

Self-Enforcing International Agreements and Domestic Policy Credibility*

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Abstract

We explore the relationship between international policy coordination and domestic policy credibility when both must be self-supporting. Our arguments are presented in the context of a two-country, two-period model of dynamic emission abatement with transboundary pollution, where government policies suffer from a time-consistency problem. In the absence of repeated interaction, any form of coordination—between governments, and between governments and their respective private sectors—improves policy making. Nevertheless, under repeated interaction international policy spillovers can make it possible to overcome the domestic credibility problem; and, conversely, the inability to precommit to policy domestically can help support international policy cooperation.

KEYWORDS: Policy Commitment, Self-Enforcing International Agreements.

JEL Classification: F42, C73, H20.

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