

European and International
Studies II
**Comparative Advantage and
Protectionism**

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Concepts from game theory

- Pareto-optimal outcomes
- Prisoners' dilemma
- Zero- and positive-sum games
- “free-riding“ -- parties benefit w/o contributing themselves

Pareto-optimal outcomes

- Wilfredo Pareto, economist
- “condition of equilibrium in which no one actor can be made better off without making s.o. else worse off“, COHN, p.385

The prisoners' dilemma

Cooperation >

Prisoner No. 1
keeps secret confesses

Prisoner No. 2
keeps secret confesses

2 years	acquitted 12 years
12 years acquitted	10 years

Defection >

Zero- and positive-sum games

Player No. 1 wins (+1)

Player No. 1 wins (+1)

Player No. 2 loses (-1)

**Player No. 2 may or
may not also win
(so-called “win-win“
situations)**

Sum = 0

**Sum = 1
(or more)**

Trade, domestic vs. international

- Int'l econ.
 - Theory of int. trade -- *microeconomics* with its relative prices (terms of trade)
 - Open-econ. *macroeconomics* with its money prices (Mankiw, Chapter 18)
- Trade *theory*
- Supply/ demand analysis is possible, but not as useful as using the prod. possibilities frontier

Adam Smith

- Why trade?
- Smith's absolute or *competitive* advantage
- David Ricardo's *comparative* advantage

Classic liberal theory

- Why trade?
 - economies of scale
- liberal + Keynes = neoliberal
- Efficient resource allocation, opp'ty cost
- Int'l division of labor, specialization
- Factor endowments
 - Factor mobility? Changes in factors?

Nation-state level

- Industries are diverse:
 - diff. ind. reserved for GATT Uruguay Round
 - textiles, wage-intensive, Third World's comp.adv.
 - agriculture, subsidized in Europe
 - steel, high-tech, etc.
- Nation-states have agencies to regulate their domestic companies under dom. trade law.

International level

- International agreements
 - Bilateral -- often outcomes-based
 - Multilateral -- rules-based under GATT/ WTO

Practices distorting trade and competition

- Protectionist, defensive
 - Tariffs
 - Non-Tariff Barriers NTBs
 - Quotas
 - “Voluntary“ Export Restraints VERs
 - “Voluntary“ Import Expansions VIEs
 - Admin.& techn. Standards
 - Domest-content legislation
- Offensive
 - Dumping
 - Export subsidies
- Subsidies
 - export promotion
 - production
 - R&D -- case of Airbus strategic trade *policy*

Trade *policy* -- industrial policy

- Robert Reich, prof.+ ex.-U.S. Sec. of Labor
 - Non-Tariff Barriers NTBs are still as important as tariffs themselves (50/50).
 - Hence *managed* trade is still a must despite “free trade“ rhetoric. Nation-states can determine trade through agreements, e.g. GATT/ WTO.
- Zoellick - US; Pascal Lamy - Eur.Commiss.

Theme of cooperation vs. competition (Lairson/ Skidm.)

- competition (system view), competitiveness (company view)
- Political economists see nations in competition for companies' factories under globalization (*Standortwettbewerb*, Giersch, Kiel)
- Liberals like Krugman think the geography of production is irrelevant: trade is a positive-sum game; nations do not compete like companies.