

PSC 102: Intro to International Politics

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Political Economy

Introduction

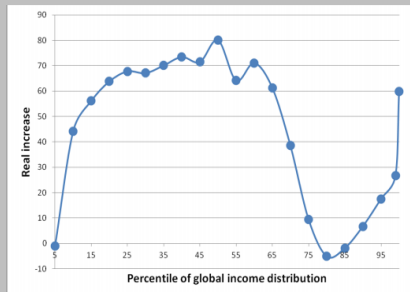
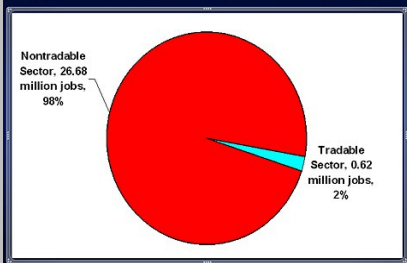
- Three goals for this lecture
 - Discuss **who wins and who loses** from economic cooperation
 - Link **distributional** concerns to **government policy**
 - Analyze conditional **impact of WTO**

Winners, Losers, and Trade

- Freer 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**
- Freer 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

Growth in Jobs (27.3 million), U.S. 1990 to 2008



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, the economy experiences 5% inflation
 - 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**

(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

Government Policy

- Theoretical expectations
 - Suppose government “sells” policy to largest contributor
 - Remember, contribution makes sense iff $p_i \nu_i - c_i > 0$
 - Members of P gain $\underline{\nu}$ from int'l economic cooperation
 - Members of I gain $\bar{\nu}$ from int'l economic cooperation
 - Members of N gain $\bar{\nu}$ from absence of cooperation
 - Where $0 < \underline{\nu} < \bar{\nu}$, p_i large for members of I, N , tiny for P
 - Government cooperates iff I stronger than N

- Applications
 - Rich countries favor trade in high-tech manufacturing
 - But oppose trade in agriculture, low-tech manufacturing
 - US grants many worker visas in business-dominated industries
 - US grants few worker visas in labor-dominated industries

Data

- Observations: all country-years from 1990 to 2000
- Dependent variable: country-level imports by sector
- Independent variables: WTO membership

Results

	Agriculture	Footwear	Manufacturing
WTO Membership	—*	—*	+*