



# An Explanation of the Dynamics of Protectionism

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## Abstract

Trade policy has been the rule during this century. Traditional theories, however, fail to provide convincing explanations about why the nature of trade policy has changed over time and about why protectionist pressures have not always been successful. This article suggests that change in the nature and intensity of protectionism depends on the deviation of economic performance from expectations, on the demand for institutional change, and on the size of the existing distortions. This view is then applied in order to shed new light on the role of trade policy before and after World War II.

## 1. Trade theory in short

The role of international trade theories and policies follows from the very nature of economic analysis, the main scope of which is to describe (1) how resources can be—or should be—employed so as to maximize well-being, subject to a scarcity constraint, and (2) how such a scarcity constraint can be weakened over time.<sup>1</sup> The positive and normative results suggested by this vast literature are wide-ranging but fairly straightforward and robust.

From a positive viewpoint, the notion of comparative advantage is very old but remains crucial, especially in its “augmented” version.<sup>2</sup> It explains why free international trade expands the consumption-possibility frontier of the typical individual, both in a static framework and, much more important, in a dynamic context. That is, trade can improve the allocation of resources considerably, but the stimuli to improve the technology and the organization of the production process and the variety and quality of the products play an even greater role.

From a normative standpoint, it is now commonly accepted that trade policies (protectionism)—no matter how finely tuned—are harmful, both in the short and in the long run.<sup>3</sup> Attempts to interfere with the trade-flow pattern suggested by the comparative-advantage structure may perhaps improve the welfare of given groups of individuals at the expense of others, and sometimes even accelerate growth for a while. But such attempts involve deadweight losses, invite retaliation, and always reduce the incentives for dynamic efficiency.<sup>4</sup>

Yet the world works in a different way. Trade policies have been, and still are, fashionable. The persisting deviations of actual trade practices from the accepted free-trade pattern raise a number of questions, and so does the interaction of trade policies with the evolution of the regulatory framework, of industrial policies, and perhaps also of the welfare state. In this light, this article considers mainly developed countries and suggests some ideas that may help to shed some light on the origins of protectionism (Section 2), on the way trade policy has evolved before and after World War II (Sections 3 and 4), and on the role that trade policy can be expected to play in the future (Section 5).

## **2. The origin of trade policy**

Arguments for protection are varied. The most cogent economic reasoning for protection has been the infant-industry argument, or the strategic-protection thesis. Others are beyond the scope of the technical debate, for they have more to do with foreign policy or expediency than with the desirability of trade policy per se. Such is the case, for instance, when tariffs are levied because they are the most effective way to collect budget revenues or to favor domestic production in industries of military interest.

These explanations have now faded away, either because military needs and expediency are no longer such or because the empirical evidence has shown clearly enough that trade policy is harmful even for the protected country.<sup>5</sup> Trade policies have, however, continued to be popular and accepted—when not advocated—by public opinion. During this century, trade liberalization was undertaken in earnest only after World War II and just for a short season. As recently as the period from the early 1970s to the mid-1990s protectionists have been remarkably successful. Only in the past couple of years has free trade been making some decisive progress.

### *2.1. Three traditional views*

By and large, the literature offers three categories of explanations for changes in the trade-policy attitudes. One is known as the “liberal” doctrine and results from a knowledge-driven process<sup>6</sup> whereby policies are supposed to be strongly influenced by scholarly work and prestigious institutions. According to this view, pressure in favor of free trade, from academia and international agencies, became significant only after World War II. This view would explain why trade liberalization started only some 50 years ago.

A second explanation considers the political process and claims that politicians become actively involved in a rent-seeking game, whereas those favored by protection tend to prevail largely because of superior ability to overcome the free-rider problem.<sup>7</sup> Thus, trade liberalization would be originated by a change in the ability of the general public to foster their interests, relatively speaking,

or by a decrease in the demand for the usage of this rent-seeking instrument by those benefited by protection, perhaps because of improved abilities to obtain rents by other methods.

A third possibility, due to Verdier (1994), widens the traditional public-choice vision and offers an “eclectic” interpretation, which regards protectionism as the outcome of the political situation as a whole, rather than of a set political game played by elected politicians and bureaucrats on the one hand and interest groups on the other. According to this view, the nature of the bargaining process between the interest groups and their institutional counterparts would be strongly influenced by the electoral results and by the institutional framework. Thus, the focus of the rent-seeking game may vary considerably, from trade policy (tariff and nontariff barriers) to industrial policy (subsidies to production and tax privileges) to regulation. The persistency and the features of the trade policies in place should therefore be explained by the dominating political and institutional framework.

## 2.2. *Weaknesses and ambiguities*

Although these theories do offer important insights, they suffer from a number of shortcomings. The knowledge-driven theory probably overstates the weight of the economic profession when it comes to policymaking. For instance, it is hard to believe that Friedrich List was not influential enough to stop trade liberalization in the 1860s but was influential enough to turn Europe protectionist at the end of the nineteenth century, some 50 years after his death. Similarly, the formulation of the Heckscher–Ohlin theorem, clearly one of the cornerstones of the comparative-advantage paradigm, was followed by one of the worst periods ever for free trade. More recently, the lack of respectable theories advocating higher nontariff barriers (NTBs) has not restrained the widespread adoption of such measures throughout the world to replace lower tariffs (since the end of the Tokyo Round). As a matter of fact, the opposite process of causality may be more realistic. Far too many talented and well-trained economists have often given in to the temptation to conceive theoretical justifications for policymakers’ inclinations and wishes.

The public-choice approach is probably appropriate in explaining a good deal of the trade-policy story, which has often served the particular concerns of some groups rather than the so-called public interest. History shows, however, that the degree of protectionism has changed frequently over time and across countries. If so, the theory would predict that the rent-seeking game has undergone frequent changes over time, too. So the law-bargaining process in some cases may have favored a repeal of protectionist acts; in others, a revision in the nature of the trade policies; or indeed a replacement of trade policies by other measures, more suitable to maximizing the benefits of the actors involved. However, these predictions do not match the evidence, for the rules of the game have been fairly stable over time and across countries. Indeed, *the*

*traditional public choice analysis from an interest group perspective has important explanatory power, but taken in a vacuum it would predict considerably more protection than is observed* (Willett, 1995, p. 16). More generally, although the public-choice insight offers a rather satisfactory ex-post explanation of the observed trade-policy climate, its predictive power is relatively modest, for it depends on the unexplained path-dependent evolution of the law-bargaining process.<sup>8</sup>

The eclectic view faces the same kind of weakness, which is often solved by providing a broad (mainly political) taxonomy of cases. In fact, according to this approach, the nature of trade policy tends to remain constant unless a shock occurs (war, unexpected crisis, international tensions). Smooth change is virtually ruled out. Although this theory to a large extent succeeds in explaining the role of trade policy as regards the utility-maximizing behavior of the politician, it rules out both the possibility of having some change generated endogenously and the role of predetermined variables in shaping the behavior of the main actors in the law-bargaining process. There is evidence, however, that these variables are far from insignificant. Obvious candidates for such a role are, among others, the pace of economic growth in the medium run and—perhaps more important for the scope of this article—the observable trends and speed in the evolving structure of comparative advantage, either on a world scale or at the regional level.<sup>9</sup>

As a matter of fact, an adequate understanding of what Bhagwati (1990) called *regionalism* and *aggressive unilateralism*, as opposed to multilateral liberalization and jointly agreed protectionism, does require the inclusion of some additional explanatory variables. The suggested interaction between politicians and the electorate typical of the eclectic framework is unable to explain today's protectionist attitudes, although this approach maintains its appeal and coherence in a partial-equilibrium perspective.

### 2.3. A different view

In partial contrast with the theories outlined above, the present article maintains the following points:

1. In free-market economies, people are relatively well informed about foreign prices, appreciate variety, and understand the idea of specialization. Hence, free trade is generally welcome, at least in principle.<sup>10</sup> In practice, however, deviations from free trade are often allowed, because of the agents' unwillingness to comply with the specialization pattern suggested by comparative advantage.

If the "free market" qualification is eliminated, there are three exceptions to this broad statement. One of them applies to developed countries and is still relevant today. It reflects the trade attitude of an economy that suffers from government intervention in the form of distorting legislation, affecting the market for productive factors. It has been shown that, under such circumstances, protectionism is at most a second-best policy in order to approximate the

production-possibility frontier, but is nevertheless accepted if the cost of pursuing a first-best policy in a reasonably short period of time is deemed to be too high.<sup>11</sup>

2. Compliance with the comparative-advantage specialization pattern usually requires an adjustment in production, which may be marginal or radical. It is marginal when technological change or other circumstances do not lead to substantial falls in output in any industry, although they may alter the size and sign of the interindustry balances and justify a larger share of intraindustry trade. It is radical when the specialization pattern is altered significantly and production in some industries falls drastically. Resources must be shifted from one industry to another, and they may also remain unemployed, at least for a while.

Radical adjustment implies serious transaction costs,<sup>12</sup> the size of which also depends on the institutional features of the country. Such costs increase with the degree of regulation of the economy so that in a relatively highly regulated country the public at large, and the politicians, face a choice. Either radical change is smoothed over a relatively long time through protectionism, and the institutional framework is left virtually unscathed, or adjustment is made easier by deregulating the economy (i.e., institutional change).

In this last case, however, some kind of government support is often needed in order to buy off those interest groups who benefit from rents in a regulated economy and without whose support institutional change could not be achieved. Such support is not going to be in the form of “friendly” trade policies, though, for these would obfuscate the price signals that should drive change. Instead, industrial policies and the welfare state are usually preferred and made use of in order to induce the “losers” to comply. Industrial policy will be targeted at concentrated groups (say, at the subset of influential inefficient firms belonging to an industry negatively affected by institutional change), whereas the welfare state will be targeted at diffused interests groups.

In other words, free trade meets no major resistance when the effects of the existing distortions on economic performance are limited. When their burden is tolerable, there is no need to include trade policy among the candidates for government intervention. On the other hand, when these constraints are violated, but institutional change is strongly resisted, then trade policies can become popular as a device to increase demand for home goods, or to avoid institutional change, so as to maintain or intensify other forms of distortions without immediate consequences on aggregate demand.<sup>13</sup>

It then follows that change towards free trade is a positive function of growth,<sup>14</sup> which ensures that in each country production at the industry level remains high everywhere, even if the production structure undergoes some changes. As for distortions, if they are relatively heavy, institutional change tends to be accepted more easily, and relatively free foreign trade remains important to sustain aggregate demand and to provide the necessary price signals. On the other hand, if distortions are relatively light and/or are supported by diffused interest groups (typically, this would be the case where extensive welfare-state programs exist),

then institutional change is more likely to be resisted by those who are benefiting from the rents associated with government policymaking. Free trade is thus perceived as less valuable. Typically, a change in the terms of trade would lead to a change in relative factor prices and to a different distribution of income, which is obviously going to be resisted by the losers, who often manage to win the day.<sup>15</sup> Public opinion would also oppose change because of the unwillingness to suffer high transaction costs, which may entail social unrest and higher social expenditure (e.g., unemployment benefits).

### **3. Trade policy before World War II**

By the mid-1930s, protectionism was dominant. To find out why, one need only look at conditions a few years earlier, when politicians and potential rent-seekers in many countries were presented with an exceptional opportunity for vote hunting, for an enlargement in the economic role of government, and for expanded law bargaining. In other words, it is not surprising that most blamed the effects of the Great Depression on the market and asked for extra powers to launch more “policies.” “Fairness” and jobs were promised to the public at large; rent-seeking opportunities were promised to interest groups. As a result, the welfare state expanded, and so did the extent to which industrial policies were developed and regulatory frameworks applied to “strategic” industries.

Concerning trade policy, the fall in production justified import barriers as a way of stimulating domestic demand for home goods. Policies aimed at getting closer to the production possibility frontier by means of trade policy were deemed more useful than an efficient allocation of resources. The evaluation of the dynamic effects of protection were out of the question. Public opinion had a short-run vision only (getting out of the crisis as soon as possible). Similarly, and partly as a consequence of this attitude, in many countries political uncertainty had shortened (significantly) the time horizon of politicians and interest groups.

Thus, government policies and regulation affected the relative-price structure so that the price signals that would have indicated the distortions introduced by protectionism were unclear, to say the least. Put differently, negative growth induced public opinion to advocate protectionism and government programs. These, in turn, helped to fool public opinion about the costs of trade policy. Those who were not fooled were active in playing the rent-seeking game. In short, trade intervention seemed to suit everybody.

With reference to the analytical framework suggested in Section 2.3, it seems fair to say that, in the late 1920s and in the 1930s, industrial policies and regulation made protectionism a highly desirable policy to expand domestic demand and production. Institutional change did occur, but for the worse. In particular, the issues concerning the nature and the size of adjustment costs put forward under point 2 in Section 2.3 played an important role in explaining why government and trade policies remained in place—and possibly intensified—even when the deflationary shock was over and the situation was somewhat

stabilized. Those who wanted to avoid changes in the rules of the game could count on the fear inspired by the radical adjustment process that a free-market framework would have implied, and on the ignorance about the relative-price structure on international markets. In turn, the growth of government intervention could not have been successfully achieved without driving a wedge between the foreign and the domestic price structures. Trade policy was surely instrumental in this respect.

#### 4. Trade policy under the GATT

After World War II, the situation changed in some significant respects. International politics and, in particular, the need to secure Western Europe against the Soviet threat at the beginning of the Cold War led to unilateral trade liberalization by the United States.<sup>16</sup> This situation, plus postwar reconstruction, abrogated the low-demand problem. After years of autarky, the gains from open trade and specialization became obvious to everybody, while the Marshall Plan took care of the anxieties caused by a potential international-liquidity constraint. Fast growth and higher welfare were also considered a valuable electoral asset, since substantial layers of the population would no longer settle for some kind of stable poverty in exchange for a government insurance against deprivation and foreign invasion. Moreover, fast growth and higher income often became a necessity for the large bureaucracies that had been ruling many European countries previously. In order to preserve at least part of the power accumulated during the war, the government sector had to ensure that the economy was healthy enough to pay for it. As a result, traditional trade policies suddenly became obsolete, and trade liberalization was promptly acknowledged as one of the foremost ingredients for enhancing living standards and a larger tax basis to support government expenditure.

##### 4.1. *GATT as the handmaiden of a bilateral liberalization process*

The General Agreement on Tariffs and Trade (GATT) was the handmaiden of free trade after the war. As a matter of fact, the GATT turned out almost by chance to be the ideal host to discuss matters of multilateral relevance. As pointed out in Grilli (1996), the GATT took off in 1947–1948 not as an organization but rather as a meeting to which access was granted mainly on political grounds. Multilateralism was not the *raison d'être* of the GATT, though. Indeed, deviations from the multilateral principle, even when significant, were treated very generously. Regionalism (subarticle XXIV) was one of them.<sup>17</sup> Others were unilateral protectionism and bilateral negotiations, which were justified and encouraged, respectively, under Articles XXII and XXIII. It is fair to say that such deviations were to be the exception rather than the rule, at least on paper. In fact, they turned out to be an important loophole in the GATT system. Abuse has been frequent and systematic. Sanctions turned out to be ineffective. This

outcome should not be surprising, for the purpose of GATT was in fact to reach a compromise between the need to conceal that selective free-trade initiatives came from one group of countries with a common interest in given topics, and that they were addressed to a limited number of other countries, on the one hand; and the desirability to transform such almost bilateral agreements into a set of multilateral (qualified<sup>18</sup>) liberalization rounds, where the largest possible number of countries were to be included,<sup>19</sup> on the other hand. Bilateralism—not multilateralism—was the dominant negotiating GATT procedure throughout GATT's existence, possibly with the exception of the Kennedy Round in 1964–1967. GATT authorities were inclined to consider bilateral negotiations as a preliminary step towards broader (multilateral) deals, which were in fact deemed to be easier to reach if based on a network of bilateral deals. The typical example is the MultiFibre Agreement. Multilateralism thus became a goal, rather than an instrument.<sup>20</sup>

This description is consistent with the rough framework outlined in Section 2.3. In the aftermath of World War II, free trade in the Western world was encouraged by exposure to foreign prices and product variety “revealed” by American aggressive liberalization. Comparative advantage was relatively easy to follow, for the war had cleared the ground of many established vested interests in manufacturing. Most producers had to start anew, and were willing to do so, in order to satisfy demand by consumers rather than for military equipment. Furthermore, aggregate demand was growing fast enough to compensate for adjustment costs, and institutional change (with respect to the wartime regime) was considered highly desirable. Surely, this change did not mean that interest groups were absent or weak. On the contrary, they were active and powerful. But since demand was high anyway, they had no interest in opposing trade liberalization, nor had they an interest in opposing some institutional change. But they took advantage of the process to ask the new political elite to compensate them. The emphasis of the law-bargaining game thus shifted from protectionism to other forms of rent-seeking, such as industrial policy and the welfare state.<sup>21</sup>

It may be worth pointing out, however, that regionalization was not a major issue from the economic viewpoint. Until the early 1970s, regional trade in manufacturing was almost spontaneous, rather than the outcome of a policy against globalization.<sup>22</sup> During the 1950s and much of the 1960s, demand was growing fast enough “locally” to justify efforts to develop new products and/or to suffer additional transportation and distribution costs in order to explore and satisfy new, faraway markets.

#### *4.2. Fair trade to enhance discriminating protectionism*

Beginning in the late 1960s, however, the evolution in the comparative-advantage structure inherited from the postwar years started to require some adjustment. In addition, aggregate growth slowed down.

Of course, both phenomena were soon amplified by the first oil shock, and the size of the adjustment costs required was further magnified by all the major actors involved in the rent-seeking game. As a consequence, the possibility of institutional change was rejected, and the role of government intervention stayed high. Trade policies became fashionable again so as to smooth adjustment over a fairly long period (see Section 2.3). Generalized protection would have been unacceptable, though; living standards in developed countries in the mid-1970s were far more dependent on trade—intraindustry trade in particular—than in the early 1930s. A trade war would have affected income in the OECD area too much, and the incumbent political elite responsible for that would have been voted out by consumers. Therefore, the GATT was once more used in order to provide negotiations to avoid serious commercial conflicts and enough flexibility to accommodate selective (unilateral) protection by means of NTBs.<sup>23</sup> This direction became clear at the end of the Tokyo Round (1973–1979), which saw the so-called “fair-trade” practices accepted de facto,<sup>24</sup> in open violation of the basic GATT liberalization criteria, namely, reciprocity and nondiscrimination (the MFN and the “national treatment” clauses, respectively).

Regionalization acquired a new role, too. In the past, regional blocs had often been created as a close substitute for national import-substitution policies, especially in developing countries; later they were understood as a shortcut to lower trade barriers on a local scale while one waited for liberalization globally. During and after the Tokyo Round, however, it became clear that regional blocs were to become a way of avoiding being discriminated against by powerful neighbors, to pursue national policies (trade and nontrade) with “regional” political support vis-à-vis the rest of the world, and to further exploit the very substantial bilateral loopholes in the GATT system.<sup>25</sup>

#### 4.3. *Fair trade to avoid trade wars*

This change in the tools of trade policy can perhaps be better appreciated if one considers the significant expansion in government policies that had taken place, especially in Western Europe, up to the mid-1970s. In particular, when growth was more or less satisfactory, the rent-seeking game expanded by means of industrial policies and welfare-state agreements, for both set of measures were covered by the principle of national sovereignty, and transparency could be kept low enough. This process had created many new, hard-to-detect ways to appease interest groups and freeze the existing situation. Of course, the cost of such measures was hardly perceptible at the moment the measures were enacted. But the cost obviously built up and became quite significant as time went by: distortions did not allow relative prices to adjust, provided the wrong set of incentives, and slowed down (or stopped) the rise in people's purchasing power.

When all this had occurred, protectionism was no longer a core issue, as explained earlier in this article. Trade policymaking had remained transparent

(tariffs) and had been allowed to decline. As a result, the absolute price level of at least some goods had often fallen, consumption had become more efficient due to the more “open” relative-price structure, and some government revenues could be counted upon.

But during the second period of the GATT era, traditional trade policies became no longer feasible, and “fair” policies had to be adopted. This change occurred when growth slowed down because of the deadweight losses of government intervention, and institutional change was opposed. The cost of traditional protectionism would have been too easy to detect. Orthodox trade policies would have been resisted at home (by public opinion resenting higher prices) and by the international community (retaliation). The adoption of NTB (fair) trade policies therefore became inevitable.<sup>26</sup> At the same time, however, governments needed to know how far they could go in applying the “new” policies without starting a full-scale trade war. The GATT was thus instrumental in forging an agreement on when and against whom retaliation was to be considered admissible.

This concept is in fact the second crucial one behind the fair-trade idea, which is a matter of practice and uncodified principles rather than of transparent criteria with almost automatic sanctioning procedures.

## **5. Trade policy for the future**

The application of the fair-trade principles—or what is understood by that term—met almost unmitigated success until the early 1990s, when at least one traded manufactured product out of two was subject to some kind of NTB.<sup>27</sup> Protectionism increased, institutional change was resisted in most developed countries in spite of rather disappointing growth performances, and major international conflicts were avoided or kept to a tolerable level.

At the beginning of this decade, however, economic performance in Western Europe and Japan fell below expectations, and the bilateral-negotiation process between blocs or members of blocs came to a standstill. Public opinion started to push for at least some amount of institutional change so as to enhance income growth and solve “new structural problems,” such as high and stable unemployment rates. On the other hand, although the Uruguay Round was brought to an end (bilaterally, once again, and with many difficulties) by the U.S. and the EEC, it became clear that the GATT had become inadequate. Indeed, the quantity of actively negotiating agents had become too high for a successful Round to take place. The traditional procedure, whereby a multilateral agreement was reached based on a limited number of dominating (bilateral) deals, was no longer viable.

In the light of what was suggested in Section 2.3, i.e., that the suitability of trade-policy legislation depends on the nature of the exogenous shock that it is supposed to compensate, it seems therefore plausible to claim that the attitude towards trade policy may change substantially in the future. Perhaps it

has already changed. The new situation, typical of the early 1990s is generated (1) by the demand for institutional change *and* (2) by the strong dependence of economic well-being on international trade flows. This context is fairly new, for in the 1930s the second point was irrelevant, while in the 1970s the first point was not significant.

It follows that although distortions today are relevant and are commonly perceived as such, institutional change cannot be softened by means of trade policy. Rather, it is more likely that adjustment costs are going to be absorbed by industrial policies, by much inertia in facing the problems generated by the size and pervasiveness of the welfare state, and by slowing down the deregulation process. In other words, institutional change is going to be set into motion by a mix of renewed free-trade attitudes mitigated by resilient domestic policies. The price to be paid for institutional change is therefore not going to be trade policies but instead a slower pace of change, probably below what the median voter would like to see.

This understanding provides a new way to look at regionalization and at the new role that the WTO is expected to play, compared with its predecessor, the GATT. As regards regional blocs, the present article argues that the focus of regionalization is going to shift from trade issues to questions concerning the nature and size of government intervention. In this light, a "Region" may thus serve two purposes. On the one hand, it is supposed to have enough political clout to withstand potential foreign pressures *vis-à-vis* those policies that may be considered harmful to countries or areas outside the Region. On the other, a Region may shelter policymaking and policymakers from national pressures to reduce rent-seeking and at the same time multiply the layers at which the law-bargaining game takes place. This possibility finds support in the fact that Regions tend to add politicians and bureaucrats to the decision-making structure, rather than to replace agencies and civil servants at the national level. The EEC/EMU is, of course, a prime candidate and provides evidence for this perspective.

As regards the institutional mechanism through which trade liberalization will occur, this new trend—slow institutional change, relevance of domestic policies by government agencies, reduced interest in interfering with trade flows—requires an international monitoring agency similar to GATT. This agency must be flexible enough not to interfere with domestic policies, and flexible enough on trade matters so as to induce the largest possible number of countries to join. More than GATT, however, the agency must make it expensive for relatively weak or isolated countries not to join the bilaterally negotiated agreements. The recently born WTO seems to meet these requirements in full. For instance, under the WTO umbrella, the removal of NTBs is still a matter of goodwill by the countries involved, the principle of unilateral protectionism has been left virtually unscathed, and the practice of bilateral protectionism is still allowed.<sup>28</sup> On the other hand, the members of the WTO club are now obliged to subscribe to the GATT, the GATS (services), the TRIPs (intellectual property), the TRIMs

(foreign direct investment), and the conventions on technical standards in one stroke. Free trade *à la carte* is over, and this point will be a powerful incentive to accelerate trade liberalization in the future.

The two phenomena—regionalization and trade policy—have many points in common, of course. As the role of the regional (domestic) policies rises, protectionism will become less relevant, and the principles of free trade will find a wider and much more receptive audience. However, this does not necessarily imply that the agendas of the champions of free-market economics are going to be easy to implement. Domestic policymaking at a regional level is going to affect many developed countries well into the next century and might easily be the major hindrance to growth in the future.

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### Notes

1. See, for instance, North (1994) and Pejovich (1995, Chapter 1).
2. The formulation of the comparative-advantage and factor-endowment concepts dates back to the eighteenth century (see, for instance, Power, 1987). The influence of product differentiation, which gives rise to the “augmented” versions, is much more recent—see Helpman and Krugman (1985, Chapter 7) for a survey—and provides a convincing interpretation for the existence of intra-industry trade flows.
3. This general result does not hold in a distortionary framework. See, for example, Bhagwati (1971) and, more recently, Hazari and Sgro (1996). However, even in such cases, trade policy is not the first-best solution.
4. See, for instance, Salvatore (1996).
5. See, for instance, Irwin (1994).
6. See, for instance, Gilpin (1987), as well as the references in Willett (1995) and Kahler (1995, p. 17).
7. See, for instance, Frey (1984) and Rowley and Tollison (1986). This public-choice approach to international trade policies, provides by far the best explanation of why protectionism has been so successful. As Willett (1995, pp. 8/9) states, *the public choice view differs fundamentally from the standard economics view because public choice analysis focuses on the distributional conflicts which can occur ... it forces one to stop focusing only on aggregate economic efficiency*. Perhaps this perspective is not entirely true, for the statement above seems to overlook the importance of the Stolper–Samuelson theorem in the orthodox literature. If is fair to say, however, that traditional international trade theory has often considered distributional issues as the consequence, rather than the source, of trade policy, whereas in fact causality seems to go in the opposite direction.
8. The Free-rider problem is the institutional jargon for a random walk, possibly with a drift.

9. Menzler-Hokkanen (1988) suggests that the structure of comparative advantage follows a random-walk-with-drift model. See also Bhagwati (1988, Chapter 4) for a broader perspective.
10. See, for instance, Kang and Greene (1997, p. 9), who show that in the case of NAFTA *the "general" voter's support or opposition to the bill would [...] be formed by general attitudes toward freer trade.*

11. The other exceptions relate to the planned economies, where a free-trade regime would destroy planning and all the interest groups involved.

Other exceptions also relate to the 1950s and 1960s, when many undeveloped countries voiced widespread fear of being vulnerable to sudden changes in the foreign demand for their exports, the effect of the business cycle, allegedly detectable long-term trends, or political pressure from abroad (see Seers (1984) for an argument along these lines, which was also well received by several prestigious international organizations, where Prof. Seers served as a consultant for many years).

12. See, for instance, Rodrik (1992) on the amount of the transaction costs associated with gains in efficiency.
13. McCormick, Shughart and Tollison (1984) show that the benefits from deregulation are modest, even less than the efficiency gains usually associated with the Harberger triangle. In other words, the damages from regulation are substantially larger than the benefits from deregulation. Hence, pressure to regulate may be high, but pressure to liberalize is usually fairly light.
14. This perspective is consistent with the empirical results presented by Takacs (1981) on the negative correlation between the demand for safeguard procedures in the USA and the business cycle. See also Peltzman (1976) for a theory of the supply of protection and the business cycle.
15. Say and Pareto were already clearly aware that the losers from an adjustment process are likely to be more successful than the winners in arguing their case in the political arena (see Steiner, 1995).
16. See Bhagwati (1988, pp. 38, 39). Some authors would also argue that free trade was often considered by the U.S. to be a price to pay for the sake of national security, rather than something desirable per se. See Nelson (1987), quoted in Bhagwati (1988).
17. This treatment was consistent with the logic of international politics in the late 1940s and in the 1950s. Bhagwati (1990) refers explicitly to the political benefits which the U.S. attached to the creation of a more stable European economic area following World War II. Vernon (1996), on the other hand, emphasizes the political significance from the French point of view.
18. Some important industries, such as agriculture and services, were excluded or at least "sheltered" from the GATT jurisdiction.
19. See Bhagwati (1988, p. 12).
20. See Winters (1990). Javelot and Siroën (1994, pp. 488, 496), however, maintain that the goals were even more modest: *la "stabilité" et la "previsibilité" du commerce international.*
21. Colombatto and Macey (1999) analyze the role of the welfare state within the framework of the rent-seeking game between politicians and interest groups.
22. See Vernon (1996), according to whom even today regional blocs are not a major hindrance to globalization.
23. See also Bhagwati (1988, Chapter 3) for the argument in favor of NTBs as the least harmful and most porous response to protectionist pressures.
24. By *fair trade*, we refer to a trade regime where exports by Country B to Country A are not allowed to generate serious consequences on the distribution of income in Country A, or where such consequences are compensated by significant opportunities being offered by Country B to Country A's exporting industries. When none of these requirements is met, (fair) protectionism is advocated as a reaction to alleged unfair-trade practices carried out by Country B.

See Salvatore (1993) for an analysis of the features and consequences of the new protectionist wave ignited by unfair trade. See also Guillochon (1994) on the Tokyo Round, which was unanimously declared a great victory for free trade, in spite of its failure to check the birth and fast growth of new forms of (nontariff) protectionism, typical of the fair-trade commercial principles, and much more difficult to detect and to prohibit.

25. According to Vernon (1996, p. 621), over 80 preferential trading blocs existed in the mid-1990s, more than a third of which had come into existence in the previous decade. Moreover, the members of many blocs remained free to negotiate preferential trade agreement with countries outside the bloc (e.g., Mexico vis-à-vis various Latin-American countries, all of which are outside NAFTA, of course). And in the list of countries with substantial exports to the EU in 1994, only 12 did not enjoy some kind of import preference, including notably the United States and Japan; and these represented only about 15 percent of the EU's total imports (p. 624).
26. Of course, the change in the terms of trade that occurred in the late 1960s and the first oil shock helped a great deal in persuading people that trade policies were necessary again. As argued in this article, however, the point is that trade policies would have followed anyway, in order to help preserve and expand the role of government intervention.
27. See, for instance, Salvatore (1993, Introduction) and Guillochon (1994).
28. See, for instance, Kahler (1995) and Hoekman (1993). It must be acknowledged, though, that some constraints have now been introduced within the WTO framework and that the sanctioning mechanism seems to be more effective than under GATT.

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