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Introduction

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One of the central tenets of economists for the past two centuries has been the proposition that free trade between nations will in most circumstances be highly beneficial, and that any nation which unilaterally adopts a policy of free trade will benefit.[1] Exceptions to the argument for free trade, such as in cases of infant industries and more recently "the new trade theory,"[2] have been recognized, but in most instances, protectionist measures bear little or no relation to those exceptions.

Nonetheless, it has been a source of considerable frustration to most international economists that, in reality, pressure to grant protection to industries often arises in circumstances that appear to bear little resemblance to those cases in which economic analysis suggests it might be warranted on the grounds of national economic interest.

Many economists have therefore turned their attention to attempting to understand the "political economy" of protection, by which is meant the actual

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1. The recognized exception to this generalization that is relevant for the United States concerns the situation when a country has monopoly power in trade. Even that exception, however, is contingent on the trading partners being unable to retaliate in ways that are sufficiently harmful. There are also arguments that "market failures," such as externalities, might make the adoption of a free trade policy less desirable. Economists' standard answer to that, however, has been to note that the appropriate policy response to these failures is to correct them at their source—e.g., to impose a tax or subsidy to reflect the value of the externality.

2. The "new" trade theory demonstrates that there *may* be circumstances under which an intervention in trade (which might be an export subsidy, an export tax, an import duty, or even an import subsidy) could increase the total economic well-being of a country in circumstances in which the first entrant(s) to an industry become established and receive the economic rents that accrue to first-comers. The basic rationale is that first entrants can achieve sufficient scale of production so that they can simultaneously charge a low enough price to deter other entrants and still have that price significantly above their marginal cost of production.

determinants of which industries receive protection, and of the structure of protection across industries. One line of research has been to develop models of the political process by which protection is determined.

Simultaneously, a number of efforts have been made to estimate empirically the determinants of protection levels (or other trade barriers) for various economic activities. Variables such as the level of employment in the industry, the trend in the industry's employment and profitability, the level of and change in the rate of import penetration, and the geographic concentration of the industry are then used as possible explanatory factors (see Rodrik 1994, 30ff.). In general, almost every variable appeared to have explanatory power in some cases, but no strong systematic pattern has emerged from these analyses.[3]

A large number of questions remain: the assumptions underlying the models of protection determination have not themselves been subject to testing. And, while it has been widely recognized that a variety of factors outside these models may influence protection, little work has been undertaken assessing the relative importance of these factors.

The NBER project on the political economy of American trade policy was designed to try to enrich the understanding of the political economy of trade policy by starting to fill this gap. The intent was to have parallel analytical histories of the process of protection seeking and conferring for a number of American industries. It was hoped that undertaking parallel in-depth analyses of the (economic and political) determinants of protection and its evolution in a number (seven, in the event) of American industries, combined with an examination of the determinants of administered protection across industries, would increase understanding of the processes by which protection and its levels are determined.[4] The expectation was that these analyses of how protection has actually evolved in industries whose circumstances were evidently dissimilar, supplemented by the "cross-section" study of determinants of administered protection, would shed light on the process of protection and its determinants, and perhaps yield richer hypotheses for further analysis.

Questions in the Political Economy of Protection

A starting point for analyzing the political economy of protection must be the basic proposition that, in virtually all circumstances, protection is an economically *inefficient* way of achieving almost any objective. Regardless of whether the objective is the protection of workers in a particular industry or group of industries or the maintenance of productive capacity for national

3. See Krueger (1993) for an examination of the structure of U.S. protection and its failure to conform with any of the existing political economy models.

4. "Administered protection" is the term applied to the use of the countervailing duty (against foreign subsidies) and antidumping (against pricing below cost or below sales price in other markets) administrative law by firms seeking relief from import competition.

defense reasons, there are clearly lower-cost ways of achieving those objectives.[5]

A satisfactory theory of the political economy of protection must therefore address the question as to why these lower-cost means are not chosen. However, even prior to that, analysis would need to encompass the determinants of (1) the structure of levels of protection at any particular time (including not only the determinants of why, e.g., apparel is more highly protected than automobiles but also why some industries are not at all protected and why there is much more protection for import-competing industries than for exports); (2) the forms in which protection is granted (quantitative restrictions, export subsidies, tariffs, voluntary export restraints, etc.); (3) changes in the structure of levels and forms of protection over time (which may or may not be the same as items 1 and 2 depending on whether "history matters"), and (4) changes in the overall levels of protection over time.

The first item, the structure of levels, refers to the tariff equivalents of various interventions with trade. It can be thought of as a vector, each component of which represents the extent to which domestic price of a commodity exceeds (or, in the case of an export tax, falls short of) its foreign price (over and above transport costs in the relevant direction) by virtue of interventions with trade. This is the traditional focus of concern of international economists.

In recent years, most theoretical work on the political economy of protection has addressed this issue (see the recent surveys by Hillman 1989 and Rodrik 1994). Models have been developed in which tariffs are determined by the relative strength of interest groups (see Findlay and Wellisz 1982), by the need of politicians to please the general public but also to obtain funds for seeking support or reelection (Magee, Brock, and Young 1989; Grossman and Helpman 1994), and by the median voter (Mayer 1984). A few models have even attempted to address the question as to why (in virtually all countries) interventions with trade are heavily biased against trade rather than in favor of exports (see, e.g., Krueger 1990; Fernandez and Rodrik 1991).

The second question, the determinants of the forms of protection, is also important for understanding. Why do we observe the United States negotiating "voluntary export restraints" with Japan on automobiles, steel, and other products, rather than itself enforcing import quotas (and thus giving the difference between the Japanese price and the U.S. price to Americans, rather than to Japanese producers)? Why did the sugar lobby for years oppose the transformation of sugar import quotas into deficiency payments which would have given sugar producers the same price as they received under the quota system?

5. In the case of employment levels, lower-cost ways include subsidization of employment in the industry and adjustment assistance to workers. For national defense purposes, production subsidies for the stipulated level of productive capacity (and sometimes even stockpiling the good in question) can achieve the same objective and simultaneously provide an overall higher level of welfare.

Here, less work has been done, although papers by Hillman (1990) and Feenstra and Lewis (1991) have addressed this issue.

It is quite possible, of course, that the determinants of the structure of protective levels are invariant with respect to time. However, it is also a plausible hypothesis that there are laws of motion with respect to protection, once granted, so that, once protection is accorded an industry, it is easier to obtain a higher level of protection (for a given situation of the industry) at a later date than it would be if there were no preexisting protection. In a sense, protection may be like other "entitlements": something that once received is taken as a given and for which only increments matter politically.

Finally, there are questions as to the determinants of the overall level of protection. Relatively more research has been undertaken on this question (again see Rodrik 1994 for a recent survey). It is widely recognized that U.S. trade policy in the 1950s and 1960s was close in many dimensions to free trade. By the 1980s, policy had shifted further from free trade, and in that sense, the vector of protective rates had changed. A number of hypotheses have been put forth in the literature: clearly, a higher rate of unemployment leads to more pressures for protection across the board (although possibly with differential increases in pressures across industries); likewise, real appreciation of the dollar leads to more difficulties for tradable industries and as such leads to more pressures for protection.

Questions for the NBER Project

Especially for economists, there are many aspects of the political process that are not well understood. While, quite clearly, variables such as industry profitability (or lack thereof), unemployment, and size of industry all matter, there are aspects of the political process that matter as well. The NBER project on the political economy of American trade protection was designed to explore these political phenomena, and their interactions with economic variables. As such, questions arise concerning the role of institutional constraints, lobbies and effective organization, determinants of power and influence, and the factors influencing politicians' decisions.

These are sufficiently unfamiliar ground that it was decided to try to "go to the facts" and examine the level, form, and evolution of protection in several industries, in the expectation that analytical histories and analysis would throw up hypotheses deserving of further exploration in future research.

It was not hoped that analyses of the evolution of protection for individual industries, no matter how well done, would provide definitive evidence in support of a particular theory of protection. However, it was expect that the results would be highly suggestive of new hypotheses and lines of research that may not have emerged from other research approaches.

In the remainder of this introduction, the overall design of the project is briefly explained, including a description of the industries covered in the project. Thereafter, the individual studies are presented. Each such study is an important contribution in its own right to understanding of the political economy of protection and, in addition, provides evidence regarding the more general questions raised above. A final chapter then sets forth the systematic patterns that appear to emerge, as well as the hypotheses and findings that appear to be promising for future research.

Structure of the Project

At the outset, the project was conceived as a new approach to the political economy questions raised above. A brief outline of the results of previous political economy studies, along with the plans for the project, were then sent to potential participants in the project.

On the basis of that paper, an initial meeting of participants was held in the spring of 1993, at which the research agenda was discussed and authors spoke on their plans for research for their industry. It was clear that each author would need to undertake a separate research strategy, depending on the nature of the industry subject to analysis, as well as on the state of existing knowledge. Thus, no central "research design" applicable to all studies was planned. Authors were asked to determine for the activity they were studying what the most meaningful time period for analysis would be: as can be seen in the individual studies, it varies greatly from one study to another, ranging all the way from Orden's focus on the relatively short period during which the North American Free Trade Agreement was subject to negotiation and congressional debate to Finger and Harrison's coverage of the evolution of the Multi-Fiber Arrangement from the 1950s to the 1990s.

Authors were asked to provide an analytical history of the determinants of protection—both its form and its height—and then to consider how and why protection changed over time. They were asked, among other things, to examine who supported and who opposed protection, who gained and who lost. Readers will find matrices of winners and losers mapped against initial supporters, initial opponents, and those who were inactive. As can be seen in each of the following chapters, what the authors have come up with is rich in insights as to the phenomena that enter into decisions regarding forms and levels of intervention with trade.

Because focus on the politics of trade-related decisions is relatively new, a consensus emerged at the spring 1993 meeting that it would be very useful to hold a session for discussion with people who had held key policy-making roles in the trade policy process. People who had recently been or were in key roles in the trade community were then invited to come and talk with, and field questions from, the authors regarding the particulars of protection and also more general issues. A two-day session was then arranged in Washington in early July, in which the "witnesses" spoke informally with participants in the project. The people who gave some of their valuable time to the project in that connection included the Honorable William Brock, former U.S. trade representative; Commissioner Anne Brunsdale of the International Trade Commission; the Honorable William Frenzel, former congressman and member of the House Ways and Means Committee; Michael Moskow, former deputy U.S. trade representative; and Lloyd Olmer, former under secretary of commerce and international trade.

All of these persons were invited, and some were able also to participate in the February 1994 conference described below (and their contributions as discussants are reproduced in what follows). All of the individual industry studies, as well as the hypotheses raised in the final chapter, were greatly enriched by the contribution of these individuals, to whom the quality of the volume owes much.

Once authors had completed their studies, a conference was held in February 1993, in which the papers were presented and discussed.[6] In light of those discussions, papers were revised and constitute the next eight chapters of this volume.[7]

Industries Covered in the Project

Choice of industries to be included was dictated by several considerations. First, it was desirable that there be a variety of industries, with different situations. Second, it seemed important to include industries that had sought different forms of protection. Third, it was thought that the mix of industries covered should include at least one industry with each of the following characteristics: an industry with high political visibility, a relatively obscure industry, at least one producer of final goods for the consumer market, and at least one that produces producer goods. Fourth, it was essential to locate first-rate researchers knowledgeable about the industries in question who could provide their "human capital" to the project.

Given the constraints on the total number of studies and these three considerations, it was finally decided that there should be seven industry studies and one study of process (administered protection). Among the seven industry studies, two should focus on various aspects of agricultural protection, and five on industrial. Among the industries, it was desirable to include an older industry long subject to protection (textiles and apparel), a newer high-tech industry (semiconductors), industries in which voluntary export restraints (VERs) had

6. At that conference, there was a panel discussion among those of the policymakers who were able to attend, which was also invaluable. Although an effort was made to record that discussion in a format appropriate for reproduction in this volume, it was, regrettably, unsuccessful. For most authors, it was one of the highlights of the conference.

7. After the chapters included in this volume were completed, the authors prepared shorter versions, which were presented at a conference held in Washington in September 1994, in order to provide the policymakers and analysts there with an overview of the project results.

been negotiated (automobiles and steel), and a small industry (lumber). A brief overview of each of these industries may help the reader in approaching the individual studies. A final study was sought to analyze how one mechanism for protection—administered protection through antidumping and countervailing duties—actually operates. Since this protection is provided under a quasi-legal process, it appeared important to examine the extent to which even these processes are influenced by political and economic factors.

Steel and automobiles, by contrast, are industries in which U.S. firms held dominant positions worldwide until at least the early 1970s. Since that time, both industries have lost their preeminent positions, imports have increased, and both have sought protection. Both are highly visible industries but neither is "labor intensive," and both are reasonably geographically concentrated. Protection for automobiles came in the form of "voluntary export restraints" on imports from Japan for a period of time in the early and mid-1980s—there had been pressures earlier, and yet it was not until then that VERs were adopted, and they were later abandoned. Douglas Nelson traces the protection for automobiles under the VER agreed to by Japan in the early 1980s until the abandonment of VERs several years later. In the case of automobiles, it was apparently the fear that congressional action would result in even more restrictive and protective arrangements for automobiles that led the U.S. administration to accept a VER arrangement.

Michael Moore undertook the steel study. Protection for steel under VERs and other administrative arrangements was accorded for much of the 1970s and 1980s after the industry filed a large number of complaints alleging unfair trade practices on the part of foreign producers. These pending cases were then used as a bargaining instrument in negotiating export restraints with foreign governments. By the end of the 1980s, however, the steel industry's ability to achieve protection through this means was greatly diminished.

The semiconductor industry, by contrast, is much smaller and is also a "new" industry. It is certainly not labor intensive, and it is reasonably geographically concentrated. In his study, Douglas Irwin traces the initial development of the industry in the 1960s and 1970s. American firms were world leaders and initially dominated the industry, but by the late 1970s, the preeminence of these firms was being challenged by successful Japanese entry into the market. Starting in the early 1980s, the industry sought protection, which it finally achieved—at least in part—in the Semiconductor Agreement of 1986, and subsequent agreements, negotiated with Japan. The political economy of that agreement is interesting in many regards, not the least of which is Irwin's account of the extent to which the industry's goals (and, at one point, the goals of a single firm) became the U.S. government's negotiating position. The semiconductor industry is also interesting because of the important third-country effects that impaired the ability of the United States to deal bilaterally on a trade issue. Not only did the Europeans protest the U.S.-negotiated deal under which Japanese firms were not to export below prices set in the agreement, but the higher prices which followed the agreement were clearly a factor in supporting Korean entry into the semiconductor industry.

Interestingly, these three industries were protected through bilateral arrangements made between U.S. and foreign governments. As can be seen in the individual studies, the U.S. administration (and the foreign government) was frequently reluctant to enter into such protective arrangements but did so in the belief that failure to undertake these measures would spur administered protection or congressional action that might be even more protective of the industry.

Textiles and apparel represent an industry whose fortunes have been declining since the early part of the twentieth century, and in which pressures for protection have been intense since the mid-1950s. Many parts of the industry are relatively labor intensive, and it is geographically widespread, although its political power is based in the South. Protection began in the mid-1950s, when the United States negotiated a Short Term Arrangement covering cotton products with Japan (on the rationale that because of agricultural policies in the United States, Japanese producers could obtain needed cotton from the United States more cheaply than could U.S. producers), but then went to longer-term agreements at first covering cotton products only and then extending to other products and other countries. European countries also began protecting their textiles and apparel, and finally, in an effort to bring some discipline to bear on these bilateral quantitative restrictions, protection has been granted the industry under the Multi-Fiber Arrangement (MFA), an increasingly complex set of quantitative restrictions on imports negotiated by individual product category under an umbrella arrangement concluded under the auspices of the General Agreement on Tariffs and Trade.[8] Michael Finger and Ann Harrison explore the ways in which the industry sought, and received, protection and how it became modified over time. In the case of the MFA, Finger and Harrison report estimates that protection for textiles and apparel accounted for more than 80 percent of the entire economic cost of U.S. protection as of the late 1980s.

The U.S. lumber industry represents yet another situation. As Joseph Kalt points out, the industry is relatively small and geographically concentrated. It certainly does not have the visibility of textiles and apparel, automobiles, steel, or even semiconductors. Nonetheless, since the early 1980s, the U.S. lumber industry has also sought protection against Canadian imports through the administered protection process. In the eyes of many U.S. trading partners and economists, administered protection under U.S. trade laws has become the "protectionist weapon of choice." As such, inclusion of an industry whose primary approach to the protection process was through the use of "fair trade laws" seemed highly desirable in the project.

8. Under the Uruguay Round agreement, the MFA is to be phased out over a 12-year period.

There are two industry studies which focus on agriculture, where the mechanisms and instruments used for protection are quite different than those for American industry. Bruce Gardner's study focuses on wheat, and the emergence of the Export Enhancement Program (EEP) under which wheat farmers pressured for subsidies to be given for U.S. exports of wheat. Wheat has long been a major grain crop in the midwestern part of the United States, is grown by relatively numerous producers, and is a crop in which the United States is generally believed to have considerable comparative advantage. Facing declining exports due to appreciation of the dollar, European subsidies, and unsustainable domestic price supports, an EEP was implemented for wheat, under which American wheat farmers in effect received "protection" for their exports during the 1980s. It was started when farm incomes had been badly hit by a combination of factors including the disinflation of the early 1980s and the real appreciation of the U.S. dollar. Once in place, EEP was extended despite the disappearance of the initial circumstances which had resulted in the pressure for its enactment.

The other agricultural study, by David Orden, examines the roles and fortunes of various agricultural groups in the negotiations leading up to the North American Free Trade Agreement (NAFTA). Agriculture comprises many diverse sectors: some sectors—such as wheat—are exporters and will benefit from reduced protection at home and abroad; other sectors—such as sugar—are protected from import competition. In the negotiations, these interests competed within the broader framework of other aspects of the NAFTA. Some agricultural export producers were considerably more effective than others at gaining access to the Mexican market. Likewise, the effectiveness of import-competing sectors at delaying or reducing the rate at which trade with Mexico would be freed from restraints varied. Orden's analysis of who was influential, and why, sheds further light on the determinants of protection.

The final study focuses on administered protection seen from a different perspective. Critics of U.S. administered protection have suggested that the process not only provides protection in cases where dumping or subsidies do occur but even gives U.S. producers protection in that the processes are biased against foreign importers and the threat of being hit with an antidumping or subsidies suit is itself a deterrent to foreign importers. Staiger and Wolak study this phenomenon, with findings that are important in their own right and simultaneously provide insight from yet another angle into the understanding of the overall political economy of protection. As can be seen from their results, despite the legal constraints on the process of protection, it would appear that factors other than the criteria laid down by law influence the outcome of these deliberations.

Each of these studies alone is of interest. But, together, they also shed additional light on the political economy of U.S. trade policies. The final chapter therefore summarizes some of the important findings and questions that arise from analysis of the individual studies.

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