

ps343: Lecture Notes
Professor Franzese

***Globalization & the New Politics of
Embedded Liberalism***

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I. Preface:

A. *When asked, used to say book about:*

1. “...how national institutions—primarily electoral & labor-market institutions—shape the political & policy responses of [developed-democratic] governments to globalization.”

2. “...about how domestic politics reacts to & interacts with the global economy & how institutions structure these relationships.”

B. *Now frame issues as:*

1. “...the political backlash against globalization in the Anglo-American democracies...”

2. “...the future of the global economy is at stake, and possibly international peace & stability as well.”

C. *At start: likelihood political backlash against globalization, 1 which might potentially undermine longstanding foreign-economic policy-commitments to economic openness & multilateralism seemed remote*

1. ...idea might originate in Anglo-Amer. dems even more remote.

2. Econ historians were noting similarities late-19th & early-20th C,

a) but possibility that emerging discontent in latter would see repeat of 1930s, where international economy would collapse under global depression & beggar-thy-neighbor foreign-economic policies dismissed

b) [Policymakers & publics had learned, right?

(1) Beggar-thy-neighbor only exacerbated probs, ultimately beggar-thyself;

(2) Fiscal-tightening & monetary non-response of prewar reactions economic bust only exacerbated & prolonged problems;

(3) Fiscal & monetary expansions of late 30's & WWII were what finally eased grip Great Depression (These lessons all learned...right?)]

c) Now 1930's [& 1990's Japan] "our new historical reference point":

(1) UK immigration reform under rhetoric save "British Jobs 4 Brit. Workers"

(2) US stimulation package with "Buy America" clause...

d) At height of econ crisis, US intell. chief pronounced global economy #1 security threat to US, replacing Al Qaeda & global terrorism).

3. However, think full 1930s scenario unlikely because:

a) Policymakers [& publics?] have learned [some] important lessons from interwar period, even though

b) Risks to int'l economy most serious today since end of World War II.

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

A. *Setting*:

1. Around [developed-democratic] world, growing political opposition liberalization trade, rising foreign investment & inflows foreign workers. Beginning to affect public policy:

a) EU “enlargement fatigue”:

(1) French & Dutch voters reject European constitution

(2) Government attempts limit cross-border mergers & acquisitions in “strategic” sectors like banking, steel, energy

b) US:

(1) GW Bush had fight intense battle to win Trade Promotion Authority from reluctant Congress

(2) Kerry in 2004 campaign labeled outsourcing CEOs “traitors”

(3) CAFTA passed House by 1 vote in 2005

(4) Dozens of anti-China trade bills introduced Congress recent years

c) Collapse Doha round of WTO multilateral trade negotiations

d) Why? Where have lasting consequences? What implications global economy & international relations?

2. *C&IPE* long argued domestic political foundation current liberal int'l econ implicit bargain b/w govt & citizens: **EMBEDDED LIBERALISM**

a) [a.k.a., or related concepts: Postwar settlement, class compromise; e.g., from Franzese (2002): “postwar settlement & class compromise on KWS”]

b) Govt's protect cit's from “vagaries international economy, primarily through the provision of social insurance[& macroeconomic management,] and, more recently, with active labor-market programs” in exchange for:

c) “political support for policies like free trade that drive econ globaliz'n.”

(1) Without this support, governments reluctant endorse econ openness

(2) [DISCUSS this trade: who are the ‘sides’? what getting? Always has been considerable vagary & indeterminateness in the argument]

d) Some argue revenue constraints from globalization production & finance making gov't end bargain increasingly difficult sustain:

(1) Int'l financial mobility [bond markets] “discipline” borrowing

(2) MNCs move production to evade taxation.

e) Troubling because:

(1) Trade key source growth & prosperity late 20th into early 21st C (as it 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.

3. 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-economies in this direction.

4. Book engages core globalization research in political science, which:

a) Focus small European pol-econ's with large welfare states;

b) Downplayed constraints from rising capital mobility;

c) Ignored public attitudes toward international economy.

5. Concludes:

a) New bargain *Embedded Liberalism* needed, particularly in world's most-powerful nations, to sustain economic globalization:

b) Will require "carefully crafted compensatory programs" designed with eye to political sustainability.

B. *Alternative Views Globalization & Domestic Politics*

1. Long studied; increasingly heavy emphasis. Central, & debated, Q's:
 - a) Does internationalization financial markets => [Keynesian] 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?
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.
 - c) *Hays*: not take sides, draw relative analytic strengths each to bridge.

3. Pessimists: *emphasize constraints from economic openness*

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

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

(2) Globalization \Rightarrow \uparrow constraints public revenue & finance, thereby undermining govts’ abilities fund such spending.

b) Political & Economic forces from globalization pulling govts oppositely; note as supportive evidence, for examples:

(1) signs of welfare-state retrenchment, and of

(2) declining capital taxes.

c) 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 \Rightarrow govt withdrawal from econ openness with similar consequences to last withdrawal from globalization of 1930s

(3) Notably (predictably): econ historians emphasize latter; pol-sci’s former.

d) Notice that: Emphasizes domestic political consequences economic globalization rather than effects of politics on the international economy.

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 econs, activ-/intervention-ist 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]

ASIDE: Recall, we saw this set of arguments about “not convergence, instead maneuvering room or more” before, when we introduced Clark’s book:

General Gist of Most Counters: *Maneuvering Room* b/c

Other national differences (e.g., commercial, regulatory, & other policy; lab-mrkt instits; availability intermed-supply; final-mrkt proximity; etc.: Hines ‘99) also affect invest-locate.

Plus, other factors than cap. mob. affect govts’ tax policies.

Garrett: Certain Left-Lab combo’s efficient, so not fled.

I.e., certain combos left govt w/ soc-welf, ALMP, coord-barg, & related as or more effic. than neolib minimalism & cons. govt; so cap not flee such combos.

Boix: Left-PubInv & Right-MinIntervene econ’ly close & suff’ly pol. effective

Pub human- & physical-cap investment=alternative to neolib minimalism that sufficiently efficient macroec’ly to attract/retain capital & politically to support left electorally.

VoC: Institutions & Public Policies \Rightarrow comparative advantage \Rightarrow divergence/

Hall&Soskice '01: complex national networks of PE inst's confer comparative advant's

Mosher&Franzese '02: VoC \Rightarrow

Fixed-cap mob. & trade integ. spurs specialization (of PubPol & PE-inst'l struct. also);

Only liquid-cap mobility spurs int'l tax-competition, & it has other implications than commonly thought \Rightarrow Strategic Interdep. & Race to a "Bottom" that is not necessarily ≥ 0 .

Swank: Domestic pol & institutional constraints

Inst'l struct polity & welf sys itself shape domestic pol-resp to integ. Arg not fundamentally challenge exclusive or superior macroec effic. neolib min'ism; Rather, stresses primacy domestic political conditions in determine nature & mag of welf/tax-policy reactions to int'l econ integ.

Hays: Domestic pol-econ struct (cap-lab endowment & majority/consensus dem) condition response to increased cap mobility. (arg. is elaborated in book...)

Basinger-Hallerberg: *Strategic Interdependence*: insofar as any these (3, 5, 6, 7 esp.) constrain 1 state, they ease cap-competition for others.

Rodrik & others: also could expect \uparrow globalization to \uparrow demand public protection from vicissitudes global economy; so demand \uparrow while ability to supply \downarrow .]

d) Hays: econ pressures from \uparrow trade & capital integration

(1) \Rightarrow \downarrow social-welfare effort in countries w/ LMEs & majoritarian political systems (i.e., systems where "losers" not represented in policymaking)

(2) \Rightarrow \uparrow social-welfare effort in countries w/ CMEs & proportional political systems (i.e., systems that encourage accommodation by "winners" of "losers")

e) Since arg constraints exagg'd, some optimists arg fears backlash r also

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

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

5. Distinction & framing optimists v. pessimists useful for some purposes, but also obscures much, like...two underlying debates:

a) Does globalization force convergence to some neoliberal bottom?

b) Likelihood of a backlash, & whether globalization is reversible?

6. Some problems in 'societal preferences' inference, for instance:

a) Survey evidence from paradigmatic LME, the US, clear: globalization greatly worries most Americans, increasingly so as it has progressed:

(1) 1999-2004, % say US should actively promote int'l trade: 32% ↓9pts to 23%; % saying keep or slow it: ↑10pts to 67%.

(2) Evidence conditional support trade: 60% take "support trade & govt should have programs for job losers" over "support & should not" or "not supp"

(a) Conditional support ↓5 pts; Unconditional support ↓6 pts; & no support ↑8pts.

(b) 63% in 2004 said govt programs job losers inadequate, ↑6pts from 57% in '99.

- (3) *Also affecting policy:*
- (a) Summer 2002 grant trade authority Bush only after 8-yr stalemate, &
 - (b) McCain's acceptance speech @ Repub convention endorsed expanded trade-adjust. assistance & experimental wage-insurance older workers provision therein.
- b) 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.
- c) Most importantly for Hays, the two differ on explanation for why LMEs headed down greater exposure & smaller safety-net path:
- (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.
 - (a) Unsustainable: Govts must choose either path A or path B on Fig 1.1, but Rodrik's globalization dilemma pants Fig 1.2 (neither option stable).
- d) Finally, 3rd group, call them *globalization skeptics*, argue globalization does neither—effectively increase neither demand nor constraints.

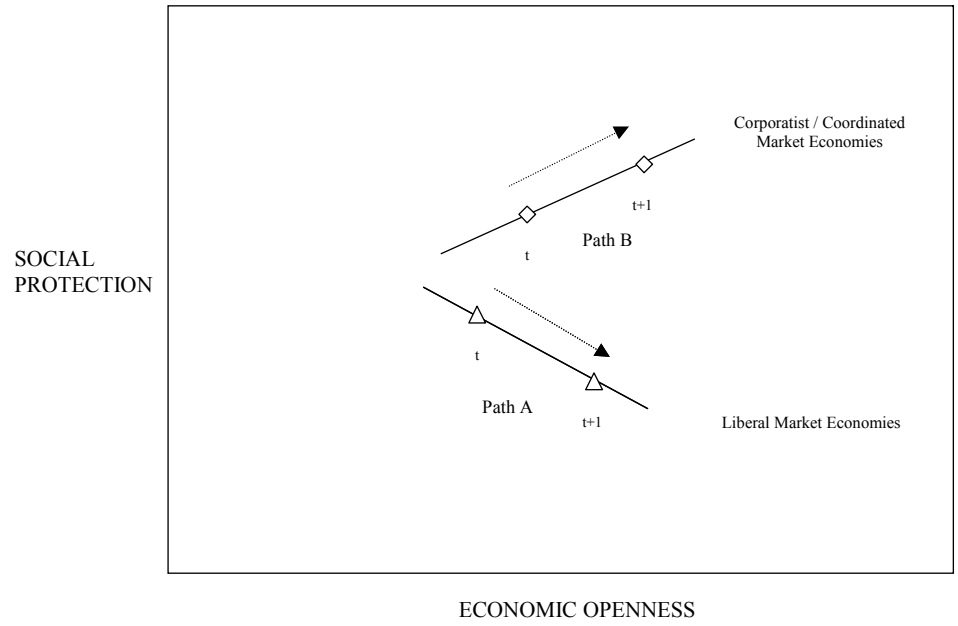


Fig 1.1

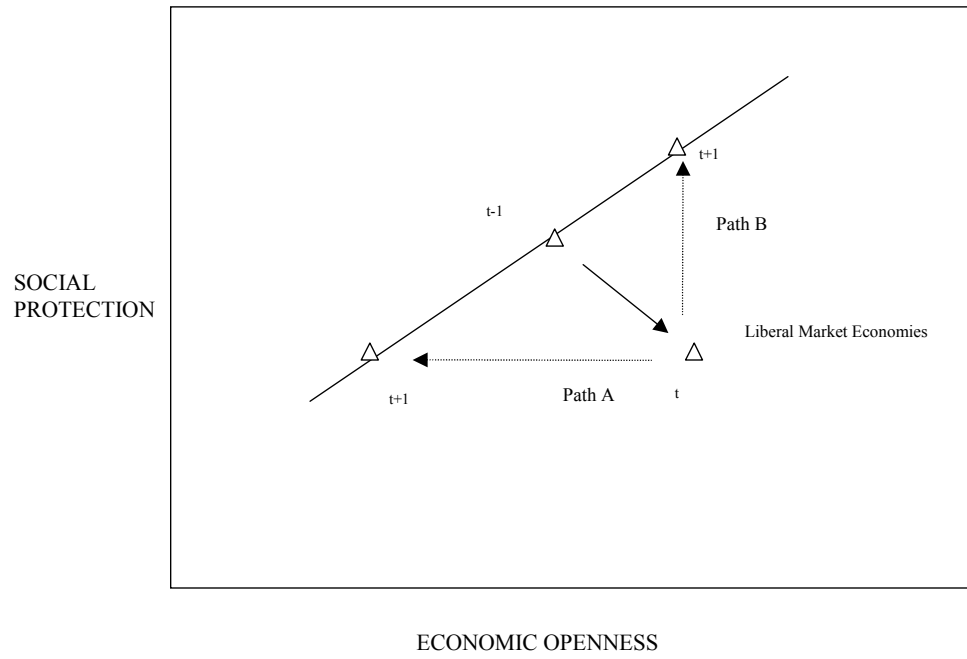


Fig 1.2

7. **Hays:** explanation for why majoritarian democracies w/ LME's take path they do also implies they especially susceptible political backlash. *Critics might raise 3 challenges (addressed later) to dire conclusion:*

- a) Some trends in international economy make openness less risky for workers recently than was in past;
- b) Globalization is largely irreversible;
- c) Globalization's losers can be compensated.

C. Hays' Argument:

1. Part pessimist, part optimist—divergent paths real, constraints real, extent of dilemma varies, depends heavily on domestic PE institutions.

- 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) Int'l community learned 2 things collapse gold std & interwar econ &ff:
 - (a) Int'l economy crumbles if states pursue unilateral, beggar-thy-neighbor
 - (b) Govt's cannot ignore internal costs adjust to external econ shocks: trade causes dislocations & risk that generates political opposition dem leaders must attend

(2) ***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 (HAYS:) sharpness that dilemma & degree that crisis varies, according to link of openness to labor-market uncertainty & to extent & severity of public-revenue constraint, as noted above.***

3. Part II: *Competitive Labor-Markets & Demand for Assistance*

a) Labor-market institutions:

- (1) **Liberal labor-markets** = flexible = easy hire & fire => trade volatility passes into employment volatility more directly.
- (2) **“Coordinated” or “corporatist” labor-markets:** institutions designed sustain employment in face of econ (in fact, esp. int’l econ) shocks/volatility:

(a) Do so via real-wage “moderation”—i.e., essentially, coordinate response to shocks in real-wage, & not to employment, [n.b., & current workers get more of gains (again, react is in wages more than employment) on upside]

(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 (\uparrow 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** [n.b., both have plenty reason be anxious, but much more in LME]

4. Part III: Majoritarian Democracy & Supply of Assistance

- a) Broad distinction *majoritarian v. proportional* drawn here (see figs next):
 - (1) Majoritarian responds to median voter; losing groups minimal influence
 - (2) Proportional responds to weighted average; losing groups often retain 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 to the greater responsiveness to the demand for assistance] met more by other taxes (labor & consumption).
 - (a) [Note: empirically, definitely greater capital tax in 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.

From Powell (2001): *Elections as Instruments of Democracy*

- Electoral rules
 - Plurality/Majority vs. Proportional Rep
- Policymaking rules
 - Concentrated vs. diffused authority

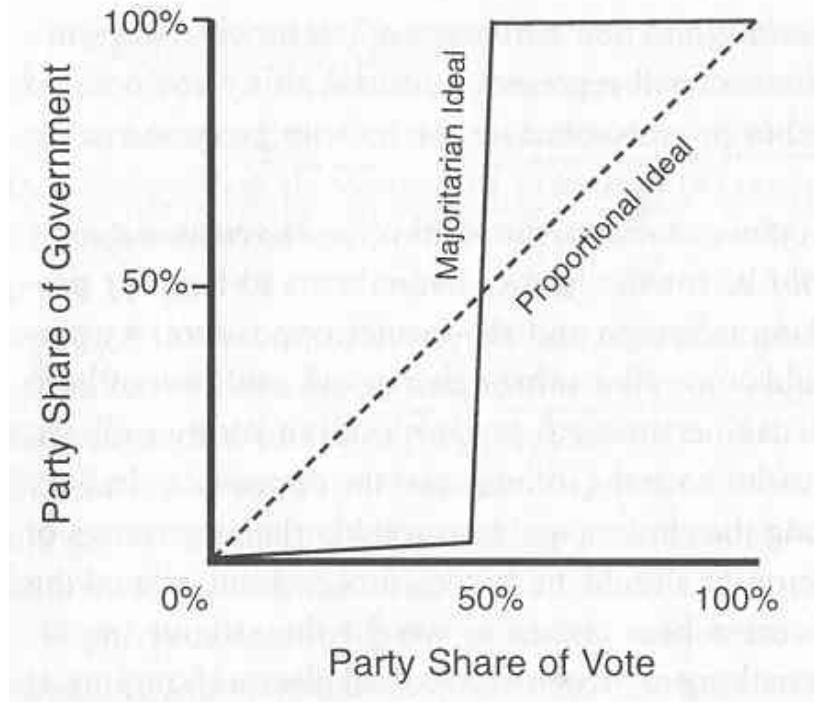


Figure 6.1. Two Ideals of Democratic Responsiveness

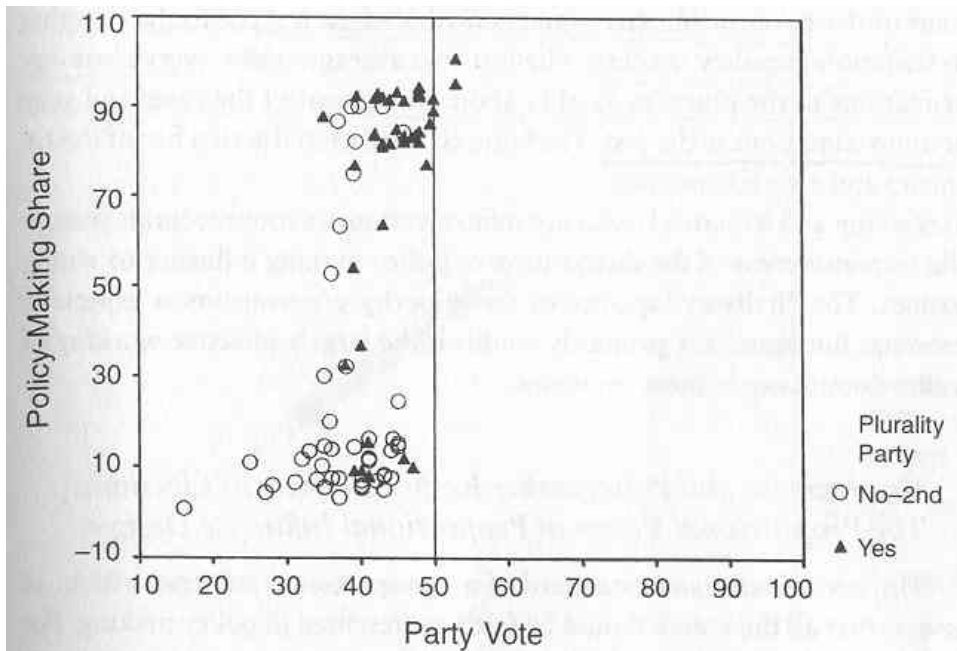


Figure 6.3. Majoritarian Design Systems: Party Votes and Policy Making Share

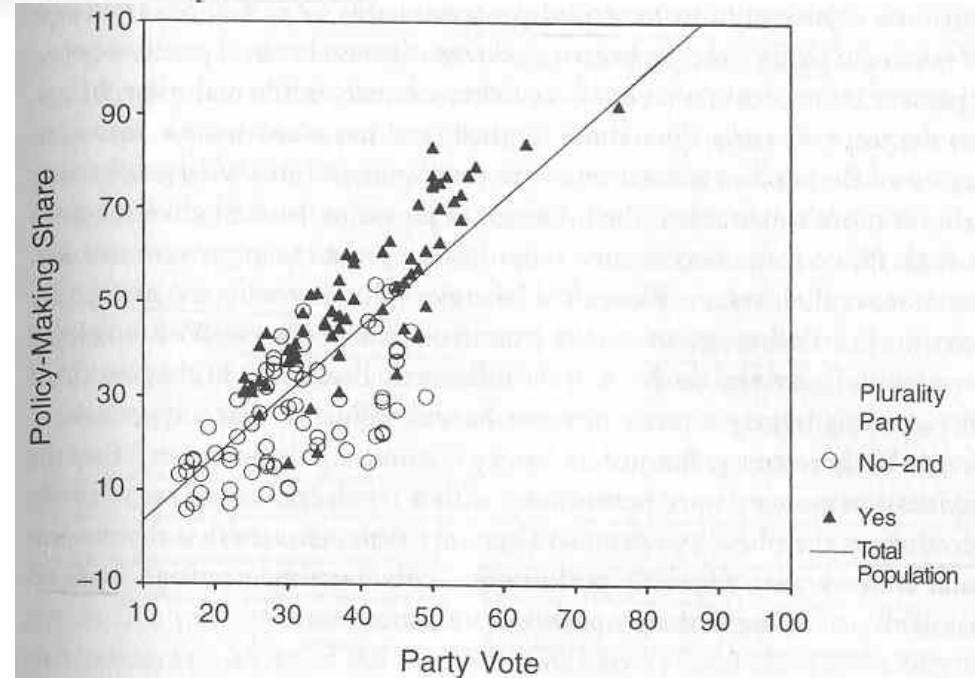


Figure 6.5. Proportional Design Systems: Party Votes and Policy-Making Share

D. *Introductory Chapter offers Summary of the book's Evidence:*

1. Micro-level: connects trade expose, gov spend, & individ. supp. tariff

a) Data: two ISSP surveys 1995 & 2003 in Australia, Austria, Canada, Germany, New Zealand, Norway, Spain, Sweden, U.K., & U.S.

b) Results broadly consistent embedded-liberalism thesis:

(1) Strongest trade opp from individuals employed in high-import sectors.

(2) Yet pol-makers can bolster trade support, even in these sectors:

(a) \uparrow net replacement-rates UE insurance \Rightarrow \uparrow support trade tradable-sector wrkrs

(b) \uparrow active-labor-market (ALM) programs spend does not, or at least not as effectively, or not specifically among these workers

(i) *[Can explain this difference very logically, by the way. See discussion below.]*

2. Macro-level:

a) Aggregate exposure to imports correlates strongly w/ govt spend.

(1) Magnitude of this effect depends % workers employed in tradables,

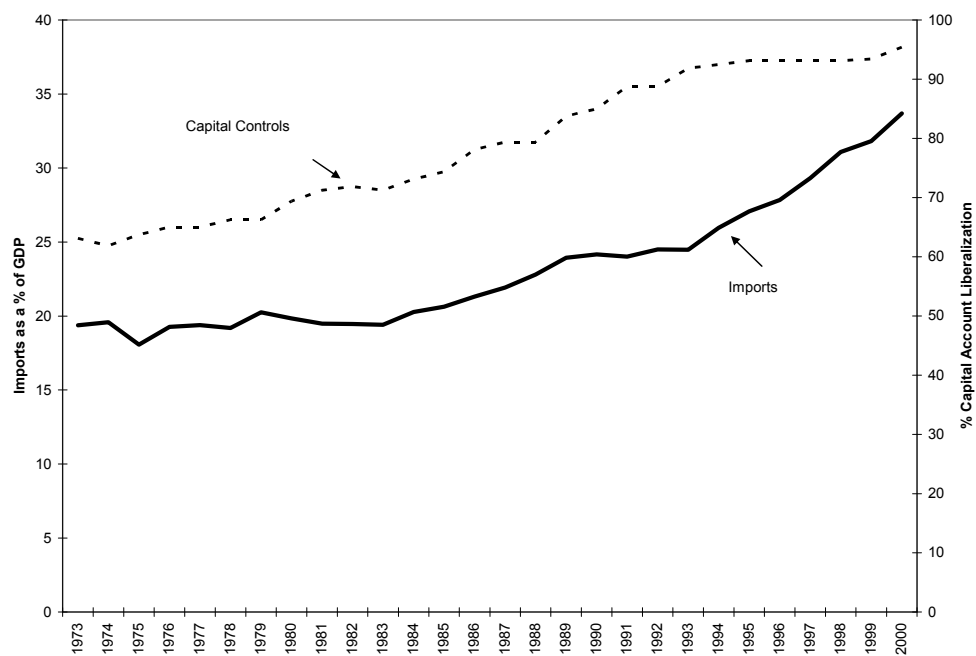
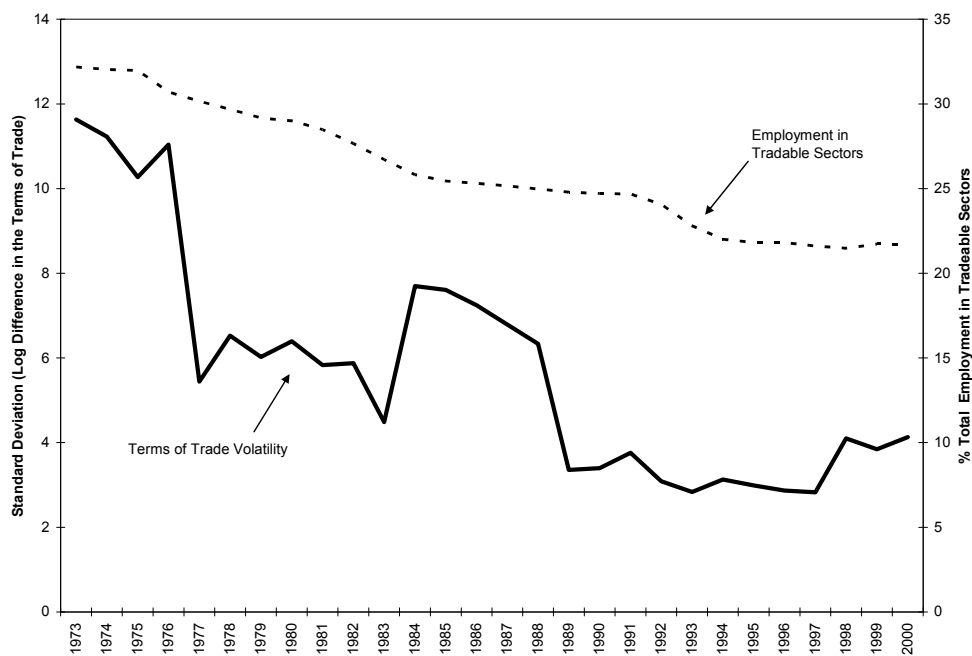
(2) &, to lesser extent, average duration of unemployment spells.

b) Macro Data: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, U.K., & U.S., 1960-2000.

- c) Micro & Macro findings suggest *embedded liberalism* bargain important part contemporary politics international economic openness, even in countries w/ strong right-wing parties & liberal market economies like U.S.
 - d) [We'll cover only chs. 1-2. Summary what we miss from 3-4:
3. Chapter 3: relations wages & trade-related shocks, openness, employ
 - a) shocks in LME's passed to workers in terms of employ;
 - b) trade openness \uparrow elasticity labor demand in LME's;
 - c) trade generates more employment volatility in LME's than CME's.
 4. Chapter 4: tax policies majoritarian dem's, esp. those with richest capital-endowment, most constrained by \uparrow int'l capital mobility.
 - a) B/c these most dependent cap taxes; have had largest \downarrow cap-tax rates.
 - b) E.g., U.K. & Neth. tax reforms starting 1980's, w/ \uparrow Eur Ec Integ:
 - (1) U.K. near/beyond revenue-max capital-tax rate, & it was large source revenue: could cut rate or lose revenue anyway to tax-base flight. Reforms cut.
 - (2) Dutch far less dependent cap-taxes; so Eur integrate not raise same challenges; reform results \uparrow if any change effective cap-tax rates.
 5. Chapter 5: countries that relied heavily cap-tax face substantial budgetary pressures when experience increase employment volatility.

E. Intro also address some of possible reasons one might think 'Crisis of Embedded Liberalism' overstated:

1. Some economic trends may be lessening the sources of the dilemma:
 - a) Growing service (non-tradeable?) relative manufacturing & agriculture
 - b) Relative stability global prices
 - c) So: rising import-compete & capital mobility, yes, but that's against declining instability therefrom affecting a shrinking share?



d) Insofar as services remain non-traded => fewer workers exposed to trade competition & so lower levels political opposition free trade policies.

(1) Chapter 2 supports these conclusions, but

(2) services sectors becoming increasingly exposed international competition:

(a) US BurEcAn'sis: 1995 = \$197B exports & \$130B imports; 2005: \$360 & \$281B.

(b) See recent U.S. backlash v. Indian phone centers, e.g.

(c) Using geographic industrial concentration measures, Jensen & Kletzer (2005) estimate 13.7% total US employ in *tradable services*; only 12.4% total *tradable manu*

e) Re: international prices, no reason expect continued ToT stability. [See oil prices & Iraq conflicts &ff, e.g.]

2. Globalization is exogenous & irreversible; Critics' arguments are:

a) Degree of interdep. & benefits so great, reversal is unimaginable.

b) Globalization largely driven exogenous forces tech & org'l change. Int'l econ beyond control of states, rather a structural constraint upon them.

c) Hays respond: Useful assume global'ztn exog. for analytical purposes, but historical record strongly contradicts claim *glob. irrevers. & exog.*

(1) Reversed before (most recently early 20th C, & many same arg's pre-WWI

(2) Economic historians tend be most concerned reversal & to see late 19th & early 20th C as parallel for late 20th & early 21st.

(a) O'Rourke & Williamson (1999): distributional effects globalization that era fueled reaction later then; seems parallel today.

(b) Frieden (2006, xvi) writes "As was the case a hundred years ago, many people now take an integrated world economy for granted, regard it as the natural state of things, and expect that it will last forever. Yet the bases on which global capitalism rests today are not very different from what they were in 1900, and the potential for their disruption is as present today as then."

(c) Bordo et al. (2003) intro to *Globalization in Historical Perspective*: "if we fear that the violent political reaction to globalization seen recently in Seattle, Ottawa, Gothenberg, and Genoa might cause a political retreat from liberal policy, then it would pay to look carefully at the twenty years of so before World War I."

(d) Globalization's losers then—landowners in Europe and workers in the new world—became the political opponents of economic openness later on.

(e) Today, low to medium skilled workers most to lose from globalization. Fear that globalization induced labor-market uncertainty & economic-insecurity feeling will fuel support for protectionism & possibility of a protectionist backlash.

d) James (2001) *End of Globalization* goes beyond econ self-interest; also:

(1) Initial idealism 1920's re: efficacy managing through int'l institutions => unreasonable expectations, & multilateral options became targets resentment.

(2) Spurred develop nationalist ideologies like Soviet communism & Italo-German fascism (& perhaps, differently, its Japanese variant).

(3) Interwar backlash more than response to global econ integration but v. internationalism broadly. So, say the unconcerned, econ hist's right re: econ parallels then & now, but *pol & soc preconditions for backlash missing today*.

- (a) Optimists' divergent-paths arg. = that strength of right means not going to happen in LME's; voters don't want &, even if did, no party offering it.
- (b) Reassuring: no common nationalist agenda seems unite today's globalization opponents. Clearly, leaders anti-neoliberal globalization movement not espouse nationalism! But James' argument begs question:

(i) Did nationalism enable govts to justify & adopt beggar-thy-neighbor unilateralism that "end of globalization"? Or, did failing int'l econ fuel flames nationalism? Sheri Berman ('06), e.g., argues latter in explain Rise of Fascism and National Socialism.

(ii) No comparable unifying ideologies today, but doesn't mean safe: political change on a much smaller scale could produce unraveling embedded liberalism.

(iii) "critical realignments" one possible mechanism (Nardulli 1995, 11) defines concept from American politics research, as an "abrupt, large, and enduring form of change in prevailing electoral patterns, one that is initiated by a critical election and results in a significantly different partisan balance in the electorate." These realignments overcome institutional checks & balances that stabilize policy in normal times.

(iv) Other scholars, particularly macropartisanship researchers, argue change more gradual & continuous than abrupt (Erikson et al. 2002).

- (c) For Hays' arg, not matter abrupt or gradual, only that econ changes can bring partisan changes & incorporation of new voters sufficient to re-formulate policy equilibria on major scale:

(i) E.g., careful microlevel studies New Deal show such realign brought FDR to power. Brown (1988): both partisan conversion & entry new voters explain New Deal Realignment.

(ii) Voters abandoned Republican Party in 1932 not because Democrats offered a coherent set of policy alternatives to end the Depression—this came later—but rather because the electorate was frustrated with ineffective Republican "solutions."

e) “My point is to make explicit and challenge what is frequently implicit in the *Varieties of Capitalism* literature: that the underlying societal preferences driving policy divergence among the developed democracies are fixed. If this were true, the current policy trajectory of the LME’s would be stable, and globalization would be, for all intents and purposes, irreversible. In this book I show that, in majoritarian democracies with liberal market economies, globalization is generating the kind of conditions that historically have led to significant political change by making existing voters frustrated with status quo policies and by mobilizing new voters. We should not dismiss the potential for a backlash against globalization because we discount the possibility of significant political change.”

3. A new bargain of embedded liberalism?

a) Many suggested. Hays’ arg’s tend focus rel’y more on pol sustainability:

(1) Majoritarian LME’s could try labor reform toward CME (to defuse some of source opposition). Tried in U.K. 70’s & Australia 80’s. Not clear working econ’ly but, very clear not sustainable pol’ly. Not robust partisan change.

(2) Improve supply-side labor-market functioning CME’s, e.g., by ALM? If work, keep UE low & improve flexibility w/o forsake social compromise. This the *New Left* and 3rd Way of Blair’s & Gordon’s U.K. Jury still out;

b) However, need to consider political sustainability these options:

(1) Thatcher's privatization worked politically because made & strengthened its own constituency.

(2) Some argue postwar left's Keynesian mngmnt worked pol'ly same reason.

(3) ALM less likely basis political solution b/c, if works:

(a) Raises human capital which may undermine traditional core left base;

(b) Bolsters 'outsiders' in conflict interest v. 'insiders' traditional core left base

(c) Success depends support firms, which highly contingent specific design policy:

(i) Specific skills vs. general skills, former may bolster demand insurance

(ii) But insofar as ALM makes general skills => enhance cross-sector mobility, => possibly shift trade from 'pressure politics' to 'partisan politics', where at least Left may be less able / disposed to take a pro-trade stance.

(4) Majoritarian LME's could enhance insurance provision

(a) but, to do so at acceptable cost, econ'ly & esp. pol'ly, need reform so UE side-effect not so great & debilitating;

(b) Some move this direction already: 'trade-adjustment' and 'older-worker insurance' good starts in Hays' view.

c) Problem, in short, is no sufficient replacement yet for Keynesian demand-management aspect of postwar Keynesian Welfare State.

III. Chapter 2: Government Spending & Public Support for Trade in the Developed Democracies

A. *Summary of Argument: [Fill in the blanks...]*

1. Embedded Liberalism: _____

2. Globalization & the Crisis of Embedded Liberalism:

a) Rodrik's Globalization Dilemma: _____

b) Hays: sharpness of dilemma varies across countries depending on political-economic institutions

(1) Where (under what PE conditions) is demand for one side of embedded liberalism, one side of the dilemma, strongest?

(2) Where (under what PE conditions) is supply for other side of embedded liberalism, other side of the dilemma, most constrained?

B. Summary of Argument:

1. Embedded Liberalism:

a) 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

2. Globalization & the Crisis of Embedded Liberalism:

a) Rodrik's Globalization Dilemma:

(1) Increasing exposure risk => increasing demand insurance & compensation

(2) Increasing mobility capital => (through tax-competition) increasing constraints on revenue (needed to fund insurance & compensation)

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

3. Hays: sharpness of dilemma varies across countries depending political-economic institutions; sharpest in Anglo-American democracies

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

(1) Globalization flattens domestic labor-demand curves (\uparrow elasticity)

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

(b) => response domestic wage-bill shocks much greater. [In LME's, response (relatively) more in employment than in CME's where more in real-wages.]

(2) How that increasing risk of globalization affects workers depend PE inst's:

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

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

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

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

(3) => Workers in LMEs = more globalization anxiety

b) Competition in capital tax rates, so extent of constraint depends on reliance on capital taxation; reliance higher in Majoritarian Democracies

(1) Broad distinction *majoritarian vs. proportional* democracies:

(a) *Maj*: responds median; losing grps minimal influence, so w/o compromise

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

(2) Median and, though somewhat less so, average = relatively capital-poor, by a large margin. Derives little income capital, so wants revenue maximizing rate.

(a) In *Maj*, median needn't compromise w/ minority cap-holder, so high cap tax.

(b) 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).

(3) 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)

(4) => Globalization's Revenue Constraints tougher on Majoritarian Dem's

C. Chapter 2: begins empirical evaluation these arguments:

1. Review & critique literature trade & government spending

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.

3. => macro-level relationship trade & govt spend conditional:

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

b) 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.

c) Test these last two hypotheses at macro-level.

D. *Arguments re: relation openness & 'size of govt'*

1. Long-standing conventional wisdom C&IPE positive relation (Cameron 1978, Ruggie 1982)—basically the *embedded lib* story

2. Recent contributions: Rodrik, Adserà and Boix, Swank and Mares: Short-term causal, though conditional, relation trade & spend all OECD

a) Rodrik: exposure to external risk explains the empirical relationship, so impact trade openness on spending depends ToT volatility experienced.

b) Adserà & Boix: political logic Embedded Lib'ism only applies to dems.

c) Mares: trade's losers only demand protect & compensate from govts able efficiently provide=>effect open on govt spend depends *state capacity*.

d) All => politics of embedded liberalism present, under right economic conditions, in all the high-capacity, democratic states of the OECD.

3. Challenges:

a) Garrett and Garrett & Mitchell: not a short-term, but a long-term relation, that trade expose => strong union movement => Left-Lab eqbm

b) Iversen & Cusack: *globalization skeptics* -- not exposure, but de-industrialization behind demand compensate; & de-industrialization relatively exogenous to (distinct from) forces globalization.

4. Hays: Problems w/ most extant research on question open & spend:

a) Core Measurement & Specification Error: $\text{Open} = (\text{export} + \text{import}) / \text{GDP}$

(1) Constrains exports & imports same sign & magnitude effects, but should be negative & positive effect, respectively dampened & magnified *risk* (volatility).

(2) => balanced increases trade should increase demand compensation, but not as much as increases under deficit & less so as trade increases with surplus.

b) Effect trade open on govt spend depends also econ structure: share of workers in traded industries & ease displaced workers find new employ.

c) Interdependence ignored: tax competition \Rightarrow countries affected by neighbors' spending; if imports cluster spatially also, then possible bias. E.g.

(1) Surge US exports to Canada $\Rightarrow \uparrow$ US \downarrow Can lab-mrkt outcomes respectively;

(2) In Canada, => \uparrow demands govt compensation, but, insofar Canadian govt constrained by possibility that financing this induce capital flight, it will not respond as strongly as it would otherwise.

(3) This is the dilemma that globalization poses for politicians, yet analysts who ignore this spatial interdependence may overlook evidence completely.

d) Not explore micro-foundations of underlying story: always susceptible criticism spurious macro relationship openness & size without micro evidence supporting argued mechanism

E. Micro-level Empirical Study: Economic Exposure, Public Policy, & Individual Support for Free Trade

1. Data:

- a) International Social Survey Program (ISSP) '95 & '03 surveys national identity; include info re: attitudes toward free trade.
- b) Austral., Germ., U.K., U.S., Austria, Nor., Swe., Spa., N.Zeal., Can.

2. Dependent variable: (FREETRADE) constructed from responses:

- a) *How much do you agree or disagree with the following statement: (Respondent's Country) should limit the import of foreign products in order to protect its national economy.*
- b) 1 Agree strongly; 2 Ag; 3 Neither...nor...; 4 Disag; 5 Disag strongly
- c) High/Low values FREETRADE reflect pro-trade/protection attitudes.
- d) Descriptives in table below.

	freetrade=1 (Protect)	freetrade=2	freetrade=3 (Indifferent)	freetrade=4	freetrade=5 (Free Trade)	X ² statistic ('95-'03 Δ)
Australia						
1995 Observed%	34.8	43.0	10.9	10.0	1.3	99.7***
2003 Observed%	25.0	41.1	19.4	12.7	1.8	
Total Observed%	30.2	42.1	14.9	11.3	1.5	
Austria						
1995 Observed%	38.9	32.9	11.2	13.0	4.0	46.6***
2003 Observed%	29.9	28.9	17.7	14.7	8.8	
Total Observed%	34.5	30.9	14.4	13.8	6.4	
Canada						
1995 Observed%	14.8	33.3	22.7	22.9	6.3	(-) 7.3
2003 Observed%	15.1	36.2	22.4	22.0	4.2	
Total Observed%	15.0	34.6	22.5	22.5	5.4	
Germany						
1995 Observed%	19.8	27.5	19.1	25.2	8.5	29.02***
2003 Observed%	12.9	31.4	22.7	25.6	7.4	
Total Observed%	17.0	29.0	20.5	25.4	8.0	
New Zealand						
1995 Observed%	18.4	35.6	20.2	20.7	5.2	(-) 10.6**
2003 Observed%	20.4	36.6	21.7	18.6	2.7	
Total Observed%	19.4	36.1	20.9	19.6	4.0	
Norway						
1995 Observed%	9.8	30.7	29.5	24.6	5.3	17.4***
2003 Observed%	9.7	25.5	28.5	28.9	7.5	
Total Observed%	9.8	28.1	29.0	26.7	6.4	
Spain						
1995 Observed%	22.9	54.2	11.9	10.0	1.1	936.8***
2003 Observed%	2.1	12.6	25.8	51.4	8.1	
Total Observed%	12.4	33.1	18.9	31.0	4.6	
Sweden						
1995 Observed%	13.3	30.0	31.2	18.7	6.8	63.9***
2003 Observed%	6.4	22.5	35.8	23.7	11.6	
Total Observed%	10.0	26.4	33.4	21.1	9.1	
United Kingdom						
1995 Observed%	24.2	42.0	19.4	12.9	1.5	13.6***
2003 Observed%	18.4	41.1	24.3	14.4	1.8	
Total Observed%	21.6	41.6	21.6	13.6	1.6	
United States						
1995 Observed%	22.7	46.0	17.1	11.1	3.1	25.8***
2003 Observed%	23.0	38.4	21.4	15.3	1.9	

e) Some Notes:

(1) Most opposed free trade: Australia, Austria, U.S., U.K., N.Z., & Canada, where clear majorities think limiting imports good idea.

(2) Most countries statistically significant pro-trade shifts '95 to '03. Excepts:

(a) New Zealand, only country statistically significant shift opposite (anti-trade)

(b) Canada, also shifts anti-trade, but by less & statistically insignificant. (N.b., follows large pro-trade shift Canadian public opinion over 1990s though.)

(3) U.S. small but statistically significant increase support.

(a) Contrasts w/ evidence from PIPA surveys cited Chapter 1.

(b) Maybe like Canada, U.S. reached highest point late 1990s (1st PIPA survey) & declined since

(4) Most pro-trade shifts: Spain (+48.4%), Sweden (+9.8%), Norway (+6.5%).

(5) [Almost no country-times majority free-trade (4 or 5), few even .5*3+4+5].

f) What explains the variation we observe in trade attitudes? See *Table 2.3 Ordered Probit Models of Individual Support for Trade*

(1) [ASIDE: Explain ordered-probit model.]

(2) Core Structure of the Model:

$$\begin{aligned}
FreeTrade_{ind,sect,ctry}^{isc} &= \dots + b_1 NetExports_{sc} + b_2 Tradable_{sc} + b_3 Unemployed_{isc} + \dots \\
&+ b_4 NRR_{isc} + b_5 NRR_{isc} \times Tradable_{sc} + b_6 NRR_{isc} \times Unemp_{isc} \\
&+ b_7 ALM_c + b_8 ALM_c \times Tradable_{sc} + b_9 ALM_c \times Unemp_{isc} \\
&+ b_{10} EPL_c + b_{11} EPL_c \times Tradable_{sc} + b_{12} EPL_c \times Unemp_{isc} \\
&+ b_{13} SocSec_{isc} + b_{14} SocSec_{isc} \times Tradable_{sc} + b_{15} SocSec_{isc} \times Unemp_{isc} \\
&+ b_{16} Edu_{isc} + b_{17} Inc_{isc} + b_{18} Age_{isc} + b_{19} Single_{isc} + b_{20} NoKids_{isc} + b_{21} RtIdeol_{isc} + b_{22} Relig_{isc} + b_{23} Ntlsm_{isc}
\end{aligned}$$

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

$$\frac{\Delta FreeTrade_{isc}}{\Delta Tradable_{sc}} = b_2 + b_5 NRR_{isc} + b_8 ALM_c + b_{11} EPL_c + b_{14} SocSec_{isc}$$

$$\frac{\Delta FreeTrade_{isc}}{\Delta Unemploy_{sc}} = b_3 + b_6 NRR_{isc} + b_9 ALM_c + b_{12} EPL_c + b_{15} SocSec_{isc}$$

$$\frac{\Delta FreeTrade_{isc}}{\Delta NetExports_{sc}} = b_1$$

$$\frac{\Delta FreeTrade_{isc}}{\Delta NRR_{isc}} = b_4 + b_5 Tradable_{sc} + b_6 Unemp_{isc}$$

$$\frac{\Delta FreeTrade_{isc}}{\Delta ALM_c} = b_7 + b_8 Tradable_{sc} + b_9 Unemp_{isc}$$

$$\frac{\Delta FreeTrade_{isc}}{\Delta EPL_c} = b_{10} + b_{11} Tradable_{sc} + b_{12} Unemp_{isc}$$

$$\frac{\Delta FreeTrade_{isc}}{\Delta SocSec_{isc}} = b_{13} + b_{14} Tradable_{sc} + b_{15} Unemp_{isc}$$

Tradable	-.204*** (.051)	-.327** (.167)	-.443*** (.168)	-.262 (.344)	-.401* (.207)
Net Exports	.117** (.048)	.132*** (.031)	.101*** (.031)	.123* (.068)	.091** (.039)
Unemployed	-.022 (.052)	-.406* (.313)	-.537* (.315)	-.846* (.500)	-.826** (.419)
NRR (net replacement rate)	1.679*** (.407)	1.001*** (.250)	-.122* (.104)	1.186*** (.297)	.099 (.151)
NRR × Tradable		.164 (.278)	.475* (.250)	-.055 (.419)	.181 (.311)
NRR × Unemployed		.043 (.522)	.261 (.450)	1.049* (.624)	1.149* (.600)
ALM (active labor-market)	.118** (.045)	.062 (.054)		.105** (.048)	
ALM × Tradable		-.118*** (.043)	-.117*** (.024)	-.126*** (.045)	-.131*** (.031)
ALM × Unemployed		.064 (.093)	.107** (.045)	.034 (.093)	.074 (.061)
EPL (employ protection legis)		.234** (.091)		.180** (.078)	
EPL × Tradable		.104 (.084)	.038 (.036)	.123 (.089)	.091** (.046)
EPL × Unemployed		.012 (.078)	-.050 (.055)	-.081 (.087)	-.151** (.071)
Social Security (proud/not-proud)		.015 (.036)	.023** (.010)	.078** (.031)	.094*** (.013)
SocSec × Tradable		-.030 (.033)	-.016 (.027)	.011 (.040)	.022 (.034)
SocSec × Unemp.		.104* (.059)	.125*** (.041)	.048 (.081)	.047 (.057)
Education	.119*** (.026)	.148*** (.006)	.155*** (.006)	.106*** (.018)	.112*** (.008)
Income	.238*** (.050)	.246*** (.017)	.233*** (.017)	.302*** (.045)	.253*** (.024)
Skill Specificity				-.060** (.026)	-.044*** (.011)
Male				.265*** (.036)	.262*** (.020)
Age				-.002** (.001)	-.003*** (.001)
Single				.120*** (.039)	.051** (.024)
No Kids				.124*** (.035)	.059** (.024)
Ideology				.045*** (.014)	.043*** (.010)
Religious				-.065 (.056)	-.090*** (.025)
Nationalism				-.298*** (.029)	-.295*** (.010)
Fixed Effects: Country/Period Clustered S.E.'s	No/No Yes	No/No Yes	Yes/Yes No	No/No Yes	Yes/Yes No

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

$$\frac{\Delta FreeTrade_{isc}}{\Delta Tradable_{sc}} = \underbrace{(-.204 \text{ to } -.443)}_{(.051) \text{ and } (.169)} + \underbrace{(-.055 \text{ to } +.475)}_{(.419) \text{ and } (.250)} NRR_{isc} + \underbrace{(-.131 \text{ to } -.117)}_{(.031) \text{ and } (.024)} ALM_c$$

$$+ \underbrace{(+.038 \text{ to } +.123)}_{(.036) \text{ and } (.089)} EPL_c + \underbrace{(-.030 \text{ to } +.022)}_{(.033) \text{ and } (.034)} SocSec_{isc}$$

$$\frac{\Delta FreeTrade_{isc}}{\Delta Unemploy_{sc}} = \underbrace{(-.022 \text{ to } -.846)}_{(.052) \text{ and } (.500)} + \underbrace{(+.043 \text{ to } +1.149)}_{(.522) \text{ and } (.600)} NRR_{isc} + \underbrace{(+.034 \text{ to } +.107)}_{(.093) \text{ and } (.045)} ALM_c$$

$$+ \underbrace{(+.012 \text{ to } -.151)}_{(.078) \text{ and } (.071)} EPL_c + \underbrace{(+.047 \text{ to } +.125)}_{(.048) \text{ and } (.041)} SocSec_{isc}$$

$$\frac{\Delta FreeTrade_{isc}}{\Delta NetExports_{sc}} = \underbrace{+.091 \text{ to } +.132}_{(.039) \text{ and } (.031)}$$

$$\frac{\Delta FreeTrade_{isc}}{\Delta NRR_{isc}} = \underbrace{(-.122 \text{ to } +1.186)}_{(.104) \text{ and } (.297)} + \underbrace{(-.055 \text{ to } +.475)}_{(.419) \text{ and } (.250)} Tradable_{sc} + \underbrace{(+.043 \text{ to } +1.149)}_{(.522) \text{ and } (.600)} Unemp_{isc}$$

$$\frac{\Delta FreeTrade_{isc}}{\Delta ALM_c} = \underbrace{(+.062 \text{ to } +.105)}_{(.054) \text{ and } (.048)} + \underbrace{(-.131 \text{ to } -.117)}_{(.031) \text{ and } (.024)} Tradable_{sc} + \underbrace{(+.034 \text{ to } +.107)}_{(.093) \text{ and } (.045)} Unemp_{isc}$$

$$\frac{\Delta FreeTrade_{isc}}{\Delta EPL_c} = \underbrace{(+.180 \text{ to } +.234)}_{(.078) \text{ and } (.091)} + \underbrace{(+.038 \text{ to } +.123)}_{(.036) \text{ and } (.089)} Tradable_{sc} + \underbrace{(+.012 \text{ to } -.151)}_{(.078) \text{ and } (.071)} Unemp_{isc}$$

(↑ note opposite signs of the conditional effects ↑)

$$\frac{\Delta FreeTrade_{isc}}{\Delta SocSec_{isc}} = \underbrace{(+.015 \text{ to } +.094)}_{(.036) \text{ and } (.013)} + \underbrace{(-.030 \text{ to } +.022)}_{(.033) \text{ and } (.034)} Tradable_{sc} + \underbrace{(+.047 \text{ to } +.125)}_{(.048) \text{ and } (.041)} Unemp_{isc}$$

(5) [DISCUSS: Who is anti/pro-trade? How do policies condition that?]

F. *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) Notice: ALM & EmployProtect oppositely distributed effectiveness:
 - (a) ALM helps unemployed & so dampens anti-trade effect of unemploy; ALM not particularly helpful to employed, may even harm (by \uparrow competitiveness for their job, so \downarrow 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 \uparrow as tradables \uparrow & as macroecon perform \downarrow & v.v..
- d) Thus, micro results suggest shift tradable to non-tradable sectors & macroecon improvements increase aggregate support for trade: do we see?
- e) Micro results also suggest globalization, deindustrialization, & unemployment should have interactive effects on govt spend.
 - (1) E.g., post-industrial high-employ econ's: effect imports on spend should \downarrow .
 - (2) Also, public spend should be interdependent across countries; need model.

2. **Data:** 1960 to 2000, in 20 ctrys—Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom and the United States.

3. **DepVars:** *GovCons/GDP* and *SocBens/GDP*

4. **Key IndepVar:** *ln(imports)* (...in millions 1995 US dollars)

a) Size of effect on spend depends share workers employed in tradables; (tradeables employment measured by sectoral shares employment).

b) and size of effect on spend depends unemployment rate.

5. **Controls:** *GDPpc*; % *pop. >65 yrs old*; % *cab seats left*; *uden*; *exports/GDP*.

6. **Spatial-Lag Model of Interdependence [DISCUSS]**

$$\mathbf{y}_t = \rho \mathbf{W} \mathbf{y}_t + \phi \mathbf{y}_{t-1} + \mathbf{X}_t \boldsymbol{\beta} + \boldsymbol{\varepsilon}_t$$

7. Results (Table 2.5), Interpretation, & Concluding Discussion follow...

	Gov Cons		Social Benefits	
	w/o T-Dums	w/ T-Dums	w/o T-Dums	w/ T-Dums
Temporal Lag	.890*** (.018)	.905*** (.021)	.961*** (.019)	.962*** (.020)
Spatial Lag	.022*** (.004)	.010*** (.004)	.017*** (.005)	.003 (.005)
Imports	2.132*** (.343)	1.860*** (.496)	2.286*** (.359)	1.810*** (.589)
Deindustrialization	.152*** (.053)	.132** (.060)	.144** (.060)	.113 (.076)
Imports × Deindustrialization	-.023*** (.005)	-.014** (.006)	-.024*** (.005)	-.013* (.007)
<i>Unemployment</i>	<i>-.124</i> <i>(.104)</i>	<i>-.106</i> <i>(.118)</i>	<i>-.080^{††}</i> <i>(.117)</i>	<i>-.128</i> <i>(.134)</i>
<i>Imports × Unemployment</i>	<i>.012</i> <i>(.010)</i>	<i>.010</i> <i>(.011)</i>	<i>.011^{††}</i> <i>(.011)</i>	<i>.013</i> <i>(.012)</i>
Exports		-.544* (.282)		-1.062*** (.280)
RGDP per capita		.006 (.018)		.022 (.019)
Old Age		8.080*** (2.856)		8.900** (3.528)
Left Government		.130* (.068)		-.018 (.070)
Union Density		-.117 (.363)		-.053 (.395)
Observations	706	706	650	650
Log Likelihood	-596.6	-487.14	-533.5	-433.3
R-squared	.977	.985	.984	.988

Notes: The fixed effect coefficient-estimates are suppressed to conserve space. Standard errors are in parentheses. The spatial lags are generated with a binary contiguity weighting matrix using shared territorial borders as the criterion, excepting that France, Belgium, and the Netherlands are coded as contiguous with Britain, Denmark as contiguous with Sweden, and Australia as contiguous with New Zealand. All the spatial weights matrices are row-standardized.

***significant at 1%; **significant at 5%; *significant at 10%; †† jointly significant at 5%.

Interpretation:

$$\frac{\Delta \text{GovCons}_{it}}{\Delta \text{Imports}_{it}} = \underbrace{(+1.81 \text{ to } +2.29)}_{(.59) \text{ and } (.36)} + \underbrace{(-.013 \text{ to } -.024)}_{(.007) \text{ and } (.005)} \text{Deind.}_{it} + \underbrace{(+.010 \text{ to } +.013)}_{(.011) \text{ and } (.012)} \text{Unemp.}_{it}$$

$$\frac{\Delta \text{GovCons}_{it}}{\Delta \text{Deindust.}_{it}} = \underbrace{(+.113 \text{ to } +.152)}_{(.053) \text{ and } (.08)} + \underbrace{(-.013 \text{ to } -.024)}_{(.007) \text{ and } (.005)} \text{Imports}_{it}$$

$$\frac{\Delta \text{GovCons}_{it}}{\Delta \text{Unemploy}_{it}} = \underbrace{(-.08 \text{ to } -1.28)}_{(.12) \text{ and } (1.34)} + \underbrace{(+.010 \text{ to } +.013)}_{(.011) \text{ and } (.012)} \text{Imports}_{it}$$

What do these mean in words?

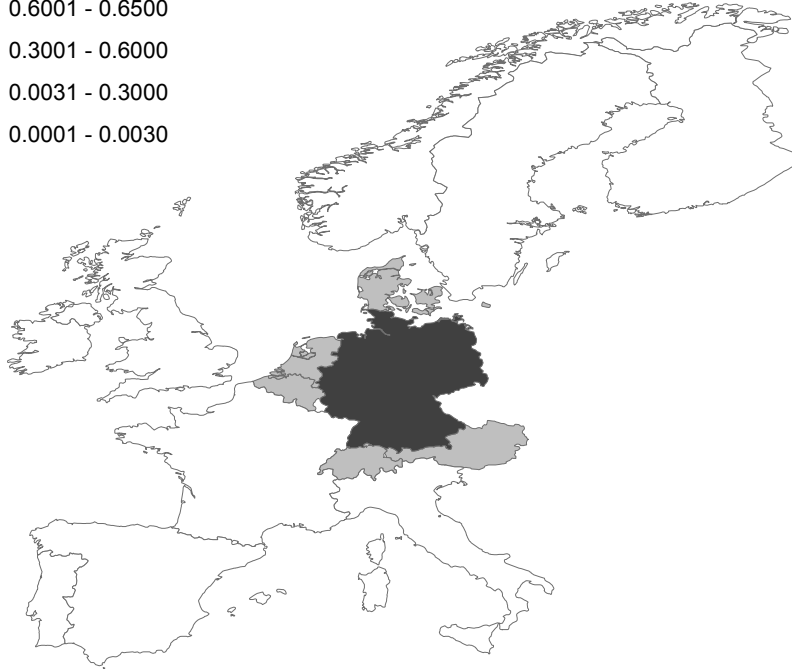
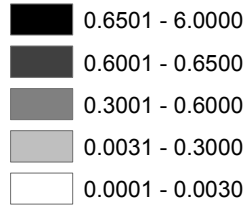
Do they support Hays' arguments? Which? How?

Notice this is also a temporally dynamic equation. What does that add to how you should interpret these results?

Notice this is also a spatially dynamic equation (so it's "spatiotemporally dynamic"). What does that significant coefficient on the spatial lag tell us, substantively? Some illustrations of how to interpret spatial effects next...

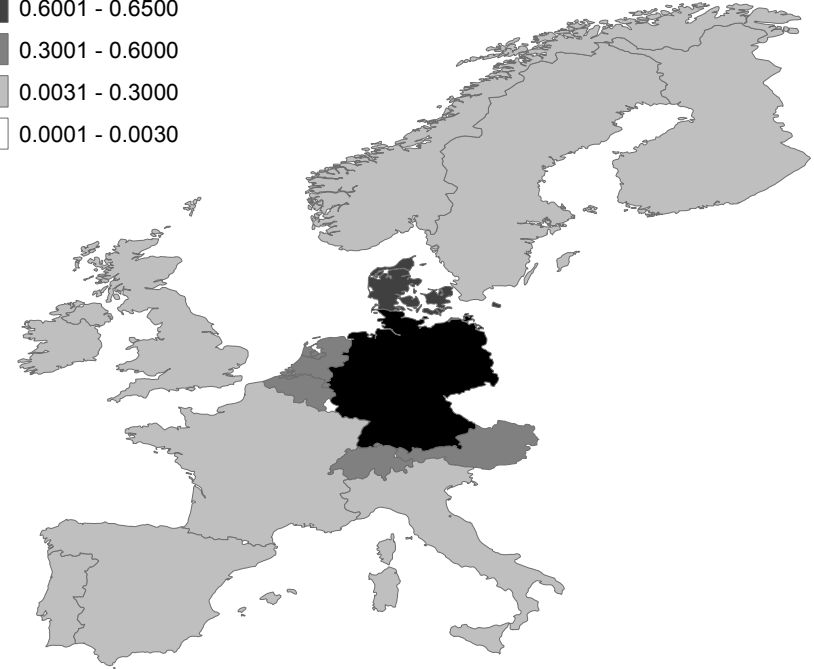
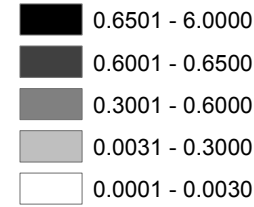
Spatio-Temporal Effects

Short-Run



Spatio-Temporal Effects

Long-Run



Effects of 1-unit increase in German imports on Government Consumption across Europe.

Comparing estimated response (including spatial feedback) in Germany to 1%pt permanent increase imports, industrial (hi trade) vs. post-industrial (low)

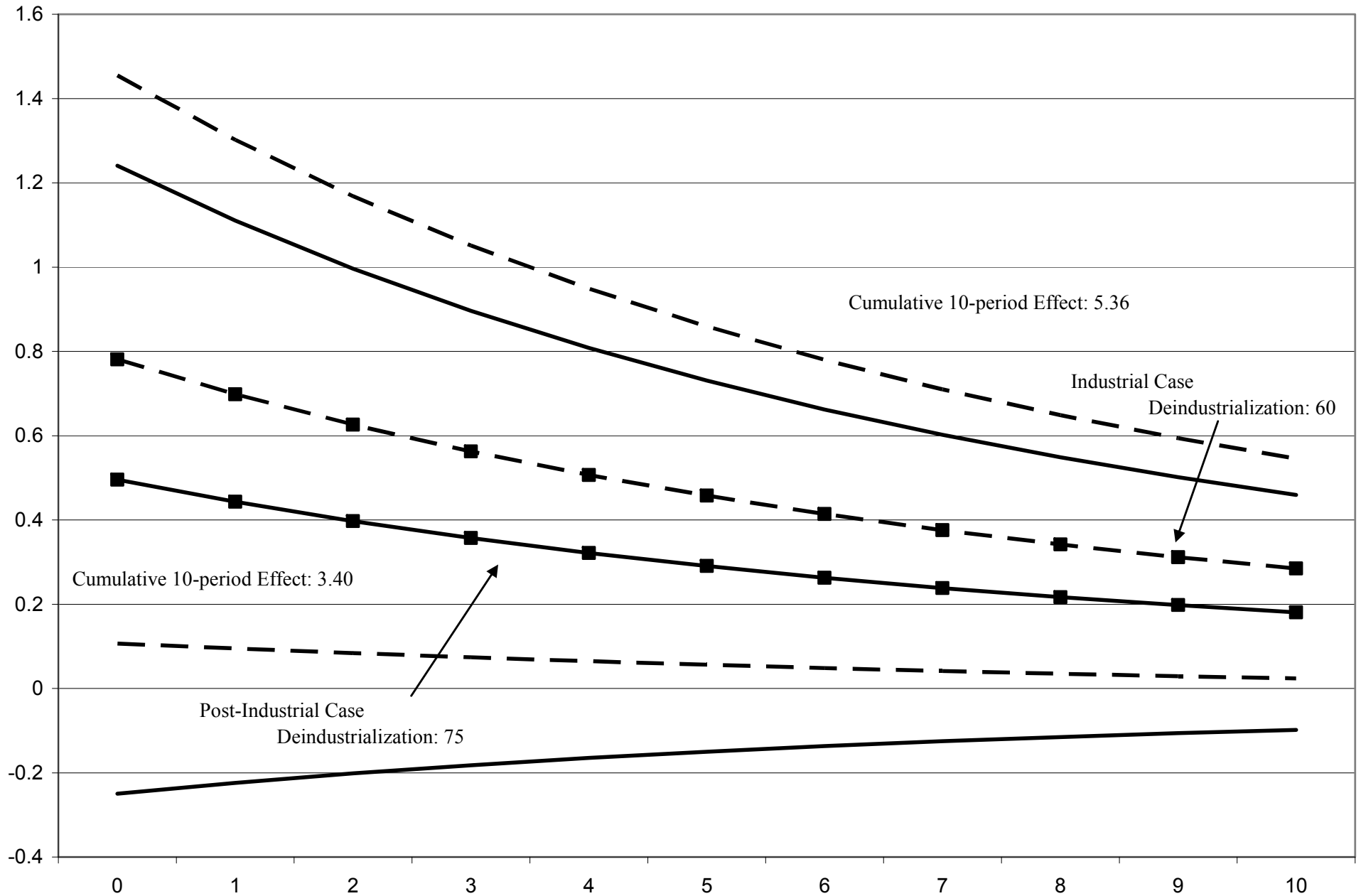


Table 2.6 Steady-State Spatio-Temporal Effects from a One-Unit Increase in Imports on Government Consumption in Europe (Intermediate Level of Deindustrialization)

	AUT	BEL	DNK	FIN	FRA	DEU	IRE	ITA	NTH	NOR	POR	ESP	SWE	CHE	GBR
AUT	5.897* (3.272)	.028 (.02)			.078 (.054)	.438* (.264)		.435* (.262)	.025 (.017)			.003 (.003)		.439* (.264)	.006 (.005)
BEL	.019 (.014)	5.895* (3.272)			.345* (.209)	.346* (.21)	.018 (.013)	.016 (.011)	.343* (.207)		.002 (.001)	.015 (.01)		.002 (.002)	.348 (.212)
DNK	.033 (.022)	.036 (.025)	5.864* (3.253)	.048 (.033)	.035 (.024)	.618* (.37)		.004 (.003)	.034 (.024)	.048 (.033)		.001 (.001)	.62* (.371)	.003 (.002)	.006 (.005)
FIN			.048 (.033)	5.938* (3.297)		.005 (.004)				.666* (.402)			.692* (.42)		
FRA	.032 (.022)	.276 (.168)			5.908* (3.279)	.266* (.161)	.014 (.01)	.249* (.149)	.042 (.029)		.026 (.018)	.251* (.151)		.019* (.014)	.266* (.161)
DEU	.311* (.186)	.346* (.21)			.333* (.201)	5.898* (3.273)	.003 (.002)	.037 (.025)	.328* (.197)		.001 (.001)	.014 (.01)		.024 (.017)	.055 (.038)
IRE	.001 (.001)	.072 (.051)			.069 (.048)	.011 (.009)	5.885* (3.266)	.003 (.002)	.069 (.048)			.003 (.002)			1.236* (.739)
ITA	.435* (.262)	.024 (.017)			.439* (.265)	.073 (.051)	.001 (.001)	5.892* (3.27)	.006 (.005)		.002 (.002)	.019 (.013)		.439 (.264)	.02 (.014)
NTH	.023 (.016)	.457* (.276)			.07 (.049)	.437* (.263)	.023 (.016)	.005 (.004)	5.89* (3.269)			.003 (.002)		.002 (.002)	.44* (.265)
NOR			.048 (.033)	.666* (.402)		.005 (.004)				5.938* (3.297)			.692* (.42)		
POR	.001 (.001)	.006 (.005)			.131 (.09)	.006 (.005)		.006 (.004)	.001 (.001)		5.95* (3.304)	1.243* (.744)			.006 (.005)
ESP	.003 (.003)	.029 (.021)			.628* (.377)	.028 (.02)	.001 (.001)	.026 (.018)	.004 (.004)		.622* (.372)	5.976* (3.319)		.002 (.002)	.028 (.02)
SWE	.002* (.002)	.003 (.002)	.413* (.247)	.461* (.28)	.002 (.002)	.044 (.03)			.002 (.002)	.461* (.28)			5.96* (3.31)		
CHE	.347 (.21)	.035 (.025)			.351 (.214)	.347* (.211)	.001 (.001)	.344* (.208)	.021 (.015)		.002 (.001)	.015 (.011)		5.869* (3.256)	.018 (.013)
GBR	.004 (.003)	.348 (.212)			.332* (.201)	.055 (.038)	.309* (.185)	.014 (.01)	.33* (.199)		.001 (.001)	.014 (.01)		.001 (.001)	5.94* (3.298)

Notes: The off-diagonal elements of the table report the effect of a one-unit increase in the column country's imports on government consumption in its European counterparts. The diagonal elements give the total effect of an exogenous one-unit increase in the column country's imports on its own government consumption. These numbers are calculated using the spatio-temporal multiplier and thus reflect all feedback effects. Parentheses contain standard errors calculated by the delta method.