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ASYMMETRIES IN POLICY BETWEEN EXPORTABLES AND
IMPORT-COMPETING GOODS

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ABSTRACT

This paper reexamines current understanding of the political economy of protection. To date, work has centered on determinants of the height of protection and its form - tariffs, quantitative restrictions, and voluntary export restraints. It is argued that examining the structure of protection misses one important piece of evidence - why import-competing industries tend to be more highly protected than industries producing exportables. When the question is cast in this light, a number of new insights emerge, including the importance of earlier protective measures in influencing current protectionist pressures. "Identity bias", whereby political decisions can be asymmetric between winners and losers, depending on whose identity is known, is introduced.

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ASYMMETRIES IN POLICY BETWEEN EXPORTABLES AND IMPORT-COMPETING GOODS

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One of the most widely agreed-upon policy prescriptions among economists, both historically and currently, is the optimality of equating the domestic and international marginal rates of transformation. In most circumstances, this implies that existing structures of protection through tariff and non-tariff barriers are demonstrably Pareto-inferior to free trade.¹

Until recently, however, there has been a strong tendency to assume that protective structures were therefore decided upon by persons who were ignorant of economic principles.² For the most part, there was little attempt to understand why the political process continued to make these decisions when it was readily demonstrable that alternative policies could yield a net benefit for the community. Income distributional considerations, such as those suggested by the Stolper-Samuelson theorem, and other factors were sometimes cited as causative in leading to protection, but these were usually fairly casual statements, with little or no empirical testing of the validity of the assertion.

More recently, however, there has been increasing discomfort with this assumption. A field of political economy of protection has developed. Economists are attempting to understand the political determinants of trade barriers, and indeed suggesting that tariff structures themselves may be at least in part

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endogenous, as political decisions may be made in response to economic phenomena and vice versa. Robert Baldwin has been a pioneer in this endeavor. He was among the first to call attention to the tension between economists' proofs that trade interventions were seldom optimal policy and the real world's apparent intransigence in continuing to use instruments and policies that are, even when viewed in the most favorable possible light, second or third, or nth best (see Baldwin, 1982, 1985).

To date, a number of models of the political economy of protection have been developed. A great deal of progress has been made in understanding some of the determinants of levels of protection. In this essay, I seek to make a contribution to that literature by extending the analysis in one particular, but important, direction. That is, as an empirical proposition, there is an asymmetry in the treatment of exportable and import-competing industries that does not, at first glance, appear to be accounted for in existing models of political determinants of protection. Yet, to date, political-economy explanations of protection have taken as given that protection would be accorded only to import-competing industries. I attempt to broaden the discussion by asking why import-competing industries should receive preference in the political process over exportable industries.³

To develop the argument, the next section briefly reviews some of the chief insights arising from the literature on the political economy of protection. Section 2 sets forth the argument that examining only protection to import-competing goods may be misleading. Then, in Section 3, reasons why the policy-formulation process itself may initially be biased against exportables are examined. Section 4 considers imperfections in the political market that encourage decisions in favor of perpetuation, or even increases in, protec-

tion, once in place. It will be argued that "identity bias" profoundly disadvantages efforts to reduce protection. A final section provides conclusions and suggestions for further research.

1. The Political Economy of Protection.

Baldwin's recent volume (1985) provides an excellent statement of the modern approach to the political economy of protection. The underlying assumption is that individuals are rational in seeking their self-interest in the political market, as well as in the economic market. On that assumption, the circumstances under which the political process would generate a regime of free trade can be set forth. Analysis then shifts to consideration of what happens when these assumptions are removed - and this provides guidance as to the circumstances under which the political process would generate protection.

The starting point⁴ is to assume that voters directly determine policy outcomes by majority vote; that voting is costless; that all voters have full and perfect knowledge of the economic consequences⁵ to themselves of free trade or protection (which is assumed to be the only policy issue under consideration), that there is perfect competition (under constant returns to scale) with fixed supplies of labor and capital, both of which are perfectly mobile throughout the economy, and that all individuals have identical preferences for goods and services.

The questions, as posed by Baldwin and others, are: 1) whether voters in a small country, unable to influence their terms of trade, will decide on free trade or protection of import-competing industries;⁶ and 2) how removal of each assumption affects the decision-making process when all voters know and act on their self interest. Several insights follow immediately: 1) in a Heckscher-Ohlin framework, those relatively well endowed with the country's abundant factor (used intensively in the export industry) will favor free

trade while those relatively well endowed with the country's scarce factor will presumably favor protection; and 2). the gainers from free trade could compensate the losers in such a way that even those who would lose directly through free trade (contrasted with protection) would vote in favor of it (with compensation).

As Baldwin (1985, pp. 7-8) notes,

"Under the voting framework assumed up to this point, these results mean that free trade will always be selected over a policy of tariffs. If the productive factors who gain under free trade represent a majority of voters, it is not necessary for them to compensate the losers under free trade in order to achieve the policy they favor. But if capitalists are the gainers under free trade and they are in the minority, they will have to tie a particular income redistribution scheme to the free trade vote that will overcompensate enough losers to secure a majority vote for the free trade policy."

Although the conditions set forth to generate a free trade political decision are something of a straw man, they serve as a convenient framework within which to analyze why the political process might generate a decision in favor of protection. Baldwin focussed in particular on costs of voting, lack of information and the likelihood that information may be costly to acquire, and the possibility of a gap between the decisions of elected officials and the voters they represent.

The presence of any one of these factors leads to a situation in which smaller, more concentrated, groups of voters (or their representatives) in the import-competing sector find it in their self-interest to spend resources on obtaining information, lobbying, and/or voting. By contrast, if benefits from free trade are diffused, a free rider problem can result as individuals count on others to bear the costs of lobbying, etc., while still standing to

gain by the benefits. This can result in an "imperfect political market" and protection, even when it goes against the self-interest of the majority of voters.

Two broad classes of models of this type have been developed. One class models the behavior of pressure groups.⁸ In these models, capitalists may stand to incur short-run capital losses (because of the reduced value of their investment in fixed capital) under free trade, or capital stands to gain with protection. The ability to organize and lobby for protection is assumed to depend on their geographic and economic concentration, as the free rider problem prevents organization of diffuse groups. Thus, these models suggest that the level of protection will be greater, the more concentrated the industry. The other model, developed by Caves, is generally referred to as the "adding-machine" model. In this model, representatives attempt to please their voters in the legislative process, but they cannot possibly satisfy all voters on all issues; they are therefore assumed to decide their votes with regard to the issues that their voters feel most strongly about. With regard to the issue of protection relative to free trade, it is assumed that workers in import-competing industries will "care the most" and thus be heavily represented in votes on trade matters. Moreover, Caves notes that elected officials are likely to be more sympathetic to the claims of import-competing industries in which there are a large number of voters.⁹

All of the political-economy models of protection share the view that decisions in the political arena are made by individuals (or their representatives) whose preferences reflect the economic self interest of the voters (insofar as voters know them and subject to the free rider bias) who count on the issue in question. They have attempted to incorporate economic rationality into political decision-making models, endogenizing political decisions.¹⁰

2. Asymmetry Between Exportables and Import-Competing Industries

Despite this effort to come to grips with rationality, however, none of the models of protection has thus far addressed one of the most fundamental of theorems of international trade and, indeed, economics in general: protection of one group is discrimination against another. If the relative price of import-competing goods rises through protection, the relative price of exportables must, by definition, go down.¹¹

Even as analysts have posed the question of the determinants of protection, they have assumed either explicitly or implicitly that if exporting interests are able to capture the majority vote (whether by pressure groups or through greater numbers) the result will be free trade. A natural question is why export interests, when in the majority, should not vote themselves positive rewards in the form of export subsidies or other benefits commensurate with those received by import-competing interests when they are in the majority. Why should free trade, as contrasted with export "protection" be the logical alternative to tariff protection? Indeed, why should not free trade happen to be the outcome only when exportable and import-competing interests are exactly balanced, in the relevant political sense?

Even casual observation suggests that there are important asymmetries in the political market that lead to differences in political decisions with regard to exportable and import-competing industries. Although it is true that countries do adopt measures to promote exports, the magnitude of protection afforded to exportable industries is in almost all cases vastly smaller than that accorded to import-competing industries, and can often be regarded as little more than a partial offset to the disincentives created by protective mechanisms.¹²

In addition to explaining whether there will be protection, and what the determinants of levels of protection among import-competing interests are, then, a complete political economy explanation of trade policy should also in-

quire as to the origins of the asymmetries between the treatment of exportables and import-competing commodities. An important question, neglected by those concentrating on barriers to imports, is what, if any, the characteristics of import-competing industries are that make them more likely to receive special treatment, or to receive quantitatively larger special treatment, through the political process than exportable industries with comparable political power are likely to obtain.

As Baldwin initially posed the question, voters were to decide between free trade and import-competing industries. A more general approach might be to inquire as to the characteristics of industries voters or their representatives would tend to favor: if posed in that way, the factors tending to favor special treatment for particular industries might equally well result in, e.g., export subsidies. Indeed, one would have thought that, if special interests are politically represented, export industries would on average be larger and more concentrated than import-competing industries¹³ and hence, by the logic of the political economy of protection, have more voice in the political process. Yet, empirically, tariffs, quotas, and other trade barriers against imports are far more protective, than are the special and differential treatments of exportable industries.

The challenge for this essay is to consider factors conducing to asymmetry in the treatment of (otherwise apparently similar) exportable and import-competing industries. The argument proceeds in two stages: a first stage must consider what, if any, reasons there are for believing that preferential treatment for import-competing industries is more likely to be put in place than preferential treatment for exports. The second stage then examines reasons why, once protection of import-competing industries is in place, there will be biases in the political process that tend to perpetuate or possibly even intensify protection.

3. Why Initially Favor Import-Competing Industries?

In the remainder of this paper, it will be argued that there are a number of factors inherent in the political process that tend to lead to choices in favor of those whose identities are known, contrasted with choices which would provide equal favor to the same number of persons, but with unknown identity. That "identity bias" in the political system tends to favor continued protection of import-competing goods once that protection is in place. A prior question, however, is why there should be an initial bias in favor of protection of import-competing industries at all.

In this section, focus is on how and why protection to imports initially comes about. In Section 4, the question of why there are biases in favor of its perpetuation is considered.

A number of factors probably conduce to initial favoring of import-competing industries. A first, long-since recognized, is the revenue motive of governments. A second is that tariffs and quotas lack transparency contrasted with export subsidies. Third, to the degree that foreigners are harmed by the imposition of protection against imports (due, presumably, to a deterioration in the terms of trade), they are not represented in the political process. Fourth, there is the rent-seeking explanation for the breakdown of mercantilism. Finally, it may be argued that there has been an asymmetry of worldwide events, which have been more conducive to the imposition of protection to import-competing interests than to assistance to exporters.¹⁴ I shall term this class of factors "historical accident".

3.1 The Revenue Motive It has long been recognized that the revenue motive is both an explanation for governments' initial preferences for protecting imports over promoting exports and for the perpetuation of protection. Tariffs have historically been an important source of governmental revenue. In the

United States, for example, 84 percent of federal government revenue originated from customs duties in 1800, and even in 1900, 41 percent of federal revenues were from import duties.¹⁵ The revenue argument represents an obvious, and well-known, asymmetry: any significant export protection can occur only through mechanisms which have a substantial budgetary cost, as they would have to take the form of export subsidies.¹⁶ Stated in another way, if the Ministry of Industry wants protection of 10 percent for import-competing steel producers and a subsidy of 10 percent for producers of exportable chemicals, the Ministry of Finance is likely to fight harder against the latter than the former. Likewise, other ministries anxious to attain budgetary resources for their own goals are likely to be more opposed to the subsidy than to the tariff. Moreover, even if the subsidy becomes effective, it will likely be subject to scrutiny during annual budget discussions; a tariff, once on the books, is likely to be scrutinized much more infrequently.

To be sure, if consumers' votes were as negatively affected by higher prices for import-competing goods as they were by direct taxes, the asymmetry would disappear. The diffusion of costs and concentration of benefits, as set forth by Olson and used in the political economy of protection, is certainly important as an underpinning for understanding the initial asymmetry of treatment between industries that produce exportables and those that produce import-competing goods.

One indication that the diffusion of costs is important in diminishing political opposition is the escalation of tariffs that typically occurs in tariff structures. When an imported commodity is an intermediate good in production, the import duty is perceived as an increase in costs by producers using the input, who then oppose tariffs on their imported and import-competing inputs. The fact that producers are affected by increases in their

input costs makes them much more sensitive to tariffs on raw materials and intermediate goods than are consumers of imported and import-competing final products.¹⁷ Thus, protection would be expected to be lower on intermediate goods relative to final commodities, due to the opposition of the using industries¹⁸.

The fact that tariffs raise revenue may or may not represent a positive benefit from the viewpoint of those deciding on tariffs, but it certainly makes the imposition of tariffs on imports relatively easier than a commensurate production subsidy on exports.¹⁹

3.2. Transparency. It has long been recognized that policies whose costs are immediately evident are politically more difficult to impose than those whose costs are obscured. Several factors serve to make tariffs and quotas - the main instruments of import protection - less transparent than export subsidies. First, a tariff schedule, once determined, is not normally subject to automatic legislative or administrative review. By contrast, any measure requiring expenditures from the budget are typically subject to annual appropriations. The absence of explicit review in itself reduces transparency. Second and probably more important, however, is the fact that import duties, being levied at the point of a commodity's entry, are not typically seen by consumers as a "tax" - the higher price of the import or import-competing commodity is simply a fact of life to the consumer.²⁰

3.3 Lack of Foreign Representation. Although the imposition of a tariff on net has welfare costs, there are producer gains which offset a part of consumer losses. An export subsidy, by contrast, imposes domestic costs and to the extent that there is a terms of trade loss, the gains are obtained by foreigners. To that extent, if all interests are heard in the political decision-making process, that process is likely to reflect more opposition to export subsidies than to import duties.

3.4. Breakdown of Mercantilism. Mercantilism was, historically, a system in which favors were conferred to domestic producers in the form of grants of monopoly rights to the domestic market, formation of cartels for purposes of exporting, and provision of protection against imports. For a variety of reasons, the system of domestic controls broke down, and with the emergence of an increasing number of nation-states, the possibility of obtaining any monopoly power on the international market was greatly reduced. This left considerable protection against imports in place while the traditional technique for fostering exports, i.e. provision of monopoly privileges, became ineffective.²¹

3.5. Historical Accident. If one inquires as to how protectionist measures were put in place, a significant number were responsive to international events. In the Great Depression, a number of countries erected or increased trade barriers; while some also attempted export subsidies, the budgetary cost of the latter (the revenue motive, discussed above) led governments effectively to protect their domestic markets to a significantly greater degree than they could subsidize sales internationally.

Similarly, the First and Second World Wars served as heightened natural protectionist barriers, behind which new industries grew up in a large number of countries. At the end of these wars, these industries were threatened by the reestablishment of normal trading channels, and clamored for, and in many instances, received protection.²²

Related to this line of argument, Ronald Jones²³ has argued that voters are naturally sympathetic to "underdogs", and that they identify losers with those competing with imports and winners with their export industries. A tariff would, with the usual results, increase the domestic price of import competing commodities, and decrease the relative price of exportables, with a change in the relative price of nontradable goods lying in between. If the

voters knew this, and identified exporters as being economically strongest and import-competing industries being economically weakest, with nontradable producers in between, a tariff could have desirable income distribution implications.

It might also be argued that industries which experience difficulty are natural candidates for protection, and that an exportable industry encountering trouble might even be an import-competing industry, due presumably to lags in political response, by the time protection was granted. It is difficult, however, to think of cases of this sort.

In sum, the reasons why tariffs were initially imposed may vary from country to country, but the result has been that tariffs were used far more frequently than export subsidies, at least since mercantilist times. The next question is why, once protection is in place, there are asymmetric pressures to perpetuate it.

4. FACTORS PERPETUATING PROTECTION: IDENTITY BIAS

Some of the factors conducive to protection discussed above are also important in its perpetuation. For example, the fact that raising a tariff may lead to increased revenue²⁴ whereas lowering it might be expected to reduce revenue would lead to more resistance to lowering, than to raising tariffs.²⁵

In addition to the asymmetry inherent in likely government behavior because of the budget constraint and related issues, there is another source of systematic bias in the treatment of exportable and import-competing industries once protection is initially granted to an industry. It is a phenomenon widely recognized in other contexts but has thus far not been explicitly dealt with in considering the political economy of protection. I shall call the phenomenon "identity bias" in decision-making.

Its essential characteristic is that the political process will tend to favor groups about whom more characteristics are known over "people in general", or groups about whom less is known. Schelling has aptly discussed the phenomenon in another context:

"There is a distinction between individual life and a statistical life. Let a six-year-old girl with brown hair need thousands of dollars for an operation that will prolong her life until Christmas, and the post office will be swamped with nickels and dimes to save her. But let it be reported that without a sales tax the hospital facilities of Massachusetts will deteriorate and cause a barely perceptible increase in preventable deaths - not many will drop a tear or reach for their checkbooks.

Amerlia Earhart lost in the Pacific, a score of Illinois coal miners in a collapsed shaft, an astronaut on the tip of a rocket, or the little boy with pneumonia awaiting serum sent by dogsled - even the heretofore anonymous victims of a Yugoslavian earthquake - are part of ourselves...not a priceless part but a private part that we value in a different way, not just quantitatively but qualitatively, from the way we measure the incidence of death among a mass of unknown human beings, whether that population includes ourselves or not. If we know the people, we are. Half the entertainment industry and most great literature is built on this principle..."²⁶ While Schelling's discussion was directed at societal estimates of the value of life, the same sorts of considerations apply to a variety of other phenomena: hostages, appeals for charitable giving in which write-ups of families constitute the core of the appeal, and so on.

They are also pertinent to societal assessments of the importance of economic gains and losses as well. The emotive appeal of an "unemployed person" is much less than the more specific description of a married head of household with two small children. If, in addition, it is known that the person lives in a particular city, and has been employed by the same firm for 8 years, sympathy, and political interest rise further still.

Identity bias is highly relevant to the political economy of protection: if protection is to be increased, workers and employers whose industries will gain in the first instance are identified; the losers, who might have opened or expanded businesses for export but who will not find it profitable to do so, are unidentified.

To formalize the concept, consider a law that might be proposed which will benefit citizens $1 \dots k$, which I shall call the k group, in the amount of x per member of k . Assume further that the provisions of the law would cost y per person to citizens $k+1, \dots, n$, whom I shall call the n group. Finally, assume there is also a group r , consisting of all remaining citizens who will neither benefit nor be harmed by the passage of the proposal.²⁷

Now assume that all persons, both voters and their representatives, know what the overall effects of the law will be and agree on the distributional consequences as set forth. There are four possible situations: 1) it is known with certainty which group each person belongs to; 2) it is known who the beneficiaries would be but the identities of those in the n and r groups are not known; 3) it is known which citizens fall into the n group, but the identities of those belonging to the k and r groups are not known; and 4) no one knows which group he will belong to.

Identity bias will be said to exist if the likelihood of passing the law is greatest in case (2) and least in case (3). As an empirical proposition, it seems to be reasonably important on a number of issues: as will be argued below, it is probably a potent force in affecting the relative pressures for and against legislation and regulations surrounding international trade.

Several examples of the pressures likely to arise for different types of policies may illustrate the phenomenon of identity bias, although in reality the political pressures surrounding most policy actions probably contain elements of both identity bias and other phenomena.

It is relatively easy to think of cases which come fairly close to case (1). Instances would include proposals for a revenue-constant change in the tax structure, or an increase in current social security benefits financed by an increase in current payroll taxes. Indeed, almost any welfare-expenditure proposal which was accompanied by revenue measures to finance it might be expected to be close to the first class of cases.²⁵

The second case might correspond to a proposal to increase highway speed limits: truckers and others whose time cost of road transport was significant would benefit while those who would be maimed or killed under the higher speed limit and not under the lower (group n members) would not know who they were. If the identities of the victims were known ex ante²⁹, it is arguable that not only would the victims themselves fight harder and/or more effectively against increased speed limits but that others in the r and n groups would be more strongly opposed to, or less in favor of the increased speed limit than they would be in the case of unknown identities³⁰. To say it otherwise, it would be harder for truckers and other beneficiaries of a higher speed limit to support the proposal as effectively if it were known that Mrs. Jones,

mother of 4, and 8 year old Johnny, would be among the victims, and opposition to the measure would surely arise from persons in the r group who might be expected to remain neutral when identities of those in the k group were unknown.

Many other pieces of safety and environmental legislation undoubtedly have elements of identity bias affecting the support and opposition to them. However, once there have been identified victims of particular phenomena, identity bias may work to favor passage of remedial policies, thus possibly representing case (3) where the victims but not the beneficiaries are known, rather than case (2). Clearly, whenever case (2) identity bias exists for proposals to increase something, case (3) will be present if the proposal is to lower it, and vice versa.

It is hardest to think of examples of the fourth case (which is somewhat reminiscent of the Rawlesian (1981) decision-making criterion for social justice): it might arise, at least within the eligible group, when it was proposed to conduct a military draft by lottery.³¹

In reality, cases may fade into each other: truckers will probably recognize their potential benefit (and perhaps even overestimate it, failing to recognize the effects of competition and new entry), insurance companies may represent in part the interests of potential victims, and consumer groups may fail to recognize that they may pay lower prices if transport costs are lower. How powerful each of these pressures is will be a factor in determining the political equilibrium speed limit, but identity bias will surely influence the outcome.

To argue that identity bias is a factor influencing protectionist structures is not to deny that other factors may play a role as well. Indeed, there may be interactions between them. Identity bias is not the same as the concentration arguments of Olson and others. They have argued, convincingly, that when costs or benefits are concentrated, while the other is not, the costs of

organizing for effective lobbying, and especially the free rider problem, will swing the political balance more in favor of the concentrated group than it would be if those harmed and those benefitting from a prospective political decision were equally concentrated. While there is no doubt that costs of collective action and the free rider problem bias decisions in favor of concentrated groups, the existence of identity bias can work either way. In the speed limit example given above, the concentration of victims (arguably about 1,000 per year per mile of speed limit) probably exceeds the concentration of truckers and others benefitting from higher speed laws, but identity bias nonetheless exists.³²

Identity bias is probably especially powerful when it comes to protection against imports and when there are proposals to reduce protection against imports. Capitalists and workers already employed in protected industries know their identities and believe they know how they would fare. Thus, the identity of the losers is reasonably well known. When it is thought that shoeworkers or garment workers would suffer, the identity bias phenomenon results in strengthened opposition and weakened support for reduction in protection. If protection were lowered, by contrast, some export industries would expand (possibly through the action of the exchange rate) and some capitalists and workers would achieve intramarginal gains as output and employment in export-oriented industries expanded; but those persons are less likely to know how they are. Insofar as new factories might open, it is in principle unknowable who would obtain employment (or receive higher wages) in those industries.

The existence of identity bias may help explain why "employment" arguments for protection are apparently so appealing to the body politic. Economists have for years argued that protection is inherently at best a second-best in-

strument for employment policy: overall macroeconomic policy measures clearly dominate. Nonetheless, the effectiveness of the "loss of jobs" appeal for protection cannot be denied and has been noted for years.³³

Thus, those in import-competing industries will not only lobby for maintaining protection, but they will be able to convince³⁴ others that they will lose and thereby make it more difficult to advocate reduced protection. There is no counterpart for the worker who would potentially find employment in the expanded export sector. It is in this sense that identity bias results in an asymmetry in the political market for protection, once there is already a tariff structure in place.³⁵

One can, of course, turn the argument around. Once protectionist measures are enacted, voters and their representatives can see the expanded (and/or more profitable) import-competing industries.³⁶ They cannot see the jobs that were not created, or the firms that did not enter (or expand) their exportable activity because of the legislation. It is in principle unknowable who would have been hired had exportable industries expanded, and equally so which new firms would have been successfully established.³⁷ With adequate econometric techniques, however, the aggregate orders of magnitude of these phenomena can be known. To the extent that identity bias exists in the political decision-making process, it surely works asymmetrically in support of continuing or raising protection.

It remains to ask how identity bias is related to other phenomena that have been suggested to be important in literature on the political economy of protection. Three phenomena must be considered: lack of knowledge, diffusion of costs or benefits, and the conservative social welfare function.

Lack of knowledge can clearly be a contributing element to support protection, especially when coupled with the fact that the consumer costs of protection are normally widely spread. However, it is not a priori evident why

a particular proposal to lower protection will affect fewer workers (or capitalists or landowners) than one to increase it: what is different is that the identity of those workers is known.³⁶

The second phenomenon, diffusion of costs and benefits, is more difficult. One might ask whether the phenomenon of identity bias is anything more than societal willingness to bear risk. After all, if the likelihood of gaining a job in an export industry is one in a million, voters may dismiss the probability as being too small to be worth supporting. By contrast, the probability of difficulty for shoeworkers is sufficiently high so that that identified group finds it in its interest to lobby against reduced protection. In a sense, the question is whether the outcome would be unaffected if the identity of those persons who would gain employment or income from lowered protection were known. Devising empirical tests to ascertain which of the two phenomena drives political-decision making is beyond the scope of this paper, but the answer is clearly of practical importance.

An interesting question is the relationship between identity bias and the conservative social welfare function, enunciated by Corden (1974). Corden asserted that society as a group demonstrates a preference for protecting peoples' income streams, and that protection normally is a consequence of this preference. In part, his argument was directed to the origins of protection; in part, however, he addressed the question of why protection is perpetuated. Insofar as identity bias is a key factor in perpetuating protection, the existence of identity bias might explain the observed social choice and be the underpinning to the conservative social welfare function: resistance to lowering protection comes about precisely because the identity of those likely to lose is known. In Corden's formulation, the conservative social welfare function was set forth as itself an indicator of social preference. If identity

bias were the underpinning from which a conservative social welfare function were observed, however, it is an interesting question as to whether one should regard the revealed preferences as an unbiased indicator of social welfare.

5. CONCLUSIONS AND SUGGESTIONS FOR FURTHER WORK

In this essay, I have suggested first, that examining the structure of protection across protected industries, while important, leaves unanswered an important question from the viewpoints both of political economy and of economic policy formulation. That is, why is there apparent asymmetry in the treatment of industries based upon their trade classification? Why do not countries with voter characteristics such that exportable industries would be favored provide subsidies and incentives to exportable industries comparable to those that are provided to import-competing industries in countries where voter characteristics lead to protection? Indeed, why are industries with apparently similar characteristics likely to be more favorably treated if they produce import-competing goods than if they produce exportable commodities?

In addition to factors earlier adduced in the literature, such as ignorance of voters, I have suggested that the government budget constraint biases decisions in favor of protection, as does the interest of the state in maintaining a sizeable bureaucracy. Similarly, the phenomenon of "identity bias" may, when present, result in decisions more favorable to producers of import-competing goods than of exportables than would be taken were beneficiaries as well as victims equally known or unknown. In a sense, it occurs because of the general equilibrium consequences of protection: however, it is the result of those general equilibrium consequences that impact on particular individuals, as

distinct from the diffuse general equilibrium consequences of higher consumer prices, and changes in factor rewards that may also result from changing protective structures.

Important questions remain. One is how great the asymmetry in treatment between exportables and import-competing goods is, both between goods within countries, and among countries. A second, equally important question, is how important identity bias is. If, as seems plausible, it is a major factor in political decisions, it could represent a sizable imperfection in the political market, in addition to whatever consequences follow from the free rider problem and the absence of appropriate information on the part of decision makers. An important question would then be the welfare consequences of such a bias.

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1. The only clear exception would be monopoly power in trade, and even then, the degree of monopoly power and the likelihood of retaliation would need to be taken into account. Even the infant industry case, which is recognized as a basis for a departure from free trade, is a case for a production subsidy to the infant industry as first-best policy. Baldwin (1969), in one of his major contributions, adroitly questioned whether even a production subsidy would help in the presence of the sorts of infant-industry considerations usually adduced.

2. See Bhagwati (1988) for a recent statement of the view that ideas and ideology remain significant causal factors underlying both free trade and protectionist sentiment and measures.

3. There are other important questions that are not addressed here, although some of the considerations pertaining to protection may also be relevant for these issues. They include the determinants of the levels of protection to individual industries, and also the determinants of the forms of protection. If it is difficult to explain asymmetries in the treatment of import-competing and exportable industries, it is even more difficult to explain the political process which selects between tariffs and import quotas. There is also a broader question as to why tradables may receive protection relative to non-tradables.

4. This discussion follows Baldwin (1985, Pp. 6ff.)

5. It is assumed that there are no non-economic consequences of alternative trade policies.

6. Note that this formulation of the question assumes asymmetry of treatment of export and import-competing industries. If positive protection of import-competing industries is negative protection to exportables, why should the free trade point be considered the origin? When, in the Baldwin-Mayer setup, the majority of votes favor export industries, why should these not receive one form or another of protection?

7. It is widely recognized that representatives of the voters, and government officials carrying out the decisions of those representatives, may have interests of their own. Indeed, the Brock-Magee model portrays representatives as needing money to win votes, and losing votes by representing special interests. An equilibrium exists for a particular representative when the votes gained through the monies received from an additional special-interest contribution equal the votes lost from supporting that special interest.

8. This literature has its origins in Olson's seminal work. Perhaps the best-known pressure-group model is that of Brock and Magee. See also Bhagwati's (1988) treatment.

9. Caves believes that elected officials will further be more sympathetic to industries in which there are a large number of smaller firms than they will to highly concentrated industries. See Baldwin's empirical tests of these hypotheses (1985, Ch. 4).

10. For a recent example, see Mayer.

11. It has been argued that one might "protect" both import-competing and exportable industries relative to home goods through a policy of export subsidies and import duties. In practice, however, tariffs are more frequently observed and their height is on average considerably higher than export subsidies and subsidy equivalents.

12. As a stylized fact, it seems almost self-evident that asymmetries exist. Efforts at formal empirical documentation have not, to this author's knowledge, been made. Almost all estimates of effective protection based on input-output tables show positive means and are higher for import-competing sectors than for export sectors, although the link to trade classification is seldom made explicitly. See, for example, Balassa (1965). For some empirical evidence of asymmetry in developing countries within a class of commodities, see Krueger, Schiff, and Valdes where it is shown that despite all rhetoric about the importance of foodgrains in budgets of low-income consumers, foodgrains seem to be protected in countries where they are import-competing and taxed in countries where they are exportables. See also Garcia Garcia, who shows that, in Colombia, commodities that were protected when they were import-competing became taxed once they were exportables. In instances similar to this, trade is taxed in both cases, although the income distributional consequences are entirely different (and levels of export taxation are typically well below earlier levels of protection).

13. To make this assertion empirically testable would require the definition of an industry, which is a very difficult problem. In this statement, the only intention is to convey a much more naive, equal-ignorance, proposition: if all industries were of equal size in consumption, then those that produced for the export market as well would be larger than those where part of domestic demand was met by imports. That export industries might be more concentrated might follow from the need for distribution networks and start-up costs in overseas markets.

14. This is not to deny that "ignorance" and failure to understand the consequences of protection may not also be a factor leading both to protection and to its perpetuation. Certainly, this ignorance, or possibly even ideological motives (see Bhagwati 1988) may have been very important, especially for developing countries, in erecting their structures of protection.

15. Data are from Historical Statistics of the United States. C3.134/2:H62/1789-1970/pt. 2, P.1106.

16. There are mechanisms, such as provision of cheap credit under credit rationing and of subsidized inputs, which can constitute off-budget export subsidy equivalents. The degree to which exports can be encouraged by these measures, however, is limited. Countries which have met with any degree of suc-

cess in exporting through use of these measures. such as Israel, have found them to be inflationary as the magnitude of subsidization grew.

17. This is probably a partial political-economy explanation for the escalation in tariff structures observed in virtually all industrial countries. The fact that using industries oppose protection for their inputs represents a counter-balancing political pressure and thus results in a lower, "equilibrium" level of protection.

18. To be sure, it could be argued that consumers might object to tariffs on other imports that are directly consumed by them. The tariff-escalation story is only compatible with a logic-of-collective-action argument as to why industrial users, and not individual users, of imported commodities, oppose protection.

19. This proposition, simple though it is, probably is the explanation for the political preference for import duties rather than production subsidies to importers or exporters. It is well known that a production subsidy can provide the same benefits to producers of either export-competing or importable goods as a tariff (or its quota-equivalent) of export subsidy, but that instrument is rarely used. The revenue motive surely is a major part of the explanation.

20. See Krueger 1989 for a discussion of the importance of transparency.

21. See Ekelund and Tollison (1981) for an elaboration of this argument.

22. In this case, "identity bias", to be defined and discussed below, was clearly already at work in initiating protection: had potential exporters known who they were and recognized the extent to which their interests would be negatively affected by protection, protectionist measures would, at a minimum, have been significantly dampened.

23. In correspondence commenting on an earlier draft of this paper.

24. It is well known that there is a maximum revenue tariff, and that raising tariffs beyond that level will reduce government revenue. Some tariffs are clearly above maximum-revenue tariffs; whether their levels were determined because of other considerations or because policy makers failed to recognize the revenue consequences is an open question. As long as decision makers believe that raising tariffs will raise revenue, the bias in favor of proposals to increase protection, as contrasted with proposals to lower protection, will exist.

25. Indeed, even in proposals for policy reform programs in developing countries in the 1980s, a frequent dilemma, and source of conflict even among technocrats, has been the positive resource allocation effects of tariff reductions contrasted with their perceived negative fiscal implications.

26. Schelling, P. 115. This paper was revised just after very large resources were devoted to the rescue of two whales in Alaskan waters. See the Economist, October 29, 1988, P. 31.

27. The argument centers crucially on there being one group knowledgeable as to the benefits or costs to itself and another one ignorant. This logically implies the existence of a third group (because otherwise everyone who did not know he was a beneficiary/victim would know he fell into the opposite group),

although the argument would not be significantly altered if group r members received small benefits relative to the k group or incurred small costs relative to the y group. See below for further discussion of the relationship between identity bias, uncertainty, ignorance, and the diffusion of benefits/concentration of costs arguments.

28. To be sure, resource misallocation costs might differ from measure to measure. They might be subject to identity bias and other political pressures as well, but the point here is that the impact effect on individuals of the proposal would be reasonably well known.

29. Highway speed limits are an interesting case in part because, even ex post, there is no way of distinguishing clearly the group which would in any event have incurred accidents (or less severe accidents) under a lower speed limit from the victims who would have been accident-free or less seriously injured at a lower speed limit, yet it is statistically provable that there are a reasonable number of such persons. Deaths from highway accidents fell approximately 10,000 persons per year (and even more per passenger mile) after the speed limit was lowered in 1973, and the absolute number of deaths has not yet reattained the 1973 level. See Statistical Abstract of the United States.

30. Insurance companies, of course, would (and did) lobby against such legislation, illustrating the proposition that there is no such thing as a pure case.

31. When a group of individuals decide that something must be done, and that who will do it is to be subsequently determined by drawing straws is another example, although usually not one found in law.

32. As Robert Bates pointed out to me in conversation, the fact that the losers in exportable industries from increased protection have unknown identities is a built-in barrier to their effective organization for political purposes. One of the mechanisms that may give rise to identity bias in decision-making is that one group can identify its constituents with lower cost and greater ease than can another.

33. See Grossman for a recent effort to evaluate the employment argument for nine American industries.

34. This is not to say that all arguments made by those advocating continuation of protection are correct. Ignorance may be a factor as well. Nonetheless, those urging lower tariffs are frequently asked "what would the new industries be?" - an inherently unanswerable question and an illustration of the existence of identity bias.

35. An interesting question is why some costly phenomena, such as the selective service draft, are done by lottery. Any other selection principle (such as, for example, alphabetical order) would presumably do equally well. Yet it is clearly unthinkable. The identity bias inherent in the latter procedure seems a reasonable and plausible explanation for this preference.

36. For expositional purposes, I ignore the possibility that protection may not even benefit the intended workers or firms, a distinct possibility in reality.

37. In the same sense, one could statistically estimate the causative factors

resulting in factory closing, and perhaps conclude that a decline in the real exchange rate was x percent of the problem while incompetent management was $100 - x$ percent of the problem. However, there is no way of ascertaining, even in principle, which x percent of workers lost their jobs because of the exchange rate and which $100 - x$ percent of the workers became unemployed because of poor management. Identity is simply not knowable.

38. It has for years been argued that ignorance was based in part on the "fallacy of misplaced concreteness": when people see a Volkswagen on the street, they identify that automobile with the "loss of jobs" to American automobile workers, without recognizing the "gain in jobs" in export industries, and in auto service and repair industries. Failure to recognize these aspects of the situation may intensify identity bias.