

Questions for PubPol/Econ 541
Oct 21

Why Countries Restrict Trade

KOM, Ch 10, selected pages:

- What benefits from free trade are not captured in the partial equilibrium model?
- The textbook mentions only two arguments against free trade: terms of trade and market failure. Can you think of others?
- How does the theory of the second best provide reasons that tariffs may be beneficial? How does it also provide reasons why tariffs are not the best policy in such cases?
- What is the “median voter theory,” and why does it seem not to explain protection?

Baldwin & Magee, “Is Trade Policy for Sale? Congressional Voting on Recent Trade Bills,” 2000.

- By what mechanisms do theorists suggest that political contributions result in votes for and against trade liberalization?
- Do businesses and labor groups in the US tend to contribute in favor of protection or in favor of free trade? What theory of international trade fits best with these orientations, and why?
- When did the US first grant China MFN status? What was the decision regarding this that Baldwin and Magee used congressional voting on?
- What were the three Congressional votes studied by Baldwin and Magee, and how would the outcomes have differed if there had been no contributions at all from either labor or business? Which side – labor or business – had the greater effect on the voting?
- What do they estimate as the “price” of one congressional vote against NAFTA or the WTO?
- Were campaign contributions the only thing that mattered for congressional votes on these trade issues?

Magee, “Why Are Trade Barriers So Low?”:

- Does the main “political economy” model for explaining tariffs say that politicians care only about campaign contributions?
- Why does Magee give only partial credit to GATT negotiations in explaining the fall of tariffs since the 1930s?
- How do the following terms or concepts figure in explanations for why trade barriers are low: free riding; peace; imported inputs; non-tariff barriers?

Krugman, “Wonking Out: Two Cheers for Carbon Tariffs,” 2021.

- Why would Krugman favor a carbon tariff even if it were as economically harmful as a tariff usually is?
- Why does he discuss the economics of the value added tax?

- A carbon tariff set equal to a domestic carbon tax makes sense, but what if the domestic policy is regulation, not tax?
- Why does he give only two cheers, not the usual three?

Ponnuru, Ramesh, "The Politics of Trade Favor Trump in 2024," *Washington Post*, March 5, 2023.

- Does Trump promise more tariffs?
- What does he claim tariffs will do?
- Why are two of his claims contradictory? And why are all proven wrong by experience
- Does the public favor tariffs?
- Why do politicians favor tariffs?
- Will there be lots of new tariffs?

Optional to Read:

Deardorff & Stern, "Introduction" to *Constituent Interests and U.S. Trade Policies*, 1998.

- In the US government, who tends to be more protectionist and who more free-trade oriented: the President or Congress? Why?
- By what means and how successfully do "constituent interests" influence trade policy?
- What are some of the constituent interests that care about trade policy other than those participating directly as producers for export and in competition with imports?