

Patriotism and Politics in the Marketplace

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CAMPAIGNS designed to persuade consumers to take account of a product's country of origin when making their purchases are not new, but seem to be increasing in prominence. Such campaigns can be directed either at encouraging or at discouraging purchases from particular 'target' countries. In Australia, the most obvious example of positive discrimination is the current Buy Australian campaign, which targets Australian-made products. Another example is Community Aid Abroad's promotion of goods made in Cuba and Mozambique. Negative discrimination, meanwhile, is usually directed at the products of countries whose governments are in political disfavour, such as South Africa (for its erstwhile apartheid policies) or France (for its nuclear testing in the Pacific).

The ostensible aim of campaigns of positive discrimination is to benefit the residents of the target country. Since this is to be achieved by purchasing more of the country's products than otherwise, any benefits are likely to accrue to 'producers' (employees and owners) in the first instance, before spreading more widely within the community. Thus, Buy Australian is directed at assisting Australian import-competing producers, but the increased domestic output, or reduction in imports, is supposed to bring a range of benefits (such as jobs or a reduced current account deficit) to the whole nation. The ostensible aim of campaigns of negative discrimination is to change government policy by punishing producers in the target country in the hope that they will then exert pressure on their government to drop the policy in disfavour.

Shifting consumption patterns away from strict 'value for money' comes at a cost to the consumer. Although this cost is undertaken voluntarily, it may be incurred in the mistaken belief that certain social benefits will follow. As noted, consumer campaigns have quite ambitious ostensible objectives, which are unlikely to be achieved, especially in the Australian context. But beside these objectives, such campaigns may often serve simply to provide guidance to individuals who have an underlying desire to make 'patriotic' or 'politically correct' consumption decisions. This is clearly a more attainable objective, but even here there are significant difficulties. Thus, depending on the extent of the individual consumer's commitment, adhering to consumer campaigns is likely to generate a sense of frustration and failure when its objectives are not achieved. It is therefore important that consumers have realistic expectations in order that failure does generate political pressure for more costly and coercive policies.

Buy Australian

Of these campaigns, those that discriminate in favour of domestic products are the most common and have been the most extensively analysed. Our discussion of them can therefore be brief, focussing on the Buy Australian campaign, because that is the most familiar.¹ Buy Australian has much in common with the group of strategies or policies referred to as 'protectionist' (examples include import tariffs and quotas). The immediate aim of protectionist strategies is also to divert spending from imports to domestic output, though the stated reasons for adopting such a strategy can vary.

Whatever their purposes, protectionist policies impose costs on an economy by distorting production, consumption and trading patterns away from those that result from direct competition between producers on the basis of relative costs. If all countries export those goods and services that they are relatively most efficient at producing (those in which they have a 'comparative advantage') and import those goods and services that other countries are relatively most efficient at producing, then world output is allocated efficiently and all countries participate in the resulting gains from trade. Protectionist strategies induce consumers to purchase from relatively higher-cost domestic suppliers rather than from lower-cost foreign exporters. The domestic import-competing sector is therefore larger than otherwise and the foreign exporting sector is smaller. At least some of this promotion of domestic import-competing industries comes at the expense of relatively low-cost domestic export industries. Abroad, the shift is in the same direction: a contraction of foreign export industries in favour of their relatively high-cost import-competing industries. The result is a misallocation of resources, both internally and externally, since neither country is able to take full advantage of its comparative advantage. Some of the potential gains from trade are sacrificed by both parties as a consequence.

Given that the costs of protectionist policies are now widely recognised, they must be shown to offer offsetting advantages if their adoption is to be justified. Why might it be socially desirable for consumers to purchase an Australian-made product rather than an otherwise better-value-for-money import? Some of the reasons offered will sound familiar to those acquainted with the Buy Australian campaign: reducing unemployment and excessive foreign debt in particular. Though even the extent to which these are problems can be disputed, the focus of most of the criticism of protectionism has been on exposing the very dubious nature of the solutions that protectionist policies might provide. There is no need to review this debate in detail here, but it is useful to consider two arguments to illustrate the misconceptions and fallacies that can arise.

Protectionists, like Buy Australian proponents, claim the preservation of Australian jobs as one of the major benefits of buying domestic products. Few would

¹ See Black (1995) for a recent analysis of the Buy Australian campaign. Campaigns similar to the current Buy Australian campaign have been tried in Australia in the past and elsewhere. Slogans such as 'Be American, Buy American; The Job You Save May Be Your Own' and 'When You Shop Canadian You Buy Jobs For Canada', should sound familiar to Australian readers.

doubt that unemployment involves real social costs. More contentious are the appropriateness and efficacy of protectionist strategies as a solution to unemployment. These strategies are attractive because the jobs so 'protected' are held by definite, identifiable people (voters). It is specific jobs, rather than employment in general, that are being protected. Yet the individuals that hold, or might hold, the jobs that are believed to be threatened will generally find jobs elsewhere. Experience indicates that the use of protectionist policies does not increase overall employment in the long run, but instead influences the way this employment is distributed among activities in the economy. In the long run, it is not in the nation's interest to reallocate employment away from its comparative advantage and into import-competing activities. Protectionist economies have been characterised by significantly lower growth rates rather than significantly lower unemployment rates.²

A further argument commonly used to justify protectionist interventions is that consumers, out of ignorance, systematically undervalue domestic products; they are 'biased' in favour of imports. It is interesting that this was an early theme of the Buy Australian campaign. Consumers were urged to compare locally produced with imported products and then to purchase whichever represented the better value for money. From this perspective, the Buy Australian campaign could be viewed as simply an instrument for assisting consumers to make more informed and rational choices. This theme appears to have been dropped, however, and I am unaware of any evidence that suggests Australian consumers do systematically undervalue locally-made products. Even if they do, a consumer bias in favour of imports may not be as irrational as it seems. The international market is very competitive, and the fact that a product can survive in that market (without government assistance) is an indicator that it is likely to represent value for money. Ironically, the Buy Australian campaign itself has played on this bias in television commercials drawing attention to the fact that Australian-made products are exported as an indicator of their quality. This may very well be true, but to then argue that Australian consumers should therefore buy Australian made products in preference to imports in general seems inconsistent. How is it that Australian exports are an indicator of quality, but other countries' exports (Australia's imports) are not?

All that said, although Buy Australian may share the purposes and tactics of protectionist policies, there are fundamental differences between them. Buy Australian uses 'moral suasion', through an advertising campaign that argues the merits of purchasing domestic products, rather than 'coercing' consumers through price-increasing taxes or quantitative controls. Consumers persuaded by the Buy Australian argument can make the switch. Those unpersuaded can continue to purchase imports at world prices. To the extent that the Buy Australian campaign is successful, consumers will make some purchases other than from the least-cost producer

² Horridge et al. (1987) use the ORANI model of the Australian economy to simulate the short-run effects of switching expenditure from imports to domestic output. They find that the consequences for employment are ambiguous, even in the short run, depending on the way in which the diverted expenditure is distributed across domestic activities. Krueger (1978) provides evidence on the relationships between a country's trade regime and its unemployment and growth performance.

and which therefore do not represent the best value for money. Australia will end up producing goods and services in which it is not internationally competitive. Consumers will incur avoidable costs in the mistaken belief that they are reducing aggregate unemployment or reducing the foreign debt. But at least it is the consumer's choice, and a voluntary (albeit tax-funded) campaign of this sort will not incur the full costs of distortionary trade policies. If, for political reasons, governments feel compelled to be active in this area, Buy Australian is far less distortionary than some other approaches.

Rules of Origin

This line of argument might be taken to suggest that, if nothing else, the Buy Australian campaign has performed the useful task of identifying Australian-made products so that patriotic consumers can exercise their preferences.³ Yet even this task is not as straightforward as it seems. The time when most products were wholly manufactured in a single country is long past. Modern manufactures, whether domestically produced or imported, are likely to contain components from a variety of sources, both domestic and foreign. Governments establish 'rules of origin' that legally determine which country shall be deemed the country of origin of a particular import. Such rules play a role in the application of marking, labelling, and advertising laws and regulations. For the Buy Australian campaign to meet its ostensible objectives, a similar determination is required for products that claim to be 'Australian'. There would seem to be no point in diverting consumer demand from an 'import' which had a very high Australian content but received its final processing overseas, to a 'domestic product' which had a very high foreign content but received its final processing in Australia. To exercise the choices suggested by the Buy Australian campaign, consumers need to be informed of a product's 'Australian content' in at least some dimension. Take, for example, the objective of promoting 'Australian jobs'. A dollar's worth of added value will represent different numbers of jobs in different Australian manufacturing activities. A consumer really concerned about 'jobs' would presumably want to target those domestic industries with a high labour content. But how are these to be identified? And how could we prevent firms from responding by adopting more labour-intensive, but less efficient, production methods?

The complications of attempting such labelling are already becoming apparent. Labelling rules for food products have been the subject of negotiations between the federal government, the ACTU, the National Farmers' Federation, the Australian Consumers' Association and the Australian Food Council. As reported in *The Canberra Times* (8 October 1995), agreement has been reached on what partici-

³ Free-rider problems may inhibit Australian producers from financing their own campaign, although the Australian Owned Companies are sufficiently well organised for their Association to publish the Ausbuy Guide which 'informs' consumers of which brand names are foreign and which are Australian-owned.

pants described as a 'simple' three-tiered system of labelling. The categories are as follows:

- *Product of Australia*, where all ingredients (except minor components) are Australian and processing takes place in Australia;
- *Made in Australia*, where the food obtains its essential character in Australia. Any imported ingredients must be declared on the label, unless the ingredients are not available in Australia. 'Made in Australia from local and imported ingredients' means more than 50 per cent of the ingredients are local; and
- *Packed, Blended, Cured, or Smoked in Australia from imported ingredients*, where the food has some Australian input. The Australian character or process must be declared, as well as the nature of the imported ingredients: for example, 'squeezed in Australia from USA oranges'.

This categorisation appears to be targeted at 'import content' rather than 'jobs' or 'foreign ownership', and conforming and monitoring will be costly exercises. The labelling might prove informative for some consumers, but one is not optimistic that the patriotic consumer's trips to the supermarket would be quick ones.

Buying Australian involves clear costs in terms of forgone gains from trade, while its ability to deliver 'benefits' in terms of reduced unemployment or foreign debt are dubious at best. If taken seriously, Buy Australian requires the elaborate labelling of products to indicate the extent of their Australian content. Logically, this labelling would vary with the objective of the campaign: jobs, import content or foreign ownership. Furthermore, such labelling would need to adjust to changes in production technology and exchange rates (as these affect the employment and import contents), and transfers of ownership between domestic and foreign residents. Surely, few commentators would seriously advocate the public funding of such a costly exercise with such dubious and uncertain social benefits. Nevertheless, the Australian Democrats' 'Getting to Work' Plan unveiled in the 1993 election campaign came close to proposing such labelling.

Consumer Boycotts

Consumer discrimination against imports from a target country (a consumer boycott⁴) is likely to sacrifice fewer of the gains from trade than discrimination against imports in general, except in those cases where all foreign suppliers are involved.

⁴The term 'boycott' originates in the ostracism of Captain Boycott, an Irish land agent, in the 1880s, though clearly the practice precedes that date. Consumer boycotts have been organised to protest the 'policies' or actions of both governments and private companies. Friedman (1985) and Smith (1990: Appendix B) list examples. These boycotts have a diverse range of objectives, including: promoting animal welfare, environmental protection, health, the rights of minorities and labour organisations, and opposing pornography.

The diverted demand is spread over both domestic production and imports from other sources. Yet costs are incurred, since purchases are being made according to a criterion other than value for money. Any compensating 'benefits' depends on the objective and likely effectiveness of the campaign. Three possible objectives are publicity, punishment and policy change. If the objective is simply to allow consumers to avoid purchasing the products of a target country, as a way of demonstrating their opposition to a particular policy of its government, then identifying these products will be sufficient for the campaign to be effective. If the objective is to 'punish' the target country for its government policy, then success requires that the concerted actions of Australian consumers inflict significant economic harm in the target country. If the objective is to induce the target government to change its policy, then both the harm and the conditions for an appropriate target government response are required.

The first question that arises is why consumer boycotts need to be organised at all. If individual consumers object to the policies of some foreign government (like nuclear testing, suppression of minorities, change of government by coup rather than election, and so on) they are free not to purchase products from that country. Consumers are not required to take vacations in its resorts, fly on its national airline or purchase products sold under brand names associated with its producers. It is true, however, that individual consumers are unlikely to be fully informed about the origins of all the products they purchase. Individual boycotts will therefore target only the more obvious candidates. Were consumers to be fully informed, they could generate a more comprehensive boycott. Yet full information could be a mixed blessing. It is true that a more comprehensive boycott would inflict greater economic damage in the target country, but only if participating domestic consumers incurred higher economic costs themselves. Perhaps one should take the view that some ignorance is bliss, but, if not, there is a case for a coordinated campaign to identify the relevant products. A coordinated advertising campaign may also be necessary to inform the target government of the reasons for the boycott.

Where public outrage over some foreign government policy is sufficiently strong and widespread that a mere 'private protest' is deemed insufficient, boycotts can be expanded and coordinated by governments. The objective would now be to signal displeasure and to punish, and even to change target government policy by reducing the economic benefits that country obtains from its trading relations with Australia. Unfortunately, the reciprocal nature of the gains from trade means that Australian benefits from this trade would be reduced also. Government trade sanctions impose economic costs on *all* parties in order to achieve political ends. In general, sanctions that inflict heavy costs on the target country are more likely to succeed, although they can sometimes have the perverse effect of inducing its residents to rally in support of their government. Sanctions that generate heavy costs in the imposing country are more likely to fail. To be most effective, sanctions should be able to target all transactions — revenue from the sales of goods and services, profits from foreign investment, remittances from migrants, and so on — which a government can do but private consumers cannot. Indeed, government sanctions

are likely to concentrate, in the first instance, on financial and bureaucratic matters (freezing bank accounts, restricting official travel, cancelling entry visas, and the like), which might be thought to impose maximum inconvenience on the target regime at minimum local costs.

Do Consumer Boycotts Work?

Yet, despite their potential to apply maximum coverage, government-imposed sanctions have not proved successful in achieving political ends. In a recent and quite comprehensive study, Hufbauer et al. (1990) find few cases where sanctions inflict economic costs equivalent to even 1 per cent of a target country's GNP. Certainly, the extensive use of international economic sanctions by the League of Nations between the world wars is generally regarded as a failure. Once one recognises the limited success that government sanctions have had, even where there has been strong multilateral support, and that 'voluntary' consumer boycotts are a much diluted version, since they are less comprehensive in coverage and lack legal enforcement powers, one cannot but be pessimistic about the success that consumer boycotts will have in influencing foreign government behaviour.

Hufbauer et al. (1990) note that government sanctions tend to restrict both imports and exports, and that, when trade in only one direction is restrained, export controls are almost always⁵ chosen in preference to import controls. Depriving the target country of one's own exports is deemed to be a more effective punishment than attempting to block the inflow of its exports. The reasons underlying this preference are clear. For many products, target countries find it relatively easy to find alternative markets for their exports, or to arrange triangular arbitrage to circumvent import controls. It is difficult to identify the country of origin of bulk products in particular. Sanctions generate strong incentives for evasion and the development of imaginative new trading arrangements because it is so difficult to trace the origin and destination of traded goods. For example, during the period of international sanctions against South Africa, a comparison of trade flows recorded in South African statistics with those recorded by its trading partners revealed that over 50 per cent of South Africa's trade had been 'lost'.

Consumer boycotts are, by their very nature, limited to imports. For homogeneous bulk products, which have many alternative sources, a less than universal import boycott is unlikely to have more than a very short-term effect. The medium-term outcome will be a rearrangement of trading patterns, probably involving some increase in transport and transactions costs. But, since these products are primarily intermediate inputs, they will not be the target of any but a very sophisticated consumer boycott (one that extends to looking at the origin of a product's major inputs). Given that attempting to include such products will do little to increase the boycott's effectiveness, it is probably just as well that they are omitted, since this is

⁵ Interestingly, one of the few examples of the use of import controls alone involves Australia. In 1954 the USSR imposed an embargo on wool imports from Australia in an (unsuccessful) attempt to force the return of a defector.

likely to reduce significantly the local costs of the boycott. Producers are then left free to obtain intermediate inputs from the lowest-cost source, so that their international competitiveness is not impaired.

Instead, consumer boycotts will typically focus on manufactures, and even here they are likely to be less than comprehensive given incomplete information about the origins of products. The initial focus will be on a few high-profile consumer goods and services, such as national airlines, motor vehicles and wines. Interestingly, these are the types of firms and products on which a boycott is likely to have its greatest impact (Friedman, 1991). Since their production involves high fixed costs and low marginal costs, their profitability is heavily dependent on maintaining sales volume. They are also sold in markets with relatively high degrees of product differentiation and limited product substitutability, so that producers cannot maintain sales volume by diverting products to other boycott-free markets without taking significant cuts in price. The targeted products are easy for consumers to identify, and consumer 'violations' of the boycott are particularly visible. The producers are often image conscious and can wield significant political influence with their home governments.⁶

But while the producers and products may be right, the impact of the boycott will be considerably muted by the small scale of the Australian market. Consumer boycotts will have their greatest impact where Australia is the major market or where sales cannot be diverted — that is, where the goods or services are not traded — since then Australia is 'the market'. But Australia is a major export market for very few foreign countries or foreign products. Targeting nontradables requires a shift in the focus of the boycott, since the product's country of origin is likely to be Australia (otherwise it would be tradable). Now the focus must be on the nationality of the producer. Where a product is produced by a wholly foreign-owned firm, there is some chance that it can be identified with the nationality of its producer. But ownership is no more a discrete variable than is country of origin. Should the boycott also apply to all products whose producers are at least 50 per cent owned in the target country? If the criterion is to be target country control, then this can be achieved by ownership levels considerably less than 50 per cent, depending on how the remainder of the ownership is distributed. But pursuing this approach would again impose enormous reporting and labelling requirements. It also brings the issue of unintended victims and beneficiaries of the boycott to the fore.

To be effective in changing target government policy, consumer boycotts must 'harm' target producers by reducing the demand for their products and forcing down their market prices. The costs then fall on the boycotters, who end up purchasing a less preferred product, and the boycottees, who end up selling less at a lower price. The latter group invariably includes a range of 'innocent' parties: those selling inputs to target producers, foreign investors in the target country, do-

⁶ One should recognise that not all residents of the target country necessarily support their government in its pursuit of the policy under attack. It is possible that a misdirected boycott could in fact reduce the resources available to opponents of the policy in the target country, thereby weakening their opposition to the very policy whose overturn is sought.

mestic investors in and employees of importing firms (such as investors and workers in dealerships selling target country products), investors in and employees of domestic joint ventures with target country firms, and even investors in and employees of wholly domestically-owned firms whose output happens to be identified with the target country (like 'French' restaurants). Accompanying them will be (often unforeseen) beneficiaries located where the expenditure is diverted.

But the main direct beneficiaries are likely to be nonparticipating consumers who now pay lower prices for the boycotted products.⁷ How the participants respond to this free-riding behaviour by nonparticipants is important. If participants accept that, in the Australian context, boycotts play essentially a protest role, then their solidarity will ultimately be so undermined by free riding that the boycott peters out. But there will be a natural tendency for some participants to blame free riders for the failure of the boycott, and to seek to strengthen it through political action. Such action could involve pressure for local, State and federal governments to honour the boycott in their own purchases, and could even extend to pressure for the adoption of more coercive policies (such as government trade sanctions) that constrain all consumers. In the circumstances, these strategies are unlikely to increase significantly the chances that the target government will change its policy. What is certain is that they will significantly increase the local costs of the boycott.

Conclusions

The small size of the Australian market precludes consumer boycotts or consumer promotions⁸ from having a significant impact on target countries, except in a very few cases. The main role of these campaigns would appear to be to facilitate the actions of individual consumers who derive a psychic satisfaction from supporting or opposing particular policies or governments with their purchases. Consumer discrimination in favour of domestic products can potentially have a significant impact in expanding the production of importables, but only at the expense of exportables in the long run, with a consequent sacrifice of the gains from trade, and with no logical expectation that the ultimate objectives (lower unemployment and foreign debt) will be any nearer to achievement.

In a liberal-democratic society, individuals, firms and pressure groups are free to influence consumer spending patterns. Commercial advertising typically promotes a product as better value for money than its competitors. Consumer campaigns, in contrast, generally ask the consumer to sacrifice value for money in support of social objectives. As long as consumers recognise and accept that the behaviour exhorted by these campaigns consists largely of 'protest' or 'feel good' actions,

⁷ Indeed, were all consumers to cut back some of their purchases rather than just some consumers eliminating all their purchases, consumers effectively would be acting as a 'buyers' cartel', and all would reap the benefits of the lower prices.

⁸ In the US, these are sometimes referred to as 'buycotts', and an example is the Buy New Zealand campaign announced by antinuclear groups to reward that country for its government's policy of remaining free of nuclear weapons.

then they appear harmless enough. The danger emerges when a majority of participants take this rhetoric too seriously, and expect 'results'. When these are not forthcoming, their activity may shift to domestic political action demanding more coercive measures (government trade sanctions or protectionist trade policies). These, while not significantly improving the chances of achieving the objectives, will significantly increase the local costs of the action and the likelihood of foreign retaliation. It is therefore important that consumers be aware of the limitations of consumer campaigns targeted at broad objectives, both for the sake of their own well-being and in the interests of sensible policy-making.

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