Anatomy of protectionism

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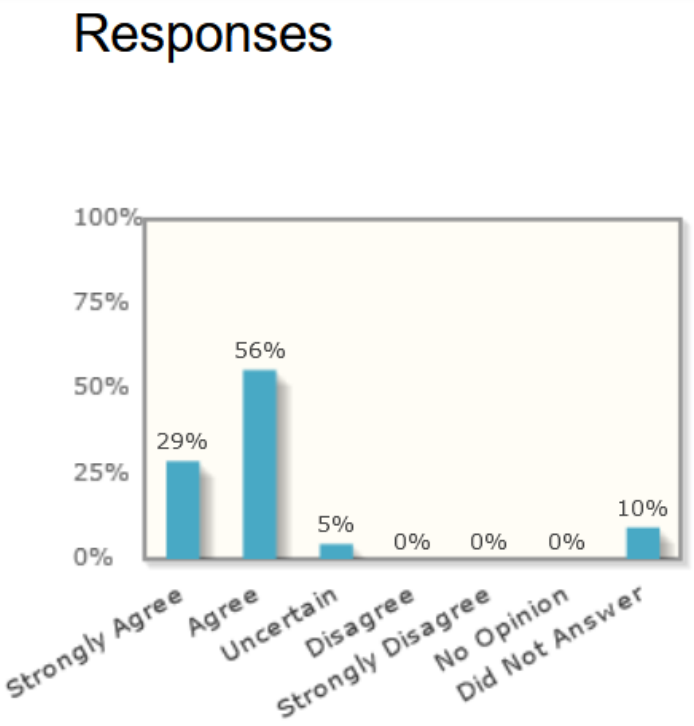
Consensus on free trade among economists

- IGM Booth Panel 2012: 41 economists from Acemoglu to Zingales (https://www.igmchicago.org/surveys/free-trade/)
- Question: Freer trade improves productive efficiency and offers consumers better choices, and in the long run these gains are much larger than any effects on employment



1. Protectionism of lobbyists

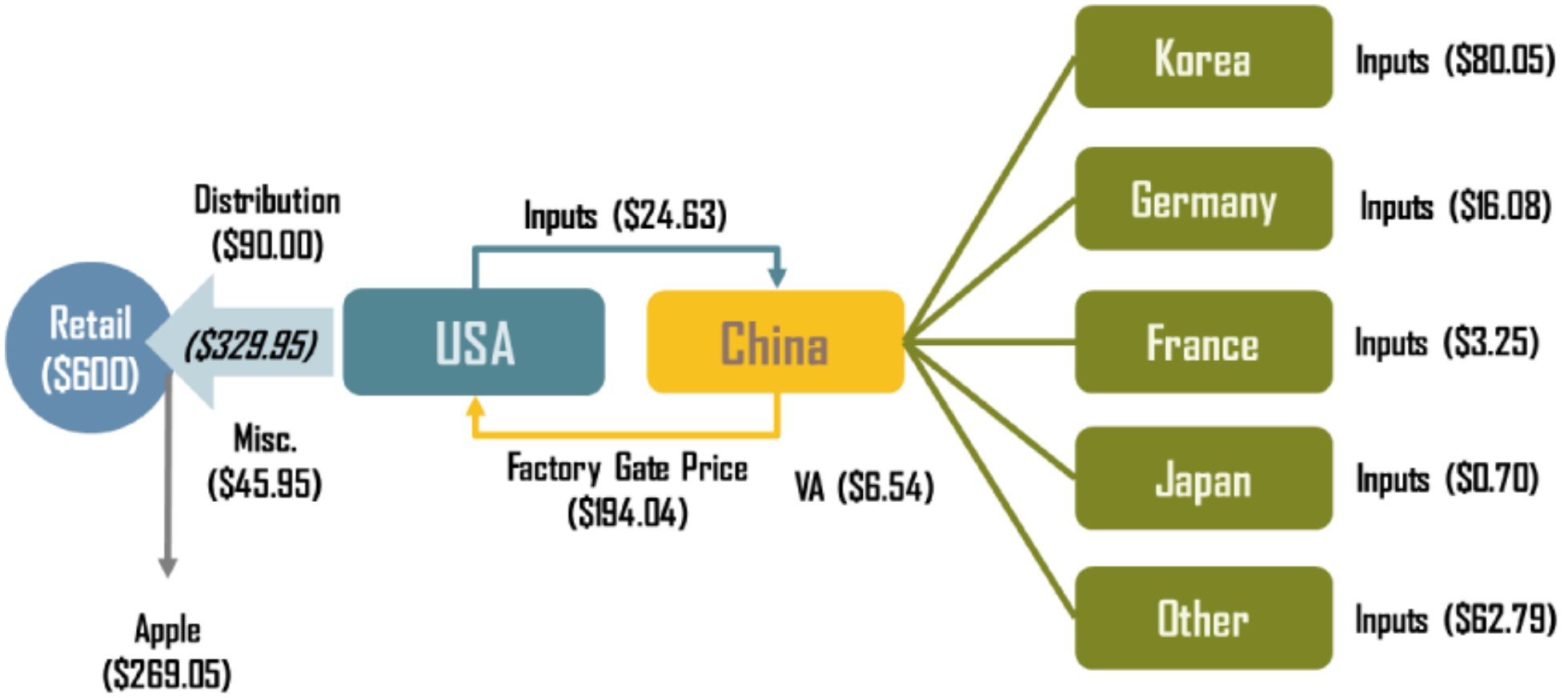
- It is consumers who win from trade. Consumers have neither opportunities nor incentives for consolidation and lobbying their interests
- It is domestic producers who win from trade. They are not numerous, consolidate easily and have strong incentives and opportunities for lobbyism

2. Protectionism of industrializers

- Protectionism is needed for infant industries in order to ensure their use of scale effect. It is especially important for high-tech industries
- In the 20th century, infant industries protection was a conventional industrial policy for most of developing countries
- Argument of historical school of economics: all the leading countries achieved success due to protectionism and started to liberalize their trade only after ensured their relative advantages in high-tech industries
- This argument doesn’t work in the world of global value chains

Trade of todays: global value chains

IPhone4 global value chain



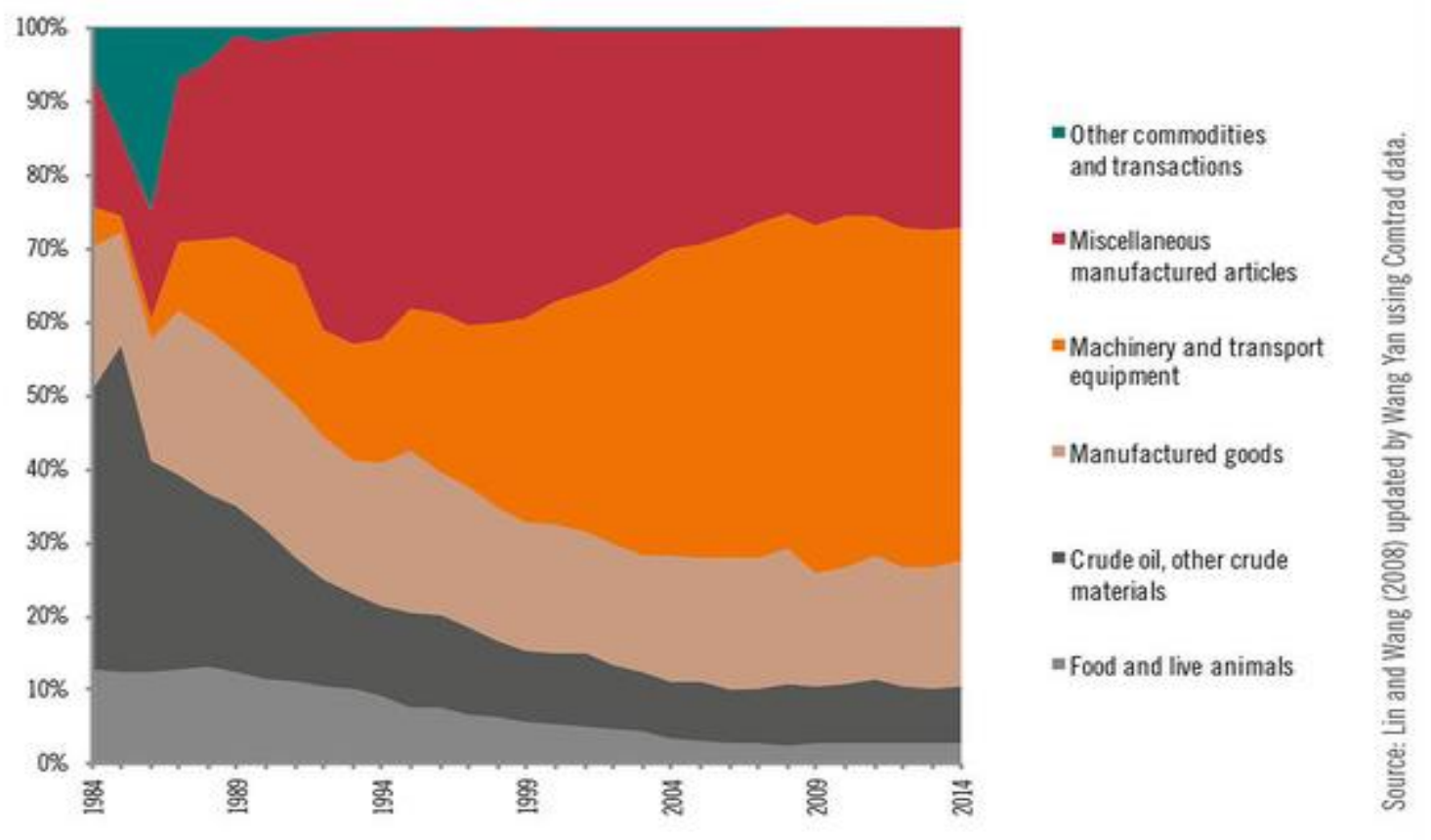
Source: Brennan, Rakhmatullin, 2015

3. Geopolitical protectionism

- The protectionism may be useful to deter some other country

Robert Lighthizer

Structure of industrial exports of China



Source: Yan, 2016

4. Protectionism of populists

- Free trade is good for economic growth but may be bad for some groups of population
- There are beneficiaries of trade and there are losers. In developed countries, it is cheap labor (blue collars)
- If the objective is to win votes of these losers, it may make sense for a politician to refuse free trade

Distributive versus efficiency effects of trade liberalization

- The whole benefit for the US economy from the shift to absolutely free trade will be about 0.1% of GDP
- Given the average tariffs in US equal to 5% there will be 45 dollars of redistribution for 1 dollar of net win (Rodrik, 2018)
- If additional redistribution (through taxation) will compensate losses of losers, everybody will win. But is redistribution in such a scale feasible?

Distributive versus efficiency effects of trade liberalization

Table 1 Distributive and efficiency consequences of trade liberalization: illustrative calculations

Initial tariff being removed (%)	Change in low-skill wages (*A*, %)	Increase in real income of economy (*B*, %)	Absolute value of ratio (*A*)/(*B*)
40	−19.44	4.00	4.9
30	−15.22	2.25	6.8
20	−10.61	1.00	10.6
10	−5.56	0.25	22.2
5	−2.85	0.06	45.5
3	−1.72	0.02	76.6

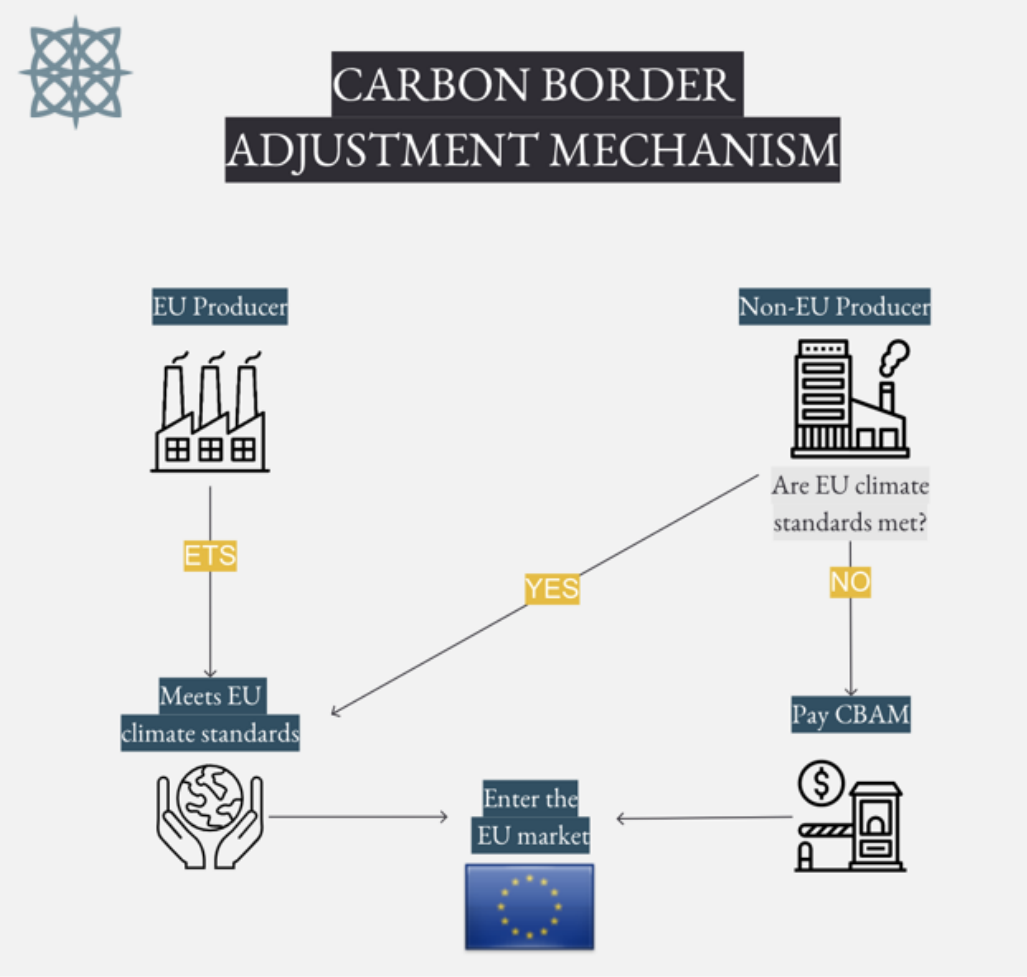
Notes: Column (B) is computed using the standard formula for the gains from trade (e.g., Feenstra, 2016: 220), assuming an import–GDP ratio of 25% and an import demand elasticity of −2. Column (A) is generated using a model with two factors (low- and high-skilled labor) and two goods with mobile factors, assuming the import-competing sector is low-skill-intensive. The cost shares of low- and high-skill labor in the import-competing sector are taken to be 0.80 (denoted θ_l^L) and 0.20 (θ_h^L), respectively. The factor cost shares in the exportable sector are symmetric – 0.20 (θ_l^H) and 0.80 (θ_h^H). To compute the change in real wages ($\hat{\omega}_l$), I assume low-skilled workers spend 75 percent of their budget on the importable and 25 percent on the exportable. The corresponding derivation yields $\hat{\omega}_l = \left\{ \left[\theta_l^L - \theta_h^L \frac{\theta_l^H}{\theta_h^H} \right]^{-1} - 0.75 \right\} \hat{p}$, where $\hat{p}$ is the percent change in the relative price of the importable implied by the tariff reduction.

The “costs” of distributive consequences of trade liberalization are far from zero in the politics-led world

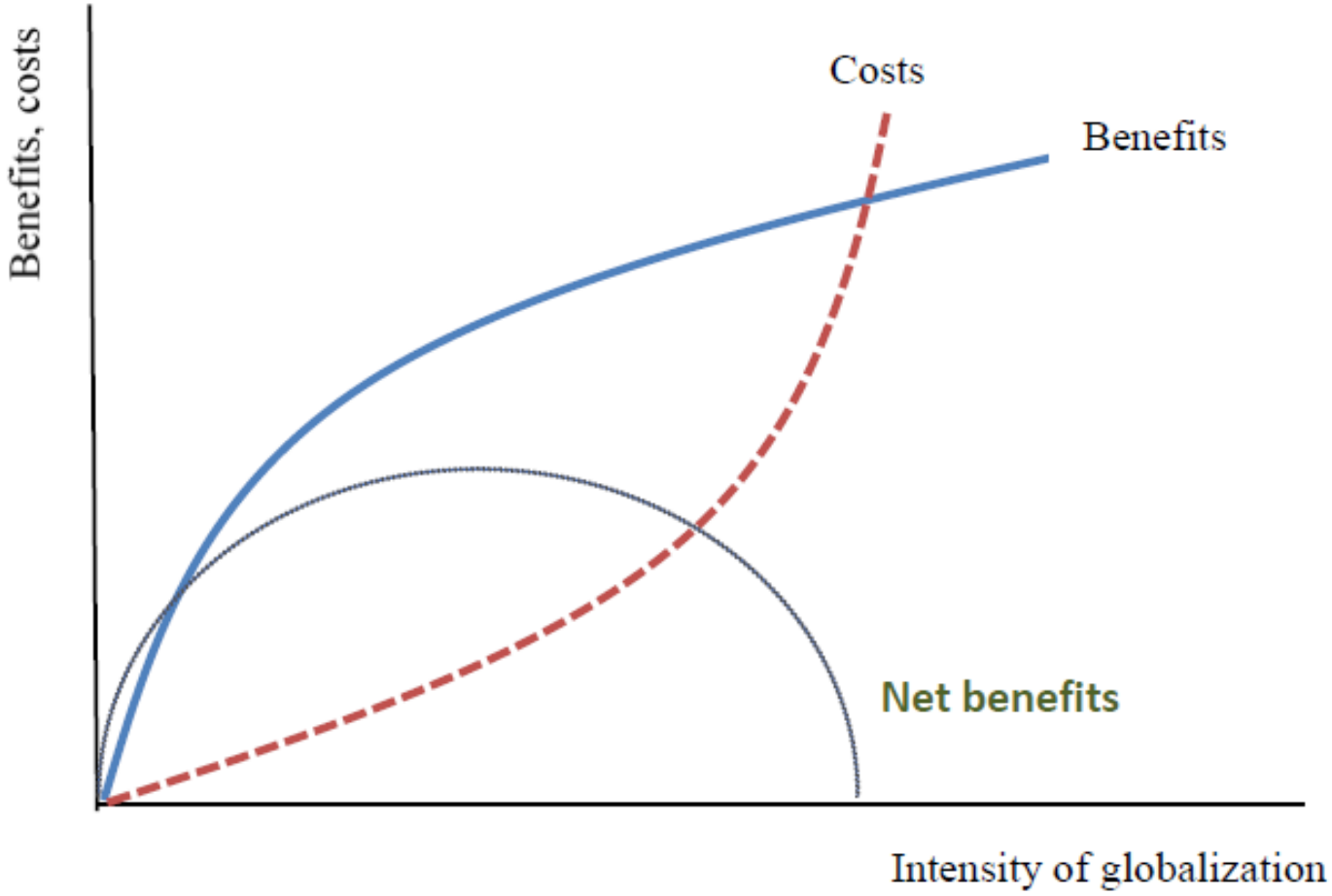
Source: Rodrik, 2018

(potentially) 5. Benevolent protectionism

- Carbon border adjustment mechanism in the EU
- Potential social standards border adjustment?



What we have now



Source: Van Bergeijk, 2020