

Gov 1780: International Political Economy

Section 5
25 Feb 2021

Agenda

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1. Bailey, Goldstein, & Weingast: “The Institutional Roots of American Trade Policy”

This is probably the most technical piece we’ve read so far... so let’s go through it step-by-step!

2. Essay practice

Essay #1 is coming up on March 3rd!

Part 1

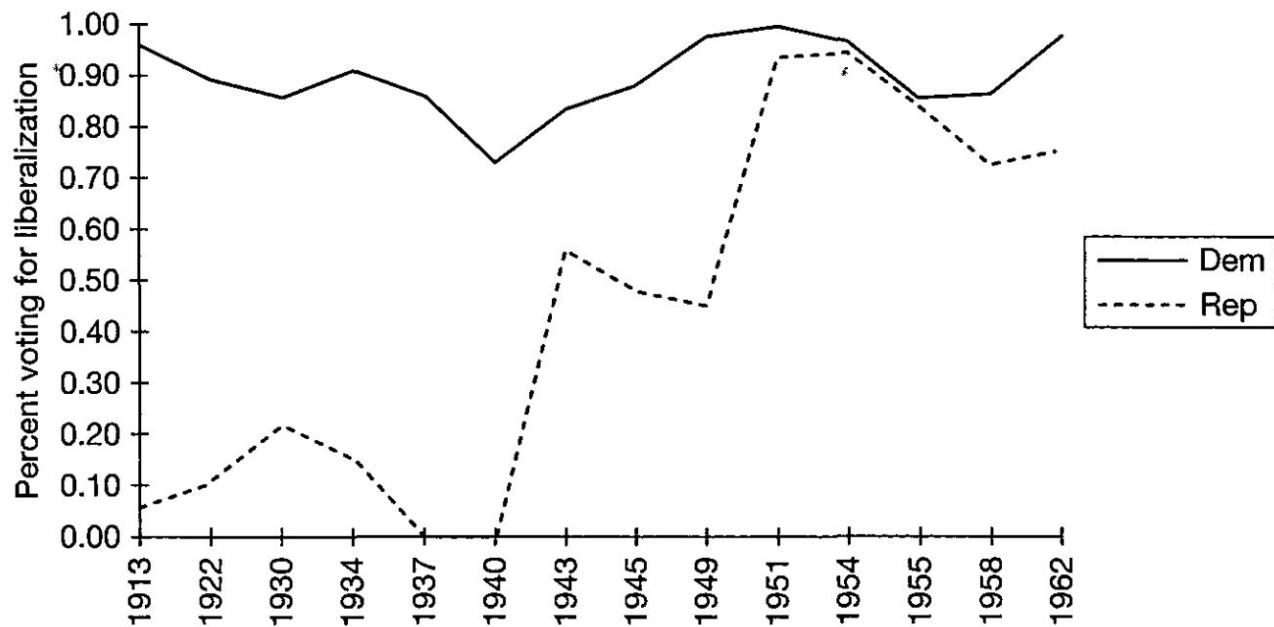
Bailey, Goldstein, & Weingast

“The Institutional Roots of American Trade Policy”

The partisan politics of trade

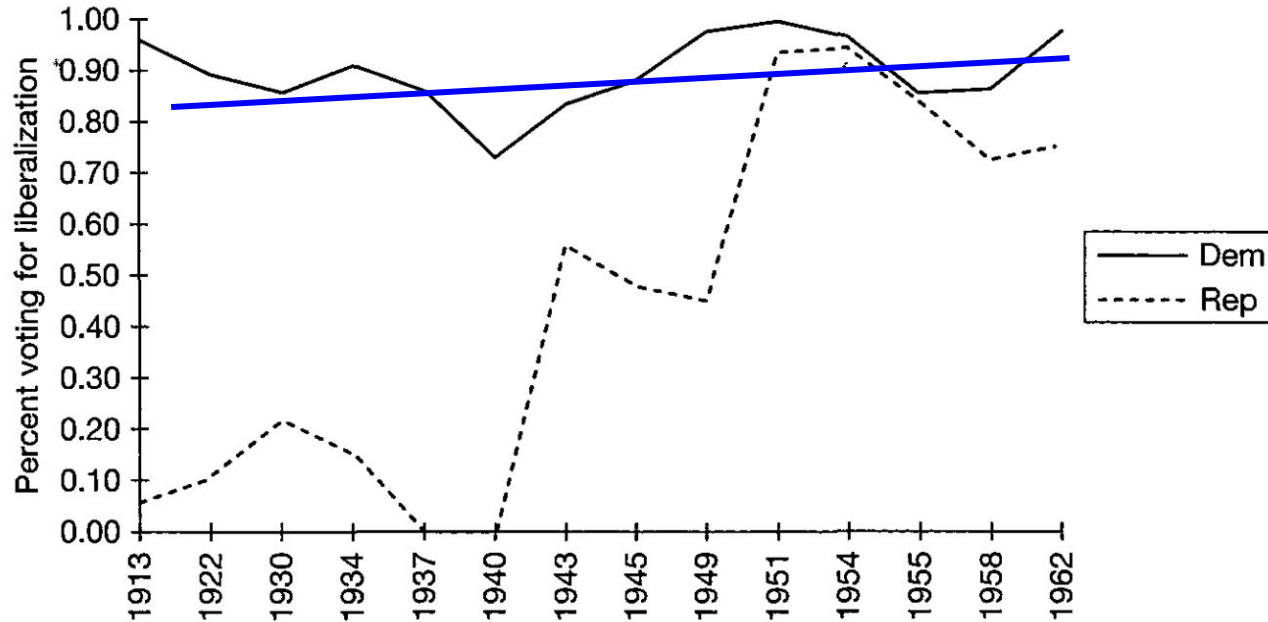
In the 20th century:

FIGURE 1 Voting in Senate on Passage of Major Trade Legislation by Party
1913–1962



The partisan politics of trade

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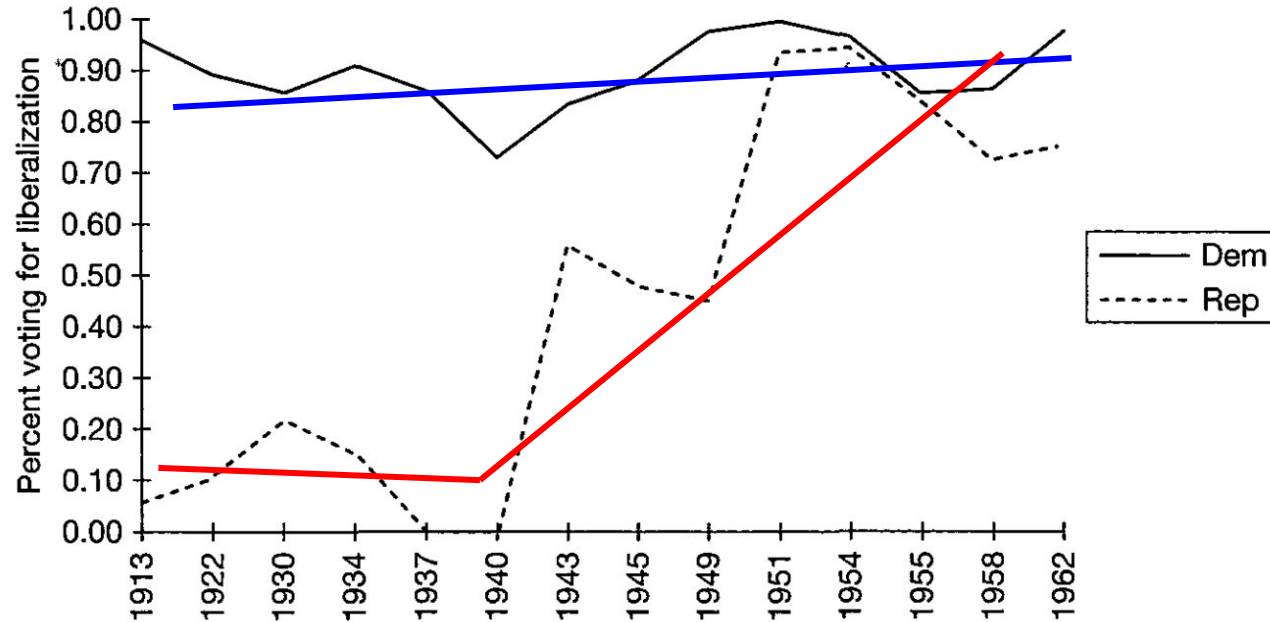


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Democrats are the free trade party

The partisan politics of trade

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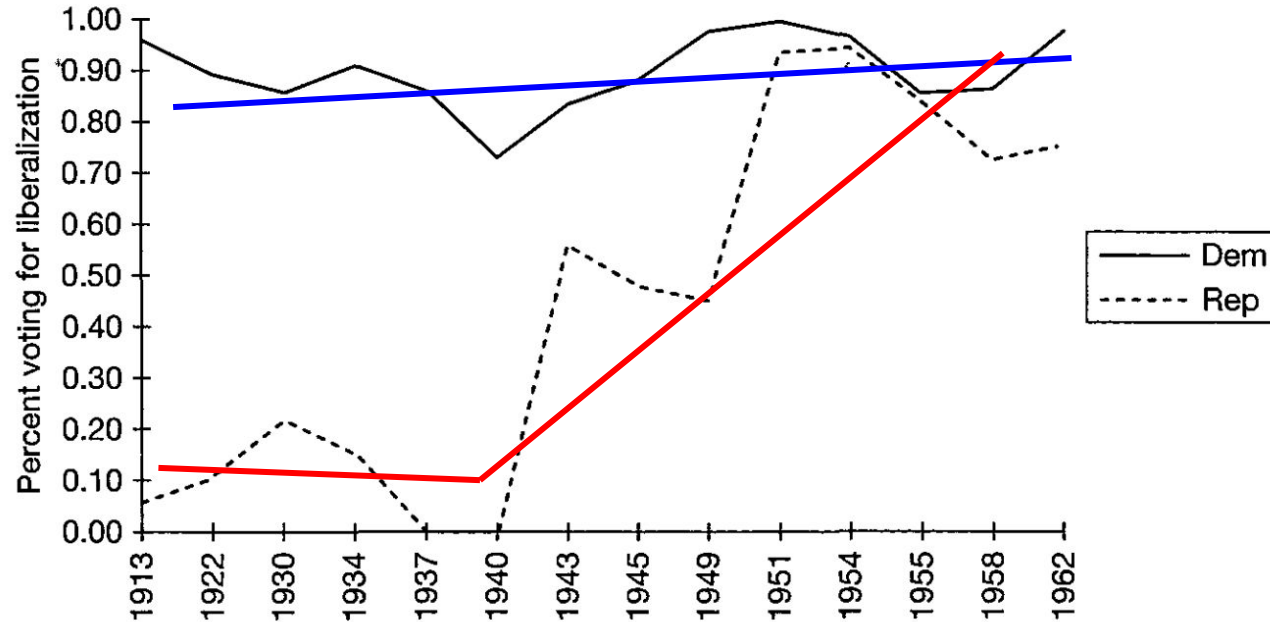
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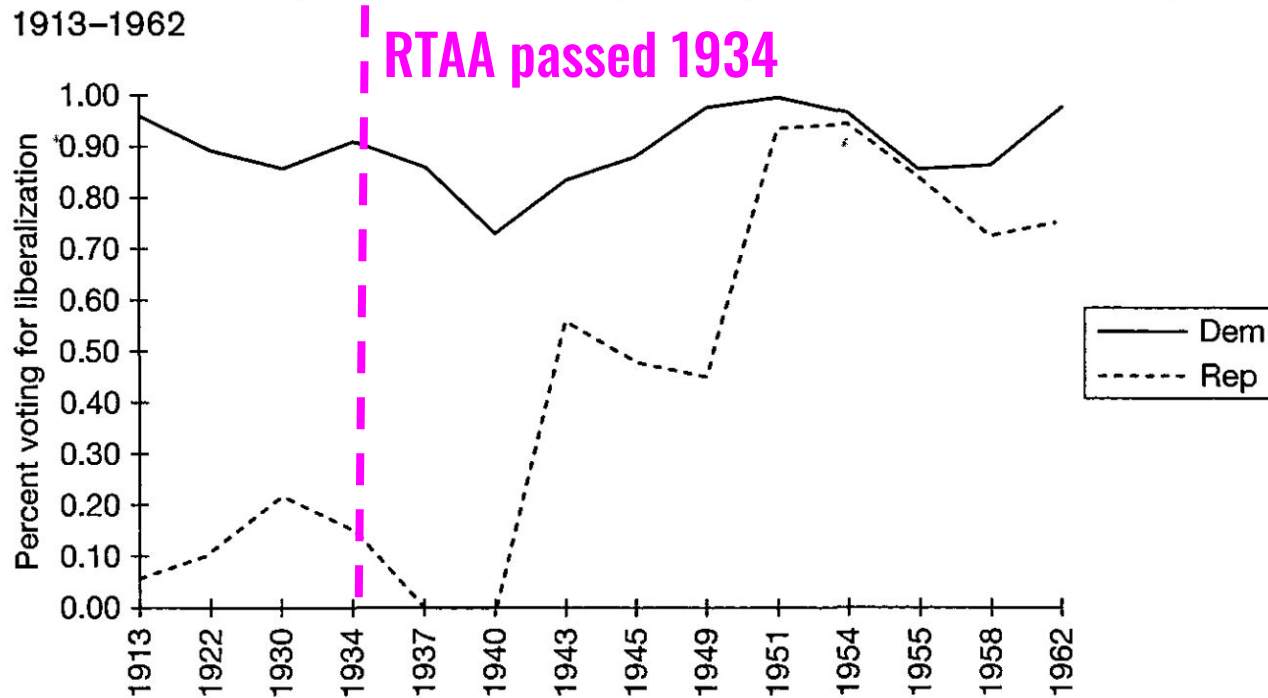
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What changed?

The partisan politics of trade

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In the 20th century:

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What changed?

Reciprocal Trade Agreements Act (RTAA)

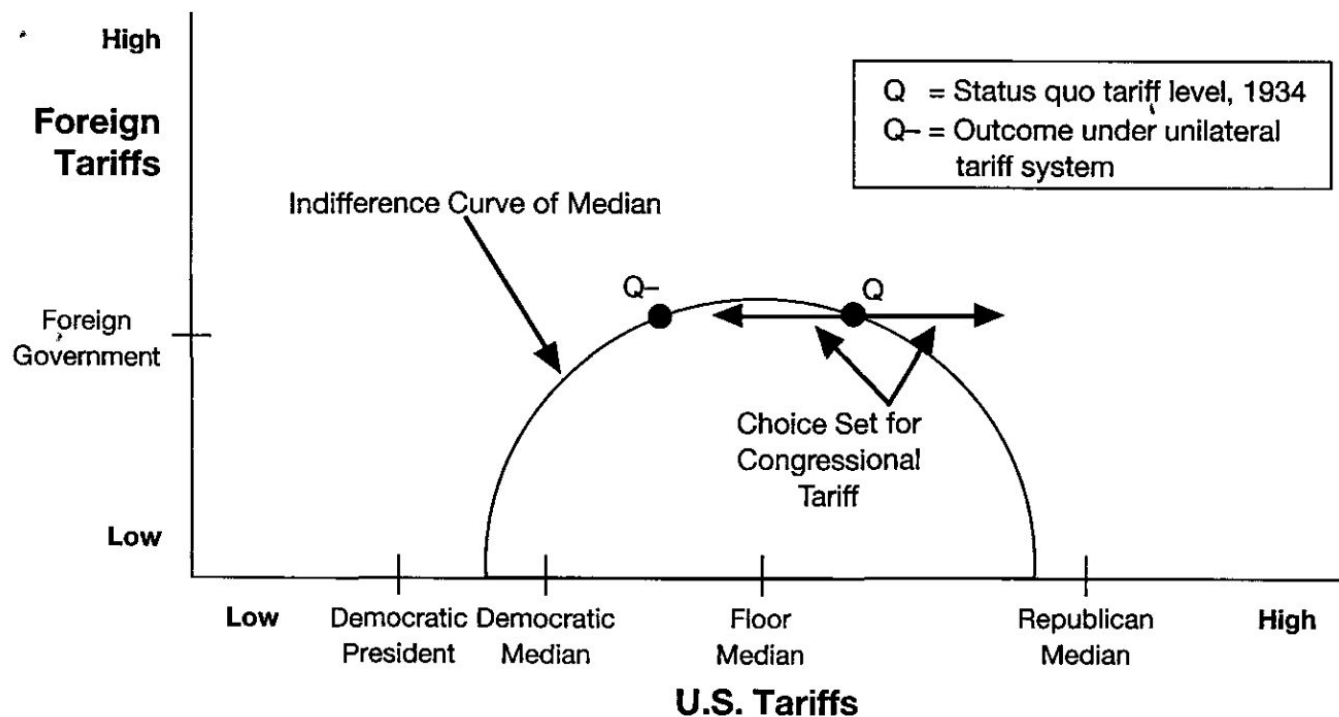
Two big changes in the 1934 RTAA:

1. it mandated reciprocal, not unilateral, tariff reductions
 - aka, **issue linkage**
2. it authorized trade agreements on the basis of a simple majority vote instead of the supermajority mandated in the Constitution
 - aka, **institutional thresholds**



Ideal points

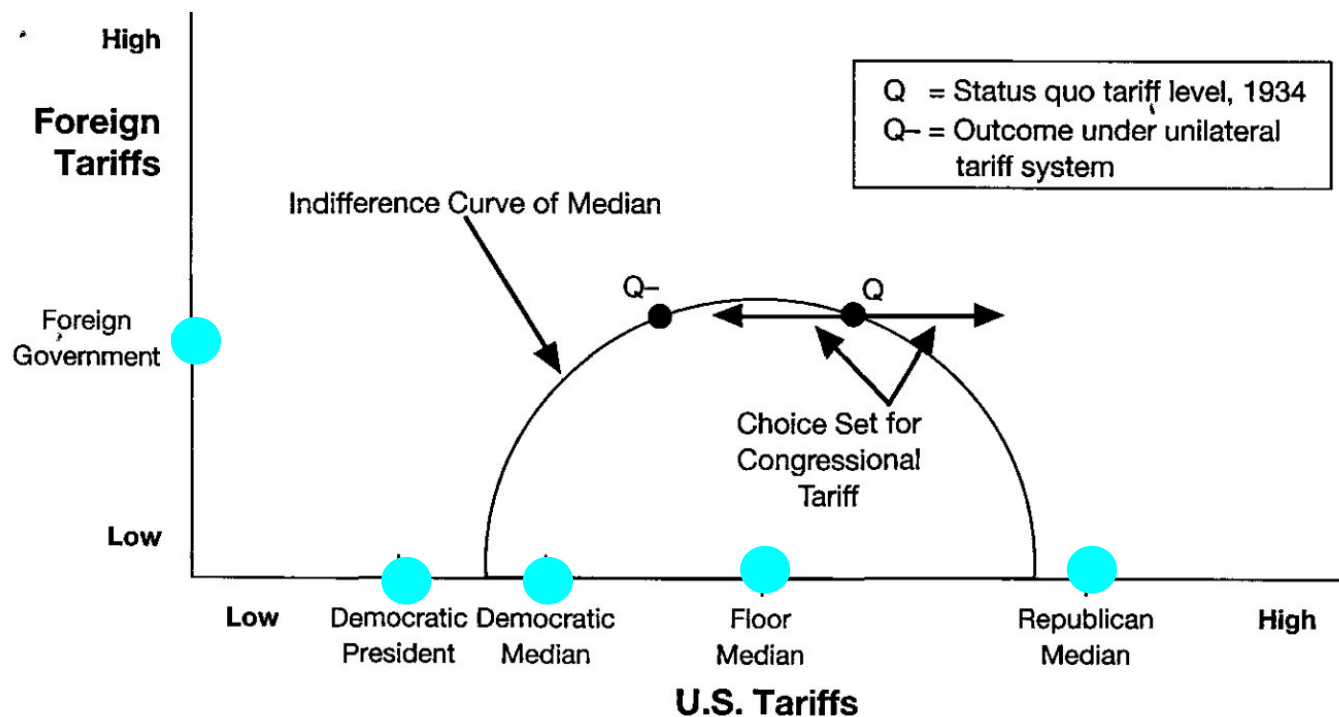
FIGURE 3 Actor Preferences and Predicted Tariff under Pre-RTAA System



This diagram shows the “ideal points” of different actors.

Ideal points

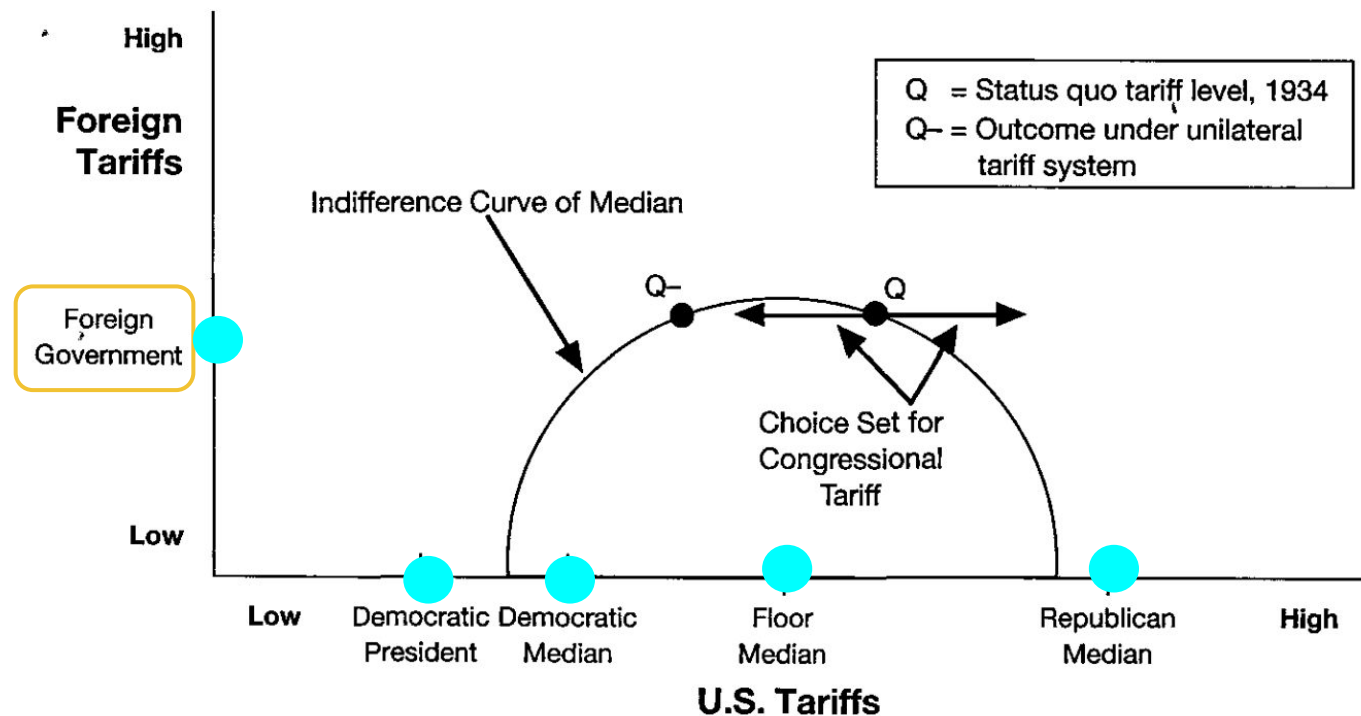
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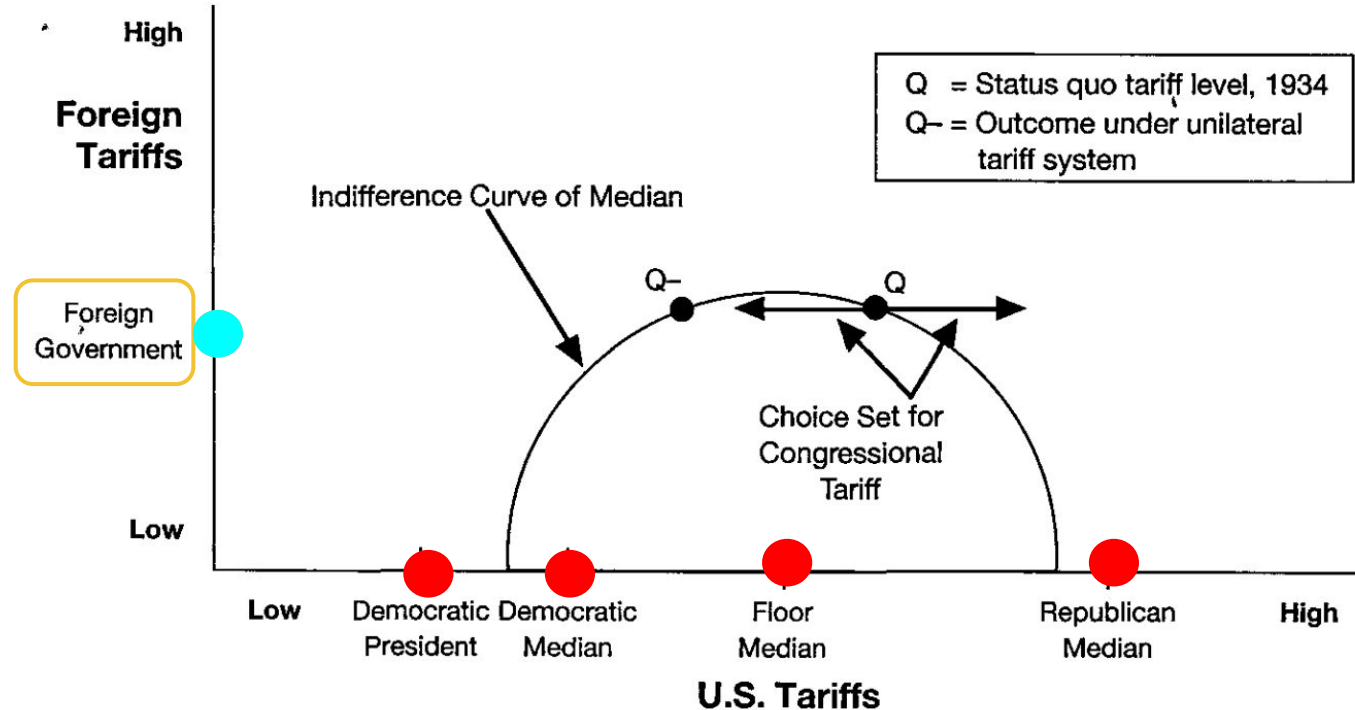


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For simplicity, the “rest of world” is represented as just one **foreign government**.

Actors

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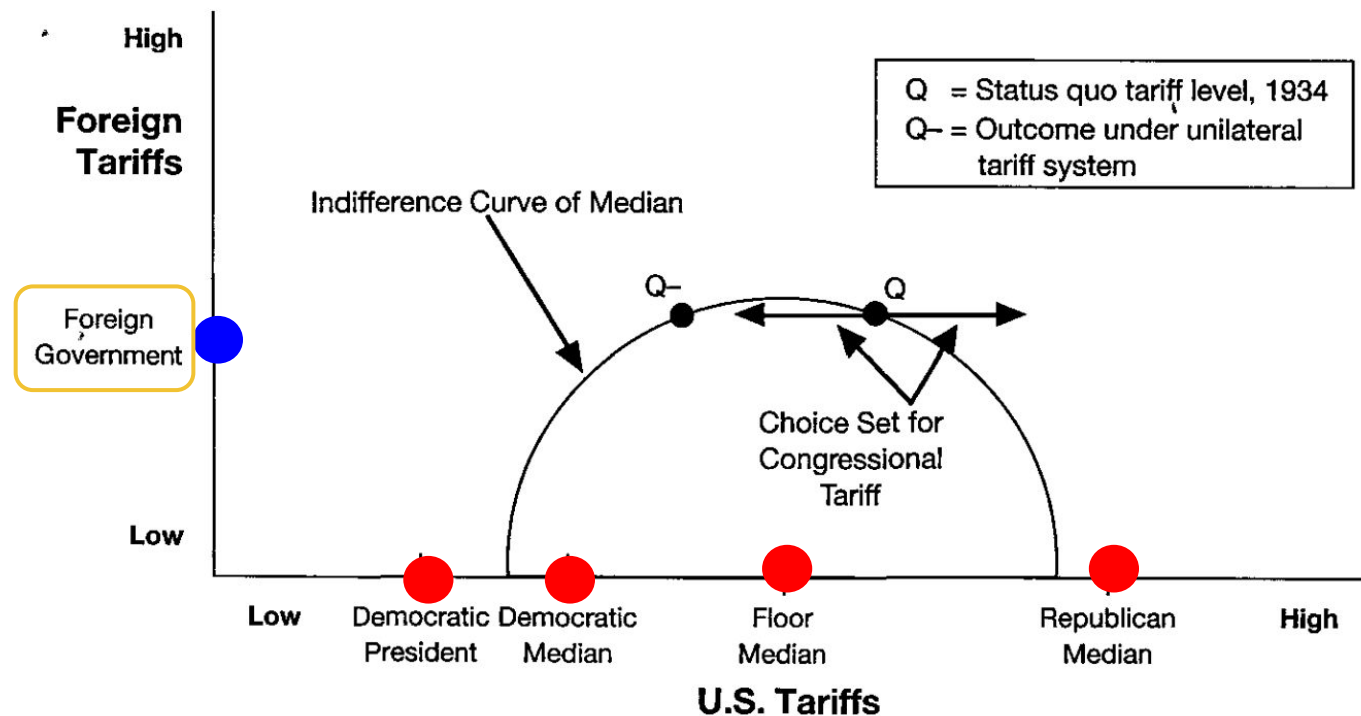
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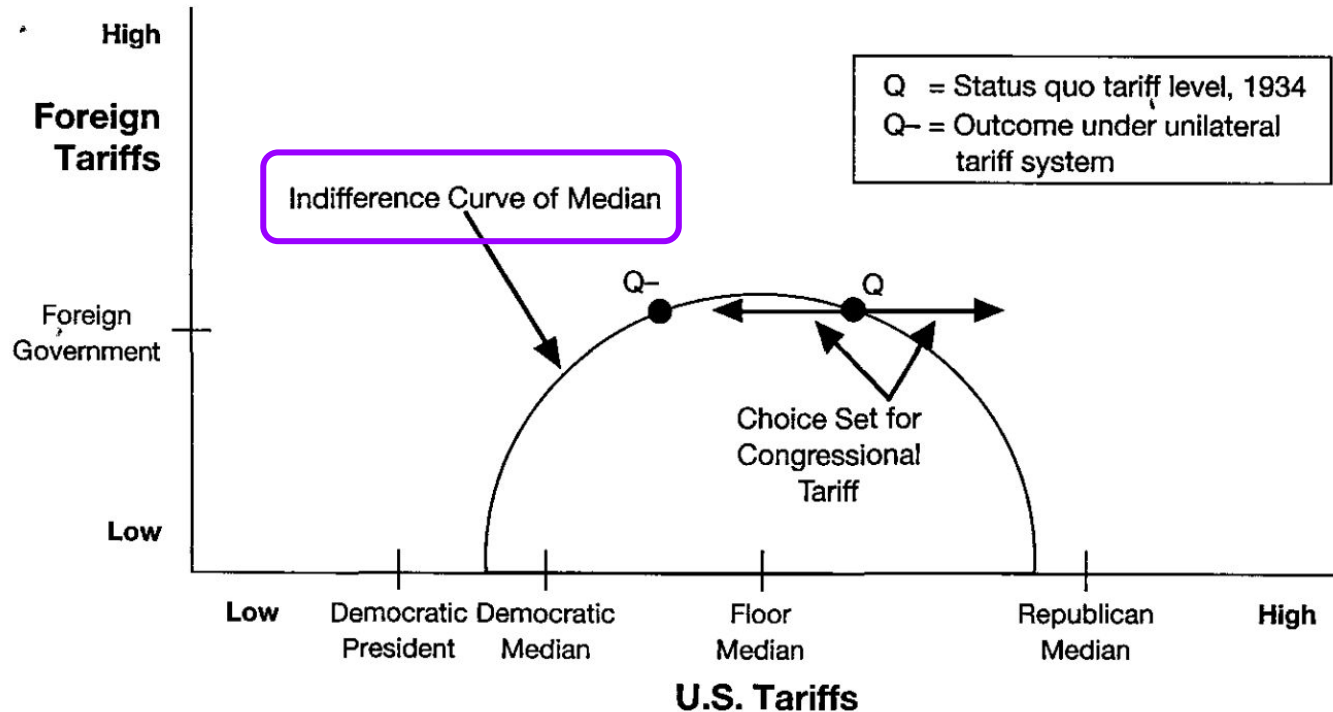
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Foreign government wants low US tariffs

Indifference curves

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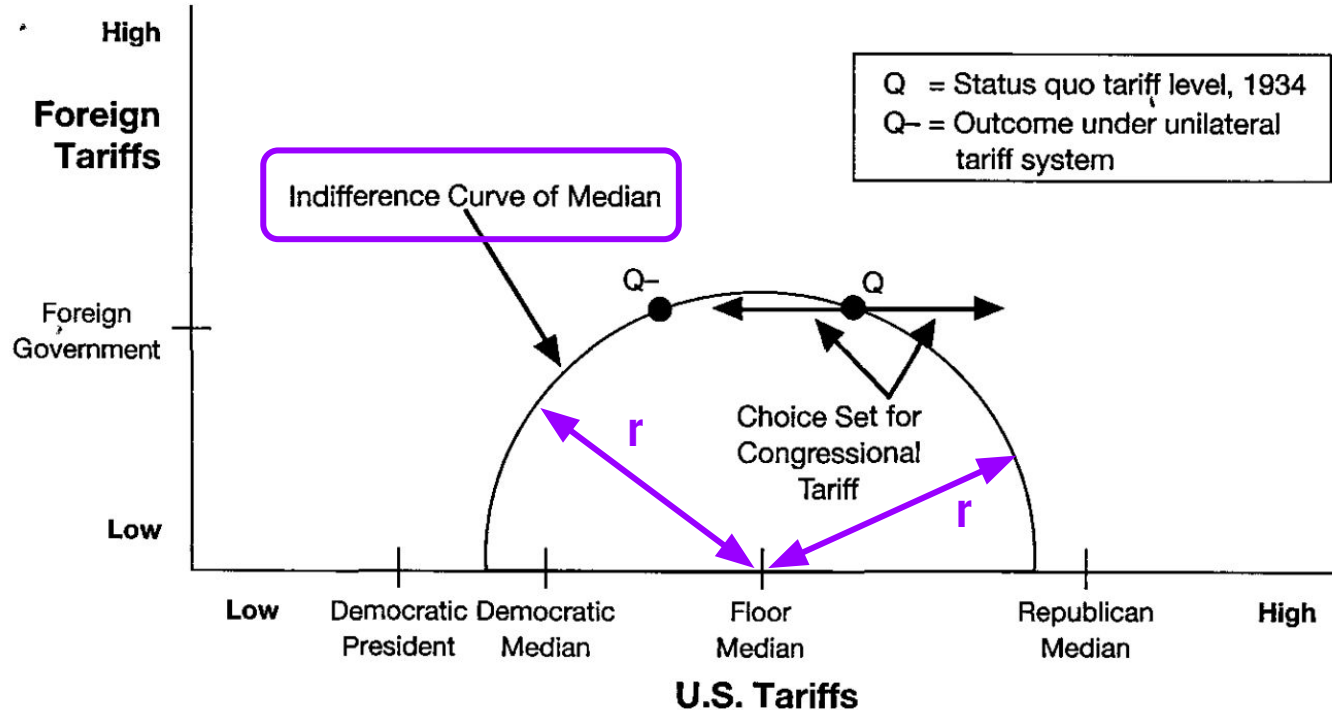


The “Indifference Curve of Median” represents combinations of foreign and US tariffs that are equally good/bad to the US floor median.

Why?

Indifference curves

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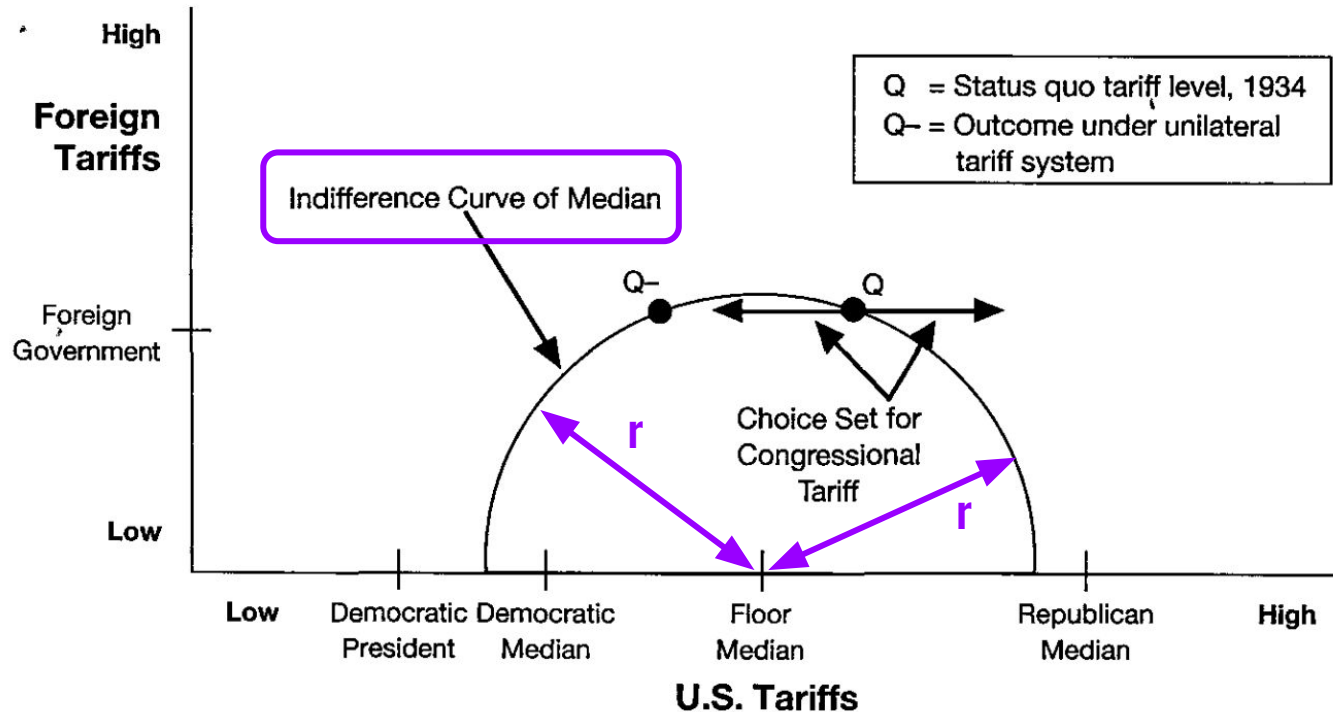
The “**Indifference Curve of Median**” represents combinations of foreign and US tariffs that are equally good/bad to the US floor median.

Why?

Because the floor median dislikes policies that are further from their ideal point. The semi-circle shows points that are equidistant from that point.

Indifference curves

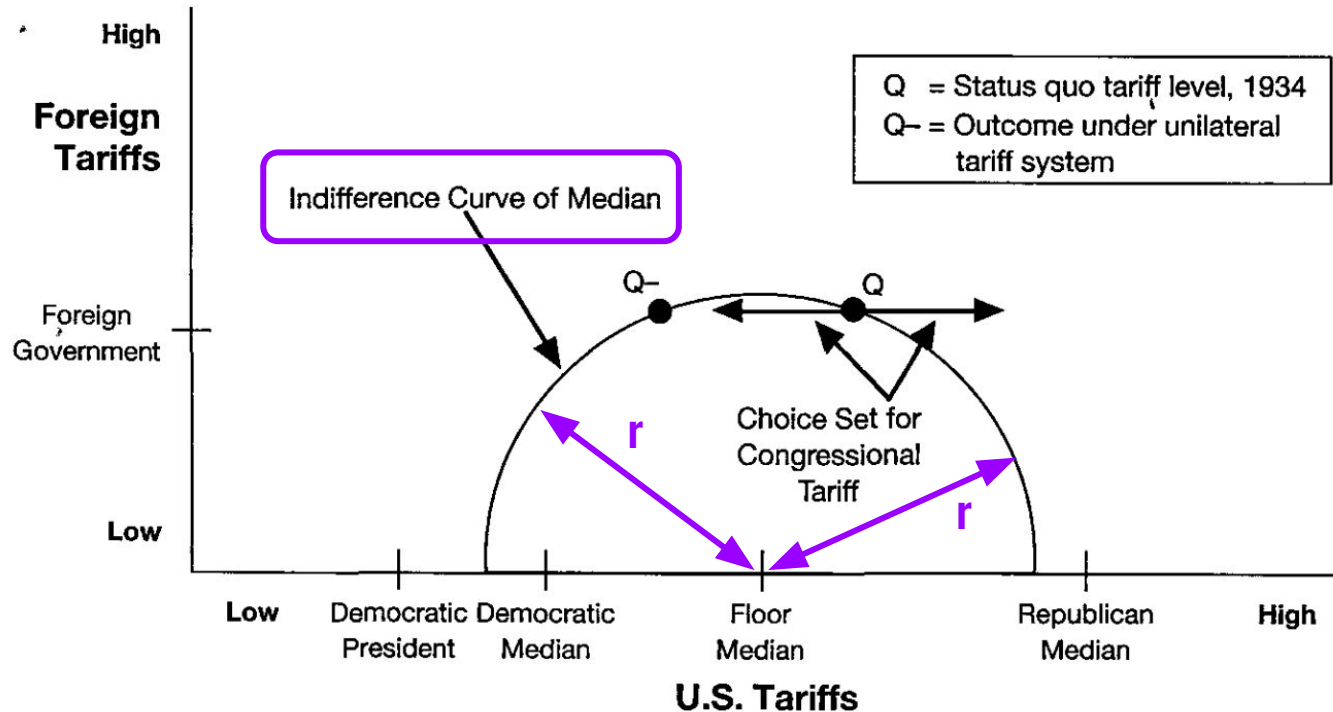
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Which combination of tariffs does the **Floor Median** prefer: Q or Q^- ?

Indifference curves

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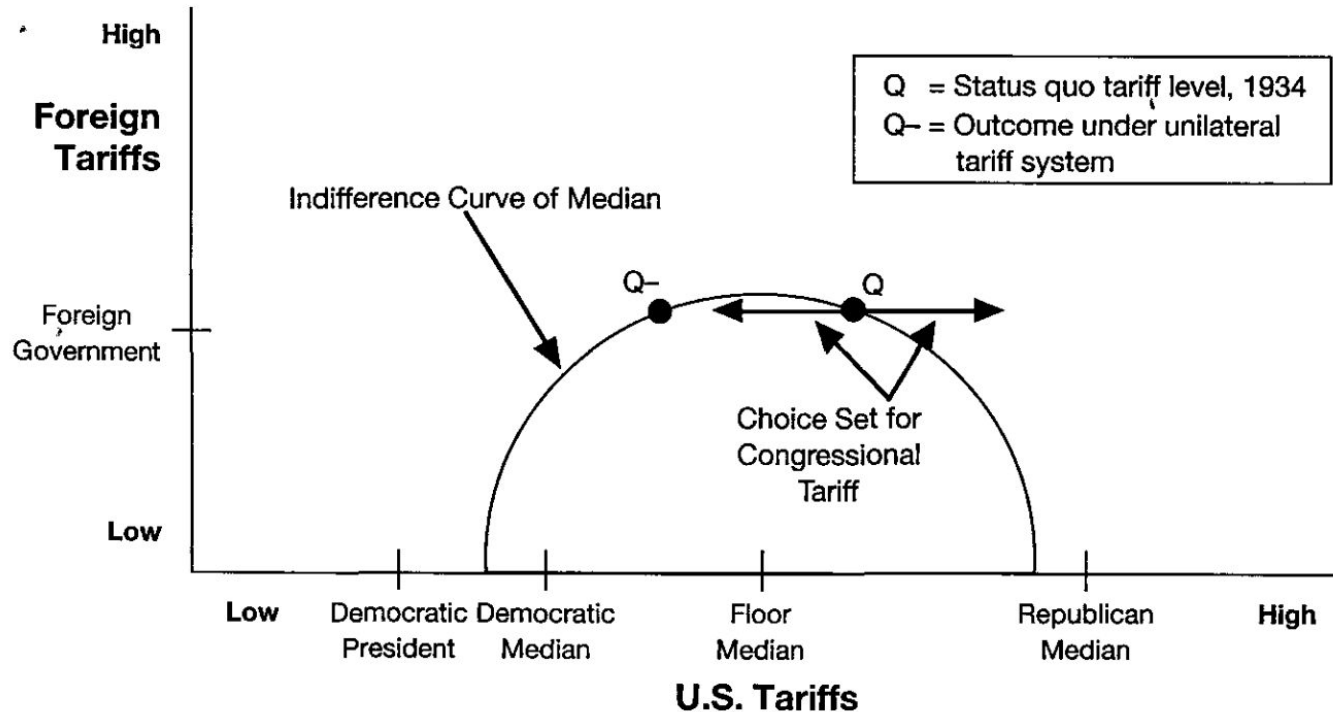
Which combination of tariffs does the **Floor Median** prefer: Q or Q- ?

Trick question! Since Q and Q- both lie on the same indifference curve, the Floor Median is indifferent between them.

Foreign tariffs are held constant, but US tariffs are now slightly below (vs slightly above) the Floor median's ideal point.

Order of the game

FIGURE 3 Actor Preferences and Predicted Tariff under Pre-RTAA System

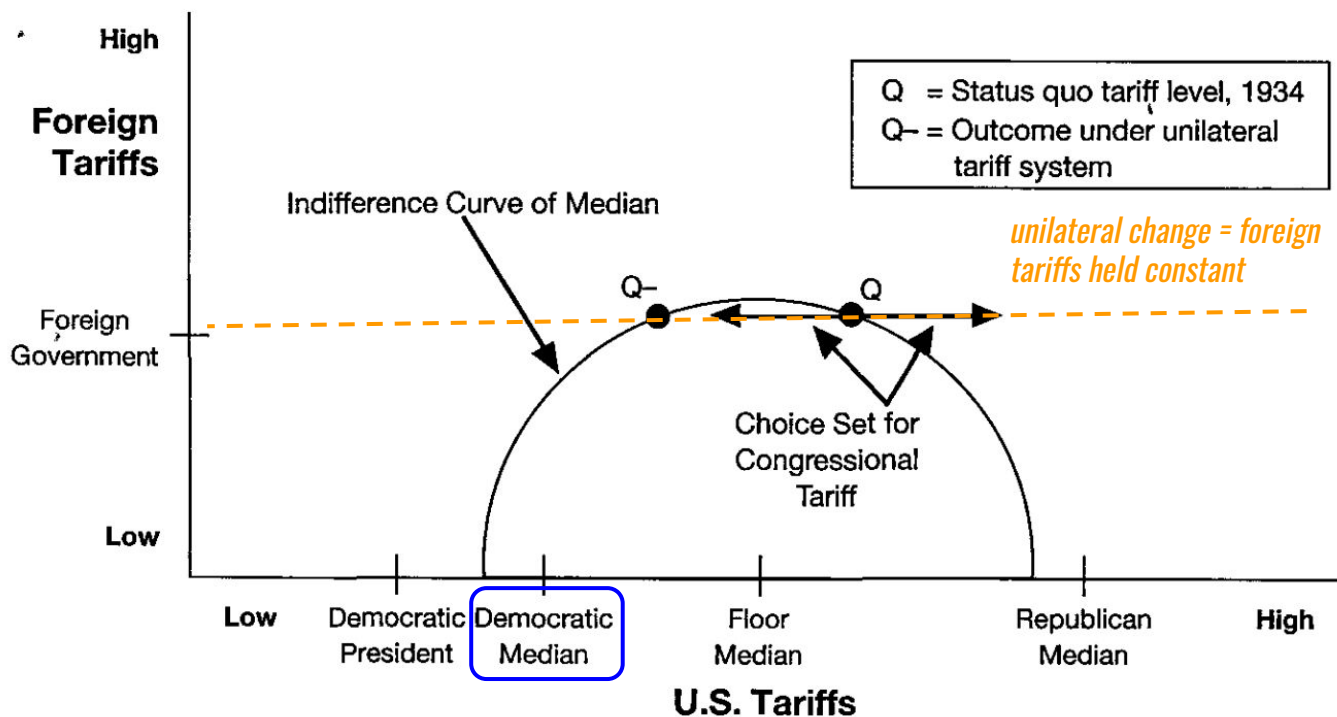


Assume that the **Democrats** control Congress and the Presidency.

How does Congressional legislation work in this simplified model?

Order of the game

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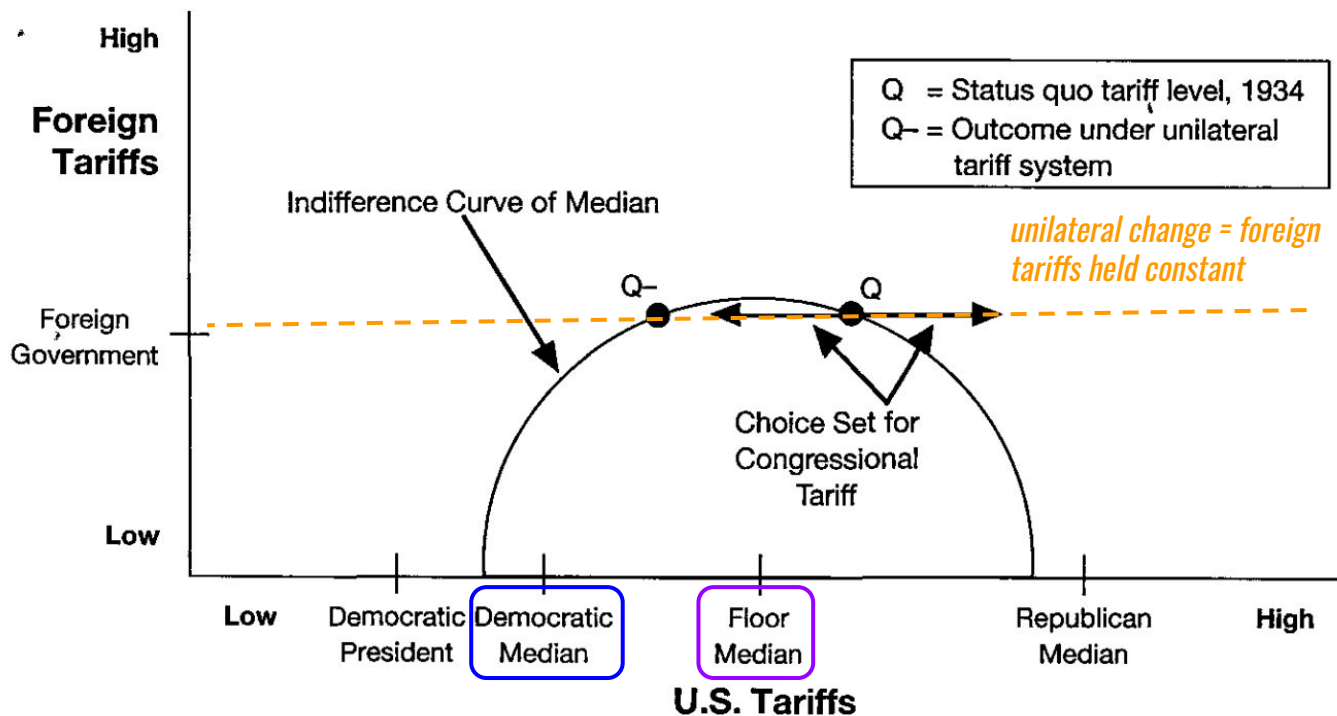
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1. The **Democratic Median** proposes a **unilateral change**

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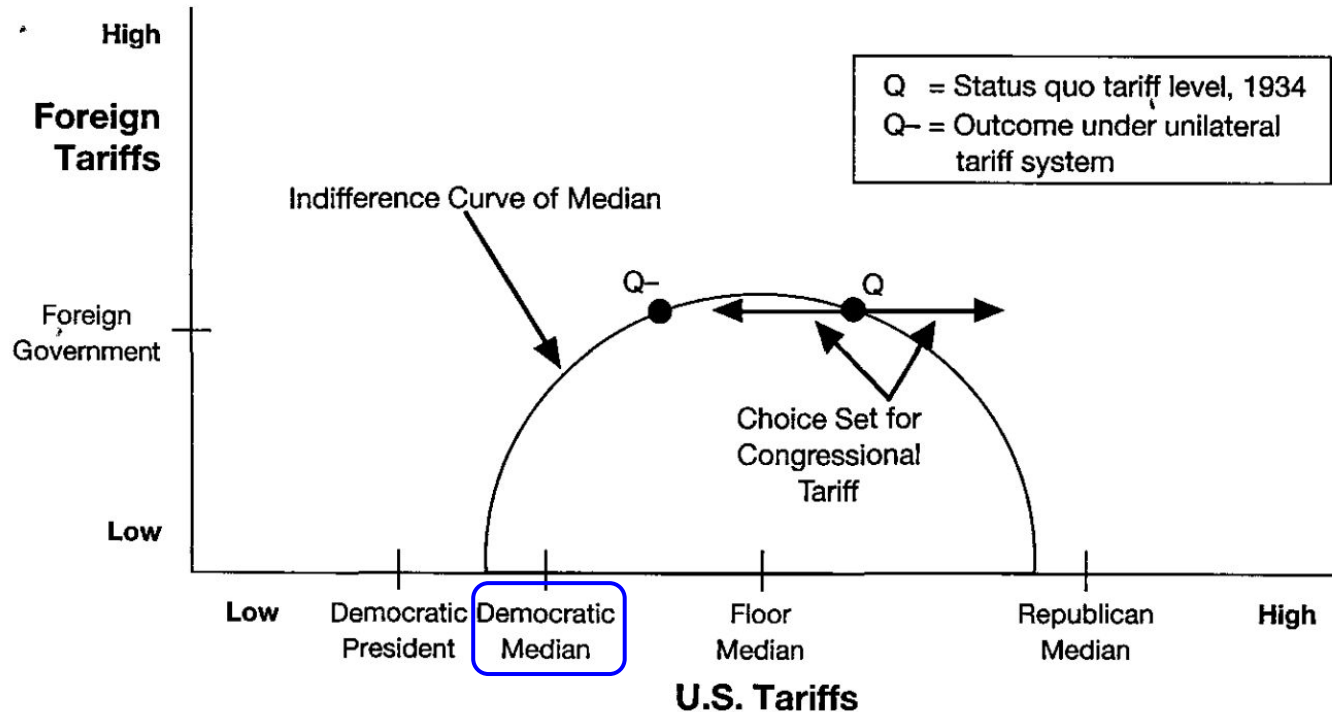
Assume that the **Democrats** control Congress and the Presidency.

How does Congressional legislation work in this simplified model?

1. The **Democratic Median** proposes a **unilateral change**
2. It is passed or rejected by the **Floor Median**

Role of the Democratic Median

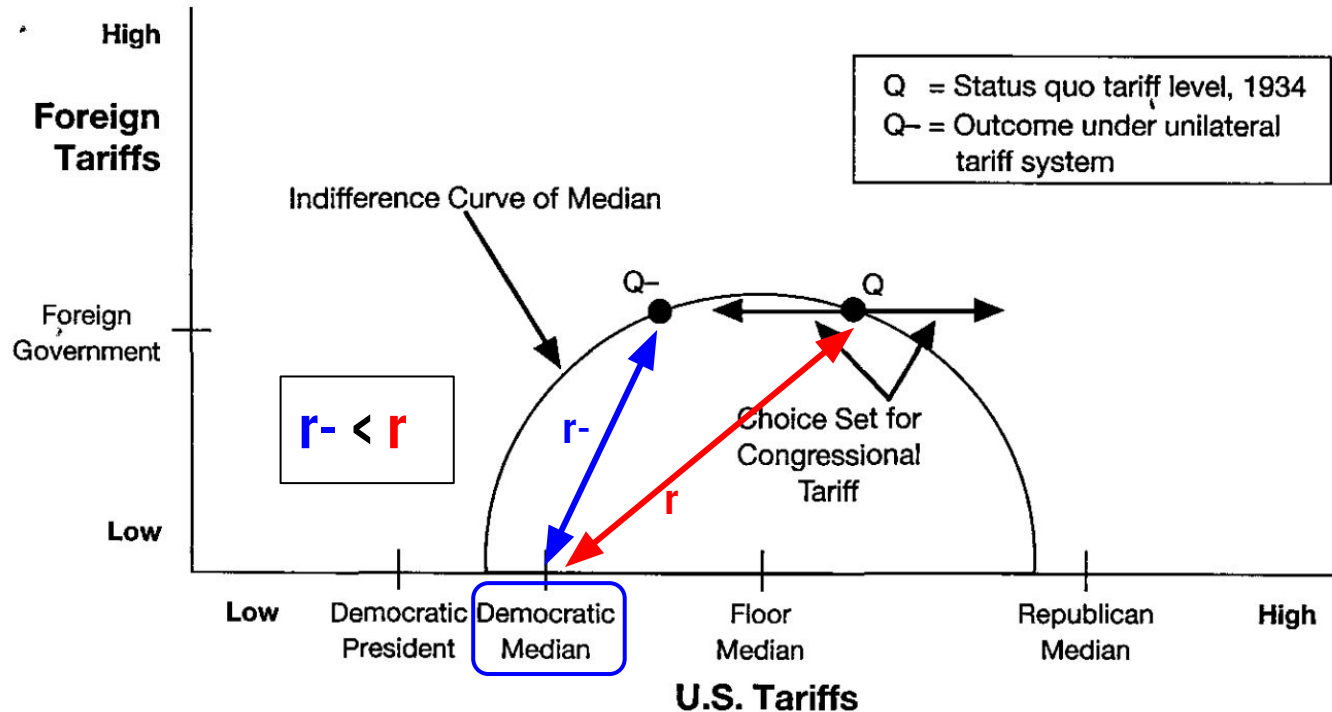
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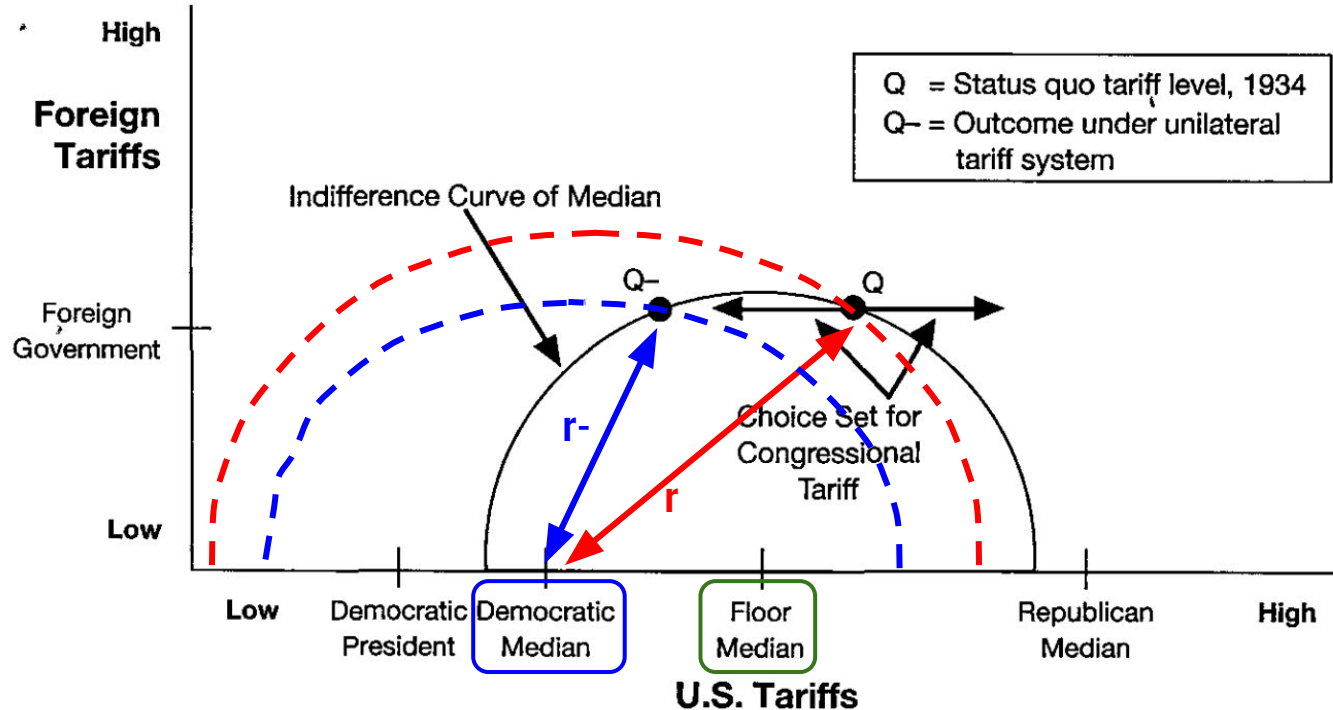


Which combination of tariffs does the **Democratic Median** prefer: Q or Q^- ?

Q^- is closer to the Democratic Median's ideal point, hence is preferred over the status quo, Q .

Role of the Democratic Median

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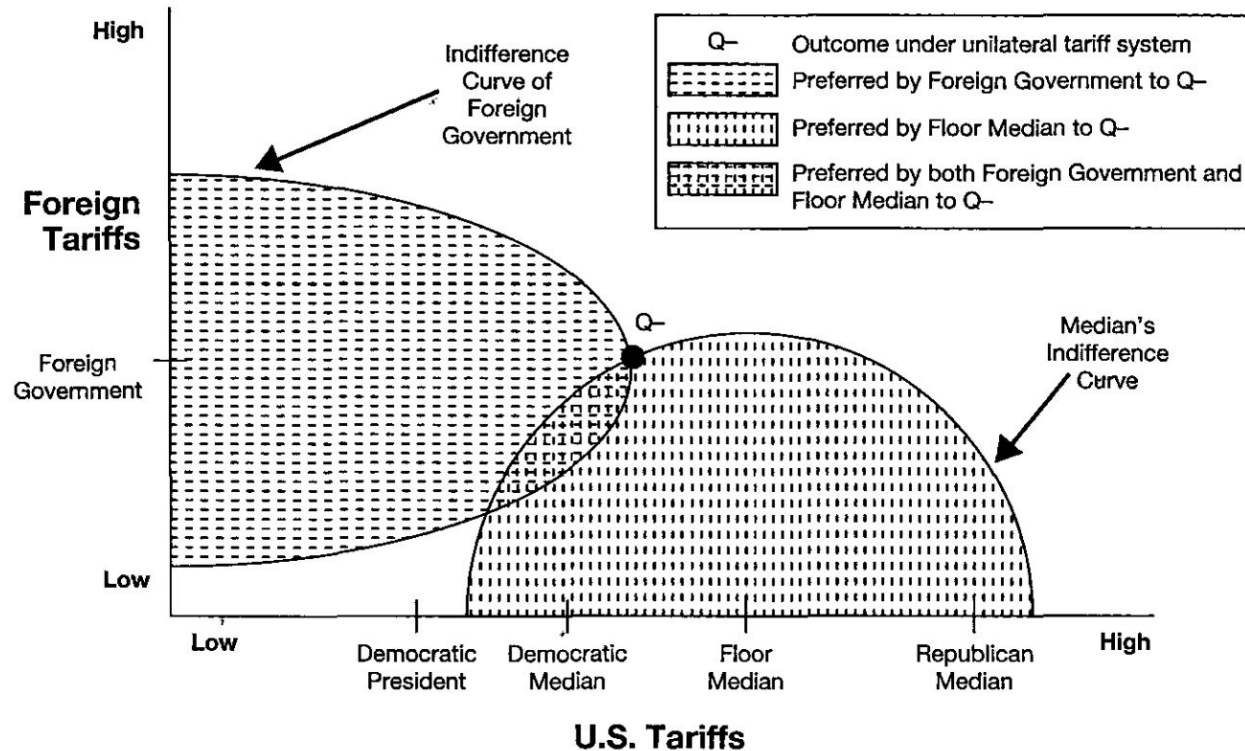
Which combination of tariffs does the **Democratic Median** prefer: Q or Q^- ?

Q^- is closer to the Democratic Median's ideal point, hence is preferred over the status quo, Q .

Put another way: the indifference curve passing through Q^- lies *inside* the indifference curve passing through Q .

We can do better!

FIGURE 4 Gains from Reciprocity

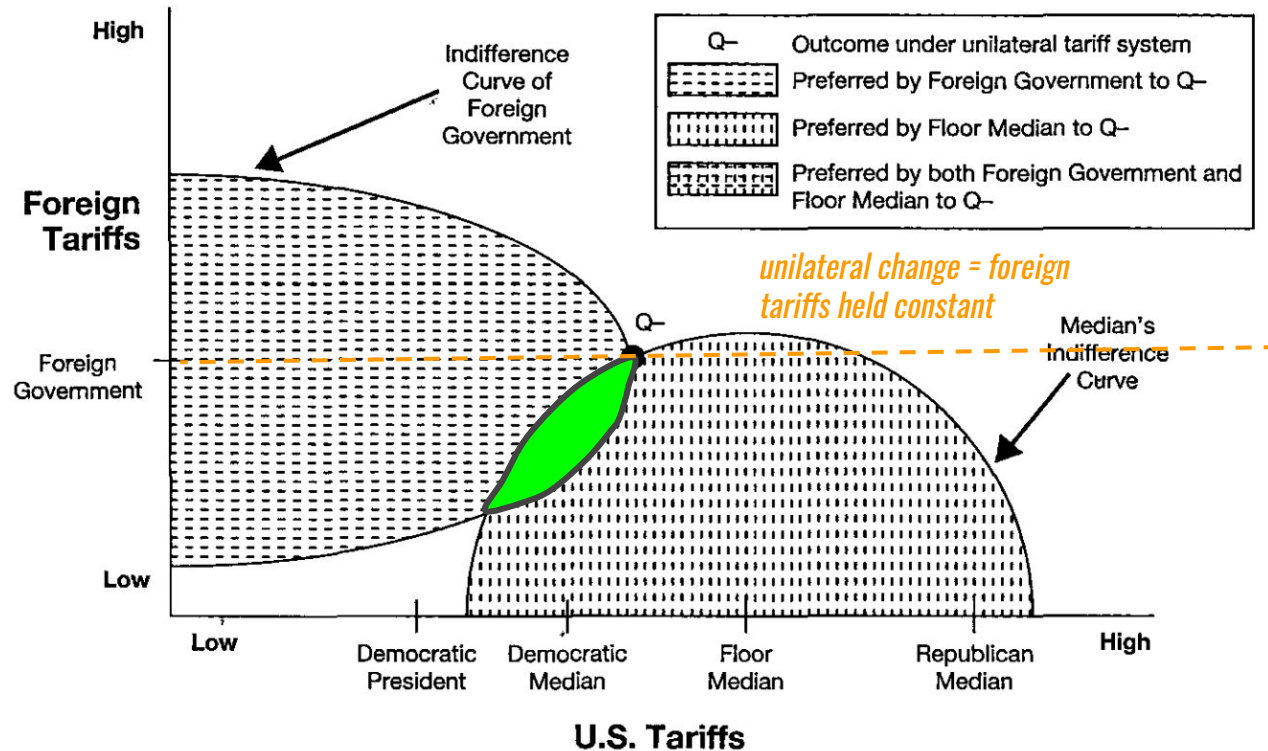


Here's the problem:

While the Democratic Median does prefer Q^- over Q , there are still a range of policies that are *even better than Q^-* for the Democratic Median, the Floor Median, AND the Foreign Government!!

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FIGURE 4 Gains from Reciprocity



Here's the problem:

While the Democratic Median does prefer Q_- over Q , there are still a range of policies that are *even better than Q_-* for the Democratic Median, the Floor Median, AND the Foreign Government!!

But Congress can't get there *unilaterally*. Accessing these policies requires bilateral negotiations with the foreign government.

Order of the game

Under the RTAA, the sequence of the game has changed:

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Domestic
bargaining

1. **Democratic median** proposes a minimum tariff level
2. **Floor median** agrees (or not)

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3. **President** proposes a new set of tariffs to the foreign government
4. **Foreign govt** agrees (or not)

Order of the game

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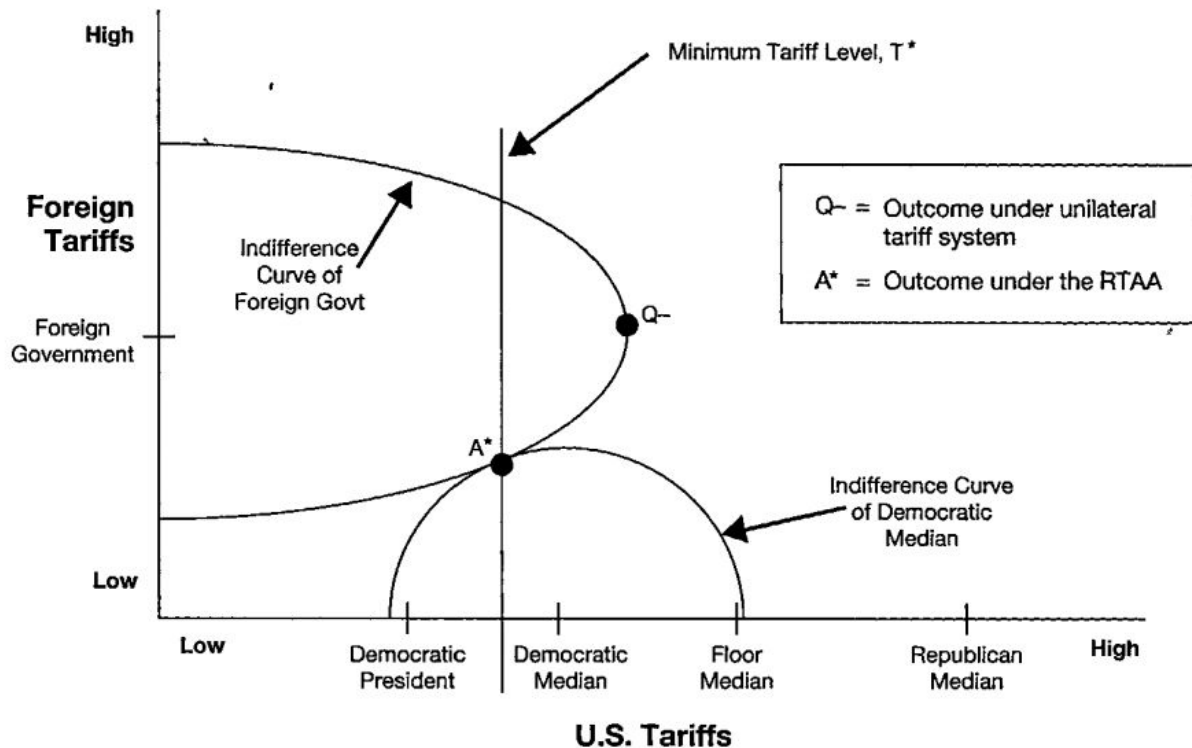
3. **President** proposes a new set of tariffs to the foreign government
4. **Foreign govt** agrees (or not)

If no agreement, **Congress** passes a unilateral tariff reduction to **Q-**

New equilibrium under the RTAA

Compared to the unilateral tariff system:

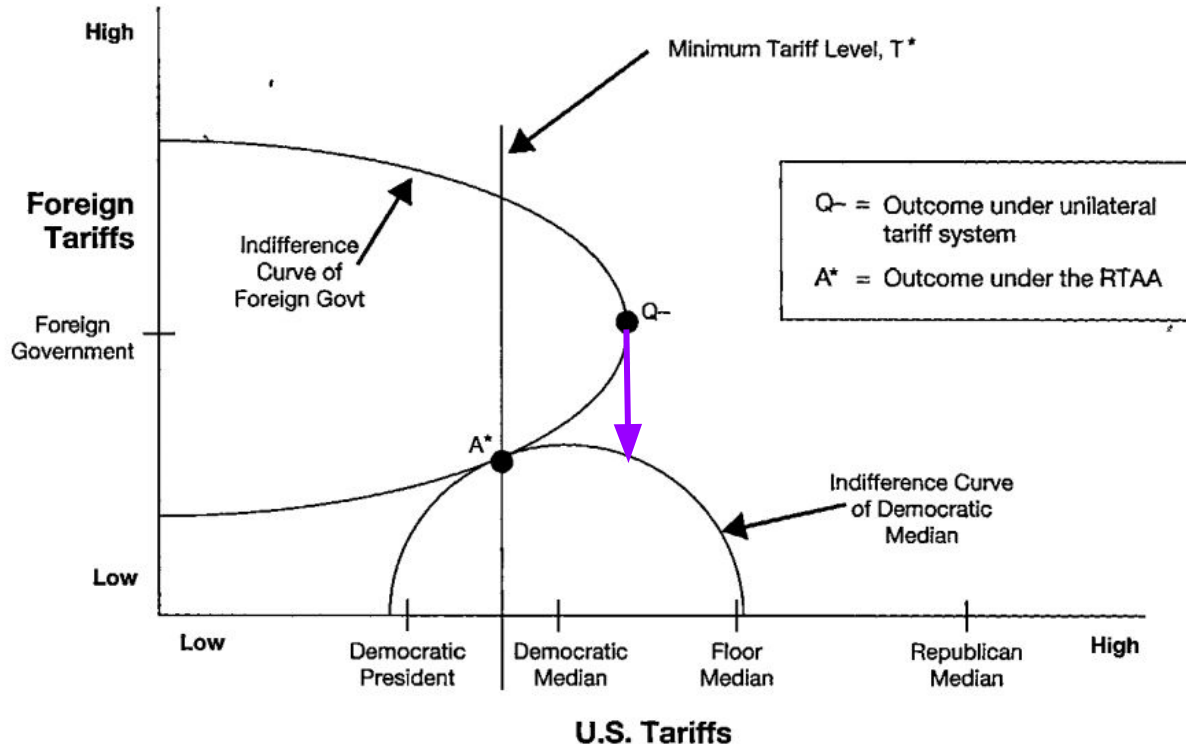
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New equilibrium under the RTAA

Compared to the unilateral tariff system:

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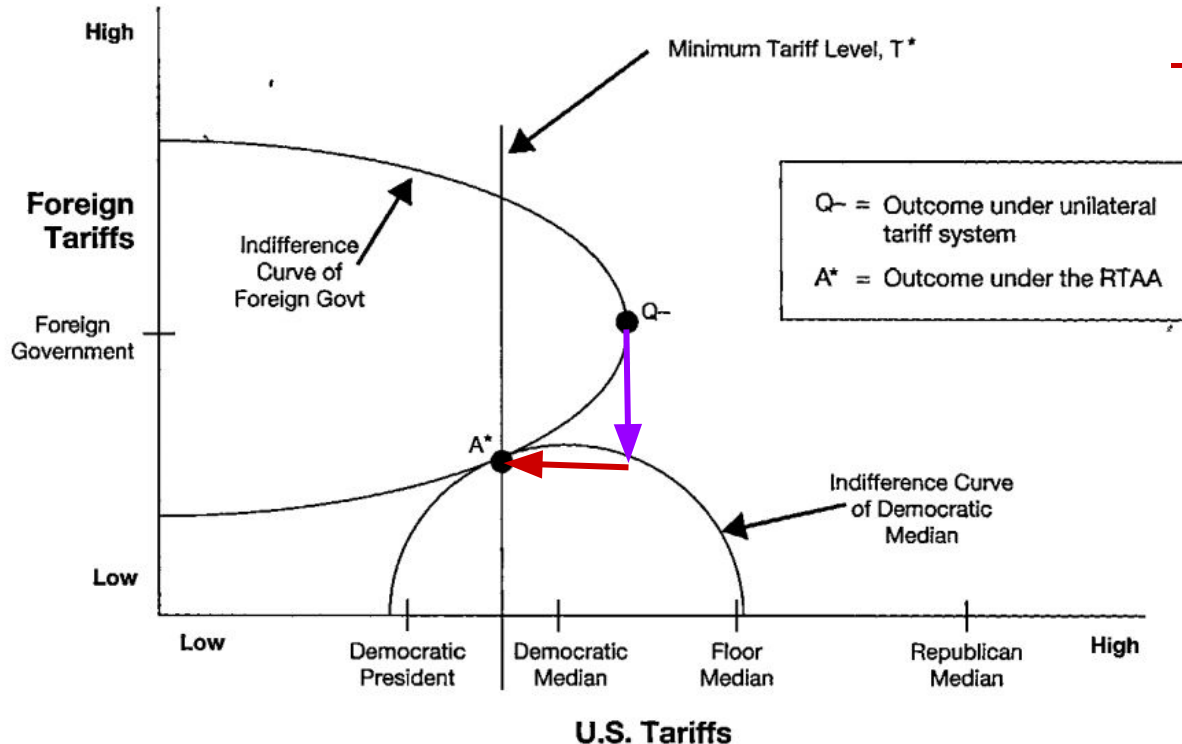


- Foreign tariffs are lower

New equilibrium under the RTAA

Compared to the unilateral tariff system:

FIGURE 5 Predicted Tariff under the RTAA



- Foreign tariffs are lower
- US tariffs are lower

Part 2

Essay practice

Essay practice

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One of the key skills you will need to write a good Gov 1780 is knowing how to use **historical examples** to illustrate and back-up your argument.

So let's practice!

Group 1: Thinking of relevant historical examples

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One of the most important features of the RTAA was that it “created a dynamic of political support for free trade” -- i.e., it was self-reinforcing.

Can you think of other examples of institutional changes that were self-reinforcing?

Group 2: Using historical examples to make a point

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Example essay question: How do domestic politics shape a country's behavior in the international arena?

Describe a mechanism that links domestic politics to international outcomes and think of a specific historical example(s) that illustrates that mechanism.

Group 3

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Student's choice! You can choose to tackle either the Group 1 or the Group 2 prompt.