

## Preface

Karl Marx said that man was born free but is everywhere in chains. International trade, by contrast, has never been unfettered and remains significantly restricted, globalization notwithstanding. For students of the subject, this poses problems of theory, policy, and measurement. Measurement is the Cinderella of this trio, because theorists have paid little attention to the measurement of trade restrictions, leaving practitioners to make do with ad hoc solutions.

In this book we present an approach to the problem of measuring trade restrictiveness that we have developed over the past fifteen years. Whereas the standard theory of index numbers applies to prices, output, or productivity, we develop new index numbers that apply directly to policy variables. Our theoretical work builds on the standard theory of policy reform in open economies and extends it in a number of directions. We also illustrate how our indexes can be applied, under a variety of simplifying assumptions, and show that they make a big difference to the assessment of trade restrictiveness. The book thus attempts to present our results in a way that will appeal to both of our potential audiences: to convince our theoretically minded colleagues that the problem is an important one and that our answer is the correct one, and to give practitioners an analytical base and some practical tools for applying our ideas.

Like all authors we hope that every reader will read the book carefully from beginning to end. However, recognizing that life is short and books are long, let us give some recommendations for more selective readings. Those who want a nontechnical introduction to the book should read chapters 1 and 2 and look at some of the empirical results in part III, especially chapter 15. Theorists and graduate students will want to concentrate on part II. Here chapters 4 and 5 are the analytic core of the book, presenting the two principal indexes we propose. They are sandwiched between chapters that deal with the theory of trade policy reform. Chapter 3

summarizes the standard results in the field, while chapter 6 extends it in new directions, showing how the effects of trade policy on welfare and market access can be expressed in terms of the mean and variance of the tariff distribution. Chapters 7 and 8 detail the additional complications that arise for theory and measurement when trade is restricted by quotas as well as tariffs. Chapter 9 extends our indexes to economic environments other than the competitive small open economy, while chapter 10 shows how they relate to other ways of aggregating trade restrictions.

Finally, those interested mainly in applications will want to skim part II for background and concentrate on the empirical work in part III. Following a short methodological introduction in chapter 11, chapters 12 through 15 apply our approach to a range of issues, including the trade restrictiveness of domestic distortions and the use of a computable general-equilibrium model to calculate the measures of trade restrictiveness we propose. While these applications show the potential of our indexes in applied work, the principal contribution of our approach is conceptual. To take an analogy from better-known index numbers, the Konüs true cost-of-living index has not supplanted fixed-weight consumer price indexes in practice. In the same way we do not expect that our approach will put an end to the calculation of trade-weighted indexes of average tariffs. However, we hope that readers of this book will come away with a clearer understanding of their deficiencies and of the circumstances where they can be expected to approximate the theoretically ideal indexes we present.

Many individuals have contributed in person to our thinking on these issues. In addition to those mentioned elsewhere, we would like to thank Patrick Honohan, Ian Jewitt, Ron Jones, and Kala Krishna for helpful comments; Geoff Bannister (who co-authored the paper on which section 12.3 is based), Can Erbil, Chris Holmes and Ulrich Reincke for able research assistance; and Carl Hamilton for assistance with the data for section 14.5.

Portions of this book have appeared in different forms in a number of journals, including *Econometrica*, the *International Economic Review*, the *Journal of International Economics*, the *Review of Economic Studies*, the *Review of International Economics*, and the *World Bank Economic Review*, as well as in collected works edited by Ron Jones and Anne Krueger (*The Political Economy of International Trade*, published by Basil Blackwell) and by Bob Baldwin (*Empirical Studies of Commercial Policy*, published by University of Chicago Press). We are grateful to the editors and

referees of these books and journals for invaluable comments and also to the publishers for permission to reprint excerpts here.

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