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INTERNATIONAL TRADE PROTECTIONIST POLICIES AND IN-STATE PREFERENCES: A LINK

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ABSTRACT. By implementing various forms of preference policies, countries around the world intervene in their economies for their own political and economic purposes. Likewise, twenty-five states in the U.S. have implemented in-state preference policies (NASPO, 2012) to protect and support their own vendors from out-of-state competition to achieve similar purposes. The purpose of this paper is to show the connection between protectionist public policy instruments noted in the international trade literature and the in-state preference policies within the United States. This paper argues that the reasons and the rationales for adopting these preference policies in international trade and the states' contexts are similar. Given the similarity in policy outcomes, the paper further argues that the international trade literature provides an overarching explanation to help understand what states could expect in applying in-state preference policies.

INTRODUCTION

Public procurement plays an important role in supporting the operation of governmental organizations, the delivery of services by such entities, and the achievement of a variety of social, economic, and environmental objectives that may or may not be related to what is being acquired. As "the designated legal authority to advise, plan,

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obtain, deliver, and evaluate a government's expenditures on goods and services" (Prier & McCue, 2009, p. 329) public procurement officials must acquire needed materiel, services, solutions, and infrastructure through sourcing methods and procedures that are required to comply with a framework of policies that prescribe what public procurement officials can, must, and cannot do. Included in this framework of policies are preferential procurement policies which international governments use to intervene in trade to protect their economies and citizens (Green, 1994; Pregelj, 2001; Ward, 2000). Like their international counterparts, some state governments have also implemented preferential procurement policies in the form of in-state preferences to grant an advantage to vendors located within their borders or to products or services grown, made, or provided within their borders when source selection decisions are made (Hefner, 1996; Krasnokutskaya & Seim, 2011; McCrudden, 2007; Moreland, 2012; Qiao, Thai, & Cummings, 2009).

This paper argues that in-state preference policies can be linked to the protectionist policies cited in the context of international trade, which are also referred to as discriminatory procurement policies or preferential procurement policies. The link is shown by examining the similarities between the rationales and arguments for or against protectionist policies in international trade and the preference policies implemented by state governments. The paper further contends that arguments for or against a variety of formal discriminatory policies and other strategies in international trade could help inform what the impacts of in-state procurement preference policies would be in the context of the domestic economy. Although considerable research related to preference policies has been done on the international level, very little has been done on the domestic level. Because of the lack of research at the domestic level and because "a longitudinal review of [the policies'] results is never conducted" (Qiao, Thai, & Cummings, 2009, p.397), establishing a link between the international and the domestic contexts would constitute a valuable contribution to the area of public policy. With this link, researchers could borrow from international trade research to investigate the impact of in-state preference policies on a state's economy by focusing on protectionist arguments within the international trade context.

Following an overview of protectionist policies and strategies within the international trade context, this article will then discuss the general procurement policies and preference policies implemented by state governments. The paper will conclude by clarifying the link between preferential treatment policies within international trade and state governments.

INTERNATIONAL TRADE PROTECTIONIST POLICIES

Governments around the world spend significant amounts of money to buy goods, services and construction, and for centuries they have had the choice to purchase the needed products and services from local sources or to engage in international trade. It is safe to say that as long as there has been trade between nations, there have been theories related to international trade. From mid-sixteenth century mercantilism to today's new trade theory, theories of international trade have undergone numerous changes (Van Berkum & Van Meijl, 2000). Early theorists like the mercantilists sought to build national wealth through the accumulation of gold and silver by exporting more and importing less (Hill, 2011) which was in essence a restriction of free trade and a form of protectionism. However, subsequent trade theories, from Adam Smith's absolute advantage to Ricardo's comparative advantages, from the Heckscher-Ohlin theory to present day trade theories, all promote free trade and open markets between nations because of a strong belief that there are gains to be made from trade. Ironically, even though recent trade theories have called for free trade among countries, governments today still employ discriminatory procurement policies. Using their purchasing power and preferential procurement policies, governments can intervene in trade and impact international trade patterns. While governments spend on average ten percent of GDP to purchase necessary goods and services (McAfee & McMillan, 1989; Trionfetti, 2000), these preferential procurement policies have a marked effect on trade each year (Graham, 1983).

Governments use a variety of trade instruments such as tariffs, import quotas, subsidies, and formal and informal policies to intervene in the market. A tariff is a type of tax imposed on imports or exports. Tariffs are levied in two forms, either as a fixed percentage on each imported good or as a part of the value of the imported good. Import quotas impose restrictions on the imported quantity to the country while subsidies in the form of cash, low-interest loans, and tax breaks are provided by the government. Although these strategies differ in many respects, they still all constitute governmental intervention in trade. In addition to these strategies, governments employ formal and informal policies as barriers to trade. Formal policies require governments to give preference to specific products, services, or industries. For example, the U.S. government implements the Buy American Act, which gives preference to American products in awards of contracts by the U.S. government and recipients of grants-in-aid from the U.S. federal government (Fryling, 2002; Goehle, 1989; Hirschman, 1998; Luckey, 2009). Other countries use informal policies as barriers to restrict international trade. France's demand that all videotape recorders imported from Japan enter the country from a point located far from the nearest shipping port is a clear example of an informal policy to restrict trade (Hill, 2011, 2012).

Governments of nations that engage in protectionist or preferential trade policies–provide a variety of arguments to justify their intervention in trade. Although the categories for these arguments are not clear-cut and may overlap, they can be loosely grouped into two broad categories, political or economic. Governmental decisions to grant preferential trade treatment may be motivated by the desire to protect human rights in exporting countries. For example, prior to China joining the WTO in 2001, the United States granted Most Favored Nation (MFN) status to China to try to improve the human rights policies in that country (Green, 1994; Pregelj, 2001; Ward, 2000). MFN status allowed China to export goods to the United States at an average of 8 percent tariffs; without MFN, the tariffs would have been about 40 percent (Green, 1994; Hill, 2011). Governments may also intervene in trade to protect consumers from dangerous products or to protect the defense industry for reasons of national security. Arguments for intervention taken from the economic category tend more toward a nation's desire to stimulate their country's economic growth by protecting jobs and industries from foreign competition. This can be seen in both 2000 and 2007 when President George W. Bush granted subsidies to protect U.S. farmers (Starr, 2010). In addition, in 2002, the U.S. placed tariffs on imports of foreign steel to give competitive advantage to American steel industries so that American jobs could be protected (Hill, 2011; Hoekman, 1998).

Regardless of whether a government's reason to intervene in trade is primarily economic or primarily political, the common thread is that nearly all of these reasons constitute some form of protectionism implemented to protect the citizens, the economy, or the country itself. Indeed, the literature shows that protectionism overshadows other motivations for governments' intervention (Hill, 2011; Hoekman, 1998; Shafaeddin, 2000).

The oldest reason for protectionism was the infant industry argument (Hill, 2011; Hoekman, 1998). The infant industry argument was by far the most popular argument among developing nations (Shafaeddin, 2000) and had considerable influence in developed countries as well. The rationale was clear in that developing countries needed time to build their manufacturing sector so that the sector could compete with established industries in developed countries. Shafaeddin (2000, p. 2) argued "that infant industry protection is necessary for countries at the early stages of industrialization if some countries outdistanced others in manufactures".

Aside from the infant industry argument that was primarily applicable to developing countries, many developed nations have implemented different policies to protect against imports that threaten the survival of their domestic industries. Examples of protectionist policies adopted by many nations around the world including the United States and the European Union (EU) abound in the literature. One such example is the EU's establishment of the Common Agricultural Policy (CAP). The intent of the CAP policy was to protect the jobs of Europe's politically powerful farmers by restricting imports and guaranteeing prices, but studies showed that the consequence was actually higher prices for consumers.

In the United States, there have been many instances where the federal government resorted to protectionism on economic and/or political grounds. Historical accounts reveal that during the height of the Great Depression, the U.S. Congress passed the Smoot-Hawley Act in 1930 to deal with the rising level of unemployment by protecting domestic industries and restricting imports. The tariff was increased by about 60 percent on more than 3000 products and 900 American import duties were created (Boffa & Olarreaga, 2012; Hill, 2011; The Economist, 2009). The Smoot-Hawley Act provides an example that even economically advanced nations such as the United States, which are expected to gain the most from free trade, do sometimes use protectionism because of economic imperatives at a given historical juncture.

As the previous discussion suggests, the decisions made and the actions taken to erect barriers to free trade are not without consequences; there are indeed impacts and effects associated with the policies of protectionism that seek to protect domestic industries by creating trade barriers. Researchers began to study the economic impact of discriminatory procurement practices on international trade flow in the 1970s (Audet, 2002; Baldwin, 1982; Baldwin & Richardson, 1972; Lowinger, 1976). The work by Baldwin and Richardson (1972) is considered to be the starting point for research into discriminatory procurement practices within the international trade context. Basing their investigation on the assumptions that the market is perfectly competitive and that the imported commodities are identical to the commodities produced domestically, Baldwin and Richardson (1972) and Baldwin (1970, 1982) set up a model to analyze the impact of the discriminatory policies on imports, output, and domestic prices, and then used the model to estimate the impact on imports of the 1933 Buy American Act. Based on their analysis, Baldwin and Richardson (1972) and Baldwin (1970, 1982) found that the Buy American Act reduced total U.S. imports between $76 million to $110 million, which is considered to be a small impact compared to U.S. total imports. From their data, they concluded that when government demand for domestic product shifts, the private sector's imports shift as well in an equal and opposite direction. Agreeing with the conclusions from Baldwin and Richardson (1972), who determined that the Buy American Act had a small impact on US imports, Deltas and Evenett (1997) also found that the extra procurement costs offset the extra welfare gains from implementing the discriminatory procurement policies.

Following Baldwin and Richardson's assumption that the market is perfectly competitive, Herander (1982) investigated the impact of discriminatory policies on domestic output, consumption, the price of the good in the importing country, and the level of imports. He conducted his study on the impact between two countries using a partial equilibrium model. When Herander analyzed three scenarios where the government demand was larger, smaller, or equal to the domestic supply, he found that when the government demand is larger than or equal to the domestic supply, imports decrease and domestic output and prices increase. However, when government demand is less than the domestic supply, the discriminatory policy is ineffective.

In addition to the previous studies, Lowinger (1976) used input-output tables to compare government imports and private sector imports during the 1970s for the U.S., U.K. and EU member countries. He based his analysis on the assumption that the quantitative difference between the countries' imports equals the impact of discriminatory policies. He concluded that the U.S.'s degree of discrimination is the highest and has the largest effect on imports. So, when the U.S. reduces its discriminatory policies, its imports are expected to increase six or seven times the actual level of imports. Expanding Lowinger's work, Deardorff and Stern (1981) studied the impact of the reduced tariffs discussed at the Tokyo Roundtable on exports, employment, economic welfare, exchange rates and imports. By using demand and supply models for several developed and developing countries, they concluded that reducing tariffs would result in "relatively small but beneficial economic effects for practically all the major industrialized countries and for some of the major developing countries" (Deardorff & Stern, 1981, p. 148). To counteract protectionism and encourage unrestricted free trade (Ferrini, 2012; Hickok, 1985; Hill, 2011; Hufbauer, Berliner, & Elliott, 1986; Tarr & Morkre, 1984; Wood & Mudd, 1978), a variety of international agreements such as the General Agreement on Tariffs and Trade (GATT), the Government Procurement Agreement (GPA), and a series of Directives from the European Union (EU) play an important role in ensuring the free flow of goods and services across national borders.

Many nations embrace the principles of free trade and accept the rules of the World Trade Organization (WTO), the successor of GATT. In 1947, the U.S. led the establishment of GATT. By 2003, 159 nations had signed the multilateral agreement, which regulates trade among countries and mainly aims to reduce any type of protectionist instruments or policies. As an effort to extend the basic principles of GATT, the Government Procurement Agreement (GPA) was signed in 1979 and entered into force in 1981 as a "plurilateral" agreement. Today, 15 countries have signed the GPA and three countries are considering the adoption of the rules (OUSTR, 2012). The GPA is perhaps one of the most important international agreements pertaining to government procurement regulation today. GPA generally prohibits discriminatory policies favoring domestic firms and encourages competitive tendering procedures. However, GPA also has provisions that allow developing countries to negotiate some exceptions to be able to favor their local vendors and firms (Hoekman, 1998).

In addition to GATT and GPA, the European Union (EU) also has made important contributions in terms of adopting a series of procurement directives that affected the development of the previous GPA principles (Gordon, Rimmer & Arrowsmith, 1998) . The EU and the GPA have common objectives regarding their approach to procurement regulations and markets. For example, the EU has a "public procurement legislation [that] sets out procedures and practices to which central and local government and other public bodies must adapt their award procedures, where the value of the contract as estimated under the rules meets the relevant threshold" (Achille, 2011, p. 2). In general, all the EU directives imply that public procurement markets should be open among all competitors without discrimination (OECD, 2011).

This section provided an overview and related research concerning the discriminatory or preferential trade policies, strategies and instruments and pointed out that although governments around the world implement these policies for political and economic reasons, the main motivation for applying them is protectionism. The section also summarized the EU directives and the WTO and GPA rules and policies that are meant to reduce the protectionist instruments or policies. The next section discusses the preference policies implemented at the state level in the U.S.

IN-STATE PROCUREMENT PREFERENCE POLICIES

Like governments around the world that apply preferential policies in international trade to achieve certain goals, state and local governments also apply preference policies through their procurement processes for very similar reasons. One reason cited for enacting procurement preference policies is to achieve political goals. In some cases, state and local governments desire to protect a specific industry and/ or protect local, small, minority, and disadvantaged businesses in the market place (Krasnokutskaya & Seim, 2011; Moreland, 2012; Qiao, Thai, & Cummings, 2009). In addition to using preference policies to achieve political goals, they can also be used for economic reasons. On the state and local levels, preference policies can also be used to create economic opportunity for in-state businesses by protecting them from out-of-jurisdiction competitors and to encourage them to engage in productive economic activities for the benefit of their state's economy and its residents as a whole (Hefner, 1996; Krasnokutskaya & Seim, 2011; McCrudden, 2007; Moreland, 2012; Qiao, Thai, & Cummings, 2009). Protecting local vendors and businesses through the use of preference policies can create more jobs, keep the current jobs in the economy, add sales, add income, and increase local tax returns by paying the tax dollars to the state (Hefner, 1996; Krasnokutskaya & Seim, 2011; McCrudden, 2007; Moreland, 2012; NASPO, 2008; Qiao, Thai, & Cummings, 2009).

Although there are a variety of procurement preferences, they are categorized under two types: geographical and non-geographical preference laws (Qiao, Thai, & Cummings, 2009; Short, 1992). While the non-geographical preferences are based on the socio-economic class of the vendor, the geographical preferences are based on the "geographical location" of a vendor or where a product or service is "made" and whether or not the preference is implemented at the federal, state, or local level.

At the federal level, the Buy American Act passed by Congress in 1933 guides preferences. The Buy American Act requires federal government to "buy domestic articles, materials, and supplies when they are acquired for public use unless a specific exemption applies" (Luckey, 2009, p. 5). The Act was enacted to protect the American economy by requiring the U.S. government to purchase U.S.-made products and provide employment opportunities for American workers (Pitzer & Thai, 2009; Qiao, Thai, & Cummings, 2009).

At the state level, preferences are granted to in-state vendors because of their geographical location, and/or because their goods and/or services are produced within the boundaries of the state's jurisdiction. There are five types of state laws that grant the geographical preferences (Qiao, Thai, & Cummings, 2009). First, a tie bid preference gives preference to in-jurisdiction bidders only if their bids are identically priced with the other non-local bidders. Second, a percentage preference applies a fixed percentage of the bid price to the out-of-jurisdiction firm's bid price; the in-jurisdiction bidder is then considered the low bid if the adjusted bid is less than the actual bid price of the out-of-jurisdiction bidder. Third, an absolute preference policy requires the purchasing office of the jurisdiction " to buy certain goods or services from vendors [located] within a designated area" (Qiao, Thai, & Cummings, 2009, p. 374). Fourth, a general preference law gives a wide range of preference to serve the interest of the state (Qiao, Thai, & Cummings, 2009; Short, 1992). Lastly, the reciprocal preference laws add a percentage to the out-of-state vendors when their own states impose preferences on the out-of-state vendors, so they work in the opposite direction of in-state preference policies. Thirty-five states apply reciprocal preference laws to achieve equal treatment for their interested vendors against the bidders who get preference treatment in their own states (Qiao, Thai, & Cummings, 2009).

South Carolina is an example of a state government that has implemented in-state preferences. Although there are 24 other states that implement in-state preference policies, South Carolina is cited in this paper because of data accessibility and the availability of detailed information about the preference policies in the state. In 2009, the South Carolina General Assembly rewrote their previous policies regarding in-state preferences and provided expanded legal authority to the state government to use preference policies. The General Assembly (2009 Act No. 72, p. 3) "finds that it is crucial to [South Carolina] state's economic recovery to purchase goods manufactured and produced in the State, maintain the circulation of the funds of the citizens of this State within this State, and encourage and facilitate job development and economic growth". According to Act No. 72 enacted by the South Carolina General Assembly, vendors must request that they be given an in-state preference in a solicitation process and provide documents to prove that they qualify for the preferences. South Carolina has two types of preferences: commodity contract preferences and service contract preferences. The commodity contract preferences include United States end-product preference (USEPP), South Carolina end-product preference (SCEPP), and resident vendor preference (RVP). In addition to the commodity/product contract preferences, the state offers contract preferences for services in the form of resident contractor preferences (RCPs) and resident subcontractor preferences (RSCPs). To qualify for the two types of preferences, vendors and contracts must meet certain requirements in order to qualify for either of these contract preferences (2009 Act No. 72). The percentage preference is between 2% and 7%.

Like in-state preference policies, buy local preferences also require local procurement officials to follow a formal and/or informal competitive bidding process to give advantage to local vendors over non-local vendors when local governments are in need of products and/or services. Local governments use such policies to “play a key role in effecting an improvement in their economies and long term needs of their communities and the businesses that employ and sustain their citizenry” (Lowenstein, 2011, p.56). Such preferences are widely used in a variety of levels of local government. For example, 35 percent of South Carolina counties and municipalities have local formal or informal preference policies. Horry County, South Carolina has used local preference policies which “could potentially generate nearly $158 million in economic activity, creating/retaining a minimum of 160 jobs” in the county (Lowenstein, 2011, p. 53). The city of Temecula in California also started to use local vendor preference programs in 2012 to attract Temecula businesses to bid on supplies, materials, equipment, public projects, and contractual services (City of Temecula Purchasing & Contract Administration Department, 2015).

In addition to the previous preferences based on geographical criteria, the second type of preference programs comprises those in which governments have adopted non-geographical preferences. These preferences based on the socioeconomic classification of vendors are awarded to small, minority, women, disabled, veteran and disadvantaged businesses (Qiao, Thai, & Cummings, 2009). Scholars have argued that reserving some government contracts for a specific part of the society would indeed enhance social equity (Frederickson, 1990; Hefner, 1996; Krasnokutskaya & Seim, 2011; Qiao, Thai, & Cummings, 2009). Thus, preference policies could be used in the economic sphere to reduce severe income inequality. Furthermore, historical accounts reveal that underserved businesses “have historically been uninvolved in the contracting and procurement activities of government agencies and authorities” (Rice, 1991, p. 114). To correct this past discrimination, governments have passed laws requiring their agencies to reserve or set aside some procurement contracts for a certain segment of businesses to encourage them to participate in the local economy (Enchautegui, Fix, Loprest, Lippe, & Wissoker, 1997) and to overcome the "continuing effects of past discrimination" (Svara & Brunet, 2004, p. 100). According to Enchautegui, Fix, Loprest, Lippe, & Wissoker (1997), at least at the federal level, there were many acts that required the federal government to give advantages to minorities and small businesses such as the 1997 Small Business Reauthorization Act.

As can be seen from the previous discussion regarding preference policies, there are many types of preference policies and a variety of reasons for applying them; however, there is considerable debate in the literature about their usefulness. Some scholars support the view that procurement preference policies are an appropriate tool to promote economic goals (Hefner,1996; NASPO, 2012; Qiao, Thai, & Cummings, 2009). However, after an extensive survey of the literature, this researcher found that there is a lack of studies attempting to show the relationship between procurement preference policies and economic benefits; only one study was identified in the literature. In 1996, the economist Frank Hefner conducted research in the context of the state of South Carolina. In his study, Hefner (1996) sought to measure the economic impact of not applying procurement preference to a concrete pipes contract in the state of South Carolina. By using the Regional Input- Output Modeling System (RIMS II), Hefner estimated how many jobs, how much earning (personal incomes), and how much income taxes (individual, corporate, retail sales taxes) the state economy would lose if the preference was not implemented. The results showed that South Carolina's economy would lose 27 job opportunities, $650,000 in personal income and $32,500 in income taxes. He concluded that in this case awarding the contract by implementing the policy would help the state economy.

It is common to see policymakers at all levels of government use preference policies even though critics point to the potential problems associated with them. Opponents of preferential treatments argue against the use of preference policies claiming that preferential treatment runs contrary to the free market principles, increases cost to government, and undermines competition in the market place (Krasnokutskaya & Seim, 2011; McCrudden, 2007; Qiao, Thai, & Cummings, 2009; Short, 1992). NIGP, the National Institute for Governmental Purchasing, vigorously opposes preference policies arguing that all types of preference laws and practices are inconsistent with the free enterprise system and impede competition in the market place (Achille, 2011).

In a similar vein, NASPO, the professional association of the chief procurement officers of the fifty American states and the District of Columbia, opposes procurement preference policies arguing that businesses and special interest groups are likely to exercise undue influence in the promotion of preference laws. NASPO has stated, "Preference provisions and practices should be eliminated from public purchasing. Government bodies and legislatures must recognize that preference is promoted by business and special interest groups, that the net effect is costly, and that efforts to establish or maintain preference need to be resisted" (as citied in Qiao, Thai, & Cummings, 2009, p. 379). Critics further contend that preference policies constrain/discourage competition and protect local vendors and are likely to lead to higher taxes, higher product prices, and reduced efficiencies (Strayer, 2011). They also feel that protecting local vendors from competition will limit their motivation to enhance labor productivity and to develop cost saving strategies (Hefner, 1996).

Furthermore, opponents point out that the preference laws have been challenged on the basis of the Equal Protection Clause in different states (Hefner, 1996; Qiao, Thai, & Cummings, 2009). For example, Smith Setzer & Sons, Inc. challenged the in-state preference laws in South Carolina when they submitted a bid to supply concrete culvert pipe in South Carolina. Smith Setzer & Sons, Inc. provided the lowest bid on 15 of 47 sub-bids for the pipe contract, but they were not qualified to claim the in-state preferences. As a result, the corporation was awarded only two contracts and consequently sued South Carolina for violating the Equal Protection Clause. After going through the courts, "it was conceded that the preference scheme would withstand an equal protection challenge, so long as the challenge drawn is rationally related to a legitimate state interest" (Hefner, 1996, p. 34).

There is similar disagreement about the use of non-geographical preference policies. Regarding the discussion about the efficacy of the set-asides for the non-geographical preference policies, Enchautegui, Fix, Loprest, Lippe, & Wissoker (1997, p. 15) remarked: "No doubt the set-aside provision has enhanced social equity". To defend the set-aside programs, disparity studies that focused on the effect of past discrimination in federal government contracts against minority-owned businesses have been conducted and documented (Bates, 2001). According to Rice (1991), the city of Atlanta conducted a disparity study to provide evidence of discrimination against minority entrepreneurs, and the results showed that discrimination had occurred in many areas of economic activities including construction, real estate, architectural, and energy industries. Statistical data also documented discriminatory practices in the financial sector between black-owned and white-owned businesses (Rice, 1991).

Nevertheless, some studies reveal that set-aside programs have been criticized for violating the fundamental principles of equity (Qiao, Thai, & Cummings, 2009). Critics point out that the granting of public contracts based on a set of rules or criteria that favor certain socioeconomic classes or groups of individuals is fundamentally flawed and runs contrary to the equity principles that involve fairness, efficiency, justice and equal treatment in public service delivery and public policy implementation (Thai, & Cummings, 2009; Short, 1992).

Similar to their counterparts in international trade who are also criticized by some in the literature, state governments too continue to intervene in their state economies by using procurement preference policies to protect in-state businesses from being undermined or undercut by large conglomerates that may come from within the state or from neighboring states (McCrudden, 2007; Qiao, Thai, & Cummings, 2009).

THE LINK BETWEEN INTERNATIONAL TRADE PROTECTIONIST POLICIES AND IN-STATE PREFERENCES

As can be seen from sections one and two of this paper, international and state governments use similar policies to discriminate against competitors. Within the international trade context, governments use various strategies such as tariffs, import quotas, and subsidies to intervene in trade. In addition to these strategies, national governments also employ formal policies to discriminate against foreign competitors and firms. According to Trionfetti, these formal policies can be "considered to be non-tariff barrier(s) to trade" (1999, p. 235). Since these formal policies "can be [included] as part of a whole gamut of economic policies" (Lowinger, 1976, p. 451), studies have argued that the formal policies, acting as non-tariff barriers, would have a “protective effect” similar to the tariff barriers (Lowinger, 1976; McAfee & McMillan, 1989). Like these preference policies taken from international trade, in-state preference policies are also formal policies that act as non-tariff barriers when applied as economic policy in the state context to achieve the “protective effect”.

Besides using similar trade instruments, a second similarity between international and state governments can be seen in each level’s rationales for intervening in trade. To achieve a variety of political and economic purposes, nations have used preferential procurement policies, and, as noted in the previous sections, the primary motivation for implementing such policies is protectionism. Governments around the world implement such policies to protect their economies and industries from foreign competitors in order to gain economic benefits and growth and to protect its workforce by reserving jobs for their citizens. Similarly, state governments implement preferential procurement preference policies to achieve political and economic objectives. The rationale or purpose behind a state’s adopting such policies is also protectionism. State governments want to protect state vendors, create more jobs, and increase tax revenues for the state (McCrudden, 2007;Krasnokutskaya & Seim, 2011; Qiao, Thai, & Cummings, 2009). Like international governments, state governments enact in-state preference policies hoping to boost their own economy by increasing economic growth and bringing economic benefits to the state (Hefner, 1996; Krasnokutskaya & Seim, 2011; Qiao, Thai, & Cummings, 2009). A significant contribution of this paper is that it suggests that in many respects the rationales used by governments to intervene in international trade are strikingly similar to the rationales state governments employ for the adoption of in-state procurement preference policies; namely, they are both motivated by the argument for protectionism.

Because of the many similarities between types of international and state preference policies and the motivations to implement them, this paper argues that the international trade framework could be used as a guide to provide an overarching explanation to help understand what a state could predict as a result of applying in-state preferences. The decisions made and the actions taken to erect barriers to trade are not without consequences; there are indeed impacts and effects associated with the policies of protectionism that seek to protect domestic industries by creating trade barriers. Scholars have conducted research to study one or more aspects of the impact of discriminatory policies on international trade and the economy since the 1970s (Audet, 2002; Baldwin, 1982; Baldwin & Richardson, 1972; Lowinger, 1976). In their research, scholars have used a variety of tools to study the impact of either adding or eliminating protectionist instruments (i.e. tariffs and non-tariffs) within the international trade context such as input-output models (Deardorff & Stern, 1981; Lowinger, 1976), supply-demand equations (Baldwin, 1982; Baldwin & Richardson, 1972; Breton & Salmon, 1996; Herander, 1982), and computable general equilibrium models (Deardorff & Stern, 1981). Since the international trade literature is rich with research examining a variety of preferential treatments, public procurement scholars could borrow from the international trade literature to establish their own knowledge base.

Currently, within the state preference context, there is simply a lack of research to examine the economic benefits or losses of implementing such policies. Furthermore, scholars and researchers have emphasized the importance of conducting more research because "the practical impact of preferences is worthy of much more analysis" (Qiao, Thai, & Cummings, 2009, p. 397), and procurement preference programs have been " a very important and controversial issue and ... research on many of its facets is limited" (Qiao, Thai, & Cummings, 2009, pp. 396-397). The controversies will continue unabated until more research provides evidence-based answers to help understand the economic impact (benefits or losses) from implementing such policies in 25 states in the U.S. As this paper suggests, the scholars for and against preference policies offer conflicting but powerful arguments, so research is needed to confirm if the procurement preferential policies actually achieve the desired economic goals. The link between the international trade preferential policies and state preference policies discussed in this paper could help establish a way to conduct such research.

As Qiao, Thai, and Cummings (2009, p. 398) asserted "procurement has always been and will continue to be used as an important policy tool for a wide range of socioeconomic and political purposes". Because so little has been written on public procurement as a frequently used method to intervene in the economy, (MacManus, Watson, & Blair, 1992; McCue & Gianakis, 2001; Snider & Rendon, 2008; Thai, 2001) more attention should be given to preference policies, and more research should be conducted. Establishing such research will contribute to the body of knowledge of public procurement in general and could help voters, policymakers and taxpayers make informed decisions regarding the benefits of implementing preference policies.

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