

Globalization in the Age of American Primacy

Why you should take this course

Politics and economics are inextricably intertwined. For the last three decades, the United States has been in a position of primacy, and it has used its power position to shape the political and economic structure of the international system, as well as the states that constitute it. American leadership of the international system facilitated a relatively peaceful global environment—at least insofar as there were no wars among great powers—as well as an historically unprecedented growth in trade and capital flows. This period of globalization lifted hundreds of millions out of poverty—nothing like it has ever been seen before.

Yet these advancements have not proceeded without complication—financial crises have beset developing and developed countries alike, and they have led to questions over the prudence of the current international system and its institutions. Moreover, the exercise of U.S. power has alienated a number of countries, and proven largely ineffective at solving political challenges that undermine the international order.

With the relative power positions in the global economy shifting more toward balance than imbalance, this era of American primacy appears to be coming to an end. This matters. The contest for management of the international system will define the conditions in which you build your lives and careers, and it will shape the opportunities available to you in subtle and not-so-subtle ways.

More concretely, the course provides a contextual edge for students pursuing careers in an array of industries, including: **investment banking**—particularly fixed income, currencies and commodities; **alternative investments** (e.g., global macro hedge funds, international / emerging market private equity); **impact investing**; **international development**—including development finance institutions and international organizations (e.g., World Bank, IMF, UN, etc.); **political risk analysis**; **government / Foreign Service**; **oil & gas / natural resources**; and more.

Teaching philosophy

This is a course on international political economy. By definition, that means this will be a cross-disciplinary course that incorporates history, applied international relations (e.g., foreign policy), international trade and finance, and culture (among other things). The course may also periodically challenge students with philosophical and ethical questions, particularly the fundamental question of political economy: *cui bono* (who benefits)?

Covering such a sweep of events, the course will be stylistic in approach rather than employing rigorous academic and theoretical models. There are no prerequisites for this course, though students would benefit from an understanding of the foundations / basics of global macroeconomics (international monetary and trade theory).

Readings

This course has a number of readings listed for each week, some required, the rest encouraged. Given the breadth of topics this course covers, there is no textbook; however, the instructor has assembled a number of readings for each week—some required (denoted by ***), the rest encouraged—and he expects students to come prepared to engage with the class. He is looking forward to your energy and dynamism.

Michael Pettis's The Great Rebalancing is recommended for purchase, since chapters from the book are assigned for multiple lectures.

Grading

30% - Class Participation.

30% - Two Reaction Papers (700 - 1000 words each) providing your critical appraisal of a book pertinent to the given week's discussion. The papers are due at the beginning of the lecture. The instructor has provided some book options for each week, but he is open to students' ideas and suggestions.

40% - Final Paper (not to exceed 2500 words). For this assignment, I would like you to answer the following prompt: **what do the international political and economic developments from the last 30 years portend for the next decade?** *You may choose to answer this question at one of three levels:*

- The international system (for example, what it might mean for international organizations such as the United Nations, World Bank, IMF, etc.);
- The state level (for example, what it means for the United States, or any other country); or,
- The individual level (for example, what will be the greatest investment opportunities, what will be the future of work, etc.).

I am happy to discuss ideas with you throughout the semester to help refine the scope of your paper. Please note that in the writing assignments, I am looking for your own thinking on the subject / book in question. Do not synthesize others' opinions—I don't care what they think. Be original. Be yourself.

About the instructor

Insert bio here

Outline of the Course

1. Departures / Introduction to the Course

Globalization and American Primacy in a New World Order

2. A New Dawn in Europe — The Reunification of Germany and the Extirpation of Communism in Central & Eastern Europe
3. Democratic Enlargement and the Foundations of a New Global Economy
4. From NAFTA to the Tequila Crisis

Globalization and American Primacy on the March

5. Hot Money — The Asian Financial Crisis, The Ruble Crisis and The Committee to Save the World
6. 9/11, Operation Iraqi Freedom and the International System
7. The Rise of China, Emerging Markets and Bretton Woods II
8. Cracks in the System — The Global Financial Crisis and Its Aftermath

Globalization and American Primacy in Reverse

9. European Disunion — Debt, Austerity and the End of Unity?
10. China, the Great Rebalancing and the End of the Commodity Supercycle — From Emerging to Submerging Markets
11. Entropy in the International System
12. *Cui bono?* Taking Stock of America's Return on Investment — Who Won, Who Lost and What It Means for the Future
13. Recap // Key Themes from the Course

1. Departures / Introduction to the Course

In 1946, George Frost Kennan, the cerebral Deputy Chief of Mission to the USSR, authored his infamous “Long Telegram,” which articulated the grand strategy of Containment—the dominant paradigm for American foreign policy during the Cold War. While the political and military implications of Kennan’s thinking are manifest, it is often forgotten that the impetus for his “Long Telegram” were questions from the U.S. Treasury regarding Soviet resistance to the creation of the Bretton Woods institutions of the World Bank and International Monetary Fund.

These institutions—and the structure of the international economy more broadly—have been central to the maintenance and projection of American power. Following the collapse of the Berlin Wall in 1989 and the Soviet Union in 1991, the United States assumed a position of primacy in global affairs, and it used its position to call for the expansion of democratic governance, free markets, free trade and free capital flows.

This lecture will discuss some of the intellectual arguments that were made in 1989 / 1990 regarding how America should exploit its position of primacy, and it will identify the political and economic orthodoxy that would come to define this era of globalization (e.g., neoliberalism).

Readings:

- *** Francis Fukuyama, “The End of History?,” *The National Interest*, Summer 1989.
- *** Charles Krauthammer, “The Unipolar Moment,” *Foreign Affairs*, 1990 / 1991.
- *** John Williamson, “What Washington Means by Policy Reform,” in Latin American Adjustment: How Much Has Happened?, April 1990.
- George Frost Kennan, The Long Telegram, 22 February 1946.
- Samuel Huntington, “The Clash of Civilizations?,” *Foreign Affairs*, Summer 1993.

2. A New Dawn in Europe — The Reunification of Germany and the Extirpation of Communism in Central & Eastern Europe

Europe was the central front of the Cold War competition between the free world and communism. It is hard to overstate how dramatic the fall of the Berlin Wall was not only in terms of the symbolism of humankind’s unconquerable spirit, but also in freeing people from the evils of repressive regimes and the diktats of command economies.

This lecture will discuss the reunification of Germany and the beginnings of the European Union —an historic attempt at political and economic unity. It will also explore the creation of the European Bank for Reconstruction and Development, and the transition of Central & Eastern European economies toward free markets—a process that energized a number of investors seeking access to larger markets, and participation in the privatization of state assets.

Readings:

- *** Tony Judt, A Grand Illusion? (NYU Press: 2011).
- *** EBRD, Political Aspects of the Mandate of the European Bank for Reconstruction and Development.
- *** Robert E. Anderson et. al., “Privatization and Restructuring in Central and Eastern Europe,” *Public Policy for the Private Sector*, July 1997.
- John P. Birkelund, “Doing Good While Doing Well: The Unheralded Success of American Enterprise Funds,” *Foreign Affairs*, September / October 2001.
- Stephen S. Cohen and Andrew Schwartz, “The Tunnel at the End of the Light: Privatization in Eastern Europe,” June 1992.

Reaction Paper Options: Anders Åslund, How Capitalism Was Built: The Transformation of Central and Eastern Europe, Russia, and Central Asia // Olivier Blanchard, Reform in Eastern Europe // Tony Judt, A Grand Illusion? // Marie Elise Sarotte, The Collapse: The Accidental Opening of the Berlin Wall

Viewing: Scorpions - Winds of Change // Bon Jovi - Wanted Dead or Alive (Moscow 1989)

3. Democratic Enlargement and the Foundations of a New Global Economy

George H.W. Bush successfully stewarded the United States and the international system through the collapse of the USSR, as well as a number of flashpoints—including the Gulf War and Operation Restore Hope in Somalia—that tested the New World Order and its organizations for security cooperation (e.g., the United Nations). In both of these cases, Bush was conservative—using U.S. power for limited objectives—and employed a global approach to security cooperation.

Bill Clinton serenaded U.S. voters with his saxophone skills and ran a winning campaign in 1992 (“It’s the economy, stupid”), ushering in a new approach to foreign policy, which would begin an unprecedented process of globalization. Two concepts would drive American engagement with the world: democracy and free markets.

The case study of U.S. involvement in Somalia (Operation Continue Hope) illuminates important deviations in foreign policy from the H.W. Bush administration; and the consequences of Clinton’s activism in Mogadishu would lead to hesitation over deploying U.S. military forces to intervene in the Rwandan genocide. The failure to respond would lead to the creation of the Responsibility to Protect (R2P), which would animate liberal internationalists in the United States, and would come to the fore during the Obama Administration.

Readings:

- *** Anthony Lake, “From Containment to Enlargement” - speech at Johns Hopkins SAIS, 21 September 1993.
- *** Stephen Ambrose, Rise to Globalism (Penguin: 1997), ch. 18 (pgs. 398-428).
- *** Calvo, Guillermo, Leonardo Leiderman, and Carmen M. Reinhart, “Inflows of Capital to Developing Countries in the 1990s,” *Journal of Economic Perspectives*, Vol. 10, No. 2, Spring 1996.
- Alfaro, Laura, Sebnem Kalemli-Ozcan and Vadym Volosovych, “Capital Flows in a Globalized World: The Role of Politics and Institutions,” August 2005, pgs. 1-19.

***** For the case study on Operation Restore Hope, please watch the PBS Frontline Episode “Ambush in Mogadishu” *****

Reaction Paper Options: Mark Bowden, Black Hawk Down // Philip Gourevitch, We Wish to Inform You that Tomorrow We Will Be Killed with Our Families // David Halberstam, War in a Time of Peace // Aidan Hartley, The Zanzibar Chest // William Hyland, Clinton’s World // Paul Kennedy, The Rise and Fall of the Great Powers // Joseph Nye, Bound to Lead // Samantha Power, “A Problem from Hell”: America and the Age of Genocide

Viewing: Nuthin’ but a G Thang - Dr. Dre // Kris Kross - Jump // Outkast - ATLiens

4. From NAFTA to the Tequila Crisis

Market economies were a cornerstone of the Clinton administration's strategy for U.S. engagement with the world. This implied free movement of goods and capital, and the administration championed this with the North American Free Trade Agreement (NAFTA).

Following the trade agreement, Mexico's economy saw growth in its industries (e.g., the rise of *maquiladoras*), and also became a darling of the investor community. However, the flood of capital inflows set the stage for a financial crisis and deep recession in Mexico, one that prompted the U.S. government to extend a bailout package to the Mexican government (and Wall Street). Mexico's experience would come to be a prelude for future emerging market crises—but would anybody care to learn the lessons?

Readings:

- *** Sebastian Edwards, "The Mexican Peso Crisis: How Much Did We Know? When Did We Know It?," NBER Working Paper Series, December 1997 (ignore Appendix).
- *** Francisco Gil-Diaz, "The Origins of Mexico's 1994 Financial Crisis," *The Cato Journal*, Vol. 17, No. 3, Winter 1998.
- *** Peter Kenan ed., *From Halifax to Lyons: What Has Been Done About Crisis Management?*, Princeton Essays in International Finance, October 1996 (pages TBD).
- Jeffrey Sachs, Aaron Tornell and Andres Velsaco, "The Collapse of the Mexican Peso: What Have We Learned?," NBER Working Paper 5142, June 1995.
- Christopher Neely, "The Giant Sucking Sound: Did NAFTA Devour the Mexican Peso?," Review of the Federal Reserve Bank of St. Louis, July / August 1996.

Reaction Paper Options: Ted Conover, *Coyotes* // Altha Cravey, *Women and Work in Mexico's Maquiladora's* // Ian Fletcher, *Free Trade Doesn't Work: What Should Replace It and Why?* // Douglas Irwin, *Against the Tide: An Intellectual History of Free Trade* // John MacArthur, *The Selling of "Free Trade"* // Octavio Paz, *The Labyrinth of Solitude* // Robert Reich, *The Work of Nations*

Viewing: Coolio - Gangsta's Paradise // Ace of Base - The Sign

5. Hot Money — The Asian Financial Crisis, Systemic Risk and The Committee to Save the World

Are unconstrained free capital flows an unalloyed good?

In the mid- to late-1990s, the IT revolution facilitated an unprecedented integration of the global economy, with implications for trade and finance at the macro (e.g., new markets and capital flows) and micro levels (e.g., outsourcing and supply chain management).

More broadly this period was one of financialization. The U.S. stock market went on a tear (which would culminate in the Dotcom bubble), and investors' thirst for yield prompted them to

deploy capital on a global scale, including to developing countries in Asia and Latin America, as well as to Russia and Turkey. Yet these “hot money” flows contributed to an unparalleled degree of financial instability, with embedded linkages that could transform local crises into globally systemic ones.

In response to these crises, the IMF stabilization playbook often called for policies that were contractionary / austere in nature (e.g., currency devaluations, interest rate hikes, fiscal balance / surplus), with the aim of increasing global investor confidence. Locally, these policies created enormous hardships, and ultimately questions regarding the ethics and effectiveness of IMF policies.

In the course of these events, a hedge fund run by two Nobel Prize laureates in economics and one of Wall Street’s most renowned bond traders almost blew up the global financial system. The Committee to Save the World — Alan Greenspan (Federal Reserve Chair), Robert Rubin (Secretary of the Treasury) and Lawrence Summers (Deputy Secretary of the Treasury) were summoned to fulfill the duties of their title (and save Wall Street - again).

Case Study — Long-Term Capital Management:(Random House: 2001). //

Readings:

- *** Jagdish Bhagwati, “The Capital Myth,” *Foreign Affairs*, May / June 1998.
- *** Barry Eichengreen, “Understanding Asia’s Financial Crisis,” 2 November 1998.
- *** Nouriel Roubini and Brad Setser, Bailouts or Bail-ins? Responding to Financial Crises in Emerging Economies (Peterson Institute for International Economics: 2004), chapter 2: “New Nature of Emerging-Market Crises.”
- *** Report of the President’s Working Group on Financial Markets, “Hedge Funds, Leverage and the Lessons of Long-Term Capital Management,” April 1999, pgs. 10-26.
- Giancarlo Corsetti, Paolo Pesenti, and Nouriel Roubini, “What Caused the Asian Currency and Financial Crisis?,” NBER Working Paper 6833, September 1998.
- Paul Krugman, “The Myth of Asia’s Miracle,” *Foreign Affairs*, November / December 1994.
- Samuel Huntington, “The Lonely Superpower,” *Foreign Affairs*, March / April 1999.

Reaction Paper Options: Paul Blustein, And the Money Kept Rolling In (And Out): Wall Street, the IMF, and the Bankrupting of Argentina // Paul Blustein, The Chastening: Inside the Crisis that Rocked the Global Financial System and Humbled the IMF // Barry Eichengreen, Globalizing Capital // Roger Lowenstein, When Genius Failed // Michael Pettis, The Volatility Machine

Viewing: Daft Punk - Around the World // Rage Against The Machine - Bulls on Parade // The Notorious B.I.G. - Hypnotize

6. 9/11, Operation Iraqi Freedom and the International System

The U.S. relationship with the world changed dramatically following the September 11th attacks. In the immediate aftermath, the global community unified behind the United States in the necessity of extirpating terrorism. However, the 9/11 attacks also led some to ask “Why do they

hate us?” Could it be that the “universal values” of free markets and democracy weren’t necessarily universal?

To the neoconservatives in the George W. Bush administration, these questions were immaterial. Preventing future attacks became the singular focus of the administration, even if it meant launching preemptive / preventive wars. And the problem wasn’t that democracy was spreading too fast, it was that democracy wasn’t spreading fast enough.

Saddam Hussein’s regime in Baghdad was identified as threat number one—a regime, according to intelligence sources (of dubious credibility, we now know), that had contact with Al Qaeda, as well as WMD programs and capabilities that it had hidden from UN inspectors. While the administration worked through the UN to get approval for its preemptive war, it received stiff resistance from its traditional allies and cobbled together a “coalition of the willing.” The rules of the international system did not quite apply to the system’s enforcer.

Following a rapid invasion and toppling of Baghdad, Iraq became a petri dish where a grand experiment played out: could democracy take root in the heart of the Middle East? Could the U.S. military / government change foreign societies? How would the Freedom Agenda expand upon the ideas laid out in Clinton’s policies of Democratic Enlargement and the use of force in Somalia?

Readings:

- *** National Security Strategy of the United States of America, September 2002.
- *** W. Michael Reisman, “Aftershocks: Reflections on the Implications of September 11,” *Yale Human Rights & Development Journal*, Vol 6 2003.
- *** John Lewis Gaddis, Surprise, Security, and the American Experience (Harvard University Press: 2005), (pages TBD).
- *** Walter Russell Mead, Power, Terror, Peace, and War: America’s Grand Strategy in a World at Risk (Vintage: 2005), pgs. 21-40, 109-125, 191-213.
- *** G. John Ikenberry and Anne-Marie Slaughter, co-Directors, “Forging a World of Liberty Under Law,” Final Paper of the Princeton Project on National Security, 27 September 2006, pgs. 6-13.
- Robert D. Kaplan, “The Lawless Frontier,” *The Atlantic*, September 2000.
- Thomas P.M. Barnett, “The Pentagon’s New Map,” *Esquire*, 29 January 2007.
- Charles Krauthammer, “The Unipolar Moment Revisited,” *The National Interest*, Winter 2002 / 2003.
- James Fallows, “The Fifty-First State?,” *The Atlantic Monthly*, November 2002.
- James Fallows, “Blind into Baghdad,” *The Atlantic Monthly*, January / February 2004.
- George Packer, “The Liberal Quandary over Iraq” *The New York Times*, 8 December 2002.
- George Packer, “Dreaming of Democracy,” *The New York Times*, 2 March 2003.
- Rory Stewart, “The Irresistible Illusion,” *London Review of Books*, 9 July 2009.

Reaction Paper Options: Andrew Bacevich, The New American Militarism // Dexter Filkins, The Forever War // John Lewis Gaddis, Surprise, Security, and the American Experience // Michael Gordon, Cobra II // James Mann, The Rise of the Vulcans // Jane Mayer, The Dark Side // Walter Russell Mead, Power, Terror, Peace, and War: America’s Grand Strategy in a World at Risk // George Packer, The Assassins’ Gate // Natan Sharansky, The Case for

Democracy // Ron Suskind, The One Percent Doctrine // Lawrence Wright, The Looming Tower

Viewing: Drowning Pool - Let the Bodies Hit the Floor // Toby Keith - Courtesy of the Red, White and Blue (The Angry American)

7. The Rise of China, Emerging Markets and Bretton Woods II

With a tiny fraction of the U.S. population risking their lives in the wars in Iraq and Afghanistan, freedom was on the march at home. After 9/11, George Bush implored Americans to go shopping—and shop they did. The stock market and housing prices were steadily rising toward new highs, and the broad expansion of consumer credit enabled people to live beyond their means. When Vice President Dick Cheney said, “Reagan proved deficits don’t matter,” it seems most Americans applied that rule to their personal finances. Why were the U.S. government and households able to enjoy a steady expansion in credit?

The answers lie, in part, with emerging market countries’ responses to previous financial crises. When American households—those stalwart consumers of last resort—went shopping, they frequently bought goods imported from emerging market countries. When these countries earned foreign exchange, they had to do something with it, and so the dollars got reinvested in U.S. securities, effectively depressing yields on government bonds and subsidizing U.S. consumption.

On the other side of the world, as China’s economy transitioned into the world’s workshop, processes of urbanization and capital investment were supercharging growth, fueling a voracious appetite for raw materials and natural resources, which other emerging markets were pleased to satisfy. South-South trade and the prices for raw materials increased, leading to the emergence of sovereign wealth funds, and a new bout of global capital flows as investors sought to capture returns from global growth.

As this happened, rising powers began to construct their own international organizations (e.g., Shanghai Cooperation Organization) to counterbalance the United States, and U.S. policymakers pursued protectionist policies when sovereign wealth funds sought to invest in this country. Apparently free trade and free capital flows merited some consideration after all.

Readings:

- *** Michael Dooley, David Folkerts-Landau and Peter Garber, “An Essay on the Revived Bretton Woods System,” NBER Working Paper 9971, September 2003.
- *** Raghuram Rajan, “Has Financial Development Made the World Riskier?,” NBER Working Paper 11728, November 2005.
- *** McKinsey Global Institute, *The New Power Brokers: How Oil, Asia, Hedge Funds and Private Equity Are Shaping Global Capital Markets*, October 2007, pgs. 9-17.
- Martin Wolf, “The brave new world of state capitalism,” *Financial Times*, 16 October 2007.
- Lawrence Summers, “Funds that shake capitalist logic,” *Financial Times*, 29 July 2007.
- Emily Thornton, “Who’s afraid of Mideast money?” *Businessweek*, 9 January 2008.

Reaction Paper Options: James Kyngge, China Shakes the World // Barry Naughton, The Chinese Economy: Transitions and Growth // Clyde Prestowitz, Three Billion New Capitalists / Henry Sanderson, China's Superbank // Martin Wolf, Why Globalization Works

Viewing: Kanye West - Gold Digger

8. Cracks in the System — The Global Financial Crisis and Its Aftermath

The global savings glut contributed to a world awash in liquidity, with investors prompted once again on a search for yield. But when too much capital chases too few investable products, capital gets destroyed.

The subprime mortgage market was ground zero for a financial crisis that nearly blew up the global financial system. The entire financial system had a heart attack. Before the dust settled, commercial paper markets would lock up and money market funds would “break the buck.” Poor institutional risk management, complex financial products with inherent misalignments of interest, leverage, poor regulation, mark-to-market accounting and macroeconomic policymaking (among other factors) all shared the blame. Once again, the U.S. government would need to bail out Wall Street.

This shock to the system plunged the U.S. economy into a “Great Recession,” and unlike the responses to crises that beset emerging markets, U.S. policymakers embarked upon an unprecedented series of experiments in loose monetary policy, as well as fiscal expansion. The United States would not practice what the IMF had preached in emerging market crises. Why, some began to ask, should others?

Moreover, the contrast of America’s economic performance with that of China’s command economy began to raise questions over the prudence of free market orthodoxy, and the role of governments in directing economic growth and development. The Washington Consensus came under fire once again, and with U.S. consumption demand in decline, the world looked to a new engine / savior for the global economy: China.

Readings:

- *** Michael Pettis, The Great Rebalancing (Princeton University Press: 2013), pgs. 1-25.
- *** Timothy Geithner, “Actions by the New York Fed in Response to Liquidity Pressures in Financial Markets,” testimony before the U.S. Senate Committee on Banking, Housing and Urban Affairs, 3 April 2008.
- *** Ben Bernanke, “U.S. Financial Markets,” testimony before the U.S. Senate Committee on Banking Housing and Urban Affairs, 23 September 2008.
- *** U.S. Treasury Department, “Statement by the President’s Working Group on Financial Markets,” 6 October 2008.
- *** Ben Bernanke, “Current Economic and Financial Conditions,” remarks at the National Association for Business Economics, 7 October 2008.

- *** Ben Bernanke, "[Stabilizing the Financial Markets and the Economy](#)," remarks at the Economic Club of New York, 15 October 2008.
- *** Zhou Xiaochuan, Statement on Reforming the International Monetary System, 23 March 2009. Available at: <http://www.cfr.org/china/zhou-xiaochuans-statement-reforming-international-monetary-system/p18916>.
- Paul Volcker, remarks at a luncheon of the Economic Club of New York, 8 April 2008. Available at: <http://blogs.denverpost.com/lewis/files/2008/04/volckernyeconclubspeech04-08-2008.pdf>.
- Gideon Rachman, "Illiberal capitalism: Russia and China chart their own course," *Financial Times*, 8 January 2008.

Reaction Paper Options: Ben Bernanke, [The Courage to Act](#) // Tim Geithner, [Stress Test](#) // Neil Irwin, [The Alchemists](#) // Michael Lewis, [The Big Short](#) // [Diary of a Very Bad Year: Confessions of an Anonymous Hedge Fund Manager](#) // Andrew Ross Sorkin, [Too Big to Fail](#) // Martin Wolf, [The Shifts and the Shocks](#)

Viewing / Listening: Rihanna - Please Don't Stop the Music // Jay-Z - Blue Magic

9. European Disunion — Debt, Austerity and the End of Unity?

The second stage, if you will, of the Global Financial Crisis was the European debt crisis. The easy lending policies we saw with the subprime mortgage market in the United States were manifest across Europe as well, with a number of real estate bubbles and high-risk loans. The peripheral states of Portugal, Ireland, Italy, Greece, Spain and Cyprus faced varying degrees of sovereign debt crises, and the structure of the European Union's banking system threatened implosion (and may well still today).

The Euro masked competitiveness and productivity dynamics across countries—perhaps best illustrated by the compression in bond yields in the years leading up to the crisis—and it served as a straitjacket as policymakers sought to prevent the crisis from going systemic. Countries in the periphery were subjected to ethically questionable austerity measures, while countries at the center (Germany in particular) got high-and-mighty with the necessity of living within one's means. (They didn't seem to mind when the peripheral countries were buying their products).

The austere and at times anti-democratic policies began to call the European project into question. And as the years of slow growth proceeded, angrier voices would garner support in elections; a revisionist regime in Russia would test European unity with a war on its borders; and a migrant crisis would challenge it from within. Was economic integration via currency union a prudent decision? A Europe at peace with its neighbors has been taken granted for decades—will the EU exist in 10 years?

Readings:

- *** Michael Pettis, [The Great Rebalancing](#) (Princeton University Press: 2013), pgs. 119-135.
- *** Antony Beevor, "[Europe's long shadow](#)," *Prospect*, 28 November 2012.

- *** Erik Jones, “Globalization and Interdependence,” in Erik Jones et. al. Developments in European Politics 2 (Palgrave: 2011).
- *** Erik Jones, “Europe’s Threatened Solidarity,” *Current History*, March 2012.
- John Authers, Europe’s Financial Crisis, (FT Press: 2013).
- George Soros, “The Tragedy of the European Union and How to Solve It,” *The New York Review of Books*, 27 September 2012.
- Perry Anderson, “The Italian Disaster,” *London Review of Books*, 22 May 2014.
- Mike Casey, “European Bank Deleveraging: Opportunities and Challenges for EM PE Investors,” 19 October 2012.

* Both of Erik Jones’s pieces may be downloaded at: http://www.jhubc.it/facultypages/ejones/sovereign_debt_crisis.pdf.

Reaction Paper Options: William Cline, Managing the Euro Area Debt Crisis // John Kay, Other People’s Money // Jean Pisani-Ferry, The Euro Crisis and Its Aftermath // Martin Sandbu, Europe’s Orphan // Adair Turner, Between Debt and the Devil

Viewing: Gotye - Somebody that I Used to Know

10. China, the Great Rebalancing and the End of the Commodity Supercycle — From Emerging to Submerging Markets?

In the wake of the Global Financial Crisis, China embarked upon massive stimulus programs, which were predominantly focused on fixed capital investment. In effect, the country was doubling down on the “China growth model.” But this model lay at the heart of the financial imbalances that caused the Global Financial Crisis in the first place. As the country sought to rebalance its economy away from export-led growth toward domestic consumption, invariably the banking system would be found out to contain a slew of non-performing loans, creating challenges for Chinese policymakers. And the anti-corruption drive of the new Premier, Xi Jinping, would inject new uncertainties.

Other emerging markets, which had benefitted from the tailwinds of China’s export-led growth model, would face new stresses—particularly those that were exporters of natural resources. These stresses would be compounded when the U.S. Federal Reserve began extricating itself from extraordinary monetary policy measures and normalizing interest rates. The U.S. dollar would strengthen, leading to substantial depreciations in local currencies—and unlike in previous eras in which global aggregate demand was strong, weaker currencies would not translate into gains in exports.

Have the emerging markets become the submerging markets? If so, what does this mean for global trade, free capital flows and the “inexorable march” of democracy? Is there a path to growth for the global economy that does not rely on the continuous expansion of debt?

Readings:

- *** Michael Pettis, The Great Rebalancing (Princeton University Press: 2013), pgs. 69-99.

- *** Michael Dooley, David Folkerts-Landau and Peter Garber, “The Revived Bretton Woods System’s First Decade,” Deutsche Bank Research Special Report, 26 August 2014.
- *** Hyung Son Shin, “The Second Phase of Global Liquidity and Its Impact on Emerging Economies,” 7 November 2013.
- *** Martin Wolf, “We are trapped in a cycle of credit booms,” *Financial Times*, 7 October 2014.
- Caixin, Transcript: Zhou Xiaochuan Interview, 15 February 2016. Available at: <http://english.caixin.com/2016-02-15/100909181.html>.
- Ruchir Sharma, “Broken BRICs,” *Foreign Affairs*, November / December 2012.
- Ruchir Sharma, “The Ever-Emerging Markets,” *Foreign Affairs*, January / February 2014.
- Jaime Caruna, “Credit, commodities and currencies,” lecture at LSE, 4 February 2016.
- Papers from the 13th Bank for International Settlements Annual Conference, *Debt*, 27 June 2014. Available at: <https://www.bis.org/publ/bppdf/bispap80.htm>.
- McKinsey Global Institute, *Debt and (Not Much) Deleveraging*, February 2015, Executive Summary.

Reaction Paper Options: Abhijit Banerjee and Esther Duflo, Poor Economics // Mark Levinson, The Box: How the Shipping Container Made the World Smaller and the World Economy Bigger // Dayo Olopade, The Bright Continent: Breaking Rules and Making Change in Modern Africa // Michael Pettis, Avoiding the Fall: China’s Economic Restructuring // Ruchir Sharma, Breakout Nations // Carl Walter and Fraser Howie, Red Capitalism

Viewing: Psy - Gangnam Style // Daft Punk - Get Lucky

11. Entropy in the International System

In his classic book on international relations theory, Man, the State, and War, Kenneth Waltz described the “three images”—or three levels of analysis—for analyzing world affairs: man / human nature, the structure of a state, and the international system. In this lecture, we will focus on dynamics in the latter two levels—how states’ ability to retain sovereignty, a monopoly on violence, and policy independence have been deteriorating, and how the international system and its institutions have been in decline. In doing so, we will endeavor to keep the consequences for the individual at the front of our minds.

We will return to the U.S. exercise of power and its adherence (or lack thereof) to the mandates of the international system that it proclaims to steward as we explore the Obama administration’s policies toward Libya and Syria, and how it approaches the issue of state sovereignty. Has the United States been a supporter of order or chaos? Are its values truly universal?

- *** Henry Kissinger, World Order (Penguin: 2014), Introduction and pgs. 310-374.
- *** John Gray, “Berlin Wall anniversary: 25 years of liberal delusion,” *Prospect*, 18 September 2014.
- *** Vladimir Putin, “A Plea for Caution from Russia,” *The New York Times*, 11 September 2013.
- *** John McCain, remarks on Syria at the Munich Security Conference, 14 February 2016.

- *** David Bromwich, "The World's Most Important Spectator," *London Review of Books*, 3 July 2014.
- *** Erika Solomon, "Nusra fighters oust moderate rebels from Syria stronghold: military bases and weapons caches surrendered to al-Qaeda affiliate," *Financial Times*, 3 November 2014.
- *** Anne Barnard and Somini Sengupta, "U.S. Signals Shift on How to End Syrian Civil War," *The New York Times*, 19 January 2015.
- Michael Pettis, *The Great Rebalancing* (Princeton University Press: 2013), pgs. 178-195.
- Patrick Cockburn, "Is it the end of Sykes-Picot?," *London Review of Books*, 6 June 2013.
- Owen Bennett-Jones, "How should we think about the Caliphate?," *London Review of Books*, 17 July 2014.
- Jackson Lears, "We came, we saw, he died," *London Review of Books*, 5 February 2015.

Reaction Paper Options: Adda Bozeman, *The Future of Law in a Multicultural World or Politics and Culture in International History* // William Easterly, *The Tyranny of Experts* // Robert Gilpin, *War & Change in World Politics* // Henry Kissinger, *World Order* // Randall Schweller, *Maxwell's Demon and the Golden Apple: Global Discord in the New Millennium*

Viewing: One Republic - Counting Stars // Skrillex and Diplo - Where Are Ü Now

12. *Cui Bono?* Taking Stock of the Return on America's Investment — Who Won, Who Lost and Why It Matters for the Future

An explicit objective of the Federal Reserve's extraordinary monetary policies (i.e., quantitative easing) was to inflate asset prices and create a wealth effect. Though it took a few years, asset prices in the United States skyrocketed; however, the unequal ownership of assets *ex ante* created a sizable degree of wealth inequality. With Wall Street humming again, where was Main Street's bailout?

More broadly, after 25 years of pushing for free markets and democracy around the world, why was the U.S. economy facing "secular stagnation?" Who were the winners and losers from this great age of globalization? Is America in 2016 a just society? Do individuals have dignity? Is the American dream alive?

As the 2016 Presidential primaries swung into gear, elites were blindsided by the rise of demagogues and anti-establishment candidates. Why were the elites so far out of alignment with the population writ large? What do current politics portend for America's future, and its role as the evangelist-in-chief for globalization?

Readings:

- *** Robert Putnam, "The American Dream: Myths and Realities" in *Our Kids: The American Dream in Crisis* (Simon & Schuster: 2015), pgs. 1-44.
- *** George Packer, "Wall Street" in *The Unwinding: An Inner History of the New America* (Farrar, Straus and Giroux: 2013), pgs. 351-378.

- *** Jesse Bricker et. al., “Changes in U.S. Family Finances from 2010 to 2013: Evidence from the Survey of Consumer Finances,” *Federal Reserve Bulletin*, September 2014.
- Lawrence Summers, “The Age of Secular Stagnation,” *Foreign Affairs*, March / April 2016.
- Laura Choi, “Household Net Worth & Asset Ownership among the Economically Vulnerable,” Federal Reserve Bank of San Francisco Community Development Research Brief, April 2013.
- Marianne Bertrand and Sendhil Mullainathan, “Are Emily and Greg More Employable Than Lakisha and Jamal? A Field Experiment on Labor Market Discrimination,” NBER Working Paper 9873, July 2003.
- Peter Eavis, “Study Strongly Links Mortgage Denials to Race,” *The New York Times*, 16 November 2015.
- Andrew Haldane, “Why institutions matter (more than ever),” speech at the School of Oriental and African Studies, London, 4 September 2013.
- Neel Kashkari, “Lessons from the Crisis: Ending Too Big to Fail,” speech at the Brookings Institution, 16 February 2016.

Reaction Paper Options: Ta-Nehisi Coates, Between the World and Me // Martin Ford, Rise of the Robots: Technology and the Threat of a Jobless Future // Robert Gordon, The Rise and Fall of American Growth // Tony Judt, Ill Fares the Land // Atif Mian and Amir Sufi, House of Debt // George Packer, The Unwinding // Robert Putnam, Our Kids // Michael Sandel, What Money Can't Buy // David Shipler, The Working Poor

Viewing: Everything is AWESOME!!! // Pharrell Williams - Happy // Iggy Azalea - Fancy // Taylor Swift - Bad Blood

13. Recap // Key Themes from the Course

This course covered a lot of territory. This lecture will synthesize key themes from the course, with a view toward illustrating how an awareness of global macro developments—and where one is in global liquidity and risk-taking cycles—can create opportunities in your professional life.

That said, this course also neglected a lot of territory. This is a chance to explore other topics or raise questions that haven't come up before now. Examples include:

- Sub-Saharan Africa: from charity case to investment case
- India: why did it stutter while China soared?
- Afghanistan: why has the United States been fighting a war there for 15 years, and why is it sending the Marines to retake Helmand province for the nth time?
- How do I get a job in emerging markets private equity?