

**DOMESTIC POLITICS AND
THE INTERNATIONAL ECONOMY
PL SC 597C**

Penn State University
Department of Political Science

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Office hours: Tuesday 4-5pm (Pond Lab 234)

Course Description: How governments respond to the multiple facets of “globalization” is one of the most pressing political issues of our time. It is an issue that has inspired opposition from a variety of domestic interest groups including business associations, labor unions, environmental organizations, and human rights activists. Governments must choose how to respond to these groups keeping in mind the domestic electoral consequences of their decisions. Further complicating governments’ decisions over how to respond to global economic shocks is the fact that domestic policy decisions increasingly have international consequences. Given the high level of economic integration among countries, and particularly developed countries, policies that were once considered to be purely domestic now have important economic consequences for neighboring countries. For example, a government’s decision to provide domestic industries with tax breaks and/or subsidies has important implications for relations with its trade partners. When choosing to provide subsidies to a particular industry, governments must increasingly weight both the domestic *and* international costs (and benefits) of doing so. This example points to the important interconnections that exist between domestic politics and the international economy, which have become the focus of a surge in interest among political scientists. This course will examine these interconnections in several substantive areas including trade and immigration policy.

Requirements: Course requirements are extensive readings in preparation for each week's session; active participation in seminar discussions; responsibility for opening class discussion in at least three of those sessions; the completion of three short analytics papers (4-6 pages); a final research paper (10-12 pages) in which you design an original research project that takes up questions relevant to our understanding of the effect of domestic politics on the global economy.

Grading: Final course grades will be based on the extent and quality of student’s participation in the seminar and the quality and coherence of the critical essays and final research project. Specifically, I will use the following weighting system:

35% Presentations and Class Participation
45% Analytical Papers
20% Final Research Project

Course Readings:

Possible explanations for variation in governments' responses to globalization

1. Frieden and Lake. Introduction: International Politics and International Economics. In *International Political Economy: Perspectives on Global Power and Wealth*, edited by Frieden and Lake, p.1-16.
2. Gourevitch, Peter. International trade, Domestic Coalitions and Liberty: Comparative Responses to the Crisis of 1873-1896. In *International Political Economy: Perspectives on Global Power and Wealth*, edited by Frieden and Lake, p. 90-108.
3. Gourevitch, Peter. 1986. *Politics in Hard Times*. Cornell University Press
4. Kindleberger, Charles. The Rise of Free Trade in Western Europe. In *International Political Economy: Perspectives on Global Power and Wealth*, edited by Frieden and Lake, p. 73-89.
5. Milner, Helen. 1998. *Resisting Protectionism*. Princeton University Press
6. Simmons, Beth. 1994. *Who Adjusts?* Princeton University Press
7. Further reading:
 - a. Gilpin. 1987. *Political Economy of International Relations*. Princeton University Press
 - b. Moravcsik. 1997. Taking Preferences Seriously: A Liberal Theory of International Politics. *International Organization*. 51(4): 513-53.
 - c. Polanyi. 1944. *The Great Transformation*. New York: Farrar & Rinehart.
 - d. Gerschenkron. 1952. *Economic backwardness in historical perspective*. Chicago.
 - e. Martin and Simmons. 1999. Theories and Empirical Studies of International Institutions. *International Organization* 52(3): 729-57.

Structure of domestic interests

1. Factors of production

- a. Stolper and Samuelson. 1941. Protection and real wages. *Review of Economic Studies* 9, 58-73.
- b. Rogowski, Ron. 1987. Political Cleavages and Changing Exposure to Trade. *American Political Science Review*. 81.
- c. Rogowski, Ron. 1989. Commerce and Coalitions.
- d. Becker, Gary, "A Theory of Competition among Pressure Groups for Political Influence," *Quarterly Journal of Economics* 98 (1983): 371-400.
- e. Leamer, Edward. 1984. *Sources of International Comparative Advantage: Theory and Evidence*. Cambridge, Mass.: MIT Press.
- f. Midford. 1993. International Trade and Domestic Politics; Improving on Rogowski's Model of Political Alignments. *International Organization* 47.

- g. Balistreri. 1997. The Performance of the HOV Model in Predicting Endogenous Policy Forces at the Individual Level. *Canadian Journal of Economics* 30, 1-17.
- h. Beaulieu. 2002. Factor or Industry Cleavages in Trade Policy? An Empirical Analysis of the Stolper-Samuelson Theorem. *Economics and Politics*.
- i. Broz, J.L. "Congressional Politics of International Financial Rescues," *American Journal of Political Science* 49, 3 (July 2005)

2. Industries

- a. Jones, Ron. 1971. A Three-Factor Model in Theory, Trade and History. In *Trade, Balance of Payments and Growth* edited by Bhagwati.
- b. Mussa. 1974. Tariffs and the distribution of income: the importance of factors specificity, substitutability and intensity in the short and long run. *Journal of Political Economy* 82, 1191-1203.
- c. Mussa. 1982. Imperfect factor mobility and the distribution of income. *Journal of International Economics* 12:125-141.
- d. Irwin. 1996. Industry or Class Cleavages over Trade Policy? Evidence from the British General Election of 1923. In *The Political Economy of Trade Policy: Papers in Honor of Jagdish Bhagwati*, edited by Feenstra et al. MIT Press.
- e. Irwin. 1994. The Political Economy of Free Trade: Voting in the British General election of 1906. *Journal of Law and Economics* 37.
- f. Magee. 1978. Three Simple Tests of the Stolper-Samuelson Theorem. In *Issues in International Economics*.
- g. Alt et al. 1999. Asset Specificity and the Political Behavior of Firms: Lobbying for Subsidies in Norway. *International Organization* 53(1)
- h. Frieden, Jeffrey. 1991. Invested Interests: The Politics of National Economic Policies in a World of Global Finance. *International Organization* 45(4).
- i. Further reading:
 - i. Mundell. 1963. Capital Mobility and Stabilization Policy under Fixed and Flexible Exchange Rates. *Canadian Journal of Economics and Political Science*.
 - ii. Mundell. 1964. A Reply: Capital Mobility and Size. *Canadian Journal of Economics and Political Science*.

3. Unifying theories

- a. Hiscox, Michael. 2002. Commerce, Coalitions, and Factor Mobility: evidence from Congressional Votes on Trade Legislation." *American Political Science Review* 96 (3): 593-608.
- b. Hiscox, Michael. *International Trade and Political Conflict*. 2002. Princeton University Press

4. Other possible cleavages

- a. Eichengreen, Barry. The Political Economy of the Smoot-Hawley Tariff. In *International Political Economy: Perspectives on Global Power and Wealth*, edited by Frieden and Lake, p. 37-46.
- b. Frieden, Jeffrey. 1988. "Sectoral Conflict and U.S. Foreign Economic Policy", *International Organization*, 42 (1):59-90.
- c. Schonhardt-Bailey, Cheryl. 2003. Ideology, Party and Interests in the British Parliament of 1841-1847. *British Journal of Political Science* 33:581-605.
- d. Further readings:
 - i. Schattschneider. 1935. *Politics, Pressure and the Tariff*.
 - ii. Gerschenkron. 1943. *Bread and Democracy in Germany*.
 - iii. Przeworski, and Wallerstein, "The Structure of Class Conflict in Democratic Society," *American Political Science Review* 76 (1982): 215-236
 - iv. Stallings. 1978. *Class Conflict and Economic Development in Chile, 1958-1973*, Stanford: Stanford University Press.

Conditional effects of domestic institutions and collective action

1. Alt and Gilligan. The Political Economy of Trading States: Factor Specificity, Collective Action Problems, and Domestic Political Institutions. In *International Political Economy: Perspectives on Global Power and Wealth*, edited by Frieden and Lake, p. 327-342.
2. Olson. *The Logic of Collective Action*.
3. Further readings:
 - a. Cerny. Globalization and the Changing Logic of Collective Action. In *International Political Economy: Perspectives on Global Power and Wealth*, edited by Frieden and Lake, p.446-460.

Legislatures

1. Delegation
 - a. Lohmann and O'Halloran. 1994. Divided Government and US Trade Policy: Theory and Evidence. *International Organization* 48(4):595-632.
 - b. Bailey, Goldstein, and Weingast. 1997. The Institutional Roots of American Trade Policy. *World Politics*.
 - c. Hiscox, Michael. 1999. 'The Magic Bullet? The RTAA, Institutional Reform and Trade Liberalization', *International Organization*, 53(4): 669-98.
 - d. Irwin, Douglas A. "From Smoot-Hawley to Reciprocal Trade Agreements: Changing the Course of U.S. Trade Policy in the 1930's". *The Defining Moment: The Great Depression and the American Economy in the Twentieth Century*. Edited by Michael D. Bordo, Claudia Goldin, and

Eugene N. White, Chicago: The University of Chicago Press, 1998, pp.325-352.

2. Bureaucracies
 - a. Weingast and Moran. 1983. Bureaucratic Discretion or Congressional Control? Regulatory Policymaking by the Federal Trade Commission *Journal of Political Economy* 91
 - b. Calvert, McCubbins and Weingast. 1989. A Theory of Political Control and Agency Discretions. *American Journal of Political Science* 33.
 - c. Further reading:
 - i. Stigler. 1971. The Theory of Economic Regulation. *The Bell Journal of Economics and Management Science*.
 - ii. Peltzman. 1976. Toward a More General Theory of Regulation. *Journal of Law and Economics*
 - iii. Krehbiel. 1990. Are Congressional Committees Composed of Preference Outliers? *American Political Science Review*
3. Electoral institutions
 - a. Mukherjee et al. Majoritarian Politics, Skill Endowments and Variation in Trade Protectionism. Working Paper.
 - b. Bernhard and Leblang. 2003 Democratic Institutions and Exchange-rate Commitments. *International Organization*.
 - c. Rogowski, Ron. 1987. Trade and the Variety of Democratic Institutions. *International Organization* 41 (2):203-23.
 - d. Cusack, Thomas, Torben Iversen, and David Soskice. 2004. Specific Interests and the Origins of Electoral Institutions. Unpublished manuscript.

Policy areas: Trade

1. Protection across industries
 - a. Mansfield and Busch. 1995. The Political Economy of Nontariff Barriers *International Organization*
 - b. Grossman, Gene M., and E. Helpman. "Protection for Sale." *American Economic Review*, 84 (4) (Sept., 1994), pp. 833-850.
 - c. Gawande and Usree. 2000. Is Protection for Sale? Evidence on the Grossman-Helpman Theory of Endogenous Protection. *The Review of Economics and Statistics* 82(1):139-152.
 - d. McGillivray. 1997. "Party Discipline as a Determinant of the Endogenous Formation of Tariffs", *American Journal of Political Science* 41:2.
 - e. Busch and Reinhardt. 1999. "Industrial Location and Protection" *American Journal of Political Science* 43:4.
 - f. Brooks, Cameron and Carter. 'Political Action Committee Contributions and US Congressional Voting on Sugar Legislation', *American Journal of Agriculture Economics* 80(1998).
 - g. Helfand. 2000. Interest Groups and Economic Policy: Explaining the Pattern of Protection in the Brazilian Agriculture Sector,' *Contemporary Economic Policy*

2. Protection across countries
 - a. Mansfield, Edward D., Helen V. Milner, and B. Peter Rosendorff. "Free to Trade: Democracies, Autocracies and International Trade." *American Political Science Review* 94 (2) (June 2000): 305-22.
 - b. Henisz and Mansfield. 2005. Votes and Vetoes: The Political Determinants of Commercial Openness *International Studies Quarterly*
3. Protection over time
 - a. Gilligan. 1997. *Empowering Exporters; Reciprocity and Collective Action in the Twentieth Century*.
 - b. Milner and Judkins. 2004. Partisanship, Trade Policy, and Globalization: Is There a Left-Right Divide on Trade Policy? *International Studies Quarterly*
 - c. Further reading:
 - i. Destler, I.M. 1995. *American Trade Politics*
4. Protectionist preferences across individuals
 - a. Scheve and Slaughter. 2001. What Determines Individuals Trade-Policy Preferences? *Journal of International Economics* 54(3):267-92.
 - b. O'Rourke and Sinnott. 2001. The Determinants of Individual Trade Policy Preferences: International Survey Evidence *Brookings Trade Forum*
 - c. Hiscox and Burgoon. 2005. The Mysterious Case of Female Protectionism Gender Bias in Attitudes Toward International Trade. Unpublished manuscript.
 - d. Hiscox. 2006. Through a Glass and Darkly: Framing Effects and Individuals' Attitudes Toward International Trade. *International Organization*

Policy areas: Multilateral trade agreements

1. Ronald Cox, "Explaining Business Support for Regional Trade Agreements." In Frieden and Lake, pp. 366-76.
2. Mansfield, Milner, Pevehouse. 2005. Vetoing Cooperation: The Impact of Veto Players on International Trade Agreements. Working paper.
3. Downs and Rocke. 1995. *Optimal Imperfection*. Princeton University Press.

Policy areas: Social protection and redistributive policies

1. Effect of openness
 - a. Katzenstein. 1985. *Small States in World Markets*. Cornell University Press.
 - b. Cameron. 1978. The Expansion of the Public Economy. *American Political Science Review* 72(4):1243-61.
 - c. Rodrik. 1998. Why do more open economies have bigger governments? *Journal of Political Economy*. 106(5):997-1032.
 - d. Garrett. 1995 Capital mobility, trade and the domestic politics of economic policy *International Organization*

- e. Swank. 2003. "Withering Welfare? Globalization, Political Economic Institutions, and the Foundations of Contemporary Welfare States." In Linda Weiss, ed., *States and Global Markets: Bringing Domestic Institutions Back In*. Cambridge, UK: Cambridge University Press, Cambridge Studies in International Relations.
 - f. Garrett and Mitchell. 2001. Globalization and the Welfare State. *European Journal of Political Research* 39(2);145-77.
 - g. Iversen, Torben, and Thomas Cusack. 2000. "The Causes of Welfare State Expansion: Deindustrialization or Globalization?" *World Politics* 52 (April): 313–49.
 - h. Kaufman, Robert, and Alex Segura-Ubiergo. 2001. Globalization, Domestic Politics, and Social Spending in Latin America: A Time-Series Cross-Section Analysis, 1973–1997. *World Politics* 53 (4): 553–587.
 - i. Burgoon, Brian. 2001. Globalization and Welfare Compensation: Disentangling the Ties that Bind. *International Organization* 55: 509-551.
 - j. Huberman. 2005. Small was Beautiful: Belgium Workers and Free Trade Before 1914. Unpublished manuscript.
2. Inefficiency
- a. Coate and Morris. 1995. On the Form of Transfers to Special Interests *The Journal of Political Economy*
 - b. Acemoglu, Daron and James A. Robinson (2001) "Inefficient Redistribution," *American Political Science Review*, v95, n3 (September 2001): 649-61.
 - c. Robinson, J.A., Verdier, T., 2002. The Political Economy of Clientelism. CEPR Discussion Paper no. 3205.
 - d. Persson and Tabellini 2002. Do Constitutions Cause Large Governments? Quasi-Experimental Evidence *European Economic Review*
 - e. Further reading:
 - i. Magee, Brock and Young. 1989. *Black Hold Tariffs and Endogenous Policy Theory*.
3. Form
- a. Mares, Isabela. *The Politics of Social Risk. Business and Welfare State Development*. Cambridge, MA: Cambridge University Press, 2003.
 - b. Iversen and Soskice. 2002. An Asset Theory of Social Policy Preferences *American Political Science Review*
 - c. Estevez-Abe, Margarita, Torben Iversen, and David Soskice. 2001. "Social Protection and the Formation of Skills: A Reinterpretation of the Welfare State." In *Varieties of Capitalism: The Challenges Facing Contemporary Political Economies*. ed. Peter Hall and David Soskice. Oxford: Oxford University Press.
 - d. Franzese et al. 2005. The Effective Constituency in U.S. Distributive Politics: Alternative Bases of Democratic Representation, Geographic versus Partisan. Working Paper.
 - e. Rickard. 2005. Broad vs Narrow: Explaining the form of redistributive policies. Working paper.

Policy areas: Industrial policy and regulation

1. McGillivray. *Privileging Industry*. Princeton University Press.
2. Anderson, “The Political Market for Government Assistance to Australian Manufacturing Industries”, *The Economic Record*, 56 1980.
3. Stigler, George J. “The Theory of Economic Regulation,” *The Bell Journal of Economics and Management Science* 2, 1 (Spring, 1971): 3-21.
4. Peltzman, Sam. “Toward a More General Theory of Regulation.” *Journal of Law and Economics* 19 (1976): 211-240.
5. Noll, Roger G. “Economics Perspectives on the Politics of Regulation,” In R.D. Willig and R. Schmalensee, eds. *Handbook of Industrial Organization*, Vol. 2, North-Holland (1989): 1254-1287.
6. Tullock, Gordon, “The Costs of Special Privilege,” in James E. Alt and Kenneth A. Shepsle, *Perspectives on Positive Political Economy* (Cambridge University Press, 1990), pp. 195-211.
7. Viscusi, Kip et al., “Introduction to Economic Regulation,” I W. Kip Viscusi, John M. Vernon, and Joseph E. Harrington, Jr. *Economics of Regulation and Antitrust*, 3rd ed. (Cambridge, MA: MIT Press, 2000), pp. 297-336.
8. Rogowski and Kayser. 2002. Majoritarian Electoral Systems and Consumer Power: Price-Level Evidence from the OECD Countries. *AJPS*.

Policy areas: Immigration

1. Scheve, Slaughter, and Page. 2001. Labor Market Competition and Individual Preferences over Immigration Policy. *Review of Economics and Statistics*.
2. Hanson, Gordon, Scheve, Kenneth, and Matthew J. Slaughter. 2004. Public Finance and Individual Preferences over Globalization Strategies.
3. Hanson, Scheve and Slaughter. 2005. Individual Preferences over High-Skilled Immigration in the United States.
4. Hanson, Gordon. 2005. Emigration, Labor Supply and Earnings in Mexico. In *Mexican Immigration*, edited by George Borjas. University of Chicago Press and the National Bureau of Economic Research.
5. Djajic. 1989. Skills and the Pattern of Migration. *International Economic Review* 30(4):795-809.
6. Haus. 1995. “Openings in the Wall: Transnational Migrants, Labor Unions and U.S. Immigration Policy.” *International Organization*.
7. Further reading:
 - a. Fetzer, J.S. 2000. *Public Attitudes toward Immigration in the United States, France and Germany*.