Do free-trade skeptics recommend protection? Not really, if you read carefully.

Economic Times
Wednesday, May 21, 2003

Free-trade Skeptics: Skeptics After All?

Arvind Panagariya

Media reports convey the distinct impression that a small group of eminent economists is deeply sceptical, even suspicious, of the wisdom of liberal trade policies. Many pro-protection NGOs and developing country policy makers have flocked to this group for the intellectual validation of their anti-free-trade stance.

Curiously, however, if one goes by their writings, these economists rarely recommend protection over free trade. No matter how deep their scepticism, trade policy prescriptions they offer are strikingly similar to those offered by free-trade economists such as Robert Baldwin, Jagdish Bhagwati, Alan Deardorff, Douglas Irwin, T N Srinivasan and Robert Stern. The only difference between the two sides lies in the strength of conviction behind the prescription.

This fact was driven home to me recently when a New York Times story on the Stiglitz critique of globalisation in his book Globalization and its Discontents led Robert Stern of the University of Michigan to propose to a small group of pro-free-trade economists to reply to the Nobel Laureate. Alan Deardorff, a leading trade theorist at the University of Michigan and a member of this group, immediately responded expressing serious reservations to Stern's proposal.

"I too just finished reading the Stiglitz book," Deardorff wrote in an email addressed to the group. "I do agree that in some ways the book is outrageous, and I gather from [the IMF Research Director Ken] Rogoff's response to it that it has lots of errors and unjustified negative comments. I also felt that it was deceptively packaged, claiming to be about globalisation more generally when almost the entire book is very specifically about IMF policies. It looks to me like he wrote the core of the book about the IMF, then realised it would sell better if he made it sound like a diatribe against globalisation and added the title and some opening and closing material to move in that direction. But there is really very little in the book about the forces of globalisation if they are not being promoted by the IMF."

"Regarding trade, in fact, I agree with almost all that he says," noted the pro-free-trade economist. "He objects strongly to the agricultural subsidies and manufacturing tariffs that developed countries retain that undermine LDC competition, and so do we all. He says that is hypocrisy, and I agree. He also objects to the TRIPS agreement, and so do I. About the only thing that he says about trade that I would be hesitant to support is his approval of infant industry protection. And even here, to the extent that he asks that trade liberalisation be done slowly and carefully, with due attention to cushioning the blow to the poorest who may lose from it, such as the small farmers in Mexico, I'm inclined to agree with him."

"On issues other than trade, I don't feel as qualified to judge," continued Deardorff. "But I think I do agree that free mobility of short-term capital has turned out to be a bad idea. I'm not sure that I would condemn those who promoted it initially, since it wasn't necessarily obvious that it would turn out as badly as it has. But the case for some sort of capital controls today does seem to be pretty strong."

In his thoughtful email, Deardorff had articulated a point that I had sensed albeit vaguely for some time: serious economists who are critical of globalisation rarely take a firm stand against free trade. Much of the discomfort of these economists with globalisation derives from the injury inflicted by financial crises that followed the embrace of short-term capital mobility by Latin America and East Asia. Free trade has simply become an innocent victim of that discomfort.

Thus, Deardorff's email reminded me of a similar experience a few months earlier at an informal meeting where I had been invited to comment on a paper by the Harvard University economist Richard Freeman. In the early part of this paper, Freeman mercilessly attacks globalisation including trade liberalisation: "While orthodox policies have a certain logic inside simple Macro and Trade models, whether they are right for real economies is less clear. Cross-country evidence shows that policy measures relating to openness such as tariffs and trade barriers have little link to growth."

Yet, in the later part of the paper when Freeman draws up his own list of measures to improve labour standards in the poor countries, he ends up giving liberal trade policies a place of pride on it. "Elimination of tariffs and other barriers to LDCs, particularly in agriculture, and reduction of huge debt burdens almost certainly can create more good for more people than improved labour standards for workers in the export sector or even more broadly," he writes.

Similar conflict characterises Rodrik's writings. In his famous joint critique of econometric studies linking growth and trade, when it comes down to making a choice, he too goes for free trade over protection. In the last but one paragraph, the paper states, "We do not want to leave the reader with the impression that we think trade protection is good for economic growth. We know of no credible evidence — at least for the post-1945 period — that suggests that trade restrictions are systematically associated with higher growth rates."

The paper goes on to conclude, "The effects of trade liberalisation may be on balance beneficial on standard comparative-advantage grounds; the evidence provides no strong reason to dispute this. What we dispute is the view, increasingly common, that integration into the world economy is such a potent force for economic growth that it can effectively substitute for a development strategy." But few thoughtful trade economists consider free trade as sufficient for fast growth. On the contrary, many of them also happen to be serious development economists and as such active advocates of complementary policies alongside free trade.

Arvind Panagariya
Professor of Economics and
Co-director, Center for International Economics
Department of Economics
University of Maryland
College Park MD 20742-7211