Trade Barriers in the Theory of Instrument Choice

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The process of choosing among policy instruments has been analyzed mostly as a problem of public choice (Buchanan and Tullock 1975, Cassing and Hillman 1985, Dewees 1983, Borcherding 1983, and Becker 1983) or as a problem in the economics of political institutions (Campos 1989). An alternative approach, not inconsistent with either framework and in fact preceding both, would consist in analyzing the economic or cost constraints facing decisionmakers as they undertake the task of selecting instruments. A first step in assessing the impact of constraints on policy choices has been offered recently by Robert Hahn (1990). Our purpose in the subsequent analysis is to build on his work and offer a formal framework for analyzing the effect on *domestic policy choices of constraining the power of national governments* to maintain trade barriers.

Domestic Instruments as Complementary to Trade Barriers

A general conclusion derived from Hahn's latest approach has been that the various instruments available to national authorities are substitutes. The logic behind this conclusion is as follows. Suppose that there are two instruments available to legislators for pursuing their objectives as shown in Figure 1: spending, S, and regulation, R. We assume that these outputs consist mainly of transfers to rival groups for the purpose of maximizing votes. By analogy with the traditional analysis of consumers' or producers' behavior, the combination of policies available to politicians has been represented by the straight budget line, AB, in Figure 1. Given the assumption that

Cato Journal, Vol. 12, No. 2 (Fall 1992).

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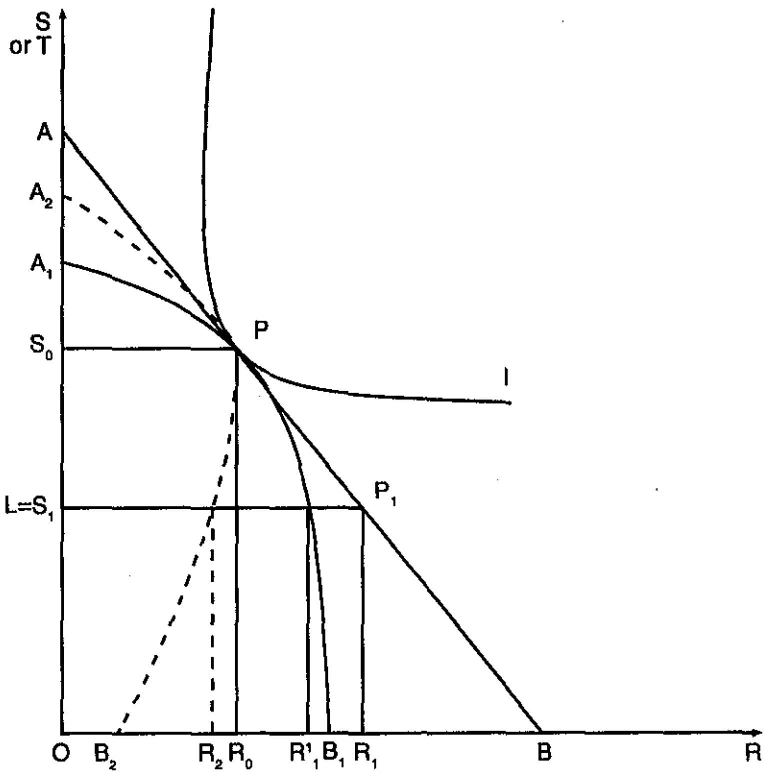
legislators are only constrained by the transformation curve between the two instruments, they choose point P on their political budget line. Tangency to the indifference curve I indicates that maximum political benefits are obtained from using a spending level of OS_0 in combination with a level of regulation equal to OR_0. In this Hahnian version of the model, imposing further constraints on policy choices, say a spending limit set at $L=S_1$, causes an increase to R_1 in the level of regulation. In more concrete terms, as budgetary limits and treaty provisions prevent politicians from further indulging in farmers' subsidization, supply management of farm production can be reverted to. Coercive provision of day-care services by employers can be substituted for family allowances and provision by monopoly state suppliers. Mandatory health services imposed on employers can be substituted for public medicare with similar redistributive results.

To bring out the implications on national governments of an exogenously imposed removal of trade barriers, two changes must be made in this presentation. The first one is a correction in the implicit assumption made concerning the shape of the political budget line. Realistically this line can only be concave to the origin as represented by the curve A_1B_1 in Figure 1. The reason for this change is straightforward. The government has a monopoly on the use of policy instruments. It is not simply a marginal user, as is the case when the graphical presentation is applied to the analysis of individual producers facing the task of choosing between two inputs. Therefore, as greater use of an instrument is made relative to the others, its productivity is bound to decline. Its marginal contribution to the political output or to whatever redistribution is sought by legislators can only decrease. While this modification is unlikely to be strong enough to reverse the direction of the change in the use of other instruments, it is seen at point R^1_1 that the increase in the use of regulation as a result of constraints on spending is less pronounced than predicted by Hahn. In general, constraints on one instrument result in less significant increases than assumed in the use of others.

Our second modification is more fundamental and bears on the specific properties of one instrument, namely protectionism. The main contention of this paper is that in the arsenal of redistributive instruments available to public authorities protectionism stands out as fundamentally different from all others. I argue that domestic policy instruments and trade barriers are complements rather than substitutes. More specifically, I show that as a tool to redistribute wealth between various groups trade barriers are a prerequisite to the use of all redistributive tools.

FIGURE 1

TRADE-OFF BETWEEN INSTRUMENTS



As exogenous constraints are applied to the use of tariff or nontariff barriers, the response of local and national legislators has to be to reduce rather than increase resort to other instruments. In terms of Figure 1, the political budget line should be drawn as A_2B_2. As national governments are forced to abandon more and more of their trade restrictions, the budget constraints shift inward and the trade-off line with other instruments becomes upward-sloping. Without the power to close their borders to foreign competition, national governments should find out that most other tools formally available to them to redistribute wealth are of little value. Assuming that trade barriers, T, rather than spending levels are represented on the y axis, it is seen that the level of regulation declines from R_0 to R_2, when limits $L=S_1$ are placed on the power of national governments to resort to protectionism.

This strong result clearly changes the consequences on government size and welfare of imposing constraints on this specific class of instruments. In contrast to the effects predicted in Hahn (1990), constraints on trade barriers unequivocally result in a decline in government size, even when measured by expenditures implied by both the spending and regulation levels. Similarly assuming that government activities consist solely in redistributing wealth through the use of various transfer instruments, economic welfare rises and the size of government declines as constraints are placed on the level of trade barriers. The logic behind this far-reaching conclusion is the simple logic of federalism at the world scale.

Competitive Federalism at the World Scale

The basic principle underlying federalism within traditional federal states or within common market structures is that the burden of policies cannot be transferred to outside producers and consumers. The reason for this is that prices are determined outside these economies. Neither the states in federal structures nor the national governments of common-market members are in a position to influence prices outside their borders.

The above statement is valid even under a protectionist regime. However, one basic outcome differs after the advent of the more open arrangement associated with freer trade. Because of the free movement of resources, any inefficient measure adopted by a national government imposes a heavier burden on the residents of the jurisdiction in question. Opening the economy to freer trade increases the elasticity of supply and demand. Put differently, domestic interventions exert their redistributive influence through changes they bring about in the relative price of goods, capital, and labor within the national territory. Since national governments cannot influence common market prices, the only way for national legislators of having some lasting impact on prices internally is to maintain exchange barriers with the outside world.

Imposing significantly heavier taxes and stricter regulations on productive national resources increases relative production costs and, under free trade, first encourages a more rapid and more pronounced substitution of imported goods and services for local production. Furthermore, insofar as the burden of these measures is more keenly felt by capital and labor suppliers, victims of abuse can move their capital to neighboring jurisdictions and at the limit "vote with their feet" and leave the territority. Because inefficient decisions cost more in a more open economy, the predicted outcome is less interventionism.

Once resources are free to move across national boundaries, the pressure intensifies on national governments to pursue policies that attract people and firms. The list of effects that differentiate situations with free trade from conditions without could be lengthened at will. The message remains the same: Inefficient decisions cost more in a more open economy because goods, capital, and people can more freely move away from the country that imposes unfavorable legislation. National governments have been able to exercise their cartelizing influence over their economies mainly because they have had the power to impede the free movement of resources between their territories and the rest of the world. And as public decisions eventually are reflected in increased taxes or regulations, the overall impact of free trade on national governments is toward reduced and more neutral taxes and regulations than would otherwise be the case.[1]

Resort to conventional graphical presentation of protectionist measures in Figure 2 should make our conclusion obvious. Given the conditions in the national economy as expressed by the demand (D) and supply (S) schedules in Figure 2, the adoption of a tax or regulatory measure shifts the domestic supply leftward from S to S_1, as production costs are increased. With no national tariffs, the world price to domestic purchasers remains unchanged at Op_0, and domestic production sharply declines from Oq_0 to Oq_1. On the other hand, should a tariff equal to p_0t_0 be applied on foreign supply, the same domestic cost-increasing tax or regulatory measure could be accompanied by no changes in, or even a higher level of domestic production, as is the case at Oq_2 in Figure 2. In other words, world supply is more elastic than domestic supply.

Because they can move their resources away from unfavorable legislation under free trade, resource owners become more sensitive to relative tax and regulatory actions by national governments. The contribution of free trade to solving the problem of the monopolistic state is to limit the power of the government. To analysts of antitrust policy, the analogue with the market power of business firms should be obvious. Just as trade can perform the function of antitrust policy in constraining market power, so can it act as a curb on government power.

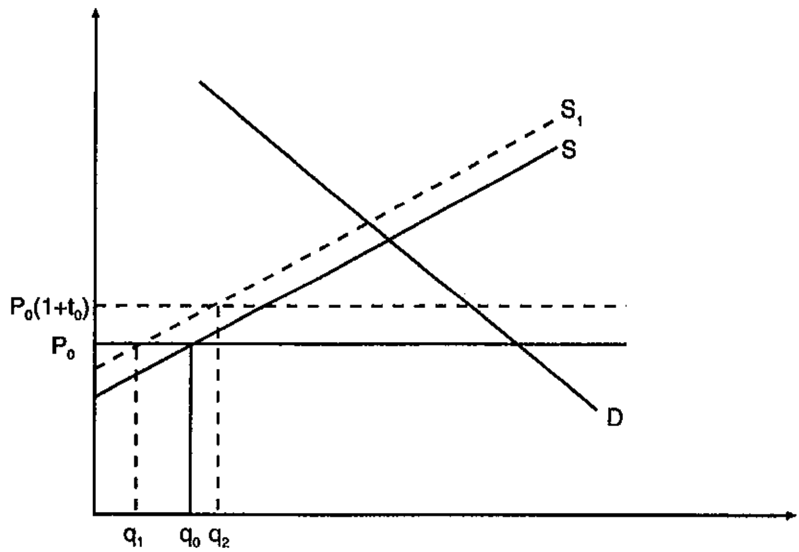
Resource Mobility and Taxes as Fees for Services

The single most convincing piece of evidence on the strength of resource mobility is the consistent convergence of per capita income

[1]As a further illustration of this process as applied to Canadian conditions, see Migué (1988).

FIGURE 2

IMPACT OF INTERNAL POLICIES WITH AND WITHOUT FREE TRADE



across regions of the United States and across a broad sample of countries over the past decades. The mobility of goods, capital, and labor has been causally related to this factor (Barro and Sala-i-Martin 1991; Baumol, et al. 1989; and Helliwell and Chung 1991). Convergence occurred in the past despite the numerous hurdles set up by governments against the movement of goods and factors between national communities. The position taken in this paper is that as barriers to trade are removed, tendencies toward income homogeneity between regions are reinforced.

The process of income convergence is an important one. It shows that resource owners in all regions respond to incentives by moving on the basis of compensations received, including regional taxes, regulations, and services. Individuals have been directly shown to be sensitive to the combination of taxes and services offered at the regional level (Cebula 1979, and Cebula and Kafoglis 1986). The rising tax burden is seen by Richard Vedder (1990) as having increased taxpayers' sensitivity to local variations in tax loads. More reliance on the pricing of public services in recent years is interpreted as a consequence of this higher awareness by taxpayers.

After three decades of debate regarding the question of capital mobility as a source of constraints on government arbitrary action, it is generally agreed that tax rate differentials is a determining factor of localization for business firms, within the United States and between the United States and other nations (Benson and Johnson 1986; Hines and Rice 1990; and Harris, et al. 1991). One important mechanism used by firms to move their capital away from jurisdictions with heavier tax burdens is the practice of transfer pricing. It has to do with the price "foreign" companies charge or pay for parts shipped to or from their own "local" affiliates. In order to reduce his reported earnings from plants located in a high-tax country, a foreign owner can overcharge for parts shipped to this local subsidiary. Viewed by local tax collectors as a threat to their tax base, such tax evasion can only work because the foreign owner is based in a low-tax country. In a more analytical perspective, the practice is an important competitive weapon in the arsenal of investors to rein in the tax appetite of national governments in a freely trading world.

Another application of the role of capital mobility in the selection of tax instruments by governments concerns the question of local property taxes as determinants of capital migration. An animated debate has been going on for some time among tax analysts, which is directly relevant to our analysis. Two authorities (Mieszkowski and Zodrow 1983) on the question had previously concluded that real property taxes are distortionary taxes on capital, rather than benefit taxes related to individual consumption of local public goods such as education. Because local authorities find themselves unable to ensure that the last dollar paid in taxes equals the taxpayer's marginal willingness to pay for local services, wholesale free-riding is said to take place on local public goods. Large families can rent lots on the fringe of cities, park trailers on them and send their children to the local school at little cost to them. This result implies that owners of real property in the same neighborhood are charged tax prices higher than the value of local benefits received, which tends to drive capital away from the jurisdiction. Undesirable distortions in the spatial allocation of capital are seen arising from this process.

In the most recent study of this question, William Fischel (1992) has shown that local zoning laws are effective in transforming property taxes into fees for local public services. Municipalities use quantifiable rules such as minimum lot size to prevent unwelcome developers and to minimize rent seeking. Reduced taxation of farmlands and reductions for elderly taxpayers are other examples of adjustments conceded by local officials to residents who do not impose heavy fiscal burden. Property taxation endures because fiscal zoning transforms it into a benefit tax, protected from wholesale free riding and rent seeking by residents.

Why do towns and cities strive to adjust dollars paid in taxes to the level of benefits received in local services and, in so doing, succeed in overcoming rent seeking by migration? The answer is that they have little latitude to do otherwise. By virtue of the high mobility of resources between their territory and the outside world, tax and regulatory burdens not compensated by benefits in services rapidly develop into movements away from jurisdictions imposing them. Alternatively, should benefits exceed local taxes and regulatory costs, the likely inflow of people or capital attracted by potential gains would tend to dissipate the rent, which is also an unattractive prospect for current residents. In other words, distortionary taxes and regulations are extremely costly to local residents because of the high elasticity of supply of resources. Inefficient migrations into and out of local territories are unlikely to occur.

The ability of decentralized authorities to minimize rent seeking by migrations is in no way limited to municipal jurisdictions. The potential contribution from this alternative solution is evident from real-world illustrations at state and even national levels. With a view to making only its citizens share in the oil rent, the state of Alaska had originally limited the distribution of its tax take on oil to residents who had been in the state before the enactment of the measure. The rejection of the scheme by the U.S. Supreme Court vividly illustrates the power of this process. On the eve of China's takeover of Hongkong, Canada and other countries offer wealthy Hong Kong residents the opportunity to purchase the right of citizenship by investing a minimum amount of their money into the host economy. Gary Becker (1992) has proposed to institutionalize the immigration process by substituting an auction system for the arbitrary criteria now in place to select immigrants. Because of the lower mobility of its French-speaking population, the Canadian Province of Quebec has had to rely more than other provinces on payroll taxes than on profit taxes to finance its programs.

The end-result of this logic is that under free trade national and local taxes become merely fees for national and local public services. In a world where resource movement is unimpeded by trade barriers, taxes and regulations that do not meet this requirement become so costly to raise that they tend to be abandoned by governments. This conclusion has been forcefully argued by Fischel (1989) in his penetrating interpretation of the famous 1978 Proposition 13 in California. By mandating the strict equalization of educational spending among

California districts, a California court had made it impossible for higher local taxes to buy better schools. The decree converted the local property tax from a benefit tax into a costly distortionary tax on capital. Voters in high-demand school districts chose to reduce drastically their reliance on the property tax in consequence of this trend. By a similar process, the decline of the property tax as a source of local school financing in most Canadian provinces coincided with the rise of the spending equalization movement.

General Implications of World Federalism

As a competitive arrangement rooted in the Tiebout (1956) tradition, freer trade places national governments in the approximate position of a province or a state vis-à-vis the national economy in a federal state. The logic of federalism operates in any political structure where the power of public authorities extends to less than the size of the economy in which resource movement is unimpeded by trade barriers. Its competitive action can be at work within national economies in decentralized federal states or between countries associated in common-market arrangements with only limited central powers. Whether the central layer of government is made up of elected officials as in federal states and in the European community or of multinational bodies as is the case in the Canada-U.S. free-trade area is analytically irrelevant. The determining characteristic of a federalist structure is that most responsibilities are entrusted to decentralized authorities who have no power to tax and regulate the whole area where trade is free. The provision of remaining public goods for the overall community is carried out through a central body of institutions, whose decisions are binding on national authorities and private agents across the whole bloc. International agreements can be viewed as arrangements for the provision of public goods common to more than one country. NORAD, NATO, the OECD, the agreement on acid rain between the United States and Canada, the IMF, even the United Nations or the binational commissions to settle disputes between New Zealand and Australia or between Canada and the United States are no less central entities than the federal government of Switzerland or the Brussels authority. Multinational bodies may even offer the advantage of being less susceptible to the centralist tendencies of formally federal structures.

The market, in general, acts as a mechanism to reveal preferences through the mobility it gives players to enter and exit. Politics relies on "voice" to discipline governments, but without mobility (Hirschman 1970). Restricting citizens' movements is an instrument of state monopoly. Opening the way for the mobility of goods, capital, and persons between regional and national communities, serves as a substitute to politics for expressing preferences where public goods are concerned. This federalist solution is the counterpart of the market in the public sector. It is the institutionalizing of competition between governments. It offers individuals an additional instrument to discipline governments. In a real sense, free trade at the common-market level is a substitute to national bills of rights as a guarantee of individual freedom and prosperity. Freer trade brings not only prosperity to the interacting economies, it offers more freedom and the promise of a more efficient provision of public services. The essential condition for this desirable result is that the flow of trade, capital, and people remains unimpeded between national boundaries.

Centralization versus Federalism

In a decentralized, competitive system there is no need to limit legally or constitutionally the legislative power of the various national governments, provided the mobility of resources is not impeded. Exit not voice is the instrument used by individuals to make their preferences known. But by the same logic, exit will only be an effective means if national decisions are not superseded by a vast central power covering the same fields, within trade blocs or at the supra-national level. Centralization is defined as the power of a central authority to rule over the entire common-market economy. As such, it weakens the power citizens have over their governnment and opens the way for interest groups and rent seekers to obtain transfers at the expense of the population as a whole. What use is the freedom to leave a country, what use is the choice that consumers have to purchase their goods from outside suppliers, if the central government can regulate and tax the economy at the common-market level? Individuals and groups bound by one region no longer have the option to escape its restrictions by emigrating to another region, as the federalist solution is thwarted by the cartel implemented at the central level. It is no accident that throughout history dictatorial regimes have deemed it necessary to tightly control the movement of resources across their borders.

Paradoxically, in the conventional debate in the various federal states and in Europe, federalism is associated with the strengthening of the central government's powers, while the search for autonomy and decentralization is linked to narrow secessionist movements and anti-European options. Supporters of devolution are immediately labelled anti-Europe and "nation-builders." Yet the contrary is true. Federalism is decentralization. As a form of government, federalism is the opposite not of decentralization but of the unitary state. The partisans of devolution are the real federalists. The assessment of a conventional analyst (Eichengreen 1991) on the Savings and Loans crisis in the United States illustrates the confusion. In a perfectly perverse use of language, the author designates by the label "fiscal federalism" the arrangement whereby depositors in Texas received $20 billion in deposit insurance, while the U.S. Treasury collected only $1.3 billion in taxes from S & Ls in that state. Two implicit assumptions are contained in this judgment. First, federalism is measured not by the extent of decentralization and competition but by its opposite, the power of a central authority to neutralize federalist forces. Second, it is wrongly assumed that the government of a unitary state could not have done even better in terms of redistribution in favor of some regional interests.

It is regrettable that this centralist vision has become mainstream teaching among economists. In their assessment of the proposed unified European currency, two authorities (Sachs and Sala-i-Martin 1992) argue that such a plan could result in very serious strains unless some type of EC-wide tax-transfer scheme is put in place. Their idealized model is the United States of America where the federal government absorbs, in reduced taxes and increased transfers, up to 40 percent of any decline in a typical region's income. In contrast, the European Community, they lament, merely cushions 0.5 percent of the impact of an adverse shock. Nowhere in this evaluation is it recognized that a currency union combined with subsidies does not suppress the cost of regional or national inconsistent policies. It merely shifts the cost of adjustment to the more conservative and prosperous regions of the union.

Balkanizing Common Markets by Centralization

An idea widely held by politicians, bureaucrats, and some economists is that only a strong central authority can safeguard the economic union of a common market, such as Europe or North America, against the narrow protectionist forces of local and national interests. History and analysis teach a totally different lesson. They show that the central government of existing federations or a strong central authority in Europe could and do effectively use their greater monopoly power over the common market to balkanize the overall economy in erecting insuperable inter-regional barriers between member states. If one defines balkanization as a process whereby a government intervention dissociates the price or tax burden of regional goods and services from their production cost, then balkanizing a common market is equivalent to erecting tariffs, quotas, and protectionist subsidies between the member states of a common market (Migué 1993).

Central supply by a supra-national authority can be substituted for national supply, directly or indirectly, as when equalization handouts are offered and costs are shared with member states. The allocation method favored by central governments is service uniformity over the whole territory at a quality level approximating the preferences of the median voter for the community as a whole. The centralized provision of public services then acts as implicit subsidies to less developed members of the common market. Selling public services on the cheap to lower-income countries is no different from offering discriminatory subsidies to national producers or exporters in those countries. In reducing regional production costs, the practice hinders the process of resource specialization and acts as a protectionist measure in favor of lagging areas. By contrast, production costs are raised in the most productive countries as a result of the increased tax burden.

In addition to setting up a central monopoly supplier, two further instruments are available to the supra-national government of a common market to pursue its discriminatory pricing goals: (1) payments to decentralized governments, and (2) central regulation. The uniform tax regime implemented at the common-market level by equalization payments or cost-sharing arrangements, means that productive resources in prosperous areas have no incentives to move away from jurisdictions burdened by their excess share of the common programs. Alternatively, producers in subsidized territories are encouraged to stay in their less productive employment by what has become in effect a cartel of member states at the common-market scale. Central handouts cause national or regional prices to be dissociated from regional costs. They inhibit the specialization of the community's resources and are protectionist in nature.

The irony of the proposed centralist vision of Europe is that while the central provision of public services and the contemplated cost-sharing and regional-development policies would result in lower resource mobility and excess population in declining areas, social and economic regulations by the central authority would imply reduced investment and population in less prosperous countries. The proposed social charter with its alleged rights to standardized health, education, and social-insurance services, with its support for uniform environmental standards, with its goal of imposing common union wages and working conditions (affirmative action programs), would have two important consequences. First, it would cause production costs to rise throughout the territory. Second, the common standards would clearly be set by the demand of interest groups in the most developed and prosperous urbanized regions. The ability of lower-income, lagging areas to compete with the most productive ones would be reduced in the same proportions. Poorer regions would be denied the power to compete with prosperous ones through lower wages, lower taxes, or fewer environmental amenities.

Redistributive policies of central governments foster resistance to necessary regional adjustments in another way. By releasing member states from the consequences of their decisions, central subsidies and regulations encourage provincial or national governments to show little concern for adopting adjustment policies. Equalization payments, cost-sharing programs, and central regulatory measures mostly serve to shield decentralized administrations from the consequences of their own cost-increasing policies. They act as cartel enforcers for regional governments. All three instruments result in policy costs being shifted to other parts of the common market. The more inefficient national or regional governments are, the more they are compensated by the central authority. This is nothing less than an exercise in economic absurdity.

The conclusion to be drawn from past and planned practices of centralized structures is unambiguous. If the distortion of prices in member states is accepted as a valid measure of protectionism, then federal initiatives which impose the uniform treatment of regions in matters of taxation, expenditures, and regulations are distortionary and protectionist in nature. All central interventions with variable local incidence are the equivalent of implicit regional customs tariffs, regional quotas or discriminatory subsidies to regional consumers and producers. They all inhibit the specialization of the community's resources and restrict trade. To argue against decentralization on the basis of the requirements of economic integration within common markets amounts to an erroneous evaluation of the facts.

Evidence

Ironically little effort has been devoted so far to assessing methodically the relationship between protectionism and domestic interventionism. While numerous studies have been undertaken to analyze the determinants of trade barriers on the one hand and the size of the public economy on the other, few analysts have attempted to relate the two phenomena. One study that comes closest to tackling the kind of questions that concern us here is an empirical study by John Conybeare (1983). He finds that tariff rates are positively correlated across countries with the size of the central government measured as a percentage of total government. This striking result is all the more significant since David Cameron (1978) has shown that the expansion of the public economy across countries is largest in unitary, highly centralized nations. Decentralization at the national level tends to dampen the degree of expansion of the public sector.

Broad historical trends support the hypothesis that the share of the government sector in the national economy is positively associated with the levels of trade barriers. Until the 1930s (mostly under the gold standard), there were almost no restrictions on the movement of people and capital in the industrial world. Money and goods moved in large relative volume. It has taken some 70 years for merchandise trade as a proportion of GNP to overtake levels it had achieved prior to World War I, with the bulk of the movement occurring between 1950 and 1970. Few quantitative barriers to trade were raised and few obstacles impeded capital flows. Nontariff barriers are of comparatively recent popularity and were practically unknown. Countries in Western industrial economies had low or nonexistent tariffs, including Great Britain. On the other hand, data now available on the long-term trend in government expenditures in the United States, the United Kingdom, Denmark, and Sweden, show that the size of the central government remained practically constant at 10–15 percent of GNP over the whole industrial era prior to the 1930s, and then grew sharply and consistently until very recent periods (Tullock 1990). In this paper Tullock argues that the broad association between trends in levels of protectionism and government expenditures is not coincidental: The turning point coincided with the onslaught of protectionism in the 1930s. This result is consistent with the thesis that the spending instrument (and regulatory tools) can only be used on a large scale when trade barriers are steep.

It is interesting to note that some writers are detecting a reversal of the trend in the growth of government expenditures and taxes in major industrial countries (McKenzie 1988, and McKenzie and Lee 1991). Outlays seem to have peaked in the early 1980s, sometimes earlier. Tax rates are seen declining in most industrialized countries. More important, many governments followed the United States example in lowering their highest marginal tax rates on income. Two other taxation trends, well documented in Canada (Bélanger 1991) and presumably observed elsewhere, underlie the competitive forces at work in more open economies in the last 30 years, namely the rise in the taxation of wages relative to capital, and the lightening of the tax burden on savings relative to consumption. Dampening tax-induced disincentives to save and to grow is what one would expect from lower trade barriers and the incident competition from abroad. The worldwide movement toward deregulation and privatization in the late 1970s and 1980s can be viewed as consistent with the greater mobility of resources coincident with reduced trade barriers.

What is remarkable in these statistics from our standpoint is that the start of the new trend follows five rounds of successful multilateral negotiations under GATT and the advent of the European Community. In the meantime, Canada and the United States have negotiated a free-trade agreement, as have the members of the Mercosur group (Argentina, Brazil, Paraguay and Uruguay). Similar trends in other regional blocs are observed as protectionism gives way to more formal commitments to lower barriers within a Japanese-led group in Asia and Mexican-led groups in Central and North America. The five countries of the 1960 Andean Pact (Peru, Bolivia, Ecuador, Colombia, and Venezuela) have also relaunched their plans for economic integration. In the same vein Eastern Europe can be viewed as moving toward a free enterprise zone. Instead of a small part of a country being freed, entire countries, at one fell swoop, are being freed from constraints, while little central power appears to be in demand.

These are clearly rough estimates of the role of trade barriers on national public economies. Nontariff barriers are not incorporated into the picture, and the extent of interventionism is limited to budget dimensions, with the whole package of national regulations left out. More empirical work remains to be done before the picture gets clear. It is reassuring at this stage that casual empiricism of the kind used above is not inconsistent with the theoretical predictions, but on the whole supportive.

Conclusion

This paper has proposed a formal framework for analyzing the effect on domestic policy choices of constraining the power of national governments to maintain trade barriers, as experienced in GATT-type arrangements, in common-market treaties, and in other free-trade agreements within blocs of trading partners. Without the power to close their borders to goods and services, to capital, and ideally to people, national and regional governments should find out that resort to domestic policy instruments, such as spending, taxes, and regulations, for redistributive purposes is more costly, indeed impossible. A smaller share of resources will be transferred to governments under free trade.

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