Statement of Impact

Globalization means many things to different people, but one view holds that it includes at least a change in the role of nation-states—both with respect to each other and with respect to citizens within the state as well as the various local and regional governments that help to serve these citizens. Given that the nation-state is a principal interest of the Department of Politics and Public Administration, potential changes in the role of the nation-state are of vital concern to the department. This proposed new course is designed to address the economic underpinnings of globalization and their ramifications for nation-states in the 21st century. While intended for juniors and seniors, the course is directed particularly at social science majors. It might also be taken by students in the MPA program as an elective. If MPA students are to get credit for it, the course would need to be set at the 4000 level.

Prerequisites include: American government and macro-economics. At least one course in international relations or comparative government is also recommended.

Because this is proposed as a new course that has not yet satisfied university committee criteria, it might be offered initially as a Special Topics course in political science.
APPLICATION FOR COURSE REVISION GRANT

Narrative Description

Introduction

My proposal is to develop a new course in the Political Science curriculum that will identify basic tenets of the nation-state, especially as it has evolved in the post-Enlightenment, developed world. Democratic principles will then be re-examined in light of recent changes in the global economy.

Basic Tenets of Democracy

It is well understood that the institutional forms and processes of democratic states vary across countries. They vary in the degree to which citizen involvement is direct or mediated through representatives, in the use of parliamentary systems or separation of powers structures, and in the encoding of principles in formal constitutions or through less formalized traditions. Despite these variations, democratic governments share a commitment to the importance of self-government, that is, the ability and rightness of a people to govern themselves.

Just as democratic structures have varied, over time democratic majorities have agreed upon different roles for government in general and the nation-state in particular. More conservative regimes have preferred to concentrate the state’s role on matters of public safety and national security, while more progressive regimes have been willing to encourage a more activist state. Since the 1930’s, both groups have accepted some safety net functions for the state, including provisions for unemployment, welfare assistance, some public health and education activity, and at least limited involvement in the management of the economy.

Global Economy

The post-World War II Bretton Woods agreement created many of the economic institutions that have dominated financial transactions in the latter part of the 20th century. These include institutions like the World Bank (IBRD) and International Monetary Fund. It also established a regime for international financial exchange where an ounce of gold was valued at $32 U.S., while other national currencies were linked to the value of the U.S. dollar. Inflationary domestic policies of the United States during the 1960s forced the Nixon Administration to sever this linkage and allow the value of the U.S. dollar to float against other currencies.

It was this decoupling of the U.S. dollar from gold that paved the way for one component of the global economy as we know it today—the international currency market. When the U.S. dollar was allowed to float currencies were not widely traded. Rather, some of the larger banks held small reserves of foreign
currencies as a service to their clients. When the U.S. dollar was decoupled from its gold anchor two patterns emerged. First, market forces created a new currency exchange where national currency values were no longer set solely by sovereign states, but were increasingly influenced in powerful and sometimes undesirable ways by actors in the market. The smaller and less diverse the national economy, the more likely it was that currency traders would be able to determine the value of a country’s currency.

Second, as currency values were increasingly influenced by market forces, they also became less predictable and therefore unstable. This currency uncertainty, in turn, created the demand for a risk management strategy and the derivatives market emerged to satisfy this demand.

**Implications for Democracy**

Currency trading suggests that for all but the very largest economies, the market has come to play an increasingly important role in formulating domestic social policies. Before currencies were broadly traded, the national government set the currency value for the country. Treasury departments might raise or lower the value of their currency to encourage (or discourage) trade and investment, but in most instances the effect on one’s domestic economy would be marginal. As market forces gradually acquired an increasingly important role in currency values and exchange, the traders themselves found they could affect currency values through their trading practices. Financiers like George Soros who held large reserves of a national currency could force the devaluation of that currency if they believed it was overvalued. They did so by selling large quantities of the currency on the market—increasing market supply could reduce unit costs. National governments that wanted to preserve the value of their currency found that they had to heed the concerns or warnings of such financiers if they were to continue to influence currency values.

This raises the question “When would a financier consider a currency overvalued?” The answer is complex, but might be expressed simply as “When the country’s domestic policies do not support the value.” Investors, be they investors in a product or in a currency, want to see a return or profit on their capital. National investment in public infrastructure, be it highways or communication structures, or whatever, will be more likely to yield a profit than public investment in welfare or other forms of “less productive” social support.

It is this linkage between the currency market and domestic social policy that makes the global economy such a potential threat to democracy.

Scholars have responded in different ways to this argument. Some, like John Dryzek, have suggested that we conceptualize democracy in new ways, sometimes associating it with the state and sometimes separate from the state. Specifically, Dryzek proposes three forms of democracy for the 21st century: with
the state (the traditional pattern), apart from the state (the civil society model), and against the state (as with citizen protests against the economic measures a state may now be forced to take). Others have argued that democratic initiatives need to take place at different levels: the local or regional, the nation-state, and at the international or trans-national level. Students taking this course would be exposed to several of these arguments.

The primary pedagogical motivation for this course is to deepen student understanding of the globalization process and the potential implications of globalization for democracy, especially in those instances where citizen preferences might be antithetical to economic or financial interests. MPA students taking the course as an elective would be encouraged to consider the implications for administering government agencies in 21st century.

Qualifications of Applicant

The intersection of economic and social interests has been the focus of my graduate study since I pursued the Master’s in Liberal Studies (not a surrogate for Education in Virginia) in the 1980’s. My master’s program was an interdisciplinary one where I concentrated on political economy and wrote my thesis on the Third World debt crisis. I continued to integrate economic and social concerns in my doctoral program and wrote my dissertation on the Orange County bankruptcy, where I reinterpreted the events leading up to the bankruptcy in light of the aforementioned currency changes in the 1970s. In other words, I re-examined the bankruptcy in light of the emerging global economy before scholars had applied the term to these events.
PRELIMINARY BIBLIOGRAPHY


Gilpin, Robert, & Gilpin, Jean M. *The Challenge of Global Capitalism.*


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