

Resist the power of the vocal few

While the benefits of open trade are well established, it's easy for the vocal minority groups who benefit from protectionism to drown out the best interests of the majority. Martha Hall Findlay calls on politicians to resist the calls of special interests and act for the benefit of the whole.

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"It is the maxim of every prudent master of a family, never to attempt to make at home what it will cost him more to make than to buy... If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better to buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage." – Adam Smith, 1776

Adam Smith's summary of the benefit of trade between countries applies to our Canadian provinces and territories, too. And after well more than 200 years it bears repeating now, as while certain provincial premiers are showing leadership in moving toward more open inter-provincial trade, others show signs of regressing into greater protectionism. Even as we work toward concluding free trade deals internationally, we're still stumbling at home.

Why is this so difficult? It's easy to point to political leadership (or the lack thereof), but political leadership is often easier said than done. Politicians by their nature respond to what is being said in the public realm -- and we as a society have allowed our public discourse to become too dominated by special interest groups.

The reality is that it is difficult for politicians (and their advisers) not to succumb to the pressure of the vocal few. While the economic theories

supporting free trade versus protectionism are widely accepted, there are no special interest groups of economists loudly espousing them – and when politicians are striving for re-election, practice doesn't always keep up with theory.

We need to remind our political leaders that theirs is a responsibility to the betterment of the whole; at the same time, we need to work at changing the public discourse to make doing so more politically palatable.

A simple example: If a construction company in Manitoba (or France, for that matter) has specific design and construction expertise that allows it to build a new hospital more cost-effectively than the Ontario alternatives, then Ontario should be able – indeed, encouraged – to hire the company that can do the job best at the best price, regardless of where it comes from. The taxpayers of Ontario should be able to get the best new hospital for their money – and put the money they save to other useful purposes that benefit the community.

Yet Ontario requires companies to have "local knowledge" in order to win contracts for long-term infrastructure projects. The concept was introduced by Dalton McGuinty just before he stepped down. His successor, Premier Kathleen Wynne, now with a majority mandate, has an opportunity to set her own path -- to join other provincial leaders, particularly those in BC, Alberta and Saskatchewan, in opening up inter-provincial trade, including access to this kind of work. Unfortunately, at time of writing, indications were that she would instead add to the restrictions.

Proponents of open trade are often painted by special interest groups as being unconcerned for the welfare of locals. This is not true. Tariffs, quotas, non-tariff barriers in the form of more subtle requirements (such as

“local knowledge”) have the effect of taking resources away from the wider population in order to give extra to the much smaller number of owners and workers in the favoured industry – in Ontario’s case a small number of established construction companies and the unions with which they have close ties.

This redistribution of wealth goes the wrong way. Protectionism takes from society as a whole, including those least able to afford it, and gives to a few. And although no one begrudges anyone a livelihood, the apparent benefit to the relatively few working in these enterprises is less than it may appear. Ontario “protection” will only encourage other provinces to “protect” their own – effectively restricting those Ontario companies (and their employees) from expanding. And study after study has shown that that the cost to taxpayers of protecting or subsidizing jobs is always a multiple – sometimes a very large multiple – of the wages of the workers thus protected or subsidized.

Not only does it not make economic sense, it harms the larger community – yet politicians still succumb. Alan Blinder, Professor of Economics and Public Affairs at Princeton and author of “Hard Heads, Soft Hearts”¹ put it nicely: “Trade protection secures concentrated and highly visible gains for a small minority by imposing diffuse and almost invisible costs on a vast and unknowing majority. That makes protectionism at once economically graceless and politically fetching.”

So how do we get from good policy on opening up interprovincial trade to good political decisions that would open up inter provincial trade?

¹ Allan S. Blinder, *Hard Heads, Soft Hearts – Tough-Minded Economics for a Just Society* (Cambridge, Massachusetts : Perseus Books, 1987)

Some are using nationalistic language of “We should do this for the country as a whole,” but a vague sense of patriotic selflessness simply won’t succeed. Ontario will not (and arguably should not) open up construction opportunities to non-Ontario enterprises simply because of some feel-good idea that Canadians should be more “Canadian” and spread the wealth around. We need to be loud and clear: *the Ontario government should do so because it is in the best economic interests of Ontarians.*

We must move the public discourse away from the easier-to-promote language of protection for a few, to the harder-to-articulate-simply but hugely important language of greater prosperity for the whole. The language of “protection”, of “saving jobs”, of “encouraging local” all sounds good. It pulls at our heartstrings. Small groups can concentrate their messages and effectively create a wider perception of harm. On the other hand, the larger population suffers from protectionist policies, but the effect is more diffuse and impossible to fit into easy, heartstring-pulling sound bites. Individuals are often not aware of the negative consequences of protectionism --even those who do have no focused way to articulate their concern.

Taxpayers, consumers, voters – all should be actively, loudly calling on their governments to source the best infrastructure and the best services at the best prices, regardless of the source – particularly when public purses are increasingly under pressure.

We should be heartened by the leadership – not just at the provincial or territorial level, but truly national leadership -- being shown by several premiers in this regard. Absent action on the part of the federal government to use its constitutional powers to move this forward, we need these provincial and territorial leaders to step up even more, and for those

still hesitating, to come off the sidelines. After all, politicians are entrusted with a responsibility to do what's best for the whole, not just a few, and we must hold them accountable for fulfilling that responsibility.

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