What is the Beggar-thy-neighbor Policy

The term Beggar-thy-neighbor policy is a kind of international trade policy that benefits the country that implements it while harming that county's neighboring states or trading partners. Originally, these policies came as a policy solution to domestic depression and high unemployment rates problems. The basic idea of the policy is to increase the demand for the nation's export while reducing dependence on foreign imports. This means driving consumption of domestic goes up, as opposed to the consumption of imports. It usually came up with some kind of trade barrier; tariff or quotas, or competitive devaluation, in order to low the price of exports and drive employment and the price of imports up. An import tariff will benefit the country because the tariff increases the nation's terms of trade. And thus, it can be assumed as Beggar-thy-neighbor policy. Currency devaluations are considered as Beggar-thy-neighbor since they are solely conducted in order to boost the country's exports by making them cheaper to buy and thus increasing the country's global market share. The neighbors or trading partners of the country that employ Beggar-thy-neighbor devaluation may response by devaluating their currency as well. Such kind of situation is known as competitive devaluation which is an example of Beggar-thy-neighbor policy. Next, wage repression policies could be assumed as Beggar-thy-neighbor if they mainly aim to increase a country's competitiveness in the international market which makes the country's competitors to repress wages as well.

The term Beggar-thy-neighbor policy was firstly used by the Scottish philosopher and economist Adam Smith who is considered to be the founder of the modern economics. He used this term in his book The Wealth of Nations, in a critique of mercantilism which is the dominant economic system in the Europe from the 16th to 18th century and protectionist trade policies. According to Smith, the doctrine of mercantilism taught that nations should beggar all their neighbors to maximize economic gains. He believed that long-term gains from free trade would far outweigh the short-term benefits that might be derived from the protectionist policies held by the mercantilists. He said that free trade would lead to long-term economic growth that was not zero-sum, but would actually increase the wealth of all nations.

Many countries have been used Beggar-thy-neighbor policies throughout the history. They were widely popular during the Great Depression of the 1930s when the countries vigorously tried to prevent their domestic industries from failing. They adhered to the gold standard, fixing the value of their currency to the value of gold, engaged in a series of competitive devaluations. Moreover, many countries including the United States imposed protective import tariffs. A Beggar-thy-neighbor policy in the United States caused other countries to follow suit, resulting in a massive decrease in international trade. After World War II, Japan employed a model of economic development that relied heavily on protecting its domestic industries from foreign competition until they became ready to compete with foreign firms. And, during the post-Cold War era, China utilized a similar set of policies to limit foreign influence on domestic producers. After the 1990s, with the advance of economic globalization, Beggar-thy-neighbor policies lost much of their appeal.

Though some countries still occasionally use such policies for achieving economic gains at the expense of their neighbors, most of these gains are wiped out when their neighbors or trading partners retaliate by adopting similar policies. Therefore, we can assume that Beggar-thy-neighbor policies are not very popular and accompany with today global economic trend.