

PROTECTIONISM OR FREE TRADE: A FALSE DILEMMA

It seems that the question from time immemorial – “Protectionism or free trade?” – has been given an unambiguous answer in three recent decades. On the one hand, technological progress assisted acceleration of internationalization of the production activities themselves, blurring borders between domestic and international division of labor. On the other hand, the fact that market economy has become a universal form of economic life’s arrangement on our planet after centrally managed socialist economies disappeared forever, served as a powerful incentive for the process of world economy’s globalization. It was supposed that disappearance of socialist economies would create the necessary socio-economic prerequisites for quick growth of the level of the world economic space’s homogeneity. The main task was to a large extent seen in undeviating measures for the so-called “negative integration,” associated with consecutive elimination of limitations preserved on the way of transnational movement of production factors.

Certainly, experts also paid attention to barriers capable to slow down the globalization process. Here the main problems were seen in unequal distribution of advantages and costs between countries, originating in the course of comprehensive liberalization of economic life. Challenges were acknowledged, first of all for the social sphere, proceeding from the danger of institutional vacuum’s origination in the course of deregulation of economic processes within national frameworks. Numerous research was dedicated to the monetary and financial system, the prospects of its evolution. However, the prevalent position was that all these problems cannot become an insurmountable obstacle on the way of historical globalization process. Solutions were seen both in enlargement of the world economy’s structure at the expense of formation and development of regional integration groups, and in coordination of national economic policies, and formation

¹ Director of the Moscow School of Economics at the Lomonosov Moscow State University, academician of the RAS, Dr. Sc. (Economics), Professor. Author of over 200 scientific publications, selected works: ‘Essays on the Economics of Post-Communism’, ‘Establishment and Functioning of Economic Institutions from ‘Robinsonade’ to Market Economy Based on Individual Production,’ ‘Central and Eastern Europe in the Second Half of the 20th century’ and others. Member of the Scientific Council of the Russian Security Council. He is awarded the order of Honour, ‘For Merits before Fatherland’ (degree 4). Honorary Doctor of SPbUHSS.

of inter- and supranational managing structures.

Until recently, the correctness of this approach did not cause special doubts either in the expert community, or in case of statesmen of the overwhelming majority of states. And this is not surprising: the evidences of the globalization process' triumphant course seemed very convincing. Until the financial and economic crisis of 2007-2009, transnational flows of goods, services, capital increased quickly. The strengthening of economic inter-dependence of states was evident: it's enough to refer to the rapt attention with which the whole world follows the economic development of China, which in recent decades has turned into the engine of the

world economy. Transnational structures were acquiring more and more increasing role in the world economy's functioning, in 2008 there were 82,000 of them². The development of integration processes in various parts of the world went on increasing. The Trans-Pacific and Transatlantic trade and investment partnerships alone, initiated by the United States, were to unite the states, to which the most part of world production and trade is referred, with firm economic ties. Finally, new and new elements of the global economy management system were formed steadily and uninterruptedly (inter-state agreements regulating various aspects of international economic relations, developed system of international economic organizations, creation of groups of states – G-2, G-7, G-20, in the framework of which both strategic aims and economic policies are coordinated).

However, in recent year, evident signs of the globalization process' "skidding" appeared. It was found out that even from the point of view of quantity, the progress in the field of trans-border movement of goods, services and capital is not stable – we witnessed its considerable slowing down in the post-crisis years. The liberalization course for international economic ties turned out to be not so effective as it had been expected: its side effects were very serious crises which the world economy encountered, first of all in the financial sphere. Either these or that

² See B. Desgardins. Clouds Hanging Over Globalization. In: "Contemporary Global Challenges and National Interests. XVI International Likhachev Scientific Conference, May 19-21, 2016". St. Petersburg, 2016. P. 89.

states are unsatisfied with the influence of international economic processes on their economic development and take protective measures. The situation is aggravated by the fact that separate groups of countries grossly violate universal international agreements, unilaterally introducing such measures obstructing the globalization process as economic sanctions. A number of the biggest integration initiatives found themselves under a threat. Brexit indicated the start of a new stage of the already taking shape crisis within the framework of the European Union. The announced plans of the new US leaders present a distinct threat for integration processes on the territory of North America, trans-ocean partnerships and the European Union to a certain extent.

The fact that the threat for globalization processes comes from the states referred to as the developed world, turned out to be unexpected and such states as China, India and Russia express serious apprehensions as to quick distribution of protectionist moods. And only recently exactly the developed countries actively convinced everyone that comprehensive liberalization of economic activities is the only way to flourishing.

What is the reason of this paradoxical turn of events?

There is an explanation on the surface, connecting the globalization project's crisis with the role of exclusively political factors. Say, the problems the world economy has to deal with, come from certain actions of separate states, and the latter are political and not economic subjects. It could seem that this conclusion can be supported by such arguments as well. Had there been some miraculous way to refuse from nation-states, set up a world government and introduce common world currency, then there just won't be any obstacles left on the way of "rational economic activities" on global scales.

However, this explanation does not explain much: these or that considerations with certain meaning are behind governments' actions, including purely economic. Let's try to examine from this point of view the reasons for cardinal changes which

D. Trump's administration intends to introduce into the US economic policy.

It's known that the result of the course for comprehensive liberalization of economic activities carried out during the recent decades, is a radical change of the American economy's structure: the share of the real sector in the gross domestic product decreased considerably below twenty percent. While the industry's flow from the country was accompanied by the growth of its economic power at the expense of dominating in high tech and financial fields, such trends did not cause apprehension, on the contrary they were perceived as nearly an inalienable feature of the highly developed ("service") economy. But the "natural," meaning exclusively market course of affairs led to a gross financial crisis of 2007-2009, which questioned the very adequacy of the formed world financial system to the requirements of contemporary economy. The financial sector entered the stage of serious and it seems long crisis. Naturally, this turned out to be a powerful blow on the countries specializing in providing financial services. Certainly, a government can watch the events taking place as if from a distance, not interfering in the actions of market forces. However, this policy is extremely risky: the prospects for restoration of the financial sector in previous amounts are very dubious, and overflow of the capital to other sectors of national economy is restrained by conditions of international rivalry. Long stagnation accompanied by high unemployment rates and decreasing standard of living, is fairly probable in this situation. Should we be surprised, taking the above-said into account, that authorities can choose active protectionism giving a chance to fairly quickly return the facilities, which "emigrated" from the country in the past, to its territory? Especially if we are speaking about the government of the leading country in the world which actually may not fear a proportional answer from other states.

The Brexit's immediate reasons are of a different character: the UK was no longer satisfied with the "rules of the game" acting in the European Union. They are migration, industrial and tax policies, the level of dissatisfaction with which turned out to be so strong that the advantages, which belonging to the common economic space of the EU countries gives, went to the background.

However, the deep-laid bases for the cardinal change of the course in the

mentioned cases have common nature – understanding of social well-being by decision-makers seriously changed both in the United States and the UK. The things which were just yesterday considered profitable for the country, are perceived by them today (and they are sure that by the people as well) as contrary to the public interests.

But can we be sure that in such cases they are speaking about the real interests of the society and not subjective ideas of politicians speaking on its behalf? It's impossible to answer this question without touching the famous "social choice problem." In the end, its contents come down to searching the answer to the question: are there are objective conditions for rational behavior of a group, and if there are such conditions, how should its decisions be characterized in favor of general welfare?

The discussion of the issue has been going on for several decades already. It's not possible to go into its details here³. We'll only mention that quite often the issue of a group choice is considerably simplified and is put in relation to this or that institutional environment. In this case, a researcher concentrates his/her attention not on the search for the best decision from the point of view of a group's interests. The very result of social choice in the environment of the set institutional limitations becomes the subject of interest.

The basic rules of social choice, assisting harmonization of individual preferences in respect of common deeds are democratic procedures based on voting as well as the market mechanism for coordination of individual interests³. It is known that various voting algorithms are widely used in cases of taking group decisions. However, an organic flaw of this rule of social choice has been known since the times of Condorcet: depending on the order of alternatives for voting, conducted according to one and the same procedure, the results of voting may be completely different (the so-called "voting paradox"). This state of affairs is connected with the fact that the voting mechanism is incapable to reveal the

³ "In a capitalist democracy there are essentially two methods by which social choices can be made: voting, typically used to make 'political' decisions, and the market mechanism, typically used to make 'economic' decisions" (K. Arrow. Social Choice and Individual Values. 2d ed. New Haven: Cowles Foundation, 1963. P. 1).

intensiveness of individual preferences in respect of available opportunities. In this sense the market mechanism differs from democratic procedures for the best: the intensity of individual requirements is in demand's differences, which is presented by the same economic agents in cases of different price levels. In case of the presented viewing angle, the state of the common market balance is a point⁴ for coordination of individual interests, i.e. such a position, which none of the participants wants to change.

Under the conditions of democratic procedures for social choice, the above-mentioned institutional limitations lie in the approved by the group voting algorithm (simple or qualified majority, with the latter to take unlimited number of forms). The basic institutions for the market mechanism – and it exactly is of interest to us here – are respect for private property, recognition of freedom of society members in entering into market deals, committing character of terms and conditions provided for in these deals. The attitude of the society members to the results of the market mechanism's functioning depends on the extent of such agreement. If citizens are unanimous in acknowledgement of the basic institutions of market economy, they will look upon the state of the general market balance as a social optimum. Rejection of basic institutions (e.g. negative attitude to distribution of property rights existing in the society), will on the contrary bring about dissatisfaction in the results of the market mechanism's functioning.

Here it's important for us to fix the following notion. Search for the optimum group decision in the environment of the set institutional limitations, from the purely logical point of view, is detrimental in the sense that it leads to a closed circle of reasoning. It turns out that in order to coordinate the general approach to solution of this or that issue, group members should preliminary agree upon the way of coordinating the issues being of common interest⁵. But – for lack of

⁴ Here we divert from the fact that in reality there can be many such points (Sonnenschein – Mantel – Debreu famous theorem).

⁵ “The selection of a decision-making rule is itself a group choice, and it is not possible to discuss positively the basic choice-making of a social group except under carefully specified assumptions about rules. We confront a problem of infinite regression here” (Buchanan, J.M. and Tullock, G. The Calculus of Consent: Logical Foundations of Constitutional Democracy. 3.1.10. <http://www.econlib.org>).

nothing best – people act exactly like that in reality. And exactly because of that institutional structures preserve their strength until group members agree to results obtained on their basis. As soon as this agreement disappears, there are changes entered into the functioning institutions. If they do not succeed in such a correction, in the course of which interests of the group members clash, group's disintegration is possible⁶.

As for the market mechanism as an instrument of social choice, one should pay attention to the following circumstances as well. In some cases well-known to the economics, the market “falters” even in case of absolute “piety” to its basic institutions on the part of the society members. Then the market can find a point of interests' coordination (meaning: get into general equilibrium), though such a point exists in principle. Market failures in regulation of production of public goods, side effects from economic activities as well as failures in coordination of interests of deal participants in the environment of asymmetric information can serve as examples. A strictly economic requirement – and that should be emphasized – for the state's “intrusion” into allocation of resources originates in all those cases.

The following circumstances are no less important. The market is a powerful instrument for finding out and coordination of not all but only a part of individual preferences. It is blind to interests beyond the borders of strictly selfish strivings. Because of that, general market equilibrium is a point for coordination of interests of so-called A. Smith's “economic men”; it's their ideal. But for common people, who are more or less interested not only in their own consumption but also well-being of other society members, general equilibrium is not necessarily a synonym of a social ideal. Taking into account altruistic moods of the society members, the latter will be in the overwhelming majority of cases characterized by placement of resources different from pure market placement. This in its turn means that a requirement in entering corrections into allocation of production factors, forming on the basis of the market mechanism's functioning, appears (at

⁶ Demonstrative examples of such kind are provided by the history of formation, life and disintegration of many states.

least can appear) not as a result of “political whims” but purely because of economic motives.

The thesis on “economic inevitability” of the more and more complete globalization of economic activities could be unquestionable only in case people on the planet were not interested in anything except their personal consumption. Then we should have subscribed without any clauses to K. Marx’s idea that private interests in the bourgeois society “divide each nation into as many nations as there are grown-ups in it.”⁷ Consequently, the function of the state going beyond the obligations of a “night watch,” should be looked upon as definitely excessive and because of that subject to elimination.

But as we’ve seen, the state of affairs is considerably more complex. Because of special features of historical process, all states are characterized by more or less cultural originality, rooted in values shared by its citizens. Most people feel themselves, first of all, to be citizens of their state and only after that of the whole world. Their idea of a social ideal is first of all associated with the state of their Motherland and only after that the whole planet.

The world economy in this environment turns out to be a very complex system, within the framework of which companies and consumers from various countries, transnational corporations, nation-states, international economic organizations, international integration associations interact. At the same time nation-states, international integration structures are not phantom but proper subjects of international economic relations, aspiring to represent common interests of their citizens or states. The fact that these interests cannot be unambiguously defined, makes the problem even more intricate. As it was shown above, the wording of national interests (interests of integration associations) takes place not “in general,” but within certain institutional frameworks, which can be doubted themselves under the influence of the actual course of events.

In this situation striving to rely exceptionally on calls to free trade and assistance to the “objective” process of economic life’s globalization, is non-

⁷ Marx K., Engels F. Works 2nd ed., V. 46, Part I, p. 102

constructive at best and capable to lead to serious conflict on international arena at worst. To a large extent, there is just no alternative to hard everyday work in coordination of interests of all participants of international economic cooperation. It's sensible to expect that the scales of transnational flows of goods, services and capital will in future show a steady upward trend as well. But at the same time the liberalization trend in international economic relations may prevail in some sectors in some periods, and in other sectors in other periods there may be a prevalent trend for strengthening of their regulation ("protectionism") at the level of separate states and their integration associations. The prospects for formation of a uniform economic space on the territory of the whole globe are definitely not urgent in the near future. In that respect a well-known thesis is fairly grounded: "The movement is everything, the final goal is nothing."