

Title: “Progress or Misplaced Emphasis? A Critical Re-examination of the Trade and Welfare Literature as the Foundation for Development through Trade Liberalization”

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ABSTRACT

To the mainstream historian of economic thought, the drive toward trade liberalization to promote development in the last few decades has significantly been informed by the trade and welfare literature which has two elements. One is the centuries-old argument for free trade. The second is the postwar development of the theory of commercial policies that leads to the conclusion that any trade intervention to correct a market failure is, save for some unlikely circumstances, always less efficient than some non-trade intervention. Viewed against a background of the development of the theory of general equilibrium based on competitive exchange and its associated welfare propositions, these two elements represent successive steps in the progress toward establishing free trade as the ubiquitously desirable policy.

This paper argues, however, that if the classical economists’ trade and investment analyses and the works of the alleged ‘protectionists’ (e.g., Hamilton, List, Myrdal) are re-interpreted within the frameworks that they originally constructed for studying development, then the conclusion of ‘progress’ seems premature. Specifically, uneven development will result in this re-interpretation of classical analyses. And when the oversimplified infant-industry label is shunned and the literature on ‘protectionism’ is re-interpreted as broad programs for development, one finds that part of the wisdom contained in the trade and welfare literature has long been anticipated. More importantly, the complexity of the development process that was recognized, and hence the breadth of the programs proposed, suggest that the focus of the mainstream-defined debate on trade policy for development could be quite grossly misplaced.

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