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How Bright are the Northern Lights? Some Questions about Sweden

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Chapter 2

International Trade, Competitive Markets, and Economic Growth

Serendipitously, the unfolding of history in recent years has produced a surprising number of unintended or "natural" experiments that have generated the same kind of solid information about how the world works that we have been accustomed to getting from controlled experiments in the physical sciences. These inadvertent experiments have, for some reason, been brought to light only recently. The truths they reveal will (in conjunction with well-established results from more familiar sources) take us much of the way toward an answer to the question of why Sweden is as well off as it is.

The natural experiments involve international trade in manufactures by *smaller* countries and major alterations in the *size* of the countries or other jurisdictions that determine trade policies. I shall consider the lucky natural experiments carefully and then go on to discuss briefly how the findings from these experiments fit in with the more familiar sources of insight. To appreciate these experiments, we must first note that data on international trade in manufactured goods can yield insights that do not emerge so clearly from the study of trade in primary products and services.

Data on trade in manufactures are especially instructive because manufacturing is usually less dependent on natural resource endowments, and therefore a bit more sensitive to economic institutions and policies, than extractive industry is. Saudi Arabia and Iran export a great deal of oil, but this does not tell us very much about what policies or institutions these countries have nor offer a sound basis for judging the efficiency of resource allocation in them; the oil exports of these countries tell us more about their geology than about their economic and political systems. In the extractive industries generally, and even to a considerable extent in agriculture, the pattern of production and international trade is quite sensitive to the natural resource or climatic endowments of a country. The raw materials needed for manufactures can, by contrast,

be imported. Naturally, this often entails extra costs, but since transportation costs decrease as technology advances, the influence of endowments of natural resources on manufacturing is becoming smaller over time.

Although the location of service industries is often even less restricted by natural resources than manufacturing, the statistics and other information on services are poorer for services than for manufacturing. The pattern of exports of manufactures can accordingly often tell us more about what types of economic arrangements or systems are effective for economic development and growth than can other types of trade.

A thought-experiment will make it clear why data on the patterns of trade and the levels of protectionism of *smaller* countries is especially illuminating. Imagine a country so large that it was all the world except for Luxembourg. Suppose that this colossal country had prohibitive tariffs on trade with the rest of the world, namely Luxembourg. Obviously, this hypothetical country could not be affected that much by its tariffs against Luxembourg, because even without any protectionism most of what it purchased would in any event have been purchased internally. The protection, in other words, would have affected only a relatively small number of markets to a minor degree and thus could not have had any great consequence for our gigantic hypothetical country. I therefore conclude that in looking at the effects of protection, it is essential to consider the size of the jurisdiction that has the protection and to note that the biggest economies, like the United States and Japan, are not affected by protection nearly as much as smaller countries are.

This consideration also suggests that previous studies of protectionism have given relatively too much attention to the *height* of tariffs and other forms of protection and too little attention to their *mileage* or *length* - to the extent to which they confine trade. In other words, too little attention has been given to the size of the jurisdictions with protection; if there are many small jurisdictions with protection, the total length and impact of protective barriers will be very great, but if the only protective barriers are those that surround a few huge countries or common markets, the impact of protection will be limited.

A focus on manufacturing in smaller countries will not only generate some special insights, but also tell us something about certain recent developments in the theory of international trade. These recent developments appear to qualify the presumption from economic theory in favor of free trade, and to suggest that, when there is imperfect competition and decreasing costs, a country can sometimes increase its welfare with tariff protection. It is in manufacturing industries in smaller countries that decreasing costs and imperfect competition will usually be most striking, so our results should also help us test the practical applicability of recent developments in international trade.

If one goes outside the economics profession, there is, of course, often no presumption in favor of free trade at all. Many people suppose that successful manufacturing usually requires protection. It is often argued, for example, that the protection of infant industries will in due course give a country a comparative advantage in manufacturing that it would not otherwise have had, and that the country may profit

significantly from taking advantage of the new pattern of comparative advantage that protection has given it. Certainly, comparative advantage is not something that is given and static, but something that is made or achieved. One way to develop a competitive manufacturing industry, it is often said, is to protect this sector so that there will be learning-by-doing which will eventually enable the industry to become competitive. The data presented in this book will make it possible to obtain a powerful test of these familiar ideas.

Some Surprisingly Strong Statistical Relationships

In a previous paper, I was able to present calculations,¹ which I shall re-use here, of the percentages of the manufacturing output of various smaller countries that are exported. In other words, for all those small and medium-sized countries on which we found the needed data, I had the gross value of each country's manufacturing exports divided by the gross value of its manufacturing output. (I would have liked to divide the value added in manufactured exports by the value added in manufacturing in a country, but we did not find the data needed to do this.) So what is presented in Table 3 is the gross value of manufacturing exports divided by the gross value of manufacturing output. This provides, of course, the percentage of a country's manufacturing that it succeeds in exporting.

To ensure that the water is not muddied by countries so large that most of their trade would be internal trade even without any protection, I have excluded Italy and all larger developed industrial countries, and above all Japan and the United States. If countries are undeveloped and thus small in industrial terms, they are included no matter how large their populations might be. For most years, I do not have all of the needed data on the less developed countries. Fortunately, Bela Balassa and his associates at the World Bank made the needed estimates and calculations for various less developed countries for 1973. Thus Table 3 includes almost all small or medium-sized developed democratic countries and those developing countries for which we have the Balassa data for 1973. Table 4 contains the indexes of levels of tariffs on manufactured goods in the developed democracies that I had previously published in *The Rise and Decline of Nations*.

There is a striking pattern: if the countries have high levels of protection on manufacturing, they export very little of their manufactures. Argentina, a country that is extraordinarily protectionist (and whose economic performance during the last half century, as we have noted, makes the growth of the Swedish economy look awesomely good by comparison) exports only about 2.5 percent of its manufactures. (I have rounded all numbers to the nearest 2.5 percent to underline the shortcomings of the data

¹ Done for me by Kim Chohan, Alfred Forline, Michael Kendix, and Young Park.

Table 3: Comparisons of Export Percentages for Small, Medium-sized and Developing Countries, 1973

	Manufactured exports/manufactured output	Exports of "true" manufactures ^b /total exports	Exports of manufactures & processed primary product ^c /total exports
Argentina	2.5*	17	66
Australia ^a	7.5*	11	57
Austria	32.5	53	97
Brazil	5.0*	16	54
Canada	20.0	36	72
Chile	2.5*	1	86
Colombia	7.5*	12	31
Denmark	42.5	42	90
Finland	27.5	30	97
Greece	12.5	22	71
India	7.5	44	62
Ireland	37.5	36	83
Israel	15.0*	27	47
Korea	40.0*	64	93
Mexico	5.0*	30	64
Netherlands	45.0	33	85
New Zealand	5.0	14	80
Norway	35.0	40	91
Portugal	27.5	48	89
Singapore	42.5	37	76
Spain	16.0	43	85
Sweden	37.5	52	95
Taiwan	50.0*	na	85
Turkey	2.5*	13	34
Yugoslavia	17.5*	47	91

a Average of 1972, 1973 and 1974. b Manufactured exports include International Standard Industrial Classification sub-categories 32 (textiles), 38 (metal manufactures) and 39 (other manufactures).

c Manufactured exports include all processed primary products that are classified as manufactures in United Nations statistics.

Sources: For column 1. *United Nations Statistics*, except for the asterisked figures, which were obtained from Bela Balassa, of The World Bank, Washington, D.C.; for column 2. *Yearbook of International Trade Statistics*, United Nations, New York, for 1978 and 1979; and for column 3, the same two United Nations yearbooks plus *Economic Daily News*, Taipei, and *Economic Yearbook of the Republic of China 1980*, Taipei.

and the approximate character of the calculations.) So it was with other highly protectionist countries in 1973. Chile exported only 2.5 percent of its manufactures; Columbia only 7.5 percent; Greece only 12.5 percent; India only 7.5 percent; Mexico only 5 percent; Turkey only 2.5 percent. Brazil (a questionable inclusion because of its large size) exported only 5 percent of its manufactures.

Table 4 indicates that, of the developed democratic countries, New Zealand is the most protectionist; it exported only 5 percent of its manufacturing production. Australia is the second most protectionist on manufactures of the developed democracies, and it exported only about 7.5 percent of its manufactured output. Many countries allocate a great deal of labor and other resources to manufacturing, but can sell only a small percentage of their manufactured output in the competitive world market.

Let us now look at countries of similar industrial size with relatively open policies. Austria, which is a member of the European Free Trade Association and has relatively low tariffs, exports about a third of its manufactures. Denmark, a country singularly lacking in natural resources for manufacturing, nonetheless exports 42.5 percent of its manufactured output. Korea, with relatively open policies on manufacturing by the standards of developing countries, exports 40 percent of its production of manufactures. Similarly, the other countries with relatively little industrial protection export a large part of their manufactures: the Netherlands, 45 percent; Norway, 35 percent; Portugal, 27.5 percent; Singapore, 42.5 percent; Taiwan, 50 percent. As might be expected from its relatively low level of protection of manufactures, Sweden exported a healthy 37.5 percent of its manufactures in 1973. Most significantly, for the small and medium-sized countries on which I have succeeded in obtaining data, there is not a single exception to the rule that the countries that protect manufactures least, export manufactures most.

Note how this strong finding contrasts with the lack of any clear pattern in any direction in the data on the size of the welfare state and economic growth.

At this point, a specialist in international economics, or any economist who remembers to think of the tendency toward general equilibrium of the economy as a whole, may say there is an obvious explanation of the foregoing results. The country that has high levels of protection for manufactures may export little of its manufactures simply because protection that reduces imports also reduces the amount of that country's currency that is supplied to buy foreign exchange, so the protection tends to raise the value of the country's currency and thus reduce its exports. Over the long run the imports and exports of a country tend to balance, so countries that don't import much also won't export much.

If protection of all kinds and exports of all kinds were at issue, this argument could explain the foregoing results. But it is only the protection and trade of industrial products that has been considered. Countries such as Austria, Switzerland, the Common Market nations, and the Scandinavian countries - Sweden included - are exceptionally protectionist where agriculture is concerned. Yet, relatively speaking, they are not very protectionist in manufacturing. The high protection of agriculture in these countries

Table 4: Average Levels of Industrial Tariffs (notes on the upper part of next page)

					<i>World weights^c</i>			
	No trade weighing: ^a <i>simple average</i>		Own country import weighing: ^b		Import weights on BTN aggregates ^d		Import weights on each BTN commodity ^e	
	1976 Ave.	Final ^f Ave.	1976 Ave.	Final Ave.	1976 Ave.	Final Ave.	1976 Ave.	Final Ave.
Australia								
Dutiable ^g	28.8	28.0	29.1	28.1	27.8	26.7	26.4	25.2
Total ^h	16.9	16.5	15.4	15.1	13.3	12.8	13.0	12.6
New Zealand								
Dutiable	31.4	28.3	28.6	25.5	33.0	30.4	30.2	27.5
Total	24.3	21.9	19.7	17.6	20.5	18.7	18.0	16.3
EEC								
Dutiable	8.8	6.0	9.8	7.2	9.5	7.0	9.6	7.1
Total	8.0	5.5	6.3	4.6	7.0	5.2	6.9	5.1
United States								
Dutiable	15.6	9.2	8.3	5.7	9.2	5.5	7.6	4.8
Total	14.8	8.8	6.2	4.3	7.1	4.1	5.6	3.5
Japanⁱ								
Dutiable	8.1	6.2	6.9	4.9	8.0	5.7	7.9	5.5
Total	7.3	5.6	3.2	2.3	6.1	4.4	5.8	4.1
Canada								
Dutiable	13.7	7.8	13.1	8.9	12.0	7.3	12.9	8.3
Total	12.0	6.8	10.1	6.8	8.9	5.5	9.4	6.1
Austria								
Dutiable	14.2	9.8	18.8	14.5	15.9	12.0	17.0	13.3
Total	11.6	8.1	14.5	11.2	10.5	7.9	10.9	8.5
Finland								
Dutiable	17.0	14.6	11.6	9.2	11.2	9.0	11.5	9.1
Total	14.3	12.3	8.2	6.5	6.7	5.3	6.7	5.3
Norway								
Dutiable	11.1	8.2	10.5	8.0	10.2	7.4	10.0	7.5
Total	8.5	6.3	6.4	4.9	5.8	4.3	5.8	4.4
Sweden								
Dutiable	7.8	6.1	7.7	5.9	7.4	5.3	7.1	5.2
Total	6.2	4.9	6.3	4.8	4.6	3.3	4.5	3.3
Switzerland								
Dutiable	3.7	2.7	4.1	3.3	4.2	3.1	4.0	3.1
Total	3.7	2.7	4.0	3.2	3.3	2.4	3.2	2.4

a. An average of tariff levels on the assumption that all commodities are of equal significance; b. The relative weight attributed to each tariff is given by the imports of that commodity by that country; c. The significance of each tariff determined by world imports of the commodity, or aggregate of commodities, to which the tariff applies. World imports are the imports of the countries listed and the EEC. For Notes d. through i. and the sources, see *The Rise and Decline of Nations*.

raises the value of their currencies and reduces the extent of their exports of manufactures. They nonetheless export a large percentage of their manufactures. Similarly, many of the countries with extraordinarily high levels of industrial protection, such as Argentina, nonetheless export a fair amount of primary products.

To obtain a more general test of whether something besides exchange-rate or "general equilibrium" effects is operating, I turn now to some calculations done partly for the Holger Crafoord lecture in Lund out of which this essay grows. These calculations are in columns 2 and 3 of Table 3. These columns provide alternative measures of the *proportion* of a country's *exports* that are manufactured or "processed" products. Though any statistical segregation of manufactures here is arbitrary, the middle column is probably the better measure of "true" manufactures. (Fortunately, the results are probably not very sensitive to the definition of manufactures as the two columns are positively correlated.)

These data show that there is a distinct (though not a very strong) tendency for the countries with *high* levels of *protection* of *manufactures* to have a *relatively low percentage* of exports that are *manufactures*. This suggests that the protection of manufactures may well discourage efficiency *disproportionately* in the manufacturing sector.²

There is still further evidence that the failure of those small and medium-sized countries that lavishly protect manufactures to develop profitable manufacturing export industries is not due only to exchange rate effects. A country that changes from relatively open policies to high protection of manufactures may actually reduce the rate of growth of manufacturing output for domestic as well as international use. For example, after 1930 and especially under the regime of Juan Peron, Argentina increased

² One other factor probably helps to explain the limited proportion of exports that are manufactures in countries that are very protective of manufacturing. The supply curves of many primary product industries may be relatively inelastic, so *some* of the enterprises in these industries will be able to produce *some* output at modest costs even when the country's institutions are not efficient. Countries with some exceptionally good mines or oil wells may be expected to export some of the yield of their natural resources even if the whole economy is badly organized. The Soviet Union fails to sell much in the way of manufactured goods in free foreign markets and has even lost the large agricultural exports it had in czarist times; it does nonetheless export relatively large amounts of the production of its mines and wells and thus may illustrate this point. (I am thankful to Christopher Clague for calling this point to my attention.)

its protection of manufactures to a colossal level and systematically exploited its agricultural export industries. As an authoritative study concludes, "the most ironic lesson of postwar Argentine experience is that if there had been less discrimination against exports, manufacturing expansion would have been greater. Indeed, the annual growth rate of manufacturing during 1900-29 (5.6 percent) was higher than during 1929-65 (3.7 percent)."³

The Historical Relationship Is Also Strong

I have argued above that protection has a much greater impact in smaller countries than large ones and we found in the data on smaller countries a strong relationship between relative openness to imports of manufactures and success in manufacturing. We can corroborate or refute the foregoing results by looking at the historical evidence on the consequences of great increases in the size of countries or jurisdictions with trade barriers. If protectionism has a much greater impact on smaller jurisdictions, and if this impact is overwhelmingly harmful, then we should expect that dramatic increases in the size of a protectionist jurisdiction would greatly reduce the damage done by the protection. This is a question that I examined in *The Rise and Decline of Nations*, which offers theoretical reasons why a sudden and substantial increase in the size of a protectionist jurisdiction should stimulate rapid economic development. To facilitate a comparison of the historical evidence on the impact of protectionism with the cross-country evidence that has just been presented, I casually summarize here my evidence from *Rise and Decline* on whether the great periods of freeing of trade - by the method of increasing the size of the jurisdiction with protection - have in fact been associated with rapid economic development.

Though the explicit efforts to reduce tariffs and quotas have received more attention, it appears that the quantitatively most important freeing up of trade has, in fact, occurred when larger jurisdictions have been created and the mileage or length of protection thereby reduced. The most notable reduction in the length of tariff barriers in recent times was brought about by the creation of the Common Market in Europe through the Treaty of Rome in 1957. What happened through the Common Market has happened many times in history, usually through national unification that, often inadvertently, freed trade by creating a far larger market in which, even if there high protection around the newly unified country, there were no barriers to internal trade.

In the 1830s in Germany, for example, a Zollverein or customs union was created, and gradually extended and deepened, until it culminated in the German Reich that was completed in 1871. It is interesting that most of the German-speaking areas of Europe

³ Carlos Diaz Alejandro, *Essays on the Economic History of the Argentine Republic* (New Haven & London: Yale University Press, 1970), page 138; see also pages 126, 139-40, 252, 259-60, and 271-72.

were relatively poor in the period before the Zollverein and the German Reich were created. In the eighteenth and early nineteenth centuries, Germany was far poorer than Britain and the Netherlands, and probably also had a distinctly lower income than France. Nonetheless, in the second half of the nineteenth century and in the years up to World War I, the German economy grew at an extraordinary rate, so that by World War I Germany was undoubtedly one of the greatest industrial powers of the world.

I call phenomena such as the creation of the Common Market and German unification examples of "jurisdictional integration": such integration occurs whenever a much bigger jurisdiction is created that has *internal* free trade.

Japan offers another example of jurisdictional integration. Before the Meiji Restoration of 1867-68, Japan was divided into nearly three hundred separate feudal domains, each under its own feudal lord or "daimyo." Normally each of these domains had high levels of protection, limiting trade from that jurisdiction to other parts of the Japanese Archipelago. To the extent the Shogunate had some control over the whole of Japan, it used that control in part to make Japan as a whole virtually autarchic with the rest of the world, limiting trade and factor mobility with the outside world to a negligible level; even travel abroad was punishable by death.

The Meiji Restoration (or revolution) of 1867-68 created a free trade area within Japan. It eliminated the separate feudal jurisdictions and thus also the trade restrictions that went with them. At about the same time, a group of Western powers forced on Japan the "humiliating treaties." These treaties are described as "humiliating" because the Japanese were too weak to prevent their imposition. One of these treaties prohibited Japan from having any protective tariffs; for fifty years the country could have nothing more than tariffs for revenue only at rates of 5 percent or less. Because of the jurisdictional integration plus the "humiliating treaties," Japan experienced an increase in freedom of trade.

Japan was a poor and underdeveloped country before this process occurred. Some Western observers believed that the Japanese would never be able to manage modern economic life. Yet, not long after the Meiji Restoration, Japan began to grow very rapidly. One symptom of that growth, besides the evidence from the statistics, is that by 1904-05 Japan was already powerful enough to defeat Russia in a war.

At the end of the eighteenth century there was another example of jurisdictional integration - the United States. At the time of the Declaration of Independence in 1776, and for several years after, the thirteen ex-colonies were virtually independent countries. The U.S. government was created only in 1789, when the U.S. Constitution went into effect. The Constitution outlawed the tariffs that some states, such as New York, had imposed against imports from other states. So the United States then became a substantial market in which, internally, there has been free trade to this day. To be sure, through most of the nineteenth century and until the 1930s, the United States was a highly protectionist country. Nonetheless, because of the absence of tariffs by states and the great growth of the U.S. over the nineteenth century, the U.S. has enjoyed a large and growing unrestricted internal market.

We see much the same phenomenon when we go back to Holland in the 17th century. When the United Provinces rebelled against Spain, they created an area in which, generally speaking, there was internal free trade. Although the Netherlands was not large by the standards of countries today, by the feudal standards of the time it was reasonably substantial. Moreover, its location and flat topography - much of it below sea level - meant that it was uniquely suited to canals, so that it had an exceptionally large area that was accessible to water-borne transportation. Before long, Holland entered its "Golden Age" and became the world's leader in economic development.

If we go back still further to the end of the Middle Ages, we find that the first country in Europe to establish true unification was England, or more precisely, England and Wales. By the sixteenth century, the parochial feudal system had been all but abolished in England. Some time later Scotland was conquered and all of Great Britain was essentially one free market. The semiautonomous towns and feudal fiefs with their separate trade restrictions were made part of a unified Britain. Though the textbooks call this a mercantilistic period and correctly emphasize that there were high national tariffs, there was nevertheless a great freeing of trade because of the increase in the size of the jurisdictions that restricted trade. This was also the period of the Commercial Revolution and of substantial economic progress, which was soon to be interrupted by the English civil wars of the nineteenth century. After this unstable and revolutionary period ended, Britain became the location for the epochal economic progress of the Industrial Revolution.

Thus in several periods of history protection has been dramatically reduced simply because a big market replaced many small protected markets. Even though the big markets were sometimes highly protected, there was a great freeing of trade, which was followed in every case by rapid economic development.

Wider Evidence on Free Trade, Competitive Markets, and Growth

I have emphasized the foregoing evidence on the value of wide and unprotected markets as seedbeds of economic growth because it is a new and different type of evidence. But more familiar types of evidence point in the same direction. This is not the place to go over the massive literature on international trade, but it may be useful to refer briefly to the discovery in recent years, by leading specialists on international trade and economic development, that trade policy has incomparably more importance for the growth of the developing countries than economists previously realized.

As I see it, the discovery arose because most of the less-developed countries have chosen levels of protection of manufactures that are vastly higher - often ten or twenty times higher - than those in the developed democracies, while a minority of the developing societies have, by contrast, turned to "outward-looking" policies. The performance of these less protectionist societies has been incomparably better than that

of the societies with "inward looking" policies. This is evident not only from many careful studies of selected sets of countries, but also from the systematic examination of essentially all of the developing countries on which there is usable data. In a study summarized in the *World Development Report* for 1987,⁴ the World Bank examined 41 developing countries, which it classified according to the extent they were protectionist and inward looking, on the one hand, or approached relative neutrality in their treatment of imports and exports, on the other.

Notwithstanding the great importance of other factors, the less protectionist or more outward looking countries grew far more rapidly than the more inward looking, and usually did better by other measures of economic performance as well. As is well known, Hong Kong, Korea, and Singapore were distinguished both by their lesser use of protection and also by their rapid economic growth, but there was a similar if less marked variation in the degree of protection and in economic performance across the whole set of countries. Though it has not achieved anything like the per capita income of the three countries just named, Korea is nonetheless classified with the "gang of four" most successful developing countries. Some observers of Korea argue that it has had significant levels of protection and also that the country has by no means had a policy of *laissez faire*. There is evidence for the latter argument, but the high level of both imports and exports in Korea makes it clear that it has been, at least by the standards of most developing countries, definitely an outward-looking and relatively open country. In any event, a change in the classification of only one or a few countries would by no means eliminate the strong association between an outward orientation and faster growth found in data analyzed by the World Bank. Thus the evidence that the less protectionist developing countries have tended to have far better economic performance than more protectionist countries cannot be dismissed.

Another kind of evidence that is worth singling out is the record of the firms and industries in advanced countries that have been especially impressive in international competition. Michael E. Porter and his many associates have done a large scale, ten-nation study of many such firms and industries and the results have been published in Porter's book, *The Competitive Advantage of Nations*.⁵ That book examines an almost endless number of specific cases with a lot of convincing detail showing that the winning firms and industries in international competition have systematically been bred in environments in which there was vigorous domestic as well as international competition. In contrast, protectionism, cartelization, and subsidization have systematically failed to produce internationally impressive firms and industries. (An apparently disproportionate number of Porter's examples of successful firms and industries are Swedish, and we shall later see that this is not surprising in the light of my argument here.) The successful firms and industries are also regularly nourished and driven by what Porter calls a "cluster" of symbiotic and motivating activities - by a wide

⁴ Oxford University Press, 1987; see especially chapter 5. pp. 78-94.

⁵ New York: The Free Press, 1990.

array of competitive suppliers of inputs in the form of intermediate goods, by labor with the necessary specialized skills, and by pertinent and high quality research and education, and by demanding consumers with good alternatives. The combination of vigorous competition and unrestricted access to a vast variety of inputs generate the continued innovation and ever-increasing efficiency that are required for international competitive advantage.⁶ I conclude that there is no way that a small country with a high level of protection could have either the vigorous domestic competition or the symbiotic competitive cluster of activities and readily available inputs that are needed for success in international competition. Thus Porter's book provides yet another kind of evidence that uninhibited trade and large markets are decisively important for economic progress.

Still other kinds of evidence from all over the world (including eastern Europe) point in the same direction, but the time has come for us to relate the strong findings in this chapter to the ambiguous results in Chapter 1.

Why Does Protectionism Hurt Growth More than Welfare Does?

There is a puzzling contrast between the strong statistical and historical patterns suggesting that protectionism is extraordinarily damaging, especially in smaller countries, and the lack of any clear pattern in the raw facts on the size of the welfare state and economic growth. Why does government intervention in markets that cross international borders have such dramatic and easily demonstrated effects on economic performance, when the impact of the size of the welfare state on the rate of economic growth is difficult to discern in the aggregate data?

As we shall see, some forms of intervention in markets do indeed usually have far larger impacts on economic performance than others, in part because the impacts of some types of intervention are fairly closely monitored and thus limited, whereas others are not. The next chapter will distinguish two different types of redistributions of income that usually have quite different impacts on economic development. The type of redistribution of income that is more damaging to economic performance also turns out to be more complex and less conspicuous. Sweden has uniquely high levels of the more conspicuous but less costly type of redistribution, but it does not appear to have unusually high levels of the less conspicuous but more damaging type of redistribution. I shall attempt to show in this book that that is the single most important reason why Sweden is not doing worse than it is.

⁶ Independently, Christopher Clague has found by econometric methods that the manufactured exports of the less developed - and on average vastly more protectionist countries are, disproportionately, relatively self-contained products that can be produced without unrestricted access to a wide variety of intermediate goods and other inputs. See Christopher Clague, "Relative Efficiency, Self-Containment and Comparative Costs of Less-Developed Countries," *Economic Development and Cultural Change*, forthcoming.