economic Institutions**

- Stasavage, D. 2004. "Open-Door or Closed-Door? Transparency in Domestic and International Bargaining." *International Organization* 58:667–703.
- Goldstein, Judy and Lisa Martin, 2000. "Legalization, Trade Liberalization, and Domestic Politics: A Cautionary Note". *International Organization*. 54(3): 603-632.
- Rosendorff, Peter and Helen Milner, 2001. "The Optimal Design of International Trade Institutions: Uncertainty and Escape", *International Organization*, 55(4): 829-857.
- Pelc, Krzysztof. 2009. "Seeking Escape: The Use of Escape Clauses in International Trade Agreements" *International Studies Quarterly*. 53(2): 349-368.
- Baccini, Leonardo, Andreas Dür, and Manfred Elsig. 2016. "Depth, Flexibility and International Cooperation: The Politics of Trade Agreement Design." *International Studies Quarterly*.
- \* Pelc, Krzysztof. 2011. "How States Ration Flexibility: Tariffs, Remedies, and Exchange Rates as Policy Substitutes". *World Politics* 63(4): 618-646.
- \* Finnemore, Martha. 2001. Alternatives to Legalization: Richer Views of Law and Politics. *International Organization* 55(3): 743-758.
- \* Hiscox, M J. 1999. "The Magic Bullet? The RTAA, Institutional Reform, and Trade Liberalization". *International Organization*, 53 (4): 669-698.
- \* Maggi, G. and R. W. Staiger. 2010. *Breach, Remedies and Settlement in Trade Agreements*. Manuscript, Yale.

**Session 8. Feb 23<sup>rd</sup>                      The International Trade Regime**

- GATT 1947 text, Article I-III.
- Krueger, Anne. 1998. "Introduction," in Anne O. Krueger, *The WTO as an International Organization*, University of Chicago Press, 1-14.
- Rose, A. 2004. "Do We Really Know That the WTO Increases Trade?" *American Economic Review* 94(1): 98-114.
- Goldstein, Judith, Douglas Rivers, and Michael Tomz. 2007. "Institutions in International Relations: Understanding the Effects of the GATT and the WTO on World Trade." *International Organization* 61(1): 37-67.

- Rodrik, Dani, 2018. What do trade agreements really do? *Journal of economic perspectives*, 32(2), pp.73-90.
- Richard B, *The Great Convergence*. 2016. Harvard University Press. Introductory chapter.
- Manger, Mark. 2009. *Investing in Protection*. Cambridge Press. Introductory chapter.
- Melitz, Marc J. 2003. "The impact of trade on intra-industry reallocations and aggregate industry productivity." *Econometrica* 71, 6: 1695-1725.
- Steinberg, Richard. 2003. "In the Shadow of Law or Power? Consensus-based bargaining and outcomes in the GATT/WTO". *International Organization*. 56(2): 339-374.
- \* Özden, Çağlar and Eric Reinhardt. 2005. "The Perversity of Preferences: GSP and Developing Country Trade Policies, 1976-2000." *Journal of Development Economics* 78 (1): 1-21.
- \* Rose, Andrew. 2007. "Do We Really Know That the WTO Increases Trade? Reply" *The American Economic Review* 97(5): 2019-2025.
- \* Joanne Gowa and Soo Yeon Kim, "An Exclusive Country Club: The Effects of the GATT on Trade, 1950-1994," *World Politics* 57 (July 2005), 453-478.

**March 2nd: No class. \*\*\* READING WEEK \*\*\***

**Session 9. March 9<sup>th</sup> Global Financial and Monetary Affairs**

- Bhagwati, Jagdish. "The capital myth: The difference between trade in widgets and dollars". *Foreign Affairs*; May/June 1998; 77.
- Frieden, Jeffrey A. 1991. "Invested Interests: The Politics of National Economic Policies in a World of Global Finance." *International Organization* 45 (4)
- Broz, J. Lawrence. "Political System Transparency and Monetary Commitment Regimes." *International Organization* 56(4): 861-887.
- Bernhard, William and David Leblang. 1999. "Democratic Institutions and Exchange-Rate Commitments," *International Organization* 53 (1): 71-97.
- Leblang, David. 2003. "To Devalue or to Defend? The Political Economy of Exchange Rate Policy," *International Studies Quarterly*. 47: 533-559.
- Simmons, Beth A. 2000. "The Legalization of International Monetary Affairs", *International Organization* 54 (3): 573-602.

- \* Frieden, Jeffrey A., and J. Lawrence Broz. 2006. "The Political Economy of Exchange Rates." *Oxford Handbook of Political Economy*, ed. Barry Weingast and Donald Wittman. New York: Oxford University Press.
- \* Tomz, Michael. 2012. *Reputation and International Cooperation: Sovereign Debt across Three Centuries*. Princeton. (introduction only)
- \* Obstfeld, Maurice and Kenneth Rogoff. 1995. "The Mirage of Fixed Exchange Rates." *Journal of Economic Perspectives*. 9(4): 73-96.
- \* Haggard, Stephen and Sylvia Maxfield. 1996. "The Political Economy of Financial Internationalization in the Developing World." *International Organization*. 50(1): 35-68.

**Session 10. March 16th      International Economic Rules**

- Garrett, Geoffrey, R. Daniel Kelemen, and Heiner Schulz. 1998. "The European Court of Justice, National Governments, and Legal Integration in the European Union." *International Organization*. 52(1): 149-176.
- Dunoff, J.L. and Pollack, M.A., 2017. The judicial trilemma. *The American Journal of International Law*, 111(2), pp.225-276.
- Voeten, Erik. 2008. "The Impartiality of International Judges: Evidence from the European Court of Human Rights". *American Political Science Review*. 102(04):417-433.
- Pelc, Krzysztof. 2014. "The Politics of Precedent in International Law: A Social Network Application". *American Political Science Review* 108(3): 547-564.
- Johns, Leslie and Krzysztof Pelc. 2018. "Free-Riding on Enforcement in the WTO". *Journal of Politics*.
- Busch, Marc, and Eric Reinhardt. 2000. "Bargaining in the Shadow of the Law: Early Settlement in GATT/WTO Disputes". *Fordham International Law Journal*, 24: 158-172.
- \* Bown, Chad P. 2004. "On the Economic Success of GATT/WTO Dispute Settlement." *Review of Economics and Statistics* 86 (3): 811-823.
  - \* Busch, M. 2007. "Overlapping Institutions, Forum Shopping, and Dispute Settlement in International Trade." *International Organization* 61 (4): 735-761.
  - \* Davis, Christina, and Sarah Blodgett Bermeo. 2010. "Who Files? Developing Country Participation in WTO Adjudication". *Journal of Politics*.
  - \* Busch, M. and K. Pelc. 2010. "The Politics of Judicial Economy at the World Trade Organization." *International Organization* 64 (2) 257-280.



**Session 11. March 23<sup>rd</sup>            The Political Economy of Shocks and Crises**

David H. Autor, David Dorn, and Gordon H. Hanson. 2013. "The China Syndrome: Local Labor Market Effects of Import Competition in the United States." *American Economic Review*.

Kim, Sung Eun and Krzysztof Pelc. 2020. "The Politics of Trade Adjustment vs. Trade Protection". *Comparative Political Studies*.

Margalit, Y., 2019. Political responses to economic shocks. *Annual Review of Political Science*. 22:277-295.

Carmen M. Reinhart & Kenneth S. Rogoff. 2011. *This Time Is Different*. Princeton Press. Chapters 1 and 14.

\* Davis, Christina and Krzysztof Pelc. 2014. "Cooperation in Hard Times: Self-Restraint of Trade Protection". *Journal of Conflict Resolution*.

\* *IMF Response To The Financial And Economic Crisis: An IEO Assessment*. 2014. Available at: <http://www.ieo-imf.org/ieo/pages/CompletedEvaluation227.aspx>

\* Bown, Chad and Meredith Crowley. 2012. *Import Protection, Business Cycles, and Exchange Rates: Evidence from the Great Recession*. Working Paper.

\* *The Great Trade Collapse: Causes, Consequences and Prospects*. 2009. VoxEU. Ed. Richard Baldwin. Chapters 1-6.

\* Andrew MacIntyre. 2001. "Institutions and Investors: The Politics of the Economic Crisis in Southeast Asia". *International Organization* 55, 1: 81–122.

**Session 12. March 30<sup>th</sup>            Foreign Direct Investment and RD presentations**

Allee, Todd and Clint Peinhardt. 2001. "Contingent Credibility: The Impact of Investment Treaty Violations on Foreign Direct Investment". 65(3): 401-432.

Kerner, A. and Pelc, K.J., 2021. Do Investor–State Disputes (Still) Harm FDI?. *British Journal of Political Science*, pp.1-24.

Leslie Johns and Rachel Wellhausen, "Under One Roof: Supply Chains and the Protection of Foreign Investment," *American Political Science Review*, 110, No. 1 (February 2016), 31-51

Zachary Elkins, Andrew T. Guzman, and Beth A. Simmons, "Competing for Capital: The Diffusion of Bilateral Investment Treaties, 1960-2000," *International Organization* 60 (Fall 2006), 811-846.

- \* Pelc, Krzysztof. 2017. "What Explains the Low Success Rate of Investor-State Disputes?". *International Organization* 71(3): 559-583.
- \* Li, Quan, & Adam Resnick (2003) "Reversal of Fortunes: Democratic Institutions and Foreign Direct Investment Inflows to Developing Countries," *International Organization* 57(1): 175–211.
- \* Jensen, Nathan M. (2003) "Democratic Governance and Multinational Corporations: Political Regimes and Inflows of Foreign Direct Investment." *International Organization* 57(3): 587-616.
- \* Blonigen, Bruce A. 2005. "A Review of the Empirical Literature on FDI Determinants." *Atlantic Economic Journal* 33:383–403.

**Session 13 April 6<sup>th</sup>**

**Research Design Presentations**

Final Research Designs due: May 1<sup>st</sup> before midnight.

\*\*\*