

Fundamentals of U.S. Foreign Economic Policy
SIS-615-001 **Spring 2012**

School of International Service

American University

T 5.30-8.00 PM. Classroom: Watkins 102

Office hours: T 3.00-5.00 PM or by appointment

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EQB-202-A

Course Description

This course is designed to provide graduate students with a broad introduction to the economic aspects of international relations and to the main principles of how the U.S. foreign economic policies are formulated. Specifically, this course can fulfill any of the following purposes:

- Serve as a self-contained introduction to students with budding interests in international economic relations.
- Become the preparatory means to reach more advanced courses in international economics or international development.
- Help you prepare for International Economic Policy comprehensive exams.

We will examine the major elements that constitute U.S. foreign economic policy such as international trade in goods and services; capital flows, foreign investment across borders and the diverse exchange rate arrangements used by countries; and institutional provisions and organizations related to world economic flows. However, domestic policies of the U.S. government such as monetary and fiscal policy managed by the Fed and the Treasury, respectively, or even the complex set of policies that make up the so-called “war on drugs,” have important economic and political impacts in other nations that must be taken into account in the formulation of a coherent external strategy.

The role of the U.S. in the international economy has been gradually changing as its own circumstances and those of other nations evolve, reflecting deep transformations in the traditional economic behavior of the U.S. economy vis-à-vis the rest of the world. For instance, the fact that the U.S. has shifted from having been the main creditor nation in the world only two decades ago to become its largest debtor, or that its large trade imbalances are financed with savings from the rest of the world, has vast economic and political effects.

One of the key issues to be discussed is if the U.S., which established a great economic superiority that led to its unchallenged global leadership at the end of the First World War, a role that was further consolidated with the demise of the Soviet Union, can continue to dictate terms in economic matters or even to lead in orchestrating much needed new institutional arrangements for the world economy as the largest debtor nation in the globe.

The instruments to conduct our scrutiny are basically economic and political

analysis but we will also resorts to history, international trade, banking and finance, and institutional arrangements and organizations. We will discuss the conflicts between the U.S. position in the world and its interdependence with other nations, national sovereignty, foreign aid and voluntary international capital flows, multilateral integration versus regional blocks, free versus fair trade, just to mention a few of the issues and conflicts that we shall encounter.

Also, the exponential growth and extraordinary success of a U.S.-led globalized economy, has brought along as its most negative counterpart an equally fast expansion in illicit trades of all sorts, including weapons, people, drugs and money. The emergence of such illegal transnational activities and their enormous profitability, constitute a major challenge to national authorities that are ill-prepared to confront them effectively within their borders. Many experts blame the U.S. for this situation as the main consumer of illegal drugs and as the result of the way in which it decided to fight this curse over the last four decades, which poses a serious economic and political challenge to its leadership and has led to the strengthening of organized crime world-wide.

Learning Objectives

- **Develop** a solid knowledge of U.S. international trade, finance & economic policies, and become a critical analyst of its news coverage.
- **Integrate** theory and empirical information to grasp interactions of politics and economics to explain the key links of the US with the rest of the world.
- **Understand** the public policies that the US pursues, their global effects and the clash that frequently occurs between sovereignty and interdependence.
- **Investigate** how the current institutional arrangements in our globalized planet could face a reversal and a return to a world of autarkic states.
- **Examine** the necessary changes that must happen to deepen the economic and political linkages among countries to ensure continuous world growth.

Learning Outcomes

As a result of this course, students will be able to:

- **Compare and criticize** different points of view of how the US international economic policies have evolved, and if the results are positive or negative.
- **Explain** the unique role played in the world by the US since World War II.
- **Prepare** original research & offer well informed advice on US global policies.
- **Define** the policies that worked in the past to achieve widespread affluence.
- **Demonstrate** that alternative policies would have led to different outcomes.

Course requirements and grading

Debate (which serves as an oral final examination)	20 %
Term paper (which serves as a final written exam)	20 %
Midterm	20 %
Weekly written assignments	20 %
Class participation & attendance	20 %

Papers

All papers must meet the following requirements:

- The topics will be assigned by the instructor and will deal with issues relevant for our course and that are also at the core of the tumultuous ongoing economic and financial global events. A document titled *Paper Topics, Debate Teams & Rules* will be placed in the Blackboard soon.
- Paper team members will be randomly selected.
- The paper should have a title, the name of the authors and the date of submission at the top of the first page or on a separate title page.
- Each page, except the first one, must be numbered.
- Papers should avoid grammatical or spelling errors.
- Citations should use standard format and footnotes are preferred. In case of doubt refer to the Chicago Manual of Style.
- When someone else's work is paraphrased, credit must be given to the author, preferably in the body of the paper as well as in a footnote. A quote used without quotation marks is plagiarism, which AU take very seriously.
- The **maximum** length of the paper is 5,000 words.

Academic Integrity

Students are expected to abide by AU's Academic Integrity Code (available at <http://www.american.edu/provost/registrar/regulations/reg80.cfm>).

Emergency preparedness

In the event of a declared pandemic (influenza or other communicable disease), American University will implement a plan for meeting the needs of all members of the university community. Should the university be required to close for a period of time, we are committed to ensuring that all aspects of our educational programs will be delivered to our students. These may include altering and extending the duration of the traditional term schedule to complete essential instruction in the traditional format and/or use of distance instructional methods. Specific strategies will vary from class to class, depending on the format of the course and the timing of the emergency. Faculty will communicate class-specific information to students via AU e-mail and Blackboard, while students must inform their faculty immediately of any absence due to illness. Students are responsible for checking their AU e-mail regularly and keeping themselves informed. In case of an emergency as those described, students should access AU's website (www.prepared.american.edu) and the AU information line at 202-885-1100 for general university-wide information, as well as contact their faculty and/or respective dean's office for course and school/ college-specific information.

Following the News

Keeping track of world events is one of your primary responsibilities. We will begin each session with a discussion of the most salient economic and

financial news of the week and will relate them to our course material. Bear in mind that 25% of the credit of this course is related to your engaged and informed participation. I suggest the following sources of information.

World Press Review has links to international news. It's always good to read about the same event from different perspectives. This is a good general source for non-Western news (see links to world newspapers).

<http://www.worldpress.org/>

BBC. The BBC is a good general source with a nice British accent.

<http://news.bbc.co.uk/>

The New York Times. A well regarded U.S. paper with a leftish bias.

<http://www.nytimes.com/>

The Wall Street Journal. Good U.S. financial paper and the strongest competitor to the NYT, with a split personality: Its editorial and op. ed. pieces are way more conservative than its reporting. <http://online.wsj.com/>

The Washington Post. Washington-based newspaper accused also of a leftish bias by conservatives but with a varied and good lineup of editorial writers.

<http://www.washingtonpost.com/>

The Washington Times. This paper has an unapologetic right-wing bend.

<http://www.washtimes.com/>

The Financial Times. A high quality international newspaper edited in England run by the same company that publishes *The Economist*.

<http://news.ft.com/home/us>

The Economist. An excellent weekly magazine that covers the news from all over the world with good political and economic analysis.

<http://www.economist.com/>

The Weekly Standard. An inside-the-beltway weekly with a conservative-libertarian bent. Has a good section of book reviews.

<http://www.weeklystandard.com>

Think-tanks are extraordinarily ubiquitous in DC with lots of information and analysis, representing all sides of the political spectrum. Just a few of them that analyze international stuff:

- **American Enterprise Institute** (right).
- **Brookings Institution** (center-left).
- **Carnegie Endowment for International Peace** (center-left).
- **Cato Institute** (libertarian).
- **Center for Strategic and International Studies** (center-right).
- **Heritage Foundation** (right).
- **Peterson Institute for International Economics** (mostly economics).
- **Woodrow Wilson Center for International Scholars** (left).

Reading List

Most of the textbooks should be available at the campus bookstore:

- Kenneth W. Dam, *The Rules of the Global Game: A New Look at US International Economic Policymaking*. University of Chicago Press, 2001.

- Stephen D. Cohen, Robert Blecker & Peter D. Whitney (C, B & W), *Fundamentals of U.S. Trade Policy: Economics, Politics, Laws and Issues*, Westview, 2003, (this volume is out of print. There will be reserve copies at the library and parts of the book will be placed on the Blackboard).
- Stephen D. Cohen, *The Making of U.S. International Economic Policy*, Praeger, 2000, 5th ed.
- John S. Gordon, *Hamilton's Blessing: The Extraordinary Life and Times of Our National Debt*, Penguin, 1998.
- John M. Keynes, *The Economic Consequences of the Peace*, 1920. Available at <http://www.gutenberg.org/files/15776/15776-h/15776-h.htm>
- Anne O. Krueger, *Economic Policies at Cross Purposes*, Brookings, 1992.
- Joan Spero & Jeffrey A. Hart (S & H) . *The Politics of International Economic Relations*, Wadsworth Publishing, 2002, 6th ed. (ISBN 978-0534604172 pbk.).

Also, although it is not necessary to buy them:

- Jagdish Bhagwati, *In Defense of Globalization*, Oxford U. Press, 2007.
- Arnold C. Harberger, *Perspectives on the Productivity of Foreign Aid*. Blackboard. 2010.
- William Easterly, *The White Man's Burden: Why the West's Effort to Aid the Rest Have Done so Much Ill and so Little Good*, Penguin Press 2006.
- Jeffrey Sachs, *The End of Poverty: Economic Possibilities for Our Time*, Penguin Press paperback edition 2006.

Schedule and weekly readings

January 17

Introduction and scope of the course.

1. Dam, Preface and Ch. 1
2. C, B & W, preface and chs. 1 & 2.
3. Krueger, chs. 1 & 2.

January 24

Foreign economic policy and the birth and expansion of the U.S.

1. Dam, ch. 2
2. C, B & W, Part II: Economics, ch. 3.
3. Cohen, Part I, chs. 1 & 2.

January 31

The management of foreign economic policy in the U.S.

1. Dam, ch. 3
2. Cohen, chs. 3-6.
3. S & H, ch. 6

February 7 & 14

Balance of payments and monetary arrangements.

1. Dam, chs. 10-12.
2. S & H, chs. 1, 2 & 4.
3. Gordon chs. 1-6, Prologue, Conclusion & Afterword.
4. Keynes, ch. 1-7 (Blackboard).
5. Eichengreen, "When Currencies Collapse: Will We Replay the 1930s or the 1970s?", *Foreign Affairs*, January-February 2012 (Blackboard).

February 21**U.S. trade policy**

1. Dam, chs. 5 & 6.
2. C, B & W, Part II, Economics, ch. 4. Part III, Politics & Law, chs. 5-8.
2. S & H, ch. 3, 5 & 7.

February 28**Trade policy: subsidies & sanctions.**

1. Dam, ch. 8.
2. S & H, chs. 11 & 12.
3. Cohen, chs. 7 & 8.

March 6**Contemporary trade issues and the rise of antiglobalization.**

1. Dam, chs. 13 & 14
2. C, B & W chs. 9, 10 & 13.
2. Cohen chs. 9-12.
3. Bhagwati, chs. 1-4

Take home midterm (to be solved between March 7 and March 11)**March 20****The European Union**

1. C, B & W ch. 11.
2. The European Union: *The European Union: A Guide* (2008), http://www.eurunion.org/eu/index.php?option=com_content&task=view&id=34&Itemid=43
3. Cohen, chs. 13 & 14.

March 27**Regional trade arrangements**

1. Dam, ch. 7.
2. C, B & W ch. 12.
3. Krueger, chs. 6-9.

April 3**Migration: Trying to shut the door?**

1. Dam, ch. 15.

2. Bhagwati, ch. 14.

April 10

Institutional arrangements and improved governance.

1. S & H, Part IV: chs, 10 & 11.
2. C, B & W, ch. 14.
3. JB, ch. 15-18

April 17

Energy policy

1. S & H, ch. 9.
2. Yergin, *Ensuring Energy Security, Foreign Affairs*, 2006 (Blackboard).

April 24

The Foreign aid dispute

1. Harberger, *Perspectives...* 2010 (Blackboard).
2. Krueger, chs. 3 & 4
3. Easterly, *The White Man's Burden...*
4. Sachs, *The End of Poverty...*

May 1

The economic & political consequences of the war on drugs

1. Moisés Naim, *Illicit: How Smugglers, Traffickers and Copycats are Hijacking the Global Economy*.
2. Micha Glenny, *McMafia*.
3. Manuel Suárez-Mier, *Will Mexico Become a Failed State?* 2010 (Blackboard).

Term papers are due.

May 8: Debates