

James Alt and Michael Gilligan, "The Political Economy of Trading States: Factor Specificity, Collective Action Problems, and Domestic Political Institutions," *Journal of Political Philosophy* 2, no. 2 (1994), pp. 165-192

The theoretical point that opening one's economy to trade increases aggregate welfare has overshadowed the concomitant redistributive effects of trade within the economy. Some members of society will lose greatly when a state abandons autarky, even if in general the population is somewhat better off. This, as has long been noted, produces collective action problems for the beneficiaries: as early as the 1920s and 1930s analysts such as Pareto and Schattschneider repeated the empirical observation that even welfare-improving measures that greatly harm a few for the benefit of the many will face vociferous, well-organized opposition but will arouse only tepid support. There are multiple possible explanations for this phenomenon: fixed per-person organization costs, for example, or individuals' assumptions about the probabilistic effects of their contributions.

Modeling who has high stakes in a given policy area, however, is also disputed. The Stolper-Samuelson model (and its disciple Rogowski) postulates that any given factor of production (e.g., labour or capital) is mobile – that is, can be applied to any industry. Since protecting particular industries results in relatively higher returns to factors used relatively intensively by that industry, this implies a constant class struggle in an economy with only two factors of production: each factor will try to get protection for all industries for which it is intensively used, and free trade for other industries. Combined with the Heckscher-Ohlin theory of factor endowments (i.e., a country will export products that intensively use those factors the country has in relative abundance), specific predictions can be made about trade policy pressures. By contrast, the Ricardo-Viner (specific-factors) model, as championed by inter alia Frieden, allows only one factor (usually "labour") to move freely from industry to industry; the other factor ("capital") cannot costlessly switch industries. In this case, the primary struggle for protection is among the various specific factors; the net effect for the mobile factor depends on patterns of consumption (and is in any case usually modest). Each of these models, then, produces different expected trade coalitions for different circumstances.

However, assuming factor mobility also has implications for collective action problems, viz. free riding will be rampant within the mobile (and therefore nonexcludable) factor. But such collective action problems are irrelevant if the political institutions are strictly majoritarian, as no action then need be collectively taken. Since factor mobility and political institutions are generally independent, the number of likely trade coalitions is further reduced, and trade policy is determined not only by factor mobility and institutional choice but also more general collective-action costs. From this Alt and Gilligan derive (p. 186) what is in effect a $2 \times 2 \times 2$ matrix of policy and coalitional outcomes given characteristics of the economy.

This analysis produces a number of conclusions: Stolper-Samuelson theory tends to work well with majoritarian institutions; Ricardo-Viner works better in the more empirically likely cases where collective-action costs are present. Also, the differentiation between Ricardo-Viner as a short-run analysis and Stolper-Samuelson as a long-run model – on the grounds that factors that are immobile in the short term can be more freely reinvested in the long term – can be inappropriate if used wantonly (as the French would most likely use it). Finally, and most broadly, politics can itself affect the specificity of factors: the ease with which one can alter policies influences one's willingness to invest in highly industry-specific factors, and factor mobility and political institutions in the very long run shape one another.