I. Clark, *Capitalism, Not Globalism* (part ii)

A. Globalization / International Capital-Market Integration & Convergence:

1. **Standard Argument:** Trade & Cap-Mob sharpen capital's threat v. domestic gov'ts to flee "excessive & inefficient" taxation & public policies, forcing welfare/tax-state retrenchment, and tax-burden shifts from more-mobile capital (esp. liquid financial capital) to less-mobile labor (esp. skilled-manual labor)

2. **Several Counter Arguments:**
   a) **Empirically challenged:** evidence of simple, strong constraint on general tax revenues not overwhelming
   b) **General Gist of Most Counters:** Maneuvering Room b/c other national differences (e.g., commercial, regulatory, & other policy; lab-mrkt Insts; availability intermed-supply; finl-mrkt proximity; etc.; Hines '99) also affect invest-locate
   c) **Garett:** certain combos left gov't w/ soc-well, ALMP, coord-barg, & related as or more effic than neoliberal minimalism & cons. gov't, so cap not flee such combos
   d) **Boix:** A left strategy exists of public human- & physical-cap investment is an alternative to right strategy of neoliberal minimalism that is sufficiently efficient macroeconomically to attract/retain capital & effective politically to support left electorally.
   e) **"Varieties of Capitalism" arguments:** Institutions & Public Policies => comparative advantages => divergence, not convergence
   f) **Swank:** Institutional structure of the polity & the welfare system itself shape domestic policy responses to integration. Argument doesn’t fundamentally challenge exclusive or superior macroeconomic efficiency of neoliberal minimalism necessarily; rather, stresses primacy of domestic political conditions in determining nature & magnitude of welfare/tax-policy reactions to int’l econ integ
   g) **Hays:** Domestic pol-econ struct (labor-market institutions & majority/consensus democracy) condition response to cap mobility.
   h) **Basinger & Hallberg:** Strategic Interdependence: insofar as any these arguments above result in constraining any state from "racing to the bottom", they ease the capital competition for other states. This because the source of the tax competition is the tax policies of other states. If one state is constrained, by domestic politics say, from racing to the bottom, competitive pressures on others eased.
   i) **Rodrik:** globalization raises demand for public protection as well as constraining gov't revenues to fund that demand. Dilemma resolution could go either way. [Neither expected to be pleasant from globalization pessimists' view]

3. **Clark’s Counter-Argument:** Democratic competition forces convergence of right & left to preferences of median voter. Never any divergence on which globalization would force convergence.
B. Pictures of the Alternative Theories of ‘Convergence’

**Standard "Globalization => Convergence" Story:**
Left desires activism/involvement, increasingly constrained by mobile capital threat to flee funding such activities (i.e., taxes).

To read these: Top line is left party & constituency preference; bottom line is right party & constituency preference. Middle line is median-voter's preference. Capital mobility (globalization) is increasing along the X-axis. The **Bold** lines are the policy under government of that partisanship by this argument.
Strong "Privileged Position of Capital" Story:
Capital always in strong bargaining position b/c
govt needs growth => needs investment, but
capital can wait => Left & Right always had to do
what capital wanted.
Downsian Convergence Story: Electoral competition (b/w 2 parties, on 1 dimension, w/no uncertainty & full credibility) => convergence on median-voter's preferred policy. Median-voter's preferred policy may drift toward that of capital as capital becomes more mobile, but both parties will track median all along.
C. Clark’s Mundell-Fleming (IS-LM-BoP) Conditional Electoral & Partisan Cycle Theory:

1. **Argument:** Combination of Capital Mobility, Exchange-Rate Regime, & Central Bank Independence determine whether domestic political actors control, & so will use to generate partisan &/or electoral cycles, fiscal and/or monetary policy and which policy more effective.

2. **Specifically:**
   
   a) **Capital Immobile** => exchange-rate regime not an issue; domestic political authorities control fiscal policy and, unless the central bank is independent, monetary policy. Both policies are effective.

   b) **Capital Mobile** => exchange-rate regime relevant

      (1) Fixed exchange-rate => monetary policy unavailable for other purposes; fiscal policy extra-effective though => fiscal cycles

      (2) Flex exchange-rate => fiscal policy less effective, but monetary available & extra-effective. If central bank dependent, then monetary cycles expected. If central bank independent, no cycles expected.

   c) **Central Bank Strategic:** If central bank strategic, then will work against govt attempts to electoral or partisan cycle with fiscal policy if can & needs to do so. Fiscal cycles expected if capital immobile or if mobile & fixed exchange-rate. In latter, an independent central bank cannot use monetary policy against govt fiscal policies because monetary policy committed to exchange-rate peg. So, central bank strategic behavior matters only with capital immobile.

3. See flow diagram of argument to see how all this plays through under the various conditions.
Central Bank Independent => Fiscal Cycles => Outcome Cycles
(if CB non-strategic)

Central Bank Dependent => Fiscal & Monetary Cycles => (larger?) Outcome Cycles

Capital Immobile => Fiscal & Monetary Policies Effective & Maneuverable

Exchange Rate Fixed => Monetary Policy unavailable (to CB or Govt), but Fiscal Policy esp. effective

Capital Mobile => Fiscal & Monetary Efficacy & Maneuverability Depend on Exchange-Rate Regime

Central Bank Independent => Govt not Control Monetary Policy

Central Bank Dependent => Govt Controls Monetary Policy

=> (larger?) Monetary Cycles => Outcome Cycles

=> No Cycles
II. FRANZESE: Macroeconomic Policies of Developed Democracies

A. See the Outline/Overview of the book (section I of your notes or on my web page @ http://www-personal.umich.edu/~franzese/book.outlineoverview.pdf].

B. Explanatory Task: striking commonalities in growth of transfers, debt, and shift toward anti-inflationary monetary policy & structural reform, yet at least as striking differences in degree and locus of these trends & shifts

1. Broad explanations for the commonality:
   a) Shared exposure to global econ conditions & common demographic & structurl trends
   b) Similarly democratic govts shared conflicting commitments to foster capitalist economic development and to alleviate its distributional inequities/personal economic hardship
   c) Universally conflicting distributions of political and economic influence → responses to these challenges in seeking to fulfill these commitments that induced growth

2. Broad explanations for the divergences:
   a) Although broadly similar (democratic), public and private actors responded to these universal pressures differently because they operate in different structures of international and domestic political-economic institutions, interests, and conditions.
   b) Moreover, incentives that emanate from common pressures filtered through diff. settings depend on multiple interax among these structures interests, institutions, & conditions.
   c) Policy & outcome divergence determined by multiple complex pol-econ interax,
   d) but theory & theoretically informed empirical exploration can render this complexity comprehensible

3. Explain Crisis of the KWS
   a) KWS intends to buttress and to facilitate capitalist economic development while alleviating its harshest individual and distributional consequences
   b) Victim of its own success:
      (1) in succeeding at the latter, it undermines the harsh incentives that largely the source of the former,
      (2) yet to continue to succeed at (i.e., to fund) the latter, needs continued success on the former.
C. Political-Economic Implications

1. Economic effects
   
a) Transfers

   (1) Alleviate inequality (more or less as intended), but also
   
   (2) Hinder labor-market flexibility, contribute to UE, esp. long-term UE, thereby tended to diminish the efficacy of macro-policies in addressing UE
   
   (3) \( \Rightarrow \) Reform reflects familiar tradeoff b/w equality/safetynet v. efficiency
   
   (4) Also drove growth in govt more generally and, through deficit-finance, debt.

   b) Debt

   (1) Crowding Out (or In) v. Ricardian Equivalence

      Find empirically:

      (2) Not much real effect growth, but seems appreciable effect on UE(-)v.INF(+)

      (3) \( \Rightarrow \) Reform reflects familiar tradeoff

   c) Public Employment

   (1) Reduces productivity (growth), but also alleviates UE & ineq

   (2) However, also exacerbates tradeoff inherent in monetary control of inflation

   (3) \( \Rightarrow \) Reform reflects familiar tradeoff

   d) \( \Rightarrow \) Govt shifting policy emphases (active fiscal to anti-inflationary monetary to structural reform) perhaps traceable to the dynamics of popular preferences in response to these policy and outcome developments.
D. Democratic Commitment to Redistribution (Political Economy of Tax & Transfers)

1. Chapter explores differential development since 1950 in size of tax-and-transfer systems (T&T) in developed democracies.

2. Much positive theory explains these differences & commonalities, as direct conseq. of diff. distributions of political (votes) & economic (money) resources. Crudely:
   
   a) **Democracies respond to median voter’s interests because political influence is, in principle, distributed evenly (1 person, 1 vote) and because majorities rule ⇒ MVT**

   b) **Free-market capitalism tends to distribute income such that median person is poorer than average person (i.e., income distribution is skewed right).**

   c) **Median voter thus desires positive T&T. Specifically, more T&T the greater the income difference between median and mean (=skew). [be able to explain why this so: bigger slice of pie for median v. smaller pie as T&T size increases]**

   d) **⇒ cet. par., T&T increases in (pre-T&T) income or wealth distrib skew.**

3. This chapter Considers more carefully connection b/w distribution of political and economic resources on one hand and policy influence on other.

   a) **Pure fully participatory median voter democracy describes no actual political system.**

      (1) Not everyone votes & in particular, rel wealthy have higher propensity vote

      (2) ⇒ as participation increases, the added votes come disproportionately from poorer end income distribution

      (3) ⇒ median voter (as opposed to median person), given a particular income distrib, becomes poorer rel to avg income as participation rises

      (4) ⇒ govt responsiveness (transfers increase in response) to inequality rises with participation & vice versa, response to participation rises with underlying inequality

      (5) [this ⇒ an interaction of participation & inequality in determining T&T. Know how to express & interpret this interax in empirical model] I.e., be comfortable with y = ... + a^X + b^Z + c^X^Z + ...
b) **Translation of resources into influence occurs in highly institutionalized environments amplifying voice of some and muting that of others. [ancillary arguments & results]**

(1) So, all the institutions that enhance/reduce participation (e.g., registration laws, electoral system, etc.) shape govt responsiveness to inequality.

(2) *Time inconsistency problem* ⇒ the longer the “time horizons” of median voter or policymakers, the more they weigh future in setting T&T, so smaller the T&T system

(3) ⇒ govt instability increases T&T;

(4) median-voter instability (e.g., due to economic instability) increases T&T [can think of this as greater demand social insurance as econ more volatile]

(5) *Wagner’s Law*: wealthier societies spend more on “luxuries” such as equalization and social services and the like.

(6) *Electoral Cycles*: I find pre- & post-election surges in T&T; in fact, the post election surge is larger & more statistically certain. Why might this be? [think challengers & pre-v.post-elect policymakers. Pre- are incumbents who must decide how much (electioneering) T&T to offer; post- are incumbents or challengers who won. Those incumbents who offered too little/too incredibly will tend to lose, replaced by challengers who offered more. So post is more uniformly incumbents & challengers who offered more; thus larger & more significant post- than pre-surges.]

### F. Democratic Financing of the Commitments (Political Economy of Public Debt)

1. **Arguments:** [be able to summarize each argument at its simplest, basic-gist level]

   a) **Tax-Smoothing/Economic-Conditions (Default) Model**

   (1) **Tax-Smoothing**: Rational, foresighted govt would set taxes at rate necessary to fund present value of all expected future spending needs and keep tax rate fixed because rate-variation economically costly ⇒ unexpected shocks & temporary shocks to spending needs induce deficits.

   (2) **Economic Controls**: Whether govt rationally foresighted or just blind, lazy, or unable to change fiscal policy fluidly, we would expect pretty much the same set of economic conditions that affect spending needs to affect deficits in pretty much the same way [no emphasis on distinguishing temporary or unexpected from permanent or expected, though], so prudent to control for economic conditions either way
Interest Rate/Monetary Policy: (among these controls). As govts shifted toward anti-inflationary monetary policy, real interest rates on outstanding debt sky-rocketed. This greatly slowed debt-adjustment rates & so greatly magnified the long-term debt effects of the exogenous shocks that had occurred just before (stagflation) in similar fashion to how fractionalization & polarization did (see below).

b) Fractionalization, Polarization, & Delayed Stabilization:

(1) 2 Competing Versions:
   (a) Veto-Actor Conception of # & polarization policymakers
   (b) Wtd-Influence Conception of # & polarization policymakers

(2) Argument: More &/or more-polarized policymakers less able to change policy then fewer &/or more homogenous
   ⇒ fractionalization & polarization retard policy-adjustment rates [know how to express & interpret this in empirical model]

   (a) Elaborate: Given a need to adjust fiscal policy (e.g., oil shocks & stagflation induce unsustainable deficits), govts must decide how adjust.
      (i) Govts easily decide that “ins” (their supporters/constituencies) not pay costs of adjust, “outs” do (opponents)
      (ii) If pol-mkrs>1, though, alternative adjustment plans will distribute costs & benefits unequally among them, so harder to agree on how to adjust, esp. so the more polarized those pol-mkrs.
   ⇒ adjustment (stabilization) is delayed as each pol-mkr holds out for their preferred plan hoping others capitulate first.

   (b) [Note: for such delay to occur, pol-mkrs must be uncertain about how long each other can hold out (continuing to incur cost of accum debt). If knew, then the weakest caves first & immediately.]

   (c) Implications:
      (i) Debt adjust more slowly as pol-mkrs more fract & polar
      (ii) Long-run debt impact exogenous shocks, like oil crises induced stagflation, many times greater in fract & polar systems (e.g., Italy, Belgium) than more unitary & homog. (e.g., UK, Austral.)

Note: be able interpret dynamic models like $y_t = \ldots + \rho y_{t-1} + \beta x_t + \ldots$ for the “long-run steady-state” effects of $x$, etc. Including, in this context, cases where $\rho = \alpha_0 + \alpha_1 \text{IntRate} + \alpha_2 \text{NumParties} \ldots$
c) Strategic Debt Manipulation to Alter Future Govts’ or Voters’ Incentives: 3 versions

(1) Issue Debt to Spend More Now & to Constrain Future Govts:

   (a) Alternative govts differ on what activities they’d like to spend;

   (b) ⇒ Current govt has incentive to borrow to spend more now, on what it wants, and to leave more interest burden to constrain future govts, whose spending pattern it dislikes anyway.

   (c) ⇒ This incentive is greater the larger the replacement risk (probability of being replaced times distance to expected replacement in pref’d spending)

(2) Issue/Retire Debt to Constrain/Free Future Big-Spending/Low-Spending Govt

   (a) Alternative govts differ on how much they’d like to spend;

   (b) ⇒ Big spender has incentive to borrow to increase interest burden on & so reduce ability of future, big-spender to spend (on other than interest repay)

   (c) ⇒ Low spender can only retire debt to free low spender to spend at least what it would, rather than have that cut too by interest burdens.

   (d) These incentives, for right to borrow & left to save, are greater the larger the replacement risk (in this case implying an interaction of replacement risk with current govt partisanships)

(3) Issue/Retire Debt to Shift Structure of Interests in Society (i.e., voters)

   (a) Voters know or suspect one of the alternative govts to be a greater debt-default risk (perhaps ‘partial default’ via inflation).

   (b) ⇒ the lower default risk has incentives to issue more debt, esp. nominal (non-inflation-indexed) domestic-currency denominated debt, to increase (nominal) debt-asset holdership among voters, thereby shifting them to right. (again, the higher-risk alternative (left) can retire debt to shift it other way)

   (c) ⇒ Right govts issue more debt; empirically, it seems secure (low-replacement risk) right govts are the ones that do this. Possibly only secure rights can invest in such a strategy; secure lefts, conversely, sound fiscally, possibly b/c they need to maintain fiscal maneuverability & efficacy to be more left-Keynesian-activist.
d) **Electoral and Partisan Budget Cycles (i.e., Tufte & Hibbs):**

1. [you know this one already]
2. [note: I found regarding deficits very similarly to what I found regarding T&T, so see that section on these points]

e) **Age-, Income-, & Age-&-Income-Distributions and Public Debt as Negative Bequest**

1. Current poor would like to borrow against their future descendents (leave neg. bequests) but financial markets do not allow that. Public debt, though, effects such a negative bequest (although not perfect substitutes), so poor demand more debt.
2. Current old would like to borrow against future generations (demand more public debt) for same reason & also h/c not he around to pay back most of today’s debt.
3. Old-poor especially, then

f) **[Distributive Politics, Multiple Constituencies Problem: not covered, you may omit]**

g) **Democracy, Fiscal Structure (Complexity), & Fiscal Illusion**

1. Voter’s simply reward spending & punish taxes; the degree to which they punish deficits, which is small, reveals they do not make connection correctly: Fiscal Illusion.
2. ⇒ democracies may accumulate more debt than non-democracies.
3. ⇒ the more complicated the fiscal system, the less the voters “get it”, and so the more they demand more spend & less taxes w/o recognizing budget constraint. I mentioned centralization of tax system, reliance on direct v. indirect taxes, and on taxes v. other sources of revenue in this regard.

h) **[Budgetary Rules, Macro-Institutions: not covered, you may omit]**

i) **Central Bank Independence as a Debt-Financing Constraint**

1. Govts seem historically to have reduced high debt-to-GDP ratios primarily by ‘growing out from under the debt’ and by ‘inflating away the debt.’
2. The latter of these two, apparently preferred, strategies is unavailable if CB, so prudent govs would avoid accumulating debt in first place if their CB independent and so would debar the politically cheaper inflationary escape hatch.
III. Hays, Globalization & the New Politics of Embedded Liberalism

A. Preface:

1. When asked, used to say hook about:
   
   a) "...how national institutions—primarily electoral & labor-market institutions—shape the political & policy responses of [developed-democratic] governments to globalization."

   b) "...about how domestic politics reacts to & interacts with the global economy & how institutions structure these relationships."

2. Now frame issues as:

   a) "...the political backlash against globalization in the Anglo-American democracies..."

   b) "...the future of the global economy is at stake, and possibly international peace & stability as well."

B. Chapter 1: Economic Globalization & Domestic Politics in the Developed Democracies

1. Long argued that the domestic political foundation of the current liberal international economy was/is an implicit bargain b/w govt & citizens: EMBEDDED LIBERALISM

   a) [a.k.a., or related concepts: Postwar Settlement, Class Compromise; as summarized in Franzese (2002), for instance: "postwar settlement & class compromise on KWS"]

      (1) Govt’s protect citizens ‘vagaries international economy, primarily through the provision of social insurance and, more recently, with active labor-market programs, [& macroeconomic management,]’ in exchange

      (2) “political support for policies like free trade that drive econ globaliz’n.”

   b) Some argue revenue constraints globalization production & finance making govt end bargain increasingly difficult sustain:

      (1) Int’l financial mobility [bond markets] “discipline” borrowing
      (2) MNCs move production to evade taxation.

   c) Troubling because:

      (1) Trade key source growth & prosperity late 20th into early 21st C (as was in late-19th into early 20th C.)
      (2) & reversal globalization trends last time in late-20s/early-30s followed by global econ collapse, political disintegrations, & world war.
2. **CORE ARGUMENT:**

   a) Combination of Majoritarian Democracy & Decentralized Labor Markets exacerbates political problems govts committed to economic openness face,

   b) & countries with this institutional mix are most susceptible to political backlash against globalization

   (1) List includes US & UK, two pillars of postwar int’l econ openness, Australia, key player int’l talks as a leader in Cairns group of agricultural free-traders, and Canada, another G8 & agricultural exporter.

   (2) Plus, Germany & Japan undertaking liberalizing (& majoritarian-izing in Japan’s case) reforms moving their political-economics in this direction.

C. **Alternative Views Globalization & Domestic Politics**

1. Long studied; increasingly heavy emphasis. Central, & debated, Q’s:

   a) Docs internationalization financial markets => [Kecynsian] welfare state retrenchment?

   b) Is international economy vulnerable political backlash v. globaliz’n?

   c) Can *corporatist systems of industrial relations [define; elaborate]* survive the multinationalization of economic production?  
   (would retain in review but not highlight in 2011)

2. Optimists & Pessimists based on responses these & related Q’s

   a) Optimists: view relationship domestic politics & economic globaliz’n as two being largely compatible. vs.

   b) Pessimists: emphasize tensions between politics at the national level & growth international markets.

3. **Pessimists: emphasize constraints from economic openness**

   a) Rodrik (1997) [Has Globalization Gone Too Far?] Hays labels “Rodrik’s globalization dilemma”:

      (1) Globalization ⇒ ↑political demands on govts provide social insurance & other public goods, while at the same time...

      (2) Globalization ⇒ ↑constraints public revenue & finance, thereby undermining govts’ abilities fund such spending.

   b) Concerns that one side in this tension will win:

      (1) Erosion of popular sovereignty, & ultimately a diminishing of democracy, as democratic control over domestic economic policy constrained, or

      (2) Political backlash v. globalization ⇒ govt withdrawal from econ openness with similar consequences to last withdrawal from globalization of 1930s...

   c) Note: Emphasizes domestic political consequences economic globalization rather than effects of politics on the international economy. (would retain in review but not highlight in 2011)
4. **Optimists:** [e.g., “varieties of capitalism” scholars] downplay globalization’s constraints & instead emphasize democratic choice. See relationship global economy & domestic politics mutually reinforcing:

   a) Societies that prefer regulated economies, interventionist govts, & income equality will only see these preferences strengthened by glob’z’n

   b) Cross-national diff’s pol & econ institutions ⇒ maneuvering room

   c) Divergent responses to globalization: organized market economies retain & even enhance their distinct variety of capitalism, liberal market economies become even more so [see Kitschelt quote, p. 6]

   d) Since argue constraints exagg’d, some optimists arg. fears backlash also

      (1) Often implicit in VoC & related arguments: solution tells us about societies

      (2) If want one side Rodrik’s dilemma, then elect (parties assoc. w/ ) it; If want other, then elect alternatives.

5. **Hays: econ pressures from ↑ trade & capital integration**

   a) ⇒ ↓ social-welfare effort in countries w/ LMEs & majoritarian political systems (i.e., systems where “losers” not represented in policymaking)

   b) ⇒ ↑ social-welfare effort in countries w/ CMEs & proportional political systems (i.e., systems that encourage accommodation by “winners” of “losers”)

   c) Some correct & some missing on both optimist & pessimist side:

      (1) Optimists & other proponents “divergent-paths” argument right that responses LMEs & CMEs to globalization have differed, but no evidence supporting the inference that divergence reflects societal preferences.

      (2) Pessimists neglect domestic institutions, so cannot show why constraints particularly binding/effective in LMEs or why growing discontent especially worrisome there.

   d) Most importantly for Hays, the two differ on explanation for why LMEs respond to greater exposure by smaller safety-net:

      (1) Optimists: freely chosen divergent path, so politically sustainable.

      (2) Pessimists: globalization constrains to latter, while former spurs demand for opposite policy-trend, so a thorny, potentially dangerous dilemma. Unsustainable: Govts must choose either path A or path B on following

   e) Finally, 3rd group, call them globalization skeptics, argue globalization does neither—effectively increase neither demand nor constraints.
D. Hays’ Argument:

1. **Part pessimist, part optimist**—divergent paths real, constraints real, extent dilemma variable, depends heavily domestic PE institution
   
   a) Where openness more linked unemployment & labor-market risk, demand insurance & compensation greater: liberal-market economies.
   
   b) Where countries more dependent capital taxation for revenue, constraints from tax competition greater: majoritarian democracies.
   
   c) Conditions ripest backlash in majoritarian LME’s, which Anglo-America, which pillars postwar social-compact of Embedded Liberalism.

2. **Part I: Globalization & the Crisis of Embedded Liberalism**
   
   a) **Ruggie’s (1982) Embedded Liberalism**
      
      (1) *Embedded Liberalism*: postwar domestic social compact where govts exchange [Keynesian] welfare-state policies to cushion citizens against vagueries int’l econ for public support for openness.
      
   b) **Demand & Supply behind Embedded Liberalism:**
      
      (1) Worker’s exposed risk *demand* help;
      
      (2) Govts committed econ openness *supply* it, preferring insurance & adjustment assistance to tariffs & restrictions.
      
      (3) *Rodrik’s (1997)* globalization dilemma = crisis embedded liberalism; but degree varies, according to openness link labor-market uncertainty & public-revenue constrain as noted above.

3. **Part II: Competitive Labor-Markets & Demand for Assistance**
   
   a) **Labor-market institutions**:
      
      (1) *Liberal labor-markets* (LME) = flexible = easy hire & fire => trade volatility passes into employment volatility more directly.
      
      (2) *“Coordinated” or “corporatist” labor-markets* (CME): institutions designed sustain employment face econ (in fact, esp. int’l econ) shocks/volatility:
         
         (a) Do so via real-wage *moderation*—i.e., essentially, coordinate response in real-wage, not employment
         
         (b) N.b., cost is labor-market rigidity, long-term unemploy, which concentrated in ‘outsider’ groups, as opposed ‘corporatist’ bargaining-system ‘insiders’.
      
   b) **Globalization flattens domestic labor-demand curves (↑ elasticity)**
      
      (1) Outsourcing, FDI, etc. make easier substitute foreign for domestic labor
(2) => response domestic wage-bill shocks much greater. [In LME's, response (relatively) more in employment than in CME's where more in real-wages.]

c) => Workers in LMEs = more globalization anxiety

4. Part III: Majoritarian Democracy & Supply of Assistance

a) Broad distinction majoritarian vs. proportional drawn here:

   (1) Majoritarian responds to median voter, losing groups minimal influence

   (2) Proportional responds to weighted average, losing groups often enough influence to force compromise or even require consensus.

b) Majoritarian accordingly will rely more-heavily capital tax:

   (1) Median voter relatively capital poor—not much income capital[—probably even participation-weighted median—] therefore wants revenue-max cap tax.

   (2) Increased capital mobility raises elasticity capital tax-base w.r.t. tax-rate, so desired/feasible capital-tax & so revenue declines with mobility.

c) Proportional will rely less-heavily on capital tax:

   (1) Minority capital-holders able diffuse, even defeat, popular demand cap tax.

   (2) Public revenue needs [which greater due greater responsiveness demand assistance] met more by other taxes (labor & consumption)

      (a) [Note: empirically, definitely greater capital tax LME's than CME's

      (b) Puzzle since most other distributional issues have LME less 'equitable'.

      (c) Hays' answer one of more plausible explanations, but not perfect...]

d) => Globalization's Revenue Constraints tougher on Majoritarian Dem's.
F.  Chapter 2: Government Spending & Public Support for Trade in the Developed Democracies

1.  Summary of Argument:  (again)

   a)  Embedded Liberalism:

      (1)  To secure economic openness & multilateralism, Govt provides social insurance & other policies (e.g., Keynesian management of economy) to ameliorate & compensate losers to vicissitudes of international exposure

   b)  Globalization & the Crisis of Embedded Liberalism:

      (1)  Rodrik's Globalization Dilemma:

          (a)  Increasing exposure risk $\Rightarrow$ increasing demand insurance & compensation

          (b)  Increasing mobility capital $\Rightarrow$ (through tax-competition) increasing constraints on revenue (needed to fund insurance & compensation)

          (c)  [Also, increasing int'l exposure weakens Keynesian macro management.]

   c)  Hays: sharpness of dilemma varies across countries depending political-economic institutions: sharpest in Anglo-American democracies

      (1)  Increasing risk, & so rising demand compensatory policies, induced from increasing integration depends critically labor-market institutions:

          (a)  Globalization flattens domestic labor-demand curves (↑ elasticity)

              (i)  Outsourcing, FDI, etc. make easier substitute foreign for domestic labor

              (ii)  $\Rightarrow$ response domestic wage-bill shocks much greater. [In LME's, response (relatively) more in employment than in CME's where more in real-wages.]

          (b)  How that increasing risk of globalization affects workers depend PE inst’s:

              (i)  Liberal labor-markets (in LME's) = flexible = easy hire & fire $\Rightarrow$ trade volatility passes into employment volatility more directly.

              (ii)  Coordinated or corporatist labor-markets (CME's): institutions designed sustain employment face econ (in fact, esp. int'l econ) shocks/volatility:

                  (a)  Do so via real-wage moderation: coordinate response in real-wage, not employment

                  (b)  N.b., cost is labor-market rigidity, long-term unemploy, which concentrated in 'outsider' groups, as opposed 'corporatist' bargaining-system 'insiders'.

          (c)  $\Rightarrow$ Workers in LMEs = more globalization anxiety
(2) Competition in capital tax rates, so extent of constraint depends on reliance on capital taxation; reliance higher in Majoritarian Democracies

(a) Broad distinction majoritarian vs. proportional democracies:
   
   (i) Maj: responds mediant; losing grps minimal influence, so w/o compromise

(ii) Prop: responds to average; losing groups often enough influence to force compromise or even require consensus.

(b) Median and, though somewhat less so, average = relatively capital-poor, by a large margin. Derives little income capital, so wants revenue maximizing rate.
   
   (i) In Maj, median needn’t compromise w/ minority cap-holder, so high cap tax.

(ii) In Prop, average slightly less cap-tax preference & must compromise. Public revenue needs [which greater due greater responsiveness demand assistance] met more by other taxes (labor & consumption).

(c) Increased capital mobility raises elasticity capital tax-base w.r.t. tax-rate, so desired/feasible capital-tax & so revenue declines with mobility. (& less so for other, less-mobile tax bases)

(d) => Globalization’s Revenue Constraints tougher on Majoritarian Dem’s

2. Examine empirical determinants individual support protectionism

a) Results: lesser educated, unemployed, those employed in tradables, particularly import-competing, strongest opponents free trade,

b) but unemployment insurance & to lesser extent, other government programs can moderate their opposition.

c) Some evidence ALM spend may be counterproductive in sense that may lower support for free trade among workers in tradables.

d) => macro-level relationship trade & govt spend conditional:

(1) politicians respond more strongly to surges in imports & less so to expanding trade if it is balanced or generating trade surpluses, and

(2) extent to which politicians respond to rising imports will be a function of how many workers are employed in tradable industries and the overall level of unemployment.

a) What explains variation we observe in trade attitudes? (Actual estimation results in Table 2.3)

(1) Core Structure of the Model: [be able to understand results from these kinds of interaction models]

\[ \text{FreeTrade}_{isc} \ = \ ... + b_1 \text{NetExports}_{sc} + b_2 \text{ Tradable}_{isc} + b_3 \text{ Unemployed}_{isc} + ... \]

\[ + b_4 \text{ NRR}_{isc} + b_5 \text{ NRR}_{isc} \times \text{ Tradable}_{sc} + b_6 \text{ NRR}_{isc} \times \text{ Unemp}_{isc} \]

\[ + b_7 \text{ ALM}_c + b_8 \text{ ALM}_c \times \text{ Tradable}_{sc} + b_9 \text{ ALM}_c \times \text{ Unemp}_{isc} \]

\[ + b_{10} \text{ EPL}_c + b_{11} \text{ EPL}_c \times \text{ Tradable}_{sc} + b_{12} \text{ EPL}_c \times \text{ Unemp}_{isc} \]

\[ + b_{13} \text{ SocSec}_{isc} + b_{14} \text{ SocSec}_{isc} \times \text{ Tradable}_{sc} + b_{15} \text{ SocSec}_{isc} \times \text{ Unemp}_{isc} \]

\[ + b_{16} \text{ Edu}_{isc} + b_{17} \text{ Inc}_{isc} + b_{18} \text{ Age}_{isc} + b_{19} \text{ Single}_{isc} + b_{20} \text{ NoKids}_{isc} + b_{21} \text{ RtlIdeol}_{isc} + b_{22} \text{ Relig}_{isc} + b_{23} \text{ Nlsm}_{isc} \]

(2) Key quantities to estimate & interpret re: the theoretical arguments:

\[ \frac{\Delta \text{FreeTrade}_{isc}}{\Delta \text{ Tradable}_{sc}} = b_2 + b_5 \text{ NRR}_{isc} + b_8 \text{ ALM}_c + b_{11} \text{ EPL}_c + b_{14} \text{ SocSec}_{isc} \]

\[ \frac{\Delta \text{FreeTrade}_{isc}}{\Delta \text{ Unemploy}_{isc}} = b_3 + b_6 \text{ NRR}_{isc} + b_9 \text{ ALM}_c + b_{12} \text{ EPL}_c + b_{15} \text{ SocSec}_{isc} \]

\[ \frac{\Delta \text{FreeTrade}_{isc}}{\Delta \text{ NetExports}_{isc}} = b_1 \]
\[
\frac{\Delta \text{FreeTrade}_{isc}}{\Delta NRR_{isc}} = b_4 + b_5 \text{Tradable}_{sc} + b_6 \text{Unemp}_{isc} \quad \frac{\Delta \text{FreeTrade}_{isc}}{\Delta ALM_c} = b_7 + b_8 \text{Tradable}_{sc} + b_9 \text{Unemp}_{isc}
\]
\[
\frac{\Delta \text{FreeTrade}_{isc}}{\Delta EPL_c} = b_{10} + b_{11} \text{Tradable}_{sc} + b_{12} \text{Unemp}_{isc} \quad \frac{\Delta \text{FreeTrade}_{isc}}{\Delta SocSec_{isc}} = b_{13} + b_{14} \text{Tradable}_{sc} + b_{15} \text{Unemp}_{isc}
\]

(3) Results for those key estimated quantities for substantive-theoretical interpretation:

\[
\frac{\Delta \text{FreeTrade}_{isc}}{\Delta \text{Tradable}_{sc}} = \left( -0.204 \text{ to } -0.443 \right) + \left( -0.055 \text{ to } +0.475 \right) NRR_{isc} + \left( -0.131 \text{ to } -0.117 \right) ALM_c + \left( +0.038 \text{ to } +0.123 \right) EPL_c + \left( -0.030 \text{ to } +0.022 \right) SocSec_{isc}
\]

\[
\frac{\Delta \text{FreeTrade}_{isc}}{\Delta \text{Unemploy}_{sc}} = \left( -0.022 \text{ to } -0.846 \right) + \left( +0.043 \text{ to } +1.149 \right) NRR_{isc} + \left( +0.034 \text{ to } +0.107 \right) ALM_c + \left( +0.012 \text{ to } -0.151 \right) EPL_c + \left( +0.047 \text{ to } +0.125 \right) SocSec_{isc}
\]

\[
\frac{\Delta \text{FreeTrade}_{isc}}{\Delta \text{NetExports}_{sc}} = +0.091 \text{ to } +0.132
\]

\[
\frac{\Delta \text{FreeTrade}_{isc}}{\Delta \text{NRR}_{isc}} = \left( -0.122 \text{ to } +1.186 \right) + \left( -0.055 \text{ to } +0.475 \right) \text{Tradable}_{sc} + \left( +0.043 \text{ to } +1.149 \right) \text{Unemp}_{isc}
\]

\[
\frac{\Delta \text{FreeTrade}_{isc}}{\Delta ALM_c} = \left( +0.062 \text{ to } +0.105 \right) + \left( -0.131 \text{ to } -0.117 \right) \text{Tradable}_{sc} + \left( +0.034 \text{ to } +0.107 \right) \text{Unemp}_{isc}
\]

\[
\frac{\Delta \text{FreeTrade}_{isc}}{\Delta EPL_c} = \left( +0.180 \text{ to } +0.234 \right) + \left( +0.038 \text{ to } +0.123 \right) \text{Tradable}_{sc} + \left( +0.012 \text{ to } -0.151 \right) \text{Unemp}_{isc}
\]

(↑ note opposite signs of the conditional effects) (even more emphasis in 2011)
\[
\frac{\Delta FreeTrade_{isc}}{\Delta SocSec_{isc}} = (\frac{+.015 \text{ to } +.094}{.036 \text{ and } .013}) + (\frac{-.030 \text{ to } +.022}{.033 \text{ and } .034}) Tradable_{sc} + (\frac{+.047 \text{ to } +.125}{.048 \text{ and } .041}) Unemp_{isc}
\]

G. Macro-Level Analysis:

1. Micro results:
   a) Confirm tradable/non. imp/export. & un/employed distinctions key to support trade.
   b) Also suggest policymakers can bolster support by judicious application compensatory policies:
      (1) NRR generally effective compensatory, SocSec perhaps not (but measure).
      (2) ALM & EmployProtect oppositely distributed effectiveness:
          (a) ALM helps unemployed & so dampens anti-trade effect of unemployment; ALM not particularly helpful to employed, may even harm (by ↑ competitiveness for their job, so ↓ wages etc.) & so opposite for anti-trade effect of tradable-sector employment.
          (b) EmployProtect helps employed, harms unemployed, so opposite conditioning
   c) Need to compensate increases as tradables increases & as macroeconomic performance declines & vice versa. Do we see this in the macro-level relationships?

2. Results (Table 2.5), Interpretation, & Concluding Discussion follow...
   a) Again: key to model for our purposes are the interaction terms: imports, deindustrialization (trade closure), and imports times deindustrialization.
   b) Be able understand & interpret results like these.

I.e., understand interactions again, and also, in this last case, what the spatial lag in the model is, what it represents substantively, and how in broadest terms to interpret.
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[...]