Endogenous Politics and the Design of Trade Institutions

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   - Government objective function

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- endogenize politics into a standard model for studying TA design questions
- carefully distinguish between dynamics induced by exogenous and endogenous politics for tariff caps with escape clause
- examine escape clause design when both exogenous and endogenous forces are present

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- Escape clause outcomes are very different with endogenous politics
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  - Points to real-world design of WTO Agreement on Safeguards
  - May explain why escape clause has fallen out of use

Economy

Two countries: home and foreign (*)

- Separable in two goods: X and Y
  - P_i: home price of good i
  - P_i^*: foreign price of good i
- Demand identical for both goods in both countries
  - $D(P_i) = 1 - P_i$
- Supply: $Q_X^*(P_X) > Q_X(P_X)\ \forall P_X$; symmetric for Y
  - $Q_X(P_X) = \frac{P_X}{2}$; $Q_Y(P_Y) = P_Y$
  - Home net importer of X, net exporter of Y

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Non-tradable specific factors motivate political activity

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3. **Tariffs are Applied**

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3. **Tariffs are Applied**
   i. Given political pressure, governments choose applied tariff levels

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  - Takes into account trade agreement enforcement

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   - Call lobby's optimal effort choice e^L

$$e^L = \max_e \pi(\tau(\gamma(e))) - e$$

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Once agreement is set, cooperation enforced by repeated-game punishments conditioned on history, history + DSB signal

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- When subtracting lobbying effort, welfare no longer monotonic in γ

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- Can improve self-enforcement

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If γ is only endogenous, escape clause causes problems, provides no benefits

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Ineffectiveness of Political Criterion for Escape Clause

Assume $\gamma(s, e) = \gamma(s) + \gamma(e)$. If an escape clause conditions on $\gamma(s, e)$ and $\gamma(s^L) < \gamma(s^H) < \gamma(e^L)$, the lower "normal" tariff binding will never be applied.

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  - This seems to be what the WTO actually *does*

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Conclusion

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- helps explain the structure and enforcement of the WTO Safeguards measure
- can help us think about optimal design of trading insitutions

Future Work

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