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8 U.S. Trade Policy-making in the Eighties

I. M. Destler

8.1 Introduction

As the 1970s wound to a close, Robert Strauss, President Jimmy Carter's Special Trade Representative, won overwhelming congressional approval of the Tokyo Round agreements. This was a triumph of both substance and political process: an important set of trade liberalizing agreements, endorsed through an innovative "fast-track" process that balanced the executive need for negotiating leeway with congressional determination to act explicitly on the results. And it was accompanied by substantial improvement in the nonoil merchandise trade balance.[1]

Both the substance of trade policy and the process of executive-congressional collaboration would be sorely tested in the 1980s. During the first Reagan administration, a mix of tight money and loose budgets drove the dollar skyward and sent international balances awry. The merchandise trade deficit rose above $100 billion in 1984, there to remain through the decade (see table 8.1). The ratio of U.S. imports to exports peaked at 1.64 in 1986, a disproportion not seen since the War between the States. The constant-dollar ratio of imports to domestic goods production—the best single measure of change in the import pressure faced by U.S. firms—shot up from 18.9 percent in 1982 to 26.0 percent in 1986 (see table 8.2), and the figure for *manufactured* goods jumped from 23 to 34 percent (Destler and Henning 1989, 121). Such increases had no precedent in modern U.S. history.

Political reaction was substantial. Had the U.S. Congress been generally

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Table 8.1 **U.S. Merchandise Trade, 1970–89**

	Billions of Current Dollars			Ratios	
Year	Exports	Imports	Balance	*M/X*	Deficit/GNP
1970	44.5	40.9	3.6	.91	. . .
1971	45.6	46.6	−1.0	1.02	.001
1972	51.7	56.9	−5.2	1.10	.004
1973	73.9	71.8	2.1	.97	. . .
1974	101.0	104.5	−3.5	1.03	.002
1975	109.6	99.0	10.6	.90	. . .
1976	117.5	124.3	−6.8	1.06	.004
1977	123.1	151.9	−28.8	1.23	.014
1978	144.7	176.5	−31.8	1.22	.014
1979	183.3	211.9	−28.6	1.16	.011
1980	225.1	247.5	−22.4	1.10	.008
1981	238.3	266.5	−28.2	1.12	.009
1982	214.0	249.5	−35.5	1.16	.011
1983	206.1	271.3	−65.2	1.32	.019
1984	224.1	334.3	−110.2	1.49	.029
1985	220.8	340.9	−120.1	1.54	.029
1986	224.4	367.8	−143.3	1.64	.034
1987	225.1	412.8	−157.7	1.62	.035
1988	322.0	449.0	−127.0	1.39	.026
1989	368.9	480.2	−111.3	1.30	.021

Source: Department of Commerce, Bureau of Economic Analysis. Various years. *Survey of Current Business.*
Note: M = imports, X = exports.

disposed toward trade protection—as often assumed in press commentary—and had its members given priority to *actual impact on policy*—as assumed in journalistic accounts and academic models alike—then there surely would have been a 180-degree turn in postwar U.S. trade policy. In fact, there was not. The dikes constructed over the decades to protect liberal U.S. trade policy did spring some leaks, but in general they held. Congress did insist on enacting a new, omnibus trade law, but this tinkered at the margins rather than making fundamental changes. The overall policy erosion was far less than analysts and practitioners would have forecast in 1980 had they known the 12-digit trade deficits the decade would bring.

There was, over the decade, a significant shift in policy emphasis. Both branches became much more aggressive in pressing for the opening of foreign markets, and, in the decade's final year, the incoming Bush administration's trade representative, Carla Hills, was driven to designate entire nations as unfair traders: "priority foreign countries" singled out for the "number and pervasiveness" of their "acts, policies, or practices" that impede U.S. exports (Omnibus Trade and Competitiveness Act 1988). And the "super-301" law that forced this action was a congressional creation. But even this was in the

Table 8.2 U.S. Merchandise Trade and Output, by Volume, 1970–89

	Billions of Constant (1982) Dollars			Percentage	
Year	Output of Goods	Imports	Exports	*M*/Output	*X*/Output
1970	1030.0	150.9	120.6	14.6	11.7
1971	1037.6	166.2	119.3	16.0	11.5
1972	1093.8	190.7	131.3	17.4	12.0
1973	1175.0	218.2	160.6	18.6	13.6
1974	1159.2	211.8	175.8	18.3	15.1
1975	1125.0	187.9	171.5	16.7	15.2
1976	1194.7	229.3	177.5	19.2	14.8
1977	1256.2	259.4	178.1	20.6	14.2
1978	1329.1	274.1	196.2	20.6	14.7
1979	1354.6	277.9	218.2	20.5	16.1
1980	1344.2	253.6	241.8	18.8	18.0
1981	1386.0	258.7	238.5	18.6	17.2
1982	1319.1	249.5	214.0	18.9	16.2
1983	1367.0	282.2	207.6	20.6	15.2
1984	1509.2	351.1	223.8	23.3	14.8
1985	1553.6	367.9	231.6	23.7	14.9
1986	1592.6	413.7	245.9	26.0	15.4
1987	1669.0	440.5	285.7	26.4	17.1
1988	1771.6	467.1	344.3	26.3	19.4
1989	1837.1	494.4	386.8	26.9	21.0

Source: Department of Commerce, Bureau of Economic Analysis. Various years. *Survey of Current Business.*
Note: M = imports, X = exports.

long-standing tradition of choosing toughness on (trade-expanding) export issues as an alternative to toughness in imposing (trade-contracting) import controls.[2]

Reinforcing support for devices such as Super-301 was a growing concern about the relative competitive position of the United States. By late in the decade, Paul Kennedy (1987) had published his unlikely best-seller, Clyde Prestowitz (1988) had brought forth a widely noticed work, entitled *Trading Places: How We Allowed Japan to Take the Lead,* and Robert Gilpin had concluded his comprehensive work of contemporary political economy by associating "many of the troubles of the world economy in the 1980s" with "the relative decline of American hegemony." It was "not likely," he declared, "that a liberal world economy could survive without a liberal hegemon committed to its preservation" (1987, 365).

Well before this, concern about the relative position of the United States had contributed, along with the trade deficits, to an atmosphere of dissatisfaction with liberal trade policies and interest in "strategic" alternatives. Politicians were reinforced in their propensity to believe that other nations were taking advantage of us, either through unfair trade practices or through clev-

erer and more coherent pursuit of their self-interest. Political scientists and economists (Cohen and Zysman 1987; Krugman 1986; Richardson 1990) were exploring matters of "dynamic comparative advantage" and "strategic trade policy." Mercantilism became semilegitimate.

Dissatisfaction with liberal policies (and trade outcomes) did not lead to a strong alternative consensus: in fact, the prescriptive harvest from the strategic trade (or dynamic comparative advantage) school of economists, political economists, and business leaders was strikingly thin. But it did increase the pressures on and from Congress and the demands on executive-branch trade policy leaders, weakening the still-persistent U.S. bias toward open-market trade policies.

For an analyst of U.S. trade policy-making, therefore, one major task in reviewing the 1980s must be to explain why the system held as well as it did. To this end, this paper will challenge (in sec. 8.2) the widely held notions that members of Congress are "protectionist" and that they seek to control trade policy. The body of the paper (secs. 8.3 and 8.4) will be a recounting of the major policy events of the decade. The evidence supporting the assertions of section 8.2 will be contained therein, and summarized in section 8.5. The events to be recounted will include:

The rise of traditional protectionism early in the decade. The Reagan administration ended up, in the words of then-Treasury Secretary James Baker III, granting "more import relief to U.S. industry than any of his predecessors in more than half a century" (1987).

The response of Congress. Despite the unprecedented pressure on import-impacted industries, Congress did not "go protectionist." But there was a sharp rise in legislative entrepreneurship, as members both felt increased constituency pressure and saw a growing "issue opportunity."

The role of partisan politics. In the House, much of the Democratic leadership saw trade as an issue promising partisan advantage; in the Senate, however, dissatisfaction was bipartisan, and the Omnibus Trade and Competitiveness Act of 1988 reflected a bipartisan consensus for a tougher U.S. approach to international trade.

The administration's shift to international economic activism. In 1985, led by Baker, the second Reagan administration shifted from neglect to activism on exchange rates, and to aggressiveness in pushing U.S. exports. The latter, it was hoped, would appease Congressional critics, win such foreign concessions as proved available, and buy time for the J-curve to play itself out.[3]

The continuing, but somewhat diluted, U.S. commitment to multilateralism. The single largest executive branch priority remained, at decade's end, the Uruguay Round: because of what might be achieved substantively and because it offered a vehicle for managing domestic trade policy pressures. But it was less central to U.S. trade policy-making in the eighties than the Tokyo Round had been in the seventies. And bilateral trade deals—notably the free-trade pact with Canada—assumed greater prominence.

As these points illustrate, this paper will offer an analytic description of the main policy developments of the decade, as seen through one analyst's lens. It will draw substantially on my research over the decade and recent published work (Destler 1986; Destler and Odell 1987; Destler and Henning 1989), while seeking to avoid tracking that work too closely. It will emphasize throughout how the trade imbalance, even though it was not caused by trade policy—and most key trade policy players knew that the causes were elsewhere—had enormous impact on the balance of trade politics: enlarging the population of the "trade-afflicted"; diminishing those gaining on the export side; weakening the legitimacy for existing trade policy approaches; driving Congress and the administration to take action.

With the 1985–87 decline of the dollar came a halt to the *rise* in import pressure and strong gains on the export side. As a result, trade-political players felt some relief as the decade drew to a close. But the macroeconomic adjustment was incomplete, and the trade imbalance was threatening—by most projections—to grow larger in the early 1990s.

8.2 Congressional-Executive Relations and Trade: Eight General Propositions

This paper seeks to make explicit a view of congressional behavior on trade that is implicit in my broader work.[4] It can be summarized in eight propositions:

PROPOSITION 1. On the surface, both Congress and the executive seem to be struggling over policy outcomes, but there is an asymmetry in stakes: *executive players give greater priority to controlling trade policy outcomes than do congressional players.*

PROPOSITION 2. For individual members of Congress, direct control over trade policy is not a necessary means to their broader goal, which is *to maintain and enhance political standing, at home and in Washington.*

PROPOSITION 3. For the great majority of members for whom trade is but an occasional concern, it is sufficient to *advocate* the cause of interests important in one's district and to strike general trade policy postures that appeal to one's support coalition.

PROPOSITION 4. For legislators on the key trade committees (Senate Finance and House Ways and Means) and the (growing) minority that has singled out trade policy for special attention, *controlling policy on core trade matters is neither the only, nor in most cases the best means, of enhancing trade-political standing.*

PROPOSITION 5. When individual legislators do seek influence over policy, *legislation is often not the most effective means to that end.*

PROPOSITION 6. This overall pattern of behavior *tends to diminish the impact of party divisions on policy outcomes,* though trade issues will frequently be employed for partisan point scoring.

PROPOSITION 7. *Hence, members of Congress find their interests well-served by a system of power-sharing that gives them ample opportunity for initiative and visibility but allows the buck to stop elsewhere.*

PROPOSITION 8. *Administration leaders, who give greater priority to policy impact, also find their interests better served than in a system where specific trade barriers were legislatively determined.*

Such propositions, this paper will suggest, continued to have explanatory power even in a decade of record trade pain for U.S. producers, and hence pressure on Congress that was unprecedented in the postwar period.

These assertions diverge sharply from much of the "new institutionalist" literature on Congress, which is built on the assumption that what members are seeking is impact on policy. They need backing from constituents, which they purchase through provision of policy payoffs. Legislators are thus, in practice, conduits of pressure from interest groups. Within Congress, the committees and subcommittees most responsive to the dominant constituencies in an issue area come to play the pivotal role, and they use their power to control policy.[5]

Such a model fits U.S. trade policy-making quite well, up through 1930. But the Smoot-Hawley Act of that year proved to be a blame-generating law if ever there was one, with the Great Depression and World War II among the events to which it has been causally linked. In its wake, therefore, Congressional leaders cooperated with executive officials in constructing a system that minimizes the direct impact of legislation on U.S. trade barriers. This system is characterized by: delegation to the president of de facto authority to set the level of trade and nontariff barriers, which are arrived at through negotiations with foreign governments;[6] the use of quasi-judicial procedures for industries claiming injury from imports and/or unfair foreign trade practices; negotiation by the executive of special, "voluntary" export restraint (VER) arrangements in cases where a major industry (textiles, steel, autos) is demanding trade relief; creation of a trade-brokering agency, the Office of the United States Trade Representative (USTR), to be the target of congressional and industry pressure, and to take the heat as it works for compromise on contentious trade matters in the United States and in foreign markets.

Notable is the fact that this system deals with industry pressure by diversion as well as accommodation, through buffering institutions that give legislators ample opportunity either to duck or to assert themselves on trade issues. It is ideal for "blame avoidance."[7] What it reliably provides is not protection for industry, which often finds its claims rejected or deferred, but "protection for Congress" (Destler 1986, chap. 2).

Why is this system consistent with legislators' interest in maintaining and enhancing their political standing? The simple answer is that striving for direct personal influence over policy outcomes is not, for most members in most instances, a cost-effective means to that end. Recall Mayhew's (1974) classic

formulation, centered on the goal of securing reelection, that cites three activities of House members as crucial: advertising, position taking, and credit claiming. None of these requires actual impact on policy.

For the majority with limited interest in trade, it will usually be sufficient to engage in position-taking responsive to key trade-affected interests in one's constituency, and/or to evoke sentiment in broader ideological support groups. More interesting, however, is the growing minority of members who take special interest in trade issues or whose committees give them special power. Their interest in *legislating* on trade will certainly be greater, for they are "trade policy politicians" who build their broader political standing, in part, on trade policy engagement. But even they need not give priority to actual impact on outcomes. They have open to them time-tested activities such as making speeches, issuing press releases, holding hearings, traveling to the capitals of U.S. trading partners, crafting marginal legislation for claiming credit, or backing seemingly major legislative *proposals* (ideal for advertising and position taking) that no one expects will become law.

And even when the activists do want to influence policy, legislation is only one of several routes. Others include lobbying the executive, using legislation as a threat—as did Senator John Danforth on auto quotas in 1981—and pressuring foreign governments—as illustrated by the same example. Indeed, the executive branch (or international bargaining) game, where "downtown" officials take the issue-specific heat, may offer well-connected members of Congress greater opportunity for impact than the procedurally cumbersome legislative game. Or they may collaborate with the executive in crafting more efficient legislative procedures: the "fast-track" rules established by the Trade Act of 1974 give members of the key committees the inside track in influencing the president's proposed legislation to implement a major trade agreement, legislation that cannot be amended once it is formally submitted. In a variety of ways, therefore, Senate and House trade specialists can be visible policy players, responding to their constituents, bashing the Japanese, able to claim credit for diplomatic or administrative actions taken in their behalf, while retaining their ability to duck blame for outcomes unfavorable to them.

There will be occasions, of course, when a critical mass of congressional players becomes committed to the enactment of major trade legislation. This happened in a minor way in 1984 and in a major way in 1985–88. Even then, however, Congress tended to refine at the margins the mechanisms for indirect influence rather than taking direct control of specific product issues or specific bilateral trade relationships.

What role does party competition play in these politics? Politicians are regularly looking for issues to use in partisan conflict. In the context of the 1980s, therefore, Democrats would naturally seek to pin on a Republican White House the blame for a 12-digit trade deficit or the clear pain of trade-impacted firms and workers. But they would give priority not to overturning

present policy but to establishing a politically rewarding posture: blaming the administration, arguing for "tougher," pro-American policies. Nor would the Republicans allow them to capture the issue: they would respond with their own trade aggressiveness, particularly in the Senate, seeking to close the window of political opportunity.

An overall system in which Congress eschews direct responsibility can be attractive to legislators because it gives them greater flexibility and initiative in preserving and advancing their careers as politicians while avoiding blame for mistakes. It can be attractive to executive players because they give greater priority to policy outcomes, and congressional delegation gives the executive greater leeway in influencing policy outcomes.

In any case, such a system of American trade policy-making was well established by 1980. Initiated in the wake of Smoot-Hawley, it matured while trade policy receded from public prominence and lost its partisan character in the early postwar years. It proved rather effective in combating "normal" protectionism; that is, from industries losing comparative advantage. Elements of this would continue into the eighties for steel, autos, and textiles.

But the Reagan decade would bring new challenges, specifically arising from the incredible rise of the dollar and enormous trade imbalance and from the decline in the relative U.S. position in the world. New trade pressures emerged in consequence. To how the American system responded, we now turn.

8.3 1980–84: The First Five Years

Defining the decade as "the eighties" offers an awkward fit with the political calendar. We get the last and first years of two administrations and eight years of the one in between. We get no clear beginning and no definitive ending. Dividing the eighties at their mid-point, however, has strong empirical as well as numerical appeal. Not only does it separate the first from the second Reagan administration (Reagan I and Reagan II), but the two periods exhibited rather different patterns of trade politics, both in the executive branch and on Capitol Hill. The first featured a range of product issues and the building of a trade imbalance with large political consequences, but it contained no central trade policy event, either at home or abroad. The second featured one main event at home—the trade bill—and the beginnings of one abroad—the Uruguay Round. It was further defined by the sharp administration policy departures, as Reagan II sought to contain the whirlwind sown by Reagan I.

The first five years began quietly: the Tokyo Round had been ratified, the trade bureaucracy was being modestly reorganized, and the trade balance was improving, fueled by a boom in exports. The economic policy scene was dominated by the oil price surge and its domestic consequences. One casualty—the U.S. auto industry—generated the main trade issue of the early decade.

8.3.1 Autos 1980–81

Even as the overall U.S. trade balance was improving, the largest of American industries was in crisis. The oil shock of 1979 brought a doubling in the price of motor fuel. This resulted, simultaneously, in a sharp drop in total demand for autos and a shift of demand into energy-efficient small cars, the bulk of which came from Japan. Between 1978 and 1980, car imports rose from 17.7 to 26.7 percent of the U.S. market, as sales of American-made vehicles plunged from 9.3 to 6.6 million, the lowest since 1961. Auto industry unemployment rose above 300,000 out of a total of almost one million directly employed there (Winham and Kabashima 1982, 76; U.S. Department of Transportation 1981, 83–85; Cohen and Metzger 1982, chap. 3). Auto companies suffered record losses, and Chrysler needed a federal bailout to avoid bankruptcy.

In terms of its economic impact, this was surely the greatest trade-related disruption any U.S. industry had experienced since the Great Depression. The trade-political response was remarkable for its moderation. An "escape clause" petition seeking temporary import relief was submitted by Ford and the United Auto Workers (UAW), who were *not* joined by their industry brethren. House Trade Subcommittee Chairman Charles L. Vanik (D–Ohio) held hearings in 1980, signaling an interest in some trade-restrictive action, but he also reiterated that year his hope to "depoliticize" such issues, to "run trade on economic law" (U.S. House Ways and Means Committee 1980, 140).

In this case, "economic law" failed to deliver, on a technicality. The U.S. International Trade Commission (USITC) ruled, by a 3–2 margin, that it could not recommend relief because auto imports failed the "substantial cause of injury" test—other causes on the industry's troubles, in particular the oil price rise, were more important. Since this ruling came after the November election, the buck was now passed to the new Congress and the Reagan administration.

Reagan had promised in his campaign to "try to convince the Japanese" to slow down imports. John Danforth (R–Missouri), the new Trade Subcommittee chairman in the Republican-controlled Senate, was promising hearings by December, and he introduced an auto import quota bill in early 1981. But hearings and markup were scheduled not to pass a law, but to pressure the Japanese, and to help ensure that Reagan's campaign commitment prevailed over the free-market leanings of his economic advisers. Senate Majority Leader Robert Dole (R–Kansas) put out the word that he could count two-thirds of the Senate in support of the Danforth bill, enough to override a Reagan veto. But when Tokyo announced on May 1 that Japan would restrain exports, reducing the number of cars sold in 1981–82 by 7.7 percent below the previous year, U.S. Trade Representative William E. Brock immediately assured the Japanese that, in light of their action, the bill had no chance of enactment. Danforth cancelled a scheduled markup and shelved the bill, even

though the Japanese plan was less restrictive than he had wanted. In particular, it did not provide for a reduction of the Japanese quota in the event that the overall U.S. market shrank further—as in fact it would in 1982.[8]

8.3.2 Autos 1982–83

Japan's auto export restraints remained in place through the eighties. Their trade impact rose as the Reagan recovery gained force in 1983–85, then diminished as the dollar declined and the U.S. output of Japanese firms increased. Economically, the main long-term beneficiaries were probably those same Japanese firms, since they captured billions of dollars in rents from the price rises the quotas permitted. Politically, however, the quotas put a cap on the auto-trade issue. And had the U.S. economy not plunged into severe recession in the year after their enactment, nothing much more would have occurred on the matter.

But with that recession, the plight of automakers worsened, and the Japanese producers' share of the U.S. market grew further even with their lower absolute number of sales. In response, the UAW pressed for a bill that would have imposed a "domestic content" requirement on cars sold in the United States. The larger a company's total sales, the more onerous the requirement: for Toyota (and General Motors) it would have been 90 percent. If enacted, the bill would have cut imports of Japanese autos to a fraction of current levels.

Because the bill ostensibly regulated production rather than trade, its proponents were able to circumvent the House Ways and Means Committee. Hence the bill was twice considered, and twice reported favorably, by the House Energy and Commerce Committee. And it twice passed the House of Representatives: by 215 to 188 in December 1982 and by 219 to 199 in November 1983.

Unlike the situation in 1980–81, division on *this* auto issue was very much along partisan lines. Northeastern and midwestern Democrats almost uniformly voted "Aye" in the House, and the bill never got out of committee in the Republican-controlled Senate. But unlike with the Danforth bill of 1981, no one could even pretend that "domestic content" was a serious legislative threat—the fact that it was not, in fact, allowed many of its supporters to set aside their policy convictions and give their votes to the UAW, a long-time supporter of liberal Democratic causes. Because it was not a credible threat, the bill had little impact on either the administration or the Japanese. It was, however, one of several events suggesting that party *might* become the main definer of politicians' positions on major trade legislation, as it had been in the 1930s.

8.3.3 Executive Branch and Congressional Rivalries

As the domestic content bill showed, trade politics in the early eighties were punctuated also by conflicts and rivalries built into the structure of leg-

islative and executive politics. In the House of Representatives, John Dingell (D–Michigan), chair of the Energy and Commerce Committee, was challenging the long-time leadership of Ways and Means. In so doing, his committee was challenging also the tradition of delegation and deference to the executive on trade. With its middle ranks dominated by entrepreneurial Democrats from the Watergate Class of 1975, the Dingell committee was entrepreneurial and policy active, and Ways and Means had been weakened by the procedural reforms of the 1970s. In the end, Energy and Commerce did not make major inroads, but the threat it posed drove Ways and Means counterparts to greater activism. Trade Subcommittee Chairman Sam Gibbons, for example, began pushing very hard for tightening of countervailing duty and antidumping laws (Destler 1986, 59–62, 73–74).

More visible was the conflict between U.S. Trade Representative Brock and Secretary of Commerce Malcolm Baldrige. Before the former was even named to his position, it became public knowledge that presidential assistant Edwin Meese favored abolishing USTR and had promised Baldrige that he, not Brock, would exercise trade policy leadership. Two years later, Meese and Baldrige persuaded Reagan to propose legislation to implement this proposal by creating a Department of International Trade and Industry which would subsume USTR.

Brock fought back, using his policy and political skills and the relationships developed as a former Senator *and* U.S. Representative. So while Baldrige won battles on several trade issues, USTR ended up winning the war: the department legislation never reached the floor of either chamber, and it was Brock who spoke for the administration as general trade legislation was hammered out in 1984. In particular, USTR's relationships with Ways and Means and Finance proved critical,[9] as they had a decade earlier when Richard Nixon had proposed to eliminate the office (Destler 1980, 154–55). But the Brock-Baldrige rivalry underscored a broader structural anomaly built into executive branch policy-making: the stronger the Secretary of Commerce, the more fractious an administration's trade policy-making. There was no policy sphere, save trade, that was worthy of a Commerce incumbent seeking Cabinet status in fact as well as form. Yet trade already had a leader, at Congressional insistence: the USTR. Moreover, that agency's established role as broker of congressional as well as executive (and foreign) interests was a key to the role that legislators wished to play. They could delegate authority to that office, in the expectation that it would be responsive—not just (and often not mainly) to their policy views, but also to their wish to be credited with important roles in the policy process.

8.3.4 Steel (and Copper) 1984

One of the ways Congress delegated trade power was through regulatory-type procedures, through which industries with specific complaints could seek import relief. Most important were the "unfair trade" statutes—the counter-

vailing duty law through which producers could gain offsets for officially subsidized products; the antidumping law providing similar relief for imports sold at "less than fair value"—and the "escape clause" though which an industry could seek temporary protection from imports causing "serious injury," fairly or unfairly traded.

The early and mid-eighties brought a sharp rise in the number of trade-remedy petitions seeking import relief, particularly those alleging unfair foreign practices (see table 8.3). And the prime user of these procedures was the American steel industry. In 1982, exploiting changes in the unfair trade laws, which its congressional supporters had gotten included in the Tokyo Round implementing legislation of 1979, U.S. steelmakers jointly delivered to the Commerce Department, on a single day, 494 boxes containing 3 million pages of documentation for 132 countervailing duty and antidumping petitions, mainly against European Community (EC) exporters. Loud European protests forced a reluctant Commerce Secretary into brokering a deal: the EC agreed to restrain carbon steel exports.

And that industry opened 1984 with a new onslaught of petitions, targeted this time at the newly industrializing countries (NIC), whose share of the U.S. market was rising rapidly. At the same time, the industry got 210 representatives to cosponsor a steel import quota bill, and Bethlehem Steel and the United Steelworkers union submitted an escape-clause petition timed to force presidential action before the 1984 election.

It was this last factor that led to action. In September 1984, Ronald Reagan was faced with two politically timed escape-clause petitions in response to which the USITC had found injury and had recommended relief. He rejected one from U.S. copper producers, perhaps fortified by the strong resistance of

Table 8.3 Trade Cases By Type, 1980–89

	Number of Cases			
Year	Sec. 201	Sec. 301	Countervailing Duty	Antidumping
1975–79, average	8.8	4.2	2.6	16.6
1980	2	0	11	29
1981	1	5	14	19
1982	3	6	124	71
1983	0	7	31	45
1984	7	2	53	73
1985	4	5(4)[a]	41	62
1986	1	6(4)[a]	29	71
1987	0	5(1)[a]	8	15
1988	1	7(1)[a]	13	42
1989	0	10(7)[a]	7	23

Source: USTR (1990) and USITC.

[a]Numbers in parentheses denote number of USTR self-initiated cases.

U.S. copper *users*, who would pay the price of protection. On steel, however, he acceded. Though the president formally rejected the USITC recommendation, he ordered Brock to negotiate export restraint agreements with all major suppliers of steel to the U.S. market (Destler and Odell 1987, 15–18, 43–49).

8.3.5 The Sudden Enactment of Legislation

Reagan's decisions on copper and steel took place during the last major trade policy event of the eighties' first five years, the enactment of the Trade and Tariff Act of 1984. Unlike other recent comprehensive trade laws, this one neither authorized a new multilateral trade negotiation nor acted on the results of one.

The action began when the Senate Finance Committee, at Brock's encouragement, reported out a bill that stitched together several loosely-connected proposals: an extension of United States law providing trade preferences (GSP) to developing countries, a necessary if unpopular measure because existing authority expired at year's end; an authorization for the administration to negotiate a bilateral free-trade agreement with Israel,[10] a popular measure quite marginal to broader trade concerns; and several other measures, including a Danforth "reciprocity" bill (forerunner of Super-301) seeking access to foreign markets equal to that which foreign producers of like-products had to U.S. markets.

Danforth brought this package to the Senate floor in September, without time- or amendment-limiting agreements, and it survived a chaotic week. It emerged encumbered with protectionist amendments for producers of a range of products, including wine, copper, shoes, and ferroalloys. The House followed quickly with its own legislation, which included a bill sponsored by Ways and Means Chairman Dan Rostenkowski (D–Illinois) to support and enforce President Reagan's newly established steel protection program. Brock then managed, working in conference with Danforth and Rostenkowski in particular, to get the bill transformed, in the words of the *Washington Post* (12 October 1984), into "pretty respectable legislation. . . . Most of the bad stuff got thrown out and all of the good stuff stayed."

In an atypically chaotic way, this legislation confirmed the old pattern: Congress would threaten product-specific restrictions, perhaps even pass them in one house (particularly the more open Senate), but it would seldom enact them into law. In the end, members would content themselves with measures that *delegated* authority to the executive, albeit with strong general signals about how that authority should be used. Even the steel title of the bill was consistent with this practice: what it did was to provide enforcement authority, and rhetorical support, for action the president had already taken.

8.3.6 Macro Policy: Sowing the Wind

But through the first Reagan term, the trade balance was rapidly growing worse. The causes were (and are) well known, and they had nothing to do

with trade policy. There was the Latin debt crisis that curtailed exports. There was the economic recovery—earlier and stronger than that in major trading partners—that pulled in imports. There was, above all, the remarkable rise of the dollar with impact on both sides of the balance. As calculated by the IMF's Multilateral Exchange Rate Measure (MERM), the dollar's overall, trade-weighted international value rose 63 percent between its average for 1980 and its peak in March 1985. And while no explanation of this rise is fully satisfactory, most experts saw an important cause in the unusual U.S. macroeconomic policy mix of this period—tight money to fight inflation, large fiscal deficits to stimulate growth. The effect was reinforced because policy in Europe and Japan was moving in the opposite direction (Marris 1985, chaps. 1, 2).

The new U.S. policy mix—widely labeled "Reaganomics"—began with the tax cuts and defense increases of 1981, their impact persisting as the decade reached midpoint. A "conspiracy" between certain congressional and administration leaders had brought some remedial action (Stockman 1987), but as the Reagan recovery gathered force, the president's resistance to such countermeasures stiffened. This increased the reluctance of his close advisers to press such measures, particular on the revenue front. When 1984 brought Reagan both a 49-state election landslide and a real GNP growth rate of 6.8 percent, the highest since 1955, his macroeconomic formula became particularly hard to change. It was natural for him to conclude that he had been right all along.

But as a by-product of his policies, 1984 also brought the first 12-digit trade deficit in any nation's experience: exports at $219.9 billion, imports at $332.4 billion. And these were nominal figures: the strong dollar meant cheap imports, and hence pressure on domestic industry even fiercer than the value statistics suggested. Measured in constant (1982) dollars, merchandise imports shot up in proportion to domestic output: from 18.8 percent in 1980 to 23.3 percent in 1984 (see table 8.2 above). The comparable ratio for exports declined from 18.0 to 14.8 percent. For manufactured goods, the changes were greater—from 19.7 to 29.2 percent for imports, and from 25.5 to 18.4 percent for exports (Destler and Henning 1989, 120–21).

The causes lay outside the trade policy arena, but the effects were felt within it. Exporters were frustrated; those competing with imports were up in arms. The second Reagan administration would reap the whirlwind. Trade issues had been rising in visibility through Reagan I, yet at its end Congress could pass a relatively unaggressive trade bill hardly mentioning Japan. Things changed rather quickly thereafter.

8.4 1985–89: The Second Five Years

8.4.1 Macro: Reaping the Whirlwind

Before moving to the events of 1985–89, let us recall our initial characterization of executive-congressional politics on trade. In essence, the picture

painted was one of a positive-sum political game: legislators got leeway to play issues so as to enhance their status as policy politicians; executive leaders, through adroitness in dealing with these legislators and in helping them manage trade-political pressures, retained the final word, the leeway on specific product decisions. And since they cared more about the final outcomes, this was a good deal for them too.

It was also a good deal for the United States, at least from the liberal-trade perspective. Executive leaders typically used their leeway to tilt policy toward trade expansion, toward barrier reduction, toward limiting concessions to protection-seeking claimants and balancing these with progress toward barrier reduction.

But to make such a system work, administration leaders had to be sensitive to the domestic forces at play. That is why Congress created, and regularly protected and strengthened, the office of the presidential trade representative, (U)STR. Imagine, then, a situation where the pressures on Capitol Hill multiply but the White House no longer seems interested in playing the game, no longer responds credibly to these pressures. This was what Congress confronted in early 1985. The result was a political explosion, a quick build-up of the drive that led ultimately to the first congressionally initiated piece of major trade legislation since Smoot-Hawley, the Omnibus Trade and Competitiveness Act of 1988.

When the 98th Congress adjourned in October 1984, the sense among trade specialists was that the legislative decks had been cleared, and the 99th Congress would turn its attention to other issues. But several things happened, in quick succession. First, the trade statistics for 1984 were released, and they showed a deficit of $107.6 billion—or $123.3 billion with imports measured cif (cost/insurance/freight), as Congress had mandated. The 12-digit outcome had long been foreshadowed by the monthly statistics, of course, but the final confirmation was still a jolt for those members who had not been watching closely and a spur and rationale for action for those who had been. Second, the Reagan administration announced in early March that it would not ask Japan to renew restraints on auto exports. Third, with congressional trade-outrage growing, particularly in the Senate, and with a key April 1 deadline approaching in telecommunications negotiations with Japan, the White House announced on March 20 that Trade Representative Brock, who seemed finally to have won intra-administration trade primacy, was being made Secretary of Labor. Nothing was said about his replacement. Finally, a few days later, Japan's Ministry of International Trade and Industry announced that it would continue voluntary auto restraints, but at a level 25 percent above that of 1984. This was seen as a rebuff by both the administration—which wanted no restraints—and most members of Congress, who saw the quota *increase* as egregious.

All this precipitated a virulent—if largely rhetorical—Capitol Hill reaction. Amidst bipartisan denunciation of the Japanese, the Senate passed by 92 to 0 a Danforth resolution calling for trade retaliation against Japan unless

U.S. exports expanded by enough to offset the expected increase in imports of Japanese cars. The House followed, 394–19, with a similar measure. None of this was binding: the Senate Finance Committee did endorse on April 4 a mandatory version of the Danforth resolution, but it did not move this to the floor.

The atmosphere had clearly changed. In July, three respected Democrats—Chairman Rostenkowski of House Ways and Means, future Chairman Lloyd Bentsen of Senate Finance, and rising Democrat Richard Gephardt—introduced the forerunner of the notorious "Gephardt amendment," a measure that would have imposed an import surcharge on countries running large trade surpluses with the United States. Like the March Senate resolution, this was intended to send a message, not make new law.[11]

The dollar had peaked in late February, but it remained very strong. Traded-goods producers saw a bad situation getting worse and got no solace from a White House spouting euphoria about how "America was back." Members of Congress responded to their pressure, blended with outrage about administration obliviousness signaled by the abandonment of auto quotas and the transfer of Brock.[12] Democrats, particularly in the House, saw potential for partisan advantage. Republicans got tough partly to limit this potential, partly because Reagan's election victory had freed them—and their business allies—from the need to mute attacks on the president's trade policies.

8.4.2 The Administration's Two-Track Response

Through most of the summer, the words from the administration remained the same. But beneath the surface there was movement. Reagan had a new Treasury Secretary, James Baker III, who had traded jobs with Donald Regan, now White House Chief of Staff. Baker and his deputy, Richard Darman, were quietly laying the groundwork for a major change in the administration's posture on the exchange rate. Nonintervention and benign neglect had been the rule under Regan and his Under Secretary for Monetary Affairs, Beryl Sprinkel. Consulting carefully with Fed Chairman Paul Volcker and Secretary of State George Shultz, Baker moved to make dollar decline a major, and visible, international economic policy goal of the United States.[13] At the Plaza Hotel on September 22, Baker and his G-5 colleagues declared themselves in favor of "further orderly appreciation of the major nondollar currencies against the dollar," and the central banks backed up this declaration by selling dollars in foreign exchange markets.

Baker moved on the dollar at his own initiative, never raising the issue explicitly for interagency or presidential review. During that same summer, however, he was presiding—in the administration's Economic Policy Council—over development of a more aggressive approach to trade policy. This was dramatized by a "fair trade" speech delivered by Ronald Reagan at the White House on September 23, announcing determination to pursue a range of unfair trade practice cases against Japan, Korea, Brazil, and the EC, and

creation of a "strike force" under Commerce Secretary Baldrige to uncover and attack practices that barred U.S. products from foreign markets.

The two-track strategy combined economic and political logic. Decline of the dollar would bring first the hope, then the reality, of improvement in the trade balance. Because of the *J*-curve effect, the impact on the nominal balance would be delayed, but the effect on the real balance—the volumes of exports and imports—would be greater than the dollar statistics showed. Since this real balance was so important for trade politics, the administration could expect better days—if it could hold off pressures in the meantime. It would do so through its new aggressiveness, including—to use the common, barbaric phrase—official "self-initiation" of unfair trade practice cases. It would also accelerate its campaign for a new, multilateral trade negotiating round. But it would resist the congressional push for trade legislation—at least until dollar decline could do its work.

It was hardly new for an administration to employ *export* bargaining as a means of diverting pressure to restrict *imports,* nor was it new for Congress to support such an effort. Indeed, the post-1985 administration approach had its roots in a long political tradition, dating from Cordell Hull and the Reciprocal Trade Agreements Act of 1934. But with the growing pressure and the deterioration in trade balances, it assumed new forms.

8.4.3 The Semiconductor Agreement

Among the "unfair trade" issues given new priority, none proved more important—or more complicated—than semiconductors. This product had been independently invented by two Americans in the late 1950s and had received a major early boost from official defense and space programs. U.S. firms—based particularly in California's Silicon Valley—had led through the 1970s as hundreds, then thousands of electronic functions were crowded onto the tiny chips that became indispensable for computers, telecommunications, and many other advanced industrial products.

But with government help and encouragement, Japan's integrated electronics firms began making major inroads, particularly with the mass-produced, standardized DRAMs. By 1983, the California-based Semiconductor Industry Association (SIA) was publishing a report entitled *The Effect of Government Targeting on World Semiconductor Competition: A Case History of Japanese Industrial Strategy and Its Costs for America.* This contrasted the rise in Japanese exports with the low and static share (around 11 percent) which U.S. producers had in the Japanese market.

In July 1985, its members hit by growing Japanese competition and a severe slump in overall demand, SIA filed a Section 301 case claiming that this import resistance, encouraged by past government action, was an "unreasonable" barrier to U.S. trade. In the months thereafter, antidumping cases were submitted by individual U.S. firms and by the Secretary of Commerce. There were conflicting interests within the U.S. industry, of course—major chip

users, like IBM, benefited from high-quality, low-cost Japanese inputs. Nonetheless, the industry case as a whole won atypically broad political support. Anxieties about U.S. technological leadership, from private industry to the Pentagon (U.S. Department of Defense 1987), made support of the industry's case far broader than would have been received by a "low-tech" industry of comparable size.

There followed a year of complex—and fractious—negotiations. These culminated in a unique "three-market" trade agreement. To halt dumping in the United States, the two governments adopted a system of minimum prices and reporting of sales by Japanese firms. There was also a somewhat looser system of price-monitoring in third-country markets that was aimed at protecting U.S. exports against dumping there. Last but certainly not least was a commitment to increase U.S.-based producers' share of the Japanese market, featuring a side letter from Japanese officials declaring, in the words of one U.S. negotiator, that "they understood, welcomed, and would make efforts to assist the U.S. companies in reaching their goal of a 20-percent market share within five years" (Prestowitz 1988, 65).

The arrangement had some political and economic logic. To act only against dumping in the U.S. market would mean higher-priced chips there than elsewhere, undercutting IBM and other producers of computers and other downstream products. Moreover, if the Japanese firms—NEC, Hitachi, Fujitsu, and so on—were able to restrict foreign access to their very large home market, it would be hard for U.S. firms to hold their own. Nor did these firms wish for a two-market agreement that would encourage low-priced Japanese sales in the rest of the world. The deal completed was responsive to all of these concerns. But it was also in contradiction to itself.

The minimum (nondumping) prices in the United States were based on each Japanese firm's cost of production, and they were periodically updated. This encouraged large production runs which brought down per-unit costs. But these led to oversupply and falling prices within Japan (the only market where the agreement did not set minimum prices). This undercut U.S. firms' sales there. It led also to a "gray market" in third countries, as chips were flown out of Japan in suitcases for low-price resale there. The obvious way to combat this was for Japan's Ministry of International Trade and Industry (MITI) to encourage the Japanese firms to limit production, but when the Japanese had suggested this during the negotiations, both SIA and the U.S. government had opposed it—SIA because of concerns of its user members about supply shortages, U.S. officials because it was contrary to free-market principles.

In any case, by the end of 1986 SIA was complaining that both the Japanese and third-country market provisions of the agreement were being violated. U.S. officials expressed growing concern to Tokyo, warning of retaliation. By early spring, MITI was pressing the Japanese firms to cut output—and this would soon drive the price up in Japan and take most of the profit out of the gray market. But before this could be effective, U.S. patience ran out. Pressed

by a Congress considering omnibus trade legislation, President Reagan announced in March 1987 that he would impose sanctions because of "Japan's inability to enforce" the agreement. In April, he imposed punitive (100%) tariffs against Japanese imports equivalent to the estimated sales lost to U.S. firms in the Japanese market and in third countries.

These produced shock and headlines in Tokyo: "sanctions against an ally," the first such U.S. action against Japan since World War II. Later that year, with the third-country dumping resolved, Reagan removed a portion of the penalties. But the major share, the sanctions aimed at loss of anticipated U.S. sales in Japan, continued through the decade. So did Japanese dominance in the DRAM market.

8.4.4 Bilateralism: The Free-Trade Agreement (FTA) with Canada

Over this same period, the United States was also negotiating a different sort of departure from trade multilateralism: a bilateral FTA eliminating most remaining barriers to trade with Canada. Members of Congress, frustrated with the slow-moving General Agreement on Tariffs and Trade (GATT) process, had shown growing interest in "alternative strategies" for opening foreign markets (Schott 1988, 11). Reagan's first trade representative, William Brock, was also interested in bilateral approaches as both an alternative and a prod—a threat to other U.S. trading partners that could help get multilateral talks moving. Hence the 1984 trade law included, in its title authorizing a free-trade pact with Israel, a rather cumbersome procedure by which the administration could negotiate an agreement "with any country other than Israel," subject to a veto by either of the major trade committees and ultimate approval under the fast-track procedures.

The main impetus, however, came from north of the border, where the new Conservative government reversed long-standing Canadian policy in 1985 and sought to negotiate a bilateral free-trade agreement with the United States. President Reagan agreed and gave Congress, in December, the required notification of his intention to proceed. And after a sharp debate in the Senate Committee on Finance, fueled by concern over softwood lumber trade and broader frustration with administration trade policy, a resolution of *disapproval,* which would have blocked the effort, failed by a 10–10 vote. After some appeasement of affected interests, negotiations proceeded—somewhat lethargically in 1986, then frantically in the summer of 1987 with the approach of the October 3, 1987, statutory deadline for notifying Congress of the basic substance of the agreement.[14]

The actual agreement was signed on 2 January 1988, but the President's implementing bill was not formally submitted until July. The reason was extensive Congressional participation in its drafting, following the precedent of the Trade Agreements Act of 1979, which implemented the Tokyo Round accords (Destler 1986, 62–67). In any case, Congress ended up approving the Canada agreement overwhelmingly—by 366–40 in the House and 83–9 in

the Senate. In Canada, however, final approval awaited the results of a national election fought mainly over whether that nation should take what was regarded as a historic step (Leyton-Brown 1990, 28–31). The agreement went into effect on 1 January 1989.

The U.S.-Canada FTA "eliminat[es] tariffs and most import and export measures . . . by the end of the 1990s" (Morici 1990, 1), after a 10-year phase-in period. Since Canada is the largest single U.S. trading partner, the agreement represents a significant new step in U.S. trade policy, one inconsistent—on its face—with the GATT most-favored nation principle. In practice, the inconsistency is modest and manageable for two reasons. First, a large amount of the trade between the two nations had flowed freely prior to the agreement. Second, some of its provisions—on dispute settlement and trade in services, for example—were "useful models for new GATT rules . . . in the Uruguay Round" (Schott 1988, 34).

8.4.5 Omnibus Legislation: Congress Seizes the Initiative

As both the semiconductor dispute and the Canada agreement were proceeding in early 1986, the House was acting on broader trade legislation. Speaker Thomas P. ("Tip") O'Neill had already, with some exaggeration, declared it "the number one issue . . . based on what I hear from members in the cloak room" (*Washington Post,* 19 September 1985). Among his colleagues were a number who saw an ideal partisan issue (toughness and jobs). Ways and Means leaders Rostenkowski and Gibbons were not among them, but given general party sentiment they needed to get moving lest jurisdiction be shifted elsewhere. By May the House had voted 295–115 in favor of an "omnibus" trade measure, which curbed presidential discretion in trade remedy cases, required retaliation when countries did not open their markets, and imposed quotas on countries running large bilateral surpluses with the United States (the Gephardt amendment). The White House denounced it as "ominous," "rankly political," "pure protectionism." The last it was not—in fact, it avoided direct imposition of trade barriers. But it revised trade relief statutes in ways that would have led indirectly to the same result.

The Republican-controlled Senate did not follow that year, mainly because the Finance Committee was preoccupied with tax reform. It was September before they could markup a trade bill, and with time short and the administration opposed, consensus proved impossible to achieve. That same month, U.S. Trade Representative Clayton Yeutter successfully headed a U.S. delegation that succeeded in winning agreement to begin the Uruguay Round. Hence administration strategy seemed successful: the dollar was still declining, and legislative action had been deferred while exchange rate change had time to do its work.

But the 1986 election brought Democrats back into control of the Senate. This meant that both Houses *would* move on trade in the 100th Congress. The reason was not party differences on substance: in the Senate, trade activism

was bipartisan. But the Republican Senate leadership of 1981–86 saw its job as helping the White House—other things being equal. Their Democratic successors were interested, other things again equal, in scoring points against the White House. Trade was an obvious issue opportunity, the most developed major issue available. So even as the election returns were coming in, Senator Robert Byrd (D–West Virginia), soon to be recrowned as Majority Leader, declared that omnibus trade legislation would have top priority.

8.4.6 The Omnibus Trade and Competitiveness Act of 1988

The House had to go first, however. Trade bills remained revenue measures, at least marginally, which the Constitution ordained that the House must originate. Tip O'Neill's successor, Jim Wright, was more than willing, and he organized and led a multicommittee hearing and markup process. The bill passed in 1986 was reintroduced as HR 3, and then parceled out for reworking to 11 House committees, with Ways and Means first among equals.

Seeing the handwriting on the wall, the administration now agreed that omnibus legislation would be useful. In particular, it needed, for the Uruguay Round, extension of fast-track negotiating authority, due to expire in January 1988. But though the administration presented, in late February, its own "competitiveness" legislation, the House moved ahead on the basis of HR 3. By April the leadership was merging the 11 separate committee proposals. Wright insisted on excluding product-specific measures: textiles would get a separate vote later, and an Energy and Commerce–reported measure to limit imports of high-quality digital tape recorders was excised from the omnibus legislation. The revised HR 3 passed the House, 290–137, on April 30, with 43 Republicans joining virtually all Democrats. Included along with standard trade policy measures—authorizing for the Uruguay Round, numerous toughenings of trade-remedy laws, strengthening of the authority of the U.S. Trade Representative (USTR), and so on—were provisions on exchange rates and Third World debt, worker retraining, relaxation of national security export controls, agricultural and broader export promotion, and math, science, and foreign language education. (The "omnibus" in the title was not without meaning.)

Included also was the Gephardt amendment requiring import barriers against countries with large bilateral trade surpluses if they did not reduce them. Unlike in 1986, Ways and Means had not included this in the provisions it had reported—part of a broader effort to produce a more moderate bill. This time, members knew they might actually be writing a law, and they tempered their actions accordingly. But Gephardt won inclusion of his amendment by a floor vote of 218–214. The victory helped his presidential campaign, while the narrow margin signaled the unlikelihood of the amendment's inclusion in final legislation.

Meanwhile, the Senate began its work, with new Finance Committee Chairman Lloyd Bentsen in the lead. By early May, his committee had re-

ported a bill with broad (19–1) bipartisan support, one which excluded the Gephardt amendment, but, among its many provisions, added new procedural conditions on "fast-track" authorization for the Uruguay Round, mandated retaliation against unfair foreign trade practices, and curbed presidential discretion in escape-clause cases. Majority Leader Byrd combined this with bills reported by eight other committees and brought it to the Senate floor in June. After a month of debate, it passed by 71 to 27. It included, in a floor amendment, what would, after conference reworking, become known as "Super-301"—a provision requiring the U.S. trade representative to name and target countries maintaining patterns of import barriers and unfair, market-distorting practices. It also included a requirement that companies with more than 100 employees give at least 60 days' notice before plant closings, and a ban on all imports from Toshiba Corporation and a Norwegian defense company, a provision also added on the floor after reports surfaced of their sales of important defense-related equipment to the Soviet Union. In general, this bill—like its House counterpart—was considerably less restrictive in its likely effects than the omnibus bill of 1986. Moreover, the House bill was more restrictive on some matters, the Senate on others, suggesting that the final result could prove more liberal than either.

Administration trade officials were considerably more engaged in the legislative process in 1987 than they had been in 1986—though they were certainly less influential at this stage than their counterparts of 1973–74, when the last major negotiations-authorizing bill was under consideration. And White House comments as the bills made their ways forward were certainly more moderate than the denunciations of 1986. Still, there was administration criticism of many specific provisions, and U.S. Trade Representative Yeutter and Treasury Secretary Baker urged Senate Republicans to vote against final passage in order to strengthen the prospects for change in conference.

Each house had passed a bill roughly 1,000 pages in length, with the details above giving just a flavor of some of the more important provisions. To reconcile the two, a 199-member conference committee was appointed—44 Senators and 155 Representatives. They were subdivided into 17 subconferences responsible for separated sections. Before any of them met, however, Black Monday (19 October 1987) precipitated a financial (and economic policy) crisis, and in the weeks that followed, leaders of the key committees were preoccupied with the White House–Congressional summit on the budget deficit. (The stock market plunge also made members wary of taking any quick trade action, fearing that it would be labeled "protectionist" and would contribute to deepening of the crisis.)

As 1988 began, Rostenkowski and Bentsen—chairs of the two key committees—signaled that they were seeking a bill that the president would sign. This meant compromise with the administration. The conference subgroup they led grew seriously engaged in February and March, with administration officials actively involved. Danforth said with only some exaggeration: "This is not a conference between the two houses. It's a conference between Con-

gress and the administration" (*Congressional Quarterly Almanac* 1988, 216). Virtually all *trade* policy issues were resolved by the end of March, with a rewritten version of Super-301 supplanting the Gephardt amendment, numerous specific authorities transferred from the president to the U.S. trade representative, but with executive flexibility maintained on the escape clause and the imposition of trade sanctions.

The final drama was supplied by the plant-closing provision. Following frenetic April negotiations with the administration—and with organized labor—the conferees retained the mandatory notification provision. This was strongly opposed by organized business and thought to ensure a presidential veto. Reagan did in fact veto the omnibus bill on May 24, after both houses had approved the conference report. He cited in particular both the plant-closing provision and a formerly obscure prohibition of certain oil exports from Alaska. However, the veto message did not even mention the major trade provisions of the bill.

The House voted to override the veto; the Senate fell five votes short. A new bill was prepared, identical except for the excision of plant-closings and Alaskan oil. To appease organized labor, a separate plant-closing bill was also introduced and scheduled for consideration in advance of omnibus trade. To Democrats' delight, the issue and the bill caught fire. The administration was put on the (antiworker) defensive, as both houses passed it by lopsided margins. To put an end to that issue, Reagan let that bill become law. In the meantime, the House and then the Senate were passing the slightly slimmer trade bill by large bipartisan majorities. On August 23, with Reagan's signature, it became Public Law 100–418, the Omnibus Trade and Competitiveness Act of 1988.

By this time, the trade imbalance had finally begun to improve. This fact made it easier to remove most of the bindingly restrictive provisions from the bill, though the fact the improvement was relatively modest and so long in coming reduced the improvement's positive political effect. By this time also, the Gephardt presidential campaign had come and gone: using a TV spot on Korean auto import restrictions to win the Iowa caucuses, but losing after this precipitated a backlash and—what is more important—his campaign ran short of money in the run-up to the "Super Tuesday" primaries in the South.

The trade bill was—finally—law. But the enormous legislative effort had brought only a modest reshaping of American trade law. It tilted the U.S. posture toward greater aggressiveness on exports, with Super-301 the most visible manifestation. It gave the executive—the USTR in particular—more deadlines to meet. It extended fast-track authority to cover the Uruguay Round negotiations. It contained countless other specific provisions. But even where it seemed to bind the executive, as on mandatory retaliation for "unjustifiable" foreign trade practices, a closer reading showed that the president and the U.S. trade representative had been left with some flexibility, some window of escape.

8.4.7 Textile Success—and Failure

Also under consideration throughout this period was the legislative proposal of that venerable protection claimant, the US textile industry. Throughout the postwar era, industry leaders had shown skill in pressuring both ends of Pennsylvania Avenue. Mill executives worked directly with Congress and the White House and through their American Textile Manufacturers Institute. They would win action commitments from presidential candidates of both political parties: John F. Kennedy in 1960, Richard Nixon and Hubert Humphrey in 1968, Ronald Reagan in 1980. They would show, on Capitol Hill, a capacity to block or threaten trade liberalizing legislation—from the Eisenhower administration in the late fifties to the Carter administration in the late seventies. Sometimes they would spring a "Hollings amendment" on the Senate floor—as in 1968 and 1978—and win on a lopsided record vote.

But they seemed to understand that Congress would not, in the end, enact a bill restricting textile imports. Product-specific legislation was outside the post-1934 rules of the game, and there were other ways that members could gain political credit for championing the industry's cause. So, working with the White House, legislative leaders would find ways to sidetrack quota legislation (Destler 1986, 27–28, 61–62). But if the industry could establish a de facto veto power over general trade legislation, especially measures to authorize international trade negotiations, leaders of both branches would respond by strengthening *negotiated* textile protection. Hence the Long-Term Arrangement on Cotton Textiles initiated by George Ball in 1961 cleared the way for the Trade Expansion Act of 1962, and the Multi-Fiber Arrangement (MFA) of 1973 secured industry acquiescence in the Trade Act of 1974. By blocking legislation needed to complete the Tokyo Round in 1978, moreover, industry leaders won a tightening of bilateral agreements with major East Asian exporters.

In the mid-1980s, the industry began by employing a similar strategy—using the Congress not for final action but to win concessions in the executive arena. Unlike in the 1970s, imports were now a really serious problem for the industry, particularly the apparel producers. After slow growth in the 1960s and 1970s, the import/consumption ratio for textiles and apparel rose from 12.1 percent in 1980 to 22 percent in 1986, and from 18.4 to 31.1 percent for apparel alone (Cline 1987, 49). The vehicle to mobilize pressure for a response was the Jenkins bill, whose formal objective was to impose statutory quotas on textile imports but whose aim was to toughen the U.S. position in negotiations for renewal of the MFA. In the broader climate of trade discontent, the bill gained nearly 300 House cosponsors, though on the actual House record vote about 30 backed off, so it passed by "only" 262 to 159.

After favorable Senate action and the expected Reagan veto in December 1985, the industry's House backers developed a new twist. Rather than following the standard practice of going for an override vote as soon as possible

after the bill was returned, they arranged for such a vote to be scheduled eight months later, when the MFA talks were to be concluded. This had the obvious benefit of keeping the heat on USTR negotiators, and once that did achieve a marginal stiffening of the U.S. position, the override effort failed, though this time 276 members went on record in support of the industry's cause. Moreover, since the textile legislation was considered ahead of the omnibus legislation, the industry retained, through 1986, the possibility of once again using its power in the Congress to extract a price for enactment of the latter.

But in 1987–88 the industry overreached, and seemed to forget the formula for its success. Their appetites perhaps whetted by coming so close (at least formally) to statutory quotas, textile executives first moved to punish the Reagan administration by backing Democrats in the textile states in the 1986 midterm elections. In 1987, they continued to push their bill separately. In the House they had no choice: Speaker Jim Wright insisted on keeping product-specific measures out of the omnibus trade bill, offering the consolation prize of a clear House vote *after* the general bill had been passed. In the Senate, however, where industry leaders could have exploited the chamber's more open rules by seeking to attach their bill as a rider to the omnibus legislation, they did not do so, settling instead for a similar procedural deal.

The result for the industry was a series of hollow legislative victories. As promised, in July 1987 both Ways and Means and Finance reported the industry bill for floor action, without recommendation. The House passed it in September 1987; the Senate did not act until the following September, when it voted in favor of a version that Hollings had recast to add some appeal to farm-state senators. Rostenkowski, who opposed the bill throughout, wanted to go to conference, to delay, and perhaps to kill it. But he reluctantly deferred to the wishes of Democratic colleagues who wanted to force a Reagan veto so they could use the issue in the election campaign. So the House accepted the Senate bill, Reagan vetoed it, and the House failed by 11 votes to override.

Again, strong (slightly under two-thirds) majorities in both houses were able to go on record for textile protection, secure in the expectation the bill would fall. But because they held nothing else hostage, textile interests ended with the worst of both worlds: their bill died and the omnibus bill became law without a textile quid pro quo. In contrast to earlier periods, textile leaders made the mistake, apparently, of thinking they could actually get Congress to *legislate* specific barriers to trade. As a result, they got no additional protection in 1987–88, the first time in three decades that the industry had failed to exploit an omnibus trade bill effectively.

8.4.8 The Bush Epilogue

The Bush administration entered office with the task of implementing the new Omnibus Trade and Competitiveness Act of 1988. U.S. Trade Representative Carla Hills found she not only had to energize the Uruguay Round—scheduled to conclude in 1990—but to decide, by the end of May 1989,

whether to name specific countries as general trade offenders under Super-301. Her response was, for the most part, an adroit balancing. Taiwan and Korea were encouraged to make substantial trade concessions to *avoid* Super-301 designation. Japan was named a "priority foreign country"—along with Brazil and India—but in a way that mainly targeted export issues the United States was pushing anyway. Broader Japanese import resistance was considered in a separate negotiation—the Structural Impediments Initiative—which focused also, at least in form, on the trade-related structural problems of the U.S. economy.

On steel, Bush had to decide whether to negotiate an extension of export restraint agreements, a decision foreshadowed by a Pennsylvania campaign promise that he would do so. But in the execution of that promise he tilted to the liberal side, easing the bite of the restrictions and promising to phase them out by 1992.

But if he was proving antiprotectionist on micro issues, his macroeconomic approach seemed destined to make things worse. For his "no new taxes" pledge precipitated a further retreat from budgetary responsibility in both branches. That, plus the 1988–89 resurgence of the dollar, made it likely that the trade deficit would persist, and perhaps rise again, in the early nineties.

8.5 Conclusions

How did United States trade policy fare during the 1980s? This paper comes to three basic conclusions. Congressional trade activism multiplied. U.S. trade protection increased marginally. And trade protection imposed directly by Congress increased hardly at all. The first of these is beyond dispute. The other two points deserve some elaboration.

The increase in American trade protection came mainly in the first five years and largely in the form of "voluntary" export restraints (VERs); this chapter treats the central episodes, involving automobiles and steel, in section 8.3. As shown in table 8.3, the use of the trade remedy procedures for import relief shows a similar pattern—up very sharply through 1985, beginning to recede thereafter. And finally, aggregate assessments of the coverage of U.S. nontariff barriers (NTBs) show a rise during this period.

Such assessments face daunting methodological problems: the standard measure, the proportion of a nation's trade affected by NTBs, has the perverse effect of weighting moderate barriers more heavily than severe ones: when Japan relaxes (increases) her beef import quotas, for example, she increases the share of her total imports subject to NTBs. Nonetheless, several sophisticated attempts have been made both at cross-national comparisons and for the United States alone.

Bela Balassa and Carol Balassa (1984, 187) found just 6.2 percent of U.S. manufactured imports subject to visible quantitative restrictions in 1980; in

1981–83, an additional 6.52 percent of U.S. imports came under such restraints.[15] Gary Clyde Hufbauer and his colleagues (1986, 21) calculated that "U.S. imports covered by special protection," including high tariffs as well as quantitative restraints, rose from 12 percent of total imports in 1980 to 21 percent in 1984. Other recent studies (Nogues, Olechowski, and Winters 1986; Laird and Yeats 1988, Stoeckel, Pearce, and Banks 1990) come to similar conclusions.

The Balassa and Hufbauer estimates seem, at first glance, to indicate very substantial increases in U.S. protection: more than a doubling by the first measure. But on closer examination, the increase is due almost entirely to a single—albeit important—trade policy action, the Japanese VER imposed in 1981 on auto exports to the U.S. market. Without the $29 billion in imports this covered in 1984, the Hufbauer measure would have remained at 12 percent, and the Balassas' measure of the increase in U.S. protection would have been under 1 percent.

The auto VER remained technically in force through the decade, but it had lost its bite by the late eighties. It had been enlarged by 24 percent, and the combination of the weaker dollar and increased production by Japanese firms on American soil made it increasingly difficult for the quotas to be filled.

All things considered, therefore, it seems fair to characterize as "marginal" the increase in U.S. protection during the eighties. More than marginal, perhaps, was the rise in U.S. aggressiveness in pressing for opening of others' export markets. But that was still within the long-standing U.S. tradition of pushing trade expansion as a political counterweight to the forces of import limitation.

Finally, what was the role of Congress during this period. Though it is sometimes labeled "protectionist," the thrust of the Omnibus Trade and Competitiveness Act of 1988 is to open foreign markets, not close American ones. In the development of that legislation, and on trade policy more generally, Congressional behavior seems to have been broadly consistent with the pattern depicted in section 8.2 of this paper. Legislators became publicly engaged. They went on record in all sorts of ways; they forced the administration into a more aggressive international bargaining posture. But they did not—in the end—change American trade policy more than very slightly along its most important dimension, the openness of the U.S. market to imports. And they did not themselves impose specific trade restraints on behalf of specific clients.

Had members sought above all to influence specific trade barriers through legislation, they would have responded differently, for the eighties offered an ideal opportunity. The trade imbalance grew to unheard-of proportions; executive leaders were discredited; anxiety about the Japanese—and other foreign economic rivals—was waxing, as was concern about American decline.

They did not do so. As policy politicians, they increased their *activity and visibility,* and their identification with broadly popular general postures of

trade toughness. They forced the administration's posture to change in that direction. But when they legislated, they did so in ways that muted their direct responsibility for consequences. They retained flexibility and avoided blame. And, as the decade ended, the trade policy buck continued to stop not on Capitol Hill, but at the White House and the USTR.

Notes

1. In 1980, U.S. trade in manufactured goods was $19 billion in surplus, having rebounded from a then-record deficit of $6 billion in 1978 (U.S. Council of Economic Advisers 1983, 280).
2. For an elaboration of this argument, see my comments elsewhere (Lawrence and Schultze 1990, 207–14).
3. One result was the U.S.-Japan Semiconductor Trade Agreement of 1986. This became a textbook illustration of how what seemed logical, even necessary, politically proved contradictory economically, as certain provisions of the agreement undercut others and contributed importantly to Japan's "failure to implement" that agreement and the U.S. imposition of sanctions in the spring of 1987.
4. This view resembles, in some respects, that set forth by Pastor (1983).
5. For examples, see Shepsle and Weingast (1984), Shepsle and Weingast (1987), and McCubbins and Schwartz (1984). All are sophisticated in their treatment of congressional motivation, and the "fire alarm" concept of legislative oversight is certainly applicable to trade policymaking. But all assume that the goal of legislator's policy-related activity is *impact on policy outcomes*, on what government actually does.
6. Since the Tokyo Round negotiations of the 1970s, the key element in such delegation is that Congress is committed to act expeditiously, without amendment, on legislation proposed by the president to implement an agreement specifically authorized by Congress. This led to expeditious approval of the Tokyo Round agreements in 1979 and of the bilateral free-trade agreements with Israel and Canada in the 1980s. "Fast-track" authority was also included for the Uruguay Round in the 1988 legislation.
7. Weaver (1988, chap. 2) finds this a powerful explanation of a set of congressional decisions which, by definition, *reduce* legislators' direct power over policy outcomes. See also the work of Morris Fiorina.
8. In this case, the administration emulated the Congress in avoiding direct responsibility—unlike on textile or steel voluntary export restraints, there was no bilateral auto agreement. In form, the Japanese acted on their own.
9. For example, when the Meese-created Cabinet Council on Commerce and Trade held its first meeting under Baldrige's chairmanship, the chairmen of both Ways and Means and Finance reportedly telephoned President Reagan and told him that this was illegal, since Congress had established, by statute, a Cabinet-level Trade Policy Committee chaired by USTR and assigned it overall coordination authority.
10. The key provision, as with all authorizations of trade negotiations since the Tokyo Round, was that Congress would act on the results under the expedited ("fast-track") approval procedures noted earlier in this paper. As discussed later, this title also provided the statutory basis for later negotiation of a free-trade agreement with Canada.
11. When I objected in a telephone conversation to the virulence of the Danforth

resolution that March, an aide to a senior Senate *Republican* responded: "You don't understand. The target isn't the Japanese; it's the White House!" By November, however, Danforth was introducing an omnibus, bipartisan bill with 33 Senate cosponsors, which *was* seen as a basis for actual legislation.

12. It took more than three months for Brock's successor, Clayton Yeutter, to be nominated by the president and confirmed by the Senate. And in a final blow to Danforth, Reagan rejected that August a USITC recommendation that the shoe industry—important in Missouri—receive import relief under the escape clause. The Senator nonetheless refused that fall to vote for *statutory* shoe import quotas when they were added to the textile bill.

13. On how Baker and Darman prepared the way, see Funabashi (1988, chap. 3). On why they stressed the exchange rate rather than the underlying problem of the budget deficit, see Destler and Henning (1989, 43–44).

14. The fast-track authority expired on 3 January 1988, and the president had to notify Congress 90 days *before* signing an agreement. The authority was renewed for the Uruguay Round—and possible new bilateral accords—in the omnibus legislation of 1988.

15. The Balassas avoided the above methodological problem for the *change* in NTB coverage by measuring the share of *1980* trade for the products brought under NTB coverage in 1981–83.

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Comment Anne O. Krueger

I. M. Destler has provided an interesting and penetrating account of U.S. trade policy-making in the 1980s. There are many insights both into the politics of trade (e.g., the USTR's position vis-à-vis Congress and the administration, and the relationships of the two Houses of Congress to the administration) that will further economists' understanding of the trade policy process and the economics of trade (e.g., the importance of the fiscal deficit and the behavior of the real exchange rate in influencing trade policy), which are constraints on political behavior.

Destler's essential hypothesis has three parts. First, he maintains that members of Congress are more concerned with appearing to be against protection than they are with outcomes. Second, he believes that there was an enormous increase in political pressures on Congress for activism in the 1980s. Third, he concludes that despite those pressures, because of the first proposition there was little departure from the traditional American free-trade position.

The actual formation of trade policy has long been a subject of puzzlement to economists and political scientists alike. To economists, at least historically, the question was, Why, when free trade was obviously so superior on welfare grounds, did governments adopt such protectionist policies? For political scientists, the question has been, Why, when there are such powerful pressures for protection, is there not more of it?

Destler's answer to these questions, given in his three propositions enumerated above, provides one possible answer. There are, however, alternatives. In these comments, I wish to outline one such alternative, in the process commenting on a few of Destler's observations and subthemes. As a starting point, however, I must note that Destler's explanation does not presume full

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rationality of all actors: in particular he believes that those pressuring for protection (including lobbyists who lobby Congress) are content with measures seen to be protectionist, rather than with securing protectionist outcomes. In that regard, he views Congress as appealing to the attitudes of voters (or of others to whom Congressmen are responsive) who in turn are somewhat irrational.

If it is accepted that there is *some* irrationality in the political-economic system, then one set of hypotheses about the determinants of protection would center on the loci of such irrationalities. An alternative to Destler's hypothesis would be that individuals (including politicians, lobbyists, and voters) do not fully understand the economic considerations affecting individual industries and that protectionist measures that are adopted fail (to some degree) in their purpose because market pressures mitigate them.

In this light, one can adopt a demand-and-supply framework. There is a "demand for protection," which is presumably a function of voter concerns, lobbyist pressures, and other considerations. Simultaneously, there is a "supply of protection," which is a function of the economic and political costs of providing protection. The demand for protection is higher the less well informed voters are about economic policy, the less economic knowledge supports a free-trade stance, and the larger the negative net trade balance in individual economic activities. The supply of protection is greater the smaller the negative impact on other producers (and hence greater for consumer goods than producer goods and greater for activities in which domestic firms do not have overseas operations from which they supply part of the domestic market) and the smaller the negative side effects (such as foreign policy considerations) of protection.

In this framework, the 1980s experience could be interpreted differently. Clearly, the demand for protection increased. It increased because negative net trade balances emerged and/or increased for a large number of economic activities. It increased because the economics profession was willing to give more credence to considerations of "strategic protection" than it had earlier, thus undermining the professional consensus that had stood as a partial barrier to protectionist measures.

However, the supply of protection shifted leftward: a given protectionist measure had higher economic and political costs in the 1980s, because of lowered transport and communications costs, and increased interdependence which in turn implied an increasing share of trade in producers' goods and an increasing fraction of supplies from overseas affiliates.

This same reduction in the "natural barriers" to trade would, in the absence of offsetting increases in "artificial barriers," have resulted in an even greater expansion in trade flows than in fact occurred.

The demand-supply framework as outlined here is consistent with any outcome. I would argue that pressures for protection did increase—based largely

on the economic discomfort resulting from other factors, and that pressures did result in a change in the system. Destler argues that measures such as automobile VERs, steel protection, the semiconductor agreement, and the U.S.–Canada Free Trade Area were only "marginal" changes.

However, one can readily argue that there was a *qualitative* change in the 1980s that tended to undermine the open multilateral trading system.[1] First, there is a question as to how much protection is required before the system is no longer regarded as open. To the extent that American industries can now conclude that they will be eligible for protection when their output and employment diminishes sharply, that is a major change in perception which will affect much more than those few industries thus far protected. Incidentally, Destler's own numbers indicate that, although sales of American-made automobiles fell by 2.7 million in the 1978–80 period, the decline in the total sales volume was 2.3 million. It is interesting that he nonetheless regards the difficulties of the American automobile industry as trade impacted.

Second, the U.S.–Canadian Free Trade Agreement is a clear departure from the commitment to multilateralism. To be sure, there are a number of reasons, including a common border and the preexisting volume of trade, while that agreement alone might be consistent with an open-trading stance. However, given policy statements by the USTR and the administration regarding the possibility of other free-trade agreements (even before Mexico), there was certainly an erosion of the American commitment to an open, multilateral system, both because of FTAs and because of bilateral negotiations concerning Super-301 status, VERs, and other issues.

Third, and perhaps most important, the momentum toward an increasingly open international trading system that characterized world trade at least from 1945 until the mid-1970s was certainly lost during the 1980s. The earlier momentum had derived, at least in good measure, from the U.S. hegemonic commitment to free trade as part of its foreign policy interests. As Destler's own analysis indicates, American trade policy by the 1980s had shifted from being an instrument of foreign policy to being an instrument of domestic economic policy. As such, the American adoption of bilateral bargaining and other measures eroded the international system more than similar behavior by a smaller trading country would have done.

Why then did increased protection not reduce trade flows? The answer I would provide is that reduced transport costs, lowered costs of communications, and the nature of technical progress more generally (especially in shifting the composition of output toward lighter weight, more easily transportable

[1] Destler argues that there were no major "trade events" during the first Reagan administration. An alternative view would be that the failure of the GATT Ministerial Meeting in the fall of 1982 was a major event shaping the Reagan administration's attitude toward the multilateral system, and that failure to launch a new round of trade negotiations at that meeting was the disaster of the 1980s.

commodities and services) would have increased the share of trade in goods and services in world GNP even more than in fact happened had protectionist measures not increased.

It may be noted that this tentative answer does not assume—as Destler's analysis does implicitly—that lobbyists are irrational in seeking protection (although it would be difficult to argue with the proposition that they may overrate its potential effects, especially in light of lower-cost transport, etc.). It is quite possible that American imports (and, of course, exports) would have been greater, with the same size of the trade and current account deficits, had there been no additional protectionist measures.

However, it is also probable that the increased costs of protection that result from increased interdependence has increased resistance to protectionist measures. To the extent that is the case, there is certainly hope that political pressures for protection may have peaked, and that the 1990s may witness moves toward a more open trading system.