

Sketch of a Theoretical Case for Protectionism

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November 4, 2017

[W]hy do economists make themselves absurd or pathetic by “teaching” the public things they would see without teaching if they were willing, and being unwilling, certainly will not be taught?

Frank Knight

World Justice, Socialism and Intellectuals (1949)

While we are currently experiencing a global bull market in protectionism, tariffs and trade barriers have long held political appeal. Could this be a widespread failure to grasp David Ricardo’s 200-year-old story¹ of the Portuguese wine maker and English cloth maker in which both countries benefit from opening up to trade? The English vintners and the Portuguese weavers may not benefit, but the gains from trade are large enough to compensate the losers so that everyone ends up better off.

But many sophisticated politicians who are familiar with this theory still support trade barriers. Perhaps they’re pandering to confused constituents, or concerned that not all the losers will be compensated by redistribution. However, these explanations fail to account for the persistent, strongly felt opposition to free trade over time and across countries. These days aversion to trade even extends across parties, as it is embraced to varying degrees by both the left and the right.

No matter which way we turn, neoclassical economics cannot provide a robust argument for protectionism. Consider a simple two-sector two-country model where:

- Consumers are homogeneous, with three inputs into their utility—leisure, a manufactured good (x) and financial services (y).
- Both x and y are tradable.
- Each country is endowed with two types of workers—those who work in the x sector and a smaller portion who work in y .
- Technology is constant and known. There is no capital and no savings.
- The technology for manufacturing x is the same in both countries. It exhibits diminishing marginal returns to labor.
- The home country is much more efficient in the production of y .

If both countries open for unrestricted trade, the home country will export y and import x . The world price of x will be lower relative to y (vs. the price under autarky) as y -workers obtain their x from abroad, driving down home country demand for x . And since y -workers will require greater incentive to supply any given home quantity of y , the home country supply of y also decreases. As a result, y -workers benefit and x -workers lose.

¹ This is the 200th anniversary year of David Ricardo’s *On the Principles of Political Economy and Taxation* published in 1817.

If, however, we expanded the model to include government, a progressive tax on y -workers and a subsidy to x -workers would ensure that trade benefited everyone. As trade increased the value of their labor, y -workers would consume less leisure and more goods. And as it became less lucrative and, with the subsidy, less necessary to labor at producing x , x -workers would consume more leisure (and probably more goods). If our model allowed for the fixed costs of going to work or other complexities, such as job matching, increased leisure might translate into unemployment.

It's easy enough to celebrate the welfare gain, both at home and abroad, that open trade provides. But how has life changed for the x -workers? Let's make two further assumptions:

- Individuals derive meaning from overcoming obstacles.
- This meaning accompanies only those challenges that are perceived as authentic, naturally arising and connected to a purpose, such as a worker's livelihood.

Under these assumptions, struggle at work is key to many people's sense of meaning in life, and preservation of authentic challenges is the true concern of those who oppose free trade. Arguments against free trade can be interpreted as rationalization to restore the "good jobs" that existed under autarky. Language like "unfair trade" or "job stealing" helps sustain the fiction in ways that no sermon on comparative advantage can overturn.

If unemployed x -workers objected strenuously to "leisure" and subsidies, demanding the opportunity to struggle at work, couldn't the government just hire them to dig holes and fill them up again? This, too, would feel hollow. While factory jobs that would reappear as a consequence of protectionism would also be pointless in the sense that the goods could be more easily obtained by allowing trade, the contrivance is less flagrant. As long as workers can embrace trade barriers as a justification and suppress inconvenient arguments from economists, they are satisfied.

I do not mean to suggest that voters or politicians fall prey to irrationality, cognitive biases and the like, but rather that they act on an impulse that cannot be shoehorned into the neoclassical model. A sense of authentically exerting oneself to earn a living may matter more to workers than the increased goods and leisure that would arise from comparative advantage.

In summary, workers may simply want their jobs back. Perhaps they aren't persuaded by the argument that they can buy cheap consumer goods from overseas. And perhaps they don't want the extra "leisure" time or the government handouts that come from taxing globalization's winners. They may simply want to labor, overcome authentic challenges on the job, provide for their families as they did in the past. They want to take pride in making things that society deems important. They don't feel that they are better off with freer trade, even though they can have more goods, more leisure.