A Theory of Trade Policy under Dictatorship and Democratization

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There is growing consensus that institutions play important roles in economic performance.

Besley and Jayaraman (2010) note that there is clearly a great deal of heterogeneity in institutions and outcomes associated with a given institutional metric. Levchenko (2007, 2013), Nunn (2007), Costinot (2009), and Acemoglu and Robinson (2000) have examined the interaction between political institutions and international trade policy.
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By combining 2 x 2 H-O with Acemoglu and Robinson (2000), this paper examines the interaction between political institutions and international trade policy.
Two Contributions

- First contribution: shows three possible outcomes:
  
  (i) Democratization goes hand in hand with trade liberalization;
  (ii) Democratization accompanied by protectionism;
  (iii) Trade liberalization (or protectionism) used to forestall democratization.

- Second contribution: can analyze price shocks.
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In the model, initially a ruling elite controls the government (i.e. trade policy) outright.

Follow Besley and Persson (2011) in assuming limited domestic fiscal capacity.

The rest of society is too poor to lobby financially, but may be able to exert influence through the periodic opportunity to mount a revolution.

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where $x^* = dx/x$. Also, $y_t^r = w_t^1$ and $y_t^c = w_t^2 / \theta$.

So

$$y_t^c > p_t^* > 0 > y_t^r^*,$$
Figure 1: Policy preferences with comparative advantage in good 1
Figure 2: Policy preferences with comparative advantage in good 2
Figure 5: Status quo price with comparative advantage in good 1 entails trade liberalization
The ‘Status Quo Price’ Illustrated

Figure 6: Status quo price with comparative advantage in good 2 entails protectionism.
Comparative Statics

Characterization of equilibrium has the feature that the elite can use trade policy to defuse a revolution when opportunity to mount a revolution occurs relatively frequently. Use this result to undertake comparative statics to see how protection varies, given the threat of revolution.
Figure 7: Britain’s Trade Policy 1815-1846; c.a. in good 1= manufactures

Britain circa 1846:
elite own $v_2 = \text{land}$, ROS own $v_1 = \text{labor}$. 
Prussia; The Other Side of the Grain Market

Figure 8: Prussia’s Trade Policy 1815-1848; c.a. in good 2 = food

Prussia circa 1848:
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