

**SENIOR SEMINAR:
THE POWER OF THE PURSE AND INTERNATIONAL POLITICS**

Since September 11, US foreign policy has had to deal with security issues relating less to defense against powerful enemy states and more to matters of internal politics in relatively weak states, many of them our allies. Sustaining liberal (limited, civil-and-property-rights-upholding) and capable governments has become a central policy goal. So how do such governments arise? Answering this question leads us to older ones about the rise of the West, the origins of the nation-state, and the channels of international economic power. In this course we spotlight important works from a growing literature on the connections between the ways states obtain revenue—taxation, oil rents, credit, foreign aid--and the ways they act and evolve.

Requirements. Attendance is mandatory and active class participation is expected. For classes whose topics are underlined in the schedule, one student will write and present a four-page commentary on the reading for that day, and two others will write two-page responses to this. (Each student writes one commentary and two responses during the semester.) The course finishes with several classes entirely devoted to oral presentations. Presenters should provide three to five pages of light reading to familiarize the rest of us with the topic, by email link 24 hours in advance or in materials to be copied for distribution at the previous class session. There will be videotaped practice presentations during the week of April 27 and for each presentation we will designate one lead questioner. A 15- to 20-page term paper is due at the end of the semester. Honor code guidelines (*Student Handbook*, 136-7) are the standard ones for expository writing. When citing course readings, short internal references (Bates, 34) are fine.

Commentaries should address a) the most important point made by the work(s) and b) what you find most controversial (or even mistaken). They should be sent to the professor and to those writing responses by noon on the day before the class for which the material is assigned. Response papers should respond not just to the commentary but to its subject—that is, they ought to be grounded in an independent assessment of the materials in question. Term papers can be on any topic related to the class material. You'll need to turn in a two-page topic and bibliography on April 20, but you should discuss the topic informally with me well before then.

Evaluation. General class participation (including role as questioner at research presentations), 20 percent; commentary paper, 20 percent; responses (2), 10 percent each; oral presentation, 10 percent; and term paper, 30 percent. Good class participation is informed, respectful, and brief.

Readings. These books are required and available at Water Street Books:

Robert Bates, *Prosperity and Violence: The Political Economy of Development*
(Norton, 2001);

Thad Dunning, *Crude Democracy* (Cambridge, 2008);

Niall Ferguson, *The Cash Nexus: Money and Power in the Modern World, 1700-2000* (Basic, 2001);

Fareed Zakaria, *The Future of Freedom: Illiberal Democracy at Home and Abroad* (Norton, 2004).

The rest of the readings are either linked here or in a packet coming out in the second full week.

Schedule

(* = in reading packet)

2/6 Introduction and Overview

I. Liberalism as a Political Good and a Strategic Goal

2/10 Liberalism Is Not Democracy

Fareed Zakaria, *The Future of Freedom: Illiberal Democracy at Home and Abroad*, Introduction and Chaps. 1-2.

Zakaria thinks liberalism is more important than democracy--or at least, that our foreign policy and our own polity would be improved by valuing the former as much or more than the latter. In these chapters he gives an historical overview (one we will expand upon in this course) and discusses the economic bases of liberty and democracy.

2/13 Illiberal Democracies, Especially in the Islamic World (and the US)

Zakaria, *The Future*, Chaps. 3, 4, and the last bit of Chap. 6 (228-38).

Here Zakaria brings the argument to bear on “illiberal democracies” and authoritarian regimes in Islamic countries. To give you a sense of where he’s coming from, I have assigned an interesting excerpt from his two-chapter section on illiberal democracy in the United States.

II. **The Economy, the State, and Public Finance in Theory and History**

2/17 State Institutions and Economic Growth, 1

Robert Bates, *Prosperity and Violence*, all but Chap. 2.

The basic problem of states and market-based economies is this: any state strong enough to guarantee property rights is also strong enough to violate them with impunity. So where do states that do the former and not the latter come from? Bates comes at the problem from “rational-choice” or “public-choice” premises, meaning that he assumes politicians (“rulers” in the argot) to be narrowly self-interested. Bates is analytically rooted in medieval and early modern Europe but offers examples from his experiences as a development specialist in Africa.

2/20 *No class, Winter Carnival*

2/24 War as Reformer of the State

Bruce D. Porter, *War and the Rise of the State* (Free Press, 1994), prologue, Chaps. 1, 4, and epilogue.

(Note: Chapter 7 on the USA is included in the packet for those interested, but it is not required.) *

Porter's book pulls together a long tradition of scholarship that sees war (and not commerce, class struggle, or religion) as the main motive force behind political and economic development. In this view, Europe’s development advantage was the failure of any empire to dominate its territory, leading to a system of recurrently warring states, and then, to nations.

2/27 States and Taxes

Niall Ferguson, *The Cash Nexus*, Introduction, Chap. 1, beginning and end of Chap. 2 (pp. 51-53 and 73-76), and Chap. 3.

In a famous paper written in 1918, Joseph Schumpeter asserted,

The spirit of a people, its cultural level, its social structure, the deeds its policy may prepare—all this and more is written in its fiscal history, stripped of all phrases...He who knows how to listen to its message here discerns the thunder of world history more clearly than anywhere else.

He went on to describe the crucial watershed when the Estates of the Austrian empire admitted that the Turkish wars were more than just the personal affair of the Hapsburgs: “out of the ‘common exigency’ the state was

born.” ^[1] We saw some of this at work in Bates’s little book, and here Ferguson expands on the idea, but with a much broader sweep and an historian’s eye.

3/3 Public Debt, Power, and Liberalism

Ferguson, *The Cash Nexus*, first and last parts of Chap. 4 (pp. 105-17, 128-36), first and last parts of Chap.

5 (137-44, 157-62), first part of Chap. 7 (pp. 189-207), and all of Chap. 9.

If taxes make good government more likely, can we say the same about public borrowing? Ferguson gives us an account of British public debt as the key factor in that country's rise to world hegemonic power, and considers the spread of international bond markets of the first modern age of globalization.

3/6 Globalization and Liberal Democracy: Doubts

Ferguson, *The Cash Nexus*, first part of Chap. 11 (pp. 321-38), Chaps. 12, 13, end of Chap. 14 (pp. 417-18), and conclusion.

Ferguson doubts not only the democratic (or liberal) peace thesis, but also the idea of a global, economically driven tendency toward liberalism, made popular recently by writers such as Thomas Friedman. An influential proponent of the invasion of Iraq (the bit at pp. 417-18 and the general argument here foreshadow his later efforts in *Empire* and *Colossus*), he considered the gains of liberalism globally to be fragile and to have origins beyond the "golden straitjacket."

3/10 Resource Rents, Despotism, and Power

Thomas Friedman, "The First Law of Petropolitics," *Foreign Policy* May/June 2006.*
Yegor Gaidar, "The Soviet Collapse: Grain and Oil," *AEI On the Issues*, April 2007.*
begin Thad Dunning, *Crude Democracy* (see below).

In the fiscal context, "rents" are revenues obtained from super-normal returns on state properties, most commonly in oil. These readings draw a pretty direct line between this kind of revenue and despotic, illiberal government. Friedman represents a broad scholarly literature on the "rentier state" (though I do not believe any other writer was so immodest as to assert a "Law"). Gaidar's analysis relates more to international power, but he wields a similar kind of scalpel in a brilliant dissection of late Soviet political history.

3/13 Oil and Democracy

Thad Dunning, *Crude Democracy*, read Chap. 1 (pp. 1-36) and the introduction to Chap. 2 (pp. 37-39), skim Chap. 5 (pp. 148-209), and read the introduction, second, and fourth sections of Chap. 6 (pp. 210-13, 231-53, and 258-67).

Anyone familiar with the history of Venezuela has reason to doubt the simplistic connection between oil money and authoritarian government. Oil revenue not only lubricated the transition from military dictatorship to democracy in 1958, but the longer-term structural effect of oil exports in the twentieth century also weakened the rural export-producing landlords, a class that in other countries often played a prominent role in promoting military intervention in politics. Thad Dunning has figured out why, when it comes to the effect of oil, Venezuela is not Saudi Arabia. This book presents the argument rigorously, persuasively, and with a model we can use to understand lots of other cases. We read him applying it to Bolivia and Botswana.

3/17 Resources and Civil Wars

Paul Collier and Anke Hoeffler, "Greed and Grievance in Civil War," *Oxford Economic Papers* 56 (2004).*

Paul Collier, Anke Hoeffler, and Dominic Rohner, "Beyond Greed and Grievance: Feasibility and Civil War," *Oxford Economic Papers* 61 (2009).*

Collier and Hoeffler angered a lot of people when this work was first presented at the World Bank in 2000 and circulated as a working paper. They argued that civil wars have very little to do with the grievances cited by the combatants and much more with the availability of resources to fund their campaigns. Compared to traditional views of rebellion, their argument has very different implications about where we should expect civil war to break out and how we might best try to stop or prevent it. Here is the original piece as a journal article, followed by their latest response to critics.

3/20 Implications for Policy

Fareed Zakaria, *The Future of Freedom*, Conclusion.
Dunning, *Crude Democracy*, conclusion (pp. 278-91).
Zakaria, "How to Escape the Oil Trap," *MSNBC.com/ Newsweek* (8/29- 9/5/05).*
Simon Romero, "Chávez Allows West to Make Oil Bids as Prices Plunge," *NY Times*, 1/15/09.*
Wikipedia entry on "blood diamonds" (don't miss the links to the History Channel documentary and to the movie starring Leonardo DiCaprio!) http://en.wikipedia.org/wiki/Conflict_diamond

Here we take several threads together and discuss their policy implications. It is interesting to juxtapose Zakaria's concern about liberalism with Dunning's analysis of democracy, or the world of oil with that of blood diamonds.

SPRING BREAK

III. International Money Power: Aid and Bond Markets

In previous classes we considered what the power of the purse might imply for international relations. Here we look at two ways in which that power is in fact exercised internationally.

4/7 Foreign Aid, Influence, and Institutional Reform

James Surowiecki, "A Farewell to Alms?" *New Yorker*, 25 July 2005.*
Lisa Anderson, "Peace and Democracy in the Middle East: The Constraints of Soft Budgets," *Journal of International Affairs* 49: 25-44 (Summer 1995).*
James Morton, *The Poverty of Nations: The Aid Dilemma in the Heart of Africa* (BAP, 1994), Introduction, excerpt from Chap. 1 (pp. 46-54), Chap. 5, and end of Conclusion (247-52).*
Millennium Challenge Corporation, "The MCC Effect":
<http://www.mca.gov/programs/mceffect/index.php>
As context: Foreign Affairs Budget Request 2008 (go to p. 8):
<http://www.fas.org/asmp/resources/110th/Function150.pdf>

Foreign aid is the most direct form of international fiscal power. But it is often used in ways that do not advance liberal norms or economic development. After Surowiecki's brief introduction, we read two influential—and prescient, in my view—accounts of how aid subverts liberalism. Anderson looks at Mideast policy, where aid often supports despots because they follow the donor's foreign policy. Morton takes us to Darfur (in effect predicting the disaster that came a decade later), arguing that aid substitutes for taxes and thus removes a key mechanism for government accountability. The other readings are about the Millennium Challenge Corporation, which was a direct response to the concerns raised by the other readings. It substitutes for Morton's missing domestic link by trying to impose an international one, through explicit governance conditions for aid. Its proponents claim to find an "MCC Effect," whereby governments clean up their act just in order to become eligible for consideration.

4/10 International Finance and National Sovereignty

Paul Blustein, *The Chastening*, revised ed. (Perseus, 2001, 2003), Chaps.1 - 2.*
Paul Blustein, *And the Money Kept Rolling In (and Out): Wall Street, the IMF, and the Bankrupting of Argentina* (Public Affairs, 2005), prologue and Chaps. 1 and 3.*

Here we pick up on Ferguson's Chapter 9 to discuss international financial power and how it affects national sovereignty. In the late 19th century, backed by European arms, multinational commissions representing aggrieved bondholders took over the fiscal affairs of the Ottoman Empire and (separately) Egypt. The 1920's saw a more benign pattern, as (for example) governments of Andean countries adopted or reformed central banks, comptrollers of the currency, and budgeting laws, all on the advice of Princeton economist Edwin Kemmerer and in pursuit of loans from his friends on Wall Street.

These readings ask about contemporary financial power over developing countries, involving the IMF and sophisticated bond markets. The IMF would have no power if countries (both in public and private sectors) never had trouble making their foreign payments, which nowadays usually means their foreign debt payments. By the same token, if there were no IMF, bond markets would still exert a form of power, but it might be different.

4/14 A Hole at the Center of Global Finance?

Skim Ferguson, *The Cash Nexus*, Chapter 10.

Brad Setser, *Sovereign Wealth and Sovereign Power*, Council on Foreign Relations, Special Report 37, September 2008: http://www.cfr.org/content/publications/attachments/Debt_and_Power_CSR37.pdf

David Levey and Stuart Brown, "The Overstretch Myth: Can the Indispensable Nation Be a Debtor Nation?" *Foreign Affairs* 84:2 (March- April 2005).*

Brad Setser, "Should the US Worry About the Drop in Foreign Demand for US Long-term Assets?" (1/21/09) and more recent posts at *Follow the Money* blog, Council on Foreign Relations:

<http://blogs.cfr.org/setser/2009/01/21/should-the-us-worry-about-the-drop-in-foreign-demand-for-us-long-term-assets/>

If holding lots of another government's debt gives you power over it, then China and Japan (as well as, increasingly, the big oil exporters) have power over the USA. But doesn't it matter that our debt is in our currency? And doesn't China need the USA just as much? However you answer these questions, it is nonetheless true that our situation is unprecedented: the world's hegemonic power and financial center has never also been its biggest debtor. For the recent collapse of financial markets, Ferguson's Chapter 10 is a nice background. In the main reading, Setser's recent CFR Special Report describes how financial deficits connect to strategic decline. The Levey and Brown response represents what is still the most common line of argument against Setser's concerns.

4/14- 4/17 Consultations on research topics

4/17 Freedom and the (Economic) Size of Government

Terry Miller, "Freedom Is Still the Winning Formula," *Wall Street Journal* 1/13/09.*

Heritage Foundation website <http://www.heritage.org/index/>

Paper on liberalism and the size of government (presented in class)

Many free-marketeers consider the economic size of government itself a measure of liberalism, apart from the security of property rights, the enjoyment of personal freedoms, or the respect for the rule of law in the political sphere. Indeed, in composing its Index of Economic Freedom, the Heritage Foundation uses two (of ten) sub-indices that track government size closely. But if liberty has often been institutionalized historically in exchange for taxes, then larger government might correspond empirically to greater liberalism. Which is it? The paper tries to answer.

IV. Research and Preparation

4/20: Two-page summary of paper topic, due at noon

Week of 4/20: no class, meetings on papers

4/28: Practice presentations recorded on video

5/1 (if needed): Practice presentations recorded on video

4/29- 5/4: meetings to discuss videos

V. Colloquium

5/5 Student presentations

5/8 Student presentations

5/12 Student presentations

5/15 Student presentations and conclusion

Term papers due at noon on Friday, May 22

[\[1\]](#) "The Crisis of the Tax State" [1918], *International Economic Papers* (NY: Macmillan, 1954), pp. 7, 15.