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Trading Places: Industries for Free Trade
Author(s): Helen Milner
Source: *World Politics*, Vol. 40, No. 3 (Apr., 1988), pp. 350-376
Published by: Cambridge University Press
Stable URL: http://www.jstor.org/stable/2010217
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TRADING PLACES: Industries for Free Trade

By HELEN MILNER*

Introduction

TODAY, protectionism is once again a central political issue in the United States. Pressures for protectionism have captured the national attention several times during the 20th century. In the 1920s, U.S. trade policy made a U-turn. Protectionism had declined from the Dingley tariff bill in 1897 until the Fordney-McCumber tariff law of 1922, as the average value of tariffs on dutiable goods fell from 45 percent to 28 percent.[1] But this downward trend was reversed during the 1920s: between 1922 and 1930, the United States closed its market dramatically, with tariffs attaining an ad valorem average of 53 percent.[2] This level, set by the 1930 Smoot-Hawley tariff, was one of the highest ever, and the highest so far in the 20th century.

Beginning in the 1930s, protectionism in the U.S. once again abated. The Reciprocal Trade Agreements Act (R.T.A.A.), which was introduced in 1934 and served as a model for future trade acts, initiated the opening of the American market. Between 1934 and 1972, average U.S. tariff levels declined by some 70 percent.[3] By 1972, tariffs averaged a mere 9.9 percent.[4]

In the early 1970s, the course of U.S. trade policy again became a source of heated debate. Among the questions that were raised about the future of American trade policy was what direction trade policy would take in the 1970s and beyond. Many observers and scholars feared a resurgence of rapidly rising protectionism and international trade wars.[5] Extrapolat-

* I would like to thank David Baldwin, Jeffry Frieden, Stephen Haggard, Robert Keohane, and the participants at the Ford Foundation Conference on Blending Political and Economic Analysis of International Trade Policies for their helpful comments.

[1] Robert Pastor, *Congress and the Politics of U.S. Foreign Economic Policy* (Berkeley: University of California Press, 1980), Table 3, p. 78; David Lake, "International Economic Structures and American Foreign Economic Policy, 1887-1934," *World Politics* 35 (July 1983), 517-43, Table 2, p. 534.

[2] *Ibid.*

[3] U.S. Tariff Commission, *Trade Barriers: An Overview*, No. 665 (Washington, DC: G.P.O., 1974), 81-82.

[4] Pastor (fn. 1), Table 6, p. 119.

[5] Harald Malmgren, "Coming Trade Wars?" *Foreign Policy* 1 (Winter 1970), 115-43; C. Fred Bergsten, "The Crisis in US Trade Policy," *Foreign Affairs* 49 (July 1971), 619-35; June

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ing from previous historical periods of rising and falling protectionism, these analysts expected the 1970s and 1980s to look much more like the 1920s than like the period between 1934 and 1970. In fact, the 1920s were offered frequently as the example for the decade after 1973. For many, the threat of a significant closure of the U.S. market evoked a repetition of the dismal interwar years.

In this article, I challenge that view of the current period. There were sizable differences in trade policy outcomes between the 1920s and the 1970s; these differences are puzzling because they belie the predictions of other theories. I maintain that a primary reason for these different policy outcomes was the growth of international economic interdependence after World War II. By the 1970s, the expansion of these international economic ties helped to dampen pressures for trade barriers as the preferences of industries turned against protectionism. Using evidence from a number of industries in the 1920s and the 1970s, I shall show how the internationalization of firms reduced their interest in protection even in difficult economic times, and thus helped the United States to resist protectionism in the 1970s.

THE PUZZLE

Two common elements, which distinguish the 1920s and the 1970s from the intervening years, seem central in this comparison between their trade policies. First, both the 1920s and the 1970s were times of serious economic distress and instability. Such difficult conditions have been seen as a key precondition for rising protectionist activity. One economist noted:

> It is generally agreed that in a modern industrial economy the cyclical state of the economy and the country's competitive position internationally are the principal determinants of the degree of protectionist pressure. Low levels of economic activity, high unemployment, unused capacity, trade deficits, rapid increases in imports, and increases in import penetration all op-

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Kronholz, "Trade and Currency Wars Deepen the Depression," *Wall Street Journal*, October 23, 1979, p. 1.

Hegemonic stability theorists have also predicted such a resurgence. See Charles Kindleberger, *The World in Depression, 1929-1939* (Berkeley: University of California Press, 1973), esp. 307-8; Robert Gilpin, *US Power and the Multinational Corporation* (New York: Basic Books, 1975), esp. 258-62. For more skeptical views, see Stephen Krasner, "State Power and the Structure of International Trade," *World Politics* 28 (April 1976), 317-47; Robert O. Keohane, "The Theory of Hegemonic Stability and Changes in International Economic Regimes," in Ole Holsti, Randolph Siverson, and Alexander George, eds., *Change in the International System* (Boulder, CO: Westview Press, 1980), 131-62.

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erate to increase the temptation to protect domestic industries from import competition.[6]

Economic difficulties were similar in the two periods, which were marked by relatively high unemployment rates and sizable agricultural and industrial overcapacity. In the 1920s and early 1930s, the U.S. economy suffered two major downturns—one in 1920-1923 and one in 1929-1933. Price deflation, labor unrest, and international monetary problems created further economic instability.[7] In the 1970s, the U.S. economy experienced deep recessions during 1973-1975 and 1978-1982. Sparked by the oil shocks, these recessions were aggravated by rapidly shifting trade patterns, price instability, and a confused international monetary situation. These high levels of economic distress and instability that were felt in the 1920s and 1970s might be expected to generate similar widespread protection.

Indeed, in view of the absolute levels of economic distress during the two periods, the 1970s might have generated even greater levels of market closure than the 1920s.[8] The averages for three major economic indicators all are worse in the 1970s than in the 1920s, as Table 1 indicates.

TABLE 1
AVERAGES FOR THREE MAJOR ECONOMIC INDICATORS
(percent)

	1923-1929	*1973-1979*
Average annual growth in real GNP	3.1	2.3
Average mean value of unemployment rate	3.5	6.8
Average value of non-residential fixed investment to GNP	11.2	10.2

All data from Feldstein (fn.7), 104-5.

[6] Wendy Takacs, "Pressures for Protectionism: An Empirical Analysis," *Economic Inquiry* 19 (October 1981), 687-93, at 687. In general, see Timothy McKeown, "Firms and Tariff Regime Change: Explaining the Demand for Protectionism," *World Politics* 36 (January 1984), 215-33; Giulio Gallarotti, "Toward a Business Cycle Model of Tariffs," *International Organization* 39 (Winter 1985), 155-87; Susan Strange and Roger Tooze, eds., *The International Politics of Surplus Capacity* (London: Butterworths, 1980).

[7] W. Arthur Lewis, *Economic Survey, 1919-1939* (London: Allen & Unwin, 1949); U.S. Department of Commerce, *Survey of Current Business*, various issues, 1919-1930 (Washington, DC: G.P.O.); U.S. Census Bureau, *Historical Statistics of the U.S., Colonial Times to the Present* (Washington, DC: G.P.O., 1975); Kindleberger (fn. 5), esp. chaps. 5-8; League of Nations, *Economic Fluctuations in the U.S. and U.K., 1918-1942* (Geneva: League of Nations, 1942); Martin Feldstein, ed., *The American Economy in Transition* (Chicago: National Bureau of Economic Research, 1980), 12.

[8] Sidney Ratner, James Soltow, and Richard Sylla, *The Evolution of the American Economy*

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Since the U.S. economy performed more poorly in the 1970s, one might expect that, if economic difficulty were a precursor to protectionism, this period should have experienced protectionism with a vengeance.

A second similarity between the 1920s and 1970s that has been linked to protectionism is the declining power of the world's hegemonic state. This change in the international distribution of power has been cited as a major factor leading to the closure of the world's markets. Robert Gilpin has stated that

> Today, ... the dominant economy is itself in relative decline and is being challenged by rising centers of economic power. With the decline of the dominant economic power, the world economy may be following the pattern of the late nineteenth century and of the 1930s: it may be fragmenting into regional trading blocs, exclusive economic alliances, and economic nationalism.[9]

In the 1920s, Great Britain, the hegemon of the 19th century, was losing its status. From a peak of 24 percent in 1870, Great Britain's share of world trade had fallen to 14 percent before World War I.[10] Furthermore, its share of the world's manufacturing output tumbled from a dominant 32 percent in 1870 to a third-rate level of 14 percent in 1913.[11] Germany and the United States overtook it in industrial competitiveness in certain critical, advanced sectors.[12] In addition, Britain's control over the international monetary system was declining. Its problems in returning to and maintaining the gold standard in the 1920s and its final abandonment of that system in 1931 signaled this loss of influence.[13] By the 1920s, then, Britain's hegemony had seriously eroded.

The situation was fairly similar in the 1970s. By the early part of the decade, the global dominance that the United States had exercised in the 1950s and 1960s had been reduced as other nations mounted a challenge.

(New York: Basic Books, 1979), 482, 502-3. The worst economic difficulties of the Great Depression followed (rather than preceded) the tariff increases, occurring in the early 1930s: unemployment averaged 3% in 1930, the year Smoot-Hawley was passed, but rose to 25% by 1933, the year before the Reciprocal Trade Agreements Act.

[9] Gilpin (fn. 5), 258-59. Also see Kindleberger (fn. 5), esp. 307-8; Krasner (fn. 5), 317-47; Keohane (fn. 5), 131-62; David Lake, "Structure and Strategy: The International Sources of American Trade Policy, 1887-1939" (Ph.D. diss., Cornell University, 1983); Charles Kindleberger, "Dominance and Leadership in the International Economy," *International Studies Quarterly* 25 (June 1981), 242-54; Robert Gilpin, *War and Change in World Politics* (Cambridge: Cambridge University Press, 1981).

[10] Lake (fn. 1), Table 1, p. 525.

[11] Ratner, Soltow, and Sylla (fn. 8), 385.

[12] Lake (fn. 1); Alexander Gerschenkron, *Economic Backwardness in Historical Perspective* (Cambridge: Harvard University Press, 1962), chaps. 1 and 2; Samuel Hays, *The Response to Industrialism, 1885-1914* (Chicago: University of Chicago Press, 1957), chaps. 1, 7, 8.

[13] Robert O. Keohane and Joseph S. Nye, Jr., *Power and Interdependence: World Politics in Transition* (Boston: Little, Brown, 1977), 70; Kindleberger (fn. 5), 63-68, 146-70.

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America's share of world trade dropped from 18.4 percent in 1950 to 13.4 percent in 1977.[14] More tellingly, its share of the world's manufactured exports plummeted from nearly 30 percent in 1953 to about 13 percent in the late 1970s.[15] Its share of the world's manufacturing output also lost ground, dropping from 62 percent in 1950 to 44 percent in 1977.[16] Many U.S. industries had lost their economic advantage and faced bitter competition both at home and abroad. In addition, the United States was no longer as dominant in the international monetary system. By 1973, it had scuttled the monetary system it had created and found itself unable to fashion a new, stable one. American hegemony in monetary relations in the 1970s, however, was not as reduced as Britain's had been in the 1920s and early 1930s.[17] But it had declined substantially, especially in trade and production, leaving the international distribution of power in the 1970s more closely resembling that of the interwar period than that of the immediate post-World War II period. This eclipse of hegemony might have been expected to produce widespread protectionism, as it had in the 1920s.

Although both periods experienced the decline of a hegemon, this may be less important to American policy than the relative position of the United States. The striking fact is how similar the relative international position of the U.S. appears to be in the late 1920s and the late 1970s, and how different it was in the 1950s and 1960s. America's share of the world's manufacturing output reached 42 percent in 1929 and had leveled off at 44 percent in 1977. In contrast, the U.S. had dominated in the 1950s and 1960s, with 62 percent in 1950 and 51 percent in 1960. In the trade area, the United States was more dominant in the 1920s than in the 1970s, but nowhere near as dominant as in the 1950s. In the 1920s, it was the world's largest exporter and biggest foreign investor, and ranked second only to Britain in its imports.[18] By the late 1970s, it had become the world's second-largest exporter of manufactures—West Germany led with almost 16 percent compared to America's 13 percent—and was being challenged for that spot by Japan (11 percent). In 1953, by contrast, the U.S. had reigned supreme in trade, controlling nearly 30 percent of all manufactured exports.[19]

[14] Lake (fn. 1), Table 3, p. 541; Keohane and Nye (fn. 13), 141.

[15] Feldstein (fn. 7), 193, 196.

[16] *Ibid.*, 191.

[17] U.S. hegemony in money was diminished less than in trade. Its ending of the Bretton Woods system was more an act of power than of weakness, according to many analysts. See Keohane and Nye (fn. 13), 141, 165-86; John Odell, *U.S. International Monetary Policy: Markets, Power, and Ideas as Sources of Change* (Princeton: Princeton University Press, 1982), chap. 4, esp. p. 219.

[18] Ratner, Soltow, and Sylla (fn. 8), 464; Feldstein (fn. 7), 191.

[19] Feldstein (fn. 7), 196.

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A similar story is told by changes in relative economic size and productivity. According to Lake, who uses these two measures in his analysis of international economic structures, the position of the United States was almost identical in 1929 and 1977.[20] This contrasts with its clear predominance in 1950. Moreover, in both 1929 and 1977, the U.S. appeared similarly situated relative to its nearest rivals. In 1929, it led all countries on these two indicators, barely edging out Britain while retaining a substantial lead over France and Germany. In 1977, its relative position was comparable: it was almost even with West Germany, but still outdistanced Japan and France.

Hence, two strong similarities in the international distribution of economic power existed in the 1920s and 1970s. In both, a hegemon was in decline, and in both the relative position of the United States was slightly superior to all others—but, most importantly, was being challenged by several nations. These conditions in the international economic structure have been linked to rising protectionism, and thus might have been expected to engender similar protectionist responses in the two periods.[21]

The argument here is *not* that the 1920s and the 1970s were alike in all respects. Two important differences, at least, may attenuate the comparison. First, the United States was a rising hegemon in the 1920s and a declining one in the 1970s. Although hegemonic stability arguments provide no theoretical reason to expect this difference to affect a hegemon's trade policy, the notion of a lag has been introduced to account for this.[22] A rising hegemon may fail to appreciate its own significance, while a declining one may fail to understand its weakness and need for closure. This difference may account for dissimilarities between the two periods. But the reason for such a lag is obscure.

Second, there was a difference in the monetary systems operating at the two times. In the 1920s, a shift occurred from the controlled flexible exchange-rate system that had been in effect before 1925, to a fixed gold-standard system which was in effect until 1931. In the 1970s, the movement was in the opposite direction: from a fixed, dollar-gold standard to a managed flexible rate system after 1973. The consequences of these two different systems for trade policy are unclear, however; the effects of different exchange-rate systems on trade are not well understood. It has been asserted by some that flexible rates should hinder protectionism be-

[20] David Lake, "Beneath the Commerce of Nations," *International Studies Quarterly* 28 (June 1984), Figs. 5 and 6, pp. 143-70.

[21] I do not agree with Lake's interpretation of these two structures and their differences; see fn. 20.

[22] Kindleberger (fn. 5); Krasner (fn. 5).

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cause such barriers are nullified by exchange-rate changes.[23] Others maintain that flexible rates augment protectionist pressures by increasing risk, and that fixed rates are best for ensuring free trade.[24] It seems fair to say that the exchange-rate systems operating in both periods did little to provide a stable environment for international trade.

A related issue is whether the value of U.S. exchange rates had a different effect on trade policy in the two periods. The argument is that the level of exchange rates was driving trade policy, especially in the 1970s. Thus, the relative undervaluation of the dollar in the late 1970s weakened protectionist pressures, while its overvaluation in the early 1980s led to new pressures for barriers.[25] The problem with this argument is that the 1920s look similar: after World War I, the U.S. dollar appeared to be undervalued, supposedly mitigating protectionist pressures. But later in the decade, the dollar seemed overvalued relative to the mark, lira, franc, and gold, although undervalued relative to sterling.[26] Differences in exchange-rate levels, then, do *not* seem to distinguish the two periods.

Despite these differences, the similarities between the 1920s and 1970s in terms of economic difficulties and the relative economic position of the United States might lead one to expect that U.S. trade policy in the 1970s would look like that of the 1920s. The 1970s, however, were not marked by the extensive closure of the U.S. market that occurred in the 1920s. American trade policy remained oriented toward a relatively open market. Although it is commonly believed that protectionism grew substantially in the 1970s and the early 1980s, U.S. trade policy actually had mixed currents. Overall, there was probably a small net increase in trade barriers relative to the 1960s, but these new barriers never reached levels near those attained in the 1920s. Moreover, unlike in the 1930s, these barriers had little effect on the volume of trade: global and U.S. trade continued to grow throughout the decade of the 1970s, and to grow faster than production. In addition, tariffs had been reduced to their lowest levels, about 5 percent on average, through the GATT Tokyo Round negotiations.[27]

On the other hand, some non-tariff barriers (NTBs) were growing.

[23] Herbert Grubel, *International Economics* (Homewood, IL: Irwin, 1977), chap. 22; Charles Kindleberger and Peter Lindert, *International Economics*, 6th ed. (Homewood, IL: Irwin, 1978), chap. 21; Robert Baldwin and J. David Richardson, *International Trade and Finance*, 3rd ed. (Boston: Little, Brown, 1986) , chap. 21.

[24] C. Fred Bergsten and William Cline, "Overview," in William Cline, ed., *Trade Policy in the 1980s* (Washington, DC: Institute for International Economics, 1983).

[25] Kindleberger and Lindert (fn. 23), chap. 21, esp. Fig. 21.5.

[26] *Ibid*., chap. 21, Fig. 21.3. Note how all other currencies rise in value against the dollar after the change in 1931.

[27] U.S. Tariff Commission (fn. 3), 81-82.

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These are difficult to measure (and were generally not measured while tariffs remained high), but their relative importance increased in the late 1970s. By that time, nearly 30 percent of all categories (not values) of American manufactured imports were affected by them.[28] One empirical study concludes, however, that these new NTBs have had only limited protectionist effects; as the authors point out, "on average over a full range of manufactured products, the protection given by NTBs that may limit or reduce imports . . . is not nearly as large as the protection afforded by tariffs . . . or natural barriers to trade. . . ."[29] They project that, "if the United States continues on its present policy course, the U.S. economy will be considerably more open in 1985 than it was in 1976."[30] Thus the erection of NTBs in the 1970s and 1980s may have produced a small net increase in protection. But this increase did not approach the levels of the 1920s even though two key preconditions—serious economic distress and declining hegemony—characterized both periods. Given the fertile ground of the late 1970s, protectionism could have grown rampantly, as it did in the 1920s. For some reason, it did not.

Other Explanations

The question, then, is why trade policy was different in the 1920s and 1970s even though key pressures influencing it were similar. This puzzle has been addressed by a number of studies. Three answers, all of which focus on aspects of the international or domestic system that are different from the one central to this study, require examination. They should be seen less as competing than as being pitched at different levels of analysis. I maintain that the argument developed in this study has been neglected and that it is more basic than these others.

One type of explanation looks at the international distribution of power, usually in terms of economic capabilities. It involves modifications of the hegemonic stability thesis, which, as has been shown, cannot in its original form explain the differences in policy outcomes between the 1920s and the 1970s.[31] Three modified arguments have been presented. First, it has been asserted that American hegemony has not declined enough to set off the expected protectionist response.[32] Even though other

[28] Robert Reich, "Beyond Free Trade," *Foreign Affairs* 61 (Spring 1983), 773-804, at 786.

[29] Peter Morici and Laura Megna, *U.S. Economic Policies Affecting Industrial Trade: A Quantitative Assessment* (Washington, DC: National Planning Association, 1983), 11.

[30] *Ibid.*, 103.

[31] Krasner (fn. 5).

[32] Bruce Russett, "The Mysterious Case of Vanishing Hegemony; or, Is Mark Twain Really Dead?" *International Organization* 39 (Spring 1985), 207-32; Susan Strange, "Still An Extraordinary Power," in Raymond Lombra and Willard Witte, *Political Economy of International and Domestic Monetary Relations* (Ames: Iowa State University, 1982).

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countries have caught up with the United States, it still remains the strongest, especially when its military might is considered. Thus, this argument depends on military capabilities being an important factor in trade policy considerations. However, the fungibility of these power resources is questionable.[33] In fact, the second type of hegemonic stability argument denies this fungibility. Considering only trade-related power resources, it suggests that U.S. hegemony has not declined enough to evoke extensive protectionism.[34] But in comparison to its trade position in the 1920s, the U.S. held a similar, or even less dominant, position in the 1970s. One explanation for this disparity is the lag phenomenon discussed earlier. A third argument modifying the thesis of hegemonic stability holds that different configurations of states in terms of their relative economic power lead to different outcomes in trade policy. But this argument is not able to explain the differences between the 1920s and 1970s, since the configuration of states at those two points (1929 and 1977) was very similar.[35]

A second type of explanation focuses on the existence of an international regime in trade. In this view, the creation of the GATT system after World War II and its continued functioning have been partially responsible for the maintenance of a relatively open international economy. In the 1920s, the lack of any such regime helped to spread protectionism. GATT is seen as working against protectionism in numerous ways. Some analysts argue that it operates through the externalization of a norm—i.e., "embedded liberalism"—which promotes trade but also minimizes its domestic costs and, with it, protectionist demands.[36] Others suggest that the regime and its norms are embodied in domestic policies and practices and that it is effective through constraining and shaping domestic behavior.[37] Still others see the regime as encouraging international com-

[33] David Baldwin, "Power Analysis and World Politics: New Trends Versus Old Politics," *World Politics* 31 (January 1979), 161-94; Keohane and Nye (fn. 13), chap. 2.

[34] *Ibid*., chap. 3; Robert O. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton: Princeton University Press, 1984), chaps. 4, 9; Vinod Aggarwal, *Liberal Protectionism: The International Politics of Organized Textile Trade* (Berkeley: University of California Press, 1985), chaps. 2, 7.

[35] Lake (fns. 1, 9, and 20). To overcome this difficulty, Lake makes two points: first, that due to the disruption caused by World War I, much greater uncertainty existed in the 1920s, which prompted more protectionist activity. Second, he implies that the height of protectionism globally was in the 1930s, not the 1920s, when the structure was somewhat different. Protectionism, however, was rising world-wide throughout the 1920s; it hit its peak in the U.S. by 1930 and elsewhere by 1933 or 1934. This explanation of trade policy outcomes is more sophisticated and perhaps more accurate than other hegemonic stability arguments, but it still has difficulty accounting for the differences between the 1920s and the 1970s.

[36] John Ruggie, "International Regimes, Transactions, and Change," *International Organization* 36 (Spring 1982), 379-415.

[37] Charles Lipson, "The Transformation of Trade," *International Organization* 36 (Spring

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merce by increasing its efficiency.[38] Differences thus exist over exactly how the GATT has worked to abate protectionism, but generally it is seen as exerting a brake on domestic pressures for protection.

In all of these views, however, regimes play only an intermediate role. They are acknowledged as an intervening variable, influencing the preferences, pressures, and practices already established at the domestic and international levels.[39] In order to judge the effect of the regime, it is necessary to examine these pre-existing factors. Regime analysis thus needs to be supplemented with analyses of other domestic and international forces, which this study provides.

A third type of explanation focuses on the structure of the domestic policy-making system. The argument here is that, despite the pressures for protection in the 1970s, a different policy structure existed which helped defuse these pressures. This structure insulated political actors, especially Congress, from societal pressures for protection. Hence, the state was able to resist such pressures in the 1970s, but not in the 1920s. Explanations differ on the specific way this insulation occurred. Most scholars acknowledge the importance of the shift in tariff-making authority from Congress to the President as being central.[40] Others point to the nature of the relationship between Congress and the executive;[41] some to the way trade policy is made within the executive branch;[42] some to the lessons of the 1930s and the norms and ideology now surrounding those lessons;[43] and yet others to the way Congress functions and responds to societal pressures.[44]

This proliferation of domestic policy "structures" indicates that trade policy is not made within one structure. Many economic actors are involved, and they bring their complaints and pressures to bear on different political actors. Moreover, no single, coherent national trade policy exists. The policy relating to one sector of the economy may differ completely

1982), 417-56; Stephanie Lenway, *The Politics of U.S. International Trade* (Boston: Pitman, 1985).

[38] Lipson (fn. 37).

[39] See *International Organization* 36 (Spring 1982), esp. the introduction by Stephen Krasner.

[40] Pastor (fn. 1); Judith Goldstein, "The Political Economy of Trade," *American Political Science Review* 80 (March 1986), 161-84; I. M. Destler, *American Trade Politics: System Under Stress* (Washington, DC: Institute for International Economics, 1986).

[41] Pastor (fn. 1).

[42] Roger Porter, *Presidential Decision-Making* (New York: Cambridge University Press, 1980); Gilbert Winham, "Robert Strauss, The MTN, and the Control of Faction," *Journal of World Trade Law* 14 (September-October, 1980), 377-97.

[43] Goldstein (fn. 40); Judith Goldstein, "A Reexamination of American Commercial Policy" (Ph.D. diss., UCLA, 1983).

[44] E. E. Schattschneider, *Politics, Pressures and the Tariff* (Englewood Cliffs, NJ: Prentice-Hall, 1935); Raymond Bauer, Ithiel de Sola Pool, and Lewis Dexter, *American Business and Public Policy* (Chicago: Aldine-Atherton, 1972).

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from that concerning another. Thus, the policy for automobiles may differ greatly from the policies for wheat, textiles, or telecommunications equipment. Moreover, for each of these industries, the influence of Congress, the executive, and the International Trade Commission varies. A knowledge of the relevant domestic actors and their trade preferences is essential to understanding the influence of the particular policy structure for that sector on the policy outcome.

The Argument

My argument operates on a different level of analysis. I maintain that the increased international economic interdependence of the post-World War II period has been a major reason why protectionism did not spread widely in the 1970s and early 1980s. By altering domestic actors' preferences, aspects of America's greater integration into the international economy worked against recourse to protectionism. Specifically, while increased interdependence has subjected some areas of the economy to new foreign competition, it has also greatly augmented international economic ties for some firms in the form of exports, imports of critical inputs, multinational production, and global intrafirm trade. Despite pressures for closure, the growth of these international ties is a major reason for the maintenance of a relatively open market in the 1970s.

Evidence of the growth of these international ties is abundant. American trade grew phenomenally between the 1920s and the 1980s.[45] More goods and more different types of goods were traded. Specifically, America's trade dependence grew substantially. U.S. export dependence (exports as a percentage of total domestic production) rose from about 2 percent in 1923 to 9 percent in 1960, and to about 20 percent by the late 1970s. Likewise, imports climbed from 2.5 percent of total domestic consumption in 1921 to 5 percent in 1960, and to over 20 percent in 1980.[46] The multinationality of American firms also rose substantially over these five decades. The total of American direct foreign investment abroad grew from about $5.5 billion in 1923 to $11.8 billion in 1950, and to over $86 billion in 1970.[47] Moreover, the internationalization of American industry

[45] Ratner, Soltow, and Sylla (fn. 8), 463-66.

[46] For the 1920s, see Robert Lipsey, *Price and Quantity Trends in the Foreign Trade of the U.S.* (Princeton: Princeton University Press, 1963), 434-35; for the period from 1960 on, see Report of the President's Commission on Industrial Competitiveness, *Global Competition: The New Reality*, Vol. I (Washington, DC: G.P.O., 1985), 36.

[47] Robert Dunn, *American Foreign Investments* (New York: Viking, 1926), 182; Kent Hughes, *Trade, Taxes, and Transnationals* (New York: Praeger, 1979), 94. Ratner, Soltow, and Sylla (fn. 8), 464, show it grew to $17.2 billion in the 1920s and then retreated to $11.5 billion by the end of the 1930s. According to Robert Pollard, *Economic Security and the Origins of the*

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grew in relative terms. Foreign assets of U.S. industry accounted for only 2.5 percent of total industrial assets in 1929, but for over 20 percent in the 1970s.[48] In addition, the global operations of these firms intensified, leading to the creation of webs of international trade flows within firms. Exports by American multinationals from foreign production sites back to the U.S. market have grown immensely. This practice was almost unknown before the 1940s; at present, these types of transfers account for somewhere between 15 and 50 percent of all U.S. industrial imports.[49] In sum, the integration of the United States into the international economy through both trade and multinationality has deepened considerably since the 1920s.

This aspect of increased interdependence has lessened pressures for protection in domestic industries. I hypothesize that firms with greater international ties in the form of exports, multinationality, and global intrafirm trade will be less interested in protection than firms that are more domestically oriented. The former will view protection as undesirable, since it will be more costly for them than for the latter, for five reasons. First, firms that export or produce abroad will be concerned about foreign retaliation and its costs. Demanding protection at home may prompt greater protection abroad, which may lead to a reduction of exports or to new restrictions on foreign operations and their trade flows, thus reducing profitability. Second, protection in one market may hurt a firm's exports to third markets as other exporters divert their products to these markets to compensate for market closure elsewhere.

Third, firms with a global web of production and trade will view trade barriers, even at home, as a new cost—one that may undermine their competitiveness. For these firms, protection will be disruptive and costly. Fourth, for firms dependent on imports—whether from subsidiaries, subcontractors, or foreign firms—new trade barriers will increase costs and thus erode competitiveness. Finally, intra-industry rivalries will create opposition to protectionism. Trade barriers will put internationally oriented firms at a disadvantage relative to their domestically oriented

Cold War (New York: Columbia University Press, 1985), 205, U.S. direct foreign investments dropped to their lowest point in the century so far in 1946.

[48] For the 1920s, see U.S. Congress, Senate, *American Branch Factories Abroad*, S. Doc. No. 258, 71st Cong., 3rd sess., 1931, p. 27, on the value of U.S. direct foreign investment in manufacturing, and Lipsey (fn. 46), 424, on the value of U.S. manufacturing GNP. For the 1970s, see U.S. Department of Commerce, *1977 Enterprise Statistics* (Washington, DC: G.P.O., 1981).

[49] The figures vary widely. See Joseph Grunwald and Kenneth Flamm, *Global Factory* (Washington, DC: Brookings Institution, 1985), 7; Gerald Helleiner and Real Lavergne, "Intra-firm Trade and Industrial Exports to the U.S.," *Oxford Bulletin of Economics and Statistics* 41 (November 1979), 297-312; Gerald Helleiner, "Transnational Corporations and the Trade Structure," in Herbert Giersch, *On the Economics of Intra-Firm Trade* (Tübingen: Mohr, 1979), 159-84.

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competitors. Such barriers impose new costs on international firms while providing benefits to domestic ones. These different relative costs and benefits within an industry may lead international firms to oppose protection. For all these reasons, firms with strong international ties will find protection of the home market very costly and will be likely to resist appeals for it, even when faced with severe import competition.

While containing an international element, this argument is similar to those concerning domestic interest groups. Most interest-group analyses, however, focus on the forces pushing *for* protection.[50] One reason is the assumption of a collective action problem in trade politics. Small groups of producers (management and labor) facing import competition are seen as more likely to press actively for help since it will bring them concentrated and substantial benefits, while larger groups (other industries, consumers) opposing protection will be less likely to act since the benefits of openness will be diffuse and less tangible.[51] But some small groups may also suffer from the high costs of protection and receive important tangible benefits from openness.

Increasingly, the interest-group literature has focused on the variables examined here. Several aggregate-level studies of U.S. industries have shown that high levels of export dependence reduce industries' preferences for protection and lead to lower trade barriers for these industries.[52] Other studies reveal that, even in the 1920s, the growth of an export sector contributed to attempts to open American and foreign markets.[53] Some have also linked the adoption of the R.T.A.A. in 1934, with its antiprotectionist bent, to the influence of American exporters and multinationals.[54] These studies have lent credence to the idea that export-dependent industries may not prefer protection and may even advocate the dismantling of trade barriers.

[50] Examples are Richard Caves, "Economic Models of Political Choice: Canada's Tariff Structure," *Canadian Journal of Economics* 9 (May 1976), 278-300; William Brock and Stephen Magee, "The Economics of Special Interest Politics: Case of the Tariff," *American Economic Review, Papers and Proceedings* 68 (May 1978), 246-50; Robert Baldwin, *The Political Economy of U.S. Import Policy* (Cambridge: MIT Press, 1986); Jonathan Pincus, *Pressure Groups and Politics in Antebellum Tariffs* (New York: Columbia University Press, 1977); Edward Ray, "Determinants of Tariff and Nontariff Trade Restrictions in the U.S.," *Journal of Political Economy* 81 (No. 1, 1981), 105-21; Real Lavergne, *The Political Economy of U.S. Tariffs* (Toronto: Academic Press, 1983).

[51] Mancur Olson, *The Logic of Collective Action* (Cambridge: Harvard University Press, 1965), for the classic treatment; also see Brock and Magee (fn. 50).

[52] Glenn Fong, "Export Dependence and the New Protectionism" (Ph.D. diss., Cornell University, 1982) supports this contention. So does Robert Baldwin (fn. 50). Lavergne (fn. 50) and Goldstein (fn. 43) provide mixed evidence for this assertion.

[53] Joan H. Wilson, *American Business and Foreign Policy, 1920-33* (Boston: Beacon, 1971); William Becker, *The Dynamics of Business-Government Relations* (Chicago: University of Chicago Press, 1982).

[54] Thomas Ferguson, "From Normalcy to New Deal," *International Organization* 38 (Winter 1984), 40-94.

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Scholars have also examined how multinationality and its related intrafirm trade affect trade policy. On the one hand, the idea that the spread of multinational firms would reduce trade barriers has been challenged because these firms often enter a market to circumvent such barriers, and thus come to see them as a brake against other foreign competitors; on the other hand, the growth of global intrafirm trading has led to the idea that firms with such trade would be adverse to protection in their markets.[55] Analysis at the aggregate industry level has produced mixed evidence for both of these arguments.[56]

In this study, I do not adopt an aggregate approach; rather, I examine a set of industries and their firms in detail. This method permits the consideration of firms who are the chief actors experiencing the particular costs and benefits of protection. It thus overcomes a central problem of aggregate studies; that is, that they mask the distribution of international ties within an industry, and with it the intra-industry divisions over protectionism. The poor results of aggregate analyses concerning export dependence and multinationality are partly due to these divisions within industries. An industry that is highly multinational may actually contain only one or two large multinational firms, who may or may not be able to impose their preferences against protection on the industry and/or on state actors. These intra-industry differences and their effects on trade policy will be examined in the present study.

This focus corrects for another problem. Unlike arguments based on international systems, regimes, or domestic structures, my argument can account for differences in trade policy outcomes among industries during the same period. Why some industries demand and receive protection, while at the same time others do not, is hard to explain parsimoniously with these other arguments. For example, the fact that 60 percent of all imports entered the U.S. duty-free in the 1920s is not easily explicable if one asserts that the international structure, the lack of any regime, or the domestic political structure encouraged the adoption of widespread protectionism at that time.[57] The argument here is better able to address such differences among industries at any one time and to account for differences over time. It should not be seen, however, as directly competing

[55] Gerald Helleiner, "Transnational Enterprise and the New Political Economy of U.S. Trade Policy," *Oxford Economic Papers* 29 (March 1977), 102-16; also Helleiner (fn. 49). See Lipson (fn. 37) for a discussion of the effect of intra-industry trade on industry trade preferences.

[56] Baldwin (fn. 50) and Lavergne (fn. 50) do not find much influence exercised by these variables, but Thomas Pugel and Ingo Walter, "U.S. Corporate Interests and the Political Economy of Trade Policy," *Review of Economics and Statistics* 67 (August 1985), 465-73, do find multinationality to be an important brake on protectionist preferences.

[57] Lake (fn. 9), chap. 5, p. 8 and Table 5-1.

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with the other explanations, which operate at different levels of analysis and may all have some validity. The point is that examinations of trade politics have missed antiprotectionist interests, and that a domestic politics view of the pressures for and against trade barriers is the place where one should start to understand trade policy.

The Case Studies

The industries examined were those experiencing the greatest growth in import penetration among those already having high levels of import penetration in the two decades.[58] In addition, these industries showed evidence of other economic difficulties: unemployment, profit problems, overcapacity, and so forth. Since studies have demonstrated that high levels of import penetration are strongly associated with demands for protection and high actual levels of protection, the industries selected should be the least likely to confirm my argument;[59] they should have been most likely to desire protection. Indeed, it would be surprising to find that these import-threatened industries did *not* prefer new trade barriers.

Once these "hard" cases were chosen, I explored the extent of their integration into the international economy and their trade policy preferences. To measure their integration, data on their export dependence, import requirements, multinationality, and global intrafirm trade were collected for both the industry and its firms. In order to understand their preferences, I surveyed their activities in a number of political arenas. In the 1920s, these were (1) the U.S. Congress, which handled most issues related to tariff levels; (2) the U.S. Tariff Commission, which investigated industry complaints about trade matters; and (3) industry trade associations, whose internal deliberations over trade issues were reported in various newspapers and industry trade journals. For the 1970s, the arenas were slightly different: (1) the U.S. Congress, which authorized general tariff level changes and introduced bills to help particular industries; (2) the U.S. International Trade Commission (I.T.C.), which investigated industry trade complaints; (3) the U.S. Special Trade Representative (S.T.R.) and other executive agencies, who decided on and implemented solutions to industry trade complaints while also managing U.S. activities in the GATT negotiations; and (4) the industry trade associations, which developed industry-wide positions on trade.

[58] Eighteen industries were examined in detail; see Helen Milner, "Resisting the Protectionist Temptation: Industry Politics and Trade Policy in France and the US in the 1920s and 1970s" (Ph.D. diss., Harvard University, 1986).

[59] Many studies have found that high levels or high rates of increase in import penetration are strongly correlated with high levels of demand for protection and high actual levels of protection. See, for example, Baldwin (fn. 50); Lavergne (fn. 50); Goldstein (fn. 43).

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The investigation of the industries chosen revealed a strong correlation between their firms' international ties and their trade policy preferences. (See Table 2.) In the face of mounting import competition, firms that lacked ties to the international economy voiced rising demands for extensive protection. By contrast, firms with well-developed multinational operations, *including integrated global production and trade flows*, and strong exports did *not* seek protection even when imports rose to high levels. In fact, these firms often desired that markets at home and abroad be opened further still. Firms with substantial export dependence but no multinational production also did not desire protection as long as import competition did not swamp their exports. Finally, firms with some foreign production but no U.S. exports or intrafirm trade often resorted to limited protectionism when facing import competition. These firms sometimes sought selective protection; that is, they attempted to curb their strongest competitors through limited protection against a particular country or product line while leaving undisturbed the main foreign markets in which they were involved. Overall, the cases revealed that the more integrated a firm was into the international economy, the less likely it was to seek import restraints even when imports rose significantly.

U.S. manufacturers of woolen goods in the 1920s and producers of footwear in the 1970s were typical of industries lacking international economic ties. Most firms in the woolen goods sector were domestically oriented, with few exports and no multinationality. After World War I, when import competition resumed and other difficulties set in, the majority of firms in this industry began lobbying for closure of the U.S. market.[60] They demanded and received increased tariffs through the 1921 Emergency Tariff bill; later, during the Fordney-McCumber tariff hearings, they called for a 130 percent rise in their duties and were granted a sizable increase. They lobbied for even higher tariffs before and during the Smoot-Hawley hearings after problems arose in the late 1920s. Success with Congress did not satisfy them, however: they fought against changes in tariff-making rules that could have made tariff reductions easier. They also pressured the U.S. Tariff Commission for greater protection. Thus, the woolens manufacturers' demands were voiced in all possible political arenas and were focused on obtaining global protection for all segments of the industry. In view of their economic problems and lack of international ties, their intense and unified advocacy for closure of the home market was not surprising.

Like the woolen goods manufacturers, the American (non-rubber) footwear producers had largely domestic operations in the 1970s. Begin-

[60] For the full story, see Milner (fn. 58), 138-63.

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Table 2

The Industries, Their Preferences, and Policy Outcomes

International Ties					
Export Dependence	*Multinational and Global Intrafirm Trade*	*Industry*	*Expected Preferences*	*Actual Preferences*	*Policy Outcomes*
Low	Low	Woolens, 1920s	Protectionist	Protectionist	High, increasing tariffs
		Watches and Clocks, 1920s	Protectionist	Protectionist	High, rising tariffs
		Footwear, 1970s	Protectionist	Protectionist	Some protection via voluntary export restraints in mid-1970s
High	Low	Textile Machinery, 1920s	Open markets, esp. abroad	Divided; some free trade and some moderate protection	Low tariffs in early 1920s; some increases later
		Machine Tools, 1970s	Open markets, esp. abroad	Free trade in 1970s; Protectionist in early 1980s	Tariff reductions in 1970s; voluntary export restraints in mid-1980s

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Low	High	Newsprint, 1920s	Selective protection, if any	Free trade	Duty-free
		Tires, 1970s	Selective protection, if any	Free trade, some complaints of unfair trade	Tariff reductions
		Watches & Clocks, 1970s	Selective protection, if any	Divided; some free trade, some selective protection	Some tariff reductions
		Radios & Television sets, 1970s	Selective protection	Some selective protection; some free trade	Some tariff reductions; voluntary export restraints in mid-1970s
High	High	Fertilizer, 1920s	Free trade	Free trade	Duty-free
		Photo Equipment, 1920s	Free trade	Moderate protection; increasing free trade	Some tariff increases in early 1920s; some decreases in late 1920s
		Semiconductors, 1970s	Free trade	Free trade in 1970s; strategic trade demands in 1980s	Tariff reductions, but export pricing agreement with Japan in mid-1980s

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ning in the late 1960s, when shoe imports began flooding the U.S. market, the industry association—backed by almost all of the producers—launched a campaign to obtain tariff protection.[61] After the early 1970s, the association and the firms pursued this goal with increasing intensity. The association filed numerous trade complaints with the I.T.C.; it lobbied Congress for help and formed a coalition of congressmen to promote the industry's cause; and it launched a public relations campaign to generate public support. These activities forced President Carter to negotiate voluntary export restraints with several East Asian competitors; even those restraints were not restrictive enough for many of the firms who sought global quotas. By the early 1980s, however, the industry's unity over trade matters began to decline. A growing number of producers started to oppose renewed protection as they began importing or producing offshore. This opposition weakened the association's appeals for help and contributed to its more limited political success since then. Overall, the firms' waxing and waning protectionist demands were related to the level of their international economic ties.

By contrast, large multinationals with extensive international trade flows and exports from the United States avoided protection as a solution to their import problems largely because of the costly effects it would have on the firms' global operations. U.S. fertilizer producers in the 1920s and the semiconductor producers in the 1970s were characteristic. By the early 1920s, for example, the large fertilizer producers were highly export-dependent and multinational. Despite their economic problems, they preferred freer trade.[62] In the 1921 tariff hearings, they requested and received the retention of the duty-free status of their products. During the Smoot-Hawley hearings, this preference prevailed among most of the firms, although certain producers advocated demanding protection on certain goods if they did not receive tariff reductions on others. This strategy was aimed at, and resulted in, greater openness of the U.S. market, since no tariffs were imposed on fertilizers, and some were reduced. Finally, throughout the 1920s, the major producers—i.e., those with international operations—opposed the demands of some small domestic producers for higher tariffs on various fertilizer products. In general, the internationally oriented fertilizer manufacturers wanted to preserve the U.S. market's openness and, despite mounting foreign competition, opposed attempts to erect new barriers around it.

During the 1970s, the American semiconductor industry faced serious competition for the first time. The largest firms in this industry—I.B.M.,

[61] *Ibid.*, 300-19.

[62] *Ibid.*, 244-70.

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Texas Instruments, and Motorola—had widespread foreign operations and intrafirm trade flows, while the remainder were more domestically oriented. Most of the firms favored trade liberalization throughout the 1970s; despite rising foreign competition, demands for aid or protection were nonexistent before the late 1970s.[63] Later in the decade, the smaller firms, united in the new Semiconductor Industry Association (S.I.A.), began formulating a trade complaint against Japan. Due to the opposition of the large firms—mainly I.B.M. and T.I.—this complaint was not formalized at the time. Instead, I.B.M. joined the S.I.A. and helped turn its attention toward negotiations with Japan over further tariff *reductions*. These negotiations, impelled by the industry, resulted in lower tariffs for semiconductors; other negotiations, to open the Japanese market further, continued as well. In the early 1980s, however, the S.I.A. and some firms within the industry filed several trade complaints against the Japanese, as did the Reagan administration itself.[64] These complaints resulted in intensified efforts to open the Japanese market and in a pact to regulate export prices of Japanese semiconductors, which was intended to alleviate illegal dumping. On the whole, however, American firms resisted the strong pressures for protection; their international economic ties made protection less desirable than the further opening of markets at home and abroad.

Like these trade-oriented multinationals, firms with extensive export dependence (but not multinationality) tended to avoid protectionist demands in times of difficulty. Examples are the U.S. textile machinery builders in the 1920s and machine tool manufacturers in the 1970s. The former, while having significant export dependence in the aggregate, were divided: the producers of cotton machinery had become substantial exporters since World War I, while those of woolen machinery were still domestically oriented.[65] This division, as well as the novelty and volatility of the producers' exports, rendered the industry unable to develop a unified trade policy preference. In the early 1920s, when exports were most significant, the producers did not lobby Congress for any change in their tariffs despite severe economic distress and rising imports. Over the decade, the export interests of some firms declined, and so did the capacity of these firms to forestall protectionist demands. In the 1929 Smoot-Hawley hearings, firms from the woolen machinery sector pressed for and received moderate tariff increases on their machines; the more

[63] *Ibid.*, 343-71.
[64] *Boston Globe*, April 13, 1986, Business section, pp. A-1, A-9; *Wall Street Journal*, March 12, 1986, p. 7; *Wall Street Journal*, March 31, 1986, p. 2.
[65] Milner (fn. 58), 190-215.

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export-oriented firms remained silent. Even though they were besieged by imports, these exporters refrained from demanding protection for much of the decade and remained moderate and divided in their later requests.

The American machine tool builders were sizable although declining exporters in the 1970s. During this decade, these producers lost major market shares to imports and experienced other economic difficulties. Their response, however, was not a resort to demands for protection; rather, the industry association—backed by most producers—favored tariff reductions during the GATT negotiations and lobbied Congress to obtain aid for their exports.[66] In particular, the builders wanted to open major foreign markets—especially those of the Soviet Union and other Eastern bloc countries. By the late 1970s, the failure of these export initiatives, the continuing decline of the industry's export trade, and the rising import tide pushed some in the industry to seek relief from imports. Pressure for protection rose in the late 1970s; but it was not formalized into a public complaint until the early 1980s, when the tide of imports overwhelmed the firms' exports. The Reagan administration responded to this trade complaint against several countries' imports—mainly Japan's—by negotiating a set of voluntary export restraints.[67] The case of the machine tool builders thus shows how sizable export dependence may promote an interest in freer trade and dampen pressures for protection even when imports surge. But, when the firms' export orientation declined, their trade preferences shifted as well.

Industries with firms that had foreign production but no intrafirm or export trade showed some resistance to protection when imports grew, but it was often weaker than that of export-oriented industries. In many of these industries, growing foreign competition was met by calls for limited protection because the costs of this protection could be minimized. Two examples are the American newsprint producers in the 1920s and U.S. television makers in the 1970s. Newsprint producers in the 1920s were multinational but had only minor U.S. exports. Their foreign operations were concentrated almost exclusively in Canada; from there, they exported heavily back to the United States. The industry thus had substantial intrafirm trade. Throughout the 1920s, the newsprint producers actively supported freer trade of their products, and did not try to have the duty-free status of newsprint altered in either the 1921 or the 1929 tariff revisions.[68] In 1921, several manufacturers did attempt to make their status conditional on other countries' treatment of imports

[66] *Ibid.*, 320-42.
[67] *New York Times*, February 3, 1986, p. D-2; *New York Times*, March 6, 1986, p. D-3.
[68] Milner (fn. 58), 271-97.

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and exports. But this strategic maneuver was distasteful to many firms and was never adopted as part of U.S. policy. As their trade between Canada and the U.S. grew in the 1920s, interest in protection waned even more. During the Smoot-Hawley tariff revision, when most tariffs reached their highest levels ever, the newsprint manufacturers uniformly supported the continuing duty-free status of their products. Not even rising imports could induce these international producers to think about protection.

American television makers had some foreign operations in the 1970s; but, unlike the newsprint producers, they were not very trade-oriented. The industry was, in fact, divided in two: the largest producers, RCA and General Electric, were multinationals with global trading operations, while the rest, including Zenith, Magnavox, and GTE-Sylvania, were domestic producers. In the 1970s, imports started pouring into the United States, and the domestically oriented firms, led by Zenith, initiated a series of trade complaints on several specific products, targeted against a few East Asian countries.[69] These complaints met with varying success, but they were opposed by RCA, the industry's giant multinational. By the late 1970s and early 1980s, much of this protectionist activity had abated as the domestically oriented American firms moved production abroad, left the industry, or were bought by foreign interests. This international adjustment process eroded support for even the limited, selective protection that some had desired earlier.

In all of these cases, then, the existence or creation of extensive international economic ties prompted firms to resist seeking protection even in times of severe import competition. Conversely, the lack or loss of these ties was associated with rising demands for protection. This pattern occurred both in the 1920s and the 1970s. In both decades, increased integration into the international economy was experienced similarly by firms in spite of their different historical contexts. This pattern helps to explain the varied nature of trade policy *within* each time period. At each point, industries that were dominated by firms with extensive international ties were less protectionist than those that were not.

In addition to accounting for variation in preferences *within* each period, the argument and the cases suggest why trade policy varied *between* the two periods. On a macro level, the evidence implies that in periods like the 1970s, when such international economic ties are widespread and well-developed, pressure for protection by industries will be reduced.

Although the growth of international ties contributed to the mainte-

[69] *Ibid.*, 372-96.

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nance of free trade in the 1970s and early 1980s, it must be noted that the internationalization of U.S. industry went hand in hand with trade liberalization in the postwar period. The liberalization of trade in the 1950s and 1960s was one factor promoting the growth of these international ties. But much of this expansion had occurred before the two most significant reductions in trade barriers. U.S. export dependence, and especially U.S. multinationality, had grown significantly before the phasing in of the Kennedy Round tariff cuts in the early 1970s. America's industrial export dependence (exports as a percent of total domestic production) rose 33 percent between 1960 and 1970, while the value of U.S. direct foreign investment in manufacturing increased nearly 800 percent between 1950 and 1970.[70] The growth of these international ties cannot be separated from the liberalization of trade occurring at the same time. But, since industries with international ties were in place prior to the 1970s, they probably contributed to the liberalization that occurred during that decade. In any case, by the 1970s there were many more firms that were willing to resist protectionist pressures. Despite higher levels of import penetration, demands for protection were less widespread than they had been in the 1920s. This provides a partial answer to our central puzzle.

Industry Divisions, Context, and Policy Outcomes

The argument raises three further issues. The first deals with intra-industry divisions on trade issues. One notable feature of the growing internationalization of U.S. industries has been its uneven character. Within an industry, some firms—usually the largest—have become international, while the smaller ones have often remained dependent on the domestic market. This difference has tended to divide industries on trade politics: a pattern of large multinationals opposing the more numerous but smaller domestic-centered firms is evident in the cases.

Two consequences of this political division stand out. First, it makes developing an industry-wide stand difficult. As seen in the textile machinery case, internal divisions created by different international interests can leave an industry without the capacity to develop a political position on trade. Second, the attempt to create an "industry" position in a divided industry may lead to the fashioning of compromises that are not as pro-

[70] Consistent data series on export dependence and multinationality as a percent of GNP from 1945 on are not available. The export dependence data come from Report of the President's Commission (fn. 46), 36. The data on direct foreign investment come from Feldstein (fn. 7), Table 3.30, p. 240.

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tectionist as the majority of firms may prefer, as was evident in the semiconductor case. Both results may reduce protectionist demands even more than the extent of internationalization of the industry would suggest. Thus, the creation of these intra-industry divisions through unevenly rising interdependence may further reduce pressures for protection.

In the 1920s, these internal divisions were less apparent than in the 1970s, because internationalization was less widespread.[71] Moreover, existing divisions tended to be only the initial breach in an industry's unity—a consequence of recent internationalization. The textile machinery industry is a good example. Thus, intra-industry divisions, another counterweight to protectionist pressures, were also weaker in the 1920s.

Second, contextual differences between the two periods have been alleged to undercut any comparison between them.[72] But contextual differences did not override the powerful influence that a firm's international position exerted on its trade preferences. In both periods, internationally oriented firms opposed protectionist solutions to their problems. This finding suggests that the broad differences between the two periods—e.g., in macroeconomic circumstances, political structures, and economic ideology—did not greatly affect the way firms calculated their preferences. The similarities in preferences in the two periods imply that factors differentiating the two times may have only a minor impact on demands for protection by industries at any time.

Moreover, firms often did not take these contextual features as given. In both periods, some firms worked to alter domestic political structures responsible for trade policy. In the 1920s, for example, several industries attempted to make U.S. procedures more free-trade oriented, opposing the American valuation plan and supporting flexible tariff provisions; other industries, including the domestically oriented woolen goods one, took the opposite stance.[73] In the 1970s, those footwear and television manufacturers who pursued protection lobbied to change U.S. procedures in order to make them more open to protectionist outcomes. This involved efforts—most of which were successful—to loosen U.S. trade laws and to shift their enforcement to agencies more favorable to domestic industry.[74] Certain contextual features, such as the domestic political process for trade issues, may thus not be exogenous; rather, the structures

[71] Milner (fn. 58), chap. 8.

[72] For example, see Kenneth A. Oye, "The Sterling-Dollar-Franc Triangle: Monetary Diplomacy 1929-1937," *World Politics* 38 (October 1985), 173-99, at 199.

[73] Milner (fn. 58), chap. 4.

[74] *Ibid.*, chap. 5.

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in which firms are assumed to operate may be responsive to the influence of firms.

A final issue involves the question of trade policy outcomes. I have focused more on explaining firms' preferences than on policy decisions. The influence of such preferences on policy outcomes has been largely assumed. The cases presented here provide support for this assumption. In almost all of the cases, the industries' demands for protection or for freer trade had some effect upon policy.[75] (See Table 2.) First, in none of the cases were industries accorded protection when they did not demand it. This suggests that the issue of protection was usually placed on the political agenda by the industries themselves. Second, industries desiring the maintenance of low trade barriers or reductions of restraints were successful in all the cases, as the fertilizer, newsprint, and semiconductor industries show. Thus, no systematic bias against low or reduced trade barriers appears to have existed even in the 1920s.

Finally, industries seeking increases in trade barriers also tended to be successful. Where an industry was divided, however, its capacity for effective political influence was reduced, as exemplified by the limited success of the domestically oriented television makers in the 1970s. In contrast, where industries were united in favor of protection, they generally received it. This was true for all cases in the 1920s and for all but two in the 1970s. Although the footwear producers failed throughout the early 1970s to have new trade barriers erected, their efforts met with some success in the late 1970s, when the Carter administration negotiated voluntary export restraints for them. Likewise, the early efforts of the machine tool builders in the late 1970s and early 1980s failed to produce any response from the government. By the mid-1980s, however, the Reagan administration was pressing the industry's case and negotiating export restraints with foreign governments.

In neither period did industries always get exactly what they wanted when they wanted it. But their demands tended in time to move policy in the desired direction. The greater difficulty that industries experienced in attaining their demands for protection in the 1970s may reflect both the greater awareness among industry and government officials of the international problems caused by protection and the more limited responsiveness to domestic pressures of the executive (now in control of more trade issues) as opposed to Congress (which played a larger role in the 1920s). Some bias in the trade policy system against protection appears evident in

[75] *Ibid.*, see cases and chap. 8.

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the 1970s. Unlike firms' preferences then, trade policy outcomes may depend more on factors that differed in the two contexts, such as policymaking structures and ideology.

In both periods, industries were able over time to realize trade policies close to the ones they desired. Thus, their preferences seemed to count in the policy process. Other influences on trade policy, such as the interests of labor or the ideologies of decision makers, were also likely to be important. The evidence presented here simply shows that, by itself, reduced interest in protection by internationally oriented industries in the 1970s was one important reason for the resistance to protectionism in the United States.

Conclusion

Why did trade policy outcomes differ between the 1920s and the 1970s when a number of conditions influencing trade politics were similar? Why was protectionism resisted in the 1970s when economic difficulties were severe and U.S. hegemony was in decline? While noting other answers to this puzzle—such as the influence of the international distribution of power, international regimes, and domestic political structures—I maintain that aspects of rising international economic interdependence in the post-World War II period led to changes in the trade policy preferences of domestic actors. Rising interdependence meant, in part, the growth of firms' ties to the international economy through exports, multinationality, and global intrafirm trade; because of these ties, protectionism had become a more costly policy. The new interdependence made protectionism a less viable option for many firms facing serious import competition. Consequently, it dampened the demand for protection.

Examination of a set of industries from the 1920s and 1970s supports the contention that internationally oriented firms were less likely to demand protection than were domestically oriented ones, even if both faced high levels of import penetration. The cases also pointed to the importance of firm-level analysis. International ties conditioned firms' preferences, and divergences in these ties *within* the industry created important political divisions over trade. These intra-industry divisions also helped to dampen pressures for protectionism.

Differences in the historical context between the 1920s and 1970s did not override the argument. Despite differences in the international and domestic structures, internationally oriented firms in both periods were less protectionist than their domestic counterparts. In fact, features often

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considered contextual were responsive to influence by firms. Moreover, trade preferences among the firms examined mattered. Policy outcomes often reflected the desires of firms. Thus, reduced demand for protection in the 1970s may be one important, but not the only, reason why U.S. trade policy differed in the two periods.

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