

The Political Economy of Reciprocity: A Reply

H.W. ARNDT

I am grateful to Professor Rothschild for giving me the opportunity to clarify one or two points.

My article was about the political economy of reciprocity. In focusing on the political pressures behind reciprocity, I was not suggesting that reciprocity is "only a political phenomenon" (p. 112), any more that the authors of a book on *The Political Economy of Tax Reform* would dispute that tax reform has economic motives. As Professor Rothschild concedes, I merely claimed that political factors are *mainly* responsible for the insistence on reciprocity. I admitted that there are economic arguments for protectionist policies but suggested that none of these "rivals voodoo economics as reinforcement of producer interests behind the principle of reciprocity".

I have a little more difficulty in going along with Professor Rothschild's specific economic arguments. I agree that a country pursuing more expansionary macroeconomic policies than its trade partners can run into balance of payments difficulties and that, in these circumstances, "Reciprocity in trade negotiations can at least help" (p. 111). Indeed I said so. What troubles me is Professor Rothschild's suggestion that "the picture changes radically" when we confront the real world, and in particular "problems of unused capacity, unemployment, demand deficiency, etc." (p. 110). The notion of "serious trade-off problems between employment and trade requirements" (p. 111) seems to me to put implicitly too much emphasis on Keynesian demand management as the answer to current

□ Research School of Pacific Studies, Australian National University, Canberra, ACT (Australia).

unemployment problems and to give too much encouragement to protectionists.

Professor Rothschild's second argument for reciprocity is its role in structural adjustment. "It makes it easier for a country to accept the transition costs for its exposed 'weak' sectors if its efficient branches get a better chance to expand abroad" (p. 112). I would not deny this. But do the strong industries need such help? Why not unilaterally liberalise trade, rather than spend seven years on tortuous negotiations for reciprocal concessions, giving consumers access to cheaper and better imports, putting competitive pressure on hitherto protected 'weak' industries to look for export markets and benefitting from similar unilateral trade liberalisation in partner countries? This is the APEC approach formally adopted at Bogor (Indonesia) last November by the Asian-Pacific group of countries. It relies on the "implicit reciprocity" of a collective resolve to liberalise trade unilaterally and in this way promote the dynamic growth and balance expansion of trade which are also Professor Rothschild's objectives.

Of course, it is good for us if foreign countries reduce barriers to our exports. But should we make our barrier reductions conditional on getting this extra benefit? Is the best the enemy of the good?¹

¹ I am indebted to Richard Snape for suggesting the addition of this paragraph.