

Special Interests and International Trade

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Starting Questions

Prices depends only by markets?

What about externalities and how they can be mitigated?

Who makes the rules?

Who exert influence on the rulers?

Business Associations

Business Associations
operates in two ways:

market-supporting
or
market-complementing

(Doner R.& Schneider B., 2000)

Business Associations

The ***market-supporting*** activities push underperforming States to provide the *public goods* only States can provide: *property rights, uncorrupted administration and infrastructure*

The ***market-complimenting*** activities have a wider variety: they start from overcoming *market failures* of various sorts (i.e. low investment in training), to the request of specific rules (i.e. production standards), to the fight against unfavourable laws (i.e. high taxation, or too stringent environmental rules), to the request of subsidies or protection (from import competition)

Business Associations

Taxonomy of *consumption goods*

Subtractability (*rivalry*)

High

Low

E x c l u d a b i l i t y	H i g h	<i>Private goods</i>	<i>Club goods</i>
	L o w	<i>Common-pool Resorces</i>	<i>Public goods</i>

Adapted from Ostrom E., 2010.

Business Associations

Market-supporting activities
face *state-failures*
and **produce *public goods***

Market-complementing activities
are focused on *special interests*
so they **produce more *club* than *public goods***

In the first case we can speak of *good lobbying*,
in the second one there is the possibility of *bad lobbying*

Business Associations

We can speak of *bad-lobbying* when a Business Association exert influence for rents that exclusively accrue to association members, to the detriment of non-members

For many economists this is always the case because any organization devoted to a special interest inevitably fall into collusion, or regulatory capture and protectionism

Economist point of view – the classics

“People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices.”

(Adam Smith, *The Wealth of Nations*.1776)

“Regulation may be actively sought by an industry, or it may be thrust upon it. A central thesis of this paper is that, as a rule, regulation is acquired by the industry and is designed and operated primarily for its benefit”.

(Stigler G., *The Theory of Economic Regulation*.1971)

Another point of view

Many economists only look at markets believing in their autoregulatory power, forgetting politics

“We are living in a world where governments are neither necessarily benevolent nor where they have the power to perfectly tailor institutional quality to the efficient level. Consequently, private ordering institutions, including associations, even if they are primarily set up for the gain of their members, may play an important role in shaping the scope and quality of both private and public institutions, due to the positive externalities they generate”.

(Larrain M. & Prufer J., 2015)

International Trade as a Test

Protectionism is only because of special interests and *bad lobbying*?

Who rules international trade?

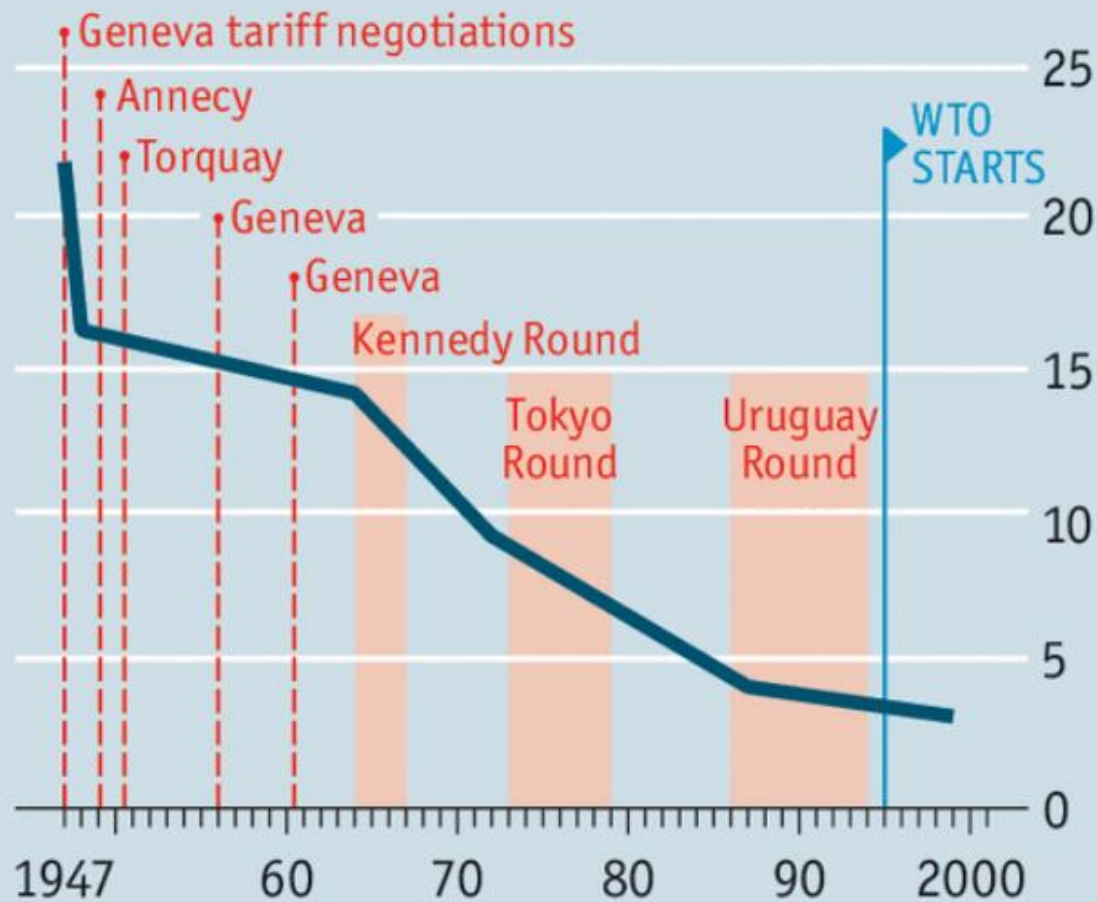
The States, supranational organisms like the EU and multilateral institutions like the WTO

International Trade as a Test

Fall of duty

2

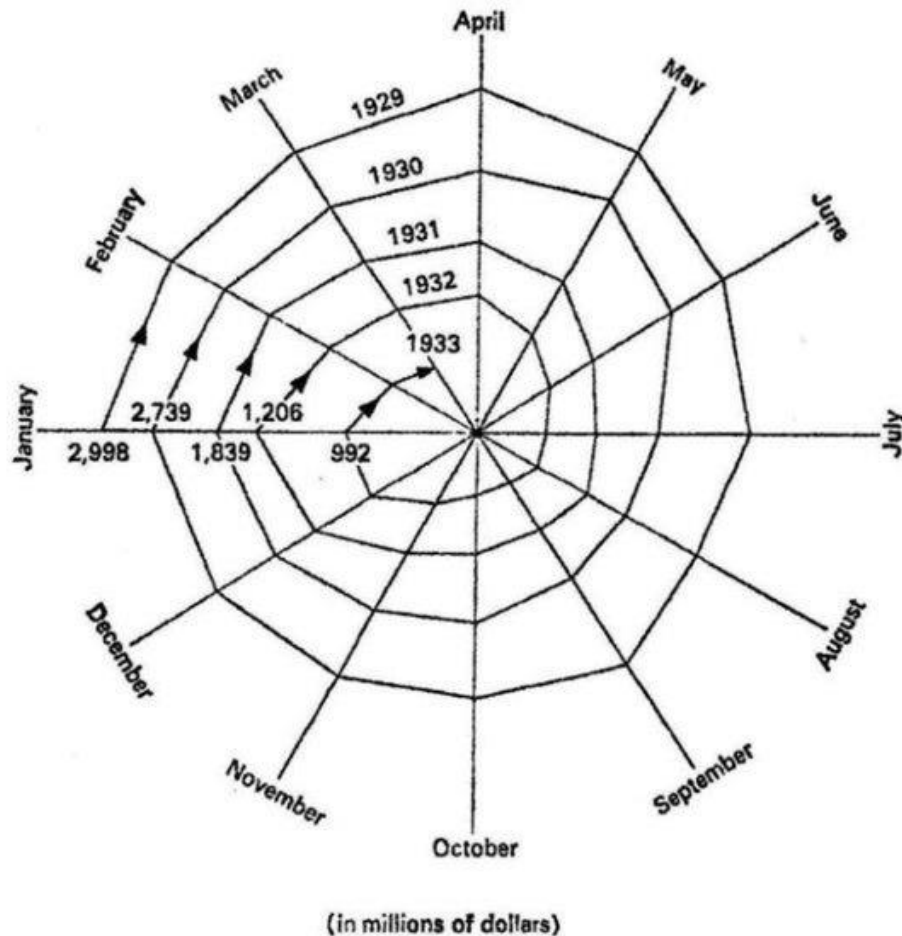
GATT average tariff rates for US, EU and Japan, %



Source: Chad P. Bown and Douglas A. Irwin

International Trade as a Test

*The contracting spiral of world trade, January 1929–
March 1933: Total imports of 75 countries (monthly values in
terms of old U.S. gold dollars [millions]).*



Did it happen
because of
special
interests?

International Trade as a Test

“The Smoot-Haley tariff – *which raised the average tariff on imports from about 38% to 45%* - was first conceived in late 1928 as a part of an election ploy by Republicans to gain the farm vote. Its original purpose was to help financially distressed farmers cope with low agricultural prices. (...) But special interests were a secondary factor in explaining the sudden and dramatic increase in trade barriers. (...) The main purpose of the trade restrictions was to protect gold reserves and strengthen the balance of payments”.

(Irwin D., *Trade Policy Disaster*. 2012)

International Trade as a Test

In fact, under fixed exchange rates, trade policy was indirectly linked, but linked nonetheless, to monetary policy.

As Milton Friedman firstly underlined there is a trilemma: “fixed exchange rates, stable internal prices, unrestricted multilateral trade; of this trio, any pair is attainable; all three are not simultaneously attainable”.

International Trade as a Test

So the protectionism of the 1930s was not because of *bad lobbies* but emerged as a consequence of the reluctance to use the exchange rate as an adjustment mechanism.

After World War II, with U.S. leadership, efforts were made under the GATT and other multilateral institutions to reduce barriers to international trade.

“Economists should always be prepared to warn against trade interventions that give the illusion to improving short-run economic prospects but that risk adverse consequences in the long run” (Irwin D., *Trade Policy Disaster*. 2012)

International Trade as a Test

And now? Now there is Trump, elected the 8th of November 2016 as U.S. President.

In 2017 he started a Trade war, made of safeguard restrictions and antidumping duties.

Moreover, in June 2018 he repeatedly stated his desire to leave the WTO because “*We’ve been treated very badly ...*”.

This could mean to go back to the Smoot-Hawley Tariff and “for consumer goods, the simple average tariff would increase from 4,6% to 35,5%”. (Bown C. & Irwin D., Nov. 2018).

International Trade as a Test

“These tariffs may fulfil political promises. But the collateral damage hitting other Americans seems likely to rump up, raising new questions about the longer-term purpose behind Trump’s tariffs”. (Bown C., Sep. 2018)

Only the case for solar panels and washing machine were raised by the American industry in 2017 under Section 201 of the Trade Act of 1974.

All the other cases – steel and aluminium, IPR, Autos investigation – were self-initiated by the administration for National Security reasons.

International Trade as a Test

Even though Trump appears unpredictable, it is likely that his administration is using trade topics to reaffirm American global supremacy and to restrain Chinese ambitions.

Special interests are not the cause but the pretext.

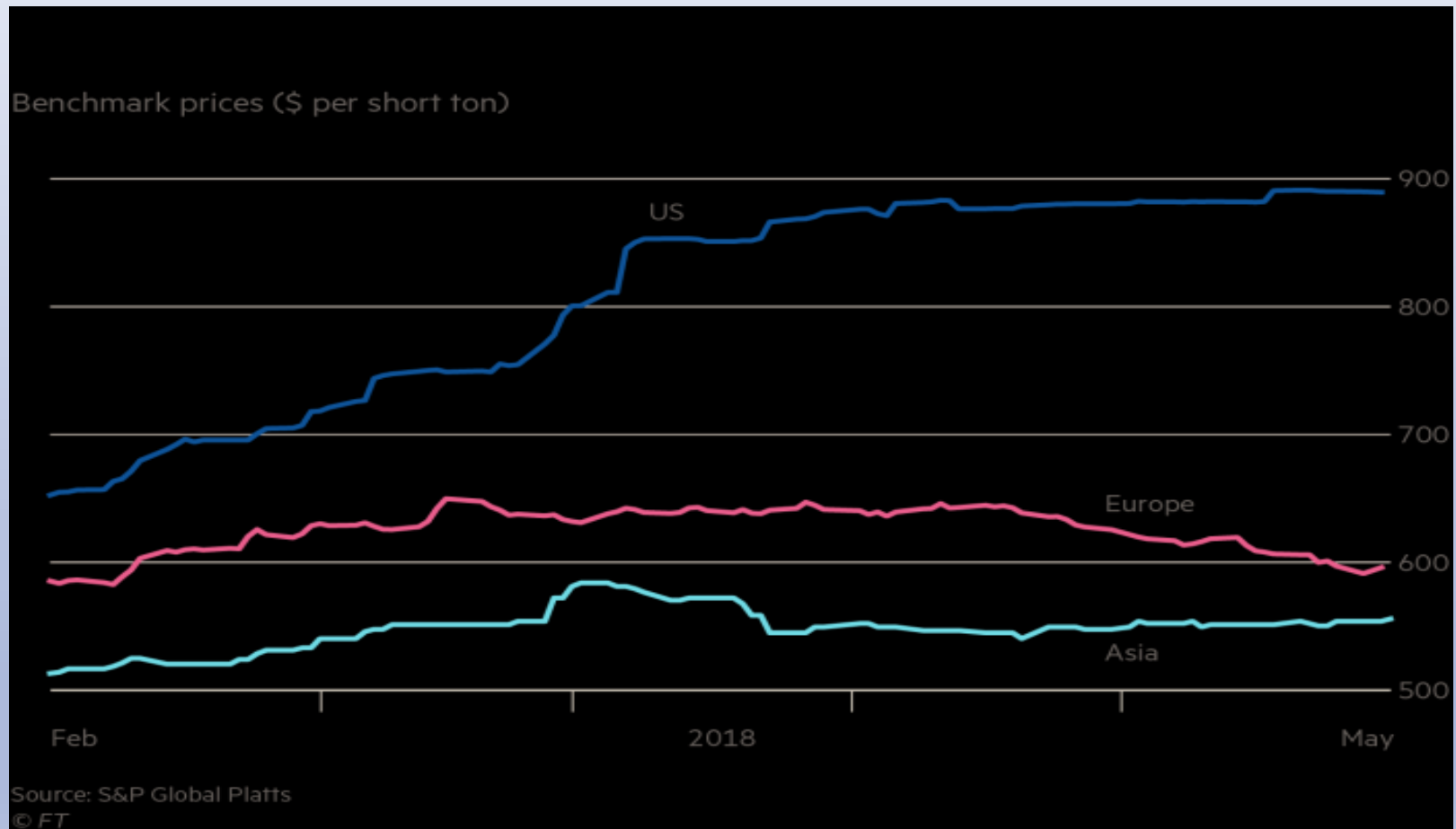
It is not the political ruler to be captured by *bad lobbying* but the other way around.

International Trade as a Test

Higher import tariffs aren't a good thing for US Companies. They raise costs of intermediates and push other countries to retaliate, reducing American exports.

“Politically, both the US-based Aluminium Association, as well as the union representing industry workers, came out against Trump's treatment of Canada, in particular”. (Bown C., Sep. 2018)

International Trade as a Test



Conclusions

Business Associations, like unions and other interest groups, embody pluralism and pluralism remain important to support Democracy as well as market efficiency.

“Organizations are tools that allow constituencies to mobilize when their interests are threatened and that help police the government when it threatens to violate constitutional principles”.

(North D., Wallis J. & Weingast B., *Violence and Social Orders*. 2009)

Conclusions

“The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. (...) **I am sure that the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas. (...) Sooner or later, it is ideas, not vested interests, which are dangerous for good or evil”.**

(Keynes J.M., *The General Theory of Employment, Interest and Money*. 1936)



Thanks for your attention!