Globalization and the Egalitarian Backlash:

Protectionism Versus Compensatory Free Trade *

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The widespread use of protectionist measures, in the form of either tariffs, quotas or more subtle regulatory measures, across the world presents the political economist with two striking theoretical and empirical puzzles. First, free trade is typically optimal for an economy. Second, trade policy is an inefficient tool for redistributing income.

Free trade generally cheapens the basket of goods and services citizens and firms consume, it widens the range of choices they have and it expands the economy's total output. Accordingly, most of the literature on the political economy of trade has resorted to the redistributive effects that trade may have on different domestic constituencies to explain protectionism. Given that trade openness often affects the distribution of wealth within an economy, that is, it makes the returns of different economic sectors conditional on the latter's international competitiveness and on the evolution of the world business cycle, scholars have concluded that the prevalence of protectionism simply reflects the political capacity of domestic losers to impose their preferences. Yet, if trade policy is a redistributive policy, this response is unsatisfactory. As repeatedly noted by trade theorists, establishing a system of direct compensation, such as a lump-sum transfer, for a particular economic sector that loses from free trade, achieves the same goal of preserving the welfare of that import-competing sector while, at the same time, minimizing the total deadweight loss for the economy.[1]

To put it differently, these two 'puzzles of protectionism' are too tightly related with each other to be treated separately. To understand in a satisfactory manner why protectionism occurs, we cannot simply point to the redistributive consequences of free trade and to the relative political strength of domestic losers. Instead, we must shift our attention to examine why protectionism is picked as a redistributive strategy over other possible policies. That is, we need to explain why do import-comepting

[1] The importance of this second 'puzzle of protectionism' has been forcefully made by Rodrik (1995).

sectors prefer to gain tariff protection rather than receive some sort of direct compensatory schemes.

With this goal in mind, this article models the choice of the level of trade openness and the level of direct compensation as two political decisions that are jointly taken by policy-makers and that lead to two broadly defined policy outcomes. On the one hand, national policy-makers can choose to close the domestic economy to insulate it from the variability of the world business cycle and to protect import-competing sectors. On the other hand, the sectors that gain from free trade can set up public programs to compensate trade losers to get the latter's political support for an open economy.[2]

Notice that these two outcomes entirely fit one of the central findings of the literature of international political economy in the last two decades: that higher levels of trade systematically lead to a larger public sector across both developed and developing nations (Cameron 1978; Rodrik 1998; Garrett 1998, 2001; Adserà and Boix 2002). But the theoretical interpretation this article suggests is at odds with the existing models.

Generally speaking, most scholars have interpreted that correlation as a causal relationship in which trade openness triggers higher levels of public spending. In Cameron (1978), trade openness shapes the structure of the economy in a way that facilitates the formation of organizations and interests that impose high redistributive demands on the state. In Katzenstein (1985) and Rodrik (1998), higher levels of trade integration (coupled with a high level of sectoral concentration in the economy) lead to growing risks, related to the volatility of the international business cycle, which in turn put pressure on policy-makers to develop publicly-financed compensatory programs in favor of the exposed sectors. In short, the level of trade openness is determined by parameters exogenous to the political decisions of domestic actors and, more importantly, domestic compensation automatically emerges as a response to the

[2] This approach draws on previous work done in Adserà and Boix (2002). In that paper there is a third outcome (free trade without compensation) which we do not pursue here.

distributive effects of free trade.

By contrast, in this article these two outcomes -- protectionism vs. free trade plus compensation -- emerge as two distinct solutions to the same dilemma: how to cope with the distributional effects of increasing trade integration. Compensation is not a mere derivation of trade openness but a truly political pre-condition needed to secure the liberalization of the economy. In the absence of the creation of compensatory mechanisms, protectionism will typically be imposed.[3]

Which redistributive strategy is eventually adopted (in response to the dilemmas posed by growing trade flows) may in part be a function of the distribution of interests in the domestic economy -- with import-competing and export sectors aligned in favor of different solutions (and with their relative size and organizational clout determining their capacity to impose their most favorable outcome). Ultimately, however, the policy regime in place is conditional on the structure of political institutions in each country and on the ability of free traders to commit, in a credible manner, to a compensation package. If free traders offer a compensatory package to lure part of the losing sectors, then a free trade solution will be imposed. Conversely, if they do not offer it or their offer is not reliable, the losing sectors would reject the deal and protectionism will ensue. In short, the choice of trade regime hinges on the strategic capacity of politicians to organize a particular coalition around one of two equally feasible outcomes.

To show the politically contingent nature of any trade regime, the paper proceeds in the following manner. Comparing a relatively large number of cases, it examines first the explanatory power of current theories of endogenous protection. We may wish to refer to them as 'strict' theories of endogenous

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[3] Free trade without compensation will only be imposed under two circumstances: there is an absolute majority that gains (with certainty) from free trade; and/or the free traders have been able to exclude the rest of society from the decision-making process. Again, this second circumstance is modeled and tested in Adserà and Boix (2002).

protection since they attempt to explain protectionism by reference to political choices strictly related to the trade issue.

Section 1 discusses the empirical validity of non-domestic theories of trade policy, that is, those theories that relate domestic policies to supra-national conditions: first, the effects of a change of world prices and of technologies on trade policy and, second, the strategic interaction of several nations in the choice of tariffs. Although the article finds some evidence for these two explanations, both models are found wanting: they cannot explain the wide level of cross-national variation in trade regimes in the last century and a half. Section 2 then proceeds to review the extent to which current domestic theories of trade policy, with their emphasis on a particular distribution of interests (mediated by the institutional arrangement of the political system), explain policy outcomes. Although the empirical fit of the theory is better, several key cases escape the theoretical expectations of those models. As it turns out, a first look at these cases reveals that the choice of tariffs was strongly related to the tax strategy pursued by each country.

Having examined the empirical value of strict theories of endogenous protection, the following sections then turn to make the case for trade regimes understood as political deals around certain coalitions hammered out by different sets of politicians (in what, for formally inclined readers, can be thought of as a multidimensional space with cyclical majorities). Section 3 sketches a possible model to understand the game that leads to different outcomes. Section 4 tests the model. It is clear that validating such a model cannot be done using econometric estimations. Gathering and then torturing a big data set will give us correlations without shedding any new light upon the mechanisms that underlie a trade deal. In fact, scholars have already supplied us with that kind of statistical work: they have shown that openness and compensation are correlated. But we are still at a loss about the causes of that correlation. Hence the only solution lies in engaging in historical work in which we observe the strategies of different parties and

the type of political deal they reach. Nonetheless, to meet the requirements of scientific validity, this historical research should have two characteristics: it should be comparative; and the cases under examination, which vary on the dependent variable, should be identical in all their traits except for the explanatory variable of interest. Interestingly enough, the Australian colonies of Victoria and New South Wales (in the last decades of the 19th century) satisfy these criteria. Both of them were practically identical in population, the weight of the rural sector, the proportion of primary and manufacturing sectors in the economy, level of wealth and political institutions. Yet whereas New South Wales maintained minimal tariffs, Victoria embraced a highly protectionist regime (which was the regime ultimately adopted by the Australian Commonwealth around 1906-08). The outcome was a function of the underlying political coalitions that crystallized in the 1880s and particularly in the 1890s. In Victoria, the protectionists articulated a coalition of the manufacturing businesses, primary industries and the urban working class around high tariffs and minimum wages for workers in protected industries. In New South Wales, the free trade party, strong in Sydney and its adjacent districts, attracted the lower-middle and working classes (directly and through a deal with the Labor party once this was organized) through the introduction of land and income taxes, arbitration mechanisms and generous public spending (about a fourth higher than Victoria in per capita terms). Section 4 ends by providing some evidence on how the Victorian 'fiscal' model was transferred to Australia between 1901 and 1909.

After a detailed analysis of Victoria and New South Wales, Section 5 extends, in a succinct manner, similar evidence for Britain and Scandinavia.

1. INTERNATIONAL CAUSES OF TRADE OPENNESS

Broadly speaking, the evolution of protectionism has been linked to two possible (yet not necessarily exclusive) systemic or supra-domestic explanations: first, a worldwide change in

transportation and communication costs; second, the strategic interaction of countries. After summarizing both theories, I explore how well they do empirically.

Changes in Technology

The generalized adoption of free trade policies has been linked by a substantial literature to an exogenous change in the technology of production and transportation across the globe.[4] In a nutshell, the argument is as follows. As the invention of new and cheaper means of transportation and communication leads to a significant fall in the costs of trade, domestic and world prices converge and the distortionary effects of protective barriers rise. These distortions take place in two ways. First, protectionist measures have purely distributional consequences: consumers (producers) of goods with domestic prices higher than international prices are hurt (benefitted) by a closed economy. Second, they have damaging effects for the aggregate social welfare. By distorting prices, protectionism leads to the inefficient allocation of resources and hinders any incentives to adopt new technologies and match their international competitors. In short, protectionism leads to a loss of income to society as a whole. Accordingly, the more trade costs fall (and the more international prices fall relative to domestic prices), the sharper the loss of aggregate welfare from protectionism will be. As the opportunity costs of protection climb, policy-makers become more interested in dismantling any barriers to trade.

Free Trade as a Strategic Game

According to the classical trade theory, engaging in unilateral free trade is always the best solution. Still, consider the possibility that free trade may not be the best policy to be pursued unilaterally. Rather, some degree of protectionism may constitute the best strategy for every country to follow, given that other

[4] For a summary, see Frieden and Rogowski (1996).

countries decide to move away from free trade. The reasons that make protectionism a best response may be varied and should not detain us long here. Protectionism may be an acceptable mechanism to achieve a social optimum that is in some way different than the market optimum associated with free trade.[5] Likewise, the presence of certain market failures, such as credit constraints that prevent the industrialization of a country, may require a certain degree of protection (particularly if more direct policy intervention to correct those failures is very hard or impossible to enact).

If protectionism is indeed a best strategy in a second-best world, trade policy (and free trade) becomes affected by a structure that resembles a game-theoretic situation. Each state's decision becomes conditional on the decision of other states and, under certain conditions, a generalized protectionist regime at the international level may be put in place, even against the first preferences of each actor. Broadly speaking, political economists and international relations theorists have modeled those situations as either a Prisoner's Dilemma (PD) game or as a coordination game.[6]

In a PD game, the non-cooperating equilibrium (which can be identified as the equilibrium in which both parties defect to protectionism) dominates the cooperative (or free trade) outcome, although each party or country would separately benefit more from the latter one. The non-cooperative result simply results from the fact that each country has defection (following unilateral protectionism while exploiting the good, liberal behavior of the other country) as its individual dominant strategy. In their willingness to exploit each other, both countries end up in a suboptimal, protectionist regime. As already

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[5] For example, an unequal distribution of income may spur the demand for consumer goods, paid for by scarce foreign exchange earnings from exports. Consumer good imports may then be taxed in the form of a tariff. See Ray (1998), chapters 17 and 18.

[6] For other possible games modeling inter-state choices, see the summary in Hasenclever et al. (1997), pp. 44-58.

intuited by Scitovsky (1942), such a strategic structure may lead to a escalating tariff war in which countries find that a further increase in tariffs constitutes the best response to previous protectionist moves by other countries. In the coordination game, instead, there are several Pareto-efficient equilibria and actors simply face the problem of picking one of them collectively. In the case of trade policy, actors respond with free trade to a free-trade offer and with protectionism to a protectionist strategy.[7]

Although states may be submerged in a PD situation, cooperation (free trade) can still emerge under certain conditions: whenever the game is repeatedly played by the same players in a infinite or quasi-infinite horizon; the number of players is sufficiently small; and the payoff structure is well-known (Axelrod 1981, 1984; Keohane 1984). Alternatively, since these conditions are relatively stringent, cooperation has been explained as an outcome imposed by a hegemonic power on other states. Drawing from Kindleberger's work on Great Depression, in which he argued that "for the world economy to be stabilized, there has to be a stabilizer, one stabilizer" (1973: 305), several international relations theorists have coined a theory of hegemonic stability, according to which, a hegemon or a single power dominating the world will be likelier to provide and guarantee collective goods, namely free trade regime in this case (Gilpin 1975; Krasner 1976; Keohane 1980). The Pax Britannica of 1870-1914 and the Pax Americana of the postwar period have been brought as examples of hegemonic periods associated with free trade.[8]

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[7] In a variant of the coordination game, the Battle of the Sexes game, actors prefer coordination outcomes to non-coordination yet value different coordination values differently. For the first application and discussion of the Battle of the Sexes game to the area of international cooperation and regimes, see Krasner (1984). Knight (1992) develops a unified bargaining model that accommodates the PD and coordination games.

[8] The theory of hegemonic stability has drawn a considerable number of criticisms. On the one hand, its empirical underpinnings seem substantially fragile. First, its set of cases is rather. Second, it

Evidence

To examine the validity of these theories I employ data on the value of import duties over the value of total imports. Data for the period from 1865 to 1950 encompasses 35 nations. Data for America and Australasia has been obtained directly from Jeff Williamson (Clemens and Williamson 2001). Data for Europe comes from Mitchell (1985). The data for the period from 1970 to 1999 comes from the World Bank Development Indicators.

[Figure 1 to 3 here]

Figure 1 reproduces the evolution of the median tariff in Europe, in America and Australasia as well as the tariff of the hegemonic power (Britain until 1918 and the United States after 1945). Figure 2 displays the maximum, median and minimum tariffs in Europe. Figure 3 does the same for America and Australasia.

Figure 1 picks both the process of trade liberalization that took place in the second half of the 19th century following the Franco-British trade agreement of 1860 and the reintroduction of (moderate)

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overstates the extent to which free trade was in place in the last third of the 19th century (McKeown 1983). Lastly, it wrongly collapses the interwar years into a single period in which free trade had waned even before 1929 (Bairoch 1993: 3-5). On the other hand, its logical foundations have been put into question as well. The theory of hegemonic theory does not state why the dominant power should be in favor of free trade. Second, it does not spell out under what conditions do hegemons exercise their power -- the United Stated clearly did not in the interwar period yet it did after 1945. Finally, the game theoretic foundations of the theory have been criticized by Snidal (1985): in the first elaboration of hegemonic theory, the provision of free trade (among other policy outcomes) was equated to the provision of a public good. Yet, in the area of free trade, the attribute of non-excludability is not present: those states that remain closed can be certainly excluded from the advantages of the free trade regime.

protectionist tariffs in continental Europe in the late 1870s and 1880s. Overall, however, it is clear that a laissez-faire regime prevailed in Europe until the 1930s, in clear-cut contrast with the regime of high tariffs that American nations employed -- import duties were two to three times higher in that continent consistently over the whole period.

Tariffs declined during World War I -- a consequence of big inflationary jumps. Until recent times, import duties were often specific, that is, they were legislated as a fixed amount of money (pounds, dollars, francs, etc) per imported unit (bags, kilograms and so on). Accordingly substantial changes in price levels affected import values in the denominator without changing the specific duty approved by the state. Inflation depressed the weight of import duties. Conversely, deflation sharply increased it. New tariff legislation and post-World War deflation returned the level of tariffs to pre-war levels by 1925 approximately.

The Great Depression of 1929 constituted a definitive turning point away from global free trade. Tariffs shot up dramatically in a few years: the median tariff rose from 9.8 percent in 1929 to 22.3 percent in 1932 in Europe and from 19 to 24 percent in America and Australasia. After 1945, tariffs were progressively lowered across the globe. By 1970 the median tariff was 3 percent in Europe and less than 10 percent in America.

The overall trend in tariff protection gives some plausibility to the idea that exogenous changes in trade costs eroded the position of protectionists. The expansion of trade in the 19th century seems associated with the construction of railroads, which reduced land transportation costs by between 85 and 95 percent, the introduction of steamships, the opening of canals and improved communications. Similarly, trade expanded again after World War II, helped by supertankers, extensive trucking, air freight, and the systematic use of telephones and data processing. Still, the evidence is hardly solid. Tariff in America remained high through World War II. Technological changes cannot explain the reintroduction of

protectionist measures in the 1930s. Finally, technological change may well be endogenous to, rather than just a cause of, governmental policy (North and Thomas 1973, North 1990).

Support for the theory of trade policy as a strategic game seems to be stronger. First, different types of trade regime cluster at the continental level: at least before World War II, tariffs were low in Europe (particularly in its North Western core) but high both across America and Australasia. Second, both the reduction of tariffs in the 1860s and 1870s and their abrupt reintroduction in the 1930s took place through a tipping model. Both facts suggest that nations in part decide their tariffs as a function of what other countries (and specially their neighbors) do. In addition, cross-national behavior seems to be shaped by the presence of a hegemonic power committed to free trade. Before 1918, although only for Europe, tariffs tracked British commitment to free trade. During the interwar period, the absence of a hegemon may have facilitated the tariff escalation of the 1930s. Finally, after World War II, tariffs fell under the aegis of American supremacy.

Supra-national or systemic theories may capture part of the temporal trends and the regional effects that determine trade policies. But they hardly pick the existing cross-national variation in tariff regimes. Figures 2 and 3 hint at the wide differences that existed across countries by showing the maximum and minimum values in the two geographical areas. Before 1914, the standard deviation in Europe was about 8 percentage points (against an average of about 10 per cent). In 1913 tariffs ranged from 4.5 percent in Denmark and the United Kingdom to 7-9 percent in France, Italy and Sweden and Italy and over 20 percent in Greece, Portugal and Russia. In America and Oceania the standard deviation was 12 percent (for an average tariff of 23 percent) just before World War I. National tariffs went from slightly below 10 percent in Chile to over 50 percent in Colombia. After 1918, differences across countries declined but were still considerable: standard deviations stood in both geographical areas at around 5 percent until 1930 and then inched upward after the Depression. In the last three decades,

European tariffs have been low and dispersion minimal. But in America and Australasia, the standard deviation stood at around 8-10 percent between 1970 and 1995. In short, the evidence suggests that we need turn to domestic explanations.

2. DOMESTIC COALITIONS

Preferences over Trade

Generally speaking, domestic explanations of trade policy-making models derive the political behavior of individuals from the consequences that trade policy has on each agent given how the latter obtains his income in the economy.

More precisely, the definition of preferences (and political behavior) of individuals hinges on the type of trade model the literature has adopted. For those political-economic models which follow the Heckscher-Ohlin theory of trade, trade policy has distinct distributional consequences for the owners of the factors of production (i.e. capital, land, labor). As a result, the position each individual takes over trade is predicted to depend on the factorial composition of his assets. Since free trade benefits the owners of abundant factors and, absent compensation, harms the owners of scarce factors, the position over trade policy is expected to follow factor or class lines. The owners of abundant factors will favor free trade. Conversely, the owners of scarce factors will be protectionist.

For a different set of models, which abandon the assumption that factors can move costlessly across the economy, trade interests become characterized by a Ricardo-Viner model. In the Ricardo-Viner model the level of factor specificity is high to the point that at least one factor cannot move between sectors of the economy. With high levels of asset specificity, the distributional consequences of trade policy take place along sectoral or industrial lines -- and political coalitions are predicted to form

along export versus import-competing industries.[9]

It is important to point out that these models have been mainly employed to predict individual preferences over trade rather than political outcomes. This is clearly the case of Rogowski's path-breaking application of the factor model to explain economic cleavages (Rogowski 1989) as well as of several studies on how electoral preferences and voting are shaped by trade positions in Canada (Beaulieu 1996), the United States (Balistreri 1997, Scheve and Slaughter 2001) and Britain (Irwin 1994, 1996). Models employing trade interests to explain policy outcomes are more sparse. Magee, Brock and Young (1989) have shown that in a cross-section of national tariff rates, a long-run Stolper-Samuelson model explains about 75 percent of the variation. Frieden (1991) applies a sectoral model to explain policies in Latin America. But in this latter case, as well as in many other studies (such as Mayer 1984 and many interest-group explanations), the effect of interests are mediated by organizational clout (solving collective action problems) and institutional structures.

Evidence

Table 1 explores (in a rather preliminary manner) the extent to which trade interests may explain tariff outcomes. To do that, it looks at average tariffs in American, Australasian and European countries from 1875 to 1899, 1900 to1914 and 1918 to 1929. I exclude the period after 1930 for two reasons. First, cross-national variation declined as a result of a generalized escalation of tariffs in the 1930s followed then by comprehensive liberalization in the postwar period. Second, non-tariff barriers became more important in the second half of the 20th century.[10]

[9] More sparingly, some authors have relied on models with increasing returns to scale and imperfect competition to think about the political economy of trade.

[10] Asian and African countries are excluded because their tariffs were affected by the open

For each country I code two independent variables:

(a) Whether each factor (capital, labor and land) is abundant or scarce. To classify the cases, I folow Rogowski (1989).

(b) Whether the political regime was democratic or not. In this classification, built by Boix and Rosato (2001), countries are coded as democracies if they meet three conditions: elections are free and competitive; the executive is accountable to citizens (either through elections in presidential systems or to the legislative power in parliamentary regimes); and at least 50 percent of the male electorate is enfranchised.[11]

I then indicate the expected policy outcome, which is the result of the interaction of preferences of each factor, the latter's size and the regime in place. Thus, for example, in a labor-abundant yet land- and capital-scarce country, workers should be pro-free trade and landowners and capitalists should support protection. Accordingly, if there is a democracy, tariffs should be low. This assumes that the median voter is a worker. With a very spread property, one may assume that farmers hold a majority of the voters and that a democracy should be, in that circumstance, protectionist. In turn, if workers are the majority, an authoritarian regime (which I assume is in the hands of capitalists and/or landowners) should lead to protectionism. Conversely, in a labor-scarce country, democracy should lead to high tariffs and authoritarianism to low barriers.

Next to the column indicating the theoretical expectation, I report the average tariff for the period. For those cases that conform with the theory, I have written the predicted outcome in bold characters. I define as low those tariffs below 10 percent and as high those above 15 percent. For those cases that are ambiguous, that is, their tariffs range between 10 and 15 percent, I have taken into account the average

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policies enforced by European and North American gunboats.

[11] Boix and Rosato (2001) report both a full discussion of the coding and the data set.

tariff in both the world and the region of the country to assess whether the prediction is born by the facts or not.

[Table 1 here]

To ease the interpretation of the table I have grouped the cases in six regions. I describe their economic and political characteristics, predicted values and real tariffs sequentially:

1. Western Europe. With the exception of Germany before 1900 and parts of France before 1914, all this area was abundant in capital and labor and scarce in land.[12] Under a democratic regime, tariffs should be low. Under authoritarianism, the prediction is more complex: it is a function of what factor (land or capital) controls the state. The predictive value of the theory is very high in this set of cases -- 9 out of 11 cases fit our expectations. Notice that I decided to leave the prediction for France open since labor should be pro-free trade and land (which was distributed in a relatively equal manner) pro-tariffs and both factors participated heavily in the Third Republic. A similar problem arises for Germany between 1900 and 1914 since capitalists and landowners had divergent interests. The Belgian case appears as a puzzling case: import duties as a percentage of total imports were extremely high (15.8 percent) according to Bairoch (1989). However, other data, such as tariff level indices reported by the League of Nations, trade as a proportion of GDP, and trade intensity ratios (calculated recently by Estevadelordal (1997)) suggest a much more open economy.

2. European Periphery. This second set of countries includes Southern and Eastern European countries, which were abundant in labor and scarce in land and capital, and Russia, which was abundant in both land and labor. With the exception of Austria after 1918, Greece before 1926 and Italy in the first years of the interwar period, all countries were under an authoritarian regime. As a result, tariffs should

[12] Data for Belgium and the Netherlands are only available for 1913 and come from Bairoch (1989).

have been high in Southern and Eastern Europe and low in Russia. The predictive power of the theory is low. It only fits the cases of Portugal and Spain, Italy before 1900 and after 1918, and Austria and Greece after 1918. Although the fit is low, the theory may be more robust than it looks like. Since Greece was a country of farmers cultivating relatively tiny plots of land, one may make a case for high tariffs in that country. The Russian case seems to fall under the case of Latin American countries: the tariff was much higher than one could predict on the basis of a pure domestic theory of trade formation, but, as I will stress later, the tariff was essentially employed as a revenue-raising tool (often structured to shift the weight of taxation on the urban classes). Austria-Hungary and Serbia-Yugoslavia are, however, clear exceptions to the theory.

3. Scandinavia. Denmark fits relatively well the theory. Tariffs were generally low and their decline tracks the shift from a semi-democratic arrangement in the second half of the 19th century to the king's acceptance in 1901 of a government led by the Venstre party, which represented the interests of the export farming sector and usually governed in coalition with the Socialist party. Norway and Sweden defy our theoretical expectations. Given their scarcity of labor, at least after the migratory outflows of the 19th century, they should have follow highly protectionist policies. However, Scandinavian unions and social democratic parties have systematically embraced free trade since their emergence.

4. North America. As for Western Europe, Canada and the United States fit well the theory. With scarce labor and democratic institutions, tariffs should have been, and indeed were, high. Moreover, they fell in line with their growing capital abundance.

5. Oceania. Australia after 1901 and New Zealand fit the North American pattern of labor-scarce democracies sustaining protectionist regimes. For the period before 1901, when the Australian Federation was created, I have included, as separate cases, the two colonies of New South Wales and Victoria. The Victorian case conforms with the protectionist case -- in fact, its policies were literally

'exported' to Australia in the first decade of the 20th century. By contrast, New South Wales followed a straight free trade strategy in spite of having an economic structure extremely similar to that of Victoria.

6. Latin America. Central and South America were abundant in land and scarce in both capital and labor (with the exception of the Caribbean case of Cuba, which was only abundant in labor). Given that almost all countries were under the authoritarian rule of the landowning elite, tariffs should have been low. Yet the fit is extremely poor: the prediction is only born out in 4 of 23 country-periods.

Trade Policy as 'Fiscal Policy'

To summarize the results of the domestic model (which treats interests and institutions jointly), the fit is particularly good for economically advanced and politically democratic countries (North Western Europe, North America, Australia and New Zealand), ambiguous for the European periphery (including Scandinavia) and very poor for Latin America.

The cases that contradict the theory can, in turn, be classified into two groups. On the one hand, there are those countries where tariffs which should have been low turned out to be high -- Russia and Latin America. On the other hand, there are those nations that, against our theoretical expectations, embraced free trade -- Scandinavia, New South Wales, and perhaps Germany before 1900.

At this point it is worth remembering that all 19th-century academics and politicians referred to the choice of tariffs as 'fiscal policy' or the 'fiscal issue'. Tariffs were recognized as both an essentially redistributive mechanism and as a tool to raise revenue. The fiscal nature of trade policy may then account for the exceptions we have found to a straightforward interest-based theory of endogenous protection. Consider first the case of 'unexpected' protectionist countries in Latin America. As pointed by Bulmer-Thomas, "although 'free-traders' might have been expected to press for the reduction of tariffs, their enthusiasm was tempered by the knowledge that government revenue had to be raised somehow"

(1994: 140) and, since most of them were powerful landowners, they blocked any attempt to introduce a land tax. In those countries, tariffs affected primarily domestic and imported consumer goods, de facto putting all the weight of taxes on urban consumers. As shown by Diaz-Alejandros (1970) for Argentina, the most vocal groups in defense of free trade were the urban-based Socialist and populist parties. As a matter of fact, Argentinian tariffs dropped substantially in the interwar period (before 1929) coinciding with the control of the presidency by the middle-class Radical party. One can track similar declines in Chile and Uruguay following their progressive democratization around World War I.

The case of the unexplained free traders is of even more interest to us. An examination of this set of 'contra natura' countries has two advantages. First, they offer a chance to understand the structure of the political deal that made it possible to open their economies (probably against a majority of their voters). Second, we can use them to check whether the decision to open was secured through a compensatory deal to obtain the consent of (part of) the losing sectors or not. Nonetheless, before engaging in an empirical analysis of the processes that lead to free trade, I discuss the theoretical underpinnings of a free-trade-compensation redistributive strategy (as opposed to a protectionist regime strategy) in the next section.

3. TRADE POLICY AS A POLITICAL DEAL

Uncertainty, Compensation and Credibility

Models that explain the choice of protectionism over other redistributive strategies are scarce. In an important paper, Fernandez and Rodrik (1991) offer the following theoretical framework based on uncertainty to explain protectionist bias. In Fernandez and Rodrik's model, trade reform, which always increases aggregate welfare, is adopted or rejected through majority vote. Whenever trade reform (in favor of more openness) increases the income of a majority and that information (about who benefits) is

available to the winners, trade reform will be logically adopted. Trade reform does not happen, however, once there is an unequal distribution of information among voters about the individual consequences of trade reform. Consider a case in which a plurality of voters know they will gain for sure. The remaining set of voters only know that overall welfare will increase (by a certain amount) but are uncertain about their individual gain. Still, they can estimate their expected benefit from reform -- simply the difference between the overall increase and the part that goes to the known winners. This situation makes the individuals in the second group identical ex ante and very prone to reject reform since the chances of a positive gain become slim.[13]

Two points are in order about this model. First, this is a model that explains status quo bias -- uncertain voters simply block change -- and therefore requires the additional assumption that protectionism was dominant in previous periods to explain its current persistence. As noted by Rodrik (1995), this is not an unreasonable claim: in part because trade tariffs are an excellent tax handle among poor nations (as they were among industrial nations before they modernized their state apparatus before the late 19th century), there seems to be a built-in bias in favor of protectionism across countries (for purely fiscal or revenue-collection reasons). Second, the model does not seem to deal well, however, with the question of introducing an alternative vote between status quo and trade reform plus compensation (the model is simply about voting in favor or against reform). To explain the failure of the second option and therefore the persistence of protectionism, we need to introduce a new factor -- the extent to which reformers forge and then commit in a credible manner a platform of openness and compensation.[14]

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[13] The status quo vote occurs with risk-neutral, rational and forward-looking individual. It is exacerbated by the introduction of risk aversion.

[14] Mayer and Riezman (1989) explain protectionism as a possible outcome in a multidimensional space. With voters arrayed in a three-dimensional space according to their preferences on trade,

The preference of protectionism over free trade plus compensation may be related to the inability of free traders to credibly commit to a compensation package as follows. The plurality that is certain to gain may promise the remaining voters a compensation package that would make them at least as well off under the new regime as they were in the status quo arrangement -- the compensation is feasible given the positive aggregate consequences of the reform. However, once the reform is passed and the veil of ignorance has disappeared, the majority that wins has no incentive to approve the compensation plan. Anticipating this, the uncertain majority will still block the reform. The result should hold in a more general model. Even when winners and losers are known ex ante and the winners are a minority that needs to commit to compensation policies to buy off the support of the median voter to open the economy, the issue of credibility may finally jeopardize the openness result. In short, protectionist outcomes will be less likely in countries that have a set of institutions or organizations, such as, for example, strong parties and well-functioning elections through which politicians become bound by their electoral promises and thus the platform of compensatory free trade can be made in a credible manner. With this general point in mind, consider next a possible political-economic model to characterize the joint choice of tariffs and taxes.[15]

Underlying Interests and Political Equilibrium

Following the literature on the domestic determinants of trade policy, different economic agents have different material interests, and therefore distinct policy preferences, depending on their position in the international economy. More specifically, the attitudes of economic actors toward trade and trade policy may be said to be determined by two factors: first, the potential benefits to be derived from trade,

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consumption and income taxes, there is a minimal probability of having an equilibrium and therefore the outcome depends on the strategy of an agenda setter, who may prefer inefficient tariffs.

[15] This model is taken from Adserà and Boix (2002).

which go from net gains to net losses; second, the variability of the returns derived from trade, that is, the probability that trade will lead to gains or losses given the nature of the assets of the actor. This second term simply captures the degree of uncertainty that actors face over the future realization of some gains (or losses) in trade and their incapacity, once they have embraced a free trade regime, to use standard countercyclical policies to combat the volatility generated by the world business cycle.

In its most simplest form, consider an economy in which there are three types of individuals with distinct trade interests, *C*, *P* and *O*. Each individual can be thought of as a representative agent of an economic factor, a productive sector or a set of homogeneous firms. This model, therefore, takes the definition of each actor's position in the international economy and its interests as given – it does not adjudicate between factor-based or sector-based models of international political economy and should be applicable to any of them.

C or the pro-closed-economy agent only stands to lose from opening the economy -- his returns decline, in a linear fashion, as tariffs are reduced. In a Heckscher-Ohlin model, for example, *C* would be an owner of capital in a capital-scarce economy. Formally, the utility of *C* can be represented as:

$$U_c = (1 - \lambda)C_c + \lambda C_o \qquad (1)$$

where ? is the extent to which the economy is open in an interval [0,1], C_c is the return to *C* when the economy is closed, C_o is the return to *C* when the economy is open, and $C_c > C_o$.

O, instead, consists of the agent who always gain from free trade -- his returns always rise as the economy becomes more open. Again, within the framework of a Heckscher-Ohlin model, *O* would be a landowner in a land-abundant country. The utility of *O* is defined by:

$$U_o = (1 - \lambda)O_c + \lambda O_o \qquad (2)$$

where O_c is the return to *O* when the economy is closed, O_o is the return to *O* when the economy is open,

and $O_c < O_o$.

Finally, *P* represents an agent whose gains from trade are always subject to considerable variation over time. If the international business cycle (or the specific demand for *P*'s products) is booming, *P* benefits from a free trade regime. If the international business cycle is in recession, free trade harms *P* substantially. Accordingly, *P* ranks her preferences in the following fashion: an open economy under a good business cycle is preferred to a closed economy regime yet this latter regime is certainly more attractive than a laissez-faire regime when the economic cycle goes through a recession. The expected utility of *P* can be represented as:

$$EU_p = (1 - l)P_c + l[pP_g + (1-p)P_b] \qquad (3)$$

where P_c is the return to *P* if the economy is closed; P_g is the return to *P* if the economy is open and the international business cycle is booming; P_b is the return to *P* if the economy is open and the world business cycle is in recession; the ranking of returns is $P_g > P_c > P_b$; and p is the probability that the world business cycle will be expansive.

For any *P* the expected return under an open economy is smaller than under a closed economy:

$$pP_g + (1-p)P_b < P_c \qquad (3')$$

For sake of simplicity, assume that *P* is risk neutral so that her expected utility equals her expected return. If we characterize *P* as risk averse, *P*'s demands for compensation from *O* to acquiesce to free trade policies become more intense.[16] That is, there would have been a set of points for which, although *P*'s expected returns would have been higher under an open economy (and thus condition (3') would not hold), *P* would have still preferred a closed economy to minimize risks unless a

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[16] With risk aversion, *P*'s expected utility function is:

$EU_p = pU[(1-l)P_c + lP_g] + (1-p)U[(1-l)P_c + lP_b]$ where *U*'>0 and *U*"<0.

compensation policy would have been promised by *O*.

The position of these economic actors affect, in turn, their attitudes toward trade policy. *C* and *O* spouse completely different policy positions. Whereas *C* favors autarky, *O* is in favor or full free trade. In turn, *P*'s position is conditional on the evolution of the world business cycle and, more interestingly, on the introduction of some mechanism that could smooth the variability of the business cycle. If *P* can secure a future compensation package (via public transfers) to make up for any losses in recession periods, its willingness to support free trade policies will increase. Conversely, if the public sector has devised no compensatory mechanisms, *P*'s support for free trade will decline. The position of each agent is represented in Figure 4.

[Figure 4 here]

C and *O* have their bliss points at the extreme opposites of the trade policy dimension (horizontal axis). Their support for either protectionism or free trade is independent of the level of compensation they may get.[17] Their indifference curves (with a loss of utility higher along the horizontal than on the vertical axis) have been drawn to stress that trade policy matters more to them than the level of compensation in bad times. *P*'s support for free trade cannot be separated from his demand for a compensatory mechanism. Thus, two different equilibria may ensue. A coalition between *C* and *P* would hinge around high tariffs and no compensation mechanisms. Instead, in exchange for public compensation, *P* could be equally willing to support *O*'s free trade policy preferences.

Consider now how both trade and fiscal policies are jointly determined in that economy. At national elections held periodically, *C*, *O* and *P* may choose among two parties. A protectionist party,

[17] It could be argued, however, that, other things equal, *O* may have a higher interest in getting some compensation given its higher exposure to trade – that is, that *O* may be also affected by the variability of the terms of trade. This possibility is not modeled here for the sake of simplicity.

party S, which draws its financial and electoral support from *C* (the pro-closed economy sector), favors high tariffs. The pro-free-trade party, party O, which receives its support from pro-free trade voters, *O*, defends a free trade regime.

The sequence of the game between the economic actors (*C, P, O*) and the two contending parties (O, S) is as follows. Both parties, S and O, choose their policy programs before election time. Once they have committed to a certain policy strategy, they cannot credibly alter their initial promises.[18] The choice of their electoral promises is made under conditions of uncertainty about how the international business cycle will be after the election takes place. Voters then vote for parties – depending on their programs and their forecast about the future. After the election, the world business cycle expands with a probability p and is in recession with a probability 1-p. A recession affects all the *P* voters at the same time.[19]

If neither *C* nor *O* control a majority of the vote, *P* is the median voter (in the trade-policy dimension) and holds the balance between the two forces. For the free-trade party O to win, *O* and *P* will have to vote for it. Similarly, the protectionist party needs the votes of *C* and *P*.

Consider first the vote of the pivotal voters, *P*. At election day, *P* voters do not know the evolution of the business cycle. Their expected returns will be what they would gain in an open economy (and these gains are affected by the variation in the economic cycle) or what they would gain in a closed economy. Given that the ex ante expected gains from openness are lower for *P* than the certain gains from autarky

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[18] That is, since voters take into account the reputation of the party, parties cannot modify their party platforms once in government – to tailor them to cyclical economic conditions.

[19] Altering the sequence of the game (with nature – the business cycle – occurring after parties commit but before voters vote) and the impact of the recession on *P* (with every *P* having an independent probability 1-p of suffering a recession instead of all *P*'s being affected by it at the same time), does not change substantially our results.

(as stated in condition (3')), *P* voters will only vote for the free trade party, O, if the latter promises them a compensation package in case there is a world recession. More precisely, *P* will only vote for O if the returns under an open economy plus the compensation package a_o this party promises are larger than the returns to be obtained in a closed economy jointly with any transfers established by the protectionist party G.

The compensation program a_o has to meet two criteria. First, it will have to outmatch any spending package a_c promised by the protectionist party, S. (Notice that *C*'s cost of this compensation package a_c can never be higher than the difference between what each *C* gains under a protectionist regime and what he gains under free trade. If it were, *C* voters would not vote for the protectionist party.) Second, the compensation package a_o promised by the free traders should not alienate the *O* voters – otherwise they would not vote for the free trade party. (In a way symmetrical to what happens to the protectionist parties and its core supporters, *O* voters will only vote for O up until the point in which the gains of openness are larger than the gains of closeness even allowing for the compensation they may have to pay to each *P* voter.) Finally, it is important to stress that the compensation package promised by the free trade party will always be larger than the spending package offered by the protectionist party since the former has to overcome the lower expected return of the pivotal voter in an open economy relative to a closed economy. In short, free trade (resulting from democratic elections) boosts the public sector more than protectionism.

Several implications about what determines the winner of the electoral stage can be derived from our discussion. First, the size of each group matters. As the number of *O* voters increases, the free trade party is more likely to win an election. Second, the returns to each factor or sector matter as well. As the gains from free trade increase, *O* will have more resources to pay off *P* voters and the victory of O becomes almost certain. Finally, as the volatility of the business cycle diminishes, the cost to lure *P* voters

will decline and a free trade regime will become easier to establish.

Notice that the model around the choices made in the electoral arena. But the same logic applies to political decisions taken in a parliament in which the three agents have attained representation in a proportion equal to their electoral strength and where the party representing *P* is the median parliamentarian.

4. THE AUSTRALIAN CASE: VICTORIA VERSUS NEW SOUTH WALES

Tariffs in the Second Half of the Nineteenth Century

Before London granted self-government, which included control over tariff policy, to five of the six Australian colonies between 1855 and 1859, the influence of domestic interests on tariffs was minimal. Import duties, concentrated on alcohol, tea, tobacco and luxury goods, only had a revenue-raising function. Moreover, differences in tariffs were minor across colonies. In 1856 tariffs in New South Wales and Victoria amounted to 8.6 percent and 8.4 percent of the value of imports.[20]

The concession of self-governing institutions coincided with a major expansion of the Australian economy. After the discovery of gold mines, population multiplied by four from about 400,000 in 1851 to about 1,650,000 inhabitants twenty years later. As the gold reserves depleted, however, a substantial unemployment ensued. This in turn prompted the first debates over the role of fiscal policy, and particularly, tariffs in the colonies.

In response to the economic crisis of the early 1860s, tariff policy started to differ across colonies. In Victoria a Tariff League was already in place in 1859 and several protectionist candidates stood in that year's election. The appointment of a select committee in 1860, heavily lobbied by the domestic manufacturers, led to the first parliamentary discussion of protectionist measures. By the mid

[20] Own estimation based on data from Patterson (1968).

1860s the government explicitly admitted its adherence to protectionism and the strategic goal of employing commercial barriers. At first the espousal of protectionist convictions was mostly rhetorical: tariffs continued to be concentrated on alcohol, tobacco and associated commodities, and were employed to cover the public deficit. But by the late 1860s, the Victorian government extended duties to most imported articles and gradually increased the tariff. As shown in Table 2, in two decades Victorian custom revenues increased by about a fourth to 10-11 percent of the value of imports in the 1870s.

[Table 2 here]

In New South Wales the growth of unemployment in 1858 also led to the formation of a parliamentary committee to "investigate the state of the Sydney working class" (Patterson 1968: 24). As its Victorian counterpart, it recommended too the introduction of higher duties, of 10 to 15 percent, to correct "social evils". In the midst of considerable agitation over trade policy, the government resisted the notion of higher tariffs for several years until a straight 5-year row of budget deficits led to the imposition of new import duties. Those measures, which were approved in 1866 as a temporary solution, were relatively moderate. The status quo of 1866 did not change in the following years. Several attempts at raising tariffs were defeated in the 1870s and some duties were actually reduced in 1873-74. By the mid 1880s, custom revenues stood, as a percentage of imports, at the same level of the 1850s -- at around 8 percent. In short, in contrast with the case of Victoria, protectionism as a permanent policy geared toward the defense of domestic industries was defeated and tariffs only fluctuated with the economic cycle and the revenue needs of the colony's government.

[Figure 5 here]

As shown in Figure 5, differences between New South Wales and Victoria became much sharper in the late 1880s. Marking a substantial break with the stability of the previous decade, the Victorian parliament voted a steep increase in import duties in 1889 -- the overall tariff rate went up by about 2

points to 12.7 percent of the value of all imports. Since there was no fiscal imbalance at that point, tariffs were probably raised in direct response to growing foreign competition: imports had grown by about 38 percent in the previous six years. A sharp economic downturn from 1890 to 1893 triggered an abrupt fall in revenue and the decision to raise duties, which in turn put the average tariff at over 17 percent in 1895. At the recommendations of a special tariff commission in 1894-95, which followed protests about the incoherence of the new duties, parliament passed new legislation to drive tariffs back to their pre-1892 levels. That measures and economic recovery combined to reduce the level of protection. Still, the overall tariff average around 12 percent in the last years of the century

New South Wales responded in a markedly different way to the strains of economic recession and public deficits. After the victory of free traders in 1887, and in spite of a widening fiscal imbalance, the government substituted new excise duties and heavy borrowing for some moderate tariffs introduced two years before. Then a new cabinet led by the protectionist politician Dibbs passed, in the midst of the recession, a relatively heavy tariff packet, with and ad valorem duty of 15 percent on luxury goods and an ad valorem duty of 10 percent on a relative broad list of goods. The average tariff level shot up to above 12 percent in the following years. Nevertheless, following a victory by the free trader party in 1894, the tariff system was overhauled in 1895. The overall tariff fell to 5 percent and did not change even after the return of the protectionist party to power in the 1899 election.

It is important to notice that differences in trade regimes were not limited to the overall level of protection but to the internal distribution of protection as well. In New South Wales, 83 percent of the custom revenue came from alcohol and spirits in 1899. In Victoria, only 37 percent did -- the rest came from duties on manufacturing goods.

Domestic Interests and Constitutional Structure

To explore why Victoria and New South Wales followed such divergent policy paths, specially after 1890, Table 3 compares their demographic and economic structure. What is striking is how similar the two of them were at the end of the 19th century. In both cases population was roughly over one million and distributed in very similar proportions between rural and metropolitan districts. Social conditions and economic welfare, measured through birth and death rates, factory wages, weekly housing rents and living standards (ration of wage to housing rent), were also extremely similar. Again, the employment profile was similar. Roughly the same percentage of men worked in the primary sectors (agriculture, pastoral occupations and mining). Victoria had a slightly larger manufacturing and commercial sectors -- but the difference seems too tiny to account for their opposite tariff policies. As noted by Andersen and Garnaut, "the port of Sydney played something of an entrepot role in relation to other Australian and southwest Pacific colonies, a situation that would have increased the voice of internationalists in New South Wales politics" (1987: 42). But this explanation is not very convincing. Already in 1871 Victoria made legal provisions to ensure, through special facilities and so-called drawbacks, that the entrepot trade of Melbourne was not jeopardized by the colony's tariffs. Tariffs were mostly aimed at defending the interests of domestic manufacturers.

[Table 3 here]

Land size is the only significant difference among the two colonies. New South Wales is about three and a half times larger than Victoria. As argued by Patterson (1968), having a vast territory gave the colonial government in Sydney a clear fiscal advantage since it could draw upon the sale of land to finance its expenditure without having to resort to high import duties. Figure 6 displays the revenues from land sales and leases as a percentage of total revenues in both colonies. It is true that the New South Wales Treasury benefitted from an extraordinary revenue flow due to land sales in the 1870s. In 1875 and 1876, for example, over 50 percent from its resources came from land. This probably eased any pressure

to rely on tariffs in the last decade. However, by the mid 1880s land sales had tapered off and had become a minor part of the total budget. Moreover, the absence (presence) of land revenues cannot explain why tariffs were employed as protectionist tools in Victoria (and resisted in New South Wales as distortionary of the economy) and why the New South Wales consciously chose to introduce graduate land an income taxes in the mid-1890s to make up for lost revenue from lower tariffs instead of trying to boost its land sales.

[Figure 6 here]

The structure of the constitutional system in each colony does not seem to explain tariff policy either. Established as self-governing colonies around the same years, both New South Wales and Victoria were parliamentarian democracies with similar institutional structures. Both of them were ruled by a two-chamber parliament. The upper house, or Legislative Council, represented the propertied elements. The lower house, or Legislative Assembly, was elected through male universal suffrage, mildly tempered by plural voting, since the 1860s. The appointment of members to the Legislative Council differed across colonies and this difference should have probably skewed tariff policy in favor of free trade in Victoria. In both colonies the upper house was dominated by the squatters, that is, by the big pastoral interests, who favored low tariffs. But whereas in Victoria, the members of the Legislative Council were elected by a limited, propertied electorate, in New South Wales they were nominated by the governor. The latter system made the Legislative Council rather vulnerable to the executive threat of packing an unruly Council with Liberal members -- a strategy used by the Reid government in 1894-95. By contrast, the Victorian system should have made, and indeed did make the Council a more effective instrument to oppose the lower house (Gollan 1960).

District apportionment in the lower house also varied across the two states. In New South Wales an electoral reform in 1893 ensured a very tight ratio between votes and seats. In Victoria rural districts,

which were actually favorable to high tariffs (a point to which I return later), were overrepresented: they had about 60 percent of the seats and 45 percent of the population. This may have aided protectionist interests in Victoria, but the distortion was not extraordinary and the Victorian coalition behind protectionism was large and mostly centered in the cities.[21]

Trade Policy as a Political Deal

The emergence of two distinct policy regimes in otherwise very similar regions can be traced back to the type of political coalitions that formed in each colony. In New South Wales, the free trade government established a political alliance with the lower-middle and urban working class (mainly represented by the Labor party after 1891) by which low tariffs were sustained in exchange for the introduction of land and income taxes and progressive industrial legislation. In Victoria, instead, protectionism was equated with progressive liberalism. Protectionist sentiments were already predominant within Victorian trade unions class by the 1860s (Gollan 1960). Nonetheless, the upsurge of labor unrest in the early 1890s pushed the protectionist cabinet of Turner to establish institutional mechanisms (wage boards) in 1895-96 to pass on to workers the benefits of protection and thus strengthen their electoral support. To wit, both fiscal regimes were eminently redistributive and had the same goals: they were geared to satisfy the interests of a heavily mobilized working class. But the instruments they employed differed sharply. In Victoria tariffs were employed to raise workers' wages directly. In New South Wales imported consumer goods were cheaper, direct taxes higher and, as shown in Figures 7 and 8, public expenditure and revenue were higher (by about a fourth in per capita terms) and more stable (that is, more counter-cyclical).

[21] As a matter of fact, the electoral reform of 1893 was passed in New South Wales as a result of a deal between the protectionist government and the Labor party.

[Figures 7 and 8 here]

The Case of New South Wales

In the 1890s New South Wales's politics was governed by three relatively disciplined political parties: free trade, protectionist and labor. With no party in control of a majority, labor successively allied with the free trade party, the protectionists and then finally with free trade. It was in this last round of negotiations, in 1894, than the New South Wales regime of free trade and compensation emerged as a stable political and economic strategy until the advent of the Australian federation.

The election of 1887 had ushered the creation of central councils to coordinate the free trade and the protectionist factions into relatively tight electoral and parliamentary organizations. Still, both parties were internally divided in their positions towards the redistributive role of the state. Within the free trade party, positions ranged from strict laissez-faire politicians only concerned with tariffs, such as Parkes, to radical liberals pushing for social programs to better the conditions of the working class. Similarly, the protectionist parties housed both pastoralists and farmers, who saw protection as a source of revenue that made direct taxes unnecessary, and pro-labor parliamentarians that played with the idea of creating a Protectionist Labor Party in 1890-91.

The creation of a progressive protectionist party was frustrated, however, by the formation of an independent Labor party in the election of 1891. After several massive strikes ended up with the defeat of the union movement, the New South Trades Hall Council decided to launch, with notable success, its own political party. In a hanged parliament, in which free traders controlled 47 seats and protectionists 51, Labor became the king-maker with 35 members.

The New South Wales parliament of 1891-94 suffered considerable instability. Labor initially agreed to support a free-trade government headed by Parkes in exchange for a program of 'progressive'

legislation. A few weeks later, however, the cabinet had to resign when, with the help from some radical protectionists, Labor members of the legislative assembly (MLAs) inisted upon an eight-hour clause on a Coal Miners' Regulation. With the fall of Parkes, the protectionist party, led by Dibbs, moved to strike a deal with the Labor caucus on the same terms Parkes had offered before. The alliance proved all but firm. Labor MLAs shared a common program except in the 'fiscal issue', in which they were deeply divided between pro-free traders and pro-protectionists in two equal halves. As the economic recession of the early 1890s deepened, and following the proposal for a tariff rise by Dibbs, the Labor parliamentary party formally split in various factions. Mostly relying on the protectionist elements of Labor, Dibbs passed a moderate tariff reform in exchange for a Trades Disputes Conciliation and Arbitration act and a new electoral law which included reforms demand by Labor and the most progressive section of the two main parties of the Legislative Assembly. Nevertheless, the depth of the economic recession, the opposition of the legislative council to income taxation for mining, and the handling of the 1892 strike by the government finally alienated the support of Labor and caused the Dibbs' cabinet to fall in 1894.

The election of 1894 was confronted by revamped free trade and labor parties. After the Labor parliamentary caucus unraveled in 1891, the trade union movement reinforced its grip on the party. Labor candidates were now required to pledge its abeyance to any of the decisions taken by the party's governing committee.

Within the free trade party, the party leadership had passed from Parker to Reid, who abandoned the strictly free trade strategy the party had pursued in the 1880s. To appeal to both Sydney's commercial community and to the lower-middle class and segments of the urban working class, Reid campaigned now on the basis of a two-pronged platform of lower tariffs and progressive taxation (Rickard 1976). The election of July 1894 led to a Legislative Assembly again without a majority: there were 58 free traders (a third of them from country districts), 40 protectionists (all elected in rural constituencies) and 27 labor

MLAs (with a third from the countryside).[22]

The new free trade government, which encompassed two independent labor ministers, speedily introduced two bills to establish progressive land and income taxes. Both initiatives met with the strong rejection of the Legislative Council and Reid, in a manner parallel to Asquith's strategy sixteen years later in Britain, opted to embrace a confrontational path with the upper house. After dissolving the Legislative Assembly, Reid presented the new elections of July 1895 as a contest between "democracy and privilege" promising the reform of the Legislative Council. A sweeping victory for the free trade party, which now had consolidated its position as a truly radical liberal party, translated into the rapid passage of both direct taxation schemes. Reid's progressivism overcame the initial skepticism with which Labor had greeted the new free trade cabinet in 1894 and solidified the collaboration of both parties. This in turn led to the unfolding of an advanced liberal policy regime. Besides low tariffs and direct taxation, Reid introduced a minimum wage in government contracts, regulatory legislation on mining and factory conditions and an electoral law to reduce to one month the period of residence to qualify for the right to vote. The support of Labor also involved the passage of legislation to extend immigration restrictions to "all coloured races".

The Case of Victoria

Although also divided between free traders, protectionists and labor parliamentarians, Victorian politics differed from New South Wales in two counts. First, it lacked the sort of relatively disciplined parties that prevailed in the latter colony in the 1890s. Instead, factionalism and a relatively fluid set of coalitions dominated the Legislative Assembly. Second, an independent labor party remain a weak

[22] This distribution does not distinguish between independent candidates and politicians that ran under the party umbrella.

political force and unions often resorted to directly supporting and lobbying Liberal candidates.

After the first labor candidate successfully contested a by-election in April 1891, the Trades Hall Council decided to launch its own political party, the Progressive Political League (PPL) a month later. Relative to New South Wales, the electoral performance of an independent labor force in the election of April 1892 was disappointing. PPL candidates gathered 20.1 percent of the vote -- only 1.7 percent less than their New South Welsh counterpart a year before. But with its vote much more concentrated in the urban areas (the PPL had made no specific appeal to either farmers or miners), it only captured one tenth of seats in the Legislative Assembly. In part due to the relative failure of the PPL and in part as a result of a long tradition of political and ideological cooperation going back to the 1860s, Victorian trade unions remained wedded to the Liberal movement. After Labor candidates fared badly in the by-elections of 1893, unions tacitly abandoned independent Labor activity and urged the reorganization and strengthening of the Liberal party. In June 1894 the United Labour and Liberal Party, which it encompassed both working-class candidates and radical middle-class members such as Berry and Deakin, replaced the defunct PPL. As put by Rawson, it simply became "a specialized section of the broader liberal movement" (1977: 73). In that institutional context in which unions were still part of the liberal-protectionist coalition and thus harder to attract to another policy regime, a free trade-compensation solution had to be a more unlikely deal than in Sydney.

Precisely at the same time that New South Wales shifted back to a free trade government, the election of September 1894 resulted in the defeat of the Patterson government, which had proposed a moderate reduction in tariffs in Victoria, and in the return of the protectionists, now under Turner. Still, the new composition of the lower house seemed to indicate that a majority was "favorable to some revision of the tariff" (Rickard 1976: 86). Moreover, a report from the Tariff Board, released in May 1895, supported a reduction of what considered a too obtrusive tariff.

Reacting to what seemed as an offensive against protection, members from the Protectionist Association and representatives of various industries met in May 1895 and approved a motion in which they supported the introduction of a minimum wage in order to pass the full benefits of protection to workers. In this way, protectionists ensured the support of unions in response to free traders' claims asserting that import duties ultimately drove wages down. As the newspaper *Argus* put it, there was "no reason why the operatives should not get some benefit from the high tariff and advised the labor members that they owed it, as a sacred duty to their constituents to do something tangible for their benefit before the tariff passes out of hand, by inducing the Assembly to apply the minimum wage principle to protected industries" (Rickard 1976: 96).

Fully blessed by the leading protectionist publication, the *Age*, the motion was quickly supported by both the radical liberal Deakin and the Labor member Prendergast in the Legislative Assembly and approved in November of 1895 by 49 votes to 20. To implement the measure, the legislative assembly simply decided to employ the administrative boards that were being set up, in the Factory Act currently in discussion, to supervise the work conditions of women and children in the apparel industry.

The extension of a minimum wage clause to protected manufactures strengthen the liberal coalition. Although the Trades Hall Council tried again to establish an independent working-class party, the United Labor Party (ULP), in May 1896, the ULP was unable to mount a real threat in the elections in the following year. Whereas Liberal candidates received 64 percent of the vote, the ULP obtained 10 percent of the votes, or half of the votes of the PPL in 1892 and the ULLP in 1894. Similar poor results haunted the Labor party until the mid 1900s. It only became a stronger force after Federation occurred (and the support of the New South Wales organization was available). In fact, it was not until 1952 that Labor won a majority of seats in the state lower house.

The decision of 1895 not only reinforced the hegemony of the Liberal party. It sustained the

protectionist arrangement of high tariffs even after the conservative party was returned to office. As a matter of fact, in 1899 a resolution was passed granting any of the two chamber the unilateral right to set up a wage board in any industry. By breaking the potential veto of the more conservative upper house, that decision allowed Victoria to extend the wage board arrangement throughout the whole Victorian industry in a systematic manner.

Extension of the Victorian Trade Regime to the Australian Federation

The first years of the Australian commonwealth resembled the unstable, cyclical nature of New South Wales' and Victoria's Legislative Assemblies in the early 1890s. In the election of 1901, the Protectionist party won 32 seats, the Free trade party 26 and Labor 15 (2 seats were held by independents). The balance of power among the three forces became more even in the election of 1903, with 26, 25 and 23 seats respectively. With a Labor party so internally divided between free trade and protectionist wings (respectively concentrated in New South Wales and Victoria) that it decided to delegate any decision over the tariff question into a national referendum, governments succeeded each other at a quick pace.

At the beginning of the Federation protectionists controlled the government, with the sporadic support of Labor, first under Barton and then very briefly under Deakin. The resistance of the latter to extend the arbitration system to public employees caused, however, the withdrawal of Labor support and the formation of the first Labor cabinet under Watson in April of 1904. Four months later, the Free Trade party formed government under Reid with the support of moderate protectionists. What looked as the growing crystallization of a classical left-right cleavage (around taxation rather than trade) pushed Labor in the arms of radical protectionists. After considerable maneuvering, Deakin came back to power in June of 1905 leading a coalition of centrist and radical protectionists parliamentarians and the Labor party. Still, the

agreement across parties remained tentative. The parliamentary caucus only agreed to "a general support during this Parliament" and Labor organizations outside Parliament, which were adverse to a coalition, forced the party to resolve that "the Federal Labour Party should not enter into any alliance that would extend beyond the then existing Parliament, nor grant immunity at election time" (La Nauze 1965: 403).

In response to complaints of the Australian agricultural implements industry about strong and unfair competition from American and Canadian harvesting machines, the government appointed a Tariff Commission. The Commission proved evenly divided but the chairman's report sustained the view that special protection was required "against invasion and unfair attack" and declared that "American efficiency is 'purchased at the terrible sacrifice of the constitutions and lives of men'" (Greenwood 1955: 216). The government decided to follow those members who had recommended a large increase of import duties. Still, part of the Labor party stood as an obstacle to that solution. Its members, particularly those from New South Wales, had consistently claimed that protection would increase manufacturers' profits rather than workers' wages and that its cost would fall disproportionately on the workers. Direct redistribution through a larger budget, they claimed, was overall a much safer means to boost the latter's standards of living.

To lure Labor the Deakin government eventually supported the introduction of an excise duty, the equivalent of the tariff on imports, upon agricultural machines manufactured in Australia, which would then be waived when a manufacturer paid wages which conformed to the awards of wage boards or arbitration courts. A year later, the Harvester Judgment from the Court of Conciliation and Arbitration established the obligation of manufacturers to pay a "fair and reasonable wage" to meet "the normal needs of an average employee regarded as a human being living in a civilized community."[23] This decision simply bolstered the case for a very substantial increase in rates in the 1908 tariff law. By that time, Labor support for high

[23] Quoted in Castles (1989), pp. 34-35.

tariffs in exchange for the legal recognition of a wage floor had solidified completely. In reaction to the decision of Australia's High Court to declare unconstitutional major aspects of Deakin's "new protection" legislation under the grounds that it conflicted with states' rights, the Labor party adopted an electoral platform that included the passage of constitutional reforms to ensure effective federal legislation for both arbitration and protection. As the leading protectionist politician Isaacs had predicted in 1906, "our friends of the Labour party will soon realize that they cannot provide means for paying good honest wages to the workers unless they protect the manufacturers." [24]

Sustaining a wage threshold required uncoupling (parts of) the domestic economy from international markets. Tariffs to protect the domestic industry were stepped up in the interwar period in two phases. Comprehensive tariffs were adopted in 1920-21 to sustain the gains made by the industrial sectors that have grown during World War I. Tariffs were set to "allow the costs associated with Australia's higher labor rates (usually relative to the United Kingdom) [...] to be recouped [...] to protect the most labor-intensive manufacturing industries" (Andersen and Garnaut 1987: 49). With the economic depression between 1927 and 1931 tariffs were again increased. After World War II, the artificial wartime protection resulting from the disruption of commercial flows between 1939 and 1945 was maintained through exchange controls and import licensing.

The use of methods to shape the wage structure significantly lessened any social demands for a large welfare state. In 1949-50, Australia only spent 4.7 percent of its GDP on social security -- compared with an average of 8.0 percent in 14 advanced industrial democracies (Castles 1985). By 1975, tax revenue as a proportion of GDP was 7.5 percentage points below the OECD average in Australia. Still, equality of conditions was well preserved in that country. The Gini index has been consistently lower than

[24] Quoted in Andersen and Garnaut (1987), p. 46.

the average OECD Gini index by about a whole standard deviation of the sample (or 5 points).[25]

5. THE "FISCAL ISSUE" IN EUROPE

The introduction of a laissez-faire trade regime in the first half of the 19th century in Britain and its gradual extension to continental Europe in the following decades was achieved without any simultaneous expansion of domestic mechanisms of compensation. Free trade was introduced with the support of commercial and urban interests in Britain and the backing of working class associations (Rogowski 1989; Schonhardt-Bailey 1991). But the triumph of Manchesterian liberalism (the quasi-welfare system structured by the Poor Laws was dismantled around that period) was equally related to the extremely restrictive nature of the franchise. Only one in eight men were entitled to vote after 1833 and about three out of ten after 1868. Moreover, the electoral system was extremely biased against both rural areas, which had borne most of the losses of the tariff reform of 1846, and the urban poor.

The stability of the Cobdenite regime was put into question, however, by two parallel developments at the turn of the century. On the one hand, after the electoral reform of 1884, which equalized the franchise conditions of the rural counties to those already in place for counties, the British electorate doubled to encompass between two thirds and four fifths of the adult male population.[26] On the other hand, a fall in agricultural prices and, above all, the growth of German competition unnerved British public opinion. Several anti-free trade episodes, such as an early resolution of the National of Conservative Associations in 1887 in favor of 'fair trade', the 'Made in Germany' panic of 1896 and the reimposition of

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[25] Our own estimations based on Deininger and Squire's data set (Deininger and Squire 1996).

[26] The proportion of enfranchised adult men varies across authors depending on the age chosen to count men and assumptions about the weight of plural vote in rural counties. For relative low estimates, see McKibbin et al. (1990). For high estimates, see Blewett (1972).

sugar dues, the coal export duty and the corn duty in the late 1890s and early 1900s preluded a new political realignment on trade policy. Chamberlain's proposals for tariff reform became hegemonic within the Conservative party by 1906. In turn, among Liberals and Labor intellectuals, free trade and state interventionism rapidly mixed in what Howe has termed the 'New Liberal' synthesis (Howe 1997). Following a spat of works by Adam, Haldane and the Webbs calling for increased public spending on education, the Liberal League pamphlets of 1902 already defended a much more aggressive stance of the state in the market to defend Britain's commitment to free trade. Although the Liberal party won in the 1906 landslide election under the banner of free trade, the economic downturn of 1907-08 and stagnant real wages resulted in a marked popular shift to Tariff Reform candidates in several by-elections (Searle 1992). The Liberal government, now headed by Asquith and with Lloyd George in the Treasury, immediately responded by creating an old-age pension program in 1908, raising land taxes through the 'People's Budget' and introducing labor exchanges and trade boards the following year, establishing national insurance for sickness, invalidity and unemployment in 1911 and passing the Miners' Minimum Wage Act of 1912. The combination of free trade and compensation embraced by the Liberal cabinet pushed Conservatives and moderate Liberals into the tariff reform camp. As the Duke of Northumberland, a former opponent of Tariff Reform, wrote to Stratchey in the autumn of 1909 in reaction to Lloyd George's fiscal plans, "protection cannot be worse than Socialism (...) And as (...) Tariff Reform or Socialism are the only possible alternatives at this moment, I am quite prepared to swallow the former".[27] The political debate that emerged at the turn of the 20th century continued to structure the agenda of the interwar period. The Conservative party led the battle for imperial protection in the 1923 elections and was able, with the growing support of manufacturers and the City, to impose its solution in 1931. By contrast, Labor, which had succeeded the Liberals as the progressive alternative, almost unanimously defended free

[27] Quoted in Blewett (1972), p. 79.

trade.[28] The fiasco of the 1930s policies and the victory of Labour in 1945 eventually brought Britain to the camp of open borders and sizable public intervention.

A similar evolution, with a much faster and radical commitment to the compensation strategy, took place in Scandinavia. As shown by Baldwin for Denmark and partly for Sweden, the basis of universalist compensatory policies were already put in place at the turn of the century (Baldwin 1990). As soon as the Liberal party, sustained by the Danish farming community, secured a strong majority in parliament, all-inclusive, non-contributory, tax-financed pensions were established in the 1890s. The type and size of pensions directly responded to the tradeable character of farming sector: first, they were "one of the more successful measures tried" to attract labor needed by the farmers to keep being competitive "just as competition and falling prices fettered their ability to improve conditions and stem migration" (Baldwin 1990: 75); second, due to the international-prices-taker nature of Danish farming producers, their costs (and benefits) were spread across the whole population. As has been well documented in the literature, the strategy of openness in conjunction with compensatory mechanisms deepened in the 1930s and intensified again in the 1960s and 1970s.[29]

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[28] As late as 1931, 93 per cent of Labour candidates supported free trade in their manifestos (Howe 1997: 285).

[29] See Cameron (1978) and Katzenstein (1985). A brief set of data will give a sense of the difference in public interventionism by level of openness. In the early 1970s and among OECD nations, public spending in education averaged 5.4 percent of GDP in open economies (those were exports equal 40 percent or more of GDP) and 3.7 percent in closed countries; income maintenance programs were 12.9 percent of GDP and 8.6 percent of GDP respectively; public fixed capital formation was 4.5 percent and 3.7 percent of GDP; subsidies were 2.5 and 1.2 percent respectively; and labor market policies amounted (in 1985) to 1 and 0.5 percent in each set of countries. OECD (several years).

6. CONCLUSIONS

To explain both the political causes of trade policy and the empirical correlation the literature has noted between free trade and publicly-funded compensation mechanisms, this paper models the choice of protectionism as one among several strategies states employ to redistribute income toward those sectors hurt by changes in world markets.

In response to changes in the international competitiveness of domestic industries and to the volatility of the world business cycle, national policy-makers may embrace three distinct strategies. To insulate domestic actors from internationally-induced changes in relative prices, they may choose to close the domestic economy. Conversely, they may simply decide to keep the economy open. Finally, since this 'laissez-faire' solution may have substantial distributional consequences, such as lower levels of wefare protection and likely increases in income inequality during economic downturns, they may decide to set up public programs to compensate trade losers in order to get the latter's political support for an open economy.

Which strategy is implemented is partly a function of the costs of trade and the average level of openness across the world. Employing a data set that covers about thirty states before 1945 and all countries after 1970, the paper has shown that national tariffs declined with advances in transportation and communication technologies and that they often fluctuated in response to the evolution of other countries' policies. Similarly, trade policy is broadly related to the distribution of interests in the domestic economy -- with import-competing and export sectors aligned in favor of different solutions (and with their relative size and organizational clout determining their capacity to impose their most favorable outcome). Again looking at the evolution of tariffs in European, American and Australasian countries from 1875 to 1929, this article has found that a simple theory of domestic interests gives a relatively robust explanation of trade outcomes in North America, North Western Europe and most of Oceania.

Ultimately, however, the policy regime in place is the result of a political deal and hence on the incentives and capacity free traders have to commit, in a credible manner, to a compensation package. If free traders offer a compensatory package to entice part of the import-competing sectors, then a free trade solution will be imposed. Conversely, if they do not or their offer is not credible, the latter will rather support protectionism. The two self-governing colonies of Victoria and New South Wales before the formation of the Australian Commonwealth in 1901 supply us with the closest case of a 'laboratory experiment'. Although both political units were strikingly similar in population size, living conditions, endowments, economic structure and constitutional arrangements, they followed two divergent trade policies, particularly in the 1890s. In New South Wales the Free Trade party struck a compact with the Labor party to sustain low tariffs in exchange for progressive direct taxation, a battery of industrial regulations and stable and generous public expenditure. By contrast, in Victoria, protectionist politicians used the strong relationship between their Liberal party and unions to create a 'new protection' regime in which workers supported high tariffs in exchange for an arbitrational and tax system that made sure that part of the gains of protection were directly passed unto workers through high wages. In short, the choice of trade regime hinged on the strategic capacity of politicians to organize a particular coalition around one of two equally feasible outcomes.

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TABLE 1. DOMESTIC CONDITIONS AND TARIFFS

	PERIOD	CAPITAL	LAND	LABOR	REGIME	PREDICTION	TARIFF
WESTERN EUROPE							
Belgium	1913	A	S	A	D	low	16
France	1875-99	A/S	S	A	D	**low/high**	8
France	1900-14	A/S	S	A	D	**low/high**	9
France	1918-29	A	S	A	D	**low/high**	5
Germany	1875-99	S	S	A	A	high	7
Germany	1900-14	A	S	A	A	**low/high**	8
Germany	1918-29	A	S	A	D	**low**	7
Netherlands	1913	A	S	A	D	**low**	0
United Kingdom	1875-99	A	S	A	D	**low**	5
United Kingdom	1900-14	A	S	A	D	**low**	5
United Kingdom	1918-29	A	S	A	D	**low**	9
EUROPEAN PERIPHERY							
Austria/Austria-Hungary	1875-99	S	S	A	A	high	6
Austria/Austria-Hungary	1900-14	S	S	A	A	high	7
Austria/Austria-Hungary	1918-29	A/S	S	A	D	**low**	8
Greece	1875-99	S	S	A	D	low	21
Greece	1900-14	S	S	A	D	low	26
Greece	1918-29	S	S	A	D (u. 1926)	**low**	11
Italy	1875-99	S	S	A	A	**high**	14
Italy	1900-14	S	S	A	A	high	9
Italy	1918-29	A/S	S	A	D (u. 1923)	**low**	4
Portugal	1875-99	S	S	A	A	**high**	32
Portugal	1900-14	S	S	A	A	**high**	26
Portugal	1918-29	S	S	A	A	**high**	12
Russia/USSR	1875-99	S	A	A	A	low	27
Russia/USSR	1900-14	S	A	A	A	low	31
Russia/USSR	1918-29	S	A	A	A (Comm)	low	23
Serbia/Yugoslavia	1875-99	S	S	A	A	high	5
Serbia/Yugoslavia	1900-14	S	S	A	A	high	9
Serbia/Yugoslavia	1918-29	S	S	A	A	high	11
Spain	1875-99	S	S	A	A	**high**	19
Spain	1900-14	S	S	A	A	**high**	17
Spain	1918-29	S	S	A	A	**high**	19
SCANDINAVIA							
Denmark	1875-99	S	S	A	A/D	**high?**	11
Denmark	1900-14	A	S	A	D	**low**	7
Denmark	1918-29	A	S	A	D	**low**	4
Norway	1875-99	S	S	A	D	low	12
Norway	1900-14	S	S	A	D	**low**	11
Norway	1918-29	A	S	S	D	high	7
Sweden	1875-99	S	S	A	A	**high**	11
Sweden	1900-14	S/A	S	S	D	high	10
Sweden	1918-29	A	S	S	D	high	8

NORTH AMERICA							
Canada	1875-99	S	A	S	D	**high**	18
Canada	1900-14	A	A	S	D	**high**	16
Canada	1918-29	A	A	S	D	**high**	14
United States	1875-99	S	A	S	D	**high/low**	28
United States	1900-14	A	A	S	D	**high/low**	23
United States	1918-29	A	A	S	D	**high/low**	12
OCEANIA							
New South Wales	1875-99	S	A	S	D	high	5
Victoria	1875-99	S	A	S	D	**high**	11
Australia	1900-14	S	A	S	D	**high**	19
Australia	1918-29	A	A	S	D	**high**	18
New Zealand	1875-99	S	A	S	D	**high**	22
New Zealand	1900-14	S	A	S	D	**high**	19
New Zealand	1918-29	A	A	S	D	**high**	16
LATIN AMERICA							
Argentina	1875-99	S	A	S	A	low	27
Argentina	1900-14	S	A	S	A	low	23
Argentina	1918-29	S	A	S	D	low	13
Brazil	1875-99	S	A	S	A	low	34
Brazil	1900-14	S	A	S	A	low	40
Brazil	1918-29	S	A	S	A	low	21
Chile	1875-99	S	A	S	A	low	28
Chile	1900-14	S	A	S	A (u. 1910)	low	17
Chile	1918-29	S	A	S	D (u. 1924)	**high**	16
Colombia	1875-99	S	A	S	A	low	40
Colombia	1900-14	S	A	S	A	low	55
Colombia	1918-29	S	A	S	A	low	30
Cuba	1900-14	S	S	A	D	low	25
Cuba	1918-29	S	S	A	A	**high**	18
Mexico	1875-99	S	A	S	A	low	17
Mexico	1900-14	S	A	S	A	low	22
Mexico	1918-29	S	A	S	A(leftwing)	**high**	21
Peru	1875-99	S	A	S	A	low	32
Peru	1900-14	S	A	S	A	low	23
Peru	1918-29	S	A	S	A	low	15
Uruguay	1875-99	S	A	S	A	low	31
Uruguay	1900-14	S	A	S	A	low	33
Uruguay	1918-29	S	A	S	D	**high**	22

TABLE 2. CUSTOM REVENUES AS A SHARE OF THE VALUE OF IMPORTS IN VICTORIA AND NEW SOUTH WALES, 1856-80

	New South Wales	Victoria
1856	8.6	8.4
1861	8.9	n.a.
1865	6.0	n.a.
1870-71	9.5	11
1875	7.1	10
1880	8.6	10

Source. For 1856 and for New South Wales, calculated from data in Patterson (1968). For Victoria from 1870 onward, taken from Andersen and Garlaut (1987: 41).

TABLE 3. BASIC TRAITS OF NEW SOUTH WALES AND VICTORIA

		NSW	Victoria
Area (Sq. Miles)		310,700	87,884
Population (1899)		1,348,400	1,162,900
Birth Rate	(per 1000 pop)	27	27
Death Rate		12	14
Percentage Population in Capital		32.5	41.1
Percentage Employed in:			
(Census of 1901)	Professional	6.0	5.1
	Domestic	4.4	3.3
	Commercial	14.8	16.3
	Transport	9.5	7.6
	Manufacturing	18.9	22.0
	Construction	8.2	6.9
	Agriculture. Pastoral	28.7	27.7
	Mining	8.4	7.9
Estimated factory wage (1900) (Pounds)		73.5	66.4
Weekly rent per house (1901) (shillings)		10.4	8.8
Factory Wage / House Rent		142	151
Imports (Pounds per Head)		18.98	15.44
Exports (Pounds per Head)		21.10	15.97
Tariffs in 1900 (Net Revenue from Duties as % of Imports)		5.22	10.61
Total Revenue (Per Person)		7.4	6.41
Total Expenditure (Per Person)		7.28	6.29

Figure 1. The Evolution of Tariffs 1865-1940

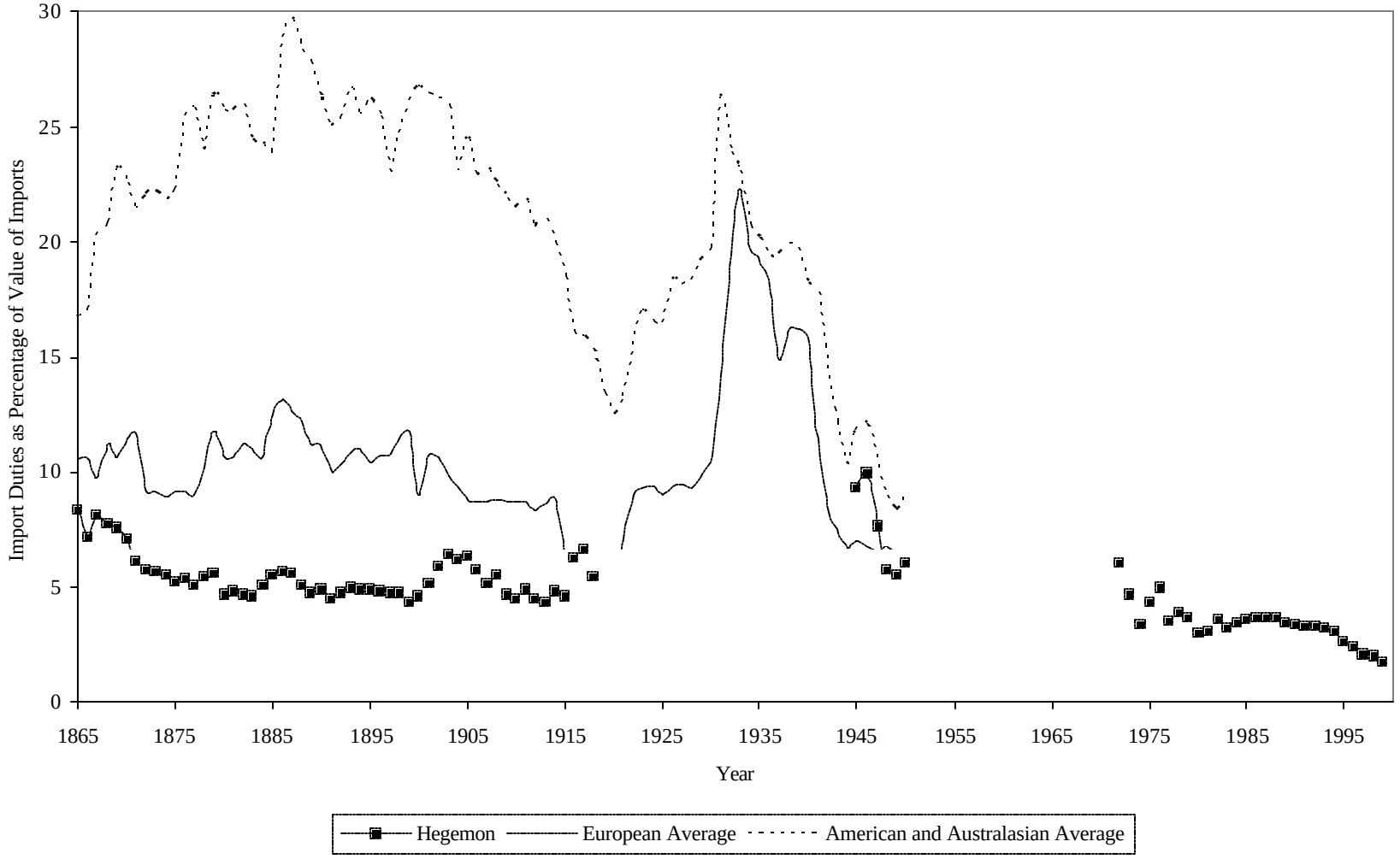

Figure 2. European Tariffs 1865-1950

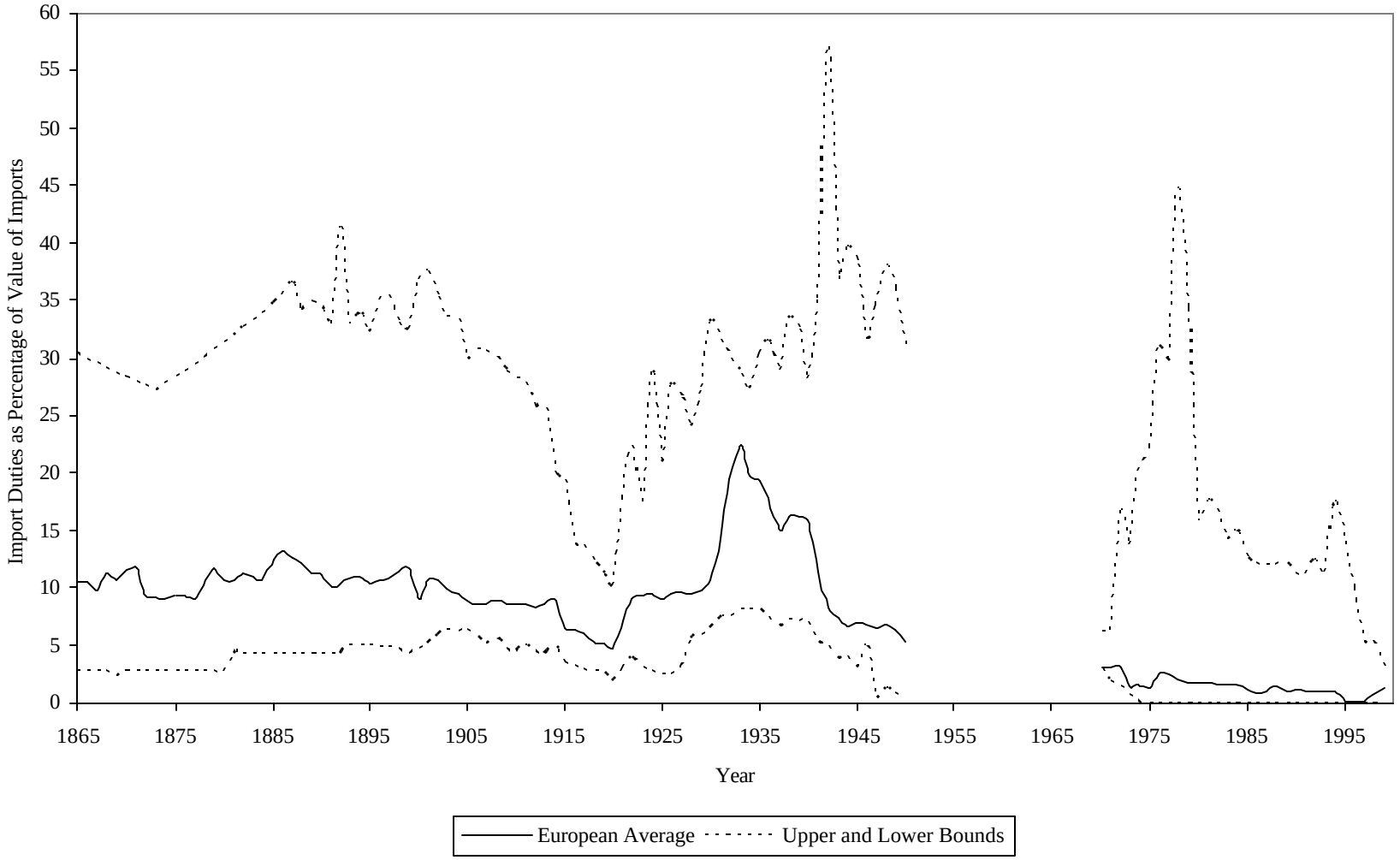

Figure 3. Tariffs in America and Australasia 1865-1950

Figure 4. Support for free trade in a two-dimensional policy space

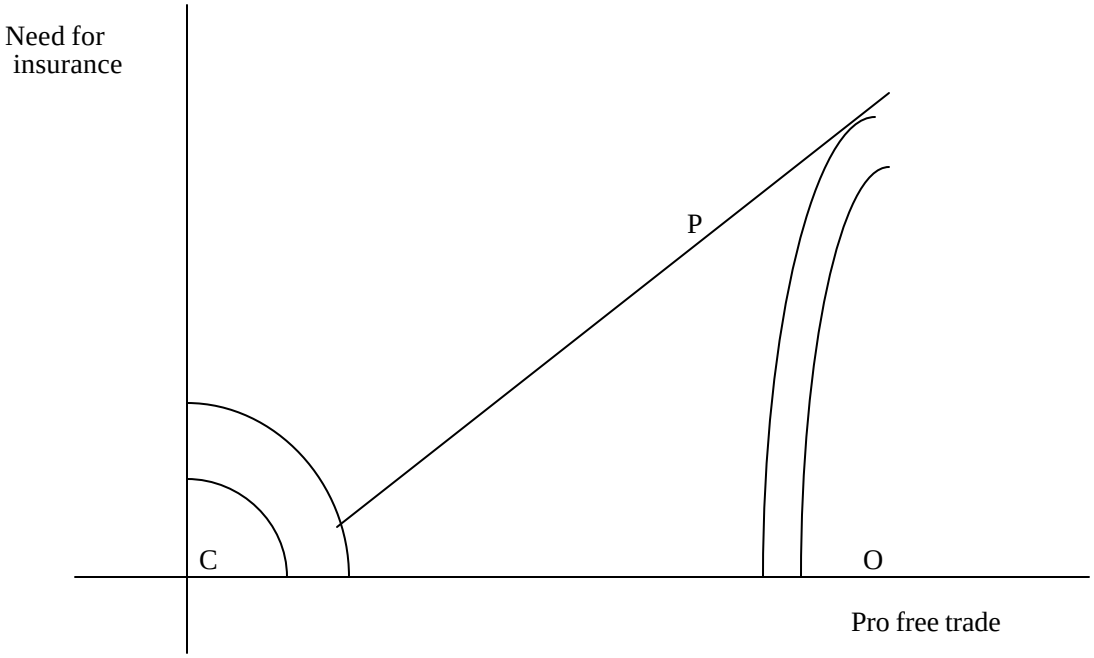

Figure 5. Custom Revenue 1880-1900

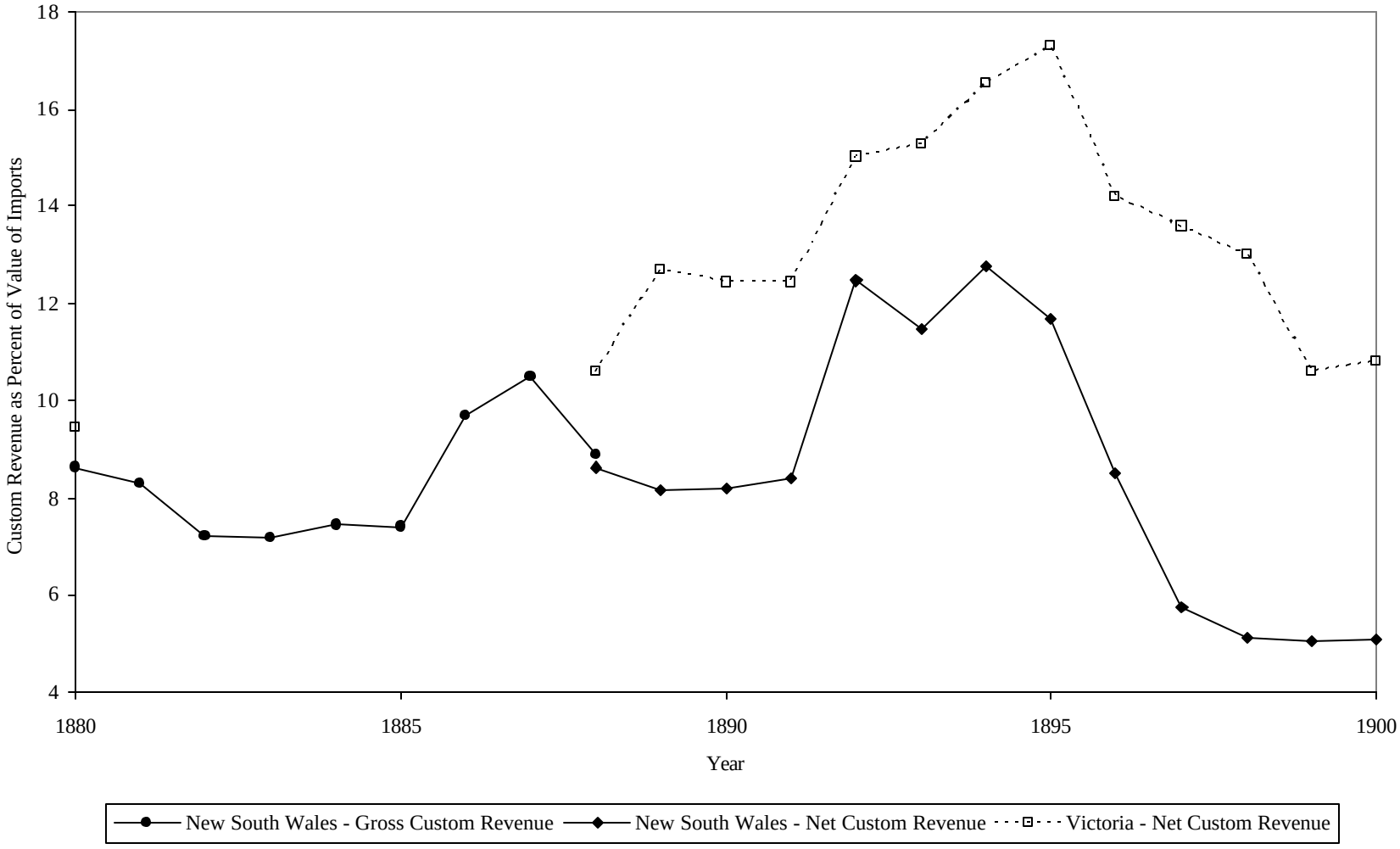

Figure 6. Revenue from Land Sales as Percent of Total Revenue, 1865-1900

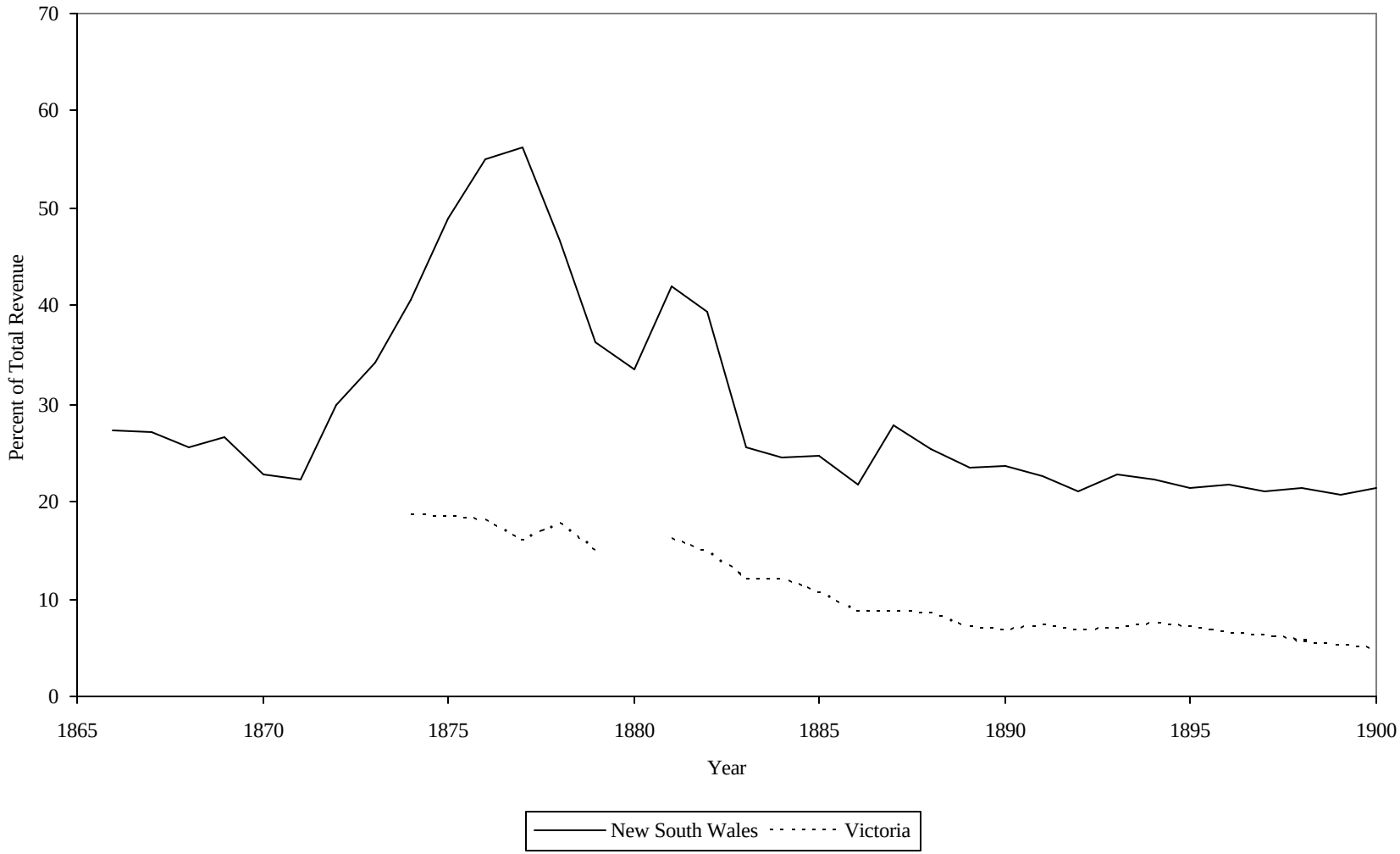

Figure 7. Public Expenditure, 1866-1900

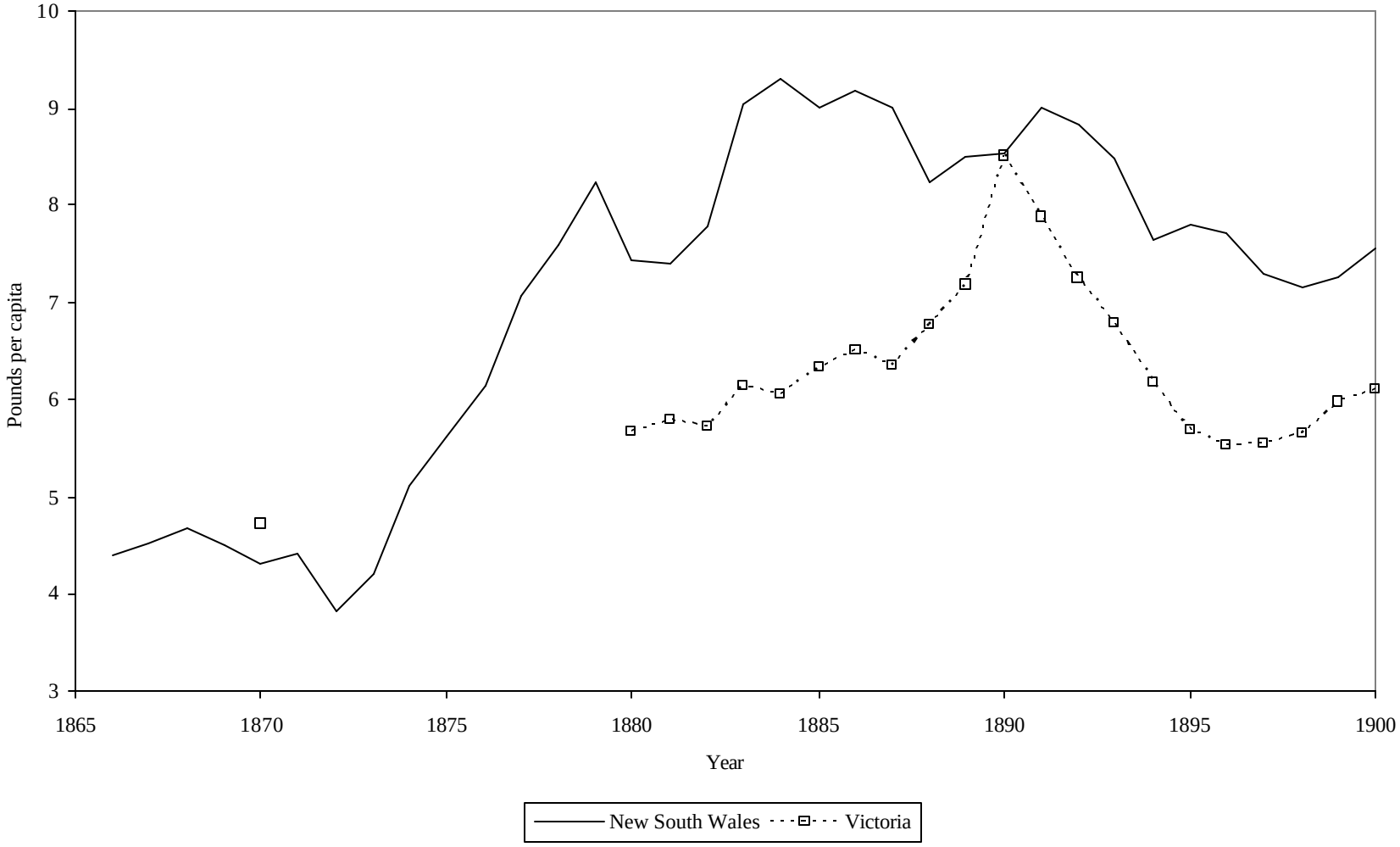

Figure 8. Public Revenue, 1866-1900