

GV103: Introduction to International Relations

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Domestic Politics and Cooperation



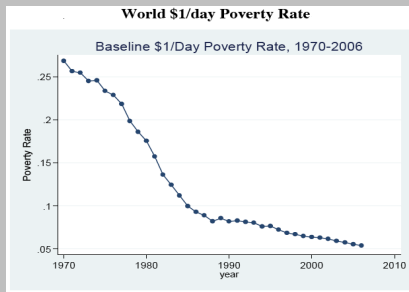
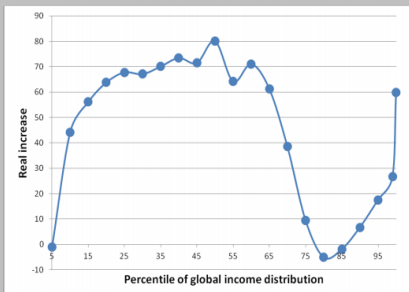
Introduction

- Three goals for this lecture
 - Discuss **who wins and who loses** from economic cooperation
 - Derive implications for **policy**
 - Evaluate implications for **trade**

Winners, Losers, and Trade

- Trade tends to **benefit**
 - **Consumers** by ↓ prices and ↑ quality of goods/services
 - Those affiliated w/ production/provision of a good/service for which their state has a **comparative advantage**
- Trade tends to **harm**
 - Those **not** affiliated w/ production/provision of a good/service for which their state has a **comparative advantage**

Winners, Losers, and Trade



Winners, Losers, and Inflation

- Inflation acts as **transfer** from net **creditors** to net **debtors**
 - Suppose you earn £60,000 a year, borrow £200,000
 - Over next year, inflation \uparrow to 5%, from 0
 - Your salary rises to £63,000, keeping pace w/ inflation
 - But the bank can't increase your loan by 5%
 - A small part of your **debt** has effectively been **eroded**

Winners, Losers, and Common Currency

- Common currency transfers control of monetary policy
 - Bad news for wealthy if new authority allows inflation
 - Good news for indebted if new authority allows inflation
- Also affects purchasing power, borrowing
 - Good news for those in countries w/ weak currency

(Economic) Winners, Losers, and Immigration

- Lower barriers to immigration tend to **benefit**
 - **Consumers** through lower prices of goods and services
- Lower barriers to immigration tend to **harm**
 - Those affiliated w/ production/provision of a good/service for which **immigrants** have a comparative advantage

How policy gets made

- Leaders satisfy minimal winning coalitions
- Roughly half the adult population in democracies
- Trade, exchange rates, rarely salient to voters
- But growth, unemployment, inflation, & immigration are
- And big businesses, labor unions tend to lobby

Implications

- Rich democracies should favor low barriers to trade
- At least for (high-tech) manufactured goods
- But should practice protectionism in agriculture
- Should generally oppose fixed exchange rates
- Support for euro higher where prior currency weaker
- Inflation \uparrow when left in power, \downarrow when right is
- Visas should be easily obtained in competitive sectors
- But relatively few should be granted in all other areas

Data

- Observations: all country-years from 1990 to 2000
- y : country-level imports by sector
- x_s : WTO membership

Results

	Agriculture	Manufacturing
WTO Membership	—*	+*