Chapter 26
International Trade Policy: Departure From Free Trade[1]

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In a world with no international boundaries and no sovereign governments, all trade would be domestic and there could be no international trade policy. Governments and national sovereignty introduce *international* trade, but the gains from free trade (Kemp 1962; Samuelson 1962) remain unaffected. Yet governments have often chosen to depart from free trade. Economic research has taken two approaches to the departures from free trade. A conventional view in the literature of international economics has been normative in developing a research agenda that shows how departure from free trade can enhance efficiency and maximize social welfare. A political-economy view synonymous with public (or rational) choice has approached departure from free trade from a positive perspective (explaining and predicting rather than recommending), and has shown why trade policy might *compromise* the efficiency of free trade for political and income-distribution reasons. The conventional normative views have origins in classical nineteenth century justifications put forward as exceptions to the case for the efficiency of free trade.

The Terms of Trade

A classical nineteenth century argument recognized that departure from free trade may increase the welfare of a population by improving the terms of trade. Gain through the terms of trade requires a population to collectively have monopsony power in the world market for imported goods. The usual outcome of a tariff (income effects can result in unusual outcomes) is an increased domestic (relative) price of imports and reduced domestic demand, and the terms of trade improve if the reduced domestic demand decreases world demand so that the relative price of

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imported goods falls in world markets. Cheaper imports are a source of social benefit. There are accompanying losses because of declines in the amount of trade and domestic inefficiency because of the tariff. An *optimum tariff* balances these losses against the gains from improvement in the terms of trade.

Since the gain to a population through an optimum tariff is at the expense of the people in other countries whose terms of trade have deteriorated, the optimum tariff is known as a beggar-thy-neighbor policy. World efficiency is also compromised for the benefit of a local population. Populations in countries that do not seek gain at the expense of others will not wish to have their governments impose optimum tariffs. There may in any event be no prospect of gain through an optimum tariff, since there may be no goods for which a country's population has a sufficiently large share of world consumption for a collective monopsony power to be present. Whenever populations face given market-determined world prices, there is no collective monopsony power and the optimum tariff is zero.

There are problems other than willingness to take advantage and feasibility in seeking gains through optimum tariffs. Where feasible, optimum tariffs may result in foreign retaliatory tariffs that reverse the beneficial terms of trade changes while further reducing the volume of trade (although terms of trade gains from an optimum tariff may be sustainable despite retaliation (Johnson 1953–54)). Benefits to a population also require that revenue from the tariff be used to finance increased public spending or to reduce other taxes. For example, the government of a country whose population has a collective monopsony power might decide to use a tariff on coffee to reduce the world price of coffee and so improve the country's terms of trade as an importer of coffee. Domestic consumers of coffee lose when the domestic price of coffee increases. The offsetting gain to consumers is through the tariff revenue that the government has collected. There is however considerable evidence of wasteful government spending (Tanzi and Schuknecht 2000). A government that does not spend the revenue in a socially beneficial way, or does not reduce other taxes, fails to deliver the offsetting gain. The legacy of the tariff for domestic consumers is the higher domestic price of coffee. The country's tariff will have provided benefits to coffee consumers in other countries through the reduced world price of coffee.

Market power in world markets has generally been exercised through monopoly (e.g., the OPEC oil cartel) rather than through monopsony. Documented cases of optimum tariffs improving the terms of trade are uncommon in empirical literature. Also uncommon is the documentation of governments declaring that the purpose of a tariff is to mobilize monopsony power of the domestic population to improve the terms of trade.

Infant Industries

The optimum tariff is one of two classical cases for departure from free trade. The second classical argument justifies temporary protection to allow a new or infant domestic industry to establish itself (Kemp 1960). The theme of the infant industry argument has also reappeared in a literature that rediscovered learning externalities to explain why diminishing returns do not constrain growth. More direct domestic policies can correct for the market imperfections that underlie the infant-industry argument (Baldwin 1969). The infant industry argument is therefore a '*second-best*' case for public policy when the 'first-best' corrective policies are unavailable. Uncompensated private learning externalities, which are often proposed as underlying a case for infant industry protection, call for compensating subsidies as the 'first-best' response. Unless the infant industry is a monopoly, protection does not compensate a domestic producer for beneficial externalities provided to other domestic competitors. There are, in addition, moral hazard problems associated with the protection of infant industries. Since the reward for doing well is the end of protection, it may be preferable for a producer with infant status never to perform too well, and so to remain a protected infant. Since there are many potential infant industries, a government has to also decide which industry to protect, and has to avoid political favors.

Distortions or the Theory of the Second Best

In the second-best situation there are uncorrectable domestic market inefficiencies (or "distortions"). The unresolved domestic inefficiencies can be due to externalities as in the case of the infant industry, or can be due to domestic monopoly, public goods, or restrictions on prices in markets such as minimum wages. The theory of the second best proposes that, if *all* domestic market imperfections cannot be corrected, departures from free trade may be efficient and increase social welfare. Minimum wages provide one example. In the minimum-wage case, a country's international comparative advantage is in labor-intensive production. The direction of international trade has however been distorted by the minimum wage, which has artificially increased the domestic cost of labor. The 'first-best' policy is to eliminate the minimum wage. However, with the minimum wage present, the realized direction of international trade may be contrary to true comparative advantage, since domestic labor looks scarce or expensive because of the minimum wage but is actually relatively abundant and cheap. The 'second-best' theory in that case proposes elimination of the "incorrect" international trade.

Another example of a second-best case for departure from free trade is based on the presence of environmental externalities. Computation of the true cost of production of a good when environmental costs are included can switch a country's comparative advantage. The first-best response is to correct the environmental externality domestically at its source. If, however, correction of the externality cannot take place at the domestic source, the "second-best" trade policy may no longer be free trade. The efficient second-best policy depends on whether the domestic industry that is the source of environmental damage is an exporter or confronts import competition. If the industry exports its output, an export tax decreases domestic production and thereby reduces domestic environmental damage. If a polluting industry confronts import competition, government subsidy to imports is the appropriate second-best policy, since, by making competing imports cheaper, the government reduces domestic output of the local industry. There is a compendium of cases where the theory of the second best shows how efficiency gains can be achieved through departures from free trade (Bhagwati 1971).

Strategic Trade Policy

Strategic trade policy is a second-best proposal for government intervention where the second-best enters because of imperfect competition in international markets. When international markets are not competitive, rents (or excess profits) may be present. Strategic trade policy devises means of capturing the rents for a country's own nationals rather than leaving the rents with foreigners. Strategic trade policy arose as an adjunct to a body of literature that called itself the "new" international trade theory. The new theory differed from the old in recognizing that international markets might not be competitive and in emphasizing the potential importance of economies of scale. Many variants of strategic trade policy have been proposed (Brander 1995). In the basic Cournot duopoly model, for example, a domestic firm was described as confronting a foreign firm in a third market. A subsidy by the government to its domestic firm allowed the firm to credibly expand output beyond the Cournot equilibrium output, and profits or rents of the domestic firm then increased at the expense of the foreign firm. The same type of rent transfer to a domestic firm could take place through an import duty if a foreign firm were selling in the home market.

Proposals for strategic trade policy are related to the two classical cases for departure from free trade. Like the optimum tariff, strategic trade policy is based on gains in non-competitive markets at the expense of foreigners, while, in third markets, problems of retaliation arise, since a foreign government can neutralize gains from a strategic trade policy by subsidizing its own national firm. Since resources and personnel attracted to an industry favored by strategic trade policy are unavailable for other industries, policies that favor one domestic firm or industry are at the expense of other domestic firms or industries (Dixit and Grossman 1986). As with the infant-industry case, a belief in the effectiveness of strategic trade policy requires an accompanying belief that political decision makers can maximize social welfare by knowing "how to pick winners and losers" from among the domestic firms that are eligible under the theory for government assistance. All domestic firms facing foreign competition in imperfect markets are in principle eligible for assistance through strategic trade policy.

Strategic trade policy envisages policies as chosen to maximize social welfare (defined as profits of the domestic firm plus welfare of domestic consumers when intervention is in domestic and not in third markets). Nonetheless strategic trade policy benefits the firms whose profits increase (unless all profit increases can be discriminately taxed). Given the broad scope of eligibility, beneficiaries of strategic trade policy can be selected to reward political support, such as campaign contributions, which is a different problem from that of a government having inadequate information to pick winners and losers.

Global capital markets allow individual shareholders to diversify risk by owning stock in both "domestic" and "foreign" firms. A diversified shareholder has no need for strategic trade policy. Indeed, calls for strategic trade policy introduce extraneous uncertainty into asset diversification decisions, since, in deciding on an asset portfolio, investors need to guess whether the government will heed a proposal of intervention on behalf of a firm (Feeney and Hillman 2001).

Characteristics of strategic trade policy are present in government policies toward agriculture (Bagwell and Staiger 2001). Studies have also pointed to the world duopoly of aircraft frames and have considered possibilities in semiconductors and automobiles. With the exception perhaps of agricultural subsidies, cases of policy makers following recommendations of strategic trade policy are uncommon.

Revenue Motives

Government revenue can be a motive for taxes on international trade. Taxation of internationally traded goods has the administrative advantage of goods passing through a limited number of geographic locations where revenue can be collected. Because of the ease of collection, taxes on international trade (or taxes for right of passage) were often the first taxes historically levied. Taxes on international trade have remained significant government revenue sources where domestic taxes cannot be levied because of ineffective tax administration. Where possible, domestic taxes, however, provide broader tax bases than taxes on international trade. A domestic sales tax has in particular a broader base for taxation than an import tariff, which only taxes imported goods.

Taxes on imports are often too high to maximize revenue: with sufficiently high import duties, there is of course no tax revenue at all, since there are no imports. If a country's population has the collective monopsony power necessary for an optimum tariff, the revenue-maximizing tariff exceeds the optimum tariff. By maximizing revenue from the tariff, a government would be shifting the real income abroad.

More significantly, a revenue motive is at odds with restrictions on international trade through import quotas that are freely assigned to private importers. Governments seeking revenue would auction the quotas, but auctions have been rare. In another type of import quota known as a voluntary export restraint, governments have forgone revenue by assigning rights to foreign firms to sell in domestic markets. Historical cases and contemporary instances where poorer countries lack effective tax administrations aside, revenue needs do not explain departure from free trade.

Protection and Political Economy

The normative descriptions of the beneficial consequences of departure from free trade have in common the point of departure that markets have failed to provide efficient outcomes. The 'second-best' policies specify uncorrectable market inefficiencies. Strategic trade policy is based on rents in inefficient non-competitive markets. In the classical precursors, the optimum tariff argument required non-competitive markets that allowed realization of monopsony power; and the infant-industry argument was based on markets that were inefficient because of non-internalized beneficial externalities. A political economy or public choice view in contrast accepts that markets and therefore free trade policies are proximately efficient, and looks for political incentives for policy makers to choose departures from free trade. Economic theory shows how some groups benefit from the inefficiency of a departure from free trade. Protectionist policies can benefit broad factor classes. More particularly, beneficiaries tend to be identified with incomes from non-diversified industry-specific sources (Jones, 1971). Rather than second-best *corrections* for inefficiency, the public choice or political economy view has approached departure from free trade as *creating* inefficiency, for political gain related to incomes in import-competing industries.

Feasible policies depend on (that is, are endogenous to) institutions and laws. Policy outcomes also depend on abilities of interest groups to organize and mobilize resources for collective political action (Olson 1965). Organized interest groups are generally better able to influence policy decisions than the broad population. The per capita stakes of special interests are also higher: special interests are seeking to increase their incomes, while the losses of consumers from protection of any one industry are small, because spending on the products of the industry in general comprises only a small part of an individual's or household's total spending. A public choice view predicts that, under these conditions, political-economy considerations can result in socially undesirable protectionist policies. Incumbent governments or politicians may seek maximal political support by trading off the political benefits from providing increased income to organized industry interests against the political cost of dissatisfaction of disorganized voters with departures from free trade (Hillman 1982). The incumbent policy maker may confront many organized interest groups and may be able to design a combination of policies to maximize the payments received from selling protection to the different organized interests (Grossman and Helpman 1994). Rather than decided by incumbents, policies may be determined through proposals made by candidates competing for political office (Hillman and Ursprung 1988; Magee et al. 1989). Political-support considerations have also been linked to the sudden collapse of domestic industries that have lost comparative advantage (Cassing and Hillman 1986), and to the choice of the means of protection (Cassing and Hillman 1985; Hillman and Ursprung 1988). Empirical studies have confirmed that departures from free trade are in general not the consequence of second-best intent to improve efficiency or maximize social welfare, but reflect protection related to political support and domestic income distribution (Baldwin 1984; Hillman 1989, Chap. 11; Rodrik 1995).

Contingent Protection

Contingent protection differs from protection in place. A level of protection defines protection in place. Contingent protection is defined through legal rules that specify conditions under which protection can be provided. Anti-dumping duties are a form of contingent protection. Producers can successfully undertake legal proceedings to request anti-dumping duties, if foreign firms can be shown to be causing injury through unfair competitive practices. Evidence of unfair practices (or unfair trade) may be domestic sales by foreign producers at less than cost, or sales in the domestic market at prices less than in the foreign producers' home markets. A claim of dumping is similar to a claim of predatory pricing (where firms are claimed to be selling at below cost with the intent of eliminating rivals from a market). Anti-dumping and predatory-pricing laws are complex, and are open to ambiguities in interpretation, since costs may be difficult to define and competitors reduce prices in the normal course of competition. While proven cases of predatory pricing are uncommon, claims of injury through the trade-related counterpart of dumping tend to be more often accepted by courts.

A second form of contingent protection consists of import duties that neutralize (or countervail) subsidies that foreign producers are shown to be receiving from their governments. Or the subsidies may be implicit within ownership of foreign competitors by foreign governments.

Contingent protection can also be provided without the requirement of demonstrating unfair foreign competition through escape clauses or safeguard provisions. The escape is from prior trade liberalization commitments, to safeguard an industry that is being injured by import competition. The relief from import competition is intended to be temporary (as in the infant industry case), to give a domestic industry time to adjust to competition from imports.

Contingent protection is encoded in the rules of the World Trade Organization (WTO) and the pre-1995 predecessor General Agreement on Tariffs and Trade (GATT) (Jackson 1997). Trade liberalization agreements are negotiated under conditions of uncertainty about comparative advantages in the future. Contingent protection facilitates ex-ante trade liberalization agreements under conditions of uncertainty, since governments know that liberalization can be reversed in cases where ex-post contingencies call for protection (Ethier 2002).

The legalistic language of contingent protection differs from concepts of economic theory. The unfair competition and injury defined in laws on contingent protection contradict the perspective of economic theory that competition is socially beneficial. The harm or injury defined in contingent-protection laws is incurred by producers, who benefit from less rather than form more competition. The benefit from competition in economic theory is to consumers or society at large. Contingent-protection laws therefore reflect political sensitivity to producer interests and unemployment in import-competing industries.

It is irrational for foreign producers to pay anti-dumping duties if the duties can be avoided by charging higher prices. The initiation (or threat thereof) of anti-dumping procedures is therefore often sufficient to lead foreign producers to increase prices (Prusa 1992; Schuknecht 1992). Anti-dumping laws can thereby sustain non-competitive pricing in domestic markets by disciplining foreign producers to cooperate in accepting the price leadership role of domestic producers in domestic markets (Hillman 1990).

Escape clauses or safeguard provisions introduce moral hazards into incentives of producers to claim injury. There can be asymmetric information: producers may know, but the government and the courts may not know, whether producers' injury is due to imports, or is due to reasons such as a decline in domestic demand or inept management of domestic firms. The asymmetric information allows spurious claims of injury to be made in order to obtain the benefits of protection (Leidy and Hoekman 1991).

A mechanism of contingent protection that is not part of formal national trade law or GATT/WTO procedures takes the form of voluntary restraints on exports negotiated between governments of importing and exporting countries. The restraints set limits on total allowable foreign sales in the domestic market. To ensure adherence to the limit on imports, foreign exporters are assigned domestic market quotas. As with anti-dumping duties, pre-conditions are established for non-competitive practices. Domestic producers can set domestic prices or quantities to be sold with foreknowledge of supply by the foreign cartel that has been created by the inter-governmental agreement (Hillman 1990). The price to domestic consumers increases and domestic and foreign producers earn higher profits in the domestic market. The higher profits of domestic firms reflect the successful protectionist objective. The higher profits of foreign firms are compensation for the protection that has been provided to domestic producers (Hillman and Ursprung 1988; Hillman 1990; Ethier 1991, 2002). There are similarities and also links (Rosendorff 1996; Ethier 2002) between voluntary export restraints and anti-dumping duties. In both cases, trade policies allow non-competitive behavior that increases domestic and foreign producer profits.

Protectionism as Insurance

Contingent protection suggests insurance. Through the rules of contingent protection, import-competing producers are provided with insurance against cheaper imports. Since contingent protection is usually discriminatory, it also provides insurance to third-countries whose exports are not constrained (Ethier 1991, 2002). Protectionism has been interpreted as insurance against trade-related income losses provided by government maximizing social welfare (Eaton and Grossman 1985). Protectionism as social insurance (insurance provided by government) is another normative second-best case for departure from free trade. Social insurance is a second-best policy, because private insurance markets do not provide the income protection that people seek. Protection as social insurance has also been proposed as a positive theory to explain observed conservative income-maintaining policies in industries confronting import competition (Corden 1974).

There is a problem with a second-best normative interpretation of protection as social insurance. Asymmetric information that prevents private insurance markets from efficiently providing insurance also prevents government from replicating missing insurance markets (Dixit 1992).

A public choice perspective also notes that political motives for providing protection can look like replication of missing or incomplete insurance markets. In an expanding industry there are ambiguities in distinguishing politically provided benefits from incomes earned through personal merit and effort. The same ambiguities about sources of benefit are not present when protection increases incomes in an industry in decline because of lost comparative advantage. It is therefore politically advantageous to assist declining industries, because the benefits from political favors are clear to the beneficiaries (Hillman 1982). Characteristics of insurance are present when protection provides benefits to industries in decline. If protection is insurance, the insurance coverage is however selective and incomplete. Only import-competing industries are eligible, and import-competing industries do not benefit equally from the insurance provided by government. Industry collapse can take place in the face of cheaper imports (Cassing and Hillman 1986). The selective insurance reflects different political benefits from ex-post protection. In cases of contingent protection in particular, where an insurance motive is explicitly indicated, ambiguities about the existence and source of injury have allowed decisions about whether to provide protection to become politicized (Finger et al. 1982; Schuknecht 1992).

Domestic Political Objectives and the Terms of Trade

Domestic political objectives have been linked to effects through the terms of trade (Bagwell and Staiger 1999). The domestic efficiency costs of protectionist policies are reduced or are not incurred at all, if the efficiency costs can be shifted to people abroad through improvements in the terms of the trade. In contrast to the optimum tariff argument, the objective of government in this scenario is not necessarily gain to society through improved terms of trade, but to provide protection. Whether governments can provide politically motivated protection while felicitously increasing social welfare is an empirical question. Feasibility depends on terms of trade gains to offset domestic efficiency losses.

Whether efficiency costs of protection can be moved to foreigners at all is also an empirical question. The answer depends on the ability to influence the terms of trade, and, if the terms of trade can be influenced, on the absence of retaliation and the realization of social benefits through government revenue. If social welfare increases because of the changes in the terms of trade even though there is a political interest in providing protection, there is a normative case for departure from free trade. In this case, pursuing a political objective of protection can be socially beneficial.

Rent Seeking

A rent is income that can be increased or taken away without changing behavior. Rents are therefore earned by industry-specific factors of production that have no substitution possibilities in production, and the activity of seeking policies that increase incomes or prevent income declines in import-competing industries is therefore a form of rent seeking (Tullock 1967). Protectionist policies also provide rents for importers who obtain quota rights (Krueger 1974). Anti-dumping laws and voluntary export restraints negotiated between governments provide rents for both domestic producers and for foreign sellers. Rents and rent seeking are therefore parts of a political-economy view of international trade policy. The social losses due to trade-related rent seeking depend on how resources used in rent seeking influence political decisions, and on whether the rents that are sought are income transfers from others through protection or are in place through import (or export) quotas (Hillman and Riley 1989). The efficiency losses from willingness to depart from free trade consist of the resources attracted to rent seeking, and are an addition to the losses from protection due to substitution effects in production and consumption. Although not incorporated in the conventional normative analyses, incentives for rent seeking are also part of strategic trade policy. A government considering to follow the recommendations of strategic trade policy would face rent-seeking activity from the diverse potential beneficiaries of government assistance.

Voting

When trade policy is decided by majority voting as an election issue, there is no assurance that free trade will be chosen. A self-interested median voter will want free trade only if his or her personal assets and income sources correspond to the average asset composition and income sources for the economy at large (Mayer 1984). Trade policy can be the dominant issue in an election (Irwin 1994). In general, however, unless voters happen to live in Switzerland (Weck-Hannemann 1990), thry do not have opportunities to vote on trade policy directly. Political representatives are then in a position to decide on trade policy.

Why is Trade Policy Used to Redistribute Income?

There remains the question why political decision makers should wish to use protectionist trade policy to redistribute income. A country whose population has collective monopsony power in world markets has reason to use a tariff to achieve a domestic income distribution objective because of the benefits from the terms of trade improvements that offset, *in whole or in part*, the domestic inefficiencies of tariffs. Part of the cost of protection can thereby be transferred to foreigners. Yet, if there are gains from an optimum tariff and a government has no qualms about imposing costs on foreigners for the benefit of the local population, we might expect the government to seek to impose the optimum tariff in any event without regard for the domestic income distribution objective. Also, optimum tariffs do not seem all that relevant for many goods and many governments.

If world prices are more or less independent of domestic demand, protectionist policies create domestic inefficiencies without offsetting the changes in the terms of trade. The domestic inefficiencies could be avoided if non-distorting lump-sum taxes and subsidies were available to redistribute income. Since non-distorting means of redistributing income are in practice not feasible, policy makers have no choice but to use some form of inefficiency-creating mechanism to redistribute income. Still, this does not answer the question why trade policy should be used to redistribute income, since there are in general income transfer mechanisms that incur smaller efficiency losses (Mayer and Riezman 1990). Governments should be expected to use these more efficient means of income transfer, since, by consensus, everybody in the population would wish the inefficiency associated with redistribution to be minimized.

The consensus in favor of efficiency has been the basis for a prediction that *in practice* political redistribution *is always undertaken* in the most efficient way (Wittman 1995). If that were so, departures from free trade should be observed as a means of income distribution only when more efficient means of redistribution are unavailable. All observed trade restrictions could then be interpreted ex-post as having been the most efficient ex-ante means of achieving the policy makers' objectives of income redistribution.

Choice of the efficient means of income redistribution is however compromised by political benefits from information asymmetries. Information about government policy has political consequences. Political decision makers gain by not publicizing to voters at large policies that benefit special interests. Surreptitious or hidden income transfers are politically more advantageous. Departures from free trade are an obtuse means of transferring income. Voters may not be aware that a tariff that taxes foreign goods is at the same time a subsidy to domestic import-competing producers. The rhetoric of unfair foreign competition or protecting domestic jobs against foreign competition may be used. Voluntary export restraints are a particularly obtuse means of income redistribution through trade restrictions. The government sets limits on permissible quantities of imports and directs foreign exporters to set market shares. Foreign exporters thereby establish a cartel for supply to the domestic market. The restricted domestic supply increases the domestic price, which provides the protectionist income transfer to import-competing domestic producers. The benefits to domestic producers from protection have been achieved through voluntary compliance with foreign competitors.

If the information is not personally useful, voters have reason to be "rationally ignorant" of trade policy issues. Voters are however not equally ignorant of all income transfer mechanisms. A direct income transfer that is "hidden" in a one line item of a government's budget can be found if someone is looking for it. The transfer of income via a tariff from consumers to protected producers is indirect and less obvious. Tariffs have the politically expedient characteristic that domestic buyers directly make income transfers to domestic producers through the increased domestic price facilitated by the tariff. The income transfer achieved through protectionism does not require intermediation of government through taxation and budgetary allocations. The indirect nature of redistribution by trade policy therefore explains why international trade restrictions are used as means of income redistribution when more efficient but more obvious means of income transfer are available (Magee et al. 1989). Protection then makes clear to the beneficiaries that the government has provided them with benefits, when voters at large have reason to be "rationally ignorant" of trade policy issues.

Agriculture

Agriculture has been a special case for government intervention. Rarely have governments left agriculture to the intervention-free determination of markets (Anderson and Josling 1993). Agriculture is often taxed in poorer countries, where agriculture is a large part of national income and agricultural goods are exported. An export tax is sometimes directly levied or government enforces a position for itself as monopsonistic domestic buyer and pays farmers a low price and sells in the world market at a higher price. To obtain revenue from an export tax or domestic monopsony, the government needs to be effective in preventing smuggling, which creates a need for resources for policing of borders. The benefits from goods escaping export tax or the monopsony price and reaching the market outside the country introduce gains from corruption through the participation of border officials in smuggling activities. If the corruption reaches the government, smuggling can be extensive and little official government revenue may be provided.

The taxes on agriculture in poorer countries reflect the search for extensive and available tax bases, and also, since agricultural sectors are large in poorer countries, the taxes on agriculture also reflect the principle that larger groups face higher costs of collective action. Since many of these countries are dictatorships or quasi-dictatorships, the taxes also reflect the fact that those with power exploit the powerless.

The principle of organizational advantage applied to the effectiveness of organization of small groups underlies government assistance to agriculture in richer countries, where agriculture has been extensively subsidized or protected. The policies that support agriculture in richer countries are also sometimes explained as justified by an objective of sustaining traditional rural life and avoiding depopulation of the countryside. The beneficiaries of agricultural subsidies are however often large firms rather than smaller family farms.

Trade conflicts involving agriculture have often been framed in terms of motives other than protection. For example, European restrictions on imports of U.S. beef have been framed in terms of the purported health hazard from hormones given to U.S. cattle. Protectionism has reflected former colonial ties in discrimination by the European Union in favor of imports of bananas from former European colonies, to the disadvantage of bananas grown (often on U.S.-owned plantations) in Central America.

National Security

Protection of agriculture is often justified on grounds of national security. Consequences of vulnerability to foreign suppliers were demonstrated when the international oil cartel OPEC imposed export embargos. There have also been cases where countries under threat from foreign aggressors found that defense equipment, which had been ordered and paid for, were withheld by foreign suppliers. In other cases, when foreign-purchased defense equipment has been required for self-defense, foreign governments have withheld spare parts. Trade embargos provide a normative case for self-reliance because of national security concerns (Mayer 1977; Arad and Hillman 1979). Countries also impose restrictions on exports because of national security concerns.

Views of Government

With national security and some other limited cases as exceptions (for example, trade in heroin), there is a compelling case for free trade independent of international boundaries. Departures from free trade have however often taken place. The political economy premises of the public choice approach point to political motives and income distribution as underlying the departures from free trade and to inefficiencies incurred, including through rent seeking. Theories set out in the conventional normative view have, in contrast, described how governments can act in the public interest by correcting inefficiencies when departing from free trade.

Since the political economy premises of public choice offer positive conclusions and the conventional theories offer normative recommendations, the two approaches have been complementary. Open lines of communication between the approaches, however, require that a clear distinction between normative and positive analysis be maintained. The distinction is lost and lines of communication are not present when a normative belief that government *should* act in the public interest becomes a prediction that government *will* always act in the public interest, because government *should* be benevolent. The censorship that is then implicitly imposed limits politically correct economic analysis to normative theory where government can do no wrong (Hillman 1998). Since non-virtuous government is by hypothesis excluded from economic analysis, the consequent theories *can only* be normative. Addressing *why* governments have chosen to depart from free trade may require introducing non-virtuous government into economic analysis. A public choice perspective would advise caution in pursuing a research agenda that provides a repertoire of normative arguments consistent with departure from free trade by a virtuous government. When policy makers are politically motivated, the normative proposals can be misused to justify politically expedient policy decisions.

In the mid-1990s, the political economy premises of public choice began to be widely adopted in descriptions of departure from free trade (Grossman and Helpman 2002). With the exception of agriculture and national security, and limited incidents of contingent protection, governments were at the same time, after extensive liberalization, no longer significantly departing from free trade (*see trade liberalization and globalization*).

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