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WHAT'S INSIDE THIS ISSUE

FROM THE EDITORS

In this issue of the Political Economist, we focus on the politics of trade policy during hard times. Students of IPE learn early on about the interaction between the Great Depression and competitive protectionism in the 1930s. More generally, political economists have argued that trade policy is cyclical, with pressures for protection – and governments' responsiveness to protectionist interests – increasing during downturns in the business cycle. This understanding led to widespread fears of rising protection following the financial collapse of 2008 and the ensuing Great Recession.

However, the predicted rise in protection did not, by and large, materialize. In this issue our contributors discuss explanations for this dog that didn't bark, and their implications for studies of trade policy. Soo Yeon Kim offers some facts and figures to establish the puzzle, surveying the historical experience of recessions and providing some preliminary data on the current recession. She points to some ambiguity in definitions and measures of protectionism, but overall establishes the pattern of minimal turns to outright increases in trade barriers since 2008.

Edward Mansfield and Helen Milner, building on their work on Preferential Trade Agreements (PTAs), argue that leaders of democracies may actually have increased political incentives to sign PTAs during economic contractions. In their feature essay they present data establishing this relationship. Thus, one factor that could have constrained protectionist pressures during the recession is the proliferation of PTAs and the constraints they place on trade policies.

Chad Bown's feature essay also points to the role of PTAs and the WTO in limiting protectionist responses, while surveying other contributing factors. The channels through which protectionist demands move have changed, providing governments with alternative and less harmful policy options. In addition, complex production networks magnify the negative consequences of protection; and trade policy interacts with macroeconomic policies such as exchange rates in ways that contain protectionism. Bown highlights the need for further research on these changed interactions and channels, a need to which the Great Recession has brought renewed attention.

Finally, in our "what-to-read" column, Douglas Irwin surveys the literature on trade policy and difficult economic times. He provides a guide both to work that establishes a positive relationship between business cycles and protectionist cycles, and to work that begins to question the logic and strength of this relationship. Irwin also draws our attention to the best recent research on how trade policy responds to economic downturns in the globalized economy of the 21st century.

In closing, please join us in welcoming a new leadership team for the Section. John Huber takes over as Chair, and Jenna Bednar as Secretary/Treasurer. On behalf of the Section, we thank Frances Rosenbluth and Sandy Gordon for their excellent service over the past two years.

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FEATURE ESSAY

Counter-Cyclical Research on Counter-Cyclical Trade Policy?

Chad P. Bown, The World Bank

Introduction

It was clear from the onset of the Great Recession that scholarship on determinants of "modern" trade policy during economic downturns had suffered neglect. While there existed a longstanding belief that general import protection increased counter-cyclically as macroeconomic conditions deteriorated, what did not exist was directly applicable research that might inform policymakers on the extent to which this was happening, or expected to happen, this time around. Research here was much less developed than other areas of trade policy determination - whether considering theory, data availability, or empirical work.

More than four years after the collapse of Lehman Brothers and the onset of the deepest recession since the 1930s, research on how modern trade policy is affected by periods of economic bust has just begun to scratch the surface.

The remainder of this brief essay proceeds as follows. First, I review the state of the most relevant literature as of the inception of the crisis. Then I turn to a discussion of early research on the Great Recession; this includes results documenting the extent to which levels of import protection did – and did not – change during 2008-10, and how such changes may be linked to the business cycle. Early evidence reveals that governments are affecting trade policy through different *instruments* over time and also that there may be differences to the underlying *channels* through which aggregate-level shocks affect such instruments. Along the way I describe potential avenues for additional research – including needed data collection and measurement advancement – to assess the impact of recessions on trade policy under the increasingly integrated and institutionally complex international trading system.

The Onset of the Crisis: What Did We Know?

The research boom of the last twenty years featured scores of seminal contributions on modern trade policy. However, advances mainly allowed better understanding of the micro-level channels through which trade policy is formed during "normal" macroeconomic conditions. For example, scholars developed insightful theory to model complex ways through which trade policy is affected by both domestic political economy forces (Grossman and Helpman, 1994, 1995) and the negotiated agreements (Bagwell and Staiger, 1990, 1999; Maggi and Rodriguez-Clare, 1998, 2007) that dominate the present-day trading system. Furthermore, important empirical applications have provided evidence on the relevance of trade agreements, negotiating principles, multilateral disciplines, and the micro-level foundations for domestic political economy influence over trade policy.[1]

One drawback to this research boom was that scholarly advances were set in largely static political-economic environments. Most of this was by design; this research focused on questions distinct from the channels that affect how trade policy adjusts due to recessions. Furthermore, to the extent that even theoretical work considered aggregate-level shocks, the shock of interest was typically an "openness" shock designed to address the question of what happens due to, say, an episode of trade liberalization. The aggregate-level shocks of a *recession* – featuring sharp slowdowns to aggregate demand, credit-induced reductions to aggregate supply, or increases in unemployment – or even a sharp *currency* re-

1 Goldberg and Maggi (1999) and Gawande and Bandyopadhyay (2000) established a new empirical literature examining the political-economy determinants of trade policy based on lobbying theory.

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valuation are likely to be quite different. In one of the few papers to articulate a theoretical model featuring explicit channels through which the business cycle changes the incentive to impose import protection, Bagwell and Staiger (2003, pp. 1-2) described the resulting state of the literature:

> "…a common argument is that tariffs are higher in recessions, because the political pressure from import-competing firms is then most pronounced. This explanation, however, is incomplete, since it ignores the political influence of other production sectors that might press for *less* protection in recessions… In light of these competing political influences, the common argument for countercyclical tariffs fails to be convincing, as it does not explain why the political pressures from import-competing sectors dominate in recessions but not in booms."

The empirical literature on trade policy formation as of the onset of the Great Recession suffered similar problems. Most of the previous era's most valued contributions were estimated from cross-sectional data. And while, as noted earlier, there was an extensive literature presenting evidence of a historical, countercyclical relationship between the macroeconomic climate and import protection,[2] most of this research predates the institutional framework of the modern-day trading system under the WTO, and thus may not adequately capture critical features of the current global economy.

The next section argues that there may be a number of concerns with any empirical attempt to take such historical approaches "off the shelf" and simply apply them to more recent data.

2 See Cassing, McKeown and Ochs (1986), Bohara and Kaempfer (1991), and numerous other examples cited in Bagwell and Staiger (2003) and more recently in Rose (2012). See also Douglas Irwin's "What to read" column in this edition of the newsletter.

Institutional Evolution and Implications for Research

Here I explore three ways through which our ultimate understanding of the adjustments to trade policy that were made – as well as those that were not made – around the Great Recession may be affected by changes to the institutional forces of the modern global economy. These include important differences introduced by the GATT/WTO system and the trade policy instruments currently in use, the role of multinational firms and global supply chains, and the response of "other" (non-trade) policies.

1. Treating seriously the multilateral trading system under the WTO

The multilateral GATT/WTO system is now firmly in place. Its rules and obligations backstop trading relations for its more than 150 members, even in the presence of hundreds of preferential trade agreements. Over the decades since introduction of the basic multilateral system in 1947, many countries have taken their former use of quotas and other non-tariff barriers, transformed them into tariffs, negotiated these tariffs down or unilaterally reduced them, and legally bound them at the WTO.

For a number of major economies, the import tariff and quota policy instruments are currently "off the table," in the sense that these particular instruments no longer exhibit time-variation in an upward direction. For a second set of countries, while this may not be the case *de jure*, the WTO members' actions seem to imply it *de facto*.[3] For a third set, applied tariffs do continue to change. However, because the legally binding nature of applied MFN import tariffs remains heterogeneous across countries, a first order question is simply how to measure import protection under the modern system. Furthermore, it would seem to be important to address the fact that some major inter-temporal changes to applied import tariffs occur because of negotiated agreements that are (arguably) unaffected by shifts in the macroeconomic climate.

3 Foletti et al (2011) examine the issue of "water" – the difference between binding levels and applied MFN levels – in the tariffs, an issue of particular relevance to most emerging economy members of the WTO.

Put differently, simply because a country no longer changes its applied MFN import tariffs or import quotas in an upward direction does not imply that its trade policy no longer varies over time in economically important ways. One distinct possibility is that countries under the modern system simply rely on different trade policy instruments. For example, while the GATT/WTO system may encourage the reduction and binding of applied tariffs, it does allow governments to access "flexibility" through resort to temporary trade barrier (TTB) policies such as antidumping and safeguards; these are policies that most of the major economies in the WTO system now actively employ.

Bown and Crowley (forthcoming) present evidence for the United States, for example, that such import restrictions can be interpreted as a response to industry-level economic shocks under a cooperative trade agreement that is characterized by otherwise low levels of applied import tariff protection. This evidence complements other research from a burgeoning empirical literature supportive of the theory that *economic* incentives affect modern trade policy formation under cooperative trade agreements. This includes evidence of the impact of economic incentives on non-cooperative (Nash) tariff levels (Broda, Limão and Weinstein, 2008) and through negotiated tariff reductions under WTO accessions (Bagwell and Staiger, 2011).

Given this backdrop, what happened to the various trade policy instruments during the Great Recession? For applied import tariffs, while most countries did not change them dramatically, there was significant movement – in some cases upward and in others even downward –

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for a handful of mostly emerging economies (Kee, Neagu, and Nicita, forthcoming). For TTB import restrictions, Bown (2011a, b) documents substantial heterogeneity to their use across the G20 economies: for the emerging economies, there was a substantial increase to import coverage; for high-income economies, TTB coverage did not increase as sizably, contrary to expectations. Finally, a still open data collection and measurement question is whether there were economically significant increases to *other* non-tariff barriers (NTBs), many of which have been noted as rising during the Great Recession.[4]

What about the business cycle as a potential determinant of time-varying trade policies? Bown and Crowley (forthcoming, 2012) examine data through 2010 (starting in the 1980s or 90s) for 18 major economies that combine to account for more than 70% of world GDP and 60% of world merchandise imports. They find that new import protection through TTBs responds counter-cyclically to macroeconomic conditions during this period, though some of the channels affecting this relationship change during the Great Recession.[5] In particular, one way in which "modern" trade policy formation via TTBs is institutionally different from more general MFN applied tariffs is that it can be imposed so as to target certain *trading partners*. Before the Great Recession, evidence suggested that economies like the US and EU tended to impose TTBs targeting trading partners going through their own periods of weak economic growth. However, this pattern of targeted partners changed dramatically in 2009-2010. Given that so many trading partners went through their own contraction at home during the Great Recession, this may have been a particularly important contributor to the overall dampening of the import protection that arose.

2. Supply chains, multinationals, and the changing political economy of import protection

A second potentially important institutional channel affecting political-economic determinants of modern trade policy arises through analysis of the firms and networks behind the cross-border flow of goods. There has been an increase in trade intermediated through multinational corporations and a rise of supply chains so that inputs cross borders multiple times. These factors may also reshape the responsiveness of import protection to the sorts of economic shocks that arose during the Great Recession.

Gawande, Hoekman and Cui (2011) provide a first assessment of these micro-level influences for a sample of major emerging economies. They highlight evidence from two different channels that served to limit the overall incidence of import protection increases during the Great Recession. The first is a measure of vertical specialization - i.e., the share of imports in a sector that is used directly and indirectly (or embedded as intermediate inputs) in the country's own exports. Vertical specialization decreases pressures to increase trade protection. The second is the role of foreign lobbying (say through multinational firms) by exporters in other countries who are dependent on the source country for supplying them with intermediate inputs.

The role of "other" policies: Fiscal stimulus, monetary policy, and flexible exchange rates

Not only is use of particular instruments *within* trade policy changing over time, but the use of *any* trade policy instrument can also be affected by how governments are relying on other (*non-trade*) policy instruments. For example, many major economies quickly confronted the onset of the crisis in 2008-9 with a substantial fiscal and monetary stimulus. Furthermore, some governments targeted specific industries (e.g., autos) with financial bailouts and other subsidies.[6] To my knowledge, research has yet to explore rigorously the inter-temporal and cross-sectional explanations for changes in trade policy associated with use of these sorts of other (non-trade) policies during the Great Recession.

Finally, the demand for trade policy can also be affected through the aggregate-level shock to relative prices that arises through changes in the real exchange rate. For TTBs for example, Bown and Crowley (forthcoming) point out that had the sharp appreciations of the US dollar and euro in 2008-9 not quickly reversed themselves and been followed by persistent real depreciation of each currency through 2009-10, substantial price pressure may have led these economies to impose new import protection. The realized change in relative prices made imports more expensive and exports cheaper, which likely reduced pressure for new import restrictions for these particular economies despite their otherwise weak economic growth. Flexible exchange rate regimes in place at the time enabled this real depreciation. Of course flexible exchange rate regimes are a policy that was not in place during

4 See, in particular, the data collection efforts on NTBs starting in 2009 with the Global Trade Alert and WTO's Trade Policy Review Body. In order to better measure the economic importance of these NTBs it is necessary to benchmark crisis-era policy activity against similar activity from historical episodes; thus scholars must ultimately complement those efforts with new data collection for NTB policy data for the pre-Great Recession period. On the other hand, the World Bank's Temporary Trade Barriers Database (Bown, 2012) contains information dating back to the 1980s for more than 30 economies for these particular policies.

5 See also Davis and Pelc (2012) which investigate related questions but which use a different time period, underlying set of data, and a different econometric approach.

6 Consider this from the perspective of the theory of second best (Bhagwati and Ramaswami, 1963) which typically finds that trade policy is not the optimal instrument to confront an underlying market failure or economic distortion. If government policymakers are learning over time, trade policy may be less frequently used if the underlying shock has a first-best policy instrument available to address it.

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other downturns in history, perhaps most noticeably the Great Depression (Irwin 2011a, b).

More Research

Research on how recessions affect "modern" trade policy has a long way to go. Much of the early empirical research on the Great Recession, for example, has focused on establishment of clear but partial correlations in the data. There is still the need to construct time series of better and more comprehensive measures of trade policy changes that would account for all of the relevant trade policy instruments in use. A next step would be for the evidence on the patterns and puzzles that arise from this data to feed new theoretical research. This will hopefully lead to the virtuous cycle by which theorists contribute modeling advances that would then guide more rigorous testing of the explicit political-economic channels and incentives through which aggregate-level shocks affect policy. Overall, increases in trade protection during the Great Recession seem to have fallen far short of expectations based on historical patterns. The most intriguing explanations of this pattern lie in changes in the channels of trade protection; the limiting effects of multilateral agreements and production networks; and the complex relationship among trade policy and other macroeconomic policies.

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Feature Essay

Protectionism During Recessions: Is This Time Different?

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Recessions are a time of economic uncertainty and retrenchment. In the absence of a clear path to recovery and the cooperation of other states, countries turn inward and their governments pursue policies to ameliorate the effects of the economic downturn. One set of policy instruments mobilized during recessions is trade protectionism, or the raising of trade barriers that provide a defense against competition from foreign goods and that secure advantageous market access for domestic firms. This brief essay examines the link between protectionism and recessions, with particular attention to the current global recession and the role of international institutions, governments, and firms. One of the notable features of this particular recession is that that dreaded specter of protectionism did not materialize, and in this sense, the current global recession is different in its impact on trade policy and global trade more broadly. This essay also considers how future IPE scholarship, especially in the examination of policy substitutes and of firm-level preferences behavior, may further advance our understanding of trade policy during economic downturns.

Why Should We Expect Protectionism during Recessions?

An easy, first-cut answer to this question is that we have been here before. The historical record provides ample evidence supporting the link between recessions and the rise of protectionism, especially when the international economy lacks strong leadership (Kindleberger 1973[1986]). The major recessions of the last century and a half, including not only the Great Depression era but also the earlier Great Depression of 1873-1896 (Frieden 2006) and the major recessions of the 1970s and 1980s are also key points of comparison. Governments appealed to protectionism to shield domestic economies from international competition, mobilizing policies that ranged from high tariffs to quantitative restrictions. The Great Depression is especially well-known for the retreat from free trade, marked by the infamous Smoot-Hawley Act in the United States and the reign of discriminatory trading blocs held together by tariffs, quantitative restrictions, and exchange controls in Europe (Pomfret 1988).

The causal process that generates this recognizable historical pattern is one in which the onset of recession is marked by severe price deflation, unemployment, and general economic contraction. Governments turn to protectionism during recessions because of political pressure to do so from powerful domestic industries, which see profits fall and competition from imports intensify as overall demand takes a nosedive. Protectionism through the raising of tariffs, for example, increases the price of imported goods relative to those that are domestically produced. Protectionism saves domestic firms, which are at least assured of stability of access to the internal market, at least in the short term. Protectionism thus offers domestic firms a shield against fluctuating prices and international competition. At the same time, it is worth repeating the message of Gourevitch's (1986) enduring insight for "hard times" protectionism is the product of politics. Protectionism is not a foregone conclusion during recessions, and whether a states becomes (more) protectionist depends on the political power of the affected societal groups.

The real danger of protectionism does not lie in one country's actions, but in the responses of its trading partners and the system-wide ramifications. Trade barriers by themselves may have only a modest impact on trade flows. However, other countries, especially those affected directly and significantly by protectionist measures of trading partners, may retaliate with trade barriers of their own. If countries were to take this route, retaliation against trade barriers would be met with counter-retaliation, and such trade conflicts would escalate to outright trade wars. Such is the well-known scenario played out during the Great Depression of the 1930s, when "beggar-thy-neighbor" policies prevailed and the international economy experienced the infamous downward spiraling of trade. The implications are even more serious for the present global trading system under the World Trade Organization (WTO), as the current WTO commitments are held together by an extremely complex and interwoven set of agreements that were negotiated on a bilateral basis. If countries were to retreat from the WTO system by withdrawing their concessions, we would face the threat of an "unraveling" of world trade if other members were to respond in kind.

How Do We Know it's Protectionism?

There is a surprising level of controversy regarding the appropriate identification of "protectionism". A relatively purist, discrimination-based definition of protectionism emphasizes the change in the terms of trade, thus classifying any trade policy measure that is likely to have deleterious, discriminatory effects on partners' trade as "protectionism". Such is the approach of the Global Trade Alert (GTA) project, which collects real-time data on trade measures that are classified as "red" to indicate certain trade discrimination, "amber" for those measures that may affect trade in a discriminatory manner, and "green" where the measures are generally liberalizing. Based on their classification, the GTA scholars argue that there was a spike in protectionism during 2009, and though some measures are no longer in force, the overall levels of protectionist state measures remain higher than in the last quarter of 2008. Moreover, in spite of the pledge by the G-20 countries to institute no new trade measures that may affect trade, GTA finds

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that the G-20 countries are the major perpetrators of protectionist actions during this economic crisis, comprising almost 80% of all protectionist state measures by the end of 2011 (Evenett 2012: 23).

The alternative to the discrimination-based approach is a more law-based definition that emphasizes WTO-consistency. The majority opinion appears to favor this second definition: if a particular trade measure is legally allowable, it does not actually constitute "protectionism". This conceptualization also reconciles a trade policy as "protectionism" with its role as a political safety valve, a legitimate action of government to defend national economy that has been injured by economic conditions. Along this line of argument, protectionism is the "dog that did not bark" during this recession. Scores of reports from the WTO, the Organization for Economic Cooperation and Development (OECD), and the United Nations Conference on Trade and Development (UNCTAD), as well as academic studies, have declared that in spite of the steep collapse in trade in 2008, trade levels have recovered and by and large countries have not resorted to trade protectionism that have violated WTO- bound commitments. To be sure, trade defense measures have been heavily utilized during this crisis. However, as Bown (2011) points out, the availability of such temporary trade barriers (TTBs) provides stability for our trading system as it allows governments to provide economic relief to their domestic constituencies without abrogating their legal obligations. This is also Milner and Rosendorff's (2001) argument in action: escape clauses are optimal for the stability and durability of international institutions, and this argument seems especially compelling during times of economic downturn.

An important observation to offer with respect to the current global recession is that the face of protectionism also appears to be changing, turning more toward non-traditional, behind-the-border forms of state measures that make the label even more difficult to place. They include direct governmental assistance to troubled firms, such as those observed in the "Buymerica" provision and France's bailout of its two major automakers. These measures do not explicitly violate the law-based definition of protectionism, but mainly because of the absence of regulations that govern them. This type of behind-the-border protectionism often smacks of mercantilism, a favorite arsenal of government intervention into the economy of olden years. More important, they reveal the governance gaps in the current trade regime. As we continue to operate on a set of rules established over two decades ago during the Uruguay Round and as the Doha Round negotiations remain deadlocked, even the WTO- based definition of protectionism needs updating to reflect the conditions of the current international economy.

The Great Recession of 2008: Who Resisted Protectionism?

There is widespread agreement regarding the critical role of international institutions as "firewalls" against protectionism during this recession (Wolfe 2012). Economic and non-economic international institutions have served as conveyors of information and mechanisms of commitment and socialization. Their informational function enhances the transparency and accountability of:states' trade policies (Keohane 1984), and they mitigate uncertainty when it is running high. Specialized international institutions devoted to trade, such as the WTO and preferential trade agreements (PTAs), also lock in commitments to liberal trade through legal obligations that make defections costly, thus creating accountability in the actions of its members. Equally important, international institutions are also arenas of socialization (Johnston 2001) that help propagate important norms such as the commitment to the liberal trading system and cooperative economic behavior. In this connection, the degree to which a particular country was embedded in the global network of economic and non-economic international institutions has been found to be strongly correlated with fewer instances of protectionist trade measures (Baccini and Kim 2012).

Information provided to date by international institutions, with the exception of the GTA project, largely agree that states have not resorted to large-scale protectionism during this recession, in spite of the fact that the "great trade collapse" (Baldwin:2009) at the beginning of the current crisis was steeper and more sudden than that of its Great Depression predecessor. The WTO Secretariat, in addition to its regular individual reports on members' trade policies under the Trade Policy Review Mechanism (TPRM), has issued more than a dozen reports on member states' trade policies during the crisis. At the request of the G-20 countries, which pledged not to adopt protectionist trade measures at the onset of the crisis in 2008, the WTO, the OECD, and UNCTAD have produced joint reports on the trade and investment measures of the world's largest trading states. They, too, find that G-20 countries had largely adhered to their commitment not to raise trade and investment barriers. In the World Bank's Temporary Trade Barriers (TTB) project, an important and unique data collection that includes information on pre-crisis and crisis trade policy behavior, Bown (2011) finds that temporary trade barriers such as safeguards, countervailing and antidumping duties saw only a slight increase of usage by developed countries, in the neighborhood of 4%. In contrast, emerging market economies were the heavy users of TTBs, whose usage rose by almost 40% between 2008 and 2009.

As scholarly insights accumulate on the current recession and its impact on protectionism (or lack thereof), two questions emerge for further research. First, to what extent have governments employed policy substitutes that have the same effect as trade protectionism? International institutions may appear to have been successful in preventing protectionism, but governments may well have looked

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elsewhere to defend national economies. This question can be seen in the broader context of the broader "open economy trilemma" (Irwin:2011), in which governments may achieve only two of three macroeconomic policy objectives: stable exchange rates, stable prices, and open trade. Irwin argues that governments that abandoned the gold standard during the Great Depression were less protectionist, and their economies also suffered less from the recession. Existing scholarship also indicates that governments are likely to employ policy substitutes, opting for monetary autonomy when facing trade policy constraints, for example, due to membership in a preferential trade agreement (Copelovitch and Pevehouse 2013).

Moreover, at the time of writing, the International Monetary Fund (IMF) has announced that it has dropped its objections to capital controls, albeit cautiously and only under certain conditions, thus potentially providing another policy alternative for governments to achieve economic stability during this crisis. Future research may further extend the application to policy substitutes that are deployed during economic downturns.

Finally, why did firms not push for more protection? Protectionist policies are not adopted by governments in a political vacuum. In order to take trade defense measures such as anti-dumping duties, governments first conduct investigations to assess the extent of injury. Such investigations are initiated when firms apply for them through the domestic political process. If indeed governments did not appeal extensively or unusually to protectionist trade policies, the explanation to a significant degree lies in firm behavior. A distinguished body of research exists in this area that is due for a revisit in the age of extensive international supply chains, from Schattschneider's (1935) classic examination of the domestic pressures that led to the Smoot-Hawley Act to Helen Milner's export-dependent firms that resisted protectionism during the crisis of the 1920s and the 1970s (1988). Milner rightly pointed out that:"firms are central" (20), and over the years the export-dependent, multinational firm has evolved in tandem with the increasing complexity of the international supply chain. Today's firm is not only heavily export-dependent but equally import-dependent in its reliance on intermediate inputs, whether through intra-firm trade or from foreign firms. The extensive international supply chain thus often puts exporting and importing firms on the same side of the political debate, especially when they are members of large multinational firms. Moreover, the study of firm-level behavior must extend beyond the developed world to consider firms in emerging market economies, which have been the heavy users of trade defense measures during the current recession. How the internationalization of production, driven by investment and trade in intermediate goods, restrained multinational firms from pushing for more protection remains an important question for further research.

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THE POLITICAL '12 ECONOMIST

Feature Essay

Preferential Trade Agreements in Hard Times

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Agreements about foreign trade policy have long been key features of the international political economy. Among the most important agreements of this sort are preferential trade agreements (PTAs), which are designed to foster economic integration among member-states by improving and stabilizing the access that each member has to the other participants' markets. PTAs are a broad class of international agreements that include common markets, customs unions (CUs), free trade areas (FTAs), and economic unions. These agreements have marked the global landscape for centuries, but they have proliferated especially rapidly over the past half-century, and hundreds of them currently dot the international system. The spread of PTAs continues unabated and is one of the most significant trends in the international political economy.

Despite the importance of and the widespread interest in PTAs, remarkably little research has been conducted on the sources of these agreements. In a recent study, we attempted to help fill that gap in the literature (Mansfield and Milner 2012). Our focus in that study was on the domestic political influences on preferential agreements. More specifically, we argued that PTAs are especially likely to be ratified by democratic countries and states marked by relatively few "veto players." Here we extend that argument by addressing whether democracies tend to establish these agreements during hard economic times. The argument we advanced in that study suggests as much, but has not been directly tested.

The existing literature implies that countries tend to become more protectionist during economic downturns and less protectionist during expansions (Cassing, McKeown, and Ochs 1986; Magee and Young 1987; Mansfield and Busch 1995; Costinot 2009).[1] The Great Depression of the 1930s is a particularly widely cited instance of this more general pattern. Kindleberger (1986) and others have pointed out that the depression stimulated a rapidly rising tide of protectionism that engulfed all the major economies and, in turn, deepened the global downturn. In the same vein, observers expressed a keen interest in whether the great recession of 2008-09 would lead to a surge in protectionism. These hard times, which have stretched to the present day for many countries, have been marked by large declines in gross domestic product (GDP), rapid and sizable spikes in unemployment, widespread bankruptcies, stock market declines, and real estate price collapses.[2] World trade and direct foreign investment flows also dropped precipitously.[3] It was thus widely expected that adversely affected countries throughout the globe would respond as states had in the 1930s and erect trade barriers to protect their economies, thus exacerbating the downturn. In fact, some countries have reacted in this manner, and the moribund Doha Round of World Trade Organization negotiations have not helped matters.[4]

Somewhat surprisingly, though, there has been a fairly widespread resistance to protectionism and a resurgence of international trade and investment since 2009 (Bown 2011; Rose 2012; Kee, Neagu, and Nicita forthcoming). Accompanying this development is an ongoing interest in forming PTAs by many countries throughout the world.[5] PTAs liberalize trade among their members, but they may or may not divert trade from third parties (Freund and Ornelas 2010). These trade agreements thus are a source of liberalization, but they are not as unambiguously liberalizing as multilateral agreements within the WTO. Nevertheless, for countries to sign and ratify PTAs in the midst of economic downturns seems surprising given the widespread view that protectionism rises in hard times. We are interested in whether economic fluctuations influence how domestic political factors—especially regime type—shape whether and when states decide to form PTAs.

We have argued that national leaders often decide to enter PTAs for political as well as economic reasons (Mansfield and Milner 2012). Faced with special interests that demand protection, particularly when the economy sours, leaders need to find ways to reassure the mass public that they are not being captured by protectionist interests and that they are making sound foreign economic policy. Increasing trade barriers may win leaders support from some import-competing interests, but doing so can also antagonize pro-trade interest groups as well as the general public, which will be harmed if protectionism contributes to slumping economic growth. PTAs provide a mechanism for leaders to manage such societal pressures.[6]

1 For an overview, see Bagwell and Staiger (2003).

2 On these issues, see http://www.imf.org/external/pubs/ft/weo/2010/update01/.

3 World trade dropped at least 12% in 2009 alone. See http://siteresources.worldbank.org/INTGEP2010/Resources/Overview.pdf and http://www.wto.org/english/res_e/statis_e/its2011_e/its11_world_trade_dev_e.htm.

4 See http://globaltradealert.org/sites/default/files/GTA11_0.pdf.

5 In 2011, for example, the US finally ratified PTAs with South Korea, Panama, and Colombia. It began negotiations on the Trans-Pacific Partnership in 2009. The US is also negotiating a free trade agreement with the EU. Throughout this period, Asian countries and the EU have also been busy negotiating and signing trade agreements.

6 PTAs may also help countries increase growth through the exports they stimulate. We do not claim that PTAs have no economic effects or that leaders are not motivated by such economic incentives. But we think that the political effects of trade agreements are also very important, and have not been appreciated

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For leaders, entering a trade agreement can help to reassure the public that they are making sound foreign economic policy. Leaders, however, also worry about the domestic costs involved in ratifying agreements. Balancing these two forces is a central part of a decision maker's calculations about whether to sign a PTA. A country's regime type and its number of institutional veto players are crucial in this regard. Regime type and veto players are two distinct institutional features. Regime type is linked to the degree of political—especially electoral—competition, while veto players affect the checks and balances on the executive branch.

Our first argument is that the number of veto players in a country affects the transaction costs that governments bear when ratifying a PTA. These costs are greater in countries marked by a large number of veto players, which in turn reduces the incentives for leaders to try to negotiate and ratify PTAs. Consequently, the odds of a state entering a preferential arrangement declines as the number of veto players rises.

Our second argument is that democracies have greater political incentives to enter PTAs than other countries. The free, fair, and regular elections that are the hallmark of democracies motivate leaders in such regimes to sign international trade agreements. Leaders in various types of polities are caught between the pressures of special interest groups and the preferences of voters. Some special interests press for policies—such as protectionist trade policies—that adversely affect the economy. Heads of states may want to satisfy these interest groups in exchange for benefits like campaign contributions or other sources of political support. But giving in to all interest group demands would have very harmful economic consequences and could imperil their hold on office.

Leaders, at the same time, have a hard time convincing the public that they will not accede to special interest demands. When elections take place in the face of adverse economic circumstances, citizens may blame incumbents for economic problems and vote them out of office. As such, chief executives need to find ways to reassure the public and other domestic groups that economic downturns are beyond their control and are not simply an outgrowth of leaders buckling under to the demands of protectionist groups.

PTAs provide such a political reassurance mechanism. These agreements allow leaders to commit to a lower level of protectionism than they might otherwise desire, and to signal voters that they will not allow trade policy to be dictated by special interests. Voters, if reassured that leaders are generally abiding by the terms of the international agreement, have reason to believe that leaders' policies did not directly cause any hard economic times that come to pass. In turn, these leaders are more likely to remain in office since voters have reason to view them as competent economic stewards, even during recessions. The more electoral competition that exists, the more that leaders have to worry about being ejected from office and the greater their need to reassure the public. Hence, we argue that democratic governments should be more likely to sign trade agreements than other governments.

For autocracies, the calculations differ. Interest group pressures for protectionism in autocracies vest leaders with an incentive to resist entering PTAs that reduce the rents they can provide to supporters. Equally, autocrats have less need to reassure the public that they are competent economic decision makers since electoral competition does not determine their fate. Consequently, autocrats have less incentive to enter into trade agreements than their democratic counterparts.

Our results clearly show that both veto players and regime type strongly influence PTA formation. Based on an analysis of the period from 1952 to 2004, we found that a given democracy is over 50% more likely to establish a PTA than a given autocracy, holding constant various international and domestic factors. We also found that countries with relatively few veto players (which we define as the 10th percentile in our data) are about one third more likely to form a PTA than states with many such players (which we define as the 90th percentile in our data) (Mansfield and Milner 2012: 108-9). These results provide substantial support for our argument. They are also very robust, displaying little change regardless of our modeling and estimation strategies, the lag structure of the key variables, how we measure regime type and veto players, whether we include the European Community/European Union, and other decisions.

One issue that we did not analyze in this study, but which flows from the argument we advanced in it, involves the interaction between democracy and the business cycle. In our model, voters in a democracy consider the state of the economy when going to the polls. Thus, governments are likely to be penalized when the economy performs badly. Voters assume that such downturns are at least partly attributable to the policies enacted in response to interest group pressures. As such, governments face a credibility problem: voters are more likely to remove them from office in bad economic times, even if they did not give in to special interest demands and overprotect the economy. Leaders therefore seek ways to demonstrate to the public that they are not overly solicitous to special interests that demand protection. One way to demonstrate this is to sign a trade agreement.

In political systems where the public cannot vote leaders out of office, this problem is less severe. In systems with competitive elections, by contrast, the problem is acute. The more leaders' fortunes depend on the voting public, the more incentives they will have to find mechanisms to reassure the public that they have not given in to special

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enough.

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interest demands. Consequently, the more democratic a country is, the greater the incentive for leaders to make a credible commitment to an open trade policy and hence the more likely they are to sign international trade agreements. This dynamic is especially pronounced during hard economic times, when leaders are often suspected of having chosen policies that favored special interests and contributed to the downturn. Leaders thus seek membership in PTAs during downturns to demonstrate that they are not overly influenced by protectionist interests. For the chief executives of countries marked by competitive political systems, these pressures are expected to be especially pronounced. Thus we expect democracies to respond to economic downturns by initiating and ratifying PTAs even more frequently than they do in good times.

In recent research, we have found considerable support for this hypothesis (Mansfield and Milner 2013). In order to test the hypothesis, we added the interaction between regime type and the change in the logarithm of GDP to the base model of PTA ratification in our book (Mansfield and Milner 2012: 96-107). As before, our analysis covered 1952 to 2004. Figure 1 is based on these results. It shows the predicted probability of a given democracy ratifying a PTA for the range of changes in the logarithm of GDP observed in the data. Here we define a democracy as having a score of 21 on the Polity Project's widely used index of regime type, which ranges from 1 for the most autocratic country to 21 for the most democratic state, although relaxing this definition somewhat has little bearing on the results. As shown in Figure 1, the odds of a democracy forming a PTA rise sharply as the economy contracts. In contrast, as shown in Figure 2, reductions in GDP seem to decrease the likelihood of PTA formation for an "anocratic" regime (which we define here as a country with a score of 14 on the Polity Project's index), although it is difficult to assess the nature of this relationship given the size of the associated confidence intervals. Autocratic regimes (that is, those with very low scores on the Polity Project's index) are even less likely to enter a PTA during economic downturns, results that we do not show to conserve space.

Our data reveal numerous cases where a democracy ratified trade agreements during economic hard times. Japan, for instance, ratified a PTA with Singapore in 2002 (Japan's first) in the face of an economic decline. Israel signed agreements with Bulgaria and Romania in 2001, during an economic slump. Zambia, a new democracy that had just held its first multi-party elections in decades, joined the both Southern African Development Community (SADC) and the African Economic Community during an economic downturn in 1992. From 1991 to 1993, Switzerland concluded a large number of PTAs with East and Central European countries, as well as one with Israel under the EFTA umbrella, a period when it experienced poor economic performance. Finally, as we mentioned earlier, the proliferation of PTAs has continued since 2008. Many of the countries forming trade agreements during the great recession were democracies.

The great recession of 2008-09, which has continued in milder form to the present, raised wide concerns about whether we would see a return to protectionism as happened in the 1930s. So far, while protection has increased somewhat, resistance to it has been coordinated and quite strong. In fact, although the WTO's Doha Round has not advanced, countries have been signing new PTAs at a solid pace. Our argument suggest why this might be the case. Leaders sign PTAs for both economic and political reasons. In democracies, leaders have reason to demonstrate their competence to voters and to reassure the public that they are not captured by protectionist special interests. These political incentives are heightened during hard times, when voters are likely to hold leaders accountable for the slumping economy unless leaders have taken steps to demonstrate that their policies were not the main culprit. While conventional wisdom might suggest that the leaders should not seek to further open their economies during downturns, our theory and data present political reasons and substantial evidence for the turn to PTAs in hard times by democracies.

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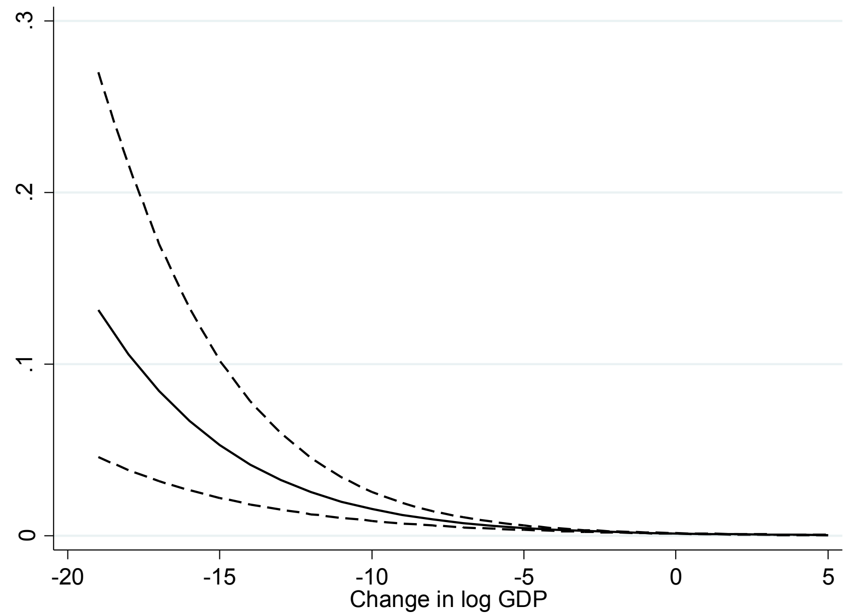
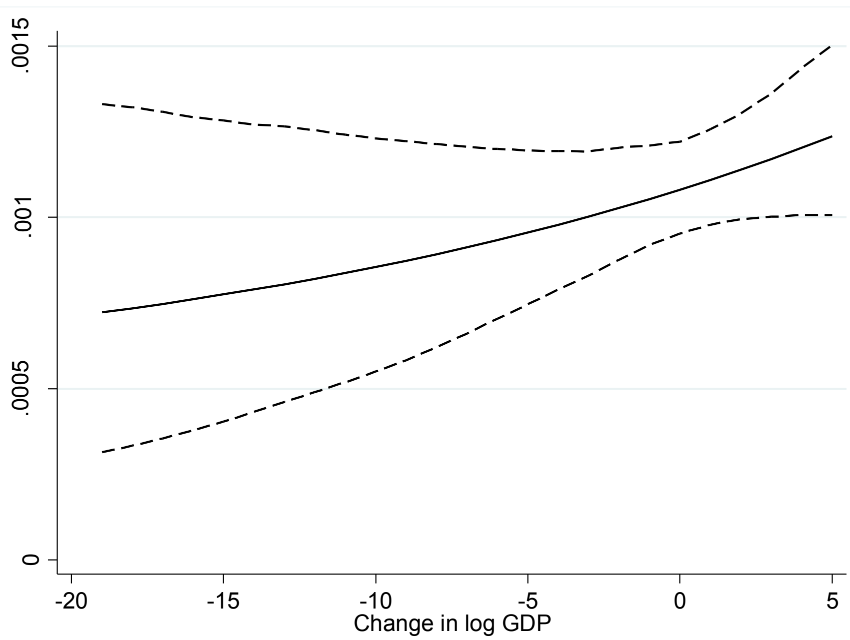
Figure 1. Predicted probability of a democracy ratifying a PTA under various domestic economic conditions, 1952-2004.



Note: Dashed lines represent 95% confidence intervals.

Figure 2. Predicted probability of an anocracy ratifying a PTA under various domestic economic conditions, 1952-2004.



Note: Dashed lines represent 95% confidence intervals.

What to Read: Trade Protection During Recessions

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Many economists and political scientists braced themselves for a nasty outbreak of economic nationalism and trade protectionism as a result of the Great Recession of 2008-9. The global financial crisis, sharp rise in unemployment in the United States and other industrialized countries, and collapse in world trade were eerily reminiscent of the Great Depression in the 1930s.[1] It is widely known that the Depression was a fertile breeding ground for protectionist, beggar-my-neighbor trade policies that would only make matters worse. And yet, contrary to the expectation of many observers, a severe outbreak of protectionism has not appeared. Why not?

Before addressing this question directly, let us consider the prior literature on trade policy and recessions. Most of the research on the political economy of trade policy focuses on which industries get protected from imports and which do not (see Rodrik 1995 and Gawande and Krishna 2003 for surveys, Milner 1999 from a political science perspective). Only a small subset of this literature focuses on the relationship between trade barriers and macroeconomic conditions over time. Early work came to the sensible conclusion that there was a tariff cycle that followed the business cycle. Poor macroeconomic conditions (specifically, an increase in unemployment or a decrease in real income) would lead to an increase in the demand for protectionist policies. Policymakers seeking re-election would give into the demands of interest groups and specific industries and would accommodate this demand by imposing import restrictions (Cassing, McKeown, and Ochs 1986, Gallarotti 1985). According to this logic, tariffs should be a cyclical phenomenon: increasing in bad times and decreasing in good times.

Bohara and Kaempfer (1991) subjected this hypothesis to formal statistical analysis and found that unemployment, real GDP, and inflation were responsible for changes in U.S. tariff rates over a long time period. The unstated implication was that political pressures led to adjustments in tariff rates in response to changes in the economy. Irwin (1998) interpreted this evidence differently, however, showing that two-thirds of U.S. import duties were specific duties (dollar per imported quantity) rather than ad valorem duties (percentage of import value). Therefore, the average tariff rate would move automatically because of changes in import prices (which are correlated with the business cycle) rather than in responses to political economy factors. In fact, Irwin found little relationship between political decisions to change tariff rates (by passing new tariff legislation) and the business cycle. In addition, average tariffs have been very low and stable over the post World War II period due to tariff bindings in GATT and WTO agreements, which make it difficult to associate changes in the average tariff with the political economy of the business cycle.

While tariff rates are an imperfect indicator of the "demand" for protection by trade-sensitive industries, a better measure is the filing of petitions for antidumping duties. Because most governments adhering to WTO rules have to provide industry-specific trade protection and cannot adjust their entire tariff schedule upward, this is where one can most clearly see how macroeconomic conditions affect trade policy. An extensive body of work has found that real exchange rates, changes in the unemployment rate, and domestic GDP growth are important determinants of the cyclical nature of filings for administered protection (Leidy 1997, Knetter and Prusa 2003, Feinberg 2005, Irwin 2005). Rose (2012) recently challenges the view that trade protection has been countercyclical, but Bown and Crowley (2013) still find that trade policy measures are countercyclical. Oatley (forthcoming) stresses that the number of antidumping petitions may be affected more by changes in the real exchange rate than changes in real GDP. Broz and Werfel (forthcoming) show further that several industry-specific characteristics determine the protectionist response to changes in the exchange rate, including the degree of exchange-rate pass-through, the level of import penetration, and the share of imported intermediate inputs in total industry inputs.

How does this body of research help us understand the trade policy response to the Great Recession? Given the recession and the sharp rise in unemployment across most OECD countries, it would have been reasonable to expect a significant increase in protectionism. Indeed, Bown and Crowley (2013) examines the impact of macroeconomic fluctuations on import protection for five industrialized economies (the United States, European Union, Australia, Canada and South Korea) over the period from 1988 to 2008. In line with the previous literature, they find evidence of a strong countercyclical trade policy response in the pre-Great Recession period during which increases in domestic unemployment rates, real appreciations in bilateral exchange rates, and declines in the growth of GDP leads to an increase in new temporary trade barriers. When they apply this empirical model to out-of-sample macroeconomic data from the Great Recession (2008:Q4-2010:Q4), they predict a surge of new import protection; for the United States and European Union, new trade barriers were predicted to cover an additional 15 percentage points of nonoil imports, well above the baseline level of 2-3 percent of import coverage immediately preceding the crisis. Yet this protectionism did not materialize.

Of course, as documented by Bown

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1 The Great Depression analogy was irresistible to economic historians (Bordo and James 2012, Eichengreen 2012). The Smoot-Hawley tariff is often given special attention in discussion of the Depression; see Irwin (2011) for a recent assessment.

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(2011a, 2011b) and Evenett (2011), the use of temporary trade barriers and subsidies did increase during the crisis. However, Bown and Crowley's work suggest that the increase in protectionism was much smaller than anyone would have expected, given the severity of the shock. Kee, Neagu, and Nicita (2012) also quantifies trade policy changes and the associated trade impact for about 100 countries between 2008 and 2009 and find no widespread increase in protectionism. Only a few countries, like Russia, Argentina, Turkey and China, increased tariffs on major imported products, while the United States and the European Union relied mainly on anti-dumping duties to shield domestic industries. They find that the rise in tariffs and anti-dumping duties explains less than 2 percent of the collapse in world trade during the crisis period; by contrast, higher trade barriers explain about half of the collapse in world trade during the Great Depression (Madsen 2001).

Why was the trade response so muted? Bown and Crowley detect a behavioral shift in which countries were less willing than in the past to impose trade barriers against other countries whose economy was weak. Others have suggested that WTO rules prevented countries from playing the trade-protection card (though Evenett suggests that the existence of the rules simply shifted protection to WTO-legal methods, such as domestic subsidies). More research will be needed to figure out exactly why protectionism was not as serious a problem as many anticipated.

But another way of addressing the question of why protectionism was not a pronounced feature of the Great Recession is to ask why trade protection was such a problem during the Great Depression and consider how the Great Recession was different. A key factor in the Great Depression was the gold standard (Eichengreen 1992). The gold standard is a fixed exchange- rate system in which central banks tied the value of their nation's currency to a specific amount of gold, meaning that they would have little or no discretion in pursuing an independent monetary policy aiming at stabilizing domestic economic activity. If a country wanted to remain on the gold standard, this meant that an expansionary monetary policy was not an option when the Depression began. In addition, fiscal policy was also constrained by the widely-held, pre-Keynesian idea that government budgets should always be in balance. As the Depression began, this meant fiscal austerity, in which spending was cut when revenues declined due to the recession. Thus, monetary and fiscal policy, the major macroeconomic tools available to governments, could not be used to address the growing crisis. Eichengreen and Sachs (1985) show how countries were only able to recover from the Great Depression when they left the gold standard and were able to pursue more accommodative and expansionary monetary policies.

Eichengreen and Irwin (2010) and Irwin (2012) show that this analysis has implications for the trade policy developments of the 1930s. Protectionism during the Great Depression has often been portrayed as a mad scramble in which all countries sought to close markets as unemployment rose and incomes fell. In fact, there was a great deal of variation in protectionism across countries: some hardly increased tariffs at all, while others imposed tariffs and quotas and draconian foreign exchange restrictions that led to a contraction in trade. The distinction between these two groups was their exchange rate policy. Countries that left the gold standard and pursued expansionary monetary policies were able to begin the process of economic recovery and reduce unemployment, which in turn tempered the demand for trade restrictions. This process also led their currencies to depreciate against the currencies of other countries that stayed on the gold standard. In contrast, countries that stayed on the gold standard remained mired in the slump and found their currencies overvalued, both of which increased domestic pressures for protectionism. Consequently, countries that stayed on the gold standard used import restrictions more extensively than those which had abandoned their fixed exchange rate peg.

What does this have to do with the Great Recession? First, there is no gold standard or global system of fixed exchange rates that constrains monetary policy today. In fact, with the collapse of Lehman Brothers in September 2008, major central banks pursued a massive and coordinated intervention to ease monetary conditions and provide liquidity to financial markets. This monetary accommodation has continued in the form of "quantitative easing."[2] In addition, most countries enacted fiscal stimulus programs. The aggressive monetary and fiscal expansions seen during the Great Recession were precisely the opposite macroeconomic approach than what was seen during the onset of the Great Depression.

Second, because almost all major countries were pursuing similar macroeconomic policies at the same time, real exchange rate movements were very small. The research cited above suggests that real exchange rate movements are an important factor behind private sector demands for protectionism; the absence of such movements during the Great Recession is another reason why protectionism was not much of a problem this time, but was during the Great Depression.

Finally, a third reason that protectionism did not rear its ugly head is that, for most industries, import penetration fell rather rose during the Great Recession. International trade fell much more steeply than domestic production; indeed, the volume of world trade dropped 12 percent in 2009, whereas world real GDP fell only about 1 percent that year.[3]

2 Of course, the euro area has a unified monetary policy that is not tailored to individual regions; hence, Greece cannot pursue a more expansionary monetary policy and allow its currency to depreciate to get out of its troubles.

3 There is a large and growing literature seeking to explain why world trade fell by such a

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Hence, import restrictions were not seen, at the industry level, as a potential solution to the shortfall in demand that they were experiencing.

In sum, there are a variety of other reasons why governments kept a lid on import restrictions. The role of WTO rules and new trade patterns – such as vertical specialization and supply chains – have yet to be fully explored, as well as the trade-impact of non-trade interventions, such as industry-specific subsides. There are plenty of opportunities for further research on trade and non-trade policy responses to the Great Recession. We still do not have a good sense for why some industries received protection and others did not. The role of WTO rules in constraining the rise in protection merits further consideration. And the role of subsidies and cheap credit as a substitute for trade policy, and as potentially leading to trade conflict, also deserves further study.

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large amount when world GDP did not contract significantly. See, for example, Eaton, Kortum, Neiman, and Romalis (2011).

General Announcements

Section Awards: Citations

Fiona McGillivray Award

(given for the best paper on political economy presented at the APSA meeting)

"The Behavioral Foundations of Social Politics: Evidence from Surveys and a Laboratory Democracy,"
Benjamin Barbar IV (Duke University), Pablo Beramendi (Duke University), and Erik Wibbles (Duke University)

Committee: Margarita Estevez-Abe (Syracuse University), William Clark (University of Michigan), and
Barbara F. Walter (University of California-San Diego)

"The Behavioral Foundations of Social Politics: Evidence from Surveys and a Laboratory Democracy" is an excellent paper that tests some of the core assumptions in the welfare state literature using an innovative mixture of methods: a laboratory experiment and a survey. Scholars who believe that individual workers' policy preferences matter have focused on risk and income as potential determinants of social policy preferences. Barbar, Beramendi, and Wibbels argue that most existing studies fail to test these behavioral assumptions. This is what their paper sets out to do.

The authors develop a within-subject repeated measure experiment consisting of three parts: a voting phase in which the participants vote on a tax/insurance rate, a production phase in which participants earn money by answering spelling questions, and a redistribution phase in which participants view the outcome of their effort and the tax-and-transfer process. They find that participants calculate on the basis of either income or risk, but not both. They further supplement their experimental study with an analysis based on the 2008 Cooperative Congressional Election Survey, which includes questions asking respondents to assess whether specific policies are more redistributive or more insurance, as well as which of those policies they most prefer. The authors find some evidence for a conditional relation between income and risk. They end the paper by suggesting that their next target is to unpack potentially different behavioral implications of risk and uncertainty.

The committee unanimously agreed that the paper makes an important contribution to the welfare-state literature by opening a new terrain of behavioral research.

Mancur Olson Award

(given for the best dissertation on political economy completed and accepted in the previous two years)

"The Political Causes and Consequences of Inequality of Opportunity," Xiaobo Lu (Yale University)

Committee: Catherine Hafer (New York University), Stephen B. Kaplan (George Washington University), and
John Ahlquist (University of Wisconsin-Madison)

In "The Political Causes and Consequences of Inequality of Opportunity," Xiaobo Lu examines both the causes and consequences of the unequal provision of goods and services in authoritarian regimes, with special emphasis on the provision of public education in China. He first establishes that policies that promote greater inequality of opportunity, such as inequality in access to or quality of education, lead to greater resentment of inequality in income. He then turns his attention to the causes of greater or lesser inequality of opportunity. He finds that transfers from higher tiers of the Chinese government to localities are not effective in promoting the provision of local education, but that local spending on education is responsive to pressure from local public employees.

The dissertation brings new ideas to an important topic, providing a novel and carefully constructed causal story that connects local demands, public policy, and tolerance for (or intolerance of) inequality in both opportunity and income. The author has collected a novel data set on public education expenditures at the local level across China, and has analyzed it well to garner new insights into the local policy-making process in China. The committee congratulates Dr. Lu on an excellent piece of scholarship that contended successfully with an unusually large and strong set of nominees for the prize.

General Announcements

Section Awards: Citations (cont.)

William H. Riker Award

(given for the best book on political economy)

The Limits of Judicial Independence, Cambridge University Press, Tom S. Clark (Emory University)

Committee: Carles Boix (Princeton University), Ben Ansell (University of Minnesota), and Jenna Bednar (University of Michigan)

The Limits of Judicial Independence explores the behavior of the US Supreme Court and, more specifically, the extent to which the Supreme Court operates as an independent institution in the political system vis-à-vis the legislative and executive powers and the American public. This exploration consists in characterizing and probing the political and institutional constraints that shape the space within which the Supreme Court reviews the constitutionality of federal laws and engages in statutory interpretation. In advancing an original and compelling model of judicial behavior and in testing it in a thorough, systematic manner, Professor Clark makes a very important contribution to our understanding of how institutions operate in a constitutional system and how the principle of majoritarian democracy and the existence of an independent, unelected judiciary are related in a separation-of-powers setting.

In both its theoretical construction and empirical thoroughness, *The Limits of Judicial Independence* stands out as a truly impressive book—it did so among about the forty books the committee reviewed and the more than half a dozen that came very close to receiving the award. Tom Clark's work is an important contribution to the literature on judicial politics; to the political economy of development, which has repeatedly stressed the positive role that independent judiciaries play in spurring growth; and, by defining Supreme Courts as democratic bodies of a certain kind, to democratic theory.

Michael Wallerstein Award

(given for the best published article on political economy in the previous calendar year)

"The Conscription of Wealth: Mass Warfare and the Demand for Progressive Taxation," *International Organization*, October 2010, Kenneth Scheve (Stanford University) and David Stasavage (New York University)

Committee: Beatriz Magaloni (Stanford University), Jens Hainmueller (MIT), and Edward D. Mansfield (University of Pennsylvania)

"The Conscription of Wealth: Mass Warfare and the Demand for Progressive Taxation" makes a significant contribution to our understanding of the politics of redistribution in advanced industrial democracies. In their insightful analysis, the authors challenge the scholarly consensus about the politics of redistribution that traces the development of welfare polices to the emergence of competitive electoral democracy and the consequent rise of strong socialist parties that mobilized the working class and pushed for redistributive policies. Insightfully, the authors point instead to the critical role played by mass warfare, which produced the fundamental realignment necessary to build consensus around increased taxation of the wealthy to distribute the costs of war in a more egalitarian manner. To support their theoretical claim, the authors focus on the determinants of progressive taxation and show that during the past century mass mobilization for war was systematically associated with increases in tax progressivity. They also show, through a difference-in-differences design, that there were fundamental differences between participants and non-participants in World War I, a turning point in the development of the modern welfare state. Importantly, the empirical analysis shows that without war, we do not observe large increases in tax progressivity even when left wing parties are in control of government.

This article is likely to shape the terms of the debate on the emergence of redistributive politics for years to come, and to shift the focus from electoral democracy to analysis of how war impacts economic policy-making in permanent ways. This paper reflects outstanding scholarship on the themes or methods for which Michael Wallerstein was known and respected.

General Announcements

Call for Submissions

Fiona McGillivray Award

The **Fiona McGillivray Award** is given for the best paper in political economy presented at the previous year's APSA annual meeting. Nominations should be submitted by **March 1, 2013**.

Award Committee Chair:
Elizabeth Maggie Penn
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Award Committee Member:
Edmund Malesky
Duke University
Political Science
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Award Committee Member:
Stephanie Rickard
London School of Economics
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Mancur Olson Award

The **Mancur Olson Award** is given for the best dissertation in political economy completed in the previous two years. Nominations should be submitted by **March 1, 2013**.

Award Committee Chair:
Christina Davis
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cldavis@princeton.edu

Award Committee Member:
Jowei Chen
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Political Science
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Award Committee Member:
Monika Nalepa
Notre Dame University
Political Science
mnalepa@nd.edu

William H. Riker Award

The **William H. Riker Award** is given for the best book on political economy published during the past three calendar years. Nominations should be submitted by **March 1, 2013**.

Award Committee Chair:
Jeffrey Lax
Columbia University
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jrl2124@columbia.edu

Award Committee Member:
Karen Jusko
Stanford University
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Award Committee Member:
Jens Hainmueller
MIT
Political Science
jhainm@mit.edu

Michael Wallerstein Award

The **Michael Wallerstein Award** is given for the best published article in political economy in the previous calendar year. Nominations should be submitted by **March 1, 2013**.

Award Committee Chair:
Shanker Satyanath
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Award Committee Member:
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Award Committee Member:
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General Announcements

Call for New Editor

The Organized Section in Political Economy seeks a new editor or editorial team to assume responsibility for the Political Economist. The newsletter is published electronically twice yearly on behalf of the Section. Currently edited by Scott Gehlbach and Lisa Martin (University of Wisconsin–Madison), the editors are responsible for soliciting articles for each issue and for publishing the newsletter on a regular schedule. Individuals interested in considering the editorship should contact the Section Chair, John Huber (jdh39@columbia.edu). Nominations of others and self-nominations are equally welcome.