Note on the book
"Classical Trade Protectionism. 1815-1914"
Edited by Jean-Pierre Dormois and Pedro Lains

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Jean-Pierre Dormois and Pedro Lains collected a series of papers, which give a comprehensive presentation of what is known and what has been debated in the last fifteen years on the experience of trade policies followed by the Governments of the main European countries in the century spreading from the end of the Napoleonic Wars to the First World War. Some of the papers are easily accessible in economic history and economics journals. Others were translated into English for the need of this volume. The book is divided into two parts. It starts with a comparison of the extent and the nature of trade protection over time and between countries. Then, it investigates the effects of trade policy on economic performances. The book deals with important questions. It is consistent, extremely clear and pleasant to read, even by non-experts in economic history. It will interest any applied trade economist, even if the validity of its conclusion for the current period, and especially for the trade policy of emergent countries, remains a debatable question

The book starts with a provocative chapter by John Vincent Nye. The usual belief is that Britain had almost fully liberalised its international trade at the time of the repeal of the Corn Laws in 1846 (and still more after the Gladstone budget of 1860). However, France was much slower in the process of liberalisation, and will have to wait until after the Cobden-Chevalier Treaty of 1860 to be considered as an almost free trade country. Nye computes average tariff rates for the two countries on the period 1821-1913 and concludes that Britain had been a more protectionist country than France until the end of the 1870s. This conclusion is vindicated in a chapter by Richard Irwin. High tariffs on a good are protectionist only if the country produces or can produce this good. Britain high tariffs were charged on exotic goods (tea, coffee, sugar, tobacco, spirits) and on wine, which could not be produced domestically. These tariffs were imposed for a revenue purpose and had no effect on the productive structure of the British economy. The discussion between Nye and Irving quickly turns to the tariff on wine. Britain produced beer, which is a substitute of wine. There was an excise tax on beer, but with a rate much lower than the rate on wine. Moreover, French wine was the most heavily taxed, and the fact that British merchants had commercial interest in the wine industry of Portugal was probably connected to that. However, trade policy protected only a minor part of British production, and the distinction between protective and revenue tariffs is very convincing. The chapter by Antonio Tena Junguito confirms the importance of this distinction, but also of the bias included in the average tariff's measures when the various kinds of imports have different price elasticity. The correction of this bias is sufficient to show that Spain was more protectionist and Italy less protectionist than what is suggested by the usual computation.

Average tariffs are a very crude and often misleading measure of protection. Two other papers of the volume introduce more satisfactory measures. Kevin O'Rourke follows an idea proposed by Anderson and Neary, and measures the extent of protection of a country by its loss in welfare induced by its tariffs. Thus O'Rourke weighs the tariff raised on each good not by its share in imports, but by the marginal welfare loss induced by this tariff. O'Rourke implements this idea by building computable general equilibrium models of Britain and France on the period 1837-1876. The methodology developed in this chapter is convincing and clever. However, the results are very sensitive to the evaluation of the substitutability between the heavily taxed imported goods and their domestically produced equivalents. Thus, we are back to the previous discussion and to the problem of the substitutability of British ale to French wine.

The measure of protection proposed by Antoni Estevadeordal was originally introduced by Edward Leamer and is based on a Heckscher-Ohlin empirical trade model. If trade patterns for a country do not confirm with the predictions of this model, this is taken as evidence of protection. Estevadeordal computes two indices of protection for fifteen European and three non-European countries and for each of 46 tradable goods in 1913. Spain, Italy and Portugal are identified as the most protectionist countries. France belonged among the most protectionist countries, well above the levels of Germany. Tena Junguito noticed in his chapter that, after the elimination of revenue tariffs, Germany was not the forerunner to protection in Continental Europe as the early adoption of the July 1879 Bismarck tariff would have us believe. The French backlash against globalisation materialised at least as early and more dramatically than the German one. Finally, Estevadeordal concludes that Argentina and

Canada were much less protectionist and Australia more protectionist than what a simple computation of the average tariff rate suggests. We will show that these evaluations, especially when they contradict more usual measures of protection, can solve some of the paradoxes, which are considered farther in the book.

The second question, which is investigated in this volume, is the effect of tariffs on growth in the late nineteenth century. The failure of the import substitution strategy, which was followed by most developing countries from 1950 to the 1980s has led most economists to conclude that protection impairs development. However, the orthodox view on the period before the First World War such that it was developed by Paul Bairoch thirty years ago, is just the opposite. Bairoch claims that the second wave of European industrialisation as well as the concomitant expansion of international trade were boosted by the very protectionist policies designed to retard and hamper them. A paper by Kevin O'Rourke brings fresh light to this question by giving estimations of a growth equation on a panel of ten countries (three in the New World and seven in Europe) over the period 1875-1914. The conclusion of O'Rourke is that the positive effect of protection on growth is very robust, to the list of countries included in the panel, and to the explanatory variables introduced in the equation. So, the conclusion of Bairoch is confirmed.

O'Rourke measures protection by the average tariff rate and we saw that this measure is quite debatable. Moreover, econometrics over a panel of countries, a popular method among macroeconomists and development economists in the 1980s and 1990s, raises a lot of methodological questions, among them the reduced (or weakly structural) form of the estimated equations, the possible endogeneity of their explanatory variables, and the bias induced by omitted variables. Richard Irwin follows these lines. New World European countries such as Canada, Argentine and even the United States, strongly benefited from the exploitation of new land and of the exports of staple products. However, the easiest way for the Government to collect revenue in land-abundant countries with a widely dispersed population was to tax imports. Irwin plots a graph showing a positive relation between the average tariff in 1890 and the ratio of productive land to population. But these tariffs play a minor role in the growth of these countries. On the other hand, Portugal and Brazil, which had high tariffs but poor growth, were not introduced in the panel of O'Rourke. In Australia, the two largest colonies, New South Wales and Victoria had similar disappointing economic performances, although Victoria followed a protectionist policy and New South Wales embraced free trade, before federation in 1901.

Jean-Pierre Dormois estimates for the years 1870, 1890 and 1912 the effect of protection on labour productivity and on the mobility of labour on a data set pooling the data of twelve sectors of four countries. He finds that the more open were industries to trade, the higher their gains in terms of productivity. Moreover, tariffs slow down the redeployment of labour from less to more productive forms of activity. The contradiction between these results and those of O'Rourke, is astounding and feeds scepticism on their very similar econometric methodology.

So, we are left with the search of another methodology. Monographs of countries, carefully investigating the history of their economic performances and of their trade policy, can teach us a lot. The last chapters of the book do that.

The chapter by Béatrice Dedinger bears on the German case from 1850 to 1914. The orthodox thesis developed by Paul Bairoch was that Germany was the first nation to draw the lessons from the failure of free trade policies. In 1879 she adopted a well-balanced tariff, which fostered industrialisation without hurting agriculture. However, Dedinger notices that protection, after having fallen from the 1840s to very low levels in the 1870s, increased thereafter but without reaching the pre-1855 levels. After 1880, Germany's global rate of nominal protection, at around 8 per cent, was inferior to France's and Italy's, and barely superior to that of Britain. At the end of the nineteenth century protection was high in a handful of industries: rye and wheat growing, cotton spinning, pig iron smelting and perhaps rail making, representing together 2-3 percent of all exports and around 7 percent of all imports. These protections were designed to uphold and preserve traditional activities, a reaction against the competition of Russian and North American wheat and rye growers and of Belgian and British iron founders. Dedinger computes the correlation across industries between tariff protection and the change in comparative advantage. This correlation is near zero; which contradicts the validity for Germany of the infant industries argument of List.

The chapter on Italy by Giovanni Federico adds convincing arguments. The free-trade policy, initiated by Cavour, was formally abandoned at the end of the 1870s. The years 1887-8 marked the peak in protection. The trade war with France which resulted from the last increase in tariffs turned out to be a disaster. So tariffs will continuously decrease from the beginning of the 1890s to the first World War. The increase in tariffs from 1877 to 1887 bore on wheat. But it was still more important on revenue goods such as sugar, petroleum and coffee. The protection of other sectors of the economy remained low.

Federico built a computable general equilibrium model for the Italian economy in 1911. The loss in welfare induced by protection was low. However, protection had a strong positive effect on wheat growing, a more moderate effect on iron and steel, and an important negative effect on textiles. As labour was the abundant factor and as Italy is poor in agricultural land and did not have much capital at the end of the 19th century, trade policy did not result from a consistent industrialisation strategy.

Federico concludes that Italian trade policy seems to have been determined mainly by lobbying and by the need for tax revenue. On the four countries he investigates, Dormois shows that protection could not be explained as a consistent import-substitution policy based on the infant industry argument of List. Mature industries were selected for preferential treatment and the heterogeneity of protection across industries can be explained only by the relative power of their lobbies.

The chapter by Antonio Tena Junguito on Spain shows an interesting contrast between this country and Italy. The levels of protection in Spain were relatively high in 1875. Then, we observe an upward tendency, albeit cyclical in its evolution. This protection had an industrial bias. A chapter by Pedro Lains on Portugal and the Balkans shows very different degrees of openness to foreign trade and capital of these countries. Yet, there were no significant differences in the disappointing performance of their economies as none converged to the levels of income per capita of the first industrializer. This suggests that trade policy as a factor of development (or at least as an initiator of a development process) must not be overestimated.

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