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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] There are exceptions to the argument for free trade, such as in cases of infant industries and more recently "the new trade theory."[2]

Nonetheless, it has been a source of considerable frustration to most international economists that, in reality, protection to industries, and pressure for it, is granted 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 have therefore turned their attention to attempting to understand the "political economy" of protection, by which is meant the actual determinants of which industries receive protection, and of the structure of protection across industries.

Most such efforts have focused on the empirical estimation of models in

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1. The recognized exception to this generalization that is relevant for the United States is when a country has monopoly power in trade. Even that exception, however, is contingent upon the trading partners being unable to retaliate in ways that are sufficiently harmful. There are also arguments that "market failures," such an 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, i.e., 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 where the first entrant(s) to an industry become established and receive the economic rents that accrue to first-comers. The rationale is that first entrants can achieve a scale of production sufficient enough to simultaneously charge a low enough price to deter other entrants and still have that price significantly above the marginal cost of production.

which the presence of tariffs (or other trade barriers) and/or their height is to be explained. Variables such as the level of employment in the industry, the trend in the industry's employment and profitability, and the geographic concentration of the industry are then used as possible explanatory factors. In general, almost every variable appeared to have explanatory power in some cases, but there was no strong systematic pattern that emerged from these analyses.

The National Bureau of Economic Research project on the political economy of U.S. trade policy was designed to try to supplement and enrich the understanding of the political economy of trade policy by undertaking parallel analyses of the determinants of protection and its evolution in a number of American industries (seven, in the event), and by examining the determinants of administered protection across industries.[3] The hope was that in-depth investigations of how protection actually has evolved in industries whose circumstances were evidently dissimilar would shed light on the process of protection and its determinants, and perhaps yield richer hypotheses for further analysis.

The industries chosen for inclusion are textiles and apparel (the Multi-Fibre Arrangement [MFA]), steel, automobiles, semiconductors, lumber, wheat, and agricultural protection as negotiated under the North American Free Trade Agreement (NAFTA). These analyses were supplemented by a "cross-section" study of determinants of "administered protection."

Textiles and apparel represent an industry whose fortunes have been declining since the early part of the twentieth century, and where pressures for protection have been intense since the mid-1950s. Many parts of the industry are relatively labor-intensive, and it is geographically widespread. Protection has been granted to the industry under the Multi-Fibre Arrangement, 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 (GATT).[4] 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 (VERs) on imports from Japan during the early and mid-1980s—although there had been pressures earlier, only then were VERs adopted and later abandoned. 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

3. "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.

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

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. Its initial development in the 1960s and 1970s was led by American firms, but by the late 1970s the preeminence of these firms was being challenged by a successful Japanese entry into the market. Starting in the early 1980s it sought protection, which it finally achieved, at least in part, in the Semiconductor Agreement of 1986 and subsequent agreements negotiated with Japan.

Interestingly, these four industries were protected through bilateral arrangements made by the United States and foreign governments. As can be seen in the individual studies in this volume, 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.

The U.S. lumber industry represents yet another situation. The industry is relatively small and geographically concentrated. It certainly does not have the visibility of textiles and apparel, steel, automobiles, 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.

The final two studies focus on agriculture, where the mechanisms and instruments used for protection are quite different from those of American industry. One focuses on wheat. Wheat has long been a major grain crop in the Midwest, one in which the United States is generally believed to have considerable comparative advantage. An export enhancement program for wheat, under which American wheat farmers in effect received protection in their exports during the 1980s, provided considerable protection to American wheat exports.

The other agricultural study examines the rule and fortunes of various agricultural groups in the negotiations leading up to NAFTA. Some producer groups were considerably more effective than others in delaying the time or reducing the rate at which trade with Mexico would be freed from restraints. An 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. trade law (antidumping and countervailing duty legislation) have suggested that the very processes that are established confer protection to U.S. industries, regardless of whether the outcome of the process finds for the complainant and grants protection. Robert Staiger and Frank Wolak study this phenomenon, with findings that are important in their own right, and simultaneously provide insight from yet another angle into the overall political economy of protection.

Each study can stand alone. But together they shed additional light on the political economy of U.S. trade policies. The first seven chapters examine the studies individually. A final chapter then summarizes some of the important questions that arise, from a policy perspective, from the findings in the individual studies. Much more complete analyses of the individual cases and the findings can be found in the NBER volume based on the project that is forthcoming from the University of Chicago Press, *The Political Economy of American Trade Policy.*