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1 The Changing Nature of U.S. Trade Policy since World War II

Robert E. Baldwin

1.1 Introduction

Future economic historians will undoubtedly stress trade liberalization as the most distinctive feature of U.S. commercial policy over the past fifty years. As table 1.1 indicates, through a series of thirty bilateral agreements and eight multilateral negotiations, tariffs have been steadily cut to only about 20 percent of their 1930 average level.[1] The increased use in recent years of nontariff protective measures modifies this liberalization picture somewhat, but the trend in protection over the period has clearly been downward.

Although tariff reduction has been the dominant theme of U.S. trade policy since the early 1930s, important changes have taken place in the nature and extent of U.S. support for this trade liberalization. A consideration of these developments is helpful not only to better understand American international economic policy over the period but also to predict possible significant shifts in future U.S. trade policy. To further these objectives, this paper focuses on five closely related trends in or features of U.S. trade policy since the end of World War II. They are: (1) the shift from the use of trade policy in the immediate postwar period as a means of promoting broad international political and national security goals of the United States to its greater use in recent years as a means of advancing national economic objectives and responding to domestic political pressures based on particular economic interests; (2) the continuing efforts by Congress over the period to modify the trade powers of the president to make U.S. international commercial policy more responsive to its wishes; (3) the changes in the positions of the Republican and

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Table 1.1 **Duty Reductions since 1934 under the U.S. Trade Agreements Program**

GATT Conference	Proportion of Dutiable Imports Subjected to Reductions	Average Cut in Reduced Tariffs	Average Cut in All Duties	Remaining Duties as a Proportion of 1930 Tariffs[a]
1. Pre-GATT, 1934–47	63.9%	44.0%	33.2%	66.8%
2. First Round, Geneva, 1947	53.6	35.0	21.1	52.7
3. Second Round, Annecy, 1949	5.6	35.1	1.9	51.7
4. Third Round, Torquay, 1950–51	11.7	26.0	3.0	50.1
5. Fourth Round, Geneva, 1955–56	16.0	15.6	3.5	48.9
6. Dillon Round, Geneva, 1961–62	20.0	12.0	2.4	47.7
7. Kennedy Round, Geneva, 1964–67	79.2	45.5	36.0	30.5
8. Tokyo Round, 1974–79	n.a.	n.a.	29.6	21.2

SOURCE: Real Phillipe Lavergne, The Political Economy of U.S. Tariffs, Ph.D. thesis, University of Toronto, 1981.

[a]These percentages do not take account of the effects of either structural changes in trade or inflation on the average tariff level.

Democratic parties concerning the desirability of trade liberalization versus increased protectionism; (4) the shifts in the attitudes of business, labor, and the farm sector toward the liberalization versus protectionism issue; and (5) the increased use of nontariff measures to regulate international trade at the same time that tariffs were being significantly reduced.

Underlying the different shifts in postwar U.S. trade policy outlined above are three more basic economic and political influences that help explain why these changes occurred and the manner in which they affected the U.S. commitment toward a liberal trade policy. They are, first—and most important—the emergence and subsequent decline of the United States as a hegemonic power; second, the persistent pressure exerted over the entire period by a politically significant group of domestic industries (whose composition changed somewhat over time) against trade liberalization and in favor of increased import protection for themselves; and, third, the efforts by Congress to reduce the greatly increased powers granted the president during the economic emergency of the 1930s and the military emergency of World War II.

1.2 U.S. Leadership in Establishing a Liberal International Trading Regime

Well before the end of World War II, the foreign policy leaders of the Democratic party had concluded that the lack of an open world economy during the 1930s was a major contributory cause of the war[2] and that the United States must, therefore, take the lead after the end of hostilities in establishing an open international trading system to make "the economic foundations of peace . . . as secure as the political foundations."[3] Thus, even before the war had ended, the Roosevelt administration had not only drafted a proposal for a multilateral trade organization but had also requested substantial, new, tariff-reducing powers from Congress.

1.2.1 The Basis of Democratic Support for a Liberal International Regime

A desire on the part of political leaders for a new international regime is quite different from actually bringing about such a change, especially when—as in this case—there is a lack of strong direct pressures for the change from either the country's electorate or other governments. One factor that helped the Democratic leadership gain the support of members of their own party for the adoption of a liberal international economic order was the compatibility of such a regime with the trade policy position that the party had long supported. Since the late nineteenth century, the Democrats had associated high tariffs with monopoly profits for the rich and low tariffs with low prices for goods consumed by the average citizen.[4] Furthermore, they maintained that low U.S. tariffs

encouraged low foreign tariffs and thus indirectly stimulated increases in U.S. exports, especially agricultural goods. This latter argument was crucial in obtaining passage of the Trade Agreements Act of 1934.[5] The gradual recovery during the 1930s in employment and exports as the trade agreements program was implemented served to reinforce this ideological commitment of Democrats to liberal trade policies. Consequently, the greater emphasis in the postwar period by the party leadership on the foreign policy merits of a liberal trade policy, in addition to its domestic benefits, represented an extension of the party's recent position that was not difficult for most Democrats to accept. It was also consistent with the stance adopted by the Wilson administration at the end of World War I. Thus, over 80 percent of the Democrats voting in the House of Representatives supported the party's position on extending the trade agreements program during the 1940s and 1950s.

The fact that implementing an open international trading system did not involve any significant new increase in the powers of the president also was important in gaining domestic support for the regime change. As a consequence of what almost all regarded as the excessive use of logrolling during the enactment of the Smoot-Hawley Tariff of 1930, coupled with the sense of crisis created by the depression that followed shortly thereafter, the Congress in 1934 gave the president the authority to lower U.S. tariffs by up to 50 percent in negotiations with other countries in return for reciprocal cuts in their import duties. Consequently, the 1945 request for another 50 percent duty-cutting power to enable the United States to take a leadership role in international trade liberalization did not entail any basic changes in existing presidential powers.

The most important reason, however, for the success of the Democratic leadership in first gaining and then maintaining support for the U.S. leadership role in creating a liberal international economic regime was the hegemonic trade and payments position that the United States assumed in the immediate postwar period.[6] The United States emerged from World War II with its economic base greatly expanded, while the economic structures of both its enemies and industrial allies were in ruins. Except for Great Britain's position at the outset of the Industrial Revolution, economic dominance of this extent is unique in the history of the industrial nations. Even as late as 1952, the U.S. share of total exports of the ten most important industrial countries was 35 percent whereas it had been only 26 and 28 percent in 1938 and 1928, respectively (see Baldwin 1958). The 1952 U.S. export share of manufactures was also 35 percent in contrast to only 21 percent in both 1938 and 1928. Furthermore, there was an export surplus in every major industrial group (e.g., machinery, vehicles, chemicals, textiles, and miscellaneous manufactures) except metals. These abnormally favorable export opportunities, together with the vigorous postwar domestic economic recovery, served both to mask

protectionist pressures from industries whose underlying comparative cost position was deteriorating and to build support for liberal trade policies on the part of those sectors whose international competitive position was strong.

The ability of government leaders to obtain domestic support for trade liberalization was further enhanced by the emergence of the cold war in the late 1940s. The public generally accepted the government view that the communist countries represented a serious economic and political threat to the United States, its allies, and the rest of the market-oriented economic world. The argument that the United States should mount a vigorous program to offset the communist threat by providing not only military aid to friendly nations but also assistance in the form of economic grants and lower U.S. tariffs, therefore, also received public support.

There was still considerable opposition to trade liberalization in the immediate postwar period, however. As in the 1930s, a long list of industries testified during the 1940s and 1950s against giving the president the power to cut duties on imports competing with domestically produced goods. The products covered included textiles and apparel, coal, petroleum, watches, bicycles, pottery and tiles, toys, cutlery, ball bearings, glass, cheese, lead and zinc, copper, leather, and umbrellas. The decision in this period not to apply a liberal trade policy to agriculture significantly weakened the sectoral opposition to liberalization and established a precedent that has been used several times since to offset protectionist opposition.

Pressures to halt further tariff cutting were also strengthened by the opposition of many Republicans to liberalization on doctrinaire grounds. The Republican advocacy for protectionism on the grounds that this policy promoted domestic economic development and high living standards had an even longer tradition than the Democratic position in favor of liberalization.

From the outset of the trade agreements program, the Roosevelt administration assured Congress that no duty cuts would be made that seriously injured any domestic industry. However, in 1945 the administration recognized the possibility that such injury might occur by agreeing to include in all future trade agreements an escape clause permitting the modification or withdrawal of tariff reductions if increased imports resulting from such a concession caused or threatened to cause serious injury to an industry.[7] Furthermore, under prodding from Republican members of Congress, President Truman in 1947 issued an executive order establishing formal procedures for escape clause actions whereby the International Trade Commission (ITC) would advise the president whether such a modification was warranted.

The strength of the early opposition to across-the-board liberalization is further illustrated by the history of the peril point provision that

directed the president to submit to the ITC a list of all articles being considered for tariff negotiations and required the commission to determine the limits to which each duty could be reduced without causing or threatening serious injury to import-competing domestic industries. This provision was introduced in the 1948 extension of the trade agreements program when both houses of Congress were controlled by the Republicans. It was repealed in 1949 when the Democrats regained control of the Congress but was then reintroduced in the 1951 extension act, even though the Democrats possessed a majority in both the House and the Senate. The escape clause was also made an explicit part of the law at that time.

These developments indicate that the U.S. trade policy commitment at the beginning of the postwar period was to a policy of liberal trade rather than to a policy of free trade. It was recognized at the outset that protection of particular industries would be permitted if these sectors would otherwise be seriously injured by increased imports. Furthermore, as indicated by the provisions of the charter for an International Trade Organization (ITO) and the General Agreement on Tariffs and Trade (GATT), the commercial policy section of the ITO, pertaining to such practices as dumping and export subsidization, the United States as well as the other major trading nations condemned so-called unfair trade.

The failure of the U.S. Congress to ratify the ITO or even to approve the GATT as an executive agreement is another indication of the early concerns of domestic political interests for import-sensitive U.S. industries.[8] Among other concerns, Congress was fearful that establishing a strong international organization to deal with trade matters would lead to the destruction of many U.S. industries as a result of increased imports. Numerous members of Congress and some of the groups they represented were also concerned about the increase in presidential power that the approval of such an organization might involve. They believed that the division of political powers among the legislative, executive, and judicial branches of government had shifted excessively in favor of the executive branch as a result of the unusual problems created by the depression and World War II and were, consequently, reluctant to extend new authority to the president, especially in an area specifically reserved for Congress under the Constitution.

1.2.2 Gaining International Support for a Liberal Regime

As previously noted, the implementation of the change from an inward-looking to an open international trading regime required the support of other countries as well as of the U.S. electorate. The hegemonic model is the major explanation put forth by political scientists to account for this support.[9] The reasoning behind this model is as follows.

An open international trading (and payments) system has elements of a public good. For example, adopting a mercantilistic viewpoint, if one country reduces its tariffs under the most-favored-nation principle, other countries benefit from the improved export opportunities this action creates even if they do not make reciprocal duty cuts themselves. Consequently, any individual country has an incentive not to reduce its duties and to hope that it will benefit from the cuts made by other nations. This "free rider" problem may well result in the failure to secure a balanced, multilateral set of duty reductions even though they would benefit all participants. As Olson (1965) and other writers on collective goods have pointed out, it is less likely that the public good will be underproduced from a social viewpoint if one member of the concerned group is very large compared to the others. The dominant member is so large that the costs to it of free rides by other members tend to be small compared to its gains. Furthermore, the large member may be able to use its power to force smaller members to practice reciprocity. Thus, proponents of the hegemonic theory of regime change point to both the dominant trading position of Great Britain in the nineteenth century and the United States in the immediate post–World War II period to account for the creation of open world trading regimes in these periods.

More specifically, in the immediate postwar period the United States was willing and able to bear most of the costs of establishing a liberal international economic order. The other major industrial countries were plagued by balance-of-payments problems, and they rationed their meager supplies of dollars to maximize their reconstruction efforts. Consequently, the tariff concessions they made in the early multilateral negotiations were not very meaningful in terms of increasing U.S. exports. U.S. negotiators were fully aware of this point, and they also offered greater tariff concessions than they received, even on the basis of the usual measures of reciprocity (see Meyer 1978, p. 138). In effect, the United States redistributed to other countries part of the economic surplus reaped from its usually favorable export opportunities to enable those countries to support the establishment of an open trading regime.

While the hegemonic model has considerable appeal, it should be noted that just as U.S. domestic support for an open trading system was qualified in several ways (e.g., no industry should be seriously injured by duty cuts), so too was the support of other countries. For example, the British insisted upon a provision in the GATT permitting the use of quantitative restrictions to safeguard a country's balance-of-payments position. Furthermore, they were successful in preventing the complete elimination of imperial preferences and in excluding customs unions and free-trade areas from the nondiscriminatory provisions of the GATT. Other illustrations of the limited support of GATT signatories for free

trade are the provisions permitting preferential government purchasing policies, allowing (at the insistence of the United States) quantitative restrictions on primary products, and imposing almost no restraints on domestic subsidies.

1.3 Shifts in Domestic Support for Liberalization

The shifts in traditional party positions on trade policy that became evident in 1951, when the Democrats voted in favor of the peril point provision and the escape clause, and when a surprisingly large proportion of Senate Republicans supported the administration's earlier efforts to establish a liberal world trading system, continued over the next thirty years. They were the consequence of basic reassessments of attitudes toward liberalization versus import protection by the various economic groups making up the two major political parties. Congress also continued to restrict the president's ability to refuse to provide protection to industries judged by the ITC to be seriously injured by increased imports. At the same time, however, Congress granted significant new duty-cutting powers to the president.

1.3.1 Political Parties and Income Groups

When the Republicans gained both the presidency and control of Congress in 1952, some Republicans expected a return to traditional protectionist policies. However, President Eisenhower and his main advisors within the administration and in Congress believed—like earlier Democratic administrations—that trade liberalization was an important foreign policy instrument for strengthening the "free world" against communism. As became apparent with the issuance of the report of a commission established in 1953 by the president to study foreign trade (the Randall Report), Republican business leaders—especially those in large corporations—also had concluded that a liberal trading order was desirable from their own economic viewpoint. Thus, after a standoff period in 1953 and 1954 during which protectionist-oriented Republicans in the House blocked any further tariff cutting, the liberalization trend was renewed in 1955 when, with the help of a Democratic Congress, President Eisenhower succeeded in obtaining a further 15 percent duty-cutting authority. In 1958 he was granted an additional 20 percent tariff-reducing authority.

Just as more and more Republicans came to accept the desirability of a liberal trade policy as a general principle, more and more Democrats began to press for exceptions to this principle. In the late 1940s, the industries requesting import protection tended to be relatively small and not very influential politically. However, by the mid-1950s the politically powerful cotton textile, coal, and domestic petroleum industries, whose

employees tended to vote Democratic, were asking for protection. In 1955, the Eisenhower administration, as part of its efforts to obtain the support of the Democrats for its liberalization efforts, pressured the Japanese into voluntarily restricting their exports of cotton textiles to the United States. This did not fully satisfy the textile interests, however, and in 1962 President Kennedy agreed to negotiate an international agreement permitting quantitative import restrictions on cotton textiles as part of his efforts to gain the support of Southern Democrats from textile areas for the Trade Expansion Act of 1962.[10]

The coal and oil industries succeeded in obtaining a national security clause in the 1955 trade act that permitted quantitative import restrictions if imports of a product threatened "to impair" the national security. Voluntary oil quotas were introduced on these grounds in 1958 and made mandatory in 1959.

The most significant change in the nature of the support for protectionism occurred in the late 1960s when the AFL-CIO abandoned its long-held belief in the desirability of a liberal trade policy and supported a general quota bill. Basically, the shift in labor's position was related to the rapid rise in import penetration ratios (and thus to the increase in competitive pressures) that occurred in many manufacturing sectors in the late 1960s. These included wool and man-made textiles and apparel, footwear, automobiles, steel, and electrical consumer goods, such as television sets, radios, and phonographs (see U.S. Congress, Committee on Ways and Means 1973). Workers also believed that large numbers of domestic jobs were being lost because of extensive direct investment abroad by U.S. manufacturing firms.

Still another reason for organized labor's change in view was its disappointment with the manner in which the Trade Adjustment Assistance (TAA) program under the Trade Expansion Act of 1962 had operated. The AFL-CIO had supported passage of this act in considerable part because its leaders believed that the extended unemployment benefits and retraining provisions of the TAA program would greatly ease not only any adverse employment effects of the Kennedy Round tariff cuts but also the job displacement effects of ongoing shifts in the structure of comparative advantage in the world economy. However, not a single decision providing adjustment assistance to workers was made under the program until November 1969. Congressional modifications in the administration's original proposal on adjustment assistance that were not fully appreciated by labor or the Democratic leadership produced this unfortunate effect. As a result of the program's disappointing performance, the AFL-CIO leadership became more and more disenchanted with a liberal trade policy, and in 1970 the organization testified in favor of protectionist legislation.

As would be expected, this change in organized labor's position was

reflected in the trade policy votes of Democratic members of Congress. In 1970 Wilbur Mills, the chairman of the Ways and Means Committee and long a strong supporter of liberal trade policies, yielded to the pressures of many of the members of his committee and sponsored a bill establishing import quotas for textiles and footwear and requiring the president to accept affirmative import relief decisions of the ITC if certain conditions relating to the extent of import increases were fulfilled. In the House of Representatives, 137 Democrats voted in favor of the bill in contrast to only 82 against it. Republicans, on the other hand, opposed the bill 82 to 78. Further protectionist features, such as quotas on fresh, chilled, or frozen meats, were added in the Senate Finance Committee, but when the various trade provisions reached the Senate floor as an add-on to a social security benefits bill, the threat of a filibuster by a small group of Democratic senators who strongly supported liberal trade policies forced recommittal of the trade features of the bill to the Finance Committee where they died.

The shift in the positions of the two parties was again demonstrated in the voting pattern on the Trade Act of 1974, which provided an additional 60 percent duty-cutting authority to the president. In the final House vote, 121 Democrats voted against the bill whereas 112 supported it. Republicans favored the bill 160 to 19. Part of the increased Republican support can be attributed to the significant surplus of agricultural exports that began to emerge in the early 1970s. The agricultural sector has become one of the most internationally competitive parts of the American economy, and most farmers, who tend to support Republicans as members of Congress, now press for trade liberalization as a means of reducing foreign trade barriers against their own export products. At the same time, however, because the international competitive position of certain large-scale industries, such as steel and automobiles, began to deteriorate (and continued to do so in the late 1970s and early 1980s), some Republican members of Congress who rely heavily upon the support of big business began to adopt a more selective approach to liberalization.

It is doubtful, however, if the Trade Act of 1974 would have been approved had not the president made certain concessions both to organized labor and to particular industries subject to considerable import pressure. The criteria for obtaining adjustment assistance were made much easier to meet labor's objections, and the multilateral arrangement on textiles was extended to cover textile and apparel products manufactured from man-made material and wool as well as cotton. In addition, the voluntary export restraints agreed upon in 1968 by Japanese and European steel producers were extended in the early 1970s. The shift to a flexible exchange rate system in 1971 was also an important factor enabling the president to obtain new powers to reduce trade barriers.

Although the pattern of congressional voting on trade policy measures in the early 1970s shows that Republicans favored and Democrats opposed liberalization, it is probably not correct to conclude that this represents a permanent shift in party positions. The fact that there was a Republican president at the time considerably influenced the nature of the voting by Republican and Democratic members of Congress. A more accurate description of what has happened is that liberalization versus protectionism is no longer a significant party position. The vote of an individual member of Congress on trade policy is now more influenced by economic conditions in his district or state and by the pressures on him by the president (if they are both in the same party) rather than by his party affiliation. Regression analyses of the voting patterns on the Trade Expansion Act of 1962 and the Trade Act of 1974 (Baldwin 1976, 1981) indicate that party affiliation was significant in 1962 but not in 1974.

1.3.2 Congressional Restraints on the President

From the outset of the trade agreements program, many members of Congress felt that the president was too willing to reduce tariffs in import-sensitive sectors and—along with the ITC—too reluctant to raise them for import-injured industries. Furthermore, they believed that the executive branch was not sufficiently "tough" in administering U.S. laws dealing with the fairness of international trading practices. Consequently, Congress frequently took the occasion of the program's renewal to introduce provisions designed to force the president and the ITC to comply more closely with these congressional views. Much of the pressure for these provisions came from import-sensitive domestic industries and labor groups. However, part of the readiness on the part of members of Congress to limit presidential authority on trade policy matters seemed to stem from a belief that Congress had given the president too much of its constitutional responsibility "to regulate commerce with foreign nations" and to levy import duties.

Restricting the power of the president by introducing the peril point provision and a formal escape clause provision in 1951 has already been mentioned. The peril point provision was eliminated in the Trade Expansion Act of 1962, but the ITC was still charged with making a judgment "as to the probable economic effect of modifications of duties." More important, at congressional insistence, the chairmanship of the interagency committee established to recommend tariff cuts to the president was shifted from the State Department (long regarded by Congress as being insufficiently sensitive to the import-injury problems of U.S. industry) to a new agency, the Office of the United States Trade Representative (USTR), which reports directly to the president.[11] The requirement of the 1974 law that an elaborate private advisory system be established has somewhat further restricted the degree of independence that the

president has in selecting items on which cuts are to be made and in determining the depth of those cuts. The creation and subsequent strengthening of congressional delegations to trade meetings and negotiations under the 1962 and 1974 laws have had the same effect. Since 1954 the president has also been specifically directed not to decrease duties on any article if he finds that doing so would threaten to impair the national security. Furthermore, in granting the president the authority in 1974 to permit duty-free imports from developing countries, Congress specifically excluded certain articles, such as watches and footwear, from preferential tariff treatment.

Congress first put pressure on the president to accept affirmative recommendations of the ITC on escape clause cases when this provision was introduced into law in 1951 by requiring the president to submit an explanatory report to Congress if these recommendations were rejected. Since this seemed to have little effect on the president, Congress included a provision in the 1958 renewal act that enabled the president's disapproval of any affirmative ITC finding to be overridden by means of a two-thirds vote of both the House and Senate. This was eased in 1962 to a majority of the authorized membership of both houses and then in 1974 to only a majority of members present and voting.[12]

Congress has also included numerous provisions in the trade laws passed since the end of World War II aimed at increasing the proportion of affirmative import-relief decisions on the part of the ITC. The most obvious way to accomplish this has been to change the criteria for granting increases in protection when an industry is threatened with or is actually being seriously injured by increased imports. For example, the Trade Agreements Extension Act of 1955 narrowed the definition of an industry and required an affirmative decision as long as increased imports contributed "substantially" toward causing serious injury. The 1962 trade act sharply reversed this move toward easier injury criteria as Congress apparently mistakenly believed that the new Trade Adjustment Assistance program would ease the pressures for import protection, but in 1974 the language was again changed to resemble closely what it had been in the 1955 law. Moreover, the requirement that the increased imports be related to a previously granted tariff concession was eliminated.

Less obvious ways that Congress used in trying to make the ITC more responsive to its views were utilizing its confirmation powers to try to ensure that commission members were sympathetic to its views and changing certain administrative arrangements relating to the agency. Beginning in the late 1960s, the chairman of the Senate Finance Committee, Senator Russell Long, and his committee colleagues began to argue forcefully that "it is to the Congress, not the Executive, that the Tariff Commission is expected to be responsive,"[13] and they began to be very

critical of nominees whose professional background was largely in the executive branch of the federal government. In the period between 1953 and 1967, five of the thirteen commissioners appointed had extensive employment experience in the executive branch and another two in the commission itself. However, between 1968 and 1980, none of the twelve newly appointed commissioners had either of these backgrounds. Instead, seven of the approved nominees had significant congressional experience, either as a member of Congress (one person) or as congressional staffers. In a further effort to weaken the influence of the president over the commission, Congress in 1974 removed all controls of the executive branch over the commission's budget and eliminated the power of the president to appoint the chairperson of the commission. This latter change was modified in 1977, but the president still cannot appoint either of his two most recent appointees as chairperson.

Similar steps were taken by Congress to try to ensure a stricter enforcement of U.S. trade laws relating to unfair foreign practices. For example, many members of Congress long felt that the Treasury Department was too lax in administering U.S. antidumping and countervailing duty legislation. One step designed to change this was to transfer in 1954 the determination of injury (but not the determination of dumping) from the Treasury Department to the ITC. Furthermore, under pressure from Congress, the president in 1980 transferred the authority to determine both dumping and subsidization from the Treasury to the Commerce Department—an agency that Congress believed would more closely carry out its intent in these areas. The 1974 change in the manner of administering U.S. legislation pertaining to unfair import practices (sec. 337 of the Tariff Act of 1930) is another illustration of the decline in presidential authority over trade matters. Prior to 1974 the ITC conducted the investigations into alleged violations of this law and then transmitted its findings to the president. If the President was satisfied that unfair import methods had been established, he could ban the importation of the relevant products. However, in 1974 Congress gave the ITC the authority to ban imports of the affected products or to issue a cease and desist order to the person practicing the violation. The only power remaining with the president under this law is his ability to set aside the actions of the ITC within sixty days "for policy reasons."

Perhaps the most significant reduction in the president's authority over trade policy concerns his ability to negotiate agreements with other countries covering nontariff measures. When Congress directed the president to seek such agreements under the Trade Act of 1974, it stipulated—unlike it has done with tariffs—that any agreements must be approved by a majority vote in both the House and Senate. This provision was extended in the Trade Agreements Act of 1979 and both gives Congress much greater control over the nature of any agreement and

increases its control over the pattern of tariff cuts undertaken by the president in a multilateral trade negotiation, since the tariff and nontariff concessions made by the participants are closely linked.

1.4 The Increasing Importance of Nontariff Trade-Distorting Measures

As the reduction in tariffs by the industrial countries continued during the 1950s and 1960s, greater attention began to be given to nontariff trade-distorting measures, not only because they became more obvious as tariff rates declined, but also because there seemed to be a trend toward their greater use. During the 1960s, the extension in the use of quantitative restrictions from primary product sectors, such as agriculture and petroleum, to manufacturing activities, such as cotton textiles and steel; the greater utilization of various export-rebate and import-deposit schemes to improve a country's balance-of-payments position; and the introduction of many new domestic subsidies aimed at stimulating growth in depressed areas, easing structural adjustments, and promoting high-technology industries, all served to direct attention to the fact that the benefits of tariff liberalization could be offset by nontariff trade barriers (NTBs).

As the above illustrations indicate, the increased use of NTBs, particularly beginning in the 1960s, stemmed both from the efforts of particular sectors to secure protection or special export assistance through these measures and from the concerns of governments with balance-of-payments problems and with various social and economic policy objectives. In the case of the United States, for example, the sharp increase in the lending and guaranteeing authorizations of the Export-Import Bank in the late 1960s and early 1970s and the approval of the Domestic International Sales Corporation (DISC) in 1971 represented efforts to increase the country's exports within the constraints of the then fixed exchange rate system. While the United States also followed other industrial nations during the 1960s in greatly expanding domestic programs directed at improving social and economic conditions for disadvantaged income groups and depressed sectors, most American programs had little direct or indirect effect on the pattern of trade. Such did not appear to be the case in a number of other industrial countries, however. Substantial financial assistance by other governments to specific industries and particular economic activities appeared to public and private officials in the United States to represent a serious threat to U.S. trade competitiveness and to the liberal international order in general. Consequently, widespread support began to develop for a new GATT-sponsored effort to provide more detailed NTB codes that would reduce the injurious effects

on others of such measures as a country's domestic subsidies or its rules pertaining to product standards.

U.S. officials did possess the authority to undertake negotiations on NTBs during the Kennedy Round of trade negotiations, and a GATT committee was established to deal with this subject. Agreement on an antidumping code was reached, as well as on eliminating a number of particular nontariff measures, such as the American selling price (ASP) system of customs valuation and European discriminatory road-use taxes. However, reaching agreement on tariff issues proved to be so difficult and time-consuming that negotiations in the nontariff field were not very extensive. Moreover, Congress felt that the president had exceeded his authority by trying to implement the new antidumping code as an executive agreement rather than submitting it to Congress for approval and therefore passed a law directing the ITC to ignore the new code when making its injury determinations. Congress also rejected the proposal to eliminate ASP.

In the markup sessions on the Trade Act of 1974, key members of the Senate were adamant about the necessity of submitting international agreements reached on nontariff matters to Congress for final approval, and, as noted earlier, such a requirement was included in the act. However, once this matter was settled, Congress fully supported the efforts of the president to negotiate new NTB codes in the Tokyo Round, and the set of codes eventually agreed upon was approved without difficulty by the Congress.

At the same time efforts were undertaken to negotiate new agreements that would mitigate the adverse effects of foreign NTBs. U.S. producers were pressuring government officials for stricter enforcement of existing U.S. "fair trade" legislation, such as the antidumping and countervailing laws, and were seeking import protection under these laws to a greater extent than in the past.[14] Furthermore, domestic producers were demanding the greater use of quantitative restrictions (as compared with import duties) as the means of protecting their industries against injurious import increases.

One factor accounting for the greater number of less-than-fair-value cases has been the difficulty of obtaining protection through the traditional provisions pertaining to injury caused by import competition. Despite the 1974 easing of the criteria for determining whether import relief should be granted, only forty-seven cases were decided by the ITC between 1975 and 1982, and in all but twenty-four of these a negative decision was reached. Furthermore, the president rejected import protection in all but ten of the twenty-four cases. The likelihood that the routine acceptance of affirmative ITC decisions would be interpreted by foreign governments as an abandonment of the postwar international

economic leadership role on the part of the United States appears to have made the president reluctant to accept more than a relatively small proportion of these decisions. Even the Congress has been hesitant on similar grounds to weaken the import-relief criteria much beyond what they were in the 1950s.

Providing protection to offset alleged unfair trade practices is much less likely to be interpreted as representing a basic shift in policy, either by other governments or domestic interests supporting a liberal trading order. Thus, within reasonable bounds a president can support efforts to achieve "fair trade" through measures that protect domestic producers while still being regarded as a proponent of liberal trade policies.

Not only has a better understanding of this point led domestic industries to utilize U.S. fair trade legislation more extensively in seeking import protection, but legislative and administrative changes relating to these laws have facilitated this shift. Congress, though diluting the president's power to reduce trade barriers and to set aside ITC decisions, has at the same time given him new authority to limit imports on fairness grounds. For example, the 1922 and 1930 tariff acts granted the president the authority to impose new or additional duties on imports or even to exclude imports from countries that impose unreasonable regulations on U.S. products or discriminate against U.S. commerce. The 1962 Trade Act further directs the president to take all appropriate and feasible steps to eliminate "unjustifiable" foreign import restrictions (including the imposition of duties and other import restrictions) and to suspend or withdraw previously granted concessions where other countries maintain trade restrictions that "substantially burden" U.S. commerce, engage in discriminating acts, or maintain unreasonable import restrictions. The Trade Act of 1974 restates these provisions and in section 301 also gives the president the authority to take similar actions in response to "subsidies (or other incentives having the effect of subsidies) on its [a foreign country's] exports . . . to the United States or to other foreign markets which have the effect of substantially reducing sales of the competitive United States product or products in the United States or in foreign markets" and "unjustifiable or unreasonable restrictions on access to supplies of food, raw materials, or manufactured or semimanufactured products which burden or restrict United States commerce." However, Congress could veto any actions taken by the president. In amending this provision, the 1979 Trade Act stressed the president's responsibility for enforcing U.S. rights under any trade agreement and simplified the list of foreign practices against which he is directed to take action. Interestingly, this act also eliminated the authority of Congress to nullify presidential actions taken under this provision by a majority vote of both houses within ninety days.

The extension of the definition of dumping in the Trade Act of 1974 to cover not only sales abroad at lower prices than charged at home but to include sales of substantial quantities at below cost over an extended period (even if domestic and foreign prices are the same) is another legislative change that encouraged the use of fair trade legislation to gain protection. Under this provision, the steel industry filed dumping charges in 1977 covering nearly $1 billion of steel imports from Japan, all the major European producers, and India. However, as Finger, Hall, and Nelson (1982) point out, cases of this magnitude in key sectors attract so much political opposition (both domestic and foreign) that they cannot be disposed of at a technical, bureaucratic level and consequently spill over into the political route for gaining import protection. In this instance, the domestic industry was successful in convincing President Carter that its claims were justified, and the so-called Trigger Price Mechanism for steel evolved as an alternative to pursuing the antidumping charges to the final stage.

A similar political solution was reached in 1982 when the steel industry filed charges that European steel producers were receiving extensive subsidies and therefore should be subject to countervailing duties. The possibility of countervailing duties had such significant economic and political implications that the governments of the parties involved did not wish the matter to be settled on technical grounds and sought a solution at the political level. Eventually the Europeans agreed to quantitative export limits on a wide range of steel products to the United States.

Other important sectors that have been protected in recent years by nontariff barriers are the footwear, television, and auto industries. Voluntary export restraints were negotiated by the president in the first two sectors after affirmative injury findings by the ITC. However, the ITC rejected the auto industry's petition for import relief. Nevertheless, the industry was successful in persuading the administration of the need for import controls, and the Japanese eventually agreed to restrict their sales of cars to the United States.

The increased use of nontariff trade-distorting measures obviously has weakened the liberal international trading regime, not simply because they represent a move toward protectionism, but because many of them have been applied in a discriminatory manner and are negotiated outside of the GATT framework. Some of the political decisions reached at the presidential level have also occurred without the opportunity for all interested parties to be heard, as would be the case if a technical route such as an import-injury petition before the ITC were being followed, or even if a political route at the congressional level were being pursued.

Several of the most important nontariff measures utilized by the U.S. government to restrain imports or promote exports are analyzed in

greater detail in other chapters of this volume. Their purpose is not only to explain more fully how these measures operate but also to appraise their effects on trade and economic welfare.

1.5 Declining U.S. Hegemony and the Liberal International Economic Order

The hegemonic model of regime change predicts openness in world trading arrangements when a hegemonic state is in its ascendancy and a shift toward a closed system as this nation declines in power and is not replaced by another dominant state. Although this theory is consistent with the early part of the postwar period, there is general agreement (Krasner 1976; Goldstein 1981; and Lipson 1982) that the model does not perform very well as an explanation of regime change for more recent years.

Most writers (e.g., Whitman 1975; Kindleberger 1981) date the decline in America as beginning in the 1960s. The decline in relative economic power is evident, for example, from the fact that the U.S. share of merchandise exports of the fifteen largest industrial countries fell from 25.2 percent in 1960 to 20.5 percent in 1970, and then to 18.3 percent in 1979.[15] The percentages for exports of manufactures for the same years are 22.8, 18.4, and 15.5. The U.S. share of the GNP of these countries was 57.1 percent in 1960, 50.2 percent in 1970, and only 38.1 percent in 1979. It became quite clear during the long and difficult Kennedy Round negotiations concerning the appropriate tariff-cutting rule to adopt that other industrial countries, especially the European Community, were no longer prepared to continue to accept the U.S. leadership role in a routine manner.[16] As the reduction in cold war tensions during the 1970s reduced the perceived need for U.S. military protection against the Soviet Union, the decline in American economic and political influence became even more evident.

Despite a shift in power from a situation where one country dominated the economic scene to one where there are now three major economic blocs (the United States, the European Community, and Japan), most observers agree that the trade and payments regime continues to be essentially an open and liberal one. As table 1.1 shows, the tariff cuts made in the 1960s and 1970s were actually much deeper than those made in the 1940s and 1950s. Furthermore, the new nontariff codes negotiated during the Tokyo Round, though often very general in their wording, do represent a significant accomplishment in providing the basis for preventing nontariff measures from undermining the liberalization benefits from the postwar tariff cuts. While the GATT ministerial meeting in November 1982 again demonstrated the inability of the United States to dominate international deliberations on trade policy issues, it did reconfirm

the continued commitment of the major industrial nations to a liberal international economic order. The increased use of nontariff trade-distorting measures described in the last section represents derogation from this order, but the trading regime still remains essentially an open one.

A consideration of either the economic theory of market behavior or the production of collective goods suggests that the failure of the hegemonic model to predict the continuation of an open system should not be surprising. A single firm that dominates a particular market is likely to stabilize the price of the product at a monopolistic level while still tolerating some price cutting by the smaller firms making up the rest of the industry. However, oligopolistic market theory suggests that the same result is likely if two or three large firms dominate an industry. Similarly, as Olson (1965) pointed out, the free-rider problem associated with collective action by an industry can be overcome if a small number of firms (as well as just one firm) produce a significant share of the industry's output. Thus, the continued support for a stable, open trading order as the distribution of power changed from an almost monopolistic situation to an oligopolistic one is quite consistent with market behavior theory.

The shift from a hegemonic position to one in which the country shares its previous economic and political power with a small number of other nations is, however, likely to alter the country's international behavior somewhat, just as the change in the status of a firm from a monopolist to an oligopolist is likely to change the firm's market behavior. In the U.S. case, the nature of the change has been to initiate trade negotiations mainly to achieve economic benefits for the country rather than to further general U.S. foreign policy and national security goals.[17] This shift in emphasis first became apparent in the Dillon and Kennedy Rounds of negotiations when government leaders stressed to the public the economic gains that would be achieved by lowering the European Community's tariff level and thereby reducing the trade diversion resulting from the formation of this customs union. The usual arguments about the need to strengthen the free world as a means of meeting the threat of communist expansion were also presented, but with less vigor than in the past.

Support for a multilateral trade negotiation based on the view that it was in the economic interests of the United States to participate in such a negotiation was even more evident in the Tokyo Round. In early 1973 President Nixon sent a generally worded bill to Congress that provided the president with the authority to modify tariffs as he thought appropriate and to conclude agreements with other nations on nontariff issues. Congress took the opportunity of a proposed negotiation to reshape the bill so that it dealt with many of its concerns about the nature of the international trading system. In doing so, it soon became apparent that business, labor, and agricultural interests were very fearful that the

increasing use of nontariff measures by other countries would significantly curtail U.S. export opportunities and lead to injurious increases in imports. Congress reacted in part by strengthening U.S. fair trade legislation, but its main response was to give the president detailed directions about negotiating new international codes aimed at reduced nontariff trade-distorting measures. In other words, both the Congress and the president agreed that strengthening the liberal international economic order was in the economic interests of the United States, quite aside from its political and national security implications.

As might be expected, the less altruistic behavior on the part of the United States in its international economic relations has resulted in an increased number of trade disputes between the United States and other countries.[18] Many who support a liberal trading order are concerned that these disputes will become so numerous and difficult to solve that the system will collapse with each of the major trading powers pursuing inward-looking trade policies. This is, of course, a possibility. However, most of the trading frictions do not arise because of disagreements on the principles involved in the commitment to an open trading system but on matters of interpretation within these principles. For example, as pointed out earlier, the key parties in the system have always agreed that it was proper to shield an industry from injurious increases in imports. Consequently, when the United States protects the auto and steel industries from import competition or the Europeans subsidize industries as a means of retaining their domestic market shares, this is not regarded by most countries as a departure from the basic liberal trading rules. Disagreements sometimes arise, however, over whether a country is going beyond the intent of the rules and engaging in what in effect are beggar-thy-neighbor policies. The settlement of major disputes at a high political level and the continuing efforts to improve the GATT dispute-settlement mechanism are a recognition by the major trading nations of the damage to the system that could occur from such disagreements.

Krasner (1976) argues in his amendment to the hegemonic model that the abandonment of the commitment to a liberal trading order on the part of the United States (or the other major trading nations) is likely to occur only when some major external crisis forces policy leaders to pursue a dramatic new policy initiative that they believe to be in their country's interests. However, it may be that the existing power-sharing arrangement between the United States, the European Community, and Japan reduces the likelihood of this outcome compared to the case of a declining hegemony in the midst of many smaller states. In this latter situation, the dominant power is tempted in a crisis to take advantage of its monopoly power over the terms of trade. But when power is shared, the recognition both that a country's market power is quite limited and that retaliation is likely to be swift and significant tends to discourage such adventurism. Of

greater concern than the possibility of a dramatic abandonment of the liberal international economic order is the likelihood of a continuing gradual erosion in the openness of international trade because of the inability of the major industrial powers to agree on international measures that take into account the economic interrelationships between trade policies and policies in the exchange rate, monetary, fiscal, and social areas.

Notes

1. If the effects of structural shifts in trade and of inflation on specific duties are included along with the negotiated tariff cuts, the average tariff on dutiable imports drops from a 1931 level of 53 percent to about 5 percent after completion of the Tokyo Round cuts.

2. Gardner (1980, p. 9) documents this point and describes the planning activities of the administration for the postwar period.

3. Statement by President Roosevelt to Congress on 26 March 1945.

4. Hull (1948, vol. 1, p. 81) and Dobson (1976, pp. 56–66) describe the traditional Democratic and Republican positions on trade policy.

5. See Wilkinson (1960, chaps. 1 and 5) for an elaboration of this point as well as a discussion of the subsequent postwar shift in emphasis toward foreign policy considerations.

6. Authors who developed this explanation for the postwar establishment of a liberal international economic order under U.S. leadership include Kindleberger (1973, 1981), Gilpin (1975), and Krasner (1976).

7. See Leddy and Norwood (1963) for a detailed discussion of the escape clause as well as the peril point provisions.

8. Diebold (1952) analyzes the reasons why the ITO failed to gain U.S. support.

9. See Lipson (1982) for a succinct statement and analysis of the hegemonic model.

10. For a description of the protectionist pressures from the cotton textile industry as well as the oil and coal industries during the 1950s and early 1960s, see Bauer, Pool, and Dexter (1963, chap. 25).

11. In response to complaints from Congress and the private sector concerning the lack of a unified U.S. trade policy strategy, President Reagan in the spring of 1983 proposed merging USTR and parts of the Commerce Department into a new Department of International Trade and Industry.

12. The June 1983 Supreme Court decision declaring the congressional veto to be unconstitutional presumably means that this provision will no longer apply.

13. Hearings before the Senate Committee on Finance, 23 June 1971. In these hearings, Senator Long explained the actions of the committee during the late 1960s on various presidential nominees to the commission.

14. Between 1955 and 1972, the average number of antidumping reports issued by the ITC averaged less than six per year, whereas this rate increased to thirteen between 1974 and 1979. Similarly, the number of countervailing duty investigations completed by the ITC between 1962 and 1973 was twelve, while the number rose to thirty-seven between 1974 and the end of 1978.

15. These and the following figures are from the Office of Foreign Economic Research, U.S. Department of Labor (1980, chap. 3).

16. This was due in part to the fact that the United States was no longer willing to provide the necessary compensation to these other countries to gain their acceptance of U.S. proposals.

17. Krasner (1979) also makes this point.

18. Cooper (1973) discusses the increase in trade disputes after the mid-1960s and the implications for foreign policy.

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Comment Richard N. Cooper

Robert Baldwin has given us a masterly summary of the evolution of postwar U.S. trade policy and the forces that have shaped it. I have little quarrel with what he has said. I can perhaps contribute more by making some general observations on trade policy, designed to complement and extend Baldwin's paper.

Liberal trade policy is a triumph of pure reason over common sense. Everyone who is not an economist thinks he knows that imports reduce

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profits and limit jobs. This view is even attributed, perhaps apocryphally, to President Abraham Lincoln. It is conceded that noncompeting products such as coffee and bananas increase consumer variety, and that competing products may lower prices. But in a work-oriented society based on the Protestant work ethic, jobs are more important than consumption. In any case, what good are lower prices if people have no income to spend?

Much trade is in the form of inputs into the industrial process, such as steel which goes into the production of automobiles and household appliances, and industrial buyers might be expected to press actively for lower tariffs on these inputs. To some extent they do, as is reflected in the escalation of tariffs by stage of processing. But this pressure for lower tariffs on industrial materials is inhibited by the business ethic, which is not to criticize or contradict other businessmen openly. Representatives of business often are extraordinarily quiet on issues of public policy that do not affect them visibly. Opposition takes the form of nonsupport.

Economists know that all this represents partial equilibrium thinking, and that in a general equilibrium framework imports need not reduce profits or eliminate jobs in the absence of special features, such as downwardly rigid factor prices. But the world of ordinary perception is a partial equilibrium world. General equilibrium is an intellectual construct imposed on the normal senses and comprehension of how things actually work.

Despite this, as Baldwin shows, we have had a major move toward more liberal trade over the past half century. Why is this so? It partly represents the strength of ideas over perception. Men of affairs have a vague recollection of learning in college that international trade is a good thing, at least in the long run. The details are forgotten, but the argument seemed compelling at the time and is not easily abandoned.

But the move toward liberal trade is mainly the result of history and of foreign policy. High tariffs are associated with the Great Depression of the 1930s, and indeed the Hawley-Smoot tariffs were a major contributing factor to the depression. Furthermore, the then secretary of state, Cordell Hull, thought that tariffs, and especially tariff discrimination, led to war. He worked single-mindedly to build a postwar system of low, nondiscriminatory tariffs.

This political motivation for liberal trade was reinforced by the necessity to rebuild Europe following World War II, a task which, it was early realized, could best be accomplished on a multilateral basis rather than by each nation acting on its own. Thus trade liberalization became a major feature of postwar foreign economic policy both within Europe and between the United States and Europe, and a major plank of overall foreign policy.

Congress has periodically objected to the dominance of foreign policy

considerations with respect to trade policy. In the early 1960s it insisted that negotiations on tariffs be removed from the Department of State and moved to a newly created special trade representative in the executive office of the president. More recently, we have seen strong congressional sentiment for creating a new Department of International Trade and Industry, on the model of Japan's Ministry of International Trade and Industry (MITI), to absorb the function of trade negotiations and give them a more clearly commercial orientation. But from a presidential perspective, an ultimate unity exists between national security and foreign economic policy because our principal allies are so heavily dependent on foreign trade for their economic well-being, and hence for their security. Maintenance of a liberal trade policy by the United States *is* national security policy in the broadest sense.

The Roosevelt administration during the Great Depression was able to begin the process of trade liberalization by introducing the notion of reciprocity: the reduction of U.S. import tariffs was necessary to persuade foreigners to reduce their import tariffs, and that in turn was necessary to stimulate U.S. exports, which in turn created jobs. Without reciprocity, trade liberalization almost certainly could not have occurred, despite the persistent argument by well-trained economists that even unilateral trade liberalization is good for the country undertaking it. Economists have introduced two qualifications to this argument for unilateral tariff reduction. The first concerns the terms of trade; if a country reduces its tariffs unilaterally, the resulting worsening of its own terms of trade may more than offset the efficiency gains resulting from the tariff reduction. Reciprocal tariff reductions could avoid this worsening of the terms of trade. (The argument in any case does not apply to a country so small that it cannot influence its terms of trade.) The second qualification concerns adjustment costs. A country that unilaterally reduces its tariffs may worsen its balance of payments and have to take demand-deflating corrective action to deal with it. Thus a cost is imposed on the country that unilaterally reduces its tariffs. Again, reciprocal reductions in tariffs can avoid this temporary deterioration in the balance of payments, or at least reduce it to a second-order effect.

But if we are realistic observers of the political scene, we economists must recognize that neither of these arguments were responsible for the success of reciprocity. Rather, the motivation was primarily mercantilistic. The public was persuaded that tariff reductions would increase exports at least as much as competitive imports, and this in turn would create profits and employment.

The advocates of liberal trade have managed to secure the semantic high ground in the debate. No one wants to be a "protectionist" these days. It is a bad word. (It was not always so. In the 1920s and even in the late 1940s some politicians were avowedly protectionists.) This is perhaps

one favorable consequence of years of teaching results that were complex to absorb in detail, but whose general flavor got through. As a result, those who favor protectionist policies must dress in the semantic clothing of liberal traders. They argue for "fair trade," and now especially they are pushing for true "reciprocity" in trading relationships, a phrase that has been associated for the last fifty years with the liberalization of trade, not with protectionism. But many draft pieces of legislation and other proposals that are dressed in the guise of innocuous terms or even terms with favorable connotations are protectionist underneath. Economists are remiss by not looking at these proposals in detail and by leaving the field to lawyers. Perhaps the current proposals for protectionist action can be beaten back one by one, each defeated on the dubiousness of its merits.

But in trade policy, as in other areas of life, the best defense is to take the offensive. Protectionist trade legislation is unlikely to be enacted if the United States is actively engaged in trade negotiations with other countries, or even in preparing for such negotiations. Liberal trade policy has been likened to a bicycle: one must continue to move forward to avoid falling over. The partial equilibrium perceptions will dominate policy unless the executive branch can stay in motion, keeping the foreign policy aspects of trade policy as well as the nation's economic interests in the forefront. This general wisdom does not automatically dictate the next policy moves, however, since tariff reductions have already proceeded very far. The next logical step in that direction would be free trade in industrial products. U.S. Trade Representative Brock's emphasis on liberalization of trade in services can be interpreted as a move to take the offensive. The same can be true of the current administration's initiatives in agriculture, although that is treacherous territory and could lead to a morass rather than to clear forward movement.

The liberal trading system is in peril at present (late 1982). High unemployment and a strong dollar, leading to a large trade deficit, both contribute to the strong protectionist pressures. Both are consequences of the tight monetary policy that was introduced to fight inflation. Paradoxically, the major casualty in this fight against inflation may be the liberal trading system—a possibility that did not enter the calculations either of monetarists or of central bankers.

Comment Alfred Reifman

Baldwin's paper on the changing nature of U.S. trade policy is an excellent and thoughtful appraisal. However, despite the well-advertised de-

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cline in U.S. hegemony, the United States remains the single most important economy in the world and the only country that can take a constructive initiative:

- The European Community is not a country, though it has some of the attributes of one. Despite the Treaty of Rome, important economic decisions require unanimity. This obviously is a brake on its potential leadership role.
- Japan ought to be a leader in world economic affairs since it has a large and persistent balance-of-payments surplus and a much higher rate of economic growth than the other industrial countries. But it shows no signs of moving to the head of the parade.
- In short, the United States must continue to lead, though it will need to elicit the cooperation of the European Community and Japan.

The reciprocity legislation in the Congress is in part an attempt to get the attention of Japan and the European Community on trade questions and not necessarily a retreat to protectionism.

As today's issues in international trade move from measures taken at the border (tariffs and quota restrictions) to domestic policies reflecting the increased role of government in the economy (industrial policy, state-owned enterprises, domestic subsidies, regulation of industry, etc.), the universal rules of GATT (nondiscrimination and reduced barriers at the border) become inapplicable or, if not, more difficult to apply. This, as much as the decline in U.S. hegemony, raises serious problems for GATT.

Baldwin notes that U.S. trade policy is shifting its objective from broad political and security goals to economic or mercantilist ones. This is certainly correct. But he does not ask how much of the shift is temporary because of (a) slow growth, (b) the stage of the business cycle, (c) the overvalued exchange rate, and (d) the growth of interdependence.

The economic profession can be credited for making liberal trade the basic objective of the U.S. bureaucracy in both Republican and Democratic administrations and making protectionism the deviant behavior.

Finally, the appointment of Cordell Hull as FDR's secretary of state was a lucky accident. Hull, a Southerner, firmly believed that free trade was good economics—a Southern tradition—and important for peace. Thus the reciprocal trade program became his prime interest over the other subjects a secretary of state normally has on the top of his agenda.

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