Trade Protectionism

Lecture 5

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Why Countries Put Up Barriers to Trade?

We know (hopefully) by now that the world is more interconnected now than even before. Free trade today is the norm.

- But this really is an exeption, not the historical rule.

Countries have used/still use various tools to redice imports:

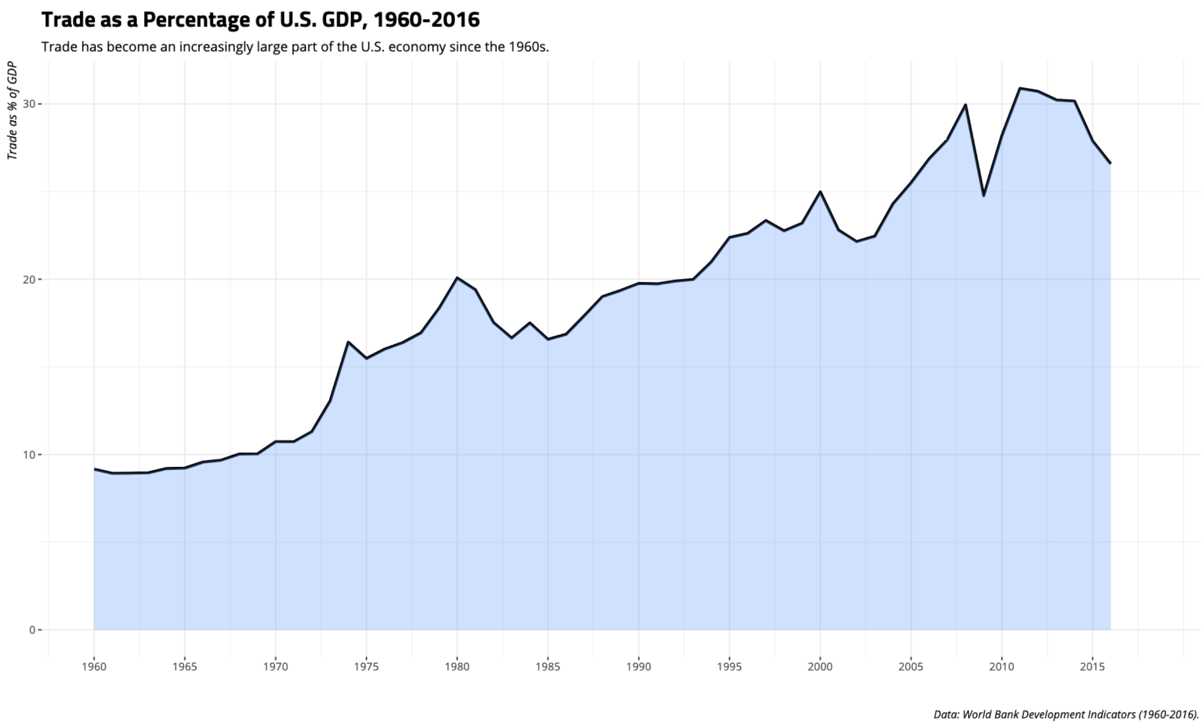
- Tariffs
- Quantitative restrictions (i.e. quotas)
- Non-tarif barriers (e.g. regulations)

Historical Patterns

Openness to trade has varied substantially over time.

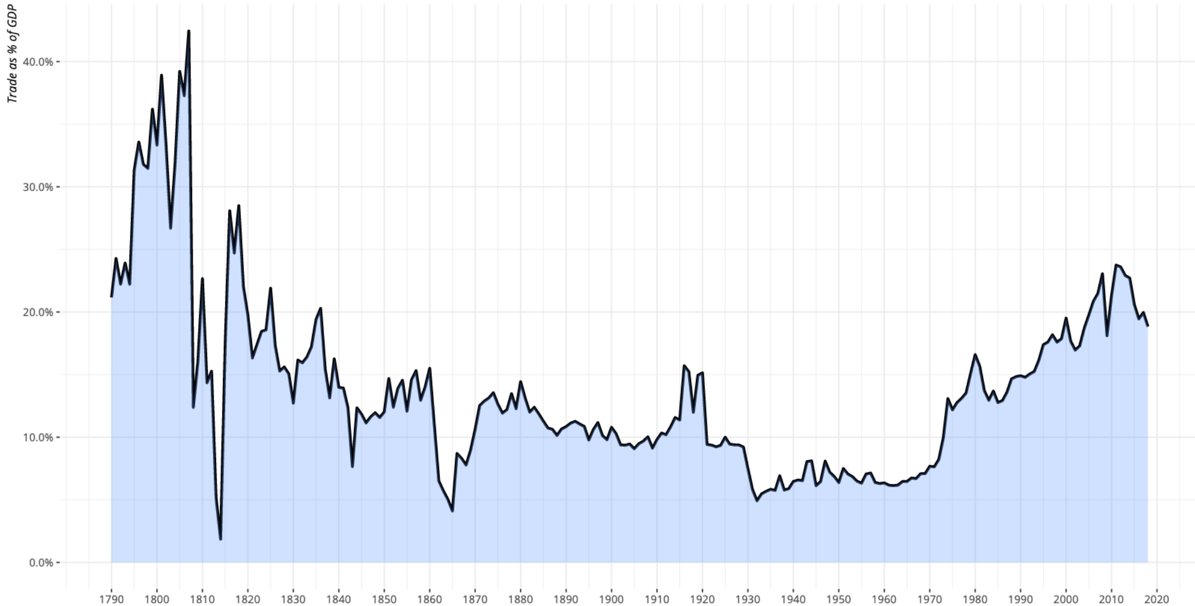
- Over 300 years of mercantilism after the discovery of the Americas.
- Increase in trade followed height of Pax Britannica.
    - U.S. was noteworthy exception here.
- World wars and the Great Depression made protectionism the norm again.

One such reason why the U.S. has led the charge for liberalizing trade worldwide.


Trade as a Percentage of U.S. GDP, 1960-2016
Trade has become an increasingly large part of the U.S. economy since the 1960s.
Trade as % of GDP
30
20
10
0
1960
1965
1970
1975
1980
1985
1990
1995
2000
2005
2010
2015
Data: World Bank Development Indicators (1960-2016).

The Volume of Trade as Percentage of GDP in the United States, 1790-2018

Trade's importance to the U.S. economy has major variation over time, especially early into the country's independence from Great Britain.



Data: Various sources (see especially: http://www.econdataus.com/tradeall.html).
Post-1960 data come from the World Bank. 2017 and 2018 observations are armchair calculations from U.S. Census Bureau (trade) and IMF (GDP).

Why Do Countries Put Up Barriers to Trade?

Domestic politics, really.

- Free trade creates diffuse benefits but sometimes concentrates costs.

Who Benefits from Protectionism?

- National producers
- Scarce factors (see: **Stolper-Samuelson Theorem**)
- Specific industries (see: **Ricardo-Viner Theorem**)

Stolper-Samuelson Theorem

Within the H-O framework. The Stolper-Samuelson Theorem describes the relationship between relative prices of output and relative facto rewards (think of real wages and return to capital).

Specifically, the SS suggests that:

- An increase in the price of the capital-intensive good increases the return to capital and decreases the return to the other factor (labor).
- Likewise, an increase in the price of the labor-intensive good increases wage and reduces rent.

Who Loses from Protectionism?

- You
- Also: exporters (who fear reprisal)

Conclusion

Free trade is good.

- Free trade follows logic of comparative advantage.
- It creates abundance unavailable under autarky/mercantilist policies.
- *Imports are actually gains from trade, and not losses*.

However, trade, like any policy, creates winners and losers.

- Problem: benefits are diffuse but costs can be concentrated.
- Protectionism is a public bad, but it's more the norm than free trade (historically).