

## **International Political Economy**

This course applies a political economy approach to study the phenomenon of growth and inequality. The global distribution of income is determined by two interrelated phenomena: inequality among countries and inequality within nations. The first two challenges of the course aim to examine inequality among countries. Why have some nations economically developed while others have failed to steadily grow? To answer this question, we will look at, among other factors, the institutional framework that organizes society and structures the incentives for investment. Another important source of economic growth deals with the process of economic integration of countries. The second challenge is devoted to answer the question why some countries open their economies to international competition while others not. Finally, the third challenge examines inequality within countries. It presents the empirical facts regarding the inequality trends within industrial advanced countries in the last decades and studies the different types of state interventions affecting the distribution of individual incomes.

This is a compulsory course. It aims at introducing the student to two central phenomena within the field of political economy: the foundations of growth and the sources of inequality across and within countries. The course uses the standard arguments and approach of the literature on political economy to address these issues. It complements other courses of the program by offering a view to world politics grounded in the economic consequences of domestic political institutions.

### **Module 1:**

#### **Why nations fail?**

Why do most African countries have followed a general trend of economic stagnation? Why do Western countries have grown significantly? Until the nineteenth century, there were hardly any differences in material conditions between the group of currently most advanced nations and the group of least developed countries. These differences began to emerge mainly from the Industrial Revolution. The economic gap between these two groups of countries was further accentuated after World War II. The divergence of incomes among countries in the world constitutes a central research question of political economy. Traditional economic models of growth (from the neoclassical theory) predict that, in a globalized world, countries with different initial levels of development should economically converge. Yet we observe the opposite: the differences between nations have greatly amplified in the post-war period. Why have some nations economically developed while others failed to steadily grow? In this unit, we study the political economy reasons underlying the process of economic development. The primary source of growth, according to most influential political economy contributions, has to be found in the national configuration of political institutions.

#### **Readings:**

- Inequality among countries. Economy theory and empirical evidence” in DEMOCRACIA, INSTITUCIONES Y POLÍTICA ECONÓMICA (chapter 2), Fernández-Albertos and Manzano (2010). Pages 17-54 (37 pages)
- Political institutions and economic development” in DEMOCRACIA, INSTITUCIONES Y POLÍTICA ECONÓMICA (chapter 3), Fernández-Albertos and Manzano (2010). Pages 55-97 (42 pages)
- “Nature or Nurture? Understanding the culture of corruption” in Economic Gangsters (chapter 4), Raymond Fisman and Edward Miguel (2008). Pages 76-110

## Module 2:

### Bringing down economic borders: Why countries integrate in international markets?

As seen in the previous unit, China economic miracle has been based on a policy strategy of commercial openness and its competitiveness in international markets. Indeed, standard economic theories agree that the integration of countries in international markets makes their economies more competitive promoting their capacity to export and grow. Industrialized countries have historically been the promoters of bringing down economic borders. Asian countries have followed suit achieving impressive economic results. Yet, historically and recently, we have observed certain national movements and policies towards protectionism even amongst industrialized leaders. Brexit and Trump’s election are just the most recent cases. What are the causes inducing countries to open their frontiers? In this unit, we study the political economy determinants of international trade and capital flows.

### Readings and resources:

- Chapter 1: THE MODERN CAPITALIST WORLD ECONOMY: A HISTORICAL OVERVIEW  
[https://scholar.harvard.edu/files/jfrieden/files/modern\\_capitalist\\_economy\\_page\\_proofs.pdf](https://scholar.harvard.edu/files/jfrieden/files/modern_capitalist_economy_page_proofs.pdf)
- “The political economy of international trade,” in DEMOCRACIA, INSTITUCIONES Y POLÍTICA ECONÓMICA (chapter 9), Fernández-Albertos and Manzano (2010). Pages 235-258
- Video Brexit Explained. The Daily Conversation.
  - A column from VOX –CEPR’s policy internet portal. This web site publishes columns, video or talks to promote “research-based policy analysis and commentary by leading economist.” The column selected is “International financial flows and the Eurozone crisis” by Philip Lane, Whately Professor of Political Economy at Trinity College Dublin and CEPR research Fellow. <https://voxeu.org/article/international-financial-flows-and-eurozone-crisis>

## Module 3:

### Globalization of Inequality

Since the 1990s several big Asian countries have grown considerably during a long period of time increasing the living conditions of a significant portion of the world population. Although this trend has provoked a declining change in the level of global

inequality, yet there have been other market-level processes that have potentially increased inequality within countries. In this unit, we study the reasons why inequality has increased within nations (both industrialized and less-developed) in a globalized world. We will pay attention on two fundamental socioeconomic causes: globalization and technological changes, and examine how these two processes have affected individual incomes within industrial advanced countries. Then, we examine state interventions aimed to counteract the increasing trends on inequality.

#### Readings and resources:

- Inequality trends within advanced industrial nations. François Bourguignon (2015), *The Globalization of Inequality* (2015), pages from 47-90.
- A column from VOX –CEPR’s policy internet portal. The column selected is “Making globalization work for workers” by Sascha O. Becker, Marion Jansen and March Muendler” 1 de octubre 2011. <https://voxeu.org/article/making-globalisation-work-workers>
- State ex-ante intervention and the regulation of markets. Alesina, Alberto and Edward L.Glaeser (2004) *Fighting Poverty in the US and Europe*. Oxford University Press. Chapter 2 pp. 38-44
- State ex-post intervention and the welfare state policies. Alesina, Alberto and Edward L.Glaeser (2004) *Fighting Poverty in the US and Europe*. Oxford University Press. Chapter 2 pp. 15-38
- “Who Gains from Fiscal Redistribution?”. Branko Milanovic in *the Haves and the Have-Nots*. Vignette 1.7 pp.68-73.
- Video: The rise of the new global super-rich. Chrystia Freeland at TEDGlobal 2013.