4. The Domestic Sources of Foreign Economic Policies

This chapter examines the domestic sources of foreign economic policies. Different people in every society typically have different views about what their government should do when it comes to setting the policies that regulate international trade, immigration, investment, and exchange rates. These competing demands must be reconciled in some way by the political institutions that govern policy making. To really understand the domestic origins of foreign economic policies, we need to perform two critical tasks: identify or map the policy preferences of different groups in the domestic economy; and specify how political institutions determine the way these preferences are aggregated or converted into actual government decisions. The first task requires some economic analysis, while the second requires some political analysis. These two analytical steps put together like this, combining both economic and political analysis in tandem, are generally referred to as the political economy approach to the study of policy outcomes. The chapter then considers the impact of domestic politics on bargaining over economic issues between governments at the international level.
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