

WRITING SAMPLE

POLITICAL ECONOMY ARGUMENTS FOR UNIFORM TARIFFS

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I. INTRODUCTION

Many emerging economies have recently switched from non-tariff constraints with a complex structure of tariffs to a limited number of tariff rates with minimal sectoral discrimination.

The issue is whether it would be wise to replace non-tariff barriers with a single, uniform tariff. There exist two philosophical schools of thought. Economic policy experts run one, and the other academic economists. The most efficient method of reducing trade policy imbalances, as per Policy economists who are incensed owing to the complexity of trade political regimes in the majority of emerging economies, is to substitute all trade restrictions with a single uniform tariff. In comparison, academic economists who follow the canon of optimal tax and tariff literature only consider uniform tariffs as a viable option for policy. In both areas, Although there exist a few caveats to this general trend, they are too meagre to do anything other than support the rule.¹

II. LITERATURE REVIEW

A. Political-Economy Arguments for a Uniform Tariff by Arvind Panagariya and Dani Rodrik²

The author starts by outlining the scenario in the 1980s when the Banks aggressively pushed for better tariff uniformity across all emerging economies. The Bank's structural adjustment and trade reform programmes advocated eliminating quantitative import restrictions and better tariff uniformity. After that, the author

¹Among academic economists, Corden (1958, 1985) and Harberger (1990), both acutely aware of the limitations of a uniform tariff as the "optimal" structure, strongly favour it. In his academic writings, Corden (1971, 1974) has systematically shown why tariff uniformity is nonoptimal under most circumstances.

² Panagariya, A., & Rodrik, D. (1993). Political-Economy Arguments for a Uniform Tariff. *International Economic Review*, 34(3), 685–703. <https://doi.org/10.2307/2527188>

launches into a detailed analysis of a few political economy's defences against uniform tariffs. The authors outline three different models in which adopting uniform tariff rules could reduce the welfare costs associated with endogenously determined tariffs. Tariffs in the initial two approaches are ascertained by demand because the government is essentially powerless to withstand pressure from lobbying groups. Within the third model, tariffs are supply-determined in that the government favours some industries over others, leading to their creation.

The author primarily focuses on how their economic foundation has not grown solid despite uniform tariffs' rising popularity in recent years. Following this, The three previously mentioned sets of assertions are presented and discussed as to why governments might favour tariff uniformity to reduce the political pressure for excessive protection.

Firstly, a free-rider effect may lead to less lobbying under an administration with uniform tariffs than under one where tariffs are permitted to vary.

Secondly, an input-price effect might make producers of finished goods less enthusiastic about import protection.

Thirdly, a pre-commitment impact might make protecting favoured sectors more expensive for a new administration. None of these defences offers a clear-cut justification for tariff uniformity. Uniformity must be decided on a case-by-case premise.

After analysing the three approaches, the author concludes that a regime with uniform tariffs could result in higher welfare than one with sector-specific tariff differences in each situation.

B. The Economics And Politics Of Uniform Tariffs By Arvind Panagariya³

The author emphasises at the outset that organisations for environmental sustainability governance have mostly stayed the same since Rio 1992 and further that the following clashing results have harmed their stance. However, the author continues by describing how our current era is one of the fragmented initiatives, "alliances," and "coalitions for change," which regularly bring together public and private players from the North and the South to work together toward specific sustainability goals. Sustainable development

³ Marjit, S. (1993). Uniform Tariffs in General Equilibrium – A Simple Model. *Journal of Economics*, 57(2), 189–196.
<http://www.jstor.org/stable/41794272>

fluctuates independently of these organisations as much as it does within their constraints. These "solutions-focused" activities significantly contribute to the larger sustainability objectives.

The author says it is absurd to fixate on complete uniformity as the golden rule when the main issue is not lobbying or a new administration that will use trade policy for its benefit. In any case, most of the rule's supporters are overly willing to accept their preferred exceptions, such as a duty drawback on exports and no new tariffs on inputs that were freely imported at the time of transformation. It makes sense to implement a system with two to four tariff rates and use the information at hand. The author concludes by stating his opinion that up to four tariff rates will be sufficient to take advantage of the majority of efficiency gains without actually hitting the optimum and further that a small amount of tariff rates would also satisfy the administrative-simplicity criterion.

III. SUGGESTION AND ANALYSIS

Uniform tariffs are becoming increasingly popular, but the justification for why they are better than other tariff structures has yet to be ascertained.

Government intervention in trade is done for various reasons, including political, economic, and cultural ones. Protecting domestic jobs is one of the political justifications. The government must constantly create and implement opportunities for employment to rise rather than fall because if people are losing their jobs, it's a serious issue, and that government won't last. The government cannot permit the free flow of goods and services without managing it due to the potential risk to the country's security, which is the second political justification. Responding to unfair trade is the third. The fourth political justification is to increase one's power.

The articles analysed earlier in this section have focused on models where tariffs are determined endogenously. Clearly, in each model type illustrated in the papers under consideration, a system with uniform tariffs could produce higher welfare than one in which tariffs are permitted to vary across sectors.

However, it is astounding that the scenario for uniformity needs to be more precise cut in any of the models that have been presented. This conclusion can be drawn even though the paper's authors attempted to present the strongest political-economic arguments in favour of uniformity.

Three effects have been identified that could reduce political pressure for tariff uniformity protection. The first is the free-rider effect, which states that lobbying activity is likely to be reduced under an administration with uniform tariffs as opposed to one where sectoral tariffs can vary. Economic efficiency will increase if there are many politically active import-competing sectors. The input-price effect is the

second factor. Tariff uniformity will lessen the exuberance of import-competing interests for tariffs when imported intermediate inputs are used primarily in import-competing sectors (as in developing countries).

On the contrary hand, tariffs will be sought much more actively if imported inputs are predominantly used in exportables. The precommitment effect comes last. A future administration would have to spend more money to protect its preferred industries if tariffs were uniform.

Increasing costs in this way will likely increase efficiency in situations where these preferred sectors are small (relative to national income at world prices).

The analyses of the two papers mentioned above can also be taken to have accomplished the following goals:

First, it draws attention to the necessity of being clear about the reasoning behind promoting tariff uniformity in particular situations. Vague references to "political-economic reasons cannot support a preference for tariff uniformity."

The second method clarifies the set of conditions under which political-economic arguments can be trusted.

Therefore, it is crucial to confirm that the types of lobbying pressures or governmental preferences for particular sectors that are at the core of our conclusions exist. Additionally, ensuring that the conditions listed under this uniformity are beneficial and probable to persist is critical.

IV. UNIFORM TARIFFS IN INDIA

A uniform tariff all over India would mean laying equal tax or duty all over the country without any differentiation. The most significant benefit of a uniform tariff across the nation is that it would result in relatively small gains for industry lobbying, which would pose a gratis issue for the lobbying sector and significantly decrease the incentive to advocate for safeguarding⁴. Firstly, the degree of safeguarding would likely decline. The industries would be responsible for paying the price of increasing the tariff for all the other goods if India decides to impose uniform tariffs because no industry would be able to benefit significantly from lobbying efforts. The significantly greater expense of imported intermediate goods and the reduced cost of its exports as a result of induced shifts in the real exchange rate would be some examples of these costs. The scattered costs that the higher tariff in other industry segments would levy would need to be assessed against any gains from the increased tariff. Second, the decreased lobbying will directly result in increased efficiency

⁴ Tarr, David G., 2000. On the Design of Tariff Policy : A Practical Guide to the Arguments For and Against Uniform Tariffs. World Bank, Washington, DC. © World Bank. <https://openknowledge.worldbank.org/handle/10986/26132> License: CC BY 3.0 IGO.

for the use of resources. Thirdly, the decrease in resources allocated to lobbying would lead towards lower corruption within the current administration, resulting in a positive knock-on impact on other areas of the government activity. The decrease throughout the gains from lobbying for safeguarding will result in a massively improved message to valuable entrepreneurial skills, which would then be welcomed to develop better and more affordable goods. Due to transparency and administrative ease brought about by uniformity in customs clearance processes, uniform tariffs in India would also result in a decrease in smuggling and administrative costs associated with trading.

IV. CONCLUSION

Despite the possibility of better policies in principle, a political commitment to uniformity may be a good idea in practice, according to a political economy argument for uniform tariffs. Government intervention in trade is done for various reasons, including political, economic, and cultural ones. Protecting domestic jobs is one of the political justifications. The other is to protect national security, combat unfair trade and expand one's influence.

The articles analysed earlier in this section focused primarily on models with endogenous tariffs. Undoubtedly, a system with uniform tariffs could result in higher welfare than one in which tariffs are allowed to vary across sectors for each model type depicted in the papers under consideration. It is astounding that the scenario for uniformity needs to be more precise cut in any of the models that have been presented. This conclusion can be drawn even though the paper's authors attempted to present the strongest political-economic arguments in favour of uniformity.

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