

# PUBLIC CHOICE THEORY, PROTECTIONISM AND THE CASE OF NAFTA

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*Public choice theory suggests that the political process has an in-built tendency to promote protectionist measures favoured by organised interest groups rather than trade liberalisation that would benefit society as a whole. But the example of the North American Free Trade Agreement shows that political campaigns in support of free trade can successfully mobilise public opinion to neutralise the power of special-interest groups. Therefore, it is imperative that politicians and others who believe in free trade remind the public of its benefits.*

## **Introduction: trade policy and public choice**

Trade policy often seems to be dominated by organised special-interest groups at the expense of individuals outside those groups and the economy as a whole. Agricultural communities, steel communities and automotive communities, for example, all seek to gain a competitive advantage over foreign products through subsidies and tariffs and pass the costs of this protectionism to domestic consumers. Yet policies such as the Common Agricultural Policy (CAP) or voluntary import quotas are often ignored by the public unless sufficient media attention brings them to the fore. As a result, trade policy is often formed by elite groups that distort economic policy for personal gain.

The situation depicted above is a common occurrence in politics. Public choice theory seeks to describe how and why governments can fall prey to such pathologies. It combats the common misconception that governments are more efficient than markets at allocating scarce resources by highlighting such examples, citing them as 'government failures'. Here, governments are enlisted to amend market failures through legislation and regulation, but instead fail to act in the interests of society and allow specific group strongholds to take root, distorting the market rather than amending it.<sup>1</sup>

Public choice theory assumes that voters are rationally ignorant: voters in highly populated voting districts rightly believe that their vote does not matter. As a consequence, voters seek a low involvement in politics because the time it takes to become politically informed is more costly than

the benefits of voting. This indeed is one rationale for the significantly low levels of voter turnout in the United States. Concomitantly, public choice theorists assume that because there is little involvement by voters, ample political room is left for special interests to manoeuvre. Lobbyists and special-interest groups are relatively unopposed in gaining political sway, only occasionally bumping into epistemic communities, such as think tanks like the IEA. Sectional interests hold politicians hostage through campaign donations and political support, seeking to align politicians' stances with their own.

Trade policy is particularly vulnerable to capture by special interests. First, the seemingly low salience and relatively high technicality of trade issues allows trade policy to be drastically distorted without much public attention. Second, because the costs of protectionism can be spread across an economy, special interests have a larger incentive to influence trade policy than the general public. For instance, in the United States, a subsidy worth £7 million can be spread across the population for less than a penny per person. At the same time, the costs for politicians in not aiding special interests are large enough to alter their own actions to the benefit of these groups; politicians know that economic subsidies can easily be transferred to electoral votes.

## **Neutralising the power of special interests: the case of NAFTA**

In order to circumvent this process, politicians must seek to get voters involved, thereby eliminating the political vacuum in which special interests operate. They must be able to convince voters that the

reduction of tariffs and subsidies, in other words the formation of a liberal trade policy, is in their interests rather than trade protectionism. However, rational voter ignorance would make this solution seem highly improbable.

Does rational voter ignorance actually exist? Certainly, all of us at one time or another have met someone who lacks political intelligence, presumably reaffirming the claims of rational voter ignorance. However, when dealing with trade policy it seems that the public at large is relatively uninformed and (albeit less so from the recent attacks against free trade) un-opinionated, and yet, politicians are often unwilling to take their arguments to the people leading back to the vicious cycle outlined in public choice theory.

The North Atlantic Free Trade Agreement (NAFTA), however, may provide a poignant example of a case where special interests were pushed aside for the benefits of freer trade. And, while scholars may argue whether NAFTA represents a move towards freer trade, or if it symbolises the formation of trade regionalism, the arguments given by the politicians clearly indicate that NAFTA was assumed to be a step towards a more liberal trade regime rather than a preferential agreement.

NAFTA was passed in 1993 as a result of a highly publicised campaign. Two issues are worth pointing out with regard to the passage of NAFTA. First, voter opinion was highly consolidated by the end of the campaign. Voters who typically had no opinion over trade matters formed opinions not simply in respect of the benefits of NAFTA but with regard to the benefits of free trade in general. The campaign for NAFTA was met with significant opposition as anti-NAFTA groups vociferously argued against the bill's passage. Polling data showed that all segments of the population were influenced by the NAFTA debate. In the end, approximately 20% of the population who were previously ambivalent or anti-NAFTA were persuaded to support it (Uslaner, 1998, p. 354).

Second, polling data also showed that NAFTA was not generally supported/opposed for strategic reasons, i.e. it was not supported/opposed due to fear that Japan or the EU would gain control of the Mexican market. Rather, support was due to the belief that NAFTA would promote economic growth as a result of the benefits of freer trade (Uslaner, 1998, p. 345).

NAFTA was passed in the House of Representatives by 234 to 200 votes with one abstention, and had the support of 102 Democrats. Indeed, union groups punished Democratic NAFTA supporters in the 1994 elections. Yet, NAFTA is hardly the first time that the public has reacted positively to arguments for freer trade policy. Ronald Reagan and

Margaret Thatcher were both elected in large part because of their vision of reducing government waste and preserving the liberal market economy. In his 1985 State of the Union address, President Reagan stated: 'We can help farmers best not by expanding Federal payments but by making fundamental reforms, keeping interest rates heading down, and knocking down foreign trade barriers to American farm exports' (Reagan, 1985, no page).

Despite the long tradition of free trade and politicians such as Reagan and Thatcher reminding us of its benefits, it seems that movements towards protectionism remain strong. In July 2005, the United States approved the Central American Free Trade Agreement, which was passed by the House of Representatives by only two votes. Politicians had to be persuaded to vote for a free-trade agreement that would have a minimal impact on the US economy. As a result of this political bargain, the United States has asked China to voluntarily limit its clothing exports. Indeed, outsourcing to China and India incites fear in voters, who tend to see trade as zero-sum rather than beneficial to all. Richard Epstein (2003), in an editorial in the *Financial Times*, has written: 'Like other assets, public intellectual capital rapidly depreciates unless it is constantly replenished. Strong leadership must time and again remind voters of the basic truth that competitive markets offer the best use of scarce resources'.

The example of NAFTA demonstrates that despite the logic and power of public choice arguments, voters are not necessarily immune to arguments in favour of free trade, and in a time of rising protectionism it is important to again remind people of the essential truth of the case for trade liberalisation.

1. The classics of public choice theory include James M. Buchanan and Gordon Tullock, *The Calculus of Consent* (1962), Mancur Olson, *The Logic of Collective Action* (1965) and Kenneth Arrow, *Social Choice and Individual Values* (1951).

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