

**Protectionism: Trade Policy in Democratic Societies**

Jan Tumlir

Washington, D.C.: American Enterprise Institute, 1985, 72pp.

The real message of Jan Tumlir's excellent monograph comes near the end:

From the policies conducted by the Western governments, the recently sovereign developing countries learn how the world works. What do we want the majority to believe about the liberal idea that animated the West's historical achievement and that we continue to profess and have, in recent decades, ceased to act upon? What kind of world will it be, if the majority comes to believe that the idea is a sham? [p. 54]

What is the liberal idea referred to here? Economic freedom. Free trade based on constitutional protections of property rights and enforcement of contracts. Indeed, as Tumlir describes it, it is the fundamental notion of constitutional democracy.

Though his concluding thought sounds polemical, the writing it reflects upon is not. Tumlir's little book is at once an insightful analysis of the benefits of free trade, a concise history of its emergence and cyclical popularity, and of chief importance, a dispassionate analysis of what changed in the 1930s that now allows constitutionally bound societies to become caught in a web of discriminatory trade restrictions.

Tumlir explains how Western societies, including the United States, are leaders in the rise of a new brand of blatant protectionism where special deals are negotiated between national leaders who sometimes unwittingly foster tight import and export cartels in their respective countries. National debate and legislative consensus building have been replaced with "voluntary" restraints negotiated by administrators that distribute pieces of a smaller social pie to politically dominant firms and industries. Just why exporting industries relish the opportunity to limit shipments, a point documented by the U.S. Federal Trade Commission,<sup>1</sup> is explained clearly. Dominant exporting firms can restrict output and raise price. And of course, the protected industry rises and calls the negotiator's name blessed. All politically important parties to the transaction gain. Only consumers lose.

The new protectionism spawns a disregard for international treaties such as GATT and erodes domestic antitrust sanctions. Domestic rent seeking is transmitted to the international economy in ways that reduce the incentives of representative government to counter the trend. And oddly enough, "the antitrust establishment is trying to enforce competition at home; the other, the trade policy establishment, is trying to stop it at the borders," as Tumlir

<sup>1</sup>See David G. Tarr and Morris E. Morkre, "Aggregate Costs to the United States of Tariffs and Quotas on Imports," Bureau of Economics Report to the Federal Trade Commission, December 1984, p. 11, where they estimate the gains from voluntary restrictions on auto shipments from Japan to Japanese producers to be \$824.4 million annually, while the gain to American producers is \$115.3 million annually.

notes (p. 54). Eventually, conflicting trade policy leads to a demand for industrial policy.<sup>2</sup>

*Organized into four major sections*, the monograph first discusses the economic and political aspects of protection. Here, the reader finds a well-developed discussion of the extent of today's protectionism where tariffs are shown to pale in the face of quantitative and qualitative trade restrictions. Some 30 to 50 percent of world trade is so affected, more often than not to the detriment of developing countries.

Tumlir artfully integrates theories of property rights and rent seeking into a lucid development of the dangers and the logic of the new forms of protectionism. He points out that the costs of protectionism are almost invariably underestimated, since it is practically impossible to capture the system-wide effects that befall a national economy and to estimate the dynamic longer term effects of protection.

What are the characteristics of the new protectionism? It grows gradually, not dramatically, as did the old. Political leaders are not adversaries engaged in trade wars. They are quiet negotiators. Legislative bodies do not engage in long debate about principles of free trade versus invasions of the right to contract. Instead, individual legislators call on the executive to negotiate voluntary agreements with particular industries in selected exporting countries to satisfy political clients.

What if anything might be done to restore healthy international competition to world markets? In the last section of his monograph, Tumlir offers a systematic solution. In brief, he argues for a return to the international bargaining table where all issues, quantitative, qualitative, and tariff are placed face up on the table. But instead of negotiating an issue at a time, which is the prevailing method, he suggests that governments first bind themselves to general rules of law. The vast array of quantitative restrictions at play in world markets are currently in the breach of international treaties. Illegal actions simply cannot be negotiated in the context of treaties that forbid them. All parties must first identify the broad principles by which national interests will be negotiated. The leading Western economies hold the key to future trade liberalization, according to Tumlir, since they account for the majority of world trade. He argues that they should set the example, since it is in their broad interest to do so.

Tumlir's book is concise and powerful. Published just after his death and drawing on his many years of experience as Director of Economic Research with GATT, it is a reasoned effort to explain how people nominally committed to freedom of contract, protection of property, and gains from trade find themselves caught in quicksand that threatens the very things they claim to treasure.

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<sup>2</sup>On this, see James A. Dorn, "Industrial Policy and the Nature of the Firm: Comment," *Journal of Institutional and Theoretical Economics* 142 (March 1986): 101-108, and Richard B. McKenzie, *Competing Visions: The Political Conflict Over America's Future* (Washington: Cato Institute, 1985).