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# 4 The MFA Paradox: More Protection and More Trade?

J. Michael Finger and Ann Harrison

## 4.1 Introduction

The U.S. Constitution gives Congress the authority to regulate commerce with foreign nations. Yet, since the Smoot-Hawley Tariff of 1930, Congress has been reluctant to impose protection directly, choosing instead to delegate that authority to the executive branch. Yet Congress has never given the executive unlimited authority to regulate trade; instead, it has allowed the executive branch to take specific actions under well-defined circumstances.

Given Congress' preference for indirect protection, special interests seeking protection must either (1) nudge Congress to legislate conditions which would justify protection and/or (2) convince the executive that economic conditions satisfy previously legislated criteria for protection. Because administered protection often gives the executive considerable discretion, an industry seeking protection must not only convince the executive that the industry meets the criteria set by Congress but that the industry is also "deserving" of protection. The action of the executive is thus as much a political act as is passage by Congress of laws that establish administered protection.<sup>1</sup>

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1. We use the word "political" to describe a decision in which the deciding agent has the authority to determine the criteria by which the decision will be made. The U.S. Constitution gives Congress the authority to regulate foreign commerce but does not specify criteria that Congress must take into account in deciding if or to what degree foreign commerce will be regulated. Congress' decisions are therefore by our definition political decisions. In contrast, there are also "technical" decisions. A technical decision is one in which the criteria are exogenously specified: the deciding agent is charged only to decide if these criteria are met. Antidumping cases exemplify technical decisions. In such cases, detailed law and administrative regulations specify the relevant criteria and the executive has no discretion to put these criteria aside—its authority to take action (impose an antidumping order) is directly tied to its determination as to whether or not the specified criteria are met.

In the post–World War II era, the U.S. textile industry achieved a degree of protection unparalleled in the rest of the manufacturing sector. Its success is evident from the fact that it was the only industry for which the U.S. government negotiated a multilateral arrangement for quotas within the framework of the General Agreement on Tariffs and Trade (GATT). But the international arrangements that were negotiated did not establish limits on U.S. imports; those limits were imposed through administrative actions. The authority of the executive to take these actions rested on the legislation passed by the U.S. Congress, not on international agreements such as the Multi-Fiber Arrangement (MFA). Thus protection for the textile industry was administered protection, not directly legislated protection.

Our focus in this paper is on the administrative dimensions of protection. Our contention is that the game played within these administrative mechanisms was different from the game played in the high-level politics of protection. Those interests that opposed protection had a significant influence on which sectors within textiles and garments received protection, as well as on the degree of protection.

We emphasize the administrative dimension for two reasons: (1) the more visible conflict between nations over the international agreements to restrict textile and apparel trade have been extensively and skillfully studied, and (2) overlooking the administrative dimension of how protection was put in place leads one to overlook one of the most powerful actors in the story—the state itself. In determining the scope and magnitude of protection to U.S. textile and garment interests, the U.S. government was much more than a neutral intermediary. It was one of the most influential players in the game.

We begin our analysis with a review in section 4.2 of political economy models of protection. We go on to apply these models to analyze (1) how the textile and apparel industries won the creation of the MFA system of protection (sections 4.3 to 4.5) and (2) how, within this system, quotas were determined on individual products imported from different countries (sections 4.6 and 4.7). In the final section we evaluate the most important influences on protection in the textile and garment industries.

## **4.2 Political Economy Models of Protection**

Theoretical models on the political economy of protection (see, e.g., discussions by Baldwin 1985 and Treffer 1993) provide a useful starting point for our analysis.

### **4.2.1 Effective Organization**

Many theories emphasize that in a representative democracy, where there are costs to participation as well as information costs, those who gain most from protection will organize into political pressure groups. Success, in turn, will depend on the relative ability of different groups to overcome the free-

rider problem. Although only some voters or business groups provide resources to support lobbying, all the members of a particular sector are likely to gain. This suggests that—other factors constant—sectors with fewer numbers of workers and more concentrated production structures will lobby more effectively for protection. Activities with fewer and larger producing units and protected from entry by significant barriers to entry would be expected to be more effective in winning protection.

#### 4.2.2 Value of the Political Payoff

Other theories, such as the “adding machine” model formulated by Caves (1976), focus instead on the behavior of politicians who seek to maximize their election prospects. The adding machine model suggests that protection increases with the number of employees in an industry. Empirically, this suggests that protection rises with the number of voters who earn their living in the sector, that is, with the size of its workforce. The adding machine model and the special interest model described above imply opposite relations between the size of a sector’s workforce and its political influence.

Other theories bring out qualitative dimensions of the results of political action. Some focus on the likelihood that more disadvantaged sectors of the population are more likely to receive protection. Baldwin (1985) reviews what he describes as the “adjustment assistance” model and the “equity concern” model. In the first case, the government seeks to minimize short-run labor adjustment costs and protects sectors which are having the most difficulty adjusting. This suggests that low-growth sectors are more likely to be protected. In altruism or equity concern models, politicians want low-income workers (i.e., those with lower wage rates) to be protected from trade policy changes. Caves also suggests that protection is more likely in sectors with many, smaller plants. Another consideration that will condition the value to a politician of political action to protect a particular sector is the importance to the politician’s constituency of that sector. Action in favor of a sector that provides a large share of constituent jobs is more likely than action in favor of one that provides a smaller share.

The altruism models discussed above suggest that factors other than the immediate self-interest of the decision makers influence the degree of protection a sector will receive.<sup>2</sup> The following paragraphs summarize other models that likewise take into account influences other than the immediate economic interests of the sector in question.

#### 4.2.3 Power and Influence of the Exporting Countries

The relationship between the United States and the exporting country might also influence a decision to protect or not to protect a particular sector. (See,

2. These models are grouped as they are because they point to characteristics of the sector itself as determinants of the degree of protection a sector will receive.

e.g., Helleiner 1977 for a lengthier discussion of such considerations.) In the context of a bargaining framework, the United States is most likely to impose trade restraints on countries whose retaliation would be less costly to the United States. One implication is that the United States would be more likely to protect products where the majority of imports are received from small countries or countries that import little from the United States.<sup>3</sup> More general foreign policy considerations point to historically established relationships and the strategic interests of the United States, for example, the location of U.S. military bases.

The attraction of the U.S. government in recent years to policy instruments such as “Super 301” suggest that the perceived commercial fairness of the exporting countries might also be a determinant of which U.S. sectors are protected. For example, the perception that Japan has evaded its GATT responsibilities and has maintained high trade barriers in Japan is likely to lead to restrictive U.S. actions against Japanese exports, despite the fact that Japan is a large country and receives a large volume of U.S. exports.

On the other hand, equity concerns could apply as well, particularly if such concerns overlap with U.S. strategic interests. Special programs for U.S. allies, such as the Caribbean Basin Initiative, have been introduced to allow poorer countries access to the U.S. market that their bargaining power or strategic worth would not predict.

#### 4.2.4 Power of the State

With administered protection, the outcome on protection is likely to be different from a direct vote, special interest model. Congress creates administered protection mechanisms because these mechanisms insulate the state from special interests.<sup>4</sup> Particularly in the early years of administered protection, the executive enjoyed considerable discretion even when the criteria for protection were met. This discretionary authority allowed a considerable discrepancy between constituent pressures and the resulting protection. The Reciprocal Trade Agreements Act (RTAA) of 1934 was a particularly important change in the mechanics of protection. The discretion granted the executive in other mechanisms could frustrate constituent pressures for increased protection. The RTAA

3. The recent debate over extending China's textile quotas for export to the U.S. market provides an excellent illustration of the bargaining model. The U.S. government stated that it was only willing to grant China more generous quota levels in textiles and apparel in exchange for increased access to the Chinese market.

4. That the power to make individual decisions on protection rests with the state does not suggest that state enjoyed autocratic power. Administered protection mechanisms are created through a democratic process. They have been described by I. M. Destler as providing protection for Congress from constituents, but there is no suggestion in this that constituents were somehow duped. Administered protection could likewise be described as providing protection for constituents from constituents—from the prisoner's dilemma of any individual sector being better off with protection, but all being collectively worse off if all receive protection.

served not only to thwart industry-specific pressures for protection but to create momentum for reducing protection.

### 4.3 The 1930s: Protection

The Smoot-Hawley Tariff was passed in 1930. The reaction of other countries to the Smoot-Hawley Act, combined with the worldwide economic depression, made it politically impossible that Congress would vote additional protection. But there remained administrative mechanisms through which such action might be encouraged. Section 336 of the Smoot-Hawley Act provided one such avenue, the trade section of the National Industrial Recovery Act provided another. Passage in 1934 of the RTAA provided a means by which the president could negotiate down U.S. tariff rates, but its provisions could not be used to gain an increase in protection.

#### 4.3.1 The NIRA and Protection

One administrative avenue to protection was provided by the National Industrial Recovery Act (NIRA), passed in June 1933. This act provided for companies in an industry to negotiate and maintain, under government supervision, codes of fair competition. In addition to their provisions for maintaining product prices, the codes set up specific standards to improve labor conditions, specifically (1) setting an industry minimum wage, one substantially above the prevailing market rate, (2) limiting hours of work per week, and (3) improving working conditions. The NIRA code established in the textile industry included the elimination of child labor, defined as employment of persons under 16 years of age.

Section 3(e) of the NIRA recognized the necessity of preventing foreign competition from rendering these codes ineffective. Section 3(e) provided that the Tariff Commission, when directed by the president to do so, would investigate the conditions of competition resulting from increasing imports. If the commission found that imports were interfering with the operation of a code, the commission was to recommend to the president the import restraint—either a quota or an additional import fee—that would eliminate the effects of imports on operation of the code.

The NIRA had a short history: the U.S. Supreme Court decision in the *Schechter Poultry Case* of May 27, 1935, rendered it practically inoperative. After that date the Tariff Commission suspended work on all section 3(e) cases under way and never opened another case.<sup>5</sup>

The investigations the Tariff Commission undertook under section 3(e) of

5. When the *Schechter* case decision was returned, the Tariff Commission had under way section 3(e) investigations on horse and mule shoes and on bleached cotton cloth. The president had directed an investigation on cotton and linen netting, but the Tariff Commission had not begun to work on it.

**Table 4.1** Tariff Commission Investigations under Section 3(e) of the National Industrial Recovery Act, and Outcomes

Article	Policy Outcome
Wood-cased lead pencils	Affirmative. VER with Japan.
Quicksilver	The Tariff Commission found no section 3(e) grounds for relief.
Wool felt hat bodies	The Tariff Commission found no section 3(e) grounds for relief.
Matches	Affirmative. Congress imposed an additional excise tax on the type of matches imported.
Cotton chenille rugs	Affirmative. An import fee (in addition to existing customs duties) was imposed. Also, VER with Japan.
Hit-and-miss-rag rugs	Affirmative. VER with Japan.
Imitation oriental rugs	Affirmative. An import fee (in addition to existing customs duties) was imposed.
Other rugs	Affirmative. An import fee (in addition to existing customs duties) was imposed. Also, VER with Japan.
Red cedar shingles	Affirmative. VER with Canada.
Braided hat bodies in part of synthetic textile	The Tariff Commission found no section 3(e) grounds for relief.

Source: U.S. Tariff Commission, *Annual Report* (Washington, D.C.: Government Printing Office, 1933, 1934, 1935).

the NIRA are listed in table 4.1. Of the 10 completed investigations, seven led to import controls, including five voluntary export restraints (VERs). Of the five VERs, four were with Japan.

Each of the investigations involving Japan displayed two common characteristics: (1) there was large difference between the price of imports from Japan versus imports from other sources, and (2) Japan had quickly become the dominant supplier of imports of the article, often the dominant supplier of the article in the U.S. market. In the lead pencils case, for example, imports had been coming primarily from Germany and Czechoslovakia. In 1933, Japan became the main source, supplying 70 percent of U.S. imports. Japanese prices far undercut the other exporters: Japan, \$0.23 per gross; Germany, \$4 per gross; and Czechoslovakia, \$3 per gross (U.S. International Trade Commission [USITC] 1934, 42). The cotton chenille rugs investigation found that Japan's share of the U.S. market had gone from 12 percent of domestic consumption in 1931 to 80 percent by December 1933. From the beginning to the end of 1933, U.S. domestic production on a monthly basis fell by 85 percent (USITC 1934, 45).

Each of the cases involving Japanese exports ended with a VER. The four rugs cases displayed a pattern of outcome that would become standard for textile products: import duties to control imports from Europe, VERs to control imports from Japan. Of the four rugs investigations, for example, only the investigation of imitation oriental rugs did not lead to a VER, but this type of

rug was imported almost entirely from Europe: France, Belgium, and Italy (USITC 1934, 48).

Resolution of most of the NIRA section 3(e) complaints by negotiating VERs was not an unusual outcome.<sup>6</sup> Indeed, the Tariff Commission itself, in its 1934 *Annual Report* pointed out that negotiation of a VER was in the 1930s a common form of import relief (USITC 1934, 4).

#### 4.3.2 Section 336

Section 336 of the Smoot-Hawley Act established a mechanism for administrative adjustment of tariff rates. In a section 336 case, the U.S. Tariff Commission would conduct an investigation to determine the cost of producing a product in the United States and in exporting countries. Based on that information, the Tariff Commission would then recommend to the president the rate change that would “equalize competition,” that is, a tariff rate that would make the foreign cost plus the tariff equal to the domestic cost.

Section 336 allowed for applications for tariff reductions as well as for increases. As table 4.2 shows, one-third of requests for investigations were for investigations to support reductions of tariffs.<sup>7</sup> Investigations could begin in several ways: by the Tariff Commission’s own motion, by order of the president, by request of either house of Congress, or by request of an interested party.<sup>8</sup>

The Tariff Commission’s response to these requests reflects both the reluctance of the executive to increase U.S. tariff rates and the deference it paid to Congress on such matters. All of the 82 requests for “investigation” without specification whether the objective was an increase or a reduction of a tariff rate were requested by Senate resolution, and all of them led to initiation of investigations.<sup>9</sup> But of the requests for tariff increases, 85 percent were dismissed by the Tariff Commission without initiation of an investigation. The reluctance of the executive to increase protection is also reflected in the outcomes of the investigations that were undertaken. Almost half the time (as table 4.3 reports), the Tariff Commission recommended no change of the tariff. In all, the commission initiated section 336 investigations on 101 products, and only 29 of these led to tariff increases. An almost equal number, 25, produced a tariff reduction.

When the RTAA was passed in 1934, negotiations between the United States and exporting countries became an alternative means for reducing tariffs. A 1935 tabulation by the U.S. Tariff Commission lists over 400 reductions of the

6. One outcome of the investigation of red cedar shingles imported from Canada was that the Canadian industry adopted a code of fair practice similar to the one in place in the U.S. lumber industry. Restraint of exports to the United States became a part of that Canadian code.

7. Most of these were submitted by U.S. importers, but some were from foreign exporters.

8. The Tariff Commission had almost limitless discretion to determine whether a request from an interested party justified initiation of an investigation.

9. One investigation was by the Tariff Commission’s own motion, all others were by request of interested parties.



**Table 4.2 Applications for Section 336 Investigations, 1931–41**

Type of Application	Number <sup>a</sup>	Percentage of Total
Total applications received	357	100
Action requested		
Tariff increase	145	41
Tariff reduction	121	34
Investigation	82	23
Adjustment <sup>b</sup>	7	2
Shift to American selling price	2	<sup>c</sup>

Source: Tabulated from U.S. Tariff Commission, *Annual Report* (Washington, D.C.: Government Printing Office, 1931–41).

<sup>a</sup>Numbers given are the numbers of tariff lines covered by applications. The total number of applications received, strictly speaking was 297. The Tariff Commission *Annual Reports*, however, provide information on the nature of requests and outcomes only by tariff line.

<sup>b</sup>These requests were for shifts from specific to ad valorem rates, the reverse shift, or for changes in a compound rate that would move the ad valorem component in one direction and the specific component in the other.

<sup>c</sup>Less than 0.5 percent.

**Table 4.3 Outcomes of Section 336 Cases, 1931–41**

Product Category	Outcome <sup>a</sup>			Total	Percentage of All Cases
	Increase <sup>b</sup>	Decrease	No Change <sup>c</sup>		
Textiles	3	2	2	7	7
Apparel	3	1	1	5	5
Chemicals, oils, paints	0	2	4	6	6
Earths, earthenware, glassware	1	2	5	8	8
Metals, metal manufactures	7	2	7	16	16
Wood, wood manufactures	1	2	2	5	5
Sugar, molasses, manufactures thereof	0	2	0	2	2
Agricultural products	9	5	16	30	30
Miscellaneous manufactures	5	7	10	22	22
Total	29	25	47	101	100

Source: U.S. Tariff Commission, *Annual Report* (Washington, D.C.: Government Printing Office, 1931–41).

<sup>a</sup>Numbers of outcomes, by tariff line affected.

<sup>b</sup>Includes shifts to American selling price valuation on one agricultural product and on one item included in miscellaneous manufactures.

<sup>c</sup>In some of the investigations we have placed in this category, the Tariff Commission determined that the present tariff equalized foreign and domestic costs and the president issued a formal proclamation of no change. In others, the Tariff Commission determined that the domestic product and the imported product in question were not comparable, and hence that section 336 did not apply. In these instances there was no presidential proclamation. The tabulation reported here includes one change (on a chemical product) in which the ad valorem component was increased and the specific component reduced.

U.S. tariff through reciprocal negotiations. With the availability of this means for tariff reductions and the demonstrated reluctance of the executive to increase protection through section 336 actions, section 336 was used less and less. The Tariff Commission reports no applications for section 336 investigations after 1941.

#### 4.3.3 Use of These Mechanisms by the Textile and Apparel Industry

At the time the NIRA was struck down by the Supreme Court, the Tariff Commission was conducting a section 3(e) investigation on cotton cloth. This investigation was suspended but soon came back in another guise. The sequence of events that led to a voluntary restraint agreement was as follows:

March 1935: The Senate directed the Tariff Commission to investigate under section 336.

April 1935: The Tariff Commission investigation began.

October 1935: Negotiation of a VER began between the U.S. and Japanese governments. The U.S. State Department requested that the Tariff Commission delay submitting its report.

April 1936: Under industry pressure, the Tariff Commission sent its report to the president, recommending a tariff increase. The State Department recommended that the president delay action.

May 1936: The president proclaimed a tariff increase of 42 percent.

August 1936: Private direct negotiations replaced government-to-government negotiations.

January 1937: The Japanese cotton industry agreed to quotas for 1937 and 1938, later extended to cover 1939 and 1940.

The agreement struck between the U.S. and Japanese industries was quite detailed. Besides specifying export limits, the agreement specified how to measure exports and how to handle transshipment from third countries to the United States. The memorandum of understanding between the industries also established a joint committee of representatives from each country's industry; the function of the committee would be to deal with whatever administrative difficulties might arise and to act as a negotiating committee in establishing subsequent arrangements between the two industries with regard to future limitations or other means of control (Bauge 1987, 63).

The quotas were only 64 percent filled over the four years they were in effect. Bauge (1987, 66ff.) explains that the U.S. industry had been willing to accept a large quota to pin down the Japanese in the future. Also, in 1937, Japan declared war on China. The war took an increased share of Japanese output, and Japanese resources were allocated to other industries more directly supportive of the war.

Similar sequences of events led to VERs with Japan on cotton hosiery and on velveteen and corduroy. In the agreement on velveteen and corduroy, the U.S. industry agreed to refrain from requesting the Tariff Commission to pub-

lish and send to the president its report, provided the Japanese exports remained within the agreed quota.<sup>10</sup>

#### 4.3.4 Lessons from the 1930s

Although the U.S. textile industry during the 1930s was heavily protected, its protection was about average relative to other U.S. industries. The U.S. textile industry came into the decade with protection about equal to the average for all U.S. industries, and it was no more successful than other industries in the 1930s at gaining increased protection.

The administration of President Franklin Roosevelt initially assigned the tariff to a domestic policy role, but a secondary one: the tariff was to be used to defend the domestic economic policies set out in the NIRA and the Agricultural Adjustment Act (AAA). After passage of the RTAA, import protection became increasingly a foreign policy concern of the executive. One consequence was that the executive's interest shifted toward reductions, not increases, in the tariff. As trade policy became more a foreign policy concern, the executive turned increasingly to VERs when pressed to restrict imports. Negotiations were the traditional means of conducting foreign policy; hence it was only logical that the executive should increasingly use this means for limiting U.S. imports.

Both the tying of the tariff to specific domestic policies and its later use as a foreign policy tool demonstrates the power of the state to isolate trade policy from immediate constituent pressures. This is the primary lesson of the 1930s import policy experience.

#### 4.4 The 1950s: From Ordinary Protection to Exceptional Treatment

From 1950 to 1962, merchandise imports of textiles and apparel accounted for about 3 percent of U.S. consumption, declining from 6 percent at the end of the 1930s and 10 percent in the 1920s. In apparel, figure 4.1 (below) shows that imports took a smaller share of U.S. consumption than of other industrial goods. Clearly, high import volumes *on average* were not the primary determinant of protection in the industry. Yet increases in imports tended to be concentrated in specific product lines, which consolidated the opposition. Imports of cotton manufactures surged between 1939 and 1958, increasing from 3.4 percent of domestic production in 1939 to 22 percent in 1958. The import share of cotton goods continued to escalate after 1958, climbing to 36 percent. These import surges prompted inflammatory statements against Japanese exports and an occasional congressional bill to impose quotas or other sorts of limits (Bauge 1987, 95).

10. A detail of this agreement was that cotton velveteen or velvet ribbons would be excluded from the categories under restraint. This exclusion was not pressed for by the Japanese, but rather by a Tariff Commission determination that the U.S.-made and the imported variants of the products were not comparable and hence that section 336 provided no authority for a tariff increase.

#### 4.4.1 Congressional Politics of Trade Policy

There was little chance that such bills would gain approval. The lessons of the Smoot-Hawley Tariff were fresh in mind, and Congress was reluctant to encourage direct action. Congress had created several administrative routes to protection, discussed below. Through each of these, a specific administrative finding gave the president authority to restrict imports but left him with the discretionary authority not to do so. There was evolving the political system that I. M. Destler (1992) has called “protection for Congress,” in which a representative under pressure to protect imports could direct a constituent to the appropriate administrative mechanism.

Although the executive’s administration of these mechanisms was designed to provide minimal protection, such mechanisms sheltered Congress against the wrath of special interests who pressured members for import relief. The 1950s were generally prosperous times during which the United States enjoyed substantial trade surpluses. Pointing a protection-seeking industry into a maze of administrative procedures bought time. By the time the industry eventually emerged from the end of the maze without a prize, business had improved and it pressed its case no further. Besides, the system satisfied the American sense of fairness. It provided a place to complain where officials listened, investigated, and held hearings. One had one’s day in court. To complain further would be un-American, and maybe even pro-Communist, if the closing of the U.S. market tipped a country to the Soviet side in the Cold War.

GATT solidified the reciprocal trade agreements approach as the general approach to tariff setting, further minimizing the likelihood that Congress would return to direct tariff making. This further assured that the “ordinary” process of tariff making or a direct congressional vote of special protection would be difficult avenues to protection. There were, however, other mechanisms available.

#### 4.4.2 Presidential Politics of Trade Policy: Trade Policy as Foreign Policy

There was even less chance that a protectionist bill would avoid a presidential veto. While the Congress perceived trade policy as a means for helping local industry, the executive branch of the U.S. government saw trade policy as an important instrument of foreign policy.<sup>11</sup> The ideas that dominated executive branch thinking are revealed in the following two statements from Cordell Hull, the first secretary of state to President Franklin Roosevelt and the father of the RTAA:

11. The difference at the time between presidential and congressional trade politics is illustrated by the birth and death of the proposal to create the International Trade Organization (ITO). The proposal to create such an organization and the first draft of a charter came from the U.S. government, the executive branch. The ITO failed to be established in large part because the U.S. Congress refused to approve it.

I felt that all nations should be urged to make their chief rallying point the establishment of a state of world order under law, so as to maintain conditions of permanent peace. (Hull 1948, 173)

The other statement expresses in a more casual way the role trade could play in establishing peace:

When I was a boy on the farm in Tennessee, we had two neighbors—I'll call them Jenkins and Jones—who were enemies of each other. For many years there had been bad feelings between them—I don't know why—and when they met on the road or in town or at church, they stared at each other coldly and didn't speak.

Then one of Jenkins' mules went lame in the spring just when Jenkins needed him most for plowing. At the same time Jones ran short of corn for his hogs. Now it so happened that Jones was through with his own plowing and had a mule to spare, and Jenkins had a bin filled with corn. A friendly third party brought the two men together, and Jones let Jenkins use his mule in exchange for corn for the hogs.

As a result, it wasn't long before the two old enemies were the best of friends. A common-sense trade and ordinary neighborliness had made them aware of their economic need of each other and brought them peace. (Hull 1948, 364)

In addition to the Wilsonian idea of international rule of law and the populist idea that trading made good neighbors, the executive's instinct to trade policy was also conditioned by two decades of process, two decades in which the executive had been in an almost continuous negotiation with its trading partners over trade restrictions. Not just principle but conditioned reflex pushed the executive away from unilateral action on trade restrictions.

#### 4.4.3 Textile Industry Strategy

The textile industry's strategy was the obvious one: to maintain pressure on all political fronts and at the same time to use all administrative remedies available.

On the political front, through the 1950s the textile industry was active at public hearings concerning the U.S. government's intentions to cut tariffs. These included not only hearings on proposed negotiating authority but also the hearings the trade agreements required on the products on which it might negotiate tariff reductions, for example, "peril point" hearings. In 1955, the industry placed special focus on opposing the Eisenhower administration's trade bill that asked for the tariff-cutting authority that eventually allowed U.S. participation in the Dillon Round of GATT negotiations.

#### 4.4.4 Trade Remedies and VERs

The activity of the industry created considerable concern in Japan. The Japanese feared that the textile industry would either win special protection from the U.S. Congress or succeed in limiting the authority that Congress would grant the president to negotiate a general reduction of U.S. import restrictions.

In August 1955 the Textile Export Council of Japan established a committee of government and industry members to develop a solution for the situation in the United States. This committee sent a team to Washington where it met with U.S. industry officials. The U.S. industry team reported to the U.S. State Department that the Japanese were willing to negotiate a settlement, but the State Department replied that they would vigorously oppose quotas, even negotiated quotas. The U.S. industry, however, carried their case to the White House and President Eisenhower asked his chief of staff, Sherman Adams, to meet with the Japanese. As a result of these negotiations, the Japanese industry-government textile committee announced in December 1955 that they intended to restrict their 1956 exports to the United States of cotton cloth and of cotton blouses (Brandis 1982, 9).

The U.S. industry took steps to assure that these limits would be put in place but at the same time viewed the arrangement as inadequate. The arrangement covered too few products, and it covered only Japan. The industry also preferred a restraint system that did not depend on the Japanese government or industry for enforcement, that is, in which the U.S. administration would have the legal authority to enforce the limits at the U.S. border.

In this regard, the industry achieved an important victory when it won (in May 1956) the addition of section 204 to the Agriculture Act of 1956. Section 204 authorized the president to negotiate with foreign governments to limit the export to the United States of agricultural *or textile* products, and to carry out such an agreement by limiting the entry of such products into the United States. Several companies also petitioned the Tariff Commission for “escape clause” investigations.

But the industry was learning that creating the legal authority for the president to limit imports of textiles is one thing, inducing him to use that authority is another. While these administrative mechanisms provided additional tribunals to which the industry could present its case for protection, none of the petitions led directly to import relief. The behavior of the U.S. government and Japanese industry provides some insight into the politics of the matter.

Section 22, added to the AAA on August 24, 1935, authorizes the president to impose import fees or quotas to restrict imports of agricultural commodities *or the products thereof* if those imports render or tend to render ineffective or materially interfere with U.S. agricultural programs. The section, by design, was similar in scope and purpose to section 3(e) of the NIRA.<sup>12</sup>

12. According to Cordell Hull, President Franklin Roosevelt saw the AAA and the NIRA as the centerpieces of his economic policy and, derivatively, sections 22 and 3(e) as the centerpieces of his trade policy—at least of the economics of his trade policy. Thus Hull (1948, 353) writes:

The President, still pursuing the theory of retaining full discretionary authority to fix tariff rates at any height deemed necessary for the successful operation of the AAA and NIRA, was slow to embrace my liberal trade proposal. . . .

Gradually, however, the forces favoring high tariffs, together with a number of the President's economic advisors connected with the NIRA and AAA, increasingly urged him to abandon the idea of tariff reductions in order that our Government might, if necessary, impose restrictions on imports to enable NIRA and AAA to function successfully.

The first attempt by the textile industry to use section 22 occurred in 1939. President Roosevelt however directed the Tariff Commission to undertake *separate* investigations of raw cotton and of cotton textile products. Price support programs under the AAA had moved U.S. fiber prices above world prices and had attracted substantial foreign sales. At the same time, the domestic price of cotton being higher than the world price put textile manufacturers at a disadvantage vis-à-vis foreign manufacturers.

In 1939, within four weeks of the president's directive to the Tariff Commission, the commission had reported in the affirmative on cotton fiber, and the president ordered a tight quota on imports. But the commission delayed for more than two years its investigation of imports of cotton manufactures and eventually terminated the investigation when World War II disrupted foreign supply and revived domestic demand.

In 1955, the Eisenhower administration exploited the fact that there were no deadlines for the various steps in the section 22 process and left the matter tied up in the secretary of agriculture's preliminary investigation. Continued pressure however from the industry and its congressional delegation eventually won a meeting with the secretary of commerce plus the relevant assistant secretaries of state, commerce, and agriculture. In this meeting the government offered a three-point program: (1) urge third countries to import more from Japan; (2) impose a fee equalizing the internal and the world prices of cotton on all textile exports; and (3) exchange formal diplomatic notes with Japan, officially taking note of Japan's VERs.

The industry continued to press for legislative action and came within a 43–45 Senate vote of attaching to a foreign aid bill an amendment mandating textile import quotas.

All the while, government-to-government negotiations continued with Japan. These resulted, in January 1957, in the Japanese government announcing a comprehensive plan to control textile exports to the United States (Brandis 1982, 26).

Throughout the negotiations with Japan, the executive avoided the activation of section 22's authority to restrict imports. Though the textile industry had petitioned in 1955 for section 22 action, when the restraint agreement was concluded in 1957 the secretary of agriculture still had not completed his preliminary investigation. As in 1939, the administration was reluctant to take steps that would provide it explicit legal authority to restrict textile imports.<sup>13</sup>

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Hull's description of how he won President Franklin Roosevelt's support for the RTAA suggests that President Roosevelt saw its value entirely in its foreign policy dimensions: that he saw its economic dimensions as costs, not as benefits.

13. No restriction was the administration's preferred outcome, negotiated restrictions its fallback position. The following statement by Secretary of State John Foster Dulles is characteristic of the liberal, foreign policy view of trade policy that dominated administration thinking: "The United States does not have a single import quota on manufactured products, and to restrict trade at a time when the free world must depend on the expansion of trade for so much of its strength would

The Japanese industry and government seemed to share that concern. Bauge (1987, 129) points out that soon after the Tariff Commission initiated an investigation of injury from imports of a product, for example, cotton gingham, the Japanese government announced exports limits on the product. While the escape clause allowed the president discretion not to act even when the Tariff Commission returned an affirmative injury finding and recommended import relief, it did not give the president discretion to prevent a Tariff Commission investigation. An interested party could petition the commission directly, and the commission had no authority to turn down a valid petition.

#### 4.4.5 Hong Kong Holds Out

As the industry was convincing the executive to arrange a VER with Japan, Hong Kong was becoming a significant exporter. Hong Kong in 1961 supplied almost 35 percent of U.S. imports of cotton textiles in 1961, up from less than half of 1 percent in 1956. But Hong Kong proved more difficult than Japan to push into a voluntary agreement.<sup>14</sup> As a foreign policy matter, Hong Kong was important to the United States as a capitalist example and as a post for gathering information on China. And Hong Kong was a colony of the United Kingdom, thereby enjoying the benefits of the special relationship that existed in the post-World War II years between the United States and the United Kingdom.

Furthermore, Hong Kong had earlier agreed to limit its textile exports to the United Kingdom and had learned several hard lessons from that experience. With Hong Kong exports restrained, India's and Pakistan's exports to the United Kingdom began to grow. And as soon as Hong Kong had agreed to restraints on exports to the United Kingdom, France, Germany, and Switzerland had begun to press for similar restraints, including restraints on Hong Kong exports to France's colonies and former colonies in Africa. The United Kingdom had promised to support Hong Kong in resisting such expansion of the restraints to other countries but had not proved vigorous in doing so.

Furthermore, Hong Kong had fewer economic alternatives than Japan. Indeed, the Ministry of International Trade and Industry (MITI) at the time was counseling the Japanese textile industry to move from cotton textiles to synthetics. Hong Kong, on the other hand, had to find some way for a rapidly increasing population to earn a living, as continuing numbers crossed the border from China. Providing a job, particularly in the clothing industry, required minimal investment and demanded minimal skill.

There were pressures within Hong Kong that favored negotiation of export limits. Aggarwal (1985, 68ff.) points to the problem that small Hong Kong exporters were creating for larger companies. Just as Japan was seeing its sales

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severely weaken the United States and the free world" (Quoted by Bauge 1987, 128; from U.S. Department of State, *Department of State Bulletin* 31 no. 861 [December 26, 1955]: 105).

Dulles added that he would prefer to see domestic industry protected by voluntary action of the exporting nations.

14. The following discussion draws considerably from Aggarwal (1985).



of cotton manufactures displaced by Hong Kong sales, large Hong Kong manufacturers were aggressively courting buyers who came to Hong Kong. Aggarwal quotes the *Far Eastern Economic Review* calling for the Hong Kong government to step in to control exports to the United States unless the small manufacturers would “agree to temper their ambition” (Aggarwal 1985, 69).

A second factor that pushed toward Hong Kong accepting limits was a suggestion by President Eisenhower that the U.S. government would, as a quid pro quo, support U.S. private investment in Hong Kong.

Hong Kong, in December 1959, offered to limit for three years its exports of five categories of garments but asked for growth allowances of 10–15 percent and for provision to carry forward any quota not used in a year. The U.S. industry refused to accept, and imports from Hong Kong were not controlled until the Short Term Arrangement had been signed and the U.S. Congress had delegated to the president the power to enforce limits at the U.S. border.

#### 4.4.6 How the Executive Frustrated the Use of Trade Remedies

The industry attempted again in 1959 and in 1961 to use section 22. In June 1959 the National Cotton Council and the American Textile Manufacturers Institute (ATMI) filed with the secretary of agriculture a section 22 petition that asked for quotas on cotton textile and apparel imports. President Eisenhower took advantage of administrative regulations that had been issued by President Roosevelt in 1937.<sup>15</sup> He directed the Tariff Commission to investigate but severely limited the scope of the commission’s investigation. He directed the commission to investigate if it were necessary, in order to prevent cotton textile imports from interfering with the cotton export program, to impose a fee on imported cotton textiles equal to the amount of the subsidy on raw cotton exports (Brandis 1982, 14).

Thus, President Eisenhower’s directive to the Tariff Commission frustrated the industry’s petition. It eliminated quotas as a possible form of relief. More critically, it focused the investigation on how textile imports affected the cotton export program rather than the cotton price support program.

In June 1960, the commission ruled 4–2 that textile imports were not interfering with the cotton export program.

In 1961, after President Eisenhower had retired and John F. Kennedy was president, the industry filed a similar petition. It met the same fate. The Tariff Commission, proceeding within a presidential specification that was in sub-

15. The administrative regulations to implement section 22 provided for a preliminary investigation by the secretary of agriculture, who then makes his recommendations to the president. The president, in turn, would direct either that no further action be taken, or that the Tariff Commission make a full investigation. The regulations also provided that the secretary of agriculture would prescribe the manner in which requests for action under the section should be submitted by interested parties. Because the directive to the Tariff Commission would come from the president, and because the secretary of agriculture served at the pleasure of the president, the regulations gave to the president the authority to define the terms of the investigation.

stance the same as what President Eisenhower had delivered in the 1959 case, again ruled 4–2 that textile imports were not interfering with the cotton export program (Brandis 1982, 15).

At about the same time the ATMI asked for quotas on imports of cotton, synthetic fiber, silk, and wool products under the national security provisions of the Trade Agreements Act. The ATMI pressed the matter on occasion through the 1960s, but the executive took advantage of the absence of a time limit on such investigations and never announced a decision.

#### **4.5 The 1960s: Protection Made Multilateral**

The textile industry, by the beginning of the 1960s, felt that it was being squeezed between U.S. agricultural policy and U.S. foreign policy. The U.S. agricultural programs maintained fiber prices in the United States above world levels; to export at least a part of surplus production, the government paid a subsidy on exports. The export subsidy the U.S. government paid was particularly onerous since it gave foreign competitors access to U.S. cotton at a price below what the U.S. industry had to pay.

At the same time, the executive branch of the U.S. government viewed trade policy primarily as foreign policy. The executive resisted the industry's attempts to gain legislated restrictions, and it exploited loopholes in administered protection to frustrate the industry's attempts to use that protection. The executive worked not just to avoid using the authority these administrative mechanisms conferred to restrict textile imports, it worked to avoid that authority being conferred.

For the industry, the main lesson of the 1950s was that the executive, even when the legal authority to restrict textile imports was available, would be reluctant to do so. And though industry-to-industry contacts with the Japanese indicated a willingness on the part of Japan to restrain imports, the U.S. State Department appeared to the industry to be openly hostile to negotiating such restrictions. The industry's strategy thus became more directly a political one, a strategy that looked for opportunities to bring the power of the industry to bear on national elections.<sup>16</sup>

As to the mechanics of restricting imports, the strategy of the industry was still to press for import quotas.<sup>17</sup> Quotas were the preferred instrument because the industry concluded that they had little chance in the existing political climate of winning tariffs sufficiently high to make up the difference between their costs and those of Japan and Hong Kong.<sup>18</sup>

The eventual focus on the VER as the standard policy instrument was less a

16. From conversations with textile industry association spokespersons.

17. The South Carolina legislature in 1955 passed a law requiring each business that sold Japanese textiles to post a sign in its front window announcing that it sold Japanese goods. While quotas were the industry's preferred instrument, they were not the only instrument it would use.

18. From conversations with textile industry association officials.

matter of strategy than an accommodation to the circumstances the industry itself faced. Negotiation was an important part of the ethos of trade policy. Unilateral action violated the Wilsonian principle of international rule of law and the populist idea that cooperation made for good neighbors. It also brought back memories of the beggar-thy-neighbor policies of the 1930s.<sup>19</sup>

The idea of negotiating a multilateral agreement to legitimize and regulate these restrictions was likewise an accommodation rather than a strategy. In all then, the path from the first VERs with Japan on cotton textiles to the MFA was less a grand design than a sequence of steps that were guided, one at a time, by circumstance.

#### 4.5.1 President Kennedy and the First Multilateral Agreements<sup>20</sup>

To win the presidency, John Kennedy focused on New England, the traditional Democratic party strongholds, the northern industrial states, and the South. A promise of protection for the textile industry would help in the South and in New England: it would be particularly important in the South, where Kennedy's Catholicism was a significant liability. And polls indicated a close race with Republican candidate Richard M. Nixon.

Kennedy's pledge to make a solution to the cotton textile import problem a top priority of his administration won the support of several Southern leaders, including Luther Hodges, a textile executive and former governor of North Carolina, Governor Ernest Hollings of South Carolina, and Governor Terry Sanford of North Carolina. The cotton textile industry evaluated John Kennedy's promise of support as more concrete than Richard Nixon's, and many members of the industry worked actively to support Kennedy's election.<sup>21</sup>

By the fall of 1961, the Trade Expansion Act (TEA) had become an important part both of President John F. Kennedy's foreign policy and economic agenda. As it had been to other postwar presidents, to President Kennedy and to his allies in the government, commercial diplomacy was first of all a tool of foreign policy. Through a new round of GATT negotiations the president could build a relationship with the increasingly successful European Common Market and thereby renew the strategic alliance between the United States and Western Europe. He could also take the lead on special measures to help devel-

19. In addition, the VER is consistent with the "property rights" implicit in the GATT. The basic element in the GATT is an exchange of concessions, an exchange between countries of the right to access to each other's market. If a country wants to take back some of the access it has thus "sold"—impose a new import restriction—it owes compensation to the trading parties that "own" that concession. If compensation is not made, trading parties have the right to retaliate, i.e., take back an equal amount of the market access that they had "paid" to the offending country. GATT provides separate processes to decide offense, compensation, and retaliation. A VER considers all of the rights in one negotiation and thus provides for efficient trade-offs. This view is elaborated in Finger (1984).

20. This section draws extensively from Zeiler (1992).

21. Textile industry association officials told us that the two Eisenhower elections had not been close enough for them to extract significant commitments from either side.

oping countries, bringing them on board of his aggressive Cold War policy. Kennedy hoped that the TEA would boost U.S. export competitiveness thereby helping to slake the U.S. payments imbalance and the gold drain. The act also took on some of the burden to stimulate the domestic economy: it became something of a panacea for present problems and future circumstances, foreign and domestic.

But President Kennedy was also a New Dealer: he felt it was the government's job to cure economic distress. Before he became president he had supported import restrictions of particular interest to New England industries, among them textiles and fish processors. The rhetoric Kennedy had used to explain his position on trade was the usual. He attacked imports as the result of "cutthroat competition" from foreigners; he disagreed with "unjustifiable protection" but felt that "a tariff to equalize competition is necessary."

President Kennedy sought no common denominator between what he saw as the benefits and the risks of negotiating down U.S. protection. Striking a balance was not a philosophical process, it was a political one. To explain how President Kennedy went about putting together the votes needed to pass the act, Zeiler quotes a Kennedy associate: "You want the votes, you give the guy the post-office." In the Boston school of politics in which John F. Kennedy was trained, this was how philosophical differences were reconciled.

The textile industry, particularly the cotton textile industry, had been pressing forward on several fronts to gain import protection and other forms of government support. To win their support for the TEA, President Kennedy in May 1961 offered a seven-point program that included: action to eliminate or offset the raw cotton price differential; assurance that careful consideration would be given to a textile industry application for protection under the escape clause or the national security provisions of trade law; and direction to the State Department to convene a conference of textile-importing and exporting countries to develop an international agreement governing textile trade.<sup>22</sup>

Zeiler reports (1992, 86) that by March 1962, President Kennedy had implemented or had made commitments that would soon implement all seven points. The highlights of Kennedy's actions (see also table 4.4 for a chronology of events) were the following:

July 1961: The Short Term Arrangement (STA) on Cotton Textiles was signed.

February 1962: The Long Term Arrangement (LTA) on Cotton Textiles was signed.

April 1962: President Kennedy embargoed eight categories of cotton textiles from Japan.

June 1962: Congress passed and President Kennedy signed a bill giving the

22. These three, according to Brandis (1982, 19), were the points of major interest to the industry.

**Table 4.4** Chronology of International Events

July 1961	The Short Term Arrangement (STA) is agreed.
February 1962	The Long Term Arrangement (LTA) is agreed, to commence October 1, 1962, to last for five years.
1963–64	The United States tries and fails to secure an international agreement on wool products.
June 1965	The United States tries and fails to negotiate restraints on Japanese exports of wool products.
June 1966	The United Kingdom implements a global quota scheme in violation of the LTA—the LTA providing only for product-specific restraints.
April 1967	Agreement is reached to extend the LTA for three years.
October 1970	Agreement is reached to extend the LTA for three years. It was later extended three months more, to fill the gap until the MFA came into effect.
1969–71	United States negotiates VERs with Asian suppliers on wool and man-made fibers.
December 1973	The MFA is agreed, to commence January 1, 1974, and to last for four years.
July–December 1977	The European Economic Community and the United States negotiate bilateral agreements with developing countries prior to agreeing to extension of the MFA.
December 1977	The MFA is extended for four years.
December 1981	The MFA is extended for four years and seven months.
July 1986	The MFA is renewed for five years. The Reagan administration, under pressure from increased imports resulting from dollar appreciation, negotiates tough quotas.
July 1991	The MFA is extended pending outcome of the Uruguay Round negotiations.
December 1993	The Uruguay Round draft final act provides for a 10-year phase-out of all MFA and other quotas on textiles.

president authority to limit imports from nonsigners to a multilateral agreement.<sup>23</sup>

The textile industry kept its part of the bargain. As Zeiler (1992, 86) reports their reaction: “[Kennedy] earned an acknowledgment from the journal *Textile World* that [he] had ‘gone to bat for the industry.’ The National Cotton Council announced its support for the Trade Expansion Act because of the ‘exceptional treatment’ given by Kennedy to the textile import problem. Victory was definitely his, however, when the American Cotton Manufacturers Institute thanked him on March 31, 1962, for his ‘unprecedented degree of thoughtful consideration and constructive action for textiles.’ The ACMI then endorsed the Trade Expansion Act.”

In June 1962 Congress passed the TEA of 1962. Two-thirds of Congressman

23. The two-price cotton problem was not resolved until April 1964 when President Lyndon B. Johnson signed a bill that established a payment-in-kind program that made cotton available to manufacturers inside the United States at the world price.

Carl Vinson's (D-Ga.) Textile Conference Group voted for the bill and against critical amendments that would have substituted a bill that offered considerably restricted negotiating authority to the president. Eighty-two of 105 House Southern Democrats voted for the act, and in the Senate, 19 of 20 Southerners.<sup>24</sup>

#### 4.5.2 Provisions of the LTA

The STA provided for one-year restrictions of imports of cotton products and for further international negotiations to develop a long-term solution. Before it expired, the LTA had been agreed (see table 4.4).

The main operative provision of the LTA was article 3. That article provided that whenever imports of a particular product caused or threatened market disruption, the importing country could request the exporting country to restrict its exports. While the arrangement specified that the request for restraint be accompanied by a "detailed factual statement of the reasons for the request," it implicitly left to the importing country the authority to determine when "disruption" was present or threatened.

Annex B specified that the minimum level to which exports could be restrained was the level of actual imports for the 12-month period ending three months before the restraint went into effect. If the restraint was in effect for more than one year, the restraint level should be increased by at least 5 percent each year. Market disruption did not have to be demonstrated again for renewal.

Article 3 also provided that if 60 days after an importing country had requested an exporting country to restrain, no agreement to do so had been reached, the importing country could take unilateral action, subject to annex B's statement of minimum levels.

Article 4 specified that the arrangement "shall not prevent the application of mutually acceptable arrangements on other terms not inconsistent with the basic objectives of this arrangement."

The 1984 GATT textile study (1984, 73) points out that bilateral agreements negotiated under article 4 eventually became the form of application of the arrangement preferred both by the United States and by exporting countries. Article 3 agreements had to be renewed each 12 months, longer-term agreements were administratively convenient for the United States and provided exporters greater long-range security (Aggarwal 1985, 91).

Several factors contributed to other countries acquiescing to U.S. pressure

24. Textile restrictions were not the only deal President Kennedy made for the TEA. Senator Robert S. Kerr of Oklahoma led the congressional delegation that represented the oil producers. The price to lift Kerr's opposition to the TEA was the Arkansas River Bill—federal money to make the Arkansas River navigable into Oklahoma. "You know, Bob, I never really understood the Arkansas River bill before today," President Kennedy remarked as he accepted the deal (Zeiler 1992, 114).

President Kennedy was criticized by members of his own party for the mercenary way in which he put together the votes needed to pass the TEA.

for a multilateral agreement to limit textile exports. Not the least of these, of course, was the power of U.S. pressure at the time. Japan, for its part, had not yet gained the economic strength that allowed it to hold out for several years against the expansion of the agreement to wool and man-made fibers. In 1962, Japan still had a trade deficit with the United States.

Many European countries had retained their post-World War II quotas on Japanese textiles when Japan acceded to the GATT. Japan viewed a multilateral agreement as possibly improving its access to European markets. Also, the Japanese and U.S. cotton textile industries had been in close contact in the 1930s and had reestablished that contact in the 1950s. The Japanese industry had considered generous the quotas it had negotiated previously with the United States. Many European countries had imposed similar quotas on developing country exports, in many cases declaring them under the balance-of-payments provision (article XII) of the GATT. When GATT regulations on use of balance-of-payments provisions by developed countries were tightened in 1958, these European countries were left looking for GATT cover for restrictions they were reluctant to remove (Aggarwal 1985, 73).

As to the exporting countries, U.S. pressure was probably the most important factor. It is possible that exporting countries viewed a multilateral agreement as an instrument the U.S. government might use to resist rather than to advance the proposals of the U.S. industry. A similar argument had been applied in generic terms to the GATT, and the U.S. government had displayed a reluctance to use the authority to restrict textile imports that U.S. law provided. In addition, there was fear of an individual exporting country getting left out in the country-by-country bargaining that seemed to be the real alternative to a multilateral agreement. Hong Kong, after agreeing to limit its exports to the United Kingdom, had lost to India and Pakistan some of its share of the U.K. import market.

A final factor is that the exporting countries may have underestimated the authority over textile imports that the combination of a multilateral agreement and domestic law, particularly section 204 of the Agriculture Act, would provide. Section 204 (passed in May 1956) authorized the president to negotiate with foreign governments to limit the export to the United States of agricultural *or textile* products, and to carry out such an agreement by limiting the entry of such products into the United States. The LTA thus activated the president's "204" authority in place, and President Kennedy quickly imposed limits on several categories of imports from Hong Kong. By the end of 1963, the United States had in place restrictions against 17 countries (Keesing and Wolf 1980, 38).

#### 4.5.3 Evolution and Expansion into the MFA

Richard Nixon, running for the presidency in 1968 against Hubert Humphrey, had learned from the 1960 lesson of the power of the textile industry. He thus pledged in his campaign to negotiate an international agreement that

would include wool and man-made fiber products. Japan by this time was in a stronger position, and experience with the STA and LTA had taught exporting countries what they could expect from an international agreement.

The provisions of the MFA reflected a shift of power toward the exporting countries. The hortatory statement of the agreement's intentions is more detailed and more extensive about the expansion of exports of developing countries. The agreement also urges importing countries who restrict imports to pursue policies to promote adjustment. Article 3, as did the parallel article in the STA, provides for an importing country to seek from an exporting country an agreement to limit its exports, it also provides that the importing country may take unilateral action if agreement is not reached within 60 days. Annual limits, whether agreed or unilateral, were to be based on the 12 months ending two months before. If a limit was extended, the minimum growth rate was 6 percent.

There were two significant differences between the MFA and the LTA:

1. The MFA did not provide for "mutually acceptable arrangements on other terms;" that is, there was no end-around the limits the arrangement put on allowable quotas.

2. MFA created a multilateral surveillance institution, the Textiles Surveillance Body (TSB), to supervise the functioning of the arrangement. Participants were required to report safeguard actions to the TSB, which reviews their conformity with the provisions of the arrangement. The TSB is also the forum for dispute settlement.

The extensions of the MFA through 1986 tended to shift the balance toward tighter import restrictions. In 1977, at the urging of the European Economic Community, a provision was added to allow "jointly agreed reasonable departures" from the limits of the agreement. This provision shifted greater power to the individual countries negotiating the bilateral agreements under the MFA, away from a multilateral solution. In negotiating bilateral agreements, industrial countries were much less likely to care about opening up new markets and much more concerned about protecting their industries from additional imports. Aggarwal (1985) argues that the combination of the 1977 provision and the important role of bilateral agreements in implementing the provisions of the MFA exacerbated the trend toward more protection.

In the rest of this paper, we focus on the scope and impact of the protection received under the MFA. While the protection the U.S. textile industry received was substantial, it was, to some degree, leaky. Although the U.S. government was forced to establish the legal statements of the multilateral arrangements and their implementation in domestic law—principally in section 204, as amended, of the Agriculture Act—considerable effort was applied within the government to limit the application of those legal instruments.



## 4.6 Protection, but Not Complete Protection

While the protection won by the industry was substantial, policymakers remained uneasy with the extent of trade restrictions in textiles. Officials who were chosen to lead the negotiations were often aggressively protrade; implementation of the agreements has often been lax. The ultimate test is provided by the impact of these restrictions on imports, domestic production, and the overall health of the industry. Textile imports as a percentage of U.S. consumption are now four times higher than they were in 1960; apparel imports are seven times higher. The industry never completely overcame the executive branch's reluctance to provide protection and the trading community's inventiveness at finding ways to evade the mechanisms of restriction.

### 4.6.1 Negotiation and Implementation of the Textile Agreements

One early example of the reluctance to embrace managed trade in textiles is provided by President Kennedy's candidate for negotiating the multilateral restraint agreement. Kennedy gave the position to George Ball, then under secretary of state for economic affairs.<sup>25</sup> Ball was a leading internationalist in the U.S. government and a leading spokesperson for the foreign policy view of trade policy. In the first year of the Kennedy administration he had been the State Department official responsible for the administration of U.S. foreign aid, and he had led the reorganization of this administration into the Agency for International Development. He also had the lead within the Kennedy administration on the TEA.

While we have located no public statement by Ball that reveals his opinion of the textile negotiations that he led, his feelings on textile restraints are revealed by a later statement regarding textile negotiations during the Nixon administration: "If our relations with Europe have suffered from neglect and presumptuousness, interspersed with occasional pettiness . . . the Nixon Administration was reckless to the point of irresponsibility when it weakened the alliance ties that bound Japan to the West. The primal cause of the deterioration of relations was a tradesman's argument over the export of Japanese textiles to the United States" (Ball 1976, 175).

After President Kennedy assigned Ball to negotiate a textile agreement, Ball visited several national capitals to line up support. According to the ATMI, Ball's briefing to them on his findings included the following points:

- The State Department is opposed to United States control of textile product imports.
- It intends to seek agreement only on cotton textiles.
- It proposes to use the 1960 level of imports as the base.

25. A textile executive who was then active in industry politics told us that Ball was "embarrassed" by this assignment.

- It plans for the agreement to provide for increases of 5 percent (quoted by Brandis 1982, 20; from the ATMI report to its membership).

Senator Pastore and Congressman Vinson organized a group of 39 senators and 124 representatives to protest the State Department position directly to President Kennedy (Brandis 1982, 21), but the draft arrangement the U.S. delegation took to the negotiations contained these terms, and these terms are the ones in the agreed arrangement.

To oversee the textile program President Kennedy created the Cabinet Textile Advisory Committee and a lower level committee now named the Committee for Implementation of the Textile Agreements (CITA). These committees include representatives of the Departments of Commerce, State, Labor, and Treasury, and the Office of the Trade Representative. The day-to-day process of implementing the agreements goes somewhat as follows.<sup>26</sup>

The MFA provides for restraint of imports that cause “market disruption.” When the textile industry feels that market disruption is occurring in a particular product category, they make the facts known to CITA.

CITA meets usually at the level of deputy assistant secretary (senior civil service), with the Commerce Department representative chairing. The CITA presents its own “disruption statement,” on which the industry often comments. That comment often includes the provision of more-current data on the state of the domestic industry: output, prices, employment, and so forth. Sometimes an industry association surveys U.S. companies to obtain up-to-date information, then submits these data as a comment on the CITA’s disruption statement.

The basic factual inputs into the disruption report are quantities and unit values of imports that have an adverse impact on the U.S. industry. These data are buttressed with data on domestic production, employment, capacity utilization, and so forth. Sometimes other relevant information is provided, such as a decision by a U.S. producer to cancel an investment or expansion plan.

In the end, industry officials insist, there is a loose relation between the disruption statement and the quota that is set. Although the decision on *whether* to impose a quota appears to be significantly influenced by industry recommendations, industry representatives argue that quota *levels* are often set at levels which are much higher than they requested. Under MFA rules, the United States may set an initial quota on a new product, but the United States must then enter into negotiations with the exporting country to agree a final quota level. While the Commerce Department administrators are usually sympathetic to the industry’s position, the final quota level must be negotiated by the trade representative with the exporting country and must win the approval of the interagency committee. This committee includes two “general interest” departments, State and Treasury. Often the final level is more than twice the

26. The following four paragraphs are based on interviews with industry association officials.

level of the initial quota, and even the initial quota is larger than the limit actually needed to stop market disruption.

From the industry's perspective, there are some who feel that the restraint agreements have not been rigorously enforced. The ATMI evaluated that in the 12 months the STA was in force, imports were one-third higher than if the minimums the agreement allowed had been achieved. The same evaluation concluded that "while President Johnson successfully pushed through legislation abolishing the two-price system, his administration was much weaker in carrying out the textile import quota system" (Brandis 1982, 27ff.).

In 1984, when imports surged as the dollar appreciated, the ATMI testified that through the first 10 months of 1984, of the imports of uncontrolled products that were causing market disruption and eligible for a "call" under the MFA, only one-third had in fact been called. A call is a notification to an exporting country that its exports of a particular product are causing market disruption, and that a preliminary quota will be imposed.

Another way to soften enforcement of limits is through the various dimensions of customs enforcement, for example, lax policing of transshipment of Chinese textiles through countries not under restraint or unable to fill their quotas from their own production. A recent agreement between the United States and China involved allegations that transshipment of Chinese textiles to the United States exceeded \$2 billion per year. Since China's textile exports to the United States under the MFA were \$4.68 billion in 1993, this suggests that transshipments could raise export levels to 150 percent of actual quotas (*Financial Times* 1994).

#### 4.6.2 Impact of Protection on the Health of the Industry

The changing economic situation of the textile and apparel sectors is described in appendix table 4A.1. In 1960, apparel and textile employment together accounted for 13.4 percent of total manufacturing employment. That share declined moderately over a 20-year period: by 1985, the textile and apparel industries combined still accounted for 10 percent of total employment in manufacturing. Although union membership in most sectors has rapidly declined, the share of unionization in textiles and apparel remained almost constant, declining slightly between 1960 and 1980.

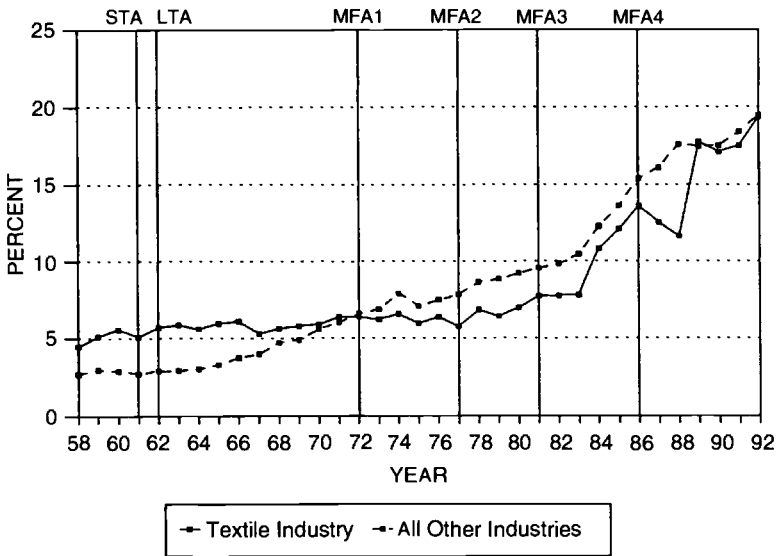
As a share of total manufacturing output, textile and apparel production fell from slightly over 7 percent of total output in 1960 to 4.4 percent of total manufacturing output in 1985. Despite the nearly 50 percent fall in manufacturing share, relative wages remained fairly stable and capital's share in value added increased. Wages in the textile industry were on average 65 percent of average wages in the rest of manufacturing, a figure which remained stable until 1985. In apparel, where the inroads made by import competition were steeper, relative wages fell from 56 percent of average manufacturing wages in 1960 to 50 percent of average manufacturing wages in 1985.

Capital's share in value added, which we define as value added less labor

costs, divided by the value of shipments, actually rose in both sectors. This value, which is labeled "profits" in table 4A.1, rose from 18 to 20 percent in textiles and from 17 to 27 percent in apparel between 1960 and 1985. One interpretation of the relatively stable wages and capital share during this 25-year period is that both labor and capital benefited from protectionist measures.

There is no question that the protection won by the industry was substantial. Cline (1990, 191) estimates that quotas as of 1986 provided the equivalent of a 28 percent tariff on textiles and a 53 percent tariff on apparel. Other industries on average enjoy tariffs of no more than 5 percent. Without this protection, according to Cline, there would be about 21,000 fewer jobs in textiles and 214,000 fewer in apparel production in the United States.

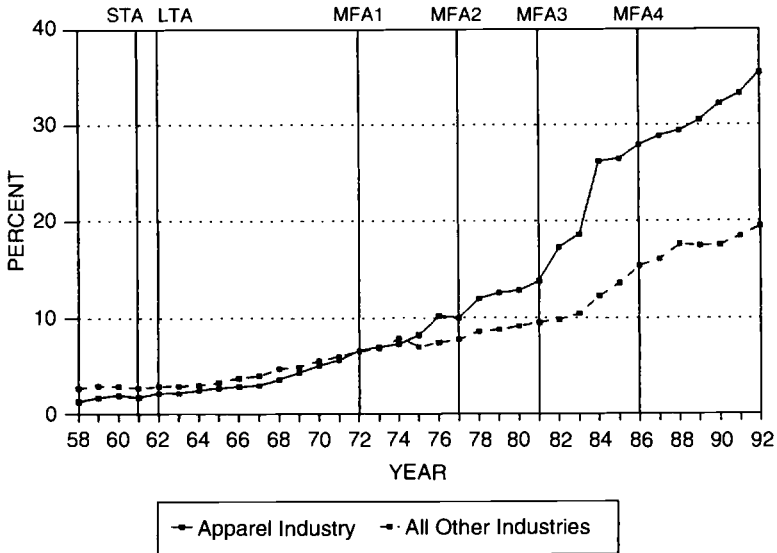
The extent to which protection in the textile industry actually restricted imports is documented in figures 4.1 and 4.2. As indicated in figure 4.1, import penetration in the textile sector appears to have considerably slowed under protection. In comparison to other industries, import penetration increased at a much slower rate. In the 1980s, however, import penetration rapidly increased. Figure 4.2 documents the changes in import penetration in the apparel sector. Although protection also appears to have dampened the upward trend in imports in the 1970s, increases in import penetration were much more dramatic than in textiles. In the 1980s, import penetration in apparel surged, growing at a more rapid pace than in other industries. Between 1960 and 1985, while



**Fig. 4.1** Import penetration in U.S. textile industry, 1958-92 (comparison with all other U.S. industry)

Source: Abowd (1991).

Note: "Other" excludes both textiles and apparel.



**Fig. 4.2** Import penetration in U.S. apparel industry, 1958–92 (comparison with all other U.S. industry)

Source: Abowd (1991).

Note: "Other" excludes both textiles and apparel.

import penetration increased from 5.5 to 12.1 percent in textiles, imports surged from 1.9 to 26.4 percent in apparel (table 4.A.1). In both sectors, exports generally remained low, increasingly only around 1980 with the devaluation of the dollar in the late 1970s.

The story presented in figures 4.1 and 4.2 and table 4A.1 is supported by the evidence in table 4.5, which is taken from Cline (1990). Table 4.5 presents changes in import volumes (not import penetration). The evidence does seem to suggest that the MFA slowed down import growth, particularly in the textile industry. After the MFA was introduced, growth rates in imports of textiles and apparel both fell. In textiles, growth rates became negative, and only recovered in the early 1980s. Table 4.5 also documents the significant increases in imports during the first half of the 1980s. Cline attributes these increases to the overvaluation of the dollar and recovery from the recession.

The evidence suggests that textile imports kept pace with the rest of U.S. industry, while apparel imports surged ahead. The dramatic increases in apparel imports during the 1980s and early 1990s, as well as the more moderate increases in textile imports, is particularly illustrative of the leaky protection which has characterized the MFA. According to Cline, textile and apparel imports rose by 100 percent in real terms between 1983 and 1986. How could such an increase occur under a regime which was committed to import growth rates of no more than 6 percent annually? Evidently, quota allocations were

**Table 4.5** Annual Growth Rates of Real U.S. Imports of Textiles and Apparel<sup>a</sup> (percent)

Sector and Year	SYE <sup>b</sup>	Deflator	Deflator
Textiles			
1961-72	16.1 <sup>c</sup>	5.9	4.2
1972-77	-9.1	-4.9	-9.3
1977-81	-2.1	4.3	0.4
1981-86	-21.9	12.7	12.6
Apparel			
1961-72	18.3 <sup>c</sup>	13.8	14.8
1972-77	2.9	11.1	6.7
1977-81	4.7	6.8	1.9
1981-86	12.9	16.4	17.4

Source: Cline (1990, 170).

<sup>a</sup>Calculated from log-linear regressions for each period.

<sup>b</sup>Square-yard equivalents.

<sup>c</sup>Figures are for 1964-72.

sufficiently flexible and underutilized (see table 4.6) to allow the sudden increase. Nor, according to the Congressional Budget Office, could these increases be accounted for by imports from unrestricted sources (see Cline 1990).

Although import protection saved thousands of jobs in textiles and apparel, it did not prevent significant downsizing of employment. Although as a share of total manufacturing employment, textiles and apparel only declined moderately, figures 4.3 and 4.4 document the significant downsizing of employment in the textile and apparel industries between 1958 and 1986. Downsizing was more significant in the textile than in the apparel industry. Between 1958 and 1986, employment in textiles shrank by 30 percent. In apparel, which faced even steeper import competition, employment declines only totaled 20 percent. By 1986, total employment in the two industries had shrunk to between 70 and 80 percent of their 1958 levels.

The textile industry was more successful in downsizing its labor force, in part due to technological advances in the industry which encouraged mechanization. However, productivity performance in both sectors has not been particularly impressive. Figure 4.5 shows the trends in output per worker for the textile, apparel, and other manufacturing sectors. Although the textile industry performed relatively better than apparel, both sectors lagged in productivity increases compared to the rest of manufacturing. The divergence between the rest of manufacturing and these two sectors appears to begin in the early 1970s, when the MFA was put in place.

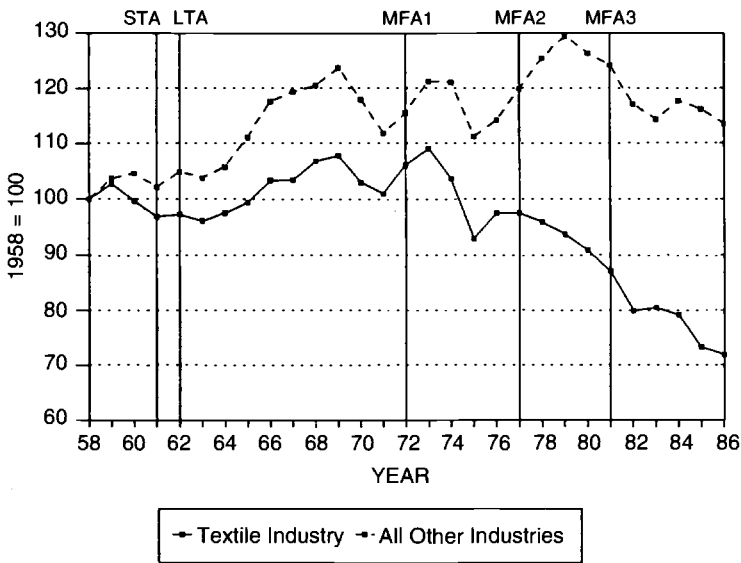
Using the NBER trade database, we also computed measures of total factor productivity growth (TFPG) for textiles, apparel, and the rest of manufacturing. The trends in TFPG are reported in table 4.6. TFPG was calculated by

**Table 4.6** Total Factor Productivity Growth in Textiles, Apparel, and the Rest of the Manufacturing Sector

Sector	1959-72	1973-86
Textiles	1.3	0.6
Apparel	0.6	0.5
Other manufacturing	1.2	1.4

subtracting growth in labor (number of workers), material inputs, and capital stock from output growth. Labor and material inputs were weighted by their shares in output.

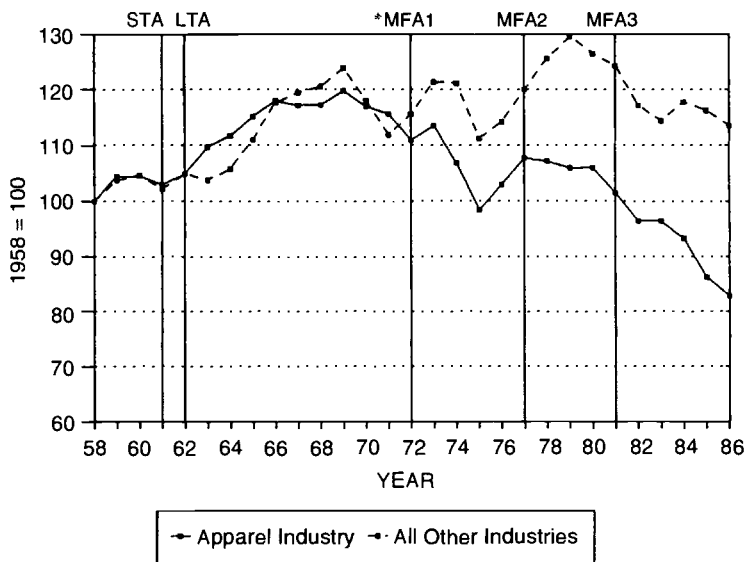
The trends in TFPG are similar to the trends in labor productivity. Prior to 1973, productivity growth in textiles was slightly higher than the manufacturing average. Productivity increases in apparel, on the other hand, were significantly behind, averaging a 0.6 percent increase per year in comparison with 1.2 percent for the rest of manufacturing. During the 1973-86 period, the gap widened even further. While TFPG averaged 1.4 percent for the rest of manufacturing, productivity growth for textiles slipped to 0.6 percent and for apparel to 0.5 percent. The net evidence seems to suggest that, at least in the apparel industry, protection did not serve as a vehicle for a productivity turn-



**Fig. 4.3** Employment in U.S. textile industry, 1958-86 (comparison with all other U.S. industry)

Source: Abowd (1991).

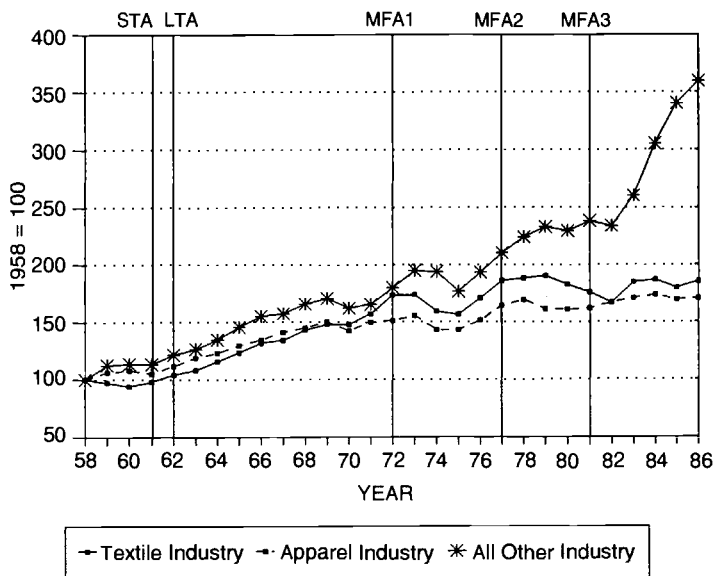
Note: "Other" excludes both textiles and apparel.



**Fig. 4.4 Employment in U.S. apparel industry, 1958–86 (comparison with all other U.S. industry)**

Source: Abowd (1991).

Note: "Other" excludes both textiles and apparel.



**Fig. 4.5 Real value of shipments/employment, 1958–86**

Source: Abowd (1991).



around. The textile industry, while it performed slightly better than the industry average during the 1960s and early 1970s, lagged behind after 1973.

The evidence presented above suggests that the protection granted to the industry, while substantial, was not enough to prevent significant increases in import competition. The MFA led to a decline in the growth rate of textile and apparel imports during the 1970s, but this decline was followed by a surge in the early 1980s when the dollar's appreciation was combined with an economic recovery. The surge in imports during the 1980s provides persuasive evidence that MFA protection was certainly not complete. Additional evidence is provided by U.S. administration efforts to implement protective legislation in less restrictive ways.

#### **4.7 Quantifying the Determinants of MFA Protection, 1981–89**

Despite the vast literature on protection in the U.S. textile industry, few studies attempt to quantify the determinants of protection within the industry. Most empirical studies, such as the comprehensive study by Cline (1990) and the recent volume edited by Hamilton (1990), focus on either measuring welfare costs of protection or evaluating its impact on industry profits, productivity, and trade. Cline (1990), for example, estimates that the cost of textile and apparel protection (in 1986) amounted to between \$20.3 billion and \$40 billion annually. This translates to a cost per household of between \$240 and \$500 annually, in 1986 dollars.

One area that has been almost entirely neglected is how U.S. policymakers allocate import quotas across exporting countries. One exception is Dean (1993), who evaluates MFA quota allocations across large and small exporting countries. Dean (1993) models the determinants of quota allocations as a function of country size, export volumes, and export growth. She finds that the size of the exporter was a critical determinant of restraint under the MFA1. In contrast, under MFA2 and MFA3 she finds a strong bias toward restraining very small sellers and those whose exports grew rapidly. Benedict (1993) examines the allocation of VERs for a different industry—the steel sector in the United States. He also finds that large countries and countries with rapid export growth were more likely to be targeted.

The political economy literature suggests that many other factors are important in determining quotas, such as the health of the import-competing sector, employment and wage trends, exchange rate movements, and the importance of foreign markets as a destination for U.S. exports. The analysis below provides a comprehensive examination of which of these factors were the most important in determining the allocation of textile and apparel quotas. Our analysis also differs from previous research by examining the entire 1980s, a period when quotas expanded at a rapid pace. Finally, we also analyze the factors which determined the *size* of the allocated quotas—an issue which has been entirely ignored. These quota allocations represented a significant fraction of

total export earnings for many developing countries. Understanding the determination of quotas is consequently of practical importance.

#### 4.7.1 Empirical Framework

The analytical models described in section 4.2, combined with the administrative criteria for quota allocations outlined in section 4.6, suggest a relationship between the variables listed in table 4.7 and quota determination in the United States. For each variable, table 4.7 indicates whether it serves as an MFA criterion for market disruption or whether it acts as a proxy for factors likely to be important in determining protection from theoretical models of endogenous protection. The last two columns in table 4.7 indicate whether the expected relationship between quotas and each of the variables is likely to be positive or negative.

There are two columns of expected signs, one relating to the question, On which products imported from which countries is it more likely that there will be a quota? In this framework, we are simply trying to identify whether a quota will be imposed (i.e., the answer is either yes or no). The second column refers to the question, On which products imported from which countries is the import quota likely to be larger? A larger quota, of course, is a less restrictive one; hence the signs in the last column are the reverse of the signs in the first column.

The expected sign is the one predicted by the model *best* proxied by the variable. In reality, the distinction between the various models may be somewhat blurred. For example, we list employment (number of workers) as a proxy for the adding machine model, which suggests that the number of employees (i.e., voters) will be positively correlated with the likelihood of a sector winning protection. But a large number of people working in a sector may present organizational problems, and hence the political organization models would suggest a negative correlation between number of workers and the likelihood of winning protection. However, we consider the latter a secondary fit between proxy and model and have not listed it in the table. As to proxies for organizational problems, we consider the number of plants a better indicator of organizational problems than the number of workers. Within a plant, lines of communication to workers are already established; hence the organizational challenge between plants will be more severe than between workers in a plant.

Our principal hypothesis is that the process of imposing MFA-sanctioned quotas is not limited to taking into account only the criteria that the MFA specifies as justifying such quotas. We have placed at the top of the list of explanatory variables those that are specified by the MFA as the criteria that justify an import quota. If there were no room for discretion in MFA administration, then these and only these variables would contribute significantly to the explanation of actual quota allocations.

The second group of variables listed in table 4.7 are indirect proxies for pressure from import competition. The higher the capital/labor ratio of a sector

**Table 4.7 Explanatory Variables: Their Relations with Alternative Models of Protection**

Variable	Model Represented	Expected Sign	
		Yes-No Quota	Size of Quota
Change in U.S. production	Market disruption; MFA criterion	-	+
Change in employment	Market disruption; MFA criterion	-	+
Change in import penetration	Market disruption; MFA criterion	+	-
Import penetration	Market disruption; MFA criterion	+	-
Change in capital stock	Market disruption; MFA criterion	-	+
Profits	Market disruption; MFA criterion	-	+
Capital/labor ratio	U.S. comparative advantage; lesser pressure from imports	-	+
Exchange rate	Expensive foreign currency lessens pressure from imports	-	+
Wages	Equity concern; the poor are deserving	-	+
Employment	Political payoff; number of votes	+	-
Number of plants	Political organization; free riding from large numbers	-	+
Plant size (employees per plant)	Political organization; resources available for organization	+	-
	Political organization, barriers to entry limit free riding	+	-
Change in U.S. exports	Value of market to U.S. exporters	-	+
GDP growth in quota country	Equity concern; the poor are deserving	+	-

the stronger should be U.S. comparative advantage and the lower the likelihood that the sector will experience a degree of import competition sufficient to cause it to ask for quota protection. The exchange rate, measuring the dollar cost of the exporting country's currency should have a similar impact, though over time rather than across sectors.

In the lower part of the table we have listed the various political influences brought out by the models of protection reviewed in section 4.2. Some of these reflect domestic influences such as the number of votes at stake or the ease with which the sector can organize or can control free riding. Others reflect international considerations such as the value of the market to U.S. exporters.

#### 4.7.2 Specifications

To quantify the determinants of textile and garment quotas during the 1980s, we analyze two different dependent variables. We begin by examining the decision to impose a quota, using data which covers both protected and unprotected products and countries. We then examine the determination of quota levels, using a Tobit specification. We describe these two approaches in more detail below.

We begin by addressing the following economic problem: what determines whether a quota will be imposed on a particular country or product? For a particular product  $i$  in country  $j$  and time  $t$ , a quota is either imposed ( $Y_{ijt} = 1$ ) or not ( $Y_{ijt} = 0$ ). Whether a quota is imposed is a function of both country- and product-specific attributes, denoted by the vector  $x$ . This problem could be rephrased as follows:

$$(1) \quad Y_{ijt}^* = B'x_{ijt} + u_{ijt}$$

We assume that  $u$  has a logistic distribution.  $Y^*$  is not observed; what we do observe is the following:

$$Y = 1 \quad \text{if } Y^* > 0 \text{ (i.e., a nonzero quota is imposed);}$$

$$Y = 0 \quad \text{otherwise (no quotas).}$$

This problem is a standard logit problem which can be easily solved using conventional maximum likelihood estimation. We include the following variables in the vector  $x$  as determinants of the probability of protection: (1) wages $_{i,t-1}$  (MFA product category  $i$  at time  $t - 1$ ), (2) total number of employees $_{i,t-1}$ , (3) total number of plants $_{i,t-1}$ , (4) average plant size $_{i,t-1}$ , defined as employees $_{i,t-1}$ /plants $_{i,t-1}$ , (5) change in U.S. production $_{i,t-1}$ , (6) change in import penetration $_{i,t-1}$ , (7) import penetration $_{i,t-1}$ , (8) percentage change in U.S. exports to country  $j$  at time  $t$ , (9) GDP growth $_j$  for trading partner  $j$  at time  $t$ , (10) U.S. bilateral (nominal) exchange rate with country  $j$  at time  $t$ , (11) change in capital stock $_{i,t-1}$ , (12) profits $_{i,t-1}$ , and (13) the capital/labor ratio in sector  $i$  at time  $t - 1$ .

All variables except profits, capital/labor ratio, GDP growth, import penetration, and U.S. production are measured in logarithms. Wages are defined as average compensation per worker, deflated by the consumer price index. To avoid endogeneity problems, all variables except exchange rate, GDP growth, and change in U.S. exports are measured at time  $t - 1$  for a quota imposed in period  $t$ . The change in import penetration is defined as import penetration at time  $t - 1$  less import penetration at time  $t - 2$ . Changes in U.S. production and capital stock are defined as differences of lagged values as well.

A second approach is not just to focus on *whether* a sector received quota protection (yes or no) but to analyze what determines the relative magnitudes of quotas across different sectors. Since quotas were imposed for only 20 per-

cent of the 20,000 observations in the sample, the resulting function is likely to be highly nonlinear. Although ordinary least squares estimation would lead to biased estimates, Tobit estimation can be used to address the censoring problem. The data is censored in the sense that we do not observe the quota level for a large share of the sample. However, unlike standard censoring problems, in which the dependent variable is generally censored from below (typically at zero), in this case the censoring occurs from above—absence of a quota should be represented not by a 0 value, but by a number large enough that it has no restrictive effect. For a product on which no quota is imposed, the quota's magnitude might be approximated by an arbitrarily large quota, greater than or equal to an upper limit denoted by  $U$ . Then, equation (1) can be rewritten as follows:

$$Y_{ijt}^* = Bx_{ijt} + u_{ijt};$$

(2)  $Y = Y^*$  if  $Y^* < U$  (a quota is imposed);

$Y = U$  if  $Y^* \geq U$  (no quota imposed).

The quota level, measured by the value of the latent variable  $Y^*$ , is only observed if a quota is imposed. If no quota is imposed, we interpret the quota as having an infinite magnitude, and we model the infinite quota as a quota which is censored at an upper limit  $U$ . In the estimation, we specify  $U$  to be equal to the maximum quota level observed during the sample period. We also experimented with alternative values for  $U$ , but these did not affect the results and consequently are not reported. The Tobit model with censoring from above can be estimated using standard maximum likelihood techniques.

#### 4.7.3 Data

The database, which covers the period 1981–89,<sup>27</sup> was created by merging information from a number of different sources. Data on quota levels and imports at the level of each MFA category was collected by the International Economics Department at the World Bank, based on the Expired Restraints of the Performance Report prepared by the U.S. Department of Commerce. A more detailed description of the World Bank MFA data is provided by Erzan, Goto, and Holmes (1990). Information on quota levels is available annually, at the level of the individual country exporting to the United States and the individual MFA product category. All quota levels are defined in physical quantities, such as dozens of dresses or square yards of cotton cloth. Rather than attempt to use conversion factors which provide crude ways to aggregate across different units of measurement, we used the original quantities. However, to avoid nonsensical comparisons between different physical units, we included

27. This time period was chosen because a previous World Bank project had prepared a database on U.S. quotas that covered those years. The cost of acquiring and cleaning up additional information prevented our extending these data back or forward.

type dummies for each of the eight different quantity measures included in the database.<sup>28</sup>

MFA quotas and shipments were merged with Bureau of Labor Statistics data on numbers of establishments, wage bill, and total employment. Wages, employment, and establishments are recorded annually, at the four-digit Standard Industrial Classification (SIC). To merge the two sets of data, we created a concordance between the SIC and the MFA categories. Since there were fewer than 100 SIC codes for textiles and apparel (SIC categories 22 and 23) but several hundred MFA categories, this required sometimes using the same SIC code for several different MFA categories. Real wages were computed by dividing the wage bill by the number of employees then deflating by the consumer price index.

Information on U.S. production and total U.S. imports, in physical units and by MFA category, is collected by the Textile Division of the U.S. Department of Commerce. The import data aggregates over all imports into the United States. Using this data, import penetration was calculated as the share of imports in domestic consumption, defined as the sum of imports and domestic production. Although it would have been preferable to subtract U.S. exports in calculating import penetration, this information was not available by MFA category.

The import penetration and production data was directly merged by MFA category with the database on quotas and shipments. Source-country GDP (in real levels), GDP growth rates, U.S. total exports to each MFA exporter, and exchange rates were all taken from World Bank sources. The exchange rate, in dollars per unit of foreign currency, was converted to an index using 1981 as a base year.

Data on U.S. capital stock for the four-digit SIC categories that include textiles and apparel was taken from the NBER trade data file. Details on construction of the capital variable is provided by Abowd (1991). Using variables from the NBER trade files, we constructed a profits variable using the following definition:

$$(3) \quad \text{Profits} = (\text{Value added} - \text{Payroll}) / (\text{Value of shipments}).$$

The profits variable could also be regarded as the capital share in the value of output, or the return to capital normalized by the value of output. One problem with such a measure is that it is likely to be higher in sectors with greater capital intensity. To the extent that the capital stock or some other measure of capital intensity is included in the regression, however, this problem is less severe. Other shortcomings of this profit measure, which has been frequently used in the empirical industrial organization literature, are discussed in Schmalensee (1986). Since the capital stock variable is only available in the NBER

28. Physical quantities are reported in the following different units: dozens, square meters, square yards, kilograms, dozen pairs, pieces, pounds, and square feet.

trade files until 1986, we will present results with and without the capital and profit variables.

There are at least two potentially important sample selection issues which arise in assembling this data set. The first is that the database generally excludes most industrial countries, with the exception of Japan and Canada. Consequently, the sample of countries is incomplete. For a complete analysis, we would need to include all exporters to the United States, including industrial country sources such as Italy. This is an ongoing project for future work. In the meantime, however, it is possible that the results are subject to sample selection bias. For example, if only the poorer countries are included in the sample, then it is likely that the coefficient on real GDP presents inconsistent estimates of the relationship between exporter wealth and U.S. protection.

A second source of selection bias is the sample's restriction by data availability. In particular, only those observations are included which have nonmissing information on wages, employment, U.S. production, and total U.S. imports. If the Department of Commerce is more likely to have nonmissing data for products with high import or production volumes, this could also lead to selection bias.

#### 4.7.4 Empirical Results

Table 4.8 provides an overview of the trends in MFA quota coverage during the 1980s. For each country in the database, we computed average quota utilization for 1981, 1985, and 1989 by dividing actual shipments (in physical units) by quota allocations. The fourth column reports the average growth rate in quota allocations by country, averaging over all product categories for each country. The last column reports the magnitude of U.S. exports to each country in 1989.

In the first three columns, a missing value indicates that no quotas were imposed on the exporting country. It is evident from table 4.8 that the coverage of the MFA, in terms of affected countries, increased significantly in the 1980s. In 1981, only 22 countries had ceilings imposed on their exports of textiles and garments; by 1989, the number of quota-constrained countries—which totaled 38 in all—had nearly doubled.

The extent to which these quotas were actually binding is the topic of another paper. However, it is clear from table 4.8 that several major textile exporters attained levels very close to the quota ceiling. On average, China, Taiwan, and Hong Kong filled their quotas by over 80 percent across all MFA categories. India increased its average utilization rate from 20 percent in 1981 to 73 percent in 1989; Mexico increased from 26 to 63 percent.

Despite the significant increase in quota coverage during the 1980s, however, quota ceilings were also significantly relaxed. The fourth column in table 4.8 shows that, on average, import quotas increased by almost 6 percent annually. In other words, although coverage increased, imports into the United States were also allowed to rise at a moderate rate, as mandated by the terms

Table 4.8

## MFA Quotas in the 1980s for the United States: An Overview

Country	Quota Utilization by Year (%)			Growth in Quota Allocation 1981-1989	Total U.S. Exports 1989 (millions)
	1981	1985	1989		
Costa Rica	100	78	66	4.2	880
China	91	75	82	10.2	5,807
Taiwan	87	83	70	3.4	11,323
Hong Kong	85	82	79	2.2	6,304
Sri Lanka	85	52	-	10.0	143
Malaysia	83	77	53	16.0	2,875
Korea	82	86	74	1.0	13,478
Dominican Republic	81	71	-	13.2	1,646
Pakistan	55	54	43	1.6	1,136
Japan	49	81	27	-1.6	44,584
Haiti	39	39	36	7.0	474
Philippines	29	37	70	3.0	2,206
Mexico	26	30	63	2.6	24,969
Brazil	22	56	45	4.8	4,799
India	20	73	73	4.6	2,463
Macao	20	24	29	-0.6	11
Singapore	20	21	29	2.0	7,353
Thailand	16	75	78	11.6	2,292
Romania	13	13	8	-3.4	156
Colombia	11	15	26	-10.2	1,916
Poland	9	7	9	-2.2	414
Yugoslavia	0	66	46	12.4	501
Turkey	-	91	-	83.4	2,004
Egypt	-	77	31	1.8	2,610
Guam	-	75	60	2.6	2
Indonesia	-	74	87	11.4	1,256
Hungary	-	63	55	8.4	122
Uruguay	-	45	-	15.6	133
Mauritius	-	45	59	10.0	12
Peru	-	35	41	-2.2	690
Pacific Islands	-	34	-	4.8	-
Guatemala	-	14	95	5.8	662
Maldives	-	11	-	0.4	3
Panama	-	5	1	-9.2	729
Bangladesh	-	-	84	17.4	282
United Arab Emirates	-	-	79	35.8	1,240
El Salvador	-	-	66	-39.6	521
East Germany	-	-	60	0.0	94
Jamaica	-	-	37	18.8	1,009
Burma	-	-	35	5.8	5
Northern Marianas	-	-	32	5.8	-
Nepal	-	-	28	3.8	9
Canada	-	-	21	-	78,266
Trinidad and Tobago	-	-	1	12.4	562
Average across all countries	47	52	49	5.7	-



of the MFA. In some cases the increase in quota allocations exceeded 10 percent per year (such as in China, Malaysia, Dominican Republic, Thailand, Turkey, Indonesia, Uruguay, Bangladesh, Jamaica, and Trinidad and Tobago). The combination of increasing quota coverage and increasing access to U.S. markets is a key characteristic of the MFA, which has sought to both increase access by developing countries to industrial countries and yet ensure an orderly process which would minimize “market disruption” in industrial country markets. There are some notable exceptions, however. Quota allocations to two of the largest exporters—Taiwan and Hong Kong—increased by less than 4 percent; allocations to Japan actually declined by almost 2 percent annually.

In table 4.9, we compare the means for wages, employment, and all the other independent variables for the quota-constrained and unconstrained MFA categories. Although these comparisons fail to control for other factors, they do provide a general indication of differences in economic conditions across protected and unprotected sectors.

A series of *t*-tests were used to test the hypothesis that the means are equal across protected and unprotected products. A high *t*-value indicates a rejection of the hypothesis that means are equal across the two groups. Column (3) in table 4.9 shows that the means are statistically different for wages, capital stock, number of plants, average plant size, import penetration, GDP growth in the exporting country, and capital/labor ratio.

The results suggest that wages are lower in protected categories, confirming the predictions of both theoretical models and anecdotal reports on protection in the U.S. textile industry. As pointed out earlier, however, this could simply reflect the United States’ greater comparative advantage in high-wage sectors. The results also point to a higher number of plants, smaller plant sizes, and greater import penetration (in levels) in protected sectors. Using either the capital stock or the capital/labor ratio as a measure of capital intensity, we find that no-quota sectors are significantly more capital intensive. Finally, the results show that quota-constrained countries exhibit higher GDP growth rates.

#### *The “Yes-No” Model*

The logit results from estimating the probability of imposing a quota as a function of the *x*-vector of independent variables are presented in table 4.10. All specifications include annual dummies, but the coefficients on the year effects are not reported in the table. Since capital and profit variables are only available until 1986, columns (1) and (2) report the results from excluding these two variables, which nearly doubles the sample size. Columns (3)–(6) report the results from using two different measures for capital: changes in capital stock and capital/labor ratio. Each of these three basic specifications is reported with and without the inclusion of average plant size. Since plant size is defined in terms of two other variables (number of employees divided by number of plants) we exclude it from some of the specifications to control for potential collinearity problems.

**Table 4.9** *t*-Tests of Differences across Protected and Unprotected MFA Categories, 1981–89

Variable	No Quotas (1)	Quotas (2)	<i>t</i> -Value for <i>t</i> -Test of Means (3)
Change in U.S. production	-0.02 (.32)	-0.01 (.30)	1.67
Change in employment			
Change in import penetration	0.015 (.06)	0.015 (.06)	0.41
Import penetration	0.32 (.23)	0.35 (.22)	7.88*
Change in capital stock	-0.004 (.027)	-0.004 (.027)	0.37
Profits	0.25 (.05)	0.26 (.04)	0.88
Capital/labor ratio	0.0067 (.006)	0.0064 (.006)	2.81*
Exchange rate	3.87 (1.32)	3.85 (1.28)	1.05
Wages	9.50 (.16)	9.49 (.16)	10.25*
Employment	11.14 (.79)	11.15 (.83)	0.26
Number of plants	6.16 (.98)	6.22 (1.05)	3.78*
Plant size	4.55 (.59)	4.49 (.62)	6.14*
Change in U.S. exports	0.033 (.37)	0.028 (.29)	0.89
GDP growth in quota country	3.20 (4.93)	4.15 (4.80)	13.49*

*Note:* Numbers in parentheses are standard errors. All variables except profits, capital/labor ratio, GDP growth, import penetration (levels and differences), and U.S. production are measured in logarithms. All variables except exchange rate, GDP growth, and change in U.S. exports are measured at time  $t-1$  for a quota imposed in period  $t$ .

\*Rejection of equal means across protected and unprotected categories at the 1 percent level.

The coefficients on the independent variables are generally robust across the six different specifications, and the resulting signs and significance levels are consistent with our hypothesis that the MFA criteria are significant determinants of protection, but not the only determinants. As indicated by the stated MFA criteria for protection, high levels of import penetration in the previous year increase the likelihood of a quota. Likewise, lower levels of net investment (change in capital stock) increase the likelihood of protection, as do lower levels of profits.

It was a small surprise to find that changes in U.S. production have no explanatory power in the regression. The capital/labor ratio, which we interpret

**Table 4.10**      **Logit Model of the Decision to Impose a Quota**

Variable	(1)	(2)	(3)	(4)	(5)	(6)
Change in U.S. production (-)	0.06 (.07)	0.06 (.07)	0.14 (.12)	0.13 (.12)	0.20 (.12)	0.19 (.12)
Change in employment	-1.49* (.35)	-1.59* (.33)	-1.40* (.50)	-1.85* (.46)	-1.76* (.48)	-2.08* (.45)
Change in import penetration (+)	-0.72 (.40)	-0.72 (.40)	-0.31 (.55)	-0.37 (.55)	-0.12 (.55)	-0.16 (.55)
Import penetration (+)	0.43* (.08)	0.42* (.08)	0.46* (.10)	0.43* (.10)	0.47* (.10)	0.45* (.10)
Change in capital stock (-)			-3.63* (1.06)	-3.44* (1.05)		
Profits (-)			-1.28* (.56)	-0.94* (.54)	-0.26 (.59)	0.05 (.56)
Capital/labor ratio (-)					10.00 (6.44)	12.01 (6.33)

Exchange rate (-)	-0.03*	-0.03*	-0.08*	-0.08*	-0.08*	-0.08*
	(.01)	(.01)	(.02)	(.02)	(.02)	(.02)
Wages (-)	-0.14	-0.07	-0.80*	-0.53*	-0.74*	-0.59*
	(.14)	(.13)	(.22)	(.19)	(.25)	(.23)
Employment (+)	-0.17*	-0.09*	-0.26*	-0.03	-0.26*	-0.09*
	(.08)	(.04)	(.11)	(.05)	(.11)	(.06)
Number of plants (-)	0.19*	0.12*	0.32*	0.12*	0.28*	0.14*
	(.07)	(.03)	(.09)	(.04)	(.09)	(.05)
Plant size (+)	0.08		0.23*		0.18*	
	(.07)		(.10)		(.10)	
Change in U.S. exports (-)	0.00	0.00	-0.42*	-0.42*	-0.42*	-0.42*
	(.05)	(.05)	(.09)	(.09)	(.09)	(.09)
GDP growth in quota country (+)	0.06*	0.06*	0.06	0.06	0.06	0.06
	(.00)	(.00)	(.00)	(.00)	(.00)	(.00)
<i>N</i>	20,609	20,609	12,961	12,961	12,961	12,961

*Note:* Numbers in parentheses are standard errors. All equations include annual time dummies. Constant terms not reported. All variables except profits, capital/labor ratio, GDP growth, import penetration (levels and differences), and U.S. production are measured in logarithms. All variables except exchange rate, GDP growth, and change in U.S. exports are measured at time  $t-1$  for a quota imposed in period  $t$ .

\*Significant at the 5 percent level.

as an indicator of U.S. comparative advantage, also is insignificant. We had hypothesized that the higher the capital/labor ratio of a sector the stronger should be U.S. comparative advantage and the lesser the likelihood that the sector will experience a degree of import competition sufficient to cause it to ask for quota protection. The exchange rate, measuring the dollar cost of the exporting country's currency should have a similar impact, though over time rather than across sectors. The exchange rate is significant, but the capital/labor ratio is not.

The political variables that are significant reflect both the equity concern and the political organization models of protection. Sectors with lower wage rates tend more often to be protected, likewise for sectors with relatively large plants. Large plant size represents both a barrier to possible entry and a likelihood that managerial organization is sufficiently large to permit some managerial resources to be made available for political action. These results suggest that textile producers who are numerous and relatively large (in terms of total employment) are most effective in lobbying for protection.

Some of the correlations we found were not expected, for example, a negative correlation between the size of the workforce and the probability of protection. Perhaps the explanation is that sectors with fewer workers are better able to organize and overcome the free-rider problem. The ATMI may also take employment into account in making recommendations for protection, perhaps interpreting a low level of employment as a sign of industry problems. This interpretation might also account for the negative relationship between employment and protection.

The impact of international commercial politics is reflected in the negative correlation between the likelihood of a quota and the growth of U.S. exports to the exporting country. In addition, quotas were more likely to be imposed against countries with higher levels of GDP and against countries whose levels of imports from the United States were large. These variables both reflect foreign export capacity, and in this sense the signs of the correlations make sense. But they are the best indicators we have of the capacity to retaliate, so our results, taken at face value, indicate that a foreign carrot (rapid growth of imports from the United States) does influence U.S. decision makers, but a foreign stick (the threat of retaliation) does not. This is at variance with anecdotal evidence that suggests that China has been effective in defending its export interests by threatening to stop its purchases of U.S. agricultural goods.

Another possible explanation is that, to the extent that richer countries are systematically excluded from the data sample, the coefficient on the level of GDP is upward. Thus, if the sample also included industrial country trade partners of the United States, that is, countries not subject to quota constraints under the MFA, we might have found that higher levels of GDP are associated with lower protection. If more powerful countries (as measured by the level of GDP) are less likely to be the target of U.S. protectionism, then this suggests an inverted U-shape between exporter GDP and U.S. protectionism. Very poor

countries and very rich countries are less likely to be quota constrained than middle-income developing countries.<sup>29</sup>

### *The “Size of the Quota” Model*

The logit results show the impact of various factors on the probability of a quota. The Tobit estimates, presented in table 4.11, examine the impact of these same factors on the *size* of the quota. The extent to which the estimates in table 4.10 and table 4.11 are consistent will depend on whether the process which generates whether or not to impose a quota also determines the size of the quota. Let us assume that the two decisions are generated in the same way. Since a larger quota allocation reflects a less restrictive trade policy, then the sign on the coefficients in table 4.10 should be reversed in table 4.11. For example, if higher wages were negatively associated with the probability of a quota in the logit results, then higher wages should be positively associated with bigger quotas (less restrictive trade policies) in the Tobit estimates.

The dependent variable in the Tobit estimates in table 4.11 is the logarithm of the quota allocation, which is specified in physical units. Product dummies are included to account for the fact that not all MFA categories are measured in the same units. The coefficients on wages, employment, number of plants, plant size, GDP, U.S. exports, and exchange rate—which are all measured in logarithms—can be interpreted as elasticities. In column (1), a 1 percent increase in wages leads to a 5.4 percent increase in the level of the quota, which indicates looser quotas (i.e., less protection) in products where U.S. workers earn higher wages.

The results from the Tobit specification (“size of quota” model) are consistent with the logit estimates (“yes-no” model). The same MFA variables and political variables are significant in the two specifications, while their signs—as hypothesized—are reversed from one model to the other. The Tobit results point to a strong relationship between quota size and the indicators of market disruption sanctioned by the MFA. The coefficient on change in employment,

29. Omitted product- and country-specific effects that are unobserved and remain constant over time are a possible source of bias in the estimates presented in table 4.10. In a linear regression framework, these unobserved effects could be accounted for by introducing product and country dummies, or by taking deviations from product-country means. In a logit framework, the problem is considerably more complicated. However, Chamberlain (1980) proposed an approach which allows these so-called fixed effects to be taken into account using conventional estimation methods. In the two-period case, consistent estimates can be obtained by only keeping those cases where quota coverage switched from 0 to 1 (or vice versa) over time. The resulting pairs of (0,1) and (1,0) observations are then estimated as a function of the  $x$  variables differenced over the two periods.

We applied this approach to the 1983–89 and 1983–86 periods to examine the robustness of our original specification. Since the resulting point estimates were either comparable to the results in table 4.10 or statistically insignificant, they are not reported here. A large share of the estimates, although consistent with table 4.10, were statistically insignificant. One possible reason for this is that the cross-section variation in the sample is much greater than the time-series variation, which is used to identify the fixed effect model.

**Table 4.11 Tobit Specification of the Distribution of Quota Allocations across Textile and Garment Exporters to the United States: Dependent Variable = log (Quota)**

Variable	(1)	(2)	(3)	(4)	(5)	(6)
Change in U.S. production (+)	-0.16 (.35)	-0.16 (.35)	-0.62 (.63)	-0.53 (.62)	-0.53 (.63)	-0.45 (.62)
Change in employment (+)	4.48* (1.74)	4.77* (1.69)	5.70* (2.52)	7.35* (2.37)	6.77* (2.43)	8.86* (2.28)
Change in import penetration (-)	2.99 (1.98)	3.01 (1.98)	0.58 (2.77)	0.95 (2.76)	0.52 (2.76)	0.91 (2.75)
Import penetration (-)	-2.13* (.44)	-2.08* (.43)	-2.06* (.55)	-1.92* (.54)	-1.83* (.55)	-1.70* (.55)
Change in capital stock (+)			11.22* (5.67)	11.20* (5.67)		
Profits (+)			-5.60 (4.02)	-6.23 (4.01)	-3.98 (3.99)	-5.36 (3.95)
Capital/labor ratio (+)					145.29* (44.71)	126.90 (43.97)

Exchange rate (+)	0.20*	0.20*	0.50*	0.49*	0.49*	0.49*
	(.06)	(.06)	(.12)	(.12)	(.12)	(.12)
Wages (+)	5.37*	5.18*	9.44*	8.30*	6.33*	5.26*
	(1.07)	(1.03)	(1.54)	(1.41)	(1.74)	(1.68)
Employment (-)	1.67*	1.44*	2.51*	1.59*	2.63*	1.46*
	(.41)	(.23)	(.57)	(.30)	(.57)	(.30)
Number of plants (+)	-1.40	-1.20*	-2.41*	-1.63*	-2.38*	-1.39*
	(.35)	(.18)	(.47)	(.23)	(.47)	(.24)
Plant size (-)	-0.24		-0.94		-1.21*	
	(.35)		(.49)		(.50)	
Change in U.S. exports (+)	0.10	0.10	2.36*	2.36*	2.36*	2.36*
	(.26)	(.26)	(.46)	(.46)	(.46)	(.46)
GDP growth in quota country (-)	-0.24*	-0.24*	-0.25*	-0.25*	-0.25*	-0.25*
	(.02)	(.02)	(.02)	(.02)	(.02)	(.02)
<i>N</i>	20,633	20,633	12,985	12,985	12,985	12,985

*Note:* Numbers in parentheses are standard errors. All equations include annual time dummies and unit dummies (for type of quota). Constant terms not reported. All variables except profits, capital/labor ratio, GDP growth, import penetration (levels and differences), and U.S. production are measured in logarithms. All variables except exchange rate, GDP growth, and change in U.S. exports are measured at time  $t-1$  for a quota imposed in period  $t$ .

\*Significant at the 5 percent level.



which varies from 4.5 to 8.9, suggests that if the rate of growth of employment increased from 0 to 1 percentage point annually, import quotas would expand between 4.5 and 8.9 percent. The coefficient on capital stock, which is 11.2, implies that if the growth rate of the capital stock were to increase from 0 to 1 percentage point annually, import quotas would expand by 11.2 percent. A 1 percentage point increase in import penetration (which varies between 0 and 1) leads to a reduction in import quotas by between 1.8 and 2.1 percent. This is a very large effect: if import penetration increased from 0 to 10 percent of domestic consumption, this would imply a contraction in quota levels of 20 percent.

The impact of several of the political variables is also significant. A 1 percent increase in wages leads to a 5 to 9 percent increase in the level of the quota. This suggests that the equity concern factor is important—more protection is granted when U.S. workers earn lower wages.

The size of the workforce, number of plants, and plant size have smaller effects. A 1 percent increase in employment leads to between 1.4 and 2.6 percent increase in the size of the quota, suggesting a negative relationship between size of the workforce and probability of protection. Higher numbers of plants and larger plant sizes are both associated with more restrictive quotas: a 1 percent increase in the number of plants decreases the size of the quota by 1.2 to 2.4 percent. A 1 percent increase in plant size reduces the size of the quota allocation between 0.2 and 1.2 percent.

Consistent with the earlier results, richer countries and countries with high GDP growth rates are subject to more-restrictive quotas. Countries which increase GDP growth rates by 1 percentage point can expect a 24 percent contraction in export quotas. As in table 4.10, the results point to a negative relationship between the growth in U.S. exports and quota protection. The point estimates indicate that a 1 percentage point increase in U.S. exports to an MFA exporter leads to an expansion in its quota allocation (on average) of between 0.1 and 2.4 percent.

#### 4.7.5 Lessons

Based on our analysis of the pattern of quota coverage under the MFA during the 1980s, we can draw the following lessons:

1. The coverage of the MFA expanded significantly during the 1980s. Despite the increased quota coverage, however, the protection received by the industry was porous. Quota utilization rates were, on average, considerably below 100 percent. Quota allocations, which grew at slightly below 6 percent annually in real terms, grew at an even faster pace for some of the major exporters, such as China. Although there is strong evidence that increased import penetration led to expanded quota coverage and more restrictive quotas, quota allocations were also adjusted upward to account for growing import volumes.
2. The determinants of protection *within* the industry are likely to be quite different from the determinants of protection across different industries. These

differences can be traced to the political process itself. The power to draw votes was an important factor in gathering national support for the passage of the STA, LTA, and MFA. This suggests that the industry's large share of manufacturing employment in the 1950s and 1960s was a major factor in contributing to the industry's success in winning protection. Within the industry, however, it appears that textile and apparel producers who represented a smaller share of the labor force—as proxied by the total number of employees—were better able to win protection.

3. In general, textile and apparel producers with the following characteristics were more likely to win protection: fewer employees, more plants, lower wages, lower profits, falling investment, higher import penetration, and larger plant sizes.

4. *Among countries against which quotas are imposed*, richer countries and countries with higher growth rates were more likely to have quota restraints imposed on their exports. Since our sample excludes most of the industrial countries, the results suggest that the richest developing country suppliers (such as Hong Kong and Taiwan) had almost no negotiating power. Countries not included in our sample—the industrial countries, except Japan—are absent because they are powerful enough to avoid having their exports of textiles and clothing subjected to MFA quotas. The countries with enough political power to avoid protection were excluded from the sample—the majority of the industrial countries. This suggests an inverted-U curve between U.S. protectionism and level of exporter GDP: the richest and poorest countries escape protection. Among the middle-income developing countries, the most successful exporters (measured in terms of levels or growth rates of GDP) were punished with higher quotas.

5. Countries that bought increasing volumes of U.S. exports were also less likely to face greater protection.

#### **4.8 Evaluation**

We are now in a position to evaluate several basic questions relating to the protection that the textile industry has received:

1. What range of mechanisms was available to the industry, and why did the industry use one or several of these more effectively than others?

2. Was the economic and political organization of the industry a significant factor?

3. What was the nature of opposition to the industry's pressure for protection, and how did it influence the degree or form of protection that the industry received?

4. What factors influenced the pattern of quotas across textile and apparel products and MFA suppliers?

The key to the industry's political power in the 1950s and 1960s, when it gained and institutionalized a significantly higher degree of protection than

any other industry, was that it was the leading industry in the South, and the South enjoyed disproportionate power in the U.S. Congress. In the northern states (see Bauer, Pool, and Dexter 1972), the textile industry was on the decline, and although the traditional protectionist stance was maintained, it was mostly passive. Despite a few representatives who strongly supported protection for textiles, most northern representatives focused on securing funds for “regional development” and on attracting diversified industries to the region.<sup>30</sup>

The South drew its power in Congress from the intersection of the seniority of Southern senators and representatives and the power that seniority enjoyed in the committee systems of the House and Senate. In the 87th Congress (1961–62), Southern Democrats held the chairs of 11 of 18 standing committees in the Senate and 13 of 21 standing committees of the House. Their influence over agricultural legislation (which they used to put domestic legal teeth into the international textile agreements) was particularly strong. In the House, Southern Democrats held the chair of the Agriculture Committee and provided, in addition, the eight senior members of the committee. They chaired 12 of 14 standing subcommittees on agriculture. In the Senate, a Southern Democrat chaired the Agriculture Committee, five of six senior members were Southern Democrats, and Southern Democrats held the chairs of the four standing subcommittees on agriculture.<sup>31</sup> Table 4.12 shows that in the 1950s the textile and apparel industries accounted for a significant share of manufacturing jobs in all the Southern states—over half of the manufacturing jobs in several of them.

The political power of Southern textile interests, combined with a lack of opposition from other industries, meant that the executive branch was forced to make important concessions to the textile and apparel industries. These concessions were made in spite of the fact that the executive perceived foreign policy interests as best served by a policy of free trade. By the 1990s, however, the balance of power had shifted away from the textile and apparel interests.

In 1994, the U.S. government signed the Uruguay Round agreement, which provides that all textile and apparel quotas be eliminated within 10 years. Yet this loss by the industry does not reflect any realization by the U.S. voting public or even the U.S. government that protecting textile and apparel products came at a significant cost to U.S. consumers. Rather, it reflects two unrelated factors. First, changes in congressional rules and Southern voting patterns diminished the Southern delegation’s influence. Second, support for U.S. textile and apparel producers weakened as Asian countries that are major textile exporters gained importance as markets for U.S. exports. Textile-exporting countries such as China are now valued as markets for services and technology-

30. Bauer et al. (1972, 306) point out that “in 1946, the industry (woolen-worsted industry) employed 28000 in Textiletown, but . . . late in 1953, most of the mills had moved South, and textile employment ran to only 6000 or 7000 persons. Furthermore, at least half of this employment was threatened by the prospect of some of the remaining mills closing.”

31. Tabulated from Congressional Quarterly, Inc. (1961, 1962).

**Table 4.12** Employment in the Textile and Apparel Industries as a Percentage of Total Manufacturing Employment, by State, 1963

State	Textiles	Apparel	Textiles and Apparel
Alabama	14	13	27
Georgia	27	15	42
North Carolina	42	9	51
South Carolina	50	14	64
Tennessee	18	16	34
Mississippi	4	24	28
Virginia	12	10	22
Florida	1	15	16
Rhode Island	21	3	24
Connecticut	3	4	7
Massachusetts	6	9	15
New Jersey	3	9	13
New York	3	16	20
Pennsylvania	5	12	17

Source: U.S. Bureau of the Census, *Census of Manufacturing, 1963. Vol. 3, Area Statistics* (Washington, D.C.: Government Printing Office, 1966), table 6.

based products. Consequently, the mercantilist interests of the U.S. textile and apparel industry were traded for those of other U.S. producers.

#### 4.8.1 Mechanisms

The most direct way to achieve protection is to petition for legislative action that grants protection—a tariff increase or a quota voted explicitly by Congress. The textile industry had considerable influence in Congress, but Congress was reluctant to take up directly protectionist legislation. Part of the explanation for this reluctance was the memory of the Smoot-Hawley Tariff. Another part was the considerable sympathy in Congress for the liberal foreign policy view of U.S. trade policy—a view that dominated and is most associated with executive branch thinking. Congress thus was a willing co-conspirator with the executive in the evolution of a system of indirect and administered protection that infrequently provided protection, though it did provide representatives and senators a degree of political protection from protection-seeking constituents. And finally, protection voted directly by Congress would have little chance of avoiding a presidential veto.<sup>32</sup>

The threat of legislated protection for the industry was frequently used to push executive use of the authority that the existing trade remedies process provided. Beginning as early as the 1950s, the threat of congressional action

32. A presidential veto might have been avoided by attaching an amendment providing protection for the textile industry to a bill the president would not want to lose. But the industry was not able to achieve this, e.g., in 1955 losing by two votes in an attempt to add to the foreign aid bill an amendment that would have imposed quotas on textile imports.

provided leverage with the Japanese industry and government in the negotiation of VERs.

#### 4.8.2 Administered Protection

The textile industry used the administrative mechanisms that were available, filing both escape clause and section 22 (of the AAA) cases. These avenues could be used to provide the executive with the authority to restrict imports, but they did not mandate that the executive use that authority. Having failed in the 1950s to force the executive to use the authority that existing administrative protection mechanisms provided, the industry made minimal effort to use its influence to have Congress eliminate the discretion these mechanisms allowed the executive. That would be a strategy developed later, in the late 1970s and the 1980s, and principally by other industries.

Eventually the industry was successful in forcing the creation of an administrative mechanism specifically for its benefit. The mechanism was internationally sanctioned by the MFA and its predecessor cotton agreements, but its legal base was the authority that domestic law gave the president to restrict U.S. imports of textiles and clothing. But, while this special purpose mechanism did provide protection for the industry, it did not isolate the determination of how much protection from the political influences that worked against such protection.

#### 4.8.3 Voluntary Export Restraints

The VER was an instrument that accommodated the various influences that came together to shape protection. Pressure for protection from the textile industry was, of course, one of these influences, but there were counterpressures as well. In the 1930s, after the Smoot-Hawley Tariff was enacted and other countries had retaliated, governments were wary of triggering further retaliation. Negotiation with the exporting country was the usual response to domestic pressure for increased protection. The success of the reciprocal trade agreements program and the creation under U.S. leadership of the GATT intensified the U.S. executive's focus on negotiation as the way to establish trade policy. Along with these changes came an increased reluctance to limit U.S. imports, even through negotiations. Under pressure, however, the executive would turn to the VER. It minimized harm to the "relationship" that existed between the United States and the exporting country.<sup>33</sup>

33. The quotation above from George Ball is an example of the routine use of the phrase "the relationship" in State Department conceptions of international policy. One of the authors of this paper, Finger, remembers interagency discussions in the 1970s over the various proposals for a New International Economic Order, e.g., commodity agreements and tariff preferences for developing countries, in which State Department arguments stressed that U.S. support for such proposals was important to maintaining "the relationship" between the United States and developing countries. In a discussion of the proposed international tin agreement, Finger suggested that the

#### 4.8.4 Organization

The existence of the ATMI certainly facilitated the presentation of the industry's case for protection. But the existence of such an organization was not unique to the textile industry, and the tightness of the organization seems more likely the result of the means through which the industry gained protection than an exogenous determinant of that protection.

Many U.S. industry organizations trace their beginnings to the way in which the U.S. government mobilized industry for World War I. Later, the National Recovery Act spurred another round of organization, to implement President Franklin Roosevelt's policies to pull the U.S. economy out of the 1930s depression. At the same time, the Japanese government had sponsored a reorganization of Japanese industries. Thus industry organizations similar to those that existed in the United States and in Japan existed in many industries.

The ATMI was, in the 1950s, the American Cotton Manufacturers Institute (ACMI). The particular association between cotton manufacture and the strength of the Southern congressional delegation led to the cotton manufacturers being the first segment of the industry to win protection. Later, the association of wool manufacturers was merged into the ACMI, which became the ATMI. The manufacture of products from man-made fibers was developed on the whole by companies that began in cotton textile manufacture.

A feature of the textile industry that may have contributed to its political success was that the industry includes a number of very large companies plus a large number of relatively small ones. The presence of large companies meant that among them political organization was relatively easy—among them, the free-rider problem was minimal. In addition, the large number of small companies contributes a large roll of dues-paying members and the basis for wide public sympathy. The size distribution of firms in the industry may enable it to take advantage of both the adding machine and the pressure group routes to protection.

#### 4.8.5 Adaptation

Adaptation to circumstances and to opportunities was an important element in the industry's gaining import protection. The use of VERs as the major instrument, as explained above, was an adaptation rather than an exogenous strategy of the industry. Likewise, the idea of international negotiations to sanction textile agreements was not an explicit strategy of the industry, but when the Kennedy administration undertook such negotiations as the means of providing protection that would do the least damage to its foreign policy, the industry

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tin agreement would mean the United States would pay more for tin and asked for a list of the economic benefits the United States might be able to extract from tin-exporting countries through the relationship that U.S. support for the tin agreement would establish. The question was never answered; indeed, it was treated as if it were too vulgar to warrant answering.

quietly and skillfully secured passage of legislation that would give the authority to enforce such agreements to the U.S. government—removing dependence on the exporting country for enforcement.

Another indication of successful adaptation involved the treatment of the European Community. The industry in the 1960s wanted quotas on imports from Europe as well as on imports from Asia. But the politics of reaching international agreement eventually shifted the U.S. industry to treat European producers as allies rather than as competitors. Also, the strongly pro-European foreign policy position of the U.S. government in the 1960s and 1970s made the U.S. executive branch a less than enthusiastic colleague in restraining European exports. The accommodation that evolved was to leave the tariff on textiles relatively high while controlling Asian exports with quotas. The tariff was sufficient to provide relief from European producers, whose costs were significantly higher than those of Asian producers.

#### 4.8.6 Opposition

Domestic opposition to the industry's pressure for protection came primarily from within the U.S. government—the executive's unwillingness to take action against imports. The executive could count on support from U.S. heavy industry and from large U.S. banks when it sought authority to negotiate at the GATT to reduce U.S. protection, but U.S. business provided no direct opposition to textile industry petitions for protection. The auto industry, for example, would support President Kennedy's TEA but it would not testify at an escape clause or section 22 investigation that restrictions on textile exports would increase its costs and thereby endanger jobs in the auto industry.

Bauer et al. (1972, 218) note that a reluctance to directly oppose another business' petition for government assistance was a part of U.S. business ethics in the 1950s and 1960s. Schattschneider (1935, 144) likewise noted that in testimony before the congressional committees that wrote the Smoot-Hawley Tariff, companies whose costs would be increased by a tariff increase requested by another company would oppose that company's request. They would ask for a compensating increase in their own request.

The success of the textile industry in securing legislation to implement with controls at the U.S. border international agreements such as the LTA and the MFA can be ascribed to the lack of direct opposition to textile industry protection. This lack of opposition was due in part to the skill and the power of the Southern congressional delegation. Because this delegation controlled important agricultural committees, it could use agricultural legislation as a vehicle to pass *implementing legislation* for the agreements the executive was negotiating. For example, in 1962, as the STA was being negotiated, the industry gained passage of an amendment to section 204 of the Agriculture Act. Section 204, before the amendment, gave the president power to negotiate limits on exports to the United States of agricultural products and of textiles and to enforce with U.S. import restrictions such agreements. The amendment gave

the president power to limit imports from countries *not party* to the agreement (Curtis and Vastine 1971, 167). Congressman Thomas Curtis, a strong supporter of the liberal trade program usually identified with the executive, complained that the amendment had been passed after less than one hour's debate and had been seen before that only by the industry and by the administration that was committed to providing protection for the industry. Curtis also pointed out that this back-room action took place at the very time Congress was holding public hearings on the TEA (Curtis and Vastine 1971, 167).

Consumer groups in opposition to the textile industry's protection were not active until the 1980s, when the renewals of the MFA became political events. Before, consumer groups were weaker and focused primarily on regulation of health, safety, and product standards. Furthermore, the AFL-CIO, which was opposed to trade liberalization, was an important funding source.<sup>34</sup>

While foreign governments were minimally active in opposing creation of the STA and the LTA, by the 1970s, when the first MFA was negotiated, they became perhaps the major source of direct opposition to U.S. textile protection.

#### 4.8.7 MFA Quota Allocations

Although the coverage of the MFA expanded significantly during the 1980s, the protection was leaky. Quota utilization rates were, on average, considerably below 100 percent. Quota allocations, which grew at slightly below 6 percent annually in real terms, grew at an even faster pace for some of the major exporters, such as China. Although there is strong evidence that increased import penetration led to expanded quota coverage and more restrictive quotas, quota allocations were also adjusted upward to account for growing import volumes.

Domestic politics had a lot to do with how quotas were set. In general, textile and apparel producers with the following characteristics were more likely to win protection: fewer employees, more plants, lower wages, lower profits, falling investment, higher import penetration, and larger plant sizes.

The MFA and the predecessor international cotton agreements, by establishing "market disruption" as a legitimate reason for restricting imports, had the effect of sanctioning such domestic considerations, but, of course, only for the textile and apparel industries.

We also found that while the MFA effectively legitimized market disruption as a reason for protection, it did not succeed in isolating market disruption as the *only* determinant. Other influences have a role in quota determination, and some of these influences—particularly international political influences—tend toward looser restrictions. Countries that increased their demand for total U.S. exports are rewarded with larger quotas. Furthermore, the industrial countries (except Japan) avoided the U.S. MFA, but poorer developing countries are less likely to have quota restraints imposed on their exports than richer ones. This

34. From conversations with textile industry association officials.



suggests an inverted-U curve between U.S. protectionism and level of exporter GDP: the richest and poorest countries escape protection. Among the middle-income developing countries, the most successful exporters (measured in terms of levels or growth rates of GDP) were punished with higher quotas.

#### 4.8.8 Summing Up

All told, the major factors underlying the success of the textile industry in winning protection were: (1) the political power of the industry, based on its close association with the Southern congressional delegation; (2) the relatively weak influence over U.S. policy of the Asian countries against which export restraints were directed; and (3) the success of the industry in adjusting its demands on the form of protection that it wanted to the possibilities allowed by the international politics of the day.

## Appendix

**Table 4A.1** Statistics for the Textile and Apparel Industries, 1960–85

Year	Employment (thousands)	Value of Output (million 1972 \$)	Import Penetration (%)	Export Share (%)	Relative Wages <sup>a</sup>	Profits <sup>b</sup>	Unionization (%)
<i>Textiles</i>							
1960	895	15,194	5.5	3.4	0.65	0.18	17.3
1965	893	19,911	6.0	2.6	0.67	0.19	17.5
1970	924	23,861	5.9	2.4	0.71	0.19	17.5
1975	835	25,304	6.0	4.9	0.66	0.18	17.4
1980	817	29,477	7.0	6.9	0.66	0.21	15.4
1985	658	29,076	12.1	3.6	0.64	0.20	–
<i>Apparel</i>							
1960	1,288	19,801	1.9	1.3	0.56	0.17	36.5
1965	1,420	23,787	2.7	1.0	0.56	0.20	36.5
1970	1,441	26,102	5.1	1.0	0.57	0.23	36.4
1975	1,214	26,288	8.3	1.9	0.54	0.23	35.6
1980	1,307	29,527	12.9	3.5	0.50	0.26	31.5
1985	1,064	31,138	26.4	1.8	0.50	0.27	–

<sup>a</sup>Relative wages are defined as average wages in the sector divided by average wages in the rest of manufacturing.

<sup>b</sup>Profits defined as (value-added-remuneration to labor)/value of shipments.

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## Comment Robert E. Baldwin

It is a pleasure to read a paper that presents a general survey of how protection in the textile and apparel sectors has evolved over time. There have been numerous papers analyzing particular aspects of protection in these sectors or particular periods of protection, but few with as broad a historical perspective as this one.

A major task of any paper on textile and apparel protection is to explain how and why these sectors have obtained such high levels of protection. As the authors' data indicate, in the 1950s and the 1960s when quantitative import restrictions in these sectors became significant, the level of import penetration in textiles was only around 6 percent and in apparel only about 3 percent. How does one explain why many other industries with much higher import penetration levels did not also receive significant protection at this time?

One explanation offered by the authors is that senators and representatives from southern states enjoyed special influence in Congress because of their long tenure and the practice of choosing committee chairs on the basis of seniority. Most would agree that this must have been an important part of the explanation. However, one should ask why the increased protection did not come earlier, since members from southern states had this special power long before the 1950s and 1960s. One should also consider whether the decline in the power of southern members of Congress as a result of congressional reforms in the 1970s and 1980s made it more difficult for the textile and apparel sectors to gain protection.

Wasn't one of the factors accounting for textile and apparel protection in the 1950s and 1960s the significant rise in textile and apparel employment in the South during these years as these industries moved out of New England? The resulting increase in the size of the bloc of votes represented by these industries then made it worthwhile for southern legislators to exercise their special congressional power.

Another point made by the authors is that the executive branch treated trade policy as foreign policy during this period and, therefore, was reluctant to grant import protection for fear of undermining its foreign policy goals. In my view, this is a key factor not only in explaining the difficulty in gaining protection in the 1940s and 1950s, but in explaining why it became much easier for indus-

tries to receive protection in the 1960s and later. By the 1960s, Europe and Japan had restored production to their prewar levels, and there was less force to the argument that we needed a liberal trade policy to help other countries become economically strong in order to resist Communist expansion. Consequently, the foreign policy implications of trade policy were much less important for the United States by the 1960s.

In analyzing protection in the textile and apparel sectors, the authors mention, but do not discuss, that the quotas established under the Multi-Fiber Arrangement will be phased out over a 10-year period under the Uruguay Round agreements. How do we explain this significant shift in policy in view of the fact that, as they point out, tough quotas were imposed in these sectors as late as 1986? It would be helpful, incidentally, if the authors presented a table indicating just how average levels of protection changed in textiles and apparel over recent years.

Picking up on a theme that the authors stress in the early part of their paper, one factor that may help account for the Uruguay Round agreement in textiles and apparel is the shift in the economic power of the developing countries. As the authors point out, the political and economic weakness of these nations in the 1960s and 1970s helps explain the high levels of protection imposed in these years. However, by the late 1980s and early 1990s, international power relationships had changed significantly. In response to the rapidly expanding market opportunities in the developing countries, the United States and other developed countries established as major Uruguay Round negotiating objectives the opening of developing country markets for services, the elimination of their trade-related investment measures, and the strengthening of their enforcement of intellectual property rights. Since the developing countries believed (rightly in my view) that responding favorably to these negotiating goals would lead to severe adjustment problems, they insisted on balancing concessions from the developed countries. In particular, they pressed for liberalization in the textile and apparel sectors since they clearly have a comparative advantage in producing these products. Thus, it seems likely that negotiators from the United States and other developed countries were willing to accept liberalization in the textile and apparel sectors in exchange for acceptance by the developing countries of liberalization of their services trade, elimination of trade-related investment measures, and stricter enforcement of intellectual property rights.

Next let me turn to the empirical analysis in the Finger-Harrison paper. One very interesting point they make is that a private trade association, the American Textile Manufacturers Institute, plays a major role in allocating quotas across countries and across products. Indeed, they found evidence that most of the industry's recommendations are accepted by the government committee making the final decisions. This suggests that they may want to consider how a political economy model in which a private industry makes the decisions differs from one in which the government makes the final trade decisions.

I suspect that notions of fairness and equity play an even greater role in such a model than in a political economy model in which the government makes the trade policy decisions. They do, in fact, find that these concepts seem to be important in decisions on textile and apparel protection. For example, they find that quotas are more likely in textile and apparel product lines in which wages are low, import penetration levels are high, production is very labor intensive, and the size of plants is small. All of these factors can be interpreted as reflecting fairness and equity concerns. Incidentally, in all of this analysis, I think it is important to separate textiles and apparel. They are quite different in terms of such factors as labor intensiveness, skill levels, and size of plant.

One regression result that is somewhat puzzling to the authors is the increased likelihood of quotas being imposed the higher a country's GDP and the greater its exports to the United States. A bargaining power view of the political economy process would lead one to expect a negative correlation. However, causality runs in both directions between these variables. Countries such as Hong Kong and Taiwan were able to achieve high levels of GDP through high exports of textiles and apparel. In the process of raising their income levels through outward-looking policies, the textile and apparel markets of developed countries were disrupted, and their governments imposed quantitative import controls on textiles and apparel. So perhaps it is not surprising to observe a positive association between high GDP levels and highly restrictive quotas.

## Comment I. M. Destler

I find the Finger-Harrison analysis basically on the mark:

- In its rich political history, though this fades away sometime in the Johnson administration;
- In its characterization of the outcome—comprehensive but leaky protection;
- In its characterization of the *form* of textile protection—nonstatutory VERs, with Congress not even ratifying the multilateral and bilateral textile agreements;
- In its conclusions about the structure of interests that brought about this level of protection—a concentration of a few large companies that are natural leaders with a large number of small firms that are natural followers.

I would extend this characterization to the congressional support for textile protection as well: concentration in the Carolinas and Georgia, from which leadership typically comes (Strom Thurmond, Ernest Hollings, and Ed Jenkins), with smaller firms scattered in New York, California, and numerous

other states, resulting in numerous legislators whose constituencies incline them toward support.

There are at least two anomalies that the authors do not address:

- Their basic argument attributes textile protection to the structure of the industry and its *congressional* power base, but its two big breakthroughs—the LTA and the MFA—followed directly from successes in *presidential* politics, from winning promises from John F. Kennedy in 1960 and Richard M. Nixon in 1968.
- The main protection was achieved *before* the big import surge of the 1980s, and the industry was unable to win major new increments in protection in the wake of that surge. So in addition to the intersectoral comparisons suggested by Robert Baldwin and Jagdish Bhagwati, an intertemporal comparison would be useful.

My major problem with the paper, however, is that the two parts do not really mesh. The historical analysis stops in the late 1960s, at least 12 years before the period of the quantitative analysis of specific quotas and levels. Thus the paper omits a lot that is important for its own sake and that could inform the hypothesis testing.

It omits the Nixon interlude in textile policy, which was the polar opposite of the nuanced, foreign policy sensitive, balanced effort under Kennedy.<sup>1</sup> Initially in charge was not the multifaceted George Ball but the monotonic (if not monomaniacal) Maurice Stans. Low politics came to dominate high politics, as the return of Okinawa to Japan was conditioned on Prime Minister Eisaku Sato pledging a textile quota agreement. When he proved unable to deliver, this precipitated arguably the most serious crisis in U.S.-Japan relations from World War II to the present, and it brought Congress closer to enactment of broad statutory protection than it has come from Smoot-Hawley to the present.

The paper also misses the statutory politics of 1985–90, with Congress passing (and Presidents Ronald Reagan and George Bush vetoing) no less than three separate quota bills that the House then failed to override by margins of 8, 11, and 10 votes, respectively. In missing this, it also misses the modest but relevant impact of the apparel retailers, who mobilized against this legislation.

Another development since the 1960s has been the growing divergence in the experiences of the textile and the apparel producers, with the former proving much the more competitive. With this divergence of experience came divergence in their political positions, with the textile mill interests represented by the American Textile Manufacturers Institute (ATMI) (always the political heart of the coalition) increasingly acting in ways that do not serve their apparel brethren. The “triple transformation” test which they extracted on NAFTA is a case in point: it makes sure that any clothing imported from Mexico under NAFTA contains North American fiber and cloth, but it leaves apparel firms competing head to head with Mexican counterparts. The ATMI posture on the

1. For more than many readers may want to know, see Destler, Fukui, and Sato (1979).

General Agreement on Tariffs and Trade is similar, seeking to trade off removal of textile import barriers in Third World countries for its reluctant acquiescence to phase-out of the Multi-Fiber Arrangement (MFA).

And finally, the Finger-Harrison paper does not complete the story of what became the basic formula for industry success and does not discuss its (still puzzling to me) departure from this formula after 1985.

The basic approach, which the paper describes in its treatment of the 1950s and 1960s, was to eschew serious efforts at achieving statutory protection but threaten to block broader trade liberalization measures unless the demands of the textile industry were met by other means. The reigning administration was thus invited to buy the industry's silence, and sometimes even support, on major new multilateral trade rounds.

This was done in the Kennedy Round, as the paper nicely documents, where the Short Term Arrangement/Long Term Arrangement initiated in 1961 cleared the way for the Trade Expansion Act of 1962.

This was done under Nixon and Gerald Ford, when the multifiber agreements with Japan and the East Asian newly industrialized countries in 1971 and the MFA of 1973 put the textile issue aside again, allowing passage of the Trade Act of 1974.

The same device was sprung, suddenly, on Jimmy Carter and Robert Strauss in the fall of 1978, when the textile industry blocked completion of the Tokyo Round by getting the Senate—and then the House—to pass bills retracting all U.S. concessions on textile tariffs. This forced Strauss to negotiate new protection for the industry—in this case a tightening of current quota arrangements with major East Asian suppliers.

A slightly different variant arose in 1983, when the textile industry threatened broad U.S.-China trade relations by submitting a countervailing duty case attacking China's dual exchange rate system as a countervailable subsidy. Rather than risk a possibly disruptive outcome by allowing the case to run its course, the Reagan administration struck a deal: it tightened the screws a bit more on East Asian suppliers, and the ATMI withdrew its suit.

This strategy made possible a mixed, not especially friendly, but positive-sum relationship between industry leaders and administration trade liberalizers. The latter always felt that the industry demanded too much and got too much but that nevertheless bargains could be struck and the liberalizers' top priority could proceed. The question, then, is why the industry abandoned this strategy in the latter part of the 1980s, pursuing instead the will-o'-the-wisp of statutory textile quotas.

When the "Jenkins Bill" mandating global, statutory quotas was introduced in the spring of 1985, it seemed to some a continuation of the old strategy. And in fact, after President Reagan vetoed the bill that fall, industry supporters cleverly got the override vote postponed until summer 1986, so the "threat" would press the administration to toughen its stance in the MFA renewal negotiations. But thereafter, perhaps misled by the seeming closeness of the over-

ride vote (eight votes short of the two-thirds required), and perhaps encouraged by several Democratic victories when the industry targeted Republican Senate and House candidates in the southeastern states that November, the industry made quota legislation its overriding objective.

There was comprehensive trade legislation coming down the track once again in 1987 and 1988. But this time the industry did not seek to block such legislation, or to use the threat of blockage to bargain for new special protection. Indeed, all it asked of congressional leaders was that they promise House and Senate votes on the Jenkins Bill *after* the omnibus legislation went through! It was already fall 1988 when the Senate completed action, and the operative question among Democrats was not whether the bill could be enacted, but whether to let it die in conference (as Ways and Means Chairman Dan Rostenkowski wanted) or to force the president to veto it so that Democrats could use that fact against Republicans in November. Then, after that House override vote predictably failed, the industry pushed the bill through Congress a *third* time in 1990, with virtually identical results. An industry once astute at using Congress to gain its ends was now being *used by Congress*, as members were free to cast symbolic votes for textile protection that they knew (happily, in many cases) would have no impact.

Why? The best reason this observer has heard is that the ATMI staff in Washington—which understood the political game rather well—was overruled by stubborn and willful mill executives, Roger Milliken in particular. This would be an all-too-human explanation of why, in an environment exceptionally favorable for protectionist action, the textile industry failed to deploy the substantial congressional forces it had as leverage for a negotiated outcome.

An alternative explanation might be that this was an industry past its political prime, which sensed that and decided to make one last roll of the dice—in fact, three last rolls—to try to lock in a stronger, statutory regime of protection before its reduced power became evident in the broader trade community. In any case, the industry was less effective in securing new protection in the 1980s, when import growth was fiercest, than it had been in the 1960s and 1970s. A current sign of its limited power—and of the textile-apparel split—is the fact that the industry did not mount a strong campaign against congressional approval of the Uruguay Round agreements phasing out the MFA. So steel may not be the only large U.S. industry whose political capacity to obtain protection has waned.

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