

Politics and Global Finance, PLS 422

Michigan State University, Fall 2021
Tuesday, Thursday 10:20-12:10
Berkey Hall 112B

Instructor Information

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Course Description: Money moves around the globe faster and in greater volumes than ever before. This course will explore how those global financial markets interact with politics. We will pay particular attention to the following questions:

- 1) What does it mean for financial markets to be global, and how did they get that way?
- 2) In what ways does global finance produce political conflict?
- 3) Why are some governments more able to manage financial globalization than others?
- 4) How do investors and firms understand and manage political risk? And
- 5) How is finance used as a vehicle for global political power?

We will consider the answers that the academic literature gives to those questions and explore how those answers relate to current events.

Class Organization: This is a discussion-based seminar. Each class lasts for 110 minutes, which is a long time. For that reason, each class will be organized into two (roughly) 50 minute “blocks” with a (roughly) 10-minute break in the middle. Each block has its own reading assignment. Most days are organized around an academic article or book chapter in Block 1, and a relevant news article in Block 2. Some classes have an academic reading in both blocks.

The syllabus is organized around three different, but thematically linked topics: “**Money, Debt and Government**”, “**Global Finance and Political Power**”, and “**Multinational Corporations**”.

Attendance: Class attendance is mandatory. You may miss three classes for any reason; additional unexcused absences will affect your grade.

Of note: COVID is not entirely over, and that may affect your attendance. For that reason, I will be VERY accommodating if something comes up and a student can’t make it to class. So, while the above-stated policy is true—too many absences will affect your grade—for this semester it is probably better read as “after three absences it is the student’s responsibility to make sure the professor knows what is going on so that we can figure out the best way to accommodate.”

Grading/Requirements: Grades in the course will be based on the following items:

- 30% class participation
 - Of which, 5% for participation in the final roundtable
- 10% debate 1
- 10% debate2
- 20%midterm paper
 - Of which, 2.5% for submitting to peer review, 2.5% for serving as peer reviewer
- 30% final paper

Class Participation: This seminar will rely heavily on class discussions. I expect students to have done the reading prior to class and be ready to participate. I do not, however, expect that students will have perfectly understood the reading prior to class. Indeed, asking clarifying questions about the reading is a big part of “class participation.” I reserve the right to “cold call.”

Debates: We will have two “Oxford Style” debates, one covering the “Money, Debt and Government” and “Global Finance and Political Power” sections and another covering the “Multinational Corporations” section. The two debates will be organized as follows:

The class will be divided randomly into 2 debate teams. Each debate will center on a statement. One team will defend the statement and the other will attack it. I will flip a coin at the beginning of the debate to determine who defends the statement and who attacks it. As such, the teams will have to prepare a defense and an attack in advance.

The format for each debate will be as follows.

- Defender: opening statement – 5 min
- Attacker: opening statement –5 min

10-minute team conference

- Each team asks the other team 3 questions, followed by answers, rebuttals and, optionally, rebuttals of the rebuttals – 30 minutes

10-minute team conference

- Defender: Closing Statement – 3 min
- Attacker: Closing Statement –3 min

Each debate will last slightly more than an hour, and we will spend the remaining class time discussing the merits of the statement in a non-competitive setting.

The statements for the debates are:

Midterm Debate: Cross-border government borrowing provides more opportunities than risks.
Final Debate: All things considered, the zealous protection of multinational corporations’ rights is good.

Midterm paper: The midterm will be a short paper (~5 pages, double spaced) in which you will respond to the midterm debate prompt. Your paper will take a position and support it by referencing the assigned articles and the arguments made in them. It does not matter whether you agree with the statement or not, it only matters that you demonstrate mastery of the material in making your case. Well-graded papers typically reference 3-4 elements of the assigned reading.

The midterm paper is due on October 26 via D2L.

There will be a (graded) peer review process for this paper. Students will distribute a draft or outline of their paper to a peer (and me) 10 days before its due date (October 16) and we will spend block 2 of class on October 19 discussing our papers with our peer reviewer. The peer reviewer will have read and commented on the paper, providing (at least) three suggestions. Those comments are also to be handed in to me before the beginning on class via D2L on October 19.

Final Paper: The final paper will be a longer (10-15 pages, double spaced) research paper. In it you must identify a course-related puzzle or question that has not been explicitly asked and answered in the readings. Your question could be a slight twist on an article we read, or a fully novel idea. Regardless, you will pose the question, theorize an answer, draw out a hypothesis and execute a research design capable of testing it.

The methodological component to this paper can be very simple. A scatter plot illustrating the relationship between two variables is fine, or paired case studies illustrating how differences on an important variable can shape outcomes.

The empirical validity of your argument will have no bearing whatsoever on your grade. There is no grade penalty for being “wrong.” This paper is more about “process” than outcome.

The final paper is due on December 13.

Paper Roundtables: The due date for the final will be preceded by a “Paper Roundtable,” in which student share drafts of their paper (or short summaries of their intentions for their paper) with their classmates to solicit feedback from their peers and professor. Presentation is strongly encouraged, and active participation as either a presenter or a peer reviewer is required and will be included in the participation grade.

Handing in Assignments: Papers (topics, final papers and drafts submitted for peer reviews) should be submitted via the course D2L page in the appropriate folder

Readings: The readings for this course are primarily drawn from academic journals in political science, economics, and history, as well as journalistic sources. The reading is required unless otherwise indicated. They must be done *prior* to the seminar. These reading will be uploaded to D2L, but they can be found online through Jstor or google scholar.

Note that many of the readings only refer to *excerpts* of the assigned articles. Read the syllabus carefully before you do the week’s assigned readings.

Some of the readings include empirical and theoretical analyses that are sophisticated beyond most students’ preparation. That is OK. Working through those analyses is part of the class. Sometimes I omit those portions of the articles from the required reading if they present needless complications. Sometimes I include them. The larger point is: if something is assigned it must be read. Even if the material seems impenetrable. Students need not fully understand technical material when they first encounter it; they need to try their best.

Most of the newspaper articles that I include on this syllabus are taken from either the Financial Times or the Wall Street Journal. I will make pdfs of the assigned articles available to the class through the D2L site. You do not need to subscribe.

That said, you may want to subscribe for the semester. Being in the habit of scanning the financial news can only help during the course. If you are interested I can point you towards relatively affordable ways to subscribe.

I use readings from five books, which are available (new or used) from traditional book retailers. You are encouraged to buy the books, though I will provide pdfs for books from which I have assigned a single chapter (Vreeland, Yergin, Freiden).

1. Jacob Goldstein. 2020. Money: The True Story of a Made-Up Thing. Hachette Books.
2. Barry Eichengreen (1996). Globalizing capital: a history of the international monetary system. Princeton University Press.
3. James Vreeland. (2007.) The International Monetary Fund: Politics of Conditional Lending. Routledge
4. Frieden, J. A. (2007). Global capitalism: Its fall and rise in the twentieth century. WW Norton & Company.
5. Yergin, Daniel (2011). The prize: The epic quest for oil, money & power. Simon and Schuster.

Course Calendar

Thursday, September 2, 2021: Introduction to the course

Block 1: Introduction & Syllabus

Block 2: Introduction & Syllabus

Tuesday, September 7, 2021 – No Class, Rosh Hashanah

Section I: “Money, Debt and Government”

Thursday, September 9, 2021: Origins of Money, Critics of Government & Money

Block 1: Goldstein Ch 1

Marco Polo “Book Second, Part I, Chapter XXIV: How the Great Kaan Causeth the Bark of Trees, Made into Something Like Paper, to Pass for Money over All His Country,” in The Book of Ser Marco Polo: The Venetian Concerning Kingdoms and Marvels of the East.

- https://upload.wikimedia.org/wikipedia/commons/0/07/The_book_of_Ser_Marco_Polo_the_Venetian_concerning_the_kingdoms_and_marvels_of_the_East_%281903%29.pdf
 - Pages 423-430

Alfred Kennedy, December 1 1977. Marco Polo on Money
<https://fee.org/articles/marco-polo-on-money/>

Block 2: Hayek, Denationalization of Money, pages 17-35

<https://iea.org.uk/wp-content/uploads/2016/07/Denationalisation%20of%20Money.pdf>

Martin Arnold. “German inflation climbs to 13-year high.” August 30 2021. Financial Times

Tuesday, September 14, 2021: Global Money I: The Gold Standard

Block 1: Eichengreen Chapter 1

Block 2: Eichengreen Chapter 2

Thursday, September 16, 2021 – No Class Yom Kippur

Tuesday, September 21, 2021: Global Money II: Fall of the Gold Standard/Bitcoin

Block 1: Eichengreen Chapter 3

Block 2: Spike Lee Bitcoin Video

- <https://twitter.com/i/status/1415321835554500609>

Goldstein 187-212

Mike O’Sullivan “Does Low Trust In Politics Mean Bitcoin Will Thrive?”

<https://www.forbes.com/sites/mikeosullivan/2021/06/11/does-low-trust-in-politics-mean-bitcoin-will-thrive/?sh=d6f39d874f93>

Thursday, September 23, 2021: Global Money III: The Rise and Fall of Bretton Woods

Block 1: Frieden 256-60, 278-300

Block 2: Frieden ch. 15 339-360

Tuesday, September 28, 2021: Borrowing Costs and Domestic Political Institutions

Block 1: Douglas North and Barry Weingast. (1989). Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in Seventeenth Century England. *Journal of Economic History*. 49(4).

Block 2: Stasavage, D., 2007. Cities, constitutions, and sovereign borrowing in Europe, 1274–1785. *International Organization*, 61(03), **ONLY READ pp.489-494; 500-505**

Thursday, September 30, 2021: Domestic Policies and Access to Capital

Block 1: Glen Biglaiser and Karl DeRouen Jr. (2007) Sovereign Bond Ratings and Neoliberalism in Latin America. *International Studies Quarterly* 51(1). PG 121-138 **STOP AT PAGE 127**

Block 2: Lewis, M. *Vanity Fair* September 6 2010. Beware of Greeks bearing bonds
<<https://www.vanityfair.com/news/2010/10/greeks-bearing-bonds-201010>>

Tuesday, October 5, 2021: Political Categories and Financial Contagion

Block 1: Brooks, S. M., Cunha, R., & Mosley, L. (2015). Categories, creditworthiness, and contagion: how investors' shortcuts affect sovereign debt markets. *International studies quarterly*, 59(3), 587-601. **STOP AT PAGE 591**

Block 2:

<https://www.britannica.com/event/Asian-financial-crisis>
<https://www.piie.com/publications/policy-briefs/asian-financial-crisis>
<https://www.nber.org/digest/jun99/herd-mentality-takes-over-market-crisis>

Thursday, October 7, 2021: Political Transparency and Financial Crises

Block 1: Leblang, D., & Satyanath, S. (2006). Institutions, expectations, and currency crises. *International Organization*, 245-262. **STOP AT PAGE 253**

Block 2: Current Financial News- TBD

Tuesday, October 12, 2021: Borrowing Costs and War

Block 1: Schultz, K. A., & Weingast, B. R. (2003). The democratic advantage: institutional foundations of financial power in international competition. *International Organization*, 3-42.

Block 2: To Stop Endless War, Raise Taxes. Sarah Kreps. Jun 18, 2018
<<<https://www.vox.com/the-big-idea/2018/6/18/17474368/war-taxes-iraq-afghanistan-history-accountability-democracy>>>

Thursday, October 14, 2021: Financial Conditions Dictate Politics

Block 1: Jason Furman and Lawrence Summers. November 30, 2020. A Reconsideration of Fiscal

Policy in the Era of Low Interest Rates

<< <https://www.piie.com/system/files/documents/furman-summers2020-12-01paper.pdf>>>

Block 2: Current Budget News, TBD

Tuesday, October 19, 2021: In Class Activities

Block 1: Debate Prep

Block 2: Peer Review of Paper

Thursday, October 21, 2021- Debate 1

Tuesday, October 26, 2021 – Break; Midterm Paper due

Section II: Global Finance as Political Power

Thursday, October 28, 2021: IMF, Washington Consensus & US Foreign Policy

Block 1: Vreeland Chapter 1

Block 2: Current IMF News - TBD

Tuesday, November 2, 2021: IMF II

Block 1: Dreher, A., & Jensen, N. M. (2007). Independent actor or agent? An empirical analysis of the impact of US interests on International Monetary Fund conditions. *The Journal of Law and Economics*, 50(1), 105-124.

Block 2: Doug Irwin. The Washington Consensus stands test of time better than populist policies. Peterson Institute For Economic Policies
<< <https://www.piie.com/blogs/realtime-economic-issues-watch/washington-consensus-stands-test-time-better-populist-policies>>>

Thursday, November 4, 2021: Chinese and American Financial Power

Block 1: China's Massive Belt and Road Initiative. Andrew Chatzky and James McBride January 28, 2020. Council on Foreign Relations Backgrounders.

Shen, S., & Chan, W. (2018). A comparative study of the Belt and Road Initiative and the Marshall plan. *Palgrave Communications*, 4(1), 1-11.

Block 2: Council of Foreign Relations "The Dollar: The World's Currency"
<https://www.cfr.org/backgrounder/dollar-worlds-currency>

Section III: Politics & Multinational Corporations

Tuesday, November 9, 2021: -- Introduction to MNCs

Block 1: The great land rush Ethiopia: The billionaire's farm March 1 2016 Financial Times. Tom Burgis. <<https://ig.ft.com/sites/land-rush-investment/ethiopia/>>

Block 2: Henisz, W. J. (2000). The institutional environment for multinational investment. *The Journal of Law, Economics, and Organization*, 16(2), 334-364. **STOP AT PAGE 340**

Thursday, November 11, 2021: Political Risk I: Nationalizations: Anglo-Persian Oil & Repsol

Block 1: "Old Mossy" and The Struggle For Iran. Chapter 23 of "The Prize" Daniel Yergin.

Block 2: Foreign Investors Criticize Deals by Russian Gas Giant David Hoffman Washington Post December 24, 2000

Tuesday, November 16, 2021: Political Risk II: War

Block 1: Joshi, M., & Quinn, J. M. (2020). Civil war termination and foreign direct investment, 1989–2012. *Conflict Management and Peace Science*, 37(4), 451-470.

Block 2: David Sacks. August 24 2021 Why Major Belt and Road Investments Are Not Coming to Afghanistan
<https://www.cfr.org/blog/why-major-belt-and-road-investments-are-not-coming-afghanistan>

Thursday, November 18, 2021: Overcoming Risk with Democracy

Block 1: Jensen, N. (2008). Political risk, democratic institutions, and foreign direct investment. *The Journal of Politics*, 70(04), 1040-1052.

Block 2: Yeung, B., Xu, L. C., Morck, R., & Fan, J. P. (2007). *Does "good government" draw foreign capital? Explaining China's exceptional foreign direct investment inflow*. The World Bank.

Tuesday, November 23, 2021 – Break

Thursday, November 25, 2021 – Break

Tuesday, November 30, 2021: Overcoming Risk with ISDS I

Block 1: Desai, M. A., & Moel, A. (2008). Czech mate: expropriation and investor protection in a converging world. *Review of Finance*, 12(1), 221-251.

Block 2: Kerner, Andrew., & Pelc, K. J. (2020). Do Investor–State Disputes (Still) Harm FDI?. *British Journal of Political Science*, 1-24 **STOP AT PAGE 13**

Thursday, December 2, 2021: Overcoming Risk with ISDS II

Block 1: Poulsen, L. N. S., & Aisbett, E. (2013). When the claim hits: Bilateral investment treaties and bounded rational learning. *World Politics*, 65(2), 273-313. **STOP AT PAGE 285**

Block 2: Vattenfall II

- 1) Nathalie Bernasconi-Osterwalder and Rhea Tamara Hoffmann The German Nuclear Phase-Out Put to the Test in International Investment Arbitration? Background to the new dispute Vattenfall v. Germany (II) <https://www.iisd.org/publications/german-nuclear-phase-out-put-test-international-investment-arbitration-background-new>
- 2) Why Vattenfall is taking Germany to court <https://group.vattenfall.com/press-and-media/newsroom/2016/why-vattenfall-is-taking-germany-to-court>

Tuesday, December 7, 2021: Final Paper Roundtable

Thursday, December 9, 2021: Debate 2

Final Paper Due: December 13, 2021 @ 5:00 pm