Trade

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The menu

- Economic logic

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- ▶ Economic logic
- ▶ Political economy of trade

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- ▶ Economic logic
- ▶ Political economy of trade
- ▶ Recent paper on democracy and free trade

THE ECONOMIC LOGIC

I, pencil

I, Pencil
My Family Tree as told to Leonard E. Read

I am a lead pencil—the ordinary wooden pencil familiar to all boys and girls and adults who can read and write.

Writing is both my vocation and my avocation; that's all I do.

You may wonder why I should write a genealogy. Well, to begin with, my story is interesting. And, next, I am a mystery—more so than a tree or a sunset or even a flash of lightning. But, sadly, I am taken for granted by those who use me, as if I were a mere incident and without background. This supercilious attitude relegates me to the level of the commonplace. This is a species of the grievous error in which mankind cannot too long persist without peril. For, the wise G. K. Chesterton observed, "We are perishing for want of wonder, not for want of wonders."

I, Pencil, simple though I appear to be, merit your wonder and awe, a claim I shall attempt to prove. In fact, if you can understand me—no, that's too much to ask of anyone—if you can become aware of the miraculousness which I symbolize, you can help
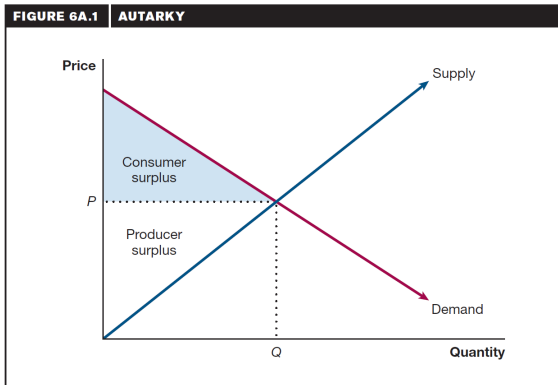
Comparative advantage

TABLE A		
Country	Cloth	Wine
	Cost in man-hours per bolt	*Cost in man-hours per barrel*
England	15	30
Portugal	10	15

TABLE B		
Country	Opportunity Cost of Producing...	
	One bolt of cloth	*One barrel of wine*
England	1/2 barrel of wine	2 bolts of cloth
Portugal	2/3 barrel of wine	1 1/2 bolts of cloth

Autarky

FIGURE 6A.1   AUTARKY

Free trade

FIGURE 6A.2 | FREE TRADE

Free trade
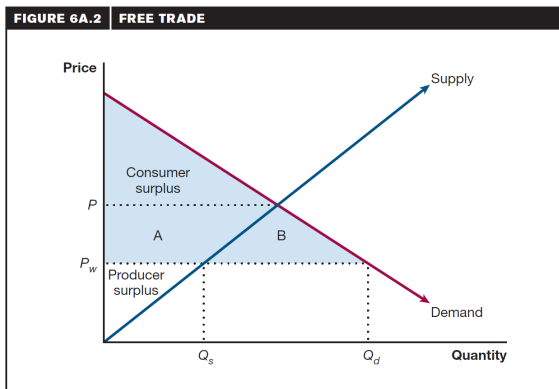
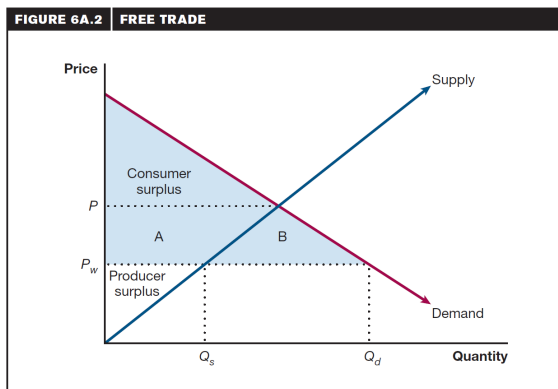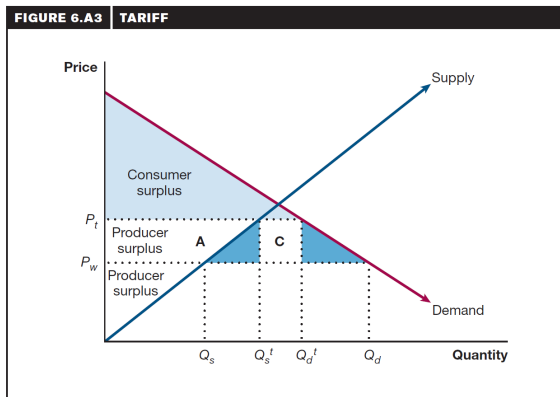FIGURE 6A.2 | FREE TRADE

▶ Trade improves aggregate welfare

Tariff
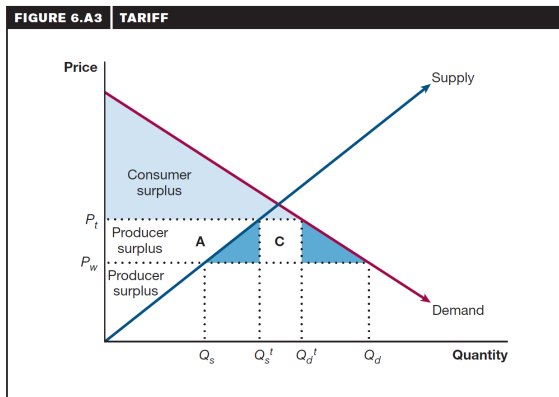
FIGURE 6.A3 | TARIFF

Tariff

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- ▶ Tariffs decrease welfare

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FIGURE 6.A3 | TARIFF

- Tariffs decrease welfare
- Tariffs increase producer surplus and decrease consumer surplus
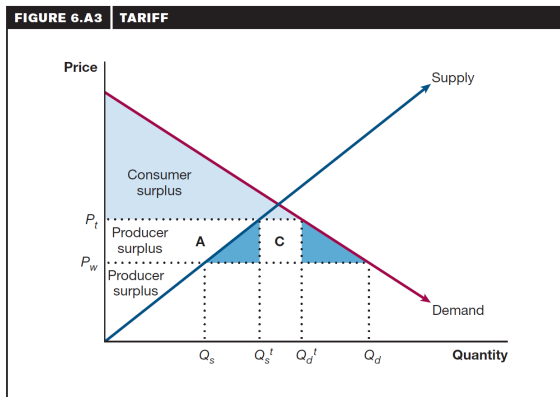
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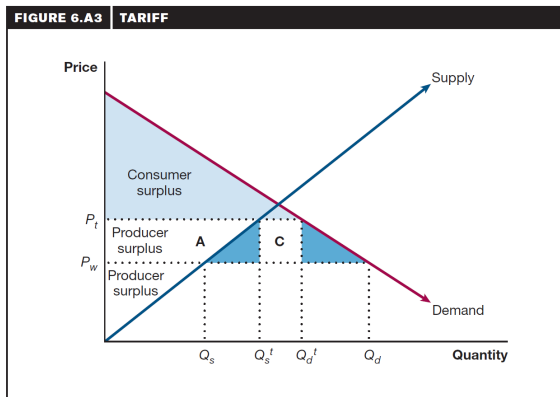
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DEMOCRACY AND TRADE

Commerce is a cure for the most destructive prejudices wherever we find agreeable manners, there commerce flourishes; and that wherever there is commerce, there we meet with agreeable manners.

Why the Move to Free Trade?
Democracy and Trade Policy
in the Developing Countries

Helen V. Milner with Keiko Kubota

Abstract   Rising international trade flows are a primary component of globalization. The liberalization of trade policy in many developing countries has helped foster the growth of these flows. Preceding and concurrent with this move to free trade, there has been a global movement toward democracy. We argue that these two trends are related: democratization of the political system reduces the ability of governments to use trade barriers as a strategy for building political support. Political leaders in labor-rich countries may prefer lower trade barriers as democracy increases. Empirical evidence supports our claim about the developing countries from 1970–99. Regime change toward democracy is associated with trade liberalization, controlling for many factors. Conventional explanations of economic reform, such as economic crises and external pressures, seem less salient. Democratization may have fostered globalization in this period.

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- Leaders need to form larger coalitions
- Special interests have less importance; aggregate welfare has more importance
- Free trade promotes aggregate welfare

Democracy and Trade: Regression results

TABLE 2. *Tariff rates*

Dependent variable	Tariff rates					
	(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*
POLITY	−0.264***	−0.247**	−0.262***	−0.262***	−0.251***	−0.249***
	(0.096)	(0.096)	(0.101)	(0.096)	(0.096)	(0.096)
GDP PC	0.000**	0.001***	0.001***	0.000**	0.000***	0.000***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
LN POP	36.24***	32.50***	34.99***	36.37***	36.61***	36.72***
	(5.106)	(5.433)	(6.222)	(5.162)	(4.976)	(5.084)
EC CRISIS		−0.777				
		(0.670)				
BP CRISIS			0.709			
			(0.672)			
IMF				0.248		
				(0.375)		
US HEG					21.515	
					(15.769)	
FIVE OPEN						−1.646
						(1.523)
Constant	2,781***	2,762***	2,821***	2,798***	2,830***	2,581***
	(203,9)	(194,9)	(239,2)	(209,3)	(195,7)	(304,3)
Observations	774	765	738	774	774	734
Countries	101	100	98	101	101	101
R^2	0.79	0.79	0.79	0.79	0.79	0.80
Wald chi²	3724	4996	1312	1454	635	767
Prob > chi²	0.00	0.00	0.00	0.00	0.00	0.00

Note: OLS with panel-corrected standard errors in parentheses. Country fixed effects, AR1 correction, and time trend are included but are not shown. All right-hand-side variables are lagged one period.
*** significant at 1%; two-tailed tests.
** significant at 5%; two-tailed tests.
* significant at 10%; two-tailed tests.