

EDITORIAL: THE POLITICAL ECONOMY OF PROTECTIONISM

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Economists notoriously disagree about many things. Trade policy, however, is an exception. Famously, this is an area of widespread agreement on both theoretical analysis and policy prescription. Surveys of professional economists show a near consensus supporting the theory of comparative advantage first articulated by David Ricardo and the associated policy of free trade, ideally on a universal basis, otherwise unilaterally. Such near unanimity is impressive. Moreover, both the analysis and the empirical evidence on which the consensus rests are very robust. Over the years there have been many attempts to find flaws in the theory or limiting instances where it does not apply as well as efforts by economic historians to uncover empirical evidence that would count against it. However, as Irwin's comprehensive survey shows, these have all been unsuccessful (Irwin, 1997).

Given this professional agreement and evidence simply exploring the case for free trade and against protection seems otiose. What is both interesting and timely, however, is the study of what we may call the political economy of trade policy as an historical and current reality. Notoriously, while economists generally agree on trade policy, this is not the case among either the wider public or the political and policy-making elite. Here support for various kinds of protectionism remains strong and departures from the ideal policy of free trade are frequent and widespread. This raises interesting and important questions about what it is that shapes trade policies in reality and how this reflects a complex interplay between material group interests, beliefs and ideology, and institutional constraints and influences. These are questions in other words not so much of pure 'scientific' economic analysis as of political economy with its blending of theory, empirical study and normative argument. It is questions of this type that the papers in this issue of *Economic Affairs* address.

Given this, there are points about the political economy of trade that are basic but

bear reiteration because they are often overlooked or taken for granted. Historically the limiting cases of an economy where comparative advantage has no play or the opposite situation of one where there are no limits to its operation are rare or even non-existent. What we actually observe is oscillation between these poles with much movement towards one or the other in different times and places (we may currently discern a long-term trend towards the more open, free-trade end of the spectrum but that would be a tentative finding). The challenge is to discover why at one time and place arguments for some form of protectionism are successful in the sense of being realised as policy while, at another time, things work the other way, in the direction (most) economists would prefer. Moreover, the forms that protectionism take (defined as institutions or policies that work to check the operation of comparative advantage and the consequent free movement and exchange of goods and services) vary considerably. At some times the predominant form is the classic one of tariffs but at other times we find other kinds of practice such as the manipulation of money and exchange rates examined by Cwik. Again, while the arguments made in favour of free trade remain much the same, those against that position vary considerably, reflecting in many cases shifts in both ideology and related class interests.

In one sense, apart from the limiting case of an economy of self-sufficient households, there is always some free trade. To put it another way, comparative advantage is always realised to some degree. The two points at issue are firstly that of what are the geographical limits within which this takes place. For economists this should ideally be the entire planet or some very large portion of it but there is a persistent tendency to think it should be a political unit of some kind. The second is that of which goods and services will be produced according to the signals generated by free trade and exchange and

which will be governed by other kinds of institutions, in particular deliberate public policy. There is then the secondary question of what exact form this might take.

In exploring these questions authors have emphasised different influences. Many put the main stress on interest group politics and the way in which highly organised special interests have both an incentive to use political power to restrict trade for their own benefit and a disproportionate ability to realise this within the political system. So for example, Baldwin and Robert-Nicoud argue that it is sectors and firms that face problems of comparative disadvantage that have the strongest incentive to lobby political elites for various kinds of protection (so that it is not a matter of governments 'picking losers' but rather of 'losers picking governments') (Baldwin and Robert-Nicoud, 2007). Others emphasise the interests of the political class itself and the incentives it faces, which supposedly lead its members to favour the short-term gains and concentrated benefits that accrue by giving protection to powerful or vocal groups. Yet others explore the part played by ideology or mistaken ideas and beliefs or even ultimately the language and vocabulary used to talk about trade and the way this subtly shapes perceptions and understanding. Finally, there is the way that innovations in technology or policy practice make certain kinds of protection possible in some times and places but not in others.

All these kinds of questions and approaches can be found in the papers here. The one by Boudreaux is a case of focusing on beliefs and ultimately language as the determining factor. His paper looks at a common argument used to justify departures from free trade: the way in which subsidies by one government to its own producers remove the argument for free entry for goods produced in that country (because the goods in question are not being produced because of comparative advantage enjoyed by the producers). As he points out, the actual benefit of such subsidies is enjoyed mainly by consumers in the recipient country who get access to goods at a lower cost than they would otherwise face. However, as he also notes, the main point is that the very concept of a subsidy in this connection proves to be a vague and indeterminate one, which provides no clear guidance on this question. In fact, the very notion of a subsidy in this context is one that confuses thinking rather than aiding it. This is an example of the way that basic categories of analysis or vocabulary can lead us to think about trade in ways that are not helpful – the major example of this is the persistent tendency to see the economic world as divided into nation-shaped pieces called 'the British Economy', the 'Japanese economy' etc.

Cwik's paper looks at perhaps the most important example of a good that many assume should not be produced simply in line with the signals generated by exchange: money. In recent years the manipulation of money and particularly exchange rates by governments has become perhaps the most widespread form of protectionism (although the use of health and safety regulation must surely run it close). As Cwik points out, this strategy has attractions for ruling groups and governments because it enables them to capture the political benefits of protection without being tainted so much by being seen to give favours to specific, identifiable interests (such as US sugar farmers for example). This would appear to be a case of the political economy working in a particular way in recent years because of the way that institutional and other innovations (notably in the field of central banking) have made this an easier option for governments to pursue as opposed to others such as tariffs, quotas or licensing schemes. This analysis yields interesting policy conclusions, not least that the way to check this growing form of protectionism is to effectively privatise the issue of circulating medium.

The paper by Magee performs the interesting manoeuvre of looking at the incentives facing political actors over trade policy while reversing the usual question that is put. Normally authors point to the consensus in favour of free trade that was mentioned earlier and then try to explain why there are so many departures from free-trade policy in reality – it is the phenomenon of protectionism that is seen as problematic and requiring explanation. Magee argues that the question we need to ask is the opposite one. Why is there so little protectionism and so much free trade, given the incentives political actors face? He considers a number of possible explanations for this, and suggests several fruitful areas for research.

My own paper looks at an under-studied area of the history of economic thought: that of systematic protectionist thinking which can form public policy in a way that makes it resistant to the usual kinds of economic reasoning. The argument is that economists need to adopt a political economy approach and make normative as well as analytical arguments in favour of free trade.

References

- Irwin, D. (1997) *Against the Tide*, Princeton, NJ: Princeton University Press.
 Baldwin, R. E. and F. Robert-Nicoud (2007) 'Why Governments Pick Losers', *Journal of the European Economic Association*, 5, 1064–1093.

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