

The Trade Reality: Managed Trade

The trade policy of any country represents a political compromise between the two forces outlined above—the perceived benefits of an open trade regime and protection conceded to those with a vested interest in the status quo. No country has a completely open trade regime, nor does any country practice total autarky. All countries operate trade regimes that fall in the middle ground of *managed trade*. Under a wide variety of rationales, certain industries receive protection from trade measures while others operate in a virtually free trade environment. Many of the existing trade restrictions are the result of retaliation for the actions of other countries who found it politically expedient to impose protectionist measures. Protection damages the interests of the countries from which they source their imports. For example, if German products using high-quality Swedish steel as a major input were excluded from the Japanese market, Sweden as well as Germany might retaliate against the Japanese. These countries often retaliate with protectionist measures of their own. The degree of protectionism and openness that characterizes a nation's economy is seldom static, with swings between more protection and more openness common. This is because politicians seldom envision that the protection they are extending is permanent and because the arguments for trade liberalization are so compelling. As a result, the long-term trend is toward liberalization while the short run can be punctuated with (often dramatic) increases in protection.

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When economies are booming, the forces of liberalization tend to gain the upper hand. In part, this is because in a growing economy it is far easier for those in industries whose relative efficiency is declining to find employment in alternative sectors. Industries experiencing rapid growth cannot be as choosy about their labor force and are more willing to make the investment in workers' retraining. Booms also mean that governments have more tax revenues available which can be applied to adjustment policies. On the other hand, during economic slumps, protectionists tend to be on the ascendency. Those who become unemployed will have difficulty finding employment in alternative industries. Governments faced with declining tax revenues and rising