

Protectionism and Politics

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Joseph Keppler and Frederick Oppper; Puck Magazine, June 3, 1896

Protectionism has long been contentious. This cartoon makes fun of the protectionist platform of 1896 U.S. presidential candidate William McKinley.

Protectionism has a long history. Responding to political pressure, governments in developed and developing countries have protected their textile, auto, agriculture, and other producers from imports. In some places, farmers receive protection despite their small numbers because they hold disproportionate voting power. As the problem of protectionism is political, so must the solution be.

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Protectionism—government efforts to shield domestic producers from international competition—is deeply rooted in the politics of nations throughout the world. It is both the product of special interests and a reflection of general public anxiety about change. And it comes at great economic cost.

Resistance to trade liberalization and its political roots

are hardly new. In the first half of the 19th century, Britain imposed import tariffs designed to “protect” British farmers and landowners from competition posed by cheap foreign grain imports. But these import taxes raised food prices in English cities, forcing reluctant industrialists to pay higher wages so that their workers could afford to eat. In 1846, after a protracted struggle in Parliament, these Corn Laws were repealed, marking the political ascendance of the new English middle class.

Similar fights over tariffs dominated much of 19th century American politics. In the run-up to the American Civil War (1861-1865), the northern, industrial states wanted high tariffs to protect their emerging manufacturing interests from European competition. The southern states wanted low tariffs because they imported much of what they consumed, from linens to farm machinery. One indication of just how important this issue was: When Jefferson Davis, the president of

the secessionist Confederate States of America, gave his inaugural address in 1861, he spent much of the speech talking about the need for low tariffs, not about slavery.

Three-quarters of a century later, politically inspired protectionism was a worldwide response to the Great Depression. During the 1928 U.S. presidential election campaign, Republican candidate Herbert Hoover pledged to raise tariffs on farm imports to aid American farmers, who had experienced years of declining commodity prices. Once Hoover's promised legislation began moving through the Congress, industrial-sector special interest groups added their own tariff protections.

The resulting Smoot-Hawley Tariff Act of June 1930 ended up raising all U.S. tariffs to historically high levels. Foreign retaliatory duties sent global commerce spiraling downward. By 1934, world trade was only one-third what it had been in 1929.

TEXTILES AND APPAREL

In the modern era, thanks to a half century of tariff-reducing global trade negotiations, protection is far less extreme. But it is no less political. Agricultural, industrial, and service industry interests still resist market liberalization because they have domestic market dominance to preserve and they fear the lower prices and technological innovations posed by foreign competition.

The protection afforded the textile and apparel industry in all parts of the world until recently is a classic case of such vested interests defending themselves against imports. Restraints on trade in cloth and garments first emerged in the 1950s as developing countries began to compete with producers in Europe and the United States. The multilateral 1974 Multifibre Arrangement imposed product-specific import quotas and tariffs on all such trade. This protection cost U.S. consumers more than \$20 billion a year in higher prices for shirts, trousers, and underwear. And the World Bank estimated that every



Farmers protest in France, where the political system gives them a disproportionate influence in elections.

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American or European job preserved by such import restraints denied jobs to 35 workers in poorer countries.

Nevertheless, thanks to the political influence of American and European textile and apparel makers and the unions that represented their workers, limitations on trade remained in place until 1993, when rich countries finally agreed to lift them. But even then, it took a decade to phase them out. So it was not until 2005, more than half a century after protection began, that trade in textiles and apparel was finally liberalized. And even now, such commerce faces some extremely high tariffs.

PROTECTING AUTOMAKERS

Protection can also affect higher-value products such as automobiles, an industry that at various times has been protected by powerful political interests in Japan, Korea, China, and the United States.

In the 1970s and 1980s, the U.S. auto industry faced its first major challenge from foreign competition as Japanese automakers aggressively entered the American market. As Japan's share of the U.S. market grew, the Big Three U.S. automakers—Ford, Chrysler, and General Motors—convinced the federal government to impose a cap on the number of cars Japan could ship to the United States. In 1981, the Reagan administration agreed to impose such restraints, despite President Reagan's free market philosophy, because the auto and auto parts

industries were major employers in the United States. Moreover, such employment was largely concentrated in a number of politically pivotal states—Michigan, Ohio, and Illinois—that exerted a great deal of influence in Congress and in presidential elections.

The annual import limit had the perverse effect of encouraging Japanese car companies to change the product mix of vehicles they shipped to the United States, sending more upscale models, where the profits were greatest, and fewer smaller, cheaper cars. It is estimated that, at its peak in the early 1980s, the quota was transferring \$5 billion a year in additional profits to Japanese automakers, who could sell their quota-limited cars at a premium. Despite this protection, the U.S. auto industry continued to lose market share to Japanese producers because Toyota, Nissan, and Honda simply jumped over the trade barrier and began manufacturing cars in the United States.

America is not alone when it comes to the imposition of protectionist policies as the result of political influence. In South Korea, for example, foreign car makers from Japan, Europe, and the United States sold only 30,000 cars in 2005, just 3.3 percent of the Korean market. That same year, Korean automakers sold more than 1.5 million vehicles abroad. The combination of an 8 percent tariff and taxes on engine size add about \$9,000 to the price tag of a \$30,000 imported car. Moreover, until recently, the Korean government audited the tax returns of anyone who bought an imported car, a sure way to discourage buying a foreign brand.

DISPROPORTIONATE VOTING

The ability of special interests to influence trade policy, and whether they can continue to exercise such influence, can best be explained by the constitutional structures in which such trade policies are formulated, the changing political-economic balance within modern societies, and the evolution of public opinion about trade issues around the world. Special interests can often manipulate political systems because they reflect economic and political realities that no longer exist.

In the United States, members of the U.S. House of Representatives represent people. There is one member for approximately every 650,000 citizens. Members of the U.S. Senate represent land. There are two senators from every state, no matter its population. This arrangement reflects a deal made in the 18th century at the time the U.S. Constitution was written to balance the interests of large and small states. In the 21st century, the effect

has been to give agricultural interests disproportionate influence in the U.S. Senate, reinforcing support for American agricultural subsidies that can distort trade.

But America is not alone in its constitutional bias toward protectionism. Although active farmers make up less than 4 percent of the French electorate, their high turnout rate enables them to deliver 8 percent of the vote in national elections. And the French electoral system affords farmers a disproportionate chance to become elected officials. More than one-third of the country's mayors are active or retired farmers. And since members of the French Senate are indirectly elected by municipal councils, it is not surprising that farmers are overrepresented in that upper house. The disparity between the percentage of farmers in the Senate and the proportion of farmers in the overall population has nearly doubled in the past 40 years.

And the nature of the French presidential election system makes it hard for a presidential candidate to ignore farm interests. A runoff system, in which the top two vote-getters proceed to a second round, gives farmers—who overwhelmingly belong to parties of the political right—great influence in choosing the conservative candidate. In 1988, for example, farmers accounted for nearly one of every four votes given to Jacques Chirac, the conservative winner in the first round. It is little wonder that Chirac has often been considered a creature of organized agriculture.

These peculiarities of the French political system allow other strong, regionally based industries, such as textiles and electronics, to exert similar pressure. This contributes to the weakness of the Patronat—the leading French trade association for French industry—and effectively silences its opposition to the farm lobby and the forces of protectionism.

Similarly, in the South Korean National Assembly, rural voters are “overrepresented” by a margin of three to one. This disproportionate influence of farm voters has led to high tariffs on food imports, forcing Korean consumers to pay some of the world's highest prices for beef, fruits, and vegetables.

Experience in Japan, however, suggests that changes in constitutional arrangements can transform the politics that drive protectionism. Up until the 1980s, apportionment of electoral districts for the Japanese Diet reflected the distribution of the population in the years following World War II, when only one-third of the people lived in urban areas and two-thirds lived in rural areas. But by the 1980s, three-quarters of the Japanese population lived in cities. As a result, it took five times as



Japanese farmers resist trade agreements opening the country's agricultural markets to any more foreign competition.

commerce was good for their nation. Roughly two-thirds of Nigerians agreed. Meanwhile, more than half the Vietnamese, whose economy is the second-fastest growing in Asia, thought that internationalization had been good.

A more recent survey by the German Marshall Fund found ambivalence about trade in Europe and the United States. Seven in 10 Americans favored international trade in 2006, up from two-thirds in 2005. And even more Europeans, three out of four, supported trade, up from two in three. But more than half the French and nearly one-third of Americans do not favor freer trade. And half the Germans and three-fifths of the Americans and the French think freer trade costs

more jobs than it creates.

many urban votes as rural votes to elect a Diet member. By-products of this rural influence were a 700 percent tariff on rice and one of the world's most protected agricultural sectors.

But in 1994, electoral reform in Japan dramatically narrowed rural-urban differences in legislative representation. This change in the balance of voting strength led the Liberal Democratic Party, which had dominated Japanese politics after World War II, to transform itself from a rural-based party to an urban and suburban party, with new policy priorities. Japanese government subsidies have been redirected from farmers to urban residents, and while Japan is far from being an open economy, it now imports far more than it ever did before.

PUBLIC AMBIVALENCE

The politics of trade are also driven by the public's profound ambivalence toward international commerce.

In principle, people worldwide think globalization is good for their families and for their countries. In 25 of the 44 nations surveyed by the Pew Global Attitudes Project in 2002, majorities of at least 60 percent thought that globalization was a good thing. Africans, who live on the poorest continent, were the most upbeat. Seven in 10 respondents in Uganda said greater international

more jobs than it creates.

Overall, it would seem that Americans and Europeans are free traders in principle and protectionists in practice. The same people endorse free trade as a philosophical concept and also support tariffs on steel imports, for example, if those tariffs will protect local jobs.

The tragedy of protectionism is the economic cost it imposes on national economies, especially poor ones. Recent studies by the World Bank conclude that removal of protectionist barriers in developing countries has increased growth between 1.2 and 2.6 percent. Moreover, trade liberalization has been followed by acceleration in investment and exports of goods and services.

These economic benefits notwithstanding, the political roots of protectionism and its long history suggest that barriers to trade will remain an impediment to economic well-being for some time to come and that protectionism will have to be addressed politically if it is to be overcome. ■

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