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In an ideal world, the political process would either automatically lead to, or be constrained in order to result in, an outcome that achieved political goals in an economically efficient, or low-cost, fashion. But that does not always seem to happen.<sup>1</sup>

*If* it was desirable to support the U.S. semiconductor industry in 1986, there were a number of ways in which support could have been provided that would not have adversely affected U.S. computer makers, could have avoided yielding extra profits for Japanese producers, would not have induced the entry of Korean firms into the market, and would not have resulted in a European protest against the violation of the General Agreement on Tariffs and Trade (GATT) by the bilateral deal with the Japanese.

*If* income support of wheat farmers is deemed a legitimate objective of policy, the Export Enhancement Program is surely an economically inefficient way to achieve that support. Similar arguments could be made about textile and apparel protection (where the poor are clearly adversely affected by higher clothing prices and where the “rents” on import restrictions go to foreign producers), sugar support in the North American Free Trade Agreement (NAFTA), and protection of steel. *If* assistance to the auto and steel industries was deemed desirable, lower-cost economic means could have been found regardless of the objective. If it was income of the workers, estimates of the costs of protection per job are so high as to indicate that the American people could have paid auto- and steelworkers more than twice their wages and yet been better off than they were with the voluntary export restraints (VERs). If the objective

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1. See Becker (1983) for a model of political economy in which wealth transfers are achieved in cost-minimizing ways, and the introduction for a fuller discussion.

was to help the industry, questions arise as to why VERs were the instrument, when profits of firms in the industry in countries with VERs resulted.

In the case of lumber, Kalt argues that the Canadian pricing system had no economic impact and that the entire objective was to increase the profits of the domestic lumber industry. In that instance, the fundamental question is whether increasing the profits of the loggers would be deemed a legitimate objective of policy. If so, a direct income transfer financed by taxes would achieve the same goal at a lower economic cost (but the very suggestion probably puts the lie to any argument that the lumber producers could gain political support in an open process).

*If the purpose of administered protection is to avoid predatory pricing, as appears on the surface, why do Staiger and Wolak find that administration of the same law has significantly different protective impacts on different countries (in chap. 8 of this volume) and industries (in their earlier research)?*

Even from these few cases, it is evident that there is not an ideal world. There are clearly political costs to economically low cost solutions. Understanding why the process of protection works as it does must therefore become important as a step toward improved analysis of economic policy, and perhaps even finding ways in which the economic costs of protection can be reduced.

The experiences with protectionist pressure and protection in the seven industries reported on here, along with the cross-sectional evidence gleaned from ITA-ITC cases, are highly suggestive of a number of hypotheses. In this concluding chapter, some of the themes that seem to emerge from a comparison of the results of the individual studies are outlined. As noted in the introduction, these analyses supplement existing research results analyzing the structure of protection by exploring the ways in which protection was sought and conferred. This examination of the “processes” by which protection is obtained is richly suggestive of interesting avenues for further research.

From the perspective of political economy, there are eight themes/insights that emerge from analysis of the individual studies which supplement the political economy of protection literature discussed in the introduction. These are first briefly set forth here. Then, the key aspects of the individual studies that are pertinent for these eight propositions are reviewed. Then each of the eight is considered in greater detail.

A first question concerns the extent to which current trade policy is in U.S. national interests. Several individual studies suggest that it is not. Second, one of the recurring themes from the individual studies centers on the role of ideas in shaping the political process, constraining both protection seekers and those granting protection in both the mechanisms sought and granted and the level of protection.

Somewhat related to the role of ideas is a third issue: the economic determinants of “political strength” as a factor influencing the forum or forums in which protection is sought. A fourth phenomenon worthy of note focuses on

the role of institutions. The particular institutional mechanisms administering trade policy were deemed significant by several authors in affecting and/or constraining political outcomes.

A fifth issue is the extent to which individual actors are rational in seeking and/or attempting to thwart protection. In this regard, an intriguing question arises from some of the studies as to how much protection helps the protected. Sixth, yet another set of findings relates to the importance of industry unanimity in obtaining protection. Several of the authors noted this prerequisite for protection; questions as to why unanimity should be essential may shed further light on the process of protection seeking.

Seventh, some interesting insights into the role of lobbying and organization emerge from the individual studies. While this might be interpreted as an aspect of the role of institutions, it seems to be sufficiently important to warrant discussion in its own right. Finally, the history of earlier protection received by an industry does appear to “matter” in interesting ways, in the sense that once there is protection, the threshold barrier for keeping it seems to be lower than that for obtaining it in the first place.

Each of these themes is discussed in turn below. First, however, it is worthwhile to review the individual studies, noting the major points at which salient insights emerge that are particularly useful in the evaluation of these eight issues.

## 9.1 Findings from Individual Studies

No brief summary of the results of the individual studies can possibly do them justice: indeed, one of the points of the NBER project was to go beyond quantitative generalizations about protection, and to examine the details of the process of seeking, obtaining, and keeping protection. The purpose here is to highlight those findings from the studies that inform the eight hypotheses/generalizations that are discussed below.<sup>2</sup>

### 9.1.1 Automobiles

The auto industry began seeking protection in the 1970s after there had been a “regime change,” in the words of Nelson, as the Big Three U.S. automakers were challenged by foreign, and especially Japanese, producers.

Until the early 1980s, however, there was less than unanimity among the Big Three: Chrysler received its loan in the late 1970s, and General Motors still believed that it could compete without protection. When unanimity in seeking protection was achieved, strong congressional pressure for action emerged. The arguments made in support of protection included the “need” for a U.S.

2. See the introduction for a brief description of the characteristics of each industry which led to their inclusion in the project.

industry, the unfair nature of foreign competition, and an appeal for support of the industry's employees who would lose their jobs should the industry contract.

The executive branch still opposed protection but finally entered into a VER agreement with Japan for fear that otherwise the measures taken by Congress would be even more restrictive. Thus, the fact that VERs were employed does not prove that the administration was in the forefront of those seeking more protection: the Reagan administration claimed to have moved to forestall congressional action.

There are several findings of great interest. First, Nelson notes that the International Trade Commission (ITC) had already turned down any resort to administered protection on the ground that the industry's difficulties were not primarily the result of imports: instead it was the domestic recession that had reduced demand. And, interestingly, in the first years of the VER, it was not binding: Japanese auto producers actually shipped fewer cars than they had agreed to.

With the upturn, however, the VER on automobiles did become binding. It is estimated that the additional cost to American consumers per car was on the order of \$1,000–\$2,000. Translated into “jobs saved,” a best estimate is that the cost was around \$100,000 per job—more than four times the average wage in the industry!

Perhaps the most surprising findings arising from the auto study center on the effects of protection on the industry. It seems clear that VERs on Japanese automobiles did not achieve the results the automakers apparently hoped for: when the VER did become binding, it resulted in higher profits for Japanese companies (thus strengthening their competitive position) and also in increased imports from other countries. Nelson's analysis demonstrates convincingly that the turnaround for U.S. automakers was a result of competition, and not of protection per se. Interestingly, that turnaround involved the reduction in employment in the industry that advocates of protection said they sought to avoid.

### 9.1.2 Steel

Like automobiles, the steel industry had been highly concentrated. A few large U.S. companies had been preeminent in the world steel market. As foreign competition increased, those companies were unaccustomed to responding to competitive challenges from other sources of supply. In consequence, they sought relief through protection, like automakers appealing to the “unfair” nature of foreign competition, the “need” for a strong U.S. industry, and the plight of those steelworkers who would lose their jobs as the industry contracted.

The steel industry sought administered protection, especially through countervailing duties in response to foreign subsidies. It became a master of the

process of filing for protection in order to induce the U.S. executive branch to take other protective measures. In 1982, for example, more than 200 petitions were filed before the U.S. administration negotiated a VER with major foreign suppliers.

Interestingly, it is not evident whether the various protectionist measures imposed on steel imports did in fact help the domestic industry. In Moore's analysis, the emergence of minimills was speeded up by the higher price of steel that resulted from protection: instead of losing share to imports, Big Steel lost share to the minimills.

An important aspect of the industry's weakened ability to obtain protection originated from the development of a new technology—associated with the smaller scale and less geographically concentrated minimill. That resulted in greatly reduced cohesion within the industry in seeking protection. In addition, some steel users became active opponents of steel protection—the only case cited in which a user group became active in the protection-seeking process. Caterpillar Tractor organized opposition to continued protection for steel in the late 1980s. This is a clear-cut case in which the “indirect” effects of protection are important, and the only instance in the project studies in which using industries became at all significant as opponents of protection.<sup>3</sup>

A final aspect of the experience with steel concerns the way in which it sought protection. When the steel industry was still cohesive in seeking protection, it used the administered trade processes, antidumping and countervailing duties, as an instrument to induce the executive branch to take action, filing as many as 200 antidumping and countervailing duty complaints simultaneously!

The experience with steel also demonstrates the effectiveness of a well-organized and cohesive industry effort in lobbying for (or in the case of steel users, against) an outcome.

### 9.1.3 Semiconductors

The U.S. semiconductor industry was dominant, with a very high share of the world market, until the 1970s. Then, Japanese producers began increasing their production and market share, particularly in the memory chip segment of the market.

The semiconductor industry first sought protection in the early 1980s, but it was not successful until the mid-1980s, when in fact, a large part of its difficulties were due to cyclical factors in the computer industry. The industry is a much smaller employer than auto- and steelmaking but is generally regarded

3. At the Washington conference held on the results of the project in September 1994, several participants supported, and provided further evidence from their personal experience to strengthen, the general conclusion that using industries are highly reluctant to oppose supplier industries' requests for protection. One member of the audience reported that, at one point when the House Ways and Means Committee was seeking testimony as to the adverse effects of protection, most users refused to testify even when approached. It is not clear whether this response is cultural, or instead results from a reluctance to antagonize suppliers, or exists for other reasons.

as a “high-tech” industry, contrasted with the older steel and auto industries. Arguments for protection were centered on the widely perceived importance to the United States of having a high-tech industry. Semiconductors were viewed as a linchpin, a key input for other new high-tech industries.

The semiconductor industry represents another instance in which administered trade processes were used to induce the American and Japanese governments to agree on a VER rather than permit the administered protection process to reach its conclusion.<sup>4</sup> It also represents another instance in which a number of questions may be raised as to whether the protection that resulted helped the U.S. industry since by the time relief was provided virtually all U.S. firms had exited that segment (memory chips) of the industry. Furthermore, profits were increased for existing Japanese firms, enabling them to invest in the next generation of chips that much sooner. Third-party effects were also important as Korean firms were attracted into the industry by the higher world prices, and Japanese firms located plants within the United States to avoid U.S. protection.

Another significant feature of the semiconductor experience is the impact of protection on the computer industry in the United States, which was inactive at the time the agreement was reached but began vigorously opposing those features of the agreement that left American assemblers paying higher prices than their foreign competitors. Some computer producers actually moved their production offshore in response to protection!

Although opposition of downstream users of semiconductors proved important in eventually limiting the extent of protection, the semiconductor negotiations also raise significant questions as to the extent to which U.S. trade policy can be driven by the interests of one or a few firms. As Irwin notes, at one point, the position of the U.S. trade representative (USTR) was identical with that of one firm (Micron), and the industry held virtual veto power over negotiated agreements.

#### 9.1.4 Textiles and Apparel

The very fact that the textile and apparel industry has been protected since the mid-1950s raises questions about the efficacy of protection as an instrument to achieve the goals desired by the industry. Employment was declining before the industry received protection; when it did receive protection, new plants opened in the South and plants in New England closed in any event. One analysis even suggests that protection accelerated the rate at which the industry relocated to the South (see Isard 1973).

One interesting aspect of the evolution of protection for textiles and apparel is that protectionist pressures first originated in New England, where woolen mills were predominant. However, once protection was achieved, New Eng-

4. The marginal costs of producing a semiconductor are very low, which means that proof that sales were “below cost” would be more difficult to establish in that industry than in many others.

land textile mills in any event were closing down, and the industry expanded in the South.

The evolution of protection of the industry also attests to the extent to which an instrument, once in place, tends to become more complex over time as more and more groups attempt to seize it for their own purposes. American protection for textiles and clothing started with a focus on one country (Japan) and one commodity (cotton textiles—on the rationale that the U.S. cotton program prejudiced the American industry). By the 1980s, there were over 100 different commodity categories subject to quota, and over 60 countries subject to quota!

The Multi-Fiber Arrangement (MFA) is scheduled to be phased out under the Uruguay Round agreement over a 10-year period. That this may happen attests to the role of institutions in affecting political outcomes: except in the context of negotiations over many trade issues, it is doubtful whether such a plan could have been approved.

Another aspect of institutions is also prominent in the MFA case. That is, Finger and Harrison point to the coherence of the industry's organization and lobbying activities: they attribute some of the restrictiveness of the MFA, as well as its perpetuation, to that effectiveness.

#### 9.1.5 Lumber

As Kalt demonstrates, Canadian policy toward lumber results in intramarginal transfers, but economic analysis demonstrates fairly convincingly that it does not affect exports to the United States. That experience, in turn, raises some interesting issues as to the sorts of ideas and arguments that are effective in winning support for protection.

Despite the failure of economic analysis to support the case, the U.S. industry has been able to appeal to the administered protection process to achieve protection that, in that instance, Kalt judges to be of substantial benefit to the industry by raising the U.S. price of lumber.

In evaluating the arguments that are effective in achieving a ruling favorable to the industry seeking protection, Kalt finds that the political influence of the participants is a significant factor in determining the outcome: that is, when the potential gains from winning are significant and the group seeking protection is politically influential, protection is more likely to follow from the process. It may be noted that, by "politically influential," Kalt means that the lumber interests were concentrated (and important enough) in some key states, especially in the Pacific Northwest, that they could bring pressure to bear on behalf of their industry. It may be significant that alternative approaches to seeking protection (such as resort to Congress), which were threatened by large industries, were not a factor for the lumber interests.

As in the case of the MFA, however, institutions may turn out to be important in the longer run and may constrain protection: the U.S.-Canada binational panel established to adjudicate disputes under the free trade agreement overturned the latest rulings in favor of U.S. lumber producers. This is an in-



stance in which a broad-based trade agreement (such as NAFTA) enabled at least some particular interests to receive less favorable treatment than when they were able to isolate their case from that of other industries.

#### 9.1.6 Wheat

The wheat Export Enhancement Program (EEP) was established in the early 1980s to subsidize wheat exports at a time when farm incomes were low and wheat producers (among other farm groups) were pressuring for government assistance. One reason they were able to obtain the EEP was the promise that the funds available to subsidize exports would be used to finance a variety of agricultural commodity exports: in reality, however, virtually all of the funds have been devoted to wheat.

The economic benefits to wheat growers of the program are small relative to the cost of the subsidies, and the question is why, in the absence of a strong rationale, these subsidies have persisted since their initial introduction.

Gardner points to the unity between the farmers and agribusiness as a key factor in achieving continuing support for EEP. Notably, also, domestic wheat users have not opposed the program. The fact that EEP supporters are well organized and effective in their political representation has been important. It is also significant that the program was originally scored to be budget neutral (because of the existence of large government stocks), which enabled Congress to support the program without budgetary consequences. Finally, it is an instance of the advantages to a group of “having” a protectionist measure in place: it is very doubtful whether an EEP could have been enacted in 1991 if it had not already existed. But the threshold for its removal was far above the threshold level of support required for its initiation.

#### 9.1.7 Agriculture in NAFTA

Whereas the EEP affects only one group of farmers, negotiations over NAFTA potentially affected many groups. Analysis of the positions of various farm groups, and the determinants of the degree to which groups received benefits under NAFTA, is therefore informative as to the relative strength of different groups.

Perhaps the most significant result to emerge from an analysis of the factors influencing the outcome for different agricultural commodities of the NAFTA agreement is the importance of the early decision, in the interests of broader negotiations, that at the end of a (fairly long) transition period all agricultural protection between the United States and Mexico would be removed. That decision, in an important way, set the agenda and determined the context in which various agricultural groups could attempt to influence the outcome: they could slow down the process but could not stop it.

A second significant result from analysis of the determinants of NAFTA is the extent to which those who were able to remain “moderate” in their opposition (compared, say, to organized labor) and were willing to offer specific mod-

ifications or to accept other deals until the final moments before the NAFTA accord was to reach Congress were able to extract relatively large gains (in terms of their narrowly defined self-interest) in return for their support. Sugar producers were most successful because of their influence with a sizeable number of members of Congress. Wheat producers and others were less successful in this regard.

### 9.1.8 Antidumping and Countervailing Duty Decisions

Staiger and Wolak, instead of focusing on the evolution of protection in an industry, address the question of how industries use the antidumping and countervailing duty (administered protection) processes to deter imports. They assess the indirect protective effects of administered protection, noting that the very threat of filing complaints against foreign exporters may serve as protection for a domestic industry. They had earlier demonstrated that these indirect effects were substantial when suspension agreements were reached (instead of the imposition of antidumping duties); the reduction in imports was about the same as when antidumping duties were imposed. Similarly, even during the period of investigation, before any findings are reached, imports are reduced by roughly half the amount that is estimated would have occurred had antidumping duties been imposed immediately.

They had also detected two strategies used by American firms in resorting to administered protection. On one hand, there were “outcome filers,” who registered their complaints in the hope of obtaining antidumping or countervailing duties. On the other hand, there were “process filers,” whose intent was to obtain the protection inherent in the investigation process (and possibly in a suspension agreement).

In their work for this project, Staiger and Wolak carried the analysis further, asking whether the effects of administered protection are different depending on the country of origin of imports. They found significant differences in strategies followed by the same industry against imports from different countries, thus demonstrating still further the extent to which U.S. import-competing producers recognize the uses of administered protection processes, as well as other avenues, in protecting themselves from import competition.

## 9.2 Hypotheses Emerging from the Individual Studies

On the basis of these conclusions, and other evidence, presented in the individual studies, supplemented by that available elsewhere in the literature, a number of interesting political economy hypotheses emerge. These were mentioned at the outset of this chapter. Here, each is spelled out in turn.

### 9.2.1 Does Current Trade Law Reflect U.S. Interests?

Economists who have analyzed U.S. protectionist policies have tended to ground their analyses in arguments based on economic efficiency. Clearly, in

almost all instances of protection, economic efficiency is not enhanced by protection, and that has been taken as a basis for analysis.<sup>5</sup> But it has generally been taken for granted that protection served recognized political ends.

There are serious grounds for questioning whether protection, and the processes that generate it as illustrated by these studies, in fact is in the national interest even in political, if not in economic, ways.

First of all, there are powerful grounds for arguing that the United States is so important in the international economy that its actions significantly affect the actions undertaken by its trading partners. To the extent that the United States is protectionist, the temptation for politicians in other countries to succumb to protectionist pressures is larger, and that redounds on U.S. exporters.

In the mid-1990s, other countries were adopting "unfair trading" laws patterned after U.S. law covering countervailing duties and antidumping.<sup>6</sup> To the extent that these laws have the same sorts of protective effects as does American administered protection as demonstrated by Staiger and Wolak, the increased protectionism in the rest of the world must be weighed against any perceived benefits from administered protection processes.

The United States clearly has a systemic interest in an open international trading system that far outweighs the benefits (if any) that can be achieved from individual affirmative findings in administered protection cases, the imposition of VERs, and other protective measures. Even if protection through any of these channels could be shown unequivocally to benefit the American economy, questions could still be raised about the total effect when repercussions on foreign countries are taken into account.

Quite aside from that overarching concern, however, there are grounds for concern about the impact of protection that are not recognized in political debates about trade policy and in the criteria used in U.S. trade law for determining whether protection is warranted. A first and obvious omission, long noted by economists, is that the interests of final consumers are not represented. In political debates, this is no doubt a reflection of the organization costs among large numbers of individuals, each of whom has a small amount to gain if a particular product's price is lower.

However, even more surprising is the fact that under U.S. trade law, the ITC is not empowered to take consumer interests into account in its findings with respect to administered protection. Moreover, the ITC is not even permitted to

5. See, e.g., the estimates of economic costs of protection in Hufbauer and Elliott (1994).

6. There are a number of criticisms that can be made of U.S. trade laws, in addition to those made here. Chief among them are: (1) the law is administered in ways which provide protection even during the period when litigation is proceeding—the Staiger-Wolak finding; (2) the procedures for construction of costs, and other aspects of administrative procedures, can result in findings of "selling below cost" even when the foreign firm is not so doing; and (3) there are circumstances in which foreign firms can be found guilty of practices that, if adopted by an American firm, would be legal. See the essays in Boltuck and Litan (1991) and Finger, Nelson, and Hall (1982).

consider the impact of protection on *other American industries*, including users of the product.<sup>7</sup> Thus, even if economists could convincingly show that the effect of protection on other American industries (because, e.g., of a loss of competitiveness vis-à-vis imports) was quantitatively more harmful than the benefits to the prospectively protected industry,<sup>8</sup> that would not constitute admissible evidence to reject protection.

It should be noted that the failure to consider the “general equilibrium” consequences of protection is a characteristic of political debates on protection, as well. Debates over protection for steel and for machine tools come to mind as particularly telling examples in which the products are purchased primarily by other producers and increased prices inevitably raise their cost structure. But the experience with semiconductors—in which producers of personal computers discovered that they would be at a significant disadvantage vis-à-vis their foreign competitors—also vividly illustrates the point.

Even when users are not concentrated in a few industries, the effects on other industries of raising costs can be significant.<sup>9</sup> Yet in all these instances, the political process treats protection to the industry seeking it as something that can be accomplished without harmful effects on any other sectors of the American economy. Not only is protection itself an economic act of discriminating against the many in favor of the few, but the criteria used politically and administratively for awarding protection are biased in that direction. While it might be the case that, for example, society deems the benefits of protection to apparel to exceed the costs, a procedure (or rules of political discourse) that at least permitted these costs to be taken into account would be far preferable to present practices.

There is yet another theme that emerges from consideration of the individual studies. That is, in many instances (most notably steel, automobiles, and semiconductors) protection was sought by industries experiencing difficulties because of a cyclical downturn. Periods of recession are certainly times when politicians are more receptive to political pressures for protection. Yet, protection once in place is not removed once the recession has ended. In that sense, protection is conferred in response to cyclical difficulties but is inappropriate as it is a longer-term response.

7. There is the question, of course, as to why users do not oppose the imposition of protection on their inputs. As seen in Moore's analysis of steel, they can so oppose (if the protection sought is through VERs, but not if it is through the ITC), but it seems to require a fairly major stake in the outcome to induce the necessary organization. The steel case was highly unusual, however. As seen in Irwin's study of semiconductors (and earlier in the case of steel), users are generally silent when protection for their input is proposed.

8. It is assumed here that the benefits of protection to the protected industry are positive. As indicated above, however, even this assumption is suspect.

9. Net effects of protection have been evaluated in static general equilibrium models by Goldin, Knudsen, and van der Mensbrugge (1993), Nguyen, Perroni, and Wigle (1993), and Lewis, Robinson, and Wang (1994).

### 9.2.2 The Role of Ideas in Determining Protection

It is certainly evident from the individual studies that lobbying and special interest groups play an important role in determining protection. However, there are also interesting questions as to the role of ideas. Clearly, to the extent that popular opinion sees protection as “giving in to special interests,” it becomes more costly for politicians to confer protection. The extent to which popular opinion is on the side of protection or free trade clearly matters both in determining whether protection is given and in its height. This was seen clearly in the NAFTA debate when public opinion was crucial to the outcome and favorable opinion ratings rose steadily as the congressional showdown approached.

Kalt addresses this issue by asking which arguments were effective in the Canadian lumber disputes. He notes that arguments that could be simply put were effective, whereas more complex arguments (e.g., that Canadian pricing was intramarginal and therefore did not affect the supply going to the United States) were less effective.

More generally, it is interesting that the “need” for an industry (steel, automobiles, and semiconductors) is put forth as a rationale both for old, established traditional industries and for the new high-tech industries. This need presupposes something about how the industry will evolve in the absence of protection, but since reasons for the need are not clearly spelled out, it can apparently apply to any industry.

In like vein, appeals to “fairness” and “equity” are frequently the basis on which appeals for protection are couched. It may certainly be questioned whether special treatment for a firm or industry in adversity due to import competition is more deserved than favorable treatment for one in which technological change accounts for its plight. Nonetheless, it is of interest that the fairness and equity arguments are made with respect to industries perceiving their difficulties originating in imports far more frequently than they are made with respect to industries feeling the pressures of competing technologies.

In both steel and automobiles, public support for protection has been sought partly through an emotional appeal about the fate of the workers who will lose their jobs. Interestingly, many lost their jobs in any event, and no distinction is drawn between postponing job loss one year and the permanent maintenance of a job. Clearly, the distinction is important both for ascertaining the costs of protection and for the degree to which the public may be willing to support the industry: if, in fact, all protection does is to postpone the date at which workers will lose their jobs by a short period of time, the argument for protection (as contrasted with adjustment assistance) is surely weakened. The gains from freeing up trade may be less transitory as industries find world markets in which they are competitive. These distinctions do not seem to have been drawn in debates about protection.

In the case of textiles and apparel, the argument made for protection is based

almost entirely on an appeal for sympathy with the plight of workers in those industries, although it is not at all evident that they have been the greatest beneficiaries (contrasted with profits of firms in the industries) of protection. To a degree, this has been buttressed by allegations that competition from “cheap foreign labor” is unfair, despite the insights from economics that comparative advantage rests largely in relative cost differences for different factors of production in relation to productivity levels. Interestingly, Finger and Harrison point to the effective organization and lobbying of the industry as factors in determining its success in obtaining protection: clearly, the industry was more concerned with profitability than with employment. The arguments made publicly in support of protection are quite clearly somewhat distinct from the reasons for seeking it. Finally, wheat farmers—like most farm groups—appealed to the misfortunes of the family farm and the desirability of maintaining “viable” family farms.

For lumber and the agricultural interests that “won” in the NAFTA agreement, efforts to receive protection have been largely kept away from public scrutiny: lobbying, good organization, and effective positioning relative to issues appear to have been more important.

Yet another example of the role of ideas in determining protection arises from administered protection. The fact that predatory pricing can be shown by economists to constitute a “valid” case for protection serves as the basis for instituting antidumping and countervailing duty legislation and procedures. But, once these procedures are put in place, validated by this idea, they are then seized for protectionist purposes, as demonstrated by Staiger and Wolak, as well as by some of the other studies.

It may also be noted that the appeal to “fair” trading practices has been used repeatedly as protection (and export support) has been sought. This was certainly true in the semiconductor agreement, and in wheat export subsidies (where the European practices were held up as a rationale for those measures). Clearly, the idea that “opening up others’ markets” accords with fair trade has been important in legitimating the appeal for protection in these cases.<sup>10</sup>

From all of this, it seems clear that the public arguments made for protection are whichever seem to be most likely to gain public support given the situation of the industry: desirability of maintaining high-tech competence (and, to a lesser extent, unfairness of foreign competition) for semiconductors; jobs for unskilled workers in textiles and apparel; jobs, the unfairness of foreign competition, and the need for the industry in the case of steel and automobiles; preservation of a reasonable income on the family farm and an appeal to the unfairness of European subsidies in the case of wheat (and much else in agriculture). Whether protection is granted because of public sympathy with these arguments, because of public perceptions of the industry’s difficulty, or because of behind-the-scenes lobbying tactics is an open question.

10. See the excellent essay on this topic by Irwin (1994).

On even casual examination, it seems evident that there is no economic activity for which effective lobbyists cannot find an ad hoc argument on one or more of these bases. A number of interesting questions therefore arise. Given that decisions for protection are often significantly influenced by the ways in which effective lobbying groups approach trade officials and politicians, why do these organizations and lobbies even bother with the public argument? What role does public support, as garnered through the dissemination of these relatively simplistic appeals, play in determining the ability of the politicians to grant protection? Clearly, it must matter or lobbying organizations would neglect the public relations efforts involved in disseminating their appeals.

In this regard, an interesting question concerns the degree to which changing ideas regarding protection may affect the extent of protection. Certainly, international trade theory in the 1980s was augmented by consideration of models of imperfect competition, under which it could be shown that some type of intervention might be economically preferable to *laissez faire*.<sup>11</sup> How perceptions of this change in ideas have affected protectionist outcomes is an important question.

Finally, why cannot the case for free trade, and the costs of protection, be made more effectively? Is this an example writ large of Kalt's finding that arguments must be simple to be effective? Or, is it the "free rider" principle yet again? A problem with accepting the latter perspective arises insofar as significant user groups have not objected to protection that will raise their costs.<sup>12</sup> The case is certainly made more effectively in broad international agreements (when export interests can support broad-based reciprocal liberalization) than in circumstances in which specific industries hold sway.

Assessing the role of economic ideas as constraints on, or enabling mechanisms for, politicians' decisions is clearly difficult. Nonetheless, it is at least a plausible hypothesis that understanding how these simple ideas are formed in the public mind plays a role in circumscribing the political process of protection seeking and granting.

### 9.2.3 The Role of Political Strength

For economists, some of the important lessons emerge from conclusions regarding the determinants of protection. The Staiger-Wolak findings, the analysis of decisions regarding lumber, the determinants of influence in affecting NAFTA, and, indeed, all the other studies point strongly to the influence of political strength (generally unrelated to considerations of static or dynamic

11. For policy purposes, the literature is far more ambiguous than its interpretation: while intervention may be called for, it might be an export or import subsidy, as well as an import duty. But in popular discussion, the imperfect competition literature has been interpreted to sanction protectionist measures.

12. It is often alleged that protection exists because producer interests are stronger than consumer interests (which are more diffuse). A difficulty with this argument is that export interests (which should surely support free trade) are at least as concentrated as import-competing interests.

efficiency and even to income distribution arguments often heard) as a major determinant of protection. This appears to be so even for the administered protection processes, which are in theory governed by legal considerations set out in law.<sup>13</sup>

From the perspective of politicians and policymakers, this conclusion is hardly surprising. From the viewpoint of the public interest, however, it raises significant questions as to the feasibility of devising institutions or mechanisms that can differentiate between those seeking protection out of narrow self-interest and those for whom industrial protection might be warranted because of the sorts of considerations to which the “new trade theory” points. For economists concerned with framing policy, therefore, questions as to the capacity of the political process to be constrained in ways that enable trade policy to respond to broader interests must be addressed. That leads immediately to another phenomenon that recurred in the various studies.

#### 9.2.4 The Role of Institutions as Constraints

It is not enough to conclude that protection was granted in certain instances. One can also ask why the level of protection granted was not higher, why protection was not there before, why protection is sometimes phased out, and why some industries are not protected while others are.

Orden notes that the context for the pulling and tugging for special treatment in the NAFTA agreement among agricultural representatives was constrained by the initial ground rules: all agricultural protection between Mexico and the United States was to be phased out—the only question was how long it would take.<sup>14</sup>

Likewise, the Uruguay Round agreement schedules the phasing out of the MFA. This probably could not have been achieved as a stand-alone policy. However, in the context of the overall negotiations, it was accepted despite political resistance, albeit over a fairly long time frame with end loading so that most of the bite is postponed.

In the case of wheat, the fact that the EEP was declared budget neutral was critical to its initial implementation and continuation. The argument that it was budget neutral was based on the fact that the overall farm bill provides for price supports for wheat: to the extent that wheat is exported, the cost of purchasing and storing wheat diminishes. When the 1995 farm bill is considered, questions will arise concerning this budget neutrality, and hence the future of EEP may be doubtful: again, an institutional constraint of some importance.

13. But the law itself permits the ITC only to consider factors *within the industry* in determining outcomes: from the viewpoint of economic theory, evaluation should surely take into account the effects on the American economy as a whole, and not simply on the industry receiving protection.

14. In the final dealing, several significant changes were made. For example, high-fructose corn syrup was to be counted against Mexico's eligibility to export to the United States—a huge increase in the implicit protection to American producers. However, the basic constraint remained present, even if occasionally marginally bent.



It seems clear that trade policy made on a one-off basis toward individual sectors is much more susceptible and sensitive to pressures from the interest groups seeking protection. The role of institutions may well be to devise mechanisms that force the political process to recognize the trade-offs and economic costs of protection on an across-the-board basis.<sup>15</sup> Further research on the role of the GATT, other institutional constraints, and how they may be designed to achieve outcomes generally agreed to be in the public interest is clearly warranted.

### 9.2.5 Does Protection Help the Protected Industry?

There has been protection for textiles and apparel since the mid-1950s. The first such measure was termed the Short Term Arrangement and covered only imports from Japan. Protection has increased over the years, both by increased coverage of the MFA to other countries and products, as already noted, and through more “bite” in the individual quotas. Despite that, the industry has chronically complained that protection was “inadequate” and did not “help enough.” Increasing restrictiveness, especially in the late 1980s, has not stemmed protests from the industry. Moreover, some of those who initially sought protection (New England textile producers, e.g.) quite clearly lost from it (since cotton, primarily produced in the South, was covered while wool, made in New England, was not).

Protection for automobiles (also in the form of VERs) does not appear to have reversed the fortunes of the U.S. automobile industry: Nelson concludes that competition was the important stimulant.<sup>16</sup> The same questions can be raised about the semiconductor agreement, although industry representatives believe that they were assisted by the agreement. For steel, a technological change—the emergence of the minimills—seems to have been important in affecting the industry:<sup>17</sup> it is questionable how much the old integrated mills benefited from VERs on steel imports.

In agriculture, Gardner believes that the EEP arguably did little for wheat growers and certainly did less than their enthusiastic support for the program suggests they believed that it would. Sugar producers have lost half of the caloric sweetener market to corn syrup as a result of their high domestic price.

To be sure, in these instances, there may have been a timing issue involved: protected domestic producers often obtain substantial short-term rents. In some cases, too, the timing of protection may have facilitated adjustment. For example, the automobile protection may have provided breathing space (once the

15. Of course, both sides must be willing to do this, as Orden's contrast of the NAFTA agricultural outcomes with Mexico and Canada highlight.

16. See Scherer (1992, 188–89). Scherer notes that firms in general react more “passively” to foreign competition when trade barriers are in place and, because of that, have less satisfactory performance.

17. There also appears to be a role of ideas here: the opposition of minimills to protection is based partly on support for free trade.

VERs became binding) for the U.S. industry to lower costs.<sup>18</sup> For Big Steel, higher prices may have relieved pain in the short run, even though they also made minimills more profitable and thus encouraged their more rapid expansion. For semiconductors, the temporary reprieve may have been valuable,<sup>19</sup> despite the longer-term consequences.<sup>20</sup> If that is so, it would imply that protection can help an industry as a short-term palliative, but at the cost of the industry's fortunes in the longer run.

Among the protected industries studied in the NBER project, then, there is only one instance in which the author believes that U.S. producers unequivocally benefited: lumber. Ironically, he also believes that the Canadian pricing policies to which the producers had objected had arguably not changed supply, so that protection in fact raised the price in the United States and domestic producers gained.<sup>21</sup> In all the other cases, it cannot be persuasively argued that the protection accorded an industry was important in turning its fortunes around or in benefiting it over the longer term.<sup>22</sup>

This raises important questions about the efficacy of protectionist trade policies, even in assisting the industries that seek protection. To the extent that trade barriers give producers false assurances, they may indeed be counterproductive from the industry's perspective in the long run.

#### 9.2.6 There Will Be Protection When the Industry Is Unanimous

Perhaps the most intriguing finding arising from the studies and also from discussions with policymakers concerns the reluctance of using industries to oppose protection, and the general belief that protection will be granted when the industry is unanimous in supporting it.<sup>23</sup>

The most effective defense against protection would appear to be a division within the industry. The most vivid example of this among the NBER cases is steel, for which prospects of protection diminished substantially after the owners of minimills opposed it. For semiconductors as well, industry unanimity

18. In fact, however, the U.S. industry does not appear to have undergone its effective productivity improvement program until the late 1980s when the reality of permanent foreign competitive pressures became clear.

19. The antidumping finding only really helped two firms: Micron and Texas Instruments; by the time it came into effect, no one else was producing. Even then, of course, gains had to be offset against the costs to user industries (the computer assembly industry moved offshore) and the entry of third parties, notably Koreans.

20. It is possible, of course, that the rents collected by Japanese producers may have led to their failure to pursue an increased market share. To that extent, the agreement may have been valuable in the longer term.

21. Even then, it must be recognized that in the longer term, builders would substitute other materials for lumber, thus reducing the size of the industry.

22. The NAFTA agreement is only now going into effect, and therefore the question of the benefits to different agricultural groups cannot be fully addressed. Preliminary data indicate an increase in trade, with U.S. agricultural exporters among those gaining.

23. This regularity was noted by several of the "witnesses" when participants in the projects met with policymakers in Washington, D.C., in July 1993. The same point has been made by Milner (1988).

was not achieved prior to the mid-1980s: until that time, the industry's efforts to obtain protection had failed. In NAFTA, commodity divisions (among grains) and regional divisions (among fruits and vegetables) limited the effectiveness of some sectors in the NAFTA negotiations; sugar was unanimous and successful in retaining protection. Evidence from other sources and all analysts' accounts point to the same conclusion.

This raises a number of interesting, and unanswered, questions. Why, for example, did the auto industry—a major steel user and itself in difficulty—not oppose steel VERs in the early 1980s? Why did it take until the late 1980s for producers of agricultural machinery finally to oppose continued protection for steel, as William Lane's commentary documents? And, to cite another example, why do apparel makers side *with* textile manufacturers in seeking protection when, as using industries, their interests in textile protection would appear to diverge?<sup>24</sup>

When policymakers were queried in this regard at the project meeting in Washington, responses generally focused on a "gentleman's agreement," or understanding, that each industry would not protest others' protection, but rather seek its own (implicitly, unopposed). If such is the case, questions arise as to how such tacit understandings came about. If there are not such implicit understandings, the puzzle remains as to why opposition is not more frequently voiced.

### 9.2.7 Good Lobbying and Organization Do Matter

Short-term economic interests generally determine the side on which various interest groups fall in pressuring for or against protection. However, some groups are better organized, or more readily organized, than others. The correlation between the magnitude of economic interests and the effectiveness of organized lobbying efforts does not appear strong. Some groups that might benefit from protection (or its removal) do not appear well organized, while others are extremely effective.

Finger and Harrison point to the well-organized efforts of the textile and apparel groups as a key factor in their achieving as much protection as they in fact receive. Moore's chapter and Lane's discussion show the importance of effective organization and lobbying in seeking and maintaining (and opposing) protection.<sup>25</sup>

Protection for the semiconductor industry appears to have been another in-

24. Here, of course, a possible answer might be that the two industries together form a more effective lobby that can achieve more than either could separately, and that the joint gains exceed the potential if each goes it alone. Similar issues arise in agriculture, where the sectors have to weigh their mutual versus specific interests. In NAFTA, corn growers did not object to sugar provisions that would reduce the likelihood of Mexico using corn sweeteners but drew the line if a sugar deal affected the direct access to the Mexican market they had negotiated.

25. The needed degree of effectiveness is clearly greater for achieving initial protection than for perpetuating it. Even when protection is perpetuated, however, it can be restrictive to varying

stance in which a well-organized industry group was crucial to the achievement of protection. Once opposition from users (the personal computer assemblers, who had to compete with foreign assemblers) formed, the degree to which the industry could sustain protection diminished.

In this regard, however, perhaps the most interesting and telling cases among the studies are those concerning agriculture: maneuvering regarding the timetable for reduced protection to agriculture under Mexican entry into NAFTA was heavily influenced by the pressures that different producer groups were able to bring to bear. Likewise, the wheat growers were able to organize to achieve the EEP in ways that other farm groups apparently were not.

What determines whether a particular organization is effective *ex ante* (as opposed to the *ex post* observation that it achieved its purpose) is a difficult question. The steel and auto industries were highly concentrated; textiles and apparel are widespread and diffuse; there are a large number of wheat farmers; there are few sugar producers. Yet all of these are “effective” in achieving protection.

One hypothesis is that individuals, and organizational history, do matter in determining organizational effectiveness. If so, there are elements of “accident,” entrepreneurship, or “fortune” in affecting levels of protection. Understanding why organizations are effective is important, however, not only to understand why some are more successful than others but also because such insights may point to institutional designs and other mechanisms that would constrain trade policy to function less in response to individual industries and more in response to across-the-board considerations than it apparently does under existing arrangements.

### 9.2.8 Past Protection Matters

The evidence from these studies, and elsewhere, strongly suggests that the existence of a protectionist instrument—VER, EEP, sugar quota, or whatever—in the past strongly increases the ease with which protection may be obtained today. Stated otherwise, the expected level of protection in the future is higher, for the same industry characteristics: (1) if the industry received protection in the past and (2) the higher protection was in the past.

Clearly, each round of MFA negotiations started with the preceding level as a base: much of the industry’s lobbying efforts were directed to achieving heightened protection. Likewise, Gardner points to the ease with which the wheat growers were enabled to achieve a renewal of EEP, contrasted with the initial barrier to obtaining it. A semiconductor agreement with Japan in 1991 was far easier to obtain because there had been one in 1986. The history of protection for steel in the 1970s made it easier for the industry to persuade the U.S. administration to negotiate again.

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degrees. A more effective lobby will, presumably, achieve greater restrictiveness than a less effective one.

### 9.3 An Agenda for Further Research

Protectionism, and the pressures that lead to it, is much better understood than it was several decades ago. Focus in the studies contained in this volume has been on the determinants and evolution of protection in individual industries. In some of those industries—notably automobiles and steel—protection once obtained was nonetheless subsequently lost. It is not clear that protectionist pressures are, overall, winning, but it is certainly the case that better understanding of the institutions and mechanisms which permit across-the-board considerations to decide protection, rather than case-by-case decisions, may yield better decision making in the future than has occurred in the past.

Each of these eight key findings is really a tentative hypothesis and an agenda for future research. Better understanding would be desirable in and of itself but would also be useful to inform the policy process.

Some issues—such as the reasons for unwillingness of users to oppose protection for their suppliers—may require multidisciplinary research. Others bring in questions from the new institutional economics. Nonetheless, taken together, they form a challenging agenda for further exploration into the political economy of U.S. trade policy and protection.

It seems likely that there are also interrelationships among the eight hypotheses. Ideas may influence politicians and also affect the way in which constraints affect activities. Industry unanimity may be desirable in part because the general ideas of economists regarding economically efficient policies have not sufficiently pervaded the body politic. And, if the hypothesis that protection provides little, if any, long-term benefit to most industries is correct, further research probing that hypothesis could significantly affect the degree of protection seeking.

Further understanding of those interrelationships, however, probably must await advances in understanding of each of them individually. It is to be hoped that the readers of this volume will be inspired to pursue these, and other investigations, in the hope that in the future U.S. trade policy determination can be more adequately understood.

What does emerge clearly from the studies in this volume, as well as earlier work on protection, is that the processes and mechanisms by which protection forms and levels are determined bring about results that are often very costly. Questions concerning the efficacy of protection in directly improving an industry's fortunes become even more pressing when it is recognized that the indirect negative effects are not adequately taken into account. Conversely, the economic costs of failing to examine indirect effects of protection loom larger if questions arise concerning the sign and magnitude of direct effects.

When consideration is further given to the proposition that using industries that may be harmed by protection are reluctant to protest, economic efficiency may be further diminished when a unanimous industry seeks protection as a perceived means of alleviating its problems. When effective organization and

political clout is then important in determining outcomes, there is a further delinking of economic efficiency from the granting of protection.

Add to these considerations concerns as to the fairness of the administered protection laws, and it seems clear that considerable further analysis is called for as to the degree to which current U.S. trade policy achieves objectives that are in the interest of the American people and economic efficiency.

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