

## GLOBAL FINANCIAL GOVERNANCE

Public Affairs 974 (Fall 2009)

Tuesday 10:00-11:55

Location 215 Ingraham

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### Course overview

The purpose of this seminar is to explore key issues in global financial governance. The course will begin with an examination of the history and politics of international finance. Using this background as a foundation, we will then focus on the institutions and key policy issues in the contemporary international financial system. Topics will include the international financial institutions; international regulatory harmonization; exchange rates; the management and prevention of financial crises; and policy responses to the crisis of 2008-2009. The aim of this course is to provide an analytic background for students interested in government, private sector, or academic careers in global economic policy.

### Course requirements

Students are expected to come to class having done the readings and prepared to discuss them in depth each week. *Participation* is a major component of the seminar and involves serious discussion of the readings and the ability to relate theories and concepts to real world events. To ensure that everyone has a chance to participate, students will be assigned to introduce and lead at least one weekly discussion during the term.

The written requirements are:

1. Three reaction papers (2-3 pages in length), each of which critiques a week's readings. **These are not meant to be summaries of the readings; rather, I expect you to "think out loud" about the important questions and issues raised by the authors.** You may choose when to write these papers, with four qualifications: (1) you must write at least one reaction paper by October 6; (2) you must have written two reaction papers by November 17; (3) you may not write a reaction paper for week 1; and (4) retroactive (backdated) reaction papers are not permitted. Papers are due at the start of class, and must address the readings assigned for that class meeting.
2. A 15-page paper, which will take the form of a research memo for a policymaker analyzing a key policy issue in international finance. The proposal should address a policy question, analyze current research on the issue, and utilize these materials to

develop a set of policy recommendations. A one-page prospectus is due by **November 3**. The paper is due at the end of the semester.

3. A presentation of your research report in class on **December 15**.

Evaluation for the course will be based on class participation (25%), the reaction papers (25%), and the research proposal (50%, including the presentation).

### **Readings**

Nearly all of the readings are available online, either through the provided web links or on the course web site. Those available on the website are indicated by an asterisk (\*) on the syllabus. Due to copyright regulations, the cost (to you) of printing these materials is vastly less than the cost of a course pack.

In addition, two books are highly suggested for purchase; they are available from the UW bookstore:

- Jeffrey A. Frieden. 2007. *Global Capitalism: Its Fall and Rise in the Twentieth Century*. New York: W.W. Norton.
- Paul Krugman. 2008. *The Return of Depression Economics and the Crisis of 2008*. New York: W.W. Norton.

Finally, students are strongly encouraged to make a habit of regularly reading the *Financial Times* this semester. The FT is, by a wide margin, the single best newspaper covering international economic and financial topics. You can sign up for daily email headline briefings here (<http://app.ft.com/enroll/signup.cfm>). Much of the FT.com web site is subscriber-only, but student subscriptions to the FT and FT.com, though not required, are extremely reasonable (\$109/year; \$31.95 for the semester) and highly recommended.

## **I. FOUNDATIONS**

### **September 8: Overview**

- (\*) Martin Wolf, “Unfettered Finance is Fast Reshaping the Global Economy.” *Financial Times*, June 18, 2007 (<http://www.ft.com/cms/s/518482b4-1dc5-11dc-89f7-000b5df10621.html>)
- Check out the *Financial Times* online at [www.ft.com](http://www.ft.com).

### **September 15: Theoretical background**

- (\*) Martin Wolf, *Fixing Global Finance*, Chapter 2 (“Blessings and Perils of Global Finance”), pp. 10-27.

- (\*) Frieden, Jeffrey and Lisa Martin. 2003. "[International Political Economy: Global and Domestic Interactions.](#)" In *Political Science: The State of the Discipline*, edited by Ira Katznelson and Helen V. Milner. New York: W.W. Norton.
- (\*) Joseph M. Grieco and John Ikenberry, "The Economics of International Money and Finance," in Joseph M. Grieco and John Ikenberry, *State Power and World Markets The International Political Economy* (W.W. Norton & Co., 2003): 57-91.
- Lisa Martin and Beth Simmons. 2002. "[International Organizations and Institutions.](#)" Chapter 10, *Handbook of International Relations*. Sage Publications, 2002, 192-211. (<http://www.people.fas.harvard.edu/~bsimmons/ResearchPapers/Articles/InternationalLawandInstitutions/SimmonsMartin2002.PDF>).

### **September 23: Historical background: The Golden Age and the Interwar Era, 1870-1939**

- Jeffrey A. Frieden. 2007. *Global Capitalism: Its Fall and Rise in the Twentieth Century*. New York: W.W. Norton. Prologue and Chapters 1-10.

### **September 30: Historical background: Bretton Woods to the present, 1945-2000**

- Jeffrey A. Frieden. 2007. *Global Capitalism: Its Fall and Rise in the Twentieth Century*. New York: W.W. Norton. Chapters 11-20 and Conclusion.

## **II. THE POLITICAL ECONOMY OF INTERNATIONAL FINANCE**

### **October 6: International finance and domestic politics**

- (\*) Jeffrey Frieden. 1991. "Invested Interests: The Politics of National Economic Policies in a World of Global Finance," *International Organization* 45(4): 425-51.
- (\*) Layna Mosley. 2000. "Room to Move: International Financial Markets and National Welfare States," *International Organization* 54(4): 737-774.
- (\*) J. Lawrence Broz. 1999. "Origins of the Federal Reserve: International Incentives and the Domestic Free-Rider Problem." *International Organization* 53(1): 39-70.

### **October 13: The politics of foreign direct investment**

- (\*) Nathan Jensen, 2003. "Democratic Governance and Multinational Corporations: The Political Economy of Foreign Direct Investment," *International Organization* 57(3).

- Hausmann, Ricardo, and Eduardo Fernández-Arias. “Foreign Direct Investment: Good Cholesterol?” In *Foreign Direct Investment Versus Other Flows to Latin America*, edited by Jorge Braga de Macedo and Enrique V. Iglesias. Paris: Inter-American Development Bank and OECD, 2001 (<http://ksghome.harvard.edu/~rhausma/WP/pubWP-417.pdf>).
- “Russian Law Curbs Foreign Investment in Key Sectors” (<http://www.ft.com/cms/s/0/4f5d477c-1b04-11dd-aa67-0000779fd2ac.html>).

### **October 20: Exchange rates and currency crises**

- Jeffrey Frieden and Lawrence Broz. 2006. "[The Political Economy of Exchange Rates.](#)" In *Oxford Handbook of Political Economy*, edited by Barry Weingast and Donald Wittman. Oxford: Oxford University Press.
- Roberto Chang. 1999. “Understanding Recent Crises in Emerging Markets,” *Federal Reserve Bank of Atlanta Economic Review*, Second Quarter, pp.6-16. (Available online at <http://www.frbatlanta.org/frbatlanta/filelegacydocs/ACF91.pdf>)
- Martin Wolf, “EMU’s Second 10 Years May Be Tougher,” (<http://www.ft.com/cms/s/0/45654f9e-2bfd-11dd-9861-000077b07658.html>).
- Nicholas Lardy, “China’s Undervalued Currency,” transcript, Peterson Institute for International Economics, July 21, 2009 (<http://www.iie.com/publications/papers/pp20090721lardy.pdf>).

### **October 27: Governing global finance**

- (\*) Beth Simmons. 2001. “The International Politics of Harmonization: The Case of Capital Market Regulation.” *International Organization* 53(3): 589-620.
- (\*) James Vreeland, *The International Monetary Fund: Politics of Conditional Lending*, Ch. 1 (5-36).
- James Boughton, “A New Bretton Woods?” *Finance and Development*, March 2009 (<http://www.imf.org/external/pubs/ft/fandd/2009/03/boughton.htm>).
- Brad Setser, “The Shape of Things to Come,” *Finance and Development*, March 2009 (<http://www.imf.org/external/pubs/ft/fandd/2009/03/setser.htm>).
- John Lipsky, “Preparing for a Postcrisis World,” *Finance and Development*, June 2009 (<http://www.imf.org/external/pubs/ft/fandd/2009/06/lipsky.htm>).

### III. FINANCE AND DEVELOPMENT

#### November 3: The political economy of financial liberalization

##### Policy memo prospectus due in class

- (\*) Stephan Haggard and Sylvia Maxfield. 1996. "The Political Economy of Financial Internationalization in the Developing World," in Robert Keohane and Helen Milner, eds., *Internationalization and Domestic Politics* (New York: Cambridge University Press), pp. 209-239.
- Neely, Christopher J. 1999. "[An Introduction to Capital Controls.](#)" *Federal Reserve Bank of St. Louis Review* 81 (6): 13-30.
- Obstfeld, Maurice. 1998. "Global Capital Markets: Benefactor or Menace?" (<http://siteresources.worldbank.org/EXTABOUTUS/Resources/ObstfeldGlobalCapMarkets.pdf>).

#### November 10: Capital flows and financial crises

- (\*) Frederic S. Mishkin. 2006. *The Next Great Globalization* (Chapter 4, "When Globalization Goes Wrong: The Dynamics of Financial Crises"), pp. 49-68.
- Paul Krugman, *The Return of Depression Economics and the Crisis of 2008*, Chs. 1-2 (pp. 3-55), Chs. 4-5 (pp. 77-118)
- Fernández-Arias, Eduardo, and Ricardo Hausmann. "[What's Wrong with International Financial Markets?](#)" IADB Research Dept. Working Paper No. 429. Inter-American Development Bank. August 2000.

#### November 17: Reforming the IMF and World Bank

- Joseph Stiglitz, "The Insider. What I Learned at the World Economic Crisis." *The New Republic*, April 17, 2000.
- Kenneth Rogoff, "The IMF Strikes Back", *Foreign Policy*, January 2003. ([http://post.economics.harvard.edu/faculty/rogoff/papers/IMF\\_Strikes\\_Back.pdf](http://post.economics.harvard.edu/faculty/rogoff/papers/IMF_Strikes_Back.pdf)).
- Dennis De Tray, "Do We Still Need a World Bank?" ([http://www.cgdev.org/doc/commentary/speeches/World\\_Bank.pdf](http://www.cgdev.org/doc/commentary/speeches/World_Bank.pdf)).
- Nancy Birdsall, 2006. "A Global Credit Club, Not Another Development Agency," in *Rescuing the World Bank*, Washington, DC: Center for Global Development (<http://www.cgdev.org/doc/books/rescuing/BirdsallGlobalcredclub.pdf>).

- Ngiare Woods, 2006. “The Battle for the Bank,” in *Rescuing the World Bank*, Washington, DC: Center for Global Development (<http://www.cgdev.org/doc/books/rescuing/NgiareWoods.pdf>).

#### **November 24: Foreign aid, debt relief, and development**

- (\*) William Easterly. 2001. “Think Again: Debt Relief.” *Foreign Policy*, November/December.
- (\*) Serkan Arslanap and Peter Blair Henry. 2006. “Policy Watch: Debt Relief.” *Journal of Economic Perspectives* 20(1): 207-220.
- John Templeton Foundation, “Will Money Solve Africa’s Development Problems?” ([http://www.templeton.org/questions/africa/pdfs/bq\\_africa.pdf](http://www.templeton.org/questions/africa/pdfs/bq_africa.pdf)).
- Sebastian Mallaby, “NGOs: Fighting Poverty, Hurting the Poor,” *Foreign Policy*, September/October 2004.
- Steven Radelet, “US Foreign Assistance for the 21<sup>st</sup> Century: Q&A” (<http://cgdev.org/content/opinion/detail/1416839/>).

### **IV. THE GLOBAL FINANCIAL CRISIS OF 2008-2009**

#### **December 1: Precursors and causes**

- Paul Krugman, *Return of Depression Economics*, Chs. 6-10 (pp. 119-191)
- Randall Dodds and Paul Mills, “Outbreak: U.S. Subprime Contagion,” *Finance and Development* (June 2008): <http://www.imf.org/external/pubs/ft/fandd/2008/06/pdf/dodd.pdf>.
- James Surowiecki, “Too Dumb to Fail,” *The New Yorker*, March 31, 2008 ([http://www.newyorker.com/talk/financial/2008/03/31/080331ta\\_talk\\_surowiecki](http://www.newyorker.com/talk/financial/2008/03/31/080331ta_talk_surowiecki)).
- Economist, “Special Report on the Global Economy,” October 11, 2008 ([http://www.economist.com/specialreports/displayStory.cfm?story\\_id=12373696](http://www.economist.com/specialreports/displayStory.cfm?story_id=12373696)).

#### **December 8: Consequences and responses**

- James Surowiecki, “Iceland’s Deep Freeze,” *The New Yorker*, April 21, 2008 ([http://www.newyorker.com/talk/financial/2008/04/21/080421ta\\_talk\\_surowiecki](http://www.newyorker.com/talk/financial/2008/04/21/080421ta_talk_surowiecki)).

- Paul Krugman, “Bailouts for Bunglers,” *The New York Times*, February 1, 2009 ([http://www.nytimes.com/2009/02/02/opinion/02krugman.html?\\_r=6](http://www.nytimes.com/2009/02/02/opinion/02krugman.html?_r=6)).
- Alan Blinder, “Nationalize the Banks? Hey, Not So Fast,” *The New York Times*, March 7, 2009 (<http://www.nytimes.com/2009/03/08/business/08view.html>).
- Michael Pomerleano, “Five Financial Reform Policies for a Crisis-Wracked World: A Scorecard.” (<http://www.voxeu.org/index.php?q=node/3681>).
- Dani Rodrik, “Capitalism 3.0” – see slides and podcast/video at <http://www.lse.ac.uk/collections/LSEPublicLecturesAndEvents/events/2009/20090311t1914z001.htm>.

**December 15: Policy memo presentations**