

A Public Choice Perspective on Trade

Let's say you could make a strictly economic case for government interference with people's trading activities, that is, with their ability to cooperate freely with others across the world. (I have no idea what "strictly economic case" even means, but stay with me.) Would we free traders have to give up? No way.

Why not? Because we could deploy solid persuasive public choice arguments against such interference. I like to think of the Public Choice school of political economy (Buchanan, Tullock, et al.) as emphasizing the *incentive problem* inherent in government policymaking. Where the Austrians emphasize varieties of the *knowledge problem* — policymakers cannot know what they must know to plan our economic activities intelligently — the Public Choice school focuses on, among other things, the perverse incentives that policymakers, bureaucrats, and citizens face.

Before public choice came along, people tended to operate on a public-interest model of policymaking. They simply assumed that when a man or woman moved from the profit-seeking private sector to the (misnamed) public, or political, sector, he or she suddenly became single-mindedly devoted to the public interest. Egoism gave way to altruism. (Note the additional assumptions that there is such a thing as the public interest and that "public servants" know what it is.) This devotion need not be examined or even questioned; it was axiomatic. If a politician was exposed as corrupt, he was merely an outlier, like the supposed lone "bad apple" who slaughtered noncombatants at My Lai during the U.S. government's war in Vietnam.

The Public Choice school questioned the hitherto unquestionable. Perhaps, its proponents said, if we assume that people acting politically are similar to people acting privately, we could make better predictions about outcomes. This simple move exposed the conventional perspective as naive. Of course, people are people, whether acting privately or politically. All are interested in looking after themselves — in raising their incomes, influence, and prestige. Political actors are not issued halos and wings when they enter government jobs. But the resistance to the public choice orientation has persisted, and you can detect the opposing model every day — most especially from newscasters and pundits.

I should add that Robert Higgs makes an important point on this matter. Yes, people are indeed people, but people *who are attracted to power* are not exactly like the rest of us. Lord Acton famously said that "power tends to corrupt," but Higgs adds, in effect, that power also lures the already corrupted. This makes the public choice case even stronger.

Thus the public choice and Austrian critiques together deliver a one-two knockout punch to government interference with social cooperation. Contrary to the civics textbooks and

pundits, politicians and bureaucrats lack 1) insight into what's really good for us who constitute the public and 2) the incentive to pursue it even if they knew what it was. Even if voters sincerely intend to benefit all of society and not just their own personal interests (as Bryan Caplan suggests), that doesn't mean those good intentions will be carried into policy. *Human beings* enact and execute policies.

Now let's talk about trade. Gather round, folks, and I'll tell you the story of the great Chicken War of the 1960s. In response to lobbying by special interests, France and Germany raised tariffs on cheap American chicken imports. To "retaliate," the U.S. government put a 25 percent tariff on (*all* countries') light trucks, potato starch, dextrin, and brandy. The truck tariff, which was known as the "chicken tax," was specifically targeted at Germany. The chicken war lasted from 1961 to 1964, and then it ended — except for one aspect. The tariff on light trucks stayed in place and exists to this day. (For an accounting of the significant unintended consequences of this tariff, see Bryce Hoffman's "If You Aren't Worried about a Trade War, You Don't Know about the Chicken Tax.")

If the truck tax was retaliation for the European chicken tariff, and the chicken tariff disappeared, why does the truck tax still exist?

It's not hard to answer that question. Behind the truck tax was a powerful lobby that didn't give a hoot about America's chicken farmers. That lobby enjoyed its protection against foreign pickup trucks, not only German but also Japanese. So why would the automakers want to let go of their shelter from competition merely because the chicken farmers were freed from their foreign tax? They wouldn't, and they didn't. As a result, Americans pay more for pickups than should have to. (Bryce Hoffman notes that the tariff would have disappeared with the Trans-Pacific Partnership.)

Note the public choice lesson. Bad unintended consequences will likely flow from government policy, regardless of intentions, because it will be driven by concentrated and well-organized special interests and politicians who usually will be more sensitive to those interests, which can deploy money and votes, than to consumers, who are diffuse and unorganized. (We might say that the consumers' interest is the best approximation of the public interest.)

That's only part of the picture. Whenever the government has the power to interfere with our trade, it also has the power to exert leverage on others, including other governments, that may have nothing to do with trade. Thomas Jefferson loved to impose trade embargoes, which he called "peaceful coercion." This week Donald Trump delayed for 30 days the imposition of new tariffs on imported steel and aluminum from the European Union, Canada, and Mexico. He also moved toward canceling those tariffs for Australia, Brazil, Argentina. Is he seeking something in return for scrapping the tariffs? Is he telling

the Europeans that if they do not support his hawkish position on Iran, he will go ahead with the trade restrictions? What did he get in return from the other countries?

We don't know. But if Trump has the power to restrict trade, he has the power to forgo restrictions in return for other things he wants — and those other things are unlikely to be good for most Americans, not to mention the rest of the world.

David Hume said that in proposing government policy, we should assume that the people who will carry them out are “knaves.” That of course means trade policy too.