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THE REVIVAL OF PROTECTIONISM IN DEVELOPED COUNTRIES

W.M. Corden

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**TABLE OF CONTENTS**

**DISCUSSION PAPER NO. 86**

<table>
<thead>
<tr>
<th>Abstract</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>I Has There been a Revival of Protectionism?</td>
<td>2</td>
</tr>
<tr>
<td>The New Protection</td>
<td>2</td>
</tr>
<tr>
<td>Protection in the United States, Japan and the Community</td>
<td>5</td>
</tr>
<tr>
<td>II Protection and Macroeconomic Policies</td>
<td>9</td>
</tr>
<tr>
<td>Recessions Induce Protection</td>
<td>9</td>
</tr>
<tr>
<td>Protection and Growth</td>
<td>12</td>
</tr>
<tr>
<td>Protection and the Exchange Rate</td>
<td>13</td>
</tr>
<tr>
<td>Adverse Effects of Exchange Rate Fluctuations</td>
<td>15</td>
</tr>
<tr>
<td>The US Budget Deficit and the Decline in US Competitiveness</td>
<td>17</td>
</tr>
<tr>
<td>III OECD Protection and the Developing Countries</td>
<td>21</td>
</tr>
<tr>
<td>Protection and the Debt Problem</td>
<td>21</td>
</tr>
<tr>
<td>The Effects of OECD Protection on the Developing Countries</td>
<td>23</td>
</tr>
<tr>
<td>Protection by Developing Countries</td>
<td>27</td>
</tr>
<tr>
<td>IV Some Arguments for Protection</td>
<td>29</td>
</tr>
<tr>
<td>The Employment Argument</td>
<td>30</td>
</tr>
<tr>
<td>The Fauper Labor Argument</td>
<td>32</td>
</tr>
<tr>
<td>Fairness Argument</td>
<td>33</td>
</tr>
<tr>
<td>Dumping</td>
<td>35</td>
</tr>
<tr>
<td>V The Japan Problem</td>
<td>35</td>
</tr>
<tr>
<td>VI Changes in Rules and Changes in Attitudes</td>
<td>40</td>
</tr>
<tr>
<td>Appendix</td>
<td>45</td>
</tr>
<tr>
<td>Footnotes</td>
<td>47</td>
</tr>
</tbody>
</table>
THE REVIVAL OF PROTECTIONISM IN DEVELOPED COUNTRIES*

(Revised Version)

ABSTRACT

This paper deals with the revival or intensification of protectionism in developed (OECD) countries since the first oil crisis and the end of the great post-war boom in 1973. It focuses on macroeconomic aspects, and especially on the relationship between protection and the exchange rate. The aim is to provide only an overview of the issues since there are available many detailed studies of recent developments in trade policy and of policy options aimed to halt the apparent protectionist resurgence.¹ Much stress will be laid on the effects of OECD protectionism on developing countries. There will also be a brief discussion of some protectionist arguments currently popular, especially in the United States.

* This paper was prepared as a Discussion Paper for a meeting of the Group of Thirty in September 1983 and will be published as an Occasional Paper by the Group of Thirty, Two World Trade Centers, New York, N.Y. 10048.
HASN'T THERE BEEN A REVIVAL OF PROTECTIONISM?

The New Protectionism

One must begin with the question whether there has actually been a significant revival of protectionism in OECD countries since 1974, and especially lately. It must be said that protectionism was by no means dead in 1974. The principal areas of protection were the Common Agricultural Policy of the European Community and the protection of the textiles and clothing industries against imports from "low-cost" suppliers in all OECD countries. But many other industries benefited from protection, direct and indirect, though often the rates of protection, explicit or implicit, were not high. Japan's protection of her agriculture was even higher (in terms of implicit rates of protection) than that of the Community, though, at least, Japan did not subsidise exports and the quantitative impact on world trade was much less. Nevertheless, outside the special fields of agriculture and textiles and clothing there was clearly a downward movement. The tariff reductions can be attributed to the various multilateral trade negotiations, which continued with the Tokyo Round negotiations completed in 1979. By the time the Tokyo Round tariff reductions have been fully implemented, tariffs will generally be very low.

The revival of protectionism can be said to have three aspects, namely (1) revival of protectionist sentiment or attitudes, (2) actual intensification of protectionist measures, as reflected in imposition of voluntary export restraints, anti-dumping measures, import quotas, and so on, and (3) reduction in the volume of trade relative to what
would have happened in the absence of such measures.

With regard to (1) it seems obvious that there has been a revival of protectionist attitudes or talk. This will be discussed more fully at the end of this paper.

With regard to (2) it is also clear that there is a "new protectionism" which, in the main, uses devices other than tariffs. Domestic subsidies and voluntary export restraints (VERs) - which are hardly voluntary but agreed upon by suppliers under threat of importers imposing quotas - are the principal devices. The main characteristics of the "new protectionism" are (i) the lack of openness or transparency of the devices (so that it is difficult to assess the extent of the new protectionism), (ii) the move from firm rules to administrative discretion, and (iii) the return to bilateralism. Each of these characteristics must be regarded as highly undesirable.

Restrictions (in the form of VERs) on imports of automobiles and of electronic goods have been imposed by the European Community and by the United States against imports from Japan, and steel import restrictions have been directed by both the Community and the United States against each other and Japan. The extension by the major countries of non-tariff protection to the automobile trade is perhaps the most striking development of recent years, though steel protection has been a source of major political conflict between the United States and the Community. Apart from textiles and clothing, various other exports from developing countries are also affected, notably footwear.
Smaller OECD countries, such as Canada, Sweden and Australia, have also moved in a protectionist direction. Thus Australia has intensified complex restrictions on automobile imports and, apart from providing tariffs, has recently decided to subsidise steel production. Its protection of textiles and clothing is by quotas, and the implicit effective tariffs are very high.

Coming to (3) there is, so far, no unambiguous evidence that this "new protectionism" has had a significant effect on the volume of trade. Manufactured exports of developing countries have continued to increase, though at a more modest rate than in the sixties and early seventies. The recent decline in the rate of increase can be explained by the recession. The effect of OECD protection on exports of manufactures by developing countries will be discussed in more detail later. Overall, world trade seems to be growing roughly in line with world real output, though it is no longer clearly growing faster than world G.N.P. — a change that could be explained by much apart from increased protection.

One might conclude that the "new protectionism" has in fact been modest in impact, not affecting a large part of goods and services traded and, in areas where it does operate, not holding trade back very much because the restrictions are not very tight. In this case the revival of protection would not be a matter of great concern.

Against this there are three considerations. In my view these should be given considerable weight. (1) The adverse effects on trade may come later, since investment in export-oriented activities will be inhibited, and since some of the measures are quite recent. (11) The pattern of trade might have been distorted even though total trade has
not fallen; thus, restrictions on imports of particular products by the United States may simply lead to increased imports of other products, partly through direct substitution, but also through the dollar appreciating more than it would have otherwise. (iii) In the absence of these measures trade would have expanded much faster than GNP, so that a shift to more export-orientated growth is being inhibited. The last point is very relevant for the effect of the new protectionism on developing countries, discussed later. Furthermore, one can clearly see the effects of protection in particular cases, for example the very small share of the motor car market that goes to Japanese cars in Italy and France especially, and also in Germany and Britain, compared with the smaller Community members (which do not produce cars themselves and therefore do not impose restrictions on imports from Japan) or even the United States.

Protection in the United States, Japan and the Community

Let us give an overview of the situation in the three main OECD economic units.

The central issue in the United States is the exchange rate, a matter to be discussed below. Leaving that aside, here is a country where there is still a strong belief in market forces, more than in any other major country. Of course agriculture is being protected, though less than in Europe or Japan, and there are the cases mentioned earlier, notably the VERs imposed on developing country suppliers of textiles and clothing, and automobile and steel protection. This is not an exhaustive list; thus in 1980 color TV imports were restricted and in 1983 motor cycles. Overall, in manufactures the portion of the
U.S. market covered by non-tariff barriers in 1980 was about 20 percent, only slightly less than that in the European Community and Japan.

It is worth remembering that the United States is primarily responsible for the Long-term Arrangement Regarding International Trade in Textiles of 1962 which is the ancestor of the Multi-fibre Arrangement (MFA) on the basis of which developed countries impose restrictions on imports of textiles and clothing from developing countries. A main objective was to cloak with some international respectability existing restrictions that were clearly in violation of the G.A.T.T. non-discrimination principles. The United States is also responsible for originally ensuring that agriculture was excluded from the purview of G.A.T.T.

There is a great deal of protectionist talk in the United States, represented at the moment by the push in Congress for "reciprocity". The idea is that the United States would negotiate bilaterally to obtain reciprocity (attain equal levels of protection) over particular ranges of goods. If implemented, reciprocity would destroy the most-favoured-nation system and would be bound to lead to retaliation. What lies behind it is the belief that the United States is much less protectionist than its trading partners, so that they would have to lower their protection, rather than the United States. But the evidence suggests that this is not clearly so.²

No one would suggest that Japan is a free trade country. In particular, its protection of agriculture is very high. The distribution system appears to be biased in favor of local suppliers. Japan has been a consistent practitioner of infant industry
protection, preserving the domestic market for its own producers in the early stages of an industry's development. An example is the automobile industry. But then, when the industry blossoms to become a successful exporter, such protection is hardly needed, and it probably ceases to be significant. There remain some barriers that protect declining industries against imports from developing countries, and in 1980 the share of such imports in the Japanese apparent consumption of manufactured goods was only 2.4 per cent, less than in the United States or the Community.

On the other hand, the direction of change in Japan has been towards liberalisation in recent years. In manufacturing, formal barriers to trade have been reduced and are now very low. The popular view that Japanese "industrial policy" is a mighty engine of protection is doubtful. The main distinction between Japan and the other OECD countries appears to be that Japanese government intervention is primarily orientated to fostering adjustment - to working with the market (possibly even supplementing it quite unnecessarily) - while elsewhere intervention is usually designed to hold up change and so work against the market - i.e. to protect what exists, or at least to moderate change by leaning against the wind of market forces. Mostly Japanese industrial policy just takes the form of "guidance".3

The revival of protectionism - especially protectionist sentiment - has been most notable in the European Community. This is sad, when the basis for the Community's success has been the intra-Community freeing of trade, and the belief in the gains from freer trade has been at the core of the formation of the Community. At the GATT
Ministerial Meeting in November 1982 the principal opposition to any forward movement designed to halt the rise in protectionism, or even to scale it down, came from the Community. In the Tokyo Round negotiations the Community torpedoed agreement on a "safeguards code" (to be discussed later). A particular feature of the Community's approach is the emphasis on discrimination and on bilateral deals.

Perhaps the main explanations of the revival of protectionism in Western Europe are the decline in the growth rate, which reduces the flexibility of economies, the increasing concern with social security - protection of declining industries being essentially an aspect of the social security system - and possibly a more deep-seated breakdown in confidence in the market system as well as in internationalism. The rise in unemployment owing to the rise in real labor costs in relation to productivity must also have been a factor.
II
PROTECTION AND MACROECONOMIC POLICIES

Recessions Induce Protection

The developed world has just emerged from a major recession created essentially by tight monetary policies designed to squeeze inflation out of the system. During this period there has been a great increase in protectionist pressures and also some increases in actual protection. This raises the important issue of the connection between two sets of government policies - protection policies and macroeconomic policies. One has to consider the case where the latter may have induced a recession or may have failed to prevent a recession caused by other factors, and where the recession in turn has induced pressures to increase protection.

When a country pursues policies of monetary tightness this squeezes profitability and reduces employment, one aim - perhaps the primary one - being to moderate wage increases. If the moderation in wages anticipated the monetary squeeze, or at least followed it very closely, then profitability and employment would not need to fall, and the desired decline in the rate of inflation could be brought about without cost. But we know that profits do get squeezed and employment does fall. The recent declines in the rate of inflation in the United States, Japan, Germany and Britain have been brought about at considerable cost, especially in Britain. Additionally, if a country's monetary contraction is significantly greater than that of other countries (so that its real interest rate rises relatively), its real exchange rate is likely to appreciate, and the decline in
profitability and employment will be greater, the adverse effects being focussed on the export and import-competing sectors of the economy. This has been the recent experience both in the United States and in Britain.

Pressures for protection, direct and indirect, are then inevitable. The protection may take the form not of tariffs, quotas or VERs but of subsidisation of private industries or the covering of losses of publicly owned-industries, as in the case of British steel. Recessions, whether policy-induced or not, always give rise to increased pressures for protection.

This experience suggests that contradictions in government policy can arise here. The central bank and Ministry of Finance bring about a profitability squeeze which the Ministry of Industry - pushing for protection - seeks vainly to reverse. If the latter were successful, one would have to ask whether the original macroeconomic policy was justified: the profitability squeeze was meant to moderate wage increases, and these will not be moderated if the squeeze is avoided by protection. But in fact, in an overall sense protection cannot undo what macroeconomic policy has created. It can only reschedule the consequences. For example, with given fiscal and monetary policies, subsidies to particular industries must be balanced by less funds elsewhere. If taxes are raised, this may lead to increased wage demands, again offsetting the initial effects. Furthermore, protection to help some import-competing industries which have suffered from appreciation will lead to greater appreciation than otherwise, and so increase the adverse effects on other import-competing, as well as export, industries.
These considerations do not rule out a role for macroeconomic policy, including specific subsidies, or even tariffs, but they do raise a question about protectionist policies designed to negate or soften the effects of macroeconomic policies.

A recession - whether policy-induced or otherwise - may lead to increases in protection in spite of the implicit contradiction just discussed. The danger is then that protection will not be reduced once the economy recovers, since reducing protection may require a much more prolonged period of prosperity. Long-term costs are then imposed in the form of adverse effects on resource allocation and on the degree of competition. If protectionist pressures at a time of recession cannot be resisted such adverse long-term effects must be taken into account when framing short-term macroeconomic policies. A temporary recession has then adverse long-term effects not only through the fall in investment that it brings about and through the loss of work experience of the temporarily unemployed, but also through the recession-protection ratchet effect: a recession increases protection but the following boom does not lower it to the same extent.

The association of increased protection with recessions or depression has also led some people to believe that protection can actually cause recessions. The association of the two in the nineteen thirties helps to explain the free trade movement in developed countries in the nineteen fifties and sixties. Others again think that protection can moderate a recession because of the favorable effects on employment in particular industries. In fact, it is not obvious that protection can either contribute to or moderate a
recession. It can, of course, raise the inducement to invest in particular industries, but one must balance against this the indirect opposite effects in other industries.

**Protection and Growth**

While the relationship between protection and recession goes only one way — recessions tending to increase protection but protection not necessarily moderating or intensifying recessions — the relationship between low long-term growth and protection is clearly two-way. Widespread protection is likely to lower the long-term growth rate, especially if it is so designed as to protect losers from change rather than just consisting of a system of fixed tariffs or subsidies. It reduces the flexibility of the economy, and hence the productivity of capital and labor. At the same time, low growth — and especially a shift of gear to a lower growth rate — means that adjustment between industries is difficult, since relative losers may also have to be absolute losers, since fewer alternative job opportunities become available, and since fewer resources are available to compensate losers. People become more security-minded, protection being part of an implicit "industry insurance system". Hence it has been much easier to reduce protection at times of high growth.

Looking ahead it seems likely that the ending of the current recession will somewhat reduce protectionist pressures. It will certainly provide an opportunity for policy-makers who appreciate the virtues of freer trade but find it difficult to resist political pressures. An interesting question is whether capacity utilization in the world steel industry will improve, so allowing a reduction of
protection in one of the most sensitive areas in the United States and the European Community. There is little reason to expect a complete restoration of employment levels in the U.S. and European steel and automobile industries owing to various longer-term factors, so some pressures for protection of these two major industries are likely to continue. Furthermore, the underlying OECD growth rate is likely to stay low so that it would be optimistic to expect a dramatic change in attitudes.

Protection and the Exchange Rate

In the days of fixed exchange rates it was often said that a move to floating rates would obviate the need for tariffs and quotas to deal with balance of payments deficits. In the immediate aftermath of the first oil shock it was usual to congratulate OECD countries for having avoided a revival of protectionism, the credit being given - at least to some extent - to exchange rate flexibility.

If one thinks of devaluation as a policy instrument that switches demand from foreign to home goods, and within the latter, from tradeables to non-tradeables, and switches output from supplying the domestic market to exports, then tariffs, tighter import quotas, export subsidies, and so on, are substitutes for devaluation. The standard argument is that they are inferior substitutes because they create distortions within the tradeable goods (import-competing plus exporting) sector. Tariffs and quotas favor only import substitution relative to non-tradeables, while devaluation or depreciation makes both import-substitution and exporting more profitable relative to non-tradeables, so that they are not anti-trade biased. Furthermore,
devaluation (or depreciation in a floating rate regime) has a uniform effect on the import side - being like a uniform ad valorem tariff - and so avoids the distortions between different import-substituting activities which results from differential tariffs or from any system of import quotas.

It is thus an important argument in favor of exchange rate flexibility that it is likely to reduce or eliminate the need to use tariffs, quotas, and similar devices for balance of payments reasons. Comparing two ways of improving the balance of payments (while simultaneously maintaining the level of demand for domestically-produced goods and services in total) - the way of devaluation and the way of tariffs or quotas - the former has a more favorable resource allocation effect.

It must be stressed that, for a given level of utilization of domestic labor and capacity, any improvement in the current account of the balance of payments requires a fall in aggregate expenditure, since the initial excess of expenditure over output has to be reduced if the current account is to improve. It is widely understood that this is so in the case of devaluation, but it is also true if tariffs or import quotas were, instead, to be used. Thus trade restrictions are not painless ways of improving the balance of payments.

We have considered here the case where a country has to improve its competitiveness because the balance of payments needs to improve. The argument also applies to the case where a change in the balance of payments is not needed but where a country is losing competitiveness owing to its inflation rate exceeding that of its trading partners. Exchange rate depreciation can then restore competitiveness. If such
exchange rate adjustment were not possible the resultant losses in profitability and employment in the export and import-competitive industries would inevitably generate protectionist pressures.

Adverse Effects of Exchange Rate Fluctuations

This standard approach views the exchange rate as a policy instrument. It implies that the exchange rate is neither fixed nor freely floating, but rather is managed so as to attain desired competitiveness or balance of payments outcomes. The rate could be pegged in the short-run, with occasional or frequent policy decisions that alter the peg. A system of managed floating, with frequent interventions in the foreign exchange market by central banks, could also have the same result. But we must now consider a somewhat different situation, one where the exchange rate floats — possibly with some "leaning against the wind" intervention — and fluctuates over the medium-term because of varying pressures originating in the capital market. There will then be changes, possibly very large ones, in competitiveness. This might be called the U.S. problem, on which a number of economists, notably Fred Bergsten and John Williamson of the Institute for International Economics, have focussed recently.⁴

Whenever the United States loses competitiveness, pressures for U.S. protectionism intensify. Particularly important is the yen-dollar rate. There have been three periods when the dollar appears to have been over-valued relative to the yen in terms of purchasing power parity (meaning some average longer-term real exchange rate). The overvaluation in the late sixties and early seventies gave rise to the Mills and Burke-Hartke bills, import
controls on steel and finally, in 1971, the import surcharge. The Burke-Hartke bill, if enacted, would have imposed strict quantitative limits on the levels and rates of growth of all imports into the United States. The overvaluation of the 1976–77 period led to major trade conflict between the United States and Japan. Finally, the most recent overvaluation (1981–82) has led to voluntary export restraints on Japanese cars and numerous protectionist proposals in Congress. The view has been put by Bergsten and Williamson that such pressures become hard to resist and justify exchange market intervention.

It is implied in this view that fluctuations in exchange rates originating in the capital market, especially in the yen-dollar rate, always generate pressures for increased protection in the United States when the dollar is in its real appreciation rate – i.e. when U.S. competitiveness has declined – but that this is not offset by reductions in protection when the dollar is in its real depreciation phase. Thus an asymmetry or ratchet effect is implied. When times are bad for U.S. import-competing industries they succeed in getting more protection, but when times become good this protection is not dismantled. There is possibly some tendency towards such a ratchet effect, though it has to be borne in mind that “protectionist pressures” do not always lead to actual increases in protection. Furthermore, one must also look at the Japanese side of the coin. There have in the last few years been some modest reductions of protection in Japan (how much being hard to assess) and it seems very plausible that this has been caused not only by political pressure from the United States but also by the improved competitiveness of Japanese industries owing to yen depreciation.
Medium term fluctuations in exchange rates in response to forces originating in the capital market are not necessarily inappropriate. A country's exchange rate may appreciate because there is a transfer of long-term capital into the country based on correct expectations of favorable investment opportunities relative to other countries. Thus the United States has lately been seen by investors as a "safe haven." The exchange rate may also appreciate because of short-term capital inflows (or incipient inflows) that reflect particular expectations of prospective monetary and fiscal policies, expectations that may be perfectly rational given available information.

If the resultant loss in competitiveness leads to protectionist pressures the question then arises to what extent the exchange rate itself should be altered through exchange market intervention - which may be difficult, in any case, if market expectations are very firm - and to what extent effort should be put, rather, into resisting the protectionist pressures, while allowing the exchange rate to fluctuate. If the market expectations turn out to be justified then some reallocation of resources induced by the exchange rate signals will also be justified. But this does not rule out an argument in favor of the monetary authorities forming a medium-term view about an exchange rate and, if this view differs from the market, sometimes cautiously acting on it.

The U.S. Budget Deficit and the Decline in U.S. Competitiveness

The immediate question for the United States is whether the real appreciation of the dollar relative to the yen and to various European currencies, notably the D-Mark, is here to stay for some time or is
likely to be reversed in due course.

The upturn in the U.S. economy will raise private U.S. savings. While it might also be expected to raise U.S. private investment, on balance there might be some increase (in real terms) in the net financial surplus of the U.S. private sector. The upturn should also in due course eliminate the cyclical part of the U.S. fiscal deficit. On the other hand the structural budget deficit will increase because of tax cuts and higher defence spending. On balance it seems highly unlikely that the private sector net financial surplus will be sufficient to finance the large budget deficit (expected to be about $200 billion in the fiscal year 1985). Of course, if there were no international capital mobility and exchange rates were freely floating the private surplus would have to finance the public deficit. This would be brought about by real interest rates rising until sufficient private investment were crowded-out for the private surplus to reach the level of the budget deficit. Furthermore, if the deficit were financed with monetary expansion, inflation might raise savings and also reduce the budget deficit.

In any case, with an open capital market it is inevitable — and desirable from the U.S. point of view — that the higher interest rates will draw in capital from abroad. Inevitably the United States will have to finance some of its budget deficit from foreign savings. If it did not do so and the structural budget deficit attained the sorts of levels being currently expected there would have to be a significant decline in private investment relative to its normal recovery level in the United States. The United States must thus run a current account deficit, this being the way in which foreign savings
become absorbed into the United States.

One wishes that this simple connection between U.S. fiscal policy and the external balance were more widely understood in the United States.\textsuperscript{5}

Real appreciation is part of the mechanism by which a current account deficit is brought about. The United States has to lose competitiveness if it is to generate the current account deficit which is the counterpart of the capital inflow. There has to be some shift of resources, at least at the margin, away from export and import-competing industries towards non-tradables. Clearly there will be gainers in the United States - above all the industries stimulated by the extra defence spending and those benefiting from the extra consumer spending resulting from the tax cuts - but there will be losers, namely employees and the owners of capital in the tradable goods industries, especially the more marginal ones. In addition, of course, there are gainers and losers from higher interest rates. Inevitably losers seek protection, irrespective of gainers elsewhere.

This does not mean that one should expect more real appreciation relative to the yen and the D-Mark than has already taken place. It could be that the required real appreciation relative to the pre-Reagan period has already occurred, and possibly there has been some over-shooting.

If this is a correct assessment, there are three implications.

Firstly, we face the prospect of continued or even increased protectionist pressures in the United States.
Secondly, it needs to be widely understood that the decline in U.S. competitiveness is a by-product of expansionary fiscal policy - an inevitable one - and does not reflect any particular inadequacies of U.S. industries. Such inadequacies may well exist but they need not lead to a general loss of competitiveness, but only to a loss of competitiveness on the part of particular industries, offset - through the mechanism of exchange rate adjustment - by a gain in competitiveness of other industries. It would seem appropriate that those whose taxation and spending policies have generated the deficit go to some trouble to explain that an overall loss of U.S. competitiveness is necessary. In doing so they may be able to moderate some of the protectionist pressures.

Thirdly, if some increase in protection is a predictable by-product of real appreciation, while real appreciation, in turn, is a by-product of an increased fiscal deficit, then there is a reason to reduce the fiscal deficit additional to the usual reasons. It is usually argued that a large deficit would tend to crowd-out private investment, might lead to the incurring of undue interest commitments eventually payable by the U.S. taxpayer, and would have adverse effects on developing country debtors and new borrowers. To this is now added the resource misallocation cost resulting from extra protection.

If the increase in U.S. protection turned out to be significant it could not alter the average effect on U.S. import-competing and export industries of the fiscal deficit. It could only shelter particular industries or sectors at the expense of others. If an increase in particular imports is prevented by protection, other
imports will have to increase even more, and so other import-competing industries will be even more adversely affected and the decline in exports will have to be greater. The key point is that the higher is the level of protection for particular sectors the greater the real appreciation of the dollar will have to be to yield the required current account deficit. The cost of protection to the United States results from the distortions set up within the U.S. tradeables sector and in distorting relative tradeables prices facing U.S. purchasers. Foreign suppliers of protected products will certainly lose, but foreign suppliers of other products will actually gain, benefiting from an even higher real appreciation.

III

OECD PROTECTION AND THE DEVELOPING COUNTRIES

Protection and the Debt Problem

The effects of OECD protection on the developing countries are crucial. To start with, the relationship between OECD protection and the developing countries' debt will be discussed. It seems obvious that if the indebted developing countries are to meet their interest obligations and eventually to repay a least some of their debt they must be allowed to increase their exports. It also seems obvious that it is in the interests of the developed countries, and especially their financial system, that the debt issue is resolved without open or implicit default.
It might be argued that improvements in a current account can be brought about as much by reductions in imports as in increases in exports. Clearly the indebted developing countries may need to operate on both fronts. But if OECD countries were unwilling to accept substantial extra imports of manufactures from developing countries then the latter would be forced to bring about the necessary balance of payments improvements mainly by reducing their own imports from OECD countries. This would mean that the necessary improvements would be brought about at greater cost to the developing countries. They would be deprived of the potential benefits of further exploiting their comparative advantage in labor-intensive products.

More specifically, there tends to be some minimum requirement of imported components and raw materials for domestic manufacturing production (at least in the short-run), so that cutting imports beyond a point is likely to lead to increased unemployment. Furthermore, reduced imports would raise the cost-of-living, so tend to raise nominal wages to compensate, and hence lead to reduced employment in manufacturing industry owing to higher wage costs. It follows that the indebted countries will have to increase their exports – and to be allowed to do so by OECD countries – if they are to bring about the necessary balance of payments improvements at tolerable cost.

How important is this issue for the principal debtors? In the case of a number of products exported by them OECD protection must have reduced their income substantially. The Community’s Common Agricultural Policy has had an adverse effect on Argentinian agricultural exports. Some of the debtor countries are substantial exporters of textiles and clothing. The Republic of Korea is a debtor
country and obstacles have been placed by the United States on its exports of textiles, clothing and color television sets. In addition to these products, Community countries have restricted imports from Korea of steel products and (in the case of France at least) many other goods. Its footwear exports generally meet trade obstacles in the Community on a whole range of primary product exports. Japan has quotas on footwear imports. These are just examples.

Perhaps more important in the case of several of the countries are the actual and expected obstacles against products which would form the basis of a feasible export expansion programme. The potential for expanding exports of labor-intensive goods of various kinds would seem to be very large. I shall return to this point below.

The Effects of OECD Protection on the Developing Countries

Until a few years ago one could say clearly that OECD protection in the manufacturing sector grossly discriminated against developing countries, especially the more successful exporters among them. This is in spite of the Generalised System of Preferences which has had a modest effect compared with the various and complex restrictions imposed under the umbrella of the Multi-Fibre Arrangement (MFA).

It really seems outrageous that over a long period of time severe limits have been placed on imports of textiles and clothing from developing countries. It appears that these restrictions, if anything, have been strengthened since the renewal of the MFA in 1981. This arrangement provides a framework for bilateral agreements (utterly contrary to the most-favored-nation GATT principle) and is
the basis for numerous VERs. At the end of 1982 the United States had bilateral agreements with twenty two developing countries, mostly embracing all textiles and textile products (clothing) and the Community had twenty nine. The full implications of the 1981 MFA renewal are unclear (since much will depend on actual bilateral agreements reached under its umbrella) but it endorses continued quantitative restrictions arranged bilaterally, especially against the most successful suppliers. Furthermore, the complexities of the arrangements are likely to inhibit exporters, especially the less experienced ones.

Textiles and clothing are by no means the only products from developing countries that have suffered from restrictions, but it is here that the comparative advantage of developing countries seems particularly strong. The Common Agricultural Policy also has an adverse effect on many developing countries which are exporters of wheat, beef, rice and sugar. It is worth noting that some small developing countries are heavily dependent on their sugar exports. Of course those developing countries which are importers of products which the Europeans export at heavily subsidised prices are gainers. This would include particularly major grain importers. It cannot be said that the Common Agricultural Policy clearly discriminates against developing countries since it has a significant adverse effect on temperate zone exporters such as Australia, Canada and New Zealand (though Argentina is also in that group). In addition, because of restrictions imposed primarily on Japanese exports in recent years, one cannot say for sure that overall protection by the United States and the Community discriminates against developing countries. But it does discriminate against particular labor-intensive products, and, in
any case, in some fields at least, it puts a severe limit on export expansion by developing countries.

The importance of these protectionist policies directed against exports from developing countries can perhaps be overstated. After all, manufactured exports from developing countries to OECD countries have continued to increase, and rose steadily, even relative to world trade, over the whole post-war period. It is worth noting that in 1970 the share of developing country imports in the total (apparent) consumption of manufactured goods in industrial countries was 1.7 percent and by 1980 it had risen to 3.4 percent. In the United States it rose from 1.3 percent to 2.9 percent. So protection may have slowed up the growth of exports somewhat, but it did not halt it. Even exports of textiles and clothing have steadily increased.

Taking a broad view, the severest restrictions have clearly been applied in the field of clothing and textiles. Even here some suppliers have managed to cope with the restrictions by upgrading their products: when restrictions are on a quantitative basis it pays to export higher-value products. This, of course, is not necessarily an economically sound adjustment for a country that may have a comparative advantage in low-value, low-quality products. In addition many developing countries have widely diversified their exports, moving into areas where there have been rather fewer or looser restrictions: machinery and non-metallic mineral products (including china and glassware), and miscellaneous goods, such as sports equipment, toy and musical instruments. Furthermore, there have been extensive import controls imposed on products from the Far Eastern exporters, and nevertheless they have increased their shares of the
OECD market. Restrictions on footwear imports into most OECD countries have not been as tight as for clothing and textiles, although Japan has strict quotas, the Community has negotiated VERs with Korea and Taiwan and tariffs are still moderately high (averaging 13 per cent in the major developed countries).

On the other hand, the possibilities of export expansion are very great. There are widespread restrictions on imports of consumer electronics from developing countries, notably Korea, and yet these must be regarded as having a major potential for growth. Developing countries clearly have a comparative advantage in textile, clothing and footwear, and yet still have only a small part of the market of OECD countries. (In 1976 the developing countries had about 2 per cent of the total U.S. market for textiles and 10 per cent of the market for clothing, though, of course, they had a much larger share of imports. In 1980 the share in the market of a group of eleven industrial countries as a whole — including the main ones — was 5.4 per cent for textiles and just over 16 per cent both for clothing and for footwear.) Not only are there possibilities of further expansion from the major existing exporters, but there are many potential exporters around the world who could, after an initial infant-industry period, become suppliers of such goods to the industrial countries without subsidisation. But they are likely to be discouraged by the prospects of restrictions as soon as they manage to break into a market.
Protection by Developing Countries

Perhaps the worst aspect of the continuance of such protection and the revival of protectionist sentiments in the developed countries is that it may lead to a revival of export pessimism in developing countries, leading again to inward looking policies.

In the nineteen fifties export pessimism was fashionable, especially in India and Latin America, and, arguably, led to severely growth-inhibiting import-substitution policies. For a long time it was widely believed that there was little hope of breaking into the markets for manufactured goods of the developed countries so that, if developing countries were to build up their manufacturing industries, it would have to be done by replacing imports. On the basis of such beliefs some highly uneconomic industries were built up in many countries, for example India and Brazil. Partly as a result of the successes of the new industrial countries, as well as of academic and World Bank research and writing, there has been a gradual shift of opinion, leading to some modest tendencies to liberalisation in many developing countries and a realisation of the disadvantages of import-substitution policies. The experiences of Korea and Taiwan seemed to justify export optimism. In fact, in major countries the shift of policies has not been so great. But the danger is that this tendency will now be reversed.

There are really two separate issues here. One is whether protection in developed countries justifies protection by developing countries. It might be noted here that most developing countries have much more all-embracing systems of protection—and, on the average, at much higher rates—than OECD countries have. If the OECD rates of
protection were given, there would be no case for developing countries keeping their protection just because of OECD protection. This is a well-known proposition of trade theory: one country's protection does not justify another's. Protection by a trading partner lowers the real income both of the partner and at home, and protection at home would add to the income loss both at home and in the partner country.

The matter would be different if OECD protection consisted of fixing the quantity of (rather than rates of protection on) imports from developing countries. It would then pay the latter to restrict their exports so as to obtain the highest possible prices, given the fixed quantity they can export. An indirect form of export restriction is through quotas and tariffs on imports (with the exchange rate then adjusting to bring exports down to the reduced level of imports). But, of course, such an extreme situation does not really exist. Thus there is still a case for these countries in general reducing their trade restrictions.

The second issue is crucial. In practice, it has been difficult to persuade policy-makers and the general public in developing countries to liberalise their trading arrangements. The protectionist arguments used have been prevalent in developed countries as well, and are very similar. They are the types of arguments which have been analyzed by economists for over two hundred years and generally have been found wanting. If there is a revival of protectionist attitudes in developed countries, if it seems that OECD protection has greatly increased (though it may not actually have done so) and if it is possible to obtain ready-made arguments from intellectuals and policy-makers in developed countries in favour of protection, then it
is quite likely that the liberalisation trend in the developing world would be reversed. This would reinforce a tendency to such reversal in countries facing severe debt problems. Increased protection by developing countries themselves – or even a failure to continue liberalisation trends – may do them more harm than have the possibly modest increases in protection in Europe and the United States, but the latter may encourage the former.

IV

SOME ARGUMENTS FOR PROTECTION

It is worth looking briefly at some arguments for protection that are currently popular in the United States and Europe. The main argument from the point of view of politicians is presumably that protection may raise the incomes of particular groups in their countries or – more important – may avoid falls in incomes that might otherwise take place, and that these groups have political influence. But a variety of arguments are used to show that either fairness or the national interest justify such protection. With regard to the national interest, the implication is that there is some national gain – either that there will be no significant losers from protection but only gainers, or that over time losers could be compensated and a net gain would remain.
In fact no new arguments for protection have been developed in recent years. Indeed some of the currently popular arguments were advanced in the nineteenth century in the United States, notably the "pauper labor" argument. One of the more acceptable arguments in current conditions is for the imposition of temporary restrictions to modify a sudden import surge that might impose serious and unexpected injury on some domestic industry. This will be referred to later in connection with a possible safeguard code and GATT Article XIX. Here let us look briefly at the employment argument, the pauper labor argument, the fairness argument and the dumping argument. Subsequently, I shall consider the supposed "problem" of Japan.

The Employment Argument

Protection of an industry may contribute to preserving employment in that industry. At the same time there is evidence that the actual declines in employment in particular industries, such as textiles, clothing, automobiles and steel, that have taken place in the United States and Western Europe have not been primarily caused by increases in import shares. In the United States in particular declines in rates of change in overall demand for various industries' products as well as labor productivity growth have been quantitatively much larger in their impact on employment. Nevertheless, if import competition is significant and the volume of imports is large, commonsense suggests sufficient protection could offset the adverse employment effects of these other factors.
The weakness of the employment argument is that it is narrowly partial equilibrium, focusing only on particular industries. One should note the adverse effects, for example, of protection of steel on steel-using industries. Higher steel costs reduce effective protection (protection related to value added) for the automobile industry and will tend to reduce employment there, and this could more than offset the gains in employment in the steel industry. More important are the general equilibrium effects operating through effects on wage levels and the exchange rate. Here let us note the oft-neglected exchange rate aspect.

If protection of some industries is increased and yet the balance of payments is not to change then, given the average level of nominal wages as well as foreign costs, the exchange rate has to appreciate. And this will have an adverse effect on employment in those tradeable-goods industries where protection has not increased. To consider the case where the general level of protection for import-competing industries is reduced, such reduction would have to be associated with depreciation of the exchange rate and thus would have beneficial effects on employment in export industries. This is not to deny the possibility of transitional unemployment effects: the demand for labor in one set of industries may fall while that in others increases, but labor may not readily move, and in the short-run the former industries may shed labor before the latter absorb extra labor. But such a problem suggests simply the need for temporary measures to foster adjustment, not protection designed to prevent change.
In addition there may be some general real wage rigidity. If initially there is unemployment because real wages are too high, then, if protected industries are labor-intensive relative to non-protected industries, an increase in protection would raise overall employment. The gain in employment in the protected industries would more than offset the losses in the non-protected industries. But here it must be noted that United States exports, not import-competing industries, tend to be relatively labor-intensive (though there are measurement problems which require this to be stated with caution) so that, given the real wage rigidity assumption, a general rise in tariffs or imposition of quotas, as proposed for example in the famous Burke-Harke bill, would actually lower U.S. employment overall. In any case, the "real wage rigidity" model is too simple. If the nation as a whole gains from a particular measure (i.e. non-labor and labor incomes combined rise), there is scope through the tax system for maintaining after-tax real wages while lowering pre-tax real wages to the levels required for full employment.

The Pauper Labor Argument

The pauper labor argument is that protection should be imposed on goods originating from countries were wages are low. In fact, in many developing countries labor costs per unit of output are not relatively low, since the benefits of low wage costs are offset by low labour productivity. But let us suppose that labor costs per unit are low for particular products, presumably labor-intensive ones. This simply means that these countries have a comparative advantage in such products. There must be other products where costs are relatively high, for otherwise they would be only exporting, not importing. If
they were only exporting then, presumably, they would need to
depreciate their exchange rates, unless they were primarily interested
in importing bonds - i.e. lending money - rather than importing goods
and services.

Another version of this argument is that it is "immoral" to buy
goods produced by cheap or "sweated" labor. On the basis of such an
argument some labor unions have advocated restricting imports from
Hong Kong, for example. Yet if the demand by the United States for
Hong Kong products fell, Hong Kong producers would either have to
lower their prices - and hence in due course the wages they paid - in
order to unload more exports on other markets, or unemployment in Hong
Kong would increase.

Fairness Argument

To industrialists faced with competition from imports produced in
more favorable conditions than at home, such competition seems
"unfair". Thus one gets the view that conditions - i.e. wages and
other factors affecting the cost of labor - should be equalized around
the world. In the extreme this could be interpreted to mean that
protection should offset all comparative advantage differences, so
that all trade would cease. More plausibly it may be meant that the
flow of trade should depend purely on differences in managerial
efficiency and entrepreneurial skill, all other factors being offset
by protection. In any case, the appropriate analysis is the same as
in the case of the pauper labor argument.
But there is one complication. Suppose foreign governments subsidise certain industries or the exports of certain products. They may provide indirect assistance, as Britain does when it meets the losses of publicly owned industries, or the United States does through its defence spending or its space program. One country may pump funds into research and development, another into its educational system, a third into its agricultural sector, and a fourth into reviving its steel industry. Does this mean that it is in other countries’ interests to engage in countervailing protection?

If a country is concerned only with maximising its national income and neither with sectional interests nor with fairness, then such protection is not to its advantage. The various interventions by country A should be taken as given by country B when the latter formulates its optimal policy, at least unless it can induce country A to change its policies in more favorable directions. But some intervention policies by country A may actually be favorable for A’s trading partners, for example policies that lower the prices of A’s exports relative to its imports. In the case of unfavorable policies, such as tariffs that restrict the flow of trade, if B responds by imposing tariffs of its own, this increases the cost of protection. All this must be qualified for the case where the foreign interventions are expected to be temporary, in which case they can either be ignored or some temporary offsetting measure might be applied to avoid short-term dislocations.
Dumping

Dumping generally means that a country exports its products at prices lower than it sells them at home. Naturally, the competing industries abroad will seek to get the country to raise its export prices or will try to persuade their own governments to impose countervailing duties. Yet there is no logical argument for such reactions. It should not really be of interest to either the import-competing producers of a country or its purchasers of imports at what prices these goods are sold to purchasers in the foreign country. In general a nation benefits when its imports become cheaper relative to its exports, even though import-competing producers may lose. If there is a sudden fall in the price or a surge of imports, then there may be some argument for temporary protection, but this has little or nothing to do with whether the price charged to consumers in the supplying country is above or below the import price.

5

THE JAPAN PROBLEM

There is great concern in Europe and the United States about the growth of Japanese exports and, even more, there is fear—even paranoia—about their prospective growth. A good deal of the revival of protectionism has been directed against Japan, notably in the case of motor cars, steel and consumer electronics.
Partly this appears to be connected with trade and current account balances. Japan has a large and recently growing trade surplus with the United States. This is reduced but not eliminated when services are allowed for, i.e. when the focus is on the current rather than the trade account. But world trade is not meant to be balanced bilaterally, so clearly one must, at the minimum, look at Japan’s overall current account.

In the twelve years from 1970 to 1981, Japan ran current account deficits in four years, balance in one and surpluses in the other seven. The two big surplus periods were 1971-72 and 1977-78. There was a modest surplus in 1982. But the surpluses were low as proportions of Japanese GDP - the maximum was 2.5% in 1971, and in 1977 and 1978 they were only 1.6% and 1.7%. In general, changes in the Japanese overall current account have been closely correlated with bilateral current account movements with the United States, and the explanations can be largely found in the relationships between Japanese and the U.S. macroeconomic policies. Essentially there have been two explanations: divergences in overall macroeconomic demand levels or pressures (in 1977-78, the U.S. followed expansionary and Japan relatively contractionary policies), and divergences in the monetary-fiscal policy mix, as recently.

Apart from these cyclical movements there does appear to be some general tendency for the Japanese current account to be in surplus, a surplus that is substantially larger than required to maintain constant the real value of Japan’s foreign financial assets.
These current account surpluses are not necessarily matters for concern. The Japanese household sector has a very large savings ratio by world standards, and even though most of these savings are absorbed by Japanese private investment and by the big Japanese budget deficits, there is, on average, still something left over for the rest of the world, so that Japan as a nation tends to be a net buyer of financial assets in exchange for goods. This is not necessarily a bad thing. It tends to lower world interest rates. It is the obverse of the situation of most developing countries and of the prospective United States situation. In fact, if the United States is to become a large net borrower on the world capital market as the result of her budget deficit there will have to be net lenders - i.e. countries that run current account surpluses - and Japan must be the premier candidate for this role, a role in which she is practised and which, for some time, her cautious citizens saving massively for their old age are eager to fulfill. There are surely gains from international trade in financial assets against goods, as there are in goods-goods trade. There are, furthermore, plenty of similar examples from the history of countries that ran surpluses over long periods, notably Britain in the nineteenth century.

There seem to be two problems connected with Japan's impact on the world.

The first is that a large high-growth, high-productivity country, by the very fact of its importance and of the changes it generates in the rest of the world, provokes fears. These fears were provoked by the United States in the 1950s. For those who do not understand the law of comparative advantage there is the fear that this country is
getting better at everything - and presumably will end up only exporting and not importing. There is also the feeling that, just because the country happens to have the world's highest productivity growth rate now, this must go on forever - even though Japan's growth rate has actually slackened dramatically since 1974.

The second problem is the true problem. There are losers as well as gainers both from longer-term Japanese economic expansion (with a given current account balance), and from short periods (like 1971-72, 1977-78, and 1981) when there is a substantial Japanese current account surplus. In the former long-term growth case, the gainers are the consumers of Japan's export products, and the suppliers of food and raw materials; while in the latter short-term episodes, the gainers include those consumers, as well as borrowers who can draw indirectly on Japanese savings. But the focus, inevitably, is on the losers. They are the competitors with Japanese exports, above all. The problem is particularly acute when these exports expand suddenly.

In Japan, unlike other countries, a deflation of domestic demand leads very quickly to a significant increase in exports, so that variations in Japanese domestic macroeconomic policy manifest themselves in variations in exports. From 1975 to 1981 the volume of Japanese exports increased 71.5%, while import volume rose only 21.4%. Just to show how quickly exports can change, in 1976 export volume was 43% above 1973. It is no wonder that competitors in other countries were unhappy.

But it is not difficult to explain these developments. Japan suffered a sharp deterioration in her terms of trade owing to the two oil price shocks, and she compensated for this by pushing exports.
She had a big current account deficit in the first half of 1974, and already by the second half of 1974 managed to turn this into a surplus. Taking the whole period for 1975 to 1981, when export volume increased 71.5% and import volume rose only 21.4%, her terms of trade deteriorated 52%.

The reaction to these developments has been increased protectionism outside Japan. In particular, the two oil shocks have created major adjustment problems, some of which have manifested themselves indirectly through increased competition from Japan in certain products, as Japan has sought to avoid large current account deficits.

It has to be accepted that rapid expansion of Japanese export volume - however justified by the rise in her import prices - inevitably generates protectionist pressures in other countries. So it may be advisable in such situations for Japan to moderate rapid export expansion and accept temporarily larger current account deficits even though such restraint is in the interests neither of consumers in other countries nor of borrowers.

Finally, one might look rather carefully at the full implications of proposals that Japan open her own markets further to imports from the United States and Europe. First it must be stressed that this would have an adverse effect on third countries, such as Australia and many developing countries, if it led to discrimination in favor of the United States (and there are some signs that this is happening). Apart from that, reductions in Japanese protection would have favorable efficiency effects on the standard grounds that more of the benefits of comparative advantage differences would be reaped. But
the source of current complaints has been the surge in Japanese exports. If Japan accelerated her growth rate or opened up her markets more, her imports would increase and this would inevitably lead to more exports. There is no reason why the current account would disappear or even turn into a deficit, since this depends on the aggregate savings-investment balance, which is only very indirectly affected by changes in Japanese protection levels, if at all. The tendency would be for the yen to depreciate in real terms even more, thus improving Japanese competitiveness and, no doubt, generating increased pressures from U.S. and European industries for protection. It is doubtful that these pressures would be moderated by the knowledge that the Japanese have reduced their own protection. The industries in the United States that benefit from the extra sales to Japan need not be the same ones that would lose from a new Japanese export expansion.

VI
CHANGES IN RULES AND CHANGES IN ATTITUDES

Much of the current policy discussion on international trade issues is concerned with institutions and rules. Among the developed countries the post-war movement towards the freeing of trade was built around GATT, and GATT itself was built around the most-favored nation principle, i.e. the principle that tariffs and quantitative import restrictions should not discriminate among sources of supply. Only
agriculture and textiles were left out of this process. It seems that
GATT is being by-passed more and more, and a feature of the "new
protectionism" is that it is discriminatory, leading to bilateral
arrangements, and that it involves devices that are not subject to
GATT rules and procedures.

Various proposals for changes have been made. In general
Americans tend to favor extending and tightening up rules, ensuring
that "Codes" are obeyed, and so on, while the Europeans are inclined
towards more pragmatism which, at the moment, means letting every
country be as protectionist as it wants, subject only to some
limitations that can be rather easily by-passed. The GATT Ministerial
meeting of November 1982 came up against this conflict and no progress
was made, whether to slow up the existing movement towards more
protectionism, to tidy it up and make it more transparent, (the latter
needed especially with regard to VERs), to enforce and extend the new
Subsidies Code agreed upon at the Tokyo Round, or to extend
regulations to include trade in services (as the United States
wished).

The most urgent need seems to be to bring the various non-tariff
restrictions that now exist - the VERs, the quotas, and especially the
bilateral arrangements under the auspices of the MFA - within the
ambit of GATT rules. Some allowance must be made for the desire of
countries to impose at least temporary restrictions on particular
imports when there is a sudden inflow which is likely to impose
substantial damage on particular domestic industries (even though such
an import surge would benefit consumers or industries that use these
imports as inputs).
Article XIX of GATT is a famous article which provides for quotas on these grounds but sets certain conditions. Restrictions must be non-discriminatory, must be temporary, and must be justified to GATT. Countries imposing restrictions under that article must notify the affected parties in advance, must consult with them, are expected to compensate countries against which affected action is taken, and could be subject to retaliatory action in the form of the withdrawal of equivalent concessions by adversely affected exporters. Countries have by-passed Article XIX by inducing suppliers to accept VERs or what are called "orderly marketing arrangements," of which the MFA is the main case. Suppliers have agreed reluctantly because the alternatives would probably not be Article XIX restrictions but unilaterally imposed import quotas which would be even less satisfactory from the exporters' points of view.

Attempts at the Tokyo Round negotiations or later to negotiate a new "Safeguards Code," involving a revision of Article XIX to make it more acceptable and to bring much of the "new protectionism" within its ambit, have failed. The main obstacle was the determination of the European Community to preserve the principle of "selectivity" - i.e., discrimination among countries - something that is not acceptable to most developing countries, and probably also not to the United States. It is well-known that the United States was the original protagonist of the principle of non-discrimination, having viewed the British preferential system of the pre-war years with great disfavor. But perhaps there is a deeper reason why no agreement has been reached to bring the various existing unilateral or bilateral safeguard arrangements within GATT rules. The major nations simply see no reason to subject their policies to international scrutiny.
Two additional difficulties in getting an improvement in the situation in the near future can be expected. Firstly, the recovery from the recession is likely to be modest, with much overall unemployment remaining, especially in Europe. In particular, the automobile and steel industries are unlikely to be able to restore earlier profitability and employment levels owing to earlier excess investments, undue high real wage levels, and various structural factors. Secondly, it will be difficult to work out "bargaining down" arrangements (i.e., new versions of the earlier tariff reduction negotiations) in the case of non-tariff barriers, notably VERS, essentially because of their non-transparency and the measurement problems they present.

In spite of the difficulties, it could be argued that the central problem is one of attitudes. If attitudes become less protectionist, then agreements would be readily reached and it would be found easy to strengthen GATT. If they harden — if protection becomes the new conventional wisdom — then surely in time the attitudes will be reflected not just in a maintenance of the "new protectionism" but in increased actual protection and thus in a substantial movement away from the open trading system. The greatest concern must be about protection that is designed to prevent adjustment in OECD countries to export expansion by developing countries.

Essentially, protection as currently practised in developed countries involves protecting one sector of an economy at the expense of others, with the nation as a whole losing, at least in the long-term. The gains from protection are usually very visible, perhaps concentrated on one industry, while the losses are more
indirect and thinly spread. The understandable argument for protection is that it helps a particular sector, this being a sufficient argument for the relevant lobby. But, as noted above, it is often argued incorrectly and yet persuasively that there are national gains - in particular that, in the absence of protection, employment lost at one end of the economy as a result of an inflow of imports will not be compensated by employment gains elsewhere. As a result, it is usually thought by non-economists that protection yields national gains at the expense of foreign suppliers, this providing the basis for trade negotiations. The central message that economists regularly preach, but fail to convey, is that protection is likely to inflict a loss on the protecting nation itself. Yet it is a message that - if understood - should carry a lot of weight.

The question thus arises why attitudes have become more protectionist and how a shift in attitudes back to a belief in the gains from trade can be fostered. While this issue seems to arise particularly in the European Community, none of the developed countries seem immune from the revival of protectionist sentiment. It is certainly not difficult to find protectionists in the United States Congress or in the U.S. labor movement. If a shift back to a belief in the advantages of relatively free trade does not occur it is at least possible that the fairly open world trading system in manufactures that we have had until the early seventies will be gradually eroded with long-term adverse effects for the world economy, and especially for the growth of many developing countries.
APPENDIX

There is a comprehensive account of recent trade policies in S.J. Anjaria et al., *Developments in International Trade Policy* (International Monetary Fund Occasional Paper No.16, 1982). This is the best available factual source. A compact survey of all the issues and of recent developments is in Protectionism: Threat to International Order, *The Impact on Developing Countries*, a report by a Group of Experts headed by Sir Alec Cairncross (the Commonwealth Secretariat, London 1982). All the issues are extensively reviewed in C. Fred Bergsten and William R. Cline, *Trade Policy in the 1980s* (Institute for International Economics, Washington, 1982), this being a summary of a conference volume with the same title published by the Institute in 1983.


On particular issues, the following papers are useful. UNCTAD, Protectionism and Structural Adjustment in the World Economy (United Nations TD/B/888/Rev.1, 1982), William R. Cline, "Reciprocity": A New Approach to World Trade Policy? (Institute for International

FOOTNOTES

1. This paper draws on information from a wide range of sources listed in the Appendix. I have also benefited from detailed comments on an earlier draft from Professors Peter Kenen and Richard Smaje, and from reactions from many members of the Group of Thirty at its Plenary Session in Washington in September 1983.


5. There is an excellent exposition of these issues, which makes many of the key points stressed in the present paper, in the *Annual Report of the Council of Economic Advisers* (U.S. Government Printing Office, Washington 1983), Chapter 3.


7. One argument not discussed here is the infant industry argument. This is used currently by advocates of protection for "high technology" or "sunset" industries. This argument has slightly more to be said for it than some of the other arguments discussed here but is not as widely applicable as often believed. It is analysed in the author's *Trade Policy and Economic Welfare* (Oxford University Press 1974), Chapter 9.

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