Robert Keohane & Helen Milner (1996) *Internationalization and Domestic Politics*. Cambridge: Cambridge University Press.

Chapter 5: Jeffrey Frieden, 'Economic Integration and the Politics of Monetary Policy in the United States', 108-136.
Frieden uses the example of US monetary policy to illustrate the effect of international economic integration on domestic politics and monetary policy. Changing levels of US integration in the world economy and differential distributional impacts on socioeconomic groups, led to interest groups mobilizing in different ways and to the emergence of various kinds of social, economic and political divisions. Institutions both influenced and were influenced by these shifts. Frieden contends that the high level of US economic integration explains why monetary policy was prominent on the political agenda prior to 1930 and has re-emerged since 1970. Conversely, the more closed US economy between 1930 and 1970 can account for the lack of attention given to monetary policy during this period.

In a closed economy monetary policy primarily affects the nominal price level and aggregates such as growth. As a result, divisions are principally expected to emerge between borrowers and savers and economic and political effects tend to broad and diffuse. In contrast, in an open economy, monetary policy directly affects currency value and monetary expansion sends the currency down, making local goods cheaper relative to imports. As relative prices (e.g. between tradable and non-tradable goods) are affected, more better defined groups tend to be concerned about monetary policy.

Some expectations for American monetary policy are:
(a) In a period of open economy, monetary policy should be closely related to the exchange rate, should lead to the involvement of clearly defined interest groups (such as producer and consumer groups), and should be a prominent political issue, whereas in a closed economy, macroeconomic aggregates should focus on the issue and the distributional effects should be more diffuse;
(b) In the open economy the key political division should be between tradables (wanting a weak currency) and non-tradables (wanting a strong currency) producers, whereas in a closed economy, political differences should exist mainly between net debtors and net creditors;
(c) in an open economy there should be a strong connection between monetary and trade politics, whereas this need not exist in a closed economy;
(d) in an open economy Congress should have a strong interest in monetary policy formulation, because important, well-defined and often geographically concentrated electoral groups are affected, whereas in a closed economy the Executive should have the strongest incentive to focus on monetary policy, because concern about monetary policy is distributed more diffusely in the wider electorate.

Frieden argues that several observations from his study of American monetary politics since the 1860s bear out his expectations. First, prior to the 1930s, when the American economy was relatively open, monetary policy was closely related to exchange rate issues, differences existed between tradables and non-tradables producers (as well as between internationally and domestically oriented sectors), and Congress focused on monetary policy. In contrast, in the 1930s-1960s period key interest groups paid less attention to monetary policy, trade and monetary policy were not closely linked, and little emphasis was placed on monetary policy by Congress. Third, in the early 1970s the pattern was one in between the poles of open and closed economies. For example, interest groups were as expected in the open economy setting, yet Congress focused more on trade policy than monetary policy. Finally, while it still did not approach the 1890s levels, the 1980s - when the American economy was highly internationalized and integrated - trends in US monetary policy matched Frieden's expectations. Both Congress and interest groups focused on monetary and exchange rate issues and there was a strong link to trade policy. Overall, changing levels of economic integration in the US can be seen as associated with shifts in monetary policy formulation, supporting the general conclusions of the volume about the effect of internationalization on domestic politics.

Chapter 7: Matthew Evangelista (1996) 'Stalin's revenge: institutional barriers to internationalization in the Soviet Union', 159-185.

While the USSR had always been involved in the world economy, and had recorded some increases in the 1970s, its levels of foreign trade and foreign investment had always been low. Trade as a proportion of GNP was low enough to leave the Soviet economy relatively closed. Even when trade expanded it did not have a significantly positive effect on growth and labour productivity, and the structure and politics of the domestic economy meant it was largely insulated from world economy changes.

There are two approaches to the Soviet experience:

(i) Institutionalist: the 'protectionist' institutional legacy was bad for the economy as a whole, yet benefited those in the government's administrative tier and those in uncompetitive industries. Institutions insulating the Soviet economy took the form of the state monopoly on foreign trade and the 'administrative-command system', which saw the central planning of prices and the development of a price-equalization system. Further, democratic centralism and the *nomenklatura* system of appointments limited interests' and groups' abilities to act on their interests;

(ii) Political Economy: economic competition with the West influenced the process of the USSR collapse. Western inflation in the 1970s filtered through to, and undermined, the Soviet economy; the semi-opening of the Soviet economy after WWII saw a 'new, new class' of bureaucrats and administrators emerge who formed a potential support base for Gorbachev's reforms; economic interaction within the Soviet bloc and with East European allies influenced Soviet bloc relations and helped determine the Soviet fate.

Evangelista argues that the evidence (e.g. from the energy sector) supports the institutional more than the political economy approach. The effects of international trends in other societies such as the US did not occur to the same extent in the USSR. For example, Soviet socio-economic groups did not organize more as a direct result of changes in the relative prices of tradeable and non-tradeable goods. Instead, the approach that sees pre-existing institutions shaping the domestic consequences of internationalization has greater explanatory power. Indeed, institutions that insulated domestic politics from international developments (by equalizing prices and monopolizing trade) appear to have been deliberately designed. However, this institutional control backfired and partly led to the breakdown of the USSR.