Compensated Liberalization: Using Side Payments to Humanize and Facilitate Freer Trade in the United States and the European Community

by

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ABSTRACT:

This dissertation investigates one of the ways countries can deal with the policy dilemmas and political conflicts stemming from greater economic openness -- by providing *side payment compensation* along-side liberalization. Such compensation includes any policy or good designed to assist victims of liberalization initiatives without compromising the liberalization itself. Examples include trade adjustment assistance for workers dislocated by US trade liberalization, and the "structural funds" assistance for dislocations associated with European Community internal market liberalization. The hope behind such compensation is that it will off-set the social costs of and defuse opposition to freer trade. Whether it does so in practice is a matter of unresolved debate, as are understanding of the incidence of compensation and the conditions that might explain that incidence.

My research addresses these debates by describing, explaining, and evaluating the incidence of compensation in US trade liberalization since 1934, and in European internal-market liberalization through the European Coal and Steel Community (ECSC) and the European Community (EC) since 1950. To explain the incidence of compensation, the dissertation develops, illustrates, and tests a theory of compensation focused on egoistic bargaining between protectionist and liberalizer coalitions, and in particular on two sets of conditions that influence such bargaining: the power and trade policy platforms of protectionist groups; and the jurisdictional breadth and preexisting welfare policies of the institutional settings through which bargaining takes place.

The main findings are three-fold. First, the incidence of side payment compensation varies substantially across liberalization episodes, across groups within episodes, and across regional settings (e.g. US vs. EC). Second, the case studies support a qualified defense of the policy of compensation: Although compensation fell short of its promise, it usually provided modest short-term benefits for the victims of liberalization, while significantly reducing protectionist opposition in the short- and medium-term. Third, the US and European cases suggest that varying protectionist power resources and platforms can explain the bulk of the US variation across episodes and groups, and that the institutional conditions can explain the broad contrasts between the US and the EC patterns of compensation.

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Freer Trade in the United States and the European Community

Table of Contents

Introduction

The globalization of economic life, marked by freer and growing trade and financial flows, fuels some of our most contentious politics. Recent struggles over trade liberalization, such as the NAFTA and the liberalization of European Union Common Agricultural Policy, suggest why. On the one hand, increased openness expands the orbit of competition and exchange, promising more efficiency and wealth for societies in the aggregate, and especially strong gains for some internationally-oriented firms and the most skilled workers. On the other hand, greater openness poses a variety of human and environmental costs. It unleashes foreign competition and outward investment that promise heightened insecurity, dislocation and income losses for less internationally competitive workers and firms. And some groups fear that greater openness may give competitive advantage to producers in foreign countries with lax regulations, thereby fueling "competition in laxity" that undermines hard-won labor and environmental standards at home. These real or anticipated consequences spark conflict between those seeking the benefits of freer markets and those defending against its social and environmental costs. Every time government or other groups promote some kind of trade liberalization, competing groups rise up in opposition.

Such distributional conflict creates a policy dilemma for governments and polities trying to navigate a stable course through the international economy. Countries may embrace openness and push through trade liberalization without providing any new or promised redress for the groups who stand to lose from that liberalization -- a path that can be termed "uncompensated" liberalization. This outcome leaves victims of the liberalization to rely on whatever existing welfare, industrial policy or other general assistance the state provides. Although such assistance has traditionally been greater in more open economies, the deepening of openness has made it increasingly difficult for governments to sustain generous safety nets in the face of competitive pressures wrought by openness (Rodrik 1997). In any event, liberalization often proceeds in settings where broad social assistance is lacking or minimal, leaving market victims more vulnerable. And preexisting safety nets do little to protect social and environmental regulations from "competition in laxity." Such uncompensated liberalization, then, may bring benefits of economic openness, but at potentially high social and environmental cost -- a cost that some groups in society may simply not accept.

In the face of such costs and opposition, then, polities may make the opposite choice: retreat from openness, and in particular back away from or down-grade liberalization initiatives, a path that can be termed "compromised liberalization." Such a retreat could involve either exempting some groups from the reach of liberalization, or watering-down the initiative's

ambition. And such protectionism ranges from across-the-board closure to piecemeal protectionism, such as pursuit of protectionist safeguards to protect certain worker and environmental standards. Whatever the form and extent of such retreat, any preserved welfare or standards made possible by this compromised liberalization path comes at the expense of aggregate efficiency and wealth. The distributional costs of openness, in short, appear to force polities and their governments to make a difficult choice between equity and efficiency.

This dissertation is about a way governments can avoid such a choice -- by providing *side payment compensation* along-side the liberalization of trade or other flows. Political economists have long recognized that polities can smooth the distributional costs and conflict of trade liberalization by providing hypothetical systems of compensation to the losers of openness, generally seeing "compensation" as some cash pay-out designed to off-set losses. My concern is with "side payment compensation" more broadly, including any policy assistance targeted to help the anticipated losers of liberalization and that doesn't compromise that liberalization.[1] Real-life examples of such compensation include US adjustment assistance for workers and firms dislocated by various post-War episodes of trade liberalization, and the European Community's "structural funds" created partly to off-set the risks of internal market liberalization. The promise of compensation is that it can simultaneously off-set the social costs of and defuse political opposition to freer trade. This allows countries to reap globalization's benefits without having to bear all its costs. I call the provision of compensation along-side liberalization "compensated liberalization."

Compensated Liberalization's Unresolved Controversies

The impetus for a study of compensated liberalization is that existing literature on the politics of economic openness, and of distributional conflict generally, harbors unresolved disagreement or silence over the most basic questions about the use of side payments during liberalization struggles. *First, has compensation humanized and facilitated freer trade?* Research from a variety of political stripes -- from economistic research on how to reconcile particularistic and general interests, to more sociological research on what nations do to protect themselves from the vagaries of open markets -- suggest that compensation holds promise to simultaneously off-set social costs of and defuse opposition to freer trade (Coase 1960; Polanyi 1944; Aho and Bayard 1984). Yet others claim that in practice compensation may fall short of this promise, because it will tend to provide little help to the real victims of liberalization, encourages rent-seeking abuses from unscrupulous groups, and does little to actually lower existing opposition while possibly sparking new opposition (Trebilcock et.al.1990; Banks and Tumlir 1986).

[1] Throughout this study I use the term "side payment compensation" interchangeably with "compensation" and "side payments."

Second, in which liberalization episodes and to which groups has side payment compensation been provided? Some scholarship implies that compensation should be a common part of political life, including liberalization (Coase 1960; Tullock 1967). Others observe or assert that such compensation tends to be relatively rare or at least "under-provided," in the sense of being provided less than rational pursuit of efficiency and equity would predict (Oye 1992). And political economy scholarship is, in any event, ambiguous on the extent to which side payments are the mechanisms that link the tendencies of more open economies to have more generous public spending (Cameron 1978; Rodrik 1996).

Third and finally, why has compensation been provided during some episodes and to some groups and not others? About this explanatory issue, political economists have little to say about compensation per sé, and in any event the insights we can derive don't disagree so much as speak in different tongues. But an important division is between what can be loosely labeled an "altruist" and an "egoist" approach. The altruist perspective suggests that compensation reflects social contract or ideational norms that call for providing some policy redress to cushion members of society from the adjustment costs and risks of free trade and openness (Katzenstein 1985, Goldstein 1989). The egoist perspective, on the other hand, suggests that compensation reflects the dynamics of self-interested bargaining between protectionists and liberalizers (Tollison and Willett 1979; Friman 1993). Within the egoist perspective, the literature divides over what shapes the dynamics of such bargaining: (1) characteristics of the *groups* engaged in bargaining, such as the economic positioning and beliefs that underlie tastes for protection, or the sinews of political power that translate such tastes into policy demands; (2) or characteristics of the institutional setting within which groups bargain, such as information-gathering capacities of institutions that can mediate the "transaction costs" of identifying and negotiating side payments (Keohane 1984).

Unfortunately, this descriptive, normative and analytical attention to compensation lacks both empirical grounding and theoretical development, with the result that we don't know which if any of the views on the basic questions about compensated liberalization is correct. First, none of the literature has developed on empirical grounds. The literature addressing whether compensation humanizes and facilitates freer trade is the most empirical, but even it only offers anecdotal illustrations of when compensation does or does not work. Without more systematic review of the use of compensation over a more significant swath of time and space of liberalization we don't even know when compensation emerged from liberalization struggles, let alone why it has been provided at some times and places and not others, or when if at all it off-sets social costs and facilitates openness.

Second, the insights into what explains the incidence of compensation suffer from being theoretically under-identified, under-developed, and under-specified. Most of the insights are under-identified in the sense that they offer predictions of outcomes that cannot distinguish side

payment compensation from its alternatives -- protectionist redress (compromised liberalization) and nothing at all (uncompensated liberalization). Some insights focused on the power of groups, for instance, might anticipate when groups should win redress, but say nothing about when that redress will take the form of compensation as opposed to protectionism. The insights, moreover, are under-developed in the sense that alone or in combination they offer predictions about very narrow ranges of the incidence of side payments. For instance, the institutional factors on which some focus cannot predict variations in incidence that exist across groups and time -- within stable institutional settings. Finally, insights often lack specificity in that they highlight immeasurable or difficult-to-measure explanatory conditions. For instance, the focus on transaction cost conditions often says too little about what observable features in political life might mediate such conditions.

Most of these empirical and theoretical problems reflect the lack of any direct study of compensation, not poor theoretical insight or sloppy empirics. Still, without more empirical attention and some synthetic theoretical innovation focused on compensation, the most basic questions about compensated liberalization remain unanswered. When has compensation been provided during trade liberalization? Why has compensation been provided at some times and not others? And how successful has compensation been at off-setting the social costs of and facilitating freer trade?

Description, Explanation, and Evaluation of Compensated Liberalization

To better answer these questions, this study (1) describes when, where and to whom compensation has been provided in recent trade liberalization history; (2) develops and illustrates a more identified, developed and specified theory that can explain why compensation is provided at some times and not others; and (3) assesses whether compensation, when provided, actually humanizes and facilitates freer trade. The dissertation pursues these tasks through comparison of almost all the major episodes of US trade liberalization since 1934 with four episodes of European internal market liberalization under the European Coal and Steel Community (ECSC) and the European Community (EC) since 1950 -- each episode encompassing the legislative proposal, international negotiation, and legislative/referendum ratification of some trade liberalization.

Describing Compensated Liberalization. To describe the incidence of compensation over time and space, this study investigates the history of discrete liberalization episodes, to find examples of side payment compensation. This entails focusing on primary and secondary accounts of bargaining among state and societal groups arrayed in liberalizer and protectionist coalitions, to find out whether the bargainers discussed, promised, or provided some policy or benefit for the anticipated or alleged victims of the liberalization episode. Such accounts reveal whether and when side payments provide the mechanism by which countries cushion their societies from the blows

wrought by economic openness. And they reveal variation in the incidence of compensation over time and space -- across episodes, across groups within episodes, across countries, and across national and supra-national levels of governance through which countries pursue liberalization.

Explaining Compensated Liberalization. To explain the incidence of compensation unearthed by this description, the study develops a theory based on the premise that side payments emerge only when the liberalization initiative is under threat of defeat or costly retaliation by protectionists, and when the bargaining groups recognize compensation to be a feasible alternative to protectionism. Such a theory sides with those who see compensation reflecting egoistic bargaining rather than altruistic pursuit of societal fairness. But it also seeks to improve upon the egoistic bargaining perspective by synthesizing and moving beyond the under-identified, -developed, and -specified focus on groups and institutions. It does so by developing an egoist bargaining framework and focusing on political features of groups and their institutional setting that predict variations over time and space in the incidence of compensation rather than protectionism or nothing at all.

First, I argue that the power and platforms of protectionist groups strongly influence whether liberalization struggles will yield side payments. The more *political resources* protectionist groups have to threaten or retaliate against a liberalization initiative, the more likely they are to elicit some redress from the liberalizers. And the more issues other than protectionist demands that protectionist groups have on their *trade policy platforms,* the easier and more tempting it will be to link the liberalization to new issues. The interests and stated platforms of liberalizers and others in society set limits on whether, what kind, and how much compensation will be provided, but multi-issue protectionist platforms will increase the likelihood that redress will take the form of side payments rather than protectionist exemption from or revision of the liberalization. Thus, I hypothesize that compensation will be provided where protectionist coalitions not only have the political resources to threaten liberalization, but also approach bargaining with multiple demands rather than single-minded protectionism.

Second, I argue that the institutional setting through which groups bargain -- both the domestic ratification institutions such as legislatures, and the supra-national negotiating arenas -- affect the power to threaten liberalization and the desirability of side payments vis á vis other redress. Trade policy-making institutions with broader *jurisdictional reach* -- with authority over more issues than trade policy -- will make it easier to identify and negotiate linkable issues and to hold liberalization hostage to action on other issues, thereby encouraging compensation. Meanwhile, the generosity of *preexisting welfare state benefits* shapes whether side payments are redundant to or conflict with existing mechanisms for redressing pain. I hypothesize that more generous preexisting welfare will discourage provision of side payments during liberalization struggles. Together, these two institutional conditions suggest the following hypothesis: domestic

or international institutions that not only have jurisdiction over issues other than trade policy but also provide modest social welfare assistance will encourage side payment compensation during bargaining, whereas settings with narrow jurisdictions and/or generous welfare will tend to discourage compensation.

Evaluating Compensated Liberalization. To assess the usefulness of compensation, the study investigates several measures of compensation's effectiveness at facilitating liberalization and of actually humanizing the real and anticipated pain of liberalization. First, for each of the liberalization episodes, the research gauges opposition before and after provision of compensation -- relaying on testimony, press statements, and lobbying expenditures and other measures of opposition -- to see if that provision made a difference for the targeted opposition. The research also considers whether compensation provides incentives or assistance to exit the trade-impacted sector and adjust to more promising areas, and looks for evidence of rent-seeking or extortionate abuses of compensation, such that compensation offers might yield more rather than less opposition. Together, these offer some measure of effectiveness in facilitating liberalization. Second, the research considers the scale and distribution of financial and in-kind costs and benefits, and summarizes implementation studies of the compensation packages that actually emerge from bargaining. Together with the information on abuses, these provide some measure of whether and how much compensation off-set social costs of freer trade, and of the equity of providing compensation.

Comparing US Trade Liberalization and EC Internal-market Liberalization

The US and European Community cases provide good grounds for describing and evaluating the variation in the incidence of compensation, and for illustrating and testing the above theory of compensated liberalization. The US and EC experience encompasses dozens of liberalization episodes, including both bilateral and multilateral initiatives, with the episodes divided into both domestic and international phases -- domestic authorization and ratification, as well as international negotiation. The episodes also include liberalization initiatives of varying ambition and focused on a variety of sectors and trade impediments to be liberalized. And the episodes span two different regions with distinct political-economic histories. This is a wide landscape to identify and assess the actual pattern of variation in the incidence of compensated liberalization. Given the difficulty of unearthing some of the deals that may constitute side payment compensation, the US cases have the added value of having been subject to as much empirical scrutiny as any issue of public policy, with journalists and historians shining much light upon even the darkest corridors of political exchange.

More importantly, the US and EC cases are good grounds for illustrating and testing my egoist theory of compensation, because they capture substantial but controlled variation in the theory's group and institutional conditions. The US history captures differences over time and sector in the power resources and platforms of protectionist groups. It only exhibits modest variation, however, in the institutional setting through which trade policy is bargained, particularly in jurisdiction and welfare that I hypothesize predict the incidence of side payments.

Meanwhile, comparing the US trade history with EC internal-market liberalization captures significant institutional variation. The inter-governmental conferences and Council of Ministers through which EC internal-market liberalization have been negotiated have broader jurisdiction than the supra-national institutions through which US trade liberalization has gotten negotiated, such as the inter-governmental arenas for GATT and the NAFTA. And at the national-level, most European institutions have substantially more developed and generous welfare states than their US counterparts. But the broad US-EC trends do not vary systematically in the power and platforms of protectionist groups. As a result, the US history illustrates and tests the power and platform conditions while controlling for the theory's institutional conditions, and the US-EC comparison illustrates the institutional conditions while controlling for power-platform differences.

The Findings

The research into these cases generates three sets of findings, corresponding with the respective goals of describing, explaining, and evaluating the incidence of compensation in liberalization history.

What is the Incidence of Compensation? First and most generally, the US and EC liberalization histories revealed that compensation was provided in plenty of liberalization episodes, to plenty of groups expected to suffer from liberalization. But the most groups in many episodes settled for a mix of uncompensated and compromised liberalization. And compensation only rarely involved promises or decisions to expand broad, untargeted social welfare provision, implying that side payments were rarely the mechanism linking openness with broader government spending.

Within these general patterns lurks important variation, however, in when and to whom it compensation has been provided. In some eleven US liberalization episodes between 1934 and 1962, for instance, compensation was unheard of -- with the struggles instead ending in a mix of uncompensated liberalization with the losers receiving no redress or compromised liberalization where the redress was protectionist exemption or revision. Through bargaining over the 1962 Trade Expansion Act, however, explicit compensation was provided for the first time, principally in the form of trade adjustment assistance (TAA) to workers and firms. In all subsequent legislative episodes of US liberalization, negotiations yielded at least some talk of compensation,

always including reform or expansion of the TAA but also sometimes including other compensation subjects, such as tax deferrals and proposals to reform social welfare provisions.

Most of this US compensation has been modest in the scale of benefits provided and the number of groups helped. And the adjustment assistance program, in particular, has been the object of ridicule and retrenchment when trade liberalization initiatives are not under review. The NAFTA liberalization, however, represents a partial exception to this pattern in that it yielded more generous and diverse compensation, in the form of adjustment assistance, environmental cleanup, tri-country commissions for monitoring labor and environmental standards, and a flurry of last-minute benefits targeted more narrowly at ambivalent legislators.

Finally, most of this US compensation was negotiated during domestic phases of the episode and provided by national governments, with very little compensation negotiated during international phases of negotiations or provided by supra-national institutions. The NAFTA trilateral commissions again represent notable exceptions to this rule. In short, the US liberalization history reveals a pattern of side payment compensation that is *inconsistent* in its incidence, *modest* in its scale and scope, and *national* in the institutions through which it has been provided and negotiated.

Compared to this US pattern, EC internal market liberalization exhibits a pattern of side payment compensation that is nearly opposite: more *consistent* in incidence, more *generous* in scale and scope, and more *supra-national* in the institutions through which it has been provided and negotiated. All five of the major episodes of EC internal-market liberalization yielded substantial side payments to buy the support of national delegations explicitly conditioning their support for liberalization upon provision of compensation packages. Negotiations over the ECSC, for instance, yielded the ECSC Re-adaptation program to fund job retraining and relocation for workers, and restructuring for firms, as part of the other transitional arrangements that included temporary subsidization. The European Economic Community (EEC) negotiations elicited not only a European Social Fund (ESF), a broader version of this Re-adaptation program, but also explicit commitments to upwardly-harmonize equal-wage laws, length of the standard work week, and standard vacation benefits -- all to off-set the costs of EEC tariff liberalization. And the Single European Act yielded the commitment to expand and reform all Structural Funds programs to off-set the risks of SEA liberalization, ultimately doubling the Funds budget to nearly $170 billion over a five year period between 1994-99. This amounts to a yearly fund more than an order of magnitude larger than the US TAA ever was.

Almost all of the EC side payments were provided by supra-national institutions under EC Council of Ministers and EC Commission decisions and policies, and negotiated during the international, inter-governmental stages of the episodes. Surprisingly, during the domestic stages of negotiating these integration and liberalization landmarks, very little side payment compensation

was ever seriously discussed, let alone enacted. And national governments appear to have provided very little side payment compensation at any stage of the negotiations. Thus, whereas US compensated liberalization has been primarily national and domestic, EC compensated liberalization has been primarily a supra-national sport.

What Explains This US and EC Variation? The group-institutional theory of compensated liberalization predicts much of the variation in the incidence of compensation. In particular, the power and platforms of protectionist groups broadly predict the incidence of compensation in the US episodes, while the institutional conditions predict the broad differences between US and European compensation experience. In the US, the 1962 Trade Expansion Act marked the first liberalization episode when the protectionist coalition encompassed groups, such as organized labor, that not only had resources to threaten liberalization but also approached the episode with multi-issue platforms embracing related policies like adjustment assistance. This predicts what the history reveals: the advent of compensated liberalization in 1962. Growing disenchantment with side payment redress and a shift to unconditional protectionism among many groups -- borne of increasing trade competition and failures of previous adjustment assistance compensation -- predict the subsequent modesty of adjustment assistance or any other compensation.

The NAFTA episode, however, inspired a protectionist coalition of unprecedented diversity and determination, strongly threatening the liberalization at every point in its evolution, and comprising diverse groups with multi-issue platforms, including a Labor movement softening its unconditional protectionism. This extraordinary power and platform of the anti-NAFTA coalition predicts the exceptional diversity, reach, and supranationality of the NAFTA compensation.

The very different institutional settings within which US and EC liberalization unfolded, moreover, account for how Europe's EC liberalization yielded more generous and supra-nationally provided compensation than did US liberalization. EC internal market liberalization has been part of a broader political and economic integration project where internal market liberalization got pursued simultaneously with other policy reforms, implying a broader jurisdiction and more opportunities and demands for subjects of side payments. This made compensation at the international level easier and more necessary than in the US. The greater generosity of most European welfare states compared to the US, meanwhile, complicated and diminished interest in changing domestic welfare assistance to compensate for the costs of particular liberalization -- hence fewer domestic compensatory side payments.

Thus, in the EC the combination of broad jurisdiction and modest welfare at the supranational level with broad jurisdiction and *generous* welfare at the national level predicts what the history reveals: consistent and generous compensation at the supranational level. In the US, we see nearly the opposite: the combination of narrow jurisdiction and modest welfare provision at the supranational level, and broad jurisdiction and modest welfare at the national level. And such

an institutional configuration again broadly predicts what the history reveals: more frequent and substantial compensation negotiated and provided by national institutions, smaller scale and less frequent compensation negotiated during international phases or provided by supra-national institutions.

Have Side Payments Humanized and Facilitated Freer Trade? Finally, the study provides qualified support for the policy of compensated liberalization. In the cases studied, compensation varied a lot over time and space in the amount and effectiveness of the redress provided, and in how much it lowered existing or sparked new opposition to freer trade. In the US, for instance, compensation was very effective in buying labor support for the 1962 TEA liberalization, even though it ended up providing few benefits for workers and did little to promote adjustment out of non-competitive sectors. And in 1993, NAFTA compensation to environmental groups was much more successful than that to labor, both in the redress offered and the opposition defused. The EC Structural Funds, meanwhile, were more generous, provided more redress and bought off more political opposition during the Single European Act than had compensation provided in previous internal-market liberalization episodes.

The cases show some evidence of modest abuses and of the occasional extortionate demand sparked by offers of compensation. For instance, some free-trade Democrats and Republicans exaggerated demands and alleged pain to get some pork in the final days of the NAFTA fight. And during the inter-governmental negotiations over the SEA liberalization, the Irish delegation may have exaggerated how much pain their polity would endure due to SEA, designed to get more regional assistance and other side payments. These abuses, however, appear to be relatively rare exceptions to the rule of the groups making compensation demands and getting compensation redress roughly in line with anticipated pain.

The cases suggest that compensation's biggest down-side may well be an unintended consequence not foreseen by either compensation's supporters or detractors: compensating the losers of trade liberalization has done little to institutionalize or build support for, and may even have undermined, broader policy arrangements for remedying the pain of open markets. For instance, US labor's waning interest in and Congress' jealous support for a minimal TAA as a symbolic gesture of compassion has insured weak but persistent use of trade adjustment assistance as a cornerstone of US compensated liberalization. This pattern of support and weak assistance, however, has discredited the efficacy of public training policies and thwarted efforts to develop more generalized and more generous active labor market policies. In Europe, providing targeted compensation during internal market liberalization tended to draw attention away from the more capable and promising national solutions for mitigating liberalization's risks.

Smoothing over this variation and considering the unexpected, compensation provided less redress and defused less opposition than hoped for. But it did provide redress that was better for

its beneficiaries than the alternative of uncompensated liberalization, and in many cases did make liberalization more possible or sustainable. Especially if compensation packages can be designed to avoid abuses and to reinforce or at least steer clear of broader safety net arrangements, the judicious use of compensation can off-set the social costs of and facilitate economic openness.

The Chapter Plan

The rest of this dissertation develops all the above theoretical and empirical claims in eight chapters. Chapter One reviews the political economy literature to glean what existing scholarship has to say about the nature, propriety and origins of side payment compensation during liberalization, and then lays out my attempt to improve upon this literature. The focus is on the terms on which real-world compensation can be better described and evaluated, on a theory of compensated liberalization that can better explain variation in the incidence of compensation, and on a research design for carrying out these goals. The bulk of the thesis, Chapters Two through Eight, chronicles, evaluates and explains the inconsistent, modest, and national compensated liberalization in the United States since 1934, and more consistent, generous, and supra-national compensated liberalization within the EC.

Chapters Two through Six cover the history of side payment politics in US trade liberalization, with the chapters divided chronologically, according to the important periods in that history. Chapter Two details and explains the transition from the period of uncompensated and compromised liberalization between 1934 and 1962, to the 1962 advent of compensated liberalization with the provision of trade adjustment assistance and of a few industry-specific side payments during the 1962 Trade Expansion Act.

Chapter Three details the maturation and subsequent decline of compensated liberalization between 1963 and 1973. It begins with the provision of improved adjustment assistance for auto workers in the struggle for the 1965 Auto Pact. And it then details the subsequent disappointment and apparent decline in compensated liberalization with the AFL-CIO's rejection of adjustment assistance and turn to unconditional protectionism, and with the aborted liberalization initiatives of the Johnson and early Nixon Administrations.

Chapter Four chronicles the tenacity of compensated liberalization in the subsequent decade, 1974 to 1984. It first seeks to describe, explain, and evaluate the baroque side payment politics of the 1974 Trade Reform Act (TRA). It then analyzes the unusual provision of industry-specific side payments during the international phase of Tokyo Round liberalization that the TRA authorized. And the chapter concludes by studying the cycling fortunes of trade adjustment assistance in the aftermath of that Round through the 1980s -- upward ratcheting of TAA

compensation during every subsequent legislated liberalization initiative, but always resulting in modest and politically-vulnerable compensation.

Chapter Five concludes the US history with a detailed account of the unprecedented compensated liberalization of the NAFTA. The focus is on describing, explaining and evaluating the exceptionalism of this episode -- the greater scale, diversity and supranationality of the NAFTA side payment packages relative to any previous US compensated liberalization.

Chapters Six and Seven contrast this US trade liberalization history with that of internal market liberalization within the European Community between 1950 and 1990. That EC history is subdivided chronologically into its most dramatic moves towards greater liberalization. The focus of both chapters is on how and why the pattern of compensation to emerge from these episodes is more consistent, generous, and supra-national than the US pattern. Chapter Six provides the side payment history of the initiation of Community activity in the European Coal and Steel Community (ECSC) and the founding of the European Economic Community (EEC) via the Treaty of Rome.

Chapter Seven covers the remaining major EC liberalization episodes: the Greek and Iberian enlargements, and the extended negotiation and implementation of the Single European Act. The discussion in Chapter Seven not only continues the explanation of the US-EC differences, but also chronicles some important changes over time in the development of EC compensated liberalization: the increasing generosity of the benefits provided; greater willingness to offer and accept promises of compensation that get detailed after ratification of liberalization; and the narrowing focus of compensatory side payments on structural-fund reforms and expansion, rather than regulatory harmonization, technology policies, or other side payment subjects.

Chapter Eight concludes the dissertation by reviewing and extending the argument and findings. It recaps the argument and case evidence, and then offers recommendations for both liberalizers and protectionists to better use side payments to humanize and facilitate freer trade. Finally, the chapter situates the findings in the broader context of trade liberalization cases outside the US and EC settings, and of other issue areas like privatization and waste facility siting. This context suggests several directions for further study into when and how side payment compensation can be used to humanize and facilitate economic openness, and more broadly, to better reconcile general and particularistic interests.

Chapter One:
Political Economy and the Theory of Compensated Liberalization

1. Political Economy and the Unanswered Questions About Compensated Liberalization
    1.1. Does Compensation Humanize and Facilitate Freer Trade?
        1.1.1. Compensation's Supporters
        1.2.1. Compensation's Critics
    1.2. When and To Whom Has Compensation Been Provided?
    1.3. Why is Compensation Provided Sometimes and Not Others?
        1.3.1. "Altruism" vs. "Egoism"
            1.3.1.1. Altruism Via Norms of Fairness
            1.3.1.2. Egoistic Bargaining
        1.3.2. Elements of Egoistic Bargaining: Groups and Institutions
            1.3.2.1. Group Characteristics
            1.3.2.2. Institutional Characteristics
        1.3.3. The Theoretical and Empirical Limits of Explanatory Alternatives
            1.3.3.1. Under-identified: Why Compensation Rather than the Alternatives?
            1.3.3.2. Under-developed: Narrow Explanatory Reach
            1.3.3.3. Under-specified: The Immeasurable is the Un-testable
            1.3.3.4. Empirical Vacuum

2. The Argument: Describing, Explaining, and Evaluating Compensated Liberalization
    2.1. Describing and Evaluating Compensated Liberalization
    2.2. Explaining Compensation: A Theory of Compensated Liberalization
        2.2.1. The Premise and Framework: Egoistic Bargaining Underlies Compensation
            2.2.1.1. Edgeworth Box Illustration
        2.2.2. Groups: Power-resources and Platforms of Protectionists
            2.2.2.1. Power resources
            2.2.2.2. Trade Platforms
            2.2.2.3. Combining Power and Platforms
        2.2.3. Institutions: Jurisdiction and Preexisting Welfare
            2.2.3.1. Jurisdictional breadth
            2.2.3.2. Welfare Policy Generosity
            2.2.3.3. Combining Institutional Jurisdiction and Welfare

3. Research Design: Comparing US Trade Liberalization with EC Internal-market Liberalization
    3.1. The Cases
        3.1.1. Why the Cases are Good for Description and Evaluation...
        3.1.2. ...And for Explanation
    3.2. The Research Methods
        3.2.1. Measuring Incidence
        3.2.2. Measuring "Propriety"
            3.2.2.1. Measuring Whether Compensation Off-sets Social Costs
            3.2.2.2. Measuring Whether Compensation Facilitates Openness
        3.2.3. Measuring Elusive Explanatory Conditions
            3.2.3.1. Measuring Power Resources
            3.2.3.2. Measuring Platforms
            3.2.3.3. Measuring Jurisdiction and Welfare
            3.2.3.4. Measuring Fairness Norms

4. Conclusion: Case Studies as Historical Narratives

If there's a universal truth in a political economy literature rife with historiographic and theoretical divisions, it is that transitions to economic openness are painful and politically contentious. Even free trade's most unflappable cheerleaders recognize that pursuit of aggregate prosperity through liberalization temporarily dislocates and imposes concentrated income losses upon some, less competitive workers and firms. More circumspect free traders expect the costs to be more permanent and serious for such groups, and potentially for broader systems of labor and environmental regulation. And to free trade's critics, the human and environmental pain of openness may well outweigh in the aggregate its efficiency benefits. Whatever the mix of costs and benefits these perspectives anticipate, all agree that moves to liberalize commercial trade or other flows will likely spark acute conflict between the winners and losers of openness.

Political economists have also found common cause in looking for ways societies can assuage this distributional conflict so as to promote social peace and prosperity. But here there are no universal truths. The candidates political economists offer and that societies have actually pursued are many. They range from doing nothing and letting preexisting safety nets or the sheer job-creating power of free trade run their course, to stanching the pace of or withdrawing completely from economic openness.

In between these polar solutions is the provision of side payment compensation along-side liberalization, a way to deal with conflict over openness that has also received ample, if diffused attention from political economists. Although most of the attention to compensated liberalization has come from scholars focusing less on compensation directly than on generic issues of bargaining or on issue areas other than trade liberalization, a wide range of scholarship implicitly or explicitly considers such compensation one way societies have and/or should off-set the social costs of and facilitate freer trade.

This scholarship harbors disagreement over three of the most basic questions about compensated liberalization. First, can providing side payment compensation during trade or other liberalization off-set the social costs of and facilitate freer trade? A range of otherwise conflicting political economists suggest that compensation holds promise to provide such double-edged benefits, while a number of more skeptical researchers find reasons why compensation may fall short of its promise. Second, when and to which groups has compensation emerged from struggles over liberalization? Some writings suggest compensation should be a common part of political and liberalization life, while others anticipate or observe that compensation uncommon or under-provided. Finally, what explains when side payment compensation emerges from bargaining over liberalization? Political economists suggest a number of characteristics of *groups* and their *institutional setting* that may explain this incidence of compensation.

The present chapter reviews the literature addressing these three questions and finds that empirical and theoretical shortcomings make it impossible to know which if any of the answers is

correct, and leaves the questions largely unanswered. All the writings about compensation, we shall see, suffer from very little empirical research, with claims backed by anecdotal evidence at best and purely theoretical at worst, rather than grounded in the actual use of compensation during liberalization across time and space. Without such empirical grounding, we know little about when compensation has or has not emerged from liberalization struggles, let alone about what can explain the incidence of compensation, or about whether compensation off-sets social costs and facilitates openness.

Not surprising given the modest analytical attention compensation has received, the explanatory insights not only suffer from empirical silence, but also from the theoretical shortcomings: They tend to be under-identified, to lack the explanatory reach to explain variation over any significant range of time and space, and to generate few measurable and testable propositions. The most important of these problems is the first, that existing insights are too under-identified to predict or understand the incidence of compensation as distinct from its alternatives -- protectionist redress or nothing at all. In particular, the insights we can derive from existing scholarship can suggest some broad tendencies in compensation, but either fail to explain why bargaining yields compensation rather than nothing at all (uncompensated liberalization), or fail to explain why compensation rather than more protectionist redress (compromised liberalization). The literature's blind spots, we shall see, point to the need for more identified, developed and specified attention to the causal role of *group* interests and endowments, and of their *institutional* setting.

In light of these empirical and theoretical shortcomings, the bulk of the chapter develops my attempt to better understand compensated liberalization. I begin by laying out a strategy and theory to *describe, evaluate,* and *explain* the incidence of compensation as it actually emerges from struggles over openness. Here the explanatory task receives the most attention. I develop a theory of compensation based on the premise that compensation emerges from egoistic bargaining rather than altruistic fairness standards. And I focus on a set of group and of institutional conditions which affect that bargaining: the power and policy platforms of groups; and the jurisdiction and welfare assistance that characterizes the national and supranational institutional settings within which these groups bargain. With the aid of some informal applications of non-cooperative game theory, these group and institutional conditions can predict the incidence of compensation as distinct from protectionist or no redress, can predict variations over significant swaths of time and space, and can be empirically tested.

The final section of the chapter designs the empirical research into what describes the incidence of compensation, what explains that incidence, and what compensation has done or failed to do to humanize and facilitate freer trade. Here the focus is on case selection and measurement. First, I lay out the usefulness and limits of comparing US trade liberalization with

EC internal market liberalization as a vehicle for describing and evaluating compensation, and especially for illustrating and testing my group-institutional theory of compensation. Second, the research design discusses and defends my qualitative and historicist methodology to measure the incidence and usefulness of compensation, and the various explanatory variables of the theory to be illustrated and tested.

1. Political Economy and the Unanswered Questions About Compensated Liberalization

The very substantial literature on the politics of liberalization and of national responses to economic openness offers a mixture of controversy and scattered insight about compensated liberalization. The clearest controversy surrounds the "propriety" of compensation, whether compensation can off-set social costs of and facilitate openness. Less understood is the basic descriptive issue of when compensation has actually emerged from struggles over liberalization. And the extensive writings about liberalization and openness suggest a smattering of insights into what might explain or predict the incidence of compensation. What does this literature tell us about the nature, propriety, and origins of compensation?

1.1. Does Compensation Humanize and Facilitate Freer Trade?

1.1.1. Compensation's Supporters. Three different strands of scholarship suggest that side payment compensation promises to off-set the human and other costs of economic liberalization, and thereby also defuse political opposition to such liberalization. First, at least since Karl Polanyi's *Great Transformation,* many political economists have argued that industrialized societies respond to the expansion of self-regulating markets with counter-movements that stem the reach of such markets or that establish other policies and programs to mitigate the human and environmental costs those markets create (Polanyi 1944; Ruggie 1983). Subsequent work in this vein has used increasingly careful statistics to show that industrialized countries whose economies are most open to the vagaries of international markets tend also to have the most generous social expenditures (Cameron 1978, Katzenstein 1985, Blais 1988, Garrett 1996, Rodrik 1996). This work supports the claim that more open economies face higher social risks that, in turn, fuel demands for more expansive welfare provision, and that increases in such provision legitimates more and continued openness.[1] The mechanisms and politics underlying this harmonious relationship between openness and welfare are left unexamined. But the work implies

[1] This claim was originally cross-sectional only, focused on differences in the openness and welfare provision across countries in comparative statics. More recent contributions have also considered longitudinal studies, showing that changes in the level of openness, with more caveats, tend to be associated with increased public spending.

that side payment compensation to the losers of liberalization, accompanying discrete moves towards such liberalization, promises to off-set the risks of and thereby legitimates freer trade.

A second strand of political economy research, concerned less with macro-historical links between openness and welfare than in the micro-politics of bargaining, gives more focused attention to the promise of compensation. Economists have long claimed that when there is some policy change that advances the general interest of society but imposes costs on some individuals, the beneficiaries of the change should provide some material compensation to those bearing the costs. Ronald Coase's seminal study of property rights went a step beyond this hope for Pareto efficiency by highlighting how the beneficiaries and victims of pollution and other "negative externalities" will tend to bargain with one another to lower levels of the externality in exchange for material compensation or various side payments, yielding outcomes that are as or more efficient than what government might legislate by fiat (Coase 1960). Explicitly drawing on this Coasian view, some scholars of international politics have argued that unregulated bargaining among states, involving the use of compensation, will yield outcomes that improve matters for all bargainers, again better than what governance structures -- in this case international organizations -- might mandate. The outcomes of interest explicitly include trade liberalization (Conybeare 1980).

Similar arguments about the promise of side payment compensation appear in several related literatures. The political economy literature on issue-linkage in international bargaining, for instance, includes a number of works claiming that two or more groups with an interest in more than one issue can promote mutually beneficial equilibria by linking issues through compensatory exchange in situations where cooperation on one or another of the issues would not be rational if those issues were considered in isolation (Sebenius 1983; Tollison and Willett 1979). Applying the same claims from this broadly theoretical literature to a particular setting is a corpus of scholarship on the use of issue linkage and side payments in the international politics of European Union integration (Weber and Weismuth 1989; MacAleavey 1993; Marks 1992; Wilcox 1983).

Scholars of the domestic politics of international cooperation -- seeing cooperation as a two-level games (among groups at home and between national representatives internationally) -- show how international agreements in a country's general interest can be made politically more acceptable by giving side-payments to domestic opposition (Putnam 1988, Mayer 1992).

And in a more American-focused literature, scholars of congressional voting have pointed out that vote-trading and log-rolling -- often involving an exchange of some support on one issue in exchange for support on another issue as compensation -- can make legislation possible that would otherwise fall prey to regional, constituency particularism (Tullock 1967; Wilson 1969). Although applied to address a variety of empirical phenomena other than trade liberalization, all of these works suggest reasons to believe that providing some compensation -- assistance or policy

goods to the losers of trade liberalization, assistance separate from the protections being liberalized -- can off-set social costs and buy off opposition to liberalization.

Finally, in addition to the broad literatures influenced by the economic sociology of Polanyi and the micro-economics of Coase, more policy-specific literature on trade liberalization has seen promise in providing compensation to the losers of international trade. In the trade literature, such a claim has been particularly influential among those seeking to reconcile society's general interest in free trade with the concentrated and particularistic interest in protectionism. One strategy, they recognize, is to devise adjustment assistance and other kinds of policy and material compensation to humanize and, especially, buy off opposition to liberalization (Bauer et.al. 1966, Frank 1977, Bhagwati 1988, Lawrence and Litan 1984, Aho and Bayard 1984, Richardson 1982).[2]

1.1.2. Compensation's Critics. Side payment compensation doesn't enjoy universal appeal, however. A number of scholars contend or suggest that the promise of compensation to humanize and facilitate liberalization is rarely fulfilled. Against the promise that side payments humanize liberalization, some political economists and policy pundits have leveled several criticisms or doubts. One criticism that has been prominently aired in policy circles is that giving special treatment to the losers of liberalization is not fair to other citizens hurt or dislocated for reasons other than trade (Mathematica; Corson 1988, 1995). Others have looked at particular programs that were artifacts of side payment compensation -- such as some versions of the US trade adjustment assistance program -- and emphasized that the recipients of this special treatment do not get much redress from compensation anyway (GAO 1980; Trebilcock 1985). Related to this, some looking at these and other programs suggest that providing compensation tends to go to groups that do not lose as much as to groups with enough political voice, even if those groups exaggerate their losses. And some have pointed out that the provision of side payments may or actually does impose costs on third parties without a clear stake in trade liberalization, costs ranging from higher taxes to inflexible labor markets (Banks & Tumlir 1986; Oye 1992).

Against the promise that side payments can facilitate economic liberalization, the skepticism is stronger still. Some critics suggest that policies provided in real-life compensation -- such as adjustment assistance in the US and Europe -- has not promoted adjustment out of non-competitive activity. And they assert that the modesty of redress has meant that such assistance does little to defuse opposition while actually provoking new opposition from groups otherwise supportive of openness (Trebilcock et.al.1993; Banks and Tumlir 1986). Some also point out that compensation

[2] The trade policy literature's interest in compensation often focuses on both equity and efficiency benefits of providing compensation to the losers of trade liberalization. But the writing often reveals that efficiency benefits -- the promise to buy off opposition and thereby facilitating efficiency-enhancing liberalization -- are what appeal most strongly. For instance, the contributors don't express concern over Pareto losses when compensation isn't provided and when liberalization goes through -- uncompensated liberalization. Instead, it is the potential for liberalization's real and alleged losers blocking liberalization in the absence of systems of compensation that inspires concern.

invites abuse and extortionate demands from groups exaggerating or inventing their suffering, obstructing liberalization as a way to get more side payment pork. Finally, even if groups don't exaggerate their opposition as such, the offer or provision of compensation may incite new opposition from groups supportive of or ambivalent over liberalization, particularly those who are "third parties" bearing costs of the compensation. And this new opposition may off-set any political gains that the compensation buys among targeted beneficiaries.

Does Compensation Work? Neither the promoters nor detractors of side payment compensation, however, have grounded their claims in any systematic look at the use of compensation in liberalization history. Much of the attention to compensation provides useful but anecdotal empirical examples from both political economy and security studies experience. Supporters of the promise identify as supporting illustration a successful example of side payment compensation -- such as the creation of trade adjustment assistance in 1962 to appease organized labor, a qualified success (Richardson 1984; Frank 1979). Meanwhile, skeptics rely on plenty of counter-examples -- such as the problems with that same trade adjustment assistance program in providing mediocre redress, no adjustment incentives, and questionable success in buying off opposition in subsequent liberalization initiatives (Trebilcock et.al.1990). Neither the supporters nor skeptics, however, have gone beyond such isolated examples to survey the range of actual experience with the incidence of side payment compensation over time and space.

The reasons for such spotty empirical attention may be the difficulty of measuring side payment compensation and its effectiveness. Simply identifying the existence of compensation is difficult since many political deals take place behind closed doors and since compensation might involve any kind of policy, but only if it is intended to help the victims of some trade liberalization and is separate from the protections being reduced in that liberalization. More difficult is measuring the usefulness of compensation, particularly its effectiveness in lowering political opposition. Judging such effectiveness involves causal inferences difficult to make in the midst of so many political and economic forces that affect both compensation levels and opposition.

Without fuller empirical investigation, in any event, we don't know whether compensation humanizes or facilitates freer trade. Not all the issues involved in judging the propriety of compensated liberalization are empirical -- for instance, gauging the fairness of singling-out the losers of trade for help is mainly a conceptual judgment -- but most are. They involve such questions as what benefits compensation provides, how much money is spent, who puts up that money, how much change there was in opposition levels following compensation, etc. And even a blush of empirical knowledge reveals a lot of variation in these characteristics. We need to know the details of such variation over a significant period of time and different regional settings. Only then can we venture general conclusions about whether compensation mitigates social costs and buys political support for freer trade.

1.2. When and To Whom Has Compensation Been Provided During Liberalization?

Most of the political economy literature to focus explicitly on compensation directs its gaze at normative questions -- at whether side payment compensation can improve equity or efficiency for groups or nations. Less attention has been devoted explicitly to empirical or analytical questions about the incidence of compensation. But out of that normative literature one can identify a few empirical claims and controversy.

Many contributions, particularly those developing theories of optimal bargaining, deduce the expected from the ideal. For instance, Coase and many others focused on the micro-politics of bargaining suggest that compensation should be a common part of such bargaining precisely because and to the extent it is desirable. Yet, others focused on more explanatory questions expect or observe otherwise. Some expect that transaction costs associated with providing side payment compensation will tend to be high enough that compensation will be relatively rare (Tollison and Willet 1979). Similarly, Kenneth Oye's work on the economic discrimination observes that compensation in international economic life tends to be "under-provided" relative to what game theory and neo-classical economics might suggest (Oye 1988). And H.Richard Friman's work on the use of side payments and other bargaining tactics in the politics of international cooperation suggests that the incidence of side payments varies over time and space (Friman 1991).

As already mentioned above, moreover, the larger literature on the link between openness and the public economy developed strong evidence that more open economies tend to have more generous public expenditures (Rodrik 1996, Cameron 1978), welfare provision (Rodrik 1996), and industrial subsidies (Blais 1986).[3] The link between greater openness and public spending is left unexamined, however. It could take a variety forms. It could entail side payment compensation, with protectionist and/or liberalizer groups calling for and providing policy promises and commitments to expand and reform various elements of the public economy. Or it could entail less direct and explicit linkage: For instance, liberalization might shift trade patterns and competition, in turn changing economic incentives for societal groups, in turn shifting perceived policy interests, and in turn inspiring new and stronger demands for industrial subsidization, welfare spending or public expenditures generally.

In all the political economy literature, then, there's a combination of controversy and ambiguity on how common or rare side payment compensation is in real life, and on whether such

[3] Openness, in this literature, is generally understood to be trade (imports plus exports) as a percentage of GDP, though a few studies consider actual liberalization of barriers to trade. Blais 1986 focuses on tariff reductions and their relationship to industrial subsidization, though his study is cross-national and not longitudinal. Bates et.al. 1992 focus on the relationship between several measures of NTBs and tariffs on the one hand, and public spending on the other. Again, the evidence is cross-sectional rather than longitudinal. Most longitudinal studies focus on trade openness (trade as % of GDP), not on liberalization. But this is a reasonable approximation for trade-opening.

compensation is the mechanism by which more open economies generally provide more generous public expenditures. Yet, in all the literature we only have a few anecdotal observations of variation in side payment compensation -- understood broadly as assistance directed at the victims of some liberalization and separate from the protections being reduced in that liberalization. Beyond these examples, we know very little. So we don't know whether compensation is rare or common during struggles over liberalization, or whether it is commonly the link that connects openness to welfare. And we certainly don't know whether and in what ways the incidence of compensation varies across countries, over time and across episodes of liberalization, across sectors or groups, across different national or international institutional settings.

1.3. Why is Compensation Provided Sometimes and Not Others?

As for *why* compensation might vary over time and space, political economy offers more insight. Only a few scholars have focused explicitly on explaining "side payments" and "compensation" during fights over liberalization. But plenty have offered explanations for related phenomena like issue linkage in international and domestic bargaining more generally. And from the broader literatures on political struggle over trade liberalization and on how societies deal with the vagaries of open markets, we can derive a number of insights into why compensation might be provided to some groups and in some liberalization episodes and not others. Together, this yields a number of insights that don't so much disagree as highlight different aspects of groups and their institutional environment that affect the incidence of compensation. Two broad distinctions dividing these insights characterize the state of our knowledge about the origins of compensation.

1.3.1. "Altruism" vs. "Egoism"

The first involves whether the provision of compensation reflects "altruistic" or enlightened concern for the victims of liberalization, or whether instead it reflects "egoistic" bargaining and the search for a way to expedite openness. Obviously, both of these motivations may coexist, but political economists are divided over which motivation might best explain or underlie variation in the provision of compensation.

1.3.1.1. "Altruism" Via Norms of Fairness and Social Contracts: The "altruistic" perspective implies that polities will sometimes provide compensation to the victims of liberalization for the sake of those victims and for the stability and equality of the society. The crudest claim we might deduce from this approach would be to expect compensation for those bearing the greatest costs and risks from openness, each time and to the degree that a country liberalizes trade. Much more usefully, however, several altruist-centered contributions suggest

conditions under which liberalization will yield any compensation, and to whom it will yield compensation. These conditions include fairness ideas held by liberalizers, and nationally-differentiated social compromises premised upon particular ideas, institutions, and enlightened interests.

A good example of this perspective focused on ideational conditions is Judith Goldstein's work on the role of ideas in US trade policy-making. Her work focuses on the impact of institutionalized ideas of government leaders on US trade policies since the inter-war period (Goldstein 1989, 1993). Goldstein wants to explain why the US continues to pursue essentially open trade policies despite increased protectionist demands by vulnerable interest groups and a decline in the US's hegemonic position in the international economy. She claims that this recalcitrant openness can best be explained by a few ideological norms, or "decision rules," held by government policy-makers who "supply" trade policies to meet interest group "demands": (1) the US should maintain an open economy to achieve prosperity and harmony; (2) foreign countries which do not pursue such openness are acting unfairly and should not be given full access to the US market; and (3) the imperatives of democracy and fairness require government to relieve the suffering of vulnerable members of the American economy with some form of policy assistance. These decision rules, Goldstein claims, explain why US trade policy is generally liberal; why demands for protectionism that rest on claims of unfair trade usually receive a more protectionist response by the state; and, most importantly for the present study, why interest group demands for protectionism where unfair trade is not the issue still are likely to be *met by compensatory measures, albeit less protectionist ones* -- measures such as compensation.

Such an argument supports the hypothesis that countries whose trade policies are dominated by leaders following compensatory liberal decision rules will offer compensation when "unfair trade" is not at issue and where substantial societal suffering underlies interest group opposition. In countries with a different political culture, adjustment compensation may mark liberalization bargaining, but not due to such norms of fairness. Such a focus on fairness ideas, thus, works within the assumption that compensation might well reflect "altruistic" norms, and predicts significant variation across groups within the US, and by implication across countries with varying normative standards.

Much of the more sociological political economy focused on the relationship between economic openness and the public economy suggest a similar view that compensation emerges from social justice concern for the victims of markets. For instance, some scholars suggest that countries with strong unions and left governments ("left-labor power"), or those with corporatist intermediation, provide more and more frequent compensation to victims of greater openness -- again, in "compensation" broadly-defined to include all state provisions that might help the victims of and be linked to liberalization (Garrett and Mitchell 1995, Garrett 1995; Katzenstein 1985).

A related insight comes out of the attempt to explain why there is an apparent correlation between trade openness and welfare generosity as compensation for the *risks* of openness in developed countries in Europe and North America, compared to the lack of such a correlation among developing countries (where we see openness with minimalist welfare provision; closure with generous state intervention) (Bates et.al. 1991). The researchers hypothesize that this difference is due to the lack of welfare policy-making and fiscal competencies in the latter, making it difficult for the state to provide compensation and, in turn, altering the expectations of groups fighting over openness. Such a claim would suggest that pre-conditions for compensation are sufficient wealth, and fiscal and welfare policy competency. This perspective, again, doesn't distinguish compensation from more diffuse ways in which greater economic openness might inspire the creation or improvement of welfare or other assistance measures.

The common insight we can derive from this "altruism" perspective, however, is that particular ideational, socio-political and institutional conditions underlie different kinds of politics and social compromises that, in turn, underlie provision of compensation for liberalization's losers. Liberalization in a setting with preexisting welfare capacities, strong Labor influence in government and industrial relations, and with corporatist intermediation, will entail social concern for humanizing openness that will in turn encourage provision of side payment compensation.

1.3.1.2. "Egoism" Via Group Bargaining: Many of the insights into when compensation might be provided, however, conform to the bias of the "grim science" and assume that egoistic self interest in individualistic bargaining trumps any broad norms of fairness or compromise. They suggest that bargaining between protectionist and liberalizers over economic openness will under some conditions spill-over into discussion of side issues, issue linkage, compensation, all as a simple artifact of coalitions seeking to maximize their piece of the pie -- liberalizers seeking compensation only as an expedient to buy liberalization, protectionists seeking as much redress as possible. Such a perspective emerges from work that either focuses explicitly on bargaining over trade, or on related and more general issues of domestic and international negotiations in political economy -- work such as that of Coase and others discussed above. This bargaining perspective, however, is divided over what conditions affect bargaining such that redress or other compensation might emerge. And this division represents the second important set of distinctions characterizing what political economists have to say about the origins of compensated liberalization.

1.3.2. The Elements of Egoistic Bargaining: Groups and Institutions

Political economists identify a number of conditions that influence egoistic bargaining such that struggles over liberalization yield compensation. Some of these concern the political

characteristics of the groups involved in the bargaining, and others involve the institutional setting within which they negotiate.

1.3.2.1. Group Characteristics: Perhaps the explanatory perspective with the longest pedigree within political economy is that focused on the economic interests and political power of groups agitating over public policies. The very ramified literature on the politics of international trade policy making, for instance, has identified a hundreds of conditions that influence when groups will pursue or oppose liberalization initiatives -- such as the international economic position of groups and/or nation states (e.g. Rogowski; Baldwin; Lake; Milner; Brock et.al., Nelson). And that same literature has also identified an equally dizzying array of group characteristics that influence the capacity to translate such interests into policy demands -- characteristics such as the concentration of a sector, the number of people employed, the centralization of their organizational representation, the money they have, the elite contacts they wield, etc. (e.g. Lavergne).

These various insights suggest power and interest conditions that can explain when and which groups in a polity are likely to influence trade policy and to receive redress -- and, by implication, side payment compensation. None of this literature distinguishes such compensation from other forms of redress, in particular protectionist exemptions from or revisions of liberalization initiatives. Not even the relatively more ramified scholarship interested in explaining the "complexity" of trade policy-making tools in addition to protectionism consider this distinction, since such complexity encompasses different kinds of exemptions or protectionist revisions of trade policy (Verdier 1994; Hiscox 1996). Although this means that the insights we can derive are pretty blunt instruments, the trade policy literature still suggests usefully that compensation emerges when and to groups that have the determination and political resources to threaten liberalization. And they identify a diverse tool-box of group conditions that shape such interest and power.

A few contributions more focused on side payment compensation also identify particular aspects of group power and interest that influence whether egoistic bargaining over liberalization will elicit compensation per sé. H.Richard Friman has tried to explain the varied provision of side-payments that can fashion domestic support for international negotiations (Friman 1993, Friman 1994). He argues, simply, that side-payments are likely to be used in negotiations involving intractable domestic opposition to international cooperation, only when other domestic opposition to the use of such payments is sufficiently low. This insight usefully reminds us that the provision of compensation is likely to be as politicized as the policy change for which losing groups are compensated.

Moravcsik's "liberal inter-governmentalist" approach to the politics EC integration and policy-making also submits a variety of group-specific expectations about when and what kind of side payments issue linkage should result from intra- and inter-state bargaining over EC issues.

Claiming that issue linkage and side payments will tend to be over marginal issues and marginal powers, this perspective also suggests: (1) that side payments in inter-state bargaining is most likely when governments or other groups have "highly asymmetrical interests in various issues, which permit each to make concessions valuable to the other at relatively low cost"; (2) that linkages are most likely in areas where the preferences of domestic groups are not intense, preferences that might, á la Friman, scuttle offers of compensation; and (3) that linkages imposing real costs on domestic actors may require further domestic side payments to be politically acceptable (Moravcsik 1993, pp.505-6).[4]

Finally, Kenneth Oye's study of political exchange among and within nations suggests that the degree to which bargaining groups or nations are fragmented, as opposed to unified, will importantly affect the likelihood of compensation during bargaining. Fragmentation implies many actors involved on either side of a bargain, and Oye maintains that Olsonian "logic of collective action" will lead the more numerous sub-groups to free-ride and under-invest in the provision of public goods. One public good important to the possibilities of compensation is the reputation of a bargaining group or nation to keep its promises -- something that affects the willingness of bargainers to risk offering something on one issue for promised action on another. Fragmentation of coalitions, thus, degrades concern for reputation at the coalition level, and this has the effect of tempting groups to renege on exchanges -- including those relevant to issue linkage and side payment compensation. For instance, a fragmented bargainer might agree to support some liberalization upon the provision of a side payment and then, upon receiving payment, renege on their side of the deal and undermine the liberalization anyway. This possibility suggests that egoistic bargaining among relatively unified groups or coalitions will tend to yield more compensation than will bargaining among relatively fragmented ones.

1.3.2.2. Institutional Setting Political economists focused on how egoistic bargaining may underlie compensation focus as much on the institutional setting within which groups bargain as they do on the groups themselves. Most of this attention to institutions grows out the role that "transaction costs" play in the constraining bargaining and political exchange. In his seminal discussion of the propensity of groups to engage in secondary bargaining to off-set the costs of policy externalities, Ronald Coase pointed out that the extent of such bargaining depended upon the various costs of organizing representatives, of identifying forms of compensation, of costing-out pain, and of the give-and-take of bargaining -- costs that have become known as "transaction costs." If these transaction costs were sufficiently high, as when many groups in a community try

[4] Other insights Moravcsik offers are less focused on group or institutional characteristics, but are more general: that linkages in package deals are most likely at the final stage of bargaining to balance marginal gains and losses; and that government proposing linkage will likely begin in more closely related issues before resorting to more distantly related issue linkages.

to cost out the distribution of damage wrought by a polluting factory, compensatory exchange will be constrained or might not take place at all -- and compensation will be under-provided.

Subsequent research on vote-trading, issue linkage and side payments has been heavily influenced by this basic observation. Several researchers have suggested a variety of ways in which "transaction costs," such as the costs of gathering information about the preferences of negotiating partners and about worthwhile bargains, are particularly high or particularly problematic when issues are linked or side payments provided (Tollison and Willet 1979, Sebenius 1983, Oye 1992, Marshall and Weingast 1988). These and other researchers also point out or imply that such transaction costs vary and are negatively related to the incidence and political efficacy of issue linkage and side payments.

Some of these contributions also specify some conditions that affect transaction costs, focusing particularly on the institutional setting within which groups bargain. Keohane and others, for instance, suggest that institutions with strong information-gathering and monitoring capacities make it easier for groups to know what political exchanges are possible and desirable, and to enforce compliance with resulting agreements -- including exchanges of side payment compensation for trade liberalization (Keohane 1984). And Oye's work on the under-provision of compensation argues that imperfect information in the bargaining environment -- an institutional characteristic that can be expected to vary across settings -- creates ambiguity over the preferences and actions of bargaining actors. This encourages reneging and distrust, he argues, by making retaliation against reneging less certain, and by making extortionate demands more difficult to distinguish from win-win exchange demands (Oye 1992).

1.3.3. The Theoretical and Empirical Limits of Explanatory Alternatives

All of these insights -- those focused on the altruism of fairness norms as well as those focused on various group and institutional elements of egoistic bargaining -- provide leverage to understand why liberalization episodes might yield side payments at some times and not others. Alone or in any obvious combination, however, they don't provide enough leverage, in that they leave a great deal of variation to be explained. This limited explanatory power, it seems, reflects the literature's important theoretical and empirical shortcomings -- shortcomings that mainly reflect a lack of developed attention to the incidence of compensation rather than poor insight. The theoretical shortcomings are three-fold: The literature is under-identified, under-developed, and under-specified.

1.3.3.1. Under-identified: First and most importantly, virtually of the explanatory insights are under-identified in the phenomena they are equipped to explain. In particular, all explain or predict outcomes that do not distinguish the provision of side payment compensation from both of

its two alternatives -- provision of protectionist redress or of nothing at all. This is most obvious with the extensive literature focused on the sinews of group interests and power that affect bargaining over trade policy-making. As we have already seen, this literature might broadly suggest the importance of a group's particular economic positioning and its various power resources in agitating for government redress from the vagaries of openness, but not even the most ramified entries can distinguish when that redress will take the form of protectionist redress and when it will take the form of side payment compensation. In other words, these contributions might explain when we get something other than uncompensated liberalization, but they don't explain when we will get compensated rather than compromised liberalization. Why, for instance, did textile groups opposing trade liberalization in the US get only protectionist redress in US liberalization episodes in the 1950s, but in 1962 get side payment compensation in addition to new protectionist exemptions as part of the 1962 Trade Expansion Act?

Most of the other contributions focused on the characteristics of groups and their institutional setting, however, are under-identified in the opposite respect -- unable to distinguish compensated from uncompensated liberalization. Friman's focus on the opposition among societal groups to the provision of compensation, for instance, might explain why compensation might get chosen over or in addition to protectionist redress as groups bargain over trade or other international economic initiatives. But it cannot explain when and why compensation even gets on the negotiating agenda among bargaining groups -- why, in other words, groups discuss compensation for opponents rather than simply ignoring those opponents. Moravcsik's emphasis on off-setting asymmetries in the preferences of groups, and especially on the dynamics of opposition from "third parties" who might pay for or oppose compensation, is especially useful for suggesting the kinds of compensation that might be more or less politically viable, but it too doesn't offer insight into when and why compensation gets chosen over uncompensated liberalization. And Oye's focus on fragmentation of groups has a similar limitation. Why would some relatively unified groups and trade associations get nothing, say the shoe/leather industry in the US, while similarly unified groups, say the winter-fruit and vegetable industry, get compensation?

The various insights into the importance of institutional setting are similarly under-identified. The institutional characteristics thought to mediate transaction costs to issue linkage can only explain why compensation might be provided along-side protectionist redress; it can't explain why *uncompensated* liberalization sometimes reigns supreme. We don't have any explanation for why the US distilled spirits industry rec[illegible]d side payment compensation to buy its support for liberalization crucial to the final stages of the 1970 Tokyo Round, never any protectionism afterwards, even though transaction cost institutional conditions didn't vary.

And the welfare capacity and Left-labor orientation of the institutional arena suggest that some kind of redress will follow moves towards greater openness, but that redress might take the form more diffuse and historically separate changes in the demands on welfare or other government provision, rather than side payment compensation. That some moves towards openness, such as US liberalization initiatives between 1934 and the late 1950s yielded little compensation or any other targeted redress for many vulnerable groups, might be roughly consistent with the focus on Left-labor orientation, welfare capacity, etc. -- in that welfare provision over the period tended to grow, albeit politically and temporally separated from trade legislation and struggles. But counter-factually, the provision of side payment compensation to those groups during the same period would be just as consistent.

1.3.3.2. Under-developed: In so far as the existing insights can explain broad outcomes, albeit under-identified, many also suffer from being *under-developed* in the sense of having only very limited empirical reach in the range of variation they can explain. The various insights focused on the ways institutional settings mediate the transaction costs to side payment bargaining only have explanatory value in accounting for rarity, under-provision or variations in compensation that might coincide with shifts or differences in institutional setting -- say, across countries, or across very substantial periods of time. This obviously leaves to a number of other conditions, presumably those more connected to group characteristics, to explain differences across episodes or groups in a given institutional setting. And yet the group conditions highlighted in the literature -- such as those related to the economic position underlying tastes for protection, or to the fragmentation of groups that under-value reputation -- cannot explain much of the remaining variation. For instance, these particular group conditions don't vary if we compare the shoe industry and the lumber industry, and yet the first received no redress to off-set its dislocation while the second received a package of side payments.

1.3.3.3. Under-specified: Finally, some of the most broadly useful insights into the origins of compensation -- useful despite under-identification and limited explanatory reach -- tend to be *under-specified* in the sense of not identifying measurable explanatory conditions that can be subject to empirical testing. The transaction cost approach, largely expressed in the focus on institutional setting, is perhaps the most important example of this shortcoming. Not only does much of this literature say nothing about any empirical referents to transaction cost conditions -- institutional or otherwise -- the role institutions might play in mediating such conditions are not clearly measurable. For instance, how are we to measure those institutional settings that are more or less conducive to the flow of information? Some such conditions might be obvious, such as the existence of monitoring capacities, but others are less so, and not specified, leaving it to the empirical-minded student to come with such specification for him or herself. Some of the group conditions also have this weakness, such as the observation that groups with sharply off-setting,

or asymmetrical, preferences across several issues will engage in issue linkage or package deal-making. For very general groupings some empirical measures of varying "asymmetries" might suggest themselves -- such as liberals and conservatives in a party system, or country representatives with very different ideas about economic integration. But for different sectors engaged in coalitional fights over trade liberalization the task is much harder.

1.3.3.4. Empirical Vacuum: Finally, however limiting these three theoretical shortcomings might be to the explanatory power of existing insights, perhaps the most important problem is the empirical vacuum. None of the insights discussed are subjected to any significant empirical illustration, let alone testing. A few offer anecdotal evidence to illustrate the logic and potential of the claims. Friman's focus on domestic group opposition to side payments is an example. Slightly more empirically-grounded is Goldstein's discussion of principled ideas in the US that might underlie the provision of some side payment compensation -- she illustrates with reference to the US trade adjustment assistance provisions. But the evidence offered is also anecdotal, rather than drawn from any sustained look at the liberalization history in the US or elsewhere. Her account, for instance, doesn't consider the many other instances of side payment compensation that emerge from trade policy-making in the US, such as that provided to the lumber, distilled spirits, and textile industries mentioned above, or to the lack of such compensation to many other groups. This matters because the variation doesn't co-vary well with the normative standard on which her "altruism" perspective focuses -- a standard that suggests groups unable to claim "unfair" trade may well get some assistance if their suffering is palpable.[5]

None of these theoretical and empirical shortcomings, of course, reflect shoddy scholarship or disinterest in empirical research. Instead they reflect the paucity of *direct* scholarly attention to explaining side payment compensation, as opposed to indirect attention to compensation as a side bar to other aspects of political economic life. The insights we can derive from such side bar attention, alas, understandably lacks theoretical or empirical focus.

We are left, in any event, with the most important explanatory questions about the compensation unanswered. When and to what extent does compensation reflect "altruistic" concerns, such as the norms of fairness, and to what extent does it instead reflect the dynamics of egoistic bargaining? Why might compensation be rare or underprovided? Which characteristics of groups and of their institutional setting matter most to the incidence of side payment compensation? What, in general, explains variations over time and space in the incidence of compensation?

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[5] In the examples just cited, textiles, lumber, and distilled-spirits were far from the biggest victims of their respective liberalization episodes, and yet they got substantially more side payment compensation than many of the most vulnerable, most dislocated sectors and groups, such as watches, shoes, clay pottery, etc.

The challenge is to provide better answers to these explanatory questions by doing what existing literature has not: subject side payment compensation to sustained, theoretically informed and empirically grounded attention. This means developing a theory of incidence that is better identified to explain the incidence of compensation as distinct from its uncompensated and compromised liberalization alternatives. It means developing theory that can explain a range of variation in the incidence of compensation -- variation across episodes, groups, institutional level, and countries. It means developing theory that is better specified so as to be empirically testable and historically useful. And, finally, it means illustrating and testing that theory across a significant chunk of the liberalization history.

2. The Argument: Describing, Explaining, and Evaluating Compensated Liberalization

To better understand compensated liberalization -- to understand the incidence and propriety as well as the origins of compensation -- this dissertation describes, explains, and evaluates side payment compensation in a more theoretically self-conscious and empirically focused way than has past scholarship. The theoretical contribution comes in part from a strategy for describing when compensation has emerged from struggles over openness and for assessing when compensation has actually off-set social costs of and facilitated such openness. But it mainly comes from a theory of the incidence of compensation that is identified enough to distinguish compensated liberalization from its compromised and uncompensated liberalization alternatives, and developed to explain variation over time and space, and specified enough to be empirically testable. The empirical contribution comes from applying this strategy and theory to the use of compensation over a significant swath of US and European experience with trade liberalization. The present section lays out the theoretical strategy, and the next (Section 3) lays out the empirical focus.

2.1. Describing and Evaluating Compensated Liberalization

Describing the incidence of side payment compensation in episodes of liberalization is conceptually straight-forward. This dissertation considers the bargaining during political struggles over trade liberalization initiatives, and looks for promises and provision of policies, moneys, or any other kind of assistance that is (1) *intended to off-set the political, economic, or environmental costs of the proposed liberalization*, and that is (2) *separate from the core protections to be reduced in that liberalization.* Both of these conditions turn out to pose measurement challenges, as will be discussed below, but they pose few conceptual challenges.

Evaluating side payment compensation when it actually emerges from episodes of liberalization is a little bit less straight-forward. The strategy here is to assess the real experience of compensation on the various terms existing scholarship has judged compensation to have succeeded or failed to off-set the social costs of and facilitate freer trade. To assess whether compensation actually off-set social costs, this means looking at the following: (1) the scale and the scope of the redress compensation provides to actual and expected victims of liberalization; (2) the degree to which the groups get redress in accordance with the costs they bear; (3) instances and the proportion of compensation provisions that go beyond the scale of actual suffering (i.e. instances of rent-seeking or receiving); (4) the scale, source, and distribution of the burden of revenues underlying and costs of the compensation, particularly the burden borne by beneficiaries of liberalization vs. "third parties," those not directly benefiting from the fruits of the liberalization; and finally, (5) the actual implementation of the programs created through compensatory exchange.

To assess whether compensation has actually facilitated freer trade, the literature's standards require measuring the following: (1) how much the provision of compensation lowered the level of existing protectionist opposition; (2) how much the compensation inspired new opposition from groups opposed to the compensation; (3) how much the compensation sparked new opposition from groups seeking to extort more generous compensation; and (4) how much the compensation encouraged (or discouraged) vulnerable groups to exit the aggrieved sector for more competitive sectors of the economy. As we shall see below, both sets of measures for evaluating compensation raise significant measurement problems -- more so than the task of describing the incidence of compensation. But, again, the conceptual issues are relatively simple.

2.2. Explaining Compensation: A Theory of Compensated Liberalization

To explain the incidence of side payment compensation, however, requires substantially more theoretical development. It requires, in particular, a theory of incidence that goes beyond the diffuse explanatory insights drawn from existing political economy scholarship. Such a theory of compensation, remember, needs to: (1) be more *identified,* better able to explain when struggles over liberalization will elicit compensation as distinct from its alternatives, protectionism or nothing at; (2) be more *developed* in order to account for variation across episodes, groups, countries and institutions through which bargaining takes place; and (3) be more *specified* and testable by identifying measurable, observable explanatory conditions.

Developing such a theory requires theoretical synthesis of and innovation beyond existing explanatory insights. The theory I propose takes as pre-given the existence of a trade liberalization initiative and of state and societal groups arrayed into competing coalitions: a liberalizer coalition championing that initiative and a protectionist coalition opposing it. I argue that compensation

emerges mainly from egoistic bargaining between these liberalizers and protectionists, and in particular when compensation is expedient to the passage of the liberalization. In the existing political economy divide between those highlighting the altruistic vs. the egoistic conditions, of course, this approach sides with the latter.

But to better understand when egoistic bargaining elicits compensation rather than some mix of uncompensated or compromised liberalization, the theory I propose focuses on particular features of the bargaining *groups* and their *institutional setting* that shape when compensation is expedient to liberalization. First, compensation is most likely when protectionist groups not only have the *political resources* to threaten initiatives but also approach the bargaining with broad, multi-issue *trade policy platforms* that set an agenda for secondary bargaining over compensation rather than protectionism alone. Second, compensation is most likely to emerge from institutional settings characterized by modest *welfare provision* that heightens the expected pain of uncompensated liberalization, and by broad *jurisdiction* over issues beyond trade policy that suggest subjects of side payment linkage and create opportunities to retaliate against liberalization.

Developing the elements of this theory requires three steps. The first lays out the premise and the framework of egoistic bargaining that I argue underlies the provision of compensation. The second step lays out the group conditions, and the third the institutional characteristics, that I argue shape the bargaining as modeled in that framework.

2.2.1. The Premise and Framework: Egoistic Bargaining Underlies Compensation

The premise on which the theory builds is that side payment compensation will emerge from egoistic bargaining when such compensation is expedient to the passage of the liberalization. This means compensation will provided under two conditions: (1) when liberalizers fear political threats to the liberalization and recognize compensation as a reasonable alternative to protectionist redress for lowering those threats; and (2) when protectionists see compensation as a more or less imperfect substitute for protectionism. This is not to say that compensation cannot emerge or has not emerged from more "altruistic" conditions such as fairness norms or the practice of broader social contracts, only that this more egoistic dynamic can explain and predict more incidence of compensation.

2.2.1.1. Edgeworth Box Illustration: This premise supports a bargaining framework to explain the incidence of compensation, a framework focused on liberalizers and protectionists bargaining simultaneously over trade protection and side payment compensation. This bargaining can be informally captured using a game theory heuristic that represents non-cooperative bargaining between two actors over two issues, called an Edgeworth box (Shubik 1984, Raiffa

1982).[6] Such bargaining, of course, encompasses that between liberalizers and protectionists over protectionism and compensation during a liberalization episode, where liberalizers might see compensation as an expedient to buy protectionist acceptance of lower protection, and where protectionists might see compensation as a substitute for protection. Figure 1.1 shows an Edgeworth Box representation of such secondary bargaining, and reveals the logic by which the bargaining might yield compensation along-side liberalization -- compensated liberalization.

The Figure maps the preferences of protectionist and free trade coalitions for different levels of protectionism and compensation, and the likely bargaining outcomes given those preferences. The preferences of both coalitions for a mix of compensation and protectionism can be expressed as indifference curves on the same two-dimensional plane, with the y-axis being the level of protectionism ("Trade Protection") and the x-axis the level of side payment compensation ("Compensation"). This trade protection might be a particular protectionist provision to be liberalized in an episode, say some tariff barrier on a particular sector, or it might be a clustering, or averaging, of all the protectionist barriers under review. Likewise, the compensation might be a particular side payment provision, say an adjustment assistance program for dislocated workers, or it might be a clustering or averaging of all compensation considered or recognized.

The P curves (P(a), P(b), P(c), and P(d)) capture the willingness of a given protectionist group to exchange compensation for lower protection at a given point in time. All protectionist indifference curves are likely to be a negatively-sloped curve, because protectionists are likely to see protectionism and compensation as substitutes, however imperfect.[7] The indifference curve is likely to be convex to the origin (bowed inward) reflecting the law of diminishing returns at the margin: As more of either compensation or trade protection is provided, the protectionists will be willing to trade marginal increases in the "abundant" policy for smaller increases in the more "scarce" one. The average slope of the indifference curve P will vary across groups and time, depending on the preferences and environment of the protectionists. Protectionists with a very favorable view of some compensation could be represented by an indifference curve with a relatively steeper slope (see P (a)) than those who have a *less* favorable view (see P(b)). The reasoning is simply that protectionists tending to be disinterested in compensation will only accept very large offers of compensation to off-set the pain of a given decrease in trade protection. If the average slope on a protectionist's curve should tend to be flat -- say, less than a 45 degree angle --

[6] This tool has been applied to domestic bargaining among supplier-consumers (Edgeworth 1881), and more recently to international bargaining between states (Mayer 1992), but has not, to the best of my knowledge, been applied to domestic political bargaining among coalitions.

[7] Only if protectionists saw less protectionism as acceptable in exchange for *less* compensation would we expect a positive sloping indifference curve.

that would express a situation where protectionists see a given package of compensation as an *imperfect and less preferable substitute* for, a second-best alternative to, protectionism.[8]

The L curves (L(a), L(b), L(c) and L(d)) capture the willingness or preference of liberalizer groups to accept or offer levels of compensation in exchange for lower levels of protectionism. Their indifference curve is also likely to be negatively sloped, reflecting how they are likely to see lower levels of protectionism (for protectionists) as substitutable for lower levels of compensation (for the protectionists) -- ideally wanting zero protection and compensation, but willing to accept compensation if they can get less protection for the protectionists. But their curves are likely to be concave to the origin (bowed out) because the law of diminishing marginal returns suggests that liberalizers will trade off marginally smaller levels of compensation as protectionism approaches zero, and vice versa (marginally higher levels of compensation as protectionism gets very high). Variations in the willingness of liberalizers to accept or offer compensation to secure lower levels of protectionism are also captured by variations in the slope of their indifference curves. Liberalizers marginally more willing to offer compensation in exchange for liberalization will tend to have a *flatter* indifference curve (see L (a)) than those *less* willing to exchange compensation for reductions in trade protection (L (b)). Where liberalizers see compensation as an imperfect and *preferable* substitute for trade protection, they would have a relatively flat (<45 degrees) indifference curve, while those seeing compensation as marginally *less preferable* to protection would have a relatively steep curve (> 45 degrees).[9]

Since I am interested in bargaining over liberalization of a status-quo trade policy, the indifference curves of the liberalizers and protectionists must intersect, marking the status-quo from which the new policy outcome will depart -- the point t' in Figure 1.1. When the protectionists are willing to give up protectionism for some compensation, and the liberalizers know this, there may be some room for a consensual agreement that improves for both coalitions the mix of protectionism and adjustment assistance over the status-quo: a Pareto improvement. This possibility is illustrated by the space enclosed by the liberalizer and protectionist indifference curves (between the curves L and P that obtain at a given time) -- a space that captures the possibility for pareto-improving bargaining. Raiffa and others call this space the "zone of joint improvement" or "zone of possible agreement."[10] Imagine, for instance, the small space enclosed

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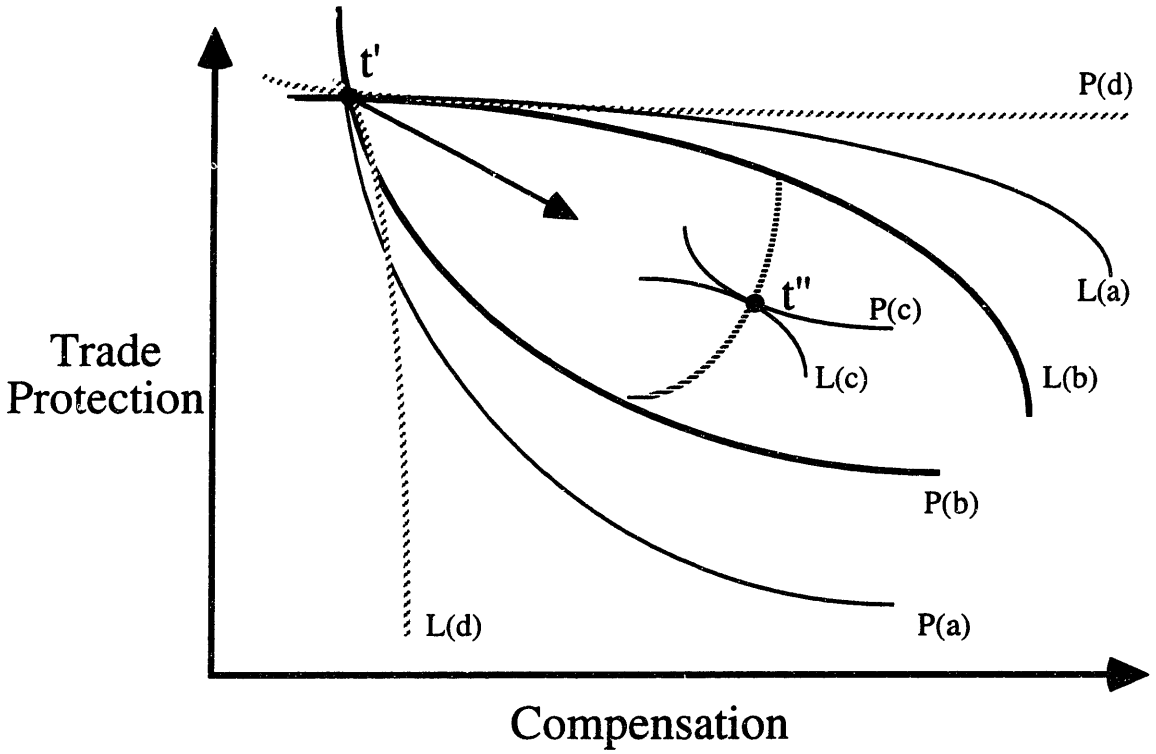
[8] Protectionists who so covet some compensation package that they see it as marginally preferable to trade protection -- who see compensation as an imperfect and *superior* substitute for protection -- would have a *steeper* indifference curve (greater than 45 degrees relative to the x-axis). On the other hand, protectionists wholly unwilling to give up some protectionism for compensation would be characterized by a horizontal curve, such as curve P(d), reflecting that no amount of compensation would convince the protectionists to accept lower levels of protectionism.

[9] Liberalizers who are completely averse to giving out compensation to buy liberalization will tend to have a vertical indifference curve, such as L(d), while those who will see compensation as neutral will offer so much compensation to buy a marginal increase in protection that their indifference curve will be horizontal.

[10] The absence of such a possibility is captured by the intersecting curves having no overlap, meaning that whatever changes in trade and compensation policies flow from the bargaining between the coalitions, there will be some

Figure 1.1.
Indifference Curves of Protectionist and Liberalizer
Groups Bargaining Over Trade Protection and Compensation



by L(b) and P(b), compared to the relatively larger spaces enclosed by L(b) and P(a), L(a) and P(b), and, of course, L(a) and P(a). Of course, if either the liberalizers or the protectionists are so averse to exchanging compensation for liberalization that there is no room for pareto-improvement -- captured by the lack of any zone of possible agreement with either curve L(d) or P(d) -- we have a zero-sum rather than positive-sum game.

The exact point within that space to be established through bargaining will vary depending on a number of conditions such as the relative power, skill and determination of the bargainers. And the particular point of agreement or compromise that the bargainers reach within the zone will have implications for the relative payoffs for the protectionist and liberalizer coalitions, and for the incidence and generosity of compensation. Pure rationality predicts that the bargainers will settle on some point along more vertically-arced "contract curve," such as that connecting L(b) and P(b). That curve captures the range of points at which the negotiators have negotiated all room for pareto-improvement (they have reached the Pareto frontier), and the different points along this curve represents a zero-sum game (gains for one group at the expense of the other). This zero-sum situation is captured by the way curves L(c) and P(c) are asymptotic to one another, and the point

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pareto loss. P(c) and L(c) capture such an intersection, where they have but on point of intersection and no overlap.

t" of their intersection roughly captures an equitable splitting of the pareto gains.[11] But, again, the exact point within the zone of possible agreement, and certainly along the contract curve, I take to be indeterminate.

The simple conclusions I want to emphasize here are two-fold. First, the existence of the zone of possible agreement implies that the egoistic bargaining is likely to yield some mix of trade liberalization accompanied by compensation -- compensated liberalization.[12] The arrow between t' and t" captures this outcome. Second, the larger that zone of possible agreement and, hence, the longer the contract curve, the more likely it is that egoistic bargaining will yield discussion or provision of side payment compensation. The reasoning here is that the larger zone captures simply more and more obvious possibilities for mixing liberalization with compensation to achieve some mutually acceptable outcome, and this implies, *ceteris paribus,* more possibilities for providing compensation. At the other extreme, where the zone is very narrow by virtue of either liberalizers and/or protectionists taking little interest in compensation as an imperfect substitute for trade protection, the range of compensation options discussed and agreeable is smaller.[13]

Given the simple and general premise that egoistic bargaining between protectionists and liberalizers will elicit compensation to the degree that liberalizers see it as a necessary and desirable expedient to liberalization, and that protectionists see compensation as a substitute for protection, the question is why that bargaining should yield *varying* incidence and levels of side payment compensation. Why will egoistic bargaining yield compensation at some times and places and not others, to some groups and not others, generous sometimes and not others?

As we saw in the previous section, the political economy literature suggests a number of factors that can influence such egoistic bargaining over trade liberalization -- factors that might predict incidence of side payment compensation. These included the power and economic interests of *groups,* and several characteristics of the *institutional setting* within which they bargain. But as we saw above, these insights are under-identified and lack explanatory reach. They either cannot explain or predict why compensation might emerge from the bargaining rather than protectionist redress, or they fail to predict why compensation might emerge rather than nothing at all. And these insights also tended to have very limited explanatory reach in any event, focused on group or institutional characteristics that can only explain variation over very limited swaths of time and

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[11] And, of course, the smaller the pareto space, the sooner that exhaustion of pareto-gains will come about. And with the situations where liberalizers (L(d) or protectionists (P(d) are very hostile to the idea of giving up any change in protectionism for even very large amounts of compensation, we may have no pareto space.

[12] Expressed in terms of the premise that compensation is provided when both protectionists and liberalizers see compensation and trade protection as imperfect substitutes, the point is that compensation is most likely and to the degree that the P indifference curve is relatively steep and to the degree that the L curve is relatively flat -- thereby creating a zone of possible agreement.

[13] This second claim comes into play with many of the hypotheses of the group-institutional theory I develop and empirically test below. The Edgeworth box approach also suggests other predictions not developed here. See Chapter Eight: Conclusion, for a plan to pursue these hypotheses empirically through further research.

space. Finally, many of the explanatory conditions identified lacked empirical specificity that allows testing and empirically useful prediction.

The theory I propose synthesizes but moves beyond the bargaining literature's insights by identifying group and institutional characteristics that shape whether bargaining between protectionists and liberalizers elicits compensation rather than protectionist redress or nothing at all. I focus on group and institutional characteristics, moreover, that can be expected to vary across episodes, groups, countries, and different institutions through bargaining takes place, and that thus predict differences over a range of time and space. And finally, the characteristics on which the theory focuses are measurable enough to be empirically useful and testable.[14]

2.2.2. The Groups: Power-resources and Platforms of Protectionists

The group characteristics on which I focus are the *power resources* and *trade policy platforms* of the bargaining groups, especially protectionist groups. I argue that compensation will tend to be provided to those protectionist groups that not only have enough power resources to threaten or retaliate against the liberalization, but also approach the bargaining table with multi-issue trade policy platforms that signal both the willingness to consider and ease identification of possibilities for side payment linkage. Although the platforms and power of liberalizers and other groups constrain whether this coincidence of protectionist power and platforms will actually yield compensation -- for instance, by liberalizers refusing to offer or fund some kinds of side payments -- I argue that this coincidence is a strong predictor of the incidence of compensation.

2.2.2.1. Power resources: Protectionist groups endowed with and mobilizing more *power resources* to threaten or retaliate against a given trade liberalization initiative are more likely to receive some redress through bargaining over that initiative. Some power resources are structural, such as the proportion of the voting and interested population that a group encompasses, or the amount of money a group devotes to political campaigns. Other resources are more "incidental," or specific to a situation, such as social contacts and connections to powerful politicians of key importance to trade policy-making. The scale of the power resources a group brings to bear on the bargaining over liberalization depends, importantly, on the group's *determination* to defeat or revise the liberalization. This determination, in turn, is a function of a group's position in the international economy and on the ambition of the liberalization proposed, both of which the theory

[14] These group and institutional conditions span the "demand" and "supply" sides of compensated liberalization. The group conditions, for instance, focus mainly on protectionist groups doing much of the demanding, but we shall see that the positioning of those protectionists reflects anticipation of supply side constraints. The institutional conditions, meanwhile, pose supply-side constraints but also strong constraints on what and whether compensation is demanded. Since "supply" and "demand" sides of the politics are, in any event, difficult to distinguish in an empirically meaningful and measurable way, the more concrete "groups" and "institutions" become the building blocks of the theory.

takes as pre-given. Comparing one group to another at a given time, or the positions of one group in different time periods, one can assess whether a group is more or less well endowed with such resources. The more structural and incidental power resources a group has, the more likely liberalizers will have to find some form of redress to buy off opposition. The question, of course, is when and why redress will take the form of side payment compensation rather than protectionist benefits that compromise the liberalization.

This argument can be expressed in terms of the Edgeworth box framework by simply observing that groups with substantial political resources to threaten or retaliate against the liberalization episode will win a place at the bargaining table, and will bargain with liberalizers along lines suggested by the respective indifference curves of protectionists and liberalizers in Figure 1.1 above. Those groups with little such power resources, on the other hand, will not get a place at the bargaining table -- and, thus, will simply not, as it were, get onto the Edgeworth space.

Figure 1.2
Bargaining in Face of Low Protectionist Resources

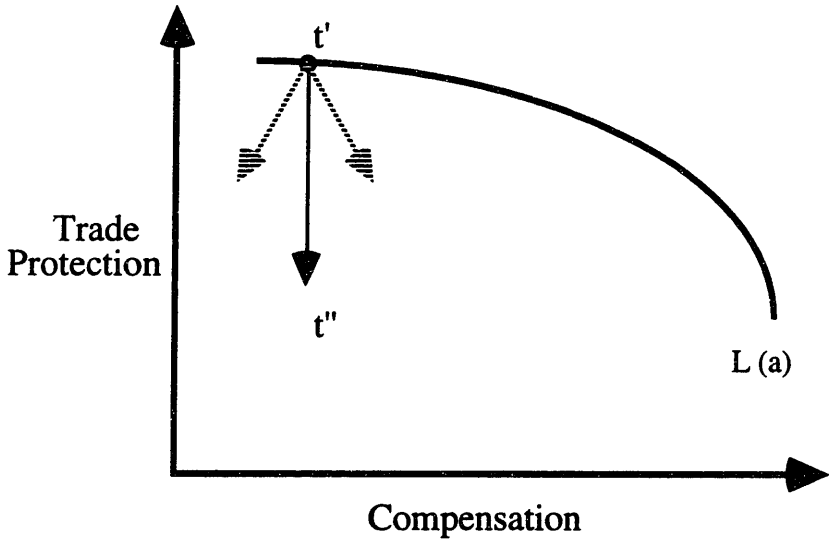

Figure 1.2 above captures this latter possibility. As the episode proceeds, a particular protection group's lack of resources will allow liberalizers to legislate and negotiate their favored reduction in trade protections without having to provide compensation -- at least for the particular group lacking such power. Strictly speaking, the liberalizers might prefer and could pursue reductions in the levels of *ex ante* compensation policies along-side the liberalization -- captured by the lightly-shaded and positively sloping arrow in Figure 1.2. But if no such compensation is in place or in mind, the reduction should simply take place without any new or rolled back

compensation, again in keeping with the law of diminishing returns.[15] This possibility is denoted by the vertically-downward arrow (t' to t") in Figure 1.2. Even with substantial power such that protectionist groups don't make onto the playing field, liberalizers might still provide compensation -- captured by the negatively sloping arrow in Figure 1.2. They might do so, first, because they see compensation as an insurance policy against relatively weak protectionists from influencing the outcome, and second, because they might seek compensation to fulfill standards of fairness.[16]

2.2.2.2. Trade Policy Platforms: I argue that an important determinant of the form redress will take is the *trade policy platform* that a groups brings to the bargaining table. The number of issues on those platforms affects the expected gain of providing any redress other than protectionism, and also the difficulty of identifying linkable issues as subjects of side payment linkage. When the bargaining groups, especially protectionists, approach the bargaining table with a single-minded focus on the protectionist policy under review -- staking claims or demands only on protectionist policies in their in their public statements about trade policy -- it will be futile and/or more difficult to identify linkable issues that can mollify opposition. For such groups, only protectionist exemption or revision will do. If these groups are powerful enough to threaten liberalization, then, single-minded protectionists are likely to extract protectionist concessions from their liberalizer bargaining opponents, but not necessarily any compensation.

If, on the other hand, protectionist groups approach the bargaining table with more conciliatory platforms that explicitly identify policy demands and issues other than protectionist redress, then the primary bargaining over the liberalization episode will likely spill over into secondary bargaining over other issues, involving linkage between liberalization and the provision of some other good. Such secondary bargaining and linkage is more likely than more narrow bargaining to elicit side payment compensation. For example, a textile association explicitly lobbying against some liberalization initiative may approach the initiative with press statements and congressional hearings explicitly discussing its desire for tax relief or government research funds in addition to its desire for tariff and quota relief. Such a group, I argue, is more likely to elicit compensation than if that same association mentions only the tariff and quota relief.

The breadth of platforms vary across groups and time, and is a function of the public policy agenda set by any or all groups in the polity and, especially, of the strategy and tactics of a particular protectionist group adopt to advance its public policy beliefs and interests. These tactics

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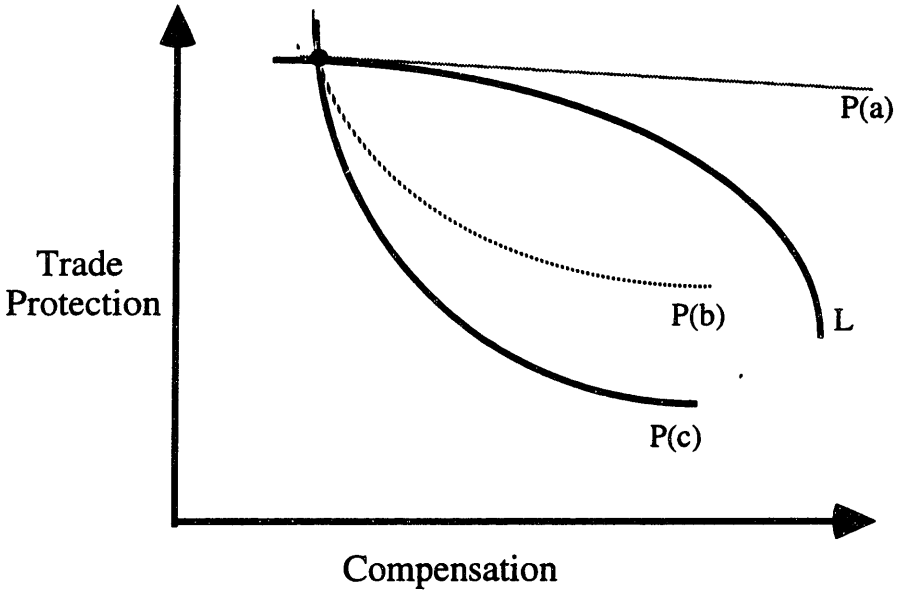
[15] If no compensation is in place, for instance, the substitutibility of compensation for protection implies a willingness to offer a lot of compensation to buy even a little liberalization. Graphically and more generally, liberalizers without constraint will prefer to move to a mix of protection and compensation along a line perpendicular to the slope of their indifference curve as it intersects the status quo point, t'.

[16] Of course, this latter reason is an expression of the "altruism perspective," and any compensation provided to very weak groups, and where insurance was not part of the calculation, can be construed as potentially supporting that perspective over the egoistic bargaining one developed here. See the Research Design section below.

include a calculation on the part of protectionist groups of what their political power can extract and of what liberalizers will accept and pay for.

Either by dint of tactics or core preference, however, having a broader trade policy platform, has two consequences.[17] First, having several policies explicitly signaled as potential subjects of side payment linkage helps set the agenda for secondary bargaining; it lowers the transaction costs associated with figuring out what kinds of policies or in-kind compensation will provide relief and buy-off opposition. Second, having several issues expresses a preference to accept some compensation in lieu of protectionist redress --a preference for side payment linkage in general and, in particular, for any specific kind of linkage identified in the platform. Signaling such a preference will help shape the bargaining agenda generally, especially in so far as liberalizers are looking for buy-offs to secure liberalization. In short, the broader the protectionist platform -- even if this partly presupposes what liberalizers will accept -- the easier it is and the greater the inclination to identify and consider potential subjects of side payment linkage.

Figure 1.3
Broader Protectionist Trade Policy Platforms Implies
Greater Willingness to Trade-off Compensation for Protection



The role of protectionist platforms in shaping the incidence of compensation can be roughly captured on the Edgeworth Space in Figure 1.3 above by variations in the slope of the protectionist

[17] The breadth of platforms, as I mean it here, encompasses the sheer number of policy positions taken when a group discusses trade policy, but it also encompasses the conciliation or willingness to link such positions to more traditional trade protection. For instance, some groups take positions on more than one issue in their trade stances, but explicitly decry any possible issue linkage between those issues. Such a platform is less inviting of side payment linkage than is a more neutral expression of multi-policy positions, and much less inviting that a platform that explicitly calls for a linkage between the issues.

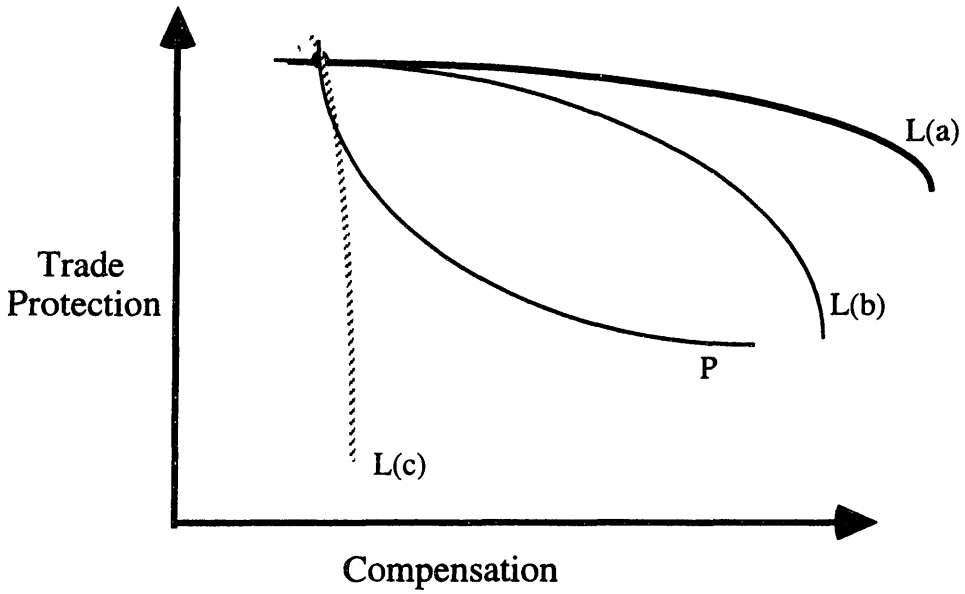
indifference curve P. Single-minded protectionists will likely not accept any amount of compensation, and certainly will not suggest any amount of compensation, in exchange for even very modest liberalization. This platform, thus, yields a virtually horizontal indifference curve P(a). A protectionist group approaching the bargaining table with a more conciliatory and multi-issue stance, on the other hand, will accept at least some reductions in protection in exchange for compensation, such as captured by P(b). And the protectionists with still broader platforms, suggesting more and more clearly linkable issues to trade in their explicit platform, will encourage still more linkage and allow still greater liberalization, denoted by the steeper-sloped P(c).[18]

Of course, what protectionists want and say they want, is not necessarily what they will get -- for liberalizers who largely supply compensation have preferences over such compensation as an imperfect substitute for trade protection. Liberalizers approaching liberalization with broader platforms will also signal a preference to exchange compensation for liberalization and will lower the transaction costs associated with identifying subjects of linkage. And in any event, faced with the side payment agenda that is partly shaped by the narrow or broad protectionist platforms, liberalizers will be more or less willing to supply side payment compensation depending on their calculation of whether and to what degree compensation is an imperfect substitute for protection. For example, protectionists might demand some protection of closed shop labor standards as their price for some liberalization, and yet liberalizers might be reluctant or unwilling to provide such compensation. In contrast, protectionists might demand some adjustment assistance policy that liberalizers look significantly more kindly upon. This difference in the stance of liberalizers will have significant consequences for the likelihood and degree of secondary bargaining and the provision of compensation: Compensation is more likely and likely to be more generous in the second instance than the first.

Figure 1.4 below captures this point. For a given protectionist platform captured by curve P, liberalizers might vary in their willingness to exchange more compensation for openness. Where liberalizers look favorably upon a particular kind of compensation -- say adjustment assistance -- the slope of their indifference curve will be relatively flat, as with L(a). But where liberalizers look less favorably upon a particular kind of compensation -- say some change in broader welfare provision or unemployment insurance -- their curve will be relatively steeper, as with L(b). And where liberalizers are strongly hostile to a particular kind of compensation -- say closed shop laws -- the curve will be virtually vertical. Averaging out these various possibilities might capture the general willingness of liberalizers to engage in secondary bargaining for a given liberalization episode. The flatter the liberalizer curve, the more likely and the more generous the compensation is likely to be.

[18] But it should have marginally less compensation for a *given* reduction in protection compared to the narrower platform group.

Figure 1.4
Liberalizer Willingness to Exchange Compensation for Protection



To explain and predict the incidence of compensation, however, the positioning of liberalizers is less useful than the positioning of protectionists. Although liberalizer positioning helps set the side payment agenda and puts constraints upon protectionist demands, that positioning is arguably more difficult to measure and can explain less than protectionist platforms. It is more difficult to measure because liberalizers generally do not identify linkable issues until or unless protectionist opposition forces them to make statements about their stance on issues other than the liberalization being pursued. Thus, the varying willingness of liberalizers to exchange some particular compensation for openness cannot be measured *ex ante* or separately from the actual discussion of side payments in the bargaining. The willingness of protectionists, on the other hand, get signaled in statements before and early-on in struggles over liberalization initiatives. Moreover, liberalizer constraints can be expected to explain less than protectionist platforms because liberalizers as egoistic pursuers of liberalization will tend to prefer liberalization without the price of compensation, and will thus not likely introduce the possibilities of compensation and will look to protectionists to see what will buy-off their opposition. Especially in so far as protectionist platforms anticipate liberalizer constraints, such platforms become good composite measures of the possibilities to substitute compensation for protectionism. For these

reasons, protectionist platforms are the group platforms on which I focus to explain the group platforms on which I focus to explain compensation.[19]

2.2.2.3. Combining Power and Platforms: Like the power resources of protectionist groups, however, the platforms with which such groups approach the liberalization bargaining are *under-determining* of compensation: For groups with multi-issue platforms to inspire any secondary bargaining presupposes that the groups have the political resources to get a privileged seat at the bargaining table. Those without such power may well get nothing, regardless of their conciliation.

Figure 1.5
Predicted Incidence Under Varying
Power and Platform Conditions

Power Resources	Platforms: Single-issue	Platforms: Multi-issue
High	Compromised Liberalization Protectionist Redress	Compensated Liberalization **Side Payment Compensation**
Low	No Redress Uncompensated Liberalization	No Redress Uncompensated Liberalization

In summary, then, it is the *coincidence* of high power resources and of multi-issue platforms that may yield side payment compensation, as Figure 1.5 illustrates. Protectionist groups that approach the liberalization initiative with low protectionist power, I argue, are likely to get ignored in the bargaining over the initiative regardless of the trade policy platform they bring -- yielding no redress, or uncompensated liberalization. Those protectionists that have mobilized significant power resources, however, are likely to elicit some redress from the liberalizers. Powerful groups with single-issue platforms, I hypothesize, are likely to get protectionist redress,

[19] Of course, whether such protectionist platforms explains enough and more than the liberalizer positioning is a largely empirical question.

while those with multi-issue platforms are likely to get some side payment compensation instead of or in addition to such protectionism.

The matrix in Figure 1.5 simplifies the variation in the power and platforms of protectionist groups, suggesting that the group conditions are binary -- low or high resources, single or multi-issue platforms. The reality, of course, is much more complex, with resources and platforms varying more continuously, or at least ordinally. Power resources are more ramified and can be broken down more finely -- suggesting a continuous explanatory variable. But the breadth of platforms is less ramified and inherently varies less continuously, more ordinally. I focus on the value of the explanatory conditions in relative terms -- that is, the scale of resources and the breadth of platforms in one episode and one group *relative* to another episode or another group. Thus, I hypothesize that the episodes and the groups characterized by higher protectionist power resources and broader platforms will yield more and more frequent side payment compensation than will those episodes and groups characterized by less power and narrower platforms.

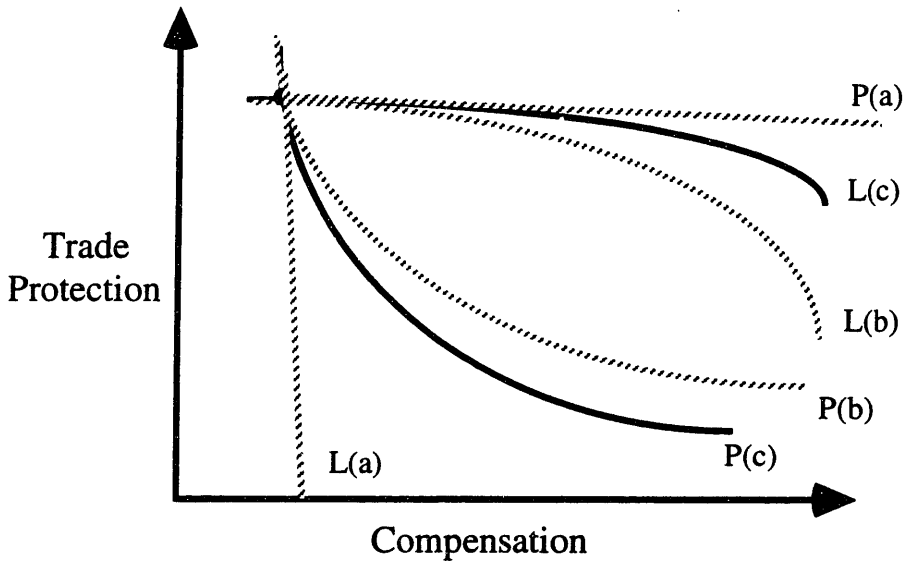
2.2.3. The Institutions: Jurisdiction and Preexisting Welfare

The national and supra-national institutions through which protectionists and liberalizers bargain over liberalization initiatives can also be expected to affect side payment politics. Institutions matter because they affect both the power to threaten liberalization initiatives, and the costs and desirability of side payment redress compared to protectionist redress. I focus on two institutional conditions: (1) the narrowness or breadth of the institution's jurisdictional authority, and (2) the generosity of preexisting welfare assistance. And I argue that an institutional setting combining *broad* jurisdiction authority and *modest* pre-existing welfare will tend to inspire the more frequent and generous side payment compensation than settings that combine narrow jurisdiction and/or generous welfare.

2.2.3.1. Jurisdictional breadth: Decision-making institutions through which trade liberalization gets devised vary in the number of policy issues over which they have jurisdictional oversight. Both the supra-national and national institutions through which trade gets negotiated vary in the breadth of such jurisdiction. For instance, US Congress' pluralist and issue-segregated committees tend to be narrower in jurisdiction than corporatist institutions in which labor and employer peak associations regularly meet and negotiate with government representatives over a range of issues. And the wide jurisdiction of the EC inter-governmental conferences through which internal-market liberalization got negotiated contrast with the GATT in which most post-War multilateral negotiations have been negotiated.

I hypothesize that, *ceteris paribus,* the institutions with broader jurisdiction should yield more frequent and generous compensation than the narrower arenas -- for two reasons. First, the

Figure 1.6
Broader Jurisdiction of Institutional Setting
Encourages Greater To Exchange Compensation for Protection



broader the arena's jurisdiction, the more it mitigates the logistical barriers to side payment linkage, by formally encouraging the flow of information about the nature and distributional consequences of possible subjects of side payment linkage. Second, if broader jurisdiction implies more linkable issues, it also implies more issues that protectionist groups can retaliate against should they not get their way on liberalization, as well as more issues to which they can hold liberalization hostage. In other words, by lowering transaction costs to linkage and by creating "veto points" within the bargaining arena, broader jurisdictional breadth may encourage side payment compensation.[20]

Jurisdictional breadth might vary within a given liberalization episode but across different institutional arenas within which bargaining over that liberalization take place. For instance, domestic ratification stages of the liberalization might take place in a legislative arena explicitly tasked with addressing a variety of issues other than trade policy, whereas the international negotiating arena might focus exclusively on trade. In such a situation, the domestic institutional setting encourages side payment compensation, while the latter discourages it -- suggesting that compensation will be more frequent and generous at the national level and by national institutions, and less so at the international level or supranational institutions.

This argument can once again be roughly expressed in the Edgeworth Box framework by variations in the indifference curves of protectionists and liberalization (see Figure 1.6 above).

[20] Of course, taken to an extreme of openness to linkable issues, broad jurisdictional arenas could cause transaction cost overload, or could encourage so much issue hostage-taking as to paralyze any decision-making, compensatory or otherwise (e.g. Scharpf's "joint decision traps"). I assume that the institutions relevant to trade liberalization will tend to err on the side of narrowness, and hence to steer clear of this excess.

Institutional settings that strictly forbid negotiations outside the trade liberalization under review might so choke off discussion of side issues as to make liberalizers completely unwilling to entertain any compensation offers, regardless of how much protectionism it might buy -- graphically captured by L(a). And protectionists in such a situation might not accept any reductions in liberalization regardless of how much compensation it might buy -- graphically captured by P(a). In either case, the resulting zone of possible agreement would be non-existent -- making any liberalization a matter of power or change in tastes for protection. More likely, relatively narrow jurisdiction in the institutional arena will complicate negotiation over separate issues, but simply imply fewer subjects of linkage and complicate such linkage -- captured by the protectionist curve P(b) and liberalizer curve L(b), and yielding a modest zone of possible agreement. Relatively broad jurisdiction in the institutional arena, in turn, will encourage and ease the identification and necessity of compensation along-side liberalization, implying a greater willingness on the part of the liberalizers and protectionists to exchange compensation for liberalization. This is captured by the steeper P(c) and the flatter L(c), and the relatively bigger zone of possible agreement.

2.2.3.2. Welfare Policy Generosity: The national and supra-national institutional setting within which trade liberalization gets negotiated can also be characterized by the generosity of pre-existing welfare provision provided, with important implications for side payment politics. I argue that, *ceteris paribus,* generous welfare provisions existing at the time of a liberalization initiative will not only lower the opposition to liberalization, but will also obviate the demand and perceived need for the institution providing such generous welfare to provide any *new* compensatory assistance to whomever remains opposed or is expected to suffer from that liberalization. This is not an intuitive hypothesis, since one might expect that more generous welfare states should go hand-in-hand with more generous side payment compensation. In fact, Bates et.al. 1993 on how institutional settings with greater welfare capacities make it easier and more likely for industrialized countries to respond to openness with expanded welfare is consistent with this intuition.

Two-considerations lead me to expect the opposite. First, side payment assistance will be seen as redundant and unnecessary to the extent that possible subjects of side payment linkage overlap the methods and purposes of preexisting arrangements and to the extent that citizens and bargainers perceive those arrangements to be satisfactory and generous.[21] Second, policy-makers and members of the polity may see welfare-related compensation as conflicting with or threatening the integrity of those preexisting arrangements by requiring supplemental shifts in those programs to take into account the interests of a sub-segment of the general population.

[21] This claim echoes that by Andre Blais in his studies of industrial subsidization across industrialized countries, where he finds that higher social spending is correlated with lower levels of state aid. To make sense of this correlation, he suggests that social welfare provisions and subsidies are imperfect substitutes for one another: "the existence of a well-developed social security system would reduce the need for aid to industry" (Blais 1989, p.86).

For both of these reasons, generous preexistent welfare assistance will tend to obviate the perceived need and demand for a large and important category of side payment compensation. It might still be seen as necessary and appropriate to provide compensation separate from welfare provision -- say by providing technical assistance for firms. But in so far as preexisting welfare provides assistance to workers, bargaining will not as likely seize upon over-lapping assistance as subjects of side payment linkage. Thus, even if a broader welfare program is revised as the subject of a side payment, *higher* levels of preexisting welfare will co-vary with *less* frequent and generous side payments to groups opposing a given liberalization initiative.

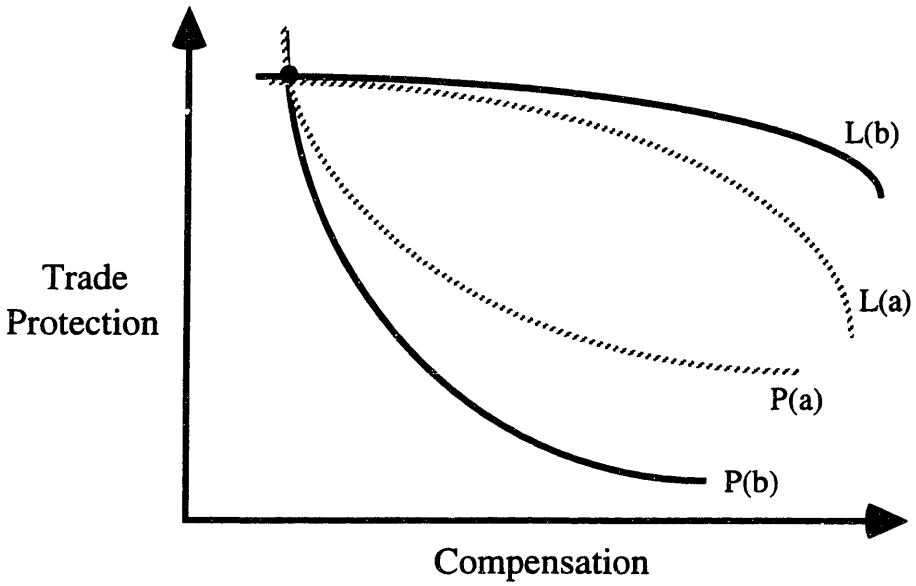
This inverse relation between welfare and side payment compensation applies at both *or either* the national and the international levels of policy provision. Since very few supra-national institutions have much welfare provision, it mainly constrains side payment provision by national governments and during the domestic stages of liberalization, such as ratification. But I argue that generous welfare provided at one level of governance, say by national governments, will not pose as many constraints on the propensity to provide compensation at a different level of governance, say by supra-national institutions.[22] Thus, I argue that generous preexistent compensation at the national level might still accommodate compensation at the supra-national level, and vice versa.

The final Edgeworth diagram in Figure 1.7 below roughly captures this argument by once again showing how varying welfare can underlie variations in the indifference curves of both protectionists and liberalizers. In institutional settings with generous welfare policy assistance already in place, both liberalizer and protectionist groups engaged in bargaining over a liberalization initiative will be less inclined to offer or demand compensation of a form that overlaps with, and is thus obviated by, such welfare provision. Since there will always be other subjects of side payment compensation that the groups may seize upon in their secondary bargaining, there may well be room for compensatory exchange -- hence never fully vertical L or horizontal P curves, and almost always some zone of possible agreement -- but there will be less room for such exchange with a large swath of potential subjects of side payments left out of mix. The curves L(a) and P(a), and the pareto space they delimit, capture this possibility. If, on the other hand, the institutional setting lacks any or much preexistent welfare provision, then protectionists will more fervently mobilize power resources, bringing more protectionist groups to the bargaining table, implying more protectionists occupying the Edgeworth space. And both liberalizers and protectionists will more likely accept the need for welfare-related compensation -- implying a steeper slope for the protectionist indifference curve P(b) and a flatter liberalizer curve L(b). The

[22] This is particularly true when it comes to the possibility of liberalizer representatives from a generous welfare-state country engaged in bargaining in low welfare supra-national setting, with the representatives of a country influenced by its protectionists. In this setting the liberalizer representative, whose domestic setting is characterized by generous welfare, might still be willing to offer welfare-related compensation to the representatives of the other country, especially if the latter has modest national welfare.

result is a larger zone of possible agreement, and more opportunities for compensated liberalization.

Figure 1.7
More Modest Existing Welfare Policy Assistance
Encourages Perceived Need and Demand for Compensation



2.2.3.3. Combining Institutional Jurisdiction and Welfare: Since this institutional part of the theory focuses on two characteristics of the supra-national and national institutional setting, we need to consider what the theory predicts in light of the combined effects of a given institution's jurisdiction and welfare. I argue that domestic or international institutions that not only have jurisdiction over issues other than trade policy but also provide modest social welfare assistance will encourage compensation during bargaining, whereas settings with narrow jurisdictions *and/or* generous welfare will tend to discourage compensation.

The degree to which settings with the latter characteristics discourage compensation, however, varies depending on the mix of narrow jurisdiction or generous welfare. Broad jurisdiction combined with generous welfare might still accommodate compensation, but not subjects of compensation that overlap preexisting welfare, thereby narrowing the possible subjects of compensation. Narrow jurisdiction combined with modest welfare, meanwhile, will focus the attention of the bargainers upon intra-issue linkages, such as trading market access for market access (e.g. in one sector for that in another sector, in one country for that in another), or trading protectionist exemptions (e.g. Schattsneider 1933's "reciprocal non-interference"). Finally, narrow jurisdictional breadth and generous welfare provision -- a combination that in current liberalization experience has no empirical example -- should discourage any welfare-related

compensation and discourage other linkage, hence promoting uncompensated liberalization. Figure 1.8 summarizes these expectations.

Figure 1.8
Predicting Compensation Under Varying Combinations of
Jurisdictional Breadth and Existing Welfare Provision

Welfare Provision	Jurisdiction: Narrow	Jurisdiction: Broad
Generous	No Compensation (Bias towards Uncompensated liberalization)	Less Compensation (Particularly less welfare-related Compensation)
Modest	Little Compensation (Bias towards Compromised Liberalization)	**More Side Payment Compensation**

Like the power-platform matrix, the above matrix simplifies reality by suggesting that institutional settings can be distinguished as having either generous or modest welfare, either narrow or broad jurisdiction. Also like my treatment of the power and platform conditions, the hypotheses I propose for the implications of an institution's jurisdictional breadth and welfare generosity are *relative*. Institutions vary over time, across episodes, across countries, and across level of bargaining (international/supra-national vs. domestic/national). Those settings with less generous welfare and more broad jurisdiction should yields more compensation than the converse.

In sum, the theory of compensated liberalization I propose focuses on the combined effects of the power and platforms of protectionist groups, and of the welfare generosity and jurisdictional breadth of the institutional setting within which groups bargain. Each of the two sets of conditions implies a distinct set of predictions for when egoistic bargaining over trade liberalization initiatives should elicit side payment compensation rather than protectionist redress or nothing at all. Within a given set of institutions, in short, variations in power and platforms of protectionists predict variations in compensated vs. uncompensated vs. compromised liberalization. Likewise, within a

given array of group power and platforms, variations in the jurisdiction breadth and welfare generosity characterizing the institutional setting predict less specified variations in compensated liberalization and its alternatives.

What this group-institutional theory of compensation does not provide, however, is a developed set of expectations of the incidence of compensation when we combine the group and the institutional characteristics. Of course, the extremes suggest clear predictions. When protectionist groups with high power and multi-issue platforms bargain within an institutional setting that combines broad jurisdiction and modest welfare, the theory anticipates frequent and sizable side payment compensation. And when protectionist groups lack power and are single-minded protectionist, bargaining in an institutional setting with narrow jurisdiction and generous welfare, the theory expects no or little compensation. But all the mixed possibilities are uncertain.

I maintain that the group-institutional theory is still identified enough (distinguishes compensation from its alternatives), developed enough (predicts variation over large swaths of time and space), and is specified enough (focuses on measurable conditions) to explain important variation over time and space in real liberalization experience -- and can do so better than existing insights, including the explanatory approach that highlights the role of altruistic provision motivated my norms of fairness. To prove as much, however, requires a selection of cases that can generally exhibit variation in the institutional conditions while holding the power-platform conditions relatively constant, as well as cases that exhibit power-platform variation within stable institutional settings. And this requirement is partly what drives the design of the empirical research, to which I now turn.

3. Research Design: Comparing US Trade Liberalization with EC Internal-market Liberalization

We now have a strategy for describing the incidence of compensation and for evaluating its promise to off-set social costs and facilitate openness, and we also have a group-institutional theory to explain variation in the incidence of compensation. But existing understanding of compensated liberalization is limited in large part by the lack of empirical attention to the use of compensation in actual liberalization experience. Without it, for instance, we don't know whether the group-institutional theory of compensation is any better at explaining variation in the incidence of compensation than are the scattered insights in existing political economy scholarship. Thus, we need to put the strategy and theory to work.

The bulk of the dissertation research does so precisely that by comparing the history of United States trade liberalization since 1934 with the history of European Community internal-market liberalization since 1950. In the case comparisons, I seek to describe the incidence of compensation across time and space, to evaluate the degree to which compensation off-set social

costs of facilitated liberalization, and to explain the incidence of compensation by illustrating and testing the group-institutional theory of compensation. What are these cases, and why are they appropriate empirical grounds for pursuing these three tasks?

3.1. The Cases

The US and EC liberalization experience encompass dozens of episodes of trade liberalization -- instances when some proposal to lower tariff and non-tariff barriers to commercial exchange gets formally proposed as executive or legislative policy. In particular, the US experience encompasses nearly two-dozen such episodes, and the EC internal-market history includes five episodes. These various episodes include both bilateral initiatives, such as the US-Canada Auto Pact and the NAFTA, as well as multilateral initiatives, such as the GATT or all the EC internal-market cases. And each of the episodes span both *domestic* and *international* stages of negotiation: the domestic stages involve negotiations over national authorization to pursue international agreements, and/or ratification or referenda approval of such agreements; and the international stages involving negotiations between representatives of more than one country in either an ad hoc or standing forum of negotiations.[23]

3.1.1. Why the Cases are Good for Description and Evaluation:

These cases provide good grounds for describing and evaluating actual compensation experience in industrialized countries. The US and EC cases are exhaustive of a significant period of liberalization history, with all cases of trade liberalization included rather than a sub-set of such liberalization. These cases also cover liberalization episodes that vary in the manufacturing and service sectors to be liberalized (e.g. autos vs. agriculture), in the kind of commercial barriers to be liberalized (e.g. tariffs vs. VERs), and in the ambition of the liberalization (e.g. percentage vs. complete reduction). Moreover, the episodes span both domestic and international institutional arenas through which commercial policy liberalization takes place. And finally, they span two continents and more than a dozen countries with very different commercial policy and political economic traditions and institutions.

This provides a broad sweep of liberalization to get a reasonable overview of the incidence of side payment compensation over time and space. It also provides a broad range of experience

[23] Some episodes have only a domestic stage, such as those where authorization to negotiate is proposed but denied -- examples of compromised liberalization. An example of this include the 1968 Trade Expansion Act in the US. Other episodes have domestic authorization and international negotiation stages, but no domestic ratification stage, because initial authorization allowed for automatic ratification. Examples of this are all revisions of the Reciprocal Trade Agreements Act that did not require post-international negotiation ratification.

with the actual use of side payment compensation to address whether compensation fulfills its promise to off-set social costs of and facilitate freer trade -- a far broader landscape than the ad hoc snap-shots animating existing scholarship. Given the difficulties of measuring when compensation actually emerges from struggle -- exchanges potentially shrouded from public view by back-room dealings -- the US cases have the added value of being perhaps the most studied cases in political economy.

3.1.2. Why the Cases are Good for Explanation

More significantly, perhaps, the US and EC cases also provide good grounds for illustrating and testing the group-institutional theory of compensation. The first question for that theory is whether such a "bargaining perspective" can better account for the incidence of compensation than can the "altruism perspective" focused on norms of fairness. The second question is to what extent the group-institutional theory can explain the full incidence of side payment compensation found in liberalization experience -- regardless of how much better it can do so than its explanatory alternatives.

The US and EC cases are good grounds for answering both these questions because they capture significant variation in the explanatory variables of the group-institutional theory and of its main alternative. Over the dozens of liberalization episodes and across the hundreds of groups bargaining in those episodes, the cases capture significant variation in the degree of suffering and risk of various groups. The fairness perspective offers a series of predictions about how the incidence of side payment assistance ought to correlate directly with that variation.

More importantly, the US and EC comparison captures significant *but controlled* variation in the group and institutional conditions highlighted by my theory of compensated liberalization. The US liberalization history captures differences over time and sector in the power resources and platforms of protectionist and liberalizer groups. For instance, a given liberalization episode includes groups with diverging resources and platforms, and different episodes capture changes in the resources and platforms of groups active in trade bargaining. The US history only exhibits modest variation, however, in the institutions through which trade policy is bargained, in particular in jurisdictional breadth and preexisting welfare that I hypothesize strongly influence side payment compensation. This implies that the US cases will provide plenty of illustrations and some test of the power-platform conditions in the theory, while providing some control on the institutional conditions.

Comparing the US trade history with EC internal-market liberalization captures significant institutional variation. The EC liberalization has taken place within supra-national and national institutions that are very different than the institutions governing US trade liberalization. The three

international institutions through which EC internal-market liberalization has been negotiated -- the EC Commission, the Council of Ministers, and Intergovernmental Conferences -- have broader jurisdiction than the supra-national institutions through which US trade liberalization has gotten negotiated, such as the GATT and the NAFTA inter-governmental arenas. At the national-level, meanwhile, most European national institutions have substantially more developed and generous welfare states than their US counterparts. At the same time, the broad US-EC trends do not vary systematically in the power and platforms of protectionist groups.[24] This means that the US comparison to the EC will tend to provide some illustration of the institutional differences while providing some control over the power-platform conditions. Over time, however, the European cases vary in these institutional and in the other explanatory conditions, including the power resources and platforms of the bargaining groups.

In short, the US and EC cases capture variation over space and time in all the explanatory variables in the theory, but in a way that should isolate the importance of the group vs. the institutional variables. In some of the cases, the predictions emerging from this variation in the explanatory variables will likely differ from those anticipated by the altruism perspective focused on fairness norms. The result is that the cases illustrates and tests the theory to figure the extent to which it can explain the sweep of variation and the extent to which it can do so better than the "altruism perspective."

3.2. The Methods: Measuring Incidence, Propriety, and Origins of Compensation

Describing, evaluating and explaining compensation in the US and EC cases requires observable measures of side payment compensation, of the indexes of compensation's usefulness, and of the explanatory conditions offered to explain incidence. Each of these tasks pose measurement challenges. I use measures that cannot fully meet these challenges, that pose some biases in the descriptive and causal inferences they support, but that I maintain are better than their alternatives. In particular, in light of the measurement challenges posed by the descriptive, explanatory, and evaluation tasks, I argue that the qualitative and historical measures I use are superior to large-n and quantitative methods.

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[24] Except, of course, differences that can be reduced to -- are epiphenomenal of -- institutional differences: the broader jurisdiction of the EC trade policy-making institutions will encourage EC delegations, and protectionist groups agitating to influence those delegations, to approach liberalization episodes with more multi-issue platforms, and will afford those groups some more power to retaliate against liberalization through other integration issues.

3.2.1. Measuring Incidence

Describing the incidence of compensation in the cases requires observable measures of whether goods or policies discussed or provided during bargaining were (1) *intended to off-set the costs of the proposed liberalization*, and (2) *separate from the core protections to be reduced.* This is not always easy to identify. First of all, such side payments could take place behind closed doors between two individuals (say, two legislators) and sealed with a silent hand-shake, never to be revealed in the press, the congressional record, or even personal letters and candid memoirs. Second, it may be difficult to distinguish side payments from policies that might happen to redress the pain of protectionist groups but that are not *intended* to off-set the pain of a particular liberalization proposal, and are instead created mainly for reasons distinct from the social costs of and political obstacles to liberalization. Finally, there can even be ambiguity in which policies or goods are separate from the core provisions being liberalized, since a liberalization initiative can be very general in its scope. This can make it difficult to code actions or policies as side payments rather than as exemption or revision of the liberalization.

The methodology used here is simply to gather evidence of the various transactions and bargains that take place during political struggle before during and after a liberalization initiative. Apart from secondary source accounts of the proceedings in books and journals, I also include the distilled accounts in the Congressional Quarterly Almanac, CQ Weekly, the National Journal, and a variety of newspapers that might have covered the politics. For the US cases, I supplement these descriptions with reviews of legislative chronicles in published Hearings and the Congressional Record, with letters from participants, and with some interviews (especially for the more recent cases). Luckily, the existing writings and documents chronicling the US cases are generally very detailed and extensive, since the US trade history has been so studied by all the social sciences. For the EC cases, alas, the documentation is not as detailed. I rely on the developed secondary source histories of the EC policies and policy-making, and supplement these with more primary documentation of EC inter-governmental and Council of Ministers proceedings (EC *Bulletin, Official Journal, Agence Europe*, etc.), and with a selected number of interviews with EC academics and practitioners expert in the details of the cases.

Using all of these sources, I look for real or proposed changes in policies or other goods that affect the protectionists and that are separate from the provisions explicitly under review in the proposed liberalization. And I look for evidence of intentionality in the timing of the assistance promised or provided, in the nature of the assistance provided, the beneficiaries of the assistance, and the statements of protectionist and liberalizer representatives. This reveals whether the desire to off-set a liberalization's harm was the main *or at least a necessary* condition for the creation of some policy. Although I always gauge the scale and scope of any compensation provided, I

generally treat the incidence of compensation as dichotomous, because some forms of side payments are different enough that it is impossible to gauge their relative generosity in ordinal or continuous terms.[25] I believe this method reveals adequate measures of whether or not a fight over liberalization is marked by one or more compensatory side payment. There are only a few cases where there is enough ambiguity that I am unsure, such as some of national subsidies that are loosely linked to the EC internal-market liberalization project. And in these cases I explicitly discuss the ambiguity.[26]

3.2.2. Measuring "Propriety"

3.2.2.1. Measuring Whether Compensation Off-sets Social Costs: Evaluating how much compensation fulfills its promise to off-set social costs of and facilitate freer trade poses more serious measurement challenges. Recall, first, that to assess how much compensation off-sets social costs and thereby enhances equity, my strategy is to gauge (1) the scale and scope of compensation provided, (2) the distribution of the compensation's benefits in comparison to the alleged pain of liberalization's "victims," (3) provision that goes beyond actual pain, (4) the scale and distribution of financial and other costs of the compensation, and (5) the effectiveness of the compensation programs' implementation.

The scale and scope of actual costs and benefits of programs are relatively straight-forward to measure, since the money and in-kind benefit packages, the group eligibility, and the revenue sources are usually published information. The *distribution* of benefits and costs, however, requires information about who benefits from and who pays for compensation, and about who suffers from and who benefits from liberalization. This information is sometimes available, in the form of studies of anticipated and real benefits and losses different industrial and other groups face as a result of liberalization, and of the revenue source. But it is not always detailed or accurate. This sometimes requires more speculative judgments, often extrapolating from more detailed information about a particular group or program to the whole set of groups and programs involved in a liberalization episode. Finally, the effectiveness of a program's implementation requires substantial study that goes beyond the resources and time of this project. So for such program effectiveness I simply rely on existing secondary implementation studies -- where they exist -- of the programs created in the corpus of side payment exchange.

3.2.2.2. Measuring Whether Compensation Facilitates Openness: Recall that my strategy to assess whether compensation actually facilitates freer trade entails gauging (1) how much

[25] For instance, an employment program and the promise to build roads for the lumber industry -- two actual compensation provisions -- might both be side payments, but differences in their generosity are difficult to measure.
[26] In addition to such ambiguity, I simply have to assume that there will be plenty of private side payments for which my methods of measurement can never uncover a smoking gun.

compensation lowered existing protectionist opposition; (2) how much it inspired new opposition from groups opposed to compensation; (3) how much compensation sparked new opposition from groups seeking to extort more generous compensation; and (4) how much the compensation encouraged (or discouraged) vulnerable groups to exit the aggrieved sector of the economy.

The first and second of these issues -- how much compensation lowered existing or inspired new opposition -- pose some of the most difficult measurement challenges of this study. The problem is that both entail *causal* rather than descriptive inferences, and raise a host of inferential problems as a result. Two problems are most important. The first involves selection bias, in that my case selection focuses on liberalization initiatives, which likely emerge from a political climate in which existing protectionists will respond favorably to compensation offers, and in that any compensation offered or provided when and to the extent that the liberalizers anticipate some lowering in opposition to result. Both these criteria introduce selection bias that may exaggerate the effects of side payments on opposition. The second is the difficulty of separating the independent causal effect of compensatory side payments on opposition from the other factors that shape both the provision of compensation and opposition. For instance, compensation might co-vary with lower opposition, but the lowering and compensation might also reflect the polity's broader normative commitment to helping market victims, possibly making the link between compensation and opposition spurious.

One strategy to measure the political effectiveness of compensation is large-n quantitative analysis that compares the various levels of compensation provided to various groups in the polity. One could generate correlations between the scale of compensation provided on the one hand, and the level of opposition to the liberalization under review on the other. Such a strategy is possible, especially for many of the US cases, with compensation scale gauged as financial expenditures embodied in the piece of a compensation program to be provided, and with opposition gauged by voting statistics by district. Such a strategy would see whether the groups getting the most compensation were the ones most supportive, or least opposed, to the proposed liberalization.

This approach, however, suffers from omitted variable bias. The bias emerges from the likelihood that compensation will be provided only to those groups and in those instances where opposition is already high enough to threaten liberalization, and on a scale commensurate with the level of anticipated opposition. Even if in reality the compensation has the effect of lowering the opposition, the measured correlations with single observations of compensation and post-compensation opposition will likely reveal high levels of compensation co-varying with high levels of opposition. This would suggest that compensation might raise rather than lower opposition, but would be a spurious inference -- like correlating the number fire engines with the severity of fires and concluding that more fire trucks cause worse fires. In short, such large-n designs would tend to *underestimate* how much compensation lowers existing opposition and *overestimate* how much

it raises new opposition -- thereby *underestimating* the degree to which compensation facilitates freer trade.

I estimate the political efficacy of compensatory side payments by measuring at several points during the bargaining between protectionists and liberalizers the level of opposition among the protectionists. Most importantly, I measure opposition before and after the provision of the side payment or payments to the group. Opposition can be measured by the statements and threats made publicly or privately (but later made public) by representatives of the protectionist groups, lobbying by those groups, money spent on lobbying, polls of members in society, "straw-polls" in legislatures, and patterns of roll-call voting in legislatures. In all cases, the question is whether the side payment made a difference in the level of opposition, and what role that change had in the overall facilitation of the liberalization.[27]

This method gets around the omitted variable bias of its large-n alternative because it can capture *changes* in opposition levels regardless of the opposition existing before or during provision of compensation. Nonetheless, my method of correlating changes in compensation levels with changes in opposition of a group within a liberalization case still suffers from some selection and omitted variable bias. The selection bias is that compensation will tend to be provided not only when liberalizers anticipate opposition but also when they *expect compensation to lower opposition.* And the omitted variable bias is more general, that other conditions that might vary case-to-case can be expected to correlate with compensation *and* level of opposition. Both these selection and omitted variable bias may lead to the opposite bias of the large-n method by *overestimating* the political effectiveness of compensation.

Thus, I supplement these correlations with as much detail into the links between the side payments and the statements and decisions to continue or lower opposition as the data will bear. This includes looking for statements by protectionists and liberalizers, especially protectionists, of how much compensation made a difference to their opposition. And in all cases I also rely on counter-factual reasoning to judge what the opposition *would have been* in the absence of compensation.[28] As with measuring the incidence, I believe this method does a reasonable job of estimating the political effectiveness of side payments in most cases. But I try to informally estimate how much uncertainty there is in each case.

The remaining indices of whether compensation facilitates freer trade -- whether it inspires extortionate demands and whether it promotes exit -- are easier to explain. To measure extortion, I

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[27] For instance, some of the US liberalization cases rely on roll-call data on a series of liberalization bills (e.g. renewals of US Presidential negotiating authority) leading up to a bill where a side payment was provided, targeted at some protectionist group. In this case, the data can be analyzed to see if there was a change in the voting pattern of legislators whose constituency included a particularly high concentration of a the protectionist group at whom the side payments were targeted.

[28] For a good discussion of the status and a partial defense of such evidentiary reasoning, see James Fearon 1991.

engage in the difficult interpretive task of looking for situations where groups changed their position during liberalization initiatives away from support of liberalization to opposition, did so for no clear reason connected to the nature of the liberalization, and actually asked for more compensation for themselves.

Finally, to measure the degree to which compensation packages actually promoted or discouraged exit from aggrieved sectors of economic activity, I consider two measures. First I consider the content of the compensation provided, to see if any programmatic incentives or disincentives to exit exist in the design of the side payment provided. Second, I again rely on secondary sources analyzing the implementation of programs to see if the programs promoted adjustment. Such studies exist for some of the most important compensation programs in the history, such as the US Trade Adjustment Assistance program, and a variety of EC Commission "compensation" programs like the European Social Funds and the Guidance Section of the European Agricultural Guarantee and Guidance Fund (EAGGF).

3.2.3. Measuring Elusive Explanatory Conditions

The explanatory task of illustrating and testing the group-institutional theory of compensation requires getting clear measures of protectionist power resources and trade policy platforms, and of the institutional setting's jurisdictional breadth and welfare policy generosity. It also requires some measures of the conditions highlighted by the "altruism" approach against which I compete my bargaining perspective. For any of the explanatory factors to have meaning, they still need measures that are independent of the outcome to be explained. Yet, some of the factors are multi-dimensional and others have dimensions that are difficult to get clear quantitative or qualitative information about -- in either case, difficult to separate from the outcomes to be explained. This is particularly true for power and fairness ideas, but the other factors raise similar problems. All these difficulties are mitigated, though not solved, by the kinds of hypotheses I deduce from the theory -- hypotheses that anticipate a higher incidence and greater political efficacy of side payments in one setting or to one group *relative* to another.

3.2.3.1. Measuring Political Power: I focus on both structural and incidental measures of political resources actually mobilized during liberalization. This means that the resources measured will reflect the level of determination of the protectionist group. Still, the structural measures are those that affect the influence of a group, regardless of the particular policy and year in which that group is agitating for some outcome. And the incidental measures refer to characteristics more specific to the liberalization episode.

The structural conditions I focus on are the number of people encompassed by a particular coalition, the distribution of those people across legislative or other politically-relevant districts,

and the inclusiveness and centralization of the organizations representing the groups. For the first two measures, I rely on a variety of secondary and, for the US cases especially, primary sources, such as "Census of Manufacturers" and "County Business Patterns" data, internal annual reports by representative industry associations, lobbies, and unions.[29]

The other structural index of power on which I focus is the inclusiveness and centralization of the lobbying organization representing a protectionist group. Here I simply assess the number of people in the bargaining association, as both an absolute number and as a percentage or fraction of the total in the general group the association claims to represent. Secondary sources and association reports usually provide this kind of information. Sometimes figures are not available to distinguish the association membership from the total number of people covered by their activity. For instance, some industry associations claim a larger membership than they actually have by including not only participating or dues-paying members but also people who don't see the association as speaking for them. For concentration, I measure the number of associations representing a particular aggrieved group, asking for a particular kind of protectionism or side payment. The fewer such representative associations, the more centralized the group. If there is an umbrella organization that coordinates the activities of member associations, such as the AFL-CIO does for organized labor in the US, then I assess from secondary and primary sources the strength of the umbrella body to coordinate disparate aims of member groups.

The power of groups, however, can depend as much on conditions specific or incidental to the bargaining situation as on these more general conditions. Principal among these is the importance of groups and their legislative agents to the particular policy or electoral goals of the liberalizer coalition. The position of the groups and legislative agents in the party system, for instance, can significantly affect their power independent of structural power. In a US context, for instance, an industry group may have its employment spread across a variety of states whose legislative representatives are very important to the electoral or policy goals of an executive bent on some liberalization initiative but also concerned about election and other policies. More incidental

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[29] The number of people included in a coalition, and their distribution across politically-relevant districts, can be illustrated by considering a hypothetical industry in the US. One can measure the concentration and distribution of a particular industry's employment across legislative districts in the US, and this works for assessing the power of both industry and worker groups that might oppose a liberalization initiative. Getting information on the regional break-down of an industry's employment turns out to be easy at the national and state level, and very difficult at the district level, because census data on industry employment and firm concentration is not always collected at the county level and because representative districts do not coincide with county lines in any event.

At both the state and national level, I use this information to rank the importance of a particular protectionist group or industry as a percentage of total manufacturing employment. One can infer from this the importance of a particular group to the electoral position of legislators at the level of those districts; for instance, if a textile industry is the number one employer in a state, it stands to reason that a Senator representing that state will care about appeasing the representatives of that industry. With this information, I can infer that industry and labor groups that command a higher percentage of manufacturing employment at the state and national level will have more power than groups commanding a lower percentage.

still, some protectionist group might be represented by a legislator in a particularly powerful committee or with strong personal ties to liberalizers.

Estimated according to both these incidental and structural measures, it is possible to assess the relative power of one group compared to another, at a particular time or across liberalization episodes. Sometimes the relative power position can be summarized in quantitative statistics capturing one or another of these dimensions, but in all cases the power position is judged by an amalgam of structural and incidental measures.

3.2.2.2. Measuring Platforms: The remaining explanatory variables on which I focus are easier to measure, though also have limitations. The breadth of protectionist trade policy platforms -- the conciliation of a group as expressed by the number of policy issues over which protectionists express a preference along-side demands for protection -- is, perhaps, the trickiest. My measures of platforms are all information sources that carry public policy statements by the protectionist group. The most important of these include published policy platforms of representative organizations expressed before and during bargaining -- but before any explicit discussion by liberalizers of compensation. In the US setting, the relevant sources are Congressional Hearings testimony, press statements, and more on-the-fly statements documented in the Congressional Record, Congressional Quarterly and Quarterly Almanac, and newspaper/magazine analysis like the CQ Weekly, National Journal and the New York Times. In the EC context, my emphasis is on the counterpart sources, such as the EC Official Journal and Agence Europe. In all cases, I put particular emphasis on the platform points that get raised in connection with the issue of economic liberalization (e.g. mentioning training in the same forum that an organizational committee mentions trade liberalization). I consider these as more "linkable" to protection than policy positions that never get mentioned in connection with the stance of protection.

3.2.2.3. Jurisdiction and Welfare Generosity: The institutional characteristics on which my theory focuses are simpler to measure. Jurisdictional breadth can be measured simply by newspaper, secondary source, and other official organization accounts (e.g. EC Bulletin and GATT reports) of the range of issues to be discussed in the institution through which bargaining takes place. National and international institutional breadth tends to be easily defined as such, and relatively stable. General welfare state compensation, meanwhile, is measured by the budget expenditures on social programs that assist market dislocations. This includes both passive and active labor market interventions, such as unemployment insurance and job retraining, social security, health care, and welfare (e.g. the erstwhile Aid to Families with Dependent Children).

3.2.3.2. Measuring Fairness Ideas: Finally, to consider how the group-institutional theory fares in its explanatory usefulness relative to the "altruism perspective" requires some measure of the fairness ideas and norms that might vary across countries or time. The difficulty here lies in the haziness of the variable -- a commitment to helping the victims of economic liberalization as a

fairness value -- as well as in the inherent difficulties of measuring an ideational value as distinct from the outcome to be explained and from related power and interest conditions. My strategy is to focus on three related characteristics. First, I focus on the statements and actions of the liberalizers before and during the liberalization initiative under review. The policy statements made by liberalizers seeking to marshal support for their liberalization provide some information on the importance the liberalizers attach to explicitly taking account of the welfare of those hurt by the liberalization. To be sure, all liberalizers can be counted on to couch the provision of side payments in terms of such concern, since it is politically risky to proclaim bribery as a goal. But some policy defenses are more laced with statements about the welfare of victims than others. And I interpret the frequency of such statements as indicative of the prevalence of fairness ideas.

Precisely because such statements may represent rhetoric designed to shroud egoistic bribery, a second characteristic is the timing of the statements relative to the liberalization and the provision of side payments. The earlier liberalizers discuss concern for the welfare of the victims of liberalization, relative to the provision of side payments and to the passage of a liberalization initiative, the more likely they are to actually hold "fairness ideas" about the propriety of redressing liberalization's costs. Most importantly, the more such ideas get expression before a protectionist group is expected to block some liberalization initiative, the stronger the case that fairness ideas are strongly held. Conversely, if such ideas only get expression at the time of, or after, the provision of some side payment, or at a time when protectionist groups are most vocally threatening the initiative championed by liberalizers, then there is less reason to believe such ideas matter.

Finally, the nature of a side payment, itself, can reveal the prevalence of fairness ideas among liberalizers. Side payments may be more or less focused on the demands and interests of the most "deserving" groups in society -- those most likely to be hurt by the liberalization -- as opposed to the most powerful groups. Sometimes, of course, the most vulnerable are also the more vocally opposed and powerful. But when this is not the case, it is easier to marshal evidence that fairness ideas are held and matter to the provision of the side payment.[30]

4. Conclusion: Case Studies as Historical Narratives

This chapter reviewed what existing political economy scholarship tells about compensated liberalization, and laid out my attempt to improve upon that scholarship. I tried to show that political economists focused on the politics of trade liberalization and economic openness offer a variety of, sometimes competing, insights into (1) whether compensation off-sets social costs and

[30] Like the worst "revealed preference" claims, this measure of fairness ideas is, by definition, a measure that provides no predictive leverage, at least not for the side payment that "reveals" the ideas. But it is still useful in sorting out the existence of fairness ideas of a given liberalization, *ex post,* and of the importance of fairness ideas as a motivation distinct from political expediency.

facilitates liberalization, (2) when compensation has emerged from struggles over liberalization, and (3) what can explain the incidence of compensation. Review of this literature shows, I believe, that existing theoretical and empirical shortcomings prevent existing insights from providing satisfactory answers to these questions.

My attempt to improve upon this literature consists of more theoretically-informed and empirically focused study of compensation. It includes a strategy to describe the incidence of compensation and to evaluate when side payments actually off-set social costs of and facilitate openness. It also includes a more identified, developed, and specified theory of compensation. This theory focuses on egoistic bargaining between liberalizers and protectionists, and in particular on group platforms and power, as well as institutional jurisdiction and welfare, that together shape such bargaining. Finally, my attempt to improve upon the literature includes a research design to carry out all these various tasks.

Before turning to the case studies outlined in that design, one more task remains: to lay out how each of the case studies in the following six empirical chapters will develop the descriptive, explanatory, and evaluation aims of the study. My plan is to pursue these aims through an historical narrative across and within the cases. This means that the descriptive, explanatory and assessment story will unfold in roughly chronological order and through historical detail, with each of the chapters encompassing at least one episode of liberalization (most encompass two).

Such historical narrative involves roughly six steps for each episode.[31] First, I summarize the origins, ambition and anticipated distributional consequences of the liberalization initiative that underlies the episode. Second, I lay out the conditions that my theory anticipates will affect the political struggle over that episode, particularly the group and/or institutional conditions at the center of my theory of compensation. For the US cases, the focus is on the power resources and platforms of the protectionist groups, more than on the institutional setting, and for the EC cases the focus is on both group and institutional conditions.[32] Third, I detail how bargaining between groups evolved in light of these conditions, focusing on the origins and bargaining over the options for dealing with opposition -- do nothing, provide protectionist redress, and provide side payments. Fourth, I summarize the mixture of these options to emerge from the bargaining, with emphasis on any side payments -- including the scale, scope, and distribution of the financial and in-kind benefits and costs of the compensation. Fifth, I evaluate the short-term political effectiveness of the compensation by assessing the degree to which it lowered (or raised)

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[31] The narrative of each episode may repeat one or more of these steps depending on the complexity and number of side payment packages to emerge from the bargaining. Each case and/or each series of cases in a chapter also is introduced by an overview and followed by a theoretical recap that summarizes the descriptive, explanatory, and evaluation findings.

[32] The reason is that for the EC cases I'm simultaneously comparing the continents and telling of the historical development of internal-market compensated liberalization

opposition of existing protectionists, raised new opposition from those hitherto supportive or disengaged from the liberalization, and/or inspired rent-seeking or extortion among any groups. Sixth and finally, I consider the longer-term measures of whether the compensation off-set social costs and facilitated freer trade by surveying existing implementation studies to capture how much the compensation provided meaningful redress in line with the actual losses and dislocation, and how much it facilitated adjustment out of the non-competitive economic activity.

Through these six steps, the narrative of each case develops the rudiments of the incidence, propriety and origins of compensation in that case. And with the accumulation of information about all of three of these issues in all of the US and EC cases, we can revisit in Chapter Eight the extent to which my contribution actually improves upon what political economy currently tells us about compensated liberalization.

Chapter Two:
From Uncompensated and Compromised Liberalization, to Compensated Liberalization, 1934-62

1. The Period of Uncompensated and Compromised Liberalization, 1934-61
    1.1. 1934 Reciprocal Trade Agreements Act
        1.1.1. The Origins and Controversy Over RTAA Delegation and Liberalization
        1.1.2. Roosevelt's Political Strategy: Timing, Rhetoric, and Revision
            1.1.2.1. Timing and Rhetoric
            1.1.2.2. Protectionist Revision
        1.1.3. No Exemption in Word, No Compensation in Deed
            1.1.3.1. No Explicit Exemption
            1.1.3.2. No Side Payment Compensation
    1.2. Renewing RTAA: A Quarter Century of Uncompensated Liberalization, 1935-1961
        1.2.1.Extending RTA, 1935-1946: Honeymoon for Uncompensated Liberalization
        1.2.2. Extending RTA, 1946-1958: The Twilight of Uncompensated Liberalization
            1.2.2.1. Accumulating but Stumbling Liberalization
            1.2.2.2. Surrender, Revise, and Exempt, but Don't Compensate
    1.3. Explaining the Absence of Side Payments Between 1934 and 1960

2. The Advent of Compensated Liberalization With Kennedy's TEA
    2.1. Kennedy's Strategy: Ignore, Exempt, and Compensate
        2.2. Textiles' Seven-point Side Payment
            2.2.1.Growing Power and Broadening Platforms of Textiles and Apparel
                2.2.1.1. More Determined But Broadening Protectionist Platforms
                2.2.1.2. Growing Power Resources: Centralized Organization, Size and Regional Concentration:
            2.2.2. Kennedy, the Textile Industry, and Congress
            2.2.3. Compensation for Textiles: Kennedy's Seven-Point Plan
            2.2.4. The Political Efficacy of Kennedy's Seven Points
        2.3. Lumber's Six-point Side Payment
            2.3.1 Lumber's Well-timed Demands for Protection
            2.3.2 Kennedy's Six-point Lumber Compensation
            2.3.3 The Modest Political Effectiveness of Lumber Compensation
        2.4. Labor and Fair Trade: Trade Adjustment Assistance Compensation
            2.4.1.Growing Labor, Industry, and Government Support for Fair Trade
            2.4.2. Incorporating Adjustment Assistance into Kennedy's TEA
                2.4.2.1. Kennedy's Proposed Adjustment Assistance Provisions
            2.4.3. The Fight for TAA: Narrow Victory in the House and Senate
                2.4.3.1. Group Stands in House and Senate Hearings
                2.4.3.2. Winning By a Hair in the House
                2.4.3.3. The Senate's Expansion of Adjustment Assistance
            2.4.3. The Effectiveness of Adjustment Assistance in Lowering Opposition

3. Explaining and Evaluating the 1962 Advent of Compensated Liberalization
    3.1. Explaining Modest But Promising Side Payment Compensation
        3.1.1. Explaining Textiles and Lumber Compensation
        3.1.2. Explaining Labor's TAA Compensation
    3.2. Evaluating TEA Compensation

Throughout its trade policymaking history, the US Congress and the Executive have overseen alternating periods of protectionism and liberalization, with each of these periods masking major shifts in the degree of protection afforded to particular segments of agriculture and industry. Since 1934, the broad trend has been towards freer markets. Beginning with the Reciprocal Trade Agreements Act (RTAA) of that year, US policymakers reversed the precedent of the infamous Smoot-Hawley tariff with a series of institutional and policy shifts favoring increased commercial openness. Although the trend toward openness smooths over some protectionist set-backs and more sustained exemptions for particular segments of the economy, the 1934 RTAA ushered-in US history's most sustained and unprecedented lowering of tariff and other protectionist barriers, a trend that has continued through the recent NAFTA and the Uruguay Round episodes.

For the first thirty years of this period, however, the progressive lowering of tariff barriers in successive legislative initiatives, and in the bilateral and multinational agreements they authorize, took place without any side-payment compensation to groups hurt by freer markets. Between 1934 and 1962, liberalizers successfully brokered eleven legislated renewals of the Reciprocal Trade Act of 1934, and negotiated scores of bilateral and, after the creation of the GATT in 1946, multilateral trade agreements. With each of these renewals and agreements, liberalizers faced various kinds and degrees of political opposition from those vulnerable to increased import competition. To deal with that opposition liberalizers either offered no redress or doled out protectionist redress. In 1934, liberalizers strategically timed introduction of the liberalization so as to maximize legislative power, invoked rhetoric to down-play the depth of the liberalization, and accepted important revisions in the extent of the liberalization. Between 1934 and 1945, in contrast, the Roosevelt and Truman Administrations didn't even invoke these kinds of bargaining measures; they simply ignored the opposition. Between 1946 and 1958, finally, liberalizers exempted opposition from the reach of and watered-down the liberalization initiative. In other words, struggle over the first thirty years of US trade liberalization elicited some combination of uncompensated and compromised liberalization -- but no payment compensation.

With President Kennedy's Trade Expansion Act of 1962, designed to authorize tariff-cutting authority for the impending GATT Round, this all changed. In the corpus of legislative struggle over that TEA liberalization, Kennedy provided compensation packages to three groups vocal in their opposition to or ambivalence over liberalization. The textile industry won from the Administration a "seven-point" program of assistance that included protectionist exemption in the form of voluntary quotas and several compensation provisions -- including research and development funds, loans from the Small Business Administration, and tax relief. The softwood lumber industry, similarly, received a "six-point" assistance package that included tax relief, SBA loans, along-side a protectionist commitment to negotiate a bilateral voluntary export agreement with Canada. Finally, organized labor was the principal target of ambitious adjustment assistance

provisions written into the TEA -- provisions promising tax relief, loans, and subsidies for firms, and unemployment-insurance supplements, and relocation and re-training assistance for workers.

The key explanatory question posed by this uneven compensated liberalization between 1934 and 1962 is two-fold: why was compensation provided in 1962 and not before?; and why did textiles, lumber, and labor receive side-payments, whereas other groups opposing economic liberalization either receive nothing, such as was the plight of the shoe industry, or got protectionist exemption or revision alone, such as agriculture, glass and carpets?

The history supports answers to the explanatory questions that are broadly consistent with the theoretical expectations developed in Chapter One. In 1934, protectionist groups lacked both the power resources to threaten the RTAA as well as approached the initiative with narrow platforms, making the use of compensatory side payments both unnecessary and difficult. Between 1934 and 1945, the modesty of protectionist opposition obviated the need to use side payments or other tactics for reducing opposition. And increased protectionist opposition following post-war economic recovery abroad, and increased power of that opposition in Congress, began to threaten the passage of the proposed liberalization initiatives between 1946 and 1958, but the groups at the core of this opposition approached the episodes with single-minded protectionism, making the selection and negotiation of side payments a costly alternative to protectionist revision and exemption. Thus, power conspired with single-minded protectionism on the part of the protector groups to produce exemption and revision, rather than side payments.

By the beginning of the 1960s, a number of sectors and groups became increasingly hostile to or ambivalent about freer trade, AND these groups increasingly expressed interest in policy goods separate from the protectionism. Most important among the groups to gain power and to broaden their platforms were textiles and the AFL-CIO. The former had long been in the protectionist coalition, but became more resolutely and powerfully protectionist as the 1950s wound to a close. And the AFL-CIO, which had previously expressed unconditional support for free trade internationalism, encompassed unions that were increasingly vulnerable to foreign competition as post-War recovery matured. But rank-and-file sentiment was mixed, consistent with the international economic positions of the various member unions, and some union officials had taken an interest in other policies that might smooth relations between these wings of Labor: conditional support for liberalization, conditioned upon provisions like protection of labor rights and, especially, creation of trade adjustment assistance for those dislocated by liberalization.

In short, the TEA story suggests that compensation was provided in 1962 and not before, and to some groups and not others, because of increased power resources to threaten the liberalization episode *combined with* moves on the part of some groups from single-minded protectionism to conciliatory and multi-issue platforms. There is some modest evidence, however, for the "altruism" perspective focused on fairness norms. The Kennedy Administration, prior to

the TEA episode, expressed greater interest in fair trade ideas than had liberalizer Presidents. Kennedy promoted compensation before labor had called for linkage between adjustment assistance and trade liberalization, and adjustment assistance was championed by a variety of free-trade employer groups and economists as well labor. It is difficult, therefore, to attribute the creation of the adjustment assistance compensation as solely a reflection of egoistic bargaining.

Explanatory questions aside, the advent of compensated liberalization in 1962 raises more generic normative questions: did the array of side payments in 1962 offer significant redress for the expected victims of the TEA and its GATT consequences? And did they facilitate the liberalization to follow? Here, the long-run history suggests that all three compensation packages fell short of their promise, particularly with respect to the hope of off-setting liberalization's social costs. The compensation programs provided limited relief for the targeted groups, particularly the TAA program which was implemented with such tight eligibility criteria that no groups gained access to relief for the first seven years of the program. On the other hand, the history also supports the conclusion that the compensation, particularly that provided to organized labor, was crucial to the short-term acquiescence of Labor to the passage of the TEA liberalization. Even here, however, the poor implementation of TAA left the longer-term promise of compensation to buy-off opposition to freer trade very much in doubt.

This Chapter develops these explanatory and normative conclusions in three broad sections. The first section considers the history and origins of the mix of uncompensated and compromised liberalization between 1934 and 1961. This involves laying out in some detail the 1934 Reciprocal Trade Agreements Act, the landmark legislative initiative that ushered-in a period of liberalization initiatives. The section then reviews the continuation of economic liberalization between 1934 and 1958, which can be divided into two sub-periods -- a honeymoon period of liberalizer predominance between 1934 and 1946, and a more fractious prelude to compensated liberalization between 1946 and 1960. The second section of the chapter overviews the advent of compensated liberalization in Kennedy's 1962 Trade Expansion Act, with the discussion divided between histories of compensation to textiles, lumber, and labor, respectively. The third and final section of the chapter provides an explanation for the advent of compensated liberalization in light of the group-institutional theory of compensation, and pulls together the short-term history relevant to evaluating whether that advent off-set social costs and facilitated openness.

1. The Period of Uncompensated and Compromised Liberalization, 1934-61

1.1. 1934 Reciprocal Trade Agreements Act

Less than four years after it passed the 1930 Smoot-Hawley Tariff, which today remains the icon of excessive protectionism, Congress approved the trade provision that marks the turning

point toward greater openness. The 1934 Reciprocal Trade Agreements Act (RTAA) gave the President limited authority to negotiate reciprocal agreements with other countries to significantly lower tariff levels and to extend the results to all countries granted Most Favored Nation trading status, all without having to subject the results to Congressional approval.[1] The medium-term tariff reductions turned out to be modest, by 1946 leading to bilateral negotiations that yielded only marginally lower tariffs than pre-Smoot-Hawley days. But tariffs and other protections began their secular lowering at that time. At a minimum, the RTAA marked a major turning point in the ideological, power-interest, and international conditions that conspire to explain the broad trend toward liberalization since that time. As many scholars have pointed out, moreover, RTAA may have partially caused as well as marked that shift, due to the institutional legacy of delegating authority to the President (Lowi 1964, Pastor 1980, Destler 1986, Haggard 1988).[2] Either way, the RTAA was a major liberalization initiative.

Yet, this "watershed" moment in US trade policymaking history was devised and approved without the provision of compensatory side payments. The history of the episode demonstrates that the Roosevelt Administration introduced the measure as a modest liberalization initiative, inspiring substantial opposition from industry groups defending their market position and from congressional leaders defending their authority over trade policy. To deal with this opposition, the Administration may have delayed his introduction of the legislation until monetary policy changes and other developments improved the RTAA's legislative position. The Administration also accepted limits on the proposed tariff-cutting authority, and ultimately pledged to keep the trade initiative in line with the major industrial policy measures already enacted to promote industrial and agricultural recovery. What they did not do was either explicitly exempt any groups from the reach of the liberalization, or offer compensatory side payments.

1.1.1. The Origins and Controversy Over RTAA Delegation and Liberalization

In the years leading up to the introduction and fight over RTAA, the Roosevelt Administration was deeply ambivalent toward free trade. Before his election to the presidency,

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[1] As David Lake 1988 points out, the RTAA contained little that had not already been enacted into previous tariff acts, but was unprecedented in delegating these powers in a single Act.

[2] The literature doesn't do a good job explaining *why* delegating authority to the President ought to make a difference, but several reasons apply. By moving important tariff-setting authority into the Executive, the policy was to be designed by politicians accountable to one large constituency rather than by more than 430 in the House and 100 in the Senate, each with their own regional constituency. This increased the power of policymakers concerned more with aggregate national interest than with sectional, special-interests (Alt and Gilligan 1994). Second, since the Executive authority was centered in the State Department, RTAA empowered officials with an internationalist, free trade bias. Finally, delegating authority meant that interest groups could influence the limits of authority only *before* actual tariff-cutting was to take place via international negotiations, making it hard for groups to judge winners and losers of the negotiations, and in turn complicating vote-trading and protectionist contagion.

several protectionist industry and agricultural groups important to the Democrat's electoral coalition forced Roosevelt and his party to move away from their professed commitment to free trade.[3] By the election, Roosevelt had pronounced his support for "continuous protection for American agriculture as well as American industry" (Moley 1971, p.51). Upon taking office, moreover, Roosevelt's chief concern was with economic recovery from the Great Depression. Roosevelt and his "brains trust" advisors like Raymond Moley, Rexford Tugwell, and George Peek preferred an open, cooperative international economic system in the long run, but "proceeded on the assumption that the causes of our ills were domestic, internal, and that the remedies would have to be internal too" (Moley 1971, p.23, quoted in Haggard 1988, p.105). This economic nationalist view fueled early New Deal policies for agricultural and industrial recovery, including price-supports under the Agricultural Adjustment Act (AAA), which necessitated that inflated domestic prices be shielded from low-cost foreign competition. This all militated against any major liberalization.

A variety of forces, however, conspired to get the President to pursue some liberalization and some delegation of authority away from Congress. Most immediately, the President, many Congressmen, and political pundits saw the recent Smoot-Hawley episode as revealing that Congress was institutionally condemned to excessive protectionism. The recent trend towards reciprocal and bilateral bargaining internationally, moreover, suggested to many the need to give the President the power to effectively negotiate agreements. And while the economic nationalists in the brains trust had the President's ear, so too did his Secretary of State Cordell Hull, who over the preceding twenty years had been an inveterate proponent of free trade multinationalism.[4]

The outlines of Roosevelt's RTAA legislation were clearly in place early in his presidency, but was watered-down and awaited many delays before the bill was finally introduced. Hull was probably the most responsible for the legislation draft, along with his State Department colleagues, including Assistant Secretary Francis B. Sayre. But economic nationalists were also appointed to the Executive Committee on Commercial Policy, including AAA chief George Peek. The legislation was always to mandate liberalization and delegation of negotiating authority to the President. The Administration decided on complete delegation of authority to the President, rather than authority subject to some Congressional veto or scrutiny. But Hull had to back away from his preference for unilateral cuts, for "horizontal" or linear cuts in tariffs (on the basis of a broad economic sector), and for explicit mandates for multi-national cuts. Conscious of limits to what

[3] In particular, they moved away from an initial campaign commitment to some combination of the 10% across-the-board tariff reduction and the reciprocal reductions compromise proposed by Secretary of State-elect Cordell Hull.

[4] Each of these pressures expressed deeper political forces that explain the country's turn to liberalization and new tariff setting institutions in 1934. Some scholars have highlighted how changes in the international system towards a pattern of reciprocity mandated major tariff-setting reform (Haggard 1988, Lake 1988, Pastor 1980); others emphasize the increasing power of free trade ideas (Goldstein 1993); still others, the shift in the political power and the socio-economic position of industry, labor, finance, and agriculture (Freiden 1988; Ferguson 1984); or the maturation of the US's hegemonic position in the international economy (Lake 1983). It's fair to say that Roosevelt's support for an RTAA was overdetermined.

Congress would bear, they decided to settle for reciprocal, item-by-item cuts in bilateral negotiations (Hawkins and Norwood 1963, p.77, Pastor 1980, p.87). Similar considerations motivated the Administration to propose these changes through revision of the Smoot-Hawley law, rather than through entirely new trade legislation. And although they considered tabling such legislation more than a year earlier, the Administration unveiled the RTAA package in March 1934.

From the beginning, societal and congressional opposition to the RTAA was strong. Throughout the deliberation process, even before the legislation was actually sent to Congress, criticism was fierce, if not as well-publicized as the Smoot-Hawley episode. In extra-legislative statements, in the House and Senate Committee deliberations, and in the extensive floor debate, controversy focused mostly on the propriety and constitutionality of delegating trade policymaking to the Executive. After the House Ways and Means Committee sent the legislation to the floor, the minority report listed a series objections to the legislation, the first five of which focused on the issue of delegation. Although Committee voting for the legislation followed strict party lines, with the Democrats supporting their President, many Democrats on the House and Senate floors expressed worry over how much power they were delegating to the President.[5]

There was also plenty of protectionist opposition to the liberal slant of the policy. The House Ways and Means hearings lacked the protectionist industry attention that marked Smoot-Hawley, with the RTAA hearings drawing only seventeen witnesses, seven of whom were from the Administration. But those witnesses who did show up, such as the Rep from the National Association of Manufacturers, opposed the RTAA on grounds that it threatened necessary protections from foreign competition. The minority report to the House Hearings, moreover, voiced the general protectionist argument in explaining their opposition:

> [RTAA] places in the hands of the President and those to whom he may delegate his authority the absolute power of life and death over every domestic industry dependent upon tariff protection, and permits the sacrifice of such industries in what will undoubtedly be a futile attempt to expand the export trade of other industries....(Congressional Record 1934, pp.5532-3)

What this report said in general terms, many individual industries said for themselves in the Senate Foreign Relations hearings, which were dominated various industry and agricultural groups clamoring for continued or expanded protectionism. Of the 54 witnesses giving testimony to the Foreign Relations Committee, 39 were representatives of protectionist industry and agriculture (Congressional Hearings 1934 S448-3, passim).[6]

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[5] For instance, the report's list of objections began: "1. [RTAA] ... provides for an unconstitutional delegation of the supreme taxing power of Congress, contrary to what a prominent Democrat has called 'the plainest and most fundamental provisions of the Constitution.' (Congressional Record 1934, p.5532)

[6] These included the National Association of Wool Manufacturers, the National Grange, the Window Glass Manufacturing Association, the Saw Manufacturers Association, the US Potters Association, the Wool Hat Manufacturing Association, the National Dairy Union, etc. Organized labor at this stage had little organizational representation, and had no official representatives to give testimony. The list reflected traditionally protected and protectionist groups who would continue to mount attacks on free trade for many decades to come. See Senate

1.1.2. Roosevelt's Political Strategy: Timing, Rhetoric, and Revision

With the Democratic party enjoying strong majorities in both houses of Congress and with Roosevelt a strong party leader, the President was in a strong legislative position throughout the RTAA fight. However, with a proposal to delegate strong tariff-cutting authority to the president, the Administration anticipated the opposition and used several maneuvers to safeguard RTAA's passage. Three were most important: *timing* introduction of the legislation until passage of policies that would strengthen legislative support; using *rhetoric* to down-play the liberalization and permanence of the authority being delegated; and *revising* the ambition of the liberalization by limiting the time and autonomy of the requested authority. The first two of these were elements of uncompensated liberalization, the third compromised liberalization.

1.1.2.1. Timing and Rhetoric

The first thing the Administration did to safeguard passage of the RTAA was to delay its submission to Congress until other legislation and non-legislative actions affecting sentiment for liberalization had already been adopted. In April 1933, Roosevelt announced his intention to pursue trade legislation, and he had the State Department draft a bill for submission to Congress authorizing the president to negotiate reciprocal trade agreements on an MFN basis (Haggard 1988, p.107). Hull led the drafting of this legislation, and carried a copy of the bill in his pocket when he set sail for the London Economic Conference in early June, expecting the President to introduce the legislation soon enough that the bill could leverage discussion over multi-lateral cooperation. But Roosevelt chose to delay his introduction of the trade bill. In a press conference on May 31st, the President stated that his bill was too complex and that he feared congressional resistance: "Congress would never give me complete authority to write schedules" (Roosevelt Press Conferences 1933, p.368).[7] In his dispatch to a chagrined Cordell Hull, Roosevelt explained

> the situation in the closing days of the session of Congress is so full of dynamite that immediate adjournment is necessary. Otherwise bonus legislation, paper money inflation, etc., may be forced....Therefore, tariff legislation seems not only highly inadvisable, but impossible of achievement [sic] (quoted in Feis 1966, p.175).

The delay, in short, was motivated partly by the priority of other legislation and partly by his fear that Congress wouldn't give it to him at that time.

Having chosen this delay, the President waited until some of his highest priority New Deal legislation and actions had already been established and had improved the reception Congress was

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Foreign Relations Hearings on Reciprocal Trade Agreements 1934, pp.1-415, and CIS Index 1934, p.959.

[7] Since the President gave this press conference soon after passage of his AAA and NIRA packages, one of the press corps replied: "Why shouldn't they; they've given you everything else." Roosevelt Press Conferences 1933, p.175.

to give his RTAA. First, there was the core of the early New Deal, the National Industrial Recovery Act (NIRA) and the Agricultural Adjustment Act (AAA). Both of these initiatives sought to raise domestic prices through substantial government intervention. Their passage and early implementation began to secure support of some industrial and agricultural groups, but their dependence on protection from import competition also meant that the groups could be more hurt by tariff reductions under the RTAA than they would have been otherwise.

However, a second part of Roosevelt's economic nationalism, monetary policy, clearly improved the economic position of agricultural and industry groups in a way that made trade liberalization under the RTAA less painful and more attractive (Haggard 1988). In late April, the Administration decided on a policy of inflation, removing the dollar off of the Gold Standard, and allowing it to steadily depreciate. This depreciation was accelerated by Roosevelt's decision to forego a multilateral arrangement to stabilize competitive devaluations discussed at the London Economic Conference. And on September 8, 1934, Roosevelt sharply raised the price of gold. The end result was that by January, Roosevelt was not only in a position to support currency stabilization, but had so devalued the dollar that foreign imports faced a price disadvantages constituting major *de facto* tariff relief for US producers.

The Administration introduced its liberal trade legislation with the knowledge that their previous policies had substantially under-cut some of the arguments of those concerned about the threat of imports. There is not evidence that the Administration delayed submission of the RTAA until after the depreciation *out of a belief* that the monetary policy lowered opposition. But at least some members of the Administration, including Assistance Secretary of State Herbert Feis and Secretary of Commerce Daniel C. Roper, were aware that the timing made a difference (Haggard 1988).[8]

The Roosevelt Administration's second tactic for safeguarding RTAA's passage was more clearly conscious: the strategic use of *rhetoric,* particularly the use of language and concepts that down-played the significance of the RTAA and signaled the compensatory effect of previous policies. First, the Administration down-played the extent to which the proposal was a liberalization initiative by pointing out how the RTAA authorized trade increases as much as decreases. Representative Fred M. Vinson (D.- Ky.) supported the legislation by denying its liberalization slant, claiming that he knew "of no one in the Democratic side of the House who does

[8] None of the secondary accounts by the practitioners, including Moley, Hull Vls I and II, Gardner, Feiss, Rosen, demonstrate that the Administration consciously waited until the devaluation lowered opposition to economic liberalization. Statements by Roper in the House Ways and Means Hearings, p.65-66, cited below, demonstrate Roper's knowledge of the link. Feis expresses his own awareness in his history/memoir, Feis 1966. There he states: "the prospect [of receiving tariff-making powers] was improving, because by then the value of the dollar in terms of gold and other foreign currencies had so markedly declined that the competitive position of the American producers was much improved. Thereby, Roosevelt's monetary policy...was clearing the way for the step he would take in 1934 which initiated...reductions of restrictions on international trade..." (p.264).

not believe that American industry, labor, and agriculture should be protected against a flood of foreign-made goods" (quoted in Lake 1988, p.206). Second, the Administration down-played the legislation's extraordinary request for blanket authority over a policy hitherto dominated by Congress by painting the Act as an emergency measure necessary in a time of deep economic crisis. Hull told the Senate Foreign Relations Committee, for instance, that "there should, I repeat, be no misunderstanding as to the nature or the purpose of this measure...Its support is only urged as an emergency measure to deal with a dangerous and threatening emergency situation" (Foreign Relations Hearings 1934, p.5, quoted in Haggard 1988, p.111).

Third, at least one member of the Administration drew the Congress' attention to efforts the Administration had made to help vulnerable industry and agriculture. During his testimony to the House Ways and Means Committee, Dan C. Roper explicitly "signaled"[9] the causal links connecting dollar devaluation to both increased exports and ability to weather tariff decreases:

> the pick-up in exports...reflects the new advantage which American exporters now have...because of the depreciated exchange value of the dollar....[Moreover] this dollar devaluation has put the American tariff on such a heightened level that the United States is now in a better position than it has been for a long time to make partial reductions in duties...without inducing destructive competition through enlarged imports. (Hearings, pp.65-66, partly quoted in Haggard 1988)[10]

1.1.2.2. Protectionist Revision

By far the most important action the Roosevelt Administration took to secure passage of the RTAA was to accept a couple of major revisions to the proposed legislation during House and Senate deliberations. The House Ways and Means reported the President's bill intact to the floor of the House with an open rule, out of confidence in the Democratic Party's comfortable majority in both houses and out of respect for the Constitutional issues many legislators believed were at stake. But the bill received bipartisan scrutiny on the floor. Although the Democratic majority defeated a slew of amendments, the majority adopted three compromise amendments. Two of these were modest,[11] but a third struck at the core of the RTAA's reach: the president's authority to enter into trade agreements was limited to three years.[12] To this major amendment, the Senate Foreign Relations Committee added another: prior to trade negotiations the President must issue a public notice of intention to open such negotiations, and he must provide a forum for outsiders to

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[9] Oye 1992 discusses such signaling as one of the forms of political exchange, under the label "explanation." The others are "exchange" and "extortion." See, Oye 1992, p.43.

[10] Roper did not repeat this signaling in his Senate Foreign Relations appearance, nor did any other witnesses.

[11] One prohibited the President from negotiating-away a country's indebtedness as part of commercial policy bargains, and the other proclaimed that all agreements could be terminated after three years upon giving six months notice (Pastor 1980, p.89).

[12] After the bill's passage, "Speaker Rainey and Majority Leader Byrnes met with the President who told them that he would be able to accept the House's amendments" (Pastor 1980, p.90; NYT March 31, p.2).

present their views on the proposed agreement *before* it is concluded. This forum was to elicit non-binding recommendations from industry and other groups, but it still created access for groups to organize and express trade demands.[13]

1.1.3. No Exemption in Word, No Compensation in Deed

If Roosevelt accepted revision and used rhetoric and timing to push his RTAA, there were limits to what he would pursue or accept. The Administration did not accept or offer any sectoral group explicit exemption from the reach of the RTAA's tariff-cutting provisions, and it did not provide any compensatory side payments.

1.1.3.1. No Explicit Exemption: Many sectoral groups lobbied individual legislators in the House and (especially) Senate Committee hearings to have their products given special protectionism or to be exempted from tariff-cutting. The most vocal and numerous of these were the various textile groups, mainly wool, and agricultural associations.[14] The representatives of these groups wanted expanded protections written into the RTAA bill, or more commonly, explicit promises that the bill's tariff-cutting authority would not extend to them. In both the Committee and floor stages of deliberations in both houses, legislators (mainly Republican) proposed dozens of amendments calling for such protection or exemption. The President's solid Democratic majority in both houses defeated all of these.[15]

But the RTAA was implemented in such a way that tariff reductions were minimized on the products of the most vulnerable and vocal industry groups. At several times during the legislative bargaining over RTAA, Administration representatives pointed out, perhaps a bit disengenuously, that they wanted the negotiating authority to give the President freedom to trade-off access to foreign markets in which the US was competitive for access to US markets in goods in whose production the US was less competitive.[16] In implementing RTAA Roosevelt did, indeed, limit US concessions mostly to products that did not compete with domestic manufacturers and farmers -- particularly the most politically powerful ones (Lake 1988, p.206; Hathaway 1984, p.287).

Agriculture was the most glaring and important example of this de facto exemption. The 1933 Agricultural Adjustment Act was the root of this exemption -- with its Section 22 reserving the right to set import quotas and Section 32 the right to set export prices to protect the AAA price

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[13] This revision in the RTAA became a foot-hold for later development of the "escape clause" relief, which mandated that industries found to be threatened by a liberalization initiative could petition for import relief from that initiative. See below for more on this development.

[14] See footnote 6 above, for a partial list of protectionists testifying to the Senate Foreign Relations Committee.

[15] There was exemption of the Buffalo milling products suffering from Canadian competition (Pastor 1980, p.89). But this exemption never made it past the final committee vote.

[16] In introducing his RTAA to Congress, for instance, Roosevelt said he wanted power to grant tariff concessions "in the American market for foreign products supplementary to our own" (from speech in Ratner 1972, p.146).

intervention (Benedict 1953, p.302; Rau 1957, p.66; Goldstein 1993, pp.154-5).[17] When the President sought his RTAA in 1934, farmer groups were adamantly opposed to extending liberalization to agricultural products. Their pleas to exempt agriculture, however, was defeated by a narrow margin of 54 to 33 in the Senate (Goldstein 1993, p.156). But Roosevelt came through for agriculture in the implementation of the AAA and the RTAA. Consistent with Sections 22 and with the trade authority under RTAA, Roosevelt accepted quota protection for sugar and authorized quotas, import licenses or fees on wheat products, butter, milk products, cheese, oats, peanut oil, and other products. Consistent with Section 32, he also accepted subsidization, though later sought to have the provisions repealed (Goldstein 1993, p.156). Finally, implementation of the RTAA also tended to leave the basic agricultural products out of tariff cutting.[18]

1.1.3.2. No Side Payment Compensation: Finally, the Roosevelt Administration and its liberalizer allies in the Congress and among industry and labor offered no side payments to any of the various groups opposed to or ambivalent about the RTAA. Some policies provided and actions taken by the President had the effect of lowering the pain felt by, and the opposition of, groups expecting to be hurt by RTAA liberalization. The NIRA and AAA provided government assistance that may have made some groups or their legislative representatives more receptive to free trade by showing the Administration was doing something to help industry and agriculture. More clearly, Roosevelt's monetary policy that devalued the dollar significantly mitigated any dislocating effects tariff reductions might cause. After the passage of the early New Deal policies and the dollar devaluation, some Administration officials recognized and signaled the compensating effect to those who would listen, and may have timed the introduction of the RTAA bill with this effect in mind. But the main motivation for these policies had nothing to do with helping or buying off those hurt by impending trade liberalization, and everything to do with promoting recovery.

In the end, the Roosevelt Administration won its liberalization without the help of explicit exemption or side payments. The House approved the final bill by a wide partisan margin of 280 to 101, with 269 Democrats voting for and 11 against, and with 2 Republicans voting for and 99 against. The Senate, likewise, voted for the liberalization by a vote of 56 to 33, with 51 Democrats supporting (5 opposing) and 28 Republicans opposing (5 supporting).

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[17] That AAA mandated substantial price-supports to a variety of agricultural products -- including wheat, cotton, corn, hobs, rice, milk, etc. -- to be implemented by the US government paying domestic farmers to slow or stop their production so as to reduce supply until the domestic price reached the desired level. For a good summary of the program, including Sections 22 and 23, see Benedict 1953, pp.302-15.

[18] In bilateral negotiations, the US successfully won exemption for Agriculture from the general rule that tariff cuts cannot be vitiated by quota protection. And as Evans 1971 points out, "as the United States did not grant tariff reductions in prewar agreements on any of the 'basic products' on which import quotas were likely to be imposed, the exception had little practical effect" (Evans 1971, p.69; US Tariff Commission 1949, pp.88-115).

Table 2.1.
Reciprocal Trade Agreements Act and Extensions, 1934-58

Year	Duration (years)	Authority	Special provisions
1934	3	50% of 1934 tariff rates	Uncond. MFN; principal supplier rule
1937	3	50% of 1934 tariff rates	No change
1940	3	50% of 1934 tariff rates	No change
1943	2	50% of 1934 tariff rates	No change
1945	3	50% of 1945 tariff rates	No change
1948	1	50% of 1945 tariff rates	Peril point clause introduced
1949	2	50% of 1945 tariff rates	Peril point clause eliminated
1951	2	50% of 1945 tariff rates	Escape clause intro./perilpoint reintro.
1953	1	50% of 1945 tariff rates	No change
1954	1	50% of 1945 tariff rates	Limited defense clause introduced
1955	3	15% of 1955 tariff rates, 5%/year	National security clause
1958	4	20% of 1958 tariff rates	Reduce to 50% rates in excess of 50%

1.2. Renewing RTAA: A Quarter Century of Uncompensated Liberalization, 1935-1961

For twenty-five years after passage of the 1934 RTA Act, three presidents and thirteen congresses continued or accelerated the shift towards freer trade. The period saw eleven extensions of the RTAA that authorized more than a dozen bilateral tariff agreements and five multilateral rounds, together comprising ten liberalization episodes.[19] The result was a substantial lowering of US barriers to trade, principally tariffs, on the order of 40 percent. Table 2.1 summarizes the authority granted under the RTA extensions, and Table 2.2 summarizes the tariff-cutting results of the bilateral and multilateral cuts. This liberalization road, of course, faced its share of protectionist obstacles. Import-competing industry and agricultural groups, penetrating Democratic and Republican parties only slowly moving away from their traditional positions on trade, threatened to scuttle or cripple several liberal initiatives. The response from congressional and executive-branch liberalizers ranged from doing nothing to giving-up on some initiatives altogether, with the provision of exemptions or revision of initiatives somewhere in between. In the late 1950s, moreover, some groups began to broaden their trade policy platforms. However, even though this shift foreshadowed the future of politics over trade liberalization, no side payments emerged from any of the episodes.

[19] I count episodes encompassing any domestic authorization and international negotiation of reductions. Counting the 1934 RTAA, the first five domestic RTA struggles coincided with bi-national negotiations to comprise five liberalization episodes. 1948 extension authorized negotiation of the ill-fated ITO. 1949 authorized Annecy and the beginning of Torquay, and I mark the episode as the Annecy episode. 1951 Extension allowed Torquay completion, and covers the Torquay episode. The 1953,'54, and '55 Extensions covered the 4th Geneva Round. And the 1958 Extension covered the Dillon Round. Together these constitute ten episodes.

The 1934-1958 period can be broken up into two sub-periods, according to the kinds of trade liberalization sought, the level of opposition mobilized, and the kinds of strategies pursued to defuse that opposition. The first covers 1934 to 1946 and can be best described as a honeymoon period for uncompensated liberalization. The second covers 1947 until 1960, and can be described as the increase in compromised liberalization, and prelude to compensated liberalization in 1962.

1.2.1. Extending RTA, 1935-1946: The Honeymoon for Uncompensated Liberalization

In the period between 1934 and 1947, trade policymaking was focused on setting the bounds of the president's authority to negotiate bilateral agreements. The three-year negotiating authority granted by the original RTAA was extended in 1937, 1940, and 1943 without much fanfare or controversy. In all three extensions, Congress was simply asked to renew the president's authority to cut 1934 tariffs by no more than 50 percent, giving no greater tariff-cutting authority. By 1945, however, Roosevelt had exhausted almost all of this authority, having negotiated more than a dozen bilateral agreements to achieve US tariff reductions from an average of 59.1 percent in 1932 to 28.2 percent in 1945 -- an reduction averaging more than 50 percent (Pastor 1980, p.94). The Truman Administration, therefore, requested authority to cut 1945 rates by an additional 50 percent. With these extensions, the Roosevelt and Truman Administrations concluded twenty-eight bilateral agreements. As Table 2.2 shows, between 1934 and 1947, these agreements lowered 1934 tariff rates on dutiable imports by 33.2 percent.

Table 2.2
Tariff Reductions Under US Trade Agreements, 1934-62

GATT Conference	Dutiable imports subject to cut (%)	Cuts in reduced tariffs (%)	Cut in all duties (%)	Remaining duties as a % of 1930 tariffs, ignoring inflation and structural changes in trade
Pre-GATT, 1934-1947	63.9	44	33.2	66.8
1st Round, Geneva (1947)	53.6	35	21.1	52.7
2nd Round, Annecy, 1949	5.6	35.1	1.9	51.7
3d Round, Torquay, 1950-51	11.7	26	3	50.1
4th Round, Geneva, 1955-56	16	15.6	2.5	48.9
Dillon Round, Geneva, 1961-62	20	12	36	30.5

These "RTA renewals" had to survive continued, but muted, opposition from several industrial and agricultural groups, and from a Republican party still committed to the protectionist cause. The pattern of industrial and agricultural lobbying changed little from the 1934 struggle. The core of protectionist opposition in society remained centered in a smattering of import-

competing industries, including wool textiles, glass, petroleum, watches, zinc, etc. to form a loose and constantly evolving protectionist coalition. Table 2.3 below captures the very broad industrial categories of sectors that had a lot of protectionist sub-segments.[20] Agricultural groups initially continued to oppose RTA tariff-cutting authority, despite their de facto exemption from its reach in successive bilateral agreements.[21] But in 1940 a variety of farm groups, including the American Farm Bureau Federation and the National Farmers' Union, supported RTA extension, even though some farm groups, such as dairy, sugar and wheat, continued to oppose extension (House Hearings 1940; Verdier 1994, p.189).

Table 2.3
Aggregate Employment Across Industry Group,
* denoting groupings dominated by protectionist members

Major Industry Group	1958	1963	% of Total ('58)	% of Total ('63)
20 Food and kindred products	1,781,469	1,714,607	11%	11%
21 Tobacco manufacturers	83,841	91,988	1%	1%
*22 Textile mill products	918,612	883,170	6%	6%
<*23 Apparel and related products	1,188,530	1,290,536	8%	8%
24 Lumber and wood products	591,049	568,714	4%	4%
25 Furniture and fixtures	357,170	381,221	2%	2%
26 Paper and allied products	573,592	613,829	4%	4%
27 Printing and publishing	871,725	925,093	6%	6%
28 Chemicals and allied products	783,870	853,121	5%	5%
*29 Petroleum and coal products	247,440	219,903	2%	1%
30 Rubber and plastics products	356,109	426,716	2%	3%
*31 Leather and leather products	358,484	335,071	2%	2%
*32 Stone, clay and glass products	574,790	602,764	4%	4%
33 Primary metal industries	1,129,512	1,166,953	7%	7%
34 Fabricated metal products	1,090,280	1,110,649	7%	7%
35 Machinery, except electrical	1,385,781	1,520,574	9%	10%
36 Electrical machinery	1,218,645	1,612,178	8%	10%
37 Transportation equipment	1,641,860	1,689,737	10%	11%
38 Instruments and related products	293,787	316,443	2%	2%
39 Miscellaneous manufacturing	370,920	397,638	2%	3%

Source: US Department of Commerce, Census of Manufacturers, 1958 and 1963

[20] Some significant sub-segments of agriculture, discussed above, were clearly in the protectionist camp. Obviously, the two-digit SIC categories in Table 2.3 mask the existence of many more free-trade-oriented sub-segments. Table 2.5 below on more detailed industry groupings -- at the three and four digit SIC# level, such as silver-plating -- and the organization or association representing them in their protectionism.

[21] In 1937, the Tobacco lobby stood alone among agricultural groups in favor of RTA extension.

Organized labor, meanwhile, was only beginning to take a vocal stand on trade issues, with the AFL representative supporting free trade only tepidly in 1940 and with the AFL and the CIO doing so more whole-heartedly by 1943.[22] Individual unions, however, tended to side with their employers, and hence to take positions reflecting their industry's international economic position, such the United Mine Workers supporting protections and the United Steel Workers supporting liberalization.[23]

In Congress, the parties remained fiercely partisan on the issue of foreign trade. In the 1937 and 1940 bills, the Republicans were responsible for virtually every attempt to gut the president's negotiating authority. Only the extraordinary demands of World War Two temporarily muted these partisan pressures in the 1943 RTA extension. In that year, many fewer members of Congress, from either party, thought it prudent to question the president's authority to oversee foreign trade in service of the war effort. By the war's end in 1945, however, the traditional partisan divide reasserted itself with strong Republican opposition in both the House and Senate. Again, the Republicans were responsible for virtually every protectionist amendment that called for revision of or exemptions from the reach of the bill.

The modest ambition of the RTA extensions proposed, and the overwhelming majorities held by the Democrats in both houses of Congress, meant that opposition never viably threatened passage of the RTA extensions. As a result, the Roosevelt and Truman Administrations never had

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[22] In 1940, labor representative Matthew Woll testified before House Ways and Means only tepidly in behalf of the extension. He stated that the AFL was supportive of free trade and of the extension of negotiating authority, but that the AFL also was interested in helping member unions make specific claims, even if those were protectionist. Woll also appeared in 1940 before the Senate Foreign Relations Committee on behalf of the American Wage Earners Protective Conference, an adamantly protectionist outfit. William Green, president of the AFL, testified before the Ways and Means committee in more unambiguous support of the proposed extension. House and Senate hearings index demonstrates that the AFL preceded CIO engagement of the trade issue, and that the CIO representative didn't appear until 1945. For several RTA extensions thereafter, CIO was more active and free trade oriented than the AFL.

[23] The protectionist wing of the AFL and the CIO member unions was represented by the American Wage Earners' Protective Congress (AWEPC). Its official 1940 membership included more than 550,000 workers, though many were very passive actors in the AWEPC efforts. The member unions included the following (Vear 1955, p.129):

Int'l Ladies' Garment Workers	37,500
International Photo-engravers' Union	10,500
Glass Bottle Blowers Association	20,000
American Flint Glass Workers' Union	30,800
United Wall Paper Craftsmen	3,100
Cigar Makers' International Union	7,000
American Wire Weavers Protective Association	300
Window Glass Cutters' League	800
National Brotherhood of Operative Potters	14,000
Brotherhood of Painters, Decorators and Paperhangers	100,200
International Brotherhood of Bookbinders	18,700
American Federation of Musicians	100,000
International Alliance of Theatrical Stage Employees	42,000
International Brotherhood of Firemen and Oilers	31,200
International Brotherhood of Operating Engineers	80,000
United Association of Plumbers and Steamfitters	40,000
TOTAL	**554,700**

to do more than simply ignore the opposition, to vote them down on the strength of the Democrat majorities. For the 1937, 1940, and 1943 extensions calling for simple perpetuation of the 1934 authority, the bills flew through Congress -- passed by joint resolution. As Table 2.4. shows, the voting was strictly partisan except for the 1943 bill, where for the first time the Republican party split its votes, particularly in the House.

Table 2.4
Congressional Votes on RTA bills, 1934-58

		Senate			House	
Year		Yea	Nay		Yea	Nay
1934	Democrats	51	5	Democrats	269	11
	Republicans	5	28	Republicans	2	99
1937	Democrats	56	9	Democrats	278	11
	Republicans	0	14	Republicans	3	81
1940	Democrats	41	15	Democrats	212	20
	Republicans	0	20	Republicans	5	146
1943	Democrats	41	8	Democrats	195	11
	Republicans	18	14	Republicans	145	52
1945	Democrats	38	5	Democrats	205	12
	Republicans	15	16	Republicans	33	140
1948	Democrats	23	17	Democrats	16	142
	Republicans	47	1	Republicans	218	5
1949	Democrats	47	1	Democrats	234	6
	Republicans	15	18	Republicans	84	63
1951	Democrats	38	0	Democrats	voice	vote
	Republicans	34	2	Republicans	voice	vote
1953	Democrats	voice	vote	Democrats	63	136
	Republicans	voice	vote	Republicans	179	25
1954	Democrats	34	1	Democrats	154	14
	Republicans	37	2	Republicans	126	39
1955	Democrats	37	6	Democrats	186	35
	Republicans	38	7	Republicans	109	75
1958	Democrats	36	6	Democrats	184	39
	Republicans	36	10	Republicans	133	59

Source: Congressional Record, various years.

The 1945 request for renewal, with authority to cut 1945 rates by 50 percent, inspired more controversy, but also got through without trouble. Again, the voting was very partisan. It passed without any major revisions on the House floor. On the floor, however, the legislation was delivered with an open rule and survived a series of amendments.[24] In the Senate things were a bit

[24] One of these, by Cleveland M.Bailey (D.-W.Va.) called for "an escape clause...so that Government could withdraw from an agreement if the domestic market is injured" (p.313 CQ Almanac 1945). Another amendment called for "ship construction costs for construction subsidy purposes shall not be considered as exceeding that percentage of foreign construction costs which is equal to the average rate of tariff duty" (p.313) This was refused by

more interesting. The Foreign Relations Committee referred a bill stripped of the 50 percent negotiating authority, having narrowly passed by a 10-9 vote. The full Senate rejected this reduction of the President's negotiating authority in a vote of 47 to 33, and then rejected several others -- all following pleas of liberalizers that Congress must not confer hollow authority.[25] The defeat of these bills cleared the way for final passage. In all of these episodes, then, the Roosevelt and Truman Administrations simply ignored most of the opposition -- the implicit exemptions for some agricultural groups notwithstanding. Side payment compensation discussions show up nowhere on the Congressional Record, Hearings, or secondary accounts.

1.2.2. Extending RTA, 1946-1958: The Prelude to Compensated Liberalization

The next ten years in the US's trade policy-making included seven legislative initiatives: an aborted ratification debate of the International Trade Organization in 1948; extension of RTA negotiating authority in 1948; revised and more liberal extension in 1949; minimalist extensions in 1951, 1953, 1954, and 1955; and a more substantial extension in 1958. All of these episodes sparked considerably more political controversy than had previous decade of trade politics. Out of the more recent controversy emerged a variety of measures designed to defuse political opposition and mitigate pain of liberalization, but compensatory side payments was still not one of them. This story can be divided into an overview of the continued but slowing liberalization during the period, and then of the protectionist opposition and bargaining politics complicating that liberalization.

1.2.2.1. Accumulating but Stumbling Liberalization

After the 1945 extension of RTA, the next leg in US trade liberalizations began in the Spring of 1947, when the Truman Administration convened the leaders of twenty-two nations in Geneva for multilateral trade negotiations under the authority of that extension. The negotiations led to the founding of the General Agreement on Tariffs and Trade (GATT), which has governed much of the world's international trade policymaking ever since. The first GATT agreement mandated member countries to adhere to a series of trade policy practices, including the principle of non-discrimination via the Most Favored Nation (MFN) clause, and oversaw tariff reductions on many thousands of products that accounted for more than one-half of world trade (Pastor 1980, p.96). As Table 2.2 shows, the resulting cuts in tariffs on 54 percent of the US's dutiable imports

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a point of order that the amendment was not germane. Another amendment introduced by Frank A.Barrett (R.-Wyo.) called for a quota system for manufactured textiles and their raw materials (p314).

[25] Other amendments rejected included Edward V. Robertson (R.-Wyo.) calling for a quota system on textiles and their inputs, presumably the same bill that Barrett unsuccessfully proposed in the House.

amounted to a weighted average reduction of some 35 percent, and a 21 percent cut in all duties (Evans 1971, pp.11-12).

Subsequent extensions of RTA negotiating authority and the multilateral agreements they allowed paled in comparison to this first GATT action. The freer trade cause was off to a shaky start, in fact, with a couple of protectionist developments that took place independent of the RTA extensions and soon after the conclusion of the first GATT. Only a few months after the Republicans regained control of the Congress in the 1946 elections, a group of legislators opposed to tariff-cutting threatened major protectionist action. This was narrowly averted by a compromise between the Administration and key Senators that required the creation of a formal "escape clause" procedure by which threatened industry could petition the Tariff Commission for relief from the President's tariff reductions, pending the Commission's findings and the President's approval (Leddy and Norwood 1963, pp.126-7). Soon thereafter, the Administration backed-off from introducing its recently negotiated the International Trade Organization (ITO), set up to oversee international trade relations as the IMF was to oversee currency relations, because it anticipated so much opposition in Congress.

The four RTAA renewals following conclusion of the first GATT ranged from minimum extension with increasing constraint on executive negotiating authority to modest expansion of that authority. In 1948, the new Republican Congress extended negotiating authority without granting extra tariff-cutting power beyond the 50 percent of 1945 rates granted in 1945, and imposed new constraints on the President's authority by requiring that the Tariff Commission research and identify "peril points" of tariff levels below which industries would suffer. Subject to the President's approval, Commission recommendations would block cutting below these levels. The Truman Administration roundly criticized this renewal, but accepted it as the cost of keeping RTA alive. When the Democrats regained both houses in the 1948 elections, however, the Truman Administration and liberalizing Democrats pushed through a repeal of the 1948 renewal and replaced it with a three-year renewal (retroactive to 1948) without peril point constraints. Come 1951, however, the protectionist tide had turned to the point that a number of Democrats supported the Republican initiative to reinstate the peril point provisions and demand that the escape clause machinery, previously left to the President's devices, be a formal, legislated limit on the president's negotiating authority. Like the renewals in 1948 and 1949, moreover, the president was to stay within the existing tariff cutting limits set in 1945.

Under the new Eisenhower Administration, this pattern of minimalist extension continued. Claiming no intention to enter any trade agreements within the year, the Administration pushed though one-year renewal in 1953 that was virtually identical to the 1951 legislation. One modest difference was that the 1953 renewal called for convening a 17-member Commission to conduct a major review of trade policy and to offer reform recommendations to Congress and the President .

In 1954 the Administration repeated this holding pattern, choosing to wait until the next year to act on the basically free-trade recommendations of the Commission, called the Randall Commission. In 1955, the Administration finally proposed only a slightly more ambitious three-year RTA renewal, authorizing the President to negotiate up to 15 percent reductions in 1955 rates (5 percent a year), but also containing, by amendment, a "national security" clause. Accepted primarily to appease the oil and coal industries, this clause gave the president authority to raise tariffs or other barriers to prevent injury to industries vital to national security. The last renewal of RTA in 1958 was also Eisenhower's last and most ambitious piece of trade legislation. It gave the president four-year authority to cut rates by up to 20 percent (2 percentage points of existing duties), and to reduce by 50 percent those rates that were still in excess of 50 percent. This authority set the stage for the Dillon round of GATT talks that took place in the autumn of Eisenhower's presidency.

In all, these extensions of RTA negotiating authority yielded significant tariff cuts, but much less substantial than the cuts made under the bilateral agreements under the RTAA or under the first GATT agreement. With the authority delegated under the 1949 renewal, the Truman Administration was able to conclude the Annecy Round of GATT talks in 1949 and the Torquay round in 1951, both substantially less ambitious than the first Geneva round. The modest expansion of authority granted in 1955 allowed the Administration to negotiate the Fourth Round of GATT talks in Geneva during 1955 and 1956. In contrast to the 33.2 percent cut in duties achieved under the bilateral agreements between 1934 and 1947, and the 21.1 percent cut brought about under the first GATT round, Table 2.2. shows that the Annecy, Torquay, Fourth (Geneva), and Dillon Rounds cut US duties by 1.9, 3.0, 2.5, and 2.4 percent, respectively. As many trade policy observers have pointed out, this increasing modesty in the reach of GATT reductions was due as much to international constraints, such as the inability of recovering countries in Europe and elsewhere to accept more significant reductions, as to domestic opposition.

1.2.2.2. Surrender, Revise, and Exempt, but Don't Compensate

These seven episodes saw a strong up-swing in the level of opposition to liberalization from internationally vulnerable industry groups and their legislative champions. The cast of industry characters remained essentially the same, with textiles, petroleum, some agricultural producers, leather, and a smattering of smaller groups lobbying primarily for exemption from the reach of the RTA liberalization (CQ Almanac 1951, 1953, 1954, 1955, 1958).

Organized labor remained split, with the AFL and CIO taking free trade stances clearer than before 1945, but with their member unions divided according to international economic position. In the 1950s, however, the number of member unions taking an explicitly protectionist stand in RTA Hearings and elsewhere consistently increased in successive RTA Extensions. The

protectionist minority continued to be represented by the American Wage Earners Protective Conference (AWEPC), but in addition to official AWEPC actions a number of AWEPC member unions appeared on their own, and they were joined by several non-AWEPC unions, including the United Mine Workers of America (600,000 members) and local units of the United Steelworkers.[26] By 1955, the groups also included the 90,000 member Textile Workers' Union of America and others.[27]

The protectionist demands of all these groups increased along with competition from European and Japanese imports following post-War recovery. Not only was competition increasing, but the substantial tariff-reduction brought about under previous RTA negotiating authority was also beginning to take its toll. The perception among a variety of vulnerable groups was that liberal trade policies were partly to blame, and Republican legislators continued to be the core suppliers of protectionism, though the Cold War and other factors were rapidly dampening this traditional partisan role.

The increased determination of protectionist demands find expression in the number and content of opposition statements released in the press, and partly in the increasing number of appearances in Congressional hearings over RTA Extensions. Extensions in the 1940s usually inspired a couple of hearings, often only one in House Ways and Means and one in Senate Finance. And in those Hearings, only a smattering of industry representatives would usually appear, and then only once (Hearings Indexes 1945, 1948, pp.). As the 1950s RTA Extension Hearings evolved, on the other hand, the number of witnesses representing industry segments consistently increased -- from eighteen witnesses in 1953, consuming 300 pages of testimony; to 50 witnesses consuming nearly a thousand in 1955; and to more than a hundred witnesses in 1958 consuming nearly a thousand pages of testimony (Hearings Indexes 1953, 1955, 1958).

Along with the increasing discontent of several protectionist groups came an increase in structural political power, as more segments within a given product category became increasingly and more vocally protectionist. This is true, for instance, with textiles, as wool and cotton segments of the industry joined forces to call for the same cluster of protections -- mainly VERs. And increasingly, these textile segments were joined by synthetic fibers and, tentatively, apparel producers.[28] Second, the industry associations representing these protectionist or ambivalent groups became more inclusive in their representation, and more centralized. Although this was

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[26] The unions to give RTA testimony against renewal and not affiliated with the AWEPC, included the American Watch Workers' Union, with a 1950 membership of 8,000; the Gloucester Seafood Workers' Union, the American Fishermen's Union, National Matchworkers' Council (6,000 members), Int'l Handbag, Luggage, Belt and Novelty Workers Union (25,000), Cannery Workers Union of the Pacific, and the United Mine Workers of America (600,000). (Vear 1955, p.226, p.308, House Ways and Means Hearings 1948, '51, '53).

[27] In 1955 and 1958, these "others" included the Electrical Workers' Independent Union, National Brotherhood of Packinghouse Workers, Pittsburgh Optical Workers Union, International Chemical Workers Union, and Amalgamated Clothing Workers (House Ways and Means Hearings 1955, 1958; Vear pp.353-4).

[28] See discussion in Section Two for detail on textile industry protectionism.

true for petroleum, some segments of agriculture, and shoes, the best example involved cotton and wool textiles (Benedict 1953, Aggarwal and Haggard 1983). A number of the industry associations representing these groups grew substantially in their membership, growing from some 40 percent of the industry in the late 1940s to cover more than 60 percent of the industry by the mid-1950s (Hunsberger 1964, p.). And toward the middle of the 1950s, several of these groups, including the American Cotton Manufacturer's Institute (ACMI), the Southern Garment Manufacturers Association and the National Association of Shirt, Pajama, and Sportswear Manufacturers all merged to form an emergency consortium to fight liberal RTA extensions (Brandis 1982, Friman 1992).[29]

As the strength and loudness of the protectionists increased through the 1950s, most protectionist groups (watches, shoes, petroleum, steel) continued to approach the Hearings and approach their congressional representatives with single-minded protectionism -- stating support for tariff, quota or escape clause relief, and saying little or nothing about related forms of assistance that wouldn't interfere with cross-border flows.

Only a few ambivalent or protectionist groups began to diversify their legislative agendas to include separate policies that could be subjects of side payments. For instance, some of the more protectionist members of organized labor began to lobby within the CIO and, somewhat less, within the AFL for the provision of some kind of government-subsidized adjustment assistance. In 1953, David MacDonald of the US Steelworkers proposed the creation of such a system during the Randall Commission hearings. In the second half of the decade, the AFL and, later, the AFL-CIO asked that adjustment assistance accompany continued tariff reductions. However, never did the AFL-CIO ever threaten to oppose the RTA revisions in the absence of such supplemental policy provisions. Thus, the bulk of organized labor still was not part of the projectionist camp.[30] Textile industries -- groups with more protectionist pedigrees -- began in the late 1950s to call for a variety of trade-related but non-protectionist policy changes in their trade statements, though different industry segments had their own pet policies and even though quotas were becoming a common cause in the industry.[31]

With this pattern of opposition, successive Administrations seeking varying degrees of liberalization under RTA authority could no longer ignore all opposition. Truman and, after him, Eisenhower, and their liberalizer colleagues in industry and Congress, increasingly considered

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[29] This wave of centralization foreshadowed an even more extensive shift towards inclusiveness and centralization that was to take place between 1958 and 1962. This wave of increased inclusiveness and centralization gets discussed in Section Two's overview of the textile industry protectionism.

[30] The next section on the Trade Expansion Act discusses trade adjustment assistance and Labor in detail.

[31] Textile manufacturers and unions also began, somewhat later, to take an interest in a variety of other government relief measures, including tax relief, subsidization of capital investments, and (for textile labor unions) the establishment of a government program to regulate production and provide training and assistance for textile workers (Hunsberger 1974). Section Two below discusses these new demands.

protectionist redress to deal with this opposition. The liberalizer strategy for defusing opposition also included increased lobbying and use of rhetoric by a coalition of new industry associations devoted to the free trade cause (e.g. the Committee for a National Trade Policy). But most of the strategy consisted varying degrees of protectionist redress -- compromised liberalization. Most extreme was the total surrender to protectionists by aborting a liberalization initiative (e.g. Truman never submitting the 1948 agreement creating International Trade Organization for ratification). Most of the other episodes, however, involved compromise and some liberalization: liberalization accompanied by protectionist exemptions and downward revision of that liberalization.

In every liberalization episode surrounding RTA renewal, industry and labor groups would line up for explicit *exemption* from the reach of the liberalization proposed, usually in the form of tariff relief. In most of the episodes in throughout the period, these appeals would get rejected. But the appeals of agricultural groups, petroleum, textiles, and zinc yielded results, usually in the form of amendments by Congress to the RTA bills but sometimes in the form of extra-legislative Presidential orders. After years of pressure from the more vulnerable segments of agriculture and the complicity of the agricultural associations more comfortable with Presidential autonomy in trade policymaking, agriculture finally won the de jure exemption it had long received de facto: In the 1951 renewal of RTA negotiating authority, John J. Dempsey's (D.-N.M.) proposed the amendment prohibiting the president from reducing tariffs on agricultural products in a way that interferes with federal price support programs (CQ Quarterly 1951).

The more common and significant redress offered to the most intractable opposition was to revise and water-down the ambition of liberalization initiatives -- through creation of the escape clause, of peril points, and of the national security clause. Beginning with its bilateral agreement with Mexico in 1942, US negotiators had consistently negotiated explicit *escape clauses* defending "damaged industries and groups" in all subsequent bilateral agreements. Protectionist industries called for a legislated escape clause, submitting amendments to incorporate such a clause into the RTA as early as 1945. In 1947, the Truman defused a Republican push for protectionist legislation by promising that escape clauses would be aggressively sought and implemented in all agreements. This diminished pressure for the clause for a few years, but the promise for relief went unfulfilled, and industry groups pressured for and won institutionalization of the clause in 1951 RTA legislation (Leddy and Norwood 1963 passim).

The *peril points* were established by the Republican Congress in 1948 as a limit on their granting of RTA negotiating authority, only to be revoked the next year when the Democrats regained the House, and to be reestablished along with the escape clause in 1951 (CQ Almanac selected years). The *national security clause,* finally, was more narrowly championed by iron ore and petroleum protectionists, who had called for but been unable to receive quota protection under more industry-specific pretenses. Each of these measures served to water-down the president's

authority to lower tariffs, and provided a foot-hold for protectionist groups to gain de facto exemption from the reach of any such lowering. Conspicuously absent, of course, were any side payment compensation provisions. Thus, the 1950s renewals of RTA liberalization generally constituted a mix of uncompensated and compromised liberalization.

1.3. Explaining the Absence of Side Payments Between 1934 and 1960

What explains the period of uncompensated and compromised liberalization? Why, in particular, did establishment of the 1934 RTAA give rise to an mix of uncompensated and compromised liberalization, the early revision of RTA between 1935 and 1950 largely uncompensated liberalization, and later revisions between 1953 and 1958 largely compromised liberalization?

For the RTAA episode, the particular question is why the President was willing to accept revision when he wasn't willing to accept explicit exemption or any compensation. A significant part of the answer can be found in the power and platforms of the protectionist groups actively opposed to the legislation's liberalization and delegation. With the very comfortable Democratic majorities in both the House and Senate, with the President's strong position within that Party, and with his legislative influence on the rise as he won his first wave of the New Deal, Roosevelt enjoyed a strong legislative position. Moreover, partially because of the President's economic nationalism and his rhetoric down-playing the severity of the legislation, both the liberalizers and the protectionist groups underestimated the degree to which the RTAA was or could be free trade legislation. So opposition was less strident.

The industry and agricultural groups opposed to the RTAA liberalization, moreover, had no other issues on their platforms that could be made the subject of compensatory side payments. During the same year that the RTAA was pursued, the only other activity on which they were active was the NIRA and AAA, both of which were not up for renegotiation by the time of RTAA. And at the hearings for the RTAA, groups mentioned no other issue that they considered more or less germane to their trade policy position. The legislators most concerned about the RTAA, moreover, were focused on the constitutional issues involved in delegating power hitherto held by the Congress. Such delegation doesn't lend itself to linkage. Thus, the President comfortably accepted the three-year time limit and the necessity of non-binding hearings prior to negotiating. With this yielding the votes to get his legislation through, he didn't need to use other major tactics, like explicit exemption or some kind of side payment.

In the remaining liberalization episodes, the story is similar, except that the power-platforms predict an emphasis on uncompensated liberalization in the 1940s followed by the increasingly compromised liberalization in the 1950s. During the later 1930s and early 1940s, the

pattern of uncompensated liberalization also fits the power-platform expectations. Only a smattering of industrial groups, without any coordination, and commanding only a very small percentage of the manufacturing population actively opposed the RTA extensions. And much of the political struggle, in any event, was shaped by less targetable partisan fights between Republican and Democratic traditions. Finally, as the 1950s progressed and the size and determination of the protectionist coalition grew, struggle over successive liberalization episodes became hotter. But the largely single-minded protectionism of the most powerful protectionists -- especially wool textiles, petroleum, and AAA-beneficiary agriculture -- meant that any redress would take the form of protectionist exemptions and downward revisions of the liberalization.

In terms of the Edgeworth representations from chapter one, the nature of bargaining varied across groups and time depending on power and platform changes. Most of the industrial protectionists simply lacked the political capacity to threaten or retaliate against the successive liberalization initiatives. This means they didn't get a seat at the bargaining table, or a place on the Edgeworth space, and it meant liberalizers could pursue their strategy of liberalization without any new or additional side assistance -- as Figure 2.1 suggests. And those few with sufficient resources and determination to threaten the liberalization initiatives -- such as agriculture, textiles, and possibly petroleum -- were forces to be reckoned with, earning a place at the bargaining table. But their single-minded, or virtually single-minded, protectionism left little room for identifying and negotiating side payment compensation. Figure 2.2 captures these contingencies.

Figure 2.1
Protectionists Lack Power Resources, Leaving Liberalizers With Option for Uncompensated Liberalization

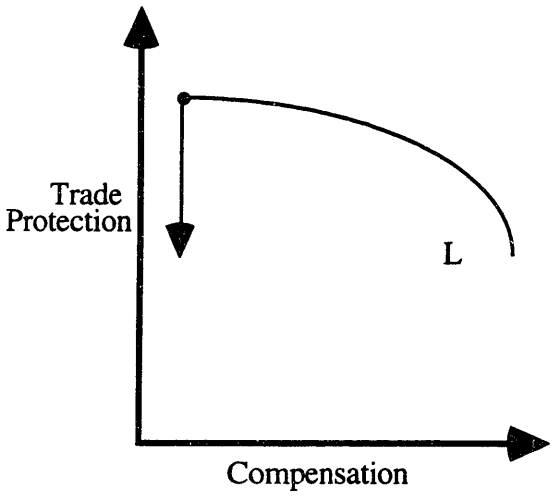
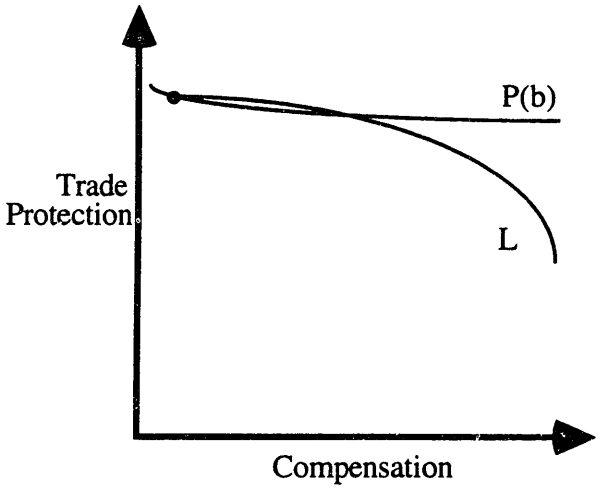
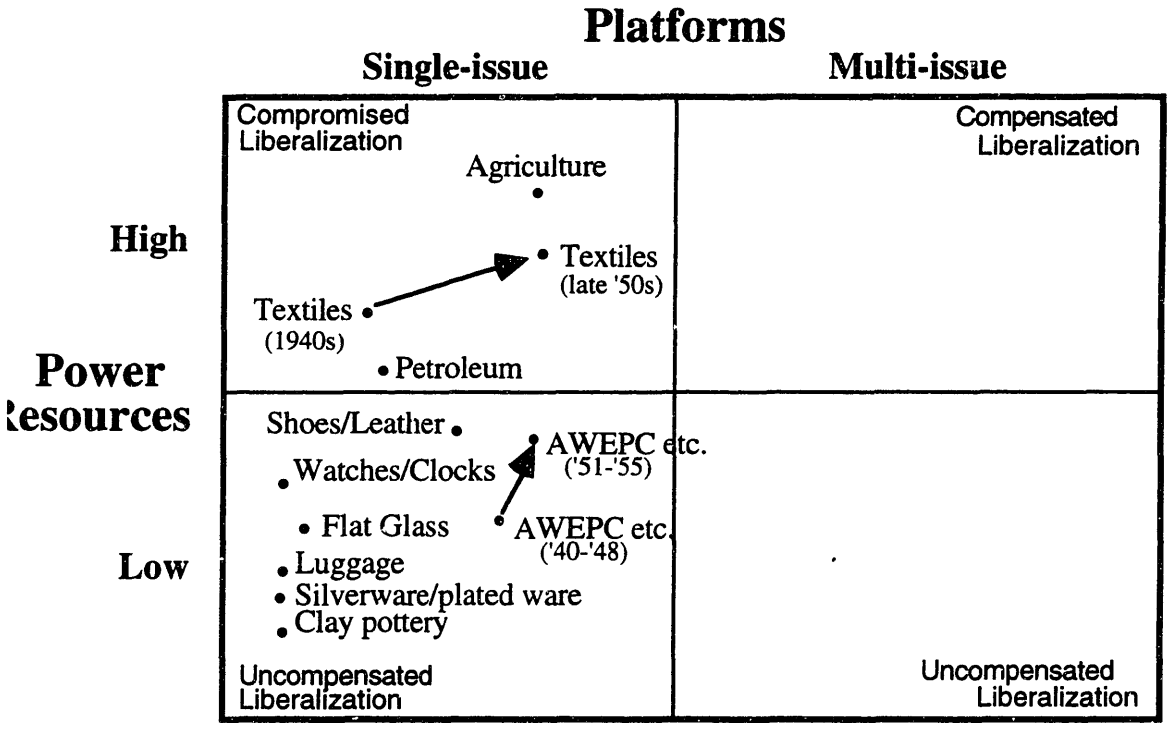


Figure 2.2
Protectionists with Significant Resources But Narrow Platforms Leave Few Alternatives to Protectionist Redress



Finally, the broader argument can be expressed by the positioning of the various protectionist groups on the power-platform matrix in Figure 2.3. Each of the major industry and labor segments fall on the matrix according to a rough approximation of their overall power and platforms as those evolved since 1934. "Agriculture" includes representatives from the dairy, sugar, seed oils, wheat, and a number of other internationally-vulnerable, AAA-dependent, segments of the farm. "Textiles" includes a variety of sub-segments active in the trade arena, especially wool and cotton organizations. The protectionist segments of organized labor are clustered under the name of the American Wage Earners Protective Congress (AWEPC), though as we have seen some unions acted on their own.

Figure 2.3
Power and Platforms of Various
Protectionist Industry Groups (by industry) and Labor (AWEPC, etc.)



In all cases, a differences or changes in the power resources of industry or labor segments is captured by their order and position along the y-axis -- with the stronger groups higher up than the weaker ones. And the groups with broader trade policy platforms are more right-ward on the x-axis than are those groups with narrower platforms. Thus, the matrix captures the way the strongest groups, gauged mainly in terms of employment, organizational representation, and financial resources are agriculture, followed by textiles and petroleum. The weaker groups include

clay pottery producers, and the somewhat stronger leather shoes producers.[32] The matrix captures how there is less variation among the groups in the breadth of their platforms, as revealed in testimony to Congressional Hearings: most groups were consistently single-issue oriented. Protectionist segments of agriculture were slightly broader in their testimony, occasionally calling for a variety of government support programs along-side their clear emphasis on protectionist exemption. And some of the major labor protectionists occasionally talked about the importance of other government programs, better welfare provision and labor collective bargaining rights.

Most of the groups stayed roughly constant through the period, but a couple either gained significant resources by virtue of the number of groups joining the protectionist umbrella, or by virtue of resources mobilized, again measured mainly by the number of groups and concentration-coordination of their representative associations. This was most clearly true for protectionist segments of organized labor, which gradually increased in successive RTA extensions to include new AWEPC members and independents like United Mine Workers and other large-membership unions -- an increase captured by the upward shift in the position of "AWEPC, etc." in Figure 2.3. The textiles sector underwent a more dramatic upward shift, and they were the only group that experienced a significant broadening in the trade policy platform, as several textile representatives (certainly not most or all) began highlighting the importance of government subsidies, research and development funding, and other programs.

The most important point is that none of the groups combined significant power resources with multi-issue platforms. Even though there was some broadening, none of the groups explicitly took a position that conditioned support on the provision of some action on a separate issue -- an explicit embrace of compensated liberalization. And only a couple of groups tentatively mentioned side issues in their statements. Never were the side issues consistently stated in testimony to Congress or in other public statements. In very general terms, then, the power and platforms predict what the history reveals: the combination of compromised and uncompensated liberalization -- but no compensated liberalization -- throughout the period between 1934 and 1958.

The Figure does not capture the basic historical trend: the increase in the aggregate number, determination and mobilization of various protectionist groups increased the vulnerability of liberalization initiatives as the 1950s evolved, and increasingly forced liberalizers to resort to general protectionist revisions that compromised the ambition of the liberalization. It better captures, however, the general lack of compensated liberalization through the period, and the mix among protectionist groups of uncompensated and compromised liberalization. Both this historical and cross-group argument cannot be fully developed as supporting evidence for my group-institutional theory, however, because that theory only supports hypotheses about the likelihood and generosity in one setting and one group *relative* to another. Thus, the argument isn't complete

[32] See employment figures in Tables 2.3. and 2.4 for one of the main measures underlying this positioning.

until we compare the power-platform conditions of this 1934-62 period with those in a period where compensation was provided -- which brings us to the 1962 Trade Expansion Act.

2. The Advent of Compensated Liberalization With Kennedy's TEA

Kennedy came into office in January 1961 knowing he would pursue legislation authorizing continued trade liberalization, because he supported expansion of exports under GATT and knew his negotiating authority granted under the 1958 RTA extension was to expire in August 1962.[33] The question was whether to pursue a limited extension of that authority or to pursue more ambitious free-trade legislation. Pressures for more ambitious tariff-cutting authority were strong. Foremost among these was the balance of payments deficit and worry that European trade partners might pursue their commercial opening at the US's expense, both concerns addressed by tariff-cutting authority that would allowed reciprocal expansion of export markets (Zeiler 1993; Pastor 1980; Evans 1971). And in the on-going Dillon round of negotiations, Kennedy learned that existing RTA authority complicated his ability to approve tariff cuts that would win major concessions from GATT members.[34] On the other hand, Kennedy was an ambivalent free trader, being a political leader from a state rife with internationally vulnerable industries like textiles and shoes. Kennedy and his advisors also supported the British government's bid to join the European Economic Community, and were concerned that large-scale tariff cutting would fuel claims in Britain that the EEC was unnecessary for trade expansion. Finally, 1962 was an election year in which many legislators would be heavily pressured to vote protectionist to keep their own vulnerable industry groups satisfied.

These conflicting considerations were played out in the Kennedy Administration's internal deliberations well before 1962. He had appointed his new Undersecretary of State George Ball, a well-established and less ambivalent free-trader, to draw up a trade policy strategy in his pre-inaugural Task Force on Trade Policy. The recommendations were for an ambitious new trade policy that , among other things, granted authority to cut tariffs in broad, "linear," industrial categories and eliminated peril-point provisions. Ball recommended that his Task Force

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[33] For the general overview of the 1962 Trade Expansion Act, I rely heavily on several narratives. The single most thorough treatment is Zeiler 1993. The Congressional Quarterly Almanac 1962 analysis is also remarkably detailed. Sorenson 1965, Pastor 1980, Destler 1986 are also good. Curtis and Vastine 1971, Evans 1971 and Preeg 1970 are also useful on the domestic politics, but focus mainly on the international of the negotiations.

[34] In fact, by 1962 the limits of authority were laid bare in Dillon Round negotiating. The six EEC countries proposed 20 percent cuts in the tariffs protecting broad, "linear," categories of industrial products. Yet, RTA authority prevented the Kennedy Administration from reciprocating. Peril-point provisions prevented Kennedy from accepting such deep cuts in some segments of industry that would be harmed. More importantly, Kennedy lacked the authority to pursue cuts in broad industrial categories, forced instead to focus on much narrower items. By the time the Dillon Round was concluded on March 7, 1962, the EEC six withdrew more than 100 non-agricultural product categories from the negotiating table, and total tariff cuts averaged around 10 percent for all the negotiating parties. Kennedy and other internationalists blamed this mediocre outcome on RTA constraints (Zeiler 1993).

recommendations be the center of an ambitious new trade bill, but that such a bill be sent to congress after the election year. Peterson, Kennedy's Special Assistant on Trade Policy, promoted the more modest RTA extension but thought it should be pursued early in 1962.[35]

As several historians have pointed out, Kennedy chose the most ambitious strategy all around -- Ball's plan with Peterson's timing (Zeiler 1993, Pastor 1980, Preeg 1970). Kennedy announced in early December 1961 his intention to send a trade bill to Congress, and did so formally on January 25, 1962, proclaiming his bill a "wholly new approach to trade" and distinguishing it from previous RTA bills by titling it "the Trade Expansion Act."[36]

Closely patterned after Ball's Task Force report, the Administration's bill (Introduced as H.R. 9900) was a major liberalization departure from RTA. It contained several major tariff-cutting provisions, all allowing the President to cut tariffs on broad industrial categories -- "linear cuts" -- rather than on narrow segments only -- "item-by-item cuts" -- over a five-year period. The first and most basic was delegation of tariff-cutting authority to the President to reduce tariffs (as of 1962) by 50 percent, staged over five years; but for those tariffs at 5 percent or less, the President could negotiate their elimination. Second, the Kennedy bill omitted the peril-point provisions but retained the procedural stages requiring the Tariff Commission to estimate what points of peril might be. Third, the bill contained a "dominant supplier" provision that was to provide an incentive for the UK to join the EEC: "the US would negotiate the elimination of tariffs on those products in which the US and the EEC supplied 80 percent of world trade. (Few products would qualify unless the UK was a member of the EEC)" (Pastor 1980, p.107). Fourth, the US would eliminate tariffs on "tropical products" if the EEC would do the same. Fifth, the President could grant Communist countries most-favored-nation status. Sixth, the bill proposed tightening escape clause eligibility requirements by requiring that trade be the "primary" cause of injury, not simply an important cause. And finally, the bill included Trade Adjustment Assistance that was to provide financial and tax assistance to trade-impacted workers and firms.

Long before introducing his trade bill, in fact before taking office, Kennedy faced clear and vocal opposition to any significant trade liberalization, let alone the ambitious tariff-cutting authority TEA embodied. Table 2.5 below lists most of the most vocal protectionist groups, as manifest in statements made prior to and during testimony to the House Ways and Means and Senate

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[35] Knowing that Ball had been the target of isolationist accusations that the State Department sold out domestic interests, Kennedy chose to center his Administration's trade policymaking in a White House office. He appointed Howard Peterson, a Republican banker from Philadelphia, to be his Special Assistant on Trade Policy and the head of that office. Though nominally out of Ball's and the State Department's hands, the trade strategizing was controlled as much by Ball and State as by Peterson. Some practitioners claim that Ball actually ran rough-shod over Peterson, and dominated the drafting process. Interview with Raymond Vernon, May 7, 1996.

[36] Kennedy announced the bill only after his congressional Liaison Lawrence O'Brien received encouragement from House Ways and Means Chairman Wilbur Mills to pursue a major departure from RTA, and after public trial balloons in late November 1961.

Table 2.5
Protectionist Industries: Employment and Association Representation

Major Industry Group	1958	1963	% chng	Association/Interest Group
22 Textile mill products	918,612	883,170	-4%	see below
227 Floor covering mills	33,668	35,656	6%	see below
2271 Woven carpets and rugs	18,151	13,357	-26%	see below
2272 Tufted carpets and rugs	11,528	19,854	72%	see below
2279 Carpets and rugs, n.e.c.	3,989	2,445	-39%	see below
23 Apparel and related products	1,188,530	1,290,536	9%	see below
2352 Hats and caps	17,701	16,608	-6%	United Hatters, Cap&Millnry, Workers, Int'l Union of Hatters, Fur Cuttrs Assoc., and Hats Instit.
2371 Fur goods	9,355	9,289	-1%	Natl Board of Fur Farm Organizations American Fur Merchants Assn
2381 Fabric dress & work gloves	13,941	12,771	-8%	American Knit Glove Assn. Natl Assn of Glove Mfrs
24 Lumber and wood products	585,372	563,135	-4%	
2411 Logging camps and cntrctrs	71,738	73,130	2%	See Below
29 Petroleum and coal products	247,440	219,903	-11%	
2911 Petroleum refining	146,025	119,297	-18%	
299 Petroleum/coal prods, n.e.c.	9,824	9,928	1%	
3131 Footware cut stock	18,031	14,339	-20%	Tanners Council of America
3141 Shoes, except rubber	215,311	201,728	-6%	United Shoe Workers of America New England Shoe Manufacturers National Shoe Mfrs. Assn.
3161 Luggage	15,856	16,409	3%	Luggage&Leathergds Lock Mfrs Assn
3211 Flat glass	21,179	22,815	8%	see below
3333 Primary zinc	8,923	8,065	-10%	Rolled Zinc Mfrs Assn American Zinc, Lead&Smelting Co Emergency Lead-Zinc Committee
3423 Hand and edge tools	30,273	31,837	5%	Shears, Sciss.&Manic. Implmt. Mfrs.
3751 Motor-, bi-cycles, parts	7,578	9,662	28%	Bicycle Mnfrs. Assn. of Amer. Cycle Parts&Accessories Assn.
387 watches,clocks,&watchcases	26,157	29,753	14%	American Watch Association
3871 Watches and clocks				Bulova Watch Co.
3872 Watchcases				Gen.-Gilbert Corp./Ingraham Co./Lux Clock Mfg Co.
3914 Silverware and plated ware	13,842	13,249	-4%	Sterling Silversmiths Guild of America US Silverplated Flat&Holloware Mfrs US Stainless Steel Flatware Mfrs.
3951 Pens and mech. pencils	11,179	11,562	3%	FountainPen&Mech. Pencil Mfrs Assn

Source: US Department of Commerce, Census of Manufacturers, 1958 and 1963

Finance Committee hearings on TEA.[37] In addition to the high-profile opposition of textiles and lumber, and the qualified support from labor, all to be discussed in detail below, a number of vulnerable industrial and agricultural groups had made clear their concerns that continued GATT tariff reductions were threatening the US's industrial base, its employment, its way of life, and even its national security. Among the largest of these were the oil and coal industries, which employed some 129,000 people in 1963 and had already received some quota protection, and leather shoes which employed some 215,000 people dispersed nationally. Both sought tariff-relief, quotas or other protection. Smaller segments included watches, bicycles, fur products, silverware, and others (Congressional Committee Hearings Index). Many of these groups were long-time protectionists, having lobbied congress for trade relief, with varying degrees of success, in previous RTA extensions and other trade-related episodes. By the time of TEA's introduction, however, the lobbying activity in opposition to the bill and in favor of any variety of protectionism was intense and intensely threatening to the bill's prospects.

The threat to TEA's passage posed by these various groups manifested itself in the alignment of congressional leaders who were skeptical or outright hostile to the bill. Leading the protectionist charge were Congressman John H. Dent (D-Pa.) and Senator Prescott S. Bush (R-Conn.). Less inveterate protectionists were the House and Senate leaders, those heading the committees hearing the bill and rallying the president's party. But the positioning of these leaders did not promise a smooth ride for the bill. Wilbur Mills (D-Ark.), Chairman of the House Ways and Means Committee, supported Kennedy's free trade but certainly had shown himself willing to impose import protections. And Senator Harry F. Byrd (D-W.Va.), chair of the Finance Committee, was a more ardent protectionist who apparently "disliked the president anyway" (Zeiler 1993, p.74). Kennedy also didn't have a good relationship with the new House Speaker, John W. McCormack (D-Mass.), and felt Johnson's absence given the new Senate majority leader Mike Mansfield's (D-Mont.) lack of power. Finally, Kennedy had put enough stock in the TEA that many Republicans felt strong partisan pressure to oppose the bill to undermine the president's prestige and advance their party's position in an election year. Zeiler 1993 points out that several months after TEA's introduction, "One senator estimated only forty votes for it in the Senate, while support in the House was also lacking. The president's congressional liaison office reported that even supporters of the 1958 RTA had turned luke-warm in recent years" (p.74). In short, the legislative battle to keep his TEA intact, and to get it to pass at all, was going to be steeply uphill.

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[37] The Table includes industry groupings according to Standard Industry Classifications for 1958 and 1962. Most groups to express opposition to House and Senate Hearings fell into the four-digit SIC category, such as silverware and plated ware (SIC 3914). A few protectionist groups, however, were either too small to be represented by the four-digit classification (such as dairy machinery, beverage machinery, textbook publishing, and pianos) or had employment dispersed across several four-digit classifications without representing the majority of any one of those classifications (e.g. pottery workers association) (House Ways and Means Hearings on TEA, parts 1-6, and Senate Foreign Relations Hearings, parts 1-5; US Department of Commerce, Census of Manufacturers 1963).

2.1. Kennedy's General Strategy: Ignore, Exempt, and Compensate

By all accounts, the President was profoundly aware of the legislative battle ahead of him and made the battle his highest legislative priority for 1962 (CQ Almanac 1962, Sorenson 1965, Pastor 1980). His strategy began with a series of largely symbolic organizational and rhetorical measures. In addition to moving his trade policy operation out of the State Department, he appointed Luther Hodges, his Secretary of Commerce and a Southern Governor with a strong protectionist pedigree, to shepherd the legislation through Congress. The President gave a number of speeches and other addresses explaining the importance of the bill. But these measures did little to address the varied coalition of groups opposing the TEA who, if coordinated and able to establish a voting bloc, could easily defeat the president.

Faced with this determined opposition, the president had four choices. He could *ignore* some or all opposition groups, using rhetoric and brute power in the place of appeasement. He could *exempt* some groups from the liberalization effects of the TEA by offering some kind of tariff-relief in direct contravention of the authority he was trying to win. He could *compensate* groups with side-payments without exempting them from the liberalization embodied in the TEA. Or he could *revise*, compromising the ambition of the TEA -- such as restore peril-point negotiating authority or remove the authority to make "linear" cuts. The president was least willing to do the last, to dampen the basic and unprecedented tariff-cutting authority in his original TEA bill. He avoided this at all costs, or at least until he had tried everything else.

Thus, Kennedy's legislative strategy entailed either *ignoring* (uncompensated liberalization), *exempting* (compromised liberalization), or *compensating* (compensated liberalization) all the protectionist groups and their legislative representatives. The smallest, least concentrated, least wealthy, and least organized economic groupings were simply ignored by the president. Such was the plight of leather shoes, plywood, handbags, hats, bicycles, watches, furs, zinc, and a variety of other groups. As Table 2.5 shows, except for the shoe industry, none of these protectionist groups employed anywhere near 100,000 workers. Only shoes, moreover, was a top-five employer in any state, thereby commanding a strong political presence.[38] For all their vitriolic testimony in House and Senate hearings, applications for escape clause relief, threats of industrial disaster, and general declarations of penury and woe, these groups got little more than sympathy and verbal encouragement from the Administration. They received neither any tariff-relief nor other protectionism involving exemptions in the president's legal authority to negotiate trade barriers nor any assistance distinct from that authority.[39]

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[38] The leather shoe industry was a top-five industrial employer in Maine, Massachusetts, and New Hampshire.

[39] As a result, the president probably lost at least a few votes. For example, New Hampshire, a state where leather

Other groups received overt and legislated protectionism in clear conflict with the tariff-cuts Kennedy proposed. As we will see shortly, Textiles and Lumber received promises of voluntary export restraints, which would undermine the liberalization the tariff-cutting sought. Visible among the other protectionist redress, however, was the escape clause tariff relief for carpets and glass.[40] The Tariff Commission ruled positively in favor of the petitions both industries had recently submitted, but Kennedy initially post-poned approval of the finding in the hope that he could marshal enough TEA votes to deny tariff assistance, as Eisenhower had done several years previously. Angry legislators stood in the way, however. Representing a major glass producing district, Dent led the attack by trying to rally legislative opposition, including Senators Estes Kefauver (D-Tenn.), J. William Fulbright, Robert Kerr, and the entire Oklahoma congressional delegation, paralleling coal-oil bloc and numbering potentially 90 House and 15 Senate members (Zeiler 1993, p.121). Acting with the support of other elements of the textile industry, who were themselves busy on a variety of other fronts, Congressmen Samuel Stratton (R-N.Y.) and Steven Derounian (R-N.Y.) and others threatened to vote against TEA on their carpet industry's behalf.

Faced with such opposition, Kennedy approved the Tariff Commission ruling on March 19, 1962, even though it threatened the winding-down Dillon Round negotiations.[41] The duty rise on wilton and velvet or tapestry carpet was from 21 percent of invoice to 40 percent, and on cylinder, crown and sheet glass the increase would range from 1.3 to 3.5 cents a pound (NYT, April 4, 1962). Even though the two industries were smaller in employment than the shoe industry (which received nothing), they had a greater increased interest than most protectionist groups in protectionism, they sought relief through the RTA's escape clause mechanism (unlike most other protectionist groups), and among those industries who did apply through that mechanism they were the largest and best represented.[42] The carpet industry's connection to the rest of the textile

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goods products, primarily shoes, is the largest industry, employing some 30 percent of the state's manufacturing workers, had both its Senators vote against the bill. Kennedy's other two strategies for appeasing industry demands, however, more than compensated for these lost votes.

[40] The wilton and velvet carpets had petitioned the Tariff Commission for escape clause relief on the grounds that their industry was in vital danger from an onslaught of imports. With carpet imports reaching a record high of 8.2 million square yards in 1961, nearly double the 1958 level, they had a case. The sheet glass industry, likewise, sought escape clause tariff relief for its problems. At a Tariff Commission hearing in May 1961, several major glass producers and unions testified, including Libbey-Owens-Ford, Pittsburgh Plate Glass, and American-St. Gobain, and unions included United Glass and Ceramic Workers of North America, the Window Glass Cutters League, and Ohio-Pennsylvania-W.Virginia-Indiana Glass Workers Protective League (Zeiler 1993, p.121). Sales for these groups fell by more than 25 percent between 1955 and 1960, employment by 16 percent, and the four largest manufacturers suffered losses of over $1.1 million (Zeiler 1993, p.121). The industry had lost one-quarter of its market share to imports over the previous decade, with some 3 percent of the market going to imports in 1950 and 32 percent in 1959. Apparently convinced that carpets and glass deserved relief, the Commission recommended tariff increases (CQ Almanac 1962, p.290).

[41] The ensuing tariff increases sparked EC retaliation, in the form of tariff increases on polyethylene, synthetic cloth, and other products thought to be worth some $27 million/year in lost revenue to US producers. Ironically, Kennedy used the retaliation to garner support for TEA: "If we had had passage of the Trade Act, we could have then offered an alternative package which I think would have prevented retaliation" (CQ Almanac 1962, p.290).

[42] At the same time the President decided to overturn the Commission's recommendation for escape clause relief to

industry is particularly important to its power in convincing Kennedy and the Tariff Commission to grant escape clause relief. In the end, the "exemption" of carpets and glass from TEA tariff cutting helped to split the 90-member "glass bloc" in congress in half, and along with other textile action helped win support of Stratton, Derounian, and other "carpet" representatives (Zeiler '93, p.123).

The strategy of ignoring and exempting potential victims of trade liberalization as a way of consolidating political support was not new to US trade policymaking. The strategy of compensating opposition, however, was new. Some TEA side-payments may have escaped notice. Theodore Hesbourgh of the University of Notre Dame, for example, is said to have believed that Kennedy deliberately soft-pedaled his desegregation plans in order to gain Southern support for his TEA (Zeiler 1993, p.99). But there is no evidence of such an exchange, neither statements that are "smoking guns," nor voting patterns by Southern legislators to fully support this claim. There may well have been many other more modest promises of compensation in exchange for support of TEA, such as those among and between individual legislators and the President. Without some historical trace, however, we will never know exactly how many.

Three packages of side-payments, in contrast, are clearly measurable and central to the history of the TEA: compensation for textiles and apparel, for soft-wood lumber, and for organized labor. Compensation to them was the most focused and important part of Kennedy's strategy to garner the votes to pass his TEA bill unscathed by amendments constraining his tariff-cutting authority. Relating the history of these packages of compensation requires more attention. The story of each differs. The textile compensation is a straight-forward tale of an industry's significant and increasing interest and power in demanding protectionism, combined with a shift in strategy and focus on the substance of relief from the pressures of international markets. The story of lumber's compensation, on the other hand, faces the puzzle of how a relatively small industry -- smaller than a number of protectionist groups who got nothing -- yielded any compensatory side-payments from Kennedy. The story of trade adjustment assistance to labor, finally, not only involves primarily the power and platforms of labor, but also the altruistic commitments that express the role of fairness ideas working hand-in-hand with egoistic bargaining to compensation.

The next three sections tells the history of compensatory side payments to each of these groups -- beginning with textiles, then lumber, then labor. The organization of each section varies according to differences in the chain of events leading up to and following the provision of compensation. In all three, however, the history focuses on (1) the evolving economic and political interests of the respective groups vis á vis trade liberalization generally and the TEA in particular; (2) their evolving political power in the trade policymaking arena; (3) their evolving demands for protectionism and other policy goods that could be the subject of side payments; (4) the government and the Kennedy Administration's supply of such payments; and (5) the

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baseball gloves and ceramic mosaic tiles, groups which suffered plenty but hadn't the political leverage to matter.

effectiveness of the side payment packages in securing political support and lowering opposition from the societal groups and their legislative representatives.

2.2. Textiles' Seven-point Side Payment

By virtue of its size, international vulnerability, and ties to Congress, the textile and apparel industry's vocal and intense opposition to continued tariff-cutting authority was the most important threat to Kennedy's Trade Expansion Act. Fully aware of this threat, Kennedy entered office knowing he would either have to scale-down his liberalization initiatives, exclude the textile and apparel industries from tariff-cutting authority, or provide some protectionist or side payment buy-off. Ignoring the industry and its 170+ bloc of legislators was an impossibility. After several protectionist assaults by the industry alliance, the President offered a package of side-payments and a commitment to negotiate voluntary quota protection as well -- all well in advance but mindful of introducing his TEA. Why did Kennedy resort to compensation along-side protectionist exemption, rather than revising the liberalization or simply exempting textiles from its reach?

2.2.1. The Growing Power and Broadening Platforms of Textiles and Apparel

In the decade leading up to Kennedy's presidency, the various segments of the textile industry grew increasingly concerned with imports and focused on protectionism, and underwent significant organizational changes that turn their regional concentration into a very potent force to influence legislative and electoral politics. At the same time, a variety of industry organizations and representatives had begun national-level discussions with national political leaders over a variety of policy issues separate from trade protectionism -- discussions that fueled a clear broadening of their trade policy platforms as the TEA approached.

2.2.1.1. More Determined But Broadening Protectionist Platforms: The textile and apparel industries encompassed industry groupings with markedly different positions in the international economy and different perspectives on the propriety of trade liberalization -- with the textile industry split between cotton, wool and synthetic fibers, and with the textile industries generally having divergent interests from their down-stream apparel producers. Toward the end of the 1950s, however, these differences diminished, and by 1961 virtually all Textile and Apparel groups were increasingly protectionist and hostile to ambitious tariff-cutting authority.

Cotton textiles represented the largest segment of the textile industry and had an unambiguous and cohesive preference for protectionist policies by 1962. Their economic position tells most, but not all, of the story. In addition to several largely domestic adjustment problems,[43]

[43] Technological innovation caused excess capacity; macro-economic recession and competition from synthetic and

shifts in exports and imports fueled major problems in their market position. Imports increased dramatically between 1948 to 1962, from 16 million to nearly 310 million pounds of cloth, while exports fell by more than 100 percent, from 454 million pounds of cloth to 220 million (Hunsberger 1964, p.325). The result was a shift from a very substantial trade surplus to a deficit by 1960 -- a drop that was greatest in the few years just prior to Kennedy's election, from 130 million to -58 million in 1960.[44] Whether their source was international or domestic, the industry certainly suffered major adjustment problems during the same period. In cotton weaving mills, for example, employment dropped from more than 300,000 in 1956 to 224,000 workers in 1962. Total enterprises dropped, due to mergers and closings, from more than 700 in 1956 to 494 in 1962.[45] Many of these losses were concentrated in several Southern states where the industry was centered. In addition to these purely economic sources of Cotton's protectionism is a history of experience with US government intervention -- especially with the system of "two-price" cotton -- that encouraged increasing protectionism.[46]

The wool segment of the textile industry, although smaller, had an even clearer economic interest in protectionism. They were beset by the same economic problems as cotton, marked by a consistently dropping level of employment. As Table 2.6 shows, imports outstripped exports throughout the 1950s, and had done so consistently from 1920 onward, except for during World War Two. More importantly, wool cloth producers faced steadily increasing influx of imports between 1948 and 1962, at a rate significantly outstripping modest increases in wool cloth exports. And in the years immediately preceding the TEA fight, the trade deficit accelerated as a result of a surge in imports between 1958 and 1961. Long before the cotton textile industry was actively calling for protectionism, wool producers and their representatives were showing up at RTA hearings clamoring for tariff and other kinds of import relief.[47] Making appearances at RTA renewals during the inter-war period and consistently thereafter, the wool textile producers were the textile industry's most inveterate protectionists (CQ Almanac 1945).

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other fibers led to stagnant demand; market share dropped from 72.7 percent in 1947 to 53.5 percent by the mid-1960s. And since the 1940s firms had been relocating to the South, mainly to take advantage of lower cost labor.

[44] In dollar terms, the increase in imports from all countries was from 154.3 million dollars in 1956 to 203.3 million in 1961 (Hunsberger 1964, p.325). And the trade balance, in dollar terms, shrank from $125 million in 1958 to $19 million in 1960 (Zeiler 1993, p.75).

[45] In 1960 alone, one historian remarks, 128 mills closed across the US, leaving employment at an all-time low.

[46] Raw cotton producers received price supports since the 1933 AAA, making domestic cotton expensive for cotton cloth producers. Protection for raw cotton required further restriction on cloth producers through restrictive quotas on raw cotton imports to discourage purchases of foreign cotton. This encouraged a shift to synthetic fibers. More important, the 1956 Agricultural Act introduced an export subsidy for raw cotton, on the order of 8¢ per pound, to help compensate for declining cotton exports. This enabled foreign cotton cloth producers to buy US raw cotton at the world price, while the captive cotton cloth producers in the US had to pay the inflated price. This "two-price cotton" system, onerous given the low value-added in textile manufacturing, encouraged cotton textile producers to hold government responsible for their ills. This anger translated into support for an end to the two-price system, but also for protectionism in all its forms. By the 1953 RTA renewal, the Cotton textile industry representatives initiated their calls for protectionism, and became increasingly vocal thereafter (CQ Almanac 1953).

[47] At Senate Hearings for the 1934 Reciprocal Trade Agreements, for instance, they were among the most vocal.

Manmade fibers (rayon, acetate and other synthetics) represented the smallest segment of the textile industry, and were the most internationally competitive. Although the segment showed a decrease in employment and enterprise number between 1956 and 1962 (from 114,240 to 72,024, a 23% drop), the synthetic fibers were also growing in share of consumption (from 16% in 1944, to 28% in 1955, to 41% in 1963), and showed consistent trade surpluses as both imports and exports grew (see Table 2.6). Thus, the economic position of synthetic fibers suggests that their support for protectionism should have been small and shrinking. While they sat out of trade debates through most of the 1950s, however, synthetic fiber manufacturers joined the natural fibers in the fight for protection by the time Kennedy took office. The reasons are more political, the most important of which was the risk that protection for natural fibers would inspire foreign producer to concentrate on any other segment of the market that might be less protected (Aggarwal and Haggard)[48]; better to join the protectionist band-wagon than to take that risk. Whatever the reasons, 1957 was the first year manmade producers sided with the natural fiber producers.

Table 2.6
US Trade in Textile Manfuactures:
Fiber Equivalent, Exports, Imports, and Trade Balance, 1948-62 (x 1,000 lbs.)

	Exports				Imports				Trade Balance			
	Cotton	Wool	Man.	Total	Cotton	Wool	Man.	Total	Cotton	Wool	Man.	Total
1948	453,824	20,651	93,893	568,368	16,009	42,263	1,232	59,504	437,815	-21,612	92,661	508,864
1949	385,010	10,275	107,349	502,634	18,464	43,399	2,057	63,920	366,546	-33,124	105,292	438,714
1950	258,666	7,535	81,385	347,586	40,053	63,804	4,348	108,205	218,613	-56,269	77,037	239,381
1951	388,635	8,161	92,063	488,859	33,945	56,387	4,153	94,485	354,690	-48,226	87,910	394,374
1952	337,885	6,067	95,000	438,952	32,416	87,994	3,182	123,592	305,469	-81,927	91,818	315,360
1953	291,223	4,968	96,012	392,203	44,556	61,963	4,638	111,157	246,667	-56,995	91,374	281,046
1954	290,181	5,558	96,349	392,088	48,479	61,052	4,942	114,473	241,702	-55,494	91,407	277,615
1955	262,799	5,514	87,733	356,046	86,958	81,399	6,965	175,322	175,841	-75,885	80,768	180,724
1956	254,559	5,666	92,364	352,589	107,994	91,081	8,801	207,876	146,565	-85,415	83,563	144,713
1957	277,979	4,562	97,651	380,192	95,566	85,173	9,496	190,235	182,413	-80,611	88,155	189,957
1958	250,084	4,577	90,353	345,014	112,138	90,196	13,173	215,507	137,946	-85,619	77,180	129,507
1959	236,430	4,936	96,738	338,104	172,795	126,922	33,628	333,345	63,635	-121,986	63,110	4,759
1960	233,147	4,698	122,926	360,771	255,553	132,132	31,102	418,787	-22,406	-127,434	91,824	-58,016
1961	239,181	4,538	118,944	362,663	188,896	127,458	23,491	339,845	50,285	-122,920	95,453	22,818
1962	220,307	4,369	141,599	366,275	309,848	145,637	30,557	486,042	-89,541	-141,268	111,042	-119,767

Simpson, William Hays. 1966. Some Aspects of America's Textile Industry:
With Special Reference to Cotton. Columbia, South Carolina: The R.L. Bryan Co., pp.126-127

[48] Aggarwal and Haggard argue that synthetic fibers went along with protectionism for three reasons: to restrict tariff cutting authority to keep out European-produced man-made fiber textile products; to keep attention focused on imports rather than the much more critical problem of inter-fiber competition (as Table 2.3 supports); and to reap short-term gains from protectionism, even if that protectionism focused only on cotton imports, for which man-made imports were imperfect substitutes (Aggarwal and Haggard 1980).

The apparel industry, even larger than the textile industry through most of the period, faced a similar situation to the synthetic fiber textiles. Apparel manufacturers' reliance on textile cloths as inputs gave them a strong economic incentive to push for lower textile protectionism. However, several forces pushed the industry in the opposite direction. First, quota protection of wool and cotton fiber products in the late 1950s had inspired trade diversion, leading to import pressure on apparel from countries such as Japan and Hong Kong. Second, the apparel industry was much more organizationally fragmented than textiles, and at a distinct disadvantage in a fight against textile protectionism. Third, apparel producers knew that in a fight over protectionism, textile producers could retaliate by manipulating their market (Aggarwal and Haggard, p.270). Anticipating the textile protectionism, Apparel producers had an incentive to support protectionism for their own products. In short, contagion fueled protectionism among apparel as well as synthetic fiber producers (Friman 1992, Aggarwal and Haggard 1980). As late as 1957, the men's clothing and other apparel segments opposed efforts of wool mills to obtain tariff protection, but by 1961 they actively supported such protection (Pastore Hearings 1961, p.112).

Finally, the unionized workers in textile and apparel mills had economic interests that differed somewhat from their employers, but they increasingly turned towards protectionism in the mid-to-late 1950s. Workers bore the brunt of the industry adjustment -- their organizational activity thwarted, their wages dropping, and their employment threatened or ended. Southern job shedding was greatest. With 140 textile mill closings in the six major Southern textile states[49] between 1951 and 1961, textile jobs dropped nearly 17 percent.(CQ Weekly Report 20,'62). Textile Labor spent a lot of the mid-1950s calling for *domestic* solutions to their market problems. In various hearings and union discussions about their market distress, labor groups sought domestic-institutional changes more than protectionism. They proposed establishment of a textile development agency to engage in research and development, to administer a short work week, and to finance movement of workers and retraining and retirement benefits,[50] as well as a board to administer the Federal Labor Relations Act (Aggarwal and Haggard, p.276). When industry and government representatives repeatedly ignored these requests, textile Labor threw their hat into the protectionist ring. They began testifying against RTA extension in 1955, and were regular lobbyists on behalf of various trade protections in every episode thereafter (Vear 1955, passim).

The demands made by particular textile and apparel groups varied throughout the 1950s and early 1960s, with each group calling for different degrees and kinds of assistance from Congress and the President. By the end of the 1950s, however, all segments converged not only on demands for protectionism, but on a combination of side benefits and a particular kind of

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[49] Alabama, Georgia, North and South Carolina, Virginia and Tennessee.

[50] This request foreshadowed textile labor's interest in adjustment assistance. Discussion of organized labor and the Trade Adjustment Assistance provisions of the TEA explains this development in some detail.

protectionist redress: unilateral quotas, strong escape clause relief and tariffs. The labor representatives of the industry, mainly via the TWUA, were the main proponents of some side issue benefits, such as research and development funding and training programs. But the textile and apparel industry associations explicitly supported some of these side issues, especially elimination of the two-price cotton system and increased patronage in International Cooperation Administration's procurement, and some general industrial subsidies.

These demands were prominently voiced after the 1958 RTA, when Fall congressional prompted the Senate to establish the "Pastore Subcommittee"[51] of the Committee on Interstate and Foreign Commerce, to study the industry's competitive situation. Most of the industry and labor associations mentioned above gave testimony, in which attention converged upon quota protection, but also on a variety of aforementioned side issue demands. Following industry's suggestions, the Pastore Subcommittee report endorsed multi-fiber textile quotas, tightening of Japan's VER, an end to two-price cotton, new International Cooperation Administration procurement policy, and a cabinet-level committee to study textile problems (Aggarwal and Haggard 1983, pp.275-76; and Pastore Hearings 1958, passim). Between the explicit platforms of the ACMI and TWUA sector representatives, the industry groups towed a pretty consistently multi-issue platform that emphasized protectionist redress but included several side issue supplements.

2.2.1.2. Centralized Organization, Size and Regional Concentration: As different segments of the textile industry became more determined protectionists, they also grew more powerful in translating their perceived interests into policy demands. One of the major bases of that power lay in the industry's changing organization. Following Friman 1992, industry organization can be divided into three categories: concentration of organization; inclusiveness of total industry employment by the organizations lobbying for protectionism; and degree of consensus in the protectionist demands among those lobbying organizations. First, the organization of textiles was relatively inclusive, with associations representing close to 86 percent of textile employees.[52]

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[51] The committee was established at the behest of Rhode Island Senator and textile champion John Pastore.

[52] The largest association in the textile industry throughout the 1950s and into the 1960s was the American Cotton Manufacturers Institute (ACMI). Founded through a 1949 merger of major northern and southern cotton associations, ACMI represented roughly 85 percent of cotton cloth producers and between 11 and 15 percent of total textile employment. Partly overlapping ACMI's membership was the Northern Textile Association (NTA), whose members increasingly diversified into man-made fibers and had absorbed many wool producers. By 1958 it represented some 27 percent of cotton and synthetic cloth production and close to 30 percent of wool cloth production. The remaining wool producers were represented by the National Association of Wool Manufacturers (NAWM), covering some 2.5 percent of total textile employment.

The two main associations representing the man-made fiber industry were the Man-Made Fibers Producers Association and the National Federation of Textiles, the first representing an average of 5 percent of textile employment, the second 3 percent.

The Apparel industry was substantially more fragmented than textiles, with dozens of associations scattered across product categories and the country, the largest accounting for less than 3.0 percent of total textile employment, and roughly the same of apparel. Acting as a weak federation for New York-based apparel producer associations was the Apparel Associations Inter-Association Committee.

Second, between 1957 and 1962, a series of mergers and federations crafted among these associations led to a significant increase in the centralization of the industry organization across textile and apparel industries, across natural fiber segments, and across natural and man-made fiber segments. And as we have already seen, the various lobbying associations increasingly converged upon a particular array of protectionist provisions.[53] In all three categories of organization, the textile and apparel industries became stronger toward the end of the 1950s and early 1960s.

More important to the political clout of the textile and apparel industries was their aggregate size and regional concentration in light of Kennedy's and the Democrats' electoral position. A relatively unified textile and apparel industry would carry substantial weight in Congress in part because of its aggregate size in terms of employment. At the two-digit aggregation of the Standard Industrial Classification, the textile industry (SIC 23) was the seventh largest employer of all manufacturing industries, with 918,612 workers in 1958 and 883,170 in 1963, and the Apparel industry (SIC 23) was the fifth largest, with 1,188,530 in 1958 and 1,290,536 in 1963. Taken alone or combined, the textile and apparel industries were by far the largest industry acting as a group on the issue of trade in the late 1950s and early 1960s. Table 2.4 above provides the comparison. Even the most conservative estimates of the sub-segments of the industries most vocally demanding protectionism puts the textile and apparel segments far ahead of any other single protectionist group. The number is large enough that his and his party's electoral position would be affected by ignoring industry demands.

The industry demands have exaggerated clout when one considers the distribution of the textile and apparel industries across states. First, Table 2.7 shows the states in which textile producers are among the top five industrial employers, nearly a dozen such states. If we add apparel firms to the count, the number expands significantly. Given the inclusiveness, near-unanimity, and centralization of textile demands for protectionism, this implies very substantial electoral pressure on legislators representing the districts in which the employees reside. Table 2.7

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[53] First, as cotton textile producers moved into the synthetic fiber world through the latter half of the 1950s, ACMI expanded into the membership of the National Federation of Textiles. In 1958 the overlap was such that ACMI absorbed the Federation, allowing ACMI to claim that they represented some 80 to 85 percent of cotton, silk, and man-made fiber cloth-making capacity in the U.S. In keeping with this claim, the ACMI's changed its name in 1962 to the American Textile Manufacturers Institute. Second, ties between ACMI and the National Association of Wool Manufacturers were increasingly strong, foreshadowing a formal merger several years after the TEA. Third, the members of Apparel Associations Inter-Association Committee formed an alliance with an "emergency" apparel peak association called the Apparel Industry Committee on Imports to represent apparel producers on the issue of textile imports. As Friman 1993 notes, "in total, twenty-three diverse apparel associations representing roughly 57.2 percent of the textile industry's production and employment participated in or lent support to the two apparel committees" (p.69). Finally, the Southern Garment Manufacturers Association and the National Association of Shirt, Pajama, and Sportswear Manufacturers merged to form the American Apparel Manufacturers Association (AAMA) (Friman 1992). In addition to these relatively permanent mergers, some of the associations also formed temporary alliances, or federations, to push for or against particular government policies. The industry's fight against the Organization for Trade Cooperation, discussed below, is an example.

Table 2.7
States in which Textile Employment Is Among Top Five Industrial Employers

ALABAMA		%	
STATE/INDUSTRY	Emplymt	Total	Rank
Total Industry	**243,800**		
20 Food & Kindred Products	22,420	9%	4
22 Textile Mill Products	35.474	15%	2
23 Apparel and Related Products	31,598	13%	3
24 Lumber and Wood Products	19,919	8%	5
33 Primary Metal Industries	40,078	16%	1

GEORGIA		%	
STATE/INDUSTRY	Emplymt	Total	Rank
Total Industry	**354,023**		
20 Food & KindredProds	41,949	12%	3
22 Textile Mill Products	93,482	26%	1
2211 Wvng Mills, cott	42,214	12%	
23 Apparel/RelatedProds	57,145	16%	2
24 Lumber/Wood Prods	22,741	6%	5
37 Transport. Equipment	30,357	9%	4

MAINE		%	
STATE/INDUSTRY	Emplymt	Total	Rank
Total Industry	**99,926**		
20 Food & Kindred Products	11,657	12%	5
21 Tobacco Manufacturers			
22 Textile Mill Products	12,295	12%	3
2211 Weaving Mills, cotton			
2221 Weaving Mills, syntts	451	0%	
2231Wvng/Fnshng.Mills,wool	5,213	5%	
24 Lumber and Wood Products	11,854	12%	4
2411 Logging Camps Cntrctrs.	4,120	4%	
26 Paper and Allied Products	16,537	17%	2
31 Leather and Leather Products	24,699	25%	1

MASSACHUSETTS		%	
STATE/INDUSTRY	Emplymt	Total	Rank
Total Industry	**674,023**		
22 Textile Mill Products	41,286	6%	5
2211WvngMills, cott	2,494	0%	
2221WvngMills, synth	3,696	1%	
2231Wvg/Fnshng.wool	7,770	1%	
23 Apparel/RelatedProds	56,162	8%	3
31 Leather/Leather Prods	48,572	7%	4
35 Mach., except Elec.	67,673	10%	2
36 Electrical Machinery	96,183	14%	1

MISSISSIPPI		%	
STATE/INDUSTRY	Emplymt	Total	Rank
Total Industry	**128,506**		
20 Food & Kindred Products	14,641	11%	3
22 Textile Mill Products	6,073	5%	5
23 Apparel and Related Products	31,435	24%	1
24 Lumber and Wood Products	20,914	16%	2
2411 Log Camps and Cntrctrs.	1,599	1%	
37 Transportation Equipment	8,304	6%	4

NEW HAMPSHIRE		%	
STATE/INDUSTRY	Emplymt	Total	Rank
Total Industry	**128,506**		
20 Food &Kindred Prods	2,944	4%	
22 Textile Mill Products	10,709	13%	3
2221WvingMills, synth	1,330	2%	
2231Wvng/Fnshg. wool	3,624	4%	
26 Paper/Allied Prods	5,580	7%	5
31 Leather/Leather Prods	20,137	24%	1
35 Mach., except Elect.	8,002	10%	4
36 Electrical Machinery	11,508	14%	2

NORTH CAROLINA		%	
STATE/INDUSTRY	Emplymt	Total	Rank
Total Industry	**530,646**		
20 Food & Kindred Products	32,940	6%	4
21 Tobacco Manufacturers	29,187	6%	5
22 Textile Mill Products	220,929	42%	1
2211 Weaving Mills, cotton	49,401	9%	
2221 Weaving Mills, synth.	32,052	6%	

RHODE ISLAND		%	
STATE/INDUSTRY	Emplymt	Total	Rank
Total Industry	**113,940**		
22 Textile Mill Products	22,863	20%	1
2211 Weaving Mills, cotton			
2221WvngMills synth.	1,810	2%	
2231Wvg/Fnshng.wool	2,390	2%	
23 Apparel/RelatedProds	3,860	3%	

2231Wving/Fnshg.Mills, wool	3,762	1%	
23 Apparel and Related Products	47,243	9%	3
24 Lumber and Wood Products	27,403	5%	
2411 Logging Camps/Cntrctrs.	3,153	1%	
25 Furniture and Fixtures	47,994	9%	2
30 Rubber/PlasticsProds	7,926	7%	4
33 PrimaryMetal Indust.	9,096	8%	3
34 Fabric. Metal Prods	7,606	7%	5
35 Mach., except Elect.	9,106	8%	2

SOUTH CAROLINA		%	
STATE/INDUSTRY	Emplymt	Total	Rank
Total Industry	**261,655**		
20 Food & Kindred Products	11,042	4%	5
22 Textile Mill Products	130,371	50%	1
2211 Weaving Mills, cotton	67,371	26%	
2221 Weaving Mills, synths.	23,087	9%	
2231Wvng/Fnshg.Mills, wool	3,240	1%	
23 Apparel and Related Products	34,561	13%	2
24 Lumber and Wood Products	14,761	6%	4
2411 Logging Camps Cntrctrs.	2,802	1%	
28 Chemicals and Allied Prods	16,181	6%	3

TENNESSEE		%	
STATE/INDUSTRY	Emplymt	Total	Rank
Total Industry	**339,108**		
20 Food &Kindred Prods	31,928	9%	3
22 Textile Mill Products	30,451	9%	4
23Apparel/Related Prods	52,140	15%	1
24 Lumber/Wood Prods	16,574	5%	
2411 Log Camps/Cntrcts.	577	0%	
25 Furniture/ Fixtures	17,877	5%	5
28Chems./Allied Prods	39,820	12%	2

VIRGINIA		%	
STATE/INDUSTRY	Emplymt	Total	Rank
Total Industry	**302,084**		
20 Food & Kindred Products	32,048	11%	3
22 Textile Mill Products	35,961	12%	1
2221 Weavng Mills, synthetics	4,317	1%	
23 Apparel and Related Products	26,588	9%	4
24 Lumber and Wood Products	20,914	7%	
2411 Logging Camps Cntrctrs.	2,024	1%	
28 Chemicals and Allied Prods	35,106	12%	2
37 Transportation Equipment	25,432	8%	5

Source: US Department of Commerce, Census of Manufacturers, 1963.

reveals how many Senate votes must have been influenced by textile demands. In the House, the calculation is more difficult, because industry concentration is not published according to House congressional districts. But one can conjecture very broadly that a large number of House representatives were also heavily influenced by textile and apparel industry demands.[54]

Second, the concentration of the textile and apparel industries in Southern and New England states had implications for the textile industry's power. Table 2.8 shows the regional distribution of textile and apparel employment. It shows that with the exception of Mississippi, all of the states in which textile manufacturers were among the top five industrial employers in the

[54] Another reason to expect representatives to heed textile demands is that congressional leaders may be expected to form blocs and to have a variety of shared interests in collaborating. Such is one of the points made by Tosini and Tower 1987 in their attempt to measure the importance of industry employment on congressional voting.

state were also among the top sixteen employers of textile workers nationally. The Table shows how the industry had 94 percent of its workers in sixteen states, and well over 50 percent from four deep south states: Alabama, Georgia, and North and South Carolina. With Virginia and Tennessee also being major employers, it is clear that employment was heavily concentrated in the South. But as Zeiler points out and Table 2.8 shows, "every New England and mid-Atlantic state, except for Vermont, Maryland, and Delaware, were among the top sixteen states in textile employment..." (Zeiler 1993, p.76).

Table 2.8
Top Sixteen States in Terms of Textile Employment

State	# employees	Rank of Textiles Among Industries
1 North Carolina	220,900	1
2 South Carolina	130,400	1
3 Georgia	93,500	1
4 Pennsylvania	67,500	7
5 New York	53,600	13
6 Massachusetts	41,300	5
7 Virginia	36,000	1
8 Alabama	35,500	2
9 Tennessee	29,900	4
10 New Jersey	26,000	13
11 Rhode Island	22,900	1
12 Connecticut	13,100	11
13 Maine	12,100	3
14 New Hampshire	10,700	3
15 Ohio	8,500	17
16 California	6,800	16
20 Mississippi	6,100	5

Source: US Department of Commerce, Census of Manufacturers, 1963.

Safeguarding any trade legislation he was to table in the coming year may have been Kennedy's strongest motivation to address textile industry protectionism in light of this regional distribution and concentration. And Kennedy needed to appease textile groups in order to get much of his other New Frontier legislation accepted. He knew that the textile industry was concentrated in South and had tremendous political power on Southern legislators. Southern Democrats, in turn, chaired twelve of twenty House committees and ten of sixteen committees in the Senate (Zeiler 1993, p.77). Since it was no secret that Republican legislators could not be counted on to support his social spending, agriculture and other legislative initiatives, he knew he had to count on Southern Democrats. And his civil-rights agenda -- even if Hesbourgh's claim that Kennedy delayed or dampened those plans to secure his TEA is accurate -- was going to step on a

lot of Southern toes. Thus, if Kennedy had strong incentives to give Southern legislators what they wanted on trade, and that was some significant package of redress for textiles.[55]

2.2.2. Kennedy, the Textile Industry, and Congress

The changes in the industry's perceived economic position and its increasing organizational strength made textiles the one of the most vocal and successful industry groups agitating for protectionism. In the decade preceding Kennedy's election, they focused their energy mainly on modifying extensions of the Reciprocal Trade Agreements Act, but left no political stone unturned. They focused also on non-RTA trade and foreign aid legislation (such as that involving establishment of the OECD), they petitioned Congress directly for relief, they clamored for help from the toothless Commission on Reciprocity, they petitioned the Tariff Commission for escape clause tariffs, and even sought quota protection under Section 22 of the AAA.

In response to all these demands, political representatives in the Executive and Congress did not always supply the goods,[56] by decade's end the textiles industry had won a number of protectionist successes. In none of RTA Extensions were textiles formally exempted from tariff-cutting authority, but the industry was largely responsible for the successful lobbying to legislate escape clause relief, and to set up peril-point provisions. They also successfully opposed a House Resolution creating the Organization for Trade Cooperation in 1956, and won the negotiation of voluntary export restraints with Japan in 1956 and 1957.

With the 1960s they sought to continue or increase this list of protections. Throughout 1960, textile forces lobbied both the Republican and the Democratic Parties, and both Presidential candidates, for promises of support. In addition to personal lobbying of candidates and coalition-builders, such as South Carolina Governor Ernest Hollings, the textile industry got the Southern Governor's Conference to adopt a resolution calling for quotas and other restrictions. Kennedy and the Democrats responded with assurances of support. In public statements and personal

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[55] Kennedy had a couple of other motivations to listen to textiles. First, Kennedy is said to have actually sympathized with the plight of the textile industry, reasonable given that he had represented Massachusetts, a state who's very large textile industry had been taking a beating for years (Sorenson). Second, Kennedy had made a series of campaign promises that, although ambiguous in their details, clearly fueled high expectation in the minds of major textile sponsors who had gone to bat for Kennedy in the close 1960 election. If Kennedy wanted to preserve the trust of these supporters, for the next election or for anything else, his Administration would have to do more than provide some escape clause relief and set up a cabinet panel to think about industry problems.

[56] Petitions for quota protection under Section 22 of AAA was denied in a Tariff Commission ruling. And although Eisenhower announced that he would consider imposing a duty on imports of cotton textile goods produced from subsidized US raw cotton exports, he didn't act. In all arenas, finally, the industry was denied its requests for unilateral quota protection, though sometimes by only a hair: Separate Resolutions (e.g. HR8658 and HR9170) and the "Green Amendment" to a Senate foreign aid bill were all defeated, but the Green Amendment lost by only two votes (Friman 1992, Lynch, Brandis 1984, CQ Almanac 1956). Finally, petitions for escape clause relief to velveteen producers, blouse manufacturers and pillowcase, and carpets were either denied by the Tariff Commission or overturned by the president. This last defeat was soon headed for a turn-around.

dispatches, Kennedy promised that finding a solution to the textile problem would be a "top priority objective" of his presidency (Zeiler 1993). On what that "solution" would be, Kennedy was much more ambiguous, saying he would aggressively use "Congressionally-established procedures" while "working within the framework of our free trade policies."[57] Some representatives, such as Hollings, responded to these pledges of support by delivering votes for Kennedy's campaign, including the key Southern textile states of North and South Carolina.

Even before tabling his TEA, Kennedy responded to this din of protectionist pressure with some early attempts to appease the textile industry and to fulfill at least the spirit of his campaign promise. His appointment of Luther Hodges to be his Secretary of Commerce on December 3, 1960 was an obvious bone. Hodges, from North Carolina, was one of the Governors signing the Southern Governor's Conference resolution calling for quotas. At Hodges's recommendation, Kennedy also agreed to follow one of the 1958 Pastore Report recommendations and set up a cabinet-level panel, convened as the Interagency Textile Committee (ITC), to find a solution to the import problem. Along with Hodges appointed as head, the ITC included Treasury Secretary Douglas Dillon, Undersecretary of State George Ball, and the Secretaries of Agriculture and Labor.

With continued industry pressure and the knowledge that the ITC would have the president's ear, Senator John Pastore and 10 other textile Senators convened a second set of hearings in early 1961 (CQ Almanac 1962). The industry's showing at these hearings was impressive.[58] In addition to the frequently active natural-fiber associations, such as the ACMI and the NAWM, two overlapping apparel federations -- the Committee for the Apparel Industries and the Apparel Industry Committee on Imports, representing 25 apparel associations -- also appeared. So did three major apparel and textile unions: the Amalgamated Clothing Workers Union, the International Ladies Garment Workers Union, and the Textile Workers Union of America. More important than the organizational alliances manifest in appearances, all the groups strongly concurred in the thrust of their recommendations. Many of the groups mentioned the various other policies on the platform, including ending two-price cotton and other provisions.[59] The emphasis, however, was very clearly on product- and country-specific quotas as the minimally acceptable solution to their problems (Friman 1992, Hunsberger 1971).

These industry demands for quota protection almost immediately won legislative sponsorship, with legislators in both the Senate and the House linking such protection to future approval of Kennedy's tariff-cutting authority. Senate activity took-off immediately after the Pastore hearings. The day after meeting with industry representatives on March 20, 1961, Senator

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[57] Kennedy in letter to Ernest Hollings, quoted in Friman 1993. Letter was sent on August 31, 1960 and is published in its entirety in *Part One: Kennedy Statements, 1960,* pp.66-67.

[58] This paragraph's discussion of the hearings borrows heavily from Friman 1992, p.104-5.

[59] Some groups, however, explicitly disparaged "'aid' measures such as 'handouts, subsidies, [or] favored treatment..." (Friman 1992).

Pastore and ten other textile-state Senators delivered speeches on the Senate floor in favor of textile quotas (CQ Almanac 1962). In their remarks, Pastore and others claimed that if the Administration didn't provide import quotas the Senators would oppose extension of the Reciprocal Trade Act, slated for renewal in 1962 (Friman 1992).

In the House of Representatives, Carl Vinson (D-Ga.) and W.J.Bryan Dorn (D-N.C.) led the formation of a 128-member Textile Conference Group with a bipartisan membership representing 35 states (Zeiler 1993, p.78). On March 22, 1961, 60 House Members who were part of that Group met with textile representatives to hear their concerns (CQ Almanac 1962, p.287). The next day, on March 23, 1961, the vast majority of the Textile Conference Group signed a group letter to the President that predicted "congressional rejection of a new trade bill unless there were safeguards for textiles" (quoted in Zeiler 1993, p.79 and footnote 12). The Group also appointed a 15-member committee that met with President Kennedy on March 27th to support mainly the imposition of quotas. Finally, the Group organized a "mass display" in the House on April 18th, during which 70 House Members -- 48 Democrats and 22 Republicans -- called for safeguards (CQ Almanac 1962, p.287). In his remarks during that display, Representative Vinson, the major spokesman for the Group, clarified what was at stake in his endorsement of import quotas:

> Unless quotas are imposed that will provide the necessary protection to the textile industry in the United States, I think I can safely predict that at least some of the Members who voted to extend the Trade Agreements Act in 1958 will have second thoughts if a bill to extend the Act is presented on the floor in 1962 (CQ Almanac 1962, p.287).

Given that Kennedy did, indeed, have in mind some kind of trade liberalization legislation -- very ambitious legislation if George Ball's pre-inaugural trade recommendations were any indication -- this threat definitely was of interest to the President.

In the face of industry demands for quota protection and Congressional support for those demands, Kennedy was very skeptical. He "warned that such action invited retaliation from other nations, and would worsen the payments deficit" (Zeiler 1993). In appointing Hodges and taking textile concerns seriously, the president sought textile remedies consistent with his fermenting free trade agenda. But the mounting pressure in Congress for quotas, pressure that threatened to hold any free trade legislation hostage, required a major response. Doing nothing would clearly have spelled trouble for his free trade designs, whether he chose the modest RTA extension or a major initiative like the one Ball's Task Force recommended.

Recommendations of his appointed Interagency Textile Committee in April spurred the President to move towards a buy-off for textiles. Luther Hodges, as the Committee chair, followed the broad outlines of the Pastore subcommittee report by recommending a variety of forms of assistance, including import quotas. But instead of unilateral quotas, Hodges

recommended quotas patterned after the 1957 voluntary export restraint controlling Japanese cotton textile exports. According to Zeiler 1993, these recommendations were strongly protested in Committee meetings by George Ball, who preferred a free-trade stand against the textile alliance. The Committee also proposed other measures, again in keeping with the two sets of Pastore Committee reports, including tax relief and an end to the two-price policy. The Committee's suggestions became the template for Kennedy's response.

2.2.3. Compensation for Textiles: Kennedy's Seven-Point Plan

On May 2, 1961, Kennedy announced a seven-point plan of assistance to the textile industry. The seven points, based on the Interagency Textile Committee report given to the President only days earlier, were as follows:

1. The Department of Commerce, "with the cooperation of both union and management groups" was "to launch an expanded program of research, covering new products, processes and markets."
2. The Treasury Department was to "review existing depreciation allowances on textile machinery...[to] assist in the modernization of industry." This implied speeding up depreciation schedules that would provide tax relief.
3. The Small Business Administration was to "assist the cotton textile industry to obtain the necessary financing for modernization of its equipment."
4. The Department of Agriculture was "to explore and make recommendations to eliminate or offset the cost to United States mills of the adverse differential in raw cotton costs between domestic and foreign textile producers."
5. The President planned "to send Congress proposals to permit industries seriously injured or threatened with serious injury as a result of increased imports to be eligible for assistance from the Federal Government."
6. The Department of State was "to arrange an early conference of the principal textile exporting and importing countries. The conference will seek an international understanding which will provide a basis for trade that will avoid undue disruption of established industries."
7. The President pledged that "an application by the textile industry for action under existing statutes, such as the escape clause or the national security provision of the Trade Agreements Extension Act, will be carefully considered on its merits." (White House Press Release 1961 in *John F.Kennedy Public Papers, 1961,* pp.345-46)

Most of these proposals had been subjects of discussion between textile industry groups and government officials for many months or years. The call for an international conference seeking some "understanding" that would "avoid undue disruption," was a euphemism for international action towards some kind of multilateral quota arrangement, long the center of

industry demands. The appeals for escape clause and "national security" tariff relief for injured industry had been pursued, with little success, on several tries in the latter half of the 1950s.

Most of the side payment provisions also reflected past trade policy demands by textile groups. The end to the two-price cotton system had been on the industry's agenda for years, including its appeals to the Pastore Committee hearings in 1958 and 1961. The calls to set up a Commerce research and development study, Small Business Association loans and to lower depreciation allowances had also had their precedents in earlier industry discussions, but with significantly less interest (Brandis 1982). The exception was the proposal to provide injured groups "assistance from the Federal Government," which was a reference to the adjustment assistance provisions Kennedy had long championed and apparently intended to supply either separate or as part of his impending trade liberalization legislation. Only the textile labor unions had made murmurings in support of such a program, though in the 1961 Pastore Committee hearings some other groups explicitly singled out such assistance as insufficient. Six out of seven provisions, therefore, addressed the core demands sought by industry representatives.

Kennedy took immediate action on many of the provisions. Most important to industry, he dispatched Ball to gather domestic industry and political participants, together with policy representatives from major textile importers and exporters, to negotiate some arrangement. Convening a 17-nation conference scheduled to be held on June 17th under GATT auspices, Ball's goal was to get "developed countries of Western Europe to relax their restrictions on textile imports from such 'low-wage' areas as Japan, Hong Kong, India and Pakistan, and...to get these latter areas to adopt voluntary export quotas" (CQ Almanac 1962, p.287). These negotiations were to focus only on textiles and apparel made of cotton -- thus excluding wool and man-made fibers (Hunsberger 1971, p.328; CQ Almanac, p.287).

Due to the many unfulfilled promises of relief that the industry had received from Eisenhower and previous presidents, the initial industry response to Kennedy's seven-point program ranged from skeptical indifference to disdain. On May 15th, ten organizations representing the textile industry filed a petition with the then Office of Civil and Defense Mobilization under Section 8 of the Trade Agreements Act, arguing that textile imports represented a "national security threat" and that they ought to be restricted as a consequence.[60]

Most other industry action was more explicitly hostile, threatening to oppose any forthcoming free trade legislation. Industry groups and their politicians were particularly displeased at Ball's restricted focus on cotton and apparel and his apparent unwillingness to pursue mandatory quotas (CQ Almanac 1993, p.287; Zeiler 1993, p.83; Aggarwal and Haggard 1983, p.282). The

[60] This petition was consistent with the seventh point of Kennedy's plan, but was not submitted with any reference or thanks to Kennedy. The OCDM, later the Office of Emergency Planning, never granted the relief (CQ Almanac 1962, p.287).

National Association of Wool Manufacturers (NAWM) and the ACMI called the program "completely unsatisfactory and unacceptable" (Brandis 1982, pp.20-21). Around June 22nd, Senator Pastore said of Ball's progress that the alternative to satisfactory quotas was certain defeat of a trade bill in 1962 by concerted efforts of the textile bloc (Zeiler 1993, p.80). Led by Rep.Vinson, moreover, 125 House Reps and 36 Senators sent a letter to the President on June 23, 1961 calling Ball's effort "piecemeal and entirely inadequate...which can succeed only in embarrassing the Administration in its program relating to trade" (CQ Almanac 1962, p.287). The legislators' threat to legislation, still not yet announced by Kennedy, was ominous.

The situation improved somewhat on July 26th, when the conferees at Ball's multi-lateral conference agreed to the terms of a provisional agreement restricting textile imports. The short-term arrangement (STA), as it was to be called, said that any nation suffering "disruption of its domestic market" due to imports "could ask exporting countries to cut back their shipments to the level maintained during the year that ended June 30" (CQ Almanac, p.287; Aggarwal 1984).[61] In response to the agreement, Vinson and Dorn wrote a letter on July 27th saying they were impressed at what the agreement suggested might be possible. But they weren't impressed enough, seeing the STA merely as merely a "first step," wanting JFK to end the two-price cotton system, to reduce quotas, and to limit other fibers (Zeiler 1993, p.82).

The key breakthrough came several months later, with announcement of the 5-year "long-term agreement" (LTA) on February 9, 1962. Like the short-term agreement, it allowed any importing nation threatened with market disruption in cotton textiles to impose an import freeze for up to two years at the level of the first 12 of 15 months of the year preceding the freeze. After that, countries could limit expansion of imports to 5 percent per year (CQ Almanac 1962). If exporters failed to comply with the plan, the agreement allowed the importing country to unilaterally impose the rates until GATT-arbitrated negotiations settle differences.[62] The LTA multilateral quotas were confined to cotton textile products, but the President wrote a letter to Congressman Vinson on February 26, 1962, saying he had requested that the LTA program be extended to wool, man-made fiber, and silk divisions of the industry (Aggarwal and Haggard 1983, p.283), and later (on the day TEA passed the Senate) promised extension to representatives of those industry segments.[63]

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[61] If exporters refused to abide by such a request, the importing country could refuse to accept more than the specified amount of textiles (CQ Almanac, p.287). The agreement was to last a year, beginning October 1, 1961, and established a committee to negotiate a long-term solution within that time. In the mean-time, it also encouraged Europeans to significantly increase access to their textile markets to take up "their share" of Third World exports, implying continued restriction for the US.

[62] This clause leads some observers to call the LTA a multinational agreement allowing "unilateral" quota-setting, as opposed to multilaterally-agreed quotas (or VERs). The agreement also called for European countries to more rapidly expand their share of imports from major exporters, a provision grudgingly accepted by German, Dutch and other major textile-producers. This expanded European access was necessary to appease Japan and Hong Kong in order to get those exporters to agree to keep textile imports into the US at no more than about 6 percent of US consumption by the end of the five-year life of the agreement (CQ Almanac, p.288).

[63] As the Congressional Quarterly Almanac summarizes, the LTA was negotiated under Section 204 of the

Within weeks of announcing the LTA, the Kennedy Administration could claim to have either fulfilled or made substantial progress towards fulfilling the other six points in his May 1961 seven-point plan -- including the side payment provisions. Kennedy gave the one other protectionist provision by approving Tariff Commission's positive ruling for escape clause tariff increases for Wilton and Velvet tapestries and carpets in late March. And he provided virtually all the side payment promises in the Plan. Even before announcement of the LTA, the Textile and Clothing Division of the Commerce Department had expanded its research program (Aggarwal and Haggard 1983, p.282). The Treasury Department, moreover, had reduced by about 40 percent the depreciation period for machinery and equipment used by spinning and weaving mills on October 11th (White House Press Release 1961, NYT January 16, 1962). This depreciation allowance was extended to apparel producers on January 15, 1962, and to hosiery and knitwear industries on February 15, 1962 -- meaning that all segments of apparel and textiles were given the tax relief (NYT January 16th and February 16th 1962). Third, Kennedy approved more than $6 million in Small Business Administration loans for textile industry modernization (Zeiler 1993, fn32, p.287). Fourth, the Kennedy Administration had included adjustment assistance in with his Trade Expansion Act , satisfying point five (to provide "federal assistance").

Finally, Kennedy had gotten the ball rolling on his proposal to end the two-price cotton system. On November 1961, Kennedy's Agriculture Department asked the Tariff Commission to study an "equalization fee" subsidy to textile cloth producers that would compensate for the 8.5¢ differential between the world market price for raw cotton and the US domestic price.[64] This proposal foundered between the Scylla of foreign countries angry at a new regulation that further hurt their textile competitiveness and the Charybdis of domestic raw cotton producers clamoring for continued subsidies. But the textile industry "deemed the fee crucial to textile votes for the TEA" (Zeiler 1983, p.84, and fn 26). The Tariff Commission ultimately denied the Administration's request on September 6th, after the House had passed TEA but before the Senate vote. Immediately afterwards, Kennedy issued a statement expressing displeasure and promising some solution via the Agriculture Department (CQ Almanac 1962, p288).[65] Thus, by the time the House Ways and Means convened its March hearings to consider Kennedy's Trade Expansion Act, Kennedy had acted-on or enacted all seven points of his assistance plan for textiles.

Agriculture Act of 1956, which authorizes the president to negotiate agreements to regulate trade where "agricultural commodities or products, or textiles or textile products" are involved. The Administration sought and received Congressional approval of a 1962 bill strengthening that power (CQ Almanac 1962, p.288).

[64] The request was made under the authority of Section 22 of the Agricultural Marketing Act of 1937.

[65] This solution awaited until 1964 legislation creating a subsidy to the textile industry (Curtis and Vastine 1970).

2.2.4. The Political Efficacy of Kennedy's Seven Points

There is little question that the seven-point package in the aggregate significantly defused textile opposition to the TEA -- only of which elements of that package mattered. Soon after announcement of the LTA, most textile industry groups and their congressmen finally came around to not only moderate opposition, but to explicitly support the Kennedy's Trade Expansion Act. The textile blocs in the House and Senate were the first to express their thanks. Senator Pastore phoned the President to express his appreciation on February 9th, the same day that the LTA was announced (Zeiler 1993, p.86 and fn.34). More dramatically, Representative Vinson called the LTA "a great achievement" (NYT Feb.16, 1962). Having sponsored two textile bloc letters urging more action earlier in the year, Vinson organized some 75 members of the House and Senate textile blocs to sign a letter thanking the president for the LTA and other assistance but insisting that he extend the benefits of the measures to wool and man-made fibers (NYT Feb.16, 1962, p.1; CQ Almanac 1962, p.287).[66] More than this, Vinson also went to bat on behalf of the President's TEA, both in rallying industry support and in heeding Luther Hodges's request that he "keep the House textile bloc 'in line' for the upcoming vote on the TEA (Zeiler 1993, p.86, fn.34.).

The most important of the textile industry associations either explicitly supported the TEA or swallowed their misgivings and opposition. The National Cotton Council wrote a letter on April 9th to House Ways and Means chairman Wilbur Mills, announcing its support for the TEA and citing the "exceptional treatment" Kennedy gave the industry as the reason (letter cited in Zeiler 1993, p.86). But the most remarkable industry support came from the textile industry's largest and most powerful association, the American Cotton Manufacturers Institute (ACMI) soon before they were to appear before the House Ways and Means hearings for the TEA. By the time of their annual meeting held at the end of March, the ACMI leadership was split over whether to support the President's actions and his TEA.[67] Knowing of the industry's reluctance to back TEA, Representative Vinson wrote a letter to Robert Stevens, head of one of the largest textile concerns in ACMI. The letter, read-aloud at the annual meeting, lauded the President's actions for "singling out this industry for special and unique consideration by the President of the United States and his Cabinet" (Letter from Vinson to Stevens, cited in Brandis 1982, p.25; different portions of the letter also cited in Zeiler 1993, p.86).[68]

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[66] The New York Times announcement of the letter says that "by the time the letter is dispatched...it will have 150 signatures" (NYT Feb.16, 1962). The CQ Almanac, however, claims that 75 textile bloc members signed it.

[67] A subcommittee commended the president, while emphasizing that the LTA ought to be extended to other fabrics, but a number of ACMI Board of Directors evidently believed government was giving insufficient attention to the problems of imports.

[68] Myer Feldman, deputy special counsel to the President, and Assistant Commerce Secretary Hickman Price Jr. also addressed the convention to enlist ACMI's support, but they denied that the President's program was a ploy to buy votes for TEA (NYT March 30, 1962, p.45).

With this nudging, the ACMI came around. They adopted a resolution endorsing the Administration's textile program and the TEA. After expressing gratitude for the LTA on cotton textiles and apparel and expressing the expectation and hope that the LTA and other provisions be extended to wool and man-made fibers, the Policy Resolution states:

> We desire to assist the Administration and the Congress to obtain a trade expansion act which will encourage and stimulate international trade....We believe that the authority to deal with foreign nations proposed by the President will be wisely exercised and should be granted by Congress. (NYT March 31, p.5; also quoted in Brandis 1982, p.27)

The ACMI, upon releasing this letter of support, was supposed to attend House Ways and Means hearings to reinforce their position. They decided to opt out of appearing, however, claiming an insufficient time to prepare their statement. With their support for TEA being such a radical departure from their previous political activity, sitting out of the hearings was still a powerful expression of the President's political victory.

Only a few textile groups and representatives even gave testimony to the House Ways and Means and Senate Finance Committees. Principal among these were representatives of the Man-made Fiber Producers Association, the American Silk Council, Soft Fiber Manufacturers Institute, and Rayon Stable Fiber Producers Association, all of whom said less about the TEA's problems than about how the President's administered assistance didn't help man-made fibers enough (Eugene Stewart of MMFPA, p. 3033; Milton H. Rubin, p.3152, Robert D.Larsen to Ways and Means Hearings, p.2678; John S.Bartlett, p.2806).[69] The only union representative to appear was George Baldanzi, president of the Textile Workers of America, who supported the TEA but urged loosening escape clause eligibility and strengthening of peril point procedures. With the ACMI supportive in absentia, and other groups silent, the hearings ended without much of the vitriol characteristic of earlier encounters.

The most vocal controversy over the textile compensation, in fact, came not from industry representatives opposing TEA but from those critical of the special treatment given to textiles. Complaints that Kennedy was selling out his free trade ideas began as early as November when he took action to end the two-price cotton system. After the Administration redoubled its effort to end the system, Jerome M.Pitofsky, president of the American Association of Apparel and Textile Importers gave testimony in support of TEA in which he asked "what sort of back-room political deal was necessary to accomplish the miracle of the textile industry's support for President Kennedy's trade bill" (NYT April 4, 1962, p.14)?[70] And one Democratic Senator said that the

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[69] James Cassidy, counsel for the Textile Aniline Co., a man-made textile producer, opposed the agreement and also expressed regrets that the LTA was not yet extended to his segment of the industry.

[70] House Representative Thomas B. Curtis (R-Mo.), a member of the Ways and Means Committee, was even more blunt, calling the package of assistance for the industry a "raw political deal," grossly inconsistent with Kennedy's liberal bill (CQ Almanac 1962). Curtis also made fun of the man-made and silk fiber textile groups who offered less supportive testimony on TEA, since the President had been more generous with his pork to other groups.

textile industry "in a very genteel fashion has held a pistol to the head of the President" to extract some special treatment in exchange for support of TEA (Zeiler 1993, p.87).[71]

The final voting in the House and Senate further testify to the political efficacy of the seven-point compensation. In the House, the final approval vote was 298-125 on June 27th, after defeating, by 171-253, a motion to recommit by Noah Mason. The final vote in the Senate was 78-8, passed after the defeat of several amendments scaling back on various aspects of the president's negotiating authority. The closest of these was an amendment by Prescott Bush (R-Conn.) to restore the "peril point" provisions, an amendment defeated 38-40 (CQ Almanac 1962, p.282). Most of the opposition in both houses were Republicans, motivated as much by traditional Republican protectionism or by a desire to embarrass Kennedy as by industry concerns (Zeiler 1993). Of the 213 House Representatives from the top-sixteen textile states, measured in terms of employment, 158 voted for the final bill and 77 against the motion to recommit (CQ Almanac 1962, pp.618-19, 645-55; and Zeiler 1993, pp.87-88). In the Senate, of the 32 Senators representing the same sixteen states, 28 voted for final TEA approval and a majority against the Bush amendment (CQ Almanac 1962, pp.687-88; Zeiler 1993, p.88). The southern support was strong in these votes: 19 of 20 in the Senate and 82 of 105 in the House (Zeiler 1993, p.88). Of these supporters, a great many were the stalwarts of the textile bloc, including Representative Vinson and Dorn, both whom also fought to rally southern textile votes. And in the Senate, Pastore was a major rallier of votes (CQ Almanac 1962, passim).

These statements and actions by industry groups and their legislative representatives, the pattern of appearances at legislative hearings, and the voting patterns of textile-state legislators all support the conclusion that the seven-point buy-off package was effective in lowering a great deal of industry and some legislative opposition. In the absence of the compensation package, many of those supportive of or silent about the TEA would almost certainly have actively opposed its passage. That opposition, in turn, probably would have won the imposition of constraints on the tariff-cutting authority the president requested, and may have scuttled the agreement altogether.

The five elements of side payment compensation in that seven-point package, however, were clearly not the buy-offs that lowered the opposition of ACMI and other groups. Instead, the groups all held out their support or moderated opposition until not only the proposed negotiation, but the actual agreement, to erect voluntary quotas on several product categories. This strongly suggests that the compensation as such did little to defuse opposition. The case raises the counter-factual question of whether the side payment elements of the buy-off package would have been successful had they been proposed before any promise to negotiate quotas -- rather than combining

[71] In the face of this outcry against the compensation, Kennedy assured nervous Senators getting ready to vote on TEA that he would stand by all provisions of his seven-point program. Zeiler points out that "Kennedy met with eleven senators led by Pastore, who had the support of Senator Harry Byrd, chairman of the Finance Committee, and reaffirmed his intention to limit textile imports" (Zeiler 1993, p.87).

the less seductive, if functional, gifties along with the grand, coveted present. Perhaps this would have bought some limited support or at least muted some opposition, rather than immediately attract all attention to the protectionist promise. Without knowing the answer to this question, it's clear that the short-term political effectiveness of the side payments were at best limited.

2.3. Lumber's Six-point Side Payment

The softwood lumber industry was the other industry group to receive a side-payment package. The industry was substantially smaller in employment, profits, sales, and political clout than textiles, but was somehow able to win compensatory assistance from the Kennedy Administration. Where the textile industry got a seven-point compensation package, the lumber industry was offered a six-point one that promised substantial assistance to workers and firms in the industry -- most importantly a promise to pressure Canada to restrict its lumber exports to the US. In the end, the compensation provided to lumber groups was less substantial than that offered textiles, but other trade-impacted industries received nothing. So the main puzzle of the compensation remains: how could such a small, seemingly unimportant industry to receive a compensation package while other protectionist groups of equal or greater size received less?[72]

2.3.1 Lumber's Well-timed Demands for Protection

The US softwood lumber industry was centered in the Pacific Northwest, including Northern California, Washington State, Oregon, Montana, and Idaho. The producers made common cause, however, with major lumber producing states focusing on pine and hardwood production, mainly in the South. Altogether, logging and lumber producers employed more than 73,000 people (See Table 2.4). Table 2.9 lists the states whose lumber industry is among their top five employers. The Southern states in that list include Alabama (5), Georgia (5), South Dakota (5), Mississippi (2), and South Carolina (4).

Beginning in 1960, lumber producers in the Pacific Northwest faced growing and intense competition from Canadian lumber producers in British Columbia. Over the course of ten years, a burst of Canadian softwood exports increased Canada's share of the US's Atlantic market to 57 percent, from 15 percent a year earlier. With the US share of that same market moving from roughly 50 to 20 percent, this increase in B.C. imports obviously came at the direct expense of the West Coast lumber manufacturers (Zeiler 1992). This marked increase in imports reflected several competitive advantages that British Columbia producers enjoyed over their US counterparts.[73]

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[72] The brief history that follows draws heavily from two sources: Zeiler 1992 and the CQ Almanac 1962.

[73] Zeiler 1992 lists several major advantages, many of which had political foundations. First, Canada devaluated

Table 2.8
States Where Lumber Manufacturers are Among Top Five Industrial Employers and Voting by Senators and House Reps. on Major Trade Bills, 1951-62

Arkansas		%	
STATE/INDUSTRY	Emplyt	Total	Rank
Total Industry	**113,658**		
20 Food & Kindred Products	17,878	16%	2
22 Textile Mill Products	2,248	2%	
23 Apparel and Related Products	10,610	9%	3
24 Lumber and Wood Products	21,198	19%	1
25 Furniture and Fixtures	8,348	7%	4
36 Electrical Machinery	7,619	7%	5

IDAHO		%	
STATE/INDUSTRY	Emplyt	Total	Rank
Total Industry	**30,487**		
20 Food & Kindred Products	9,881	32%	2
24 Lumber and Wood Prods	10,288	34%	1
2411Log Camps/Cntrctrs.	2,374	8%	
242 Sawmills/planing mills	7,207	24%	
243 Millwork/Related Prods	463	2%	
27 Printing and Publishing	1,360	4%	4
28 Chemicals/Allied Prods	3,232	11%	3
33 Primary Metal Industries	1,179	4%	5

MAINE		%	
STATE/INDUSTRY	Emplyt	Total	Rank
Total Industry	**99,926**		
20 Food & Kindred Products	11,657	12%	5
21 Tobacco Manufacturers			
22 Textile Mill Products	12,295	12%	3
2221 Weaving Mills, synthetics	451	0%	
2231Wving/Fnshng.Mills, wool	5,213	5%	
24 Lumber and Wood Products	11,854	12%	4
2411 Log Camps and Cntrctrs.	4,120	4%	
26 Paper and Allied Products	16,537	17%	2
31 Leather and Leather Products	24,699	25%	1

MONTANA		%	
STATE/INDUSTRY	Emplyt	Total	Rank
Total Industry	**20,247**		
20 Food & Kindred Products	4,048	20%	2
24 Lumber and Wood Prods	8,297	41%	1
2411Log Camps/Cntrctrs.	1,565	8%	
242 Sawmills/planing mills	5,437	27%	
243 Millwork,Related Prods	1,213	6%	
27 Printing and Publishing	1,517	7%	4
32 Stone, Clay, Glass Prods	858		5
33 Primary Metal Industries	3,261	16%	3

OREGON		%	
STATE/INDUSTRY	Emplymt	Total	Rank
Total Industry	**145,164**		
20 Food & Kindred Products	19,938	14%	2
22 Textile Mill Products	2,277	2%	
2211 Weaving Mills, cotton			
2221 Weaving Mills, synthetics			
2231 Wving/Fnshng. Mills, wool			
24Lumber/WoodProds	69,975	48%	1
2411 Log Camps and Cntrctrs.	12,261	8%	
26 Paper and Allied Products	6,781	5%	3
35 Machinery, except Electrical	5,575	4%	5

WASHINGTON		%	
STATE/INDUSTRY	Emplymt	Total	Rnk
Total Industry	**224,375**		
20 Food & Kindred Products	26,704	12%	3
24 Lumber/Wood Products	42,440	19%	2
2411 Log Camps/Cntrctrs.	9,111	4%	
26 Paper and Allied Products	17,985	8%	4
28 Chemicals/Allied Prods	10,908	5%	5
37 Transportation Equip.	72,402	32%	1

its currency to correct its payments deficit with the US, making Canadian exports more price-competitive and US imports less so. Second, Canadian producers enjoyed lower wages and operating costs and more liberal access to Canadian national forests. Third, nominal US tariffs on lumber were very low compared with other countries, including Canada. Fourth, a US transportation law, the Jones Act, required goods bound for domestic US markets to be shipped in US vessels. This was a problem for US producers, because US shipping rates were more expensive than other fleets and because US shipping to places like Puerto Rico and Hawaii was less frequent and reliable than other carriers. US lumbermen "paid...$36 per thousand board feet, while B.C. sent its lumber to the East Coast in world charter bottoms at $6 to $11 below that price" (Zeiler 1992).

36 Electrical Machinery	5,759	4%	4

Source: CQ Almanac, various.

Along with more domestic problems besetting the lumber industry, such as the leveling-off of US housing starts by 1961, this massive increase in import pressure caused substantial hardship for the US softwood lumber industry. Production fell off by 16 percent between 1959 and 1961. Zeiler points out that this was particularly serious for Oregon and Washington, "where the forest industry accounted for 60 percent and 40 percent, respectively, of the manufacturing payroll. Industry employment had dropped 44 percent between 1947 and 1961, making many counties in lumber states eligible for federal Area Redevelopment assistance" (Zeiler 1992).

Industry representatives and their legislative allies responded to this hardship by demanding various forms of regulatory reform and protectionism in 1961 and early 1962. The National Lumber Manufacturers Association (NLMA), lobbyists from softwood lumber areas, seven US senators, and fourteen congressmen -- together composing fifty industry representatives -- requested that Secretary of Agriculture Freeman target timber sales at "fair stumpage prices and permit additional access roads into, and more efficient use of the national forests" (Zeiler 1992). Nine Senators also wrote Freeman a separate letter requesting a USDA investigation of lumber conditions, among other things asking for a revision of the Jones Act. Parallel this request, a congressional hearing in April considered lumber conditions and also requested Jones Act revision. And the NLMA and the West Coast Lumberman's Association (WCLA) agreed that Section 22 of the Agricultural Assistance Act be modified to allow forest products to be eligible for import limits. They also agreed that tariffs on softwood lumber be removed until imports reached 10 percent of domestic consumption, at which time the importer was to impose a 10 percent duty; since imports were well above that proportion this was a thinly-veiled request for tariff relief. Many of these demands inspired legislation independent of the TEA, but all were defeated.[74]

Many of these groups explicitly threatened to oppose Kennedy's Trade Expansion Act, first in the House. At the House Ways and Means Hearings, several lumber representatives, most vocally Mortimer Doyle of the NLMA, opposed the President's bill. They focused especially on how TEA killed the escape clause and maimed peril-points, on how it might abolish the minimal tariff on lumber imports that remained after previous cutting, and on the inadequacy of the

[74] As Zeiler notes, "In spring and early summer of 1962, Congresswoman Julia B. Hansen (D-Wash.) introduced the Section 22 amendment, House members Walt Horan and Thomas M.Pelly (R-Wash.) the 10 percent plan, and Hansen and Congressman Clem Miller (D-Calif.) a provision requiring a country-of-origin label on all wood product imports." Senator Mundt (R-S.D.) also sought to protect the lumber industry by hitching a ride on textile industry's legislation that said countries unwilling to adhere to multi-lateral accords on textile voluntary export restraints would be subject to unilateral quotas. Mundt sought a clause in the law that would call for the same treatment for the lumber industry. All these were ultimately defeated.

adjustment assistance provisions (Ways and Means Hearings, p.2091-2096). Hearings testimony from industry groups was only the beginning, however. Zeiler points out that Senator Morse of Oregon "cringed at a handbill circulating around mills in his home state of Oregon that asked foreign workers to apply to him for jobs lost by Americans if the TEA passed" and asked for a "conscionable compromise" in response to the import problem. And on June 12, 1962, two weeks before the House was scheduled to vote on TEA passage, forty-three congressmen from the west and south wrote Kennedy a "lumber letter," calling for federal aid and import quotas -- a mixture of protectionist redress and potential subjects of side payment linkage.

In response to this outcry, the Kennedy Administration initially did nothing, with no major harm to the House TEA vote. The two congressmen representing Montana, five of the seven representatives from Washington, and several reps from Southern lumber states voted against the TEA or in favor of Mason's motion for re-committal. Most other lumber legislators, however, supported the TEA. Entering the congressional thicket, therefore, Kennedy apparently counted his votes and chose to ignore rather than compensate (CQ Almanac 1962).

Kennedy's approaching Senate fight, however, faced an even more threatening lumber bloc. That bloc included some influential Democrats, such as Senate Whip Mike Mansfield of Montana and Warren Magnuson (D-Wash.), who was the chair of the Senate lumber hearings. The latter had criticized the President and his Trade Expansion bill for not providing import quotas (Zeiler 1992). The most vocal, however, was Wayne Morse (D-Oreg.) who advocated protectionism for the lumber industry and threatened to oppose TEA if that was not provided. He couched this threat by explicitly appealing to a sense of justice given the compensation to textiles: "I cannot vote for the President's foreign trade bill..." unless "we get comparable justice for lumber as was given the textile industry" (quoted in Zeiler 1992, p.95). Aside from these Northwest portions of the bloc, Kennedy could also anticipate some Southern support for the lumber industry, despite the compensation provided to textiles (CQ Almanac 1962).

2.3.2 Kennedy's Six-point Lumber Compensation

On July 26, 1962, at the beginning of Senate Foreign Relations Hearings on the TEA, Kennedy issued a six-point program of assistance for lumber. As the Congressional Almanac notes, the plan called for:

1. Negotiations with Canada concerning the amount of softwood lumber imported into the United States.
2. Requesting Congress for $10 million in additional funds for building roads and trails in national forests, the source of much of the lumber for Northwest mills.
3. Seeking amendment of the Jones Act....[by permitting] use of foreign vessels "when those conditions exist which indicate severe hardships to American shippers."
4. Immediate increase of 150 million board feet on federal land ... for cutting.

5. Establishment of "preference" for American lumber in purchases by the Defense Department, General Services Administration and other Government agencies.
6. Increased attention to applications for loans filed with the Small Business Administration and the Area Redevelopment Administration by lumber mills. (CQ Almanac 1962, p.290)[75]

All of these provisions had been requested by industry representatives in letters and hearings in Congress. As with the textile agreement, however, the negotiations with Canada on the possibility of protectionist redress via voluntary import restrictions was the most complicated to implement.

By the time the Senate voted on the TEA in September, nothing had been accomplished with the projectionist quota negotiations. The Kennedy Administration opened consultations on August 27, 1962, and industry groups had made clear that their goal was for some kind of voluntary restrictions (Zeiler 1992). The Canadian government, however, was adamantly unwilling to accept such restrictions, pointing to the many reasons why Canadian lumbermen were more competitive and to the balance of trade between US and Canada, and pointing out that they had never adopted a VER (Zeiler 1992, p.97). Although the negotiations continued in after the Senate vote, this element of Kennedy's six point plan was the one point never implemented.

Five of the six-points of Kennedy's plan, however, did get implemented, and they represented side-payments to the industry. The renewed access and improved roads leading to federal lands, the SBA and Area Redevelopment Assistance loans, the promised revision of the Jones Act, and preference for US lumber in government purchases all were clearly distinct from the tariffs to be cut under TEA authority. And in the corpus of struggle over the TEA, all were mainly provided to appease protectionist opposition.

2.3.3 The Modest Political Effectiveness of Lumber Compensation

Even though the negotiations with Canada bore no fruit for US lumber interests, a number of industry groups and their legislative representatives expressed gratitude for Kennedy's six-point efforts. In the Foreign Relations Committee Hearings, the NLMA and other testifying industry representatives made clear that they wanted more protections, such as a strengthened escape clause and, more ambitiously, unilateral quotas, but all explicitly thanked the President when his six-point program was brought to their attention. Representative Hansen, commenting on the program even though it came too late to influence the House vote, "lauded the administration's tireless efforts on behalf of the industry," declaring that "Kennedy had taken every possible action under the RTA by urging a Tariff Commission investigation and naming a negotiating team to Ottowa" (Zeiler 1992, p.96 and fn.58). The only group vocally hostile to the six-point program was the free-trade group

[75] Zeiler also notes that the President's program called for revision of the depreciation schedule on lumber equipment so that lumber manufacturers could modernize more frequently without being penalized at tax time.

Committee for a National Trade Policy. Seeing the program as some free traders saw the textile compensation, CNTP director John W.Hight called the program "wholly inconsistent with the new trade policy initiated by the President" (CQ Almanac 1962).

The votes in the Senate also modestly support for the view that the compensation was politically effective. The Senators whose lumber manufacturing represented a top five employer in their states provided overwhelming support for TEA. All the most vocal Senators representing the core of the lumber bloc -- all Democrats from Washington, Oregon, Montana, Idaho, and Thomas Kuchel (R) of California -- unanimously supported TEA passage and all but Kuchel voted against the Bush amendment to restore peril point provisions (Zeiler 1992, p.98). All of these votes in support of free trade, however, were consistent with the previous liberal voting records of the Senators. That all of this support was consistent with the Senators' free-trade voting in previous legislation suggests that the timber Senators may have backed TEA without Kennedy's six-point compensation, whereas the textile state votes supportive of the TEA were a departure from previous protectionism. The informal alliance formed between the softwood lumber groups in the Pacific Northwest and the lumber producers in the South, however, suggest that the lumber compensation might have made a difference in the widespread support of many Southern Senators, in contrast to their previous protectionism.

2.4. Labor and Fair Trade: Trade Adjustment Assistance Compensation

The third compensation package to be provided during the fight for TEA was in many respects the most ambitious. The package mandated federal assistance to both workers and firms injured by trade, regardless of the manufacturing or agricultural sector to which they belonged, and took the form of supplements to unemployment insurance, relocation and retraining financing for workers, and guaranteed loans, tax breaks and technical assistance for firms. This adjustment assistance represents a side payment because the provisions were designed to assist groups expected to suffer from TEA and were separate from the protectionism being liberalized. But it differs from the industry side payment packages. First, the compensation for both the lumber and textile industries assisted narrowly-targeted sectoral groups, while the adjustment provisions promised assistance to workers and firms dislocated by trade *regardless* of sector. Second, the textile and lumber compensation represented assistance that gave little or no incentive for the groups to adjust out of non-competitive market activity. Adjustment assistance, on the other hand, was designed to help dislocated groups adjust to more competitive market conditions without erecting barriers to the flow of goods across borders. What explains the provision of such broad-based, ambitious side payment compensation?

2.4.1.Growing Labor, Industry, and Government Support for Fair Trade

As early as the mid-1940s, major policymakers were discussing the idea of the federal government providing financial, tax, and training assistance to workers and firms hurt by trade competition as an alternative to tariffs or other protections.[76] In 1950, Clair Wilcox, a prominent economist, wrote an article offering qualified support for federal adjustment assistance (Wilcox 1950). And the Bell Report of 1953 suggested several devices to help groups hurt by increased imports from lower tariffs (Frank 1977, p.3). Across the Atlantic, moreover, adjustment assistance was being put into practice by 1952 with the passage of the European Coal and Steel Community (ECSC). The ECSC created loans, cash disbursements and training assistance for workers and firms dislocated by the Community's rationalization of steel and coal production.[77]

Only in late 1953 and 1954, however, did US policymakers give adjustment assistance high-profile attention, during deliberations of the Randall Commission on US International Trade. Mandated by Congress in 1953 as a condition for RTA renewal, the Commission was to review all aspects and goals of US trade policy in time for the next congressional review of RTA authority in 1954.[78] During the hearings, several labor and business people gave testimony in which they proposed adjustment assistance. The supporters included John Coleman of the Committee for a National Trade Policy (CNTP), set up in 1953 by a consortium of mainly international corporations to lobby for expanded trade; Stanley Ruttenberg for the CIO, then still separate from the AFL (U.S. Commission 1954; CQ 1954); and Meyer Kestnbaum of the Committee for Economic Development.

Most prominently, David McDonald, president of the US Steelworkers and a member of the Commission, submitted a formal proposal calling for extended unemployment compensation and retraining and relocation benefits for workers. The proposal was worked out by Elmer Roper of the Steelworkers and by William Batt Jr., a member of the Commission Staff and an assistant to the secretary of labor specializing in community efforts to redress dislocation (BPD 1963, pp.42-3). McDonald's adjustment assistance proposals provoked more controversy than any other issue in the Commission's deliberations. Led by the protests of Sen. Prescott Bush (R- Conn.), and Reps. Richard Simpson (R- Pa.) and Daniel Reed (R- N.Y.), the proposals were nearly unanimously rejected, by a vote of 16-to-1. But Randall "ordered the paper published and

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[76] I.M. Destler mentions that the idea was originally suggested in a Council on Foreign Relations planning paper prepared during World War II, and Secretary of State Dean Acheson and Economic Cooperation Administrator Hoffman promoted the idea in the last few years of the decade. Destler doesn't say, however, who wrote the planning paper or what other discussions took place over it within the Council. See Destler 1984, p.21.

[77] Chapter Six discusses the politics of this assistance in detail.

[78] To head the Commission President Eisenhower appointed Clarence Randall, a prominent free-trade businessman, and then chose a Commission membership that included labor and business leaders, and leading protectionist and free-trader Senators and Congressmen (Bauer, Pool, and Dexter 1963).

personally wrote an explanation of why he thought the 'admirably prepared' proposal merited attention" (BPD 1963, p.43). The press attention given to the Commission, both critical and laudatory, gave adjustment assistance proposals much wider play to the US audience.

The McDonald proposal became the template or inspiration for a stream of legislative initiatives in both the House and the Senate for the rest of the decade. Several congressmen and senators submitted adjustment assistance bills separate from the three RTA renewals in '54, '55, and '58. In the 1954 session of Congress, for instance, several members of the House and Senate -- called the Kennedy-Williams-Humphrey-Eberharter proposals -- introduced matching adjustment assistance bills, cribbed from McDonald's Randall Commission proposal (CQ '54). Kennedy and Eberharter, sometimes working with other legislators like Senator Paul Douglas and Congressman Baker,[79] sought similar bills almost every year thereafter (1955 (S 751), 1957, and 1958). Legislators also tried to create or set up commissions to study adjustment assistance through amendments to the 1955 and 1958 renewals of RTA negotiating authority.[80] All these early bills or amendments were killed: The Kennedy et.al. proposals never got out of committee, and the RTA amendments were either killed on the floor or in House-Senate conference.

These proposals found their impetus partially in the autonomous actions of legislators working independently from societal groups, but they also reflected and were helped-along by support from a variety of consumer, farmer, business and labor groups. Arnold M.Soloway, speaking for the citizen-action group Americans for Democratic Action, endorsed a trade adjustment plan sponsored by Rep.Herman P.Eberharter (D-Pa.) in 1958 "as a substitute for the escape clause procedure and escape clause relief" (quoted in CQ '58, p.169). Among the various farmer organizations, the National Farmers Union was the one that most vocally supported adjustment assistance, supporting the 1955 Senate bill (S 751) creating such assistance for trade victims (CQ '55, p.295). A more vocal and consistent supporter of adjustment assistance was the internationalist business consortium lobbying for free trade, the Committee for a National Trade Policy (CNTP). The CNTP supported the creation of federal adjustment assistance ever since it was created in 1953. Other than promoting the idea in the Randall Commission, CNTP officials explicitly supported adjustment assistance proposals of various kinds every time hearings were held to consider RTA renewals in 1954, 1955, and 1958 (CQ '54 p.272; CQ '58, p.175).

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[79] Also in 1954, representative Howard H. Baker (R-Tenn.) also proposed adjustment assistance for trade-displaced workers, in H.R.8585.

[80] Hubert H.Humphrey (D-Minn.) proposed an amendment to the 1955 RTA extension, on the floor of the Senate, to create an adjustment program to aid communities and businesses suffering from import competition. The RTA extension passed by the Senate in 1958 contained amendments sought by Jacob Javits (R- N.Y.), Capehart and others that "set up a nine-member bipartisan commission ...to consider in its study possible adjustment assistance for small businesses which may be injured by imports, and to...explore the possibility of alternative employment for workers involved in any injured industry under escape-clause cases." (CQ '58, p.173). And Senator Humphrey won an amendment to have the Tariff Commission, in an escape-clause case, explore the possibility of alternative employment for workers involved in any injured industry (CQ '58, p.174).

Organized labor, however, was to become the strongest and most insistent supporter of adjustment assistance as the decade progressed. They started out being no more unified or supportive of such assistance than were the farm, citizen-action, or business communities. David McDonald of the US Steelworkers was a major popularizer of adjustment assistance in the Randall Commission, and he was supported by more encompassing groups such as the CIO's Stanley Ruttenberg. But for the first half of the 1950s, labor organizations were split on the issue of adjustment assistance. Individual unions tended to take the same position on trade policy as their employers: unions representing workers in export-oriented sectors of the economy, such as the United Auto Workers and the Steelworkers, supported free trade with adjustment assistance; unions for workers in import-competing sectors, such as the Textile Workers Union and the United Mine Workers, supported protectionism along with their employers, and expressed little or no interest in adjustment assistance.

Moreover, encompassing union organizations supported adjustment assistance, but didn't prioritize it above other aspects of their trade policy. Continuing the CIO's support for adjustment assistance, the AFL-CIO (established in 1955) supported it in all of biannual national conferences, as a major plank in its foreign policy platform. But the CIO and the AFL separately and together supported a variety of other provisions along with their basic free trade stance. The most common of these was the improvement of wages, working conditions and labor rights to associate and bargain collectively -- conditions and rights to be pursued through the International Labor Organization and other trade bodies.[81] In the 1954 and 1955 RTA renewal debates, the AFL-CIO supported adjustment assistance and these other provisions, but did not make any of them explicit conditions for their support of free trade. And for the first half of the 1950s, labor's support for adjustment assistance was no louder or forceful than that provided by business-sponsored CNTP.

By 1958, however, the AFL-CIO was more insistent. Major manufacturing industries were facing increasing foreign competition that they saw as linked to the progressive lowering of tariffs under the GATT. This increased competition inspired some unions representing workers in these industries to demand a shift in the AFL-CIO's free trade position. In their 1957 Convention, the AFL-CIO stuck with its support of free trade and gave the same endorsement of adjustment assistance, pointing out that "it is essential that an effective adjustment program be established..." (AFL-CIO Daily Proceedings 1957, p.491). But adjustment assistance was not given explicitly higher priority than other demands. In the 1958 RTA renewal, however, the AFL-CIO was more strident. During the House Ways and Means Hearings on the 1958 RTA, Andrew J. Biemiller of the AFL-CIO warned that the RTA trade program "is in real trouble" unless Congress provided

[81] In the Randall Commission hearings, labor groups were actually more successful in getting the rest of the commission to make such conditions and rights explicit preconditions for continued tariff cutting, though nothing came of this conditionality in subsequent RTA renewals.

necessary safeguards for business and labor injured by foreign competition (CQ '58, p.168). This was the first time any union organization suggested that its free trade stance might hinge on the provision of federal adjustment assistance or anything else. By the time of its 1961 Convention, with Kennedy's liberalization bill in sight, the AFL-CIO did more than suggest such linkage.

2.4.2. Incorporating Adjustment Assistance Compensation into Kennedy's TEA

Kennedy's election meant an improved climate for organized labor (the Teamsters notwithstanding) in all areas of public policy, including trade policy. When Kennedy's Administration began formulating its trade policy, adjustment assistance was part of the plan. The pre-inaugural Task Force on Foreign Trade headed by George Ball included adjustment assistance provisions in its recommendations. These provisions were a copy of the defeated legislative bills Kennedy had begun co-sponsoring more than eight years earlier as a junior Senator, and were themselves patterned after the Randall Commission McDonald proposals.

Pressure from labor groups, however, encouraged Kennedy to go beyond including adjustment assistance in his pre-inaugural ruminations, but to also write such provisions into his legislative initiative. At the AFL-CIO's 1961 Constitutional Convention, held while Kennedy's trade team had begun drafting the TEA bill, the AFL-CIO leadership claimed that "adequate assistance or relief for those adversely affected by imports is essential if the American labor movement is to continue its support for a liberal trade policy," referring to adjustment assistance among other provisions (AFL-CIO Daily Proceedings 1961, p.259). More importantly, the Congressional Quarterly reported that "labor leaders informed the Administration that protectionists in some constituent unions was so strong that [the inclusion of adjustment assistance] was the only way that labor's top leaders could throw their weight behind a liberal trade bill" (CQ Almanac 1962, p. 264). Given such explicit demands, Kennedy must have considered that including adjustment assistance was important to buy labor's political support for his trade designs.

But the President talked about the adjustment assistance on a level "above" political calculation, as a "revolutionary provision" in US trade policy (Sorenson 1965, p.461). In addition to Kennedy's own discussions of adjustment assistance as a better way to conduct trade policy than the "no injury" approach of the past, his Administration representatives took a moral stance in defending adjustment assistance. Labor Secretary Arthur J.Goldberg emphasized that adjustment assistance was necessary because "government has a special responsibility to these workers who suffer hardships because of its own trade policy" (Almanac p.267). Commerce Secretary Luther Hodges explicitly invoked fairness standards in defending the program: "It would be counter to the standards of fairness and equal treatment under law, by which our Government has always

abided, were we to make a small number of our citizens bear the full cost of a trade policy designed for the welfare of the entire United States" (Senate Hearings S1516-3-A, p.54).[82]

2.4.2.1. Kennedy's Proposed Adjustment Assistance Provisions and Eligibility

Whether out of a concern for vote-buying or for fairness, once Kennedy decided to pursue in 1962 the most ambitious of the trade liberalization options, he wrote trade adjustment assistance into the bill. Patterned after the Ball Task Force recommendations, the adjustment provisions were referred to as Trade Adjustment Assistance and provided separate relief for workers and firms.

For labor, the proposed TAA provisions provided eligible workers with training, relocation assistance, and extra income maintenance above and beyond unemployment insurance (UI).[83] Income supplements were to come in the form of Trade Readjustment Allowances (TRAs), which combined with existing unemployment insurance could pay up to 75 percent of the unemployed worker's former wage and could last for a full year, or 65 weeks for workers 60 years old or older. After unemployment insurance ran out (which in most states was around 26 weeks), TRAs could supply up to 65 percent of a worker's former wage or 65 percent of the average manufacturing wage, whichever was lower.[84] The training assistance was to be provided to eligible trade-impacted workers through an appropriate training program deemed suitable by the Department of Labor and the more local-level provider. During the period of retraining, workers could receive an additional 26 weeks of TRAs. Significantly, the proposal claimed to disqualify workers from receiving TRAs if they refused suitable training when referred to it. Relocation assistance, finally, was to come in the form of reimbursement of "reasonable and necessary expenses" to defray the costs of moving for workers only able to find a suitable job outside their commuting area. Relocation assistance also included an income supplement, equal to two and a half times the average weekly manufacturing wage, for other related expenses. TAA benefits were to be implemented by the coordinated activity of the US Department of Labor and State employment security agencies (CQ Almanac 1962, pp.265-6).

For firms and industries, TAA was to provide technical assistance, tax relief, or financial assistance. The tax relief was to come in the form of permission to "carry back or carry forward current operating losses for 5 years, and apply for any tax refund or credit that might result."[85]

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[82] Such a stance was consistent with other elements of the Kennedy social platform, including policies supporting the organizing and bargaining power of labor, expansions of the welfare state, regional redevelopment, and the establishment of active labor market policies that provided training assistance in addition to income supplements.
[83] The idea behind unemployment insurance supplements was that "workers who lost their jobs because of trade were likely to go through longer than average spells of unemployment, and needed time to train in new skills" (Office of Technology Assessment (OTA) 1987, p.22).
[84] These income supplements were to go substantially beyond the unemployment insurance offered in most states.
[85] OTA, *Trade Adjustment Assistance,* p.31.

Technical assistance was to come in the form of assistance from a public agency or private provider, the recipient of the aid and the government sharing in the cost as determined to be appropriate by the Commerce Department. Financial assistance, finally, was to come in the form of loans or loan guarantees under the program only if the financial assistance were not available privately or from some other existing government program, and were to be used primarily for investments in capital rather than labor. The benefits were to be administered by the Commerce Department's Office of Trade Adjustment Assistance.

Eligibility for workers was to be determined by the President in consultation with the US Tariff Commission, while firm and industry eligibility was to be determined by the US Tariff Commission and subject to Presidential approval. Groups of workers, individual firms, or industry peak associations injured by trade competition were to petition for either tariff relief, under the Escape Clause of TEA, or trade assistance, under TAA. Upon receiving the petitions, the president and/or the Tariff Commission would determine if the petitioners were eligible for either tariff relief or adjustment assistance, or nothing at all. The Tariff Commission was to make a decision no later than six months after receiving escape clause petitions, and no later than six weeks after receiving adjustment assistance petitions.

But by implementing adjustment assistance through the existing escape clause mechanism, the Kennedy Administration made eligibility for such assistance as difficult as for tariff relief. Tariff or adjustment assistance relief was only to go to firms, workers, or industries whose injury was "as a result of concessions granted under trade agreements," concessions which increased imports that caused or threatened to cause, for workers, unemployment or underemployment from trade-impacted firms. For industries and firms, tariff concessions had to be shown to be the primary cause of "serious injury" as measured by "idling of facilities, prolonged inability to operate at a profit, and unemployment or underemployment of a significant number of workers." For both firms and workers, this was a high standard: "As a result of concessions" was understood to mean trade concessions were most important in causing increased imports, and that increased imports, in turn, be the most important factor in causing injury (Frank 1977, p.40).[86]

If eligibility were granted by the Tariff Commission and the President, eligible workers were to individually petition the Labor Department, and firms to petition the Commerce Department, for specific determination of assistance. The TEA also called for the creation of an Adjustment Assistance Advisory Board, with the Commerce Secretary as chairman and the Secretaries of Labor, Education and Welfare, Treasury, Health, Small Business Administration and other officers the President chooses, to advise in the administration of the assistance.

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[86] This "primary part" clause tightened the old, looser clause, which stated that injury had to be due in "substantial part" to tariff concessions. As we will see, this proposal was ultimately loosened to "in major part to concessions granted..." because some legislators feared that the Administration's language would rule out petitions where the tariff concessions were not the only factor involved in injury (CQ *Almanac 1962,* p. 266).

The cost of both firm/industry and worker assistance was impossible to determine, because it covered those injured by trade cuts under past acts, under the 1962 Act, or any future tariff cutting authority. The Trade Expansion Act, therefore, did not carry any specific dollar amounts for aid but authorized "such sums as may be necessary," leaving this to be decided in later appropriations. During House hearings, witnesses said they expected trade adjustment to help 90,000 workers, at a cost of $44.5 million (1962 dollars), over five years, and they estimated that 700-800 firms would qualify for aid over five years, costing about $120 million, much of which would be in repayable loans (CQ *Almanac 1962*, p. 276). We will see below how close these estimates were to the actual program in later years of its implementation.

These adjustment assistance provisions represented major side-payments to dislocated workers and firms. All assistance to workers and firms were targeted at those suffering from the trade liberalization due to the TEA and future tariff-cutting legislation. All of the assistance, moreover, was separate from the tariffs and any other protections that the TEA gave presidents the authority to reduce in international negotiations. Since the provisions for workers included relocation and retraining assistance, and nominally required recipients of the TRAs to be enrolled in a retraining program when referred to one by Labor Department authorities, the labor provisions also promoted adjustment to market pressures. Although the assistance to firms was not to tie provision of aid to adjustment to market conditions, the assistance was geared toward facilitating investment in better products or processes. Administration intentions made this orientation explicit. Secretary of Commerce Luther Hodges defended the TAA by saying "adjustment assistance is not a dole or subsidy. It is directed not at compensation for injury, but at creative adjustment that will remove the injury" (Senate Hearings 1962, p.52).

2.4.3. The Fight for Adjustment Assistance: Narrow Victory in the House and Senate

Unlike the side-payment packages for lumber and textiles, the actual provision of adjustment assistance as compensatory side-payments rested on its survival of House and Senate scrutiny along with all the other provisions in the TEA bill. As it turned out, adjustment assistance only narrowly survived the scrutiny of those groups and legislators hostile to such assistance in the hearings in the House Ways and Means and the Senate Finance Committees, in the Committees' deliberations, and on the floors of the House and Senate. Those opposing adjustment assistance included both protectionists and free-traders, mainly pro-business groups but also labor groups, mainly Republicans but also many Democrats. However, strong support of labor and of a few free-trade business groups, and from powerful (mostly Democrat) legislators preserved adjustment assistance at every stage of the proceedings, and in fact culminated in its modest expansion.

2.4.3.1. Group Stands in House and Senate Hearings

Among the groups testifying in favor of adjustment assistance provisions at the House and Senate hearings, labor groups were the most insistent and supportive. The most encompassing level of labor organization, the AFL-CIO, continued to be the strongest among these. George Meany, President of the AFL-CIO, gave his testimony to House Ways and Means on March 19th. Announcing the AFL-CIO's official support for the TEA bill "with certain modifications," Meany called mainly for an expansion of the adjustment assistance provisions. He said that the proposed readjustment allowance of 65 percent of a worker's average weekly wage was "the very minimum that could be suggested," that the 78 week limitation on the length of training allowances was "an irreducible figure," and that part-time workers ought to be covered by the program in addition to full-time workers. He also urged that guaranteed portion of loans to businesses hurt by import competition be set at 100 percent rather than the 90 percent proposed by the bill, and that the interest rate on such loans be 3.5 percent rather than 4 percent (CQ Almanac, p.268).

Most importantly, Meany claimed in crystal-clear terms that the AFL-CIO supported TEA tariff-cutting only on condition that the adjustment assistance provisions be retained. In the House Hearings, he said that the two main parts of the bill -- tariff cutting authority and adjustment benefits -- were "inseparable," and that the AFL-CIO would not support one without the other (CQ p.268). Referring to official AFL-CIO resolutions adopted at the 1961 Constitutional Convention, he then stated that trade adjustment assistance program is absolutely essential to a successful foreign trade policy, and as we have said repeatedly, it is indispensable to our support of that policy" (House Ways and Means, p.1163.). As if the union organization's position weren't clear enough, Meany told the Finance Committee, at a stage in the legislative process when the adjustment assistance was under attack:

> ...I gather from newspaper reports and other sources that trade adjustment assistance still remains one of the most controversial features of the program you are considering. This causes us the gravest concern. In our opinion there is no question whatever that adjustment assistance is essential to the success of trade expansion. *And as we have said many times it is indispensable to our support of the trade program as a whole.* (Senate Hearings, p.241, italics mine.)

Finally, the AFL-CIO Executive Council on International Trade floated a press release after the Hearings in which they claimed that their support of TEA was "wholly contingent" on adjustment assistance (AFL-CIO Press Releases 7, August 16, 1962, p.30; quoted in Zeiler 1992, p.141). Although Meany never stated what the AFL-CIO would do if adjustment assistance was dropped or weakened, it was certainly clear that it would withdraw its support for final voting on the TEA.

In this linkage between support for tariff-cutting and the maintenance of the adjustment assistance provisions, the AFL-CIO was joined by several other member unions. David McDonald

of the US Steelworkers endorsed the TEA bill, including the adjustment assistance provisions, recalling his original recommendation for such assistance during the 1954 Randall Commission (Mitchell 1976, p.34). The President James B.Carey of the United Electrical Workers, likewise, supported TAA (Mitchell 1976, p.34; House Hearings, p.2392).

Walter Reuther, President of the United Auto Workers, redoubled Meany's request for expanded assistance, and declared his union's support for the TEA tariff-cutting contingent upon adjustment assistance:

> with adequate improvements to assure sufficient provision of assistance to those who might otherwise suffer hardship in the course of readjustment to new conditions, and a clear statement of policy in support of the negotiation of fair labor standards in international trade, we shall wholeheartedly support the bill now before Committee. (CQ Alm.,p.268).

Reuther and the UAW, however, were more circumspect in their support for TAA than their AFL-CIO leadership counterparts. They clearly and explicitly saw the existing provisions as necessary for their support of the overall bill, but also believed these provisions to be inadequate. At the 18th constitutional convention, held between May 4th and May 10 while the House Ways and Means was deliberating over the bill, the attendees passed a resolution that commended the TEA's broad liberalization designs, but then stated requests that adjustment assistance be improved and that the Bill ought to contain a statement of US support for international fair labor standards. The strongest of these statements first called for a series of improvements in the TEA[87] and then proclaimed:

> *This Convention declares that the UAW cannot in good conscience continue its support of the Trade Expansion Bill unless adequate provision is made for the assistance of those who may suffer in consequence of its passage.* (UAW 18th Constitutional Convention, Resolutions, 1962, p.192, italics mine).[88]

Such a resolution simultaneously reiterates the organization's support for the TEA conditional upon the TAA provisions, while pressing for the strengthening and expansion for those provisions.

Even the unions most ambivalent or hostile to TEA tariff-cutting authority had supportive words for the adjustment assistance provisions. George Baldanzi of the United Textile Workers of America supported TAA while calling for peril points and the escape clause (p.2827 House hearings). The spokesman for the International Brotherhood of Teamsters, legislative counsel

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[87] In particular, the resolution stated that the TEA:

> should not be allowed to become law without strengthening of the provisions for financial assistance to workers who may be adversely affected by increased imports. Such strengthening should include an increase in both the benefit formula for adjustment allowances and the allowance ceiling, an extension of duration whenever suitable jobs are not available, continuation of benefits for as long as a worker is taking approved training, and better provisions for older workers, including a lower eligibility age than 60 and a combination of adjustment allowances and pensions which would provide for them adequately from time of their displacement through the remainder of their lives. (UAW 1962, p.192).

[88] The other statement on improving adjustment assistance "urges amendment of the Bill to make provision for assistance to communities which may be adversely affected." And the international labor standards plea "calls for inclusion in the Bill of a statement that it is the public poilicy of the US to include in international trade agreements provision for the establishment and effective application of international fair labor standards." See UAW 18th Constitutional Convention 1962, Resolutions, 1962, p.192

Sidney Zagri, walked the narrow line of opposing most of Kennedy's bill, including assistance for industries, but supported expanded assistance for workers (House Hearings p.2229).[89]

As in the years before Kennedy introduced his TEA bill, labor groups were not the only societal supporters of adjustment assistance. Both the House and Senate Hearings received testimony from free-trade oriented business lobbies strongly supporting the adjustment provisions. The strongest of these remained the Committee for a National Trade Policy. Carl J. Gilbert, chairman of the CNTP in 1962, reiterated his organization's traditional support for adjustment assistance, saying explicitly that he supported giving special-treatment to trade-impacted workers, though at what level he left to debate. Beyond this, he took the position that the federal government should pay for the entire program for workers, rather than pay only for the difference between state welfare levels and the levels mandated by the TAA (Senate Foreign Relations 1962, pp.330-31).[90] The CNTP's support for TAA was joined by more unlikely supporters, such as the American Bankers Association. Charles E. Walker, the executive vice president of the Association, supported TAA, both because it was "morally appropriate" to share the burden of a change benefiting everyone, and because it sought to promote market adjustment, unlike programs such as the Agricultural Adjustment Act (House Ways and Means Hearings 1962, p.2004).

Arrayed against these groups supporting the adjustment assistance were several on both the protectionist and free-trade sides of the aisle. Some hard-line protectionists opposed adjustment assistance, because they saw it as creeping government intervention of the wrong kind, drawing attention and support away from more appropriate protections like the escape clause and peril points. An example was the testimony of James Ashley, the president of the Trade Relations Council, the "grandfather" of protectionist groups, with a membership consisting of some wealthy businessmen, trade associations and farm groups (CQ Almanac 1962, p.293).[91] More visible was O.R.Strackbein's Nation-wide Committee on Import-Export Policy, founded just before the creation of the Randall Commission in 1953.[92] In his testimony to the House, Strackbein denounced adjustment assistance both because it stood in the way of protection as an "American tradition" and was, at the same time, "another form of socialism" (CQ Almanac 1962, p.268).

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[89]In Senate testimony, he supports adjustment assistance for workers while at the same time pointing out that "the adjustment provisions of the act is a major shift in policy from the present selective use of trade agreement authority for the purpose of voiding injury to the new policy of using trade agreement authority indiscriminately so as to cause injury. Is this congressional abdication of its tariff making functions necessary?" (p.362 in Senate Hearings).

[90] Charles P. Taft, general counsel for the CNTP, also offered a rebuttal to critics of the TEA who had already given testimony. In it he defended TAA on grounds that relief was justifiable because injury from import competition would be caused by direct government action in the national interest. (CQ Almanac 1962, p.271).

[91] Ashley claimed "that HR 9900...establishes a dangerous principle of Government responsibility for private business injured by an act undertaken in the public weal; that it seeks to replace private initiative by government control and management" (CQ Almanac 1962, p.268).

[92] Although the Committee was really run by Strackbein and a few others, it had considerable influence with a number of neutral and protectionist Senators and Representatives.

Joining these protectionist lobbies were a few industry groups and unions particularly vulnerable to international trade. Two textile groups in segments of the industry not covered by the LTA were especially critical of TAA, including the American Silk Council and the Man-made Fiber Producers Association.[93] The American Farm Bureau Federation's president, Charles B. Shuman, supported minimum duty rate restrictions, an enlarged role for the Tariff Commission, an expanded escape clause and complete abolition of the adjustment assistance provisions. (CQ Almanac 1962, p.271). And even some of the unions speaking against the TEA also opposed the adjustment provisions. Mildred Homko, secretary of the glass Workers Protective League of Indiana, Ohio, Penn. and W.Virginia, opposed adjustment assistance, saying that reemployment of retrained workers was not realistic. Her opposition verged on the eloquent when she lamented that through passage of HR9900 "we shall have the best trained, most highly skilled unemployment lines in the world" (CQ Almanac 1962, p.269).

Some of the strongest opposition to the adjustment assistance, however, came not from protectionist labor and industry groups, but from free-trade business associations, like the Chambers of Commerce and the National Association of Manufacturers. The National Association of Manufacturers gave one of the strongest critiques on which much of the other free-trade business opposition built. They stated four main points:

> 1. Adjustment assistance seems to imply that there is something wrong with the operation of the free market....
> 2. Business enterprises and their employees are continuously affected, for better or worse, by all sorts of events beyond their control...We...oppose singling out any one of these possibilities as a basis of a special program of Federal assistance.
> 3. It's impossible to trace out all the effects of any given tariff change....Judgments as to which firms or persons would be entitled to special assistance would...be arbitrary...
> 4. All experience warns that programs of this type inevitably expand and proliferate.
> (Senate Foreign Relations Hearings 1962, pp.1630-31; quoted in Mitchell 1976, p.34)

This line of testimony and argument was echoed by other business association representatives, such as the director of the national Chamber of Commerce and several regional affiliates, and a few other businessmen.[94] Interestingly, none of these business representatives seemed to mind the industry assistance (CQ Almanac p.268).

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[93] The American Silk Council's president, for instance, spoke in support peril point and escape clause protections and opposed TAA by saying that "we feel that the government would accomplish more by realizing our problems and encouraging us in conducting our business as free enterprises rather than considering us expendable, but worthy of relief" (p.3156 of House hearings).

[94] A.B.Sparboe, director of the Chamber of Commerce of the US, supported TEA, but said that "aid to displaced employees should be administered by the states and should not exceed in amount or duration the benefits provided by state unemployment compensation laws" (CQ Almanac 1962, p.269). Robert L. Bean, speaking for the Chicago Association of Commerce and Industry, also endorsed the bill but opposed most of the adjustment assistance provisions (Almanac, p.271). And Leslie j. Dikovics, for the Council of State Chambers of Commerce, opposed the bill's provisions for readjustment allowances for workers displaced by import competition. These Chamber representatives were joined in their criticisms of adjustment assistance by Theodore Hauser, spokesman for the Committee for Economic Development and Robert S.Eckley of Caterpillar Tractor Co.

Given how the testimony of TEA supporters and opposition often turned into debate over adjustment assistance, it is little surprise that such assistance was the most controversial subject of the House Ways and Means and Senate Finance deliberations, and of floor debate in both Houses of Congress. In both Houses, the divide on trade adjustment assistance was heavily partisan. Republicans and conservative Democrats generally opposed the program "on the grounds that workers idled because of imports should not be given higher and longer-lasting unemployment compensation than other unemployed workers receive under the existing federal-state system" (CQ, p.277). Supporters, meanwhile, rested most of their arguments on the claim that TAA was preferable as special treatment to tariffs and other protectionist barriers.

2.4.3.2. Winning By a Hair in the House

The adjustment provisions were approved by the House Ways and Means Committee on May 18th, after it rejected three amendments designed to gut the provisions. First, the committee defeated, by a vote of 11 to 14, an amendment sponsored by Rep. John W. Byrnes (R-Wis.) that would have scaled-down the adjustment provisions by making them part of the Manpower Development Training Act (MDTA), passed earlier in 1962, with a maximum of 52 weeks of benefits and a ceiling on payments. All ten Republicans voted for this amendment, and were joined by Rep. James B. Frazier Jr. (D-Tenn.). Second, the committee defeated by an even slimmer margin another Byrnes amendment to scale-down the training allowances to match those given under MDTA (approved earlier in the year), which varied by according to different state unemployment compensation payments. The amendment (PL 87-415) was narrowly defeated by a vote of 12-13, with all 10 committee Republicans, plus Reps. James B.Frazier Jr. (D-Tenn.) and Burr P.Harrison (D- Va.), supporting it. After this very close call, the Committee defeated by a vote of 10 to 15 a motion by Rep. Bruce Alger (R-Texas) to cut the adjustment assistance provisions entirely. Nine Republicans and Rep. Harrison supported the gutting, and 14 Democrats plus Rep. Howard H.Baker (R- Tenn.) prevented it (CQ Almanac 1962, p.277). Wilbur Mills's Committee passed its marked-up version of TEA on June 4th by a 20 to 5 vote, with all the Ways and Means Democrats and five Republicans voting in favor, and five Republicans opposed.[95]

In passing the TAA, however, the Ways and Means Committee reported a bill that modestly altered the provisions. First, both workers and firms were to apply initially to the Tariff Commission for relief, rather than to have workers apply directly to the president. Second, the Commission was to report to the President within 60 days of receiving petitions whether it found a firm or a group of workers eligible for tariff or trade adjustment assistance relief, and within 120

[95] The five Republicans supporting the TEA with adjustment assistance were Byrnes, Baker, Thomas B.Curtis (Mo.), Steven B.Derounian (N.Y.) and Herman T.Schneebeli (Pa.).

days for industries. The President was then to make a final decision on eligibility (which was thought to be essentially pro forma), and the Labor and Commerce departments were to then screen specific applications from workers and firms, respectively. Third, the president could rule to provide escape clause tariff relief and adjustment assistance at the same time, rather than one or the other. Fourth, the retraining of workers was to be implemented under existing programs, such as the Area Redevelopment and the Manpower Development and Training Acts. Finally, the Committee passed an amendment by Howard H.Baker (R-Tenn.) providing that Congress may override a presidential decision not to invoke the escape clause contrary to Tariff Commission recommendation, by a majority vote of both Congressional Houses (CQ Alm. 1962, pp.275-77).

The Ways and Means Committee sent its revised TEA with these TAA revisions to the floor of the House on June 27th, after a fight over voting rules. Supporters of the TEA, especially Democrats, wanted to refer the bill to the floor with a closed rule, barring all but committee amendments from the floor, a common procedure for House trade bills.[96] Mason (R- Ill.) wanted to exercise his prerogative to make a re-committal motion "with instructions that a substitute be reported back to the House extending the existing Trade Agreements Act for one more year" (CQ Almanac 1962, p.278). Representative John W. Byrnes (R- Wis.), next in Seniority to Mason, requested a more open rule, "allowing a separate vote on an amendment by him and Rep. A. Sydney Herlong (D- Fla.) cutting the adjustment assistance from the bill" (CQ Almanac 1962, p.278). The House Rules Committee voted to adopt the closed rule by a vote of 8 to 7, with the support of only the Kennedy Democrats. With no floor fight to overturn the rule, the House passed the closed rule by voice vote on June 27th (CQ Almanac 1962, p.278).

With a closed rule that asked Congressmen to choose between passage of an intact TEA with adjustment assistance, and no TEA at all (de facto one-year RTA extension), the deck was stacked in favor of passing adjustment assistance when the House floor action finally began. After only one day of floor debate, Mason's re-commital motion was defeated by a roll-call vote of 171 to 253. 127 Republicans voted for the motion, and 43 voted against; 44 Democrats supported the motion, 210 voted against. This set the stage for House passage of the TEA by a vote of 298 to 125. In this case, 80 Republicans voted for the bill, while 90 opposed it; 218 Democrats supported it, and 35 voted against.

Several close calls, therefore, cleared the way for adjustment assistance compensation in the House: one- and two-vote margins against Committee amendments gutting assistance; a re-commital motion that forced moderates on trade policy to choose a TEA with adjustment assistance or nothing at all; and a one-vote-margin supporting a closed rule in the House rules committee.

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[96] Under such a rule, the only way to change the bill under review is through a motion to recommit the bill to the reporting committee. Motion for such a rule is usually offered by the senior, minority-party member of that reporting committee, in this case Representative Noah M.Mason (R- Ill.).

2.4.3.3. The Senate's Expansion of Adjustment Assistance

In the Senate, the fight for adjustment assistance was also narrowly won, but ultimately expanded the provisions beyond the President's request. In Finance Committee, the closest call involved an amendment sponsored by Chairman Byrd (D A.) on September 14th to eliminate the adjustment assistance sections of the bill. The motion was defeated by a vote of 8 to 7. The seven voting for the elimination were Byrd, Herman E. Talmadge (D- Ga.) and five Republicans. Senator Robert S.Kerr (D Okla.) rallied Committee Democrats to defeat the amendment.[97]

The other amendments that the Senate Finance Committee passed generally expanded and strengthened the adjustment assistance provisions. The two most important were, first, the amendment sponsored by George A.Smathers (D-Fla.) requiring the federal government to pay the full cost of the unemployment compensation for workers rather than to pay the difference between the state rates and the rates set under the bill. Second, the committee passed amendments sponsored by Kerr that loosened language governing Tariff Commission decisions of eligibility: eligible workers and firms need to suffer serious injury "as a result in major part of concessions granted under trade agreements" rather than "as a result of concessions," as in the Administration and House bills. Some Committee members worried that the "as a result of" standard would require proof that the tariff concessions were the *only* cause of injury, when in fact a slightly lower standard was most appropriate (CQ Almanac 1962, p.281).[98] The other change was that the Commission would grant assistance to firms unable to operate "at a reasonable profit" instead of "at a profit." The Senate Committee also eliminated the requirement that the Tariff Commission make an industry-wide investigation when only segments of an industry file for assistance.[99]

After the Finance Committee approved the final marked-up version of the bill by a 17-0 vote, Senate floor action again went after adjustment assistance. Among several floor amendments revising the TEA, two sought to limit or eliminate the adjustment assistance provisions. One was sponsored by Carl T.Curtis (R-Neb.) calling for elimination of the trade adjustment altogether. It was defeated in a roll-call vote of 23-58. 18 Republicans supported this amendment, and 8

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[97] Sens. Albert Gore (D- Tenn.), a known supporter of adjustment assistance, and Thruston B. Morton (R- Ky.), known to oppose assistance, did not vote (CQ Almanac 1962, p.280).

[98] "In major part" was initially interpreted by the Tariff Commission representatives to mean that the tariff concessions were "more important than all other causes combined" in creating the injury. After 1969, the interpretation softened somewhat, to mean "greater than any other single cause." The interpretation of the eligibility rules is not certain, as the phrasing suggests. On the interpretation of the eligibility provisions, see Charles Frank, *Foreign Trade and Domestic Aid;* and OTA, *Trade Adjustment Assistance.*

[99] Other revisions were more trivial, such as lengthening the time in which the Commission was to make its report on industry-wide investigations of escape clause eligibility from five months to six months, and gave the Tariff Commission 60 days to establish investigatory procedures before any adjustment assistance petitions could be filed (CQ Almanac 1962, pp.281-2).

opposed it. 5 Democrats, meanwhile, supported it, and 5 opposed it. The closer call was an amendment sponsored by Harry Flood Byrd (D- Va.) to make the level of unemployment compensation payments under the bill the same as those paid under the lower federal-state system already in existence. It was defeated in a roll-call vote of 31 to 51, with 20 Republicans and 5 Democrats supporting it, and 6 Republicans and 45 Democrats rejecting it (CQ Alm. 1962, p.687).

2.4.3. The Effectiveness of Adjustment Assistance in Lowering Opposition to TEA

One question remains in the history of adjustment assistance as compensation for TEA tariff-cutting: was it effective in facilitating passage of TEA liberalization? Unlike the textile and lumber compensations this question is actually two-fold. It not only concerns whether the compensation lowered the opposition of protectionist groups who would otherwise oppose TEA's tariff-cutting authority; but also whether and to what degree the compensation sparked opposition to the TEA from groups who would otherwise support liberalization. Since the Congressional proceedings reveal there to have been a number of groups to express opposition to TAA despite support for free-trade, this second consideration is important. Even if the adjustment assistance might have bought some support and votes for TEA, any extra support might have been vitiated by the opposition the assistance provoked.

The evidence leaves room for interpretation, but I maintain that the inclusion of the adjustment assistance provisions in the TEA legislation, on balance, facilitated passage of its tariff-cutting provisions. Adjustment assistance was not adequate compensation to some protectionist groups, such as those ideologically opposed to openness and those who were particularly vulnerable to foreign competition. Adjustment assistance was, however, essential to garnering organized labor's support for the TEA bill. The statements and actions of the AFL-CIO and a number of other member unions, before and during the legislative struggle for TEA, demonstrates that their support for tariff-cutting was "wholly contingent" upon adjustment assistance -- that they would not have supported the bill had the adjustment assistance provisions been gutted.

Gutting the adjustment assistance compensation in the TEA in the face of Labor's explicit policy stance would have three implications. First, it would certainly imply that AFL-CIO, UAW, and other union lobbyists would have tried to pressure members of Congress and Senators to vote against the passage of TEA. Second, labor might have retaliated in some way against those legislators pushing through TEA and without assistance. Third, and most likely, pushing through free-trade legislation in the face of Labor opposition would erode Labor's support for individual legislators, President Kennedy, and the Democratic Party. Given that the organizational and financial support unions provided the back-bone of the Democratic electoral coalition, and given that 1962 was an election year, passage of the TEA -- the "most important piece of legislation of

1962" to quote Kennedy -- could be held back by the anticipation of labor's retaliation. In short, the Administration's TEA bill needed to make labor happy.

Exactly how many votes were won by maintaining adjustment assistance, how much of the TEA tariff-cutting was maintained, is a matter of speculation. The votes most likely affected were those of Democrats who were closely allied with unions and who traditionally voted pro-union. More generally, the legislators most sensitive to union demands were probably Democratic Senators and House Reps representing constituencies with a high proportion of union members.[100]

On the basis of these two assumptions, we can move a bit beyond conjecture in estimating the efficacy of adjustment assistance by consulting the statistics on union density, by state, in Table 4.11. According to this table, sixteen states had more than 30 percent of their industrial employees in unions, most of which were affiliated with the AFL-CIO. These Senators, one can very roughly assume, were more likely to support the AFL-CIO's stance on trade and adjustment assistance. Of course, even the most pro-labor Democrats might vote against a piece of legislation they whole-heartedly oppose for other reasons in the face of union support.

These high-union-density Senators and Congressmen, however, overwhelmingly supported adjustment assistance and the Trade Expansion Act. On the Senate vote over the Bush amendment restoring peril point protections, the closest vote on the Senate floor, all twenty-two Democratic Senators from states with union densities above 30 percent voted for free trade.[101] Since many of these legislators and their organized labor constituencies had traditionally supported free trade legislation for more than 25 years prior to 1962, voting patterns of these legislators on previous RTA extensions do not provide much information. It is reasonable to infer, however, that many of these votes in the House and Senate depended upon the inclusion of adjustment assistance in Kennedy's original TEA bill, and in the final House and Senate versions.

But the votes for and against TEA tariff cutting didn't only involve protectionist or ambivalent free traders; they also included free traders. We know from the congressional proceedings that a number of free-trader business alliances and legislators supported TEA tariff cutting but opposed the inclusion of adjustment assistance -- including the two main spokes-organizations for US business, the Chambers of Commerce and the National Association of Manufacturers, and several powerful legislators, such as the Finance Committee Chairman Harry Byrd (D- Va.). At no point in the deliberations, however, did any of these groups threaten to

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[100] The two simplifying assumptions on which this claim is based is that states with high union densities are also states with a lot of industrial employer might, and that Democratic representatives tend to support the worker side of industrial relations, whereas Republicans support the employer side.

[101] The Senators were the following: from Alaska, Bartlett and Gruening; from California, Engle; from Illinois, Douglas; from Indiana, Hartke; from Michigan, Hart and McNamara; from Minnesota, Humphrey and McCarthy; from Montana, Mansfield and metcalf; from Oklahoma, Kerr and Monroney; from Oregon, Morse and Neuberger; from Pennsylvania, clark; from Washington State, Jackson and Magnuson; from W.Virginia, Byrd and Randolph; from Wisconsin, Proxmire. Their voting on the Bush amendment documented in CQ Almanac 1962, p.687.

Table 2.11
Union Density by State (1968)

State	Total Union Membership	Ranking	Membership as a % of Manufacturing Employees	Ranking
Alabama	193	24	19.9	28
Alaska	27	48	33.8	10
Arizona	89	32	18.8	33
Arkansas	97	31	18.9	32
California	2118	2	31.9	12
Colorado	149	27	21.9	25
Connecticut	275	17	23.7	23
Delaware	53	41	26.2	20
Florida	279	16	14.4	44
Georgia	239	19	16.4	43
Hawaii	70	36	27.4	18
Idaho	37	44	19.2	31
Illinois	1538	4	36	5
Indiana	653	8	35.9	6
Iowa	183	26	21.4	26
Kansas	124	29	18.5	35
Kentucky	235	20	27.1	19
Louisiana	187	25	18.2	37
Maine	58	40	17.9	38
Maryland-D.C.	429	14	22.6	24
Massachusetts	562	10	25.5	21
Michigan	1068	6	35.9	7
Minnesota	375	15	30.1	15
Mississippi	76	35	13.9	46
Missouri	584	9	35.9	8
Montana	61	39	31.3	14
Nebraska	79	34	17.3	39
Nevada	52	42	29.3	17
New Hampshire	43	43	17.1	40
New Jersey	735	7	29.6	16
New Mexico	37	45	13.4	48
New York	2539	1	36.3	4
North Carolina	124	28	7.4	50
North Dakota	29	47	18.7	34
Ohio	1345	5	35.9	9
Oklahoma	121	30	16.6	41
Oregon	213	22	31.4	13
Pennsylvania	1585	3	37.2	3
Rhode Island	83	33	24.2	22
South Carolina	66	37	8.4	49
South Dakota	24	49	14.4	45

State	Total Union Membership	Ranking	Membership as a % of Manufacturing Employees	Ranking
Tennessee	246	18	19.5	29
Texas	474	11	13.9	47
Utah	62	38	18.4	36
Vermont	29	46	20.7	27
Virginia	230	21	16.6	42
Washington	454	13	41.3	2
West Virginia	213	23	41.9	1
Wisconsin	473	12	32.1	11
Wyoming	20	50	19.3	30

Source: U.S. Department of Labor, Bureau of Labor Statistics. Directory of National Unions and Employee Associations, p.84

withdraw their overall support for TEA if the adjustment assistance provisions were retained. On the House floor, representatives were forced to choose between TEA with assistance, or nothing at all, in voting on Mason's motion to recommit the TEA bill in favor of a bill with one year RTA tariff-cutting. In that vote, both of the Ways and Means Democrats voting to gut adjustment assistance, Reps. James B.Frazier Jr. (D-Tenn.) and Burr P.Harrison (D- Va.), voted *against* the motion, and both voted *for* final passage of TEA. In the Senate, after several amendments cutting adjustment assistance were defeated, almost all those voting for gutting assistance but against the Bush amendment reviving peril-point protection voted *for* TEA passage. This included Harry Flood Byrd (D- Va.), sponsor of one of the amendments seeking to kill adjustment compensation.

Like the textile and lumber compensation, therefore, adjustment assistance insured support from a number of important societal groups and their legislative allies. And adjustment assistance had minimal impact in inspiring opposition to the TEA among those supportive of free trade. These considerations suggest that adjustment assistance was effective in facilitating free trade and support the counter-factual this effectiveness implies: if adjustment assistance was not included in the TEA, Kennedy and the Democratic Congress would have been forced to water-down, reverse, or abandon the tariff-cutting provisions in the TEA.

3. Explaining and Evaluating the Advent of Compensated Liberalization

The Trade Expansion Act of 1962 is important to the history of US political economy because it ushered in the era of compensated liberalization. Prior to 1962, trade initiatives had either tended towards compromised liberalization or protectionism, or had brought freer trade without side-payment compensation for the groups losing from such trade. The TEA granted unprecedented authority to liberalize trade, through deep linear tariff cuts and the virtual or total elimination of peril point and escape clause relief. But this liberalization brought with it side

payment compensation for the textile and lumber industries and adjustment assistance for trade-impacted workers and firms generally. How can we explain the advent of compensated liberalization? And what has the history so far told us about the usefulness of compensation in off-setting social costs of and facilitating freer trade?

3.1. Explaining Modest But Promising Side Payment Compensation

The case history suggests that the shift to compensated liberalization has its roots largely in the egoistic bargaining between protectionist and liberalizer groups, and particularly in the coincidence of power and multi-issue trade policy platforms of several protectionist groups. Between the 1958 renewal of RTA and the 1962, the influx of imports following successive tariffs reductions and foreign industrial recovery made a number of groups more determined and mobilized protectionists. In the face of such heightened protectionism, Kennedy sought in the TEA the most ambitious trade liberalization since the failed ITO. The result was a much larger, broader protectionist coalition that in aggregate threatened to scuttle Kennedy's hope for Congressional approval. Kennedy ruled out revising the liberalization, at least until trying to ignore, exempt, or compensate the protectionist groups.

The groups differed in their power resources and their trade policy platforms -- varied both relative to one another and relative to their predecessors -- and this difference co-varied with the response they elicited from Kennedy and other liberalizers. Many industry groups demanding redress had the same power-platform characteristics of projectionists in US episodes gone by. A number of protectionists lacked the power resources to threaten the liberalization, such as the leather shoe industry, bicycles, pottery, flat glass, watches or fur. These groups were essentially ignored by the Kennedy liberalizers. Several other groups, however, had significantly higher structural and incidental resources in terms of employment, concentration, and contacts. Of these, a few -- especially petroleum and agriculture -- approached the TEA struggle through hearings testimony and other statements that betrayed single-minded protectionism. As in previous episodes, these protectionists won protectionist redress -- in the form of tariff and quota exemptions that allowed the Administration to shave off some of the most powerful elements of the protectionist coalition. Shifts in the power and platforms of three groups, however, implied a different pattern of bargaining, which in turn underlay the advent of compensated liberalization.

3.1.1. Explaining Textiles and Lumber Compensation

Two industrial groups combined the political resources with the trade policy platforms that commanded a mix of protectionist exemption and side payment compensation. Most politically

mobilized and well-placed was the textile industry, in particular cotton and wool producers. As cotton and wool producers suffered competitive pressure due to lower tariffs, contradictions in US textile policies, and a variety of conditions advantaging textile importers, industry representatives increasingly demanded quota and tariff protectionism. Through a process of contagion, moreover, synthetic textiles and the apparel industry also joined the protectionist bandwagon by the end of the 1950s. When Kennedy proposed a particularly ambitious trade bill that promised major cuts in tariffs, the gutting of peril point protections, and the abolition of the escape clause, the textile industry's "interest" in protectionism was all the greater.

In the years leading up to the TEA fight, moreover, the textile industry organizations became increasingly inclusive, centralized, and consensual in injecting their demands in the Congress. And the heavy concentration of the textile industry in a number of key Southern states amplified the importance of industry's demands to a Democratic president with an ambitious legislative program and a desire for reelection. The organizational and strategic position of the producers, therefore, allowed them to credibly threaten to scuttle or constrain Kennedy's TEA, or retaliate against TEA supporters in other arenas. If Kennedy wanted to preserve the integrity of his TEA liberalization, he had to not just promise, but actually implement, a package of assistance.

The associations and unions representing the cotton, wool and other textile and apparel segments of industry focused their pleas on quantitative quota limits -- voluntary if not legislated -- but by the 1962 initiative, a number of textile producer and labor associations were involved in demanding a variety of other provisions. In Foreign Relations and House testimony, in press statements, and in Pastore and other governmental/congressional deliberations, the demands focused especially an end to two-price cotton, the creation of research and development monies, and other kinds of assistance. Thus, at least some of the textile protectionist representatives had broadened their trade policy platform -- beyond that prior and during the 1958 RTA extension.

The result is that Kennedy sought a package of benefits that essentially sought to buy-off the minimum but most powerful and determined textile associations with a package of redress. That meant a side payment package combined with the *promise* to pursue the more protectionist redress. The hope was that the provision of some compensation and the promise of protectionist redress would buy off textile ire, even before having to really go through with the divisive quota arrangements. When the VER protectionist exemption seemed to be all that would do, the Administration focused on the most insistent and powerful cotton and wool segments in the LTA, though promising to bring the synthetic and apparel segments of the industry into the arrangement.

The power and platforms of lumber were in important respects similar to that of textiles, but chance and timing played a much larger role for lumber. Even more than the cotton and wool segments of the textile industry, softwood lumber producers experienced a sudden and major inlflux of import competition in the years immediately preceding Kennedy's TEA bill. And as

much as textile groups, softwood lumber producers sought protectionism as the best corrective for this influx. However, the softwood lumber groups commanded around 73,000 people, fewer than some of the industrial protectionists who received nothing in the fight over TEA. Moreover, lumber employment was important to the economies of only a few states in the Northwest. How, then, were they able to get a generous package of side payments?

Several factors coincided to make the improbable possible. First, the industry was lucky in making its demands strongest and most credible just when Kennedy was trying to cobble together votes for what he expected to be a close vote in the Senate. Second, the industry had the good fortune of being represented by some very powerful members of that Senate, especially Democratic Whip Mike Mansfield who was crucial to Kennedy's desire to rally the Democrats behind the TEA and other initiatives. Third and most importantly, the lumber industry groups succeeded in linking their plight to that of lumber producers in other states that Kennedy was especially worried about, namely the South. By explicitly saying that compensation for textiles demanded equal treatment for lumber, especially given the existence of non-softwood lumber manufacturers in the South, softwood lumber representatives nudged Southern legislators to stand beside their Northwest colleagues -- either to show concern for a significant industry in their states or to defend their core textile gains from attack. The fact of textile compensation made such an alliance possible, and the idiosyncratic importance of the South to Kennedy's TEA and other legislative ambitions made it important. Thus, like textiles, the incidence of lumber compensation rests on the increased determination of lumber groups in protection, combined with their increased, incidental power resources to get it by threatening to scuttle, revise or retaliate against TEA passage.

The kind of redress Lumber received, however, again was shaped by relatively broad trade policy platforms compared to previous trade episodes, and compared to many protectionist groups. Lumber-industry workers and firms were heavily involved in voicing their protectionist demands, rather than relying on their Senate agents. Although less so than textiles, they emphasized quantitative restrictions on imports, but simultaneously made a retinue of other, non-protectionist policy demands, especially reform of the Jones Act and better access to US forest-lands.

Faced with such a stance, backed by such considerable incidental resources, the Kennedy Administration again calculated that the best route to protecting the integrity of TEA liberalization was to provide a package of compensation and protectionism consistent with the industry's platform. First was the promise to pursue voluntary quotas with a major lumber competitor. But also like the textile compensation, lumber's package included the end to a government regulation that discriminated against them; preferential treatment by US government; new loan promises from the Small Business Administration. The end result of the package weighed heavier on the compensation than the protectionist redress. Lumber did not also receive any promises for escape clause tariff relief, and the negotiations with Canada for import quotas never yielded an agreement.

In short, for both of the industry compensation packages, compensation was provided because it was politically expedient. Fairness norms may have played a role, given Kennedy's past a textile state representative and his New Deal beliefs in moderating excesses of the market. But neither textiles nor lumber could be said to have faced prospect of more hardship from TEA liberalization than did several other smaller, less politically-threatening industries (e.g. watches or clay pot producers), who received much less or no protectionist and compensatory redress.

3.1.2. Explaining Labor's TAA Compensation

Explaining adjustment assistance is a bit more complicated. Power and platform conditions were necessary to the creation of adjustment assistance compensation. Labor groups were some of the first and most vocal in proposing the idea of adjustment assistance, such as Stanley Ruttenberg of the CIO and David McDonald of the Steelworkers during the 1954 Randall Commission. The AFL-CIO and member unions were vocal supporters of congressional initiatives to create adjustment assistance, by 1958 hinting that labor support for tariff-cutting would be contingent upon provision of such assistance. More importantly, when Kennedy was drawing up his TEA bill, labor apparently contacted Administration representatives to urge inclusion of adjustment assistance, explicitly linking that inclusion to their support for liberalization. And throughout the legislative debate over the TEA bill, the AFL-CIO, the UAW, and other unions repeatedly announced that they would only support TEA if the adjustment assistance was preserved.

Kennedy and his advisors were very much aware that labor support was needed for the passage of TEA. The membership and industrial breadth of organized labor was still near its zenith when Kennedy sought his liberalization. And Labor was particularly crucial to the electoral and policy position of Democrats in general and Kennedy in particular. The AFL-CIO and member unions could well scuttle the TEA, or at least significantly water-down its ambition. And they could certainly retaliate against Democrats in future legislative and electoral battles. In light of such opposition, adjustment assistance was a useful political expedient, a buy-off.[102]

But other characteristics of the history suggest that the Kennedy Administration's desire to promote fairness in trade policy was also important to explaining the incidence of adjustment assistance. Kennedy and his Administration defended adjustment assistance as promoting fairness and equity in trade policy, never discussing how it might deflect opposition to liberalization, though this is not to deny that most politicians defend their preferred public policies with principled rhetoric. Much more important, Kennedy was among the first national politicians to champion adjustment assistance. Together with a number of free-trade business groups, citizen action

[102] Such is how several of the Kennedy trade policy-makers saw adjustment assistance at the time, and in their recollections (e.g. interview with Raymond Vernon).

groups, and economists, he stuck his neck out for adjustment assistance *before* labor had made its support of free trade contingent upon such assistance. Similarly, the TAA provisions included in the TEA bill provided assistance to workers in non-unionized as well as unionized industries, and to employers as well as workers -- to groups other than the target of the buy-off. Finally, support for assistance came from legislators and interest groups representing a variety of interests, including the voting support of legislators from many states with very low union densities.

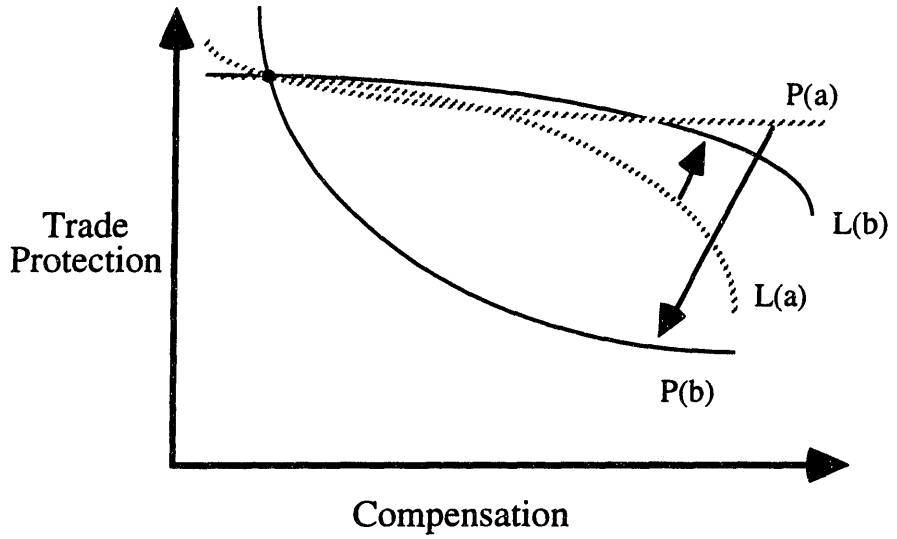
These characteristics suggest that the political exchange basis of adjustment assistance shouldn't obscure the role of ideas about fairness. Although the power-platforms of organized labor in getting adjustment assistance suggest that some compensation was to be forthcoming, the encompassing and innovative quality of the assistance has its roots in fairness principles. Put differently, Kennedy was probably more concerned about fairness norms than his predecessors, and was particularly interested in adjustment assistance. But the President faced substantial opposition that made him willing to forego pursuit of that assistance. It took labor union support for adjustment assistance, upon threat of abandoning Kennedy's TEA, to convince Kennedy and Democratic legislators to stick with the adjustment provisions. Even giving full credit to the role of ideas, therefore, labor union support was necessary for the translation of those ideas into policy.

In sum, side payments were provided in 1962 and not before, and to textiles, lumber and labor and not to other groups, primarily because of the coincidence of increasing protectionist determination and power of these groups in 1962 compared to previous years, and because of their increasingly multi-issue trade policy platforms. The jurisdiction and welfare generosity of the institutions through which liberalizers and protectionists negotiated the liberalization changed little for TEA compared to earlier episodes. The broad correlation, thus, supports the general predictions of the power-interest conditions of the theory. For at least the Labor compensation, however, fairness ideas and the "altruistic" perspective generally is also consistent with some of the history. Kennedy's election increased the stock of ideas about fairness in political economy, and the increased suffering of certain industrial actors and called for some policy redress consistent with those ideas. But the clout of these ideas was still very much advanced by the power and interests of organized labor. And the fairness ideas, in particular, cannot explain why so many other suffering industries were not given the same side-payment treatment. The egoistic bargaining as shaped by the power and platforms of protectionists, however, can.

Figures 2.4 and 2.5 graphically illustrate this argument. Figures 2.4 illustrates how the power and platforms of the respective groups in 1962 constrained bargaining between liberalizers and protectionists. The least powerful groups don't even make it onto the bargaining space in Figure 2.4, giving liberalizers the opportunity to liberalizer their sector without redress.[103] The

[103] Hence, their position is captured by Figure 2.1. above, where a protectionist indifference curve doesn't even

Figure 2.4
Textile, Lumber, and Labor Indifference Curves Shift to Steeper Slope,
While Liberalizer Indifference Curve Shift More Modestly to Flatter Slope



powerful and single-minded protectionists make it onto the space, but their single-minded protectionism implies difficulty or unwillingness to identify and exchange compensation for protection -- captured by a flat indifference curve P(a) in Figure 2.4. In this case, the liberalizer and protectionist curves intersect at the status-quo, but they do not overlap in such a way as to create any space for pareto-improvement between them. Liberalizers may be in principle interested in side payment exchange, and in fact with Kennedy Administration's heightened concern for standards of fairness in trade policy the indifference curve may be flatter still, hence the shift from L(a) to L(b). But liberalizers in any event recognize they have little hope of buying support for lower levels of protection (closer to the origin on the "trade protection" axis) through any means other than protectionist exemption (since revision was less desirable).

Figure 2.4 also shows how the coincidence of significant power resources and of multi-issue platforms among textile, lumber, and labor groups -- in contrast to most other groups during 1962 and in previous episodes -- meant that the groups would get taken seriously by liberalizers, and that they would invite discussion of some bargained outcome that would combine some liberalization with some series of compensation. Any one or all of the three distinct series of textile, lumber, and Labor negotiations or confrontations -- implicit and explicit -- can be characterized by the steeper sloping protectionist group indifference curve (P(b) than captured the confrontations in previous US liberalization episodes. The Labor indifference curve, of course

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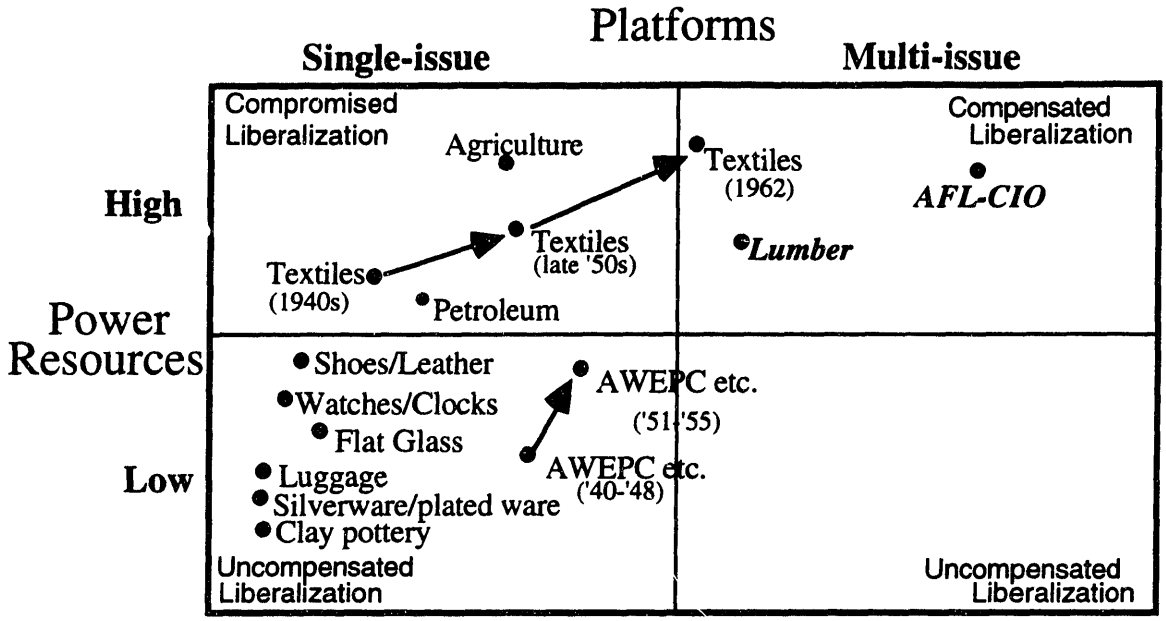
share space with the liberalizer curve in the Edgeworth space.

Figure 2.5
Power and Platforms of Protectionist Industry and Labor
(Newly engaged groups in italics)



would be significantly steeper than the textile and lumber groupings. In any event, the shifts create a zone of possible agreement that facilitates identification and provision of side payment linkage in exchange for liberalization. In so far as Kennedy approached trade liberalization with a greater concern for standards of fairness, moreover, the flatter L(b) increases the zone of agreement.

The result of these respective bargaining contingencies can be captured by the positioning of these groups on the matrix in Figure 2.5. Most of the groups did not change significantly in the level of opposition they posed to the TEA compared to the determination and resources with which they approached the 1955 and 1958 RTA Extensions. Those with relatively lower power resources, unable to win any redress, essentially got ignored -- though they might have stood to gain from implementation of the adjustment assistance program. The powerful, single-minded protectionists, on the other hand, forced liberalizers to provide some kind of protectionist exemption -- which for petroleum and agricultural protectionists took the form of continued or heighten quotas or tariff-relief.

Figure 2.5 also illustrates, however, that the shifts in the power and platforms of textiles and lumber, and more clearly the shift in the AFL-CIO's position on trade, created the preconditions for compensated liberalization. The textiles industry significantly increased its determination and gained incidental resources to threaten the initiative, and to some extent they more consistently spoke of non-protection alternatives in their litany of demands. This is captured

by the northeasterly shift in its positioning on the matrix. Two groups hitherto either in the liberalizer camp (AFL-CIO) or relatively quiet on trade policy matters (Lumber) appeared broadly within the protectionist coalition for the first time in 1962. They both appear on the matrix in italics, roughly positioned proportional to their respective power and platforms.

3.2. Evaluating TEA Compensation

Whatever the origins of the TEA side payment packages, important questions for future liberalizers and protectionists was whether those packages offered meaningful redress to the groups facing the risks of liberalization, and whether those packages facilitated freer trade. In the immediate aftermath of the episode, the short term virtues and limitations of the compensation were pretty clear. As designed, the adjustment assistance compensation was an innovative form of relief. Together with the Manpower Development Training Act, passed in the same year as the TEA, the program represented the first experiment in post-war US history with active labor market policy. Its focus on the suffering of workers and firms due to international competition focused, in the first instance, on the effects of TEA liberalization. But the program was to help vulnerable groups, regardless of sector, beyond that piece of legislation. Most importantly, where the quota arrangements in the textile and lumber compensation helped workers and firms by sheltering them from the winds of competition, with no explicit expectation or demand that adjustment take place during that sheltering, the program was conceived as an alternative to protectionist sheltering. It sought to provide help and incentive to adjust to market competition.

The TAA and other programs created as compensation were to provide benefits, moreover, roughly in accord with the level of pain the groups anticipated. For textiles and lumber, the prospects of some VER protection meant that the TEA tariff liberalization -- which would turn out to be less than 20 percent -- would not pose sizable dislocation. And the compensation was modest in the amount of money spent, but offered genuine redress in line with the perceived needs of industry representatives. The same can be said of Labor -- though only given the design of the compensation and anticipation of American industrial competitiveness. Most of the side payment program costs (e.g. lumber roads, TAA, reformed two-price cotton, etc.) were to be borne by tax-payers generally -- groups on whom the benefits of liberalization would be significant. And the design of TAA compensation would target for assistance the groups most deserving of assistance, in the sense of suffering trade-related and significant dislocation. On the other hand, some vulnerable groups would get less than others, particularly when one compared textiles and lumber with the others. So the equity of the compensation looked promising but not perfect.

As for the degree to which the compensation facilitated liberalization in the short term, the story was mixed. Both the lumber and textile compensation packages were combined with VER

protectionist redress, complicating our assessment of how much side payments independently defused opposition. The history of the textile compensation pretty strongly suggests that the side payment provisions had little if any effect in buying off textile opposition -- since all the groups and their legislative champions explicitly held out their votes for the LTA. But the lumber compensation appears to have had a stronger and more positive effect -- despite the ambiguous and ultimately unfulfilled promise of VER protection. And the TAA appears to have played a very strong role in buying the politically necessary support of the UAW and the AFL-CIO representatives. And all of the packages may have angered or frustrated some groups, but no votes or clear group stands against the TEA appear to have been sparked by the compensation.

These short-term benefits and gains left a promising legacy for future struggle over US trade liberalization. Groups seeking to protect themselves from the ravages of international competition could look to the 1962 experience to see that successful agitation need not yield continued protectionism in the face of a liberalization initiative, but can yield side payments that compensate for the pain of that initiative. Those seeking liberalization, likewise, could look to the TEA history and conclude that providing various kinds of side payments to the groups most opposed to liberalization can successfully dampen their opposition or even buy their active support. With this precedent set by the 1962 compensated liberalization, every subsequent initiative since has been accompanied by consideration of some compensation for groups who stand to lose. Continuation of compensated liberalization may have rested mainly on the power and determination of protector groups to threaten or retaliate against future liberalization. But knowledge of the 1962 exchanges put compensation on the agenda for both protectionists and liberalizers.

In the longer term, however, the jury was still out on both the political effectiveness and humanity of compensation. The usefulness of compensation depended in part on how adjustment assistance would be implemented -- how much training assistance, income supplements, and other benefits would flow forth, and to whom. It also depended upon whether programs would promote or discourage economic adjustment out of non-competitive industry. In the years to follow, as Chapter Three explains, the implementation of adjustment assistance in the subsequent several years suggested that the compensation would fall well short of its promise to off-set social costs and to facilitate liberalization. More importantly, in part because of these disappointments, the political legacy suggested by the immediate aftermath of the TEA's passage also foundered on the rocks of TAA's implementation, with groups on both sides of the free trade aisle increasingly suspicious of compensation as a useful means to humanize and facilitate further openness.

Chapter Three:
The Maturation and Disappointment of Compensated Liberalization, 1963-1972

1. The 1965 Canadian-American Automotive Products Agreement
    - 1.1. The Prelude and the Pact
    - 1.2. Support, Opposition and an Ambivalent UAW
    - 1.3. Johnson's Compensated Liberalization
    - 1.4. The Legislative Fight in the House and Senate
        - *1.4.1. The UAW's Legislative Fight*
    - 1.5. The House and Senate Results
    - 1.6. Analyzing the Auto Pact's Maturation of Compensated Liberalization

2. Fading of Compensated Liberalization as Strategy: Labor's Turn to Unconditional Protectionism, 1966-1972
    - 2.1. Threats in the International Political Economy: Kennedy Round Cuts and Structural Economic Change
    - 2.2. Threat in the Domestic Political Economy: the Hollow Promises of Escape Clause Relief and Trade Adjustment Assistance
    - 2.3. Emboldened Protectionism and the Rejection of Compensated Liberalization
        - *2.3.1. AFL-CIO Goes Unconditionally Protectionist, the UAW Stays the Compensated Liberalization Champion*

3. Fading of Compensated Liberalization as Outcome: Ineffective Side Payments, Lost Liberalization, and the Protectionist Tide, 1967-1972
    - 3.1. Delayed and Aborted Liberalization in 1967 and 1968
        - *3.1.1. 1967 Delay and Worry*
        - *3.1.2. 1968 Abortment*
    - 3.2. Nixon Does No Better in 1969 and 1970
    - 3.3. Burke-Hartke, Labor's Uncompensatable Protectionism, in 1971 and 1972

4. Compensated Liberalization in Decline? The Shift to Stronger and Unconditional Protectionism

Within a few years of getting started under the Trade Expansion Act, US compensated liberalization ran into trouble. The trouble unfolded over the next ten years of policy-making, as Kennedy concluded the GATT Round his TEA had authorized, and as Johnson and Nixon administrations championed new liberalization initiatives -- a bilateral liberalization agreement, the 1965 US-Canada Auto Pact, and preparations for a new GATT round. As the decade unfolded, the implementation of previous side payment assistance and the declining international competitiveness of many American industries led to a maturation, followed by a decline, in the use of compensatory side payments to humanize and facilitate freer trade. This chapter tells that story.

The side payment politics on which this chapter focuses is heavily influenced by the implementation of trade adjustment assistance, the broadest and most promising compensatory side payment of the 1962 TEA. Set up primarily as side payments to organized labor, the program ended up benefiting very few workers and firms because eligibility was rarely granted, and the benefits modest and slow in coming when it was. Whether or not liberalizers purposefully limited adjustment assistance, organized labor and a number of other groups became increasingly disenchanted with such assistance as a viable imperfect substitute for protectionism -- with important implications for side payment politics.

In the first test of compensated liberalization following the 1962 TEA -- the 1965 Canadian-American Automobile Pact -- the tight administration of adjustment assistance may have emboldened rather than dampened interest in side payments. When the US auto manufacturers and other government groups sought a bilateral agreement with Canada, the United Auto Workers strongly criticized the early experience with adjustment assistance, but redoubled their commitment to its improvement. Liberalizers, for their part, recognized the importance of providing some safeguards against pain from Auto Pact liberalization, not only to smooth the path to freer auto trade but to keep together their labor-industry coalition behind free trade generally. The result was the provision of improved adjustment assistance for workers and firms affected by the Auto Pact. Mindful of the past but seeking a better future with adjustment assistance, this episode marked a maturation of compensated liberalization.

As the decade matured, however, continued frustration with the broader TAA program actually sewed the seeds of compensated liberalization's demise. Organized labor was the most important coalition in this process. Faced with continuing onslaughts of foreign imports alongside substantial job and wage losses among their ranks, the AFL-CIO and most of its members became increasingly disenchanted with such assistance as a viable imperfect substitute for protectionism. Even though their new trade policy stance explicitly brought in issues of investment regulation hitherto separated from the trade arena, this disenchantment was so thorough-going that the AFL-CIO turned away from a position of conditioning support for or moderated opposition to freer trade upon provision side payments of any kind, embracing instead unconditional

protectionism. In addition, labor groups suffered declines in their party and membership base, hence political power, thus becoming increasingly unable as well as unwilling to extract compensatory side payments. The UAW and a few other unions were more cautiously optimistic about the benefits of adjustment assistance given their good experience with the 1965 US-Canada Auto Pact, and they continued to support expansion of adjustment assistance as a condition for their support of the liberalization. But this support was growing thinner.

Although labor was increasingly disenchanted with such payments, adjustment assistance enjoyed modest support among some protectionists and a number of legislators: the UAW continued to hold out hope for its expansion and reform; those generally supportive of liberalization could show their constituents they cared about and were doing something to help the losers of trade, and such assistance was already on the books and was, therefore, virtually costless as a subject of side payments; and the provision continued to appeal to fairness ideas pervasive among many liberalizers and the polity at large. As a result, adjustment assistance was neglected when trade policy was not on the docket, but every time it was -- whether the legislative initiative was protectionist or liberal in its thrust -- bargainers put forward proposals to expand adjustment assistance as a side payment to protectionists, to victims of freer trade.

This interest was for naught, however, when surging protectionist tides yielded alternating episodes of aborted liberalization and blocked protectionism. Other than the Auto Pact glimmer, the offer of compensatory side payments did little to dampen opposition, even in concert with a variety of exemption, revision and other bargaining tactics. And other than the Pact, struggles over trade yielded no actual side payments during the decade. With adjustment assistance being the main subject of such payment politics, this meant no improvement in the operation of side payments and deepening cynicism about the humanity and political effectiveness of side payments on both sides of the freer trade aisle.

The maturation and subsequent decline in the incidence and effectiveness of side payments between 1963-1972 trade policy-making mostly corroborates the theory of compensated liberalization. The 1965 US-Canada Auto Pact, brought government, industry, and labor groups together in a forum for intensive consultation, and included concentrated and powerful auto labor unions with a emboldened interest in improving adjustment assistance provisions as an explicit compensated liberalization strategy. With such a coincidence of the UAW's power and relatively conciliatory, multi-issue platform, the theory predicts provision of side payments.

As the decade wore on, and in the broader multi-sectoral trade policy-making arena, the conditions were not so favorable or simple. Continued non-administration of the adjustment assistance side payment, marking intentional or unintentional reneging on a side payment promise, undermined trust in the usefulness of side payments, and this fueled a narrowing of the AFL-CIO's trade policy platform towards unconditional protectionism. But some groups, especially the

UAW with its more favorable experience with the Auto Pact TAA, remained at least tepidly committed to adjustment assistance as a subject of compensation. And other factors outside the theory pushed for continued TAA side payments -- the ease of relying on some policy pork already on the agenda, the symbolic value of adjustment assistance, and the way such assistance appealed to fairness ideas generally. These conditions perpetuated interest in the adjustment assistance as a side payment, but the lack of acute interest as part of a strong protectionist group's trade policy platform meant that adjustment assistance compensation would be confined to a modest and politically-precarious level of funding and entitlement.

This story of the maturation and decline of compensated liberalization can be told in three parts. First is the history of the US-Canada Auto Pact in 1965, the sectoral liberalization initiative that yielded a maturation of the adjustment assistance compensation for organized labor. The second section chronicles developments in side payment politics that undermined interest in compensated liberalization among various protectionist groups, especially organized labor. Third is the story of how these shifts in trade policy stances fueled years of frustration in US trade policy-making, foregone and blocked initiatives by the Johnson and Nixon Administrations, and the protectionist initiatives by unconditional protectionists -- all of which provoked lots of interest in and talk of, but also no provision of side payments. A final section of reviews the decade's post-Auto Pact side payment disappointments in light of the theory of compensated liberalization.

1. The 1965 Canadian-American Automotive Products Agreement

The first significant trade liberalization initiative after passage of Kennedy's 1962 Trade Expansion Act turned out to be a bilateral and sector-based initiative that took place completely outside of the GATT arena. The Kennedy Round was well under way, but was mired in disagreements between the US and the EC over reciprocal industrial and agricultural concessions; any major liberalization to emerge from the talks were distant or out of sight. Meanwhile, a crisis was brewing in US-Canadian automobile trade that was ultimately resolved with negotiation of the US-Canada Automobile Pact in 1965. The Pact was a bilateral agreement on auto trade that dramatically reduced both US and Canadian tariffs on autos and auto parts. Growing out of the mix of unqualified support of auto manufacturers, the qualified support of unions, and the strident opposition of US parts producers and Republican partisans, the resulting liberalization dramatically increased US-Canadian trade. And the Pact foreshadowed the free-trade zone bilateralism that has come to share center stage with GATT multilateralism in the US trade policy-making of the 1980s and 1990s. For this reason, alone, the politics of the Pact deserves more study than the scant attention it has so far received from historians and scholars of US trade policy-making.[1]

[1] There are a number of fine studies of the nature and effects of the US-Canada Auto Pact, including of its

The 1965 Auto Pact should also be remembered as a maturation of the compensated liberalization begun in 1962. The US legislation ratifying this liberalization ended up providing clear and significant expansion of trade adjustment assistance for the US workers and firms expected to suffer from the adjustment caused by the Pact's liberalization. This assistance stemmed from the anticipated welfare losses and the need to buy political opposition of groups who had made clear their continued interest in but disappointment with the 1962 Trade Adjustment Assistance. Offering specific revisions in the eligibility criteria that eased access to adjustment assistance, the Johnson Administration was able to secure the support and votes of a number of groups, without whom the Auto Pact may well have never made it through Congress. What explains this maturation of compensated liberalization, and to what extent did it actually improve upon past compensation?

Answering these questions begins with understanding the Pact as an example of substantial trade liberalization and not just market rationalization. It then requires overview of the societal opposition and conditional support for the Pact among auto-parts producers and labor unions, followed by details the Johnson Administration's enactment legislation that combined liberalization with side payments. Overview of the legislative battle for the legislation in both the House and Senate then reveals how much the compensatory side payment reflected pragmatic response to UAW demands, and the extent to which the compensation lowered political opposition and secured political support for the Pact.

1.1. The Prelude and the Pact

The Auto Pact grew out a crisis in US-Canadian trade relations that, in turn, grew out of the Canadian government's long-standing attempt to sustain and protect a domestic automobile industry. Even though Canadian auto workers earned substantially less than their US counterparts, economic pressures strongly discouraged any substantial Canadian auto manufacturing, and favored an integrated market where US manufacturers would be the predominant producers (Woodcock, House Ways and Means 1965, p.256).[2] In view of these pressures, the Canadian government sought to nurture a Canadian auto manufacturing industry behind tariffs of between 17.5 percent on finished autos and 25 percent on most auto parts, substantially higher than the US tariffs. The Canadian government acknowledged that some auto

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adjustment assistance provisions, such as the Beigie 1977 on which I draw heavily. But not a single study exists to my knowledge that details its political history.

[2] The Canadian auto market was small, estimated at around 7 percent of the US market, and could not absorb auto production runs of a size that could sustain the massive economies of scale in production and learning advantages that the nearby US producers had long relied on to keep prices low (Beigie 1970). Also, many of the Canadian producers were actually subsidiaries of these huge US producers eager to produce their cars as efficiently as possible, and Canadian auto exports faced substantial US tariffs.

Table 3.1
Canadian Automotive Trade with the
United States 1961-64 (in millions of Canadian dollars)

	Automotive trade with the United States			Net balance of international payments	Percent, col.(3) as a percent of col.(4)
	Exports (1)	Imports (2)	Balance (3)	(4)	(5)
1961	$12	$398	-$386	-$982	39.3
1962	15	505	-490	-874	56.1
1963	37	587	-550	-557	98.7
1964	97	681	-584	-453	128.9

Source: House Ways and Means Hearings on US-Canada Automotive Products Agreement, p.257.

parts couldn't be economically produced in Canada, and these could be imported from the US duty free providing they were used in cars that met a minimum of overall "Canadian content."

This policy of protection proved to be unsustainable. Canadians bought plenty of imported US luxury cars, despite the high tariffs, and the Canadian auto producers required substantial inflows of dutied or duty-free US-made parts. At the same time, the Canadian parts and finished vehicle producers were unable to compete effectively in the tight and moderately protected US market. US tariffs were 6.5 percent on finished autos and 8.5 percent on most parts. The result, revealed in Table 3.1, was a very lop-sided and growing trade imbalance in auto vehicles and parts. In 1961 the deficit stood at $386 million (Canadian dollars), growing to $490 million in 1962, $550 million in 1963, and $584 million in 1964, representing a high percentage of Canada's overall $962 million trade deficit. By 1962, in fact, Canada's overall balance of payments situation worsened to the point that it was forced to devalue against the US dollar. This devaluation helped to improve the overall trade deficit, but the auto trade deficit continued to grow.[3]

Canada's response to the problem was initially unilateral, and therein lay the seeds of a crisis. In 1962, the Canadian government renewed the duty-free status granted to automatic transmissions from the US before that status expired, but it added the condition that for every dollar by which the auto manufacturers increased their exports to the US they could bring in an equal value of US-made transmissions duty free.[4] This remission plan gave Canadian producers strong incentives and the ability to expand exports to the US, and at the same time gave US auto companies strong incentives to reallocate production from their US plants to Canada in order to

[3] As Table 3.1 shows, and as UAW Leonard Woodcock was to later point out, the trade pattern underlying this deficit was "almost exclusively a one-way street (Woodcock, p.256). The Table also shows how the auto deficit grew even as the overall trade balance improved after the 1962 devaluation:

[4] On October 22, 1963, the government generalized this program with the "full duty-remission program." This program "allowed a manufacturer (defined as a firm producing in Canada at least 40 percent of the vehicles it sold there) to earn the remission of duties on a dollar's worth of *any* new vehicle and original parts imports for each dollar of Canadian content in vehicle and parts exports in excess of the Nov.1,'61-Oct.31,'62, base level" (Beigie p.38).

take advantage of the rebates. The trade balance figures between 1962 and 1964 (shown in last footnote) show that such incentives were working: both exports and imports rose substantially.

The same incentives also meant that the remission duty program amounted to the first salvo of a brewing trade war. By March 1964, the plan had become a major bone of contention in Canadian-American trade relations.[5] Whether or not a trade war was really about to break out, bilateral negotiations between US and Canadian officials ensured a more amicable, and liberal, solution. Trade, Commerce, and Treasury officials frequently shuttled back-and-forth across the border between April 1964 and January 1965, searching for a solution that would help Canada's ailing auto industry and expand US-Canadian auto trade.

The fruit of their efforts was the Automotive Agreement of 1965, establishing conditional duty-free trade between Canada and the United States in most auto products. The Agreement was signed by President Johnson and Prime Minister Pearson on January 16, 1965.[6] The Agreement sought the dual, if somewhat contradictory, objectives: to promote and protect a Canadian automobile industry and to expand and liberalize US-Canada automobile trade. The trade expanding and liberalizing aims were formally expressed in the intergovernmental Agreement as the dominant aims of the Agreement. Article I states that the purposes of the Agreement were three-fold:

> (a) The creation of a broader market for automotive products within which the full benefits of specialization and large-scale production can be achieved;
>
> (b) The liberalization of United States and Canadian automotive trade in respect of tariff barriers and other factors tending to impede it, with a view to enabling the industries of both countries to participate on a fair and equitable basis in the expanding total market of the two countries;
>
> (c) The development of conditions in which market forces may operate effectively to attain the most economic pattern of investment, production and trade.
>
> (Agreement, reproduced in Beigie 1970, p.109).

This market liberalization was to be enacted by elimination of US and Canadian tariffs and other duties. For both countries, this represented substantial liberalization. On completed vehicles, US tariffs in 1964 were 6.5% for passenger cars, 8.5% for trucks, and 7.5% for buses. On virtually all auto parts, both specified (when of a class of part) and unspecified (such as brake linings), the

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[5] Formally, the controversy arose from the plan's apparent conflict with the provisions of Section 303 of the US Customs Act of 1930. This Act provided that if a certain product exported into the US was being subsidized by a "bounty or grant," as determined by the US Treasury Department, the US would impose a countervailing duty even if its import wasn't causing domestic injury (Beigie p.38). By April 15, 1964, a parts company in Wisconsin filed a petition with the US Bureau of Customs charging that the Canadian plan represented a "bounty or grant" by the definition of the 1930 Customs Act. This led to a formal review of the company's petition by the US Treasury. Both the US and Canadian governments, as well as their employer and employee constituencies, recognized that the next step was going to be imposition of a counter-veiling duty or some other retaliation, which would in turn spark a Canadian counter-retaliation. A number of groups openly spoke of an impending trade war.

[6] The Auto Pact actually had two components, a formal intergovernmental Agreement and side conditions placed upon vehicle manufacturers and formalized in "letters of undertaking" that auto manufacturers operating in Canada submitted, more or less confidentially, just days before signing of the intergovernmental Agreement.

tariff was 8.5% (CQ Almanac 1965, p.510).[7] Canada, meanwhile, started with even higher tariffs on most products. So the agreement ushered in significant liberalization, even though provisions designed to expand and protect Canadian auto presence constrained the degree of openness, particularly from the perspective of Canadian producers (Beigie 1970, CQ Almanac 1965, p.509).[8]

From the perspective of US producers, those auto factories and people operating in the US, the Agreement was clearly liberalizing and potentially dislocating. The removal of tariffs on completed vehicles and parts ensured substantial new competition and a relocation of production that would entail declining exports, and the pledges by manufacturers to meet Canadian production targets ensured even more relocation than market rationality might advise.

Significantly, the Auto Pact contained no explicit or new safeguards for the groups in the US or Canada expected to suffer adjustment dislocation as a result of the liberalization and expansion of Canadian production. Only through exemption, via tariff relief for Canadian parts-producers, were there any adjustment safeguards. There were no requirements for any passive or active labor market policies, technical assistance, and the like, beyond the provisions in the two countries that were already in place for all trade-displaced or generally aggrieved workers or firms.

Such uncompensated and compromised liberalization would probably have stayed that way were it not for the separation of powers in the US. Canadian participation in the Pact was formally established by parliamentary order immediately after its signing.[9] But US participation required Congressional ratification, because the agreed-upon removal of tariff barriers on auto vehicles and parts was greater than the elimination and reduction authority granted the president in the 1962 Trade Expansion Act. It was during the ratification process that there was an opportunity for groups opposed to or ambivalent over the Pact to limit the liberalization, to revoke the commitments to expand Canadian production, or to establish adjustment safeguards. Therefore, when the Agreement was signed on January 16, 1965, it was on that ratification process that ambivalent and opposition groups set their sights.

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[7] Some specialty vehicles and parts were to be exempted from this liberalization, as were all tires and tubes used as original equipment or replacement (Beigie, p.46). The removal of US duties, moreover, was extended only to Canadian producers whose product content achieved a minimum North American content to prevent "third country" producers from using Canada as a means to circumvent the US tariff.

[8] The commitment to expand and protect a Canadian auto presence found expression in both the intergovernmental Agreement and the "letters of undertaking." Article 2 (5), Annex A of the intergovernmental Agreement specified that only certain vehicle manufacturers could enjoy duty-free treatment. To be eligible a firm had to satisfy requirements assuring continued growth of Canada's vehicle assembly and sustaining independent Canadian parts-producers during the period of transitional adjustment to the provisions of the Agreement.[8] In addition to these formal commitments to sustain or expand Canadian production, producers pledged in their "letters of undertaking" to increase by 1968 their value added in Canada by an amount equal to 60 percent of the growth in net sales value of cars and 50 percent of the growth in net sales value of commercial vehicles sold in Canada plus a total of $260 million (Canadian) (Hearings 1965, p.158-9).

[9] Orders in Council P.C. 1965: 1/98, P.C. 1965 - 1/99, and P.C. 1965 - 1/100, all dated the same day as the signing of the agreement, January 16, 1965.

1.2. Support, Opposition and an Ambivalent UAW

In the period just before, during, and after signing of the Auto Pact, the only groups to take a stand were those directly interested: auto manufacturers, independent parts producers, and unions on both sides of the border. The vehicle manufacturers -- mainly the Big Three (Ford, GM, and Chrysler) but also American Motors -- were strongly in favor of the Pact. Indeed, they were at the center of its formulation and negotiation. Most Canadian *and* American manufacturing and trade took place under the auspices of these producers. With the agreement substantially lowering duties and other barriers, these manufacturers anticipated higher profits at existing price levels,[10] an expanding market in so far as prices could be lowered, and greater freedom to move production facilities to wherever locational, labor, and other characteristics made manufacturing most cost-effective. In exchange for these advantages, the manufacturers made promises in their "letters of undertaking" to expand production in Canada, expansion that generally conformed to their optimal production profile independent of the political pressures (Beigie 1970). In other words, the big producers had the most to gain from the agreement.

The group with the most to lose, on the other hand, were the independent parts producers based in the US. These manufacturers and their wholesalers include some 20,000 automotive firms, located in all 50 states, and employed more than 400,000 people (Levine to Ways and Means, p.244).[11] These manufacturers were represented mainly by the Automotive Service Industry Association (ASIA), which claimed membership of more than 5,000 manufacturers, rebuilders, warehouse distributors, and wholesalers of auto replacement parts, tools, equipment, and other accessories. These independent suppliers stood to suffer from the Auto Agreement for three reasons. First, the elimination of tariffs was not to apply to all replacement parts, so internationally competitive producers of such parts couldn't gain access to the Canadian market. Meanwhile, these producers feared that US tariffs on the replacement parts could be circumvented by Canadian companies importing duty free into the US parts ostensibly for use in original equipment but destined for the replacement parts market. Finally, many independent parts manufacturers expected to suffer the loss of their few customers as Big Three vehicle assemblers moved facilities North of the border.

The third actor, organized labor, had a clear interest in the Pact's outcome but was neither an opponent nor an unconditional supporter of the Agreement. The United Auto Workers international union represented virtually every person working in the automobile industry -- in the US *and* Canada. UAW representatives, therefore, had a strong interest in any change in US-

[10] This benefit, in fact, became the subject of criticism by the UAW and a few others, who demanded that manufacturers pass benefits of lower tariffs and, hence, costs onto the consumers rather than into their own pockets.
[11] The Tariff Commission estimates that over 10,000 independent US businesses supply parts to US auto manufacturers (Senate Finance Committee Minority Report 1965, p.39).

Canada trade. One of organized labor's most internationalist supporters of expanded trade, the UAW strongly favored the liberalization and integration of the US and Canadian markets. But they conditioned this support on the provision of safeguards for workers likely to be dislocated as a result of the liberalization's dislocation. Their power and ambivalence over the Pact made them the most important player in a story about the Pact as compensated liberalization.

Prior to the US-Canada Auto Pact episode, the UAW had long been one of the strongest supporters of compensated liberalization. By the mid-1960s, UAW representatives aggressively supported freer and expanded trade that they saw benefiting society as a whole, combined with generous and accessible assistance for workers and firms bearing the costs that they believed accompanied such trade. Before, during, and after the political struggle over the 1962 Trade Expansion Act, the UAW was one of the strongest and most vocal unions within the AFL-CIO to support the TEA's tariff-cutting authority, conditional mainly upon adjustment assistance for the victims of freer trade.[12]

But the UAW was also, recall, the most circumspect about whether the adjustment assistance provisions in the TEA were adequate compensation for the injury that authority might cause. They called for, among other things, an increase in adjustment allowances, an extension of duration when suitable jobs proved unavailable, provision of assistance to adversely affected communities, and continuation of benefits for as long as workers were enrolled in approved training.[13] After the Senate modestly expanded the program, though short of these demands, the UAW still supported TEA passage.

On the issue of expanding and liberalizing US-Canada automobile trade, the UAW was more strongly supportive, but also even more adamant that such liberalizing be accompanied by better safeguards for dislocated workers. Among the many reasons for supporting the Pact integration and liberalization,[14] UAW representatives saw the possibility of doing something the union had hitherto been unable to do, leverage-up wages of Canadian auto workers to US levels by removing the argument of auto companies that lower Canadian wages reflected lower efficiency.[15] As Reuther was to later point out, the new arrangement, predicated on evening efficiency across

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[12] They also took interest in labor standards.

[13] See Chapter Two discussion of House Ways and Means hearings and also UAW 18th Constitutional Convention, Resolutions, 1962.

[14] Their support for an integrated market was stronger than for general trade liberalization for a variety of reasons. As virtually all auto workers on both sides of the border were UAW members, the prospect of expanded trade did not entail new competition from non-union producers who would displace union-members. And the union recognized the company line that an integrated, freer market would lead to increased efficiency, reducing costs and prices, and thereby increasing total sales. This, in turn, could be expected to result in benefits in the form of higher wages and more stable employment for the workers in the firms doing the selling.

[15] The auto companies had long paid Canadian workers substantially less than their US workers, an average of over 50 cents an hour in the Big Three and much more than that in many supplier companies, and they had done so on the argument that Canadian production was less efficient. Leonard Woodcock, UAW Vice President, claims that the difference is 40 or more cents per hour. See Woodcock testimony in House Hearings 1965, p.256.

the US-Canada borders, "will remove any possible justification for continuing the present disparity in wages between the United States and Canadian auto workers" (Reuther 1966, p.134). This, in turn, "will not only mean a substantial improvement in living standards for our Canadian members and their families, but will eliminate the threat of removal of US plants to Canada in search of lower wage costs."[16]

But by the time the bilateral arrangement was being negotiated, the conditionality of the UAW's support for freer trade had also hardened. UAW leaders continued to see freer trade as fraught with adjustment dislocation for the few that necessitates compensation in the interest of fairness.[17] Beneath this principled fairness stance, however, lay more narrow concerns that the Auto Pact promised significant dislocations for its union members as US and Canadian firms shifted production facilities. This dislocation was more certain for union workers in independent parts suppliers, whose closing from Big Three relocation was inevitable.

UAW's position on safeguards was also more skeptical than it had been in 1962 because of the Trade Adjustment Assistance program's actual record of assistance. Since its passage in 1962, UAW and other unions were acutely aware, the program had done nothing to help the victims of liberalization. The TAA provisions stipulated that assistance could not be provided until the Tariff Commission made a determination that tariff concessions caused serious injury to the group applying for assistance. As of early 1965, there had been 18 requests for such determinations -- five initiated by workers, four by individual firms, and nine by representatives of industry groups.[18] In not a single one of those cases had the Commission made a favorable determination. The UAW and most other unions and other commentators attributed this record to excessively tight eligibility criteria set up in the TEA act, and a very tight reading of those criteria by the Tariff Commission.[19] As UAW representative testimony was to complain, "if auto workers and small firms had to rely on Trade Expansion Act for protection [as a result of the US-Canada Pact], they would in fact have no protection at all" (Woodcock, p.266).

As for the kind of compensation that *would* provide real protection, the union was more ambiguous, sometimes speaking of narrow revisions of the TAA program, sometimes talking of international wage supports that resembled the European Coal and Steel Community schemes. But

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[16] The agreement actually strengthened the position of the UAW in its collective bargaining in 1964, with the bilateral initiative imminent. Woodcock points out that UAW negotiators were able to narrow the wage gap to just short of 10 cents "predicated upon the imminence of this agreement" (Woodcock testimony, p.271). It isn't clear whether this wage concession represented a side payment to the union, to buy its support for the agreement, or whether the impending increases in Canadian production efficiency justified the increase on its own merit.

[17] As UAW President Walter Reuther quoted Henry Ford approvingly in his testimony over the Trade Expansion Act in 1962, "There is real justice in the idea that, since a liberal trade policy is essential for our nation as a whole, special hardships that might be created by such a policy ought not to be borne by a limited group in the society" (quoted in UAW 1962, p.69-70).

[18] None of these petitions came from the UAW or from vehicle or auto parts manufacturers.

[19] The nature and origins of the Trade Adjustment Assistance program's poor performance will be discussed in more detail below.

more often, UAW representatives used more general language of safeguards, as when Reuther remembered that the union's support for the Pact and its ratifying legislation would depend "both upon the adequacy of the protection it would provide for affected workers and their families and on whether it, in fact, would provide definite assurance that the workers would actually receive the benefits provided" (Reuther 1966, p.137).

So the UAW approached the issue of US-Canada auto trade with a hardened stance in support of compensated liberalization -- better compensation for more thorough-going liberalization. In 1960, well before the crisis in trade sparked bilateral negotiations, the UAW acted on this stance when the Canadian government appointed a Royal Commission to look into the problems of the auto industry in that country. The Canadian section of the UAW made a proposal to the Royal Commission that was said to have been very similar to the actual Auto Pact agreement in combining duty free liberalization and market integration with production targets for Canadian producers (Woodcock, p.255). According to UAW Vice President, "we also proposed such necessary safeguards, including adjustment assistance for workers" (Woodcock, p.256).

As for the negotiation of the Auto Pact itself, UAW representatives were only peripherally involved. Representatives of the UAW met from time to time with representatives of the US State, Labor and Commerce Departments while negotiations were under way. And at the same time, George Burt, the UAW's Canadian Regional Director, and some of his staff, consulted with the Canadian Ministers of External Affairs, Industry and Labor and their staffs (Reuther1966,p.135). We don't know the details of the consultations, how much emphasis was on the need for safeguards and how much for a particular degree or kind of market expansion and liberalization.

When the Agreement was signed on January 16, 1965, however, UAW President Walter Reuther immediately made a speech laying out the union's compensated liberalization position. Reuther pointed out that his union had "long favored trade legislation and expansion" and that "we have advocated for many years the creation of such a common market" (Reuther 1966, p.137). The Auto Pact's market opening, he said, would "prove to be in the best interest of the economies, the consumers and the workers of both countries" (Reuther 1966, p.137). But Reuther then called upon both the US and Canadian government to provide safeguards for dislocated groups:

> In order to achieve the more rational division of labor made possible by the Agreement, there will inevitably be some readjustment of production within and between both countries. This could result in hardship and dislocations for some groups of auto workers and their families unless effective steps are taken to tide them over the transition period.
>
> We call upon both governments to assure that adequate protection will be provided for those who would otherwise be adversely affected by the agreement. It would be wholly improper for the auto corporations and car consumers to enjoy the benefits of the agreement while auto workers and their families bear the burden and sacrifices resulting from it. (quoted in Woodcock 1965, p.256).

Reuther provided no specifics about specific kinds of safeguards, but he explicitly singled out the European Coal and Steel Community plan as a good model, referring to how it was a "comparable situation" in how it was a regional integrating of markets that was likely to dislocate workers in all the countries being integrated. The ECSC plan, Reuther pointed out, "provides 'tide-over' allowances for workers that run as high as 100 percent of wages plus other forms of assistance including supplementation or reduced wages received on new jobs" (Woodcock 1965, p.256).

Table 3.2
US Auto Industry Employment, 1958-64 (in Thousands)

	1958	1959	1960	1961	1962	1963	1964	%Chnge since '61
Motor vehicles	242,000	272,500	295,300	253,700	275,200	301,400	313,500	30%
Passenger car bodies	54,700	60,500	65,900	56,200	61,100	61,100	58,200	6%
Truck and bus bodies	25,400	28,800	30,900	29,600	30,800	33,000	33,800	33%
Car parts/accessrs.	267,700	309,400	313,000	276,300	304,200	328,300	343,300	28%
Added totals	589,800	671,200	705,100	615,800	671,300	723,800	748,800	27%
TOTAL*	606,500	692,300	724,100	632,300	691,700	745,200	771,100	27%

* Totals do not add up for reasons I don't understand, perhaps rounding

(Source: US Department of Labor, Bureau of Labor Statistics, "Employment and Earnings."

In making these remarks, Reuther had his sights set on the implementing legislation that the Johnson Administration would have to submit to Congress to ratify the agreement. The hope was to pressure the Administration to include in its legislation, some explicit safeguards that improved upon or replaced the existing and failed Trade Adjustment Assistance program. As Reuther remembered, "We needed to make certain that eligibility requirements for benefits to workers under the legislation implementing the agreement were reasonable, that the benefits were adequate and that the administration of the act would be fair and equitable" (Reuther 1966, p.137). Although the detail of the proposals are unclear, the UAW continued its pressure for such safeguards while the Administration's ratification bill was being drafted. During that time, Walter Reuther explicitly discussed the need for accessible and adequate assistance with president Johnson, Secretary of Labor Wirtz and officials of other US government agencies (Reuther 1966, ibid.).

So the UAW made their support for the Pact liberalization clearly conditional upon the inclusion of substantial and accessible safeguard assistance in the enactment legislation. But should the Johnson Administration care about what the UAW wanted? The answer is that they needed to care very much, because the size and distribution of auto employment, the UAW's predominance in representing those employees, and the UAW's influence in the AFL-CIO, gave the union power to threaten passage of the Auto Pact and even future liberalization initiatives.

Automobile employees numbered nearly 1,000,000 people. Most of these were employed in segments of industry whose main production was for the production of automobiles. This

includes, of course, vehicle assembly, but also the production of car bodies, and motor vehicle parts and accessories. Table 3.2 above shows the growing trends in the number of these employees. Between 1958 and 1964, the total number of auto workers employed in firms whose main activity was the assembly or production of autos and auto parts grew from 606,000 to 771,100, an increase of more than 27 percent in six years. In addition to these 771,000 workers, another quarter-million workers were employed in industries producing auto products but whose major output was outside auto production, as Table 3.3 below shows.

Table 3.3
Non-automotive industries producing
Parts and Accessories, Employment in 1958

		1958 Whole	Automotive products					
SIC	Title	Industry	1958	1959*	1960*	1961*	1962*	1963*	1964*
3011	Tires and inner tubes	89,400	71,000	81,044	84,767	74,020	80,974	87,237	90,269
3461	Metal stampings	125,600	28,500	32,532	34,026	29,712	32,504	35,018	36,235
3429	Harware	88,200	26,000	29,678	31,041	27,106	29,652	31,946	33,056
3694	Engine elect. equip.	39,800	25,000	28,537	29,847	26,063	28,512	30,717	31,785
3211	Flat glass	21,200	15,000	17,122	17,908	15,638	17,107	18,430	19,071
3599	machine products	115,500	13,000	14,839	15,521	13,553	14,826	15,973	16,528
3691	Storage batteries	14,900	10,500	11,985	12,536	10,947	11,975	12,901	13,350
3642	Lighting fixtures	47,300	7,100	8,104	8,477	7,402	8,097	8,724	9,027
3821	mech. meas. devices	50,000	4,500	5,137	5,373	4,691	5,132	5,529	5,721
3651	Radio&TV sets	66,500	4,200	4,794	5,014	4,379	4,790	5,160	5,340
3493	Steel springs	6,800	3,300	3,767	3,940	3,440	3,764	4,055	4,196
3641	Elect. lamps (bulbs)	21,500	2,800	3,196	3,343	2,919	3,193	3,440	3,560
3069	Fabric. rubber prods.	119,600	4,850	5,536	5,790	5,056	5,531	5,959	6,166
	TOTAL	806,300	215,750	246,272	257,584	224,928	246,058	265,090	274,303

* All employment figures between 1959 and 1964 are estimated by extrapolating from the 1958 ratio of non-automobile sector prod. for the auto industry to total auto sector production in Table 3.2

Source: Department of Commerce, Bureau of the Census, "1958 Census of Manufactures"

These workers enjoyed wages higher than almost any manufacturing workers, making them all the more noticeable and the envy of most manufacturing industries. Average hourly earnings in 1964 were $3.20, 18 percent higher than the figures for all durable goods manufacturing and 26 percent higher than the wage average for all manufacturing (Wirtz testimony, p.90).[20] In all, the payroll for workers in motor vehicle and equipment industry was around 7 percent of the payroll for all of manufacturing in 1963, (Wirtz, p.90).

[20] Those working in the parts industry enjoyed comparable wages, only one percent less than those producing bodies and assembling vehicles.

Auto manufacturing and its employment was relatively concentrated in roughly ten states, as Table 3.4 shows.

Table 3.4
Top Ten Auto Industry Employers and Their Employees
# of SIC 371

State	# of Mnftrg. employees	Motor vehicles employees	# of Auto employees	Auto emplys. as % of total
1 Michigan	961,090	263,442	338,500	35%
2 Ohio	1,239,515	112,368	92,600	7%
3 Indiana	609,840	60,226	58,000	10%
4 New York	1,853,050	40,348	45,200	2%
5 Wisconsin	461,807	37,721	42,100	9%
6 California	1,398,611	31,090	31,200	2%
7 Missouri	391,254	23,467	26,500	7%
8 Illinois	1,210,802	22,409	19,800	2%
9 Pennsylvania	1,392,922	5,276	16,200	1%
10 New Jersey	829,201	718	13,900	2%

Source: US Department of Labor. "Employment and Earnings Statistics for States and Areas, 1939-63." 1963

The UAW's influence went beyond its dominance among auto industry employees. The UAW was by far the largest member union within the AFL-CIO, with a total membership in 1965 of 1,150,000 workers. This represented nine percent of the AFL-CIO's total paid membership of 1,2,919,000 (AFL-CIO 8th Constitutional Proceedings, 1969, p.37-39). The next largest member union was the United Steelworkers with 876,000. Given the UAW's dominance within the AFL-CIO, a Johnson Administration concerned not so much with its relations with auto workers, but with labor the AFL-CIO generally, had to take the UAW demands seriously.

1.3. Johnson's Compensated Liberalization

Between the pressure from the UAW and the Administration's commitment to redressing adjustment costs of the Agreement, the end-product was a proposal for compensated liberalization. The Johnson Administration drafted its enactment legislation between late January through March, sending to Congress a completed bill on March 31, 1965. During the drafting, the Administration chose to propose enactment of the intergovernmental Agreement without any revision or exemption. The major liberalization provisions of the bill gave the President authority to retroactively abolish, to January 18, 1965, the 6.5 percent tariff on Canadian autos and 8.5 percent on Canadian parts.[21]

[21] Other sections "authorized the President to make similar agreements with other countries, [and] to make agreements with Canada and other countries for duty reductions on automobile replacement parts" (CQ Almanac

Also included in the bill were substantial safeguards for the victims of the Pact. The safeguards took the form of revisions to the existing Trade Adjustment Assistance program that would significantly expand access to adjustment assistance. The special program revisions were to take effect in the beginning of 1966 and to last for three years, through June 1968. On the basic assistance to be provided, the proposed adjustment assistance was identical to that promised under the TAA. Firms ruled to have been dislocated by the Pact's liberalization and market integration were to receive financial, technical, and tax assistance. Workers ruled to have been hurt were to receive "readjustment allowances" (supplements to unemployment benefits, SUBs), training and training allowances, and relocation subsidies.

On process and eligibility criteria, however, the Auto Pact legislation's provisions were very different than the TEA adjustment assistance. As for process, the Auto Pact removed decision-making from the Tariff Commission to an Automotive Agreement Adjustment Board, comprising the Secretaries of Labor, Commerce, Treasury, and Small Business Administration. Once eligibility by this Board was approved, subject to Presidential veto, individual workers from eligible firms would petition the Department of Labor for dispensation of benefits. The Tariff Commission, thus, was relegated to a fact-finding role in the service of the Board's decision-making authority. This was different than the TAA procedure in that the Tariff Commission was staffed mainly by lawyers and those likely to deliberate on more painstaking detail and to be more averse to providing benefits, whereas the Auto Agreement Adjustment Board was likely to take the industry concerns as more urgent.

A still bigger difference lay in the much looser eligibility criteria the governing body was to follow in considering petitioning workers or firms. The TEA made adjustment assistance eligibility as difficult to meet as escape clause tariff relief eligibility, both requiring that serious injury (significant unemployment or underemployment of workers) be due "in major part" to tariff concessions. "In major part" was interpreted to mean "more important than all other causes combined" and required applicants to show such causation not only between dislocation and increased imports, but also between increased imports and tariff concessions. The Auto Pact adjustment assistance, in contrast, required that the Pact be "a primary cause" of actual or threatened "dislocation," where this was interpreted to mean that the Pact was a cause of injury which is "more important than any other single factor, but which does not have to be greater than any combination of other factors" (Manley 1969, p.301).[22]

1965, p.510). This authorization would make any resulting agreements automatically binding unless Congress passed concurrent "resolution of disapproval" within 60 days of signing. Since these tariff reductions were not to be passed onto other GATT signatories despite the GATT "most favored nation" rule, Johnson proclaimed that duty reductions would not take effect until 60 days from the bill's signing. This would allow enough time for the 66 member nations of the GATT to act on the US's waiver request (CQ Almanac 1965, p.509).

[22] Apparently, there was no need to show a causal relationship either between the agreement and some increase in imports, or between a change in trade flows and dislocation, both of which were necessary under the TEA. All that

The Auto Pact legislation's adjustment assistance provisions represent a clear side payment compensation. Even though the proposed program promised no change in the benefits to be provided to dislocated workers and firms, no supplements to the existing provisions established under the Trade Expansion Act, the liberalized eligibility criteria and shift in decision-making authority from the Tariff Commission to the Auto Agreement Adjustment Board promised expanded access to the program that would help the victims of the proposed liberalization. This expanded access was, moreover, clearly separate from the core protections being removed by the Auto Pact, tariffs and duties that hampered US-Canadian auto trade. As a compensatory side payment, therefore, the auto adjustment assistance provisions were very similar to their TAA counterparts. Like the 1962 TAA, moreover, the historical questions remaining are similar. Could the provisions could survive legislative scrutiny, and would they increase the support for the liberalization without at the same time sparking new opposition?

1.4. The Legislative Fight in the House and Senate

The answer to both these questions, in turns out, is "yes." A number of House and Senate Republicans, and independent auto parts manufacturers and their legislative agents put up substantial opposition to the Pact liberalization and, to a lesser degree, to its adjustment assistance provisions. But support from the Democratic majority, from plenty of Republicans, against a back-drop of strong support from the automobile manufacturers and, especially, the UAW ensured an uneventful and clean passage through both the House and Senate. The UAW made its support for the liberalization clearly and explicitly conditional upon inclusion of the adjustment assistance provisions, while other groups supporting or opposing the liberalization took positions on those provisions which ranged from active support to very modest discomfort. Given the UAW's influence among many Democrats, therefore, adjustment assistance appears to have again done a lot more good than harm to the liberalization cause.

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was required was that "real or threatened unemployment or underemployment of a significant number or proportion of workers" in an auto firm or subdivision occur *at the same time as* an "appreciable" change in US-Canadian trade flows or production (79 Stat.1019, cited in Frank 1977, p.55). The coincidence was "regarded as prima facie evidence that the operation of the agreement was a primary cause of the dislocation" (Frank 1977, p. 55).

Other wording was ambiguous, but generously interpreted. Under the Auto Pact, "appreciable" increases in Canadian imports were not the only relevant trade flows to implicate the agreement as the cause of suffering; so too were decreases in US exports to Canada greater than any increase in Canadian production of a good, or shifts in production within the US as part of market rationalization. Although "unemployment or underemployment of a significant number or proportion of workers" and "appreciable" changes in trade or production were not well defined in the bill, generous targets were discussed and the Review Board was directed to interpret generously. And "significant number or proportion of workers" of a particular firm was ambiguous, but the Review Board ultimately interpreted as "5 percent of the workers or fifty workers in one firm, whichever was less (Manley 1969, p.301). Finally, "appreciable" increase in imports or decrease in exports was also vague: it turned out to be roughly a 5 percent change over the most recent three or four months prior to the period in which dislocation was said to exist (Frank 1977, p.56). In any event, there was ambiguity that was left to the discretion of the review board.

The legislation's journey through the House and Senate followed very similar paths. Both chambers held hearings on the legislation -- the House Ways and Means Committee hearing testimony between April 27th and the 29th, the Finance Committee hearing testimony from mostly the same witnesses between September 14th and the 16th, and on the 20th.[23] Both the House and Senate committees only modestly amended the Administration's bill, sending the amended measure to their respective floors for limited debate before voting. The expressions of support and opposition to the bill came from basically the same representatives in both the House and Senate fights, in the form of testimony, statements and letter-lobbying outside the Congressional halls.

Consistent with the pre-legislation political terrain, the strongest and most unambiguous support came from the automobile manufacturers, especially the Big Three. Representatives from GM, Ford, and Chrysler, as well as from American Motors, appeared before both the Senate and House hearings to testify in favor of the Agreement.[24] They all expressed their strong support for the liberalization, and took pains to justify these changes as in the interest of the American consumer, labor, and parts manufacturers, and not as something promoting oligopoly. None of the representatives in any of the hearings mentioned the adjustment assistance provisions. So it isn't clear from the legislative episode what stance they took on that side payment. By their silence, it's fair to say, they were at least not actively against inclusion of the provisions.

Also consistent with the pre-legislation terrain, the strongest and most unambiguous opposition came from independent parts producers and their legislative agents. These manufacturers were represented at the hearings by the Automotive Service Industry Association (ASIA), the Motor and Equipment Manufacturers Association, the Anti-friction Bearing Manufacturers, and the occasional congressman representing states rich with independent parts producers. In all cases, the representatives pointed out that the Agreement was designed to benefit the Big Three at everyone else's expense, by virtue of leaving many replacement part tariffs in place and by encouraging the flight of assemblers to Canada. None of the industry representatives, however, said anything about the adjustment assistance provisions. Even though many of them would be eligible for assistance if they were to find themselves dislocated because of industrial relocation, increased imports or decreased exports, they apparently were unimpressed. On the other hand, they apparently didn't take offense at the provisions, or try to see them strengthened.[25]

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[23] The Senate Finance Committee controlled the bill's passage through the Senate, but the Foreign Relations Committee held preliminary hearings on February 10th, before the Administration had introduced its enactment legislation. In those hearings, there was no talk of providing adjustment assistance or other safeguards in that legislation.

[24] In the House Hearings, GM was represented by James M. Roche, executive vice president; Chrysler was represented by David W.Kendall, vice president of legal affairs; Ford was represented by Fred C.Secrest, vice president and controller; and American Motors was represented by Bernard A.Chapman. In the Senate Foreign Relations hearings, the companies were represented by the same people, except the American Motors Corporation which was represented by Frederick Holder, director of corporate planning. See House and Senate hearings, passim.

[25] The only other unqualified opponent of the agreement outside of government who was to try to cut-down the

1.4.1. The UAW's Legislative Fight

The UAW's ambivalence made it the pivotal actor in the plight of adjustment assistance during the legislative fight. The UAW stuck with and clarified the compensated liberalization stance it had established prior to the enactment legislation. Representatives of the union explicitly supported the liberalization conditional upon the provision of its adjustment assistance provisions. The highest profile expressions of this position were Vice President Leonard Woodcock's testimony to the House Ways and Means, and Nat Weinberg's testimony to the Senate Foreign Relations Committee. In his written testimony, Woodcock begins by expressing the UAW's support for the liberalization of Canadian and US trade providing there are safeguards. But in his spoken testimony, the first thing Woodcock says, before even explaining the union's support for the liberalization, is a word of caution that the union's support depends addressing the costs of liberalization: "Some workers in this country will inevitably be adversely affected by the operation of the intent of the legislation. Our support, then is possible only because of the adjustment provisions in the bill" (House Hearings 1965, p.267).[26]

This stark statement set the stage for a more detailed defense of the union conditioning its support for the auto market liberalization upon adjustment assistance. In a variety of places in the testimony, both UAW representatives point to how broad moral standards of fairness require compensated liberalization. The initial statement of the position by Woodcock, in which he equates fairness issues of the Auto Pact liberalization to those of military base closures, provides the clearest statement of the position:

> The position of any workers who may be adversely affected [by the Agreement] is essentially the same as that of workers who are affected by any other Government action taken for the good of the country as a whole -- for example, the closing of defense bases....
>
> The Government's responsibility to workers affected by the closing of bases stemmed from the fact that these were Government decisions made in order to achieve desired economies, reduce Government expenditures of taxpayers' money, and so benefit the whole country. The position of workers adversely affected under this agreement will be so different. The agreement has been entered into because our Government believed it would bring benefits to our country and to the people of our country. But, in achieving those benefits for the people as a whole, adjustments will undoubtedly have to be made within the auto industry....Then why should not the cost of these dislocations be considered simply as one of the costs of a national benefit, to be paid for by the Nation?....We believe

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agreement was O.R. Strackbein, the inveterately protectionist Chairman of the Nationwide Committee on Import-Export Policy. Although he was less critical of the Auto Pact on the grounds that it entailed a freeing of trade between countries with similar wage patterns, he nonetheless criticized the Agreement on several counts. Among them was that the adjustment assistance provisions gave unjustified special treatment to auto workers and firms, and were thus "distinctly offensive to the sense of fair play" (Strackbein testimony in House Hearings, p.305).

[26] The statement of this position at the very outset of his testimony, a position that doesn't get stated in the written testimony until page three, suggests that Woodcock wanted to leave no doubt in the minds of the Committee legislators that the UAW's support was conditional.

> there would be every justification for adopting the principle that any worker adversely affected by the implementation of the auto products agreement ought to be protected in full against any consequent financial loss. (House Hearings 1965, p.259-260)

Echoing Reuther's earlier statements that such a principle has a real-life precedent in the European Coal and Steel Community, Woodcock goes on to point out that the proper policy would provide full and complete safeguards for the income of dislocated workers, safeguarding 100 percent of their wages (Woodcock, p.259).[27]

The UAW's defense of their demand for the adjustment assistance provisions, then, moved from the moral to the political. Woodcock explains why it was necessary to write special provisions into the bill rather than to rely on the provisions of the Trade Expansion Act, "especially since this bill provides that the forms and amounts of assistance provided for under [that] Act shall apply" (Woodcock, p.260). The reasons, he insisted, were that existing TAA wouldn't cover some of the expected Auto Pact dislocation, and that existing TAA has been so inaccessible.[28] Whatever the justification, the gist of the union's position on this issue is made crystal clear to the Committee when Woodcock concludes that "If no assistance had been offered but that available under the provisions of Trade Expansion Act, we would have had no alternative but to oppose the agreement" (p.260). As if Woodcock's threat that the UAW would withdraw its support if the adjustment assistance provisions were removed wasn't enough, he went on to suggest that the support of the entire US union movement for free trade generally was on the line.

> The AFL-CIO as a whole and the UAW conditioned support off the Trade Expansion Act upon the inclusion of adjustment assistance provisions. Now that the assistance promised under that act has proved illusory, it will be impossible to mobilize future labor movement support for trade liberalization unless and until it is demonstrated that meaningful assistance can and will be provided. The Automotive Products Agreement could be the first step toward free trade be the first step toward free trade between the US and Canada in a wide variety of products leading ultimately to a North American common market. It would be tragic if that possibility were destroyed by failure to provide meaningful adjustment assistance to workers affected by the Auto Products Agreement. (Woodcock, p.260-1)

Here, the UAW Vice President really took off the gloves. Forget the hallowed principles of fairness. His point was simpler: liberalizers needed to retain or expand the assistance provisions they need only consider their political calculation, taking into account not only the UAW's

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[27] Having identified both the fairness principle of compensated liberalization and a real-life precedent of that principle, Woodcock says "The bill does not go nearly that far [as far as full protection against consequent financial loss]. But it does recognize the principle that the country has a special obligation to workers who are adversely affected by the Automotive Products Agreement, and on that basis we support it" (Woodcock, p.260).

[28] In making the first point, he argued that the Auto Agreement is different than the TEA in calling for complete elimination of duties and in promoting full integration of the market that Woodcock insisted would lead to dislocation from reduced exports and intra-country production rationalization not safeguarded under the existing TAA. As for the second reason, Woodcock simply said "...the administration of the Trade Expansion Act has been such a total failure as far as adjustment assistance is concerned..." (p.260).

hardened conditionality for the Auto products liberalization but it must also the entire US labor movement's hardened and more skeptical conditional support for all future liberalization.

1.5. The House and Senate Results

Against the back-drop of these positions and arguments, the legislative fight was pretty uneventful, with neither the overall liberalization nor the adjustment assistance safeguards ever in danger of being cut down. In the House Ways and Means Committee, partisanship ruled the day. The 17-member Democratic majority reported the Auto Products Trade Act of 1965 (HR 9042) to the floor without any changes to the President's bill. In its report, the members noted that "Fundamentally, it represents a decision by Canada to join with the United States in a relationship that will allow development of a single North American automotive industry on the basis of efficient and rational production" (CQ Almanac 1965, p.510).

All eight of the Committee's Republican minority, however, struck a very different stance.[29] They were concerned at the departure from multilateralism the agreement represented, and at the potentially more costly adjustment assistance.[30] In their minority report, they pointed out that the President's bill "provides assistance, at the expense of tax payers generally, for dislocations resulting from business decisions made within the auto industry, and even within a specific company" (House Minority Report 1965, p.57). Since the US government "has no control" over these decisions, they argued, "it would be more suitable, if there is to be any such expense, that the cost be borne largely by the automobile industry itself, since the auto manufacturers and their Canadian subsidiaries are the principal beneficiaries of this agreement" (Ibid.). And the Republican minority also stated that the bill, without justification, "singles out the auto worker for special treatment, while all other workers displaced as a result of tariff concessions must rely upon the adjustment assistance procedures in the Trade Expansion Act" (Ibid.).

This partisan outcome within Committee starkly contrasts the relatively non-partisan and modest jostling on the floor of the House. With Ways and Means committing the bill to the floor with a closed rule that limited debate to three hours and precluded floor amendments, debate began and was brief on August 30th. On that day five Representatives, four Democrats and one Republican -- all of whom had large independent auto parts constituencies -- sent a letter on that

[29] These members were John W.Byrnes (Wis.), Thomas B.Curtis (Mo.), James B.Utt (Calif.), Jackson E.Betts (Ohio), Herman T.Schneebeli (Pa.), Harold R.Collier (Ill.), Joel T.Broyhill (Va.), and James F.Battin (Mont.).

[30] They all signed a minority report stating that "regardless of their individual position with respect to this bill, [we]...are seriously concerned because the bill represents a complete departure from the multilateral trade negotiations which the US has advocated for many years"; might shift so much car production to Canada as to "result in a net loss to the US economy"; and reflects a missed "opportunity to obtain other concessions...with respect to which Canada has an unfavorable balance of trade with the US...(particularly wood and paper products)..." (House Minority Report 1965, p.57).

day to all House Members asking them to vote against the bill, but their complaints said nothing of adjustment assistance.[31] But the floor debate was to last only sections of the 30th and the 31st. During that debate, scarcely a word was heard of the adjustment assistance provisions, let alone a disparaging word. And on August 31st, the House passed the bill by a 280-113 vote, with the majority of both parties supporting. Among Republicans, 71 voted for and 59 against the measure. And among Democrats, 209 supported and 54 opposed it. Of the eight Republicans to file the minority report against the agreement, six voted in favor of the bill.[32]

In the Senate, the path was similar to the events on the House Floor -- few sparks, strong opposition from only a few, and no controversy over the adjustment assistance safeguards. In the Finance Committee, the majority report trumpeted the Agreement as representing a "new and bold approach directed toward the dismantling of trade barriers thwarting the economic growth of the US-Canadian auto industry," ultimately reducing the price of cars to Canadian consumers and increasing sales for US parts manufacturers (CQ Almanac 1965, p.510). Three Committee, members, all Democrats, dissented in a minority report, which said nothing of the adjustment assistance.[33] This dissent aside, the Committee reported a bill that only modestly altered the House version, mainly by setting up a duty sanction should the Canadian government increase its content targets, and by requiring Congressional approval for any future auto negotiations.[34]

The Finance Committee sent its revised bill to the Floor of the Senate on September 27th, setting the stage for a short but heated debate before passage. The debate was spear-headed by the same three Senators sponsoring the minority report in Committee -- Albert Gore (D.-Tenn.), Abraham A.Ribicoff (D.-Conn.), and especially Vance Hartke (D.-Ind.). Hartke spoke the most stridently. Having witnessed the transfer of the Studebaker Corporation's production facilities

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[31] Their letter faulted the bill on grounds that it was a "give-away to Canada of an important segment of the US market in auto products and a congressional sanction of the operation of in effect a North American cartel in the auto products field" (Congressional Record, Aug.31, 1965, p.22380). The Democratic Reps were McClory (R.-Ill.), John Brademas (D.- Ind.), Lynn E.Stalbaum (D.Wis.), John O.Marsh Jr. (D.- Va.), and Frank A. Stubblefield (D. - Ky.).

[32] John W.Byrnes (Wis.) supported both the closed rule and the final bill, Thomas B.Curtis (Mo.) supported the final bill but not the rule motion, James B.Utt (Calif.) voted for the rule but against the bill, Jackson E.Betts (Ohio) supported the bill but not the rule, Herman T.Schneebeli (Pa.) supported both, Harold R.Collier (Ill.) also, Joel T.Broyhill (Va.) also, and James F.Battin (Mont.) supported the rule but not bill. See CQ Almanac 1965 , p.995).

[33] The dissenters were Abraham A.Ribicoff (Conn.), Vance Hartke (Ind.), and Albert Gore (Tenn.) (CQ Almanac 1965, p.510). And the up-shot of their dissent was very similar to the written and spoken dissents in the House: "the hearings have demonstrated that this legislation is special interest legislation of the most restrictive sort, the opposite of free trade, detrimental to our balance-of-payment situation and harmful to American industry and jobs" (Senate Finance Minority Report 1965, p.38).

[34] The Committee demanded three changes, in particular. First, it provided that that present US duties would be reimposed if the Canadian government increased "the percentage of local parts and labor that Canadian subsidiaries of US auto companies had agreed to put into autos produced in Canada for the 1965-1968 model years" (CQ Almanac 1965, p.511). Second, it required that "any future automotive agreement negotiated by the Administration must be submitted for the approval of Congress before the change could take effect," whereas the House bill granted automatic approval of such agreements "unless Congress passed a concurrent resolution of disapproval within a 60-day period" (Ibid.). And finally, the bill was revised to modify tariff schedules so as to designate auto products on which duties were to be removed.

from South Bend, Indiana, to its Canadian plant in Ontario, Hartke said the agreement "clearly contemplates the exportation of jobs to Canada" (quoted in CQ Almanac 1965, p.511).[35] Such dissenting voices didn't prevent smooth passage of the amended bill on September 30th, by a vote of 54-18. Among Republicans, 19 voted for and one against the measure. And among Democrats 35 voted for, and 17 against the measure. The opposition was scattered among the different regions of the US, with no clear regional concentration. Those voting against, however, were either from states with high concentrations of independent parts producers -- such Senators Bayh and Hartke, the Indiana contingent -- or were traditional protectionists with ties to internationally vulnerable industries -- such as Rhode Island Senators Pastore and Pell, whose constituency included a large and import-competing textiles, apparel, and shoe industry.[36]

With a relatively easy journey through both the House and Senate, and with so little discussion of the adjustment assistance provisions in that journey, it is difficult to gauge the political effectiveness of the adjustment assistance provisions in securing passage of the Auto Agreement. There is little question that the UAW's support for the bill rested on the inclusion of those provisions; their statements before the legislative fight and their testimony during the Committee fight show that their support for the assistance conditional upon the adjustment assistance provisions was consistent, unambiguous, and explicit. How important this UAW position was for the legislative outcome, however, is more ambiguous. There were certainly blocs of Representatives and Senators whose ties to the UAW in particular and to organized labor generally, made them bound by the union's compensated liberalization. But as with the 1962 fight, it is difficult to know how many were so bound. The same districts with high concentrations of UAW employees also had high concentrations of auto employers, whose position on the Pact swung completely free of the adjustment assistance provisions -- whether they were Big Three producers gung-ho about the Pact or independent producers angry about it. So it is difficult to know how many of the legislators with UAW concentrations would have jettisoned the Agreement if the adjustment assistance provisions were removed, and how many would have sided with the various industry manufacturers, who didn't care much either way.

The position of the independent producers, moreover, remind us that the adjustment assistance was *not* effective in buying off the opposition of a number of independent parts producers and their associational and legislative representatives. The adjustment assistance provisions contained tax, technical, and financial assistance that was to benefit them as well as their

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[35] These three Finance Committee Senators were joined by others, like Frank Carlson (R.-Kan), who took issue with the Agreement's bilateralism in violation of GATT multilateralism, and Gaylord Nelson (D.-Wis.) who claimed that the agreement was nothing more than a cartel arrangement" (Ibid.). Supporters conceded some of these points, but insisted that the agreement on the whole was good for American consumers, producers, labor, and the US-Canadian partnership. Senate Majority Whip Russell B.Long (D.La.), for instance, "conceded that the pact would result in higher employment in Canada, but insisted that it would not come at the expense of US jobs" (Ibid.).

[36] For voting distribution, see CQ Almanac 1965, p.1077.

employees, and could well have made the liberalization and market rationalization more palatable. But some parts producers weren't sold on this basis. And there were no legislators who were representing or particularly concerned about such producers and who claimed to have been swayed in any way by inclusion of the adjustment assistance. So we can see, here, the limits of the side payment's political efficacy.

Although complexity and ambiguity in the history counsels modesty, it is still fair to say that the adjustment assistance facilitated the liberalization. The inclusion of the provisions did not appear to alienate any legislators who otherwise supported the liberalization. And we know that the support for the agreement depended, in part, on the ability of the liberalizers to convince those legislators on the fence that the Agreement was not simply a special-interest legislation benefiting Big Three oligopoly, but also consumer and worker welfare. Together with the UAW being one of the largest members of the AFL-CIO and, therefore, having influence over all legislators who value their relationship with organized labor, this consideration suggests that the adjustment assistance provisions made a difference.

1.6. Analyzing the Auto Pact's Maturation of Compensated Liberalization

The auto pact story, as a tale of compensated liberalization, resembles that of the TEA compensated liberalization, both in terms of the actors and provisions of assistance and in the way the history conforms very closely to the theory developed in Chapter One. As in the 1962 case, the power and platform conditions worked very much in favor of the provision of compensatory side payments, and were helped along by equally auspicious fairness ideational conditions.

First, consider the power story. The UAW represented nearly all of the workers in one of the largest industrial employers in a number of states, and was growing along with the rest of the auto industry. The union, moreover, was one of the largest and most influential internationalist forces within the AFL-CIO. For these reasons, alone, liberalizers desiring solid support for the Pact and for liberalization into the future, needed to heed the UAW's demands. But more incidental conditions enhanced their influence. The UAW was particularly concentrated in a number of states critical to the Democratic coalition, and had ties to the Johnson Administration. Moreover, the shoddy performance of the Trade Expansion Act's adjustment assistance provisions meant that large sections of organized labor, including the AFL-CIO generally, were becoming increasingly skeptical of liberalizer promises that the provision of adjustment assistance would make liberalization a winning proposition for all citizens. These other union forces were looking to how the UAW's demands were treated -- and the Johnson Administration must have known that. So, on both structural and incidental grounds, the UAW was powerful in the liberalization fight.

The important platform story is the importance the UAW attached to adjustment assistance as the main issue on its trade policy-making platform that could be easily made the subject of issue linkage. Not only did they explicitly champion this issue before and during the Pact negotiation and ratification fight, their platform made it the most cost effective possibility. The only other issue the union mentioned in its discussion of trade liberalization was the protection of international fair labor standards. They didn't make the protection of such standards through some new administrative or legislative action a precondition for their support, because they still had hope for adjustment assistance and because they knew how difficult it would be to do more on the labor standards front. So the preexistence of the adjustment assistance issue on the UAW's trade policy agenda made it the most obvious and least costly, indeed the only, viable subject of compensation. And, of course, neither revision of nor exemption from the reach of the liberalization was ever discussed by the union. So we have here a pretty strong coincidence of high structural and incidental political power of the UAW with a very explicitly compensated liberalization stance -- multi-issue platform.[37]

Such a coincidence of power and platforms implies a bargaining game similar to that for adjustment assistance discussed in the conclusion of Chapter Two -- a willingness to trade-off levels of liberalization for levels of compensation that implies a relatively steep rather than flat indifference curve.[38] The auto parts producers, by virtue of their dispersal and employment, lack the political resources to command attention from the liberalizers -- and hence don't make it onto the Edgeworth space. The resulting bargaining over the Auto Pact by UAW and auto parts protectionists leads to a pattern of compensated and uncompensated liberalization as diagrammed in Figure 3.1 below. There, the coincidence of high power resources and multi-issue platforms predicts compensated liberalization. And the coincidence of low power resources and single-issue platforms for the auto parts protectionists -- represented by the Automotive Service Industry Association (ASIA), the Motor and Equipment Manufacturers Association, and others -- predicts uncompensated liberalization.

That the power-platforms of the two groups correlate with the actual combination of uncompensated and compensated liberalization suggests that the bargaining logic can explain the

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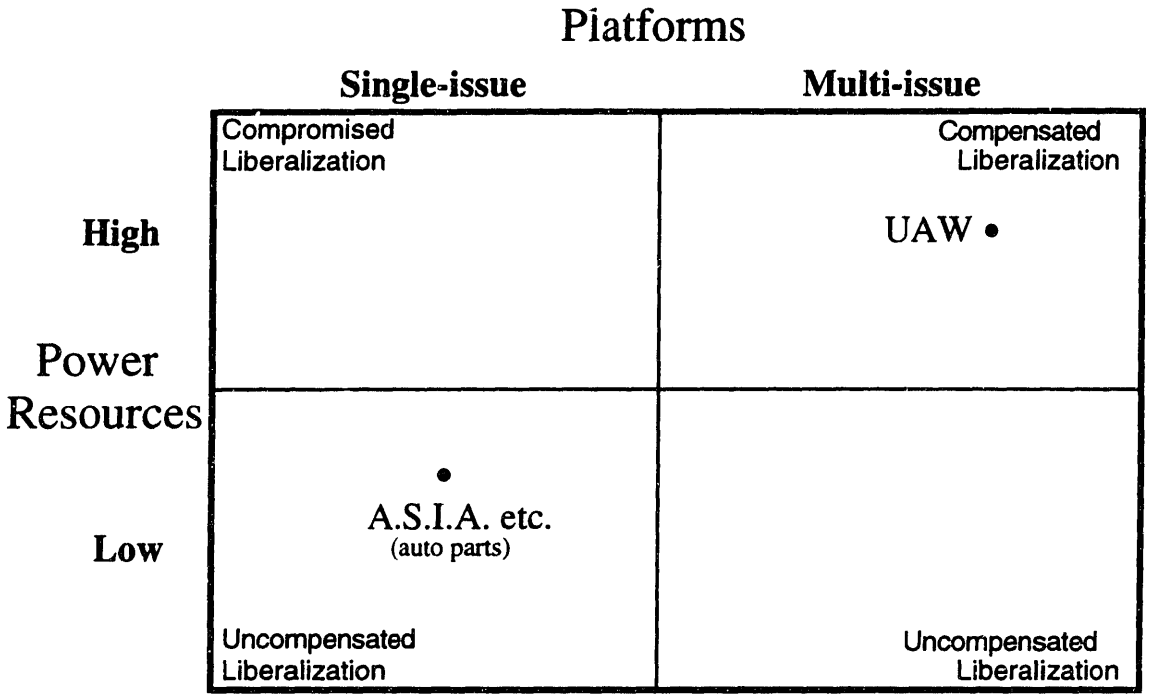
[37] Other conditions outside the theory's focus on the power and platforms of the protectionists were conducive to the provision of side payment compensation. First, the negotiating environment was fertile ground for providing adjustment assistance as a side payment. The recent history of side payment politics was mixed, in that the UAW had reason to distrust liberalizer promises that adjustment assistance would make a difference. On the other hand, this may have made revision of such assistance all the more likely as liberalizers tried to protect their reputation as trust-worthy bargaining partners. More unambiguously conducive to low transaction-cost side payment exchange, the negotiations over the Pact and its enacting legislation engaged many fewer players than was true for the more general multi-sectoral trade liberalization. It involved a centralized union, the Big Three auto manufacturers, and the Administration -- making it easy to know and act upon who wanted what.

[38] See Figure 2.4, which shows that the relatively steeply sloped P(b), which could represent UAW representatives, creates a significant zone of possible agreement given the intersection and overlap with the indifference curve L(a) or L(b) of the liberalizers.

incidence of side payments in this case. The fairness logic, meanwhile, appears to have been much less important. Although the Johnson Administration in its trade and other legislation continued the Kennedy tradition by making occasional statements about the need to redress the pain of the few caused by changes to benefit the many, there is little evidence that the provision of adjustment

Figure 3.1
1965 Auto-Pact Power-Platforms



assistance was a major priority for its own sake. In announcing conclusion of the Agreement on January 16th, neither Johnson nor his advisors made any mention of the need to provide redress for the workers and firms likely to be dislocated by the Pact. More importantly, the Administration could have provided a loosening of adjustment assistance eligibility through its own initiative, either separate from or before the enactment legislation. But it did so only in drafting enactment legislation that required congressional approval and after the UAW made such loosening a condition for their support of that legislation. It's always difficult to distinguish the expediency from the fairness imperative or logic, but these conditions suggest that in the Auto Pact episode the bargaining logic predominated.

Did the compensation work? As we have seen, the compensation was probably crucial to the support of the UAW and of many pro-union representatives, but unsuccessful in buying off parts manufacturers whom stood to benefit from the assistance. In the longer term, the adjustment assistance compensation provided some significant redress for dislocated groups, and may have had an even more significant effect on opposition to openness. As the program was implemented

after passage of the Agreement, it actually helped sustain support for the Auto Pact, for continued openness in auto trade, and perhaps most importantly for the history of compensated liberalization.

The filing period for petitions under Auto Pact adjustment assistance spanned January 20, 1966 to June 30, 1968, when the Pact was set to expire. During that period, 21 groups of workers filed petitions to the adjustment assistance board, while no firms applied for the relief. Of those 21 petitions, 14 were granted eligibility, representing 2,493 workers. Of these 1,943 were found eligible for assistance payments, and these represented only .3 percent of the 1964 auto industry work force. The majority of these workers lost their jobs when a modest number of small plants connected to the major independent auto and parts producers were shifted to Canada under the Auto Pact incentives. The remaining number of the eligible workers had lost their jobs through plant rationalization that shifted jobs, not plants, to Canada (Jonish 1970, p.557; Frank 1977, p.57). Of these roughly 2,000 workers, most received 20 weeks of readjustment allowances and, on a much smaller scale, retraining benefits -- totaling about $2,100 per worker. This brought the total expenditures of the program to $4.1 million (Ibid., p.57; Fooks 1971, p.352).

In subsequent union reports of the UAW Conventions in 1965 and 1967, and in testimony to Congress on possible extension of the Auto Pact, union officials reiterated their continued support for the Pact and for free trade generally. How much of this good faith and continued support was based on reasoned consideration of the benefits of the adjustment assistance side payment, and how much was due to the continued growth and prosperity of the auto industry -- well beyond expectations and, as it turned out, not to last too many more years -- is an open question that cannot be answered here. It is fair to assume, however, that the relatively easy and fast provision of relatively generous adjustment assistance affected the Union's stance on the Pact, independent of the industry's general performance.

In any event, the UAW's good experience with the Auto Pact side payment went well beyond the Pact and auto trade. It actually rejuvenate the active support by UAW officials not just of trade liberalization but of compensated liberalization -- active promotion of freer trade conditional upon the provision of adjustment assistance side payments. The Union's faith in this position, as it turned out, outstripped that of many of its organized labor representatives, and of other members in the liberalizer and protectionist coalitions. And it had implications for the future of side payment politics, as we will see in the subsequent cases chronicled.

The Auto Pact episode, in short, represented a maturation of compensated liberalization. Its politics were marked by the expectation among unions and their legislative champions that safeguards needed to accompany its liberalization. Rather than consider possible safeguards from scratch, moreover, these groups chose to work with policies already provided as safeguards or side payments in a previous liberalization initiative, in this case the adjustment assistance provisions of the 1962 Trade Expansion Act. And the belief that such adjustment assistance

should accompany the Auto Pact liberalization was dominated by the critical memory that the existing assistance program needed to be reformed in order to be of any use. Once demanded, finally, most groups within the liberalizer coalition either saw the provision of such improved adjustment assistance as desirable or were neutral enough to the idea as to say nothing against it when given the chance. Thus, the adjustment assistance side payment had become an expected and accepted part of the politics of trade liberalization.

2. Fading of Compensated Liberalization as Strategy: AFL-CIO's Turn to Unconditional Protectionism, 1966-1972

By representing a maturation of compensated liberalization, the Auto Pact episode offered the promise that future struggles over trade liberalization would customarily involve not only fights over the degree and nature of the liberalization but also over what kinds of safeguards or other off-setting provisions would be provided to cushion the blow to those expecting to lose from liberalization. The generosity of the side payments and their effectiveness in defusing opposition might vary, but their existence would not. For better or worse, they would be a standard feature of trade policy-making.

The events of the next five years, however, marked increasing disenchantment with compensated liberalization. Labor unions, the groups previously most insistent upon and most likely to benefit from adjustment assistance side payments, increasingly regarded such assistance as virtually useless safeguards against injury from increased international openness. Not only did the groups increasingly stop demanding or accepting offers of adjustment assistance reform as a price for acceptance of liberalization, they also gave up demanding or accepting other possible side payments that could cushion liberalization. In doing so, some groups threw the baby out with the bath water and turned to unconditional protectionism. Liberalizers, for their part, were too late and modest in offering adjustment assistance reform as a side payment, and as the attractiveness of this side payment failed, they seldomly offered different side payments that would clearly address some of the explicitly stated concerns of labor and other groups on issues related to trade.

The period between 1966 and 1972 was the major turning point in this decline of compensated liberalization. It begins with the signing of the Kennedy Round of GATT negotiations in 1967, whose extensive market-opening conspired with a variety of other changes in the international political economy to substantially increase import competition. These changes fueled increasing despair on the part of the US's manufacturing base in the overall benefits of free trade. In the poor administration of the adjustment assistance program designed to cushion the costs of such trade, moreover, the period also witnessed dissolution of belief that side payments might off-set such costs. So unconditionally protectionist groups became more so, conditional protectionists became unconditional; and even some free traders became unconditional

protectionists. The end result was increasingly infertile ground for the provision of side payments to humanize and clear the way for liberalization, or even to defuse a growing protectionist tide.

2.1. International Political Economy Threats: Kennedy Round and Structural Economic Change

The turning point away from compensated liberalization has its roots in the confluence of domestic and international political economy developments that fueled increasing protectionism and despair with existing side payment safeguards. The first of these developments was conclusion of the Kennedy Round of GATT negotiations. The Kennedy Round talks had formally begun in Geneva on May 4, 1964, and included some fifty-two GATT participants. Sixteen of these countries were negotiating on a linear basis and 37 others were negotiating on a non-linear basis. Thanks to the 1962 TEA, the US was one of the sixteen. The major participants, with the US in the lead, were committed to a 50-percent linear cut in industrial and agricultural tariffs. After more than three years of road blocks, especially over proposed reductions in agricultural tariffs and certain non-tariff barriers, the Kennedy Round negotiators reached agreement on May 15, 1967.[39] Agreement was reached, not coincidentally, less than seven weeks before expiration of the 1962 TEA's negotiating authority.

The resulting agreement brought about extensive market opening throughout the industrialized world, to take place beginning in 1968. It reduced tariffs by an average of 35 percent, covering some 60,000 products that constituted about $40 billion in world trade (in 1964 dollars) (CQ Almanac 1967, p.805). The US agreed to lower tariffs on industrial manufactures on the order of 35 percent, less than Congressional authorization, but this constituted reductions on products whose important represented $8 billion of the $25 billion total. This liberalization reached already trade-impacted and protectionist industries like steel, textiles, and lumber, though often well below the 35 percent average (reductions in US steel tariffs were only 7 percent). In return, the US received tariff concessions, many at the 50 percent level, affecting about $7 billion of its exports, while the shifting of some products to duty-free status brought total reductions on US exports to $8 billion (CQ Almanac 1967, p.808). Agricultural barriers were not reduced as dramatically, despite US pressures to do so. And the agreement also called for changes in an important non-tariff barrier, a new international anti-dumping code that would pattern the procedures of other countries after those in the US.

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[39] A number of political economists and historians have provided detailed accounts of the Kennedy Round negotiations and its outcome. I have relied mainly on Preeg 1970 and Evans 1971. According to those sources and a few others, including Curtis and Vastine, Destler 1980, and the CQ Almanac 1965, 1966, 1967, there were no domestic political side payments provided as part of the negotiations taking place at the international level. As we see below, this stands in contrast to the Tokyo Round of GATT.

The agreement also called for two changes that would require congressional action because they went beyond the negotiating authority granted to the president in the 1962 Trade Expansion Act. The first was relatively un-controversial in the US, a grain agreement that guaranteed a higher minimum price on wheat and a multinational food program to aid less-developed countries -- both of which were to entail more foreign purchases of US wheat. This required Senate ratification because it was a treaty. The second Kennedy Round concession involved the chemical industry and was much more controversial. In addition to agreeing to reduce tariffs by 50 percent on chemical products with tariffs above 8 percent and by 20 percent on items with tariffs at or below the 8 percent rate, the US tentatively agreed to eliminate the American Selling Price (ASP) method of evaluating tariffs on benzenoid chemical imports.[40] The ASP system involved computing tariffs not on the basis of wholesale prices in the country of origin but on the basis of the generally higher US wholesale price. Applied to benzenoid chemicals and three other groups of products, the ASP method entailed much higher effective rates of protection even where nominal tariff rates might appear very modest.[41] Eliminating this ASP system for the chemicals required approval from both the House and Senate because the 1962 authority only allowed reductions of 50 percent on products with existing tariff rates above 5 percent.

In the perception of many industrial groups in the US, these components of the Kennedy Round liberalization conspired with a variety of other forces in the international political economy to pose dangerous threats from foreign competition. On the policy plain, the EEC introduced a value-added tax that was widely seen as promoting their exports and discouraging imports, and joined forces with the discriminatory effects of the Common Agricultural policy that had been initiated in 1962 (Pastor 1980, p.122). More structurally, the Japanese and European economies continued to recover and undergo continued industrial diversification out of low-wage, low-technology industries like textiles to more advanced, moderate or high-wage sectors like steel and automobile production. And the more fundamental tension between the US's different roles as economic and political hegemon -- providing the lead currency in the Bretton Woods system on the one hand, and the heavy defense and foreign assistance role as leading the Cold War fight -- fueled growing overvaluation of the currency and balance of payments deficits. These developments, in turn, drew attention to a perceived problem of imports continually outpacing exports.

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[40] Benzenoid chemicals included "coal-tar or petroleum derivatives used for dyes, pigments, plastics, drugs and other products" (CQ Almanac 1967, p.807).

[41] The other groups of products whose tariffs were calculated using the ASP system were rubber-soled footwear, certain canned clams and woolen knit gloves or mittens (CQ Almanac 1967, p.807; Evans 1971, p.).

2.2. Threat in the Domestic Political Economy: Hollow Promises of Escape Clause and TAA

Coinciding with these threatening changes in the international political economy, moreover, was an important development in the domestic political economy that undermined faith in the propriety of compensated liberalization: the non-performance of the escape clause and adjustment assistance relief mechanisms. The Trade Expansion Act had maintained the escape clause provisions to provide tariff relief for workers and firms substantially hurt by competition from imports. And as we have already seen, it also set up the adjustment assistance program as a side payment. However, the same non-performance that motivated the UAW to demand adjustment assistance reform as a condition for its acceptance of the 1965 US-Canada Auto Agreement also plagued a number of import-competing industries and firms throughout the 1960s.

Between the initiation of the program in 1962 and the middle of 1969, 28 groups of workers and/or firms filed petitions with the Tariff Commission for either escape clause or adjustment assistance relief. Thirteen petitions came from firms asking for escape clause tariff increases to relieve their suffering, seven petitions came from firms asking for adjustment assistance, and eight petitions came from groups of workers (usually via unions) asking for adjustment assistance. The Tariff Commission was given six weeks to tender a decision on the adjustment assistance petitions and six months to do so on escape clause petitions; and the Commission was given the option of recommending adjustment assistance alone or in combination with tariff relief for petitions to get escape clause relief. Table 3.5 shows that the largest number of these petitions came from the shoe industry, with the piano industry coming in second.

Every one of these petitions was rejected.[42] The reasons for this one-sided administration of the relief were many. One was that with the economy booming through the middle of the 1960s, and with Kennedy Round tariff cuts authorized by the 1962 TEA beginning only in 1968, there were few groups hurt by trade liberalization and petitioning for relief. But the relatively small and declining number of petitions -- only one in 1967 -- had more to do with the realization that upon petitioning for relief, a group could expect only rejection from the Tariff Commission.

Most of the reasons for the record of non-performance involved the administration of the escape clause and adjustment assistance programs. First, the sheer complication of the application procedure was enough to discourage petitions and to ensure lots of chances for rejection. For instance, firms applying for escape clause relief had to go through fourteen steps before relief could be provided (Frank 1977, p.42-43).[43] And workers applying for adjustment assistance

[42] One petition, from the National Tile and Manufacturing Co., was discontinued as an escape clause request and then rejected as an adjustment assistance request.

[43] As Frank 1977 summarizes, here were the steps: (1) firm petitions the Tariff Commission for either escape clause or adjustment assistance relief; (2) Commission holds hearings and presents its findings; (3) firm applies to secretary of commerce for certification of eligibility to apply for adjustment assistance; (4) Secretary of commerce

Table 3.5
Tariff Commission Actions, 1962-69

Petitioner	Kind of Petition	Votes (yes-no)	Comm's Decision	Date Decided
Lumberman's Economic Survival Committee	escape clause	0-6	negative	Feb-63
Hatter's Fur Cutters Assn. of U.S.	escape clause	0-6	negative	Mar-63
Intl. Union of Mine, Mill, and Smelter Workers	adjust. assist.	0-6	negative	Mar-63
American Fine China Guild Inc.	escape clause	0-6	negative	Apr-63
US Potters Assn.	escape clause	0-6	negative	Apr-63
Publicker Industries Inc.	escape clause	0-6	negative	Apr-63
American Ceramic Products Inc.	adjust. assist.	0-6	negative	Apr-63
Intl. Union of Electrical, Radio and Machine Workers	adjust. assist.	0-4	negative	May-63
United Steelworkers of America	adjust. assist.	0-5	negative	Jun-63
Textile Workers Union of America	adjust. assist.	0-5	negative	Jul-63
Industrial Biochemicals Inc.	adjust. assist.	0-5	negative	Jul-63
Winburn Tile Manufacturing Co.	adjust. assist.	0-5	negative	Nov-63
Danaho Refining Co.	adjust. assist.	0-5	negative	Aug-64
Umbrella Manufacturers and Suppliers Inc., and Umbrella Frame Assn. of America Inc.	escape clause	0-5	negative	Sep-64
Bulova Watch Co., Elgin National Watch Co., and Hamilton Watch Co.	escape clause	0-5	negative	Oct-64
National Tile and Manufacturing Co.	adjust. assist.		withdrawn	Oct-64
National Tile and Manufacturing Co.	adjust. assist.	2- 3	negative	Dec-64
General Plywood Corp.	adjust. assist.	2- 2	tie vote#	Dec-64
Mushroom Canner's Committee and the Pennsylvania Canners and Food Processors Assn.	escape clause	0-5	negative	Jan-65
Roller Derby Skate Corp. and Nestor Johnson Manufacturing Co.	escape clause	0-5	negative	Feb-65
Intl. Union of Electrical, Radio and Machine Workers	escape clause	0-4	negative	Oct-67
Barber chair manufacturers	escape clause	0-5	negative	Jan-68
Emil J.Paidar Co. (barber chairs)	adjust. assist.	2- 3	negative	Jan-68
Koken Companies Inc. (barber chairs)	adjust. assist.	0-5	negative	Jan-68
United Glass and Ceramic Workers of North America	adjust. assist.		withdrawn	Jan-68
Rocky Mountain Farmers Union	escape clause	0-5	negative	Mar-68
United Shoe Workers of America	adjust. assist.	0-5	negative	Mar-68
Maine Sardine Packers Asn. Inc.	escape clause	0-4	negative	Jul-69
Armco Corp., Weld Mill	adjust. assist.	5- 1	positive	Nov-69
US Steel Corp., Shiffler Transmission Power Plant	adjust. assist.	5- 1	positive	Nov-69

issues certification; (5) firm files application for adjustment assistance with that Secretary; (6) firm presents an adjustment proposal; (7) Secretary of commerce certifies that proposal; (8) same secretary submits proposal to relevant agencies to seek technical or financial assistance; (9) these agencies determine assistance they are willing to provide; (10) commerce secretary determines exact form and amount of assistance; (11) firm applies for tax relief; (12) secretary of commerce certifies this tax application; (13) certification for tax relief forwarded to IRS for implementation; and (14) Congress approves any tax rebate over $100,000. See Frank 1977, p.43.

Petitioner	Kind of Petition	Votes (yes-no)	Comm's Decision	Date Decided
US Steel Corp., American Bridge Division Plant at Los Angeles	adjust. assist.	5- 1	positive	Nov-69
National Piano Manufacturers Assn.	escape clause	3-2,1-4	positive	Dec-69
American-Saint Gobain, Libbey-Owens-Ford, Mississippi Glass, PPG Industries (sheet glass)	escape clause	3- 3	tie vote*	Dec-69
(plate, float, rolled and tempered glass)	escape clause	2- 4	negative	Dec-69
Emil J.Paidar Co.	escape clause	3- 3	tie vote*	1970
Emil J.Paidar Co.	adjust. assist.	3- 3	tie vote*	1970
United Steel Workers of America	adjust. assist.	5- 1	positive	1970
United Glass and Ceramic Workers of N.America	adjust. assist.	2- 4	negative	1970
Bethlehem Steel Corp., Tower Depts.,			pending	1970
Pinole Point Works			pending	1970
Employees of Uniroyal Inc. (Woonsocket. R.I., plant)			pending	1970
Umbrella Frame Assn.Inc.	escape clause	1- 3	negative	1970

Tie vote not broken by President
* Resolved in the affirmative by the President

Sources:US Tariff Commission 1970/1971; Fowlkes, Frank V. March 7, 1970."Commission's recent votes relax Tariff pressures in Congress," National Journal; and Fowlkes.7/24/71. "Administrative escape valves relieve pressures of imports on domestic industries," National Journal 1971.

faced only slightly fewer steps but an even more baroque administration, given the need for the secretary of labor and state-level providers of assistance to coordinate their decisions and actions. The time and money required to pursue relief in view of these complications was enough to discourage petitioning and to anger those who petitioned anyway.

But much more important than the complexity of the application procedures were the exceedingly tight eligibility requirements applicants for either escape clause or adjustment assistance had to meet. As discussed in the section on the Auto Pact above, petitioners for adjustment assistance relief and escape clause relief had to meet the same high standard: they had to show that their substantial and actual injury was due "in major part" to tariff concessions. "In major part" was interpreted tightly by the Tariff Commissioners to mean more important than all other causes combined, and such strong causality had to be shown between both the tariff concession and the increase in imports *and* the increase in imports and the injury. This was a particularly difficult standard to meet since petitioners had to show the connection between substantial injury in the present and tariff concessions implemented many years earlier. Since the last major tariff concessions were authorized in the early 1950s, this sometimes was more than fifteen years (Frank, p.41). Murray and Egmand, in fact, claim that the Commission interpreted

"in major part" to require a close coincidence in time between concession and injury so that it was impossible to meet the standard of proof (Murray and Egmand 1970, p.415, in Frank 1977, p.46).

Just as important as the specific wording was the fact that eligibility for adjustment assistance was the same as that for the more obviously protectionist escape clause relief. As a writer critical of the program was later to write, "The International Tariff Commission could not be liberal in approving adjustment assistance petitions without being liberal in approving escape clause petitions. Thus, adjustment assistance -- which was supposed to foster freer trade -- was included in the Trade Expansion Act in such a way as to make its actual use inconsistent with that objective" (Mitchell, p.43, cited in Goldstein 1993, p.191).

As early as the middle of the 1960s there were movements for reform of the adjustment assistance provisions, less so for escape clause, but no changes were implemented until the end of 1969. The 1965 Auto Pact liberalized the eligibility criteria and moved decision-making authority out of the Tariff Commission to make access to adjustment assistance easier, but such eased access didn't extend to any workers or firms outside of the automobile sector. And as early as debate over the legislation to enact that Auto Pact, Johnson Administration officials and a number of legislators began calling for reforms in the adjustment assistance provisions. But the Johnson Administration, and the Nixon Administration after it, chose to pursue such changes only in the context of its trade policy reforms, not through administrative mandates or through separate legislation.[44] So there was little solace to the workers and firms in the many other industries who tried or considered petitioning for relief under the TEA's adjustment assistance.

In mid-1969, however, Tariff Commission representatives responded to growing disillusionment with the escape clause and adjustment assistance programs by independently loosening their interpretations of existing eligibility standards. The shift was not requested by the Nixon Administration. Instead, it resulted from changes in heart and composition in the Tariff Commission. Bruce Clubb joined the Commission in 1967 and is reported to have begun to worry that the tight eligibility language had "turned the commission into a blind alley..." (NJ 1-24-71, p.1545). After asking the commission staff to construct a hypothetical case that would pass the "in major part" standards and finding that none could be devised, Clubb saw the writing on the wall:

> The escape valves were not operating, and there we were, wondering where all the protectionist sentiment was coming from. the answer was that it was coming from a bureaucracy which was following a doctrinaire interpretation of the law. Protectionism is the response of people who are subject to a bureaucracy which they no longer trust. (N.J. 1-24-71, pp.1545-47)

With this realization, Clubb and one of the five other commissioners Penelope H. Thunberg, established a looser standard, called the "but for" test (Ibid.; US Tariff Commission 1969, pp.10-

[44] See below for discussion of the proposals for reform within liberalization initiatives under Johnson and Nixon.

11).[45] These two commissioners began using this looser interpretation in mid-1969, and were joined in their affirmative judgments by a third commissioner, George M. Moore, who joined the Commission in August 1969. Even if the commissioners weren't actively using this looser "but for" test, they sometimes loosened their interpretation of the various eligibility criteria and wording, especially "in major part," "serious injury," or "like or directly competitive with," and these looser interpretations fueled more frequent affirmative rulings.[46]

With these three commissioners joining forces in making affirmative rulings, the six-person Commission began to turn out consistent affirmative or split votes by November 1969.[47] Table 3.5 reveals the stark shift. Many more firms and workers began submitting petitions, and by mid-1971, 15 had received affirmative rulings, and another 38 tie votes, all of which were resolved in favor of the affirmative. Between that time and April 3, 1975, when the Trade Expansion Act expired, the number of petitions increased substantially, but the proportion of affirmative rulings slowed down somewhat. Take worker petitions for adjustment assistance. Between November 1969 and April 16th 1971, the Commission approved 40 of 76 worker petitions for relief, a rate of 51%. Between April 16th 1971 and mid-1975, however, only 55 of 178 rulings were affirmative or tie votes, a rate of only 31 percent (See US Tariff Commission 1975; and Frank 1977, p.46).

Overall, between 1969 when the first petition was granted when the Trade Expansion Act expired in mid 1975, the Commission can be said to have found at least some religion. The Commission approved adjustment assistance for 8 of 14 escape clause rulings, for 25 of 60 firm petitions for adjustment assistance, and 95 of 260 rulings on worker petitions for adjustment assistance (Frank 1977, p.46). 110 groups of workers, totaling about 54,000 people, were certified by the Department of Labor to receive adjustment assistance. Of these, about 35,000 actually received benefits, mainly readjustment allowances rather than training or relocation assistance. According to the Department of Labor, "no complete record was kept of those receiving training [between 1969 and 1974], but they were few..." (OTA 1980, p.25). In fact, only about 10 percent of all workers receiving assistance got placement services or training, and

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[45] According to this standard, petitioners would be granted assistance if they were judged to have been spared injury in the event of two counter-factual: "but for a tariff concession, would imports stand at this level?"; and "but for the current level of imports would the domestic producer have suffered injury?" (N.J.1/24/71, p.1546)). This "but for" or "except for" standard implied more sympathetic ruling even when there were major delays between tariff concessions and injury, and also implied a looser conceptual standard of "in major part" -- from "more important than all other factors combined" to "except for" (See Frank 1977, p.47). See also US Tariff Commission 1969, pp.10-11, and Murray and Egmand 1970, p.410.

[46] TC Commissioner Moore, for instance, denied using the "but-for" standard, but nonetheless interpreted the "in major part" wording more loosely than his other counterparts and predecessors (N.J. 1/24.71, p.1546). Rather than interpreting "in major part" to mean "more important than all other factors, significant or not, weighted together," Moore and other commissioners sometimes interpreted it to mean "no other specific, significant, timely changes in the situation" coinciding with the change in imports and injury (Frank 1977, p.47-8).

[47] In the event of a tie vote, the President had the power, no specified in statute, to break the tie. With presidents eager to defuse protectionist waves, virtually all ties were broken in favor of affirmative rulings. See Table 5.5.

fewer than 125 actually received relocation allowances (Frank 1977, p.53). In this period, allowances cost $86 millio, and total training costs were a mere $3 million (Ibid.).

For firms, the story was similar, though the Tariff Commission was a bit less generous in its rulings. Between 1960 and 1975 when the program expired, 39 firms, more from the shoe industry than anywhere else, requested eligibility for adjustment assistance, having been qualified to do so through Commission injury findings in either petitions for escape clause relief or adjustment assistance. 16 of these were approved for loans and loan guarantees, which amounted to $32.5 million, of which $14 million went to two plants. Thus, although the Commission found religion, it was a modest one, with budget and scale totals that were still far below the initial estimates of what the program would forecast.[48]

This "switch in time" by the Tariff Commission, in any event, was not enough to reverse the disillusionment among groups dislocated by trade. First, the looser interpretation was widely regarded as a capricious and tenuous shift. By mid-1971, two of the loose interpreters had left the Commission, leaving Moore as the only commissioner consistently willing to grant affirmative rulings to petitions. It meant that with replacements, the rate of approval went down somewhat, as we saw above. And absence of statutory authority to justify the President's practice of breaking tie votes in the affirmative fueled worry that the more generous mood of the Commission would be short-lived. In any event, by the time the Commission began approving petitions and the Labor and Commerce Departments dispensed benefits, cynicism among recipients had already taken hold.

2.3. Emboldened Protectionism and the Rejection of Compensated Liberalization

The consequence of these developments in international and domestic political economy were major: emboldened protectionism for some groups and a rejection of compensated liberalization in favor of unconditional protectionism for others. Industry and labor groups already tending to protectionism became more vocally and intensely so. A few other industry groups that had hitherto unconditionally supported continued trade liberalization became increasingly protectionist. And most significantly for the cause of liberalization and for the cause of compensated liberalization, some groups whose support for trade liberalization had been contingent on the provision of adequate adjustment assistance compensation -- the champions of compensated liberalization -- turned to unconditional protectionism. This section summarizes each of these kinds of groups, with the most attention devoted to the last.

[48] The estimates during the 1962 TEA hearings were around 90,000 workers in a five-year period, and 700-800 firms at a cost of $120 million over the same period. A rare example of government grossly underestimating the scale and cost of one of its programs.

A number of industries emerging from the 1962 fight as part of the protectionist coalition but became more stridently so during this period. The most important of these were textiles, chemicals, shoes, and steel. The textile industry and its unions struggled unconditionally for extension and tightening of the Long Term Textile Arrangement, particularly focusing on narrowing trade with Japanese producers. As an explicit part of their strategy, they sought to strengthen their hand with the Administration, and in turn the Administration's hand with the Japanese, by pursuing legislated quota protection. Having received exemption once, in other words, no other imperfect substitutes that could be subject to side payment linkage were ever explicitly considered.

The chemical industry, although traditionally more internationalist than textiles, was mainly on the defensive, trying to prevent the provisional repeal of chemical industry ASP tariff valuation as agreed upon in the Kennedy Round. After losing its battle during the international phase of negotiating, even though the liberalization involved a non-tariff barrier that the president had no authority to reduce without legislative approval, the industry sought to prevent the ASP-repeal at the legislative ratification phase (Hearings Foreign Relations on Kennedy Round 1967/8).

The steel industry, increasingly un-competitive with growing imports due to its own investment blunders and to massive investment and promotion of steel production from foreign producers in Japan and Europe, was initially interested in pursuing voluntary quotas, following the early example of the textile industry. When that strategy came up short, however, they sought any protectionism on the agenda, from tariff exemption to the legislated quota bandwagon. Like the other industries, steel industry representatives never mentioned any other policy proposal outside of traditional protectionism that could be made the subject of side payment linkage (Hearings Ways and Means, and Senate Foreign Relations 1967/8).

2.3.1. AFL-CIO Goes Unconditionally Protectionist, the UAW Stays the Champion of Compensated Liberalization

For the history of compensated liberalization, this period's most important shift in trade policy stance involved the most powerful and explicit champion of compensated liberalization: the AFL-CIO and the vast majority of organized labor they represented. Beginning in the middle of the 1950s through the 1962 Trade Expansion Act, the AFL-CIO supported trade expansion through market liberalization, on the condition that safeguards be provided to those expected to suffer from such liberalization. Protectionists might support a liberalization initiative after being given some kind of side payment and liberalizers might accept the provision of side payments to buy off their opponents, but the AFL-CIO and its member unions were the most important group to go into trade policy-making struggles explicitly supporting compensated liberalization. Only a few of the AFL-CIO member unions were unconditional protectionists, such as textiles and

shoe/leather unions, and there were really no vocal unconditional liberalizers. The UAW was one of the most ardent compensated liberalizers, but their basic stance was the same as most AFL-CIO member unions and their leadership, and the AFL-CIO's position was widely expected to speak for working men and women generally. Given its political influence and its explicit support for liberalization conditional upon provision of a specific side payment, the AFL-CIO was most responsible for getting the trade adjustment assistance program created during the 1962.

By 1970, however, the AFL-CIO and most of its member unions had completely jettisoned this compensated liberalization stance. Instead, they saw market liberalization and expansion as inimical to the interests of America's common working people, and moreover believed that adjustment assistance or other related policies that might safeguard against liberalization's costs were not acceptable compensation. Generous provision of adjustment assistance or other policies might be desirable in and of themselves, and might justify relaxing support for various kinds of protectionism, but no longer would the union go into trade policy-making struggle supporting trade expansion conditional upon some side payment. In this sense, organized labor became unconditional protectionists.

This rejection of compensated liberalization in favor of unconditional protectionism didn't happen all at once. Instead, it took place in three stages between 1962 and 1970. In the first stage, the Federation leadership was still nominally committed to compensated liberalization where the side payment on which support of liberalization was conditional was still adjustment assistance. But AFL-CIO spokesmen expressed disappointment in the poor administration of the TAA provisions, saw that administration as a betrayal, and stridently called for reform of the provisions. In their 1963 Constitutional Convention, for instance, the membership supported a resolution stating that

> The power to prevent or to cure injury [from expanded trade] is within the provisions of the current law. However, the administration of the statute by the Tariff Commission has indicated that the new concept of trade adjustment assistance -- a 'constructive, businesslike' approach to liberal trade, in President Kennedy's words -- has become meaningless....The AFL-CIO calls upon the President and the Congress to carry out the promise of the Trade Expansion Act of 1962. If American labor is to continue its support for liberal trade in the national interest, then the national interest must be served. (AFL-CIO Convention Proceedings 1963, p.79).

The resolution stated that serving the national interest required aggressive trade negotiating to lower tariffs abroad, the extension of the LTA, and the pursuit of two kinds of possible side payments. There was the loose call for stronger promotion of improved labor standards in international trade through better reporting by GATT members and through stronger efforts in the ILO for inclusion of labor standards in international trade. And there was the very specific and more strongly worded call for improving adjustment assistance:

> the trade adjustment assistance program should be made effective through administrative action, or amendments to the current provisions should be adopted by the Congress as soon as such action is feasible. The nation cannot afford to wait until the end of the GATT negotiations, starting in 1964, to find out whether this program is working. If the Tariff Commission does not show that it can effectively administer the law, the Trade Expansion Act must be amended. *Labor's support was based on adequate assistance or relief for those adversely affected by imports. Its continued support for liberal trade depends on the fulfillment of this premise.* (AFL-CIO Constitutional Convention 1963, p.60, italics mine)

The Federation stuck to this support of compensated liberalization for only a few more years.

By 1967, the year the Kennedy Round was concluded, the AFL-CIO had entered a second stage in its disillusionment. It had given up on adjustment assistance as a condition for their support of liberalization, but still claimed to support trade expansion and liberalization, implicitly conditional upon liberalizers meeting a number of other policy goals. In testimony, policy statements and the Constitutional Resolutions, the Federation's leadership still asked for liberalization of access to the TAA, and by 1967 could rely on the US-Canada Auto Pact experience to know specifically what changes were necessary. Calling the existing incarnation of the assistance "valueless" and a "total failure,"[49] the union stated that the "trade adjustment provisions should be amended to make the government's judgment of criteria for relief more realistic and equitable....Decisions on trade adjustment assistance cases should rest in the executive branch of the government and not in the Tariff Commission" (Constitutional Convention 1967, p.581; 1969).[50] Unlike previous calls for adjustment assistance reform, however, the Federation no longer called attention to how such assistance used to be, or was in the present, a condition for the Federation's support for liberalization.

Instead, the Federation listed a variety of trade and related policy changes it sought to make existing US trade policy acceptable. The specific requests involved demands for revision or exemption related to negotiating issues of the Kennedy Round, such as preserving textile quotas or opposing elimination of the American Selling Price system. On less specified grounds, the Federation also called for two sets of policy reforms separate from the trade protections under GATT review. One of these was for better protection of labor rights, a request long on the AFL-CIO's trade policy agenda. But in 1967, the Federation brought into their discussions of trade policy-making another linkable issue, the regulation of outgoing foreign direct investment through tax policies and capital controls. The 1967 Convention resolved in Resolution No.207 that:

> The export of US capital and its effect on international trade should be thoroughly investigated and appropriate supervision and necessary controls should be instituted by government authorities. Until the balance-of-payments problem improves, there should be direct restrictions on US investment in developed countries. Mechanisms for such restrictions are already established in all other major industrial countries. Effective tax

[49] These were the words in Resolution No.181 in the 1969 Constitutional Convention, Daily Proceedings, p.287.
[50] The 1969 Resolution No.205 used identical wording in its demand for adjustment assistance reform. See Daily Proceedings, p.280.

> policies should be adopted to prevent avoidance and/or evasion of US taxation on profits from foreign investment. (1967 Constitutional Convention, p.582).

Neither this outward-FDI nor the labor rights side issues were as detailed as the adjustment assistance demands. More importantly, neither received the explicit priority the AFL-CIO had granted adjustment assistance -- that it was a side payment condition for the union's acceptance of trade expansion. Instead, the side issues were simply desirable changes, *implicitly* just two of several other exemption or revision conditions for continued support of trade expansion.

The transformation to unconditional protectionism was complete when the AFL-CIO formally withdrew its support for trade expansion and liberalization in 1970. The Federation did so at the winter meeting of its 35-member Executive Council in Bal Harbour, Florida, in February of that year. The Council based its deliberations on a report from the economic policy committee of the AFL CIO drafted by Nathaniel Goldfinger, the federation's director of research (NYT 1970). Discounting adjustment measures as ineffective in compensating for the many losses recent international and domestic had imposed on workers, the AFL-CIO report called for "a multi-pronged response that would not entail a choice of protectionism over free trade, but rather an orderly expansion of world trade" (Ibid.).

The details of these prongs were developed over the course of the next two years. On May 12th, 1971, the executive council met and pulled together a legislative program on the international trade situation. The Council's resolution supposedly drew heavily on Nat Goldfinger's September 1970 report, "A Labor View of Foreign Investment and Trade Issues" (National Journal 1971,) -- -- a revision of his late-1969, early-1970 report.[51] The recommendations soon thereafter got expression in the dissent that the US Steelworker President I.W. Abel and the Machinists International President Floyd Smith offered within the high-profile Williams Commission, a Commission the Nixon Administration convened to review trade policy in 1971 (Williams Commission Report 1971). Their published dissent to the Council Statement was released in July 1971. That dissent, the May executive council statement, and the Goldfinger report all proposed a nine-point legislative program, and these nine points were later spelled out in detail in the Hartke-Burke proposal, the Foreign Trade and Investment Act of 1972.

The up-shot of their proposals were that they sought greater protections for major manufacturing industries in the US through either voluntary or involuntary quotas, stronger "escape clause liberalization and anti-dumping modernization," and through "truth-in-labeling" laws requiring that country of origin of products be labeled (Williams Commission Report, Annex

[51] Another report was influential in AFL-CIO policy development, former Assistant Secretary of Labor Stanley Ruttenberg's "Wanted: a Constructive Foreign Trade Policy." Among other things, the report based some of its findings on statistics by the Bureau of Labor Statistics that showed foreign trade had caused a net loss of jobs numbering 500,000 between 1966 and 1969 (cited in National Journal 1-15-72, p.109).

3, pp.341-42). As part of the same program, however, they also demanded policies strongly distasteful to their employers:

> 1. New tax measures for...the multinational corporations should halt the export of US productions and jobs. Deferral of taxes on income earned by foreign operations should be ended by collecting the tax at the time the profits are earned. All other tax and tariff incentives that help transfer production abroad should be removed now.
> 2. Capital outflows should be curbed and supervised and regulated by the US government....;
> 3. The export of US technology, now aided by the US government should be curbed, supervised an regulated by the US government.
> 4. International fair labor standards are necessary. The State Department and other government agencies should be directed to press for such standards in trade agreements....
> 8. Federal standards of reporting by US-based firms of their international accounting is needed. (Williams Commission Report, p.340).

These FDI and labor standards demands represented the majority of the trade policy-making demands of the Federation, tax policies and capital controls to discourage outward FDI. But not a peep was heard of the former lynch-pin of the AFL-CIO's compensated liberalization, adjustment assistance.

What explains this shift? AFL-CIO and other union representatives explained the shift not as a reflection of changes in the union's composition or philosophy, but of domestic and international political economy developments. They emphasized a general deterioration in the US's trade balance and position, strongly affecting a number of industrial sectors with large labor forces, like glass, steel, electronics, textiles, and shoes. They saw such a deterioration as due to the proliferating use of managed-economy trade policies of the US's industrialized competitors; the internationalization of technology; the skyrocketing rise of investments by US companies in foreign subsidiaries; and the spread of MNCs based in the US (NYT Feb.20, 1970). The industries hit hardest by these developments were, indeed, the manufacturing industries like steel and electronics that, unlike textiles and glass industries, had done relatively well internationally in the early 1960s. Moreover, these industries employed the majority of the AFL-CIO's membership. Little wonder that the Federation blamed much of their new protectionism on the position of their membership in the international economy.

The AFL-CIO also claimed their shift was a response to the false promises by liberalizers that the benefits of trade liberalization would be pursued in a way that adequately compensated the victims of liberalization. They referred, in particular, to the failures of the Trade Adjustment Assistance program they had made the condition for their support of liberalization between 1955 and 1962. Twelve of the rejected petitions for adjustment assistance filed between 1962 and 1969 were filed by frustrated unions. Consistently and explicitly pointing to their disappointment that the adjustment assistance and escape clause mechanisms did nothing for workers, representatives of the AFL-CIO and member unions claimed that accepting promises for such assistance was

naive, since they would remain hollow and unfulfilled. Even if such assistance were provided, the labor officials reasoned, it would represent mere "burial insurance."

But the change also coincided with major developments in the union's membership and strategy. Between 1962 and 1970, the union lost its largest and most internationalist champion when the United Auto Workers (UAW) withdrew from the AFL-CIO in 1968. Well into the 1970s the UAW did not completely give up on compensated liberalization, long after they left the federation. The liberalization of adjustment assistance provisions granted under the US-Canada Auto Pact renewed for a time the UAW's faith that adequate safeguards could accompany liberalization to make compensated liberalization a viable and preferable alternative to unconditional protectionism or liberalization. UAW president Walter Reuther withdrew his union from the Federation for a variety of reasons,[52] but differences between the UAW and the Federation over trade was apparently not one of them, as they never get mentioned in secondary and primary reports of the conflict between the union leaderships. On the contrary, the split between the UAW and the AFL-CIO was a *cause* rather than a consequence for the shift in AFL-CIO trade policy. With the departure of the UAW, the Federation lost by far its largest and most ardent supporter of compensated liberalization. What was left were the member unions that were the big industries that were traditionally or more recently hammered by international trade -- steel, textiles, shoes, etc.

The importance of the UAW's departure to the shift is suggested by the sequence of events. As late as the 1967 convention, the AFL-CIO was still in its first stage of transformation from compensated liberalization -- anger and skepticism but continued commitment to compensated liberalization. In the intervening two years, during which the UAW made its vocal break with the Federation, the AFL-CIO position moved decidedly further, to a more resolute repudiation of free trade, whatever the reform offered to adjustment assistance or other side payments.

Among the leadership and the member unions that stayed, moreover, the commitment to compensated liberalization appears to have been thin and brittle, or to have been reversed, since it crumbled quickly in the face of the unfulfilled promises that many liberalizers acknowledged as unjust and in need of remedy. As the Tariff Commission continually rejected applications for adjustment assistance, the AFL-CIO's research and legislative policy-making unit and its member unions lost faith in the possibility that the program could be reformed. They lost this faith, even though liberalizers explicitly explained that liberalizing adjustment assistance was a high priority,

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[52] The reasons for withdrwaing, instead, involved disagreement with the Federation's policies on a variety of issues, including its rabid anticommunist support for the Vietnam war and for other US policies against parts of the international free labor movement. More generally, the UAW and Reuther, in particular, claimed to take issue with the Federation's alleged unwillingness "to permit in-depth discussion of issues,.. to evaluate new ideas with an open mind,...[and] to share democratic leadership in the formulation of policies and programs and their implementation" ("A Statement Regarding UAW Relationship with the AFL-CIO," signed by Reuther and the three other UAW principal officers, quoted in AFL-CIO Convention, p.405).

and even though both the Johnson and Nixon Administrations continually tried to act on that priority in their trade policy proposals.

More important, the AFL-CIO gave up on a compensated liberalization stance that would make their support of liberalized trade conditional upon provision of side payments *other than* adjustment assistance. The AFL-CIO continually made reference to two issues that could be made the subject of such linkage: the protection of labor rights, and the regulation through tax and other policies of outgoing foreign direct investment. Even if adjustment assistance really was a wash out -- mere "burial insurance" -- the Federation or other unions could have made these other policies the subjects of side payments in exchange for liberalization. But their support for such policies tended to be vague and never explicitly linked to acceptance of freer trade. In other words, the AFL-CIO appears to have gone beyond skeptical punishment of an unfulfilled promise and a poor reputation by liberalizers, and to have instead thrown the baby out with the bath-water.

Such a position starkly contrasts with that of the United Auto Workers, the one major labor group to stick with its explicit support for compensated liberalization. At the center of the UAW's trade policy-making strategy was explicit compensated liberalization premised upon improvement in adjustment assistance. As the decade matured and as the Auto Pact fight faded, UAW representatives no longer needed to play up the special position of auto workers justifying urgent changes in adjustment assistance for auto interests, and instead began to agitate for generalization of the improvements in auto adjustment assistance to the general TAA program. They also sought more sweeping expansion in the scale and reform of the program, calling for among other things more money for workers, expanded training and relocation benefits, and quicker processing of petitions. Beyond these general recommendations, they were not specific about the changes they desired (UAW Convention 1967, p.). More important, as part of a compensated liberalization stance, UAW representatives explicitly stated that their continued support for freer trade was premised upon such improved adjustment assistance.

Aside from this specific compensated liberalization, the UAW lobbied heavily and explicitly for several other elements of the AFL-CIO's new stance -- but in a way that invited side payment linkage. In particular, the UAW was one of the first and most vocal proponents of changing the tax code on multinational corporations, setting up monitoring and regulations on outgoing FDI, all designed to discourage MNCs from exporting jobs to take advantage of lax labor standards and low wages. And the UAW also supported paying greater attention to the protection of international labor standards through the International Labor Organization, though like the Federation they were again hazy on specifics. Unlike the AFL-CIO, the UAW's explicit linking of liberalization and adjustment assistance implied a flexibility on trade matters. This, in turn, opened the possibility that their support for these other policy areas might also be made the subjects of side payments.

3. Fading of Compensated Liberalization as Outcome: Ineffective Side Payments, Lost Liberalization, and the Protectionist Tide, 1967-1972

Such significant moves towards protectionism and away from compensated liberalization frustrated the liberalizers interested in continuing their legislative gains of the early 1960s. The end result was a series of delayed or aborted liberalization initiatives, and an increasingly aggressive and politically successful series of protectionist initiatives. In the struggles over all of these initiatives, the only side payment offered or discussed was modest liberalization of the adjustment assistance program, a side payment offer that was increasingly received as too little too late.

3.1. Delayed and Aborted Liberalization in 1967 and 1968

The first round of that frustration spanned the last two years of the Johnson Administration, in the immediate aftermath of the Kennedy Round of GATT. The Administration and its liberalizer allies sought modest legislation to ratify some of the cuts agreed to in that Round and to minimally renew presidential negotiating authority set to expire in 1967. In this effort, however, they faced concerted efforts to block any such liberalization and to set-up legislated, mandatory quotas for a variety of distressed industries. The resulting struggle led the Administration to delay its liberalization initiative in 1967, and to abort its initiative in 1968 -- defeats that came in the wake of failed efforts to buy-off opposition through modest adjustment assistance side payments and exemption via voluntary quota negotiations. On the up-side for the liberalizers, hard-ball tactics and veto threats accomplished what these buy-off tactics couldn't, and stemmed the quota tide. The side payment offers, it appears, played a minimal role.

3.1.1. 1967 Delay and Worry

As the Kennedy Round of GATT negotiations came to a close in May 1967, most internationally vulnerable groups had to accept the deep cuts in tariff barriers as *fait accompli,* since the cuts were made under the auspices of negotiating authority granted in the 1962 TEA. But the chemical industry, which faced the tentative agreement devised under GATT to repeal the American Selling Price (ASP) tariff valuation for its industry, had another option. They could try to block chemical tariff liberalization because ASP repeal entailed cuts that were deeper than that authorized under the 1962 Act, requiring that the Johnson Administration get to get congressional approval for that repeal. So throughout 1967 trade policy involved a series of legislative quota initiatives by industries seeking to off-set the GATT cuts with quota legislation, while the chemical industry sought to protect the ASP when the Administration sought its repeal through the liberalization initiative everyone knew it had to introduce.

The fight over the chemical industry's ASP began as early as June 1966, when reports circulated that the US negotiators were considering bargaining on the ASP at the Common Market's insistence, the Synthetic Organic Chemical Manufacturers Assn. (SOCMA) campaigned to prevent ASP repeal. By Senate voice vote on June 29th, 1966, the Senate adopted a resolution urging President Johnson to instruct US negotiators "to bargain only on provisions authorized in the Trade Expansion Act of 1962" (CQ Almanac 1967, p.810). The Senate Finance Committee report on the measure, according to the CQ Almanac, "was aimed directly at the chemical issue and had the unanimous backing of the Committee" (Ibid.). When the Administration ignored this request, 183 Members of Congress wrote either the President or the Tariff Commission to protest, and on May 12, 1967, 12 members of the House Ways and Means Committee contacted US negotiators asking them not to make any commitments. Thus, when the Administration went ahead and tentatively negotiated elimination of the ASP, the stage was set for strong opposition to the repeal -- both on grounds of helping the industry and on grounds of the Administration encroaching upon Congress's perceived jurisdiction.

In 1967, the Chemical industry rallied against ASP repeal, before the Administration tabled any legislation. SOCMA was joined in protecting ASP by the Manufacturing Chemists Association (MCA), "the leading chemical trade group" whose membership included a number of internationally-oriented firms that were traditional free trade stalwarts (CQ Almanac 1967, p.810). The Members of Congress representing states with large benzenoid chemical concentrations, such as New Jersey (30,000 benzenoid workers, Texas (13,000), W.Virginia (7,000), and Pennsylvania (2,000), repeatedly announced their opposition to ASP repeal throughout that year. And the CQ Almanac reported that 10 new lobbying organizations registered with Congress during the summer of 1967 as lobbyists against ASP repeal (Ibid., p.811). By October, Administration officials began to acknowledge they were falling behind in their effort to ratify that repeal.

Throughout 1967, much more attention was devoted to a rash of protectionist quota legislation for import-competing industries than to the ASP problem. The industry leading the way in quota action was textiles. On May 17th, two days after the Kennedy Round agreement was announced, Senator Hollings (D. S.C.) introduced a bill (S 1796) to impose quotas on textile imports. Soon thereafter, House Ways and Means Committee chairman Wilbur D.Mills (D.-Ark.) introduced a similar measure, even though his traditional stance as a defender of free trade made his motivation ambiguous.[53] This House quota bill was joined by a flurry of other textile bills. By the end of the session, the Senate bill had won 68 Senate co-sponsors, just enough to override a presidential veto. The House quota measures, meanwhile, gained a total of 153 sponsors for quota

[53] Some speculated that Mills introduced the measure "only in order to keep it bottle up in his committee..." (CQ Almanac 1967, p.811). Mills also later stated that he favored holding off action on the quota proposal until a presidentially-mandated Tariff Commission study of textiles was concluded.

legislation -- short of being veto-proof but expected to win more support if it came to a vote (Ibid.).

The textile industry may have been the most visible subject of quota legislation, but it was really the tip of an iceberg. The steel industry also was the subject of import quota bills. Industry supporters had spent most of the year working for increases in tariffs and a state-level "buy American" campaign, both of which bore no fruit. Late in the year, they switched to support for import quotas, with Sen.Vance Hartke (D.Ind.) introducing a bill (S 2537) and was cosponsored by 35 others. To textile and steel quota bills, the congress added quota bills for oil, introduced by Russell Long and gained 28 other cosponsors, as well as for a variety of other smaller industries.[54] And two other Senate bills (S 1446, S 2476) sought a more general quota measure that would provide quota protection for any industry found to be threatened by import injury. This measure received more than 20 Senate supporters. Throughout the 1967 session, 90 of the 100 members of the Senate had sponsored at least one of these quota bills (CQ Almanac 1967, p.810).

Congress held several sets of hearings on the various quota initiatives, and on related legislation. Between early April and late June, the House Committee on Education and Labor heard testimony from a variety of industry and labor groups on the impact of Kennedy Round cuts and on proposals to amend the Fair Labor Standards Act. Later in the year, Hale Boggs's (D La) Subcomittee on foreign Economic Policy of the House-Senate joint Economic Committee sponsored a hearing to consider quota legislation, and only allowed injured industries to submit written statements. And the Senate Finance Committee sponsored hearings between October 18th and the 20th to consider the quota packages. All the representatives to give testimony on behalf of unions and industries were single-minded in their pursuit of quota protection. None of them mentioned an interest in other policies related to trade protection that might help their position, and that might be made the subjects of side payment linkage. .

The Johnson Administration first responded to this protectionist onslaught on July 7th, in a conference to discuss the impact of the Kennedy Round. The Administration defended its actions during the GATT negotiations, including its 35 percent or more linear tariff cuts and its tentative plan to cut ASP protection for chemicals. It also gave some preview of the kind of safeguards it would provide in liberalization legislation, were it to submit such legislation that year, when Under Secretary of Labor James J.Reynolds told import-competing firms and workers that the few industries and unions to suffer serious injury would be able to receive aid from a revised adjustment assistance law. As quota pressures mounted, the Administration decided that 1967 would be a bad year to introduce its legislation, and instead it focused its trade policy attention on defeating the quota initiatives. On November 2nd Johnson said "I think those protectionist bills

[54] These others included meat, dairy products, lead and zinc, strawberries, honey, footwear, electronic equipment, scissors and shears, etc.

just must not become law...and they're not going to become law as along as I am President" (CQ Almanac 1967, p.813.).

After delaying its liberalization initiative and speaking out more strongly against the quota legislation, the Administration was able to delay the quota initiatives. By late in the Fall, it became clear that the House wasn't going to act on the quota legislation until the next year. In the Senate, the pressure for the quota bills was stronger, particularly for the textile quotas, one of which had 68 cosponsors. After waiting in vain for the House to act, Senator Dirkson planned to attach an omnibus quota amendment to the Johnson Administration's Social Security bill (HR 120080), its top priority for that session. Before he could do so, however, Johnson informed some congressional leaders that he would veto the Social Security measure if it became a vehicle for the quotas. In any event, the senior-citizen lobby mounted a loud campaign to block Dirkson's attempt at linkage. The intensity of the quota drive, however, promised to continue into the next session, when Johnson was expected to push harder for his TEA renewal and ASP repeal.

3.1.2. 1968 Surrender

In 1968, the story was similar to the previous year, but more developed. This time, the Administration sought to push through its liberalization initiative, the 1968 Trade Expansion Act, which gave authority to modestly cut existing tariffs, to repeal the American Selling Price system, and to revise adjustment assistance. The adjustment assistance provisions represented a compensatory side payment to industry and, especially, labor groups increasingly ambivalent or opposed to the liberalization. This effort to buy off opposition was joined by some attempts to secure voluntary quota agreements, to cut off the legislated efforts. Despite these tactics, the Administration got nothing in 1968. On the other hand, the many attempts to pass quota legislation ultimately went no where as well.

The Johnson Administration introduced its Trade Expansion Act of 1968 in a message to Congress on May 28th. As the administration had signaled for a couple of years, the bill was relatively modest. It called for extension of negotiating authority until June 30, 1970, granting the president powers to continue to modestly cut tariffs. More ambitiously, it called for elimination of the entire American Selling Price system of tariff valuation, not just the ASP for chemicals. The 1968 TEA also called for extension of the soon-to-expire Automotive Products Trade Act of 1965 until June 30, 1971.

Explicitly praising the adjustment provisions in the Auto Pact Act, the Administration also proposed to loosen the eligibility criteria and reform the administration of the Trade Adjustment Assistance. In particular, Johnson proposed to make relief available whenever increased imports were "a substantial cause of injury" rather than a "major cause," as was the TAA and escape clause

status quo. This language was similar to the escape clause criterion prior to the 1962 TEA tightened the language. More importantly, Secretary of Labor W. Willard Wirtz later explained that the criterion was no longer to require that petitioners show a strong, "in major part" link between tariff concessions and increased imports, but only a "substantial cause" link between import increases in injury (House Ways and Means Hearings 1968, p.37-39). The details of how to interpret "substantial cause" were left ambiguous, but generally understood to mean as important as, though not necessarily greater than, any other single cause (Mitchell 1976, p.47). Also, the adjustment assistance and escape clause petitions were to be decided by the Secretaries of Labor, Commerce, and Treasury, rather than by the Tariff Commission.

In these ways, the proposed adjustment assistance reform was similar, actually more generous given the slightly looser eligibility criterion, to that passed under the Auto Pact. As in the struggle over that Pact, the adjustment assistance provisions of the 1968 TEA were side payments because they were designed to off-set the pain ratified or introduced by the 1968 measure's liberalization and were separate from the provisions being liberalized.

The 1968 TEA initiative was short-lived. The House Ways and Means Committee took up the bill (HR 17551) and held 19 days of hearings between June 4th and July 2nd. More than 300 witnesses gave testimony. The ASP repeal drew the most fire, with the chemical industry and its legislative champions leading the charge. More important than criticism of the TEA's provisions, it became clear that protectionist industries and unions were going to push to secure quotas, either through amendment of the TEA or through the flurry of independent quota legislation that had already been initiated in 1967.

The adjustment assistance provisions garnered little praise from the protectionist groups at whom it was principally targeted. US Steelworkers President I.W. Abel's was typical in explaining that the adjustment assistance would be no more than a drop in the bucket and that quotas were the only way to go. Meanwhile, the adjustment assistance provisions had mixed success among liberalizers. On the one hand, it was neutral or positive for a few groups, such as for the Chamber of Commerce representatives (House Hearings, Jay H.Cerf testimony, p.1710). Other groups, however, saw in the adjustment assistance provisions pandering to protectionists and the danger for a program that could grow out of control. Such was the position of the National Foreign Trade Council, Inc., as expressed by its president, Robert Norris. Norris recommended that adjustment assistance eligibility should still require showing a strong link between tariff concession and imports (House Hearings 1968, p.1495).

And these protectionist groups put forward few linkable issues that could be used as alternative side payments to the adjustment assistance. Abel and some other labor leaders, such as the United Textile Workers of America President George Baldanzi, also stated the trade stance that was soon to be that of the AFL-CIO, that restrictions on out-going foreign direct investment were

also necessary to promote the orderly expansion of trade (House Ways and Means Hearings 1968, p.1845). In identifying such a linkable issue, however, they stood apart from other protectionists, all of whom gave testimony offering little in the way of alternatives to quotas in their stated positions on the TEA bill.

As pressure for the quotas mounted and various attempts to defuse that pressure went nowhere, Wilbur Mills decided to table the bill for fear that it would become a quota Christmas Tree. Robert Pastor and John Evans both quote Mills as having lamented the danger of a protectionist log-roll: "However sympathetic individual Representatives or Senators are to the textile import problem, there are other industries which are seeking the same form of relief and which also have supporters in the Congress. Thus, it appears difficult, if not impossible, to work out an import quota law for one industry and prevent its extension to the products of other industries" (Evans 1971, p.303-4; Pastor 1980, p.122). Whether or not the Administration agreed with this tactic, it had no choice but to accept Mills's decision to abort.

After Mills forced the TEA's surrender,[55] the quota tide flowed forth, and the liberalizer coalition had to go on the defensive. They were largely successful, though only by a hair. The textile industry, predictably, made the most ground. With the 1967 Senate textile bill still in the Finance Committee, textile industry and labor groups managed to attach the measure as an amendment to the Administration's tax surcharge legislation designed to remedy the growing balance of payment problem. In conference, Congress removed the rider in the face of strong Johnson Administration opposition. Johnson then had to actually use his veto to strike down a protectionist bill cleared by both the House and Senate that would take away extra-long staple cotton quota from countries with whom the US discontinued diplomatic relations, in this case Egypt and the Sudan, and transfer it to American producers (CQ Almanac 1968, p.728).

Only a few other quota and other protectionist initiatives made it this far. The steel industry didn't get its 1967 quota legislation to go any further, but they sparked US negotiations with Japan and other countries for voluntary controls and restricted US participation in the Kennedy Round's negotiated changes to the International Dumping Code. Other industries didn't even get this much. For instance, the 1967 oil quota bill went nowhere, and in fact the Johnson Administration allowed companies unable to use full quotas in 1967 because of the Arab-Israeli struggle to increase their 1968 imports to take up the slack.

That the quota wave of 1968 bore so little fruit can be attributed mainly to efforts by liberalizers to block action at every turn. In the case of steel, the Administration also pursued the exemption option, by trying to negotiate a voluntary quota arrangement. But for all other sectors, brute force was the order of the day at every decisionmaking juncture, up to and including a

[55] The word "surrender" here is meant to connote the idea that the initiative was aborted. Since "abortment" isn't a word I figured I would look elsewhere rather than use the overly provocative "abortion."

sustainable veto of completed legislation. Although the Administration had proposed a compensatory side payment in its 1968 TEA, the surrender of this initiative meant that there were none offered in direct connection with the fight against quota protectionism. Only the faint prospect of loosened adjustment assistance sometime in the future, and a liberalizer coalition's conflicted commitment to such assistance, entered the policymaking mix. It's fair to say that this vague trace of a side payment had no discernible effect on the developments in 1968, either in helping or hindering the TEA or in stemming the quota tide.[56]

3.2. Nixon Does No Better in 1969 and 1970

The trend of failed liberalization, stemmed protectionist tides, and modest and ineffective compensatory side payments continued under the Republicans. The Nixon Administration positioned trade policy relatively low on its legislative agenda, but international considerations put strong pressure on the Administration to ratify GATT-negotiated promises and thereby maintain US credibility in present and future trade and other negotiations.[57] So by the end of its first year, the Administration was ready to introduce liberalization legislation.

In contemplating the legislation, however, Administration representatives were acutely aware of continued protectionist demands and eroding support for compensated liberalization. They recognized, in particular, that the escape clause and adjustment assistance programs had not done what they were supposed to do and had, as a result, rationalized stronger protectionism. The Tariff Commission had independently loosened its interpretations of existing escape clause eligibility standards. But Administration officials knew that protectionist pressures would mute any of the bill's liberalization tenets while attaching quota and other protections in the process. Therefore, even though both Nixon and Secretary of Labor George Shultz were publicly ambivalent about programs giving special treatment to groups dislocated by trade, the Administration sought legislation that combined the liberalization measures with explicit protections and improvements in the escape clause and adjustment assistance provisions (National Journal 5-16-70, p.1035).

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[56] Congress did pass one small piece of legislation liberalizing trade in 1968, when it cleared a bill (HR 7735) extending duty suspension of imports of alumina, calcined bauxit and bauxit ore. After passing the House, the Senate added three unrelated amendments, one of which may have entailed a modest side payment. That amendment called for extending from three to six months the period in which refund claims might be filed for tax paid on distilled spirits used in the production of nonbeverage products. Whether this was a side payment is unclear, because it isn't clear whether the tax refund sought to off-set pain of those legislators or constituencies opposed to the liberalization. This isn't clear because the Senate vote for the amendment and the final bill was a voice vote, making it impossible to see who supported and who opposed the liberalization and the amendment. [how about industrial break-down?]

[57] Among the many other reasons was that foreign governments sought "concrete assurance that the new Republican Administration would continue the free trade policies of the previous Democratic administrations" (National Journal, p.1815).

So the Administration tabled a modest trade liberalization initiative on November 18, 1969, calling for much the same as Johnson's failed 1968 Trade Expansion Act. It called for authorization to make reductions in US tariffs by not more than 20 percent below the rate existing on July 1, 1967, or 2 percent ad valorem, and for elimination of the American Selling Price (ASP) system. On the other hand, the bill would strengthen the President's authority to retaliate against unfair trade practices by other countries.

The bill also called for significant loosening of the adjustment assistance and escape clause eligibility, though less so than either the 1968 proposal under Johnson, or the Auto pact provisions. For both the escape clause and the adjustment assistance provisions, the bill ended the requirement that petitioners show a strong connection between tariff concessions and import increases and offered relief for threatened as well as actual injury. For the escape clause the standard went from "in major part" to "primary cause" (like the Auto pact language, meaning greater than any other single cause), and for the adjustment assistance program the standard was to be yet looser: from "in major part" to "contributed substantially," meaning "no less important than any other single cause." In this latter respect the Nixon proposal actually called for greater liberalization of the eligibility criteria than did the Auto pact provisions. But the Nixon proposal retained the decisionmaking procedure whereby the Tariff Commission had the main decisionmaking authority on whether to accept or reject petitions from labor or employer groups.

Before the House Ways and Means Committee considered the Administration's liberalization bill, legislators and Administration officials also put forward a variety of other trade policymaking measures -- most of them protectionist. A couple were proposals for export incentives, including a House-introduced measure calling for a large tax rebate to exporters and a more modest Administration proposal to boost exports by providing tax breaks to new corporate entities that US-based firms could set up, called (DISC).

The most important of the bills, however, was one introduced by the House Ways and Means Chairman Wilbur Mills, calling for quotas for textiles and footwear. The Mills bill (HR 16920) was a response to strong labor and textile industry pressure for quota protection, but was designed mainly to pressure Japan and other countries into accepting voluntary quotas favorable to US producers in the on-going negotiations between these countries and the Administration. Mills claimed that this was his motivation, given Japanese intransigence in the VER negotiations, and particularly its hubris in predicting that Congress wouldn't actually act unilaterally (National Journal 5-16-70, p.1036). The Mills bill also contained reforms for the adjustment assistance and escape clause relief programs, very similar to the Administration's requests. The main difference was that the Mills bill called for slightly looser escape clause eligibility criteria: where the Administration called on petitioners to show that injury was due "in primary part" to import

increases, the Mills bill required that they show only that injury was due "in substantial part" to import increases, the same standard as for adjustment assistance.

In May 1970, the House Ways and Means Committee took up the Administration's liberalization bill (HR 14870) as well as several others, including the DISC proposal and the Mills quota bill. It held hearings for twenty days, beginning on May 11, to hear testimony on all of these initiatives. Like the hearings in the last several episodes of liberalization, the focus of most of those testifying during these hearings was on the most protectionist elements of the bills being considered: the textile and footwear quotas, and repeal of the ASP provisions. The Nixon Administration officials to testify, including its most protectionist member, Secretary of Commerce Maurice H.Stans, spoke out against the quotas and ASP. Stans asked that the Committee withhold judgment or action on the Mills textile quota provisions until negotiations with Japan could be concluded, but when those negotiations reached stalemate on June 24th Stans appeared again before the Committee to express the Administration's reluctant support for the quota since it allowed voluntary agreements to supersede the legislated quotas. On footwear Stans and the Administration was unambiguously opposed.

The range of groups testifying on behalf of creating legislated quotas and of maintaining ASP were generally unwavering and single minded in their testimony, claiming that the only trade policy provisions acceptable to the interests of their industry was the protection under review. There was no signaling of possible linkable issues among these industry groups. Organized labor was again an exception, signaling not only its position on the main protection elements of the bill -- its strong support for quotas and for retention of ASP tariff valuation, and its opposition to the DISC export credits -- but also its support for tax and regulatory policies that would discourage outgoing foreign direct investment that would cause mass unemployment at home (House Hearings 1970, May 19th, Andrew J.Biemiller [check this pg.]).

The adjustment assistance measures also received some attention, mostly favorable but frustrated. Organized labor, for instance, made clear its support for loosening eligibility criteria. But representatives took pains to point out that the program didn't buy AFL-CIO or member union support for liberalization, as had been the tradition since the mid-1950s (Biemiller testimony,). This was consistent with the Federation's February announcement that it was dropping out of the free trade coalition. Other protectionists expressed greater frustration with the proposed revisions. O.R. Strackbein of the Nation-Wide Committee on Import-Export Policy pointed out that the most liberal combination of the eligibility language -- the "contributed substantially" language in the Mills version -- was no more generous than that provided before the 1962 TEA tightening. And since a very small proportion of petitioners got affirmative rulings from the Commission during that earlier period, there was no reason to rejoice at the 1970 proposals.

Among liberalizers, support for loosening escape clause and adjustment assistance eligibility was also strong, but frightened by the frustration expressed by protectionists. The National Journal reported in that year that many supporters of economic liberalization had "brought about a reversal of attitudes towards liberalizing the escape clause in the liberal trade community" (NJ 5-16-70, p.1035). David J.Steinberg, secretary and chief economist for the Committee for a National Trade Policy said that his group had become convinced that liberalization of the eligibility criteria was necessary "as a way to forestall legislated quotas" (Ibid.). The truth was that the Committee had already gone on record in 1967 and 1968 in support of loosening eligibility, but they apparently sought to highlight the shift in attitudes to garner greater support for that loosening. Other liberalizers explicitly recognized the frustration among protectionists with the assistance provisions and were disappointed with the modesty of the proposed reforms. Rep. Henry S.Reuss (D.-Wis.) [check vote], for instance, thought the proposed loosening of eligibility criteria for adjustment assistance was far too little, saying that such assistance should be provided "on an almost Appalachian scale" (National Journal 5-16-70, p.1036).

After nearly a month of hearings, during which 370 private witnesses gave testimony, the Ways and Means Committee redrafted the various proposals into a bill substantially more protectionist, but also more generous in the side payments to be provided, than the president had requested. The Committee granted the Administration its basic request for modest tariff cutting authority and for new authority to retaliate against unfair trading practices, through revision of the 1921 Antidumping Act and expansion of the countervailing duty provisions. It also extended the Auto Product Trade Act of 1965, which had expired two years earlier, and the requested DISC export credit.

The Administration also managed to get a minimalist version of its basic ASP request. The Committee initially voted to reject the requested ASP repeal. But Administration officials informed chemical industry and Committee representatives that the President might veto the legislation without ASP repeal. According to a National Journal report, Administration officials also used other strong-arm tactics. They called chemical industry officials, "leaving them with the clear impression that without repeal of ASP there would be no bill and no quotas on imports of manmade fibers" -- a major product made by the big chemical producers (N.J. 8-22-70, p.1815-6). And they notified "the large textile companies -- the major consumers of manmade fibers -- and asked them to put pressure on the chemical companies to stop opposing ASP repeal" (N.J. 8-22-70, p.1816). Despite all this pressure, the Committee did not grant full authority to repeal ASP. Instead, the Administration was allowed to repeal ASP for chemicals but not for rubber -soled footwear (the other main product covered by ASP), and repeal had to be submitted to both houses of Congress for 60 days, after which it would become law unless both houses passed a concurrent resolution opposing repeal (CQ Almanac 1970, p.1061).

In part because of this apparent trade-off, the Ways and Means bill contained a variety of quota provisions. It included the Mills quota provisions for textiles and shoes, legislation simultaneously under review alongside the President's from the beginning. But the Committee created a new quota mechanism called the "Byrnes basket," after its initiator, the senior Republican Ways and Means member John W.Byrnes. The Byrnes basket set up a review process similar to the escape clause provisions through which industries could receive quota or tariff protection if adequate injury could be shown to the Tariff Commission. Doing so would require higher eligibility standards than for the escape clause or adjustment assistance. Byrnes thought the new provisions necessary in the interest of equity given the textile and shoe quota, and in the interest of preventing a log roll toward more specific legislated quota protection (N.J. 8/22/70, p.1818).

Along with this creeping protectionism, the Ways and Means Committee also adopted more generous loosening of the escape clause and adjustment assistance measures. It accepted Mills's proposal for a looser standard for escape clause eligibility -- "contributed substantially" rather than the Administration's "due in primary part." More significantly, the Committee called for significantly easier access to the adjustment assistance provisions than the "contributed substantially" loosening implied. First, injured workers and firms could petition directly to the President, rather than the Tariff Commission, and the President was required to ask the Commission for an investigation of the petition within five days of its receipt. The Commission was in turn required to provide a factual report on the basis of which the President was to make a decision within 30 days. Beyond this loosening, the Committee also required to grant adjustment assistance eligibility whenever workers or firms were granted escape clause relief by the Tariff Commission, even if the President chose not to act on such an affirmative ruling (CQ Almanac 1970, p.1061). These provisions significantly watered down the conservative Commission's decisionmaking authority, and implied an application process as loose -- and a side payment as generous -- as had been created under the Auto Pact.

The various mandatory quotas attached to the legislation inspired alarm among most liberalizers in and out of government. All of the free-trade lobbies, such as the Committee for a National Trade Policy, urged its re-writing or veto. Leading Congressional liberalizers warned that the bill would spark massive retaliations against US exports and drive the US into economic isolation. And on July 20th, President Nixon declared that he would veto mandatory quota legislation on products other than textiles: "I would not be able to sign the bill because that would set off a trade war, [that would] cost us more jobs in the exports that would be denied us...and...even more important, [that would be] highly inflationary..." (CQ Almanac 1970, p.1060).

Despite such saber rattling by the Administration, the House passed the protectionist measure on November 19th, 1970, after two days of debate. The final vote was a strong 215-165.

Apparently the various tactics of revision (escape clause liberalization), exemption (textile quotas), and compensation (adjustment assistance), were insufficient to buy enough support for a cleaner bill. The only alternative was veto, a step that was never to be tested because of developments in the Senate.

Since the House didn't pass the measure until so late in the Congressional term, Senators supporting its final passage couldn't wait until the House's final vote before acting. The Senate Finance Committee, led by its Chairman Russell B.Long (D.-La.), reached a tentative decision on October 18th and voted on November 30th to attach most of the bill's provisions to a bill establishing Social Security Amendments (HR 17550). The motivation for such piggy-backing was obvious: liberalizers opposed to the protections in the bill would have a difficult time defeating the bill "by stretching out debate until the end of the post-election session if, in doing so, they would kill an increase in social security benefits" (CQ Almanac 1970, p.1064).

The result was a Social Security bill reported out of the Finance Committee that increased such benefits but also included almost all of the protectionist trade bill passed by the House -- minus the DISC export credit and the core liberalization provision sought by the Administration, repeal of ASP protection for chemicals. To sweeten the Social Security deal, finance Committee leaders also added three other provisions: "a limited test of the President's family assistance plan,...a national insurance plan against catastrophic illness, and...an increase in veterans' pensions" (CQ Almanac 1970, p.1066).

Given even the slimmest chance at amending the bill, the Finance Committee also chose to modestly expand the House-passed adjustment assistance provisions by increasing adjustment allowances for dislocated workers to the lower of 75 percent of actual wages or national average manufacturing wages. This was an increase of 10 percent over the existing law or the existing House bill. When the Social Security bill was sent to the Senate floor on December 11th, increases in social security benefits were held hostage by supporters of the protectionist trade provisions. Opponents of those provisions, most of whom strongly supported the social security hikes, had to choose between swallowing the protectionist measures as a price for those hikes, and halting the protectionism at the price of no hikes.

In the end, opponents of the trade provisions called the protectionists' bluff and chose the latter. After the bill made it to the Senate floor on December 11th, opponents of the trade bill knew they could not vote out the protectionist provisions through amendments, so their only strategy was to filibuster the entire package until it was too late to pass the legislation and reconcile differences with the House -- all of which needed to be done before January 3d. Between the 11th and the 22nd, therefore, the liberalizers filibustered the measures, delaying action on any of the legislation until after a recess between December 22nd and the 28th. But when that recess began, House Ways and Means Chairman Mills and ranking minority member Byrnes together stated it

would be impossible for a conference committee to complete action on the Social Security-trade bill. So Senator Long proposed to drop the trade provisions in the hopes of getting the Social Security provisions through. The protectionists had admitted defeat. As even the social security provisions proved impossible to reconcile with the House counterpart before adjournment, the liberalizers proved themselves willing to post-pone or give up Social Security improvements to prevent passage of the quota-filled trade legislation.

In short, to prevent passage of protectionist provisions unprecedented in the previous forty years of trade policymaking, liberalizers found that revision, exemption, and compensation all failed to defuse the protectionist tide. Only the willingness to sacrifice more widely popular, and possibly much higher priority legislation, was successful.

3.3. Burke-Hartke, Labor's Uncompensatable Protectionism, 1971 and 1972

The experience of the previous year convinced the Nixon Administration not to pursue any legislated trade liberalization for fear of repeating the pattern of having such legislation bastardized by unwanted legislated quotas. More important, perhaps, the Administration was engaged in a series of much more sweeping and fundamental overhaul of its foreign economic policymaking organization, policies, and strategy. In May 1970, just as the Administration was giving up on the Mills Bill legislation of that year, Nixon initiated the first step in that overhaul by appointing the Williams Commission to investigate all aspects of foreign trade and investment policy. In January of 1971, Nixon then moved to rationalize the various departments involved in foreign economic policy by creating the Council on International Economic Policy, designed to express the greater importance the Administration would grant foreign economic policy's given how Nixon and Kissinger had prioritized such issues well below high politics matters in the past.

Recommendations flowing from the Williams Commission (formally releasing its report in July 1971), from the Council, and from Peterson's own writings fueled Nixon's dramatic New Economic Policy, unveiled in August 1971. The policy called for well-known and sweeping changes in the US's macro- and micro-economic policies, including suspension of US convertibility to Gold and a 10 percent surcharge on all imports. The scale of these changes and continued strategic rethinking on trade policymaking completely foreclosed any possibility of liberalization legislation for 1971 and 1972.

Instead, the next two years of trade policymaking were dominated by protectionist moves, both Administered protection for textiles and steel, and continued legislative protectionism -- this time in legislation that joined together investment and trade policies in the Burke-Hartke Trade and Investment Act of 1972. This legislation was in all respects organized labor's baby. Even though the legislation's various kinds of protectionism proved too controversial to make it out of

committee in anything resembling its initial form, it was the fullest expression of labor's break with the free trade coalition and with its compensated liberalization stance.

By late 1971, the AFL-CIO had well publicized its break with its compensated liberalization past. It had announced a general break with the free trade cause following its February 1970 Executive Council meeting. It gave more detail and expression to that break in its May 1971 executive council economic policy platform, based on the trade and investment policy recommendations in head researcher Nat Goldfinger's September 1970 report, and more widely publicized in the union representatives' dissent to the Williams Commission report and to testimony by Federation President George Meany's press statements and testimony in the same year.

Soon after the executive council announced its new platform in May 1971, Federation lobbyists sought to translate the platform into actual legislation. Ray Denison, an experienced AFL-CIO legislative representative specializing in tax, tariff, and trade matters, talked to Senator Vance Hartke (D-Ind.) and Rep. James A.Burke (D-MA) about the proposals in the hopes that they would sponsor legislation along the lines of the nine-point executive council program. Denison targeted these legislators for this effort because both were strongly supported by and supportive of the labor agenda. Hartke's Indiana constituency included a number of vocal employer and employee groups hit hard by international competition, including volume and specialty steel, and he had been supported by the AFL-CIO's Committee on Political Education during his close 1970 campaign (N.J. 1/15/72, p.111). Burke, meanwhile, had also been supported by the same AFL-CIO electoral unit and represented a significant number of textile, leather and other declining industries in his New England district. Just as important as the strength of their commitment to the labor cause, both Hartke and Burke were high-ranking members of the Senate Finance and House Ways and Means, respectively, the committees with the most power over the plight of trade and investment legislation (Ibid.).

Within a few months, both legislators were on board. As Thomas J.Brunner, a former legislative assistant to Senator Hartke said to the National Journal, "it is an open secret that much of the impetus for this legislation came from organized labor....The bill was drafted under the auspices of the AFL-CIO" (N.J. 1/15/72, p.111). According to Burke's executive assistant, "the final draft of the bill was a joint effort of Burke's staff, Hartke's staff and the AFL-CIO," with Elizabeth R.Jager, an international economist on the AFL staff providing a lot of information for the drafting.

The bill was formally introduced in September 1971 as the Foreign Trade and Investment Act of 1972, with a very respectable 80 co-sponsors. The bill simply detailed the AFL-CIO's May 1971 executive council platform, calling for a series of sweeping changes in trade and investment policy. The bill called for, in particular, increased taxes for companies investing in foreign

countries, for new percentage quotas on virtually all imports, and for a new and powerful government agency to regulate investment and imports. The tax and regulatory provisions, particularly those that called for repeal of the existing tax provision allowing US companies to receive full credit for tax payments to foreign governments -- were not protectionist in at all the sense that the quotas were. The trade and investment provisions were given equal weight in most statements and defenses of the bill, though Hartke and others gave special attention to how the bill was "aimed at protecting the best interests of the nation against the worst practices of international corporations" (Congressional Record, September 28, 1971; quoted in Ibid, p.112).

The bill received support from most, though not all segments of organized labor. The legislative campaign was championed by the AFL-CIO's Industrial Union Department, which represented 59 unions of about six million members. This Department's 11-man International Trade Committee took particular interest. The Committee comprised senior representatives from internationally vulnerable unions, including the United Steelworkers of America, the United Electrical, Radio and Machine Workers, the United Shoe Workers, United Glass and Ceramic Workers, and the Textile Workers Union.

On the other hand, the United Auto Workers, which had left the AFL-CIO in 1968, was deeply and openly ambivalent about the legislation. On the one hand, they clearly favored some new legislative action to regulate outgoing foreign direct investment. Indeed, the UAW had been the strongest and longest proponent of public policies that took better account of the internationally mobile character of US business. The UAW representatives also recognized and were very concerned at increasing auto imports into the US. But the UAW continued to support trade expansion and trade liberalization, conditional upon safeguards such as adjustment assistance. Such a position was in direct conflict with Burke-Hartke's protectionist quota provisions. So the UAW did not actively or explicitly take a position on the whole bill. When UAW President Leonard Woodcock met with Hartke a month after the bill was introduced and urged by the Senator to support the bill, one of Hartke's aids noted that "Woodcock said he had some problems about supporting the legislation" (Ibid., p.114). John J. Beidler, legislative director of the UAW's Washington office, was also at the meeting. In a later interview, he pointed out the union's historic support for freer trade and opposition to quotas and said that "I think we could support every part of [the Burke-Hartke] bill except the quota provisions" (Ibid.).

The bill's combination of trade and investment provisions and the resulting labor positioning had ambiguous implications for the possibility of side payments being provided to defuse the most protectionist elements of the bill. Since the regulatory and tax changes were substantively distinct from tariff and non-tariff barrier protectionism, but at the same time were a central part of labor's trade policymaking platform, they might be targeted as subjects of side payment linkage to soften or eliminate Burke-Hartke's strong quota protectionism. With the

investment and trade provisions given equal weight in the main text of the legislation, labor representatives and their legislative supporters did not give clear indication that they would accept such linkage. But labor's clear focus on the investment provisions suggested the possibility that they would sacrifice trade protectionism before they would sacrifice the investment regulations. And the UAW's explicit support for the investment provisions and opposition to the quota trade protections left the door open to allow a softening or elimination of the quota protections as a way of getting more support for the investment provisions. And from the perspective of liberalizers, the UAW's position offered various prospects for using concessions on the investment provisions as a way of splitting the labor coalition in favor of some kind of Burke-Hartke legislation. Any such exchanges would represent the use of a side payment to defuse a protectionist initiative.

On the other hand, the stances of liberalizers and protectionists precluded such linkage. First, labor had by then spoken out against the possibility of trading off issues, of accepting side payments or concessions of non-trade barrier policies in exchange for freer trade -- the perceived reneging over the adjustment assistance side payment pushing them toward a hardened, inflexible stance. At least that was the perception in the media, and presumably among many who might be in a position to offer some side payment linkage.

Second and more importantly, industry and government liberalizers were just as or more alarmed by the investment provisions as they were by the quota protection. The National Association of Manufacturers leaders made blocking the bill one of its top priorities in 1972, even though it was traditionally and explicitly neutral on the issue of foreign trade. The NAM director of international economic affairs, William Pollert, pointed out that "The NAM does not take a position on foreign trade, but we think the major issue in this legislation is the political control of direct foreign investment" (Ibid.). To defeat such political control, Pollert warned, "we are going to put a lot of money, manpower and resources into this" (ibid.).

The NAM was joined by a host of other liberalizer lobbying groups, including the Chamber of Commerce, various importers associations, and the Emergency Committee for American Trade (ECAT). ECAT represented about 50 large multinational corporations and created in 1967 to combat protectionist initiatives. The focus of ECAT's ire, judging by the narrow focus of its statements against the legislation, was on the investment provisions. The group conducted a study on the relationship between foreign trade, investment, and jobs, the results of which focused on debunking claims made by labor and other groups on behalf of the Burke-Hartke investment provisions. "We think the bill is based on faulty premises," one ECAT representative noted. "The allegation labor makes is that US corporations close plants here, open plants overseas, and ship the goods back here. Our study will show that this is hogwash. About 85 percent of the sales of overseas affiliates went to overseas markets." Except for the importers associations, the anti-Burke Hartke opposition focused more on the investment provisions than the trade provisions.

The chances of conceding some ground to labor on the investment provisions in favor of eliminating or softening the quota provisions was, thus, unlikely. Even modest elements of such provisions, such as tax provisions that would treat FDI as neutral rather than as more desirable than domestic investment, were jealously and unequivocally opposed. So even though Labor's issue agenda included linkable issues, the divisiveness of those issues narrowed the possibility of an obviously pareto improving exchange of defused protectionism for investment policy side payments.

The result was that liberalizers were able to delay or defeat Burke-Hartke without providing side payments or using other bargaining tools. Burke-Hartke was unable to make it out of the Ways and Means committee, in spite of the AFL-CIO's intensive lobbying and the bill's 80 co-sponsors. Chairman Mills allowed hearings, but ultimately tabled the initiative hoping the pressure behind it would dissipate by the next session, and that some more liberal trade initiative out of the Nixon Administration in the following year might eclipse at least the most protectionist elements of the bill. At the same time, Mills was convinced that incorporating some elements of the bill, including some MNC tax or investment regulations, would be politically necessary and equitable, and he explained as much to the Administration. Thus, with the heavy opposition by the Administration and business liberalizers, and with a split in the organized labor constituency behind various elements of the bill, a free trader Ways and Means chairman was able to use his discretionary power to at least delay the Burke-Hartke train. But the momentum of that train had implications for the trade liberalization initiative the Nixon Administration was still hungry to pass. And more important for our concerns, it had strong implications for the side payment politics of that initiative.

4. Compensated Liberalization in Decline?: The Shift to Stronger and Unconditional Protectionism

US trade policy-making between 1965 and 1972 disappointed the promise of compensated liberalization. Despite the Auto Pact's improvement of adjustment assistance for workers displaced by liberalized auto trade, the AFL-CIO, the main champion of compensated liberalization, gave up on adjustment assistance and most side payments except massive regulations against outgoing FDI. The UAW's persistent compensated liberalization stance, premised upon support for improved adjustment assistance, might be enough to promote the provision of side payments. But the AFL-CIO, being the larger, more representative and powerful agent of working Americans, had turned to a strategy that undermined some of the main benefits for providing side payments at all. When the trade adjustment improvements were offered as compensation in spite of these developments, they received a tepid reception. Only protectionist exemption or revision -- or even better, increased protectionism -- would do. The net result was that liberalization initiatives went no

where, eclipsed by nearly-successful protectionist initiatives, and throughout, only strong use of exemption, revision, and all other possible bargaining tactics were able to dampen protectionist forces. Can the theory of compensated liberalization make sense of these developments?

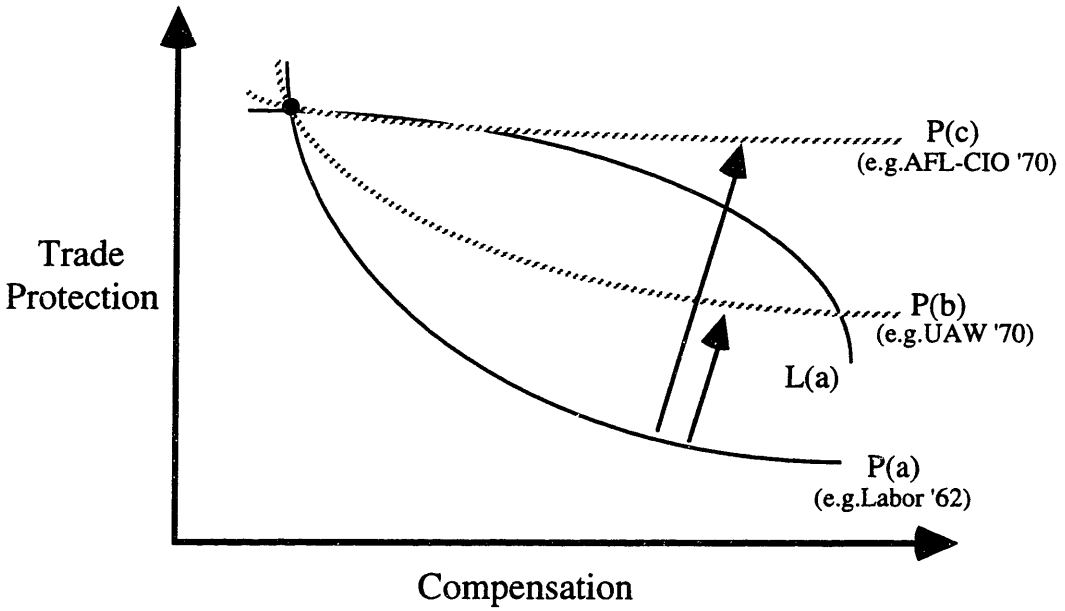
The theory of compensated liberalization can capture the shift to unconditional protectionism and explain the declining compensated liberalization in the period, though it is indeterminate in doing so. The theory focuses first and foremost on the coincidence of protectionist power and platforms of protectionist groups. The power-platform conditions predict either modest or non-provision of side payments, and increasing compromised liberalization. In contrast to the UAW's almost complete representation of auto workers, organizational centralization, and extensive influence on the shop floor, the AFL-CIO in its more generalized economic and political context had much lower and a diminishing political influence given declining membership. And organized labor's incidental power by virtue of its connection to the Democratic party suffered some set back with Nixon's election in 1968. But their worsening lot in the international economy, combined with their sour TAA experience, had much increased the determination of the AFL-CIO and many member unions to oppose liberalization. And Labor was still a potent force in American politics, able to muster enough Democratic votes to threaten any ambitious liberalization. And they pushed to join forces with protectionist industrial associations, themselves growing in determination and number as foreign competition in rust belt industries grew. In short, although the AFL-CIO suffered some declining power resources, the aggregate resources of the protectionist coalition had grown significantly since the beginning of the decade.

As for platforms, the story is basically a shift toward or maintenance of single-minded protectionism. The history of bargaining between the AFL-CIO and liberalizers was plagued by the non-administration of TAA, creating distrust that would require a huge effort by liberalizers to overcome. And the Federation's stated trade policy-making agenda had eschewed any interest in adjustment assistance and championed extensive investment policy changes along-side its unconditional protectionism, changes that generally expressed inflexibility, got rid of a cluster of linkable issues -- all those related to welfare and adjustment policies -- and introduced another that was completely unacceptable to liberalizers and others.

The significant minority in the US labor movement was the UAW. They were happy to join forces with the AFL-CIO in expressing criticisms of adjustment assistance, and they were also happy to endorse the cluster of tax and other regulations designed to discourage outgoing FDI, but they continued their experience with the Auto Pact had convinced them that adjustment assistance was a reasonable and salvageable tool to mitigate the risks of openness. Thus, they approached bargaining with a broader platform than their compatriots, and a platform much more negotiable with the liberalizer coalition. These changes in the strategy predict little interest among Labor in the provision of side payments, and that is what happened.

Meanwhile the balance of the protectionist coalition had also either drifted towards or had never budged from single-minded protectionism. The textiles and apparel industry -- inspired by their successful protectionist redress under the LTA -- had focused all their attention on expansion of the quota arrangement, to the exclusion of any other side issues that had occupied their agenda between 1958 and 1962. And other industrial groups new to or traditionally part of the

Figure 3.2
Move to "Narrower" Platforms Among
Protectionists, Especially AFL-CIO, Between 1962 and 1970



protectionist coalition -- such as steel in the former category, petroleum and leather shoes in the latter -- continued to tow single-minded protectionist lines in all Hearings and other trade-related fora in Congress.

Such a shift in platform changed the bargaining climate in the confrontations over trade policy-making that dotted the late 1960s and early 1970s -- both liberalization and protectionist episodes. In terms of the Edgeworth representations, the move to unconditional protectionist represented a gradual flattening of the protectionist indifference curve, P -- from P(a) to P(b). By decade's end, if we were to represent protectionist groups individually, the UAW could still be symbolized by a steeper curve than the AFL-CIO, with the former overlapping the liberalizer curve so as to maintain some room for pareto-improving exchanges of compensation for lower or moderated trade protection. The AFL-CIO, however, would have become enough disenchanted

with adjustment "burial insurance" and just about any other subject of side payments as to yield no such space.[58] Figure 3.2 above captures these possibilities.

This changed bargaining climate, in turn, predicts more modest side payment compensation during liberalization initiatives -- less compensated liberalization -- and more use of protectionist redress to buy-off the growing protectionist opposition -- compromised liberalization. Figure 3.3 below captures this prediction. Existing protectionists from previous episodes grew more determined and, especially in the case of the AFL-CIO, more single-minded protectionist in their platforms. And at various times during the late 1960s these groups were joined by equally single-minded and powerful protectionists, such as benzenoid chemicals who successfully blocked ratification of the Kennedy Round actions on ASP non-tariff barriers. Even if some of these single-minded protectionist groups were individually lacking in the resources to extract redress, acting in loose concert they were able to extract plenty of protectionist revision and less compensated liberalization.[59] But the UAW's continued embrace of adjustment assistance and other subjects of side payment linkage implied that at least one important player in the protectionist coalition would invite some secondary bargaining.

These predictions are roughly, though not completely, in line with the history. The few liberalization initiatives that were considered or introduced ran into so much protectionist opposition as to be aborted or never formally introduced. And the protectionist tide had so turned that more baldly protectionist initiatives were tabled and received sustained consideration in Congress. Throughout the period, modest improvements in the Trade Adjustment Assistance program -- still a subject of side payment linkage -- were brought into the bargaining over both the protectionist and liberalizer initiatives. But the assistance was to be legislated as part of any completed trade legislation, not as stand-alone provisions. The result was lots of compromised, or blocked, liberalization, no uncompensated liberalization, and no compensated liberalization between 1965 and 1970. This is all consistent with the combination of increased power for the protectionist coalition in the aggregate -- despite losses in power resources for some groups, like the AFL-CIO -- and of more single-minded protectionism.

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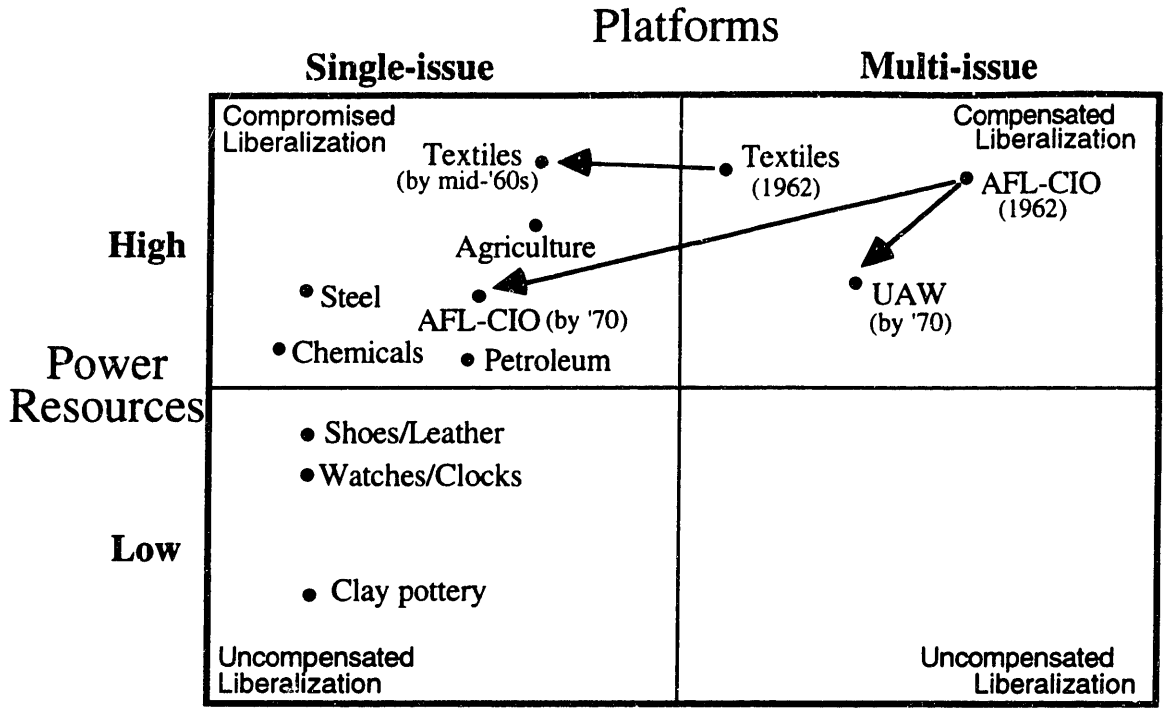
[58] In so far as the AFL-CIO continued to have something broader than a true single-issue stance -- given the union's support for outgoing FDI investment regulations -- the curve should not be completely flat, though certainly more so than that for the UAW. If the Edgeworth space were to represent only such outgoing FDI provisions as the sole subject of "compensation" the bargaining environment would be best captured by a slightly steeper slope for the AFL-CIO, say at P(b), but also a very steep -- even vertical -- slope for the liberalizers, representing their utter unwillingness to offer any FDI impediments in exchange for liberalization. And the result of these respective P and L indifference curves would be again virtually no overlap and no zone of possible agreement for pareto improvement.

[59] Figure 3.3, alas, doesn't fully capture the role of individual protectionist groups acting in concert with one another, leading to protectionism or compromise liberalization. It does, however, capture the existence of a number of powerful groups combining high power resources with single-issue platforms, along-side other less powerful groups with similarly single-minded protectionist platforms.

Figure 3.3
1965-72 TEA and Trade Reform Act Power and Platforms



But the theory is not as strong on some important details. The continued use of trade adjustment assistance as a side payment in the bargaining is consistent with the UAW's continued conciliation and interest in TAA, but its interest wasn't strong enough and widely enough publicized to make its power-platform mix an adequate explanation. Instead, the history suggests that the use of TAA side payments reflected conditions outside the group-institutional theory of compensation: more autonomous considerations among legislators on more fairness or at least symbolic grounds, where continued or expanded TAA is through to provide cover from constituency worry over free trade's victims. Thus, the theory is consistent with the post-1965 developments, but the details require considerations outside power and platforms of protectionists.

Whatever can explain the decade's developments, side payment politics between 1965 and 1972 did not offer much promise for the next decade. On the one hand, the Nixon Administration might have learned some lessons that would increase the likelihood and usefulness of side payments in subsequent rounds of trade policy-making. First, it could learn the log-rolling danger posed by writing exemptions for particular industries into its trade legislation. It might also learn that tinkering with adjustment assistance would not be a meaningful side payment, and instead could have made a more ambitious adjustment assistance, or more ambitiously still, concessions to organized labor's investment policy platform, a more central part of its trade strategy. On the other hand, the unconditional protectionism of organized labor and other groups, and the divisiveness of

any policies that intervene with investment decisions by multinational corporations, were likely to make such a strategy unlikely. Since adjustment assistance appeared the main focus of all side payment politics, this suggested that the incidence and political effectiveness of compensatory side payments was likely to be even more disappointing in the next decade. As the next chapter shows, the complexity of side payment politics proved this anticipated decline in compensated liberalization to be premature.

Chapter Four:
The Tenacity of Compensated Liberalization, 1973-1981

1. The Trade Act of 1974: Baroque Side Payment Politics and Tenacious Adjustment Assistance
    1.1. From House-keeping to Swash-buckling Liberalization
    1.2. The Administration's Side Payment Politics: Out With the Old, In With the New
        1.2.1. Out With the Old: Rejecting Adjustment Assistance
        1.2.2. In With the New: Proposing Welfare, Pension, and Corporate Tax Reform Instead
            1.2.2.1 Origins of MNC Tax Side Payment: A Faint Nod to Labor's Burke-Hartke
            1.2.2.2 Origins of Welfare and Pension Reform Side Payments: Nixon's Loose Ends
    1.3. Business and Labor Side Payment Politics: Out with the New, In With the Old
        1.3.1. Liberalizers and Third Parties
        1.3.2. The Split in Organized Labor: Unconditional Protectionism vs. Compensated Liberalization
    1.4. The House and Senate: Compensated Liberalization, TAA-style
        1.4.1. Rejecting Welfare, Pension, and MNC Tax Side Payments
        1.4.2. Expanding Trade Adjustment Assistance: House and Senate One-upsmanship
            1.4.2.1. TAA in the House
            1.4.2.2. More TAA in the Senate
    1.5. Explaining the Baroque Side Payment Politics of the Trade Reform Act

2. The Tokyo Round and the Wine Gallon Dispute: Compensated Liberalization-on-the-Fly
    2.1. Removing the Wine Gallon Tax in a Two-level Game
    2.2. Domestic Distilling Puts up a Fight, and the US Trade Representative Fights Back
    2.3. Dealing with Domestic Industry When Off-setting Liberalizations Aren't Enough
    2.4. Explaining the Wine Gallon Side Payment

3. The Aftermath: Cycling Fortunes of Trade Adjustment Assistance
    3.1. Trade Adjustment Assistance: Revamped, Grown-up, and Still Unpopular
    3.2. Unpopular, Perhaps, But a Side Payment Still
    3.3. Without its Value as a Side Payment During Trade Legislation, a Sitting Duck

4. Conclusion: Tenacious Compensated Liberalization or the Last Harrah?

If the previous decade revealed increasing disinterest in and inefficacy of compensated liberalization, the next decade revealed its tenacity. Trade policy-making in the 1970s was dominated by a single liberalization episode connected to the Tokyo Round of GATT negotiations -- beginning with the 1974 Trade Reform Act, followed by international GATT negotiations through 1979, culminating with Fast Track ratification of the agreement that same year. For side payment politics, most of the action took place during the 1974 Trade Reform Act. Over twenty months of struggle over that Act, compensated liberalization saw its nature and fortunes shift at least three times. The Nixon Administration raised side payments to the center of its political strategy to push the liberalization through Congress, but after considerable internal struggle it did so by rejecting trade adjustment assistance in favor of an alternative package of reform of broader welfare and pension policies, and of increase taxes on multinational corporations. This package was received, however, by a polity unified in its cynicism and antipathy to the Administration's offer and "virtual repeal" of trade adjustment assistance. Organized labor flatly rejected the offer, but was split on whether to promote expanded adjustment assistance in exchange for the Act's liberalization. Most others in the polity, however, unambiguously supported expanding such assistance. The end result was struggle not over whether and what kind of side payments to provide, but over how much adjustment assistance to provide.

The changing fortunes of adjustment assistance as a side payment in 1974 were odd in light of the previous decade's experience, but odder still was the provision of side payments during the Tokyo Round of GATT negotiations for which the Trade Reform Act gave negotiating authority. A dispute between the US and European Community over linked liberalization concessions involving US distilled liquors and various EC agricultural products gave rise to a package of tax deferral and other benefits to the US distilled liquor industry. Such provision was the first instance in US trade liberalization, at least the first discernible instance, that side payments emerged from domestic struggle during *the international phase* of trade liberalization. Previously, side payment politics was a purely domestic and legislative sport.

The side payment politics of the decade ended on a whimper. No sooner had trade adjustment assistance and, by implication compensatory side payments generally, received a vote of confidence during the Trade Reform Act battle when it came under increasing and broad attack -- this time as much from its liberalizer champions as from its remaining protector supporters. The administration of trade adjustment assistance combined with industrial decline and import penetration to diminish liberalizers' faith in the usefulness of such assistance to remedy the pain from and political opposition to freer trade. Trade adjustment assistance continued to be the predominant subject of side payment politics, consistently a part of trade policy discussions and struggle, but by 1981 diminishing faith made the program vulnerable to attacks when the openness of trade policy was not at stake. This gave rise to a cycle of upward-ratcheting as a side payment

during trade policy initiatives, and decay and retrenchment virtually all other times. Given the monopoly status adjustment assistance enjoyed as compensation in trade struggles, this cycle imperiled the future of compensated liberalization.

This chapter tells this story of tenacious but tenuous compensated liberalization with an eye to describing and explaining the side payments negotiated and provided during the period. The specific historical questions it seeks to answer are what explains the cycling in the trade adjustment assistance side payment politics -- from disrepute, to side payment savior, to disrepute again -- and what explains the odd provision of side payments during the international phase of liberalization. The broad theme of the chapter is that the answers to these questions can be found, broadly though not completely, through the lenses of the power-platform theory of compensated liberalization.

The cycling rejection and provision of adjustment assistance reflects developments that the theory of compensated liberalization predicts will lead to variations in the provision of side payments: the coincidence of protectionist power and off-and-on multi-issue trade platforms. Trade adjustment assistance was more than a traditional side payment easily grabbed as a subject for any side payment politics. Most sector-based employer and trade associations within the protectionist coalition approached the liberalization episodes with single-minded, unconditional protectionism. But organized labor's position within the protectionist coalition was still central, and the threats posed by that coalition were fresh in everyone's minds given the recent Mills bill and Burke-Hartke experiences. As for Labor's platform, the story was still mixed. The AFL-CIO continued to trumpet its single-minded protectionist indifference or hostility to adjustment assistance or most any compensation, except perhaps sweeping regulations to discourage outgoing FDI. But the AFL came to the defense of adjustment assistance when the Nixon Administration proposed its virtual abolition. More strongly, the UAW explicitly split from the rest of organized labor in continuing to pursue its multi-issue platform of compensated liberalization. Most liberalizers, furthermore, entered the 1970s wanting to improve their bargaining reputation, which they understood, often explicitly, to be tarnished by the sad past administration of trade adjustment assistance. And many legislators were still interested in TAA compensation's symbolic value.

These conditions continue to predict modest but continued provision of TAA compensation. TAA needed to be provided as compensation for the pain felt especially by workers, but the backing and power underlying such TAA compensation was insufficient to create meaningful reform and entitlement backing of TAA, and the lack of a forward-looking constituency to protect TAA when trade policy episodes were not explicitly under review. The narrow platforms of most protectionist groups, meanwhile, identified virtually no other issues that could be more defensible subjects of side payment compensation. The commitment to TAA among legislators in the face of ambivalence and mixed signals among organized labor suggests the explanatory importance of fairness norms. But the existence of vocal support for TAA in the

protectionist coalition combined with the Nixon Administration's unambiguous antipathy to TAA suggest that, at most, the fairness norms were only "activated" by concern for the political viability of the liberalization initiative.

The Tokyo Round side payment reflected egoistic bargaining even more than did the TAA side payments, but the power-platform conditions go only a limited distance in explaining the compensation. That the last-minute "wine-gallon" dispute culminated in liquor lobby compensation where countless industry groups before them got no such payments, partly reflects the two incidental factors that increased the power resources of that lobby: the special access the industry enjoyed with the Chairman of the Senate Finance Committee, and the widespread conviction that liberalization of the liquor industry's barriers was crucial to successfully concluding the Tokyo Round. These incidental conditions substantially increased the industry's bargaining power among trade bureaucrats and legislative liberalizers, and this power out-stripped the ability of trade bureaucrats to rely on their usual "international phase" political tactic of defusing domestic opposition by seeking liberalization concessions from other countries and industries that off-set the pain out of which that opposition grows. But the platform of the liquor industry was not multi-issue until the endgame of the dispute when the industry asked for some kind of explicit compensation for their pain. Thus, the theory predicts some kind of protectionist exemption outside of the GATT context. The provision of side payments in this case doesn't reflect the coincidence of multi-issue platforms with the extraordinary incidental power resources as much as it does the combination of such resources with the unavailability of any protectionist redress.

This chapter's two cases also reveal the more general indeterminacy and predictive limitations of the theory. First, it is precisely the mixture of multi-issue and single-minded platforms among protectionists that captures how TAA compensation could be villainized and rejected by some liberalizers and protectionists, while becoming even more important to expand and improve by others -- thus making its fortunes cycle. The details of the compensation to emerge from such a mixture are difficult predict, especially without supplemental conditions separate from the theory, such as symbolic commitments to TAA. Second, the theory's explanation for the Tokyo Round side payments is neither determinate, nor predictive. The incidental power and the last-minute platforms of the industry group were artifacts of circumstance not foreseeable by the players or analysts of the history. And the responses of trade bureaucrats and other liberalizers to that power is an indeterminate and unpredictable artifact of how limited off-setting liberalizations and other bargaining tools can be at defusing and cauterizing opposition. In short, the power-platform theory of compensation understands but doesn't completely predict the side payment politics in the 1970s and early 1980s.

The chapter develops these claims in a chronological history of the decade's side payment politics. The bulk of the chapter reviews the politics of the 1973-74 Trade Act, spanning two-

thirds of the cycle in the TAA program's fortunes -- from disrepute to rehabilitation. The second section reviews the Tokyo Round Wine Gallon dispute, addressing the puzzle of the rare provision of side payment on the fly -- during the international phase of liberalization. Each of these sections concludes with a theoretical review of the history in light of the theory of compensated liberalization. The chapter concludes with a brief epilogue on the re-declining fortunes of trade adjustment assistance between 1979 and 1982.

1. The Trade Act of 1974: Baroque Side Payment Politics and Tenacious Adjustment Assistance

In a dramatic reversal of its aborted liberalization and of its shaky stand against the protectionist tide, the Nixon Administration and its liberalizer allies managed in 1974 to push-through a substantial liberalization mandate. The bill gave the President, among other powers, the right to negotiate and liberalize US non-tariff barriers, to grant special duty free entry for imports from developing country preferences and to implement most-favored nation status to Communist countries (CQ Almanacs 1973, 1974, passim). In the face of the same protectionist forces that had frustrated Nixon's earlier liberalization efforts and the Administration's rapidly diminishing political capital given the Watergate scandal, it took nearly two years and all variety of political maneuvering to win the liberalization's passage. That maneuvering included not only several iterations of exemption and revision of the liberalization's reach, but also several offers of compensatory side payments.

Compared to both the 1962 or 1965 episodes of compensated liberalization, the struggles over these side payments were more complicated and fractious. The Administration repudiated what had become a standard side payment for potentially dislocated industries and labor -- trade adjustment assistance -- and instead looked for ways to off-set the costs of the liberalization without singling-out trade-sensitive groups for special treatment. Addressing the demands voiced by a few protectionist groups, but also advancing the legislative agenda of various members of the liberalizer coalition, the Administration settled on a very different package of side payments: separate legislation revising and modestly expanding unemployment insurance, pension programs, and taxation of multinational corporations. Unhappy with such payments, however, other members of the liberalizer coalition sought generous expansion of trade adjustment assistance. The protectionist groups, for their part, were divided in their response to both sets of side payment offers. The struggle that ensued among and between various protectionists and liberalizers culminated in a compensated liberalization that was a major defeat for the AFL-CIO and other protector groups, and a major victory for liberalizers and some labor and legislative protectors.

Understanding this episode's side payment politics requires, like Chapter Four's review of the 1962 Trade Expansion Act , recasting the already rich accounts of the Trade Reform Act of

1974 as a history of compensated liberalization.[1] This account deals very cursorily with the basic fight for and over the liberalization and focuses instead on the origins and nature of various side payment offers, of their provision, and of their political effectiveness in lowering opposition. Dividing the history into four sections highlights these parts of the story. The first is the genesis of the liberalization initiative in the face of the continued protectionist tide that had frustrated previous initiatives and that persisted. Second is the history of the origins and nature of the Nixon Administration's attempts to overcome this opposition through the design of the legislation and through maneuvering before and after introduction of the legislation. This includes the origins of its side payment offers. A third section details the responses to these offers among liberalizers and protectionists *in society*, responses that included a series of side payment counter-offers that divided organized labor. Finally, the history includes the House and Senate responses to the Administration's compensation liberalization and to the reaction it sparked among liberalizers and protectionists. That history involved a rapid series of side payment counter-offers and counter-counter offers, as the bill wound its way through the House and the Senate.

1.1. From House-keeping to Swash-buckling Liberalization

The proposal and push for the Trade Reform Act reflected fundamental reform by the Nixon Administration in the organization, strategy, and substance of its foreign economic policy. The Administration's surrender of its last effort to legislate modest liberalization in 1971 coincided with the appointment of the Williams Commission, formally tasked with rethinking all elements of foreign trade, investment, and monetary policy. This first step in the rethinking called for, among other things, "a major series of international negotiations...to prepare the way for the elimination of all barriers to international trade and capital movements within 25 years" (Williams Commission 1971, p.10, cited in Destler 1980, p.137).

By the report's release, Nixon and his closest advisors also decided to reorganize and re-prioritize trade and foreign economic policymaking. First, the Administration rationalized its foreign economic policymaking, which had hitherto been cobbled together by some 60 separate departments, through the appointment of a Council of International Economic Policy (CIEP) (National Journal 11/13/71).[2] Second, the Administration raised the priority of trade policymaking by appointing and empowering a larger Office of the Special Representative for Trade

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[1] Two very strong and similar accounts of the domestic politics of the period are in chapters nine to twelve of Destler 1980 and chapter five of Pastor 1980. My account relies heavily on these, but also on the newspaper, National Journal, and Congressional Quarterly accounts -- as well as various hearings, congressional record, labor union and business press releases, a few interviews and primary sources.

[2] The Commission was to be headed by Williams Commission member and Chicago businessman Peter Peterson, and was to coordinate all Administration activity on foreign economic policy, as an economic counterpart to Kissinger's National Security Council (Pastor 1980, p.139).

Negotiations. William Eberle was appointed the new Special Trade Representative (STR), replacing Curtis, and was allowed, for the first time, two deputies.[3] Nixon mandated his new STR to drum-up interest in new multinational GATT liberalization (Destler 1980, Pastor 1980).[4]

It was the sweeping *substantive* reform of Nixon's foreign economic policy, however, that ultimately drove the push for major liberalization. This reform took place within the CIEP and elsewhere, and found its most far-reaching and dramatic expression in Nixon's New Economic Policy, beginning with the August 1971 suspension of dollar-gold convertibility and imposition of the ten percent import surcharge. Trade liberalization was a necessary consequence of this series of policies. In the weeks after the August "big bang," Nixon's Secretary of the Treasury John Connally set forth "very demanding terms for an international economic settlement, including unilateral trade concessions by the EC and Japan" (Destler 1980). This was followed by the Smithsonian Agreement in December 1971, in which the US lifted the import surcharge in exchange for substantial exchange rate realignment. In February 1972, the US reached agreements with both the EC and Japan providing for limited unilateral concessions and for the inauguration of new multilateral negotiations to be begun formally in Tokyo in September 1973 (Destler 1980 p.139). This new round multilateral negotiations, of course, would ultimately require renewed presidential negotiating authority via major trade liberalization legislation.

To this end, Nixon set up a series of inter-agency task forces to investigate and begin drafting various elements of trade legislation.[5] The resulting bill reflected major rethinking and some debate within the Administration over trade policymaking strategy and substance. Destler 1980, Pastor 1980, and other accounts all describe dissent between neo-mercantilist and a free trader camps within the Administration.[6] As an ideological divide, the split between these camps

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[3] Eberle and the Administration chose William Pearce to oversee domestic-legislative affairs, and Harald Malmgren to oversee international affairs

[4] All accounts highlight the conflicts between the STR and the CIEP, mainly over the degree to which STR was to be subordinate to CIEP action. The Williams Commission and the original plan for CIEP was that it would absorb STR, but Peterson treated STR as an autonomous entity. Peterson's successor, Peter Flanigan, saw STR essentially as a sub-department of CIEP, and called for the former's dissolution.

The most important implication of this bureaucratic conflict is the tension it revealed between the Administration's general desire to rationalize and make a higher priority all elements of foreign economic policymaking, in line with "high politics" foreign policymaking, and its specific policy desire to push harder and better for trade liberalization legislation.

[5] All of these task forces were coordinated by staff of CIEP, first under Peter Peterson and after February 1972 under his successor, the more politically-conscious Peter Flanigan. Among these was a task force headed by the Labor Department devoted exclusively to study the adjustment assistance program -- both its economic and human impact, and its political effectiveness. In May 1972, the CIEP and Nixon set up two broader inter-agency committees to develop trade policy -- one to take an advanced look into international options, appropriately chaired by the STR international specialist Malmgren, and the other to develop trade legislation, appropriately called Trade legislation Committee. This Legislation committee was initially headed by a relatively junior CIEP official and later headed by a senior and more influential State Department official, Deane Hinton. The latter committee assignment miffed the recently appointed STR Deputy William Pearce, who assumed he would chair any such group. Seeing the STR "as an arm of CIEP," Peter Flanigan thought otherwise (Destler 1980, p.139).

[6] There was also some sympathy for stronger protection, especially in Maurice Stans's Commerce Department, but such sympathy was very much in the minority at the time (Destler 1980, p.141, Pastor 1980, p.140). Pastor 1980

mattered mainly for the focus of the bill's liberalization core. The neo-mercantilist camp was mainly Treasury Secretary Connally and his staff, and to a lesser degree Connally's replacement as Treasury Secretary, George Shultz. They saw the US as "more sinned against than sinning" in trade, and believed aggressive and conditional market opening to be a good way to improve the US's balance of payments deficit without resorting to austerity or exchange rate depreciation (Destler 1980, p.140; Solomon 1977, p.190). These neo-mercantilists wanted policies that would improve the US's trade position relative to its trading partners, and pushed for more militant market-opening powers like counter-veiling duties, and for stronger unfair trade standards.

The free trader camp included the STR, the State Department, and the Council of Economic Advisors, all of whom saw trade through more classical economics lenses and therefore pushed for reciprocal liberalization without so much regard for the relative position of US concessions and trade balance, and with safeguards for vulnerable workers and firms (Ibid., Pastor 1980).[7] Among other measures, these free traders wanted to maximize presidential negotiating authority, including authority to negotiate non-tariff barriers, because they felt the US took a real blow to its credibility by not being able to get Congress to ratify its negotiated down-scaling of ASP during the Kennedy Round.

The liberalization initiative that ultimately emerged from the drafting process revealed that these various substantive and political positions were mutually compatible, easily accommodated within one piece of legislation. The bill asked for unlimited authority for the president to negotiate tariff reductions. This appealed to both the neo-mercantilist and free trader camps among the drafters, because it gave power to raise tariffs against unfair competitors and non-cooperative bargainers as much as to lower them to zero for some industries for maximum reciprocal bargaining leverage. More boldly, the bill requested authority to negotiate elimination of many non-tariff barriers, such as the American Selling Price, without prior mandate from Congress and of some others as long as Congress did not pass a "legislative veto" within ninety days of the negotiated reduction. The bill also requested presidential authority to eliminate tariffs on manufactured goods from developing countries, an idea that had been around for some time but had gained wide international support through the lobbying of UNCTAD's Secretary General.

If these various liberalization provisions tilted somewhat to the demands of the "free trader" bloc within the Administration, the "neo-mercantilists" got strong language and a tightening of powers to deal with unfair trade practices. The bill devoted a separate title to these matters, and gave the president authority "to retaliate against any country that maintained 'unjustifiable or

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claims that such protectionism also found favor within the Department of Labor, particularly Secretary of Labor Brennan (Pastor 1980, p.140).

[7] Seeing the need for safeguards had both a political (defusing opposition) and economic efficiency/optimality justification. I mention it here in the summary of the neomercantilist and free trader camps for the latter motivation. I discuss the political motivation in a moment.

unreasonable tariff or other import restrictions; against the US, or pursued other discriminatory or subsidy policies that damaged the US trade position (Destler 1980, p.146). The tools for retaliation included the power to impose duties or quotas at any level on any basis "for such time as he deems appropriate" (Ibid.). Finally, the bill included provisions giving the Administration power to tighten existing countervailing duty and anti-dumping laws. So both of the main ideological camps within the Administration got their way.

1.2. The Administration's Side Payment Politics: Out With the Old, In with the New

Everyone in the Administration was acutely aware that such an ambitious request for authority was going to inspire huge protest among protectionist groups. Indeed, many of the players were still licking their wounds from the aborted legislation in the previous two years. And the new players were brought in explicitly to do what had been politically unworkable before. So, before, throughout, and after design of the bill, attention was paid to how to manipulate and work to counter protectionist opposition that the liberalization provisions would provoke. And this attention was explicitly focused on how to learn from the recent experiences with the protectionist tide and aborted liberalization of the past few years. The focus was on all aspects of such manipulation and work, from the wording of the liberalization provisions in the bill, to safeguard provisions in the bill, to extra-legislative exemptions and back-channel negotiating, and, as it turned out, to side payments.

Of the many protectionist forces the Administration sought to take-on, organized labor was probably the most important, in the sense of receiving the most attention and action. All of the participants in Administration's foreign economic policymaking generally, and in the Trade Act's drafting in particular, were aware of organized labor's shift towards unconditional protectionism over the course of the previous years -- having freshly opposed the AFL-CIO's unwavering support for Burke-Hartke and having been frustrated by that union's support for the Mills quota provisions in the aborted 1969-1971 efforts. As Destler and others have noted, in the Administration's deliberations over the bill, "no one expected labor to support the bill, but there was hope that its opposition might be softened" (p. 151.). An anonymous Administration official involved in the drafting of the Administration's trade bill made the point more strongly in an interview with the National Journal: "it was inconceivable that any Administration group working on these issues would not be aware of the strength of the labor unions' feeling and try to come up with a bill that had a chance of passage" (N.J. 7/28/73, p.1093). The question with labor, as with the array of other protectionist industries expected to fight against liberalization -- from steel, to shoes, to textiles, to electronics -- was *how* to "soften" that opposition.

Deciding how, it turned out, was more divisive and reflected more rethinking on the basis of past experience than deciding what basic liberalization authority to seek. All participants drafting of the Trade bill recognized the importance of countering protectionist sentiment and the mistakes in the Administration's past efforts to do so. But they had different theories of trade politics and interpretations of what went wrong and what would make things go right in the future.

One of the major splits over political design overlapped the ideological split between neo-mercantilist and free traders over what kind of trade policy was most in the nation's interest. Although this split coincided with the same players Destler and Pastor reported to side with one or another of the ideological camps, it was driven less by neo-mercantilist vs. free trade ideological commitments than by different views on how to deal with protectionist opposition and on interpretations of the Administration's previous and aborted liberalization efforts. Both Pastor 1980 and Destler 1980 report how the neo-mercantilists in the Treasury believed past legislation used language and provisions that lacked appropriately threatening rhetoric or tools to combat unfair trade practices. Such provisions and practices, these representatives argued, were necessary not only to promote national interests consistent with a neo-mercantilist view of political economy, but to get the bill accepted by a skeptical polity (Pastor 1980, p.140, Destler 1980, p.140). For the present bill, therefore, these neo-mercantilists sought a more aggressive stance on behalf of a more competitive US taking on unfair foreign trading partners.

The STR, State Department, and Council of Economic Advisors whom Destler 1980 refers to, fairly, as "free traders," had a more nuanced theory of trade politics and more specified and ambitious ideas about how to act on that theory. The theory grew out of disenchantment with two characteristics of the Administration's recent, aborted liberalization initiatives. First, the Administration's 1969-1971 legislative initiatives all sought very modest presidential liberalization powers to minimally enable the executive to service existing trade agreements -- a "housekeeping bill," as it became derisively called. This modesty, by the free trader reasoning, offered few major gains and did not have any link to impending negotiations, and so did little to inspire the interest of internationalist businesses and other liberalizers in society. And, indeed, liberalizers were not as active in supporting the bill as the Administration might have hoped, though plenty of liberalizer business coordinated and concentrated their legislative action during the period. Second, the Administration sought to defuse some of the protectionist opposition to its liberalization aims by allowing, even endorsing, the attachment of textile quotas from the Mills Bill to its own more liberal provisions. Such legislated exemption for a particular group, the free traders believed, made it easier for groups to call for extension of such quotas to other industries on account of fairness, thereby lowering the costs to log-rolling within both houses of congress.

Partly cause and partly consequence of this learning from the Administration's recent experience, the free traders in the Administration saw a generic problem in trade policymaking --

that liberalization confers diffuse benefits and concentrated costs, generally making the support for the liberal cause underprovided and opposition susceptible to log-rolling politics (Destler 1980, p.141, Destler 1986, Pearce 1974). Although it isn't clear how articulated and consistent the actual thinking in deliberations, the Administration "free traders" drew two conclusions from this perspective: first, societal groups with something of a stake in liberalization need to have their interest in political action inspired by liberalization that maximizes those stakes and by having those stakes spelled out and highlighted for them;[8] and second, liberalization legislation needs to minimize the legislated exemptions it includes for protectionist groups, for fear that such exemptions can spark log-rolling exchanges that extend exemptions to other groups. Thus, free traders argued that the Administration's new bill needed to seek ambitious liberalization, linked to pre-announced multilateral talks, and to contain no *legislated* exemptions for particular industries.

These different views within the Administration on how to deal with opposition were, like the main liberalization tenets, resolved without much discord. The grand ambition of the requested liberalization, tied to the scheduled GATT round, appealed to the political sentiments of both the neo-mercantilists and those free traders to the "bicycle theory" of trade legislation. More importantly for side payment politics, the Administration representatives also easily agreed among themselves to exclude from the bill any legislative exemptions for particular industries that might be catalysts for log-rolling protectionism. Such an exclusion foreclosed one of the Administration's mechanisms for defusing opposition, and drew attention to alternatives.

Some of these alternatives -- most importantly, the non-legislative and escape clause exemptions -- did not provoke much controversy within the Administration. The non-legislated, industry-specific exemptions were already established or well under way by the time the Administration was cobbling together its bill. These exemptions came in the form of administered voluntary export quotas for the industries that had proven themselves in the previous few years (as well as the previous decade) to be the most concentrated, vocal, and entrenched industries: steel and textiles. The threat of less malleable and possibly more permanent, legislated quotas -- in the Mills bill, its progeny, and the pending Burke-Hartke bill -- strengthened the Administration's hand in the international negotiations. So in 1972, the renewed the 1969 voluntary agreements with the EC and Japan on carbon steel imports -- this time lowering the allowed increase of imports from 5 to 2.5 percent, and imposing specific tonnage limits (Hufbauer et.al. 1986, p.155). And in early 1973, while the Administration's bill was being drafted, U.S. negotiators were seeking formalized expansion and consolidation of the LTA into the Multi-fiber Arrangement, ultimately

[8] This perspective is the core of what has become known as the "bicycle theory" of trade liberalization, wherein legislated trade liberalization needs to maintain a certain momentum and pace such that societal beneficiaries of liberalization stay engaged in a struggle where the diffuseness of interests favors protectionists. I.M.Destler does not use the label in his 1980 history of the 1974 Trade Act, but he does in later historical and theoretical work. See, for example, Destler 1986.

concluded in 1974. Both of these arrangements struck at the core of the protectionist requests the textile and steel industry representatives had been requesting in their trade policy platforms.

The Administration was also willing to stick with and ease access to one kind of legislated exemption -- escape clause relief. This exemption was acceptable to "free traders" because it was generalized rather than industry-specific, and therefore didn't pose the threat of slippery-slope log-rolling protectionism. The main revision the Administration proposed was to liberalize the eligibility criteria for tariff or other protection. The 1962 TEA, remember, required petitioners to show that their significant injury was due "in major part" to increased imports that, in turn, were due "in major part" to tariff concessions. Even though the Tariff Commission had liberalized its interpretation of this criterion in 1969, the Administration had already sought in 1969 and 1970 to liberalize it further by requiring that petitioners show real or threatened injury due "in primary part" to increased imports or reduced exports. This was looser because "in primary part" meant "more important than any other single cause" (vs. "all other causes combined"), and because it no longer required petitioners to show a causal link between trade concessions and changed trade flows.

Commerce Department reps argued in favor of further liberalizing eligibility to require only that imports "were causing 'material injury,' and that 'market disruption' was present" (Destler 1980, p.145).[9] This position was eventually defeated, and the Administration decided to stick with its 1969 request, with the only concession to the Commerce view being that "market disruption" would be seen as "prima facie evidence" that imports met the "primary cause" criterion (Ibid.).

1.2.1. Out With the Old: Rejecting Adjustment Assistance

Although both the escape clause relief and the extra-legislative quotas for industry were uncontroversial alternatives to legislated, industry-specific exemptions, the other alternatives for defusing political opposition that the Administration considered were not. Closely related to the escape clause safeguards were the trade adjustment assistance provisions, which had become a customary tool to remedy economic dislocation and defuse opposition during all liberalization initiatives of the last decade, both those that passed, those that were aborted, and those that never made it out of the gate. When the Administration deliberated over the provisions for its 1973 Trade bill, it inevitably took on the subject of what to do with the existing program and with the tradition of providing such assistance became a major subject of debate.

Even though Administration officials didn't consider the program as "side payments," the discussion of the adjustment assistance was a discussion of what had become the most common

[9] According to Destler 1980, "market disruption" meant a situation where imports of a product were "increasing rapidly, both absolutely and as a proportion of domestic consumption, and were being offered at prices substantially below those of comparable domestic articles" (Ibid., p.145).

side payment in trade liberalization. As it turned out, disagreement within the Administration over what to do with the adjustment assistance program became the most divisive issues in the drafting process, and gave way to a broader controversy about how best to use safeguards distinct from protection to take account of trade dislocation and to defuse opposition. In other words, the Administration was divided more generally on what kinds of side payments would be most economically and politically effective.

The Administration was divided into two camps on the issue of adjustment assistance, and on side payments more generally (though only implicitly), with the camps cutting across the "neo-mercantilist" and "free trader" split on other issues. The first camp included representatives from the Departments of Labor (Secretary Brennan) and State, and the Special Trade Representatives Office (William Eberle as STR and William Pearce as legislative politico), all of whom supported the adjustment assistance program and believed that it ought to be expanded as part of the Administration's bill (National Journal 7/28/73, pp.1093-4). They proposed building on the Administration's 1969 and 1970 proposals that had modestly expanded the program and liberalized its eligibility criteria so that it would be easier to get than escape clause relief. As frameworks for their proposals, they considered both recommendations from the inter-agency task force on adjustment assistance, and legislative proposals that were then floating around.[10] Beyond advocating increasing substantive benefits and loosening eligibility, all these players suggested that the program's administration be restructured, minimally to transfer decisionmaking authority from the Tariff Commission to the Labor and Commerce Departments, similar to the Auto Pact and Johnson 1968 TEA proposals.

All of these supporters valued adjustment assistance as helping to humanize and make liberalization more societally efficient, but their interest was mainly political (National Journal 1-13-73). According to Pastor 1980, these actors, especially Pearce from the STR office, "insisted that the inclusion of a generous trade assistance section was the only way a trade bill could pass the Congress" (Pastor 1980, p.143). Organized labor was the main subject of their considerations, given the program's genesis and the up-swing in labor's protectionism. But Pearce and the others acknowledged that the AFL-CIO might not be bought through such inclusion. Still, they argued that the adjustment assistance "might win over as many as one hundred congressmen who could use the adjustment assistance package to show their constituents that the trade bill was not insensitive to job displacement" (Ibid). They could have but, apparently didn't, refer to the active Congressional legislation to expand adjustment assistance as evidence for this claim.

[10] Not long before the debate over adjustment assistance was heating up, in February 1973, Representatives John Culver, Charles Whalen and forty-three other congressmen introduced legislation calling for a strengthening of the adjustment assistance program. *New York Times,* February 28, 1973, p.53.

Against this perspective was Treasury Secretary and Nixon's rising economic advisor, George Shultz, together with various representatives from the Office of Management and Budget (OMB), and from the Council on International Economic Policy (CIEP). They all saw the adjustment assistance program as too expensive, inequitable, and politically ineffective. Shultz led the charge, having long been aware of the ineffective administration of the program, of labor's position, and of its cost, and having already expressed his misgivings in previous Administration trade policymaking, during his tenure as Labor Secretary.

The officials saw the argument against adjustment assistance as over-determined. First, Shultz and others also objected to how trade adjustment assistance "set up a categorical program for workers who lost their jobs because of imports" (N.J. 6/9/73, p.828). Why, he asked in the earlier deliberations, should workers and firms dislocated because of trade be treated differently or better than those dislocated for other reasons, such as changes in consumer tastes or in technology? Instead, they argued that "as a matter of equity all unemployed workers should get the same benefits, regardless of the cause of their unemployment" (N.J. 7/28/73, p.1094). Shultz and the OMB officials also argued that the program was too expensive, and that a larger program "might push the Administration's budget over the $268.7 billion ceiling that Mr. Nixon had set for expenditures in fiscal 1974" (Ibid.). Even those more sympathetic to the program had a problem here, as a business lobbyist's comment about the debate pointed out: "To make [adjustment assistance] work, it would have cost a good deal of money, or at least to try to make it work. given the Nixon budget restraints, this was not in the cards" (N.J. 6/9/73, p.829).

Most importantly, however, Shultz and the other skeptics argued that the expanded adjustment assistance program would offer few political benefits. Shultz agreed with the AFL-CIO's criticisms of the program. As he was later to emphasize in a White House briefing, one reason the existing adjustment assistance program was a failure was because "it has been very difficult for anyone to get access to the procedure. Because of the tightness of the procedure involved, it has been practically a dead letter...." (N.J. 6/9/73, p.828). Shultz also knew intimately George Meany's and the AFL-CIO leadership's position, having been Labor Secretary and having cultivated a personal relationship with the Federation president. He concluded, on these terms, that adjustment assistance had little chance of swaying organized labor (Shultz and Dam 1978, pp.139-145).[11] Shultz and these others were also not convinced of the broader, more diffuse, benefits among legislators that the Pearce and Eberle emphasized. For any such political benefits, Shultz and the others preferred an alternative package of side payment benefits that would not single out trade-impacted groups.[12]

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[11] On this position he was strongly supported by the CIEP leaders, Flanigan and Hinton, who frequently argued the case in the deliberations (Pastor 1980, p.143).

[12] More on this in a moment.

After months of deliberations and what was, by all accounts, a close fight, Shultz and the anti-adjustment assistance forces prevailed. According to an industry spokesman "close to the drafting team,...there was fighting all the way up to the end. It [adjustment assistance] was in and out of the bill" (N.J. 7/28/73, p.1094, cited in Pastor 1980, p.143). Pastor reports that the meeting at which the final decision on adjustment assistance provisions was to be made, attended by all the cabinet officials, "Secretary of labor Brennan was expected to make the case for an expanded program, and he was briefed beforehand by his assistants, but even though STR [Eberle and Pearce] nudged him in the meeting, Brennan hardly uttered a work, and the case was lost by default" (Pastor 1980, p.143).

Rather than ineptitude or apathy among the adjustment program's supporters, the outcome reflects how Brennan and other supporters were junior within the Administration's power hierarchy in relation to the anti-adjustment assistance group -- especially Shultz, who was the most strongly opposed to the provisions. By all accounts, Shultz was Nixon's most influential economic advisor at the time, and in the decisionmaking hierarchy in the Trade bill's drafting, CIEP representative Hinton "ruled on disagreements" and Shultz was "available for appeals" (Destler 1980, p. 142). In such an environment, more strenuous arguments by Brennan, Pearce, Eberle, or anyone else may well have been moot.

The consequence of this "decision" on adjustment assistance was that the Administration decided to "go for a minimum program" (N.J. 7/28/73, p.1094). On the one hand, they proposed significant loosening of adjustment assistance eligibility criteria, no longer requiring petitioners to show prior tariff concessions causing import increases and requiring that they only show such increases as having "contributed substantially" to real or threatened injury -- meaning "no less than any other single cause," thereby looser than the escape clause criterion and than what Nixon had proposed for adjustment assistance in 1969. Like the 1969 proposal, however, the proposed loosening for 1973 left the free-trader-biased Tariff Commission with the main authority to decide eligibility. But in all it was still a loosening compared to the 1962 status-quo ante.

On the other hand, the Administration's proposed gutting the generosity of the benefits to be provided to those petitioners granted an affirmative ruling. The bill would limit the duration of the payments to the maximum specified in state laws, which was 26 weeks in most states and less than half of what the existing adjustment assistance program guaranteed -- 52 weeks for all trade-impacted workers, 78 for those in retraining programs, and 65 weeks for trade-impacted workers 60 years or older. And the benefit levels would also be reduced; the proposal called for the federal government to "augment the unemployment benefits of trade-impacted workers to ensure that they receive at least half their weekly wage or two-thirds of the state's average weekly wage, whichever is less" (National Journal 6/9/73, p.828).[13] This was, again, substantially less than what existing

[13] This part of the proposal was connected to the Administration's proposal to revise general unemployment

adjustment assistance provided: 65 percent of the worker's average weekly wage up to 65 percent of average weekly wage in US manufacturing. Retraining and relocation benefits would be roughly the same, no increases. And for firms, the proposal was harsher: the entire adjustment assistance program established in 1962 would be terminated.

1.2.2. In With the New: Proposing Welfare, Pension, and Corporate Tax Reform Instead

This decision and the entire debate over the future of the TAA program took place in the context of a package of policies that Shultz and others offered as an alternative to adjustment assistance: unemployment insurance reform, protection of worker pension rights, and reform in taxation of multinational corporations. The policies were explicitly discussed and adopted as methods to off-set the cost of liberalization and dampen political opposition separate from the core protections being liberalized. And given these purposes, Shultz and others believed and argued that the package would be superior to adjustment assistance in budgetary cost, in economic efficiency and fairness, and in political effectiveness. So when the Administration decided to gut adjustment assistance, it also decided to pursue Shultz's alternative package.

The Administration announced the package at the same time that it formally introduced its Trade Reform Act on April 10th, 1973. It proposed to enact the package through three separate pieces of legislation, and Shultz and other Administration officials detailed the proposed legislation in three consecutive days of briefings following announcement of the Trade Reform Act. In one of the briefings on April 12th, however, George Shultz emphasized how tightly the Administration saw these pieces as linked: "From the President's point of view he wanted to get the whole package out in front of the Congress when they considered any one piece, and I think that is an important thing to do" (N.J. 6/9/73, p.821). Although introduced as such between April 10th and 12th, the Administration didn't actually submit the proposed legislation to the House Ways and Means Committee -- the proper committee for all three kinds of legislation -- until May 7th.

Two parts of this legislative package were pretty modest, whatever their political and symbolic significance. At the April 10th announcement of the Trade bill, the Administration spoke with some pomp, if lots of ambiguity, about its tax proposals on foreign earnings. But when the Administration finally sent its bills to the Ways and Means Committee on May 7, the actual tax provisions turned out to be a bunch of notes more than a proposed bill. The proposal, however, was clear in proposing to eliminate beneficial tax deferrals on foreign-earned income for US companies "that have left to take advantage of tax breaks overseas and that ship at least 25 percent

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insurance provision, to be discussed momentarily. The adjustment assistance provisions would be provided at this prescribed level, under the adjustment assistance authority, only until the more general program could take over.

of their foreign-produced goods back to the US" (N.J. 5-12-73, p.697). As one commentator was to later quip; the proposals were essentially to reign-in "tax havens."

The legislative proposal to protect pension rights was somewhat more developed, if also quite modest. The bill provided federal guarantees that employees eligible for company pension benefits received those benefits, even if a company folds or a pension fund collapses. It might also have made it more difficult for employers or unions to dismantle or draw on pension funds, without the consent of their rank-and-file workers.

The most sweeping of the proposals was what the Administration called the Job Security Assistance Act, that called for substantial expansion and reform of the nation's unemployment insurance. This Act would set for the first time federal standards requiring states to pay a certain benefit to eligible unemployed workers, regardless of the source of their dislocation. Most important, the bill would amend the Internal Revenue Code by adding a requirement that, beginning July 1, 1975, "states must pay eligible unemployed persons a benefit equal to half of their average weekly wages or two-thirds of the state's average weekly wage, whichever is less" (N.J. 6/9/73, p.827). The bill also called for extending coverage of unemployment insurance to an estimated 635,000 farm workers, almost two-thirds of the one million full-time farm workers in the labor force. It would do so by applying to farm employers with four or more workers in 20 weeks in a year or those who paid $5,000 in wages in any calender quarter. This would represent only 7 percent, or 66,000, of all farm employers (Ibid.). Third, the bill would deny unemployment compensation to workers declaring themselves on strike, on account that they are not "involuntarily unemployed." And finally, the bill proposed to replenish the federal funds provided to pay for emergency unemployment benefits extended in 1973.[14]

All three of these proposals grew directly out of the Administration's search for alternatives to the adjustment assistance program. According to a former high Administration official, who talked about the proposals at the time to the National Journal but who did not want to be identified by name, "Shultz and his associates designed the legislative package as a calculated effort to obtain support from organized labor for the trade bill" (N.J. 6/9/73, p.827). This same official embellished on this claim:

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[14] This provision sought to pay, in particular for benefits provided under the 1971 Emergency Unemployment Compensation Act that authorized additional benefits up to 13 weeks for those who had already exhausted their regular benefits -- averaging a guarantee of up to 52 weeks of benefits during periods of high unemployment. The special funding for the extra benefits fell short when Congress voted a few weeks before the law was set to expire in June 1972 to extend eligibility to the end of December 1972, and to pay benefits until April 1973. The roughly $400 million bill of this extension was paid for with general revenues. The Job Security Assistance Act proposed a .08 percent increase in tax on the wage base for calender 1974 and 1975 to pay back this outflow. The new tax was expected to bring in revenues of $375 to $448 million for the two additional years. See National Journal 6/9/73, pp.827-828 for more details.

> Before Watergate, the president's major legislative goal was the trade bill, and properly so....We have an increasing deficit in trade and a monetary crisis....This country is facing the most serious threat to our world position that we have ever had....
>
> The President said, 'What do we need to get broad support for this trade legislation?' The unions are concerned with workers displaced by trade and they have gone protectionist.
>
> To reduce organized labor's opposition, these trades on foreign taxes, pensions, unemployment compensation and foreign tax changes, have been offered" (Ibid.).

While organized labor appears from the content of the bills and from these statements to have been the main target of the package, another industry official, also anonymous, told the National Journal that "the people sitting in the drafting sessions said that there was concern not only for labor but for industries that have problems -- electronics, shoes, textiles, ball bearings" (N.J. 7/28/73, p.1092).

This packaging and the substance of the bills show that the package represents side payment compensation, because the clustering of the three pieces of legislation were meant to off-set the costs of the proposed Trade Reform Act and differed substantively from the proposed reductions in tariff and non-tariff barriers at the center of that Act. Yet, each of the provisions had deeper origins, the details of which tell the story of why these provisions were chosen as side payments -- not just over adjustment assistance but over the many other hypothetical possibilities.

1.2.2.1 Origins of MNC Tax Side Payment: A Faint Nod to Labor's Burke-Hartke

The MNC tax reform was unambiguously a side payment drawn from and appealing to organized labor's trade and investment policymaking agenda. In the two years leading up to and including the time the Administration was drafting its 1973 trade initiative, labor's position was clearly expressed in the Burke-Hartke bill. Among the quota and investment policy reforms, the bill demanded that US multinational companies lose the credits they then got against their US taxes for the taxes they paid to foreign countries and their right to defer US tax payments until their overseas earnings were repatriated (National Journal 1/15/72, p.110). Throughout this period, the Administration had stood firmly and unambiguously against Burke-Hartke in general, and the bill's MNC tax provisions in particular. And when the Administration was pulling together its 1973 Trade Act it did the same. At the end of March 1973, before Nixon had publicly announced his Trade Reform Act but after some of its details had already been leaked to the press, the National Journal reported that the Administration was "standing firm" against labor's agenda, and that it had "considered then rejected" the latter of the Burke-Hartke tax provisions -- the right to defer payments on earnings until they are repatriated (NJ 3/31/73, p.472).

However, by the time the Administration's bill was taking shape, Wilbur Mills, chairman of the House Ways and Means and widely regarded as the most powerful congressman on trade issues, pressured the Administration to include in its trade bill some action on MNC taxes. On the

substance and details of such action, Mills was not specific. But he had a variety of strong motivations to get the Administration to consider the tax reform as part of its liberalization. The substantive motivation was that he favored doing something modest to reform taxes of foreign corporations in the interest of fairness. As one industry lobbyist put it:

> Mills feels he needs tax provisions in the bill...He believes that, on balance, MNCs benefit the economy and, because they are, he does not see the rationale for discouraging direct foreign investment....But he recognizes that there is a lot of ferment in the country on the multinationals, much of it coming from labor but also from other taxpayers who feel that these companies are not paying their fair share of taxes. (N.J. 7/28/73, p.1093).

Most obviously and explicitly, however, Mills believed that some action on MNC taxes would be politically important to passage of the Administration's inchoate trade legislation. Mills was frequently consulted by the Administration about how to design its Trade Reform bill, and Mills was the man who had to help construct a piece of legislation that he could clear with his committee and on the floor. No one knew better than he what could and could not as much. Toward that end, he wanted to demonstrate "a sufficient concern for Labor's interests," knew that the taxation of foreign-source income was a central part of Burke-Hartke, and pushed for a provision that could be included, if for no more than "presentational purposes" (quoted in Pastor 1980, p.148).[15]

On the receiving end of this advice were members of the Nixon Administration tasked with pulling together a liberal bill able to make it through Congress, bearing Mills's mark and meeting his approval. Apparently, the most solicitous of these representatives was CIEP-head Peter Flanigan. In deliberations over the Administration trade bill, Flanigan is said to have had the most contact with Mills and to have made the most of both that contact and congressional input during the bill-drafting process (Ibid., p.147). Flanigan later plainly explained to the National Journal his, and his interpretation of the Administration's, motivations in considering the tax provisions:

> No one ever drafts legislation as an academic exercise but as a package that will be passed. We never thought we'd get labor's support by doing this [proposing the tax changes] but we were hopeful that our efforts would win us some support. (N.J. 7/28/73, p.1093)

Making the link to the Burke-Hartke tax provisions, another official noted that "When you have something as high-level and as talked about as Burke-Hartke on the Hill, you can hardly escape addressing yourself to these issues...(Ibid.). And Kenneth Dam, chairman of the inter-agency staff-level task force looking into unemployment and TAA reform, said that the Nixon proposals on taxation of foreign-source income "were designed, at least in part, as a response to the labor-backed Burke-Hartke bill." (National Journal 6/9/73, p.827). He told the National Journal: We wanted to have our entire package before Congress so that in judging any one part of it

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[15] But a more personal-political motivation may also have entered the mix. Mills and Burke, the House co-sponsor of labor's bill, had become politically very close colleagues. Not only was Burke the third most senior Democrat on Mills's Ways and Means Committee, but he was also the manager of Mills's abortive campaign for the Democratic Party's presidential nomination. It wouldn't be too surprising if Mills sought to push some of his colleague's MNC tax provisions as a personal favor or political debt.

> they can take a look at what else we have proposed....We wanted them to know what our position was on the taxation of foreign income....Given the Burke-Hartke bill, any Congressman or Senator would have the right to ask us what we are doing on the tax side and undoubtedly would have asked" (Ibid., p.827).

Even though the provisions chosen were a distant cry from what labor had advocated in Burke-Hartke, those supporting the President's liberalization saw the modest provisions as key to the debate. Revealing this sympathy, the National Journal reported at the time that "the fate of trade legislation could be determined by what congress does on the tax provisions" (N.J. 5/12/73, p.696). Importantly, no one in the Administration checked ahead of time with organized labor to see what they thought of the proposals, to assess whether the particular tax provisions had any virtue in their eyes, let alone whether labor had other proposals in mind -- parts of Burke-Hartke or something else -- that might be part of the Administration's trade policy package.

1.2.2.2 Origins of Welfare and Pension Reform Side Payments: Nixon's Loose Ends

Unlike this MNC tax reform, the welfare and pension reforms that the Administration proposed along side its Trade Reform Act did not grow out of labor's trade policymaking agenda. Instead, they grew out of the Administration's previous welfare and pension policy efforts, pursued independently of commercial policy politics. In particular, the proposals represented an attempt by the Administration, in particular by economy-czar George Shultz, to take advantage of a political opportunity to hit two birds with one stone: consolidate support for trade liberalization, and tie up some the loose ends left over from the earlier welfare and pension efforts.[16]

In July 1969, the Administration laid out a series of proposals to substantially reform welfare provision, the majority of which Congress made into law with its passage of the 1970 Employment Security Amendments (184 Stat 695). One of the most important of these amendments was federal mandate to extend unemployment insurance coverage to an estimated 4.8 million workers not previously covered, including state hospital and university workers, employees of small businesses and of non-profit organizations (N.J. 6/9/73, p.824). Another was the requirement that states pay up to an additional 13 weeks of benefits to eligible workers when the national unemployment rate topped 4.5 percent for three consecutive months or "when state unemployment was 20 percent higher in a 13-week period than the average of the corresponding periods for the two preceding years (Ibid.). Half of the costs of this extension was to be borne by the federal government and the other half from state unemployment taxes.[17] With the states averaging coverage of 26 weeks, this extension represented a substantial increase in benefits.

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[16] My account of these origins relies heavily on a couple of National Journal articles, especially Charles Culhane, "Labor Report: Labor Readies Stronger Jobless-pay Plan, Rejects Version Offered with Nixon Trade Bill," *National Journal.* 6/9/73, pp.821-830.

[17] Regular unemployment insurance benefits were administered by the states, within very broad federal guidelines

Several of the Administration's proposals, however, didn't pass Congress. Among these were the changes in federal guidelines such that states would be required to withhold unemployment insurance benefits to striking workers and that they extend coverage to a large percentage of farm workers not previously covered. Each of these provisions ran into substantial opposition in both House and Senate deliberations. Organized labor lobbied strongly against changes in federal guidelines on striking workers, the status quo ante prohibiting states from denying these workers unemployment benefits. Farm employers, large and small, took issue with the extension of benefits to farm workers, because the employers would have to bear the cost of that extension and because they argued their sector was inherently more volatile and dependent on part-time and temporary workers and to seasonal swings in employment -- all of which justified and necessitated taking less financial responsibility for the economic position of their employees (CQ Almanac 1970). When Nixon signed the Employment Security Amendments on August 10, 1970, he made clear his desire to pursue the matter further in future legislation: "These farm workers deserve this added protection, and it is my intention to resubmit legislation to help them gain this objective" (N.J. 6/9/73, p.824). [[get more on this]]

More disappointing than these Congressional defeats, however, was the poor response by states to Nixon's request that states pay their workers higher benefits. The federal government had never imposed guidelines on states setting minimums or maximums on amounts states were to pay unemployed workers. But in his July 1969 message to congress on welfare reform, Nixon stated that "if state laws set maximum benefit standards requiring payment of at least two-thirds of the state's average wage, or one-half of the claimants' average weekly wages, whichever is less, this would result in benefits of at least 50 percent of their wages to at least 80 percent of the insured workers" (cited in Ibid). Threatening to set federal guidelines for the first time if states didn't heed his request, Nixon stated in the message: "I call upon the states to act within the next two years to meet this goal, thereby averting the need for federal action" (ibid.).[18] Despite Nixon's requests and warnings, by 1973 only four states -- Hawaii, Arkansas, Utah and Washington D.C. -- had met his guidelines, meaning that only 2.5 percent of the nation's insured workers received "adequate" benefits (Ibid.).[19]

In the years immediately following these frustrations, the Administration's rethinking of foreign economic policymaking, and trade policy in particular, became inter-mixed with review of

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and with federal tax monies financing that administration. All actual benefits, however, were to be financed by state taxes. So the extensions were a relatively lighter burden.

[18] Renewing this plea when signing the 1970 Employment Security Amendments, Nixon said "Maximums are still too low to provide adequate benefits for the great majority of workers and more rapid progress is required" (ibid.).

[19] The National Journal reports that, by contrast, "in 20 states representing 60.8 percent of the nation's insured workers, the maximum benefits were less than 50 percent of the state's average weekly wage" (ibid.).

Similar frustration marked the Administration's attempt to reform access to pension funds. In December 1971, the Administration introduced legislation that Congress refused to enact (Ibid, p.827). And there, again, the Administration warned it would try again. (N.J. Vol.4, no.37, p.1415).

these welfare and pension reforms. George Shultz was the advisor most responsible for the linked review of such otherwise distinct foreign and domestic economic policies. As Secretary of Labor at the time of the frustrated welfare and pension initiatives, Shultz was reported to have been strongly in favor of those initiatives that did not make it into either federal or state law. Over the course of the next two years, Shultz's political fortunes grew beyond this post.[20] And in that new capacity, Shultz led the Administration's retooling of both domestic and foreign economic policy, even though he was reputed as having cared more and been more knowledgeable about domestic reform (Destler 1980, p.140).

Part of that retooling, we have seen, involved review of the various elements of commercial policy, including a review of adjustment assistance by the Department of Labor. Shultz named Kenneth W.Dam, who was then executive director of the Council of Economic Policy, to head the inter-agency task force reviewing adjustment assistance. Shultz directed this task force to develop recommendations not only for adjustment assistance, but for unemployment insurance system generally. In addition to Dam, this group included staff members from the Departments of Labor and Commerce, and from the office of Management and Budget and from the Council of Economic Advisors (N.J. 6/9/73, p.825). Between January and mid-March of 1973, the staff-level group debated a variety of different proposals on how to reform unemployment insurance, most of which built on the loose ends left by the previous legislative episode -- extending benefits to farm workers, prohibiting extension to strikers, and a federal standard for maximum benefits.

The chief confrontation pitted representatives from the Department of Labor against those from Commerce. The lead Labor Department representative was Robert Goodwin, associate manpower administrator and director of the Unemployment Insurance Service. According to the National Journal, Goodwin and the other Labor representatives proposed a provision that would have extended the duration of regular unemployment insurance benefits to 39 weeks regardless of the level of national or state unemployment, and provided "emergency benefits" for another 13 weeks during periods of high unemployment -- bringing the total, federally mandated maximum to 52 weeks (Ibid.). Commerce Department representatives strongly opposed this proposal, and also informally recommended that the Administration propose to phase-in the increased benefit maximums over a period of months or years, rather than require that states raise benefits immediately. These representatives were concerned, appropriately given their bureaucratic position, that the higher benefit maximums and durations would be too costly for businesses, especially in those states whose existing benefit standards were lowest.[21] In this conflict, the trade policy politics may have mattered, but only in the background.[22]

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[20] He took over the Treasury Secretary's post in 1972, and in December 1972 Nixon appointed Shultz special assistant to the President for economic affairs and chairman of the new Cabinet-level council for Economic Policy, making Shultz the Administration's most powerful economic advisor.

[21] Indiana and Minnesota, for instance, would have a lot of taxes to raise if they were going to meet the new

Resolution of this and other staff-level controversies waited until cabinet-level representatives of the same Departments involved in the staff-level deliberations met in mid-March. At this cabinet level, the deliberations explicitly weighed the welfare and pension policy controversies, and trade policy controversies simultaneously. In the welfare and adjustment policy task force, Department of Labor Secretary Brennan had supported the more ambitious unemployment insurance package as well as the strengthened and expanded trade adjustment assistance program. At the same time, he had been supporting the latter in the other task force deliberations drafting the Trade Reform Act, joining forces with the STR and others. And in those trade policymaking deliberations, the adjustment assistance was being opposed by the same officials who opposed the expanded welfare provisions in the welfare task force.

The official who resolved the both of these controversies was, again, George Shultz, clearly and explicitly juggling the Administration's trade liberalization and welfare reform priorities. One lobbyist told National Journal at the time, referring to resolution of the debate over how to reform unemployment insurance, that "Shultz was the master technician in all of this...As special assistant to the President on economic affairs he has super-Cabinet status" (Ibid., p.826). During the Trade Reform bill-drafting, Shultz had tipped the balance against expansion of trade adjustment assistance. In its place, he had argued in favor of accompanying the trade liberalization initiatives with various unemployment insurance reforms being discussed in the welfare reform task force. In the latter task force, simultaneously, Shultz supported a middle ground position between Labor and Commerce on expanded welfare benefits. He supported legislating the 1969 Nixon welfare priorities, including the creation of federally mandated benefit standards for the first time, but he did not support Labor's more expansive proposals.

More important than his splitting the difference between Labor and Commerce were the arguments he made for doing so. According to a "high Administration official" interviewed at the time by the National Journal, "Shultz and his associates designed the legislative package as a calculated effort to obtain support from organized labor for the trade bill" (N.J. 6/9/73, p.827). In the same report, other anonymous commentators embellished the logic of this linkage: "Administration officials hope that employers, particularly those with large stakes in higher levels of foreign trade, will relax their traditional opposition to higher unemployment taxes and help swing labor behind the trade bill" (Ibid, p.821). Importantly, however, this judgment was made without any substantial input by organized labor. Shultz and other officials were said to have been

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standard. As of the middle of 1973, Indiana gave benefits that averaged only 29-42 percent of the state's average wage; Minnesota gave only 38 percent. And most states were well below the standard. See benefits table in National Journal 6/9/73, p.826.

[22] In defending higher benefit and duration standards, for instance, Goodwin explained how support for some expansion needed to take account of trade dislocation, as well as other "special" economic problems: "we see long-range unemployment resulting from defense cutbacks, actions on environmental issues and *because of trade impact.* A lot of these people aren't taken care of under the regular programs" (Ibid., p.825, italics mine).

in contact with the groups during various stages of designing the trade bill and other legislation, but organized labor was never consulted on the unemployment insurance or pension reforms.

Most provisions of the proposal, however, had some reasonable potential as side payments. The creation of a higher unemployment insurance benefit standard, the extension to farm workers, and guaranteed pension rights all clearly appeal to organized labor's perceived and explicit interest in welfare reform and expansion. And the financing of the previous year's emergency unemployment insurance extensions also appealed to the interests, if not the demands, of labor, by virtue of making such insurance extensions more politically viable for states well into the future. The inclusion of the old Administration welfare reform provision prohibiting states from giving unemployment insurance benefits to striking workers is a bit more puzzling in that labor was unambiguously and explicitly against the proposal. This provision, however, may have been seen as the price the Administration would have to pay in order to get the rest of the unemployment insurance package together. Indeed, Chamber of Commerce research associate Michael J.Romig later commented that "the Administration thought of this [the denial of benefits to strikers] as a sweetener that business would like" (Ibid., p.829). In other words, there may have been worry that the promise of trade liberalization of which more expensive unemployment insurance benefits might be the price, might not have been seen as enough of a "sweetener."

There is some ambiguity in the degree to which the Administration's proposal of the unemployment insurance and pension reforms were motivated mainly as a side payment to buy support for its trade liberalization, or whether something else was afoot. To be sure, other motivations were at work in motivating the welfare and pension reforms. The unemployment and pension provisions appear to have been provisions that the Administration wanted to get anyway. No doubt, introducing them along-side the Trade Reform Act proposals could be seen as making them politically more palatable because they would thereby be linked to the trade liberalization, thereby buying the support of business types reluctant to support them generally but more so if they are a necessary cost of getting liberalization. With this logic, some welfare reformers with no care or interest in trade policy might have sought, secretly hoped for, or accepted the linkage as a way of getting their package through -- where the trade liberalization was a side payment to business groups expected to suffer from the welfare reform. Without more information on what went on in the deliberations, or better yet, in the heads of the deliberators, we can't know what mix of side payment logic underlay the Administration's decision to combine the welfare and pension reforms with the trade liberalization initiatives.

What matters here is that the attachment or linkage was made *at least in part* with the intention of off-setting some of the costs expected to be borne by victims of the liberalization. Minimally, the timing and rhetorical defense of the welfare and pension reforms were side payments to potential victims, mainly organized labor, from the Trade Reform Act liberalization.

Maximally, they wouldn't have been pursued were it not for their role as side payments. On their own merits, then, the welfare and pension reforms represented a significant side payment offer.

How significant and generous a side payment offer they represented, however, depended on one's point of view. For those workers eligible for trade adjustment assistance, and certainly for trade-impacted firms, the Shultz-endorsed package was expected to be less generous in monetary terms than either the adjustment assistance status quo-ante or proposed expansion. The existing adjustment assistance program guaranteed eligible workers unemployment insurance supplements representing 65 percent of the worker's average weekly wage up to 65 percent of the average weekly manufacturing wage. This was substantially more than the 50 percent of a worker's average wage up to 66 percent of the state's average, especially since manufacturing wages tended to be higher than other segments of the economy. A Labor Department official pushed to compare the proposal with the adjustment assistance it would supplant conceded, "only workers in a handful of states would be eligible for more than that [provided under adjustment assistance] or even that" (N.J. 6/9/73, p.828). And these income supplements were only part of the adjustment assistance program; also included were relocation and training assistance, and the various provisions of assistance for firms.

The Commerce Department estimated that the unemployment insurance reform offered to replace adjustment assistance would cost employers an additional $970 million a year in state unemployment taxes to cover the higher state average benefits and the coverage of farm workers.[23] This was substantially more than the adjustment assistance program, in either its existing form or in its proposed revised form, cost -- the estimates of which were never over $500 million.[24] The moneys involved in the proposed welfare reform, therefore, were significant. They might, therefore, be less than what trade-impacted workers might expect under adjustment assistance, and they were in any event more than employers would want -- especially since the sister program of adjustment assistance for firms was to be phased out and would not, therefore, offer any hope that they might be compensated for the new expenditures. But the general welfare reform offered more to workers on the whole, and especially to generally vulnerable workers and to agricultural workers. And when all of these benefits from the other two proposed pieces of legislation -- discouraging tax haven investment and protecting worker pension rights -- the package is relatively more generous for the average worker than the adjustment assistance provisions. Accordingly, one might predict from these relative benefits that the AFL-CIO -- as the supposed, and to some

[23] Unemployment insurance was paid for by employer contributions to these taxes, not directly from federal funds or employee contributions. The $970 million estimate comes from the Commerce Department's judgment that "the maximum-benefit standard could add $850 million to business costs in 1976 and that coverage of farm workers would cost another $120 million (National Journal 6/9/73, p.825).

[24] When the worker adjustment assistance program was ultimately expanded, as we will learn, it was estimated to cost in its first fully operating year (1974), $534,823,000. See Mitchell 1976, p.66.

extent actual, political representative of working people generally, not just those vulnerable to competition from imports -- would prefer the Shultz package to the adjustment assistance package.

1.3. Business and Labor Side Payment Politics: Out with the New, In With the Old

As it turned out, this prediction was dead wrong. From the day the Administration announced its side payment package on April 10th through House Ways and Means mark-up, the new package of side payments and a new compensated liberalization found no takers. Although just one set of many subjects of controversy sparked by the Administration's trade liberalization initiative, the side payment package immediately drew unambiguous fire from the whole spectrum of groups active in welfare, tax, and trade policymaking. It not only alienated groups central to the Administration's liberalizer coalition but also inspired active opposition from groups otherwise silent on trade policymaking. As for the would-be beneficiaries of the side payment package -- organized labor -- the package was even more of a bust. All of organized labor immediately and wholeheartedly rejected the Administration's package, with the AFL-CIO taking an uncompromising stand in opposition to any liberalization, compensated or otherwise.

This same spectrum of groups, however, didn't reject compensated liberalization generally, only the Administration's. Instead they embraced expansion of the traditional side payment -- trade adjustment assistance. Throughout debate over the Administration's bill, liberalizer groups sought to bring TAA back from the brink. And organized labor turned out to be split over compensated liberalization. Although the AFL-CIO towed its unconditional protectionist line throughout, the United Auto Workers actively lobbied for a compensated liberalization where expanded trade adjustment assistance was the price for its acceptance of tariff and non-tariff barrier liberalization.

1.3.1. Among Businessmen: Liberalizers and Neutral Parties

On the issue of trade liberalization, the American business community had traditionally been split, with international business the back-bone of liberalizer coalitions and with more domestic oriented and import-competing businesses either opposed or ambivalent over liberalization. On the Administration's side payment package, however, both these segments of business were united in their opposition. The unemployment insurance reform and the tax provisions sparked the strongest response.

A variety of business groups spoke out early and often against almost all elements of the proposed changes in federal standards on unemployment insurance. Most vocal was the Chamber of Commerce. Michael J.Romig, a Chamber of Commerce research associate, explained some of the Chamber's reasons. He and others tried to sound fair in their opposition. They pointed out

that the bill's provisions extending insurance to hitherto uninsured farm workers was "not unreasonable" (ibid). But the changes in federally mandated benefit standards, which would require businesses to pay substantially higher payroll taxes, absolutely were. As Romig explained, "The Administration is raising a gut issue, a dollar issue" (National Journal 6/9/73, p.829). But the Chamber's opposition went deeper, at least rhetorically: "We oppose any change in the idea of shared responsibility between state and local governments. We anticipate opposing this legislation" (NJ 6/9/73, p.829). Other groups, such as the National Association of Manufacturers and the American Farm Bureau Federation, were not much softer in their criticism.[25]

Given that these businesses had to pay for the higher costs of the unemployment insurance side payment, their opposition to the federal benefit standards isn't surprising. More surprising, however, was that they found little solace in the bill's provision prohibiting extension of benefits to striking laborers and to prohibit states from denying payments to innocent bystanders -- referred to by some as a "sweetener" designed to soften business opposition to the reforms. This provision, however, drew fire as well. Chamber of Commerce and National Association of Manufacturers spokesmen "were favorably disposed" toward the idea of barring unemployment compensation to strikers, but were convinced that it would be unenforceable, and were concerned that protection of "innocent bystanders" would lead to unfair and unnecessary intrusions by federal authorities into industrial relations matters. As a sympathetic Administration official told the National Journal at the time, "The problem is, what the hell is an innocent bystander?....Once you get around to defining this term you're in a swamp" (Ibid.).

On the Administration's side payment tax provisions, opposition was even stronger. Not only the National Association of Manufacturers and the Chamber of Commerce, but also the stalwarts of the liberalizer coalition, the Emergency Committee for American Trade (ECAT) -- representing about 60 of the nation's largest multinational corporations -- expressed their opposition. They all argued that the Administration's tax proposals should be left out of the trade bill and should, instead, be taken up as part of the general tax reform legislation later in the 93rd Congress (N.J. 11/24/73, p.1751). In saying this, many business groups were conceding that some changes in MNC taxation was likely, something they lamented and attributed to organized labor's Burke-Hartke protectionist agenda.

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[25] The National Association of Manufacturers, for instance, was initially circumspect in its opposition, claiming that "our traditional view has been in opposition to federal standards. I don't see any possibility that we'll reverse that position at the moment" (Ibid, p.830). After "studying the proposal in detail" over the course of the next few months, as it turned out, they didn't. And the closest the unemployment reform came to getting business support came from the American Farm Bureau Federation, representing some 2.7 million families, including retired farmers and those who own farms, was tepid in its support. Assistant legislative director for the Federation, Matt Triggs, said "We are not sure how we are going to deal with this proposal to cover farm workers....We would be reluctant to oppose it. A good many farmers want to provide unemployment compensation for their permanent help...." But the Federation did not come out formally in favor of the proposal, instead claiming to conduct a detailed study of the proposal before adopting a policy. (Ibid.). And during the rest of the deliberations they said nothing.

Their big concern was that such tax measures not under any circumstances become part of the liberalization legislation. The NAM's director of international economic affairs, Nicholas E.Hollis told the National Journal in late 1973, for instance, that "the bill was shaky as it was, so they [the Administration] shouldn't alienate their supporters" (Ibid., p.1752). In an earlier interview, Hollis pointed out that "there is a real danger that a lot of companies that are neutral on the trade bill suddenly will find a tax title in the committee's bill and oppose the whole bill" (N.J. 7/28/73, p.1098). The Chamber of Commerce echoed this concern when staff associate for the international group of the Chamber of Commerce, L.Oakley Johnson, said "if there are tax provisions in the Ways and means Committee's bill, business organizations are going to face the dilemma of supporting a bill which includes tax provisions which they do not support....We are hoping not to have to grapple with that problem" (N.J. 7/28/73, p.1098).

While the Ways and Means Committee had carried out its hearings and during mark-up of the bill, the business groups continued their lobbying against the tax provisions. On June 25th, during Committee mark-up, the Chamber wrote each Ways and Means Committee member a letter warning that "unfavorable tax provisions in the trade bill could force the business community to oppose the entire package, thereby jeopardizing needed trade reform" (Ibid., pp.1751-2).

In proposing the MNC tax and unemployment reforms as side payments, the Administration not only was "alienating its [liberalization] supporters" as the NAM official claimed, but it also inspired some action by groups otherwise quiet on trade issues. The unemployment insurance reforms, for instance, inspired action from the political representatives of the state agencies responsible for administering unemployment insurance, the Interstate Conference of Employment Security Administrators. According to the NJ, the 14-member legislative committee of the conference met May 24th and discussed the proposal for a federal benefit standard, something they had traditionally opposed. In a poll among the members of the conference, a majority opposed the standard. The reasoning, according to one official, was concern that the standard was a slippery slope fear of federal power: "if you have a standard in that area it will be a prelude to standards in other areas: eligibility, duration....The more federal standards you have the more concentration you have of federal power" (ibid., p.830).

Having opposed the Administration's package of side payments, however, most of the business representatives, especially those most supportive of the Administration's trade liberalization, called for expansion of the trade adjustment assistance program. For all of these groups, the adjustment assistance program was vastly preferable to the Administration's package for a variety of reasons. For one thing, adjustment assistance was supposed to provide benefits to trade-impacted firms as well as workers, even though assistance to firms was even more disappointing than the assistance to workers, given tight implementation of the 1962 program. Loosened eligibility of the program, as proposed by the Administration, might be expected to

benefit vulnerable firms, whereas the Administration offered nothing for such firms. More importantly, the adjustment assistance program, in its current incarnation, implied a substantially lower tax burden for businesses, in comparison to the unemployment insurance reform. At the same time, the cheaper adjustment assistance program would be a good way to show concern for the costs of the liberalization they either supported or themselves feared.

Thus, a variety of business groups, especially the free-traders, spoke out in favor of adjustment assistance throughout deliberations over the Administration's bill. All called not only for maintenance of adjustment assistance in the face of the Administration's request for reduced benefits and duration, but also for substantial expansion of benefits and, in some cases, even looser eligibility criteria than the Administration bill requested. In their defense of adjustment assistance, however, the groups emphasized different motivations and recommendations.

The business associations that represented the back-bone of the liberalizer coalition -- ECAT, the National Retail Merchants Association (NRMA), the American Retail Federation, and the American Importers Association -- called for the most ambitious increases, and were focused mainly on the politics of trade. Representatives from the organizations called for program expansion as a political tool in interviews, lobbying and testimony to the House Ways and Means and Senate Finance Committees. Raymond Garcia, program director for ECAT, expressed this view in an interview with the National Journal: "Our hope is that if the President gets a good trade bill with liberalized criteria for protecting workers against import competition and a much better adjustment assistance program than the Administration has proposed, then labor might, *just might,* reconsider its position" (N.J. 7/28/73, p.1097, italics theirs).

In this hope, the groups were aware of how the stingy history of adjustment assistance fueled labor's disenchantment with such assistance as compensation for liberalization. Kurt Orban, President of AIA, made this point in his testimony to the Ways and Means Committee, but called for expansion of the program as the appropriate remedy:

> AIA shares the disappointment of all concerned that the 1962 adjustment assistance provisions did not live up to expectations. We are even more concerned, however, that the adjustment assistance provisions of HR 6767 do not go far enough.
>
> HR 6767 not only unwisely reduced adjustment assistance benefits for workers, it totally eliminates any possibility of adjustment assistance for firms. While the adjustment assistance program for firms has not been a notable success, we believe that it is short-sighted to deprive the President of this option in appropriate cases.[26]

Others supported an expanded TAA, but also were concerned that Trade Adjustment Assistance could discourage rather than encourage adjustment out of non-competitive economic activity and into competitive. Among these more circumspect supporters was the National

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[26] US House of Representatives, Committee on Ways and Means, *Hearings on the Trade Reform Act of 1973,* H.R. 6767, Part 3 of 15 Vols. p.777.

Association of Manufacturers. After emphasizing the NAM's support for the concept of trade adjustment assistance, Douglas Kenna, President of NAM, argued that

> The core problem of domestic import dislocation will not be solved by expanding compensation efforts but rather with a balanced approach aimed at early industrial self-help and increased productivity to promote job creation and job retention.
>
> We need a redefinition of the adjustment process and the role of competitive free enterprise in it so that the program emphasis can be properly placed on employment creation as opposed to after-the-fact compensation systems, which are otherwise known as "burial expenses."[27]

Whatever their particular cut, business lobbying groups in and out of the liberalizer coalition were unified in their opposition to the Administration's side payment package and in their support for expanded adjustment assistance.

1.3.2. The Split in Organized Labor: Unconditional Protectionism vs. Compensated Liberalization

The question for liberalizers interested in buying support for the trade liberalization was whether organized labor preferred the Administration's chosen side payment package, the traditional adjustment assistance side payment, or some other package of policies. The answer to this question came in stages. Early indications suggested that labor might be pacified by the Administration's overall design of the Trade Reform Act. In February 1973, while the trade bill was still being developed, senior Administration officials consulted with AFL-CIO officials to discuss the bill and to try to soften labor's opposition, or maybe even some qualified support. As the bill drafting discussions revealed, no one in the Administration really expected anything more. Treasury Secretary George Shultz and Secretary of State William P.Rogers met with Meany and a few of the top AFL-CIO officials to discuss trade and other economic issues. Then, on February 19th, Nixon met with the AFL-CIO executive council at the federation's annual mid-winter meeting in Bal Harbour, Florida. Nixon and his advisors apparently spoke in "vague generalities" and emphasized all the elements of the proposal that the Federation might like to hear, such as the unfair trade provisions, the escape clause loosening, etc. (N.J. 7/28/73, p.1091).

The meetings ended with very positive soundings from both sides. At a press conference held after the meeting with the President, AFL-CIO president George Meany praised the outline of the Administration's bill:

> [Mr. Nixon] wants to negotiate with these countries with authority from Congress to apply different methods of negotiation to block them off if they are blocking us off....From the point of view of a trade unionist, who likes to go to the bargaining table with options open and with authority to give and take, I think that the idea itself is attractive (National Journal 7/28/73, p.1092, cited in part in Destler 1980 and Pastor 1980).

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[27] US House of Representatives, Committee on Ways and Means, *Hearings on the Trade Reform Act of 1973*, H.R. 6767, Part 6 of 15 Vols. p.1915.

He even tempered his support for the Burke-Hartke proposals, restating his general endorsement of the bill but noting that "We know that when you get into the so-called nitty gritty of legislation there has to be some give and take" (ibid). In his conciliation, however, Meany stopped short of supporting the Administration's bill, claiming to await disclosure of its details. However qualified, the buddy-buddy quality of the remarks fueled speculation that the Administration might have successfully won over labor's support, perhaps through some secret buy-off.

However, when the details of the Trade Reform Act and the accompanying side payment provisions and legislation were unfurled between April 10th and the 12th, the AFL-CIO's conciliatory stance completely crumbled. In a press conference called on April 11th, Meany said the Administration's proposals "would open the door to further deterioration of America's position in the world economy and to the further export of American jobs" (NJ 7/28/73, p.1091). Some of his ire was directed at the main liberalization provisions: "the trade proposals provide no specific machinery to regulate the flood of imports and, indeed, some would increase the amount of damage to American employment and industrial production" (Ibid., p.1094). In the same statement, however, Meany directed some of his criticisms at the Administration's proposed package of side payments. On the proposals to tighten the tax treatment of income from foreign plants, Meany pointed out the provision "would do nothing to close lucrative tax loopholes for US-based multinational corporations" (Ibid). On the pension provisions, he said, rightly, that "the pension bills are almost identical to the Administration's 1971 proposals, which the AFL-CIO still feels are inadequate" (Ibid). And on the unemployment insurance provisions, Meany said that "its redeeming features 'are heavily outweighted [sic] by numerous and glaring deficiencies'" (Ibid.).

As the Administration's various side payment provisions were detailed in succeeding days and weeks, so was the AFL-CIO's opposition. When Administration officials outlined on April 12th the details of the welfare reform legislation they hoped labor and other groups would recognize as part of the grander trade reform package, AFL-CIO officials clarified their opposition. No one was surprised to hear that the Federation opposed the proposal to bar unemployment benefits to strikers. As assistant director of the federation's social security department James O'Brien modestly protested, "we think the disqualification standards are unnecessarily harsh in many states" (N.J. 6/9/73, p830). But the federation also took issue with the specific benefits promised to working people. To George Shultz's April 12th press briefing outlining the welfare reform side payment, George Meany clarified his criticisms on the same afternoon:

> Almost four years after he threatened the states with federal standards if they did not improve their laws, the President has submitted standards that are just not good enough.
>
> The omission of standards that would determine how long an individual must be employed on a job to be eligible for benefits and standards defining how long a jobless worker is entitled to receive benefits make the proposal unacceptable (N.J. 6/9/73, p.830).

In other words, the provisions the AFL-CIO wanted in the welfare reform were exactly those supported by the Department of Labor, opposed by the Commerce Department, and explicitly feared most by the Chamber of Commerce and other business groups: federal standards for eligibility and duration.

This critique by Meany dove-tailed with his angry acknowledgment that the Administration's proposal in many respects was worse for trade-impacted workers than was the adjustment assistance status-quo it was meant to supplant. "The failure to include them [eligibility and duration standards] in new unemployment compensation legislation would mean workers who lose their jobs because of imports would have less income protection than is currently available [under the adjustment assistance program]" (AFL-CIO Convention Proceedings 1973, p.153, and N.J. 6/9/73, p.830). In short, as soon as the Administration laid out it's plan for compensated liberalization, the AFL-CIO rejected it as worse than its previous unfulfilled attempts at compensated liberalization with adjustment assistance as the side payment. As Meany concluded, "This is a step backward and the AFL-CIO will vigorously oppose it" (Ibid., p.830).

Clinton Fair, legislative representative for the Federation, captured the AFL-CIO's rebuke of the various offers as failed attempts at side payment politics. He pointed out that "the Administration miscalculated in its efforts to gain labor support for the trade bill" (National Journal 6/9/73, p.830), "I think they thought they might be able to sell Mr. Meany on it....But only a misreading of George Meany would have let them think that they could sell this unemployment insurance bill against the Burke-Hartke bill" (Ibid., p.830).[28]

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[28] The AFL-CIO representatives were not the only organized labor representatives to speak out against the Administration's side payments and overall proposal. During the House Ways and Means Committee Hearings, held between May 9th and June 15th, several AFL-CIO affiliates carried the mantle of unconditional protectionism. In doing so, however, they also made the adjustment assistance program out to be the lesser of two side payment evils. In his May 17th testimony to the Committee, for instance, I.W. Abel, president of the United Steelworkers, the AFL-CIO's largest member union, vividly spoke out in opposition to the bill, in favor of Burke-Hartke, and somewhat ambivalently on trade adjustment assistance:

> In lieu of jobs or job programs, the administration's attitude toward the import-injured worker is demonstrated by the bill's repeal of the adjustment assistance program of the 1962 Trade Act. That program has been ineffective and few workers have received aid, but it its place would be substituted an unemployment compensation program that...is a step backward....
>
> It must be remembered that the entire program of adjustment assistance was designed and viewed by its supporters in 1962 as a stopgap program....It was not meant for use against the onslaught we are now suffering...
>
> Adjustment assistance is at best is burial insurance, not a jobs program. What we want is the restoration of a diversified industrial society that provides jobs, not jobless pay.
>
> The idea of adjustment assistance was proposed by organized labor in 1954 and supported by us ever since. It finally became part of the 1962 Trade Expansion Act. The AFL-CIO conditioned its support for the TEA on the promise that adjustment assistance would be made available to those adversely affected by imports. That promise was not kept.

Abel punctuated his testimony's opposition to the Administration's proposals and criticism of adjustment assistance as appropriate compensation for liberalization with the warning that dept the door open for adjustment assistance: "we don't think much of the present program [of adjustment assistance], but we're not going to stand still for scuttling it for something that's worse" (Ibid., quoted in N.J. 6/9/73, p.830).US House of Representatives, Committee on Ways and Means, *Hearings on the Trade Reform Act of 1973,* H.R. 6767, Part 4 of 15 Vols. p.1218.

Although the AFL-CIO and most of its member unions were not as hard on adjustment assistance as they were on the Administration's package of side payments, their basic position was unconditional protectionism. The centerpiece of this stance was the Federation's all-out and uncompromising push for the Burke-Hartke bill. When the Ways and Means Committee heard testimony on the Administration's bill, it also considered testimony on Burke-Hartke. Very soon into the proceedings, however, it became clear to all involved that big labor's preferred trade and investment bill was going nowhere. Burke-Hartke had been reintroduced in late January, but by late May support had markedly dwindled: of the original 80 co-sponsors only 60 were left, and on the Ways and Means committee only William J.Green (D.-Pa.) was willing to join Burke as a co-sponsor (N.J. 7/28/73, p.1095, Pastor 1980, p.146).

When this happened, the AFL-CIO went through the motions of trying to import some of the protectionist guts of Burke-Hartke into the Administration's bill, but really sought simply to defeat that bill. On June 12th, a few days before the Ways and Means Committee wrapped up the hearings and began mark-up sessions on the Administration's bill, Rep. Joseph E.Karth (D.-Minn.) and five other labor-oriented members of the Ways and Means committee met with AFL-CIO legislative director Andrew Biemiller and federation lobbyist Roy Denison. At the meeting the legislators offered to consider any amendments to improve the bill from labor's point of view. At this meeting, Karth remembered, "there was unanimity of opinion that Burke Hartke wasn't going to pass" (N.J. 11/24/73, p.1752, see also Destler 1980,p.164, and Pastor 1980, p.146?).[29] However, after this meeting with sympathetic Committee members but before the Burke amendment proposals, AFL-CIO officials basically urged defeat, not revision, of the TRA bill. Joseph Karth, who had held out an open channel with Federation officials in the hopes of working with them to improve the bill, claimed that the June 12th meeting was "the last time I heard from them in terms of any positive action until the day before we voted the bill out of committee when I was asked to vote against the bill" (Ibid.).

In the intervening period, federation lobbyists and officials were not exactly flexible in their opposition. On June 14th, Andrew Biemiller, director of legislation for the AFL-CIO, sent a letter to Members of Congress urging them to support the Burke-Hartke bill and to vote against the Administration's (N.J. 7/28/73, p.1097). And on June 19th, Roy Denison met with roughly a dozen lobbyists for unions affiliated with the federation and supportive of Burke-Hartke. There he "discussed Biemiller's letter and laid out a strategy of blocking the Administration's bill" (Ibid).

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[29] On the basis of recommendations from Biemiller and Denison, Ways and Means Committee member James Burke proposed two protectionist amendments a month later, on July 16th, during Committee mark-up. The amendments were designed to bring in the spirit of the doomed Burke-Hartke bill. One would have triggered quotas when imports exceeded current levels, and the other would have "related quotas to the foreign-import share of the US market for each product," but both were mandatory rather than at the President's discretion (N.J. 11/24/73, p.1752). Despite the support of Karth and other participants in the previous month's meeting, both amendments were rejected by votes of 7-16 within the committee (Ibid., New York Times 7/17/73, p.55)).

He explained that "once you start shooting holes in the Administration bill then you might get consideration of an alternative. We have always said that Burke-Hartke is not written in stone and we are willing to consider alternatives. Meanwhile, we think Burke-Hartke is the best thing on the block" (Ibid). United Steelworkers director of legislation John J.Sheehan was more blunt: "We certainly would like to see the Burke-Hartke bill passed as the alternative. But if nobody can come up with new legislation except the President's bill, why, we don't see the need for any legislation" (Ibid). Toward this end, Sheehan sent a letter on July 12th urging his field officials to lobby the Administration bill as "totally unacceptable" (Ibid).

As the Administration's bill made it past the House Ways and Means committee, the federation continued its onslaught. At its Bal Harbour, Fla., biennial convention on October 19th, the AFL-CIO adopted a resolution calling the committee bill "worse than no bill at all. The AFL-CIO urges defeat of this bill and asks for comprehensive new policies to restore America's social and economic strength in international relations" (AFL-CIO Proceedings 1973, p.120; see also N.J. 11/24/73, p.1752). By the end of the year, everyone was convinced that the federation had no intention of doing anything but block the bill. Acting Ways and Means chairman Ullman claimed "I don't think they seriously ever tried to improve the bill....I think their effort from the very beginning was to kill a trade bill" (Ibid.). This conviction rang true through the rest of the proceedings, such as when George Meany appeared before the Senate Finance Committee to give his view of the evolving legislation. Rather than offer any reforms, he urged the committee "to give the House-passed bill a quick burial, and turn its time and attention to the writing of new trade legislation which will be comprehensive, flexible, and realistic, and which will meet the complex needs demanded by today's world" (Senate Finance Hearings 1974, p.1136, Destler1980, p.175).

Roy Denison defended the Federation's inflexible brand of unconditional protectionism. He claimed that AFL-CIO and member union officials decided that "since the committee obviously was not going to give any real consideration to the Burke-Hartke bill, labor would not offer any perfecting amendments to the committee bill" (N.J. 11/24/73, p.1752). Doing so, Denison claimed, "would have put labor in the position of asking for 'yes' votes on the amendments and 'no' votes on the bill itself" (Ibid.). A bit more metaphorically, he later repeated the point by saying that trying to change some of the bill's specifics "would be like putting ten patches on a rubber raft that has 100 holes" (N.J. 10/5/74, p.1484). And Nat Goldfinger, later explained his version of why the AFL-CIO wouldn't negotiate details or generally participate in a new consultative body the Administration sought to set up for input into its international negotiations: "We're opposed to the whole trade bill and the whole operation, which would kind of foreclose that kind of consultation. They know what our general views are, so what is it that they would want from us -- whether they kill off 10,000 jobs or 12,0000 jobs?" (N.J. 10/20/73, pp.1568-9).

The federation took this inflexible position even though several liberalizer legislators and members of the Nixon Administration expressed flexibility and concern for labor's support or softened opposition. Rep. Barber B.Conable Jr. (R.-N.Y.), the fourth-ranking Republican on Ways and Means, for instance, said he believed that the AFL-CIO had the power to block the bill: "Of course they can: they 'own' a lot of people in the House....They're good lobbyists and you can be sure that they have a strategy because they always do" (ibid). Peter O.Suchman, director of the Treasury Department's Office of Trade Policy, expressed flexibility in view of this recognition of the AFL-CIO's power. He said that if labor came to the table, "the Administration would be flexible although would not bargain on some issues they consider crucial" (N.J. 7/28/73, p.1098). He said, in particular, that "Obviously there could be some 'give' in some of our positions. I don't think I can talk about what they would be. It would depend on what labor wanted" (Ibid). And Oregon Rep. Al Ullman, acting chair during Committee mark-up, said "we're certainly going to have to make some accommodations to labor if we're going to get the bill passed" (Ibid).

The inflexibility of the federation's position, however, angered many who might have helped revise the bill through changes in side payment packages or in the core liberalization provisions address to labor's needs. Joseph Karth and other committee members sympathetic to labor were angry at the federation's unwillingness to "play ball." Karth later told the National Journal that he could only assume it was the Federation's position from the beginning "that they are going to have the Burke-Hartke bill or nothing at all. They showed extremely bad judgment, frankly" (Ibid.). When given a chance to support the bill in the committee bill and on the House floor, Karth and most others who had supported even the Burke quota amendments switched positions and voted against the AFL-CIO's request.

Not all organized labor, however, joined the AFL-CIO in their inflexible and unconditional protectionism. Two of the nation's largest industrial unions broke ranks with the federation and gave either modest support for freer trade, or explicit and active support for compensated liberalization. These unions were the Communications Workers of America, affiliated with the AFL-CIO representing some 550,000 workers, and the United Auto Workers, for several years loudly separated from the federation and still America's largest union, representing more than a million workers. It was this split that helped fuel an alternative package of side payments to what the Administration had proposed.[30]

Both unions supported part of the AFL-CIO's position on the Administration's trade bill. All, for instance, joined in a concerted and ultimately unsuccessful effort to get Mills and other

[30] Existing accounts of the politics of the Trade Reform Act of 1974 down-play differences among different segments of organized labor. Both Destler 1980 and Pastor 1980 emphasize, for instance, how labor was generally opposed to the Administration's bill and not interested in improving it. As we shall see, the first of these claims is basically true, but doesn't capture different stances that are crucial to side payment politics, if not trade politics generally. The second emphasis -- that labor wasn't interested in working to improve the bill -- turns out to be really wrong for some unions. This, too, is crucial to the side payment politics of the case, as we shall see.

Ways and Means Committee members to open their mark-up sessions to the public.[31] More importantly, both supported the AFL-CIO and Burke-Hartke stance on investment provisions. For instance, Ronnie J. Straw, director of development and research for the Communications Workers, testified to Ways and Means on May 22nd "that his union agrees with the intent of Burke-Hartke bill to remove tax breaks for the overseas operations of multinational corporations and to curb the export of capital to overseas plants" (House Ways and Means Hearings 1974, pp.2013-15, quoted in N.J. 7/28/73,p.1095). UAW's Leonard Woodcock also testified in favor of these provisions in his testimony to the same Committee, and took the Administration's bill to task for not doing more in this area, contending that "the legislation would not rectify the tax situation which gives US corporations incentives to establish foreign factories at the expense of domestic jobs" (Ibid).

Both the Communications Workers and the United Auto Workers, however, took issue with the AFL-CIO's unconditional protectionism, though in different ways and through different strategies. The Communications Workers' Ronnie Straw testified to Ways and Means that they "do not support the quota provisions of Burke-Hartke" (House Ways and Means Hearings 1974, pp.2013-2015). John T. Morgan, administrative assistant to Joseph A. Beirne, the president of the union, explained the union's position simply: "Joe Beirne is an internationalist who doesn't think that a strongly protectionist approach to these problems is a realistic one" (N.J.7/28/73, p.1095). Beyond this explicit break with the parent federation, the Communications Workers did not offer much support for the Administration's bill, and they did not actively lobby either for the bill or for particular safeguards or changes that would improve the bill from their standpoint.[32]

The United Auto Workers representatives, however, actively and explicitly championed compensated liberalization, with expansion of the trade adjustment assistance program as the side payment on which their support for the Administration's bill was conditioned. In his testimony to Ways and Means, UAW President Leonard Woodcock explained that even though "imports now account for 16 percent of all new passenger cars sold in this country, his union still supports freer trade" (N.J. 7/28/73, p.1095). More passionately, he pointed out how this was a fragile position, strongly against the protectionist winds in the AFL-CIO and elsewhere: "no matter how deeply I and the other leaders of the UAW may believe in liberal trade policies, the UAW will not be able to resist the protectionist tide to which, regrettably, a large part of the American labor movement has

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[31] These sessions had traditionally been closed, but rules changes in the House required a review process prior to mark-up during which open sessions might be accepted by majority vote of the acting committee. In this case, the unified labor effort to open the sessions was defeated 15-9 on June 18th. See National Journal 7/28/73, p.1096. See also Destler 1980, p.152-3, and Pastor 1980, p.155.

[32] In this way the Communications workers were only a small step beyond a few other unions even more reticent in their trade policy stance, but much more tolerant of the Administration's liberalization bill than was the AFL-CIO. Destler, for instance, reports how, quite late in the bill's evolution, the United Mine Workers were consulted as to where they stood on the bill, and replied that they were "basically in favor of the bill, but that they would just as soon not have it publicized because 'they don't want to fight with the AFL-CIO'" (Destler 1980, p.186).

already succumbed, unless the nation's trade policy is humanized as well as liberalized" (Ibid).[33] What Woodcock and other UAW officials had in mind as methods to "humanize" as well as "liberalize" trade, were a variety of provisions, including the investment tax proposals they joined the AFL-CIO in supporting.

Throughout the hearings and in subsequent lobbying, however, they gave special priority to the expansion of trade adjustment assistance. Woodcock, for instance, explained that the Administration's proposals to assist trade-impacted workers through revision of federal unemployment insurance standards would not provide adequate assistance. In his sustained attack of the Nixon proposal, Woodcock let-fly a moral argument that took its 1965 Auto Pact arguments to the next level by connecting the Pareto principle to class politics:

> An owner of property taken under eminent domain would be outraged if offered a fraction of its value and the government body involved would be hauled into court. Yet, the Administration would offer workers only a fraction of their normal remuneration if they lose their jobs as a result of national trade policies. Unfortunately, such shabby treatment of workers has been so common that few recognize it as a cause for outrage and, unlike property owners, workers would find it futile to appeal to the courts to remedy the injustice done them.
>
> In a real sense, the only substantial property a worker possesses is his job. What justification can there be for continuance of the double standard as between workers and property owners in cases where both are similarly affected by actions taken in the general public interest? (House Ways and Means Hearings 1973, pp.856-857)

Most importantly, however, the UAW representatives made a specific proposal for assisting dislocated workers, as an alternative to the Administration's plan. Their proposal was to expand the existing trade adjustment assistance program in various ways: loosen eligibility requirements beyond the Administration request, substantially expand benefits for workers "to compensate them fully for their losses," retain the industry-relief provisions of the original 1962 program, and create a new set of benefits for entire communities facing concentrated losses and dislocations due to trade competition. In both the lobbying and the testimony, UAW representatives made this expanded trade adjustment assistance the price of their "acceptance" of the Administration's proposed liberalization (Hearings 1973, p.857).

The UAW representatives, however, did not offer this position as a fait accompli, but instead considered working with various House and Senate Committee members interested in revising the bill. After pushing for the union's proposal, for instance, UAW director of legislation John Beidler recognized and signalled that "the Members might not favor the level of adjustment assistance that we propose but I think they would be interested in improving on the President's proposal" (N.J. 7/28/73, p.1097). And UAW officials also held out some hope that some of their other trade and investment policy goals could make it into the legislation, including the MNC tax

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[33] It's worth pointing out, here, how similar this rhetoric is to UAW threats during the fight over the 1965 Auto pact, during which UAW representatives threatened widespread protectionism unless adjustment assistance provisions were liberalized.

and out-going FDI reforms that they and their AFL-CIO colleagues could agree upon. With this overlap in their trade policymaking agendas, John H.Beidler, the UAW's director of legislation said "Except for the quota provisions, I see no bar to working closely with the AFL-CIO in all matters before the committee on this legislation" (Ibid).

As the Administration's bill wound its way through the House and Senate, the UAW's position moved toward the protectionist position, though always said that improved adjustment assistance would moderate their stance. At Senate Hearings in March 1974, UAW President Leonard Woodcock testified against the Administration's bill, and, for the first time, "for temporary quotas on imported automobiles" (Senate Hearings 1974, pp.857-9; in Destler 1980, p.175). Woodcock was careful to explain that the UAW took these positions "because of what we consider willfully inadequate provisions for adjustment" (Ibid.). The House ultimately changed TAA, but not enough for the UAW: the House bill was "somewhat better than that proposed by the Administration but still, in our opinion, extremely inadequate" (Ibid). After stating this stance, however, Woodcock, Beidler, and other UAW officials continued to consult Senate Finance and Administration officials to discuss further improvements in adjustment assistance. As we shall see, the result was a completely different animal than what the Administration had proposed.

In short, the UAW supported, if tentatively, compensated liberalization, and it did so with a relatively open-ended willingness to negotiate with the Administration and their labor colleagues. In these ways, UAW's stance was the opposite of the AFL-CIO's -- rather than inflexible and unconditional protectionism (single-issue platform), theirs was conciliatory and conditional upon side payments (multi-issue platform).

1.4. The House and Senate: Compensated Liberalization, TAA-style

House and Senate legislators proved themselves to be as or more interested in compensated liberalization as anyone, but they joined business groups and the UAW in rejecting the Administration's brand of compensated liberalization, based on modest but general welfare and tax reform, in favor of one based on expanded trade adjustment assistance. Although it took more than a year for these legislators to rework the Administration's bill, at the end of 1974 Congress passed and the Nixon Administration signed a compensated liberalization that helped to split to some degree opposition from organized labor and to symbolically express concern for the human costs. To some, the outcome of side payment politics in 1974 rekindled some of the hopes established by Kennedy's 1962 compensated liberalization. It was a completely different game for most societal groups engaged in trade policymaking, however, and the lack-luster political effectiveness of adjustment assistance side payments made 1974 look to some eyes less like a rebirth than like a "last hurrah" for compensated liberalization.

Although the Administration sent its bill to Congress on April 10, 1973, it was not until more than a year later, December 1974, that the House and Senate finished action on the liberalization initiative. The numerous delays that underlay this snail's pace had less to do with side payment politics or with struggle over the core liberalization authority than with conflicts over the infamous Jackson-Vanik amendment to the Administration's proposal to extend Most-Favored Nation status to the Soviet Union. That amendment conditioned extension of MFN status on improvements and loosening in the Soviet Union's emigration policies, and was tenaciously opposed by Kissinger and Nixon for fear that it would derail Detente. As a result, it was an example of side payments but not compensatory side payments of concern here.[34]

During that same year, much of the struggle within the House and Senate involved the core liberalization provisions in addition to MFN extension: the latitude of presidential authority to reduce non-tariff barriers; tariff-cutting authority; unfair trade practice actions; and the generalized system of preferences. Because our concern here is principally with compensatory side payment politics, the nut-shell outcome is what matters. The president's request for negotiating authority was substantially blunted in the House Ways and Means and in Senate Finance Committees. Nonetheless, the bill delegated unprecedented negotiating authority to the president to reduce tariff and non-tariff barriers and to extend preferential trade access to developing countries, and to choose whether and how to retaliate against unfair trading practices.[35]

1.4.1. Rejecting Welfare, Pension, and MNC Tax Side Payments

As for the side payment politics, the House and Senate legislative action unfolded in two stages. The first was when the Administration announced and defended its package of side payments involving welfare, pension, and MNC tax reform, the response in both the House and Senate ranged from disinterest to hostility. After outlining the various provisions in its April 10th-12th press briefings, the Administration sent to the Ways and Means Committee on May 7th drafts of legislation for the unemployment and pension reforms and MNC tax wording for inclusion into

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[34] The Jackson-Vanik linkage of MFN trade liberalization to loosened emigration standards for Soviet jews is clearly an example of a side payment during the Trade Reform politics, because it was a provision that was considered to gain the support of the liberalization by some legislators and that was separate from the core liberalization provisions.

This linkage, however, does not represent a side payment compensation for liberalization because it did not attempt to use improved treatment of Soviet Jewry as a mechanism to help those likely to suffer from the liberalization: the immediate beneficiaries of the linkage would not be noticeably more hurt by the increased trade resulting from MFN status; those who care most about such Jewry, moreover, were not those disproportionately vulnerable to the economic liberalization entailed by such status.

So even though the linkage meets the second defining characteristic of compensatory side payments -- that the policy being linked or promised is distinct from the core liberalization provisions -- it clearly does not meet the first -- that the policy be intended to help the victims of the proposed liberalization.

[35] See Pastor 1980 and Destler 1980 for rich accounts of the details of these politics.

the trade bill. The response was immediately negative. A high-ranking Republican member of the Committee told the National Journal at the time that "The Administration can't find anybody to introduce it. The Republican members are opposed to it. They feel that it is something they can't support" (N.J. 6/9/3, p.829).

Their reasons for opposing the welfare and pension legislation, it turned out, were over-determined. Most important, perhaps, was recognition of the opposition it provoked in the business community. The same Republican official pointed out how "Businessman are very much opposed to it. They feel that unemployment compensation has been a fairly effective system and that it is not something that should be federalized" (NJ 6/9/3, p.829). He added that Republican committee members "think [the proposed legislation] raises problems on how it's going to be financed and it has been vigorously opposed by the Chamber of Commerce, which has vowed that if it is introduced it will wage an all-out campaign against it" (ibid). But more general scheduling considerations also made Committee members, even those favorably disposed to the idea of welfare and pension reform as a side payment package, tepid to the Administration's proposal. James W.Kelly, a staff assistant on the Committee, said that the already heavy schedule of legislation involving proposed tax changes and foreign trade made it unlikely that it would act on the welfare reform proposals: "I don't see unemployment compensation legislation coming up this year. At least that's the present climate of affairs around here" (Ibid.). He added, however, that "there doesn't seem to be much support for the Administration bill on the committee" (Ibid.).

In the Senate, the story was similar. Administration officials approached Senator Wallace F.Bennett (R.-Utah), the senior-most Republican member of the Senate Finance Committee, to introduce its unemployment bill. But Bennett was apparently "reluctant to do so because he does not favor the bill" (Ibid).[36] As it turned out, by the time the Senate actually took up the bill in late 1973, the welfare and unemployment reforms were not discussed except in the past tense.

The Administration's proposed MNC tax reform lasted somewhat longer through House and Senate deliberations -- perhaps because it was to be attached as part of the trade legislation -- but it, too, never went far. Shortly before Mills dropped out of the proceedings because of his back problem -- after the Committee completed its hearings on June 15th, but before mark-up -- the committee decided to drop the tax proposals from consideration (N.J. 11/24/73, p.1752; see also Pastor 1980 p.156). The reasons were also similar to the unemployment insurance episode. As Committee member Conable suggested, scheduling might have again been part of the concern: "We felt that the tax issue would greatly protract our deliberations" (NJ 11/24/73, p.1752).

Much more important, however, was recognition of some developments in the labor and business sides of side payment politics. As we have seen, Mills had been the main proponent for

[36] It didn't help that there were other excuses not to pursue the legislation, such as breath-holding over Watergate and the expectation that House Ways and Means had original jurisdiction over major welfare reform legislation.

inclusion of some MNC tax reform in the first place, especially motivated by a desire to appease, if only symbolically, the sentiments of organized labor. At the time the House Ways and Means Committee was ready to begin mark-up, however, a number of pundits already believed that organized labor was unwinnable and that improvements in the trade balance might make their opposition unthreatening anyway (Destler 1980, Pastor 1980). Most importantly, however, Mills and others on the Committee had heard the messages coming from the business community loud and clear. That community had told the Committee in testimony and in press briefings how they strongly opposed the MNC regulation, and had threatened to withdraw their support for the liberalization if those regulations were included. With all these considerations, Mills withdrew. As ECAT's Garcia told the National Journal, "because Mills felt that he had to have the support of the business community in order to pass this trade bill, he decided that the best thing to do was to defer taxes until the tax reform bill is taken up" (NJ 11/24/73, p.1752).

The death of the Administration's package of side payments might have been expected to spark some resistance, but none of the protectionist groups, no segment of organized labor, shed a tear. But if not from those at whom the side payment package was targeted, surely resistance should have sprung forth those devising the package. Indeed, referring to the Ways and Means committee's early disinterest in and scuttling of the Administration's plan to replace the old adjustment assistance program with welfare and pension reform, the National Journal said "the Administration suffered its most resounding defeat..." (11/24/73, p.1748). Yet, Nixon officials said very little. They were utterly silent on the decision to drop MNC tax reform, as befit their lackluster interest and initiative in putting together the provisions for Ways and Means action in the first place. But Shultz and other Administration officials were also surprisingly compliant with the action against the welfare and pension package. The reason, of course, was that the motivation behind the package was patently political, that a big part of that political motivation was shown to be a failure, and that all the parties concerned -- societal liberalizers, protectionists and their legislative champions -- had another package of side payments in mind.

1.4.2. Expanding Trade Adjustment Assistance: House and Senate One-upmanship

Having killed the Administration's side payment package before it ever got a full hearing, House and Senate legislators followed the rest of the polity in calling for expanded adjustment assistance as the alternative. After listening to literally months of testimony -- with witnesses appearing against the Administration's package of safeguards, and consistently and unambiguously in favor of improved adjustment assistance -- both the House of Representatives and the Senate agreed without controversy to expand the existing adjustment assistance program. Deliberations over adjustment assistance, in fact, went beyond controversy. Instead, legislators seemed to play a

game of one-upsmandship by increasing benefits and loosening eligibility criteria at each stage in the decisionmaking, over and above whatever their colleagues had offered at the previous stage -- the program ever growing in generosity as it made its way from the House Ways and Means Committee, to the House floor, to the Senate Finance Committee, and finally to the Senate floor.

1.4.2.1. Trade Adjustment Assistance in the House

After 24 days of hearings, the House Ways and Means Committee began mark-up of the Administration's bill, and from the beginning there was consensus that, whatever action was to be taken on the Administration's side payment package, trade adjustment assistance needed to be saved and expanded. Acting Chairman of the Committee Al Ullman said "it was the overwhelming sentiment of the Committee" to save and expand adjustment assistance, "not knowing exactly where we were going to wind up but knowing that we had to produce something good" (N.J. 11/24/73, p.1748; cited in Destler 1980, p.159).

The reasons for this "overwhelming sentiment" were, like the Committee's antipathy to the Administration's side payment package, over-determined. In major trade legislation of the past six years, the Ways and Means committee had consistently written into the bills it considered expanded adjustment assistance and looser eligibility criteria -- following the leads of the executive, to be sure, but always going beyond the Nixon and Johnson proposals. And they had actually gotten the House to pass such expansion on behalf of the 1971 Nixon-Mills bill surrender. With adjustment assistance a customary, maybe symbolic, component of trade policymaking, the committee members were likely predisposed to stick with tradition. In recent months, moreover, Rep.John Culver's Subcommittee on Foreign Economic Policy of the House Foreign Affairs Committee had been conducting hearings on adjustment assistance, and Culver and others had written-up a series of recommendations for improving the program. These recommendations became the basis for legislation to substantially expand trade adjustment assistance, sought independent of the trade liberalization initiative. Pastor 1980 observed after talking to a number of the principals that the Foreign Economic Policy Subcommittee's recommendations "were seriously considered by the [Ways and Means] Committee" -- presumably as substantive ideas about how to improve adjustment assistance for vulnerable constituents and as an indicator of sentiment among House colleagues (Pastor 1980, p.155).

To this general interest in the program, the testimony and lobbying from a variety of business and labor groups on both sides of the free trade aisle had pushed hard for expanded adjustment assistance. As we have seen, the proponents included internationalist business organizations, like the Emergency Committee, and the American Importer's Association, as well as more "domestic oriented" National Association of Manufacturers. And most importantly, the

United Auto Workers had made the centerpiece of their legislative action support for a particular proposal to expand trade adjustment assistance "as the only way to withstand the pressures of protectionism" (Ibid.). Beyond suggesting that improved adjustment assistance might actually buy the UAW's support of a basically liberal authorization, the UAW's compensated liberalization stance hinted at the possibility of splitting organized labor -- symbolically very important for those legislators concerned about workers in their constituencies and/or beholden to labor's broader policymaking agenda.

With this mix of motivations, Ullman and other Ways and Means Committee members approached the Administration's representative in charge of the legislation, William Pearce, and asked him to draw-up "a much-expanded program" (Destler 1980, p.159). Pearce was in a particularly good position to do so, having recently fought for, and lost, the battle within the Administration to make substantial expansion of adjustment assistance a central feature of its proposed bill. On the basis of the Kenneth Dam task force recommendations on adjustment assistance and of the draft proposals for expanded TAA discussed in the bill-drafting, Pearce began piecing-together a proposal that would hopefully meet the Committee's approval.

But first, Pearce had to meet Treasury Secretary and economic czar George Shultz's approval, something not to be taken at all for granted given Shultz's by-then well known disregard for trade adjustment assistance. To ease the transition from Shultz's compensation package to the one Pearce had preferred all along, Pearce asked Acting Ways and Means Chairman Ullman to speak to Shultz to explain the Committee's position (Destler 1980, p.159). Ullman consented and asked Shultz to appear before the Committee "to inform him that it decided tentatively to retain adjustment assistance as a separate federal program and to increase its benefits to jobless workers" (N.J. 11/24/73, pp.1748-9). At this point, before any detailed adjustment assistance expansion had been drafted by Pearce and others, Shultz relented, agreeing "reluctantly to an expanded adjustment assistance program if the cost were held below $500 million" (Destler 1980, p.159).

Pearce, in consultation with other Administration officials and with the House Committee, came up with a proposal for expanded trade adjustment assistance that would increase benefits, further loosen eligibility, and cost roughly $350 million. The Committee accepted the proposals as drafts, and floated the provisions to various House and Administration members, especially Shultz. According to the National Journal at the time, Shultz said the committee proposals were acceptable, "except for the absence of some self-financing provision" (N.J. 11/24/73, pp.1748-9). One of Shultz's misgivings with the program, remember, was that he thought it too expensive and potentially explosive to a budget. As an official most responsible for the budget, he had urged during bill-drafting and at this later Committee stage that the federal government should not pay for any supplemental unemployment insurance on its own and with undisclosed funds.

Instead, Shultz gave a counter-proposal mandating the federal government to pay only its share above the standard state benefits, and with a specified increase in the federal payroll tax that employers pay at the state level (Ibid). The committee rejected this recommendation, and the Treasury Secretary in turn rejected a proposal by Ullman "to pay for the program with a small import surcharge" (Ibid). Finally, the committee settled upon a proposal that it knew would not fully satisfy Shultz and other Administration officials, but that it hoped would survive the House and possibly the Senate.

At the end of some 37 days of mark-up, the Ways and Means Committee settled on TAA provisions with substantially looser eligibility criteria, increased benefits for workers, and retained provisions for firms. As for eligibility criteria, the Committee went one step beyond the Administration's already substantial loosening of the standard petitioning workers and firms would have to meet in order to get adjustment assistance relief. Where the Administration had proposed that petitioners need not show a link between tariff concessions and increased imports, and that increased imports be "a substantial cause" of real or threatened injury (i.e. no less than any other single cause), the Committee bill required only that increased imports be "an important cause" of real or threatened injury.[37] More significantly, perhaps, the Ways and Means bill went beyond the Administration's by taking decisionmaking authority for petitions away from the Tariff Commission and giving it directly to the Labor Department for worker petitions and to Commerce for firm petitions (CQ Almanac 1973).

As for increased benefits and the rest of the expansion, the most important change over the status quo ante and the Administration's proposal was that weekly payments to eligible workers "would be pegged at 70 percent of the worker's average weekly wage for up to 26 weeks and 65 percent for the next 26 weeks, up to a maximum of 100 percent of the average national weekly wage" (NJ 11/24/73, p.1749). The existing 1962 benefits were set at 65 percent of the worker's average weekly wage up to 65 percent of the average weekly manufacturing wage. According to the Ways and Means estimates, the new formula "would increase the maximum payment from an estimated $111 to $170 a week" (Ibid). As in the current law, moreover, the committee's assistance would provide benefits for longer periods for older workers and for those enrolled in training programs. And they would continue to provide placement and training services, and job search and relocation grants. Finally, the committee also followed the suggestions of many lobbying groups and agreed to keep the assistance for firms, though they dropped the tax break offered to eligible firms since "it has been found to be of little help" (NJ 11/24/73, p.1749).

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[37] "Important" was understood to be "important but not necessarily more important than any other cause" (Mitchell 1976,p.42). And "injury" was taken to mean: "(1) an absolute decline in sales, production, or both, in a firm or subdivision; and (2) actual or threatened total or partial layoffs of a significant number of proportion of the workers" (OTA 1979, p.22).

This proposed expansion in the program, combined with the lower eligibility standards, was expected to raise first year costs of TAA to about $350 million: for workers, Department of Labor officials estimated costs of about $320 million, or $300 million above costs of the existing program; for firms, the committee and the Commerce Department "agreed on an estimate of about $25 million in the first full year" (Ibid). This budget would be paid for with a kind of trust fund financed entirely from customs receipts not otherwise appropriated. Since the receipts would continue to go into the general Treasury and since there would be "no legal earmarking of money for the adjustment aid program," this financing mechanism was not a true trust fund. In any event, the provision was the committee's final attempt to appease Shultz. As Rep.Sam Gibbons (D.-Fla.) said, "the trust fund was a bow to Shultz" (Ibid). But committee members still expected the Administration to find some "true self-financing as the bill moves through the Senate" (Ibid.).

When Ullman finally sent the Committee's bill to the House floor on October 3rd, after the Jackson-Vanik delays, all its elements survived without incident, including the adjustment assistance compensation. On December 10th, the House began debate on the bill under a "modified closed rule" which permitted consideration of three amendments proposed by Ways and Means members: the Vanik amendment, the entire Title IV clause on most-favored nation extension, and Title V on the Generalized System of Preferences. The rule had been opposed by the AFL-CIO and its defeat would probably have caused Ullman and the Ways and Means representatives to withdraw their bill.[38] Having passed, debate was limited to seven hours. With the adjustment assistance provisions explicitly in mind, Ullman told the floor that the trade bill was "needed to assure job opportunities for American workers" (Pastor, p.156, Congressional Record, 12/10/73, p.40501). Beyond symbolic plugs such as this, the side payment package received no attention, and both that and the other provisions (including the Vanik amendment) made it passed the amendment votes. The House passed the bill on December 11, 1973, by 272-140 (CQ Almanac 1973, p.833 and p.148-H). The strong majority of Northern Democrats, the traditional allies of organized labor, followed the AFL-CIO's requested opposition by voting against passage, 52-101 (Ibid). But among the rest of their House colleagues, they were very much in the minority.

1.4.2.2. More Trade Adjustment Assistance in the Senate

When the Senate finally acted in earnest on the trade bill, after nearly a year of delays caused by the Jackson-Vank imbroglio, the Administration's welfare, pension and tax side payment package was long dead, and adjustment assistance very much on the rise. The political

[38] Significantly, Northern Democrats, traditionally close with organized labor, voted along with the AFL-CIO's request by a wide margin, 39-103, even though the closed rule passed by 230-147 in the entire House. See CQ Almanac 1973, p.148-H, and Destler 1980, p.167.

pressure to expand adjustment assistance beyond the House, moreover, was strong. The general pressure for passage of the liberalization was increasing, since the Nixon-Ford Administration had already begun negotiating the Tokyo Round of GATT ("Nixon Round" was one of the last casualties of Watergate). European and Japanese negotiators in those deliberations were very worried that the president's authority wouldn't be forthcoming and were, as a consequence, unwilling to make and accept off-setting concessions (N.J. 7/13/74, p.1038-40).

At the same time, in the intervening year the trade balance had again dipped into deficit, by November reaching the second highest deficit on record. Through the end of 1973, moreover, the first oil crisis was aflame in the wake of the Yom Kippur war. This unprecedented supply crisis fueled protectionist fires at home and put increasing pressure on legislators, at least as perceived by Senators, to respond with more punitive trade authority. In the face of these developments, Senators still wanted to minimize exemptions from the liberalization for fear of unleashing the statutory protectionism all liberalizers had grown to fear as a slippery-slope.[39] They, thus, felt greater need to provide some kinds of policy benefits outside of the core liberalization authority to defuse the general opposition. And adjustment assistance was the only game in town.

More focused demands from societal groups, moreover, compounded the pressure to expand adjustment assistance beyond the House's generosity. Business groups, as "protectionist watchers," continued lobbying for reform of such assistance. Much more importantly, the United Auto Workers, still explicitly committed to their compensated liberalization mantle, sharply criticized the House-passed bill in both hearings and extra-legislative lobbying, singling out the inadequacy of its adjustment assistance measures. Since a particular set of proposals for expanded adjustment assistance were the center of this attack, the Senate clearly needed to do something more with such assistance, if not to appease UAW and thereby split organized labor then to appease the less focused, grumbling masses by showing sensitivity to that set of proposals.

During the Senate Finance Committee deliberations, three Senators were particularly responsive to these kinds of pressures: Lloyd Benison (D.-Ex), Walter F.Mondale (D.-Minn.), and Gaylord Nelson (D.-Wisc.). All three Committee members lobbied for substantially increased adjustment assistance levels and new programs, including some of those provisions explicitly singled out by the UAW (N.J. 10/5/73, p.1492). Their main opponents were not so much those skeptical with or opposed to expanded adjustment assistance, but those who wanted to make the program fit within their own and the Administration's budget targets. Most important of these latter players was William V. Roth Jr. (R.-Del). By the end of the deliberations, the "dovish"

[39] One of those few "exemptions" involved refusing Generalized System of Preferences liberalization to any members of Organization of Petroleum Exporting Countries (OPEC), any country expropriating US property without adequate compensation, and any country not adequately narcotics exports (e.g. Turkey). See CQ Almanac 1974, p.557.

proposals were somewhat toned down in scale, but a substantially more generous adjustment assistance emerged and were unanimously supported (17-0) in the Committee's final vote.

This generosity involved very modest tightening in eligibility requirements, compensated for by higher benefit levels and new programs. As for eligibility, the Committee accepted the House bill's "contributed importantly" language, but directed that such language should be implemented "by basing the test on an absolute rise in imports rather than a relative increase" (N.J. 10/5/74, p.1492). More significantly, the Committee expanded the Trade Readjustment Allowances that eligible workers to receive to be 70 percent of their average weekly earnings, up to 100 percent of the national average weekly wage -- all for up to 52 weeks, not just the first 26 weeks followed by 65 percent for the next 26 as the House had authorized. This was expected to raise the upper limit from the House-approved $170 per week to $180 per week (CQ Almanac 1974, p.557). In addition to these benefit expansions for workers, the Committee also stuck with the existing training and relocation benefits and with the benefit program for dislocated firms.

Most importantly, the Senate Finance Committee approved a category of trade adjustment assistance that the United Auto Workers had demanded: assistance to trade-impacted regions. With an explicit nod to the UAW platform as expressed in its months of lobbying and testimony, the new program was aimed at creating new jobs in communities heavily dependent on industries adversely affected by increased imports. The committee agreed in its report that "the past philosophy of helping workers relocate was not effective because workers were not as mobile as had been previously believed" (CQ Almanac 1974, p.557). Instead of relocating, the committee continued, workers generally continued to live in the "depressed areas from which most industry has disappeared" (Ibid). Thus, "what was needed more than increased worker benefits was a program to restore the economic viability of depressed communities" (Ibid). The program the committee had in mind would provid technical assistance, direct grants, loans and loan guarantees to eligible communities. This assistance would be geared toward attracting new industries into the trade-impacted region. The first year of the five-year program was to cost $100 million, and would be authorize for loans and direct grants and up to $1 billion in loan guarantees.

If Mondale, Nelson, and Bentsen essentially got their way with the new benefits and programs, Senator Roth and the Administration got theirs with the financing -- having the largest implication in budget terms of all the Senate's changes. At Shultz's consistent urging and with Roth's politicking within the Finance Committee, the Senate group rejected the House-passed financing scheme that would have the federal government pay the entire adjustment assistance bill out of customs receipts and general revenues. Instead, the Committee agreed that the Feds would only pay the costs beyond those that states already paid to provide unemployment insurance, and that the money would come from payroll taxes levied on employers rather than from general taxpayer or import duty revenues. In other words, Shultz got his financing scheme, and

corporations were to foot the bill. Having been talked into the overall compromise by Roth, Senator Nelson praised the financing provisions by saying "it makes good sense" to get employers to shoulder the burden, because to do otherwise would "encourage employees to consider layoffs of workers as a response to problems of increased import competition" (ibid).

On the other hand, the various benefit increases, looser eligibility, and community adjustment assistance that the Committee accepted meant that the overall program was substantially more expensive and that the federal share of the burden was the roughly the same it would have been under the House Act. The whole program was expected to cost about $435 million a year, compared to the roughly $350 million House program, and the share of this total cost to be borne by the federal payroll taxes was $335 ($100 million by the states) (N.J. 10/5/74, p.1492). With these kinds of costs and with ambiguity in the actual program costs in the future, the Senate Committee agreed that the programs would expire in 1980 unless Congress decided otherwise (CQ Almanac 1974, p.557).

In a move that added a distinct side payment to its adjustment assistance package, finally, the Senate Committee added a final plant closure provision during its discussions over the program. The Senate set new guidelines for companies closing a plant in this country and relocating abroad. These included the requirement that companies planning to relocate give at least 60 days advance notice to workers being laid off, and to the Labor and Commerce Departments. They guidelines also required companies to offer other employment to the workers and assistance in relocating, and to help their employees get all adjustment assistance and other kinds of government benefits to which their employees are entitled (Ibid).

Long's Finance Committee sent its re-written bill with a fattened package of side payments to the Senate floor on November 26th (as HR 10710). Compared to the House, there was a lot more action on the Senate floor, with its many fewer constraints on amendment activity by members.[40] There would likely have been many fewer such constraints, and consequently many more protectionist and other amendments, were it not for an unusual cloture rule proposed by acting majority leader Robert C.Byrd (D.-W.Va.). Byrd and others wanted to get this rule before the liberal integrity of the bill could be sabotaged by "complicated but popular non-germane amendments" (ibid, p.558). Among these were several that Senators had threatened to propose or were rumored to propose, including some dealing with natural gas deregulation and income tax changes. Some, though not all of these, would have constituted compensatory side payments.[41]

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[40] The rule invoked Rule 22 of the Senate's Standing Rules, according to which non-germane amendments may be ruled out of order, but it did so *before* any filibuster action on the trade bill rather than after, as was the customary use of the Rule 22 "cloture" rule (Ibid, p.558).

[41] The most important of the latter would have been a series of amendments that Senator Hartke, of Burke-Hartke fame, planned on multinational corporation taxation. Byrd's cloture rule passed the Senate by a vote 71-19. It was opposed by, among others, Hartke, fearing his series would fall victim to the rule. To Hartke's chagrin, alas, Byrd ruled the MNC tax provisions "not germane"; Hartke protested that his amendments, while not strictly germane,

Despite the rule, there were still plenty more amendments considered and passed by the Senate than the House. Some called for significant revisions of the bill, and others for exemptions from the reach of the liberalization for some industrial groups. Of the former, the most important was an amendment offered by Thomas J.McIntyre (D.-N.H.), significantly restricting liberalizing authority. It provided that if imports of an article also produced in the US reaches 33 1/3 percent of the domestic consumption of the item for three of the past five years, the president could not lower import restrictions on that article unless he determined the reduction would not hurt the domestic industry (Ibid., p.559). In one of only two roll call votes (the Jackson-Vanik amendment was the other), the Senate rejected by 35-49 this revision.[42] Of the industry exemptions proposed as germane amendments, several passed by voice vote, including John Pastore's (D.- R.I.) exclusion of textile, apparel, watches, footwear and a series of other import-sensitive articles from duty-free treatment (Ibid., p.560).

As for side payments among the amendments, one was a shadow of the MNC investment provisions Hartke had hoped for. It was proposed by Senator Church, and was simply informational. It required the secretaries of commerce and labor "to monitor imports and to collect information on the operations of multinational corporations and their foreign affiliates, including the amount of foreign investment by product line, their gross sales by product line, employment data on foreign employees, research and development expenditures," etc (Ibid, p.560).

More significant, and politically revealing, side payment amendments proposed on the floor were those that expanded yet further the adjustment assistance provisions. One was introduced Thomas McIntyre, whose protectionist revision had recently been voted down. Fresh from that defeat, McIntyre got the floor to approve by voice an increase in the levels of adjustment assistance provided to workers -- from 70 percent to 75 percent of a worker's weekly wage.[43] Another amendment by Finance Chairman Long authorized the Secretary of Commerce to guarantee loans used for plant facilities in the community assistance program his committee had just set up.

And acting majority leader Robert Byrd weighed in with his own modest expansion. He got the Senate to approve allowing workers adversely affected by imports to apply for relocation allowances *after,* not just before, moving, and by permitting them to apply for job search allowances "for a reasonable period after completing job training," rather than the one-year limit in the bill. It is worth emphasizing that Byrd was the one most behind the cloture rule, cutting off some protectionist and side-payment amendments which could have so threatened the liberalizers. Is it a coincidence that he also thought adjustment assistance needed modest expansion? Maybe.

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were relevant to the trade bill and should be considered; and the matter went no further (Ibid).

[42] Another rejected amendment for protectionist revision was offered by Hartke, calling for repeal of the tariff code loophole that allowed manufactured items "assembled or processed abroad and reimported into the U.S." to enter duty free. This provision was rejected by voice vote. See CQ Almanac 1974, p.560.

[43] To get the amendment through, he actually lowered his initial proposal to raise the benefit level to 80 percent.

But more likely the same Senate leader who closes down his chamber to the cries of protectionist groups has to cover his hide by at least signaling his support for, and maybe acting to expand, the only high-profile program to provide safeguards to the victims of liberalization.

With exemptions and revisions held to a minimum, and TAA side payments further expanded, the Senate overwhelmingly approved, 77-4, the Nixon-Ford liberalization bill. Among the four dissenters was Vance Hartke, who lamented that the bill "endorses the same type of unchanged policies which have been a failure in the past," including the "export" of US jobs, capital and technology, among nine short-comings (CQ Almanac 1974, p.558).

The House and Senate conference reconciliation introduced very modest changes to the side payment package, most of which again expanded the adjustment assistance provisions. The conferees reigned-in somewhat the plant closure side payment provision that the Senate Finance Committee had introduced and the Senate had passed. They agreed that "runaway" firms closing plants in this country and relocating abroad were advised, not required, to offer alternative employment, assist in employee relocation, and to apply for and use all adjustment assistance their workers were entitled. On the adjustment assistance provisions, the conferees generally approved the more generous Senate version of the bill, including the Senate financing facility, the new adjustment assistance for communities, and higher benefit levels to eligible workers at 70 percent of their average wage for 52 weeks (keeping the Senate Finance Committee version and dropping McIntyre's 75 percent). In so far as the House adjustment assistance provisions prevailed over Senate language, it entailed looser eligibility for dislocated workers and firms: the conferees dropped Senate eligibility language requiring petitioners to show absolute, not just relative, increase in imports; they stuck with the looser, relative increase, standard. And the conferees agreed to go beyond the Senate's initial 1980 life span of the program, and to instead extend adjustment assistance through September 30, 1982 (CQ Almanac 1974, p.561).

1.5. Explaining and Evaluating the Baroque Side Payment Politics of the Trade Reform Act

The history of the Trade Reform Act of 1974 provides rich ground for testing a theory of compensated liberalization because it encompassed several packages of side payments, all of whose politics were interconnected. The trade adjustment assistance that ultimately became the main side payment actually provided was already a fixture of US commercial policymaking. But the Administration's package, offered but immediately rebuffed and never enacted, was a kind of side payment hitherto unknown in the history of US commercial policymaking. It sought to off-set the costs of a proposed liberalization by publicly replacing this traditional trade adjustment assistance package with an alternative that they claimed would be more equitable and efficient. Moreover, this alternative sought to reform general welfare, pension, and tax policies, all of which

were directed at victims of liberalization but involved preexisting policies contested in other arenas and by players with marginal interest in commercial policy. The welfare and pension reforms, finally, were proposed as separate legislation, to be developed along-side -- likely subsequent to -- the trade liberalization.

More than previous side payments, the offer and provision of these two packages of side payments was intertwined with their respective political effectiveness. The Administration's rejection of adjustment assistance was a response, in part, to its shaky past political effectiveness and to consequent doubts that it could be politically effective in the future. Their alternative side payment offer to reform welfare and pension reform in separate legislation, and to attach to the trade liberalization modest reform of MNC tax shelters, was roundly rejected by virtually all players within state and society. Business groups, all segments of organized labor, and virtually all legislators to take a stand, saw the policies as patently unacceptable. So the Administration was easily convinced that its side payment package needed to be dumped.

Ironically, this rejection came along with, indeed out of, outcry against the "virtual repeal" of trade adjustment assistance -- the traditional but seemingly moribund object of side payment linkage. In the maneuvering that followed, in fact, the side payment became ratcheted-upward in its scale, scope, and generosity as legislators fell over eachother to defend trade adjustment assistance. What are we to make of such an odd tale of side payment politics? What explains the provision of these side payments? Why, in particular, was one ultimately provided and the other not, when in fact the aggregate societal benefits of the Administration's initial offer were significantly greater than the more narrow adjustment assistance benefits?

The theory of compensated liberalization helps us find answers to these questions. First, consider the origins of the respective side payment packages. The theory predicts provision of side payments as a consequence of purely political maneuvering, rather than altruistic norms of fairness. In this case, the political conditions were ripe while the normative ones were not, and the side payment politics were, at their motivational core, very much about buying opposition and not at all about mitigating harm for its own sake. Everything the Administration did was "by the book" of the political logic of the power-platform theory. The Nixon Administration and free-market Republicans revealed themselves in their statements on TAA to be relatively unconcerned for the special problems faced by victims of increasing exposure to international markets. Shultz, Nixon, and the Commerce and OMB officials expressed the least concern, but STR, Labor, and State Department officials justified and pushed for alternative side payment packages always on political, not normative, grounds. Others in the liberalizer coalition on whom the Administration depended, such as some congressional legislators, certainly said and acted during the 1973-4 episode and earlier, as though the normative motivations were strong. But they, too, were doing what was politically expedient.

As political maneuverers, however, the Nixon Administration ran with the best of them, and in fact proved themselves to be more adept at side payment politics than any of their predecessors. They were mindful of the various political costs and benefits of a variety of options for dealing with opposition to their preferred economic liberalization -- and, of course, the liberalization itself was a reflection of similar macro political economic considerations. They learned the lessons of the previous commercial policy frustrations well: don't provide statutory relief to particular industries, or prepare yourself for the slippery-slope of a legislative logroll that defeats the core liberalization you seek. They knew to provide plenty of exemptions outside of that constraint when groups exhibit single-minded, protectionist trade policymaking agendas -- the VERs for textiles and steel. And they knew to build plenty of room for revision in their initial request for negotiating authority.

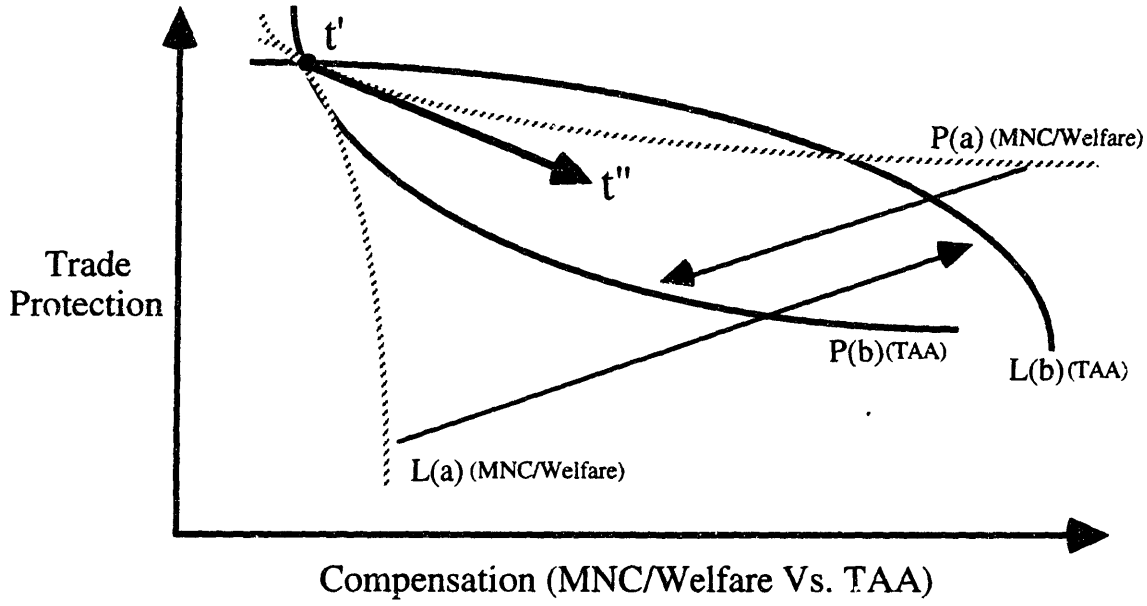
Most importantly for the purposes of this study, the Administration also proved savvy and flexible in their side payment politics. Intra-administration deliberations explicitly traded off adjustment assistance and other side payment packages according to their relative political merits -- not just the merits and demerits of the respective packages in buying off opposition to trade liberalization, but also in *trying* to put together political compromises that would not only buy off that opposition but would also tie up some legislative loose ends in the process. More importantly, they were very flexible in the side payments they offered and considered. When their initial side payment package fell flat from the get-go, Shultz and others were perfectly willing to consider the trade adjustment assistance alternative that liberalizer and protectionist groups thrust their way. They had given the program up for dead -- substantively and politically -- but found out that they had done so prematurely. So they, especially Shultz, accepted the miscalculation and sought to ensure that the TAA met broader budgetary guidelines while still bringing reasonable political benefits. In short, one can criticize the Administration for not caring enough to push through more ambitious trade adjustment assistance reform or through some other initiative, but their political acumen finds its measure in the basic result: broad-reaching liberalization authority, accompanied by a relatively inexpensive side payment package.

Not surprising, then, the offer of both the Shultz package and the adjustment assistance reforms as side payments were consistent with the main "political logic" predictors of the provision of side payments -- the coincidence of sufficient, relative political power and of at least moderately multi-issue platforms. The Shultz package included provisions that correlated with some of the platforms of organized labor, especially the MNC tax reform as a nod to labor's support for Burke-Hartke package. The Administration's general policy commitments were also important to the offer of welfare and pension reform as side payments. But in this case the side payments resulting from the Administration's loose ends were very distasteful to members of the liberalizer coalition and imposed significant third-party costs -- possibly making the linkable provisions neither

narrowly or broadly pareto improving. These qualities likely explain why the welfare-MNC side payments weren't provided in the end, leaving aside their hostile reception among protectionists.

We can capture the bargaining dynamics of the Schultz and the TAA side payment packages by comparing the respective indifference curves they inspired by liberalizer and protectionist coalitions in Figure 4.1. L(a) represents the willingness of liberalizer coalitions, particularly legislative and business representatives rather than the Schultz and the Nixon Administration (or, we can imagine an averaging of their respective preferences). Although some in the Administration thought the compensation package of MNC tax and welfare reform was worth trading for liberalization, most others in the coalition saw MNC taxes and, to a lesser extent, the welfare reform, as too costly to trade-off against liberalization, preferring to risk compromised liberalization and hope for uncompensated liberalization. Such a preference is captured by a very

Figure 4.1
Willingness to Exchange Lower Trade Protection for
MNC Tax and Welfare Reform Compensation vs. TAA Compensation



steep indifference curve L(a). Most of organized labor, particularly the AFL-CIO, saw MNC and welfare reform linkage as far too little compensation for the liberalization they faced, hence their indifference curve on the Schultz compensation and trade protection is relatively flat, as with P(a).

When it came to the TAA compensation alternative, both liberalizers and protectionist coalitions were more favorably disposed to the potential linkage. Business and legislative liberalizers, not to mention many in the Nixon Administration, were willing to significantly expand TAA in exchange for lower trade protection -- hence a significantly flatter L(b). They were willing

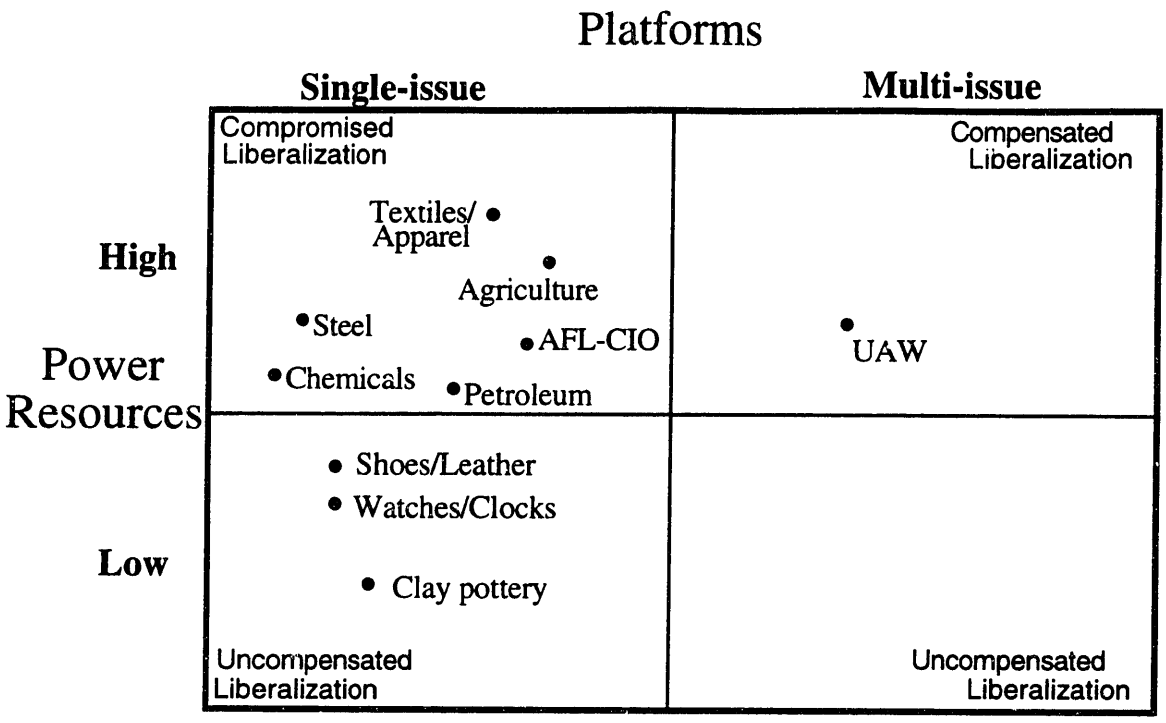
to do so partly because of hope of buy off actively bargaining protectionists, but also because of the symbolic role TAA might play in buying off constituency skepticism or because of concern for fairness. Some protectionists, meanwhile, still saw hope in TAA as a reasonable safeguard against the dislocation from imports, yielding curve P(b). The UAW was a strong adherent of this position, but the AFL-CIO continued to tow their unconditional protectionist line, so their participation flattened the curve more than would have been true in their absence.[44] The result of these respective positions, once TAA was on the agenda as a subject of side payment linkage, there was a zone of possible agreement involving exchange of expanded TAA for lower protection. This encouraged movement from the status quo mix of protection and compensation at point t' to a post-negotiation point t" within the pareto space: Liberalize s at every veto point in legislative deliberations over the Trade Reform Act liberalizatio" offered expansionary reforms to TAA.

The power and platform conditions of various protectionists and the predicted incidence of compensated vs. compromised or uncompensated liberalization can be roughly captured by the power-platform matrix in Figure 4.2 below. The power and platforms of the various protectionist groups had changed little between 1970 and 1973-4, so the positions and predictions are similar to those summarized in Chapter Three's Figure 3.3. Thus, several groups combined high power and single issue platforms, predicting the provision of protectionist exemption or revision. Some agricultural groups hitherto agitating for protectionist exemptions, such as wheat producers, began to see more virtues in access to export markets, shedding off some of the groups in the agricultural protectionist camp, in turn constituting modest diminution in the power-resources of that camp. Several other industrial groups combined more noticeably low power resources with single-issue platforms, predicting uncompensated liberalization. And only the UAW's continued and explicitly compensated liberalization platform predicts some compensation, involving TAA. In general, the overall protectionist coalition's power-platform position predicts significantly more compromised liberalization than compensated liberalization -- a prediction that broadly obtained in the second half of the 1960s.

Here, however, the history is not quite so cooperative. Consistent with the theory's general expectations, steel and textiles continued to receive VER and other non-tariff exemption. Also, shoes/leather, clay, watches and other smaller protectionist groups received substantially less protectionist redress than their more powerful coalition partners. And of course, the UAW's positioning may have played a significant role in inspiring the expanded TAA offered to off-set the costs and risks of the Trade Reform Act's liberalization. But some details and a few important specifics are not as consistent with the theory. First, some of the groups with low power

[44] But even they strongly protested any plan to gut TAA, suggesting that their opposition with TAA compensation was somewhat less severe or determined than it would have been were there to have been no such assistance -- implying that their actual indifference curve was, as it were, steeper and accomodating of some pareto-improving exchange than they explicitly let on.

Figure 4.2
Power-Platforms of Protectionists During 1974 Trade Reform Act



resources and single-issue positioning received some protectionist revision, through the Senate-passed amendment exempting them and several more powerful groups (e.g. textiles/steel) from duty-free treatment. Second and more importantly, the overall positioning of the protectionist coalition suggests that there should have been more compromised liberalization than actually emerged from the bargaining.

Third and most importantly, the power-platform of the UAW and other groups does not predict the extent to which TAA compensation entered into the bargaining between various protectionist and liberalizer forces. To be sure, the UAW's position invited compensation to split organized labor as an otherwise monolithic interest groups. But the degree and detail of the compensation suggests that other forces beyond the positioning of the protectionists was at work -- especially belief in the symbolic value of adjustment assistance for public opinion as well as practice of fairness norms, both of which found expression in changing the slope of the liberalizer indifference curves in Figure 4.1.

What can be said of the usefulness of the TAA compensation in humanizing and facilitating freer trade? In the short term, the program appeared to fulfill all of the promise of the original 1962 TAA, only with the hope of better implementation given stronger adjustment incentives, aid to communities, and looser eligibility criteria. And the effectiveness of the various side payments --

both the MNC/Welfare reform in the Schultz package and the subsequent TAA -- in lowering opposition is a mixed story. Of course, the Schultz package proved to be virtually useless in lowering opposition, which led to its abandonment. The TAA program fared somewhat better, though not discernibly better than the proposed TAA expansions during the failed liberalization episodes of the late 1960s and early 1970s. Virtually all of organized labor and their closest legislative supporters came out against the legislation, though very much to different degrees and for different stated reasons. It also modestly softened opposition from some segments of organized labor, especially the United Auto Workers -- though some UAW representatives didn't admit it. And it may well have done the same with the AFL-CIO, especially if one considers the counter-factual of what the Federation's protectionist actions would have been were the TAA to have been gutted as the Administration originally proposed. Finally, TAA may have consolidated some support from border-line legislators believing that the TAA was a symbol of government concern for the victims of societally beneficial liberalization, a symbol that would protect them from the wrath of confused but angry constituents.

In light of the history, the theory and this very brief evaluation, the 1974 case also holds some important lessons for protectionist and liberalizer bargaining strategy. First and most importantly, the AFL-CIO messed up by being so intransigent and unconditionally protectionism. They could have gotten much more had they been willing to play ball. This criticism needs to be qualified by its positioning in a broader issue about the propriety of bargaining or taking a stand: was Labor making a responsible gamble in taking a moral stand on trade liberalization, an unconditional and uncompromising rejection of the Trade Act's entire package -- basic tariff and non-tariff barrier reductions and all side payment riders? We will revisit this question in Chapter Eight, the Conclusion, because it comes up in subsequent cases, and because the answer depends on a longer sweep of history than is revealed by the months or years of this episode. With the information available and within the limits of this particular case, however, there seems little doubt that labor could have gotten more of what it needed had it stayed engaged and considered and offered revisions or alternatives to the side payment packages proposed.

On the other hand, the Administration and the liberalizers may well have also messed up by not making the adjustment assistance more ambitious to meet the demands of those elements of organized labor still barely holding on to their multi-issue platform commitments. Had they done more to expand the program, or at least done more to show a commitment to listening to the UAW suggestions, perhaps the UAW would be a more secure guardian for humane but efficient market liberalization. As we shall see later, this was not to be.

2. The Tokyo Round and the Wine Gallon Dispute: Compensated Liberalization on the Fly

Passage of the 1974 Trade Reform Act cleared the way for the Tokyo Round GATT negotiations to begin in earnest -- as they had been stalled absent the authority of US negotiators to make credible non-tariff and tariff concessions. As the negotiations unfolded over the course of the next four years, they sparked many of the same distributional politics that had been raised by the legislative fights over the Trade Reform Act's extension of presidential negotiating authority. In this way the Tokyo Round was similar to the Kennedy Round negotiations, which had also raised plenty of domestic strife after the Trade Expansion Act had been passed but before the final agreement was reached in 1968. As Chapter Three laid out, however, the domestic distributional struggles that took place during the Kennedy Round international negotiation, like previous GATT phases of liberalization, played themselves out very differently than the domestic, legislative phases of those struggles: they didn't generate compensatory side payments.

The Tokyo Round of GATT negotiations stands in stark contrast to this pattern, because it provides a case of an international phase of trade liberalization giving rise to side payments. The event, in this case, was the provision of side payments during the so-called Wine Gallon dispute at the end of the Tokyo Round negotiations. That dispute involved removal of the US wine gallon tax on distilled liquors in exchange for a wide range of agricultural liberalization concessions by the EC, and its resolution was critical to the overall completion and US legislative ratification of the Tokyo Round's liberalization. For that reason, the wine gallon dispute has been widely regarded as the US's biggest "bargaining chip," the "linchpin," of the Tokyo Round (Winham 1986, p.280; Ways and Means Hearings 1979, p.284). In the history of compensated liberalization, the dispute stands out because it was an international phase of debate resolved through compensation to the US domestic distilling industry to off-set the pain of removing the favorable tax.

The Tokyo Round, and the wine gallon dispute in particular, has already been carefully and intelligently studied by a number of historians and political scientists. Among these, Gilbert Winham's 1986 study stands out, providing a history of the international and domestic politics of the wine gallon episode. More on point, perhaps, the episode has also been explicitly analyzed as a case of side payments by H.Richard Friman, in one of the few attempts to empirically study and explain side payments in international political economy (Friman 1993). With such historical attention devoted to the case, self-consciously interested in the provision of side payments, it might seem unnecessary to provide another history.

But at least some review of the case is still necessary, because both the historical and theoretical accounts do not take on a critical puzzle raised by the wine gallon episode: why were there side payments in this international phase of US trade liberalization and not others? The Winham history, for instance, leaves out details of this thesis' study of side payment politics

reveals to be important -- such as the role of side payments among a variety of other bargaining tactics available to liberalizers. The Friman account, moreover, explains the provision of the wine gallon side payments as reflecting the modesty of US domestic opposition to the use of side payments to the distilling industry. As we will see, such conditions certainly mattered. But why were side payments considered in the first place when previous international phases of liberalization relied on other tactics to defuse with domestic opposition? The account below answers this previously unanswered question.

2.1. Removing the Wine Gallon Tax in a Two-level Game

If the wine gallon dispute was the linchpin undergirding the final Tokyo Round liberalizations, it was not so by design as much as by circumstance -- a series of interlocking "small decisions" (Sabel and Zeitlin 1985). The wine gallon tax had a long history in the GATT negotiations, with several governments calling for its removal, and this gave the liberalization of the tax real potential as a bargaining chip for prying loose concessions in the Tokyo Round. As that Round evolved, the negotiations evolved in such a way that US negotiators viewed elimination of the tax as absolutely central to the fragile web of bargains underlying the final Tokyo Round Agreement. The proposed liberalization, however, unleashed a series of maneuvers by US industry, international negotiators, and foreign industry and agricultural groups that ultimately gave rise to side payments. In short, the motivation and consequences of the side payment politics of this case was much more an interaction of domestic and international levels of political struggle -- a two level game -- than compensated liberalization struggles of the previous cases.

The offending non-tariff barrier at the center of this case was the wine gallon tax, which was a particular tax valuation procedure that discriminated against foreign liquor distillers.[45] This

[45] The reason the tax was discriminatory is actually unclear in Winham's account. At the risk of giving too much detail, here's my, hopefully clearer, version. The wine gallon tax was a method for taxing alcohol, imposed on "some prestige domestic products (e.g. "bottled-in bond") and on all bottled imported spirits as well" (US Trade Policy Staff Committee 1979, p.76). Many US spirits were taxed with this wine gallon method, but plenty more were taxed according to another method, the "proof method," according to which all alcohol regardless of packaging and volume was taxed a the same rate -- in 1979 $10.50 per gallon of 100 proof spirits (50 percent alcohol). Spirits taxed using the wine gallon method were taxed at the rate of $10.50 per gallon on the simplifying assumption that each gallon was 100 proof, regardless of their actual proof rating (percentage of alcohol). Thus, producers paying under the wine gallon method could import a batch of distilled spirits at a proof level well above the 100 proof standard on which the wine gallon rate was set, pay the tax at that set rate, and then dilute the batch and pay a proportionately lower tax rate. But most foreign alcohol made spirits whose final bottles had a lower proof rating -- say, 80 proof whiskey, or 25 proof wine -- yet still had to pay according to the wine gallon method.

Thus, if foreign spirits producers wanted to import such a product, they had two choices, both of which implied that their US competitors had an unfair competitive advantage. First, they could import their product in its final, bottled form, and pay a higher tax rate if their bottled product was below 100 proof, as it often was. This would clearly be disadvantageous. Alternatively, they could import their product at a proof rating higher than 100 proof, pay the wine gallon tax, and then dilute their product and do the final bottling in the United States, thus minimizing their tax rate. The problem here was that producers would thereby have to do their bottling through subsidiaries or contracting bottling companies in the US, thereby losing some of the profits from the bottling stage

wine gallon tax was not an intentional trade barrier, but was instead an unintentional consequence of over 100 years of taxation and legal regulation of alcohol production in the US (Winham 1986, pp.283-6). By the time the multilateral GATT negotiations were first initiated in 1947, however, it was widely regarded by European and, especially, Canadian liquor producers as an unfair trading practice, a non-tariff barrier. And domestic US distillers and bottlers, for their part, recognized the advantages the tax provided to their overall competitiveness and to their livelihood, and fiercely defended the tax as a result. Luckily for these domestic producers, the limits of presidential negotiating authority meant that the wine gallon tax, as a non-tariff barrier originating in the domestic US tax code, was safe from removal under the GATT negotiations.

When the 1974 Trade Reform Act gave the president authority to negotiate non-tariff as well as tariff barriers in the Tokyo Round of GATT, however, the wine gallon tax was seen by all trade negotiators in the US and elsewhere as a potential concession and bargaining chip. Removal of the tax was calculated by the Treasury Department to provide a windfall tax cut for foreign producers of about $110 million, and Winham reports that this was expected to be divided as follows: "$60 million would go to EC exporters, largely Scottish distillers and French wine makers; $40 million to Canadian exporters, largely the spirits industry; and $10 million to less-developed countries, particularly Jamaica and Mexico" (Winham 1986, p.286). As this break-down makes clear, the removal of the wine gallon tax had bargaining chip value especially in negotiations with the EC and Canada. In the context of the multilateral, multi-sectoral GATT negotiations, of course, the question was what kinds of concessions could be gotten from these countries in exchange for the wine gallon.

The answer was that the US trade negotiators focused mainly on using the wine gallon concession as a bargaining chip to pry concessions from the European Community on agricultural non-tariff barriers.[46] This choice was driven by a combination of considerations -- political, tactical and economic -- and in the end reflected the autonomy that US trade negotiators had during the Tokyo and other GATT rounds. Among the most important reasons for the focus on agriculture was that the EC was particularly protectionist in that sector, substantially more so than the bulk of US agriculture, which generally had a strong interest in getting greater access to EC markets. And the political expression of this industry/economic interest was that agricultural groups had strong representatives in the US Senate -- as indicated by the recent actions by agriculture to set up in the 1974 Trade Act as favorable a mix of presidential negotiating tools as

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of production, widely regarded as the most profitable stage in the value-added chain. The money saved could then be pumped into advertising or other areas of production, improving the producer's overall market-share and/or profitability. See US Trade Policy Staff Committee, *Hearings on Wine Gallon/Proff Gallon*, March 20 1979.

[46] The tax bargaining chip was also targeted toward prying concessions from Canada, though here there was less to get. Ultimately the Administration and trade negotiators settled on zeroing out Canadian tariffs on machinery imports, what turned out to be a concession they otherwise might not have gotten but which was no match for the windfall profits given Canadian liquor companies when the wine gallon tax was lifted. See Winham 1986, pp.291-2.

possible for their sector. US trade representatives and others believed that the Senate would not ratify[47] the Tokyo Round liberalizations unless they had gotten something on agricultural products. Such was the sentiment expressed to the media, for instance one US official's claim that "some sort of breakthrough on agriculture is a *sine qua non* for an agreement" (N.J. 2/19/77, p.281).[48]

To even make this basic link between the wine gallon and EC agriculture possible, the US trade negotiators had to use some fancy footwork. Given the EC's reluctance to touch agriculture, EC negotiators were inclined to offer industrial concessions in exchange for the US offer to remove the wine gallon tax. On the domestic front, moreover, US negotiators knew that the distilling industry was traditionally considered under the industrial category of products in its international negotiating platforms -- in contrast to the European practice of including liquor as part of agriculture -- and was regulated not by the Department of Agriculture but by Commerce. This meant that if Commerce was expected to absorb a liberalization concession in liquor, it would expect a counter-vailing concession in its realm, meaning industry (Winham 1986, pp.286-7).[49] According to Winham, the trade bureaucrats solved this twin-edged problem by agreeing to a separation in the Tokyo Round negotiations between agricultural negotiations and concessions, and industrial negotiations and concessions, and adopting the EC practice of including liquor with agriculture rather than industry. This separation was something the EC had wanted and the US had hitherto resisted.[50]

Upon making such linkage possible, the question remained what particular agricultural product concessions to seek in exchange for the proposed wine gallon concession. Here, again, the negotiation was a complicated two-level game. It was partially driven by the logic of getting as much in the agricultural arena as the wine gallon concession -- in concert with other concessions -- could possibly buy. But as we will see, the pattern of agricultural concessions that US trade negotiators sought was -- like the focus on agriculture generally -- as much a consequence as a cause of pushing for wine gallon liberalization, where the agricultural concessions needed to somewhat off-set the political and economic costs imposed by removing the wine gallon tax. What emerged from the considerations was what Winham refers to as "a shopping list of agricultural products with the EC, which became known as the Strauss list of agricultural products" (Ibid, p.287). And what matters most from the point of view of side payment politics was that the

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[47] Remember the 1974 legislation gave the House and Senate fast-track veto authority by requiring both houses to pass enactment legislation within 90 days of Agreement completion.

[48] See also the statements in earlier discussions of the unfolding talks, for instance in N. J. 8/16/75, pp.1174-6;

[49] As we will see in a moment, this logic also applies more generally to societal groups within a given sector or region: US negotiators will face strong incentives to respond to concessions by one group, one region, one political constituency/entity by getting off-setting concessions that benefit those same groups.

[50] It isn't clear whether the wine-gallon logic was the only reason for accepting this separation, but upon adopting it, the linkage was possible.

negotiation arithmetic had mandated that the US get this shopping list, and pull together an intricate web of other bargains in the Tokyo Round, by removing the wine gallon tax.

2.2. Domestic Distilling Puts up a Fight, and the US Trade Representative Fights Back

By the time it became clear to all concerned that the wine gallon tax was turning into the linch-pin concession of the Tokyo Round, the US domestic distilling and bottling industry mobilized to forcefully oppose the wine gallon liberalization. Nationally, the liquor industry consisted of roughly 550 enterprises, employing more than 85,000 people. The industry was divided into the following sub-segments: Malt liquor (SIC 2082), with 222 establishments and 62,643 employees; Wines and brandy (SIC 2084), with 222 establishments and 6,111 employees; and distilled liquor, except brandies (SIC 2085), with 107 enterprises and 18,009 employees (Commerce Department 1963).

From the point of view of the wine gallon tax, the industry was divided. Three of the nation's largest producers were actually US subsidiaries of Canadian multinational firms: Hiram Walker, Seagrams, and Schenley. Since these producers had made compromises in contracts with US bottlers and were not free to import their final product without being punished by the tax, they had a strong interest in repeal of that tax (Winham 1986, p.293).

The domestic portion of the industry included mainly bourbon producers, but increasingly wine producers in California and elsewhere. It also included their unions, especially the Teamsters. This portion of the industry, clearly benefitting from the tax. The industry had already been facing a secular drop in demand, due mainly to consumer preferences shifting away from the darker, sweeter bourbons and towards the lighter, pure malt whiskeys and other products. So any advantage was important in this competitive struggle. More acutely, however, the domestic firms claimed that the windfall profits that the foreign producers would receive upon lifting the tax would allow those producers to invest in advertising and other improvements that could further drive the domestic firms out of business (Ibid pp.294-5). Estimates of jobs lost ranged between 500 and 25,000 -- with most government studies estimating that the number was probably under 5,000.[51] Most importantly, perhaps, the domestic industry had already taken advantage of the incentives the tax provided for domestic concerns to provide bottling and distribution services for foreign distillers (US Trade Office Hearings, March 1979), p.77). For all of these reasons, the domestic firms very much wanted the wine gallon tax retained.

They lobbied hard toward that end. First, they took their case to the institution that the 1974 Trade Act had set up to consult with industry during the international negotiations on tariff

[51] The high estimate came from Teamsters in a letter to USTR Strauss; the low end from a neutral lawyer. See Winham 1986 pp.294-5 for an interesting discussion of these estimates.

and non-tariff barriers -- in other words, designed exactly for this kind of contingency -- the Industry Sector Advisory Committees (ISACs). Because the industry was divided on foreign-subsidiary vs. purely domestic lines, however, the ISAC was also divided. As Winham observes, "this left the bureaucracy with considerably more leeway to handle the issue than it might otherwise have had" (Winham 1986, p.293). Next, the industry voiced their concerns when the US trade representative's office anticipated the upset and called for a brief hearing in late March 1979. This is where the industry laid out its biggest concerns and invoked the usual threats of their own extinction and of lost jobs.

After this hearing, the industry opposition only increased. Ambassador Robert Strauss, the US Trade Representative, held a meeting with representatives from 25 domestic companies, in the hopes of assuaging some of the pain and clearing the way for the removal. But this didn't work either. According to Winham, the industry complained that the ISAC advisory process gave as much attention to the foreign multinationals as it did to the truly American firms, claimed political connections between those multinationals and members of Congress were behind the trade (of which there's no evidence), and threatened to bring a law suit for an injunction against removing the tax (Ibid., p.295). Although this bore no fruit, the industry was prepared to fight in all arenas, including Capitol Hill, and in particular to the Senate Finance Committee where they hoped to spark some legislative action -- or threat of action -- that would either side track the wine gallon concession or ensure provision of generous compensation to off-set the concession.

Politically, this opposition from the industry mattered, not so much because of its structural power position, but because of its incidental power position. Nationally, the overall liquor industry was quite modest, commanding a very small percentage of overall manufacturing employment -- well under 10 percent -- and within any individual state, the industry was a top ten employer in only a few states, like as Kentucky. The incidental position of the industry, however, implied a substantially stronger political hand than these numbers might suggest. First, an important and vocal domestic firm, Heublin distilling, was based in Connecticut, the home state of the Senate Finance Committee's chairman Abraham Ribicoff. Although the domestic liquor industry was not in the top ten manufacturing employers in Connecticut, Heublin was a campaign contributor to Ribicoff (CQ Almanac 1973, p.?). So Ribicoff was probably inclined to at least listen to the industry's grievances.

Second, the importance of the wine gallon concession within the Tokyo Round negotiations made all politically-minded trade policymakers extra risk-averse in how they treated the protectionist industry they were victimizing. They wanted to avoid at all costs what had happened when the chemical industry successfully lobbied to prevent removal of the American Selling Price tariff valuation as agreed in a concession at the late stages of the Kennedy Round. Even though the entire 1974 Trade Act negotiating authority was designed to avoid this problem,

the lesson was that industry opposition might unravel an internationally negotiated set of concessions. And the win gallon was the grand-daddy of them all in the Tokyo Round.

Thus, at each stage in the process, even before the industry had voiced mobilized in opposition, Administration officials, especially in the US Trade Representative's office, took action to defuse that industry opposition and minimize its political impact. The hearings with the Special Trade Representative, of course, were part of that defusing technique, on the premise that airing grievances might lessen them. The hearings also were used to explain to the industry and others how removing the tax as a bargaining chip in a larger negotiating strategy to improve the US's international economic position and access to foreign markets.

Beyond rhetoric, this signaling was linked to the most important and traditional tool that liberalizers used to defuse domestic opposition in the international phase of liberalization: counter-vailing concessions in the international negotiations that off-set the costs to the liberalized industry, the liberalized region, and the political representatives of both. Counter-vailing concession can do so by liberalizing the barriers to potential export markets in the same industry, by liberalizing industries "up-stream" from the one being compensated, or by liberalizing domestic or international barriers that absorb similar labor or capital. During the negotiations, the US trade negotiators appeared to have tried to seek concessions from the EC and Canada that not only maximized economic and international bargaining leverage, but that also had these off-setting domestic political benefits. The choice of agriculture as the area within which to make concessions might fail by this standard in a narrow industry sense, but it makes more sense in a broader political calculation of Congress wanting agricultural as well as industrial concessions from the EC.

Within agriculture, moreover, there is some indication that the US trade representatives targeted certain EC segments for liberalization that would off-set some of the political pain caused by the wine gallon tax liberalization and the domestic distillers' suffering. The Strauss list -- the list of products on which the US representatives sought EC concessions in exchange for the wine gallon liberalization -- included grapes, citrus, beef, poultry, prunes, almonds, rice and tobacco. Some of the main US beneficiaries of concessions in these areas are in states with substantial liquor industries. Ribicoff's Connecticut, the home of the Heublin distillers, is also a major tobacco state (Winham 1986, p.287). Another major tobacco state was Kentucky, employing some 10,000 workers in 34 enterprises. A concession in tobacco would handsomely compensate for the pain of the wine gallon tax imposed on the state's liquor industry, employing some 7,500 workers in the malt liquor and distilled liquor segments of that industry.[52] On at least a political

[52] Malt liquors included 5 establishments employing 1,384 workers, and distilled liquor included 36 employing 6,296 workers. See Commerce Department Census of Manufacturers 1963 and other years. Another example is grapes, whose US producers are concentrated in California and who often have ties and deal with wine distillers who were somewhat hurt by removal of the wine gallon. In this case, the off-setting concession provided more direct compensation for the industry, rather than for the political representatives of that industry.

level, other Strauss list products smack of at least a partial political motivation, including prunes and almonds, concentrated in states with significant liquor manufacturers.[53]

To whatever extent US negotiators sought such off-setting concessions as these to defuse or cauterize opposition to the wine gallon tax repeal from the domestic liquor industry, the important point is that they didn't do enough. As the negotiations evolved, the liquor industry and their political representatives were not satisfied. As the industry's continued and active opposition expressed in the hearings and meetings with USTR Strauss indicate, the usual methods for dealing with opposition at the international phase of a liberalization were not working enough.[54]

2.3. Dealing with Domestic Industry When Off-setting Liberalizations Aren't Enough

If the standard tools for defusing or cauterizing opposition to the international phase of a liberalization don't appear to be working, and the opposition is in a particularly strong political position by virtue of its ties to a powerful Senator and its position as the linchpin bargaining chip of the entire GATT round, what are liberalizers to do? Consider side payments, of course.[55] And that is precisely what happened when the domestic distillers took their case to the Senate Finance Committee and to Ribicoff in particular. Winham, from this point forward, tells the story well. He points out that the industry had by this point accepted the wine-gallon repeal as a fait accompli, but that they knew they could justifiably demand compensation of some kind from the Senate. As Winham writes, "the issue was put in these terms: the government had decided through wine-gallon repeal to give $110 million to foreign producers; now what was the government prepared to do for the domestic firms?" (Winham 1986, p.296). When the industry came to the Senate with this spirit of side payment compromise, the Finance Committee -- in charge of tax legislation

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[53] This evidence, of course, is anecdotal, and might be washed out by lots of examples that don't fit this off-setting political motivation. A more systematic analysis of the various concessions would reveal the extent to which there were off-setting liberalizations in the Strauss list or other targets of negotiation. This, in turn, could be part of a more systematic attempt to discern the extent to which the off-setting liberalizations were an intentional strategy to buy off or cauterize opposition from the domestic distilling industry. Such an analysis is beyond the reach of this study. The more modest point I want to make is that such a motivation probably mattered, and intentional or not, such off-setting concessions were reached in a way that should have made some difference to the political position of US distillers. But as we shall see, only a limited difference.

[54] Here, again, the claim is anecdotal and speculative, and would require more systematic measure of the network of off-setting concessions liberalizers sought during Tokyo Round negotiations to see whether and why all possibilities were exhausted. See section 2.4 for more on this qualification.

[55] That is essentially what the EC did when the off-setting concessions emerging from the wine gallon dispute involved conferring benefits upon mainly Scottish distillers and French wine makers and imposing costs on Italian, Spanish, and Southern European producers of the agricultural products liberalized in exchange. The EC Common Agricultural Policy (CAP) included detailed and strong rules and conventions calling for internal compensation when off-setting concessions with a non-EC country give benefits to some EC members at the expense of others. The point here is that in the same case, similar political and equity considerations pushed for side payment compensation, though in the US case this is an artifact of political struggle and exchange, not institutional design and convention.

within the Senate -- worked together with the US trade representative and the industry to fashion a package of compensatory side payments.

The package involved rewriting US tax legislation concerning assessment procedures on distilled spirits. Some of these changes were uncontroversial, and seemed a reasonable next step of tax reform upon deciding to remove the wine gallon tax. One provision removed the system of on-site government inspectors that had long been part of the tax assessment system, and that was expected to free the industry from "the need to mesh distillery operations with the hourly schedules of government inspectors, and saved approximately $20-25 million" (Ibid.). A second provision was a new assessment procedure based on bottled rather than bulk spirits, allowing producers "to avoid paying taxes on spillage and produced an annual saving estimated at $20 million" (Ibid). And third, "a rectification tax levied on US" but not foreign blending activities was dropped, saving the industry another $20 million (Ibid., p.297). All these and several other modest changes in the assessment had already been proposed by the tax comptroller, independent of removing the wine gallon tax as liberalization. Their timing may be part of a compensatory side payment, but their existence cannot, and despite at least one of the provisions being particularly beneficial to the domestic producers (and not foreign producers), they were modest compensation.[56]

Much more important than these provisions, then, was a part of the package that the domestic industry lobbied hardest to get: tax deferral, in particular "extension of their tax deadline to help cover the shortfall that could accrue between the incidence of taxation and the payment from wholesalers" (Ibid). Bargainers argued over the duration of the deferral, with the industry as much as a month, and other officials considering substantially less than that. This tax deferral, as Winham notes, had general justification in that foreign-made spirits entered customs procedures that resulted in a shorter period of time between taxation and the sale of their products, a smaller gap than domestic producers faced. But the proposed reform was more generous than the planned revision of the tax code, an artifact of removing the wine gallon tax. Thus, the tax deferral was separate from that removal. And since the discussion of the tax deferral was explicitly discussed as off-setting pain of distillers, it is more clearly an example of a compensatory side payment.

It was also more controversial as a side payment than the other tax revision provisions. The Office of Management and Budget (OMB) was "vigorously opposed" to the proposal, because the deferral "was tantamount to giving away the shop: it effectively provided a working-capital loan by the US Treasury to domestic industry, and it created an enormous question of principle and precedent" (Ibid). OMB's opposition stalled the provision of the side payment package, much to the chagrin of trade negotiators, liquor industry representatives on both sides of the liberalization aisle, and of their Senate representatives. When STR Strauss got wind of the opposition, he took

[56] As Winham points out, "the domestic producers calculated, $110 million went to foreigners, $60-65 million went to the domestic industry. It was hardly equitable" (Ibid).

the matter to President Carter, who "indicated that a general trade agreement was the highest national priority, and told Strauss that whatever he could sell to the Senate was acceptable to the White House" (Ibid). What he could sell ended up being a fifteen day tax deferral for the industry, and to make OMB and their allies happy the Ways and Means report emphasized that the deferral was a "quid pro quo as a result of the unique circumstances in this area and that it does not favor the use of the deferral in this case as a precedent for any other area" (US House of Representatives 1979, p.169, quoted also in Winham 1986, p.297-8).

The industry was happy enough that they let the matter rest for the rest of the negotiation. The tax deferral became law with passage of the Trade Act of 1979, which implemented the Tokyo Round Agreement. Ribicoff and other liquor-state Senators unanimously backed the final Agreement, as part of the lop-sided support the Act received in the Senate, 90-4. The same was true with the margin of support in the House for the Act, 395 to 7. By the direct industry statements and actions, and this voting pattern, it is fair to say that the compensatory side payment was highly politically effective -- certainly more acutely and measurably so than the more diffuse adjustment assistance package had been in the 1974 Trade Reform Act.

2.4. Analyzing the Wine Gallon Side Payment

The puzzle presented by this episode of compensated liberalization is that it stands in such stark contrast to the other international phases of trade liberalization that came before it -- both the ad hoc bilateral and multilateral negotiations before 1948 and the five GATT rounds that preceded the Tokyo Round. Despite fractious internal politics over the international developments in all these cases, the earlier international phases of trade liberalization did not yield side payments, yet the Tokyo Round episode did. Why?

Friman's 1993 essay on side payments and treatment of the wine gallon episode doesn't provide an answer to this particular question. His essay focuses on the importance of domestic opposition to proposed side payments as the main causal explanation for the incidence of side payments, and one might deduce from this focus that variations in such opposition might explain why side payments were provided in the Tokyo Round and not previous international phases of liberalization. The wine gallon dispute shows that, indeed, the modesty of domestic opposition to the side payment mattered. The OMB was virtually the only group opposed to provision of the tax deferral, and they were no match for the coalition of protectionists and liberalizers -- all elements of the liquor industry, the US trade representatives, the President, legislators from both parties -- all of whom saw the provision as the best way to safeguard the interlocking liberalizations in the Tokyo Round. But in previous international phases of trade negotiations such opposition never even arose because side payments were never seriously considered. Thus, focusing on domestic

opposition to side payments begs the question of why side payments even made it onto the agenda of politicking over the liberalization in 1979 and not before.

The theory of compensation developed in this thesis provides a better, though indeterminate, solution to this puzzle. The focus on power and platforms of protectionists generally predicts that side payments will be rarer in the international phases of trade liberalization than in domestic, legislative phases of negotiation. The phases are importantly different in that the legislative stages generally offer a series of veto points not available at the international stage. Industries, labor unions, and other interest groups have always had some consultative status in the latter, but they have never had the kind of veto power that they enjoy via their legislators during the domestic, legislative phase. In addition to this, international arenas through which US trade policymaking has taken place have been characterized by narrow jurisdictional breadth, discouraging any discussion of side issues beyond trade protections. Thus, the institutional differences between the domestic and the international phases of liberalization have strong implications for the political power of protectionist groups and for the transaction costs of identifying side payment linkages.

Another difference is that the international negotiations afford a lot of opportunities for off-setting tariff reductions -- compensating for the pain of tariff reductions on one segment of industry with the provision of some other tariff reduction that defuses or politically cauterizes opposition to the first. Off-setting reductions can: (1) benefit either the same industry, an industry based in a similar region, and/or one employing comparably skilled workers; or politically more relevant, (2) benefit firms operating in the same political jurisdiction (congressional district, or at least the same state). For all these reasons, compensated liberalization in the US tends to be a phenomenon during domestic, not international, phases of trade policy-making.

The Tokyo Round negotiations remind us that these various conditions vary across and within different international negotiations. For instance, the degree to which the international negotiations can defuse opposition through off-setting liberalization concessions varies. When such off-setting concessions are difficult during international negotiations, for whatever reason, side payments are more likely. And accepting that international phases entail fewer veto points for protectionist groups, sometimes the opposition to a particular element of liberalization pursued in international negotiations is more acute, and is backed by political power that is greater, than most. Thus, sometimes protectionist opposition is so acute and/or its resources so great, that all possible off-setting concessions are not enough to defuse the political threat to the grander liberalization. In these cases, desperate times might call for desperate measures, including compensation.

This is what happened in the Tokyo Round history, such that side payments were provided then and not before. By dint of circumstance more than structural positioning, the domestic distilling industry had substantial political power to threaten passage of the Tokyo Round

Agreement. The ISAC's gave the industry a voice that it wouldn't have had before 1975, but the industry was divided and did not command a predominant presence in terms of employment or money in any state. Still, some segments of the industry had close ties to the Chairman Ribicoff of the Senate Committee, the Senate body most responsible for trade *and* tax matters. And the distilling industry's opposition was particularly influential in the context of liberalizers' risk aversion to a linchpin concession getting blocked or reversed in the Tokyo Round's 11th hour. Finally, side payments became the mechanism for dealing with that "incidentally" powerful opposition after liberalizers had considered or actually exhausted the various weapons in their arsenal for defusing or cauterizing protectionist opposition -- including not just rhetoric and giving protectionists a hearing, but also negotiating off-setting Tokyo Round liberalizations that compensate protectionist groups for their expected losses.[57]

If the side payments in the wine gallon dispute make some sense in light of the theory offered here, it still represents a partial anomaly. Particularly important is that the liquor industry did not approach the negotiations with an explicitly multi-issue platform. As explained in Chapter One, the theory is not predictive in an absolute sense, only in relative terms -- some conditions and historical settings relative to others. Even on these grounds, however, the theory comes up short: The theory doesn't clearly predict the provision of compensatory side payments in 1979 and the non-provision of compensation in during the Kennedy Round negotiations, its recent predecessor episode. The centralization of the distilling industry, and trade policy platform were not much more favorable in 1979 than was the power-platform of the chemical industry in its ultimately successful fight to retain the ASP.[58] Moreover, the theory lacks predictive power, in that an important part of the explanation is very difficult to predict ex ante: other tools for defusing opposition, especially the pursuit of liberalization concessions that off-set the pain of the opposed liberalization, came up short. The hope is that the explanation offered here, guided by but not limited to the group-institutional theory, is useful against the backdrop of existing accounts of the case and of compensation generally.

3. The Aftermath: Cycling (Mis)Fortunes of Trade Adjustment Assistance?

The Tokyo Round wine gallon dispute revealed that industry-specific side payments were still alive and could be provided at the international phase of trade liberalization. But the rest of the decade and most of the next reaffirmed that side payments tended to be broader in reach and

[57] Such a side payment is consistent with one of the hypotheses of Moravcsik 1993 that side payments or issue linkage are most likely in the end-game of negotiations, and only when off-setting intra-issue exchanges, such as off-setting liberalization, have been exhausted.

[58] In terms of the Power-platform matrix, this means that the liquor industry, like the benzenoid and other chemical producers opposed to ASP elimination, were characterized by the combination of high power resources and single-minded platforms -- predicting compromised rather than compensated liberalization. See Figure 3.3.

centered in domestic phases of US trade liberalization. And that period also showed the fortunes of side payment politics to be very unstable. Ever since passage of the 1974 Trade Act passed and the adjustment assistance program was expanded and supposedly improved, the administration of that program once again fueled criticism and split the polity over whether and how to reform, or to dump trade adjustment assistance. During the same period, however, domestic distributional struggles over the general thrust and specific character of the prospective Tokyo Round liberalizations continued. On a couple of occasions the liberalizers needed to pass legislation to authorize that liberalization -- first, when the Carter Administration needed to renew the existing authority to waive countervailing duties if the president saw it in the national interest to do so; and second, when the Administration sought ratification of the Tokyo Round agreement. Struggles over these domestic initiatives continued the trend of upwardly-ratcheting adjustment assistance as the preferred side payment to victims of the proposed legislation and/or the general Tokyo Round liberalization. This section concludes the chapter with the story of this continued cycling in the fortunes of adjustment assistance as the *primus inter pares* in US compensated liberalization.

3.1. Trade Adjustment Assistance: Made-over, Grown-up, and Still Unpopular

Within a few years of emerging from the blocks reformed and expanded in 1974, TAA again ran into trouble. Like its 1962 predecessor, the culprit was again the program's implementation, only this time it was success as much as failure that drew fire. With the substantially loosened eligibility and speeded decision-making procedures, workers and firms gained much-improved access to adjustment assistance. From the time the new provisions took effect in the second quarter of 1975, for instance, not only petitions but also the rate at which they were accepted grew substantially. Within two years, the Labor Department had handed down rulings on 415 group petitions, covering 137,556 workers, more than quadruple the petition rate between 1969 when the first TEA petition was decided in the affirmative, and mid-1975 when the TEA adjustment assistance ended (See US Tariff Commission 1975; and Frank 1977, p.46). Just as important, of these 415 petitions, 232 petitions covering 69,977 workers were approved, while 183 petitions covering 67,579 workers were denied (N.J. 4/17/76, p.507). This represented an approval rate of 56%, quite higher than the approval rate of 43% for the period between 1969 and 1975[59] -- and, of course, much higher than the rate for the whole post-TEA period between 1963 and 1969 when no petitions were approved (US Department of Labor 1976, p.52). In fiscal years

[59] This 43% reflects the 48,314 workers of the total 110,640 workers who applied for assistance in that period (US Department of Labor 1976, p.52).

1975 to 1981, over 1.3 million workers were certified eligible for TAA benefits -- more than fifteen times the number between 1962 and 1975 -- at an approval rate around 50%.[60]

The accelerating rate of petitions reflected how a number of industries were harder hit by imports and general economic hard times as the 1970s matured. The affected sectors were leather, shoe, textile and apparel -- the traditional stalwarts of unconditional protectionism. But the auto industry was also the hardest hit, with major implications for side payment politics, for auto manufacturers were traditional stalwarts of free trade, and the United Auto Workers was the persistent champion of adjustment assistance-based compensated liberalization. With the UAW playing such a role and the industry experiencing successive waves of layoffs for the first time, the vast majority of petitions and approval rulings on adjustment assistance were for auto workers. For the entire year of 1976 144,920 workers of all stripes were ruled eligible for assistance. In one month alone in 1980, when Ford and General Motors employees laid-off together some 178,000 auto workers, all were judged eligible (N.J. 4/17/76, p.507).

As displaced auto workers burdened the TAA program, many worried that it was only a matter of time before another major manufacturing industry, Steel, would face changes that would push its already suffering workers and firms to be eligible for adjustment assistance. Although the Steel industry and individual workers in steel firms already had no trouble showing "substantial injury," imports had not been rising and so trade could not be shown to have "contributed importantly" to that suffering. But in 1980 there was some concern that such a judgment might change. Although steel imports had been declining for some months through early 1980, many worried that this was due more to domestic recession -- dampening demand generally -- than to international or domestic industry conditions, meaning that economic recovery would bring huge import increases. And there was concern that if the ITC ruled against the US Steel Corporation's anti-dumping complaints against European steel makers, steel imports might increase even more. So these developments would make it easier for Steel petitioners to meet the "contributed substantially" criterion, with the result that tens of thousands of steel workers would become eligible for TAA (NJ 4/5/80, p.554; NJ 5/10/80, p.766).

As if the real and threatened increases in petitions and eligibility rulings was not scary enough, the late 1970s was also the era of stagflation -- of high unemployment combined with double-digit inflation. With high unemployment, workers laid off because of trade or anything else would take longer to get reemployed, and with inflation, supporting those workers in nominal dollars would grow substantially. So, in fiscal 1976, the average weekly payment in the program was $48 and workers received benefits for an average of 25.7 weeks. By fiscal 1979, the average

[60] The numbers were much smaller and grew less substantially for firms. Between mid-1975 and mid-1976, 27 firms, mostly from the shoe industry, had already been certified eligible to apply to the Commerce Department for benefits, and the Department had already paid out some $6.5 million to five companies. See N.J. 4/17/76, p.507.

payment had grown by 50 percent to $72 a week, and the average duration of benefits received rose to 27.7 weeks (NJ 5/10/80, p.766).

The number of firms receiving benefits also went up, but not on the scale of the benefits to the workers. In the first 2 years under the Trade Act of 1974, 73 firms were certified, and 19 applications for financial assistance were approved, for a total of $19.1 million in loans and loan guarantees. In addition to the firm assistance, the Commerce Department introduced in 1977 TAA assistance for entire industries, using the existing authority of the Economic Development Administration, offering more widespread assistance to the textile, footwear and other industries. The industry-wide assistance came in the form of a combination of technological studies and export promotion at the industry level, and loans at the firm level.[61]

The consequence of this combination of a much higher rate of eligible petitions and stagflation was obvious: adjustment assistance was costing much more than anticipated or budgeted. When the program emerged, fattened, from the 1974 congressional session, it was projected to cost around $335 million a year (See Section *1.4.2.2.* above). Spending for the worker portion of the program, which was about $150 million in fiscal years 1976 and 1977, and about $260 million in the next 2 years, soared to $1.6 billion in 1980 and $1.4 billion in 1981, nearly all of it for TRAs. By 1980, the cost overruns had grown dramatically. With continuing auto industry layoffs, the program was projected to cost $1.1 billion more in FY 1980 and $400 million more in FY 1981 than originally estimated, bringing the total estimated size of the program to $1.5 billion in 1980 and $800 million in 1981.

The expanded petition and approval rates might have been judged by some to be a measure of the program's functioning as it ought to, despite the cost overruns they implied, but for others it was a measure of how the program attracted many more petitioners than expected, and cost much more than was budgeted. Such growth beyond budget boundaries fueled convictions among many in the polity that the adjustment assistance program had grown too large and generous for existing government capacities, whatever the fairness and justness of the program.

The program's implementation was not only a problem in that it was more expensive and larger than anticipated, but also in that it wasn't accomplishing its stated objectives. Criticisms to that effect began as early as 1976,[62] but became more solid and harsher as a several independent and apparently unbiased studies revealed a number of problems in the administration of adjustment assistance. The most influential of these was the General Accounting Office (GAO) review of the program in January 1980, subject to the 1974 Act's mandate. More critical than expected, its

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[61] Technical assistance was not a significant part of the benefits, apparently.

[62] See, for instance, a series of reports on adjustment assistance program, all of which report unfavorable reviews, in the National Journal, especially 4/17/76, p.

findings, coupled with a number of separate assessments, fueled the claims that the program's largesse was somewhere between unnecessary and counterproductive.

By 1976, to begin with, observers pointed to how the portion of the adjustment assistance program devoted to helping whole communities was simply not being used, as the Commerce Department received so few petitions from communities. The modest criticism was that such communities have "difficulty in assembling the necessary information about the effect of imports on their economic life," but it was clear that the Department had adequate authority under the existing legislation to design assistance without such petitions. This made the program vulnerable to the claim that it was generally designed to do more than it needed to.

Harsher criticism was leveled at the firm assistance program's administration, when critics claimed that "the [loan guarantee and technical assistance] were little used -- and the firms getting TAA benefits had not used them to become viable" (OTA 1980, p.32). The firm assistance was also criticized for the amount of paperwork involved in applying for the program, and resulting delays. Finally, firms often complained that the interest rates for loans and requirements for personal repayment guarantees were exceedingly high. The same sorts of complaints could be heard with reference to the industry-wide category of assistance.

Most of the ire, however, was directed at the most expensive and developed part of the program, worker adjustment assistance, and in particular the ways in which the program benefits were distributed and how they affected worker incentives. The GAO reported that many of the program's assistance benefits, especially its supplements to unemployment called Trade Readjustment Allowances (TRAs), were being dispensed to eligible workers, particularly auto workers, who were not laid off permanently, but who in fact returned to work for the same employer. As a result, they argued, such workers "did not experience substantial economic hardship as a result of their layoff because unemployment benefits and other resources eased their economic burden" (GAO, quoted in NJ 5/10/80, p.766). Such workers, the GAO showed, receive up to 95 percent of their take home pay from a combination of unemployment insurance, TAAs and company-financed supplemental unemployment benefits (Ibid.).

As for the timing of the benefits, the GAO and others pointed out how most recipients of the TRAs didn't actually receive their checks until after they returned to work. 50 to 70 percent were back at work by the time they got their first payment.[63] Several factors accounted for the delays. First, workers were slow to file petitions. Many did not know until months after their layoff that the program existed; and when they did discover TAA, did not know how to apply. The US Department of Labor did not try to acquaint workers directly with the program, but urged the State employment security agencies,which administer TAA through the local employment services and unemployment insurance offices, to do so. The outreach system did not work well.

[63] Corson, et. al. *Final Report.*

Most workers who heard about TAA discovered it through their union, co-workers, or the company -- as a rule, belatedly. Workers and unions typically lost 7 months in getting petitions filed, and another 2 or 3 months after the workers were certified, often because State agencies failed to notify them that they were now eligible for benefits. Second, the Labor Department generally took much longer than the 60 days allowed under the law to process petitions for certification, mainly because of the backlogs that grew as the number of petitions skyrocketed. With the additional time it took for State agencies to determine eligibility, the average time it took before an applicant got his first check was 14 to 16 months after initial certification (Corson et.al. *Final Report,*). In other words, these criticisms added up to the worry, reported by the National Journal in 1980, that the program provided workers "with more money than they need when they need it the least" (NJ 5/10/80, p.766).

This broad claim dove-tailed with narrower critiques of the program, including critiques from those expected to be most friendly to it. For instance, Marvin Fooks, Department of Labor head of the program, pointed out that some workers hurt by imports can be "certified" to receive benefits and remain eligible for two years. If reemployed in some separate firm or industry after that initial certification, they will still be able to receive benefits if they get laid off from that new employer, even if that firm's layoff decisions had nothing to do with trade (N.J. 5/10/80, p.767).

Finally, many took the adjustment assistance program to task for being all about assistance and not at all about adjustment, some claiming that the program actually discouraged adjustment. They pointed to how virtually all of the benefits came in the form of compensatory income supplements rather than adjustment-oriented retraining or relocation assistance. Only 48,000 workers (4 percent of those certified) entered training. About 5,200 got out-of-area job search assistance and 4,400 relocation assistance; each of these services went to fewer than one-half of one percent of the certified workers. Thus, contrary to the hopes of many, the program was very heavily skewed to the compensation rather than the adjustment side of assistance.

The GAO report and a report commission by the Department of Labor (Corson et.al.1979) uncovered some of the reasons for this slant, most of which fueled criticism of the program itself, not just its particular implementation. One of the reasons for this was that workers often did not know that training and other adjustment services were available, and the reason they didn't know was partially because the local offices did not push these services since States never got any extra training or relocation funds for TAA-certified workers (Corson et.al.1979). Apparently, despite the provision in the 1974 Trade Act for a TAA trust fund that drew on tariffs, the OMB refused to set it up, arguing that employment and training services were available under the Comprehensive Employment and Training Act (CETA); but CETA was designed for "disadvantaged workers," and "applying to CETA for training was both a bureaucratic and psychological hurdle for TAA-eligible workers" (OTA 1980, p. 25). In fact, in 1981 and 1982, over 80 percent of TAA-certified

workers in training paid their own tuition and fees. Combined with the claim that TRA benefits were unnecessarily generous and provided when needed least, this bundle of criticisms made it easy for a number of pundits to argue that the program was defeating its own adjustment purposes.

With voters and legislators increasingly fed up with accelerating inflation and a government consistently living beyond its means, and looking for ways to trim government fat, it's not surprising that all these criticisms made trade adjustment assistance a sitting duck for attack. Recommendations ranged from fiddling with bureaucratic autonomy, to tightening eligibility and lowering the generosity of benefits, to dumping the program altogether -- with the latter becoming louder as the decade came to a close. Labor Secretary Fooks, for instance, proposed that Congress "give his office authority to withhold benefits from technically eligible beneficiaries whose layoffs are not the result of rising imports" (N.J. 5/10/80, p.767). In the more reformist middle of this spectrum, a prominent proposal was to tighten eligibility and benefits so that workers could only receive TRA benefits after their existing state unemployment insurance ran out, and then only at the same level of those benefits. Thus, the proposals narrowed the generosity of benefits of the "regular" and "trade-impacted" unemployed -- proposals after George Shultz's own heart.[64]

Defenders of the trade adjustment assistance generally, and of the TAA program in particular, disagreed with various criticisms and recommendations, but had plenty of their own -- generally calling for legislation to improve and expand, not trim, the program. They pointed out that the GAO analysis was, in the first place, focused on a time and a kind of worker no longer dominating the pool of trade-impacted and eligible workers looking to the program for relief. In 1980, for instance, a spokes-person for the Michigan Employment Security Commission, which administered TAA in that state, claimed that "more auto workers than ever are expressing interest in the program's job training and relocation services -- an indication that they don't expect a future in the auto industry" (NJ 5/10/80, p.766). That office conducted a survey in early 1980 that found that among 18,000 laid-off Chrysler workers, "78 percent indicated that they were interested in being trained for different jobs and 38 percent noted that they were willing to relocate" (Ibid).

The representatives of the United Auto Workers, the strongest proponent and biggest beneficiary of trade adjustment assistance, went beyond this defense of the program's administration as possibly bad in the past but good in the future. Among other things, they pointed out that the level of benefits, and the timing of their provision, were defensible. Even if workers received their benefits after they returned to work, the UAW argued, it wouldn't be fair to claim that the provision wasn't needed, since these workers were likely to have incurred significant debts during their period of unemployment. The TRAs, albeit later in arriving than they should have been, could write-down this debt (NJ 5/10/80, p.766).

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[64] And they were, ultimately, as we shall see in Chapter Seven.

Having defended against the TAA program's critics, however, the UAW and other proponents of adjustment assistance criticized the modesty of the benefits, the difficulty in accessing training provisions, and the application procedures. They were particularly concerned with the eligibility requirements that excluded some trade-dislocated workers from the program. Most important of these involved workers in independent parts manufacturers hurt indirectly by competition from imports when their trade-impacted buyer -- the big auto assembly companies. Under the current 1974 program, only parts producers that were formal subsidiaries of auto assemblers directly hurt by imports and that provided at least 25 percent of their output to those assemblers were eligible for benefits.

The recommendations of these TAA supporters, therefore, went mainly in the direction of looser, broader, and higher assistance. Supporters sought to ease eligibility of dislocated workers by allowing workers to receive TRAs "if they worked at least 40 of the preceding 104 weeks; the present requirement is 26 of the preceding 52 weeks" (NJ 5/10/80, p.767).[65] The UAW and others also sought eased eligibility for workers in independent parts plants that provide inputs to directly trade-impacted assemblers. They proposed to extent coverage to independent suppliers as well as subsidiaries, and to eliminate the 25 percent requirement.

3.2. Unpopular, Perhaps, But a Side Payment Still

More than in the early years of TAA's non-administration after 1962, the administration of expanded adjustment assistance divided the polity on how to deal with adjustment assistance. But this split only says that the program was vulnerable to being cut, and had plenty of enemies. As for its role in side payment politics, the question is a bit different. It is who among liberalizers and protectionists wants it cut, and who likes it -- in the context of struggle to deal with the human and political costs of trade liberalization.

In the protectionist coalition, the AFL-CIO stuck by its unconditional protectionist guns, even moving away from the protectionism/investment policy platform that made outgoing FDI policies potential side payments, and instead focusing on more straight-forwardly protectionist legislation, like domestic content laws. On adjustment assistance their position was unchanged: although not a substitute for protection, it shouldn't be cut because it's better than nothing.

More significantly, the UAW moved closer to the AFL-CIO's position on issues of trade policy and side payment politics as the decade wound to a close. As the main beneficiaries and traditional proponents of adjustment assistance, UAW representatives were more strident in their

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[65] This made sense to auto workers who found themselves in and out of jobs as the auto assembly plants temporarily laid off some workers, rehired them, and then permanently laid them off, meaning fewer months worked over the course of a couple of years.

support and defense, and had more ideas about how to reform it. But they, too, began towing their industry's protectionist line in support of countervailing duties, organized marketing arrangements and the like, all a response to alleged Japanese and European unfair trade practices.

Liberalizers, for their part, were not as disenchanted with adjustment assistance as the labor movement, though their support was certainly wavering as well. The administration of the program and the response of labor and other protectionist groups to that administration had several implications for liberalizers' costs and benefits of supporting adjustment assistance as a compensatory side payment. First, on the benefit side, the recent years meant that expectations of the program's political, economic, and moral benefits might be lower in the future than in the past. Those concerned for the welfare of the victims of liberalization could not expect trade adjustment assistance to do much, as currently devised, to redress their pain, and even less to do so while also promoting adjustment into more competitive segments of economic activity.

Judging from recent side payment politics, of greater concern on the benefits side was the degree to which providing reforms or expansions in side payments would confer significant political benefits. Here the recent past made liberalizers believe less than their predecessors of earlier periods in the political effectiveness of improving adjustment assistance -- either in buying off opposition from organized labor or other segments of the protectionist coalition, or in providing more symbolic benefits by expressing the limit of what government can do to redress harm. Unlike the 1974 episode, the UAW still supported adjustment assistance and its improvement in various ways, but it did not do so with a clear claim that it would support liberalization in exchange. So the political benefit was not as strong even in the abstract. And since the UAW had decided to stay officially opposed to the 1974 Trade Reform Act even after the House and Senate strengthened and reformed trade adjustment assistance in ways suggested by the union -- especially the creation of community assistance -- liberalizers might reasonably conclude all the more strongly that further expanding adjustment assistance would be for naught.

Also unlike 1974, and perhaps most importantly, the program's costs and potential retarding of adjustment meant it came with a pretty hefty price tag. No longer could legislators say that the program might have dubious benefits but that its very low cost made it worth the investment as a political insurance policy. For some at least, the insurance premiums were becoming too high.

Although changing perceptions of TAA's political and ideational costs and benefits made it less desirable to improve TAA as a compensatory side payment, that is essentially what happened when the Administration had to go to Congress for authority to negotiate and for ratification of the Tokyo Round's liberalization. Both of these episodes involved linking adjustment assistance to liberalization legislation, though in different ways that differed from the straightforward provision of adjustment assistance as side payment for liberalization. The first grew out of criticisms of the

TAA's administration, of the Carter Administration's review of the program, and of that Administration's attempt to renew presidential authority to waive countervailing duties in 1978.

Aware of the early criticisms of the TAA's administration and budget overruns, Carter ordered a full review of the program by an inter-agency task force soon after he took office in 1977. That task force delivered a review and a series of recommendations for the program's reform within 90 days, but the Administration proved to be split on the proper direction of reform, and Carter accepted only some of the recommendations as a result (N.J. 1/21/78, p.111). The changes Carter did approve, judging by Commerce Department's stated recommendations, included, for firms, increasing expenditures for the program by about $100 million, from the $230 million it cost in fiscal 1977; and providing more technical assistance to trade-impacted firms, and more money for loans and loan guarantees to such firms, with a higher limit on the amount of the loans. For workers, proposals were to set up a system that would give workers advance warning of layoffs would explain to them their adjustment assistance entitlements, so as to shorten the existing program's slow delivery of benefits; and to give workers more time to file for job search assistance and relocation allowances (Ibid, p.111).

In the beginning of 1978, the Carter Administration decided not to pursue legislation for these adjustment assistance reforms. According to National Journal reports at the time, this post-ponement was motivated by disagreements within the Administration over whether to make adjustment assistance at all a legislative priority, and whether the prospective reforms were appropriate for a program that was still, by the end of 1977, still untested in its current form. Seeing the changes as significant in their program and budgetary implications, the Administration decided "to see how the program works in the steel and shoe industries before fundamental changes are made" (N.J. 1/21/78, p.111). Having made such a decision, however, the Administration did detail its general recommendations to Congress.

Other members of Congress took this agenda and, as it were, ran with it. The primary sponsor was Vanik, who proposed a bill as HR 11711 in early 1978, and in addition to the Administration's recommended provisions called for more Commerce Department studies of the conditions in entire industries (CQ Almanac 1978, p.279). The bill emerged from the House Ways and Means Committee on April 18 and passed without incident by a tidy 262-24 (Ibid., p.186-H). The bill then made its way through the Senate, initially without stirring much controversy. The Senate Finance Committee reported the bill without any significant amendments on October 10th. It looked destined for smooth final passage, and in that vein an expression of continued interest in improving adjustment assistance. Although the Tokyo Round liberalization were certainly in the background, making the adjustment assistance reforms more urgent, more politically acceptable, there is no evidence that it was motivated clearly and predominantly by desire to defuse opposition

to developments in those negotiations. For this reason, the initial initiation of the reform cannot be characterized as real offer of a compensatory side payment.

When the full Senate took up the bill, however, a variety of amendments complicated passage and made the linkage between liberalization and adjustment assistance reform explicit. The most important of these was the amendment introduced by William V.Roth (R-Del.) that would enact the Carter Administration's proposal to extent presidential authority to waive countervailing duties on some subsidized imports. This proposal was important to the Administration's deliberations in the Tokyo Round, as negotiations on how to deal with subsidies would require waiving some of the US's existing countervailing duty provisions, and such waiving in turn required renewing Congress' authority to do so.

Why Roth attached this particular amendment to the adjustment assistance reforms is not clear in the history. But among the considerations, no doubt, was the expectation that the adjustment assistance would facilitate the liberalization. By 1978 it was common knowledge that the adjustment assistance reforms were desired by legislators interested in showing their concern for and in off-setting the pain felt by victims of trade liberalization generally, of the Tokyo Round liberalization in particular, and of waiving countervailing duties more particular still. Showing concern for and actually redressing the plight of liberalization's victims was especially important in the context of continued and growing protectionist sentiment in the last hours of the Tokyo Round negotiations. Apart from the many disputes sparked by individual concessions in those negotiations, such as the wine gallon concession, this protectionism was manifested most starkly in Ernest Hollings's (D.-S.C.) attempt to legislate exemption of the textile industry from Tokyo Round tariff and non-tariff barrier reductions (Ibid., p.280).

Thus, the duty waiver amendment is a situation where the preexistent legislation that will off-set opposition to a desired liberalization, though not necessarily motivated by that effect, becomes a targeted vehicle for such liberalization. In this sense, although the provision of the act and the amendment does not constitute the provision of side payments, it is the compensatory side payment value of adjustment assistance reform -- its value in defusing political opposition and redressing potential harm -- that facilitates liberalization. It is, thus, compensated liberalization without the formal provision of side payments.

Whatever its character, in the end attaching the liberalization to the adjustment assistance reform did not work, because a number of other Senators sought to attach their own prized legislative aims as amendments to the TAA reform. Most of these involved improvements in the social security and welfare system, such as a proposal by Jacob Javits to permit states to adjust welfare payments when a child eligible under the aid to families with dependent children program was living with an ineligible adult (CQ Almanac 1978, p.280). The Senate finally approved the entire legislation, in its Christmas tree form, and the House gave its approval as well, though with

minor changes. When the Senate finally took up the legislation, the House had adjourned and the Senate was ready to do the same. With only a few Senators left on the floor, Majority Leader Robert Byrd (D., W.Va.) decided to let the bill die, despite "a last-minute call...from President Carter urging passage of the waiver extension" (Ibid). The reason, as one supporter lamented, was the excessive Christmas tree quality of the bill, though evidently not the linkage between adjustment assistance and liberalization: "We lost it in the Senate by getting all those family assistance amendments tied to it" (Ibid., p.279).

Within a year adjustment assistance again found its way onto the legislative docket, this time more starkly in expectation of major liberalization legislation to ratify the concluded Tokyo Round. Negotiators had reached final agreement on that Round on April 12, 1979. Since the 1974 authorizing legislation required that Congress ratify the agreement within ninety days of signing, this set the stage for imminent tabling of ratification legislation. Although the legislation had to be an up or down vote on the agreement -- no amendments revising the agreement could be added by either chamber -- the Carter Administration sought to smooth passage of the legislation by consulting with members of House Ways and Means and Senate Finance well before the April 12th signing of the agreement. This consultation entailed actual collaborative drafting of the ratification legislation after that signing, with the Administration accepting very modest revisions in the contours of the agreement where possible.[66]

While this drafting was going on, congressman Charles Vanik introduced separate legislation (HR 1543) calling for substantial expansion and revision of trade adjustment assistance, changes that encompassed but went beyond the 1978 initiative. The bill introduced some of the changes and expansions that UAW and other supporters had been calling for, including reforms that would encourage greater adjustment.[67] Altogether, the changes were expected to cost an extra $177 million in fiscal 1980. The House Ways and Means sent the bill to the floor of the House on March 20th, and it passed the House floor without incident and by voice vote on May 30th.

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[66] For instance, the Administration accepted speeding up the procedures by which countervailing duty decisions were made, a concession to the steel and auto industries. See CQ Almanac 1979, pp.297-8.

[67] The core provisions were extension of coverage to independent firms that provided parts to trade-impacted assemblers, independent of what proportion of those firms' products went to the assembler; extension of eligibility to workers employed 40 of the 104 weeks with the trade-impacted firm immediately preceding layoff, as an alternative to the existing standard of 26 of 52 weeks; extension of benefits an additional 26 weeks, up to 104 weeks for workers in retraining programs and those over 60; increased job search and relocation allowances.

The other provisions included the following: establishment of demonstration projects in trade-impacted areas "to test vouchers as an alternative to encourage worker retraining"; extension of coverage to eligible firms supplying services, such as trucking, for import-impacted products; provision of technical assistance to firms to help prepare petitions for assistance and adjustment plans; raise in the ceiling on government share of technical assistance costs from 75 to 90 percent; lowering of the interest rate on direct loans; raise in ceiling on direct loans from $1 to $3 million, and on loan guarantees from $3 to $5 million; extending eligibility to workers and firms threatened with as well as actually suffering dislocation; authorization of labor and commerce secretaries to initiate petitions; and establishment of industry-wide assistance. See CQ Almanac 1979, pp.327-8, and N.J. 5/10/80, p.766.

Significantly, this smooth passage took place with the shadow of the liberalization future clearly in the minds of at least the Ways and Means members.

Before the Senate took action on the adjustment assistance, the Administration, via its extensive consultation with Senate Finance and House Ways and Means, sent its Tokyo Round ratification legislation to Congress on June 19th. Entitled the Trade Agreements Act of 1979 (HR 4537), the legislation made it though both houses of Congress more quickly and smoothly than even the great optimists expected. The Ways and Means Committee acted immediately on the bill, and within two days sent a clean version to the floor, which in turn passed the bill by a lop-sided vote 395-7 on July 11th without incident and after two days of "desultory debate" (CQ Almanac 1979, p.298). By the next day, the Senate Finance Committee had unanimously approved the bill as well. The Senate floor took up the bill on July 19th and after debate more modest than the House's, the body approved the bill 90-4. All this was faster than an adjustment assistance champion could blink an eye.

With the major liberalization legislation cleared so quickly through Congress there was not only too little time for Senate to act immediately after House action on the Vanik adjustment assistance bill, one of the major incentives for passing the bill -- defusing opposition to the ratification legislation -- was also removed. So the Senate didn't take up the measure in earnest for several months, reporting the bill on October 30 with very modest changes in the direction of lowering its expansion.[68]

By then, opposition to the Vanik bill had grown substantially, mainly on budgetary grounds. Senator Bellman (R.-Oklahoma) proposed three amendments to the program, and threatened to raise these when and if the Senate took up the bill on the floor. Two of these amendments had major implications for the generosity and budgetary size of the program.[69] The Carter Administration, for its part, claimed to be generally in favor of the Vanik adjustment assistance reforms but objected to the increased costs of those reforms, at a time when the program was already seriously over-budget. On March 14th, 1980, the Administration submitted to Congress its revised budget, highlighting out increased petitions from auto and other workers would require an addition $1.1 billion for fiscal 1980 in addition to the $381 million it had already

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[68] The Finance Committee made two changes. The first was to drop the House provision extending the time workers could file for benefits. The second dropped the House bill's extension of eligibility to workers employed 40 of 104 weeks previous to layoff, keeping only the existing 26 of 52 weeks standard. See CQ Almanac 1979, p.328.

[69] One proposed to tighten eligibility criteria for independent parts producers and service providers dependent on trade-impacted firms so that only firms that provided at least half of their output to directly trade-impacted companies would be eligible for assistance. This standard was much tighter than Vanik's proposed loosening so that all independent firms selling to trade-impacted producers would be eligible, and also tighter than the status quo ante, which required the independent producer supply at least 25 percent of their product (N.J. 5/10/80, p.767). Such a change was expected to cut $200 million dollars from the Vanik's version (Ibid). Bellman's other major cut-back amendment was to require that eligible workers exhaust state unemployment compensation before turning to trade assistance, and to cut-back TRA benefit levels to equal those of existing unemployment insurance (Ibid., p.766).

requested. The Administration, thus, was not in a generous mood to accept the increases in Vanik's proposal. The Administration objected particularly to giving benefits to firms that provide services to companies that were hurt by rising imports. So the Administration supported the Bellman amendment increasing the proportion of total output that independent parts or service providers must sell to trade-impacted firms in order to qualify for assistance.

As a result of this general opposition, the Vanik bill lost its steam, and was never taken up on the Senate floor. And within a year, the House had repudiated its support. The House Ways and Means Committee met on June 19, 1980 to consider how to meet the congressional budget's requirement that it cut $2 billion from FY 1981 spending for the programs it controls. Its largest single savings recommendation was to rescind passage of HR 1543 (N.J. 6/28/80, p.1069).

Having killed the Vanik expansions of the program, legislators in both the House and Senate defended the existing TAA against proposals to limit its size and generosity. When the House took up the FY1980 supplemental appropriations bill (HR 7325) that was to provide the extra $1.1 billion needed to keep the TAA program running, the House rejected by voice vote an amendment by Robert H.Michel (R.-Ill) that would have introduced one of the most popular reforms of the program's critics -- requiring workers laid off because of imports exhaust regular unemployment benefits before becoming eligible for TRAs (NJ 5/10/80, p.765; NJ 6/28/80, p.1069). On the Senate floor, the pattern was similar. When Bellman proposed an amendment to the supplemental budget bill to save some $438 million by cutting back on the amounts of benefits to be paid workers through TAA, Daniel Patrick Moynihan (D.-N.Y.) and Donald W.Reigle Jr. (D.-Mich.) argued that the amendment was out of order in an appropriations bill and the chair ruled in their favor. Bellman's appeal was tabled 65-28.

Thus, with major trade ratification legislation safely passed and in the past, and with no significant liberalization in sight, legislation that was likely a proposal to offer compensatory side payment and compensated liberalization was never provided. Supporters of adjustment assistance, whatever their trade policy allegiances, had enough power to prevent budget cutters and others from emasculating the program, but certainly not enough to expand and reform the program.

3.3. Without its Value as a Side Payment During Trade Legislation, a Sitting Duck

Free of its liberalization moorings, the TAA program soon fell victim to significant reduction and reform by those interested in scaling back its size and generosity, and in redirecting its focus. The big changes began in 1981, after a year of mounting criticism of the TAA program's efficacy and budgetary excesses -- the budget for the program was projected to rise to as much as $2.7 billion in fiscal 1982 -- and, most importantly, after the election of Ronald Reagan. Especially in its first year, the Reagan Administration sought major change in the federal

government's budgetary priorities, among other things away from welfare and assistance programs. As part of its budget for fiscal 1982-83, the Administration requested tightened eligibility -- from the existing "contributed importantly" to "contributed substantially."[70] It also sought the requirement that claimants exhaust all unemployment benefits before collecting trade assistance, with benefit levels lowered to the amount received under UI (CQ Almanac 1981, p.278). Both these measures mirrored amendments proposed by Bellman in the Senate and Michels in the House the previous year.

The Senate Finance and the House Ways and Means Committees accepted the Administration's recommended changes, but added several of their own. Their proposals were heavily inspired by the recommendations made in the 1980 GAO report, which had taken TAA for task for not living up to its aims, especially its goal of facilitating and encouraging adjustment out of trade-impacted economic activity. The Senate committee report explicitly cited that GAO finding in explaining its proposals. After the House and Senate versions were combined, the proposed changes included not only the Administration's cut-backs but also the following: (1) limiting the duration of benefits to 52 weeks combining unemployment insurance and trade adjustment assistance; (2) disqualifying from benefits those workers refusing to seek or accept "suitable work" if prospects of returning to their old line of work were bad; (3) authorizing the secretary of labor to require workers to accept training or expand their job search after first eight weeks of TAA eligibility; (4) increasing job search and relocation allowances from a maximum of $500 to $600 for each worker; and (5) eliminating most retroactive "lump-sum payments" by confining the benefits payments to those weeks of unemployment more than 60 days after workers filed petitions (CQ Almanac 1981, pp.107-8).[71] With these changes, the program TAA was to be extended until September 30, 1983, and altogether amounted to a projected cut of $2.6 billion from the program for fiscal year 1982-83 (Ibid., p.107).

Despite some modest opposition to these proposals from adjustment assistance stalwarts, the cutters won the day. Adjustment assistance supporters in Congress included Daniel Patrick Moynihan (D NY) and David L Boren (D Okla.) on Senate Finance, and Richard Gephardt (D Mo.) and James Shannon (D Mass) on Ways and Means. These legislators struggled to retain a reformed program at higher levels, but were defeated in the general retrenchment. The Senate Finance and House Ways and Means proposals were ultimately taken up by the House Budget

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[70] Workers and firms, as of 1974, needed to show that increased imports contributed importantly, meaning important but not necessarily more than other factors, to their suffering; "contributed substantially." understood to mean as important but not necessarily more so than any other single cause, was the old standard before 1962 for escape clause relief, and was the standard that the Nixon administration initially requested for adjustment assistance in 1973.

[71] Other provisions were authorizing the secretary of commerce to provide each eligible industry with up to $2 million a year in technical assistance, including industry wide programs to develop new products; and expanding secretary of labor's responsibility to inform all workers about the program. Ibid.

committee and its Senate counterpart in deliberations over the Omnibus Budget Reconciliation Act, ultimately cleared by Congress as part of the budget reconciliation package, passed July 31st.

The following year, 1982, the Reagan Administration sought to discontinue the trade adjustment assistance altogether. Having cut billions from the program so that the full 1982 cost was $143 million -- $118 for firm and worker income assistance and benefits, and another $25 million for retraining and job search services -- the Administration proposed to discontinue all cash benefits to workers and firms, retaining only the retraining provisions. These retraining provisions were to be folded into the proposal cosponsored by Dan Quayle (R.-Ind.) and Edward Kennedy (D.-Mass.) for the Job Training Partnership Act, a substitute for the Comprehensive Employment and Training Act (CETA).

The outcry against these changes were significant enough to keep the program alive, but still at its low level of operation. To the Administration proposals, organized labor expressed clear opposition. Even the AFL-CIO, standing outside the trade policymaking trenches, supported the program. Federation spokesman Stephen Koplan said that Reagan's plan "is an arbitrary proposal that has no justification. It shows no compassion for workers injured by US trading policy through no fault of their own" (N.J. 5/29/82, p.959). UAW representatives, who had by then gone the way of the AFL-CIO on most trade matters was more explicit about the implications for trade. Making allusion to the possibility that gutting adjustment assistance might fuel greater protectionist sympathies, UAW associate counsel Leonard R.Page said "if the 20-year old program of aid for the victims of trade policy is eliminated, can we expect a return to the trade quotas and tariffs in effect prior to 1962?" (Ibid., p.958). Whether or not this kind of threat made the difference, it rang true to at least some legislators. In addition to the legislative supporters who blocked full retrenchment of the program in 1981, the strongest support for the program came from Representative Donald Pease (D.-Ohio), who drafted a bill reinstating much of the old adjustment assistance program, but with more emphasis on training (N.J. 5/29/82, p.959). These supporters were able to block the Administration's elimination of the program, and succeeded in getting a one-year extension for adjustment assistance in 1983 and 1984. Soon thereafter, trade liberalization legislation provided the push that the embattled program needed to do more than stay afloat.

In the years that immediately followed Reagan's curtailment and attempted elimination of TAA, implementation of the program for workers essentially reflected what the Administration had hoped for: a drop in certification, drop in the expenditures devoted to the program, and an increased emphasis on adjustment provisions. The number of workers certified dropped steeply after 1981. This was due in part to a sharp drop -- from 840,794 in 1980 to 354, 863 in 1981, and 157,549 in 1982 -- in the number of workers applying for benefits, probably a reflection of "a widespread misapprehension that the program was abolished" (OTA 1980, p. 26). More important, the percentage of workers approved for certification by the Labor Department declined

considerably. "Approvals, which had held at about 65 percent through the 1970s and rose above 80 percent in 1980, dropped to 14 and 12 percent" in 1981 and 1982, respectively (OTA 1980, p. 28). Although the stricter eligibility requirements established in the 1981 Act were loosened somewhat in 1982 (to pre-Reagan de jure standards), the drop in certifications was due to the strict interpretation of eligibility. According to a GAO report, borderline petitions that would previously have been approved were rejected (GAO 1982, p.). Moreover, all petitions for 50 or more workers began to receive special scrutiny, including for some time personal review by the Assistance Secretary of Labor responsible for the program (Ibid).

At the same time that certification was substantially dropping, the program's adjustment-oriented provisions took on greater significance relative to the more compensation-oriented provisions. This was partially due to legislative changes after 1981. When TAA was renewed for one year in 1982, Congress for the first time earmarked funds for training and relocation assistance, and thereby eased access of state implementation bodies to adjustment-provision money. Of some 214,000 workers who were approved for TAA benefits in the 5 years 1982-86, a total of 139,000 received TRAs and 39,000 entered training. About 9,000 received relocation assistance and 4,500 got help with out-of-area job search. Although the number of TAA-certified workers receiving training were no greater than in earlier years, the proportion of those certified who entered training was much larger -- 18% vs. 4% (OTA 1980, p.30).

The total cost of the TAA for workers, because of the certification and the increased emphasis on adjustment-provisions, went down considerably. In fiscal year 1982, expenditures for TAA for workers were $121 million, less than one-tenth the levels of the 2 previous years, and for the next 3 years dropped still lower, to about $54 to $73 million (Ibid., p.26).

For firms, the story was similar. The Reagan Administration's cutbacks in the TAA's financial assistance and more modest paring-down of technical assistance was replaced by more wholesale antipathy to assistance for firms by 1982. Between 1982 and 1985, the trend of de-emphasizing the financial assistance meant that by 1985 the amount of guaranteed and direct loans had dropped to level of $3.4 million from an average of $17 million in 1982 and 1983, and significantly higher before that (Ibid., p.34). The level of technical assistance, however, remained at around $16 million per year, roughly the level it had been before the 1981 changes.

These changes blunted the strongest pressures for further curtailment of TAA, but they also deepened disappointment among the beneficiaries of the assistance in the ability of the program to provide meaningful compensation for the losses of freer trade. In other words, it perpetuated the cycle of administration, criticism, retrenchment, and rehabilitation in adjustment assistance.

4. Brief Conclusion: Tenacious Compensated Liberalization or the Last Hurrah?

The period between 1973 and 1982 revealed the tenacity of compensated liberalization premised upon improving trade adjustment assistance for trade-impacted workers and firms, with at least one, more industry-specific, side payments during the international phase of the Tokyo Round. This pattern provides broad support for the theory of compensated liberalization. In all cases, the political motivation for providing side payments as a way to defuse opposition was much more important than concern for fairness. And in all cases, that political motivation highlighted the importance and explanatory limits power resource and platform conditions.

In the struggle for the 1974 Trade Reform Act, the Administration's original side payment package of welfare, pension, and MNC tax reforms reflected recognition of how adjustment assistance had lost its favor among protectionists, of the AFL-CIO's previous Burke-Hartke demands, and of the loose ends of the Administration's past welfare and pension policy initiatives. In this sense, bargaining history fueled rejection of one side payment form in favor of others that preexistent trade policymaking agendas suggested might be superior alternatives. When liberalizers and protectionists roundly rejected this package, rallying instead around the traditional TAA side payment, the Administration responded pragmatically: stick with the form of payment already on the agenda and the basis of the UAW's very particular compensated liberalization.

The unusual provision of industry-specific side payments during the international phase of liberalization conforms to the political logic theory of compensated liberalization, but only retrospectively and with more indeterminacy. More than previous international phases, like the Kennedy Round negotiating, liquor producers enjoyed more access to the negotiators via the new consultative bodies set up in the 1974 legislation, had leverage toward risk-averse liberalizers bent on the wine gallon concession, and were particularly influential due to their ties to Senator Ribicoff, the Senate Finance Committee Chair. More broadly, US trade negotiators only turned to the use of some side payments when other negotiating and bargaining tactics for defusing such opposition, even powerful opposition, had been exhausted. Although speculative, these tactics, particularly the use of off-setting liberalization concessions crafted at the international level, may have been less effective than previous international phases. The end result was increased political power and less ability to defuse it through means other than side payments than in the past, conditions that broadly "predict" the provision of side payments.

Whatever the explanation for the tenacious compensated liberalization, the decade suggests a basically vicious cycle for adjustment assistance and compensatory side payments generally given the power and platforms of both protectionists and liberalizers. As the chapter showed, adjustment assistance had lost much of its luster in the early years of its administration, had been given up on by a number of liberalizers and protectionists, made the subject of heightened interest by others as

a way to off-set the pain of the decades various liberalization initiatives. In the corpus of struggle for freer trade, supporters of the program's improvement won substantial changes and reforms, the successes as well as the various disappointments of which fueled further criticisms and retrenchment -- particularly when once and future liberalization initiatives had faded from memory. But the past problems with the program had narrowed trade policy platforms of many of the most powerful protectionists, preventing them from wrest significant reforms and expansions of TAA or related assistance, such as giving the program stronger and more permanent budgetary footing.

Thus, in between successive legislated trade initiatives, the program would see its fortunes deteriorate, and fall victim at least sometimes to retrenchment initiatives. Then, during liberalization or protectionist initiatives, such assistance could continue to be a favored compensatory side payment in the minds of at least some stalwarts noticing that adjustment assistance had not been given a chance to realize its full potential -- precisely because of cutting in the off-season of trade liberalization. But given the lack of a protectionist coalition with the resources and multi-issue platforms committed to adjustment assistance, the resulting side payment was likely to lack ambition and budgetary footing, yet would still be expensive and the target of budget cutters. Such a cycling was sustainable through the 1980s, even as the TAA program was strengthened, reformed and expanded in the corpus of struggle over the 1988 Omnibus Trade Act. But even at its best the program fell short of its promise to facilitate and humanize openness.

If we skip over this 1980s continuation of the side payment cycling of TAA, however, we stumble upon side payment politics that generated starkly more diverse and generous compensated liberalization. Those politics were marked by significant shifts in the power and platforms of protectionists and in the dynamics of bargaining between and among liberalizers and protectionists. Significantly, the shifts took place around and partly because of a trilateral rather than multi-lateral trade liberalization episode.

Chapter Five:
NAFTA: The Most Compensated of US Liberalizations

1. NAFTA Liberalization: An Unprecedented Proposal

2. Bootleggers and Baptists: The Anti-NAFTA Coalition
    2.1. Organized Labor: Determined Fair Trade Protectionism
        2.1.1 Labor's Platform: Inching from Unconditional to Conditional Protectionism
        2.1.2. Labor's Power Resources
    2.2. Environmental Groups
    2.3. Industry and Agricultural Protectionists
        2.3.1. Industry: the Modestly Protectionist and Weak Few
        2.3.2. Agriculture: Regionally Concentrated Protectionists
    2.4. Miscellaneous Protectionists and the Umbrella Associations

3. The Fight: Three Phases of Side Payment Politics
    3.1. Fast Track and the NAFTA Negotiation: Bush's "Action Plan" Compensation
        3.1.1. Bush's May 1st Action Plan and Reactions
        3.1.2. Negotiating the NAFTA, Embellishing Compensation
            3.1.2.1. Labor and Environmental Compensation, and the Same Response
    3.2. Clinton and the Compensation Package: Side Agreements Provided and Retraining Signaled
        3.2.1. Negotiating a Strong Environmental Agreement in Exchange for a Weak Labor Agreement
            3.2.1.1 The Side Agreements as Compensation
        3.2.2. The Rest of Clinton's Compensation: Environmental Cleanup and Promised Retraining.
        3.2.3. Reactions to the Clinton Package
    3.3. The Endgame Compensation
        3.3.1. Signaling Linkage: Healthcare and the Strike Replacement Legislation
        3.3.2. "A Bird in the Hand...": NAFTA Adjustment Assistance and Other General Goods
            3.3.2.1. NAFTA Transitional Adjustment Assistance
        3.3.3. Eleventh-hour Pork
        3.3.4. NAFTA Passes

4. Conclusion: Summarizing the Origins and Propriety of NAFTA's Compensation Riches
    4.1. Explaining NAFTA's Compensation.
    4.2. Did NAFTA Compensation Work?

The North American Free Trade Agreement (NAFTA) was the most controversial and bitterly contested trade policy initiative in US history, and may well eclipse the Smoot-Hawley tariff as the most remembered. Never before have so many groups, from so many different perspectives and with so much intensity, entered the trade policymaking fray. And with the lines of battle so preposterous -- logging companies standing arm-in-arm with environmentalists; right wing nativists finding common cause with left wing internationalists -- never has US trade policy been so entertaining.

Given such intense and eclectic fighting, perhaps it is little surprise that the NAFTA is the US trade initiative with the richest side payment politics. Never has political struggle over liberalization spawned so many and so varied compensatory side payments. Not only was there continued upward-ratcheting and reform of trade adjustment assistance -- this time under the mantle of a dedicated NAFTA adjustment assistance program -- there was also a flood of new compensation payments: international institutions to monitor and enforce a limited range of environmental and labor rights and conditions; large-scale funding for environmental cleanup; a North American Development Bank to pay for infrastructural, environmental and job projects in trade-impacted regions; and a bewildering array of pork side payments, such as a textile research center for one congressman and a couple C-17 military planes for another.

The NAFTA compensation is also memorable because it was not a purely national affair. Much of the NAFTA compensation, such as the adjustment assistance provisions and the pork, conformed to the pattern of past US compensation in that it emerged during domestic phases of the episode and was provided solely by national government institutions. However, the labor and environmental side agreements -- establishing a series of institutions and programs to monitor and upgrade labor and environmental conditions that Clinton sought to "repair" his predecessor's agreement -- were negotiated at the international level and were to be run as supra-national institutions with some autonomy.

This chapter tells the story of NAFTA as a tale of unprecedented compensated liberalization. Its focus is on explaining why the negotiations elicited such a wide range of side payments to so many groups -- more than any previous US liberalization episode -- and why some of the payments were negotiated and provided at the supranational level. Focusing on the variation among groups, moreover, the case study also seeks to explain why some groups received more generous side payments than others, why some got protectionist exemptions instead, and why still others got no redress at all.

The answer, the history reveals, can again be found largely in the power and platforms of the bargaining groups. For instance, the unprecedented scale and variety of compensatory side payments is due in part to the unprecedented breadth and determination of the protectionist coalition

mobilized to revise or defeat the NAFTA. This implied one of the most powerful protectionist coalitions that free traders had ever faced, yet not so much as to push Bush and Clinton off the free trade path.[1] In the face of such opposition, offers of redress to at least some of the opposition was necessary to secure passage of the NAFTA at various phases of its negotiation and ratification.

Just as important was the sheer diversity and multi-issue platforms of the groups comprised by the protectionist coalition. With groups joined in an alliance that somehow bridged their diverse motivations and past hostilities, it was tempting and possible for liberalizers to identify side deals that could split the coalition. Most of the important groups in that coalition, moreover, approached the NAFTA fight with explicitly multi-issue trade policy platforms. Most of the environmental groups, new to the trade policy game, approached the table explicitly offering to support the NAFTA conditional upon a variety of policy safeguards -- conditions that easily invited side payment buy offs. Organized labor, moreover, had inched away from unconditional protectionism and towards a stance that offered acquiesence conditional upon adequate labor rights institutions and adjustment assistance. These multi-issue platforms, some explicitly supporting the NAFTA in exchange for side payments, consistently brought compensation into the bargaining, along-side protectionist redress. Given the power and platforms of the anti-NAFTA coalition, the NAFTA case comes as close as any in the US to a best-case scenario for side payment compensation.

The case also offers more mixed news about the propriety of compensation. Actual effectiveness in humanizing liberalization can only be tentatively addressed since programs set up as side payments are still unfolding. But the ambition of the redress varied. Environmental groups, for instance, got new institutions with stronger monitoring and enforcement powers, and greater resources, than the counterpart institutions provided to Labor. They also received more funding for cleanup than labor did for retraining and community development. Averaging out the experiences with different side payment provisions, the provisions offered real relief to many of liberalization's victims, though less and less systematically than hoped for or than is ideal.

At the same time, the episode contains only a few discernible cases of extortionate or rent-seeking demands, even once the side payment pork flowed as never before in trade policy-making. In the most profligate stages of the side payment politics, a few groups clearly exaggerated their demands and needs to get more from an Administration eager to make deals, and held out their NAFTA vote for favors even when they saw net benefits to the free trade pact. But the big players never asked for, or got, side payment packages that were above their own projections of loss or risk. For instance, organized labor and their congressional champions called for huge adjustment

[1] That they stayed on that path is itself a minor side puzzle, whose answer lies partly in both presidents seeing the NAFTA as modestly improving the US economy while strongly bolstering the forces of stability in Mexico, and partly in underestimating the breadth and determination of opposition.

assistance packages and ambitious labor rights protections -- much more than they actually got -- but these didn't outstrip their own job-loss and race-to-the-bottom fears.

Finally, the political effectiveness of the compensation also varied across groups and stages of the episode, but again can be seen as having played a significant role in securing the political support for NAFTA's legislative approval. The environmental compensation consistently split environmental lobbies, buying active support of some of the largest of these, and providing some cover for green legislators supportive of the liberalization. The pork benefits also show clear signs of having won over key votes at a time when the margin of victory was very narrow. Even where compensation failed to buy support or acquiescence, as with the variety of laborite compensation provisions, they showed signs of having moderated the opposition of important legislators.

This story of the character, origins, and propriety of NAFTA compensation unfolds in three sections. The first introduces the NAFTA as a liberalization initiative that was unprecedented in freeing up trade and investment with a country relatively so undeveloped and poor. The result was that the proposal threatened sharp distributional costs and competition in regulatory laxity. This, in turn, promised particularly intense and broad-based conflict that made the NAFTA fight ripe territory for side payment exchange.

The second section lays out the various societal and governmental groups arrayed against the NAFTA initiative. This requires describing and unpacking the eclectic coalition that the NAFTA spawned. In particular, it requires a close look at the evolving trade policy platforms and political resources of the coalition's main members: organized labor, especially the AFL-CIO and its constituent unions; environmental groups; industry and agricultural producers; and various consumer, minority, and religious organizations that also entered the fray. The punch-line, here, is that the anti-NAFTA coalition was a protectionist force of unprecedented breadth and determination, and encompassed many important members (labor and environmental groups) with multi-issue or compensated liberalization trade platforms -- thus revealing the presence of the main preconditions for side payment provision.

Section three, the chapter's longest and most important, lays out how the NAFTA's side payment politics unfolded. These politics can be broken down into three stages, with a distinct set of side payment provisions promised or provided in each: the fight over fast-track authority for the Bush Administration's negotiation of the original agreement; the succeeding Clinton Administration's negotiation of supplemental "side" agreements; and the end-game flurry of side payment politicking in the final weeks and hours of the NAFTA ratification fight. In each section, we consider the side payment demands and responses, and the political effectiveness of each. A fourth section concludes, briefly overviewing the origins and propriety of the NAFTA compensation in light of past US trade episodes and theoretical expectations.

1. NAFTA Liberalization: An Unprecedented Proposal

The NAFTA initiative grew out of the broader economic liberalization project of Mexico's ruling Partido Revolucionario Institucional (PRI), begun in 1985 by the PRI's leader, Miguel de la Madrid and continued by his successor, Carlos Salinas de Gortari.[2] By the end of the decade this liberalization had begun to bear fruit, with overall GNP, investment and exports growing, and with unemployment and inflation shrinking. This recovery was based in no small part on increased trade with the US -- by 1989, 88% of its exports went to the US, and it was the US's third largest export target and import source -- and heavy FDI from the US, much of it auto and other manufacturing assembly plants in the Maquiladora region (NJ 9/29/90, p.2325).

In early 1990, Salinas proposed a free trade agreement with the United States in the hopes of consolidating the neo-liberal trajectory.[3] Such a free trade agreement was only a vague idea at the time, but offered on the heels of the US-Canada Free Trade Agreement it was expected to be a thorough-going reduction of barriers to trade and investment: significant lowering or elimination of tariff and quota barriers, subsidies, preferential procurement policies, and other non-tariff barriers; and safeguards for investment property rights, and offering foreign investors equal treatment to their domestic counter-parts.

Such liberalization would constitute more substantial changes in trade and investment policies and practices for Mexico than for the US. For instance, even after unilateral reductions in tariffs, Mexico imposed a 20 percent tariff on many imports, high excise taxes on others -- e.g. a 50 percent excise tax on large cars -- and many quotas and other non-tariff barriers -- e.g. a rule that auto assemblers must balance imports and exports in Mexico.[4] Most US tariffs, however, were between 2 and 5 percent, with the occasional but important exception -- such as a 25 percent tariff on light trucks -- and other NTBs and investment discrimination were more modest (CQ Weekly 10/16/93, p.2793). Thus, phased-in reduction in trade and investment barriers and improved property rights protections would demand more action South of the border than North.

Although US policymakers anticipated the possibility of a US-Mexico initiative -- the 1988 Omnibus legislation explicitly gave presidential authority to negotiate such an agreement -- the

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[2] The liberalization involved privatizing state monopolies, such as petroleum, deregulating many other industries, and unilaterally lowering tariffs by more than 50 percent in five years. This project was itself a response to the massive stagflation and foreign debt Mexico faced by the mid-1980s, a state of affairs that many in the PRI and elsewhere blamed on the country's over-regulation and protectionism.

[3] For Mexico the payoff of such action would likely be to increase its export market access and provide major new incentives for US foreign direct and portfolio investment. By tying the economy closer to the US, moreover, such a free trade agreement would codify, or anchor, the PRI's liberalization reforms to an international agreement -- thus consolidating the neo-liberal transformation. A generous reading of Salinas's initiative, if his own press was to be believed, was that this anchoring would also stabilize the economy and promote democratic reform.

[4] Mexico also had a history of discriminatory regulation of FDI and a history of nationalization.

Bush Administration was initially reluctant to accept Salinas's offer. Apparently, the president and his trade advisors were loathe to do anything that might interfere with progress in the on-going Uruguay Round of GATT. They feared that any action on a US-Mexico agreement would take time and resources away from the GATT front, and conventional policy wisdom was still that bilateral free trade areas or other regional preferential arrangements would undermine multilateral liberalization, though the relationship between bilateralism and multilateralism was widely debated in economic and political policy circles at the time -- as it continues to be today.

By mid-1990, however, Bush had come around to see a number of significant benefits to pursuing the free trade accord. The Uruguay Round, by that Spring, had stalled and appeared unlikely to go anywhere soon. A US-Mexico free trade agreement offered the prospect of keeping the liberalization train running despite this blockage on the multilateral front, and might even help jump-start the GATT talks, if only through threat of bilateral agreements circumventing multilateral free trade. And the Administration wanted to hedge its trade policy bets against regionalism generally -- with the world divided into European, Asian, and American economic blocs.

Most of all, however, Bush officials recognized the immediate and distant economic benefits of liberalizing trade and investment with Mexico. With trade and investment barriers complicating access to the Mexican markets, the liberalization would rapidly increase what was already the US's third largest export market. And liberalized investment access and improved property rights protections would safeguard growing FDI in manufacturing and services. The Maquiladora free trade zone -- established as a loophole to the 1974 Trade Reform Act -- had already invited an explosion in manufacturing investment, as much $2 billion on assembly plants, with the number of facilities growing from 120 in 1970 to roughly 2,000 in 1991, employing roughly 450,000 workers (NJ 4/27/91, p.984).[5] The NAFTA promised to protect and expand such investment opportunities. Such increased trade and investment would particularly help US multinational enterprises, and would also stabilize neo-liberal economic reform and, possibly, political quietude under PRI leadership. This would serve the Bush Administration foreign policy concern with a volatile neighbor's economy and polity. As the NAFTA became increasingly linked to the neo-liberal, democratic stability in Mexico, partly through Salinas's posturing and promises to his own polity, this foreign policy goal was to become a major reason why Bush, and Clinton after him, were such determined NAFTA champions.[6]

Thus, in June 1990 Bush and Salinas agreed to negotiate a free trade agreement, and on September 26th, 1990, Bush formally announced to Congress his intention to do so. When Brian Mulroney's Canadian Conservatives feared that the planned bilateral agreement would undermine

[5] 35 percent of total US exports to Mexico, and nearly all capital goods exports, went to assembly plants in the Maquiladora region, for reexport, mainly back into the US (AFL-CIO 1992).

[6] As one reporter quipped, the liberalizers in the Bush and Clinton Administrations maintained that "the future of our economy, of our democracy, of life itself, rested on passage of NAFTA" (in NYT 7/3/93).

Canadian gains from the US-Canada FTA, his government announced in February 1991 that it, too, would join the talks. This made the proposed initiative not just a US-Mexican, but a North American Free Trade Agreement (NAFTA), a free trade area comprising a $6 trillion dollar market.

Such a NAFTA was an unprecedented proposal in US trade history, for it sought nearly free trade and investment with a country whose micro and macro-economy was so much less developed than the US's. Mexico's per capita annual income of $1,760 was dwarfed by the US's $19,840 and Canada's $16,960. Wages were a fraction of US standards. Average hourly compensation, including wages and benefits, for US manufacturing workers was $17.10 compared to a Mexican average of $2.61 for all workers, and $1.75 for maquiladora workers in direct competition with US workers (IPS 1996, p.2). Official minimum wages averaged 70 cents in most regulated industries, compared with universal US minimum of $4.25 (BLS Report).

US and Mexico were just as different in the laws and regulations that protected and enforced labor rights and conditions, and environmental standards. Mexico's labor and environmental regulations were improving unilaterally under Salinas, and were often similar to US laws and regulations, sometimes stronger. But the willingness and capacity to enforce these laws were far lower. Lapses in enforcement of environmental impact statements, for instance, were very common. And even after significant growth, the budget of its Secretaria de Desarrollo Urbano y Econlogia (SEDUE) -- the national institution for environmental protection monitoring, enforcement, and cleanup -- was still roughly the size of that for the state of Texas alone (NJ 9/29/90 p.2327; Hufbauer and Schott 1993, pp.91-2). Thus, health and safety standards, abuses of child labor laws, violations of worker rights of association and collective bargaining, were more widespread than in the US. And enforced environmental standards, such as emissions and waste treatment regulations, were far below US levels (Ward to Senate Finance, Set.16,1992).

Proposing to liberalize trade and investment with such an under-developed neighbor had profound implications for the intensity and scope of domestic political conflict within the US, and hence for side payment politics. The implications, in fact, went far beyond that suggested by the anticipated benefits or costs to *aggregate* growth and employment -- that overall economic effects, hence conflict, should be muted. The estimates ranged from an optimistic 400,000 net jobs gained by 1998 (USA*NAFTA) to a pessimistic 550,000 net jobs lost after ten years (EPI 1991). In between was the most cited Institute of International Economics study predicting a net increase in GNP of roughly .003 percent and in US employment of 170,000 one year after the NAFTA's enactment (Hufbauer and Schott 1993, p.14).[7] These estimates reflected different models for

[7] The prediction was that this 170,000 figure would be reached by 1995, five years after the NAFTA was first proposed. Hufbauer and Schott were writing this estimate in early 1993, and the NAFTA was expected to be in place by January 1994, implying that the 170,000 figure would be one year after enactment. But their estimates assumed the NAFTA had important employment effects as soon as the NAFTA idea was announced, let alone negotiated and enacted (H&S 1993, p.14).

predicting trade flows and employment effects, and more importantly, different assumptions about existence of full employment and foreign direct investment flows and plant relocations.[8] Whatever the net gains or losses expected, none amounted to much in terms of aggregate US employment change or GNP. For instance, a gain of .003 percent of GNP and of 170,000 jobs in one year represented less than the random monthly changes in these indicators (2.5 percent GNP in the last quarter of 1993; and + or - 217,000 in February 1994) (Conybeare and Zinkula 1996, pp.1-2).

But these aggregate effects masked several anticipated economic effects that spelled real conflict. First, freeing trade with a developing country threatened to have stronger distributional effects -- big benefits for some domestic groups and costs for others -- than comparable liberalization with more similar trading partners.[9] Mexico and the US, by virtue of development and geographic differences, had very different factor endowments: the US was relatively abundant in capital and land, and relatively scarce in labor, especially less skilled labor; Mexico was the opposite, with capital and land being the relatively scarce factors and unskilled labor the abundant factor (Magee 1989, p.182; Deardorff and Strern 1979, p.129).[10] Common extensions of standard trade theory predict that freeing trade between countries with such factor endowments should bring benefits to US capital and land owners -- in the form of higher prices, profits, and rents -- and costs to US labor, especially unskilled labor -- in the form of lower wages and unemployment.[11] US-Mexican free trade, thus, threatened to pose stronger distributional costs than freeing trade with a more similarly endowed trading partner like Canada.

These strong distributional effects would result from trade alone, without any shifts in people or investment. But the trade liberalization, the investment protections, and the proximity of Mexico to the US also predicted some shift in investment as a result of the NAFTA. Predictions on these flows varied as much or more than predictions about trade.[12] But the overall distributional

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[8] The optimistic estimate of 225,0000 net jobs gained by 1999, by the Economic Strategy Institute, was premised on the presumption of full employment and that "Mexico is not used as an export platform into America" NJ 5/11/91, p.1116. The Hufbauer and Schott made similar assumptions (H&S 1993). The pessimistic estimate of 550,000 jobs lost in ten years, from an Economic Policy Institute-sponsored study, rested on the assumption that $44 billion in capital would go from US to Mexico in the same decade (EPI 1991, p.9).

[9] Standard trade theory, the Heckscher-Ohlin variant of the theory of comparative advantage, predicts that countries will trade to take advantage of their differences, each country specializing in and exporting products that make intensive use of the factors of production in which the country is abundantly endowed, while importing products intensive in more scarce factors.

[10] Therefore, even though the countries traded with eachother for lots of other reasons -- such as to take advantage of local learning or economies of scale, implying intra-industry trade -- the starkly different factor endowments in the US vs Mexico implied more inter-industry trade based on comparative advantage.

[11] The generic prediction of the Stolper-Samuelson theorem is that benefits of freer trade go to the owners of relatively abundant factors as demand for their product rises, while imposing costs to scarce factor owners as demand for their product drops. How much these costs and benefits flow to entire factors rather than industry-specific segments depends on how mobile the factors are: the more mobile the more unified the effects within factors, regardless of whether capital or labor was being used in an import-competing and tradable segment or in an internationally-competitive or non-tradable segment.

[12] Some speculated that much of past investment in Mexico had been designed to circumvent Mexican tariffs, and that freer trade would reduce the incentive to relocate into Mexico. Others, particularly labor groups which had

consequences of such liberalization would be in the same direction as the Stolper-Samuelson trade consequences: US capital should benefit while labor loses.

Quantitative estimates of the combined effects of changed trade and investment flows varied, though all agreed that in the medium term, it looked hard for unskilled and semi-skilled labor. The low-end estimates by the Clinton administration expected 22,500 lost jobs in the first 18 months. High-end estimates predicted millions of jobs lost by the end of ten years (EPI 1991). The most cited and influential IIE estimate predicted between 145,000 and 200,000 jobs lost due to increased imports between the 1990 NAFTA announcement and 1995, one year after proposed enactment (Hufbauer and Schott 1993, p.16).[13] These losses were expected to be concentrated in manufactures; an unreleased March 1991 Commerce Department study, for instance, projected job losses of more than 40 percent in some key industries, such as auto parts, steel, shoes and textiles. And trade economist Edward Leamer offered a pointed prediction capturing how unskilled US workers, whether or not employed in these import-competing sectors, would generally be the big losers -- suffering income losses of as much as $1,000 per year, partly as a result of continued openness and partly as a result of NAFTA liberalization (Leamer 1992, p.87, Conybeare 1996, p.3). Despite disagreements about these projections, most economists, policymakers, and interest groups anticipated that the NAFTA would have clear and broad winners and losers (Lustig et.al. 1992, passim; Hinajosa-Ojeda and Robinson 1992).

Not only was NAFTA liberalization expected to impose particularly sharp costs on labor as a factor of production, those costs were expected to fall particularly hard on *organized* labor. The industries most likely to be hit hard by NAFTA -- textiles, trucking, steel, and auto assembly -- were also highly unionized sectors of the US economy, and constituted the back-bone of organized labor and its umbrella political organization, the AFL-CIO. Organizationally as well as economically, then, the NAFTA's costs in the US were expected to be very concentrated.

Mexico's Third-world status implied not only stronger distributional costs, particularly for organized labor, but could also be expected to undermine the perceived fairness, and hence acceptability, of those costs. NAFTA's costs would be the result in part of Mexico's comparative advantages, which in turn lay partly, obviously not wholly, in its exploitation of labor and environmental rights, conditions, and laws. As many political commentators and at least one mainstream economist (Rodrik 1996) have recognized, the distributional costs resulting from this exploitation could be seen as more unfair than those resulting from more "legitimate," inherent country differences, existing within broadly held values and legally codified regulations. In other

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suffered factory relocations, expected the trade liberalization and property rights protections to allow and safeguard more FDI in Mexico, thereby leading to shifts in investment from US to Mexico ranging from $12.5 to $46 billion (EPI 1991; Cypher 1993, p.88).

[13] As we see below, this estimate was the Bush Administration's benchmark for devising the level of adjustment assistance it was willing to offer as compensation.

words, in so far as lax labor and environmental regulations were expected to be the basis upon which NAFTA imposes stark distributional costs, political conflict could be expected to be harsher -- even if US standards and regulations were not to be hurt by the liberalization.

But many also feared that these US-Mexican differences in standards and regulations would give competitive advantages to companies operating in a less regulated and unionized setting, in turn hurting US competitors or inducing companies to flee the more costly US production setting for Mexico's. Either through economic necessity or political action, many observers worried, such a competition in laxity or "race to the bottom" would undermine US standards and regulations. However speculative these fears, they could not be easily contradicted by existing empirical studies, only by more optimistic speculation (c.f. Krugman 1993, passim; Krueger 1996). Since so many groups had come to regard these US conditions, laws, and regulations as hallmark achievements of US economic and political progress, many groups who otherwise cared little about trade liberalization were bound to fear the NAFTA. The groups in this category included unions and environmental organizations, but also social rights groups concerned with the future of the welfare state, consumer rights advocates concerned with the future of product health and safety regulations, and human rights organizations concerned about worker rights.

In short, when the Bush Administration agreed to negotiate the NAFTA, it was asking for a fight. The distributional effects were likely to be more concentrated on organized labor than previous liberalizations -- fueling particularly *intense* organized opposition. And the real or perceived threats to labor and environmental rights, conditions, and regulations -- not to mention the broader social security system -- was of interest to a range of groups beyond those traditionally worried about trade, hence a particularly *broad* organized opposition.

2. Boot-leggers and Baptists: the Anti-NAFTA Coalitions

Consistent with these anticipated divisive economic effects, the NAFTA proposal spawned the most determined and broad-based protectionist coalition in the history of US trade policymaking. Over the three-year NAFTA fight, more and more groups from all walks of life and for all kinds of reasons entered the policymaking fray. Emerging from this fray was a "bootlegger-and-baptist" coalition comprising groups that were sworn enemies on many issues, but that found common cause in their fervent desire to reform or defeat the NAFTA. When a North Dakota journalist saw that the NAFTA had "brought the sugar beet people and the labor folks together...," he understated matters by observing that "It's not the sort of coalition of interests that we've come to expect" (Jacobs, Grand Forks Herald, cited in NJ 10/16/93, p.2472).

This bootlegger-baptist coalition consisted broadly of four groups: (1) labor unions, both the AFL-CIO and affiliated and independent industry unions; (2) environmentalist organizations,

including both establishment and more fringe versions; (3) import-competing industries, the most familiar of the protectionists; and (4) a hodge-podge of consumer, religious, human rights, and other broad-based interest groups. Groups in each of these categories agitated to defeat or revise the NAFTA, either acting alone, in regionally-based coalitions, in informal national consultations and coordination, or in formal NAFTA-dedicated groups (e.g. Citizen's Trade Watch Campaign).

What matters most for side payment politics -- for whether struggle was to yield side payments, and for whether groups were to receive compensation rather than protectionist redress or nothing -- are the political resources and trade policy platforms of the coalition groups. The activity of these groups over the course of the NAFTA fight reveal a picture of their power and platforms. A number of groups mobilized huge political resources to defeat or retaliate against the liberalization's passage, implying unprecedented determination and breadth of the protectionist coalition. And many of the groups at the center of the coalition approached the NAFTA fight with multi-issue platforms, in some cases platforms explicitly linking acceptance of NAFTA to side payments. Such a profile suggests very favorable conditions for side payments. And the varying power resources and platforms differentiating groups suggest which groups were most likely to receive generous side payments, which protectionist redress alone, and which nothing at all.

2.1. Organized Labor: Furious Fair Trade Protectionism

The largest, most committed, and most powerful players in the anti-NAFTA coalition were labor unions, including the AFL-CIO and a number of industry-specific unions.[14] Since organized labor had been important protectionist players for more than twenty years and since the projected distributional consequences suggested they had the most to lose, there's little surprise that these unions fought to revise or kill the liberalization more passionately than anyone. The nature of their opposition platform, however, varied over time and across particular unions -- ranging from unconditional protectionism simply seeking to kill the agreement, to more multi-issue platforms suggesting acceptance of the NAFTA conditional upon the provision of side payment provisions. Whatever the platform, moreover, Labor fought harder and mobilized more power resources than it had ever before on any trade legislation, and more than any other anti-NAFTA group.

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[14] The most active unions, captured in part by the frequency of their congressional testimony, were the following: AFL-CIO (25 appearances); UAW (14 appearances); Amalgamated Clothing and Textile Workers Union (ACTWU) (10 appearances); International Ladies Garment Workers Union (ILGWU) (10 appearances); Teamsters (7 appearances); International Union of Electricians (IUE) (10 appearances); United Steelworkers (8 appearances); the United Food Workers (UFCW) (4 appearances). CIS 1993, P.L.103-182 Hrgs, pp.333-61.

This count is based on appearances in the 56 House and Senate Hearings indexed in CIS/INDEX 1993; plus two other major Senate Finance and House Ways and Means hearings not indexed. There were another 30 hearings held, which were not indexed and that I didn't review. Of these, nine received labor testimony.

2.1.1 Labor's Platform: Partial Move from Unconditional to Conditional Protectionism

The trade policy platforms of the AFL-CIO and other unions engaging the NAFTA fight varied over time and across unions. From the very outset of the NAFTA proposal, all unions fervently opposed the liberalization. Mark Anderson, the AFL-CIO's chief trade economist introduced this basic position early in the fight:

> The AFL-CIO views the prospect of such an agreement with considerable alarm....Mexico's single comparative advantage is the poverty of its citizens and their willingness to work for subsistence wages. No matter how productive, US workers cannot compete with labor costs of less than $1 an hour. A free-trade agreement will only encourage greater capital outflows from the US, bring about an increase in imports from Mexico and further harm the US industrial base. (NJ 9/29/90, pp.2326-7).

But this alarmed opposition to the NAFTA wasn't uniform across unions or over the life of the three-year fight. What union representatives said about NAFTA liberalization in press interviews and conferences, in House and Senate Hearings testimony, in union-sponsored actions (speeches and advertising, lobbying), in Labor Advisory Committee reports, and in official union policy statements (Convention Resolutions), revealed significant differences and changes in the NAFTA platform that affected how open they were to side payment overtures.

Most unions at the very beginning of that fight, and some unions throughout, simply continued the unconditional protectionism that had dominated organized labor's trade policy platform since the 1970s. In this vein, unions tried to kill the agreement without any attempt to revise or humanize the agreement with any issue linkage. Union representatives opposed the agreement's liberalization provisions and called for various exemptions and revisions: generally maintained or heightened tariffs or quotas on a range of agricultural and industrial products; more stringent rules of origin that would keep the free trade area as much of a fortress as possible; longer phasing-in of any liberalization; clearer and more generous escape clause relief in the event of increased imports (import surges); and new duties on products produced by firms that could be presumed or shown to take advantage of lax labor or environmental regulations ("social tariff").[15]

While demanding such protectionist redress, union representatives sometimes also made the same side-issue demands mentioned periodically ever since the late 1960s. They continued to highlight the inadequacy of past assistance and the hopelessness of such assistance to fully mitigate liberalization's costs, while stating their support for continued adjustment assistance targeted at

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[15] These demands were not expressed fully until later in the NAFTA's negotiation, and then only sometimes fully developed at any one time, by any one labor representative. For a relatively complete list of demands see the September 1992 preliminary report of the Labor Advisory Committee (LAC 1992, pp.1-2).

In reports, press, and hearings, protectionist demands for restrictive rules of origin, slow phasing in, partial or full tariff exemption, were starkest from particular industries: see, for instance, IUE's President Bywater's testimony, UAW President Bieber's testimony, in Senate Foreign Relations Committee Hearings 1991 (March 12), pp.48-62. The AFL-CIO statements provided the most encompassing protectionist statements. See, for example, AFL-CIO's Donahue Senate Finance 1991 (February 6), pp.31-44; House Ways and Means Feb.21, pp.335-63.

trade-impacted workers as better than nothing. Sometimes they explicitly demanded using taxes and regulations to discourage outward foreign direct investment. And they sometimes even called for stepped-up international coordination to promote improved international labor rights and conditions. Sometimes, union representatives summarized this three-pronged position by calling for negotiations focused on integration generally rather than only on trade and investment, such as in this statement by UAW economist Steve Beckman:

Trade should be an element of a development program that is intended to raise living standards, improve conditions for the vast majority of workers and citizens of all parties concerned, whether it is the US and Mexico and Canada, or whoever. The focus ought to be development, not trade (House Public Works Hearings May 8, 1991, p.113).

But in very few of their multi-issue pronouncements did representatives offer specific demands on these side issues and in none did they express a willingness to soften their opposition to freer trade conditional upon government action to address these other issues. In the early Congressional hearings to consider the proposed NAFTA's virtues and vices, legislators consistently asked the testifying labor representatives whether they could envision any circumstances under which they could accept a NAFTA. The exchange between Senator Dodd and William Bywater, President of the International Union of Electricians, during Senate Foreign Relations Hearings on Fast Track approval to negotiate a NAFTA, captures the typical response:

Senator Dodd: ...What I hear you saying is that you are opposed to the fast track, but there is no stated opposition to a free trade agreement with Mexico. Is that correct?
Mr. Bywater: No, I would not say that. Certainly not for my union.
Senator Dodd: You are opposed to a free trade agreement no matter what?
Mr.Bywater: Yes. I think the difference in wages, a 20-to-1 ratio, is just ridiculous...(Senate Foreign Relations 1991 (March 14), p.59).

Sometimes, union representatives were more conciliatory, but only slightly, expressing a willingness to see what the agreement would hold before fully casting its judgement, though without any specifics (see Dubrow's stance in the same hearings). Almost all published statements on the agreement before early 1993 were unconditionally protectionist, since they say nothing specific about what provisions might make the NAFTA agreement acceptable or less objectionable.

The labor stance was also unconditionally protectionist in the early stages of the fight in that the AFL-CIO and most member unions made little effort to gain access to the pro-NAFTA Administrations to press their case and to discuss details of the agreement. Partly this was the result of being excluded by the Bush Administration and, to a lesser degree, by even the early Clinton administration. But both administrations claimed to have received few overtures from labor to discuss details and to receive more frequent and deeper consultation (Grayson 1995).

Instead, labor simply thought the initiative should be stopped dead in its tracks. Whether or not this was wise as a strategic or tactical position, it discouraged side payment provision.

As the NAFTA fight matured, however, the AFL-CIO leaders and some influential member union leaders softened this unconditional stance in favor of conciliation: offering less opposition to the liberalization, or even support, conditional upon expanded adjustment assistance and institutionalized safeguards for specific labor rights. This shift was part of labor's drift towards a "fair trade" internationalism, begun in the early 1980s. Several considerations -- continued deunionization, accelerating globalization in trade and investment, and recognition that protectionism bought few gains and fed Labor's public image as a rent-seeking "special interest" -- had inspired some union leaders to rethink their legislative and organizing strategy, including their unconditional protectionist platform. Along with tactical and strategic changes over whom to collaborate with and how, came a willingness to soften opposition to freer trade conditional upon a variety of compensation provisions, especially codified protections of international labor rights. This shift gained momentum in establishing the Caribbean Basin Initiative, revising the OPIC and renewing Generalized System of Preferences, when unions sought formal protections for labor rights, including collective bargaining rights, as conditions for preferential market or aid access.[16]

With the maturation of the NAFTA fight, this fair trade position seeped into the union platform, became further developed in the process, and ultimately supplanted the unconditional position among some union strategists. By the end of the fast track loss, it became clear that simply pushing to kill the NAFTA initiative was unlikely to succeed and might be symbolically unwise, and that there might be room for significant changes in and compensation for the liberalization. Between the fight over Fast Track in the first year of the NAFTA struggle and the time that Clinton publicly planned to negotiate supplemental accords and offered expansive retraining assistance, the AFL-CIO and other unions began to offer "constructive" suggestions about how the NAFTA could be revised or its victims compensated so as to be less objectionable.

This move to a more conciliatory, multi-issue protectionism began when some of the AFL-CIO affiliates took part in meetings with Canadian and a few Mexican labor, citizen action, and environmental groups to outline an alternative vision for hemispheric integration and free trade -- based on embedding such integration in upwardly harmonized labor and environmental rights and standards, and well-funded and stable adjustment assistance for workers and communities (Cowie 1997). It continued when the AFL-CIO leadership prodded the Clinton leadership to consider the International Labor Organization's basic labor rights -- especially those covering freedom of association, protection of organizing rights and collective bargaining (Conventions 87 and 98) -- as an outline of the rights to be monitored and protected (AFL-CIO 1993; Cowie 1997, p.24).

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[16] The 1988 Omnibus Trade Act, of course, also included successful labor demands to add labor rights to the list of "unfair trade practices" eligible for sanction under Section 301.

But the conciliatory position was most prominent when the Clinton Administration came into office on its campaign promise to negotiate labor and the environment side deals. After periodic consultations between union officials and Administration representatives, the AFL-CIO Executive Council formally changed its NAFTA position away from simple opposition, toward a "wait-and-see" attitude, with softened opposition conditional upon actions on adjustment assistance and protections for labor rights and conditions -- especially through international machinery to protect not only health/safety standards, and child labor rights, but also collective bargaining rights (ILO Conventions 87 and 98) -- on a par with intellectual property rights protections.

The hope was that this linkage would be codified as part of the NAFTA package of international agreements and institutions, to ensure a stable source of funding and support for a previously precarious adjustment assistance and to ensure adequate enforcement of labor rights on a par with investment protections (Robinson 1995; Cowie 1997). ACTWU President Jack Sheinkman's testimony to the House Ways and Means captures the more conciliatory positioning:

> We're prepared to work with Clinton and the Congress to improve the agreement... [especially on] the creation of (1) enforcement mechanism for upward harmonization of labor standards and protections of freedom of worker rights, (2) adequate Trade Adjustment Assistance, and (3) reforms to assure rights of undocumented Mexican workers and greater Mexican cooperation to patrol borders....*Our final position on NAFTA depends on progress in these areas.* (Ways and Means Trade Subcom. 3/11/93, p.148; my italics).

Significantly, Sheinkman's statement not only identifies the linkable issues but also explicitly signals willingness to engage the liberalizers to improve details of the agreement, and to the explicit conditionality between their position on the NAFTA and the provision of the side issues.

Once the side agreements were clearly going to lack the worker rights protections and other labor-friendly provisions, AFL-CIO representatives resumed their all-out fight against NAFTA's passage, claiming that the conditions for their support of the NAFTA were not met. To emphasize their conditional protectionism, however, the banner under which they sought to kill NAFTA had been reworded in mid-May 1993 from "No NAFTA" to "Not This NAFTA." The most fair-trade oriented AFL-CIO members co-sponsored and publicized a document released in October 1993 on the eve of the ratification vote, designed to lay out a detailed alternative NAFTA, one that called for large-scale adjustment assistance and development aid, and strong international institutions monitoring and enforcing labor and environmental rights (IPS et.al. 1993). More narrowly, union leaders consistently attributed their opposition to the failure to secure at the international level strong institutions to monitor and protect the collective bargaining rights of labor on a part with intellectual property rights. AFL-CIO Treasury Secretary Thomas Donahue's May 6th testimony epitomized this focus when he asked supporters of NAFTA to "explain why invention, a labor of the mind, should be considered more sacrosanct than the labor accomplished by the sweat of the brow" (Donahue, Senate Commerce, Science and Transport. Committee, May 6, 1993, pp.4-5).

Labor's embrace of a conciliatory and multi-issue trade policy platform was far from unanimous and consistent. Different segments of organized labor varied in how much they departed from the unconditional line. The unions most clearly and actively taking on the conciliatory fair trade stance were Amalgamated Clothing and Textile Workers Union (ACTWU), United Steelworkers, the United Food and Commercial Workers (UFCW) and, most importantly and prominently, the AFL-CIO policy elites. A significant chunk of Labor, however, stuck with the unconditional stance, eschewing any conciliatory statements of conditionality and seeking only to kill the agreement. These included the Teamsters, International Ladies Garment Workers (ILGW),[17] the International Union of Electrical workers (IUE), and asundry smaller industry-specific unions.[18] The UAW took a more middle-ground position, sometimes voicing fair trade themes and co-sponsoring some more explicit conditional platform statements, but usually portraying the agreement in its various stages as far beyond repair. Since these were the most active unions in the NAFTA fight, it's fair to say that Labor was modestly but importantly split in its positioning on the Agreement -- except at the very beginning before the fair trade stance got further developed, and at the very end when both the unconditional protectionists and the conditional fair traders wanted to kill "This NAFTA."[19]

Even the unions touting the clearest multi-issue platform, at the most conciliatory moments of the NAFTA fight, were inconsistent in their proposed platform. In their public positioning along-side some anti-NAFTA coalition members, especially the nativist isolationists centered among Perot and Buchanan (Robinson 1995), union representatives were unconditionally protectionist. And in some of the meetings with administration representatives, union leaders are said to have wavered between offers of real conciliation and basic unconditional opposition -- suggesting that the latter was the genuine position (interview with Reich 9/10/97). And in some public fora, representatives would do the same.[20]

More importantly, while some union representatives expressed the multi-issue conciliatory stance in press statements, reports, high-level discussions, and Congressional testimony, in their dealings with the union rank-and-file other representatives from the same unions generally

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[17] The ILGW, however, was one of the strongest supporters of more generous and stable trade adjustment assistance. Along with the other major textile union, ACTWU, their membership had become the largest beneficiary of the existing TAA program. ILGWU sponsored the 1993 AFL-CIO Convention Resolution No.89 on TAA, calling for more funding for TRAs, for de-linkage between training and income supplements, and for eligibility of "secondary" supplier firms. See AFL-CIO Convention Proceedings 1993, p.A47.

[18] For instance, the American Flint Glass Workers Union (House Education and Labor, March 30, p.234).

[19] Significantly, it is difficult to predict from the positions of the unions which would be more or less conditional in their platform. The UAW's unconditional stance might make sense since it arguably had the most to lose and had a memory of outward FDI to Mexico, but the two major textile unions (ACTWU and ILGW) were modestly split. The most international unions might be the ones to care most about rights and conditions, but the domestic-oriented Food Workers were some of the strongest supporters of linkage to labor rights and adjustment assistance.

[20] For instance, Thomas Donahue's May 6th Commerce Committee testimony may have focused on the anemic protections for worker rights, but he then proceeded to lay out more than a dozen protectionist and side issue demands that went well beyond those listed as the official, more focused AFL-CIO Executive Council platform.

expressed an unconditional "NO NAFTA" stance. As Cowie 1997 points out, the AFL-CIO and member unions spent very little time and energy motivating support for the nuanced focus on institutionalizing international labor rights as part of the NAFTA campaign (p.24-6). This reflects several factors: that the unions most active in organizing grass-roots support tended to be the more unconditionally protectionist (e.g. Teamsters); that the phase of grass roots action fell at times when organized labor was at its most unconditionally protectionist (e.g. very beginning and end of the NAFTA fight); and that many union organizers believed that the message most likely to mobilize mass publics and the rank-and-file were bold "No NAFTA" vitriol rather than more nuanced "Not This NAFTA" conditionality (interview with AFL-CIO's Anderson 5-18-95).

These inconsistencies, together with the shifts over the life of the NAFTA fight and the split among unions, led many commentators at the time and since to conclude that Labor's fair trade multi-issue platform was simply a disguise to legitimate its true unconditional protectionism (Conybeare et.al. 1995 and 1996, Steagall and Jennings 1996, Cowie 1997). Just as likely, the mixed signals reflect genuine divisions within the labor movement over how to approach trade issues, and a gradual evolution and popularization of the fair trade approach. The union representatives towing this approach certainly insist this is the proper interpretation.[21]

The mixed signals, in any event, created ambiguity about what liberalizers could expect to be the "real" labor position and about whether conditionality promises could be kept. Even the most committed of the fair trade unionists -- those who publicly stated and defended the AFL-CIO's willingness to support or dampen opposition to the NAFTA in exchange for strong institutions to monitor and protect labor rights -- admit that the grass roots momentum generated behind the "No NAFTA" message might have made it impossible to support a revised NAFTA, even if Clinton had come through (Anderson and Blackwell, interviews). Administration officials, for their part, assumed as much (interview with Reich 9/10/97).[22]

2.1.2. Labor's Power Resources

While the story of Labor's trade policy platform is complicated by splits, inconsistencies, and change, the story of its power resources is simple: unions mobilized more resources than ever

[21] Despite their many differences on details -- such as *who* in Labor were most and least interested in a conciliatory position on the NAFTA -- this is the basic consensus of labor's fair trade internationalists, as judged from phone interviews with Mark Anderson, Pharis Harvey, Steve Beckman, Ron Blackwell.

[22] In so far as the mixed messages reflected different platforms for grass-roots mobilization and elite politicking -- different kinds of politics calling for different tactics -- there may have been a tension between two important preconditions for side payment provision: A conciliatory, multi-issue policy platform might invite access and improve the final outcome of liberalization, but a simpler, more unconditional protectionism might be necessary to inspire the rank-and-file union support necessary to maximize the political power Labor needed to be taken seriously.

The unconditional protectionism of some union representatives may also have expressed a tension between sensing the power to defeat the NAFTA and doing what is necessary to create the best possible NAFTA. Some unions throughout the fight, and most towards the very end, believed the NAFTA could be defeated AND that no NAFTA was better than the one that could be passed or revised in the foreseeable future. Hence, stone-wall.

before on any previous trade, or other, legislative initiative. Such mobilization, of course, was limited by the general context of Labor's political position *vis á vis* Bush, Clinton, and representatives of both parties. In general, continuing decline of union density and membership spelled increasing marginalization throughout the 1980s.[23] And when Bush proposed the NAFTA, labor unions could be said to have had only meager influence on what the Administration sought on trade legislation, because of how unimportant they were, indeed opposed to, Bush's electoral and legislative coalition. With Clinton's election, labor's fortunes substantially brightened, labor being a major part of the coalitions behind Clinton's candidacy and legislative program. This came with some access to the policymaking machinery in that Administration, especially the offices of Robert Reich's Labor Department. Toward certain legislators, moreover, Labor had more substantial power, particularly in those rust belt legislative districts with high union density -- such as in Michigan, New York, Ohio.

Against this power back-drop to the NAFTA fight, labor unions trotted out all of the usual tools for influencing trade legislation, only with greater determination and on a larger scale. This meant offering frequent and high-profile press statements, in the form of interviews galore but also Op-Eds and briefing papers through industry-union offices (e.g. IBEW's briefing paper 1992), AFL-CIO conduits (e.g. AFL-CIO News), and satellite think tanks (e.g. Economic Policy Institute papers and Institute of Policy Studies papers and press releases). In more formal, elite politics it meant that unions showed up to give testimony at every possible hearing -- more than thirty separate hearings devoted to aspects of the NAFTA that legislators deemed relevant to labor concerns. And it meant personal appeals and lobbying Bush and Clinton Administrations, and all Senators and Members of Congress, focusing first and foremost on the labor-friendly caucus.

The difference in the NAFTA fight was that Labor stepped up the volume and intensity of these standard appeals and threats. As the ratification vote approached and all segments of labor had come together to the basic "kill-This-NAFTA" line -- whether from a formerly conciliatory or an unconditional protectionism line -- a number of unions made the NAFTA issue the single most, if not only, litmus test of future union support for Senators and, especially, Members of Congress. During the October 1993 AFL-CIO Convention, IUE President William Bywater expressed the most strident position, portraying the NAFTA vote as the sole litmus test of future labor support: "We've got to ask our congressmen whose side are you on?" If you're on the side of the multinational corporations [in supporting NAFTA]... we're going to whip your ass and throw you out of office....And those that are with us, we should break our ass to see that they're elected...."

[23] From a post-War high union density of 31.6 percent in 1955, organized labor had in its fold less than 16.1 percent of the working population by the beginning of the 1990s (Stanley and Niemi 1994, p.190). The AFL-CIO represented roughly 11 percent of US workers, down from 16.4 percent in '75 (Grayson 1995, p.180). And this drop involved massive losses for the membership of particular unions. For instance, between 1975 and 1991 United Steelworkers membership dropped from 1.1 million to 421,000; ILGW from 363,000 to 133,000; machinists from 780,000 to 474,000 (Grayson 1995, p.180).

(AFL-CIO Convention 1993, p.218).[24] AFL-CIO president Lane Kirkland assured Clinton and Congressional Democrats that union support would not ride on the NAFTA vote alone,[25] but for some unions the threats were genuine, and certainly represented stronger threats than in any previous trade initiative. To those Members most dependent upon union PAC money and support, of course, the threats mattered hugely; and among the many 1992 freshmen in the House there were a lot of such dependents.[26]

Similarly, union representatives also tried to enhance their political power on the NAFTA vote by signaling that their ability to act in support of future legislation on which unions and Democrats agreed might be imperiled by NAFTA's passage. AFL-CIO's Lane Kirkland told the White House that labor had budgeted several million dollars for political activities over the next year, warning that the money could be used to support care reform or to oppose NAFTA, but not both (NJ 8/21/93, p.2112). This is a signaling statement, threatening Clinton to drop NAFTA if he wants strong support for healthcare.[27]

Organized labor also mobilized power resources never before tapped in previous trade policy campaigns -- or, for that matter, any legislative campaign on any issue. One of the most important of these resources was rank-and-file action and mass-public sentiment. The AFL-CIO and many member unions spent huge amounts of money -- figures ranged from $10 to $50 million in funds -- manpower, and organizational resources to educating and politicizing the rank-and-file and community citizens on the NAFTA. There were countless union-sponsored rallies and teach-ins across the country, one of the most ambitious being the Teamsters Union's truck caravan, called the "Economic Earthquake Express," which traveled the country's communities, shopping malls, and factories preaching the anti-NAFTA gospel (N.J.; Cowie 1997, p.12).[28]

Perhaps more importantly, organized Labor took the unprecedented step of bolstering its power resources by joining forces with anti-NAFTA groups in other countries and focused on completely different issues. The cross-border actions included establishing and furthering ties with other labor unions in Canada, and to a lesser degree Mexico (Robinson 1995, Cowie 1997, passim). More impressive were the formal and informal ties with non-labor interest groups,

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[24] Such language at the Convention prompted President Clinton to call organized labor's positioning "strong arm...muscle-bound tactics." See Section 3.3 below for more on this.

[25] On the eve of the ratification vote, Kirkland said of the general parallels between Clinton's and the AFL-CIO's agendas: "we are and will be his most reliable troops" (LRW 11/17/93, p.1103).

[26] Of 100 freshmen House members, 63 were Democrats. As Grayson 1995 points out, these first-term Democrats depended more on contributions from labor PACs in their 1992 victories (44 percent) than did their senior colleagues (31 percent) to raise the average of $239,800 needed to win (Grayson 1995, p.191; using Center for Responsive Politics figures: reported in Wall Street Journal 10/25/93, p.A22 and total outlays in Stanley and Niemi).

[27] It isn't part of Labor's multi-issue trade policy stance, however, since Labor isn't asking for some policy action on healthcare to off-set the NAFTA liberalization. Instead, it is signaling how hard labor will be able to work for something on which the liberalizers and the protectionists agree.

[28] Grayson 1995 points out that the rank-and-file mobilization had as much to do with Ross Perot's populist opposition to NAFTA as it did to organized labor's change in political tactics.

especially members of the environmental lobby (especially the more radical fragments of that lobby), citizen action, religious and other groups. The most formalized and developed expression of this collaboration were the Citizen's Trade Watch Campaign and the Americans for Responsible Trade.[29] These and other odd efforts to influence Administration negotiations and Congressional action on the NAFTA were unprecedented in trade policymaking, and marked important changes in Labor's political strategy and tactics.[30]

The conclusion to draw from this discussion of organized labor's platform and power is that for at least some of the time during the negotiations Labor approached the NAFTA episode with more political power and with relatively more multi-issue side payments than it had at any time since the 1962 struggle over the Trade Expansion Act. On the other hand, the demands that even the most conciliatory unions were attaching as conditions for support of the NAFTA were ambitious and costly, and some of the attempts to mobilize power resources -- especially the alliances with isolationist groups, and the grass-roots mobilization -- involved more unconditional posturing that contradicted the multi-issue, conciliatory stance. The platform messages were mixed, in other words, from the point of view of inviting side payment bargaining. In any event, whether labor's power and platform spelled side payment compensation depended on the positions and power of other groups, and on the dynamics of struggle during the NAFTA fight.

2.2. Environmental Groups

If labor unions were the anti-NAFTA coalition's anchor, the environmental lobbies were its upstarts. The NAFTA initiative was the first US trade liberalization initiative to inspire determined and concerted action by environmental groups. And their presence opened a new chapter in US trade policymaking, changing the character of the trade policy issue to encompass ways of mitigating and compensating for environmental consequences of liberalization. Most of the national environmental lobbies and organizations, and many more regional ones, engaged the NAFTA, and as it turned out, these various groups were openly and strongly split in their opposition platform. This split ended up being one of the NAFTA episode's oddest side-shows, and made for particularly rich side payment politics.

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[29] See discussion below for details on these coalitions.

[30] One of the more bizarre attempts involved Labor using its foot-hold on corporations via its pension fund holdings. In November 1993, the Carpenters and Operating Engineers unions -- whose multibillion-dollar pension funds had extensive holdings in publicly traded companies -- challenged several companies' public support for the trade agreement. They proposed, consistent with SEC rules, to have the companies report on their plans for shifting production to Mexico if NAFTA passes, and on impact of the NAFTA on shareholders, workers, customers, suppliers and communities in which they do business. This was an attempt to remind some corporations that the NAFTA might be more trouble than it's worth. See LRW 11/10/93, p.1062.

The environmental coalition's trade policy activism had its roots, in terms of organization and platform, in more narrowly environmental preservation activism during the 1980s. The National Wildlife Federation, the nation's largest (5.3 million members) and most politically active environmental group, helped engineer a coalition of environmental groups to agitate for more attention to sustainable development in World Bank and OPIC loan practices (Bramble and Porter 1992, p.325-36). The Federation leaders began to recognize trade policy, broadly, in the same light. As Stewart J. Hudson stated, "We have to keep in mind that the objective of trade agreements is not trade but sustainable development." (NJ 4/13/91, p.865).

This conceptual link between environmental concerns and trade became much more pressing, however, when US environmentalists successfully lobbied the US Congress to legislate a ban of tuna fish products caught with drift nets known to inadvertently kill dolphins. Mexican tuna fishermen, many of whom used such nets, formally petitioned the GATT to declare this ban a trade barrier based on unreasonable production process standards, a violation of GATT norms. In 1988, a GATT arbitration panel ruled in favor of Mexico, nullifying the US ban on dolphin-unfriendly products. This ruling awakened the environmental movement to how free trade arrangements could undermine dearly won regulations, and mobilized environmental groups to press their concerns in future trade initiatives (Robinson 1994, p.678, fn.24. and Schoenbaum 1992). It inspired lobbying for a 1991 bill proposed by Senator Boren calling for tariff action against those imports that might derive competitive advantage from lower environmental standards (Conybeare et.al.1995, p.215). The next big liberalization initiative was NAFTA, involving not only a developing country with lax environmental standards and regulatory powers, but the very country whose producers used free trade principles to undermine the recent tuna regulation.

All the environmental groups to engage the NAFTA fight approached the liberalization with similar platforms, the core of which were focused on compensated liberalization, with freer trade conditioned upon protections against competition in laxity and funding for environmental cleanup. First, environmental groups feared that liberalization of trade and investment with Mexico would inspire heightened exports from and investment to Mexico, taking advantage of its lax standards and regulations, thereby undermining US regulations. To safeguard against such competition in laxity, environmental groups demanded, as a National Journal writer put it , "some assurance that the Mexican government will enforce its antipollution regulations when new investment floods into Mexico..." and wanted the agreement "to hold any new US investors [into Mexico] to Washington's higher environmental standards" (NJ 2/16/91 p.416).

Similarly, with the ink from the GATT tuna ruling still not fully dry, environmental groups also worried that Mexico-based corporations could use the free trade agreement to directly undermine more stringent US regulations by painting them as unfair trade impediments. This fear was strongest toward the many regulatory areas where state-level regulations were more stringent

than federal regulations, and yet where federal negotiators might set the NAFTA standard. As the Sierra Club's MsCloskey stated, "we need an unambiguous statement [by the Administration] that they won't bring back any treaty that casts doubt on US environmental laws" (NJ 4/13/91, p.865). The first element of the platform, in other words, called for sustained US environmental regulations and/or upward harmonization.

Second, environmental groups explicitly made their support for any NAFTA liberalization conditional upon new funds and policies to clean-up the US-Mexico border where past and future US outgoing investment was concentrated. Many groups pointed out that the maquiladora region was soiled by depleted border groundwater supplies, dumped toxic substances, and the drift of smog to places as far away as the Grand Canyon. As a National Wildlife Federation spokesman put it, the region is "a case study of what happens when one promotes investment and free trade without taking into account environmental concerns" (NJ 4/13/91, p.865). To mitigate the excesses of such damage, all environmental groups engaging the NAFTA sought generous and institutionalized funding to clean up ground water and toxic emissions, pay for water treatment facilities, and subsidize anti-pollution changes to production facilities.[31]

In short, the environmentalists' trade policy platform was a compensated liberalization one in explicitly accepting free trade conditional upon: (1) funding, a clear call for side payment compensation; and (2) adequate institutional protections to ensure stable US regulatory standards or upward harmonization -- a combination of protectionist revision and side payment compensation, depending on the mechanisms for ensuring such safeguards.[32]

Although all the NAFTA environmental groups converged upon this basic compensated liberalization stance, there emerged early in the fight a sharp and stable split in the stances of different groups, dividing the environmental coalition into two camps: those groups taking a conciliatory stance, signaling their support for the NAFTA liberalization given Administration promises and actions; and those groups taking a more skeptical stance, early on signaling that such promises and actions were insufficient to win their support. The conciliators consisted of six of the largest national environmental groups, representing more than 7.5 million members: (1) the National Wildlife Federation; (2) Conservation International; (3) World Wildlife Fund; (4) National Audubon Society; (5) Environmental Defense Fund; and (6) Natural Resources Defense Council. All these were long-standing national groups, based in Washington D.C. or New York, and with a

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[31] This posture comes through in all of the testimony environmental groups offered to Senate and House Committees at all the critical decisionmaking junctures of the NAFTA fight. For the pre-Fast track testimony see House Small Business Committee, Subcommittee on Regulation, Business Opportunities and Energy, Sept.30 1991 (McCloskey of Sierra Club, Emerson of Environmental Defense Fund, Greenwalt of National Wildlife Federation), pp.104-55; and Blackwelder of Friends of the Earth's testimony before House Rules Committee, Oct.16, 1991, p.49.

[32] Particular groups differed in the priority they attached to these demands, and some offered other demands more narrowly connected to the group's interest. The National Audubon Society, for instance, linked support in the final hours of the fight to explicit protections for endangered birds. See below, Section 3.2.3.

history of establishment ties and to focus on elite, legislative politics. On other environmental issues they tended to have moderate, conciliatory platforms (NYT 9-16-93, A1).

The skeptics included a number of national groups and hundreds of regional and local groups, some acting as independents and some as affiliates of national groups (on both sides of the "skeptic vs. conciliator" aisle).[33] The most vocal nationals among these skeptics were: (1) Sierra Club; (2) Friends of the Earth; (3) Greenpeace; (4) Public Citizen, a national consumer and citizen rights group often entering the environmentalist fray; (5) Earth Island Institute; and (6) Rainforest Action Network.[34] Compared to the conciliators, these skeptics tended to be less elite-oriented in their politics and actions -- that is, having fewer contacts with government elites and, for some skeptics, having less legislative experience -- and more grass-roots oriented. They also tended to be more radical in their political platforms on other environmental issues.

The differences between the NAFTA platforms of these "skeptics" and "conciliators" was less about the basic conditions linked to freer trade than about procedural politics. The split was mainly over the scale and ambition of the revisions and compensation upon which free trade would be conditioned, though the generality of the position statements suggested that the gap was modest. Other than asking for stronger and better-funded monitoring and enforcement provisions for regulatory harmonization and for more clean-up money, the clear policy differences were that the skeptics wanted more regulation of production process as well as product standards, and a formal environmental impact statement of the NAFTA.[35] More important than such substantive differences, however, were splits over process and symbolism.

First, they differed in the priority attached to taking a conciliatory line to avoid being called protectionist. For instance, conciliators bent over backwards to paint themselves as moderates, willing to compromise, and above all not against free trade. Stewart J.Hudson, legislative rep for intl programs of the National Wildlife Federation said: "We are not against a trade agreement with Mexico...What we are against is one that is not structured properly to take into account the problems it would exacerbate" (NJ 2/16/91, p.416). And later that year he repeated that "we are truly not doing this to kill the agreement....But this is where you have to start in the greening of trade negotiations" (NJ 4/13/91, p.863). Eric Christensen, project attorney for the NRDC, stated the position more pointedly: "The question is how do you protect the environment and structure the system for ferreting out protectionism" (NJ 2/16/91, p.416). The skeptic organizations never emphasized their potential support for freer trade should their various conditions be provided, and they sometimes even accepted the protectionist label (e.g. Sierra Club testimony in 1993).

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[33] When the National Audobon Society announced its support for the NAFTA in October 1993, several of the regional affiliates expressed their split with the parent organization and continued to oppose the liberalization.
[34] Other vocal players included Public Interest Research Group, American Society for the Prevention of Cruelty to Animals, and the American Humane Society (NYT Sept.16, p.A20). National Toxics Campaign?**
[35] Sponsors of this action were Sierra Club, Friends of the Earth, and Public Citizen (CQ Almanac '91 and '93).

Second, the skeptics and conciliators differed over the priority they attached to inclusion into negotiations and legislation drafting. By all accounts, conciliator groups fought for and won substantial inclusion into the process of putting together NAFTA. Early in the fight, National Wildlife Federation suggested "the creation of an environmental working group among the negotiators to monitor the environmental implications of various issues under discussion and to negotiate specific environmental provisions of the pact." And they also called for a panel to deal with environmental controversies about interpretation or application of the agreement (NJ 4/13/91, p.865). As NRDC executive director John Adams remembered, by the time the Clinton administration had negotiated the side agreements, that members of his staff "had spent thousands of hours participating with Administration officials in the development of the environmental provisions of the agreement..." (NYT Sept.15 1993, p.A20). Skeptic environmentalists, in contrast, did not make such inclusion and participation in the drafting process a high priority, though the Sierra Club representatives were quite involved in Clinton Administration deliberations over environmental side provisions. Sierra Club notwithstanding, whether a group was included or excluded in the NAFTA negotiations positively correlated with how much emphasis a group put on such inclusion in the early confrontation *before negotiations.*

Finally, the skeptics and conciliators differed in the ties they were willing to establish with other members of the anti-NAFTA coalition, especially organized labor. Although the conciliator environmentalists engaged in a number of consultations with labor, and even expressed common cause in their conditional opposition to the NAFTA in the early stages of the proposal, they never formed any formal alliances with Labor or other groups. The skeptic environmentalists, on the other hand, consistently, more extensively, and more formally engaged Labor and other members of the anti-NAFTA coalition -- such as in the Citizens Trade Watch Campaign. Their hard line position, therefore, implies that their own conditionality platform was complicated, made more ambitious, by their ties to Labor and their demands.

Whatever its basis, this split between the skeptics and conciliator environmental groups emerged early in the NAFTA fight, and became more visible and bitter as the episode evolved. When Bush sought Fast Track authority, the platform statements of the respective groups already marked a modest split, and as the negotiations and side-issue promises evolved under Bush, and were revised in the supplemental agreements and other deals with Clinton, the split hardened.

By the eve of the ratification fight, the split became an open and bitter breach. Members of the six supporting environmental groups appeared with V.President Al Gore to voice support for the NAFTA, freshly revised with the side agreements. Of their departure from the erstwhile allies, John H.Adams, executive director of the NRDC, towed a very diplomatic line: "I recognize that this is a complex and difficult issue on which reasonable people with the same values and objectives can differ" (NYT Sept.15 1993, p.A20). Jay D.Hair, head of National Wildlife

Federation was a bit less diplomatic, saying the anti-NAFTA environmentalists were "putting their protectionist polemics ahead of concern for the environment," and had not even "seen the documents...don't have the facts and are feeding off misinformation" (Ibid). The skeptic opposition, so accused, were even more strident in their criticisms of the pro-NAFTA six. As part of their participation with the Citizens Trade Campaign, these groups released a newspaper advertisement asking, "Why are some 'green' groups so quick to sell off the North American environment? Maybe they are too cozy with their corporate funders" (Ibid). As a general coalition, the strength of the environmental coalition and their multi-issue platforms simultaneously strengthened the anti-NAFTA coalition and laid bare opportunities for side payment buy-offs.

2.3. Industry and Agricultural Protectionists: Mostly the Same-old, Same-old

The last major bloc of the anti-NAFTA coalition, import-competing producers, were neither new to the trade game nor as fluid in their trade policy stance. Most US industry and agricultural firms and their organizations supported the NAFTA, and a number of their import-competing membership expressed only muted opposition to or ambivalence towards the NAFTA. This reflected how even import-competing groups recognized that Mexican producers weren't the greatest trade threat relative to other foreign producers, that NAFTA would imply big changes given already low US tariffs and other NTBs, and that the NAFTA presented significant investment and export opportunities. However, a number of industry and, especially, agricultural groups worried about non-American producers exploiting the NAFTA to gain access to the US market, and some were the high-tariff exceptions to the openness rule, thereby expecting major increases in US and Mexican competition.

Unlike their labor and environmental counterparts, most of these protectionists approached the NAFTA fight with platforms narrowly focused on defeating the NAFTA or on gaining protectionist revision or exemption for their particular interests. The one partial exception here were the winter fruit and vegetable producers and their champions, who usually took a more multi-issue stance, albeit not through conciliatory offers to support NAFTA in exchange for accession to their separate demands. Against the back-drop of this narrow range of protectionisms, the power resources of some of the producer groups meant that at least some had a politically powerful bite to match their unconditionally protectionist bark.

2.3.1. Industry: the Modestly Protectionist or Weak Few

Contrary to some expectations at the early stages of the NAFTA, very few industry representatives expressed unambivalent and vocal opposition to the liberalization. The steel

industry, for instance, expressed very little opposition during Congressional testimony.[36] So, too, did the auto parts industry.[37] The modesty of these stances reflected uncertainty over NAFTA's effect on the industries, and a general optimism that expanded export and investment markets would allow firms to handle or actually move behind any increasing Mexican imports.

Most surprising in the modesty of their stance, however, were the textile and apparel producers. These two sectors were traditionally protectionist, and unconditionally so, and the NAFTA could be expected to bring significant changes in view of relatively high tariffs and quotas: US Textiles (SIC 22) enjoyed 10.7 percent tariff on Mexican imports; Apparel (SIC 23) 18.7 percent (Krugman and Hanson 1993, p.175). But both of the major associations representing these producers were only modestly engaged in the debate: over more than 56 hearings, the American Textile Manufacturing Institute testified three times, the National Knitwear and Sportswear Association did so only twice, as did the American Apparel Manufacturers Association (CIS/INDEX 1993). And in this testimony, the groups generally towed a modestly protectionist line that offered support for the NAFTA provided phase-ins were at least a year, that there be snap-back tariffs in the event of import surges, and that there be rules of origin (especially the fabric-forward rule) that would keep non-American firms at bay.

The only other producers to take a clear "protect-me-from-NAFTA" stance were politically marginal: a smattering of rubber and plastic footwear makers; brush manufacturers; and a segment of the glass and ceramic products industry.[38] A few glassware producers were the largest and most vocal of these. Some glassware already entered the US duty free under GSP, and NAFTA represented export opportunities in light of the relatively high Mexican tariffs (e.g. Mexican tariffs on SIC 32 Stone, Clay and Glass were 14.3 percent). So some glassware producers agitated in favor of NAFTA, conditional on expanded access to Mexico.[39] But the average US tariff on SIC 32 products was 8.9 percent, and household glassware tariffs averaged 22 percent (Weintraub in Lustig et.al. 1992, p.120). Predictably, then, a couple of producers, such as Libby Glass Co., were active in seeking long phase-ins, protection against import surges, and outright exemption from NAFTA liberalization.[40] Such producers were tiny (only a few thousand workers employed)

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[36] A senior APCO Associates lobbyist predicted that "inevitably, the steel industry will look with some nervousness on a further increase in Mexican access to the US market" (NJ 9/29/90 p.2327). But with tariffs already low and export opportunities significant, in 56 hearings steel reps only testified once, supporting NAFTA with phase-ins and tight rules of origin: American Iron and Steel Institute (Ways and Means 11/10/92, p. 209-48).

[37] Auto parts manufacturers were expected to voice opposition early on, but only modestly engaged the NAFTA, asking for tight rules of origin, investment protections, and some phase-in time. Automotive Parts and Accessories Association testified to this effect twice (Senate Finance, July 29, 92, p.116-28). So did the Motor and Equipment Manufacturers Association (House Energy and Commerce, March and May 1991 p.298-308).

[38] Rubber and Plastic Footwear Manufacturers Association and American Brush Manufacturers Association (House Ways and Means Feb 1991, pp.482-528).

[39] Two glass producers testified basically in favor of the NAFTA. Homer Laughlin China Co. conditioned its support for the NAFTA on elimination of Mexican flat glass tariffs (House Govt. Operations May 27 1993, p.77-115). And Anchor Glass Container Co. was basically supportive on similar market-opening conditions. (p.335-63).

[40] Libbey Glass testified three times before House and Senate Committees (c.f. House Govt.Operations, May 27,

and dispersed in the US, implying that their power to threaten or retaliate against the liberalization was very modest compared to textiles and apparel, or many other industries.

2.3.2. Agriculture: Regionally Concentrated Protectionists

A number of agricultural groups also approached the NAFTA as unconditional protectionists, and had the political resources to back it up.[41] These groups represented a sizable minority of US agriculture. Many agricultural interests -- even many that enjoyed tariffs, quotas, and Section 22-related protections -- expected the NAFTA to lower Mexican and Canadian trade barriers, and to thereby expand exports.[42] A minority of traditionally protected agricultural groups, however, many splitting off from pro-NAFTA counterparts in the same broad sector of agriculture, feared that NAFTA would undermine their network of protections.[43] Even where tariffs to Mexico and Canada were relatively low, they feared that a free trade precedent might be set that would inspire more painful liberalization towards other regions (Orden 1994).

The protectionist agricultural groups included some corn and wheat growers, all sugar producers, peanut farmers, Florida-based citrus, and a Southern winter fruits and vegetable producers. Grain protectionists included both corn and wheat growers from literally hundreds of thousands of farms. Both corn and wheat enjoyed relatively little tariff protection, on the order of three percent. But they benefited from export subsidies, supply restrictions based on acreage reduction, direct subsidies, and other protections under Section 22 (Orden 1994, p.13). The associations representing these producers, the National Farmers' Union (NFU), the American Corn Growers Association and the National Association of Wheat Growers, feared an end to these protections. The NAWG claimed to be particularly threatened by competition from Canadian wheat producers given unfair trade advantages via government subsidies, and therefore sought either an end to Canadian subsidization or new US export subsidies, as well as a number of phase-in, tariff snap-backs, and other exemptions (Orden 1994, p.23). The NAWG was particularly active in pressing its case, appearing before the House and Senate four times (CIS/INDEX

1993, p.139-68; and House Education and Labor March 30 1992, p.234).

[41] The following several paragraphs draw heavily on findings from David Orden's excellent study of agricultural politics during the NAFTA (Orden 1994). Its information on platforms are tested and further developed by review of samples of testimony from each of agricultural segment's main representative in House and Senate hearings.

[42] Many grain producers, for instance, anticipated to benefit directly from greater access to wheat and corn buyers in Mexico. Dairy, soybean, and livestock producers expected the same. Cotton producers, on the other hand, didn't expect so much to benefit directly from expanded exports, but to benefit from higher domestic demand from textile and apparel producers who would be increasing production to meet new export opportunities that a NAFTA with tight rules of origin would ensure.

[43] For instance, the American Corn Growers Association opposed NAFTA while the National Corn Growers Association supported liberalization, reflecting a seven year split over the general virtues and vices of free rather than supply-controlled agriculture. And the California-based fruit and vegetable producers supported the NAFTA, while their Florida-based counterparts opposed it.

1993).[44] NAWG also had contacts in USDA and USTR, and one NAWG representative served on the USTR's Grains and Feed Technical Advisory Committee (Orden p.23-4).

Peanut growers received more Section 22 protection than other oilseed producers, including a two-tier pricing system that raised the domestic price level above the world price and provided quotas to keep out imports and subsidies to clear surpluses. The representative associations sought to protect the two-tier pricing arrangement. They also expressed concern about illegal trans-shipments through Mexico, even though Mexico was a net importer of US peanuts and even though the trans-shipment concerns could be mollified through the rules of origin set up in the NAFTA. The National Peanut Council of America and nine state organizations pressed this protectionist case through congressional testimony, lobbying, and through USTR's Oilseed Products Technical Advisory Committee.

Winter fruits and vegetables were some of the most active protectionists, represented by a network of national and regional associations.[45] Trade was especially important for these seasonal vegetables, and they were not protected by significant tariffs, import quotas or direct payments. Nonetheless, fruit and vegetable producers, particularly those concentrated in Florida, sought tariff snapbacks to protect against import surges, similar to those provided under the US-Canada FTA. The vegetable producers were more ambitious, seeking exemptions from the agreement until disparities in environmental and labor conditions were eliminated, especially those related to pesticides. Florida citrus growers, who faced competition more Brazilian more than from Mexican producers, but feared that the 1980s cold spells would require years for the new plantings to "bear fruit" (sorry about the pun), and they therefore sought exclusion from the agreement for 20 years.

Finally, the agricultural cabal included Sugar, the poster-child of agricultural protectionism. Also concentrated in Florida and a couple of other Southern states, sugar producers were protected by a two-tier tariff-quota, with a tariff-rate quota that allowed imports within that quota to enter at a low rate and all imports above that quota to enter at a prohibitive tariff rate (80 percent) (Orden p.9). Mexico's were only a small fraction of imports under that quota system, and given that system overall imports constituted less than 15 percent of domestic production during '89 and '90 (Ibid). Sugar producers sought guarantees that the NAFTA would not unravel the system. Not only did they want the NAFTA to include a low quota on Mexican sugar imports, they also sought safeguards against the chance that consumers would undermine sugar prices by switching to corn syrup or other substitutes. The associations pressing these demands included national and regional groups, especially the National and Florida Sugar Cane Leagues (CIS/INDEX 1993).[46] As a

[44] American Corn Growers Association appeared only once, and the National Farmers' Union three times (CIS/INDEX 1993).

[45] These included United Fresh Fruit and Vegetable Association (three Hearings appearances); the Florida Fruit& Veg.Ass.(four appearances); Florida Citrus Mutual (one appearance); Texas Citrus and Veg.Assoc.(one appearance).

[46] The American Sugar Cane League was the most vocal (two appearances), but also present were the Florida Sugar Cane league, the American Sugar Beet Growers Association, the Sugar Advisory Committee, the Louisiana Farm

measure of the lobby's influence, the exec.vice president of the Florida League was appointed to USTR's agricultural policy advisory committee (Orden 1994, p.23; NJ with Rep.Downey).

In terms of power resources, the most privileged groups were the winter fruit and vegetables and sugar growers, all of whom were concentrated in two states, Florida and Louisiana, and more narrowly still in the constituencies of the senior Representatives of that delegation, especially Tom Lewis. This concentration was greater than that of any other anti-NAFTA producer group, and this strongly constrained the voting patterns of the 23 member Florida delegation.

2.4. Miscellaneous Protectionists and the Umbrella Associations

Rounding out these pillars of the anti-NAFTA coalition was a smattering of other consumer, human rights, religious, minority rights, and other groups -- most of which focused as much on side issues as on protectionist redress. Public Citizen was the most active consumer group, straddling the environmental and labor planks of the anti-NAFTA coalition. The human rights groups included, most prominently, the International Labor Rights Education and Research Fund (ILRERF), which agitated for institutionalized monitoring and protections against child labor and for worker rights.[47] Religious groups, including the Methodist Church, the United Church of Christ, as well as old lefty stalwarts like the AFSC, sought similar protections, plus adjustment assistance -- though explicitly to protect non-US workers and standards as much to defend domestic standards and rights.[48] Even the American Federation of Teachers got into the act, claiming that trade-impacted communities threatened to generate less public revenue for education. They, too, emphasized the importance of upward harmonization and adjustment assistance.

Key among minority rights groups were African american organizations -- especially Jesse Jackson's Rainbow Coalition, the National Black Caucus of State Legislators and the African American Citizen's Coalition on Regional Development -- which were concerned about the NAFTA's affect on minority businesses, on Caribbean nations through trade diversion, and on low-skilled workers who were a disproportionately large chunk of the hispanic and black populations (N.J. 2/6/93, p.352; Conybeare et.al. 1996).[49] They focused their attention on side

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Bureau Federation, the Rio Grande Valley Sugar Growers, and the Texas Sugarbeet Growers Association -- each of which made one appearance in Congressional hearings.

[47] Representatives of the fund, usually Pharis Harvey, testified before Congress four times, and were key players in the coalition organizations like the Americans for Responsible Trade.

[48] These institutions acted through their congregations, gave individual testimony to congress, and rallied public opposition. They also participated in religious coalitions such as the United Council of Churches and the INTERFAITH IMPACT for Justice and Peace (e.g. House Budget Committee, May 14, 1991, p.38-60).

[49] The National Journal reported speculation by Clinton Administration sources that some of these black organizations might be positioning themselves against NAFTA to leverage their candidacy as contractors for the "inevitable multi-billion dollar retraining program the Administration is likely to provide to gain political support for free trade" (NJ 2/6/93, p.352.). Such positioning, if a significant motivation, may well represent extortion, in that their main focus is on the compensation, even if their trade concerns are modest.

issues, gaining more access and funds for adjustment and community assistance, and on the safeguarding of environmental and labor standards. Hispanic community groups did the same, but also called for a development bank that would aid trade-impacted communities.

This diversity of protectionist groups -- with organized labor and environmental groups and a subset of the producer groups at the center -- articulated and lobbied for their demands partly through broad associations dedicated to the NAFTA fight. The most important of these were the Citizens Trade Watch Campaign (CTC) and its sister organization, the Americans for Responsible Trade (ART). Both groups grew out of organized collaboration from the US-Canada-FTA, especially the Fair Trade Campaign. In the very early stages of the NAFTA fight -- soon after the intention to negotiate announced, through the Fast Track fight -- some members of this coalition pulled together the Mobilization on Development, Trade, Labor and Environment (MODTLE).[50]

After the Fast Track ended in May 1991, MODTLE groups split up and founded two organizations to continue the NAFTA fight. The explicitly political lobbying members, such as Public Citizen, created the Citizens Trade Watch Campaign (CTC) to lobby congress and administration officials.[51] The remaining MODTLE groups, mainly the smaller organizations whose charitable status denied them right to lobby, renamed themselves the Alliance for Responsible Trade (ART). Pharis Harvey of ILRERF was, again, an important player in the formation and activity of this organization (Robinson 1995, p.678-9). ART spent most of its efforts developing a common critique and an alternative to the NAFTA and GATT among US, Canada, and Mexican labor and NGOs.

This split between CTC and ART captured a reasonable division of labor between different sides of an opposition position -- political pressure for reform and more high-brow articulation of just alternatives to NAFTA -- but it also apparently reflected personality conflicts and tactic divisions among the organizers. Most important of the tactical divisions was that the CTC elite politicking favored joining forces with other anti-NAFTA groups on the right of the political spectrum, particularly the nativist Perot-Buchanan forces, and this in turn implied a more nationalist, sovereignty-based critique of the NAFTA; the ART's more internationalist and "alternatives-oriented" task, on the other hand, strongly favored developing a more nuanced, internationalist, and conciliatory focus on cross-border rights, standards, and adjustment assistance. By design or unintentional consequence, the CTC ended up being generally more unconditional protectionist than ART.

Both groups, however, backed the pinnacle statement of a NAFTA alternative: *A Just and Sustainable Trade and Development Initiative for North America,* released on September 28, 1993.

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[50] ILRERF activist Pharis Harvey was a key player in this founding. The AFL-CIO was not at this point, though several member unions were more so (e.g.Food workers, ACTWU).(Robinson 1995, p.678; Ritchie 1992,pp.148-9).
[51] Public Citizen's Lori Wallach "figured prominently" in the formation (Robinson 1994, p.678).

Co-sponsored by ART, CTC, the Mexican Action Network on Free Trade, the Action Network of Canada, and the Institute of Policy Studies, the proposal sought "to open a new chapter on the trade debate in N.America," and contained measures similar to the EC's social chapter, including a sizable amount of structural and development funding for poor countries and a fund for adjustment assistance for displaced workers. It also outlined a "protocol," again comparable to the ECs Social Chapter, guaranteeing workers' rights and environmental protections. The money to pay for these various programs was to come from an across-the-border tax of less than 1 percent (LRW 9/29/93, p.933). In late September 1993, the same alliance called for creation of a regional development bank, new efforts to reduce Mexico's foreign debt, a commitment by Mexico to link average industrial wages to productivity, and a code of conduct for corporations (NJ 10/16/93, p.2474). The trade policy stance of the umbrella, formal coalition, then, evolved to be more multi-issue oriented than even the more conciliatory of labor unions and environmental groups.

3. The Fight: Three Phases of Side Payment Politics

Faced with such an array of impassioned opposition, the Bush and then Clinton Administrations and their pro-NAFTA allies in business and the Congress had their work cut out for them. Several political hurdles destined to be the veto points of the episode stood between them and a completed liberalization. Minimally, Bush needed to get congressional authority to negotiate with the Mexicans and Canadians, via either Fast Track or more constrained authority. Then there were the negotiations themselves, where domestic pressures could rear their head by retaliation or threats to ratification. And finally, Congress would need to ratify the result, either through an up-or-down Fast Track vote, or through a process more open to amendments. With the 1992 elections looming, however, this sequence was further complicated. And when Clinton made his support for the NAFTA contingent on supplemental negotiations for labor and environmental safeguards, he opened-up yet another set of veto points.

Both Bush and Clinton, it turned out, were up to the fight. Whatever their differences, both made passage of the NAFTA liberalization very high legislative and executive priorities. The Bush Administration portrayed, and maybe saw, the NAFTA as a major test of Bush's foreign policy and legislative leadership, and as aides were later to say of the rallying of legislative support, "we've not left much to chance here" (CQ Almanac 1991, p.119). The Clinton Administration, for their part, pushed even harder. After a relatively slow start in negotiating and pushing the liberalization through, Clinton made NAFTA a top legislative priority and test of its bipartisan virtue. Thomas Foley, 30 year congressional veteran and House Speaker, said of the President's NAFTA performance that Clinton had "...worked harder...than any president I've seen on any issue" (quoted in Jennings and Steagall 1996, p.72).

However different their legislative priorities, tactics and alliances, both Administrations used the whole gamut of bargaining tools for negotiating and ratifying the NAFTA. They both used rhetoric, protectionist exemption and revision, and side payments to keep the opposing coalition as docile and modest as necessary to gain a sometimes minimal margin of victory. And both Administrations clearly tried to limit the costs of such a margin -- by limiting expenditure of political capital, money, and compromises of the liberalization.

Most of the resulting political action was targeted at interest groups and legislators rather than mass publics, though both sides sought to sway public support. The NAFTA coalition had its advertising campaigns, its teach ins, rallies, and grass-roots organizing as a key part of its strategy to revise or defeat the initiative. And although the liberalizers were slow to counter this mass politicking, it too blanketed television with advertisements and even held the occasional pro-NAFTA rally. Administration officials appealed to the mass public as well, appealing in dozens of public speeches designed to sway grass-roots feeling, trotting out all the living Presidents and the vast majority of its most famous economist-experts to support the agreement, or sending Vice President Gore to debate Ross Perot on prime-time, national television.

As the NAFTA fight unfolded, however, it became clear that public opinion was modestly though significantly on the side of the anti-NAFTA coalition. In the early days of the fight, when the issue was low in salience, a significant majority of Americans (76 percent to 15 percent) thought the NAFTA would be "mostly good" rather than "mostly bad" for the US (Robinson 1994, p.682). In the final hours of the fight, after NAFTA was very salient, the tables had turned, with a narrow majority of Americans opposing the NAFTA (41 to 35 percent), and a significant majority of those holding "strongly held" views opposing the agreement (21 percent strongly opposed, and 7 strongly in favor) (Newhouse&Matthews 1994, p.31; Robinson 1994, p.682-3).

With the mass public evenly divided or modestly opposed to NAFTA, liberalizers needed to target the most activated groups in the anti-NAFTA coalition with the sharper political tools of redress: protectionist exemptions and revisions, and side payment compensation. And with both administrations strongly seeking a NAFTA with as much of its liberalization intact as possible, the side payment politics were at center stage of the NAFTA fight. The result was that compensation flowed more generously than ever, to more groups, and for the first time included substantial supranational side payments negotiated during international phases of the struggle.

This flow came in three surges, coinciding with the major veto points of the NAFTA fight: (1) the Fast Track approval fight and the negotiation of the main NAFTA agreement, between early 1991 and late 1992; (2) the Clinton Administration's campaign promise and actual negotiation of the supplemental accords for labor, the environment, and import surges, between late 1992 and September 1993; and (3) the "endgame" fight to secure Congressional ratification of the NAFTA and its supplemental agreements, between September and November 17th, 1993.

3.1. Fast Track and the NAFTA Negotiation: Bush's "Action Plan" Compensation Promises

President Bush rang the opening bell of the NAFTA fight when he formally requested Fast Track negotiating authority in March 1991. The Administration needed Congress to approve such authority before they could discuss any deals with their Canadian and Mexican counterparts. Fast Track was to be in place through most of 1991, having been granted as part of the 1988 Omnibus Trade Bill. And in accordance with the same bill, Fast Track authority would be extended automatically or another two years if the President so requested, unless either branch of Congress formally mandated otherwise within 90 days of the President's request. With the President's March request, therefore, Congress had three months, until June 1991, to decide whether to let Fast Track ride or to pass legislation delimiting or canceling authority (CQ Almanac 1991).

Bush and his advisors apparently "saw the fast-track as a major test of presidential authority," but like their liberalizing predecessors, pushing Fast Track was mainly motivated by a desire for room to bargain as widely for as favorable an agreement as the Administration could get without congressional interference. As Trade Representative Carla Hills argued, "without fast-track, a complicated trade agreement could be totally rewritten on Capitol Hill when it's submitted for congressional approval." Hills and others contended that this would undermine US negotiating bargaining leverage, because other country representatives simply wouldn't trust US overtures.

Getting Fast Track was going to be no mean trick, however, for several elements of the anti-NAFTA coalition were already mobilizing to kill or revise it. In a series of public statements, early congressional hearings, and grass-roots actions, organized labor had already made its then-unconditional protectionism known. Environmental groups, likewise, had also made their concerns explicit by early 1991, already revealing the split between the mainstream and more radical environmentalists. The environmental camps spoke with a single voice on the importance of preventing the carte blanche of Fast Track from letting environmental issues fall between the negotiating cracks. Although less visible and active in the early stages, even industrial groups in the anti-NAFTA coalition voiced their concerns in House and Senate hearings over Fast Track.[52]

In contrast to the early activity by anti-NAFTA forces, the NAM, Chamber of Commerce and other business groups that supported the NAFTA were relatively quiet in pushing for Fast Track. According to Robert Matsui, D.-Hawaii, this was because they thought it "inconceivable" that Congress would deny Bush the authority (NJ ?find that cite?).

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[52] Various House committees held a hearings prior to the President's initial Fast Track request, and another eight hearings between the March request and the May Fast Track vote; the Senate committees held one prior to the request and three more to address the propriety of Fast Track for NAFTA (CIS/Index Legislative Histories 1993, p.333-41). Labor and environmental groups appeared much more frequently in those hearings than did producer groups.

Such an attitude was dangerously optimistic, but several aspects of the Fast Track phase did, in fact, soften the strength and determination of the anti-NAFTA opposition. First, so soon after the initial September 1990 announcement of a NAFTA initiative, most of the anti-NAFTA forces hadn't had time to mobilize and coordinate their various resources. The MODTLE had yet to be formed, grass roots organizing by labor was just beginning. Second, anti-NAFTA groups disagreed over whether the Fast Track was the proper phase of the NAFTA negotiations and legislation to stand and fight, given that the details of the liberalization had yet to be decided. Whether groups genuinely awaited the outcome before deciding how much to oppose (some environmental groups) or simply wanted something more meaty to hang their opposition upon (many unconditional protectionist labor groups), some agreed that it was premature to push too hard on the Fast Track vote. And third, some anti-NAFTA groups thought Fast Track should go through because the negotiating authority applied not only to the NAFTA talks but also to the on-going and generally less controversial GATT/Uruguay Round talks.[53]

In response to such moderated rumblings from the anti-NAFTA coalition, and in the aftermath of Bush's triumphant Desert Storm internationalism, the mood in Congress was mixed but reluctant to stand in the way of foreign policy room-for-maneuver. Most of the Democratic House and Senate leadership cautiously supported Fast Track extension.[54] House Ways and Means Chair Dan Rostenkowski, House Speaker Thomas Foley, and Senate Majority Leader Lloyd Bentsen supported the agreement, but were concerned about its future political prospects. As Rostenkowski put it, "My inclination is to be supportive. But I see the storm brewing out there." There were plenty of Democrats, however, particularly those close to organized labor, environmentalists, and import-competing agriculture, who stated their conditional or outright opposition to Fast Track. Most powerful among these were the rust-belt labor champions Richard Gephardt, House Majority Leader, and House Whip David Bonior. Despite their deep misgivings about NAFTA, however, neither saw the Fast Track as the appropriate time to put up the full fight.

They did, however, recommend action. Either as liberalizers sympathetic to the NAFTA cause or as protectionists hostile to it, these legislators counseled Bush Administration officials to provide some assurances that the labor, environmental and producer concerns would be addressed in some way so as to settle the "brewing storm" (N.J.; CQ Weekly Report 5/4/91, p.1120).

Administration officials were willing to follow such advice, directing appeals to societal groups that would split the anti-NAFTA coalition. Initially, this meant essentially ignoring and confronting head-on organized labor, while appeasing environmental groups, especially the more

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[53] The blanket authorization of Fast Track cut both ways, however, since there were some groups worrying less about NAFTA than about GATT. Agricultural and textile producers and their legislative champions -- such as wheat champion Byron Dorgan, D-ND, and textile champion Ernest Hollings, D-SC. -- fall into this camp most clearly.

[54] David S.Cloud of CQ Weekly Report noted that "Having already opposed Bush on the use of force in Iraq, many Democrats fear a vote that would be portrayed as economic isolationism" (CQ Weekly 5/4/91, p.1120).

conciliatory mainstream groups. Such a tactic was the obvious response to the unconditional protectionism of Labor, but was also simply in keeping with the tradition of mutual hostility between Labor and Republican leadership. Whatever the reason, the Bush Administration granted only a couple of meetings between AFL-CIO representatives and Labor Department and STR officials. With the exception of these brief discussions -- at which nothing was agreed upon other than that a yawning gap separated Labor and Bush Administration platforms -- the rule was pure exclusion (interview with Mark Anderson).

Toward environmental groups, the story was much different. Throughout early 1991 administration officials were wooing environmental groups, hoping to convince them to support the NAFTA, or at least accept Fast Track authority. The point people for the effort were STR Carla Hills and EPA Administrator William K.Reilly. Through discussions with a number of environmental representatives, the Administration tried to assemble a package of safeguards and environmental cleanup promises that would address the fears and demands of the environmental lobby. The representatives of that lobby most actively discussing the price of environmental group support for the Fast Track and NAFTA was Stewart Hudson of the National Wildlife Fund, who coordinated activity among the mainstream environmental groups. At this stage of the NAFTA fight, these representatives emphasized the importance of inclusion in the development of NAFTA legislation, of negotiating positions, and in the negotiations themselves.

The on-going discussions between these representatives and Administration officials starkly contrasted the generally cool or hostile relations between the Republican Administration and environmental groups over issues such as EPA regulations and property rights. And as the wooing unfolded, a number of Administration officials, such as John Sununu, wanted to stick with tradition and minimize the overtures, fearing too much constraint on free trade prerogatives. The history of hostility, of course, also made some of the more hard-line environmental groups unhappy with any conciliation and cozying-up to the enemy.

By late April 1991, the AFL-CIO and other labor groups anticipated that there might be attempts by the Administration to buy off some of the environmental groups with safeguards and inclusion. And they openly hoped that the Administration's overtures would either fail or get overturned by Sununu or other Administration hard-liners (NJ 4/13/91 p.862). As an AFL-CIO official lamented,

> [The Bush people] are doing everything they can to buy off the environmentalists....Hills is going to tell them anything they want to hear, and they are clearly enamored with being schmoozed. They don't realize that what is on the table today can be off the table tomorrow. (NJ 4/13/91, p.862-3)

This sentiment, of course, voiced a mixture of sour grapes over the privileged treatment given environmental groups, and of cynical disenchantment with liberalizer promises, bourne of decades of reneging on TAA compensation.

More extensive than the direct discussions between the Administration and anti-NAFTA coalition groups were the discussions between Bush's team and congressional representatives. Throughout the Fast Track fight, House support was much harder to come by than Senate support, so much of the legislative wooing was focused there, but both chambers got the hard sell. The Administration's point person in this wooing was Nicholas E. Calio, the chief House lobbyist (CQ Almanac 1991, p.119). The deliberations included dozens of meetings between Bush officials, including the President himself, and the most important leaders and "fence-sitters" in the House and Senate, especially Rostenkowski, Bentsen, and head-fence-sitter Richard Gephardt.

In the back-and-forth, Congressional leaders consistently recommended that the Administration do more to allay congressional fears surrounding the pact, fears that reflected strong feelings from their environmentalist, labor, and producer constituencies. In early March 1991, Bentsen and Rostenkowski wrote to Bush requesting that the Administration table a formal plan to address these various fears (CQ Almanac 1991, p.119). Gephardt made a similar request in person and in writing. Substantively, they wanted action partly on environmental concerns -- thereby echoing the demands already being expressed directly by environmental lobbying groups in their consultations with Bush. In these direct deliberations, the Administration had already revealed itself to be amenable to such a plan (CQ Almanac 1991, p.119-20; Fox 1995, pp.55-6).

But the House and Senate leadership also prodded Bush to take more action to address the fears of organized labor, or at least the labor-friendly members of Congress. Gephardt, in particular, had pushed for such action, calling for a variety of ambitious policies and actions that basically parroted and embellished upon the AFL-CIO stance: some mix of upward harmonization, exemptions, safeguards, and major expansion of adjustment assistance. Even the less laborite leaders like Rostenkowski and Bentsen called for some labor-related action. The action they recommended the Administration take, as it turned out, was on the lowest-common-denominator standby of side payment compensation: continued and expanded trade adjustment assistance.

Such action on any trade-focused adjustment assistance would go against the Bush Administration's hostility to the TAA program. Continuing Reagan's legacy, the Bush Administration had long sought to kill a welfare training program that they believed had not proven effective or needed, and that unjustly targeted trade-impacted groups for special treatment. Bentsen, Rostenkowski and others insisted that the Administration would need to reverse this stance on TAA and include significant action on TAA as part of some broad package of safeguards if it wanted to secure sufficient votes for Fast Track (CQ Almanac 1991, p.119-20).

3.1.1. Bush's May 1st Action Plan and Reactions

The pressure from the anti-NAFTA coalition and congressional leaders apparently worked. On May 1st 1991, one month before the Fast Track blocking deadline, the Bush Administration announced an "Action Plan" designed to address labor and environmental concerns -- a plan that contained the NAFTA fight's first flurry of side payment compensation. The Action Plan was an 80-page document laced with claims that the agreement wouldn't threaten jobs or the environment. But at its core was a series of policy promises, mostly general pledges lacking any clear time-tables.[55] Some of these promises involved protectionist redress in the form of lengthy transition periods (phase-ins), and a promise not to negotiate lower standards on a variety of labor and environmental negotiations, maintaining a right to regulate imports violating these maintained standards. But they also included a few clear side payment commitments:

1. worker adjustment: a promise to work "with Congress to craft a program to provide prompt, comprehensive and effective services" to those who lose their jobs as a result of NAFTA.
2. labor standards: a pledge that "the Labor Dept. would sign an agreement with the Mexican government providing for cooperation in occupational health and safety, working conditions, etc., and cooperation would be enforced.
3. environmental cleanup: a promise to prepare a detailed plan for dealing with the environmental problems on the border, including funds for cleanup and regulation.
(CQ Weekly Report 5/4/91, pp.1120-1; Fox 1995, p.56)

The Administration took no immediate action on the job assistance and border cleanup promises, but it did take immediate, if modest, action on the labor cooperation. On May 3, the US and Mexico Labor Secretaries signed a memorandum of understanding in May 1991 calling for a series of comparative studies of labor conditions and laws, designed to lay the ground-work for bilateral programs to improve conditions (US Department of Labor 1992a, 1992b; LRW 5/8/91).[56]

Although the policy promises seemed to give labor and environmental concerns equal billing, the Administration also pledged to accord environmental groups access into the negotiating process, through consultation procedures like those demanded by mainstream environmentalists. Bush officials promised no such access to labor groups.

Reactions to this mix of compensation and protectionist redress were mixed, but generally favorable. The largest and most mainstream environmental groups -- the National Wildlife Federation, NRDC, National Audubon Society, and the Environmental Defense Fund -- announced their "cautious support" for the negotiations (NYT 5/19/91, p.D17). These groups

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[55] The details of promises are in CQ 1991, p.119. Fox 1995, and "Response of the Bush...," *International Environmental Affairs* 1991.

[56] The agreement explained that "cooperation may be implemented through: (a) exchanges of delegations, professionals, and specialists, for purposes of studying both labor systems; (b) exchanges of information on averages, standards, and procedures, including publications and monographs; (c) organization of conferences, seminars, workshops and meetings; (d) development of collaborative projects; (e) joint research projects; or (f) other forms of cooperation that may be mutually agreed upon" (quoted in LRW 5/8/91, pp.430-1).

were particularly pleased with the Administration's promise to include representatives from environmental organizations on the panels that were to advise STR Carla Hills in the development and negotiation of the NAFTA talks. The more grass-roots environmentalists, however, were not so impressed, and kept their distance. As Eric Christensen of the Community Nutrition Institute said of the Action Plan, "it's a good start, but I don't think it goes far enough to meet our concerns" (NJ 5/11/91, p.1115). And J.Michael McCloskey of the Sierra Club simply said: "We want to assure that when factories are built, that they don't belch out pollution" (Ibid). What mattered for the Bush Administration from the point of view of garnering votes from environment-minded legislators was that their Action Plan promises had split the environmental coalition. As an AFL-CIO official later lamented, "a lot of members have expressed concern about the environment. This just provides them some cover" (Cunningham to CQ 5/91, p.).

Despite the Administration's general promises to open side action on worker standards and its reversal on adjustment assistance, the AFL-CIO and member unions remained staunchly and unconditionally opposed to the NAFTA and Fast Track. In press statements and testimony to a Senate Hearing on the May 1st Action Plan, AFL-CIO officials said the Plan's promises left out important safeguards -- such as no promise to link trade to environmental and labor standards as an explicit part of the proposed negotiations (Lynch of United Steel to House Public Works and Trans. May 8, p.100). As for the promises the Action Plan did set out, Labor wasn't impressed.

Of the adjustment assistance promises, these officials were particularly suspicious. Chief AFL-CIO lobbyist William Cunningham told Senate Finance Committee members that the unions support a real and expanded TAA but distrusted the Bush Administration's "check is in the mail mentality" on TAA, a mentality made all the more hollow by how the TAA budget was to budgeted out of all Bush's recent budgets (Senate Finance, May 7, 1991, p.38). To Cunningham and others, the adjustment assistance promises were simply a politically expedient response to House member demands that would probably tighten eligibility, lower benefits and be temporary, and at best would maintain the TAA at current, insufficient spending levels (Cunningham to House Budget Comm., May 14, p.42; see also NJ 5/11/91, p.1115).[57] Labor-friendly intellectuals embellished upon this position in an Economic Policy Institute report, calling the Action Plan "empty promises based on unrealistically rosy predictions." The report decried how "deft relief is 'off the table'; and adjustment assistance to US workers and questions of labor and environmental standards will not be regarded as part of the treaty and if treated at all will only be as a reluctant political concession by the administration" (Faux and Spriggs EPI 1991, p.2).

[57] For the similar views of other labor representatives, see testimony to the House Public Works and Transportation Committee on May 8th, by Leon Lynch of United Steelworkers, Steve Beckman of UAW, and Carmen Papale of ACTWU (pp.181-350 passim).

In view of the Action Plan's "empty promises," AFL-CIO claimed to want legislation passed that would require the Administration "to return to the negotiating table if Congress's mandates are not met," the mandates being some formal statement of labor and environmental conditions (NJ 5/11/91, p.1115). With this basic goal, the AFL made According made blocking of Fast Track its highest legislative priority in 1991 (CQ Weekly; AFL-CIO Convention).

Labor's efforts, however, were in vain, for most legislators were swayed by the Action Plan promises. Quasi-liberalizers in the House and Senate, such as Rostenkowski and Bentsen, almost immediately after the Action Plan's unveiling came out in favor of the Fast Trade. More significantly, on May 9th, Richard Gephardt announced his cautious support:

> I am prepared to support an extension of fast-track authority for trade treaties. But I do so with this caveat: If the administration sends to this Congress a trade treaty that trades away American jobs, or tolerates pollution of the environment or abuse of workers, we can, and we will, amend it or reject it (CQ Almanac 1991, p.120).

With all its blustering conditionality, Gephardt's support was significant in clearing the way for Fast Track, since Gephardt was one of Congress' most labor-friendly legislators and most hawkish trade experts. However, neither the cover of the Action Plan nor of Gephardt's assent was enough to win some more hardcore legislators, such as Rep. Marcy Kaptur, D-Ohio, with lots of auto suppliers in her district. Of the Action Plan adjustment assistance promises, she pointed out that in travels in her district she would tell groups about potential increases in job training funds and they would respond: "Marcy, where's the job?" (in NJ 11/93). When the House took up action on the Fast Track issue, it quickly became clear that Kaptur was in the minority.

After a relatively quick review process and a symbolic nod to Labor, the House allowed Bush's Fast Track to ride. The Ways and Means Committee met May 14 to consider a bill by Byron L.Dorgan, D-ND, designed to kill Fast Track (HR 101, introduced May 6th).[58] Rostenkowski had promised he would get a committee and floor vote on such a request. But the Committee rejected this resolution by a vote of 9-27 and reported it to the floor "unfavorably by voice vote." Then also by voice vote it approved a non-binding resolution (H Res 146) sponsored by Rostenkowski and Gephardt representing a bone to Labor. It stated that Congress could lift the fast track "if the administration did not keep its promise to include adequate protections for US workers, industries and the environment" in the negotiations. As Rostenkowski said, "There are members on both sides of the aisle who want to vote for something satisfying, as much as they can, labor's demands" (CQ 1991, p.120).

Ways and Means sent both Dorgan's Fast Track "derailer" and the Labor bone to the floor with only a couple of weeks to spare before the June 1st deadline. After a failed attempt to separate GATT and NAFTA Fast Track, and a few more garnishes, such as Sander Levin's, D-Mich, non-

[58] Dorgan opposed the fast track because he wanted to retain agricultural subsidies to be reduced under GATT.

binding call for a progress report on the NAFTA negotiations, the House defeated Dorgan HR 101 on May 23 by a vote of 192-231, and passed the non-binding consolation prize HR 136, 329-85.

Within a day, the Senate followed suit. Bentsen's Finance Committee voted 15-3 to unfavorably send to the floor S Res 78, a measure sponsored by Ernest Hollings to block GATT efforts to phase out the Multifiber agreement for textile import quotas. The three supporters of the blocking motion were Tom Daschle, D-SD, Donald W.Riegle Jr., D-Mich., and Daniel Patrick Moynihan, D-NY. Riegle offered his own plan to extend fast track for one rather than two years, and to permit amendments to the agreement in a few areas like labor standards, adjustment assistance and the environment. But Hollings's resolution couldn't be amended by Senate rules. He only got 14 co-sponsors for the bill, compared to 37 for a 1990 blocking resolution, but he vowed to bring it up later in the year as either a stand-alone measure or attached to "a must-pass bill" (CQ Almanac 1991). And he claimed that Hills was making promises of her own: "The Carla Hills bazaar opens, and she goes around to my colleagues and says, 'I will take care of you if you get off that resolution'" (CQ Weekly 3/16/91, p.661). Such promises in the air, the Senate easily rejected the derailing resolution on May 24 by a vote of 36-59.

3.1.2. Negotiating NAFTA, Embellishing Bush's Compensation

The NAFTA talks were formally launched less than a month later, on June 12th in Toronto, and within a little more than a year the Administration had an ambitious liberalization agreement in hand. To get that agreement, the Administration faced little direct societal or congressional intervention, but still negotiated redress to the vocal producer, labor, and environmental opponents -- partly in the form of protectionist redress and partly in the form of international side payment compensation designed to fulfil his Action Plan promises. The liberalization ready for ratification, Bush further embellished upon the Action Plan for labor. Whether societal or legislative leaders in the anti-NAFTA coalition would buy the compensation, however, was another story, with the initial responses tepid and with the NAFTA debate taken over by presidential campaign politics.

Once negotiations with Mexican and Canadian officials began in with the Toronto launch in 1991,[59] societal groups enjoyed varying access to the negotiations themselves and the US position-making in those negotiations. Although the secrecy of the international negotiations makes it difficult to know who was consulted "on the fly," Environmental groups appear to have been directly consulted by Administration officials the most (NYT 9/15/92, D1); labor and producer groups the least, though the Labor Advisory Committee for Trade Negotiations and Trade Policy

[59] Negotiations consisted of seven Trilateral Ministerial Oversight meetings, the highest-level negotiations among the chief negotiators (Hills, Serra Puche, and Wilson), and dozens of sector- or function-specific negotiations involving lower-level officials (e.g. Energy Working Group or Auto Working Group).

was a channel for labor to send off regular missives during negotiations (LAC Preliminary Report 9/16/92, p.1). Indirect access via Congressional hearings were also modest, again with environmental groups having the most air time. Between June 1991 and the end of international negotiations in August 1992, Congress held eleven hearings on the on-going talks, all but one in the House. Five were devoted to addressing environmental concerns, creating a forum for environmental groups to further agitate for environmental side actions (CIS/INDEX Legislative Histories, pp.341-7). Labor issues, by contrast, aired in only two of those hearings,[60] while agricultural and industrial producers could air their platforms in only one hearing each (Ibid.).[61]

In these negotiations, most of the anti-NAFTA coalition members expressed ever-increasing frustration with the shape of the liberalization and (in)action on environmental and labor side issues. Thomas Donahue, Owen Bieber, and other labor leaders spoke outside the hearing context against the paucity of labor safeguards and harmonization, and in the hearings their underlings (Executive Secretary-Treasurer of Calif. AFL-CIO, and UAW economist Steve Beckman) did the same. They were joined by the usual cast of radical environmentalists. Anti-NAFTA agricultural producers expressed anger at the degree of unfolding liberalization. The exceptions, as usual, were the more circumspect mainstream environmentalists.

As the negotiations unfolded, and the final agreement began to take shape, legislative skeptics took increasingly hostile positions to the Administration's negotiation. Most vocal and detailed in laying out protectionist discontent was Richard Gephardt. On July 27, 1992, Gephardt delivered a NAFTA speech to the Institute for International Economics in which he accused the Bush Administration for ignoring promises made in the May 1st Action Plan: "as the agreement moves toward completion it is becoming increasingly apparent that environmental controls worker adjustment policies....are being omitted from the draft" (CQ 92 p.154; also NJ 8/1/92, p.1787). In this and subsequent speeches Gephardt outlined for the first time the details of the protections he wanted in and around the NAFTA, including a massive $22 billion for worker retraining and regional development along the lines and scale of the EC structural funds (NJ 8/1/92, p.1787), turning TAA into an entitlement, getting even more moneys to pay for environmental clean-up, and creating a border tax to pay for the programs.

To give these demands some teeth, Gephardt and Congressman Waxman cosponsored in the twilight of the international negotiations a non-binding "sense of the Congress" resolution warning that Congress wouldn't tolerate any pact that weakened health, safety, labor and

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[60] Both of these were before the House Education and Labor Comm., but were spread over four days -- January 17, March 28 and 30, and a general labor market hearing on April 24th, all 1992 (CIS/INDEX 1993, pp.342-3).

[61] The remaining two hearings were devoted to miscellaneous issues, one on how the negotiations were dealing with the Mexican Petroleum sector (House Foreign Affairs) and another on customs valuation procedures (House Ways and Means).

environmental laws. The bill (H Con Res 246) passed unanimously, 362-0, on August 6th, 1992, as Bush officials were embroiled in a final flurry of negotiations in Washington (CQ '92, p.154).

Apparently ignoring Gephardt's "sense of the Congress" resolution, the Bush Administration's final flurry of negotiations yielded preliminary agreement on the NAFTA less than a week later, on August 12th, 1992. The final push by Bush was sparked by his need to have a little something to spice up his presidential candidacy and the Republican national convention in Houston, to be held the weekend of August 17th. At a San Antonio ceremony on October 7th, 1992, the trade negotiators initialed a final text of the pact, but Bush signed the agreement formally on December 17th, after the election.

Only then did it become clear both what the NAFTA liberalization really looked like and what the Administration had chosen to do to address the demands and needs of the anti-NAFTA opposition. The essence of the 2,000-page liberalization plan was quite simple and ambitious. Most sectors, including agriculture and services, were to be tariff-free within 10 years of the NAFTA's enactment, though some sensitive sectors won slightly longer phase-ins. Subsidization and quota schemes were to be converted immediately to more visible tariff-rate quotas, which were also to be phased out within 10 or 15 years. Also, Mexico would be granted access to the same dispute settlement procedures accorded Canada in the FTA, in exchange for significantly reformed Mexican trade laws in the direction of the US/Canada model for antidumping, escape clause, and other procedures, and for the administrative transparency in using those procedures. And the US and Canada won a series of property rights and investment protections. A number of trade-watchers saw all this as a very significant accomplishment, especially for services and agricultural liberalization, and for intellectual property rights protections (Hufbauer and Schott 1993, pp.2-6).

The sweep of the liberalization was compromised by the need of US negotiators, as well as their Canadian and Mexican counterparts, to offer protectionist appeasement to the anti-NAFTA forces in the respective countries -- in the form of exemptions, phase-ins, rules of origin, and tariff snap-backs. Complete exemption from the liberalization was part of the redress for only a couple US groups -- such as "set asides" for minorities, small businesses and other groups in government procurement; and the Jones Act protections for US flag vessels.[62] Virtually all US sectors were given partial relief, however, through phase-ins of the liberalization, with some more sensitive and politically influential sectors getting longer phase-ins. The sectors in the US to receive 15 year rather than 10 year phase ins were glassware, some footwear, ceramic tile, broomcorn brooms, some watches, and some fruits and vegetables (Hufbauer and Schott 1993, pp.26-7).

Most sectors were also helped by restrictive rules of origin, again with some getting stricter rules than others. Whereas most sectors were generally covered by an ambiguously worded rule

[62] None of these exemptions were as controversial in the negotiations as exemption of Canada's cultural industries (e.g. T.V. and film) and, more importantly, Mexico's raw energy producers (petroleum, mainly).

that NAFTA preferences would apply only to products reflecting "substantial transformation" in North America, textiles/apparel and automobiles got significantly tighter rules: for textiles and apparel, the rule was "yarn forward," requiring most items to be produced from yarn in US, Mexico or Canada before getting the NAFTA blessing; for automobiles and parts, the rule was a value-added test of 62.5 percent for cars, light trucks, engines and transmissions, and 60 percent for other vehicles and parts (Ibid).[63]

Finally, compromise of the liberalization included tariff snap-backs through the Agreement's Article 801 safeguards. Article 801 allowed reversion to pre-NAFTA tariffs for three years for most products, four years for most sensitive ones, where NAFTA is "substantial cause of serious injury or threaten serious injury" (Hufbauer and Schott 1993, 27). Textiles and apparel producers were granted a looser eligibility test ("serious damage"), and some agricultural products were allowed to get snap-back relief in the form of tariff rate quotas rather than simple tariffs.

3.1.2.1. Labor and Environmentalist Compensation, and the Same Mixed Response

Other than these various protectionist revisions and exemptions, the international negotiations elicited some significant side payment compensation, negotiated and partly to be provided at the international level. And this international action was accompanied by purely domestic side payment compensation. All of this compensation, in any event, was designed to fulfil and embellish parts of the Bush Administration's May 1st Action Plan for environmental and labor groups.

For environmental groups, the administration took two side payment actions.[64] The first was designed to implement the Action Plan promise to devise a border cleanup plan. In February 1992, still the early stages of the NAFTA negotiations, the Administration negotiated the Integrated Environmental Plan for the Mexican-US Border Area. It was designed to "strengthen the enforcement of existing environmental laws; reduce pollution through joint initiatives; expand planning, training, and education programs; and improve mutual understanding of environmental conditions along the border" (Hufbauer and Schott 1993, p.96). Mexico pledged $460 million for the plan over three years, and the Bush administration committed $379 million to the plan over two, including a 1993 allocation of $241 million (USTR 1992, p.14; H&S, p.97). By the end of 1992 the funds had yet to be authorized by Congress.

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[63] This was significantly tighter rule of origin for autos than the 50 percent standard set for the US-Canada FTA.

[64] The Bush Administration also addressed environmentalist concerns through more "protectionist" redress in the main NAFTA agreement, by explicitly addressing environmental issues in several chapters, most importantly: (1) allowing protection against goods that violated national sanitary/phytosanitary and a few other measures and standards; (2) by calling for countries to avoid attracting investment through lowering environmental standards; and (3) by allowing environmental concerns to be formally included in dispute settlement procedures. See McKenna & Cuneo 1992.

As the NAFTA negotiations wound to a close, the Administration faced continued criticisms that the end of the negotiations would spell an end to the leverage and interest in oversight and embellishment of cleanup projects. In response, the Bush Administration negotiated with their Canadian and Mexican counterparts a permanent North American Environmental Commission "to promote long-term cooperation on improving the environment" (Hufbauer and Schott, p.98-9). The Commission's establishment was negotiated very late in the proceedings, and was announced in September 1992, after Bush celebrated preliminary agreement.

In the same eleventh hour, the Bush Administration also took action to create a counterpart institution for Labor. In September 1992, the Administration negotiated a bilateral agreement with the Salinas Administration to establish a permanent Consultative Commission on Labor Matters that would be a forum to develop and implement bilateral initiatives, including a bilateral work program and consultation over enforcement of national labor law and regulation (Hufbauer and Schott 1993, p.28). This Commission's creation and plans embellished upon the Administration's labor cooperation promise made in its Action Plan and modestly acted upon in the Memorandum of Understanding of May 1991.

Even without clear program details or funding approval, the creation of these two environmental institutions and the one labor institution represented side payment compensation, for they were benefits to ostensible victims of liberalization that were separate from the protections being liberalized. All three programs were, moreover, devised through international stages of the NAFTA negotiations, and were to be provided by supranational institutions. In these respects, they were virtually unprecedented in US trade policymaking.

While the negotiations were winding down, Bush also fulfilled one of his Action Plan compensation promises through more traditional unilateral action on adjustment assistance. On August 24, 1992, the Administration proposed phasing out two programs for displaced workers -- TAA for trade impacted workers and EDWA for defense and other dislocated workers -- and replacing them with a single program called ASETS, Advancing Skills through Education and Training.[65] Many details of the program remained to be worked out, but it essentially expanded on the TAA idea, by providing dislocated workers with vouchers for up to $3,000 redeemable at colleges and technical institutions, in addition to access to federally-run training programs. The program also provided for direct payments to laid-off workers who had exhausted unemployment benefits but had not completed training. Like the 1988 Omnibus revival of TAA, enrollment in training would be a requirement for such UI supplements.

The Bush Administration proposed to fund ASETS to the tune of $2 billion per year -- $10 billion over five years. This represented a 150 percent increase in training aid for dislocated workers in the two Labor Department programs, which together had been costing about $750

[65] The program was developed beginning in May 1992 by the Department of Labor (LAC 1992, p.5).

million per year (NJ 10/31/92, p.2498). Of the annual $2 billion ASETS total, $335 million was set aside for NAFTA-dislocated workers every year ($1.67 billion of the $10 billion in five years), and up to another $335 million could be used from a discretionary fund if dislocations required additional spending -- a total of $670 million annually.[66] Compared to the existing TAA program that had been allocated $269 million in FY 1991 and $226 million in FY 1992,[67] the new NAFTA-dedicated total represented a 195 percent increase over FY 1992 in overall adjustment assistance funding (US Dept.of Labor, 1993, p.1; CQ Almanac 1992, p.652).

But in a few details, the ASETS program would be less generous than the TAA status quo. Whereas the new program capped training money at $3,000 per person, the old TAA imposed no such limit, only demanding that training fund demands be "reasonable," and in practice reaching amounts in excess of $7,000 per year per worker (LAC 1992, p.6). Existing TAA also allowed easier exemption from the training requirement as a precondition for income supplements (TRAs) compared to the Bush program. Although the proposal didn't preclude them, a number of other TAA benefits weren't mentioned in the ASETS proposal, such as relocation and search allowances, income supplements to defray transportation, living quarters during training, etc. (Ibid). Despite these potential limitations, coming from the Administration that only a year earlier had tried to kill off TAA, it was a relatively generous program.

The responses to the NAFTA liberalization and its accompanying array of protectionist and compensation redress were virtually identical to those following the Fast Track initiative and the May 1st Action Plan. A number of the largest, most powerful and mainstream environmental groups came out in favor of the environmental provisions of the NAFTA agreement. Most important of these provisions was the eleventh-hour creation of the North American Environmental Commission. Upon the Administration's announcement of the Commission, the National Wildlife Federation, following efforts of the group's trade czar Stewart Hudson, endorsed the NAFTA, the first major environmental group to do so (NYT 9/15/92, D1). The World Wildlife Federation followed soon after an intra-group campaign by the chairman Russell E.Train to persuade other WWF elites to endorse the agreement (Ibid). The National Audubon Society representatives were officially studying the agreement, but were expected to go along or at least not put up a big fight.

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[66] The $670 million annual monies implied a ceiling of 300,000 NAFTA-impacted workers that could receive benefits through ASETS.

It appears that the Bush Administration used the influential Hufbauer and Schott IIE estimates to calculate their adjustment assistance program. In their 1992 and 1993 estimates they predicted 145,000 workers by 1995 to be eligible and in need of some adjustment assistance, and accordingly recommended that the Bush Administration allocate roughly $1.4 billion over five years; in their 1993 post-negotiation book, Hufbauer and Schott praised the administration plan for going beyond their recommendations and for including the NAFTA assistance provisions in a more generalized adjustment assistance program (Hufbauer and Schott 1993, p.28; see also NJ 8/1/92, p.1787).

[67] In FY 1991, Congress appropriated $71 million for TAA program and administrative costs, and another $198 million for Trade Readjustment Allowances; in FY 1992, it appropriated $72 and $154 million for administrative and TRA costs, respectively (US Dept. of Labor 1993, p.1).

On the other hand, the usual enviro-skeptics -- Sierra Club, Greenpeace, Public Citizen and others -- vocally opposed the agreement, despite the various forms of redress promised and provided (Ibid). They were joined by the Natural Resources Defense Council, which had been openly supportive of Fast Track (Ibid; CQ Weekly 5/18/91). This important exception aside, Bush successfully split the environmental coalition with its package of protections and compensation.

On the other hand, organized labor stuck to the previous Spring's script and was no more split by the Administration's compensatory policies than it was by its promises. Continuing their unconditionally protectionist stance, AFL-CIO and member union representatives roundly criticized the NAFTA and accompanying safeguards. They did so in many press statements, in the Labor Advisory Committee's Preliminary Report released in mid-September, and in four statements to Congressional hearings held between September and the year's adjournment.[68] The Labor Advisory Report gives a good overview of the opposition. It laid out sixteen demands LAC had pushed before and during negotiations -- including trade-sanction protection of labor rights, infrastructural funds, environmental protections, tighter rules or origin, and adjustment assistance -- and claimed that the agreement was a "a complete rejection" of this advice (LAC 1992, pp.1-2).

About the Administration's side payment compensation -- the Labor Cooperation Commission and the ASETS -- statements by labor representatives were unconditionally critical. The Labor Commission was essentially useless, Labor contended, because it didn't include any credible action on worker rights and conditions. Likewise, labor leaders took the ASETS program to task for being worse than the TAA status quo, which they claimed was itself sorely below the more expansive and generous alternative Labor leaders laid out (e.g. Ibid., pp.5-7). For instance, in his testimony to Ways and Means, Donahue called ASETS "totally inadequate," focusing on how the program capped training expenditures unlike TAA, and how the $2 billion annual funding had not yet been backed by any clear funding source (House W&M Sept.22, 1992, p.122). In other testimony and the LAC report, these criticisms were supplemented by more strident complaints, such as the IBEW representative's lament that "promises of adjustment assistance is an old song that our members are sick of hearing..."(House Small Business 12/15/92, p.144). In short, Labor was threatened by the NAFTA and still not impressed by the compensation.

Anti-NAFTA producer groups praised the agreement's protections as far as they went, but generally feared that they would be insufficient to safeguard against NAFTA-inspired increases in Mexican production that could fuel import surges and, in turn, gut their industry. In response, both industrial and agricultural producers -- especially textiles and apparel, and even more so, Southern sugar, fruit and vegetables -- demanded more generous tariff snap-backs to safeguard

[68] The testimony consisted of AFL-CIO Treasury Secretary Thomas Donahue to the Senate Finance Committee, and four member union officials (UAW Steve Beckman and Alan Reuther to House Ways and Means and IBEW economist Robert Wood and AFL-CIO Legislative rep. Cunningham to House Small Business (CIS/INDEX 1993, pp.347-50).

against import surges following Mexcian production increases inspired by the liberalization.[69] They made no other non-protectionist requests, meaning they continued to tow their unconditionally protectionist line.

Congressional leaders also took positions resembling their May 1991 stances, especially in the details, but their bottom lines were more ambivalent and opposed to the Bush agreement. Lloyd Bentsen, on the most sympathetic side of the spectrum, praised the Administration's overall accomplishments but considered the compensation to Labor as insufficient. He said, for instance, that the ASETS adjustment assistance had "curbside appeal" but that it lacked credibility since it had as yet funding source. Much less sympathetic was Richard Gephardt, who had signalled his opposition during the Summer dispatches. By September and the Agreement's completion, he was formally opposed to the deal. It is impossible to know how much this Congressional ambivalence and opposition was motivated by genuine concerns with Bush's NAFTA and how much by partisan bluster in campaign season. Whatever the reason, Bush's NAFTA was having a harder time after the negotiations than in the pre-negotiation Fast Track fight. And the posturing and statements of legislators showed no signs that congressional opposition had been bought-off or swayed by Bush's compensation package.

Whatever the positions of societal groups and legislators, all bets of getting the agreement ratified before the November 4th election were off, for the two political parties and the main candidates were sharply divided over the agreement and accompanying safeguards. This conflict elevated the NAFTA to a higher level of saliency in the campaign than any trade initiative in this century. Perot stepped up his unconditionally protectionist line, uttering the most memorable line of the NAFTA fight, when he predicted "a giant sucking sound" of American jobs heading to low-wage, lax regulation Mexico. Clinton, for his part, had throughout the campaign tried to straddle the internationalist and fair trade line on NAFTA, and had by early October laid out a series of unilateral and negotiated steps that his Presidency would undertake to make NAFTA more fair to workers and the environment. Bush, of course, tried to position himself as the future-looking internationalist in contrast to his opponents Clinton and Perot, protectionists beholden to either organized labor, in Clinton's case, or to nativist hysterics, in Perot's.

In the event, of course, Clinton emerged the victor. When he did, when the Democrats also retained control of both the House and Senate, and when public support for the NAFTA reached all-time lows (21 percent), congressional leaders decided to await the new year, the new president -- and the new side payments -- before acting toward ratification (Orme 1993, p.71).

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[69] These groups did so in part through association testimony to Congress: industrial and agricultural groups both got to air their views before House Ways and Means and Senate Finance, each of which held a hearing between September and January; and agriculture gave further testimony to House Agriculture while industry testified before House Small Business during the same period (CIS/INDEX 1993, pp.345-50).

3.2. Clinton and the Compensation Package: Side Agreements Provided and Retraining Signalled

Bill Clinton may have had sympathies to manage trade to ensure trade access and to level playing fields, but as a free trade internationalist and charter member of the pro-NAFTA Democratic Leadership Council,[70] he was not obviously concerned to pursue international arrangements to compensate labor and environmentalist "victims" of liberalization. But as a presidential candidate in 1992, and a victorious one, Clinton was forced by his party and his "core" constituency to take a position on the NAFTA liberalization that ensured the development of side payment compensation more generous than Bush's.[71]

During the primaries, Clinton sought out a niche within his party as the fair internationalist, wedged between more pure free-traders like Al Gore and the laborite protectionists like Gephardt and Jerry Brown. This meant supporting freer trade with Mexico and Canada, but on terms better for labor and the environment than the Bush Administration had negotiated. Such was a pretty safe position, given that the 1991 Democratic Party Platform had towed a similar line, saying that in the NAFTA negotiations

> our government must assure that our legitimate concerns about environmental, health and safety, and labor standards are included. Those American workers whose jobs are affected must have the benefit of effective adjustment assistance (BNA #134 D-2).

Victorious, Clinton and his party were quickly forced to clarify and make more concrete this position. When the NAFTA negotiations ended, Clinton said "I will support a free-trade agreement with Mexico so long as it provides adequate protection for workers, farmers and the environment on both sides of the border," adding that he intended "to review the details of the agreement and follow closely the expected congressional hearings on the issue" (CQ Almanac 1992, p.156). For Bush, as well as for various members of the anti-NAFTA coalition, this wasn't concrete enough.

On October 4th, 1992, at a speech to North Carolina State University in Raleigh, Clinton unveiled his concrete compensated liberalization response. Having "read [the NAFTA draft] with some care," he gave his qualified endorsement of NAFTA, saying that if he were elected he would seek tougher protections than Bush had negotiated for US jobs, environment and health and safety standards. He said he was convinced that NAFTA will generate jobs and growth, "if and only if it's part of a broad-based strategy, and if and only if we address the issues still to be addressed" (CQ Almanac 1992, p156.). The steps that Clinton outlined would not require renegotiating the

[70] The DLC explicitly endorsed the NAFTA without qualifications for labor or environmentalists.

[71] To say Clinton's provision of compensation to labor and environmental groups was not an ideological position, but an expedient response to get political support, for himself and the agreement, is supported by his actions on more recent Fast Track authority for the expansion of NAFTA in 1997. No longer having to work with a previous president's "bad agreement," Clinton called for blanket Fast Track authority, rather than authority explicitly bound by labor or environmental commitments.

NAFTA text, but would require a combination of measures, some unilateral and others to be devised in supplemental negotiations. Almost all these were side payment compensation.

The unilateral measures included four policy actions, some of which drew from existing and broader policy proposals and others which were clearly NAFTA-specific:

1. *job training and worker assistance:* He promised that he would "spend more than Bush on retraining workers and undertake more environmental cleanup along the border" (CQ Almanac 1992, p.156.).
2. *environmental cleanup and infrastructural investment:* He promised to do more than Bush had planned to hasten and pay for border cleanup, and to create money for investment on infrastructure to improve environmental conditions and promote economic development.
3. *preserve pesticide standards:* To help farmers Clinton said US laws on pesticide residue should be strictly enforced.
4. *control strike-breaker immigration:* prevent foreign labor from entering US soil as "strike breaking replacement workers."

(Federal News Service 1992, p.9).

Of these, the job training plan was actually the most developed, being connected to the Governor's ambitious proposal to overhaul all federal job-training programs, unveiled in August 1992.[72]

In the same speech, Clinton proposed to negotiate three "supplemental agreements" before implementing the original NAFTA pact: one for the environment, one for labor, and one for import surges. Clinton's environmental agreement was to establish "a US-Mexicon environmental protection commission empowered to enforce environmental laws on both sides of the border" (CQ 92, p.156). The governor emphasized that "such a commission would have the power to provide remedies, including money damages and the legal power to stop pollution" (Ibid). He also pledged to negotiate an independent labor commission that would "educate, train, develop minimum standards and have...dispute resolution powers and remedies" (LRW9/22/93,p.922). Denouncing Bush's Commissions as "too little too late," Clinton insisted that his labor and environmental commissions would have teeth. In this vein, he promised "I'll negotiate an agreement...that permits citizens of each country to bring suit in their own courts when they believe their domestic environmental protections and worker standards aren't being enforced (quoted in Grayson 1995, p.131). Finally, Clinton promised to negotiate further protections against "unexpected and overwhelming surge in imports...which would dislocate a whole sector of the economy so quickly that there's nothing we could [do] about it to overcome the economic impact" (Ibid).

[72] This proposal called for broad-scale retraining programs targeted at the entire work force, rather than the trade-dislocated, and to be provided through a combination of federal programs and private in-house training. All employers were to devote 1.5 per cent of payroll to employee training, or pay that amount into a national fund that would be tapped for worker training (NJ 10/31/92, p.2498).

3.2.1. Negotiating a Strong Environmental Agreement in Exchange for a Weak Labor Agreement

Upon getting elected, Clinton and his advisors contemplated walking away from the NAFTA initiative, given the divisiveness of the original NAFTA, the complexities and conflict (international and domestic) of getting the side agreements and other October 4th promises, and the Administration's already dense legislative agenda.[73] At the insistence and urging of Clinton's new USTR Mickey Kantor and, later, his new chief of staff David Gergen, the Administration stuck to its guns. Such a decision was motivated partly by the various diplomatic and economic merits of the NAFTA with supplemental changes, and partly by the clear value of the liberalization as a tool to establish Clinton as a bipartisan internationalist. Going with the NAFTA, however, made it all the more important to fulfil major campaign promises -- compensation promises -- to the important labor and environmentalist constituencies. And the compensation promises to receive the most attention and controversy were the proposed supplemental agreements on import surges and, especially, labor and the environment.[74]

Although some members of the anti-NAFTA coalition would have preferred the Administration to have let the liberalization die altogether, all welcomed the possibility that the Administration would repair the NAFTA through fulfillment of his side agreement promises. They differed, however, over what constituted "fulfillment."

The story among environmental groups hadn't changed much. The mainstream and more radical wings of the environmental lobby still largely agreed on what they wanted, including what they wanted the Administration to negotiate on the side accord: a trinational (not just bilateral) environmental commission; an independent secretariat heading that commission; transparency and public participation in the commission's dispute settlement procedures; preservation of federal and sub-national environmental laws; and giving individuals standing in domestic courts so they can agitate for compensation from companies rather than governments; and imposition of trade sanctions as part of the commission's enforcement; a lot of money for environmental cleanup, such as through a regional development bank. Some groups, on different sides of the mainstream-radical divide -- Sierra Club, National Audubon Society, and Defenders of Wildlife -- also called for upward harmonization of not only product standards but *production process* standards, such as tuna fishing methods. This was a more radical demand because it would require re-negotiation of the main NAFTA text, which focused exclusively on product standards and outlawed trade sanctions to protect process standards.

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[73] This sub-section on the side agreement negotiations, especially the part on the environmental accord, draws heavily on William Grayson's account of the labor and environmental side agreements (Grayson 1995, pp.129-50). My account also relies on *Inside US Trade,* New York Times, CQ Weekly and Almanac, National Journal, Labor Relations Week, and interviews with Robert Reich and Mark Anderson.

[74] Since the import-surges side agreement entailed protectionist redress via phase-ins and exemptions, it isn't compensation and, therefore, doesn't get much attention here.

Over in the organized labor corner, in contrast, there were some important changes when Clinton was elected and promised his October 4th compensation package. Although most unions still would prefer that the NAFTA simply be allowed to die, the leadership of the AFL-CIO and of several industry unions (e.g. ACTWU and Food Workers) softened their opposition, explicitly adopting a "wait-and-see" stance, narrowly conditioning their acquiescence of the liberalization upon the independent and strong trilateral protection of collective bargaining rights.[75] For the AFL-CIO Executive Council this meant a NAFTA labor commission with an independent secretariat monitoring and protecting core ILO worker rights -- rights of association and collective bargaining being the most important to Labor -- through imposition of trade sanctions. Leaders expressed other demands, such as for more adjustment assistance codified and paid for in the side agreements, but worker rights protection became an explicit "bottom line" for many (LRW3/17/93, p.256). Such demands were similar to those of environmentalists, in some respects even narrower.

As discussed above, however, organized labor was not consistent or unanimous in this shift. Other ramparts of organized labor took a more stridently unconditional stance on the NAFTA and the side agreements. In February 1993, soon before the negotiations, the Labor Advisory Council spelled out 21 points of concern, pre-judging the impending side agreement negotiations as "nothing but window dressing" (NJ 7/31/93, p.1938). At the March Senate Finance hearing on the impending side agreement negotiations, moreover, UAW and Teamsters leaders stuck to their unconditional guns, UAW President Owen Bieber testifying that "Supplemental agreements are not a substitute for re-negotiation of the agreement as it stands" (LRW 3/17/93, p.256). Finally, while the AFL-CIO leadership and members struck a more conciliatory note in the hearings and elsewhere, the rank-and-file was still being mobilized under the simple No NAFTA banner. So Congress and the Clinton Administration got, for the first time in the NAFTA fight, mixed messages from Labor.

As comparable as the platforms for environmentalists and laborites might have been, the Administration dealt with these demands and the October 4th promises very differently. Pre-negotiation discussion of the Administration's labor and environment side agreement goals and strategy took several months. In that time, the Administration worked much more closely with environmental groups than they did with labor representatives, and showed much more willingness to champion environmentalist demands than those of Labor.

Clinton and USTR Kantor encouraged environmental groups to submit suggestions on various important negotiating issues throughout the development and negotiation of the side agreement. This invitation was extended mainly to the mainstream groups like NWF and WWF,

[75] Some labor analysts and labor-allied groups, such as Pharis Harvey's International Labor Rights Education and Research Fund (ILRERF), saw in the NAFTA the possibility of a net gain in the improvement of international monitoring and of labor rights.

but also Sierra Club and Friends of the Earth.[76] These groups pushed their various positions through a variety of channels -- Vice President's office, White House Office of Environmental Policy; the EPA; the National Security Council, the USTR, and a couple of State Department representatives (Richard Smith and Counselor Tim Wirth) (Grayson 1995, p.136). Of the access accorded to these groups, one State Department official told Grayson: "Not just the presidents but senior staff members of these NGOs could pick up the phone and call virtually anyone in the Clinton administration...." (quoted in Ibid, p.136).

The Administration also invited organized labor to participate in the labor accord discussions, and to submit proposals on details. Reports on how labor responded to these invitations differ. Grayson 1995 and other commentators (e.g. Robert Pastor in NYT) contend that "the AFL-CIO spurned [these] invitations." Through July, according to Grayson, the AFL-CIO's chief trade economist Mark Anderson attended sessions of the LAC, which had been monitoring the negotiations, but "demonstrated no interest in crafting a supplemental deal acceptable either to the three governments or to the business community" (Ibid).

Other accounts suggest more extensive and substantive contact. Labor Secretary Robert Reich reports having had numerous conversations with AFL-CIO Treasury Secretary Thomas Donahue and other labor leaders on the side agreements, though not necessarily in the context of formal LAC or NEC deliberations. Mark Anderson claims that he and Donahue made several trips to the White House to push their position with Kantor, Reich, and other lower-level officials.[77] Anderson points out, however, that not long into the actual international negotiations it became clear that Clinton wasn't willing to push for strong sanctions to protect worker rights, and that AFL-CIO and other leaders withdrew from the fray in order to focus their attention on defeating the NAFTA. Thus, whether Labor representatives were "serious" in their willingness to discuss various demands and compromises depends on the eye of the beholder. Behind these different "eyes," however, were the inconsistent statements of Labor's NAFTA platform, such as Anderson having different priorities than other AFL-CIO leaders and certainly than the rank-and-file.

Amidst Labor's mixed messages and environmentalists' pleas, some anti-NAFTA legislators also softened their opposition, and many adopted a "wait-and-see" stance. Most prominent among these was Richard Gephardt, who had come out against the NAFTA despite Bush's side payment efforts. With the prospect of Clinton side agreement negotiations, Gephardt said he would support the NAFTA if the side agreements were strong enough (NJ 7/17/93, p.1827). In extensive discussions with the Administration and in various public statements before

[76] NYT 9/19/92 and Sierra Club and Friends of the Earth spokespeople claimed, however, to have been accorded significantly less access than their larger, more mainstream cohort.

[77] Labor leaders claimed Kantor was as their strongest ally in the NAFTA fight: "Within the Administration, he is much more a friend of ours than just about anybody else....He's the principal person in the Administration who has remembered who the Administration's constituents are" (AFL-CIO official to NJ 8/21/93, p.2071).

and during negotiations, Gephardt laid out some details: labor and environmental standards would have to be in place and "have teeth"; and methods for paying for the agreement, the side agreements, and other transitional expenses would have to be explicitly found.[78] If these provisions emerge from the side agreement negotiations and other Administration actions, Gephardt insisted, the NAFTA could be pushed through Congress during the impending health-care debate, but "if the agreement isn't good enough, I'll oppose it" (NJ 7/31/93, p.1938).

The various societal and legislative platforms registered, the Administration was internally split over what to pursue on the side agreements. Differences in the level of access enjoyed by the groups foreshadowed, and possibly influenced, differences in how the internal Administration fights were resolved. For the environmental agreement, the main controversy was over whether to demand trade sanctions as a tool of the proposed trilateral commission's enforcement. Kantor's USTR, the EPA representatives, and Lloyd Bentsen's Department of Treasury supported the use of such sanctions, with Kantor in particular insisting on such sanctions as necessary to fulfil the spirit of campaign promises, and to gain environmental group and congressional support for the NAFTA (Inside US Trade). State Department officials, on the other hand, strenuously argued that trade sanctions went too far, and would even "run up against serious Constitutional concerns in the US" (State Dept. paper cited in Grayson, p.134). In the end, Kantor and the environmentalists won, and the Administration went into the side agreement talks looking for trade sanctions as enforcement option; independent trilateral commission; and direct NGO access to the commission. In other words, much of what environmentalists demanded became official negotiating doctrine.

As for the labor side agreement, the official organized labor position fared poorer in Administration deliberations. Department of Labor representatives, including Reich, and USTR Kantor pushed for a strong Labor accord, comparable to the one sought for the environment, including a strong, independent labor commission with monitoring and enforcement powers, including the power to impose monetary fines, and even trade sanctions, on violators. Everyone else, including Commerce, Treasury, Small Business, and, of course, State Department officials strenuously argued otherwise. With such strong division in the background and only modest labor involvement, Kantor and his negotiating team drew on an NEC report written by Labor Department economist Jorge Perez-Lopez that outlined minimalist and maximalist positions for a labor accord. Distilling these positions, the Administration adopted an opening negotiating position focused on getting: a charter of labor principles; a trinational commission; the promotion of existing labor standards and laws, improvement in those standards; and some measures to ensure enforcement, not necessarily including trade sanctions (Grayson 1995, p.146; LRW 3/17/93, p.256).[79] Aside

[78] On top of the $3 billion Gephardt claimed would be needed to pay for the main NAFTA, this would mean "billions of dollars to clean up and protect the environment, to build the border infrastructure [against illegal immigration] and to retrain our workers and assist business that are adversely affected" (NJ 7/31/93, p.1938).

[79] According to Grayson, this is how the Canadian negotiating team interpreted the US position, reported in "Labor

from the more modest aims for the labor accord compared to its environment counterpart, the Administration support for all these labor accord goals was softer than for the environmental goals.

International negotiations of the supplemental agreements began on March 17th and in Washington, D.C., and unfolded over the Summer at several high-level and numerous other working group meetings in the three countries.[80] The US delegation presented its positions on the labor and environmental accords in a series of proposals over the first three sessions in March, April, and May, respectively. They didn't explicitly call for trade sanctions as part of the enforcement procedures until the mid-April talks in Mexico. There US chief negotiator Rufus Yerxa proposed such sanctions for both the labor and environmental commissions, emphasizing that without "credible and sound commissions and obligations...[NAFTA] will not stand the scrutiny of the US Congress" (Inside US Trade 4/16/93, pp.3-4; and Grayson 1995, p.137).

The Canadian and Mexican delegations strenuously opposed these proposals for independent and strong trilateral commissions for environmental and, especially, labor rights. Both delegations objected to the possibility of groups exploiting the commission's mandates to legitimate their protectionist demands, and to the threats such commissions would pose to national sovereignty (LRW 7/14/93, p.676). They also feared that these commissions would hold Mexico and Canada to higher standards than their European and Asian competitors also vying for access to the US market -- something particularly objectionable given that the NAFTA had shaped up to be a preferential trade agreement. Both delegations wanted less independent trilateral commissions, with less access to NGOs, and fewer monitoring and enforcement powers, and especially not any trade sanctioning powers (Inside US Trade 5/28/93, p.1). On the environmental-specific issues, the Canadian governments particularly objected to US environmentalist proposals to negotiate minimum production process standards.

All these objections were particularly strong towards the labor commission (NYT 9/19/93, p.1). Talk of sanctions, in particular, raised everyone's hackles. Canada's chief negotiator McKennirey "explained that some 90 percent of Canada's labor force was under provincial jurisdiction and that it might only not be possible to obtain concurrence of the provinces....," and anti-NAFTA forces in Ontario and British Columbia "would greet any suggestion that they modify provincial practices to accommodate Washington as a bad joke" (Grayson 1995, p.146). Mexico's opposition was even stronger, even when the US position softened to propose trade sanctions only as a last resort applied to industries and groups that violated large swaths of de jure labor laws. Mexican officials knew this would be heartily opposed by Mexico's Confederation of Workers

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Agreement Negotiating Report," memo by Canadian government, cited in Inside US Trade 4/2/93, p.1 and 19).

[80] The US delegation consisted of the USTR and its head Mickey Kantor and his chief negotiator Rufus Yerxa directing the negotiations, assisted by Richard J.Smith (deputy assistant secretary of state) and Alan Hecht (acting assistant administrator of the EPA) for environmental issues, and Lawrence Katz (Labor Department chief economist) and Donna J.Hrinak (deputy assistant secretary of state for inter-American affairs) for labor issues.

(CTM), the nation-wide, quasi-governmental labor union with close ties to Salinas's PRI. With a presidential election in the offing (August 1994), Salinas wasn't willing to alienate the CTM. In fact, the CTM leader sent some of his representatives to some of the related negotiation venues "to emphasize his hostility to the discussion of such issues as freedom of association, collective bargaining practices, and the encouragement of autonomous unions" (Grayson 1995, p.147).

Just as the US positions inspired harsh opposition from the Mexicans and Canadians, they did the same on the domestic front -- from both business associations and Republican legislators. The Chamber of Commerce called use of trade sanctions a move that could have "profound, and as yet incalculable consequences as a precedent for all future trade agreements" (quoted in Grayson 1995, p.140). And on May 27th, seven business associations belonging to the US Alliance for NAFTA met with the National Economic Council Deputy Director Bowman Cutter. In that meeting they strongly objected to inclusion of trade sanctions and an independent secretariat for the commissions, and criticized the Administration for not consulting business groups in preparation of the Ottowa draft text (Inside US Trade 6/4/93, pp.1-12).[81] In addition to these organized salvos of opposition, Robert Reich reports that informal discussions with NAM, Chamber of Commerce, and other business leaders revealed unconditional opposition especially to a labor commission that would impose trade sanctions to protect worker bargaining rights (interview with author).

On May 24th, House Minority Leader Robert H.Michel, R-Ill., and Minority Whip Newt Gingrich, R-Ga., sent a letter to the President warning that they would not be willing to support a NAFTA that included "multilateral environmental and labor bureaucracies with little accountability and sweeping mandates" (quoted in Grayson 1995, p.138; Inside US Trade 5/28/93, p.8). In this and other dispatches, Bill Archer and other Republicans emphasized that "they would not vote for the free trade agreement if the side agreements created extensive new international bureaucracies that would infringe on American sovereignty or burden American companies" (NYT 9/19/93, p.1). Senator Jesse Helms, R-N.C., expressed his fear more strongly, warning that the environmental talks threatened to create "an international environmental gestapo" (Grayson 1995, pp.139-40).

In the face of this flurry of domestic and international opposition, the Administration set its priorities in favor of pushing harder for a strong environmental accord in exchange for a weaker labor accord.[82] By early August, Administration negotiators extracted an agreement from the Mexicans to create most of what the Kantor elements of the Administration sought for the environmental commission, though with a relatively modest trade sanction as the highest penalty for non-compliance. According to some observers and participants, Mexican officials "reluctantly

[81] A business association lobbyist complained that "the side agreements to the NAFTA were...initiated with no input gotten or asked for from the business community....That has improved as we made our concerns known. But [Kantor] initially forgot the coalition he is going to need to get NAFTA through Congress" (NJ 8/21/93, p.2071).
[82] At a key National Economic Council meeting of the principals, these differences were aired, and apparently Lloyd Bentson threw his weight on Kantor's side, thus resolving the president to take what was seen as the politically necessary step to ensure ratification.

dropped their opposition to trade sanctions several days after [Mexican chief negotiator] Serra Puche met with Representative Gephardt...," who according to Inside US Trade reporters and others "emphasized that the sanctions were a *sin a qua non* for congressional approval" (Grayson 1995, p.141; Inside US Trade 8/13/93, p18). The Mexicans dropped their objections, however, with an explicit price: that the supplementary labor side agreement be weak.

The Canadians drove an even harder bargain, being more jealous of their sovereignty. Not only would the labor accord be relatively weak, but environmental or labor sanctions: could only be determined by Canadian courts, not by trilateral commissions; would apply to provinces as recommendations, not requirements; and could only go as far as fines, not trade sanctions (CQ 8/14/93, p.2219). But, again, the labor accord was weaker than the environmental one. As an Administration official summarized, Canada and Mexico "weren't really willing at the outset to contemplate trinational...arrangements, but as things moved on, it became clear that people were more willing to try things out in the environmental area" (quoted in NYT 9/19/93, p.38).

What the official failed to point out was that the domestic cards were stacked the same way: Business and Republican leaders were willing to try more out in the environment than the labor area. As one Congressional aide put it, "The environmental provisions of the NAFTA are about as far as you can push that issue without losing the support of those who fear the economically deadening hand of regulation" (N.J. 11/20/93, p.2782).

3.2.1.1 The Side Agreements as Compensation

Virtually all the negotiations were complete by mid-August, Clinton unveiled the side agreements at a signing ceremony on September 14th. Flanked by Carter, Ford, and Bush, and the written endorsements of all other living presidents, Clinton celebrated the agreements as "historic" for their unprecedented attention to labor and environmental standards. At their core, both agreements set up national and international institutions to monitor, discuss, and enforce existing labor and environmental laws and standards, and to cooperation towards an up-grading in those laws and standards. Both, in other words, represented internationally-negotiated and provided side payment compensation.[83]

It was immediately apparent, however, that the environmental accord was substantially stronger and more ambitious than its labor counterpart. The environmental accord, the North American Agreement on Environmental Cooperation (NAAEC), founded a Commission on Environmental Cooperation (CEC) to be staffed by as many as the three countries were willing to spend. A Council of Environmental Ministers -- the highest level ministers responsible for environmental issues -- was to meet at least once a year and to oversee all CEC activity. A CEC

[83] The details in this sub-section come from the text of the supplemental treaty (President of the US 1993).

Secretariat would be established to do the nuts-and-bolts work for the Commission, providing technical, administrative, and operational support to the Council and to whatever other committees the council might create. The Secretariat, to be located in Canada, was to consider complains from any NGO or association alleging environmental non-compliance. Finally, it called for a Joint Public Advisory Committee of five members from each country, which was to meet annually along-side the Council meetings. This committee was to include NGO representatives and to advise the council and provide technical assistance to the CEC Secretariat.

Where a "persistent pattern of failure to effectively enforce an environmental law" involving traded goods could be shown to exist in a country, the CEC Secretariat can commission a factual investigation, unless 2 out of 3 Ministers on the Council say otherwise. NGOs can file complaints. On the strength of this investigation, the Council can recommend a range of actions, including some "action plan" for the signatory nation to better enforce some law, and "monetary enforcement assessment" up to $20 million. If the action plan isn't followed and the fine not paid, the complaining party can suspend NAFTA tariff benefits.[84]

The North American Agreement on Labor Cooperation (NAALC) created institutions parallel to the environmental accord: a trilateral Commission for Labor Cooperation (CLC); a Council of Ministers scheduled to meet yearly; an International Coordinating Secretariat to conduct daily work of the commission; and fora for private parties to launch investigations and monitor compliance, the National Administrative Offices (NAOs). But the CLC was limited in size to fifteen staff members (NYT 9/19/93, p.1). This implied less administrative, investigative capacity than the CEC, without any staff ceiling, would have. More significantly, the National Administrative Offices were not trilateral institutions, but national ones located in each country but designed to be a forum for investigating practices in the *other* countries -- to be staffed, funded and run in any way the country chooses. This implied less oversight and control by non-governmental actors, like unions, in the investigatory process.

The CLC's enforcement and dispute resolution powers are particularly meager compared to the environmental accord. The NAALC called for three tiers of investigatory and enforcement powers, depending on the particular labor rights and standards being violated through some "persistent pattern or failure to enforce" domestic labor laws.[85] In the first tier, involving workplace health and safety, minimum wage, and child labor laws, complaints may trigger ministerial consultations, the Secretariat may order an investigation through an ad hoc Evaluation Committee of Experts (ECEs) only if 2 of 3 Council Ministers agree, and the ECE and ministers may impose a range of enforcement powers, up to $20 million and, failing that, trade sanctions. In

[84] If the Council of Ministers is unable to resolve some dispute, any nation can ask for an arbitration panel, to be staffed by approved experts, as long as 2 out of 3 ministers give their consent.

[85] The only relevant laws are those covering goods traded among NAFTA countries, and countries can only complain about "mutually recognized labor laws," those for which laws already exist.

the second tier -- involving alleged non-enforcement of gender inequality in pay, gender or other discrimination laws, migrant worker protection, forced labor laws, occupational injury payments -- ministers may consult and may order an ECE investigation, but they cannot take any dispute resolution action. And in the third tier -- covering Labor's most coveted rights to organize, associate, bargain collectively, and strike -- the only action possible is ministerial consultation.

In sum, the environmental agreement was palpably stronger than its labor counterpart in terms of size, autonomy, transparency and access, and powers. And neither the environmental nor the labor agreement provided anything near the protections provided to intellectual property as part of the main NAFTA agreement. But the creation of these labor and environmental institutions broadly fulfilled what was arguably the most ambitious, and certainly most unprecedented, of Clinton's October 4th side payment compensation promises.

3.2.2. The Rest of Clinton's Compensation: Environmental Cleanup and Promised Retraining.

By the September 14th unveiling of the labor and environmental agreements, Clinton had also taken significant action on his other October 4th compensation promises. Of course, the supplemental agreement on import surges, unveiled the same day, addressed the concerns of a variety of vocal anti-NAFTA producer groups, especially agricultural concerns. More significantly, perhaps, the Clinton Administration had agreed in principle to negotiate along-side the main environmental accord a bilateral US-Mexico institution to design, administer and finance for US-Mexico border clean-up and infrastructural improvement. Roughly as expected and outlined, the resulting institution was unveiled October 27th as the Border Environment Cooperation Commission (BECC). The BECC was to be overseen by a ten-member board of directors representing US and Mexican national and state-level environmental public servants, and advised by an 18-member council of state and local government and NGO representatives.

The money was to come from both private sector sources, from existing governments (federal, state, and local), and from a newly dedicated North American Development Bank (NADBank). When the NADBank was finally created -- details were being worked out until the final days before ratification -- it was to be capitalized by the US and Mexico, each country paying in equal shares, $225 million for the first four years of paid-in capital, which was then to leverage roughly $2-2.5 billion in "callable capital" (Inside US Trade *Special Report* 8/16/93, S-3; Wash.Post 11/1/93, p.A7).[86] Aside the BECC and CEC monies and activity, the US also agreed to capitalization of the Mexican Conservation Fund, toward which the US promised $20 million, to aid in "preserving the country's watersheds, forests, and biodiversity" (Fox 1995, p.63;

[86] Before ratification, the NADBank's responsibilities were expanded to include development projects and job training programs for NAFTA-impacted communities as well as environmental cleanup. See Section 3.3.3 below.

International Trade Reporter 9/15/93, p.1502 and 11/3/93, p.1832). When all was said and done, the environmental cleanup and safeguard commitments totaled between $4 and 6 billion from the US (NYT 9/19/93,p.20).[87]

On the labor side, the only other major October 4th 1992 side payment promise involved providing sufficient programs and funding to pay for the adjustment of workers dislocated by the NAFTA. Here, the Administration had not taken any new action, since the adjustment assistance they had in mind was part of the broader job retraining initiative. Clinton and his underlings were hostile to the dedicated TAA program, or to any like-program for the NAFTA, mainly because they believed it complicated the task of determining eligibility and providing services. Not only were the Labor Department and other administrations against a targeted program, the USTR apparently refused to even speculate about the possibility of including some retraining initiatives in the NAFTA enactment legislation (NJ 9/11/93, p.2218).

Like Bush's ASETS plan, then, the Clinton plan was to fold TAA and other training programs into a single program. More ambitious than the Bush initiative, however, Clinton's initiative was to encourage assist adjustment "before the trauma of unemployment hits" (Reich quoted in LRW 9/8/93, p.870). It would also create "one stop shopping" so that "people who need income support through unemployment insurance for job assessment, job search assistance, and job training to get it at one place conveniently" (Ibid., p.871). Labor Department studies and recommendations estimated that the big program would serve 1.3 million in 1998 and would cost $3.2 billion, a tripling over the Administration's 1994 budgeted amount of $1.1 billion devoted to active labor market policies (Ibid). Details of the plan had yet to be worked out, but some principles to be at the center of the reform, such as one-stop career centers, were already included in the Administration's FY 1994 Budget.[88] Funding was also left undecided, though Reich rejected the border tax idea pushed by numerous interest groups (AFL-CIO) and legislators (Sen.William Roth, R-Del) to pay for the program, saying it would simply be a "trade impediment"; he also rejected an employer tax, saying the Administration "would not propose anything which in any way deterred employment...." (LRW 9/29/93, p.932).[89]

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[87] Other sources reported higher totals. Congressional Quarterly estimated that the plans totalled $8 billion, of which $2 billion is from current US-Mexico programs, $2 billion from multilateral lenders, and $4 billion from government loans and guarantees to finance border projects (CQ 10/2/93, p.2621).

[88] In the FY 1994 budget, the Senate and House approved monies to establish one-stop career centers: Senate provided $50 million for such centers, compared with $42.5 in the House and $150 in the Labor Department's request (LRW 9/29/93, p.933). Other provisions of the comprehensive approach to get a jump-start in the budget plans were a national labor market information system -- which the '94 allocation blessed with commissioning a "thorough review of labor market information needs and existing products" -- and worker profiling -- which the FY '94 bills both allocated $9 million to achieve.

[89] By the Fall of 1993, the Administration had already backed away from the Labor Department plan to demand employers to devote some percentage of their profits to in-house training or to pay a 1.5 percent employer payroll tax or training commitment had been jettisoned in the face of fierce opposition. The NAM preferred instead a tax credit. Others criticized the enforceability of the program (e.g. what if someone's hanging out with a supervisor? is that training?).

The Administration signalled its plan to pursue this broader, still unspecified program in the near future as a way of fulfilling its NAFTA adjustment assistance promise. While the side agreements were being negotiated, Administration officials insisted that worker dislocation resulting from the NAFTA would be a tiny proportion of total jobs, no more than 22,500 in the first 18 months of the program. The planned, more general training initiative, they insisted, would more than address the adjustment needs of these workers. And they pleaded for patience: The big plan would be coming soon. A week before the unveiling of the side agreements, Reich told reporters and the Senate Finance Committee that the proposal for comprehensive training would be introduced "within the next six weeks" -- in other words, well before Congress adjourned in December (BNA 9/7/93; LRW 9/29/93, p.932).

3.2.3. Reactions to the Clinton Package

Clinton's compensation and safeguard package successfully split parts of the anti-NAFTA coalition and softened some opposition -- more so than had Bush's efforts -- but the majority of that coalition remained as strongly opposed as ever. In the details of such a mixed response there were only a few surprises.

Clinton's ambitious package of cleanup money and of trinational monitoring and enforcement institutions successfully split the environmentalist coalition more solidly and widely than had Bush's 1992 package. On September 15th, two days after the side agreement unveiling, leaders of six of the largest environmental lobbies actively involved in the debate held a press conference to announce their support of the NAFTA: (1) the National Wildlife Federation; (2) the National Audubon Society; (3) Conservation International; (4) World Wildlife Federation; (5) Environmental Defense Fund; and (6) Natural Resources Defense Council (NYT 9/16/93, p.1 and 20). Collectively these groups represented more than 7.5 million members. In keeping with the Administration's desire to symbolize the depth of and draw maximum attention to their endorsement, these groups appeared together, with Vice President Al Gore at their side. All six claimed to have "no doubt that approving the trade agreement was better for the environment" (NYT 9/16/93,p.20). To support this claim, in their various ways the six representatives pointed to the autonomy, strength and accessibility of the trinational Commission on Economic Cooperation, and to the various programs and some $4-6 billion promised for border cleanup.

Many of the six, of course, had been actively involved in developing and negotiating these provisions, working closely with Administration officials. This allowed the groups to shape many specifics of close interest to their particular constituency. The most extreme example of this tailoring involved the National Audubon Society. In the few days between conclusion of the side agreement negotiations and the September 15th press conference, the national representatives of the

National Audubon Society made the organization's support contingent on a promise from the Administration that the Western Hemisphere migratory bird treaty would take precedence over NAFTA. This agreement required that the Administration add the migratory birds agreement to a list of environmental pacts already protected in the general NAFTA from legal challenges on behalf of NAFTA liberalization.[90]

Most of the six pro-NAFTA environmental groups had been conciliatory and sometimes supportive of the NAFTA ever since its negotiation was announced by President Bush. All but the NRDC and Audubon, for instance, had formally come out as cautiously in favor of the agreement after Bush promised and negotiated his environmental compensation package. But the depth of support of these groups was significantly stronger in the aftermath of the Clinton package; all are reported to have actively lobbied congress for NAFTA's passage (Fox 1995). And Clinton's compensation successfully bought the support of two additional groups Bush's package had failed to woo: the NRDC, which was formally and publicly against the NAFTA in the Autumn of 1992, and the National Audubon Society, which had been on the fence during that time. Thus, Clinton's environmental compensation did buy significant environmentalist support for the liberalization, important for the vote at least through environmentalist stamps of approval symbolically affecting mass public and Congressional opinion.

On the other hand, most of the environmental groups that had consistently taken a more resolute anti-NAFTA stand -- including rejecting Bush's compensation package -- were unswayed by Clinton's offers. The most prominent of these national groups were still the Sierra Club, Friends of the Earth, and Greenpeace, accompanied by Ralph Nader's Public Citizen. And they were joined by, formally, around 300 other local and state-level grass roots groups, including nearly a dozen of the National Audubon Society's local chapters -- who sharply criticized their national (NYT 9/15/93, p.1 and 20).[91] The big organization representatives of these hardline environmental groups fought against the NAFTA in several appearances before House and Senate hearings devoted to the side agreements and the NAFTA generally, between September and mid-November. And they sponsored a full-court-press advertising effort, partly subsidized by the Citizens Trade Watch Campaign, in which they spent as much time excoriating the big NAFTA-endorsers for "selling out" and being "too cozy with their corporate funders" as they did dissecting weaknesses in the side agreements (Ibid., p.20).

With the environmental lobby so soundly split, the question was how the side agreements and job-initiative signaling would affect the nature and determination of Labor's opposition. Even

[90] Apparently the Administration didn't need to negotiate this with Canada and Mexico, since the EPA was in the process of adding the deal to the list after the formal signing of the side agreements.

[91] Such intra-group dissension cut both ways, as it turned out, for two experts on the Serra club's economics committee publicly criticized the national's opposition to NAFTA, claiming the treaty to be a significant improvement over the status quo ante (NAFTA Notes 9/28/93; and Baker Fox 1995, p.64)

before the side negotiations were completed, the verdict was in: Labor representatives of all stripes -- not just the consistently unconditional protectionists like the Teamsters, IBEW, and UAW, but also the tentative fair traders like ACTWU, the Food Workers, and the AFL-CIO leadership -- made it clear that they were no more appeased by Clinton's compensation package as by Bush's. Labor spokesmen focused most of their ire on the weak protections for worker rights in the newly-proposed international Commission on labor; but they also had some angry words about Clinton's promised retraining compensation, and about other more protectionist redress. They expressed this opposition in all possible venues, most prominently in a slew of post-side agreement hearings, and in the AFL-CIO's 20th biennial Convention, held between October 4th and 7th.

Of the side agreements, Labor's appraisal was simple enough. In post-side agreement Congressional hearings, the main spokesman was Thomas Donahue, sometimes appearing with Mark Anderson.[92] On September 23 to House Ways and Means, in remarks almost identical to those before Senate Finance on the 21st, Donahue focused on the new institution's weak protections of worker rights:

> The labor supplemental agreement, rather than advancing labor rights and standards, actually represents a weakening of existing remedies available under US law. The accord contains no agreement on or definition of minimal worker rights and standards. Remedies can only be sought for persistently poor enforcement of a narrow group of standards, not for gross violations of labor rights. No remedies are offered for infringements against workers' rights to free association, to collective bargaining, or to withhold labor through strikes. (Donahue to Ways and Means 9/23/93, pp.517-18)

Mark Anderson embellished the verdict, emphasizing how "we certainly believe that the rights of workers were short-changed in this agreement, and it is clear that even the imperfect environmental accord is stronger" (NYT 9/19/93, p.38).[93] In addition to testimony and press statements towing this line, the AFL-CIO Convention's Resolution No.1 -- a measure of its priority to the unions -- emphasized the Commission's weak protection for collective bargaining rights as the core evil of the NAFTA (AFL-CIO 1993, p.208-9).[94]

In the post-side agreements phase of the NAFTA fight, Labor also criticized the Administration's retraining promises, and had an alternative plan. In his testimony to Congress and in press statements, Donahue accused the President of reneging on one of his October 4th NAFTA pledges by promising rather than providing an ambiguous retraining initiative, one that

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[92] AFL-CIO's 73-year old President Lane Kirkland also got into the act on occasion. On August 13th, the same day broad agreement was announced, he lamented that "The side agreements would relegate worker rights and the environment to commissions with no real enforcement mechanisms, no power to impose trade sanctions and no effective remedies" (CQ 8/14/93, p.2219).

[93] For instance, Anderson zeroed-in on the limit on the CLC's staff: "It is difficult for me to believe that 15 people, however qualified or energetic they may be, can examine problems across the continent....This sounds like it isn't going to be much more than an office with a fax machine and some telephones" (Ibid).

[94] All Labor criticisms of the side agreement institutions also mentioned problems with the environmental compensation, such as how the "polluter-pays" principle should have been imposed. And they criticized a variety of other, more protectionist measures claimed to have been sold short in the supplementary negotiations: Super 301 penalties, tighter rules of origin, more generous tariff snap-backs.

fails to give NAFTA-dislocated workers special assistance. Such a stance, Donahue insisted, failed to differentiate "between workers who are displaced by government actions" like NAFTA, from those laid off "because the dry cleaner closed" (LRW 9/29/93, p.932). And in the October AFL-CIO Convention, the International Ladies Garment Workers Union (ILGWU) proposed a Resolution No.89 to keep TAA alive rather than fold it into Clinton's broader retraining, calling also for more TAA funding, for de-linking a worker's eligibility for TRAs from enrollment in a training program, and for extending assistance to workers dislocated by plant relocation as well as import competition (AFL-CIO 1993, p.A47).

But the adjustment assistance issue was, by all accounts, of secondary importance to Labor's complaints in the post-side agreement phase of the NAFTA fight. Although the TAA demands were folded into Resolution No.1, it was low on the list, and in the initial text of the NAFTA Resolution, adjustment assistance didn't even make it into the list of demands (Ibid., pp.227-9). Robert Reich reports that in his discussions with Labor leaders in the post-side agreement phase of the NAFTA fight, the leaders expressed little interest in beefing up the adjustment assistance provisions as a condition for softened opposition.[95]

Having tentatively flirted with a softer position on the NAFTA conditional upon a cluster of side payments, especially worker rights protections, Labor's full-fledged return to unconditional protectionism was a blow to Clinton's NAFTA prospects. A major target of its compensation efforts in the supplemental negotiations had not been bought-off even slightly. In fact, the end of the side agreements signalled a marked increase in the tenor of Labor's opposition, as the AFL-CIO and member unions mobilized all their political resources to defeat NAFTA ratification. It was at this stage, after all, when the IBEW and a few other labor leaders began to hold out the NAFTA as a single-issue litmus test of support, threatening to "whip the ass" of any Congressman brazen enough to cross the NAFTA line (AFL-CIO Convention Proceedings).

Whether responding to such threats or to conscience, leading legislative opponents or fence-sitters soon revealed that Clinton's array of compensation and protectionist redress wasn't enough to buy their support for NAFTA. For some legislators this was never in question. House Whip David Bonior, D-Mich., Senator Dorgan, D-N.D., and a number of other House and Senate members had many months earlier assembled an unwavering and unconditional anti-NAFTA caucus. Early in the side agreement negotiations, for instance, Bonior said that he didn't think the NAFTA "can be fixed with the side agreements" and that "I intend to exert every ounce of energy I have to defeat it [NAFTA]..." (NJ 7/17/93, p.1827).[96]

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[95] In public conversations, according to Reich, these leaders emphasized that retraining was under-funded and politically precarious, and that training without clear demand for jobs wasn't enough. Privately, the leaders 'confessed" to Reich that they were also worried that retraining would simply hasten the hollowing of union ranks, by facilitating exit from unionized into non-unionized jobs (interview with Reich).

[96] Similarly, Senator Dorgan, D-ND, expressed his unwavering opposition, focusing on the past and future "dumping" of durum wheat into his state, and was working with Michigan Senator Carl Levin to collect Democratic

More relevant were "undecided" legislators who had expressed some willingness to soften their opposition or actually support the NAFTA with good supplemental agreements and compensation action. Important among these were the Southern legislators, concentrated in Florida and Louisiana, who had been interested mainly in wresting more protectionist rules of origin, exemptions, and tariff snap-backs for agricultural groups. After the supplemental accord on import surges was announced, these legislators made it clear that not enough was done to protect their constituencies from the threat of cheap Mexican sugar, fruit and vegetables. As of September 1993, for instance, the entire Florida delegation in both the House and Senate -- 13 Republicans and 10 Democrats -- remained officially opposed (Orden 1995, p.53). So the Administration's one purely protectionist side agreement failed to hit its main political target.

Perhaps the most important fence-sitter, however, was the Richard Gephardt, who one Hill-watcher was sure "[held] at least 25 NAFTA votes in his pocket" (NJ 9/11/93, p.2218). The Michigan Majority Leader had unambiguously and consistently said that if the side agreements were strong enough and adjustment assistance programs generous enough he would support the NAFTA. And he had played an active role in convincing the Mexican delegation to soften their opposition to the use of trade sanctions as possible penalties against environmental and labor law non-compliance. The question, of course, was whether the resulting agreement was enough. Soon after his meeting with Mexico's chief negotiator, Gephardt had already signalled his dissatisfaction with the side agreements, saying that they didn't come close to resolving his long-standing concerns: "Although progress has been achieved, the announced side agreement falls short in important respects, and taken alone, is not supportable. I am not optimistic that these deficiencies can be successfully resolved" (CQ 8/14/93, p.2219).

On September 21st Gephardt formally announced his opposition to the NAFTA, but it soon became clear that his opposition had been softened by the Administration's compensation efforts. In a speech to the National Press Club, he complained that the Administration had not gone far enough to remedy his various concerns, outlined before and during the side agreement negotiations -- especially concerns about worker rights and funding for retraining and environmental cleanup (NJ 10/16/93, p.2473). To a cheering AFL-CIO Convention audience on October 4th, Gephardt reiterated his anti-NAFTA stance, focusing this time on wages and rights of workers, environmental disparities, and the lack of resources for retraining and relocation. (AFL-CIO 1993, pp.77-9). On the retraining compensation, Gephardt spent significant time and energy criticizing the President's retraining initiative for lacking important substantive details, such as funding sources, and for being promised in the indefinite future. Instead, joining a number of other voices in Congress, he wanted adjustment assistance funding and plans to be provided as part of the

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signatures for a letter asking Clinton to withdraw from the agreement (Ibid).

NAFTA package (NJ 9/11/93, p.2218). Gephardt, thus, stood against the NAFTA for not being accompanied by as much compensation as it could.

The big question, however, was not so much whether Gephardt would oppose the agreement, but instead how active his opposition would be: "The question is his level of engagement....We're hoping that at most he's going to articulate his position and respond if he's attacked" an anonymous House Democrat said (CQ 9/11/93, p.2373). Bill Richardson, D-NM,a major pro-NAFTA vote-gatherer, said "If he works against us, then it's over" (Ibid). On this issue, the news for Clinton was good. Gephardt voiced his opposition to the NAFTA agreement in a various places, but he did not strongly pressure through personal calls or speeches or other tactics other Democrats to do the same -- certainly not as vociferously as he had fought for Super 301-like trade legislation in the mid-1980s. And he did not gripe about or try to derail with the Administration's attempts to buy further votes with additional promises, and in fact stayed engaged in asking the Administration for further sweeteners that would make the NAFTA more palatable, such as more immediate and concrete action on adjustment assistance. Either due to this relatively passive opposition or to his diminished influence, in any event, Gephardt's opposition did not spark wholesale opposition from other fence-sitting Democrats, as many had feared (CQ...).

The modesty of Gephardt's opposition partly reflected his partisan loyalty and his commitment to Clinton's legislative program, but it should be credited in part to the Administration's various compensation efforts, particularly its international labor and, especially, environmental institutions. The possibility of further sweeteners in the immediate (adjustment assistance) or distant future (minimum wage) may also have moderated his opposition. Retro- or prospectively, then, the compensation provided by the middle of September 1993 can be said to have made at least a modest difference to Gephardt and others on Capitol Hill.

In sum, we see in the Clinton's side agreements, unilateral side payments, and retraining promises another compensation package with mixed political effectiveness. Clinton's compensation clearly failed to push organized labor to soften its hostility to the NAFTA. And more generally, the array of opposition in Congress made it clear that NAFTA ratification was still in trouble. As lead pro-NAFTA vote-getter in the House, Robert Matsui, D-Hawaii, had to admit: "We didn't gain ground from the side agreements, as we had hoped" (NJ 9/18/93, p.2259). But clearly some ground was gained. The compensation clearly bought and/or deepened the support of some environmentalists -- most clearly NRDC that hadn't supported with previous compensation. And it also arguably softened Gephardt's -- and by implication, others' -- opposition.

Finally, it is also significant that the compensation to date had some buy-off effect without alienating many or any Republicans otherwise committed to the NAFTA. To be sure, there were at least some groups who's opposition deepened as a result of the side agreements, such as Pat Buchanan, who said of the side agreements: "If NAFTA passes, the dream of a conservative-

libertarian counterrevolution, to roll back Big Labor's special interest laws and reverse Congress' capitulation to the Greens, is gone -- forever" (quoted in CQ 10/16/93, p.2793). How this truculence translated into votes isn't clear. In general, the Administration was careful enough to balance such a Republican back-lash against Laborite demands that they didn't lose any or many votes with the side agreements. Bill Archer, R-Tex, the ranking Republican on Ways and Means and a chief critic of the labor and environment Commissions, said: "Clearly [the Administration] could have stepped a step farther [on the side agreements] and lost me" (NYT 9/19/93, p.38).

3.3. The Endgame Compensation

As reactions to the NAFTA compensation rolled-in, it was clear that the compensation package may have moderated important ramparts of opposition, but that it had not bought enough legislative support to secure the NAFTA's ratification, planned sometime before December recess. Many feared and publicly expressed that Clinton had waited too long to begin selling the NAFTA, signaling softness in his convictions, and giving anti-NAFTA forces time to mobilize and space for fears to fester. Both the House and Senate were problems, but especially the House. As early as mid-July, it was clear that the unconditional and "firm" anti-NAFTA caucus was big; Bonior had gathered 102 House and 7 Senate signatures on a letter urging Clinton to post-pone a NAFTA vote until after consideration of the health care, since "debate over NAFTA will be difficult and divisive...and will detract from our efforts to build a broad coalition for health care reform" (NJ 9/19/93, p.2259). Vote counts in the couple of weeks following the side agreement's unveiling revealed that Bonior's caucus of "firm no's" was only getting bigger.

It was at this point that the Administration's bid to get NAFTA ratified really took off, consisting of what was one of the most intensive lobbying effort launched by a President and his cabinet in legislative history. The direct targets of these appeals were no longer societal groups in the anti-NAFTA coalition, but congressional legislators. White House staff, virtually all cabinet members, and the President himself, paid hundreds of visits and made thousands of phone calls cajoling and bargaining with Members of the Senate and the House, and their staffers.[97] In this grand lobbying effort emerged the final flurry of side payment politics in the NAFTA episode.

This lobbying effort used all the usual tools of Presidential influence on trade policymaking. Rhetorical and symbolic gestures were important parts of the endgame, and came in a variety of packages: press briefings, congressional testimony, rallies, etc. Some involved

[97] The President brought in William Daley, brother of Chicago Mayor Richard Daley, to coordinate the lobbying effort. In the House, the point people were Robert Matsui, D -Hawaii, a senior member of Ways and Means, and Bill Richardson, R., who was one of four deputy majority whips and an activist within the 19-member Hispanic Caucus. For a detailed discussion of the Administration's lobbying organization in the last stages of the NAFTA fight, see Grayson 1995, pp.199-209.

singing the praises of various parts of the agreement -- such as Labor Secretary Reich portraying a recent Mexican wage agreement ("El Pacto") as an expression of "the first fruits of the [Labor side agreement's] progressive, collaborative approach to labor policy" (Senate Labor/Human Resources Committee 10/13/93).[98] Others involved Administration officials denigrating opposition arguments -- or the opposition -- the most important example of which was Clinton's "Meet the Press" appearance at which he condemned Labor for using "real rough-shod, muscle-bound tactics" to coerce vulnerable legislators to vote against the NAFTA (in Gerstenzag and Healy A-15). Such rhetoric was very strong stuff, and it incensed Labor representatives who demanded a Presidential apology,[99] while helping to reverse the flagging support from Gingrich and other conservative Republicans.[100] The most remembered and politically useful rhetorical gesture, however, was the Gore-Perot debate on November 9th, in which Gore's level-headed defense of the NAFTA and Perot's crotchety polemics did wonders for the pro-NAFTA cause.[101]

At the center of the Administration's lobbying assault, however, was an aggressive campaign to negotiate a variety of general and targeted redress. These offers of redress came in three types, distinguished by how concrete, particularistic, and "eleventh-hour" they were: (1) signaling linkage or wresting actual support for future legislation favored by anti-NAFTA groups and legislators; (2) providing general benefits attached to the NAFTA enactment legislation, most significantly adjustment assistance for NAFTA-dislocated workers; and (3) eleventh-hour pork redress targeting particularistic policies and actions at particular legislators. All of these redress overtures led to more side payment compensation than protectionist exemption or revision.

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[98] El Pacto was an October 3rd renewal of the 1994 pact for Stability, Competitiveness and Employment (PECE), a voluntary Mexican tripartite pact between government, the national labor union, and industry pledging to link increases in the minimum wage to gains in worker productivity, minus inflation.

[99] Teamsters President Ron Carey, whose union was laden by the most corrupt public reputation and had the most to lose, was the one who called for an apology: the "president's use of the words 'muscle-bound' and 'roughshod' were an insult to every working man and woman in America. If he had used similar code words to attack civil rights groups, women's groups, or environmental organizations who oppose NAFTA, he would be strongly condemned by every member of Congress" (LRW 11/10/93, p.1079-80). AFL-CIO's Donahue called the remarks a "cheap shot," adding tat the administration was behind in the vote "and they're reaching desperately to get ahead" (Ibid, p.1080).

The IBEW's William Bywater, the sharpest-tongued Labor leader, was, uncharacteristically, more defensive: "What strong arm tactics do we have?....Our members are saying they are not going to vote for any candidate who takes a stand against our interests and supports NAFTA. That's not arm twisting. That's the democratic process." (Ibid, p.1079).

[100] Having wavered in the rallying of Republican votes, Gingrich got moving again, inspired in part by the President's confrontation and show of bipartisan good feeling. He said of the President's "Meete the Press" confrontation: "It said to a lot of our guys that, if he's going to take that kind of a risk in taking on labor unions, how can I turn my back on him?" (CQ 11/20/93, p.3175).

[101] Right after the debate, polls showed a significant increase in public support for the NAFTA, reaching at least temporarily a narrow majority of support (36 to 31 percent).

3.3.1. Signaling Linkage and Trying for Compensation Promises

Some Administration officials drew attention to and sought support for future or potential policies that could signal policy action to off-set NAFTA pain. Already, of course, the Administration had been signaling its intention to introduce sweeping job retraining legislation. But there were other future-looking compensation signals and overtures separate from the compensation package Clinton promised in October 1992.

For instance, Administration officials and pro-NAFTA legislators had often signalled how groups and legislators should support the NAFTA to build political capital among interest groups and Republicans necessary to Clinton's labor and environment-friendly legislative platform. Robert Matsui , for instance, predicted that Clinton's support for the NAFTA would, as the NJ paraphrased, "open the door for Republican cooperation on other issues, including health care" (NJ 7/17/93, p.1827). James Carville, more pointedly, talked of linking health care and NAFTA: "With supporting NAFTA comes an obligation to support national health care....We ought to do something to invest in the people who are going to lose their jobs." Such signaling was no doubt motivated as much by a desire to build support for healthcare as it was to secure NAFTA support, but it signalled to anti-NAFTA legislators that the Administration had an important policy that would mitigate NAFTA's pain (National Journal 8/21/93, p.2112). It's impossible to measure how much such signaling helped NAFTA's prospects.[102]

More explicit and narrowly-focused on buying NAFTA support, officials fished among anti-NAFTA groups, business, and Congress for possible policy provisions that could be pushed in the near future (after NAFTA passage) to compensate vocal and powerful NAFTA opponents. Robert Reich, for instance, knew that organized labor had eschewed the Administration's compensation package, but he spoke with a variety of labor leaders in search of policies that might off-set their worries and moderate their opposition. These included more immediate action on adjustment assistance, in which they showed little or no interest.[103] Reich then turned to a legislative item that he understood organized labor coveted more than any other: federal laws to prohibit permanent replacement of striking union workers. The Labor Secretary approached a number of business association representatives, including leaders of the National Association of Manufacturers and the Chamber of Commerce, to float the following quid pro quo: Labor leaders agree to try and call off their dogs on the NAFTA, and in exchange NAM, Chamber of Commerce, etc. agree to soften opposition to such striker replacement legislation. Reich claims that the

[102] Other than healthcare and labor market policies (retraining and other welfare provisions), the Administration and other pro-NAFTA groups signalled little else. There is no evidence, moreover, that they signalled the compensating effects or possibilities at the state or local level. It was, judging by press accounts and selected interviews, a purely federal affair.

[103] Legislators, however, did. See next section.

response was immediate and resolute: "they said, 'No way, José" (interview with Reich). According to Reich, these business association leaders were more opposed to such legislation than they were in favor of the NAFTA; plus, these leaders figured they could still win without having to sacrifice such a pound of flesh (Ibid).

It is difficult to even identify these or other possible signaling or support-building to future policy actions that might serve as compensation, and it is impossible to measure in any detail their political effectiveness. Such attempts to signal or buy support for future legislation/compensation probably didn't matter much to the NAFTA struggle. The Reich episode, of course, reveals an attempt that clearly bore no fruit. Signaling future elements of the Clinton legislative program, however, may have moderated some opposition in the House and Senate. As the discussion of Gephardt's post-side agreement stance suggested, the broader signaling may have played a role in moderating the opposition of some members.

3.3.2. "A Bird in the Hand...": NAFTA Bridge-program Adjustment Assistance and Other General Goods

The NAFTA endgame also witnessed the provision of a few redress provisions that were more than future policy promises but actual parts of the NAFTA enactment legislation: Super 301 protections, NADBank funding for communities, and NAFTA-dedicated adjustment assistance. The first of these was protectionist revision, the latter two compensation.

The inclusion into NAFTA of Super 301, the one intra-issue protectionism of these three, had long been part of the platform of the laborite wing of the anti-NAFTA coalition in Congress, and had long been opposed by many pro-NAFTA forces as overly protectionist. Super 301 was the controversial heart of the 1988 Omnibus Trade bill's aggressive reciprocity -- calling for immediate and harsh trade sanctions against trading partners shown to have chronic trade surpluses with the US and to be engaged in "unfair" trade practices (e.g. dumping, subsidization, poor treatment of workers). Clinton had endorsed Super 301 during his presidential campaign, but was reluctant to include it in the NAFTA accord given its potential for abuse by protectionists.

When the Senate Finance and House Ways and Means committees took up the "mock markup" of the NAFTA enactment legislation in late October, the issue of whether or not to include the provision was a sticking point. Senator Sam Baucus, D-Mont, long a NAFTA fence-sitter, explicitly offered his support for NAFTA conditional upon inclusion of Super-301 (NJ 10/16/93, p.2476). Opposed by enough of the Ways and Means and Finance committee members that they couldn't agree on a joint recommendation, the committees left it up to the Clinton Administration. When Clinton submitted his full NAFTA enactment package for up-or-down vote on November 4th, it included Super 301 language. Baucus announced his support for the NAFTA and

highlighted that inclusion as the key to his vote. There is no evidence that any other House or Senate legislators were "bought" by this overarching protectionism.

The second general redress included as part of the NAFTA enactment legislation was creation of a NADBank that would not only fund infrastructural investment to combat border pollution, but also fund projects outside the border region and for a broader range of community development and job projects. Originally envisioned as part of the US-Mexico border cleanup plan, discussed above, the NADBank caught the eye of Rep.Esteban E.Torres, D-CA, a senior member of the House hispanic caucus. While the NADBank was being crafted, Torres insisted that some of the NADBank money -- at least $1 billion in loans and loan guarantees -- be made available for public works projects and job programs in communities that lose jobs as a result of NAFTA (CQ 10/23/93, p.2863). Torres rounded up a collection of other NAFTA fence-sitters, mainly from the Hispanic caucus, to join him in this demand. In early October he sent Clinton a letter "offering to back NAFTA if their demands are met" (CQ 10/2/93, p.2620). According to various sources, Torres implied that "he could deliver between eight and 12 votes" (Grayson 1995, p.214; Wash. Post 11/1/93, p.A1).

Clinton apparently liked the idea, and had Bentsen, Tyson, and Reich work with Torres to negotiate the details. On October 27th Bensten unveiled the NADBank -- with the $450 million in US and Mexico start-up capital to leverage another $2.5 billion -- to be included as part of the enactment legislation. The NADBank charter read that 10 percent of its loans be devoted to community development á la Torres (CQ 10/30/93, p.2950). This implied funding levels significantly less than Torres's $1 billion, but it was enough to win his support. Torres appeared with Bentsen at the NADBank unveiling to announce his support for the NAFTA. Having been lobbied by UAW President Owen Bieber not to be bought, Torres said "[My constituency members] know I would not deliberately hurt working people....Now I can say there's some relief in sight" (Wash.Pos 11/1/93, p.A7).

But Administration officials were disappointed to find that the NADBank community funding didn't also bring over anywhere near the votes it was designed to buy in light of Torres's posturing. The Hispanic caucus, for instance, stayed mainly in the anti-NAFTA bloc (CQ 11/6/93, 3022). "One man, one bank," lamented on House Democrat (Wash.Post 11/1/93, p.A7). This was a bit pessimistic, but only a bit. According to House vote-getter Bill Richardson, D -NM, "it paves the way for two or three others....We're still trying to persuade them" (Ibid, p.3015).

3.3.2.1. NAFTA Transitional Adjustment Assistance

The most ambitious general buy-off written into the NAFTA enactment legislation during the endgame was a NAFTA-dedicated adjustment assistance program. This compensation grew

out of Clinton's October 1992 promise to increase adjustment assistance funding for dislocated workers, and out of the attempts by the Administration to link this promise to its sweeping $3.2 billion job retraining initiative planned later in the legislative season. Richard Gephardt and other House and Senate members generally liked the idea of such a program, but as mentioned above they pressured the Administration to provide more concrete action for NAFTA-dislocated workers. As of late September, however, Administration officials, including the Department of Labor responsible for the retraining initiatives, still strongly opposed folding any such dedicated assistance into the NAFTA bill and feverishly promised that its broader initiative would be unveiled and tabled before Congress' December recess.[104]

The pressure to create a NAFTA-dedicated program increased as the Administration still found itself more than a three-dozen votes short of ratification, and as the future of the broad retraining initiative became increasingly uncertain. Even if the Administration could come through on its promise to introduce the retraining overhaul before December recess, there was no chance of enactment before sometime in 1995. But even this was optimistic, since a combination of factors -- continuing/growing budget constraints, ridicule of past retraining programs, hostility to the retraining initiative in the key House and Senate committees, and Congress' tendency to defend the segregation of various pet programs -- all threatened to derail the retraining initiative whenever it was introduced (Reich interview; NJ 9/11/93, p.2218). As one astute Congress-watcher said of the Administration's retraining promises: "Congress and those who bear the brunt of new competition from Mexico will be forced to trust the Administration's ability to push through a new, better-financed retraining program early next year -- *a dubious prospect at best"* (Stokes for NJ 9/11/93, p.2218, italics mine).

Such doubt became the basis of an increasingly active (behind-the-scenes) coalition of legislators keen on retraining and of those keen on or concerned about humanizing NAFTA. Given doubt about the retraining program's prospects as stand-alone legislation, legislators and lobbyists interested in retraining but not so engaged by NAFTA could see the trade legislation as a chance to get something established. As Michael Aho, then at the Council on Foreign Relations, pointed out: "For those who are interested in retraining, NAFTA is a legislative vehicle that is moving" (quoted in Ibid). On the other hand, those who wanted to mitigate the NAFTA liberalization's harm (e.g. Gephardt) or who simply wanted to do anything that would gather the marginal "yes" vote on NAFTA (e.g. Matsui and Daley) saw a dedicated adjustment assistance program as better than a "dubious" retraining promise. Gephardt, apparently, was a lead force behind such a demand (Stokes in NJ 9/11/93, p.2218; CQ 10/2/93, p.2621; Reich interview). But

[104] The motivation was a combination of not wanting to continue the bureaucratic fragmentation of adjustment assistance and retraining, with perpetuated fiefdoms supporting such division, and a desire not to let a dedicated NAFTA program take steam out of the broader initiative (Reich interview).

he wasn't alone: a House Education and Labor Committee aide said of a dedicated program: "if we don't do this, NAFTA doesn't stand a chance on the House floor" (Ibid). A bird in the hand, at least in this case, was preferable to two in the bush.

Administration officials ultimately followed the advice of this Congressional coalition. In an address to the National Press Club on October 12th, Labor Secretary Reich announced that the Administration had decided to delay introduction of the comprehensive program, and proposed to set up a "bridge" NAFTA adjustment assistance program to help those dislocated by NAFTA in the interim (LRW 10/13/93, p.977). Details of the program, dubbed NAFTA Transitional Adjustment Assistance, were unveiled by Reich, his Assistant Secretary Douglas Ross, Rufus Yerxa and others within a week (CQ 10/16/93, p.2792; US Dept.Labor mimeo 10/19/93, pp.1-7). It would be temporary, in place only until the comprehensive legislation, to be introduced "early next year," passed Congress -- as early as January 1995 but certainly by the end of June 1995. Given the planned kick-in of NAFTA on January 1994, this left roughly an 18 month period during which the NAFTA Worker Security benefits would be available.

The program would provide adjustment assistance to all workers who lose their jobs directly or indirectly because of NAFTA-inspired import competition or outward investment.[105] Workers could apply for NAFTA bridge benefits from their state employment office, with eligibility determined by the governor and the Department of Labor. If found eligible, employment offices could then immediately draw on various aspects of existing training programs and funds, especially Trade Adjustment Assistance (TAA) program and Economic Dislocated Worker Adjustment Assistance (EDWAA). The benefits included, first, up to 104 weeks of "up-front," or rapid response, income assistance and readjustment services, including labor market information, job search and placement assistance, career counseling, testing and assessment. Second, if the Department of Labor gave its assent, offices could also provide "comprehensive services": up to 78 weeks of job search allowance and relocation assistance, and "long-term skills training accompanied by income support" (US Dept. of Labor 1993b, pp.1-2). Officials estimated that the average eligible worker would receive some $8,000 in benefits.

Administration officials went to great pains to distinguish the NAFTA-bridge programs from the TAA program, which had recently been heavily criticized in an internal Labor Department audit -- especially for recklessly waiving the training requirement for income support, for its lengthy and cumbersome certification and service provision, and for inappropriate training (US Dept. of Labor 1993c). The NAFTA program, officials stressed, would improve upon these shortcomings by: (1) requiring all workers. no waiver option, to enroll in a training program by

[105] Not only would "primary" victims of NAFTA be eligible, but so too would "upstream" suppliers and "downstream" processors (LRW 11/10/93, p.1079). All workers would need to meet the existing TAA eligibility standard, that NAFTA "contributed importantly" to their job loss.

the 16th week of their extended UI period; (2) stream-lining certification so that an applicant's state Governor would have ten days to decide upon "up front" services and the Department of Labor another 30 days for more comprehensive services; (3) offering immediate access to "up front" services; and (4) ensuring that training is appropriate, by closely linking training to employer needs (Ibid, pp.3-5).

Administration officials estimated that such a temporary program would cost $90 million, $45 million for training and $45 million for income support, over its 18-month life. This estimate was premised upon the Administration's assumption that no more than 22,500 workers would be dislocated by NAFTA-inspired import competition or outward investment.[106] This estimate derived from a CBO prediction that NAFTA would dislocate roughly 150,00 workers in its first 10 years (Bureau of National Affairs 1993 No.201, p.AA-1).[107]

Compared to the existing TAA and Bush's proposed ASETS program, the NAFTA bridge program was modestly more generous. As a "capped-entitlement," setting an outer limit on what can be spent on adjustment assistance regardless of per-worker benefits, Clinton's $90 million, 18-month NAFTA-bridge was in overall money terms less generous than Bush's $335 million per 12 month ASETS program. But beside the existing TAA program as it was expanded under the 1988 Omnibus Trade bill -- capped entitlements totalling $80 million per year for *all* trade-dislocated workers -- the NAFTA-bridge program compared favorably. And the per-worker benefits made available and expected to be provided implied a program that was comparable to the existing TAA as expanded under the 1988 Omnibus Trade Act, and that was significantly more generous than Bush's ASETS program.

Initial responses to the proposal in Congress and elsewhere were not particularly enthusiastic. The release of the Labor Department Inspector General's audit and negative assessment of the TAA was only just seeping into the press and Congressional hearings when the Administration tried to sing the NAFTA-bridge program's praises. Within days of the October 13th unveiling, Rep.Collin Peterson, D-Minn., a staunch NAFTA opponent, called for hearings before his Government Operations Subcommittee to discuss the NAFTA program in light of the TAA audit. Peterson and others took the program to task, first, for its wildly optimistic assumptions about NAFTA-inspired job losses -- 150,000 in ten years -- compared to almost all "respectable" estimates, such as Hufbauer and Schott's influential estimate of 145,000 by the end of 1995. Second, they criticized the program for its links to the TAA: "The Labor Department is simply proposing to throw $90 million more down the same rat hole -- now called a 'bridge'

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[106] In later testimony Lawrence Katz of the Labor Department gave even lower estimates of the 18 month job losses: at most 10,000-12,000 through 1995 (CQ 10/23/93, p.2864)

[107] A CBO budgeter gave a higher estimate of the program's cost, contending that retraining workers according to the Administration's benefit package would cost $141 million, and extending it for five years would cost $36 billion more (CQ 10/23/93, p.2864).

program -- to meet the Jan.1 1994, NAFTA deadline" (BNA 10/20/93, No.201, AA-1). In light of the weaknesses of the benefits and its modest scale, Peterson jeered "you have to be pretty callous to try to sell this as a 'full support and assistance' program for displaced workers....It's a joke" (CQ 10/23/93, p.2864). Beyond the scorn of a few strong unconditional protectionists, the bridge program inspired little vocal comment, except from those favorably disposed but concerned that the bridge was to end after 18 months, willy-nilly, when there was no guarantee that the broader retraining initiative would get passed by June 1995 (e.g. Gephardt, Riegle, Gibbons).

It was this latter concern that spawned legislative action, as Congress entered its "mock" mark-up phase to decide what the full NAFTA enactment legislation would look like. During the Senate Finance mock mark-up, Senator Donald W.Riegle, D-Mich, a strong NAFTA opponent, got the committee to adopt an amendment extending the NAFTA transitional adjustment assistance for five years (CQ Almanac, p.176). In the House, Sam Gibbons, D-Fla, a NAFTA supporter and chair of the Ways and Means Trade Subcommittee, introduced a TAA NAFTA bridge program bill (HR 3352) on October 26th. The idea, here, was to strengthen the momentum behind dedicated NAFTA adjustment assistance were the Administration to back down. Similar sentiment inspired at least the timing of Lynn C.Woolsey's, D-CA, broad retraining initiative introduced a week earlier (Washington Times 10/7/93).

When the Administration ultimately introduced its NAFTA enactment legislation on November 4th, it listened to this pressure. Accompanying the main legislation was the NAFTA Worker Security Act of 1993 (HR 3450/S1627) that revised the Trade Act of 1974 to create the NAFTA Transitional Adjustment Assistance with all the contours proposed and discussed in the recent weeks. Addressing anxiety over the temporary nature of the bridge program, the bill explicitly adopted Riegle's Senate Finance amendment by saying that the primary firm employees "may be eligible for adjustment assistance up until Sept 30, 1998, "if Congress has not adopted a more comprehensive worker adjustment system by then" (LRW 11/10/93, p.1079).

As for the political benefits of this NAFTA adjustment assistance, the Administration had few illusions. Especially given the bad press all retraining initiatives were getting as a result of the TAA audit, Administration officials knew to expect little: As anonymous Administration officials told one journalist at the time, the White House "is not counting on its proposal to change many minds: Those who are inclined to vote against NAFTA are apt to consider the retraining benefits too paltry to ameliorate what they contend would be widespread job loss" (CQ 10/23093, p.2864). Reich told reporters, however, that "the plan might be sufficient to solidify votes that the administration is counting on to support NAFTA" (Ibid). Beyond this solidifying effect, the interest of various NAFTA opponents in the bridge program, such as Gephardt and Riegle, and the modesty of their vote-rallying, suggest that the dedicated adjustment assistance may also have

moderated some opposition. Of course, such is impossible to tell with any accuracy, especially since by November so many other buy-offs had begun to fly.

3.3.3. Eleventh-hour Pork

Out of eleventh-hour doubts over NAFTA's prospects for ratification emerged the episode's last and most unusual flurry of redress: pork galore. Despite the already unprecedented array of compensation and protectionist redress provided and promised by Clinton, the NAFTA liberalization was still in trouble, at least in the House. 217 votes would mark a majority (given a seat vacancy), and toward the end of October vote counters of all stripes estimated a modest advantage for the anti-NAFTA camp, with a lot of "undecideds."[108] The Administration had only a month to make up the ground.

Desperate times called for desperate measures. The narrow margin on which the ratification would stand or fall led the White House and its legislative allies to offer and welcome requests for an unprecedented array of pork benefits -- protectionist or compensation redress with benefits confined to a particular legislator or legislators. Clinton met with small groups of undecided members twice a week, and called on three a day, while cabinet members were dispatched to focus on all possible votes, especially those "undecideds" that might influence others (NJ 10/16/93, p.2473; CQ 11/6/93, p.3014). As one lobbyist put it, "It's guerrilla warfare, district by district" (NJ 10/16/93, p.2473).

The search for subjects of redress was wide open. Benefits could involve Executive discretion or inclusion in the enactment legislation. It didn't matter whether groups had voiced a particular demand before or not, and it didn't matter whether possible redress was germane to the NAFTA or not -- everything would be considered. As one White House official confessed, "we're so desperate to win votes" that its "'let's make a deal" effort will get down to judgeships and customs jobs -- whatever we need to do to get votes" (Ibid., p.2476).

This "open-trough" solicitation unleashed a frenzy of pork-barrel politicking not seen in trade policymaking since the days of Smoot-Hawley. The policies or actions to emerge from this frenzy number more than two dozen discrete offers, targeted at roughly the same number of legislators. These are summarized in Table 5.1 below, which outlines the following: the legislators at whom the pork was targeted in exchange for NAFTA support (almost exclusively

[108] By one count, from the Bureau of National Affairs, the count as of November 11th was the following: 191 House members oppose or ar leaning against NAFTA (122 Democrats and 24 Republicans firm; 32 Dems and 12 Repubs. leaning), compared with 123 members in support or leaning in favor (34 Dems and 65 Repubs firm; 4 Dems and 20 Repubs leaning). Another 112 House members said they hadn't decided. 8 members didn't respond to the poll (LRW 11/3/93, p.1054).

Table 5.1:
Pork Promised or Provided by Clinton Administration

House Representative	Particularistic Benefit (Pork)	Kind of Pork: C, P, or L	Cost
E.B.Johnson, D-Tex.	• Construction of two C-17 military cargo planes.	C	$1.4 billion
J.J. Pickle, D-Tex.	• Promise to locate Center for Study of Trade in Western Hemisphere in district	C	$10 million
Glenn English, D-Okla. Bill Brewster, D-Okla. Bill Sarpalius, D-Tex. Larry Combest, R.-Tex	• Limits on Canadian shipments of durum wheat for pasta, unless Canadian subsidies lowered.*	P	?
E.Clay Shaw, R-Fla.	• Administration to pressure Mexico to extradite man suspected of raping Shaw's assistant's niece	C	?
David Price, D -NC Tim Valentine, D.-N.C. Bob Clement, D.-Tenn.	• Giving American Airlines two international routes to London	C	?
Bob Smith, R-Ore. Joel Hefley, R.-Co Wayne Allard, R-Co Bob Stump, R-Ariz	• Plan to raise grazing fees on federal lands abandoned by Administration (In the end, fees rose, but by less than planned)	C	loss of millions in such fees
Fred Grandy, R.-Ia. Neal Smith, D-Ia.	• Administration pressure on Mex.to speed tariff reduction on appliances	L	?
Porter Goss, R-Fla. Dan Miller, R-Fla.	• Further protection for winter vegetable growers (Tariff-snap backs; GATT tariff cuts limited to 15%).	P	
Tom Lewis, R-Fla Harry Johnston, D-Fla	• Construction of Horticultural research center in Ft.Pierce, Florida.	C	$16 million in up-front costs,
Jim Bacchus, D-Fla Carrie Meek, D-Fla	• Further protection for Louisiana and Florida sugar growers (corn sweeteners included in quota).**	P	&billions more in protection
Alcee Hastings, D-Fla Earl Hutto, D-Fla	• Doubling of purchases of fresh tomatoes and new sweet corn purchases for school lunch programs.	C	costs($1.4 bill. alone for sugar
William Jefferson, D-La	• Postponement of decertification of methyl bromide for use as a soil fumigant until the year 2000.	C	deal,says GAO)
Thomas Ewing, R -Ill. Jennifer Dunn, R.-Wash Ron Packard, R-Calif. Sam Johnson, R-Tex Dennis Hastert, R-Ill Wayne Allard, R-Colo.	• Reduction of Administration's proposed new tax on airline and cruise ship passenger fares that were to fund retraining for NAFTA-displaced workers.	C	Revenue had to come from more regressive sources
J.Roy Rowland, D-Ga	• Administration to negotiate limits on Canadian peanut butter imports	P	?
John Spratt, D-S.C. W.G.Hefner, D-N.C. Nathan Deal, D-Ga.	• More funding for US Customs to enforce textile import laws, and $15 million pledge to push for five more years of US textile protection in GATT	C	> $15 million
Lewis Payne, D.-Va.	• Same as above, plus district (Danville) to be considered site for NIST Textile Center in Danville	C	• $500,000 to $3 million
Bill Sarpalius, D-Tex.	• Reversal of recommendation to cut helium subsidies	P	• $47 million
Norman Mineta, D-Calif.	• Promise to protect cut-flower industry	P	

Table One Contnued:

Martin Frost, D-Tex.	• Pledge to protect glass producers.	P	
Peter Hoekstra, R-Mich	• Promise to protect Michigan asparagus growers	P	
Ben L.Cardin, D-Md	• Pressure on Canada to lower subsidies for Quebec chemical plant.	P	
David Hobson, R-Oh	• Protection for flat glass and broomcorn	P	
Hancock, R-Misouri Emerson, R-Misouri	• Offered money to rebuild midwest levees damaged by floods and that weren't covered by existing programs.	C	Up to $150 million
Floyd H.Flake, D-NY	• Promise to locate a Small Business Administration pilot program in Queens	C	

C = compensation; P = protectionist revision or exemption; L = accelerated liberalization

* "End-use" certificates to prevent subsidized wheat reexport of Canadian wheat and barley also targeted at North Dakota delegation, including Pomeroy, who stayed anti-NAFTA (Orden 1995).

** Some Administration officials estimated that the sugar deal may have bought up to 18 votes in the House, including Maryland Congressman Cardin (CQ 11/6/93, p.3015).

Sources: Anderson and Silverstein 1993, pp.752-3; Grayson 1995, pp.214-18; Orden 1995, p.55; Jennings and Steagall 1996, p.72; and various NYT, Wash.Post, Wall Street Journal, CQ, and LRW issues.

House members); the nature of the pork promised or provided; the classification of the pork as compensation, protectionism, or liberalization; and the approximate cost or value of the pork.[109]

As Table 5.1 shows, a lot of the pork provided or promised took the form of intra-issue protectionist redress -- either protectionist exemptions from the NAFTA or from other trade settings, like the GATT.[110] The NAFTA-related protections required several interchanges by mail, person, and phone between Clinton Administration officials, especially USTR Kantor, and the chief Mexican trade negotiators.[111] The most costly of these was the array of new protections given to Sugar and winter fruits and vegetables to win over the Florida and Louisiana delegations. After the initial NAFTA's better-than-expected agricultural liberalization was rolled back in the side agreement on import surges, both Sugar and fruit and vegetable growers had still fiercely lobbied

[109] Included in the Table are all pork benefits that made it into various press sources, and all the legislators who admitted to or were implicated in accepting the buy-off in question. A few are more speculative than others. Not included in this Table are the various benefits discussed but not provided (see below), or of course any other more private exchanges.

[110] There was also at least some targeted market-opening benefits provided, such as aggressive reciprocity on Canadian durum wheat subsidies, and accelerated Mexican tariff reductions for win and brandy, flat glass, home appliances and bedding components -- all extracted by Kantor's initial November 3d letter asking as much. (See Orden 1995, p.54).

[111] The top Mexican trade representatives, Serra Puche and Blanco, shacked-up in D.C. for the last couple weeks before the vote to make themselves available for such last minute dealing

for more protection: for fruit and vegetables, quicker and more generous safeguards against import surges; and for sugar a tighter tariff-quota on Mexican sugar imports, and inclusion of corn syrup in determination of the quota to discourage substitution of Mexican corn syrup for sugar (Orden 1995, pp.54-56; CQ 10/2/93, p.2620). In the end, Clinton gave them exactly what they wanted. The sugar roll-back, alone, was expected to cost consumers $1.4 billion annually.

Some of the protectionist pork, however, had nothing to do with the NAFTA. The Administration promised Florida representatives that the US delegation to the Uruguay Round of GATT negotiations would not cut tariffs on citrus, fruits and vegetable producers by more than 15 percent. And Representatives with big textile constituencies (in Georgia, North Carolina, S.Carolina, etc.) were promised that the delegation would push for continuation of the Multi-fibre Accord for an additional five years over the planned 10-year phase out (CQ 11/20/93, p.3185). These pork benefits are rare but important examples of how politicking underlying bilateral free trade arrangements can undermine multilateral initiatives -- lending some credence to some of the fears of US trade policy multilateralists.[112]

However, a narrow majority of the pork -- thirteen of the twenty-four pork benefits listed in Table 5.1 -- took the form of side payment compensation, still particularistic but involving benefits separate from the protections to be reduced. Some of the side payment compensation was connected to the pain of the NAFTA. For instance, Florida representatives got promises that the winter fruit and vegetable producers potentially experiencing some new import competition could benefit from promises that the US school lunch programs would double purchases of fresh tomatoes and begin purchasing sweet corn, a new horticultural research station, and continued certification of an environmentally suspect soil fumigant through the year 2000 (Orden 1995, pp.55-6). But all standards and rules of germaneness went out the window to get some votes. Rep E.B.Johnson, D-Tex., got a promise that the Dept. of Defense would purchase an additional pair of C-17 cargo planes, to the tune of some $1.4 billion. And most fantastic of all, E.Clay Shaw, R-Fla, traded his vote for an Administration promise to pressure the Mexican government to extradite a man suspected of raping his assistant's niece (CQ 11/113/93, p.3106).

With the Administration so openly soliciting votes with pork, it isn't surprising that there were some abuses. Certainly some of the less germane demands, such as Shaw's extradition request, involved legislators demanding or getting benefits that did little to help the real victims of the NAFTA liberalization. Worse and more common abuses of the pork-slinging involved legislators exaggerating their pain or demands to milk the Administration for as much compensation or other particularistic redress as they could. Members of the Florida delegation probably fall into this category, such as Tom Lewis, a senior leader of the delegation and chair of

[112] This undermining was not lost on some business leaders who accused the Administration of "cannibalizing" the GATT talks (NJ 11/20/93, p.2782).

the Agriculture committee, who said coyly after several benefits were already thrown his way that ""Right now, my vote is no....The door's ajar" (CQ 11/13/93, p.3107). And C.W.Young, R-Fla, admitted: "I stayed uncommitted to stir up some interest" (CQ 11/20/93, p.3179).

And Administration officials also accepted what amounted to extortionate demands from legislators who had already announced or intimated their support for NAFTA, who lined up at the trough when they saw so much getting handed out. For example, even after announcing his support, King, D-NY, got the Administration to intervene to prevent the Army Corps of Engineers from blocking a prized dredging project in his district, after he reproached Clinton officials: "I asked for nothing for my vote....Now you're taking something away from me. You're making me look like a schmuck" (CQ Almanac 1993, p.179). And the Administration clearly provided at least some pork compensation that exceeded anticipated pain or risk to groups -- such as the array of costly compensation provided to fruit and vegetable producers in Florida (horticultural research, lunch program, pesticides certification, etc.) that exceeded the pain of the rolled-back liberalization.

These and other abuses invited sharp criticism from mostly anti-NAFTA forces. John Lewis, D-Ga., huffed that "the people of the 5th Congressional District of Georgia did not send me here to sell them out for a mess of pottage and 30 pieces of silver" (CQ 11/20/93, p.3179). Ross Perot added: "We feel that people in Congress should not be for sale at any price. That makes us just a true Third World country if that is where we are as a Congress" (NJ 10/9/93, p.2434). Tom H.Andrews, D-Maine, undecided at the time, said more nobly that "we do a great disservice to this country when we make this a matter of pork-barrel auctioneering...." (Wash.Post 11/1/93, p.A7).

Some legislators to benefit from the auctioneering defended themselves, such as Glenn English, D-Okla, who pointed out the obvious: "It's not a question of buying votes...This is the only way we could have supported the agreement" (CQ 11/20/93, p.3179). The Administration, for their part, defended their pork-slinging by pointing to how they had been "saddled" with Bush's bad agreement, which needed much repair work, and that the Fast Track procedures had precluded fence-sitters and opponents from using amendments to make the NAFTA liberalization more palatable (Ibid; and NJ 10/16/93, p.2476).[113]

Through its actions, moreover, the Administration did show at least some restraint and discretion. For example, the N.Carolina congressional delegation tried to persuade the Administration to reduce its proposed 75 cents per-pack tax on cigarettes to help finance health care: "The White House knew all along that's what we wanted, but they pretty much shot that

[113] The Fast Track procedures did, indeed, constrain the Administration from using off-settiing liberalization concessions and, especially, protectionist exemptions once the Treaty was negotiated -- leaving compensation as the only way to buy-off discontent. In this way the Fast Track legislation supports the more general hypothesis that Fast Track procedures should yield more frequent and generous compensation packages, at least in the ratification stages of liberalization episodes.

down," said Charlie Rose, D.-NC. Clinton officials refused to offer anything of the sort. Eight of the 12 members of the NC delegation voted for the NAFTA anyway. (CQ 11/20/93, p.3179).

Abuses notwithstanding, the pork buyoffs did succeed in buying a significant chunk of votes for the NAFTA that would either have been questionable or definite "no's" in the absence of the pork. Virtually all those legislators at whom the pork was targeted or part of an explicit vote-for-pork exchange came through on their promises. Only a few legislators who were witting or unwitting beneficiaries of the pork provisions voted against, such as members of the North Dakota delegation who benefited from some of the aggressive reciprocity provisions for durum wheat but who would not promise, and ultimately didn't, give their support (see Table One) (NJ 10/16/93, p.2476). The total cost of the votes bought with the pork: roughly $2 billion.[114]

3.3.4. NAFTA Passes, but Does this Say Compensation Worked?

As for the overall wisdom of such an investment, the proof of the pudding was at least partly in the eating. The vote was too close to call even in the last couple days before the House ratification vote on November 17th, but on that day Clinton and the pro-NAFTA forces prevailed.[115] After circumscribed debate and no amendments given Fast Track rules, the House passed the measure by a larger-than-expected margin of 234 to 200. Two days later, the Senate followed suit, passing the NAFTA by a larger margin, 61 to 38. The vote was, as expected, very partisan. In the House, 75 percent of the Republicans (132 representatives) voted for the agreement, more than the total number of Democrat supporters (102), and much more than the forty percent these Democrats represented of their overall delegation.[116]

The lines of battle lurking behind this outcome held few surprises. In three separate logit and probit analyses of the House vote and two of the Senate vote, the statistics confirm the obvious expectations (Kahane 1996; Conybeare and Zinkula 1996; and Steagall and Jennings 1996).[117] High AFL-CIO ratings, high union density, large union PAC campaign contributions in both absolute and percentage of overall campaign fund terms, high unemployment, and high density of industries likely to lose from NAFTA,[118] all were statistically significantly and positively correlated

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[114] This includes only outright expenditures, not producer or consumer distortions of protection, which would substantially raise the figure.

[115] BNA and vote counters on both sides of the debate confirmed that there remained 41 undecided votes on November 15th, two days before the vote: 15-20 Republicans and 21 Democrats.

[116] Northern Democrats were more likely to vote no than were Southern Democrats.

[117] Of these, Kahane's analysis is the most comprehensive, testing the effect of industry benefits and losses from NAFTA, union density, environmental-orientation, immigration levels, export orientation, and union PAC contributions. Conybeare and Zinkula test for importance of AFL-CIO rating, unemployment levels, union density, manufacturing density, party orientation, and exports to Mexico. Steagall and Jennings test effects of union PAC contributions, business PAC contributions, energy PAC contributions, overall PAC contributions as a percentage of overall campaign finance, and existence or absence of right-to-work laws.

[118] Kahane, synthesizing the NAFTA evaluation literature, surmise that the expected losers were textiles, apparel,

with voting "no" on NAFTA ratification. Disproportionate exports to Mexico, export orientation generally, high concentration of industries expected to gain from NAFTA,[119] and large and disproportionate business PAC contributions were all statistically significantly correlated with voting "yes." Slightly less intuitive, given the split among environmentalists, was the finding by Kahane 1996 that House and Senate legislators to get a high rating from the League of Conservation Voters, an environmental group that didn't take an official stand on the NAFTA, were modestly but statistically-significantly more likely to vote "yes" (Kahane 1996, p.405-6).

The vote pattern, unfortunately, holds few clues about the political effectiveness of the various packages of side payment compensation. The finding that "green-oriented" legislators tended to support the agreement is modest evidence that splitting the environmental coalition paid off in votes. Also, that a narrow majority of the 23-member Florida delegation (13 members) switched their votes to "yes" at the last minute suggests that the compensation it received worked, though this conclusion is clouded by how much of the redress given that delegation included protectionism. On the other hand, the tendency of legislators with high union density, unemployment, and labor PAC contributions to vote no, while not surprising, is evidence that the compensation targeted at organized labor and its sympathizers didn't pay off, certainly not as hoped. But correlating generosity of the compensation the legislators received with their voting systematically underestimates political effectiveness of compensation, since compensation may only be provided when significant opposition is anticipated, and will be effective if it moderates opposition as well as if it inspires actual support.[120] The big question of whether the NAFTA was possible with or without the provision of compensation must rely instead on an overview of the levels of opposition before and after discrete compensation was provided. It is with this evidence and an overview of the origins and propriety of NAFTA compensation that we conclude.

4. Conclusion: Summarizing the Origins and Propriety of NAFTA's Compensation Riches

After more than three years of side payment politics, two Presidents and their pro-NAFTA allies finally got their agreement -- and what was US trade history's most compensated of liberalizations. Of the dozen-plus liberalization episodes considered in this study, none yielded so much compensation, to so many groups, and in so many packages. By even the crudest of measures (money actually allocated), the compensation approached an unprecedented $7 billion, including: environmental cleanup (at least $4 billion over several years), labor and environmental

leather products, furniture, and glass (p.398-400).

[119] These "gainers" were assumed to be non-electrical machinery, rubber, chemicals, and electrical machinery.

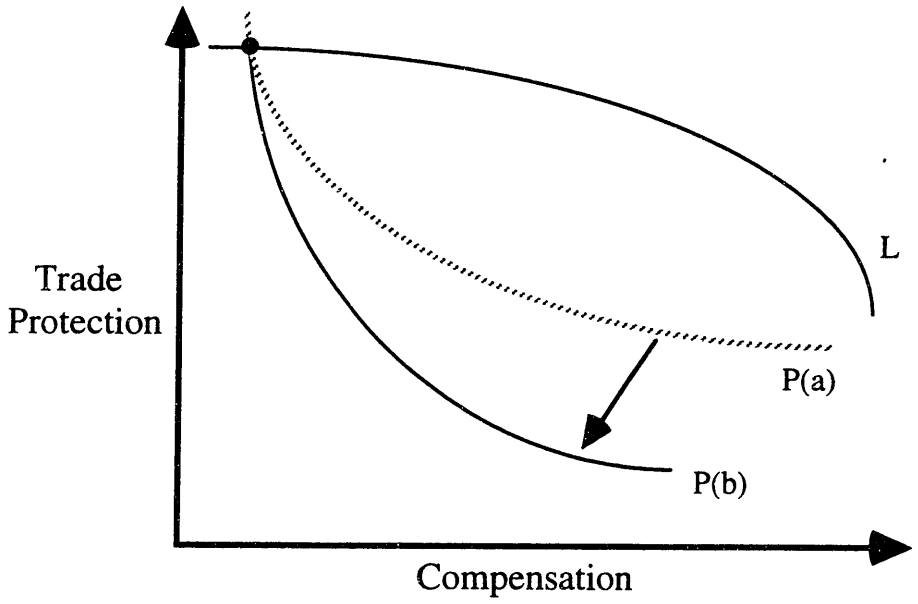
[120] This is the old problem of omitted variable bias -- where anticipated opposition is the omitted variable. In previous sections were concrete clues that this bias applies in this particular vote, where compensation only got targeted at those with at least some opposition, and where compensation targeted at labor interests may not have inspired support but may have muted opposition.

international institutions (at least $50 million), NAFTA bridge assistance (at least $90 million for the first 18 months), and the litany of compensation pork (another $2 billion). The diversity of the side payments was also unprecedented, including not only job assistance programs but also labor and environmental monitoring institutions, community development funding, and border infrastructural projects. Finally, the labor and environmental side agreements also implied compensation that, more than any previous compensated liberalization, was negotiated during international phases of the struggle and were to be provided through supra-national institutions.

4.1. Explaining NAFTA's Compensation

This pattern of compensation fuels the central explanatory puzzle that this chapter has tried to unravel: what explains the unprecedented scale, diversity, breadth, and supranationality of the NAFTA compensation? The unusual scale, diversity and breadth of the NAFTA compensation can be reasonably explained by the unprecedented power and diverse platforms of the anti-NAFTA coalition. The prospect of freeing trade and investment with a country so much poorer and with so much less environmental and labor protection struck fear in the hearts of a much broader cut of the American polity than previous liberalizations. From the very outset of the NAFTA episode, these

Figure 5.1
Greater Average Willingness to Exchange More
Compensation Possibilities for Lower Trade Protection in NAFTA Episode



groups rose-up with unprecedented breadth and determination, crafted explicit alliances that overcame their many differences, and mobilized more political resources than in any previous trade

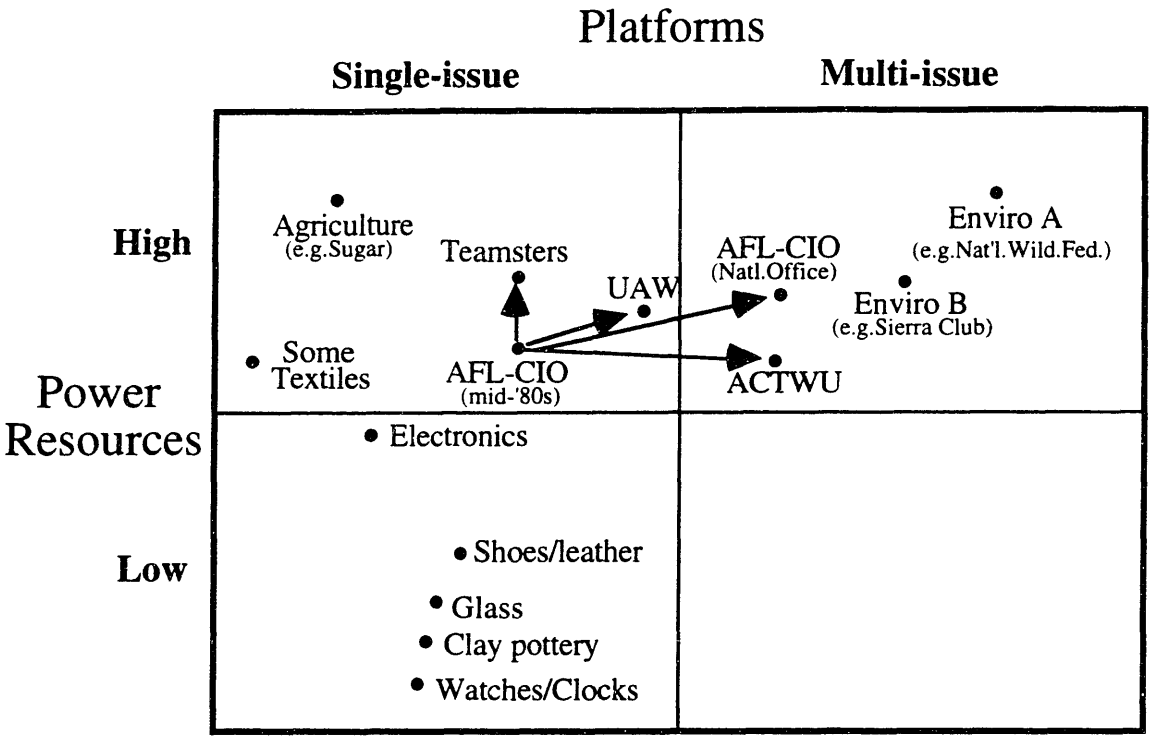
campaign. The depth of their political mobilization, moreover, outstripped that of the main pro-NAFTA constituency, the loose coalition of multinational businesses that were so late to engage and, while spending modestly more lobbying and advertising money, never had the organizational or grass-roots reach of the anti-NAFTA forces. The result was that at every major veto point in the development of the episode -- the Fast Track vote, the '92 election, two international negotiations, and one ratification vote -- the anti-NAFTA coalition could threaten to kill or strongly retaliate against the liberalization's passage.

The diversity of the anti-NAFTA coalition's trade policy platforms, at the same time, made compensation a viable and attractive way of defusing this coalition and still getting liberalization. The sheer breadth of the bootlegger-baptist coalition implied a diversity of trade policy platforms that signalled a fragile alliance with lots of side payment subjects, thus inviting liberalizers to narrowly focus on pleasing one group without having to give-in to the whole. But most of the major groups in that coalition also engaged the NAFTA with multi-issue and conciliatory platforms. Environmental lobbies, both mainstream and radical, called for clearly-specified safeguards, monitoring, border cleanup, and other provisions, along-side some tempering of the liberalization. Even organized labor, a paragon of unconditional protectionism during the previous twenty years, tentatively experimented with moderating their opposition in exchange for specific side conditions -- including strong labor rights protections and monitoring, and, to a lesser extent, better adjustment assistance. Only the industrial and agricultural producer groups in the anti-NAFTA coalition were unconditionally protectionist from start to finish.

This confluence of unprecedented power resources of the protectionist coalition with the diverse trade policy platforms within and across its constituent groups strongly encouraged bargaining with liberalizers at all the various decision-points to exchange liberalization for various packages of side payment compensation. Compared to previous initiatives, the averaging of the protectionist indifference curves in trading-off various compensation possibilities and the various trade protectionist to be liberalized yields a P(b) with a significantly steeper slope than obtained in previous episodes, such as the 1974 Trade Reform Act. Figure 5.1 above captures this change.

This confluence of unprecedented power resources of the protectionist coalition with the diverse trade policy platforms within and across its constituent groups strongly encouraged side payment compensation. Figure 5.2 below captures a simplified schematic of what the power-platform conditions predict, a shift among several groups towards more mobilized and generally higher power resources, and the existence or shift towards multi-issue, conciliatory stances. Beyond what such simplification suggests, there were so many times and so much need to identify redress that might split or soften the anti-NAFTA coalition, and there were so many ways to provide such redress without watering down the liberalization, that the diversity, scale, and breadth of the compensation makes even *prima facie* sense.

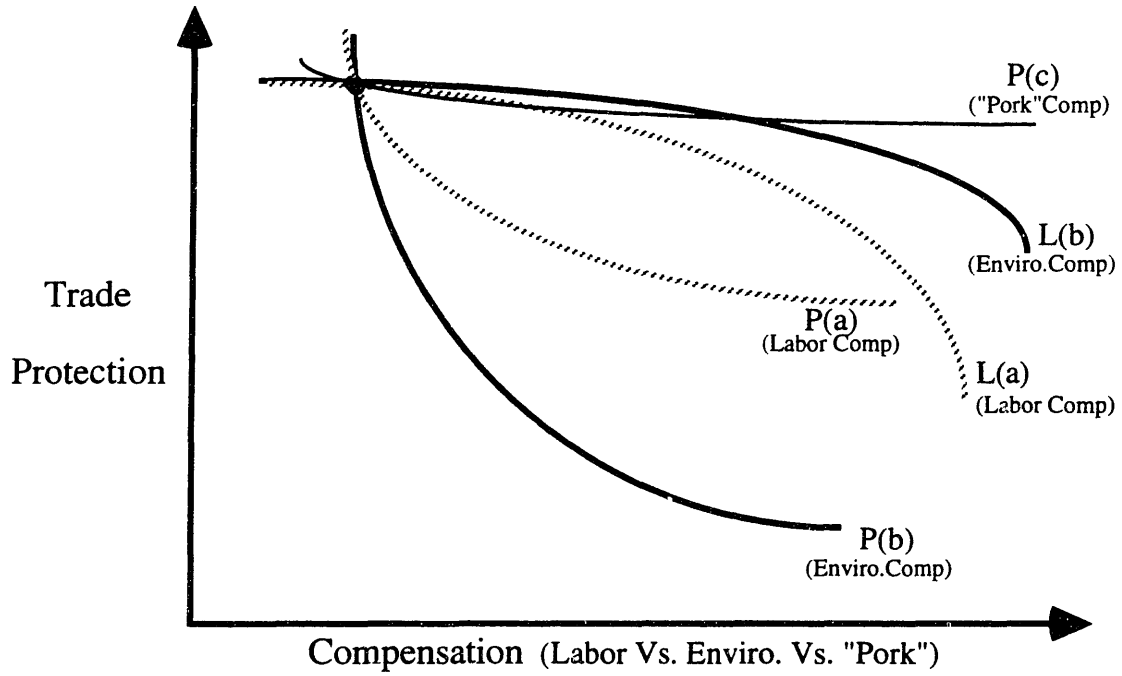
Figure 5.2
NAFTA Case Protectionist Power and Platforms



The supranationality of NAFTA's side agreement compensation can also be explained in terms of group power and platforms. As early as the Fast Track confrontation, environmentalist and, to a lesser extent, labor groups had clearly staked out anti-NAFTA platforms including demands for some internationally-codified harmonization, monitoring, and protections of environmental and labor laws and conditions. Both of these platform planks were relatively new in US trade policymaking. Environmental groups were simply new to the trade policymaking game, arising partly due to internal developments in the organization and political consciousness of environmentalism, and partly due to the unprecedented opening to a country with relatively lax *de facto* standards. For labor groups, the focus on international labor rights and standards was not new but was newly emphasized, and can be traced again to the unique conditions with Mexico, and to re-examined internal trade policy strategy and tactics among some labor leaders. With such platforms and with such threatening opposition casting a shadow over the impending international talks, it makes sense that the Bush and Clinton Administrations sought *some* international apparatus to mollify these concerns. And it seems likely that such concerns, and hence modest supranational compensation, are here to stay -- at least for regional liberalization of the Americas.

Just as worthy of explanation as the unusual scale, scope and supranationality of NAFTA's compensation are the particular compensation packages. Fulfillment of Clinton's campaign promises on the NAFTA led to an array of both supranational and national compensation for

Figure 5.3
Indifference Curves of Liberalizers and Protectionists
for the Labor, Environmental and "Pork" Compensation Packages



environmentalist and labor segments of the anti-NAFTA coalition. But those packages significantly differed, with environmental groups getting most of what they demanded while labor got only faint shadows of what they sought. In the endgame, moreover, Clinton provided two more general side payment provisions, the dedicated NAFTA adjustment assistance and the NADBank. And the eleventh-hour pork entailed at least thirteen discrete side payment provisions. What explains these differences in the particular side payments offered?

Here the group power and platforms provide only part of the answer, as Figure 5.3 suggests. The Figure shows a rough approximation of the respective indifference curves for the "Labor," "Environmental" and Pork side payment packages. Each of these packages covers a different cluster of side payment subjects: the "Labor" package including the NAFTA adjustment assistance and the Labor side agreement institutions; the "Environment" compensation covers mainly the Environmental side agreement institutions and the much of the NADBank border cleanup facility; and the "Pork" compensation refers to the flurry of last-minute compensation deals offered individual legislators. Each of these packages can be understood as crafted through different sets of bargaining, a discrete game, between a different protectionist group or groups on the one hand, and the same set of liberalizers (mainly the Clinton Administration and the pro-NAFTA forces in business and Congress). P(a) captures the indifference curve for organized labor and L(a) captures the liberalizer indifference curve for the "Labor" compensation package.

P(b) captures the indifference curve for the environmentalist lobbies, and L(b) the liberalizer indifference curve for the environmental compensation. Finally, P(c) estimates the indifference curves for the various societal recipients of the last minute pork, especially the Florida Winter Fruit and Vegetable groups in society and their legislative champions.

The labor side agreement and retraining promises partly do reflect power and platform conditions. Organized labor was the power-center of the anti-NAFTA coalition and it showed a glimmer of conditional acceptance of the NAFTA, focused on internationally-safeguarded labor rights and adjustment assistance. Clinton officials formally tabled creation of trilateral labor institution and standards that would have addressed the AFL-CIO's core condition for acquiescence -- internationally-monitored and protected collective bargaining and other worker rights, backed by threat of trade sanctions. Labor's less fervent and secondary hope that TAA would be kept and greatly expanded, rather than consolidated into general assistance, was in sharper conflict with Administration plans. The very weak institution to result from the side agreement negotiations rests partly on the temporary and thin commitment of Labor leaders to a conditional side payment platform; so too does the modest retraining signaling rather than expansion of TAA. This commitment is captured by the relatively flat P(b) curve, which ensures a relatively modest pareto space. But the modesty of the labor compensation mainly reflects how a strong labor institution sparked such fierce opposition from domestic business groups and Republicans, and from the Canadian and Mexican governments -- together essentially vetoing such an institution. Hence, L(a) is relatively steep, which in combination with P(a) ensures a still narrower pareto space.

Conversely, the relative generosity and strength of the environmental compensation, especially the Commission on Environmental Cooperation and the BECC/NADBank institutions, reflects not only environmentalists' power and platforms but mainly the less severe clash of their priorities with big business and Mexico. Environmentalist groups held significant sway among a variety of legislators, and their unified opposition could well have imperiled plenty of votes. And the explicitly conciliatory and compensated liberalization position of these groups made buying support or at least splitting apart the environmentalist bloc with compensation the clear option. This platform gives rise to a P(b) that is relatively steeper than the Labor indifference curve, and yields in turn a relatively larger pareto space in Figure 5.3. But environmentalists were far less powerful than their labor co-conspirators. What made the environmental compensation more generous was: (1) the relative modesty of environmentalists' demands relative to Labor's in money and institutional terms, and (2) the less hostile response those demands spawned among domestic business groups and the Canadian and Mexican delegations. As the negotiation discussion suggested (Section 3.2.1), both Republican leaders and the Mexican delegations made it clear that they saw the environmental institutional provisions as the lesser of two evils, and as

acceptable only if the labor institutions were weak. This propensity among the liberalizers can be symbolized by the relatively flatter L(b) compared to the L(a) curve for the Labor compensation, and the flatter L(b) implies a still larger zone of possible agreement. In so far as it is the positioning of the liberalizers that explains the difference between the environmental and labor compensation packages, the group-institutional theory comes up short.

The NAFTA bridge adjustment assistance and the NADBank community funds can also be only partly explained by the power and platforms of anti-NAFTA groups. The bridge adjustment assistance may have been consistent with Labor's demand for a continued targeted program attached to the NAFTA package, but by the time the bridge was even considered -- after the September unveiling of the side agreements -- labor groups had all but dropped their interest in adjustment assistance in favor of an all-out and uncompensatable attempt to kill ratification. The demand for such a program, instead, lay in the same constituency that most fervently and consistently demanded TAA: House and Senate legislators looking for symbolic gestures to show they want to mitigate liberalization's risks. The same was true of the NADBank, as Torres's own defense of the compensation made clear (see Section 3.3.2). Legislators in search of "fig leaves" were the players who mattered here; not their organized constituencies.

Finally, the eleventh-hour pork had even less to do with the power and platforms of societal groups, again because societal groups had faded from the side payment politics. Power and platforms mattered, but really only those of the legislators: House members with at least some influence on other votes and having some willingness to vote "yes" were the ones to get the most (truly weak and truly unconditional anti-NAFTA legislators got nothing); but no longer did the compensation reflect the policy platforms of the particular groups being represented by these legislators. In fact, some societal groups taking unconditional protectionist positions -- captured in Figure 5.3 by the virtually flat P(c) -- still received compensation. The most important example of this involved the fruits and vegetable producers in Florida. They received a lot of compensation -- a horticultural research center, continued certification of a pesticide, and school lunch purchases -- yet their associations, the Florida and the United Fresh Fruit and Vegetable Associations, had always towed an unconditionally protectionist platform focused on rolling back the liberalization. They got this because Florida legislators, many voting as a bloc, mattered so much to the vote that the pro-NAFTA legislators and Clinton went searching for anything that would buy the bloc's support. And the institutional constraint of Fast Track insured that "anything" had to steer clear of significant protectionist exemptions and towards separate carrots, hence side payments.

The conclusion to draw about the theory of compensation focused on group power and platforms is not that the theory fails. The power and platforms of the societal protectionists mattered for the incidence of NAFTA compensation. But they were neither necessary nor sufficient to the provision of some of the compensation, especially as the episode wound its way to

its climactic conclusion, in which last minute opposition and a determination to win the necessarily narrow margin of victory moved the focus of all struggle to legislators and their caprice.

4.2. Did the NAFTA Compensation Work?

Regardless of its origins, what of the propriety of the NAFTA compensation? First, did the compensation facilitate the NAFTA liberalization? Did it significantly lower opposition to the liberalization, without raising new quarters of opposition and without inviting abuse and extortion? These questions have already been addressed through Section Three's discussion of each side payment package, but here it is worth briefly considering the whole, which is mainly the sum of its parts. Bush's May 1st compensation defused opposition from some organized societal groups, especially mainstream environmentalists, but was less effective in securing labor support. Toward legislators, however, the May 1st package's announcement clearly coincided with a shift in the position of NAFTA fence-sitters and opponents, such as Gephardt, in favor of Fast Track. Clinton's October 1992 promises played a role in moving labor's platform to a more compensated liberalization stance that gave the Administration time and resources to mobilize a stronger pro-NAFTA coalition. And the actual side agreement and unilateral compensation package secured stronger support from an even larger chunk of the environmental coalition than had Bush's, and arguably moderated the opposition from important legislators. The endgame general compensation, NAFTA bridge assistance and NADBanks, bought few discernible votes, while the last-minute pork more clearly secured nearly two dozen votes critical to ratification.

The history also shows that the only time compensation threatened to off-set these gains by sparking opposition not already there was when negotiation of trilateral labor and environmental Commissions threatened to lose US business association and Republican support for the NAFTA. As Section 3.2.3 notes, in the end the line they drew in the sand -- in front of a strong labor institution -- was not crossed. The later pork-slinging was distasteful to many, likewise, but no legislator admitted or was reported to have voted "no" as a result. Thus, keeping measurement problems front-and-center, it's fair to say that NAFTA would not have been ratified, or even negotiated, without at least some of the compensation packages provided.

The history also reveals that NAFTA side payments unleashed few extortionate or rent-seeking abuses to off-set such a political benefit. As the discussion of the pork-barrel compensation pointed out, there was some evidence of exaggerated and extortionate demands, but even here the Administration set plenty of limits on what it provided. The pork, in any event, was the exception to the rule of NAFTA compensation. Even the most grandiose demands -- such as Gephardt's and Labor's statements that NAFTA adjustment assistance and environmental investments could and should cost many billions of dollars -- grew out of pessimistic assessments

of the NAFTA's distributional consequences. As for most of the compensation provided, some of the eleventh-hour pork represented presents to extortionists, but the rule of the compensation was again well short of anticipated pain and risk of the groups at whom it was targeted.

If we try to see the forest for the trees, then, despite the many measurement problems that cloud our vision, we can weigh the general cost of roughly $7 billion or more in compensation against the aggregate efficiency benefits of the liberalization it helped secure. With the most recent estimates running in the range of a net gain of $10 billion per year (NYT 5/20/97; Hufbauer and Schott 1993, pp.22-24) the compensation was worthwhile in aggregate economic terms. Such a calculation, of course, leaves out some risks of bureaucratic capture and abuse on the cost side of the compensation, but even more economic and political benefits via the NAFTA's regional economic integration and modest international regulation. Assessing the overall propriety of the NAFTA, however, requires some attention not only to its aggregate but to its distributional costs, and to whether compensation actually mitigates or off-set those costs.

Did the side payments meaningfully address the real and perceived pain and risks of the NAFTA liberalization? It is still early to tell if some of the compensation made a difference to the recipients, especially the trilateral labor and environmental institutions, which are long-range in their aims and capacities. It is also hard to address the success of compensation to redress NAFTA harm, since the Mexican currency crisis of the last couple years poses harm on similar groups in similar directions to NAFTA's distributional costs. A few nuggets of history, however, warrant a brief word about the performance and help of the labor and environmental Commissions, and of the NAFTA bridge adjustment assistance.

The trilateral environmental and labor Commissions have been active fora for monitoring and scrutinizing labor and environmental practices in Mexico AND the US, but to date there have been few formal consultations, recommendations or safeguarding actions. As of 1996, the Commission for Environmental Cooperation (CEC) had considered three petitions about the Endangered Species Act, logging laws and migratory waterfowl (Anderson et.al.1996). It rejected the first two and produced a several formal recommendations on the third, action on which is still pending. The weaker and more nationally-based institutions set-up under the labor accord have, ironically, been a bit more active, with the US National Administrative Office (NAO) having considered three petitions on anti-union actions by Mexican companies, leading in one of these (a case against Sony Mexico) to the strongest action possible for such "third-tier" rights: ministerial consultations calling on Mexican labor authorities to meet with management and the illegally fired workers to "explain the remedies available to the workers" and to coonvene a panel to study "labor law dealing with union registration" (NAO report 1996; Reuters 6/2/95).[121]

[121] Mexican workers also petitioned their own NAO to review anti-union actions in the United States, by the Sprint Corporation in California. The petition also led to ministerial consultations and to a formal review of Sprint's

The compensatory side payments to provide actual funding for assistance and redress -- the NAFTA bridge adjustment assistance and the NADBank -- have also had modest performance, though again the facts are limited. When the Administration wasn't able to get its broad retraining initiative through an increasingly hostile Congress, the NAFTA Transitional program was extended. And the bird in the hand has certainly proved better than none in the bush: As of 1996 more than 60,000 workers received "comprehensive" benefits, and many more "up front" benefits (see Section 3.3.2.1). As of November 1995, 46,950 displaced from 334 NAFTA-impacted firms received the training and income supplement benefits under the comprehensive category (US Labor Dept.1996). Since 147 of these firms were certified for benefits due to outward FDI, not import competition, it appears a significant number of the workers wouldn't have received targeted assistance if forced to rely on TAA, given the latter's exclusive focus on imports (Ibid). Policy evaluations are only now being written, but early accounts show that the NAFTA program is comparable in strengths and limitations to the most recent TAA -- that the program helps workers adjust and stay employed but doesn't staunch decline in their wages (Corson 1996; NYT 5/11/96).

More subjective measures of how much compensation humanized the NAFTA are mixed. Many labor and environmental groups see the record of CLC and CEC institutions as living down to their expectations, though some leaders have worked hard to use and strengthen the organizations, and applaud their value (e.g. Compa 1996; and interviews with Pharis Harvey and Mark Anderson). Labor leaders also have had relatively low expectations about the NAFTA adjustment assistance, not surprising given the disproportionate number of unionized workers to be displaced and to leave the unionized sector with the help of the assistance. But to those workers receiving benefits the compensation provides real help they know they couldn't get through standard JTPA, TAA, and unemployment insurance (NYT 5/11/96).

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actions. Sprint allowed a vote for union representation, but has yet to allow such action beyond the plant in question. This represents an interesting twist on the labor institutions, leading to action against US-based practices -- fulfilling the same fears of US business and republican groups that opposed stronger labor institutions.

Chapter Six:
The Founding of the ECSC and the EEC: Compensated Liberalization in the Internal Market, 1950-58

1. The European Coal and Steel Community, 1950-52: Pathbreaking Compensated Liberalization or Something Less?
    1.1. The Schuman Plan as Customs Union Liberalization
    1.2. Country Reactions: Fear of Liberalization Among the Concentrated Few, Fear of Supra-national Authority Among the Concentrated Many
        1.2.1. Belgium's Non-competitive Coal
    1.3. The Paris Negotiations: An ECSC at the Price of Safeguards and Side Payments
        1.3.1. The Treaty of Paris: Supra-national Compensated Liberalization
    1.4. Ratification No Domestic-level Side Payments, Modestly Effective Supra-National Side Payments
    1.5. Implementation of ECSC Adjustment Assistance, 1952-1959: From Shaky Beginning to Stable Benefits

2. The European Economic Community: Compensated Liberalization via Social Harmonization and Supra-national Adjustment Assistance
    2.1. The Origins of EEC Liberalization: The Beyen Plan and European Integration
        2.1.1. The Beyen Plan: Compensated Liberalization via Supranational Readjustment Assistance
    2.2. Country Reactions: Demands for Safeguards and Side Payments Abound
        2.2.1. France: In a Country Divided, Demands for Social Harmonization as the Price of Liberalization
        2.2.2. The Germans: Beyen Plan as a Distant Second-best to Broad-but-Shallow Liberalization and Political Union
    2.3. The Negotiations, Part One: The Beyen Plan in the Ill-fated EPC Negotiations
    2.4. The Negotiations, Part Two: From Apparent Doom to Messina
    2.5. The Negotiations, Part Three: From Messina to Compensated Liberalization
        2.5.1. The EEC Agreement: Compensated Liberalization Through European Social Fund and Wage Policy Harmonization
    2.6. The Ratification: No National-level Side Payments, No Problems
    2.7. Implementing the ESF and Harmonization

3. Explaining the ECSC and EEC Supranational Compensation
    3.1. Explaining ECSC Supranational Side Payments
    3.2. Explaining EEC Supranational Side Payments

4. Conclusion: Legacies of Readaptation and Harmonization for Future Internal Market Liberalization

Chapters Two though Five provided a history of side payment politics in US trade liberalization since 1934. Stripped of its qualifications and twists, the history's basic pattern of compensation is clear. First, since 1962 bargaining over trade liberalization has sometimes yielded side payments to the expected victims of liberalization's costs, with significant variation across episodes and groups in the incidence of side payments. Second, compensation has generally been less generous in the scale of assistance and the scope of its reach to dislocated groups than conventional wisdom leads us to expect. Finally, this provision has almost always taken place at the domestic level, with provisions negotiated in and provided by domestic institutions, and during domestic stages of bargaining, that is during either extension of presidential negotiating authority or ratification. In contrast, at the international stage of bargaining, during the negotiation with different nations, US trade liberalization has usually taken place *without* any additional side payments -- the wine gallon episode during the Tokyo Round and the NAFTA tri-lateral labor and environmental Commissions being significant exceptions. And only with the NAFTA's trilateral commissions has the administration and financial source of side payments been an intergovernmental and international institution. In short, compensated liberalization in the US has been *inconsistent* in its incidence, *modest* in its scale and scope, and *national* rather than supra-national in the institutions through which compensation was negotiated and provided.

Part Three of this thesis, comprising this chapter and the next, reveals that this pattern stands in contrast to the post-war history of trade liberalization among West European countries under the auspices of European Community (now European Union) economic integration. That history involves the most thorough-going international trade liberalization of the post-war period. The development of the European Union has strived for and involved much more than simple trade liberalization, of course -- for instance involving limited harmonization of social policies and environmental regulations and the significant, if slow and halting, moves towards political and military integration. But the most far-reaching accomplishments of the European Union in the forty years since its first tentative steps under the European Coal and Steel Community in 1951 have undoubtedly been in reducing barriers to intra-community tariff and non-tariff barriers to people, capital, and commercial goods -- commercial policy liberalization. As of 1996, most tariff and non-tariff barriers to the flow of goods among EU member countries have been eliminated or harmonized. Plenty of exceptions to this rule remain, such as regulation of agricultural production and trade, but liberalization within the EC over the course of the last four decades represents unprecedented commercial opening.

That liberalization has taken place through hundreds of incremental steps overseen by the European Community's "executive branch" institution, the European Commission, but the most substantial moves to liberalization have been decided through the water-shed inter-governmental

negotiations over EC integration: the founding of the ECSC in 1951; the founding of the EEC as part of the Treaty of Rome in 1958; the expansions of the EC membership in 1973, 1981, and 1986; and the negotiation and implementation of the Single European Act beginning in 1986. At these critical junctures, various aspects of European integration were negotiated, won and lost, but economic liberalization was the central component of them all.[1] Since that time, the successes of commercial policy integration have opened the way for and encouraged other elements of integration, most significantly monetary and macroeconomic integration begun with the 1991 Maastricht Treaty.

The history of this internal market liberalization reveals a pattern of compensated liberalization to emerge from these watershed episodes that is nearly the opposite of the US pattern. Whereas the US compensated liberalization has been inconsistent, modest, and national, the EC internal-market history reveals a pattern that is *consistent, generous, and supra-national.* In every episode of internal-market liberalization at the center of European Community integration -- from the founding of the European Coal and Steel Community through negotiation and implementation of the Single European Act -- bargaining over trade liberalization yielded side payment compensation. Such compensation was devised through bargaining among national representatives at the level of EC policy-making, in the Council of Ministers, European Commission, and especially the inter-governmental European Council. And EC-level institutions provided the side payments -- through such programs as the ECSC Re-adaptation program that provided training and housing assistance for trade-impacted coal and steel workers; through early commitments to harmonize social provision; or through the founding, reform, and successive expansion of the Structural Funds (the European Social Fund, the European Regional Development Fund, Cohesion Fund, etc.). In contrast, national level struggle over these internal-market episodes has taken place with rare and modest provision of side payment compensation.

Accounting for this contrast with US compensated liberalization is the central analytical task of Part Three of the thesis. This Chapter and the next argue that the differences between US and EC compensated liberalization can be explained largely by the institutional conditions discussed in Chapter One: jurisdictional breadth and welfare generosity. The broad jurisdiction of the EC institutions governing broad European integration, combined with the modesty of welfare provision at that supranational level, made compensation an easy and attractive tool to buy support for liberalization. At the same time, the relative generosity of the national welfare policies of EC member states discouraged compensation during national discussions. This is nearly the opposite of the US: the supranational setting for US liberalization involves *narrow* jurisdiction despite

[1] As we shall see below, for instance, the UK accession in the 1973 enlargement was less a matter of commercial policy liberalization, since many of the UK-EC barriers to trade were already very low given UK's involvement in EFTA, than it was a matter of sovereignty over fiscal policy and taxation. But liberalization still mattered, and can be conceptually separated from the rest of the mix.

modest welfare provision, hence less compensation; and the domestic setting involves *broad* jurisdiction and *modest* welfare provision, hence more compensation. Thus, the theory predicts what the history reveals: modest, uneven, and national compensation in the US; more generous, consistent, and supranational compensation in the EC.

This Chapter considers the history of the first two steps in European integration, the founding of the ECSC and the EEC, and Chapter Seven considers the rest of the internal-market liberalization, especially the Second Enlargement between 1981 and 1986, and the Single European Act between 1986 and 1992. For the ECSC and EEC episodes treated here, the story begins with recognition of how the integration proposals represented customs union liberalization initiatives embedded within the integration project. Although the distributional consequences of trade liberalization were not at the center of the struggle and negotiations over the ECSC -- the issues of sovereignty and regulation capturing more attention -- almost all the negotiating countries had groups who resisted the ECSC on grounds that it constituted threatening liberalization. This was particularly strong in Belgium, but it also applied also in France, Italy, Britain, and even Luxembourg. The struggle over the EEC episode, in contrast, was focused from the beginning as much on economic liberalization as any other element of integration, and the concerns about the costs of liberalization loomed large in the negotiations within and between the large, main negotiating powers as well as the small. Whereas in the ECSC Belgium was the important player for side payment politics, in the EEC France and Germany were the big players.

Out of the side payment politics came the provision of several kinds of side payment compensation. In the ECSC struggle, an extensive and complicated package of safeguards emerged from the negotiations. This package focused especially on replacing national subsidization provisions with supra-nationally devised and funded subsidization for modernization and competitive support -- support that was to phase out after a transition period. In addition to this compensatory exemption, however, the safeguards package also included creation of the first supra-national adjustment assistance program for workers and firms adjusting to customs union liberalization. Such a package was, as it turned out, a second-best solution to the economically vulnerable groups in Belgium and France, and their more dirigiste champions in government -- all of whom sought more thorough upward-leveling of social conditions, including wages and social security provision, as compensation for the economic dislocation inherent to the customs union, as well as for the general integration project.[2] Such an ambition, however, faced strong opposition from the more "laissez faire" German and Dutch delegations of the proposed Community, culminating in vague and symbolic agreements to promote such equalization.

[2] The explicit attempt to link social upward-leveling and harmonization to the pace and form of liberalization is a necessary condition for such leveling and harmonization to represent a liberalization side payment. Pursuit of such harmonization outside the context of liberalization is just as relevant, perhaps, to the plight of liberalization's victims, but it is not a side payment. This chapter will say more on this in the EEC case and the conclusion.

The struggle for the EEC has a richer side payment history, with extended negotiations yielding at least two sets of side payments.[3] The first was a generalized version of the readaptation fund established as a side payment under the ECSC, the new one called the European Social Fund. It was designed to provide funding for industries and their workers who found themselves dislocated and forced to adjust to the imperatives of the EEC's freer trade. This Fund was the beginning of the proliferation and expansion of the Structural Funds that were to become the central focus of side payment politics in subsequent episodes of internal market trade liberalization.

The second was more complicated and with potentially more far-reaching implications for EC integration: specific, albeit not guaranteed, commitments to harmonize important elements of social provision. Such harmonization was an explicit part of both the broader integration project -- especially among the more starry-eyed and dirigiste proponents -- and the ECSC commitments to "equalization of conditions." But in the struggle over the EEC liberalization, such interest in equalization was more sharply focused than during the ECSC struggle on compensating for the risks and costs of the liberalization at the center of the integration. And whereas French and, especially, Belgian attempts to link social harmonization to the degree and pace of ECSC liberalization had failed -- making it only a shadow of a side payment -- the French demands for such linkage during the EEC fight was more effective, although still far short of its hopes.

The core analytical task of the chapter is two-fold. It first strives to explain why the ECSC and EEC liberalization elicited these supra-national side payments, in contrast with the minimum of such payments devised or provided at the national level and stage of bargaining in the member states. This cannot be answered well through these two cases alone, because the broad pattern of consistent side payment provision cannot be established until after the next Chapter reviews the rest of the EU's internal market liberalization. This Chapter, therefore, only provides a partial explanation, leaving for the end of Chapter Seven the task for developing a full explanation.

The contrasts between the EEC and ECSC, however, are significant and important, and the second explanatory task of this chapter is to account for these as well. The most important of these involves harmonization as a subject of side payment linkage. Why did the EEC liberalization struggle include more substantial offers to "equalize conditions" through upward-leveling harmonization, for at least one country, than did the ECSC struggle? The answer, this chapter explains, lies largely in the significantly broader jurisdiction of the EEC institutional arena compared to the ECSC arena -- the former being about broader integration, and inclusive of such issues as atomic energy research and development, multi-sector liberalization, and broader social integration, not just integration of the coal and steel sectors.

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[3] The frequently discussed Euratom Agreement, part of the package to emerge as part of the Treaty of Rome, can be viewed as a third element of side payment compensation -- though one less directed at the costs of the liberalization. More on this below.

The rest of the chapter develops these various claims in four broad sections. The first lays out and explains the side payment politics of the ECSC case between 1950 and 1952. The second lays out the more complex side payment politics of the European Economic Community. A third section develops explanations for the pattern of ECSC and EEC compensated liberalization in light of the group-institutional theory developed in Chapter One. And a final section concludes by considering the legacies of the ECSC and EEC side payment packages for the future of internal market liberalization, and for compensated liberalization generally.

1. The European Coal and Steel Community: Compensation Liberalization Beneath Integration

The founding of the European Coal and Steel Community in 1951 was the first step in a process of European integration that has developed, at times dramatically, ever since. And it was a bold first step. The Community called for complete integration of the coal and steel sectors of the six signatory countries -- Germany, France, Italy, and the Benelux Countries (Belgium, Netherlands, Luxembourg) -- into a customs union overseen by supra-national and inter-governmental institutions that were to become the foundation for all subsequent integration and institution-building in the EU. At the time of its negotiation, the Community was explicitly designed, loved, and loathed as the first step in a process of broader economic and political integration, and as a customs union the ECSC sought not only to liberalize trade but to oversee German de-cartelization and community-wide rationalization of the industry. But it was first and foremost a customs union trade liberalization. And although the struggle over the ECSC was as much, or more, about the many questions of national sovereignty it raised, it was also about the consequences of the liberalization for the plight of potentially uncompetitive workers and firms.

Through that struggle emerged not only a variety of supra-national subsidies and scheduling delays that eased the process of transition, but also path-breaking compensated liberalization through the provision of a liberalization side payment via supra-national institutions and moneys designed to ease and facilitate adaptation of workers and firms to the Community's liberalization. The provision of this side payment was embedded within and at the margins of the history of the ECSC, and the program's implementation had an inauspicious beginning that matched this marginal role. But within the negotiations, it's role mattered, and after the early implementation the program grew more stable and significant -- to the point that it became a model for all future EU internal market liberalization and even liberalization struggles in the US.

1.1. The Schuman Plan as Customs Union Liberalization

The story and explanation of this compensated liberalization begins with the origins of the Schuman Plan, proposed by the German Minister of Foreign Affairs Robert Schuman on May 9th, 1950.[4] The essence of the Plan was encapsulated in the basic proposal:

> The French Government proposes that the entire French-German production of coal and steel be placed under a common "Higher Authority," within the framework of an organization open to the participation by the other countries of Europe....The solidarity in production thus established will make it plain that any war between France and Germany becomes, not merely unthinkable, but materially impossible. (Schuman Declaration; excerpted in Kitzinger 1967, p.37-8)

And in a few paragraphs, Schuman outlined all of the basic provisions -- for liberalization, supra-national governance, and safeguards -- that the final ECSC was ultimately to enact. The plan was to be "the first step in the federation of Europe...." The new High Authority would make decisions that "will bind France, Germany and other member countries" to secure "the modernization of production and the improvement of its quality; the supply of coal and steel on identical terms to the French and to the German markets as well as to the markets of other member countries; ...the equalization through improvement of the living conditions of the workers in these industries" (Ibid., pp.38-40). Practically speaking, the center of Schuman's plan was a customs union, requiring that "at the very outset customs barriers and discriminatory transport rates would be eliminated" to "ensure the fusion of markets and the expansion of production" (Ibid., p.38).

Crucial for the purposes of this study, Schuman's declaration also stated that "to achieve these objectives, starting from the very disparate conditions in which the productions of member countries are at present situated, certain transitional measures will have to be instituted" (quoted in Kitzinger 1967, p.39). These measures were not spelled out in detail, beyond saying that they would include "a production and investment plan, compensating machinery for equalizing prices, and an amortization fund to facilitate the rationalization of production" (Ibid.). In the press conference, Schuman emphasized that the plan "sought to eliminate fear of dislocation by an international mechanism that would ease adjustments through subsidies and help finance the adaptation of capital and labor to the new circumstances" (Diebold 1959, p.14-15; Goormaghtigh

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[4] The general history of the ECSC has been told a number of times, with several accounts being quite detailed and theoretically informed. The most detailed and analytical histories in English are Diebold 1959, Haas 1958, Lister 1960, Milward 1984, Milward 1992, Goormaghtigh 1955, Griffiths 1988, Arter 1993, Zurcher 1957. On the general negotiations, the Treaty, and early implementation, Diebold is particularly useful; on the general economic background, and the Belgian negotiating dynamics Milward's 1992 work is the best.

None of the histories, however, focus on side payment politics, and in fact the elements of the history relevant to those politics are scattered across these different and sometimes conflicting historical accounts, particularly regarding the origins and negotiation of liberalization exemptions and side payments. The account offered here draws on all of the above histories, and also on original texts of speeches and working paper drafts, as well as some official Community documents, especially the annual High Authority *General Reports on the Activities of the Community,* and the special HA *Reports.*

1955, p.350). At the very outset of the proposed customs union integration, then, Schuman proposed the provision of liberalization side payments, since subsidies focused on financing adaptation to new circumstances would be clearly directed at, among others, those dislocated by the lowering of trade barriers, and as a new "international mechanism" designed for this purpose would be separate from the core protections being liberalized.[5]

As for origins, the professional and ideological ambitions of Monnet and Schuman undoubtedly played a role in the genesis of the Schuman plan. More than most trade liberalization initiatives, however, Schuman's proposal, including transitional measures that were to be the blueprint for compensation and liberalization side payments, reflected an attempt to deal with a complicated admixture of political and economic problems and came on the heels of a variety of failed initiatives to deal with those problems. The most important political problems that the Schuman Plan addressed concerned containment of German imperial and war-making capacities, and consolidation of Europe within the West bloc for the Cold War.[6] And for Germany, the political benefits of the Plan were strong and simple: concrete recognition of its rebirth as an autonomous, sovereign member of the European community of nations.

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[5] Schuman's proposal is widely remembered as having been conceived within the French Economic Planning Commission (Commisariate Général du Plan), headed by Jean Monnet, and to have made its way to French foreign policy through a quite centralized, secretive process. It is said to have emerged from meeting between Monnet and Professor Paul Reuter, which took place in April 1950, and to have been developed and drafted in memo form by Monnet and two of his "close collaborators" at the Commissariat, Etienne Hirsch and Pierre Uri (Yondorf 1965, p.886). With the drafts written, Monnet is said to have sold it to Schuman's chief of staff Bernard Clappier, and to have given a memo outlining the proposal on April 29th with the request that it get Schuman's attention. Schuman then acted on the plan after orchestrating approval from the Cabinet -- secretly enough to inspire the label of subsequent historians that the plan represented a "conspiracy" (Yondorf 1965, p.887).

Having told Monnet he would act on the plan, Foreign Minister Schuman, first informally and quietly on May 3, and then formally on May 8, brought the plan before Cabinet members. Even though Bidault was said to have been skeptical of the plan, the swiftness and secrecy in which it had developed allowed Schuman and his cabinet colleagues (especially René Mayer and René Pleven) to get approval without much debate (Yondorf 1965, p.887).

Some historians claim that Schuman's Foreign Ministry exerted a strong hand in developing the details and pushing its proposal (Milward 1984).

[6] For instance, the Schuman plan grew out of an attempt to improve upon the 1949 International Ruhr Authority, that governed production, sale, and export of the Ruhr's steel and coal production. The Schuman Plan was a means to address these challenges because it would give Germany predominant control and sovereignty over its Ruhr, but govern the region's important coal and steel economy with a supra-national authority that would help keep Germany tightly within the Western bloc and influence.

Expansion of the union into other areas of economic and political life would not only appeal to the world government enthusiasms of Schuman, Monnet and other internationalists, but would consolidate the integration and containing of Germany within the Western bloc. Coal and steel markets being a good start, not because they were the easiest (newer industries would be much simpler given intra-industry nature of trade), but because of the strategic importance of the sectors, the fact that the sectors were already clearly regional in character -- cutting across international borders -- and because their economic centrality would create pressures to expand the community to other sectors. The latter was what some have referred to as "the internal dynamism of the Schuman Plan" (Goormaghtigh 1955, p.348). Such dynamism, at least Goormaghtigh's interpretation, fueled the functionalist "spillover" arguments of the integrationist school in the later work of Haas, Lindberg, and others.

Important economic conditions and considerations also underlay the Schuman Plan, though historians disagree on how much these mattered compared to the political conditions.[7] Most broadly, the trade liberalization embedded within the plan for customs union appealed to competitive industrialists in France and elsewhere, eager at the prospect of a unified market of nearly 160 million consumers. And Monnet, Schuman and others, also recognized the standard classical economic virtues of removing trade barriers between the "artificially" divided production facilities in the various states to form a customs union -- "rational location of industry, greater productivity, lower prices, and higher standards of living" -- the standard allocative efficiency motivation for free trade (Goormaghtigh 1955, p.347). But fears of supply shortages and surplus capacity probably loomed larger in the minds of planners like Monnet and Schuman.[8] Although economic forecasts suggested that the post-war coal shortage was abating, there was still concern that there be adequate supplies of coal to support continued steel growth, fuel, and rearmament. In Steel, the French had the opposite concern, having recently invested to expand steel-making capacity using public investment, absorbing some 30 percent of Monnet Plan funds (Milward 1984, pp.).[9] Coinciding this expansion in Steel production, however, was growing concern that global and regional demand would not grow to absorb the increased output.[10] Thus, the French were increasingly interested in a variety of plans for dealing with this potential surplus capacity, through a combination of planning and expanded access to export markets.

The Schuman plan promised a reasonable solution to these problems, better than the mixed success and high costs that had greeted recent and distant attempts to find such solutions. Cartelization was widely feared, especially by the United States, and this put strong pressure on the planners that international cartelization be minimized. And such a plan in any even flew in the face of ambition to de-cartelize and de-concentrate German production. Trade liberalization in the interest of expanding export markets, on the other hand, had met with very limited success under the Organization of European Economic Cooperation (OEEC), with countries willing to reduce

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[7] Diebold 1959, Goormaghtigh 1955, and others tend to see the economic conditions as second-tier causes, whereas Milward 1984, 1992 brings these causes to the forefront: "The true origins of the European Community are economic and social. There were other diplomatic arrangements by which an effort could have been made to bind West Germany to western Europe. The only ones with any chance of success were those which found the point of intersection with the successful pursuit of the national economic advantage of all parties" (Milward 1992, p.xi; see also Chapter 1 and 2, passim).

[8] France had long been unable to domestically mine and process sufficient amounts of coking coal and coke for its steel production, and had long been dependent on the German coal industry for that reason. This dependence, of course, was France's economic motivation for greater control over German Ruhr production, added to the political motivation it publicly emphasized.

[9] By early 1950, the steel mill expansion included work on two new "continuous wide-strip mills being built" (Diebold 1959, p.17).

[10] A report of the Economic Commission for Europe (within the UN) expressed concern that "whereas coal had been in short supply and had hampered steel production, it was becoming more abundant in 1949, and some feared the consequences of a glut unless some regulatory machinery were set up" (Goormaghtigh 1955, p.347; Diebold 1959, p.19; UN Doc. E/ECE/112, December 1949).

somewhat tariff rates, but very limited reductions in quotas, but not deeply and not other non-tariff barriers (Diebold 1959, p.14). The Schuman Plan explicitly distanced itself from any cartelization, and through general integration and the creation of a supra-national High Authority offered the prospect are more thorough-going liberalization.

As for the transitional measures explicitly referred to in the Schuman Plan, the historical record tells us little. They were, in all likelihood, in the original Monnet drafts. Part of the motivation, no doubt, was the general recognition that the political viability of such far-reaching forays into national sovereignty, and deep cuts in national trade barriers, required some kind of safeguards -- some combination of transition delays, exemptions, and compensatory assistance. And in this case, it is impossible to know how much the Schuman, Monnet or the other "conspirators" in the Commisariat and Foreign Ministry sought to ease transition for the victims of liberalization and how much for victims of potential conflicts between the dictates of the supra-national entity and national governments or industry -- conflicts which could well manifest themselves as market-opening dislocation.

In any event, as many historians have pointed out and as the subsequent political struggles were to focus on, Monnet and his Commisariat associates who drafted most if not all of the Schuman plan were champions of *dirigisme*, of planning to take account of market-failures broadly construed. This was reflected in the commitment to upwardly-level the working conditions and pay of workers in the proposed customs union, and presumably also in the commitment to compensate victims of adjustment to the customs union. There is circumstantial evidence, therefore, that the proposed assistance was, at least in its genesis, motivated by ideological concern for human welfare or a theory of the economy, as well as by political expediency.

1.2. Initial Country Reactions: Fear of Liberalization Among the Concentrated Few, Fear of Supra-national Authority Among the Concentrated Many

Schuman's announcement immediately sparked interest throughout Europe and in the US. This interest was very soon put to the test when the French government showed that it was going to act on Schuman's proposal. On May 25th the French government officially invited all other West European governments to take part in a conference in Paris to negotiate a treaty along the lines of Schuman's May 9th memo. The invitation emphasized that participating countries need attend only if they accept ahead of time the principles of that memo -- including the pooling control of coal and steel under a "High Authority whose decisions will bind" the governments. This pre-commitment, it turns out, was a tall order in view of the mixed reaction the Plan sparked within Europe. Among the government representatives, industry and labor groups, and others in the different European countries, reaction ranged from immediate excitement, to ambivalence, to antipathy. These responses focused as much on the supra-national orientation of the Plan as proto-

political and economic integration as it did on the implications of economic liberalization and planning in the customs union. Concern for the costs of liberalization was important in the reactions within a number of countries, however, and in Belgium it was central.

In France, support was not automatic, even though its Economic Planning Commission and Foreign Ministry were the main actors behind the proposal. French industrialists, including those in the Coal and Steel industries, were "reticent" about the plan. Their lack of enthusiasm lay mainly in fear of Monnet's by-then well known dirigisme that would encroach upon their autonomy. But they welcomed the prospect of expanded markets, better and more stable coal supplies, and greater economic stability via Franco-German cooperation. The non-communist unions were unambiguously in favor of the plan, for the same reasons that the industrialists were ambivalent. There was some French concern among some industrialists, that the customs union might result in painful dislocation (Diebold 1959, p.66). This was particularly the worry of the owners and political representatives of a number of coal briquetting plants on the Atlantic coast that had grown dependent on French subsidies used to reduce the cost of coking coal that they processed (Diebold 1959, p.196-7). Government officials were strongly in favor, as was one of the most powerful and mainstream political parties, Schuman's MRP (Mouvement Républicain Populaire).[11] The socialists SFIO were originally very opposed, but ultimately split, with their interest in industrial planning and Franco-German accommodation balanced against their concerns focused very much on the threats Schuman's plan posed to small producers and to vulnerable workers (Haas 1958, p.115-7). Such concern was muted, however, and easily overwhelmed by enthusiasm with the political and economic benefits that the French-based proposal offered.

In Germany, the plan was received with a little bit more ambivalence on the part of some groups, though here again the enthusiasm won the day. Probably more than the French industrialists and government officials, their German counterparts feared the potential dirigisme at which the Plan hinted, and German steel and coal producers also dreaded the de-cartelization and de-concentration that the French idea of customs union would entail. But the former fear was speculative and could be dealt with in the negotiations, and the latter threat would persist regardless of German participation in the negotiations. The non-communist unions, also like their French counterparts, were very supportive of the plan on economic grounds. And all German actors, especially government officials, recognized the major political virtues the plan offered for a rehabilitation of German autonomy and sovereignty. Adenauer and other government officials

[11] Others were more hostile, most stridently the Communists and the Gaullist RPF (Rassemblement du Peuple Français). See next case study for more on the French party system and trade liberalization and integration.

had, in fact, had recently floated a number of proposals for steel, coal, and general economic integration. Their participation in the negotiations, therefore, was also a shoe-in.[12]

Britain was the most reluctant of the European powers right from the start. Analysis of the debate within Britain over the proposal is well beyond the scope of this study, especially since they ultimately decided to sit out the negotiations. The important facts of the British response, however, are that the Schuman plan was widely debated in government circles and Parliament, that the Attlee government received significant pressure from the US to take part in the negotiations, and that debate focused very much on the issue of sovereignty. Government officials, industrialists, and even union groups, feared the encroachment of the High Authority on British autonomy in such important sectors as coal and steel, let along upon the many other political and economic affairs the French plan explicitly sought to integrate under that authority. This concern dove-tailed with the expected dirigisme of that Authority, suggesting that there would be strong conflicts between the plans of British government officials or industrialists on the one hand, and the High Authority on the other. Straight-forward concerns for the dislocation associated with customs union liberalization did not appear to enter into the picture at all.

Italy and the Benelux Countries were quick to agree to participate in the negotiations. The day after Schuman announced his Plan, the Italian Minister of Foreign Affairs, Count Carlo Sforza, announced that the Italian government would participate in the negotiations (Goormaghtigh 1955, p.352). In subsequent weeks, however, the government added that the ECSC "would be expected to guarantee Italy the successful completion of the Snigaglia steel reorganization plan," which implied temporary exemption from the common market formula (Haas 1958, p.248). This demand was to cause some trouble in the subsequent negotiations. In any event, there was not concern for its coal industry, yet he competitive condition of its mines, nine-tenths of which were produced at Sulcis in southwestern Sardinia, suggested that there would be some significant dislocation through customs union. According to Diebold 1959, the output per worker of the mines remained "the lowest in the Community," that the quality of the coal "limited its uses," were run by a government-owned corporation that had consistently lost money, and was very important to the high-unemployment economy of Sardinia (p.216). The customs union would lower costs and transportation prices that could threaten these Sardinian collieries. These considerations did not become a factor, however, until later in the negotiations.

In the Netherlands and Belgium the rapid agreement to participate masked a variety of concerns about the propriety of surrendering sovereignty to the High Authority and for the economic implications of the Customs Union that Authority would oversee -- especially in

[12] Since the Federal Republic of Germany had not yet been granted full autonomy, this participation needed to be cleared by the Allied High Commission. This go-ahead came the day before the French released the general invitation, with the Commission's authorization to negotiate directly with the FRG (Goormaghtigh 1955, p.352).

Belgium. As small countries unable to row very far against the economic tide of the German and French economies, they had little economic choice once the negotiations seemed likely to go through. And on political grounds, the potential for Franco-German accommodation and lasting peace was a very strong reason to support the Plan.

The Netherlands and Belgium, however, expressed real concern that the supra-national powers of the High Authority might be too undemocratic and excessive -- concerns with dirigisme aside. And the Netherlands was concerned that its fledgling Steel plant, recently established with the help of a lot of public assistance, would not fare well in the new customs union. This was partly a fear of the uncertain adjustments that might take place via the custom union liberalization, but also by the fact that the Plan would in all likelihood be dominated by the interests of French and German producers, who might see the small and insignificant Dutch presence as a threat. Because of such considerations, the Dutch hedged their acceptance of the French invitation to take part in the negotiations, agreeing to take part "without any engagement on its part regarding subsequent membership in the Community" (Goormaghtigh 1955, p.352).

1.2.1. Belgium's Non-competitive Coal

Although Belgium was even quicker to agree to participate in the negotiations than the Netherlands, announcing its participation two days after the invitation was made public, its coal industry was destined to face the most dramatic adjustment by virtue of the customs union.[13] The Belgian coal industry was concentrated in the Southwest in the Borinage in the southwest, the Kempen in the West, with less substantial concessions in the Charleroi-Sambre and Liege regions. For decades Belgian coal mines were some of the highest-cost producers in Europe. Even after post-war recovery, Belgian coal producers faced high wages and low productivity that made them below other countries in productivity and higher in costs. Table 6.1 summarizes the situation:

Table 6.1.
Belgian Coal Production as a Percentage of Other ECSC Countries and the Saar

Belgium as percent of:	Output per manshift	Labor per manshift	Costs per ton produced	Operating Expenses per ton	Average Pithead Price
France	92	114	124	150	137
Germany*	65	133	206	178	173
Saar	73	126	174	165	142
Netherlands	49	166	347	---	---

* not including the Saar

Source: Diebold 1959, p.201.

[13] The best, most detailed account of the position of the Belgian Coal industry is Milward 1992, Chapter Three, pp.46-113. See also Diebold 1959, pp.200-203.

Some of the productivity problems were intrinsic to the mines, such as deep shafts, "thin and crooked seams," causing higher costs for transportation and ventilation (Ibid., p.200). But some of the other problems involved less fixed capital investment, like overage equipment. There had been inadequate investment between the wars, and "price equalization schemes and other arrangements...retarded the development of new fields and preserved many small companies that lacked resources for modernization" (Diebold 1959, p.200-201). These problems were particularly acute in the Southern coal fields, especially the Borinage.

Despite the poor competitive position of these mines, producers and unions had long been in a strong political position to win government support. The mines were the predominant in a number of regions. In the Borinage, for instance, the 64,800 people recorded as being in employment in the Borinage in 1957, 23,000 worked in the coal industry, and this didn't include the some 5,000 people working in the metallurgical industries completely dependent on coal (Milward 1992, pp.47-8). Even though it was long clear that adjustment out of Borinage mining might be necessary, the miners were unlikely to find other kinds of work in the home region, and the miners were reluctant to move to the Campine mining areas that might have been able to absorb the migration because the Campine was Flemish-speaking while the Borinage was French speaking (Diebold 1959, p.202). And the position of the Belgian unions also strongly militated against any closures, "not merely as employment policy but also as generally symbolic of the great national gains which labour had won since liberation" (Milward 1992, p.63). As Diebold summarized the political situation, "coal was deeply involved in Belgian politics and played a key role in the balance of forces among parties, classes, regions, ideologies....The pattern was complex but for the most part inhibited drastic action" (Diebold 1959, p.202).

In response to such a pattern, the Belgian government responded with substantial protection. Since 1947, the government had "provided a variety of subsidies, grants-in-aid for investment, and credits for re-equipment to improve productivity" (Diebold 1959, pp.201-2). Of the Marshall Plan money the Belgian government had received, almost 80 percent went to the coal industry, coming to over $24 million in 1959 dollars between April 1948 and the end of 1956 (Ibid. p.202). Although this investment had fueled some improvement in the productivity of the mines, Belgium was so far behind its potential common market competitors that on the eve of the Schuman Plan's negotiation, it was still in a very poor competitive position. And Belgium's regulated coal industry was destined for conflict with Schuman Plan principles: "Subsidized output and wages, no imports until domestic output had been sold, subsidized exports, and subsidized domestic sales to consumers such as electricity producers who might otherwise have moved more quickly away from coal" (Milward 1992, p.63). Milward's understatement is apt: "this was a policy mixture which appeared absolutely incompatible with a common market" (Ibid.). There was

every reason to anticipate substantial closures, layoffs, and adjustment once and if the common market required Belgian producers to compete with the Germans.

Despite this pattern, the Belgian government announced on May 27th that it would participate in the Paris negotiations. The government officials, other than sensing that they had little choice but to follow the region's Great powers, was apparently motivated to support the negotiations mainly by the dramatic political benefits of a lasting peace between Germany and France (Milward 1988, 1992; Diebold 1955; Haas 1958; Zurcher 1959). There is also some indication that they believed that between the promised transitional measures and the proposed High Authority's dirigiste planning, Belgian mining concessions might not have to shut down or adjust at any expense -- either political or financial -- to the industrialists, unions or government.

When negotiations opened in Paris in June, however, it very quickly became clear that this was not to be the case. And the premise of its participation -- that it accepted the principles begin Schuman's plan for a common market -- weakened its ability to defend the interests of its coal industry in the negotiations, prompting a Belgian delegate in the Ministry of Economic Affairs to call the situation "madness" (Francois Vinck quoted in Milward 1992, p.64). As Milward asserts, "had Belgium understood in advance the nature and contents of the working document which was to be drawn up by Monnet and his associates as the sole initial base for the negotiations, it would 'in all probability' have taken the same attitude as the United Kingdom and refused to negotiate from that basis" (Milward 1992, p.64).

1.3. The Paris Negotiations: An ECSC at the Price of Safeguards and Side Payments

The Conference opened in Paris on June 20th, 1950, with a series of intermittent sessions, and lasted until the initialing by the head negotiators of the basic agreement on march 19, 1951, and the signing by the Foreign Ministers of the ECSC Treaty in Paris on April 18th, 1951. Each country was represented by multi-person delegations that included a high-level diplomat or economic minister as delegation head, such as Monnet for France and Walter Hallstein for Germany, as well as civil servants from the relevant branches of administration and representatives from industry and labor. The Belgian delegation, for instance, was headed by a Foreign Ministry diplomat Maximilian Suetens, flanked by civil servants, including Vinck, the Ministry of Economic representative, and two prominent industrialists, Pierre van der Rest from the steel industry and Pierre Deville from the coal industry, a man with immediate economic interest in the fate of the southern mines (see Milward 1992, p.66).

The actual conference sessions were conducted "in absolute secrecy from national parliaments, the press and the public," with the actual talks "carried out by expert civil servants, not by diplomats or ministers," and with technical ministers (e.g. transport, economics)

"deliberately excluded from the talks" and instructions from government "lacking or general in nature" (Haas 1958, p.251). All this would suggest fertile ground for honest and open political exchange, with room for political exchanges of many stripes, unfettered by the constraints of the home office or constituency biases.[14] But later historical study suggests that there was plenty of room for such constraint, during the frequent periods when the actual talks were not in session if not through closer ties between the negotiators and interested "outsiders" than Haas's account suggests. In addition to the day-to-day involvement of those in and close to the delegation, as the negotiations evolved there was plenty of communication and negotiation within the domestic polity more generally, especially involving high members of government and coal and steel industry representatives in the respective countries (c.f. Griffiths 1988, passim; Milward 1992, pp.55-75).

The talks were guided by a working paper by Monnet that elaborated on the themes of Schuman's May 9th press conference and memo. And with this as a working document, the real negotiations -- including lots of "hard bargaining" -- began. The focus of that bargaining was foreshadowed by the early statements and rumblings within the negotiating six countries and Britain. The degree and form of High Authority powers in view of its encroachment upon national sovereignty was a major issue throughout the talks, with the Dutch and Belgian delegations taking the most vocal stand against the "dictatorial" powers of the High Authority. Early in the negotiations Monnet proposed setting up a more democratically selected Assembly as a check on the Authority's power, but the Benelux countries insisted also on an enlarged High Authority to decentralize its power, on emphasizing the European Court's counter-veiling powers, and on the creation of an intergovernmental Council of Ministers with more far-reaching powers (Milward 1984, 1992; Haas 1958, pp.249-50; Goormaghtigh 1955).

Also significant at various junctures in the talks was controversy over the form of planning that should characterize the ECSC customs union, including the degree of de-cartelization, and harmonization of working conditions and social welfare. Partially because the Administrations of the non-French six feared Monnet's dirigisme, the customs union was not laden with any constraining or detailed planning criteria and goals, harmonization of social conditions was basically dumped, and de-cartelization was modest and forced through at the last minute with US pressure.[15] Thus, any fears of a kind of "supra-national Socialism," proved unwarranted (Diebold, p.64). On the contrary, the High Authority was to "intervene as little as possible with the decisions of firms and governments," and the move towards the common market entailed more

[14] With Schuman as his source, Haas says that "the hard bargaining was kept to a minimum while the delegations in a real sense sought to elaborate a common scheme based on accepted first principles" (Haas 1958, p.251).
[15] On the planning and price-control negotiations, see Diebold 1959, p.64; on the social welfare and upward-leveling negotiations see Milward 1992, p.69, and Griffiths 1988, p.40; and on the de-cartelization, see especially Milward 1992, pp.77-83, and Diebold 1959, p.72.

than anything an extensive lowering of tariff and non-tariff barriers within the Community, and the harmonization of external barriers (Haas 1958, p.249).[16]

As important as these issues were to the negotiations, most historians agree that some of the most protracted and divisive issues, or series, of issues in the negotiations involved not the degree of the trade liberalization at the center of the customs union, but the terms of conformity and the transition period to that liberalization. As Diebold reports, "drafting the terms of the convention containing the rules that were to apply during the five-year transitional period proved to be one of the hardest tasks of the conferences." (p.66). Discussion of these issues actually took longer -- the latter part of the summer and most of the fall -- and was more difficult than creation of the Community's supra-national decision-making and implementation organs. It was over these issues that the bargaining elicited the ECSC's various safeguards, exemptions, transitional allowances -- and liberalization side payments.

Struggles over these issues arose as soon as it became clear at the outset of the negotiations the degree of liberalization and market adjustment within the customs union Monnet and others had in mind would require. As Monnet's working paper and early presentations in the negotiations made clear, the customs union was to entail rapid and complete removal of tariffs, quotas, and a whole variety of non-tariff barriers, including transportation rates, subsidies, investment programs and the like. At the same time, the working paper and presentations also explicitly referred to provisions for social upward-leveling and for transitional safeguards, suggesting that a lot could be done to off-set these costs. So between the scale of adjustment and dislocation proposed, and the explicit commitment to providing safeguards and potential issue linkage through social provision guarantees, there was plenty to discuss.

A number of delegations sought to limit the degree, form, and timing of their countries' participation in the customs union in light of the potential customs union dislocation. The French delegation, under Monnet, not only was interested in a more dirigiste, socialist customs union but also expressed the more limited need to guarantee the safety of their weaker coal and steel producers should dislocation occur. Toward both ends, they tried to support, early and unsuccessfully, the more dirigiste interpretation of the customs union -- especially the upward leveling in wages, taxes and social security. These provisions were strongly opposed by a variety of delegations, especially Germany's and Holland's, and France and Monnet had to settle for a skeletal commitment to social equality -- "a severe concession extracted from the fathers of the ECSC" (Haas, p.245). The French were more successful, however, in promoting the various

[16] See the next section, below, for a brief summary of the nature and degree of trade liberalization agreed upon. When pressed to raise their already unified and low tariffs toward third countries to the levels in France, Italy or Germany, the Benelux countries resisted and "obtained the right to retain their rates, but undertook to levy a countervailing duty to prevent re-exportation of steel to other ECSC countries" (Haas 1958, p.249; High Authority 1953, p.26)

Transitional measures laid out in the Monnet working paper. These included temporary "non-discrimination" (i.e. less price discrimination) and, more significantly, the right to gain High Authority subsidization and readjustment allowances for job training, reinvestment, etc. (Haas 1958, p.245). These provisions from the original paper made their way "in essence" to the final version of the Treaty (Ibid).

The Italian and Luxembourg delegations also sought safeguards from the pain of liberalization. The Italian delegation sought various protections and exclusions for its Snigaglia Plan, and after threatening to withdraw from the negotiations, was assured the right to retain tariffs on steel and coke for the five-year transition phase (Ibid.,p.249). Less the Luxembourg delegation than its Premier Joseph Bech also entered the safeguarding fray, calling for insertion of "a special safeguarding clause" in the Convention on Transitional Provisions and on a wide interpretation of the ECJ's powers, giving "a right of appeal to the Court every time the interests of the workers are adversely affected by a decision of the High Authority" (Blech quoted in Haas 1958, p.250).

By all accounts, however, the most vocal and forceful demanders of extensive safeguards in the Transitional Convention to the customs union's marketization was the Belgian delegation (Goormaghtigh 1955, Haas 1958; Milward 1984, 1992, Diebold 1959; Griffiths 1988).[17] Once the consequences of various proposals for their economy became clear to industry, government, and the negotiating delegation, deliberations were very heated and divisive, and the Belgians explicitly and credibly made their participation in the negotiations and the ECSC customs union contingent upon a series of safeguards. Although many of the proposals were initially framed in Monnet's initial working paper, it was primarily negotiations on this basis that the provisions on the Transitional Convention, including the side payment provisions, were hammered-out in details.

Early in the negotiations, Monnet outlined his plan for a simple price structure in which the Authority would set a maximum and a minimum coal price and the mines were left free to compete between those bounds. According to Milward, underlying this principle was the expectation and intention that Belgian coal output should be reduced by about 5 million tons a year to make room for an equivalent volume of German coal to be exported to Belgian markets. In 1950, Milward reports, 19.2 million tons were mined in southern coalfields from 157 pits, and 8.1 million was mined in Kempen from only 11 pits (Milward 1992, p.56). So of a total production level of 27 million tons, such a reduction was substantial, more than 18 percent in the first year alone, and a reduction of 92 percent by the end of the transition period.[18] As violent as it seemed, such a proposal was not simply a reflection of planning to compensate German negotiators for the various

[17] The next several paragraphs on the Belgian-fueled bargaining draws heavily on Milward 1992, pp.50-85.
[18] Diebold 1959 reports High Authority statistics that suggested the proposed cuts were not quite as deep. He reports that in 1952, Belgium produced about 30.4 metric tons of coal and 6.4 tons of coke. See Diebold 1959, p.118.

economic costs it would have to bear during the transition; it was actually a Belgian-friendly prediction of the effect actual disparities in the market price of German vs. Belgian coal.[19]

Whether a planning goal or market artifact, such massive adjustment was flatly rejected by the coal industry and many government officials, forcing strong opposition from the Belgian negotiators. When the Dutch chief negotiator Dirk Spierenburg expressed the same concerns about the threat to sovereignty posed by a "dictatorial" High Authority, the Belgian delegation realized that they could leave the negotiating on this organizational issue safely in Dutch hands, allowing them to focus their attention on the economic issues "and on repelling the threat to their coal industry" (Milward 1992, p.65). Their strategy followed two stages, not unlike the position of the French delegation led by Monnet.

The first line of defense for the Belgian delegation was to join Monnet's voice in favor of a more dirigiste customs union in which the High Authority not only oversaw removal of barriers to trade between the member countries but in which it also promoted and enforced an equalization through upward-leveling in the wages, taxes and social security contributions of the member countries -- to either an average community level or, preferably, to Belgium's level above that average. Such a plan would still require a significant transition period during which Belgian producers would be outside the customs union market until the upward leveling was complete. But such an ambitious plan was forcefully opposed by the German and Dutch delegations, whom resisted the dirigisme as well as the obvious implication it would have for the competitive advantage the productive German and Dutch producers enjoyed in a common market (Milward 1992, p.69; Griffiths 1988, p.40).

Having failed at Plan A, the delegation was forced through continuous industry and government pressure to pursue Plan B: "If wages elsewhere could not be forced up, the best available outcome was likely to be a transition period in which Belgian mines would improve productivity so that prices, in spite of higher wages, came closer to those elsewhere" (Milward, p.69). The government had already committed itself to such a privatization scheme in 1949, at its own expense. So the prospect of getting the Supranational authority to do the same was attractive to the negotiators. The government also reasoned that "Supranational authority might well dissipate political opposition to mine closures or restructuring which would otherwise have been focused entirely on national government" -- both the costs of the financing and the blame. But the key issue was how long the transitional period would be -- some Belgian representatives and

[19] Using OECD statistics, Milward calculated that the wholesale coal price in the Federal Republic in 1950 was $7.10 per ton, and the average sale price in Belgium the same year was $14.07 per ton. A significant rail journey added some 50 percent to the price of a tonne of Ruhr coal, bringing its delivery price in most of Belgium to roughly $8.52. There was some question about whether German production would or could expand enough, within such a cost disparity, to absorb the planned reductions in the Belgian market. Such a massive disparity prompts Milward to conclude that Monnet's already violent reduction plan actually looked to be "more of an attempt at a political compromise than the full acceptance of the economic rationale of a common market" (Milward 1992, p.68).

partisans wanted it to be permanent -- what the High Authority subsidization level would be, what kind of provisions would be involved in the subsidization, and of course, who would pay?

On these questions, the German delegation initially took the position that Belgium should simply be left out of the ECSC customs union, and then softened its position at French prodding and general recognition that early opening of the ECSC, with all its symbolic political benefits, would require a compromise (Diebold 1959, p.66). Toward that end, Walter Hallstein, the head of the German delegation, overtly recognized the need to grant a subsidization "above the level to which the Belgian government had been intending to reduce in autumn 1949" as the only way to achieve an agreement (Milward 1992, p.69). And the Germans were prepared "from an early state to accept that they themselves would pay" (Ibid., p.70). Their conditions for such an agreement were that the subsidization be "confined to the length of the necessary transition period, and...that it was degressive...(Ibid.). As Milward points out, the German delegation was likely only willing to "penalize their own coal-mining industry with the *péréquation* levy" because the Treaty of Paris was the first treaty in which the Federal Republic was offered equality of status as a negotiating partner, an equality which was to be continued into the constitution of the ECSC (p.72).

The questions of when, how, for how long, and at whose expense the Belgian coal industry would be supported by High Authority programs were dealt with primarily in a subsidiary negotiation between one of the Belgian Economics Ministry delegates, Francoise Vinck, and one of Monnet's Planning Commission deputies, Etienne Hirsch (Milward 1992, pp.70-77). While these negotiations proceeded, the coal industry representatives and their sometimes steel industry allies, banded together with a number of Belgian political party operatives, of both chauvinist and mainstream stripes, to protest any acceptance of the common market adjustment.

The compromise on which Vinck and Hirsch agreed, focused more on adjustment subsidization, albeit phased and temporary, that represented exemption, than on the readjustment measures in the Monnet paper that represented compensation separate from the core provisions being liberalized. For the duration of the agreement, Belgian coal production was not to fall by more than 3 percent a year if Community production was stable or increased (Diebold 1959, p.203; Milward 1992, p. 72-3).[20] During a five year transition period, more importantly, Belgian production would receive international subsidization of several forms. This aid was to come from a matching of Belgian government funds and funds from the High Authority, drawn from a special levy on coal sold by low cost producers, which practically speaking meant German and Dutch collieries, mainly the Germans. The general subsidy was designed to fund "a rather drastic program of readaptation" through productivity-enhancing investment and rationalization, essentially at the discretion of the firms receiving the funds. The plan assumed that Belgian

[20] If Community production decreased in a given year, the 3 percent was to apply to Belgian production "as reduced by the coefficient of the decline in total Community production" (Diebold 1959, p.203).

adjustment would draw on discretionary subsidization and, importantly, on the Monnet-proposed readaptation funds for retraining and relocation of workers expected to lose their jobs through pit closings and restructuring.[21] How all this was ultimately implemented is another matter.[22]

This Vinck-Hirsch agreement, however generous and unusual, was met with continued hostility or skepticism in the Belgian polity, especially the coal producers. These producers were particularly concerned that the five-year transition period during which subsidization would be granted would be too short to allow adaptation, and when pressed they basically wanted the possibility of permanent subsidization. The coal producers were the most extreme in taking such a position, but they found sympathetic ears among various parties and government officials, including the Belgian Prime Minister van Zeeland. These groups continued to table proposals for further safeguards, with van Zeeland joining the Luxembourg demands for a safeguard clause that would allow "possible separation of the Belgian market from the common market" through trade barriers, not just during the transition period but also for two years afterwards (Diebold 1959, p.203; Milward 1992, pp.72-74). More significantly, perhaps, the Belgian delegation also negotiated a further clause that would allow the government to provide subsidization for a further three-year transition (beyond the initial five) but without payments from the High Authority.

With such series of special exemptions, transitions, and side payment provisions, the dispute between among the various governments, especially Belgium, over the terms of the ECSC liberalization and transition were completed. The negotiations concluded on March 19th, 1951, with the initialing of the Treaty constituting the European Coal and Steel Community, and the Convention containing the Transitional Provisions. After a meeting of foreign ministers to iron out procedural details not pertaining to the safeguards -- instead concerning issues like how large the High Authority ought to be, the method of choosing it, the voting in the council of Ministers, the allocation of seats in the Common Assembly, etc. -- the Ministers signed the Treaty on April 18, 1951, clearing the way for submission to parliaments of the six member countries for ratification.

1.3.1 The Treaty of Paris: Supra-national Compensated Liberalization Through the ECSC Treaty and Transition Convention

The Treaty of Paris that emerged from these negotiations included the "Treaty constituting the European Coal and Steel Community" and its three Annexes defining basic terms, the three Protocols supporting that Treaty, and the "Convention on Transition Provisions" (Goormaghtigh 1955, pp.356-360).[23] All of the Treaty provisions, except those in the Convention,[24] were to be

[21] This readaptation money was to come from general ECSC coffers, flush with revenues from the general ECSC tax on producers, ranging from .5 and .9 percent of coal and steel produced, and not to rise above one percent.
[22] See discussion in the section on "implementation" below for brief overview.
[23] Goormaghtigh provides a very distilled summary of the provisions. For the full text, see *American Journal of International Law* 1952.

binding for 50 years -- an eternity in the time horizons of most governments. Much of the text of the Treaty and Protocols -- befitting the basic import of the Community -- lay in outlining the basic organization, and competencies (including borrowing and taxation powers) of the new supra-national institutions -- the High Authority, the Council of Ministers, the Community Assembly, the European Court of Justice, and the Consultative Commission. These were designed to oversee the coal and steel union and explicitly to serve as templates for further community integration should the member countries so choose, and with the exception of the Consultative body they did just that.

The policy substance of the Treaty, however, focused on regulation of coal and steel sectors. The basic mission of was "to contribute to the expansion of the economy, the development of employment and the improvement of the standard of living in the participating countries through the creation, in harmony with the general economy of the member States, of a common market..." (Article 2) (Diebold 1959, p.79). And there was autonomy and authority vested in the High Authority and other Community institutions to achieve these general goals.

But in the details it was clear that the basic *modus operandi* for achieving the ECSC economic goals was sweeping trade liberalization. Article 4 of the Treaty stipulated the basic, sweeping liberalization mandate: "import and export duties, or taxes with an equivalent effect, and quantitative restrictions on the movement of coal and steel, are recognized to be incompatible with the common market for coal and steel, and are, therefore, abolished and prohibited within the Community..." (Diebold 1959, p.139). Also prohibited were subsidies "or state assistance...in any form whatsoever" (Diebold, 1959, p.194). And as laid out in the principle of Article 70, "if the common market is to rest on equality, then...there can be no discriminatory transport rates, no special charges that have effects like those of tariffs...(Diebold 1959, p.154).

The real reason that the Treaty promoted liberalization, rather than customs union regulation, was that the Treaty did not replace of these liberalization provisions with re-regulation or social organization . On the grand scale of social regulatory possibility, Monnet's general dirigisme and social democratic enthusiasm behind "social equalization" within the community was defeated, and all that was left was "a statement of principle in favour of equalization unaccompanied by any supranational powers to achieve it" (Haas, p.245). Beyond this, moreover, there was also mostly the opposite of the cartel agreements that some had also feared. There was de-cartelization, especially relevant to German industrial combines tying steel and coal production. The High Authority was authorized "to limit outputs in times of surplus and allocate supplies in times of shortage...," but price fixing was to be used "only in special circumstances" and to be decided by the Authority (Diebold 1959, p.80). In short, the customs union may have created an ambitious international organization with substantial policymaking competencies, and

[24] Some elements of which was also extended indefinitely, or to the life of the Treaty, when the Convention expired in 1957. As we will see below, this included the provisions that represent liberalization side payments.

may have been the prototype for the general EEC project toward a federated political and economic union. But in 1951 it was first and foremost trade liberalization.

The Convention on Transitional Provisions (CTP) revealed this to be *compensated* liberalization. This Convention was the product of bargaining during the Paris negotiations in which a variety of countries pressed for safeguards against the dislocation imposed by liberalization and other custom union adjustments. It was also explicitly premised on the idea that the ECSC should match "the promise that change would take place with the assurance that it would not take place with such rapidity as to cause serious hardship" (Diebold 1959, p.406). The provisions of the Transition Convention set up to two transitional periods: "a preparatory period from the entry into force of the Treaty to the creation of the common market, and a transitional period of five years extending from the creation of the common market for coal (Goormaghtigh 1955, p.375). After these transitional periods full participation would be expected of the states and any adjustment or departures from Community rules would be decided by the High Authority and other Community institutions. As for provisions, the first period was simply a time when the ECSC institutions were being set up and details ironed out, and countries were permitted to retain their industry protections. The second transition period involved more complicated, and much more significant assurances involving supra-national competencies.

Some of these assurances provided for a series of phased-in participation, subsidization, and escape clauses, that in the theory of compensated liberalization represented some combination of delay, exemption, and revision of the liberalization. Within this category, some of the safeguards were stated generally and applied to all members of the Community. For instance, the CTP included, as a reflection of Luxembourg's and Belgiums negotiating, a general escape clause that would allow countries to re-introduce tariffs and other protections under conditions of "manifest crisis." Another reflected negotiating mainly by the French, Belgian and Italian delegations, and stipulated that the High Authority "may temporarily authorize the continuation of certain national subsidies and permit inter-coal basin compensation systems in order to avoid unemployment and production dislocation (CTP, Sections 11 and 24; quoted in Haas 1958, p.85).

Some of the most substantial safeguarding provisions, however, were targeted at the particular vulnerabilities in the coal industries of member countries, especially Italy and Belgium. As the negotiations suggested, Belgium's ailing coal industry received the most extensive and generous treatment, as the negotiations suggested. In addition to the general safeguard provisions and readjustment allowances their negotiating stance helped create, the industry was to receive special treatment through three subsidization schemes, two to permit its coal to be sold competitively to Belgian steel producers and to buyers in within and without the ECSC (covered in CTP Sections 25, 26, and 27), and another, the "general subsidies," to adapt the production "so that it would be competitive, without special help by the end of the transitional period" (Diebold

1959, p.203; Haas 1958, p.250).[25] The general subsidies were by far the larger, and involved the High Authority setting maximum prices for Belgian coal "somewhat below the previous levels," then calculating "what price would be needed to give producers the receipts they formerly had" (Diebold 1959, p.206). The subsidy would make up the difference, and at the outset was to average 29 Belgian francs ($.58) per ton (Milward 1992, p.71).

Belgium's insistence of extensive coverage cleared the way for special treatment of Italy's coal problem. Italy won a special exemption from the customs union reach during the five year transition period. Whereas all member countries, Belgium included, were to immediately and completely eliminate most tariff and quota barriers, Italy was permitted to reduce steel tariffs gradually. The CTP also provided that for two years the High Authority could give subsidies to the Sulcis mines in Sardinia "in order that they may be able, pending completion of the investment operations now under way, to face competition within the common market" (CTP Section 27, quoted in Diebold 1959, p.216).

Both of these subsidy packages were to be initiated, administered, and partially financed by national governments, according to the principle of "additionality." The idea behind such a principle was obvious: especially as long as the High Authority lacks competencies to even formulate investment programs, national governments know best what is needed and what is possible in their own industrial societies; and requiring funds be dispensed only on a matching basis ensures that nations have a stake in the success of the adjustment subsidies (i.e. redresses problems of moral hazard).

But half or more of the financing was to be overseen and decided by the High Authority and to be paid for out of the special coal levy, called a "compensation levy." The levy system resulted from the Vinck-Hirsch agreements for Belgium, and was to be imposed on the producers "of those countries whose average costs are less than the weighted average of the Community," at a rate that was not to exceed 1.5 percent of receipts per ton of coal sold and was to decline by a .3 percent rate annually (Section 25, quoted in Diebold 1959, pp.203-4; see also Haas 1958, p.87). The producers who met this standard were German and Dutch, but mainly German.[26]

These provisions may have represented exemption and revision from the reach of customs union liberalization, but unlike most of the exemptions and revisions emerging from political struggles over liberalization in the United States, these subsidization schemes represented classical "compensation." The subsidization of nations was to be ended, at least *de jure,* and to be replaced by a new scheme overseen and mostly funded by a new supra-national ECSC institution; and the subsidization was, unlike the national schemes, explicitly and formally to phase out over five

[25] See Diebold 1959, pp.203-205 and Milward pp.69-72 for description of the details of the "special" and "general" subsidies.

[26] In fact, the Dutch were exempted by June 1957. See below for a summary of the financing scheme.

years, at the end of which the liberalization would more fully take hold. And since Germany was the country whose coal production was mostly likely to benefit from the customs union liberalization of trade with Belgium, this was precisely the kind of compensation that economists idealize in welfare economics models of pareto efficiency: the big and concentrated winners compensating the big losers, to that everyone in the system, in "society" gains. Since the provisions were not separate from the core provisions of liberalization, however, they may have been compensation, but they were not compensatory side payments.

However, some of the "innovative measures" of the ECSC, encoded in the Convention on Transition Provisions, *were* side payments -- in the form of the adjustment assistance measures in the Treaty's Readaptation Fund. The Fund was part of the transition measures in the memo Schuman introduced, in Monnet's working paper, and entered into the negotiations by several delegations, including France, Belgium, and Italy. It was to provide help for two kinds of adjustment problems posed by the ECSC. First, Section 23 said that the fund should be used "if the consequences of the introduction of the common market oblige certain enterprises or parts of enterprises to cease or to change their activities..." (quoted in Diebold 1959, p.405). Second, Article 56 said that the fund should be used when "new methods or equipment are introduced on such a scale as to lead to an exceptionally large reduction in labour requirements...making it especially difficult...to re-employ the workers discharged..." (Ibid., footnote 1).

The Readjustment assistance was to be provided to both firms and workers struggling according to these general criteria for the duration of the five-year transitional period, and for another two years "if the Council of Ministers agrees" (Diebold 1959, p.405). Dislocated firms could be given loans "either for readaptation or to undertake new activities that will employ the discharged workers," and if the new activity was outside coal or steel the Council of Ministers had to give its approval. Workers were to be helped by grants that were "to tide them over periods of temporary unemployment and adjustment to new jobs, to provide resettlement allowances if they move, and to give them technical retraining if that is necessary" (Diebold 1959, p.406; see also Frank 1977, p.). In implementing the use of Readaptation Fund to assist adjustment, however, the High Authority was to have flexibility outside of even these broad parameters to decide with national governments what kinds of particular provisions, such as retirement funds or housing, would be most suitable (Frank 1977, p.126). The money for the Readaptiation assistance was to come from the High Authority's general revenue sources, which were to come from the ECSC's borrowing and its taxation powers.[27]

[27] The ECSC tax, the first supra-national tax, was on the coal and steel producers in the Community, including those officially ailing and receiving subsidization, readjustment allowances, and other kinds of special treatment. The tax was not to exceed "one percent of the value of the coal and steel produced in the Community unless the Council of Ministers agrees to a higher rate by a two-thirds majority" (Diebold 1959, p.316).

As with the exemption compensation, the principle of additionality applied to the Readaptation Funds. Thus, national governments were expected to propose, administer, and implement the various adjustment assistance programs supported under the Readjustment Fund, though the High Authority had powers to review, suggest reform, and decide how much to fund the programs. And national governments were expected to match the High Authority's aid, though more than the subsidization this was seen as less firm. The Council of Ministers could decide to "exempt it from this obligation" (Diebold 1959, p.406; Haas 1958, p.92).

The Readjustment Funds represented a path-breaking side payment. It came more than a decade before the US adjustment assistance program, which we saw in Chapter Two was patterned after the ECSC Funds, and set up the program on a supra-national level. It was also more open-ended and generous in its funding, but was to be implemented under the competencies and matched funding commitments from national government agencies. Both funds were side payments, because they offered assistance separate from the core subsidies and protections to be reduced under the customs union's thorough-going liberalization. The Section 23 funds were the most clearly focused on the victims of actual liberalization, and hence were the more obvious side payments, but the Section 23 and Article 56 programs were proposed and discussed as a package -- and consistently targeted at the groups concerned that the marketized setting following liberalization would impose unreasonable economic costs and adjustments. Thus, the adjustment assistance not only represented compensation, but also liberalization side payments.

1.4. The Ratification Debates: No Domestic-level Side Payments

Before the ECSC customs union and Transition provisions could be initiated, all six member countries had to ratify the Treaty of Paris. In the end, ratification passed by large margins in all countries, as summarized in Table 6.2. But the unprecedented economic liberalization and diminution of sovereign authority entailed in that Treaty sparked substantial debate in all the polity, and opened a variety of "veto points" in which the national-level pursuit of the liberalization could yield further revisions and riders to the ratification legislation --including the provision of further, national-level side payments. None of the ratification struggles, however, gave rise to any such side payments. On the other hand, the supra-national side payments negotiated at during the Treaty negotiations appeared to have defused domestic opposition only modestly during the struggles, taking a back-seat to the grander political benefits provided and to the compensatory exemptions and revisions embedded in the Transition Convention.[28]

[28] The information on the ratification debates on which these basic conclusions are based is limited. The main secondary sources on which I rely are Goormaghtigh 1955, Diebold 1959, Haas 1959, Milward 1988, Zurcher 1959. Better, more detailed, review of the history might unearth the provision of some more informal liberalization side payments, or evidence that the supra-national side payments were politically effective.

The countries whose ratification struggle gave rise to policy promises and legislative riders as part of the enactment legislation did not focus on the problems and risks of economic liberalization. France is the most important, if complicated, example.[29] The French ratification debate was divisive -- the Assembly vote being the closest thing to a close vote among the 13 votes in the six member countries -- but focused mainly on concerns by partisans and industrialists that delegation of so much sovereign authority over coal and steel to ECSC institutions was excessive diminution of sovereignty, and threatened German domination. The focus on economic issues, voiced mainly by coal and steel producers and other industrialists, was less intense and tended to

Table 6.2.
Parliamentary Approval of the Treaty of Paris

Date	Country	Body	Vote (Abstentions)
1951			
June 27	Germany	Bundesrat-First Reading	26-17
October 31	Netherlands	Second Chamber	62-6 (1)
November 30	France	Conseil Économique (Advisory)	111-15 (29)
December 13	France	Assemblée Nationale	377-233
1952			
January 11	Germany	Bundestag	232-143 (3)
February 1	Germany	Bundesrat--Final Reading	unanimous
February 5	Belgium	Sénat	102-4 (58)
February 19	Netherlands	First Chamber	36-2
March 17	Italy	Senate	148-97
April 1	France	Conseil de la République	182-32
May 13	Luxembourg	Chambre des Députés	47-4
June 11	Belgium	Chambre des Représentants	165-13 (13)
June 17	Italy	Chamber of Deputies	265-98

Source: Diebold 1959, p.83 and Zurcher 1959, p.

focus as much on avoiding supra-national dirigisme. There was some concern that German competition in steel would hurt French producers, leading to unemployment, pressure on wages and prices, bankruptcies, etc., "though it was not often put so bluntly" (Diebold 1959, p.89).

After a three-day debate the Assembly adopted authorizing legislation that included several riders. These included promises to continue to carry out Monnet plan investments in the coal

[29] German ratification depended on the provision of some new promises, but none were targeted at concerns for any dislocation that might accompany customs union liberalization. Instead they were targeted at the costs of special payments to be provided to the losers, to de-cartelization, and to sovereignty compromises -- such as removing the International Ruhr Authority, adequate organization for the export of coal (Goormaghtigh 1955, p.381). As Milward's account suggests, the key issue in that ratification was the competing roles of the escalating Cold War versus the ECSC as methods for international recognition of new German sovereignty. In the context of the Korea War and push for rearmament, the German's might see the costs of the Schuman plan too large, and the main virtue of the plan for Germany -- recognition -- as obviated by US interest in waging the Cold War. In the end, the US support was crucial to getting the Germans to choose the Schuman path to sovereign recognition first, rearmament later (Milward 1992, pp.72-74).

mines, the presentation of new steel rationalization plans, and the provision of special assistance consistent with Article 67 of the ECSC Treaty (Goormaghtigh 1955, p.379-80). The first three of these provisions were simply consistent with and pursuant to the transition-period provisions laid out in the Transition Convention. The other two, come closer to new provisions that would be national-level side payments: guaranteeing equal treatment to private steel producers in the terms of government loans provided to coal, and pursuing negotiations with other interested governments toward "canalizing the Moselle river between Thionville and Coblenz" (Ibid.). The first of these is a side payment only if the loans were newly proposed, rather than an amplification of the Treaty regime or the old Monnet plan, and the history is insufficient to answer this question. The second is clearly a side payment. It is not, however, a clear liberalization side payment. It was a part of the older and muted dirigiste focuses of the High Authority's activities, geared to a number of groups, industries and constituencies, only some of whom include the industrial groups that might be concerned with the customs union dislocation (Haas 1958, p.246). And even these groups, according to the Haas, Diebold and Goormaghtigh accounts, were focused more on broader sovereignty and dirigisme issues than they were on dislocation (c.f. Haas 1958, pp.116-19).

In the countries whose ratification struggles focused most closely and divisively on the potential dislocation of customs union liberalization, the story is less ambiguous: there were no significant riders or policy promises made to off-set the risks of liberalization. In Belgium, some of the struggle focused on the overlapping issues of sovereignty and the dangers of dirigisme, but most intensively on fears of dislocation in the coal mines. The coal industry was unanimously opposed to the Treaty, explicitly claiming that the Transition safeguards were insufficient to remedy their adjustment burden. They demanded more international or domestic aid. In this claim they were joined by the Socialists in the Senate, who "wanted a reorganization law for the coal mines before going into the Community" (Diebold 1959, p.106). This is the closest the fight came to actually demanding a rider relevant to liberalization side payments. And the closest it came to providing such a rider was the "...the emphasis placed by Parliament on the modernization of the collieries as a condition for ratifying the Treaty" (Haas 1958, p.250; he quotes Rachine, p.93). But this was simply an amplification of the terms of the Transition Convention, whereas the industry wanted much more protection guarantees.

These groups, however, were drowned-out in the political debate by the many voices among other industrialists (including steel industry representatives) who explained how the Treaty provided tremendous long term economic and political benefits for Belgium; how the problems of the coal industry would exist with or without the customs union; and, most importantly, on how the Transition provisions were very generous and promised to do as much or more than the government could do to help the industry on its own (Ibid., pp.106-7; Goormaghtigh 386-88). As a result, the Treaty passed by a large majority (163-13, with 13 abstentions).

In Italy, finally, the story was similar, except that the most vocal opponents on economic dislocation grounds were steel industry representatives. Since Italian steel costs were high, and since the Transition Convention did not promise any special subsidization on a par with the coal industry, including the Sulcis mines, steel representatives feared competition from foreign steel. The special phasing-in of tariff reductions had been targeted at precisely this fear, as had the special agreement with France to promise cheap supply of iron ore from North Africa, and the producers acknowledged these benefits and safeguards. But they clamored for more and extended protection. In asking for further safeguards, the steel producers were joined by the major industrial association, Confindustria, which came out against the Treaty and called for a variety of new provisions, including High Authority arrangements for steel like those offered coal and for extension of the foreign aid to coal (Diebold 1959, pp.108-110). These opponents were countered by some industrialists, the unions, and most elements of the major parties who saw substantial political and economic benefits of "long term European cooperation" (Ibid). Heading this coalition was Alcide De Gasperi, who "gave assurances that the government would help if any interests were damaged" (Ibid., p.108). But he did not spell out these assurances in policy terms or in solid enough promise that they can be construed as riders to the legislation, let alone liberalization side payments. And the strength of the pro-ECSC coalition was such that, like Belgium, it passed without difficulty (148-97 in the Senate; 265-98 in the Chamber of Deputies, see Table 8.2 above).

1.5. Implementation of ECSC Adjustment Assistance, 1952-1959: From Shaky Beginning to Stable and Beneficial Maturity

On July 25, 1952, two days after Luxembourg was the last member country to ratify, the ECSC Treaty entered force; within a month the High Authority started its operations; and most importantly, the official creation of the common market in coal, iron ore, and scrap iron began on February 10, 1953, and that of steel began on May 1, 1953 (Goormaghtigh 1955, p.389).[30] Along side implementation of the Community's tariff and non-tariff barrier liberalization and of the oversight by supra-national institutions, the High Authority also implemented the Transition Convention provisions, including its subsidization and readjustment fund assistance. The implementation of the latter, the readjustment fund that represented the core liberalization side payment provided as part of the Treaty, had a slow start but became an important element of

[30] Assessing the implementation of the liberalization, its degree and effectiveness, is beyond the scope of this study. It is fair to say, however, that the accomplishments were substantial. Tariffs and quotas were removed according to schedule, and within several years, so too were Italy's. Many non-tariff barriers, including transportation rates, were harmonized or eliminated. By 1958, after only five years since the ECSC took effect, intra-ECSC trade in steel had increased by 157 percent and steel output by 65 percent (Arter 1993, p.127). For general effects, see Diebold 1959, and for effects on specialization and growth, Adler 1967.

European Community compensated liberalization -- important both in its aid to victims of liberalization and in its effectiveness in defusing opposition to new or retained liberalization.[31]

In the first two years of the ECSC's operation, the Readjustment allowances lay dormant, with countries slow to apply for assistance for adjustments clearly called for by ECSC liberalization. In those years, the High Authority also turned down some of the early proposals from the French and Italian governments on a variety of grounds -- either that the proposals were for adjustment only loosely connected to conformity with the customs union, that the program of assistance was ill-formulated, or that it had costs that the national government would not match. The first proposal, by the French government for reimbursement to the government for unemployment payments made to 150 coal miners in the Loire region, was typical. This request was rejected by the High Authority, which regarded it "as not a special contribution of the sort called for by the Treaty" (High Authority, April 1954, p.166; Diebold 1959, p.406, fn.3).

The first major use of the Readjustment Funds was also something of a disappointment. It came in response to another French government application in 1953, asking for help in relocating some 5,000 workers expected to be released over five years from mines in Cévannes, Aquitaine, and Provence that had increased productivity and imports of Community foreign coal along the coast.[32] It was believed that most of these workers could be absorbed in the Lorraine mines, but this would be costly relocation. After "rather long" negotiations, the High Authority and the French government agreed on a set of provisions to offer a special indemnity as well as transportation and an extra day's vacation and pay to any workers volunteering to relocate (Diebold 1959, p.406). They also promised housing and maintenance of worker's pension rights and job classification. Although this was a promising and classical task for the Readjustment program, it turned out to be a major disappointment, with only about 500 workers agreeing to make the transition before administrators gave up on the attempt to encourage their transition with the program provisions. The reasons were many, including reluctance to relocate to a new culture and climate, the different and higher-paced work conditions in the Lorraine mines, uncertainties and disappointments with the housing promises. But the experience revealed, as some High Authority officials learned, the difficulty of facilitating labor market adjustment even when the cluster of carrots were clearly, effectively, and generously offered.

The largest request for and eventual provision of Readjustment aid came only several months later, in December 1953, and the experience was again mixed. The Italian government sought assistance for more than 8,000 steelworkers laid off when firms speeded up their

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[31] Since Diebold 1959's history of the ECSC, there have been few detailed historical attempts to assess the implementation of its provisions, including the readjustment funds. The brief account offered here draws on Diebold 1959, Haas 1958, and on High Authority *Reports* for subsequent years.

[32] Diebold provides a nice summary of this case. He also provides a more simple case study of the High Authority's use of readjustment funds to assist in the relocation of dislocated steelworkers. See Diebold 1959, pp.406-12.

modernization to face the common market. Trade unions and the High Authority encouraged Rome to submit requests for readaptation aid, but the Italian government was concerned that its request not "created a group of 'privileged unemployed,' entitled to more public aid than the bulk of Italy's jobless," numbering some 2 million at the time (Haas 1958, p.252). As Diebold pointed out, "favoritism might have political repercussions; the government could not afford to pay allowances to everyone" (Diebold 1959, p.416). Since the government also found it politically costly and economically foolish to forego the readjustment benefits, it sought to solve its dilemma by getting the High Authority to provide aid in the context of a major adjustment program directed at a variety of industrial employers, wherein employers would promise to hire at least 50 percent of their new workers from the 9,000 or so dislocated steelworkers (Ibid., p.416). The High Authority refused this plan, since it didn't guarantee any particular benefits to the workers, and because the plan was generally lacking in Administrative details, and offered equivalent assistance directly to the workers, including housing assistance.[33]

As the negotiations between the government over the terms of the assistance groaned on, the efficacy of the assistance to the dislocated workers declined. The High Authority and the Italian government eventually agreed on a plan whereby steelworkers who had lost their jobs between the opening of the common market and May 1, 1956 "were to receive grants at degressive rates for periods up to 15 months of unemployment," while those who were forced to relocate "would be paid transportation expenses and a dislocation allowance" (Diebold 1959, p.417). The actual provision of this assistance was further delayed by the failure of the Parliament to enact the Italian share of the appropriations (Haas 1958, p.252). So, by the time the readjustment assistance came through it was "a belated supplementary social security grant rather than as a means of promoting adaptation" (Diebold 1959, p.417).

Through the experience with the early Italian and French cases, the High Authority gradually loosened its eligibility requirements and more commonly got Council of Ministers approval to waive the national matching requirement. Table 6.3. summarizes the results of its activities, in terms of the rough number of workers assisted and money spent. The Table shows that by far the most money and workers assisted in the first decade were in the Italian steel mills. Perhaps the most important applications of the readjustment funds in the first decade of operation, however, are not captured by the numbers in this Table.

They lay instead in the use of the funds along side the politically divisive reductions in Transition Convention subsidization in Belgium and Italy. The Belgium case is exemplary. After the first quarter of 1955, the Belgium export subsidies were dropped, leading Belgian exports to

[33] In their counter-proposal, the High Authority also got the Council of Ministers in July 1955 to waive the Convention requirement that the Italian government match the readjustment funds. See Diebold 1959, p.416, fn.18, and High Authority 1955.

drop sharply, though for the year stayed above the 1954 rate. (High Authority 1957; Diebold 1959, p.205). In the same year, in June 1955, a commission consisting of High Authority and Belgian government officials decided on more dislocating reductions in the general subsidy. This included ending subsidies on some kinds of coal -- such as Liége anthracite that was competitive without subsidization -- and this lowered by one third the amount of coal subject to the Vinck-Hirsch subsidization schema. It also reduced subsidization to some firms thought to be

Table 6.3.
Activities Under the Readaptation Fund, 1952-February 1958

Country	Requests Received	Requests Granted	Funds Allocated	Workers Benefited
France	12	8	$2,500,000+	roughly 3,500
Italy	2	2	$6,500,000+	roughly 13,200*
Belgium	1	1	$1,500,000+	1,100+†
Germany	1	?	?	2,100 (1,800)
	15	11	$12,000,000+	18,600+††

* This includes the Haas 10,000 plus the 1,700 steelworkers granted relief in 1957 and miscellaneous others, reported in Diebold 1959, p.418.
† This figure does not include some 5,000 other Belgian workers that had not yet received, but had been approved, adaptation assistance.
†† This figure includes only those workers covered as of February 1958, and does not include the approved adaptation grants that could affect another 6,500 workers
Sources: High Authority 1958; Haas 1958, p.93.; Diebold 1959, pp.406-18

competitive at lower rates. At the same time, the plan called for increased subsidies for re-equipment and improvement of certain pits and the closing of nine others -- all by the end 1958.

To compensate for and assuage the problems faced by the dislocated workers, the High authority agreed to provide readaptation funds for retraining and relocation, particularly for the workers thrown out of work from the closed pits. In providing these funds, moreover, the Authority waived the usual requirement that the Belgium government match the funding. The workers affected were expected to number 1,100 (less than .8 percent of total coal employment in Belgium). This de-subsidization with readjustment assistance predictably raised vocal opposition from the employers of the pits to be closed, though less from the workers -- some of whom could expect to be relocated to other mines without the help of the High Authority and others whom could expect to receive the benefits to be provided by the High Authority's readjustment fund.

In the context of the de-subsidization and quick waiver of the matching requirement, this application of the readjustment funds was a side payment, even though the broader readjustment provisions and the de-subsidization were planned in the initial Transition Convention. It also appears to have been an effective side payment, both economically for the dislocated workers, and

politically for those in the High Authority, some in Belgium, and for more competitive Community producers who wanted to peacefully implement the de-subsidization.[34]

Perhaps because of this promising and political role, the Readaptation fund was extended indefinitely when the Transition convention expired in 1957, and is in continued and large-scale application today. In the intervening years, the use of the readjustment program has gone beyond simple readjustment for relocation and tide-over allowances, to include a variety of other mechanisms for supporting labor dislocated by Community operation, including funding of job-retraining centers, housing construction,[35] and early retirement incentives. In Germany, for instance, many workers were displaced by loss of their entitlement to concessionary coal as part of continued Community liberalization. For these workers, the European Commission (the successor to the High Authority) made available "lump-sum payments...to those workers who had not yet reached the compulsory age for retirement but were eligible for pensions" (Frank 1977, pp.125-6).

The size and inventiveness of the readjustment program has grown as the coal and steel industries have declined, and as membership in the EU has grown. The long post-war boom tapered through the crisis of the 1970s and the international economy has modernized and grown in the degree of competition in all sectors, changes that have brought continued structural problems of the coal and steel industries, the readjustment program has been busy. In 1974 alone nearly $40 million was disbursed under the ECSC readaptation program to workers in Belgium, France, Germany, and the United Kingdom (ECSC et.al. 1975, p.122; see also Frank 1977, p.126). And in more recent years, as these problems have continued, membership in the EU has grown to include countries and regions with major and ailing coal and steel industries -- e.g. East German Länder, Portugal, Spain. Since 1980, the readjustment provisions contributed over 3 billion ECU and has benefited some 800,000 ECSC workers (p.3).

Today's program reflects the greater and more inventive needs posed by the expanded and more intractable demand for assistance that accompanies such change. Since detailed review, or even summary, is beyond the scope of this study, a thumb-nail sketch will have to suffice. In 1993, the Readjustment Aid was offered under the same broad eligibility, additionality, and implementation criteria established in the original Transition Convention's Article 56, but commitments by then were divided under three programs: traditional aid, supplementary steel measures and supplementary coal measures.

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[34] The Italian government also got the High Authority to support coal mine adjustment in Carabosarda mine, as part of the de-subsidization schemes that the Authority pushed the mines, labor, and government to accept. HA, *Report*, April 1957, p.181.

[35] The housing construction grew to be a particularly large and unanticipated focus of the High Authority's adjustment activities, though it funded and administered these activities through discretionary monies as well as readaptation funds. See Haas 1958, p., for some information on the scale of the program. Significantly for the theory and subject of this study, the housing went to a variety of countries, and did not seem to correlate closely with the aggrieved condition of particular regions or countries.

In 1993, a total of 137,770 workers were given assistance under these three programs.[36] 75,531 ECSC workers were deemed eligible and helped under the traditional aid program -- 43,449 to steel workers and 32,032 coal workers -- with total financing granted to the tune of 182.3 million ECU and actual dispensations averaging 2,414 ECU per worker (CEC 1994, pp.15-17). Under the supplementary steel measures -- set up for the anticipated 130,000 jobs expected to be lost (60,000) or transferred (70,000) as a result of price collapses following transitions of the East bloc and other developments -- 23,856 workers were granted aid, with a budget of 60 million ECU (CEC 1994, p.18). Under the ECSC supplementary measures to coal miners, set up as a complement to the Community RECHAR initiative, 36,384 ex-miners were judged eligible for aid, within a budget of 50 million ECU (Ibid., p.24). Under all three of these programs, the specific provisions include a range of provisions: severance payments, retirement benefits, benefit-in-kind, social security contributions, tide-over allowances, wage make-up payments to compensate for lower salaries, out-placement search costs, mobility/transfer expenses, training organizational costs, income support during training, end of training bonus, and self-employment grants (CEC 1994, p.28).[37] In other words, this is a large, diversified program for providing social assistance.

2. The European Economic Community: Compensated Liberalization via Social Harmonization and Supra-national Adjustment Assistance

Soon after the ECSC was signed, with its liberalization phasing in and its supranational institutions just beginning to establish their footing, the integration project hobbled-forth through the push to establish a common defense policy under the European Defense Community (EDC) and for a common democratic entity that was its companion, under the European Political Community (EPC). These initiatives ended in defeat in 1954, but out of their ashes grew the successful creation of two new Communities: the European Economic Community (EEC) and the European Atomic Energy Community (Euratom), together created through the Treaties of Rome in 1958. The Euratom called for common regulation and development of all peaceful atomic energy among the six ECSC member countries. And the EEC called for the systematic and supra-nationally-supervised reduction of all tariff and non-tariff barriers between the member countries, and the creation of a common external trade policy. Together with the ECSC, the creation of these two new communities composed what have ever since been called the European Communities -- or more colloquially, the European Community. Since the EEC was by far the more politically

[36] This number aggregates the figures for the workers to be covered under the respective Readaptation programs, as listed in the 1994 EC Report on Readjustment. That report does not confirm whether a given worker can benefit from both "traditional aid" and from one of the "supplementary measures," so it doesn't rule out double-counting.
[37] The general break-down in the actual percentage of total assistance these various kinds of assistance constitute, ECSC 1993 reports the following: Early retirement (coal), 8.51%; early retirement (steel), 15.71%; unemployment, 10.44%, external redeployment, 11.40%; internal transfer 35.26%; vocational training, 19.41%. See EC 1994, p.6.

momentous achievement under the Treaties of Rome, the second major step towards European integration turns out, like the first, to have been a major trade liberalization initiative.

Unlike the political struggle for the ECSC, however, the fight for the EEC was from the beginning focused on the various risks and costs of trade liberalization as much or more as on the delegation of sovereign powers to international entities. Also unlike the ECSC struggle, the EEC focus on economic dislocation was not fueled by demands and concerns of one of the smaller member states -- as it was by Belgium's ailing coal industry -- but by a coalition of the member countries, first and foremost France, but also Belgium and Italy. As a result of these differences, it should come as little surprise that side payment politics were at the center rather than the margin of struggle over the founding of the EEC and the 1958 consolidation of European integration. And it should also come as little surprise that out of these politics came a couple of substantial liberalization side payments, with far-reaching historical implications for the future of EU compensated liberalization.

2.1. The Origins of EEC Liberalization: The Beyen Plan and European Integration

Just as the side payment history of the ECSC had its origins in the earliest formulations of the Schuman Plan of 1950, such history of the EEC has its origins in a different plan -- this one called the Beyen Plan. Unlike the Schuman Plan, this one is named after its true author and champion, the Dutch Foreign Minister Jan Willem Beyen. The Beyen Plan proposed far-reaching tariff and non-tariff liberalization under supranational European auspices, and in even its early formulations also proposed proto-adjustment assistance provisions. With recent historiography summarizing recently opened archival material, assessment of its origins can rely more on interpretation of actual events than on conjecture. It is appropriate, therefore, to delve into a little more detail on the origins of the Beyen plan than we did into the Schuman plan.[38]

The Beyen Plan grew out of the complexities of post-ECSC European integration. Even though the ECSC had formally and practically committed the member countries to increased economic integration via expansion of the customs union to other sectors, the French economy had by then taken a slightly protectionist turn and the defense and political projects were enough political work as it was. So trade liberalization was no longer a part of Monnet's and the ECSC's

[38] Griffiths and Milward 1985 is particularly good on the early origins and negotiations over the Beyen Plan, and Milward 1992 on the later origins. The other main histories -- e.g. Haas 1958, Diebold 1959, Zurcher 1960, etc. -- offer scant details of the Plan, other than its later development after the Messina Conference.

The account offered here borrows heavily from all these, but also relies somewhat on some of the original texts, especially reports found in the Archive of the Ministerie van Buitenlandse Zaken 1953. I thank Nicole van de Laar for translating some of these materials from the Dutch.

immediate attempts to further integration.[39] Instead, in the immediate aftermath of the ECSC's founding, the integration project was tied to the fortunes of the European Defense Community and European Political Community, both of which had been spear-headed by the French and Italian integrationists in and out of the ECSC (Zurcher 1960, pp.81-107).[40]

For the Netherlands, such a basis of integration had little to offer. The ECSC itself offered the Dutch relatively little economically, since the Dutch mining and steel industries were so small and competitive. As for the EDC, the Dutch had agreed only with great reluctance to participate in the October 1951 discussions to create a European army -- and then only after significant US, French and German prodding; and it accepted the European Defense Community only as a last resort recognition that there was no other way for an effective land defense of the Netherlands (Griffiths and Milward 1985, p.1). The EPC was even less attractive, and they agreed to participate in discussions to define its role and scope only because it was necessary to manage the common defense project (Ibid.).

But the European integration project, aside from offering benefits through long term political stability and peace, also promised to be the best avenue for pursuing something that really was of first-order importance to the Netherlands: commercial policy liberalization. The Dutch economy was among the world's most trade dependent, with foreign commodity trade, most of it with other West European countries, accounting for more than thirty percent of its national income. The country's future economic prosperity and stability, at least in the minds of its leaders, lay in retaining access to cheap inputs and in expanding export markets in Europe, including markets not only for manufactured goods and services, but also agricultural products. Yet, the various avenues for promoting such expanded trade had borne little fruit of late, and held little promise for the immediate or distant future. The multilateral GATT negotiations had accomplished little for Dutch economic interests.[41] The OEEC, the principal Europe-wide framework for negotiating trade liberalization, offered only a little more hope, even though it was a forum for developed European states with which Holland already extensively traded.[42]

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[39] This represented something of a policy reversal by the French. They were the original supporters of the general customs union, as they had been of ECSC and other EU initiatives (EPC, EDC, Euratom). They initially proposed customs union in the January 1946 with the Belelux-France "Agreement on Mutual Economic Consultation" (Milward 1992, p.174). And they proposed it further to the Committee of European Economic Cooperation (CEEC) in 1947, basically pursuant to Marshall Aid eligibility. Within CEEC there was a "study group for a European Custom's Union" which "never got further than a bland examination of the technical aspects of tariffs" (Milward 1984, pp.232ff.).

[40] For histories and description of the EDC and EPC projects, see Zurcher 1960, Chapters Eight through Ten.

[41] In the recent 1951 Torquay conference, the ambitious proposals for all members to accept tariff reduction had met strong and intransigent opposition from the many developing countries that participated in the GATT framework. Since their participation was a regular fixture of GATT, any such proposals for significantly reducing tariffs were "more or less doomed to failure" (Griffiths and Milward 1985, p.2).

[42] In June 1950, Foreign Minister Stikker had proposed to the body a plan to reduce both tariffs and quantitative restrictions, and had been prepared for this purpose "to concede a marginally greater degree of executive and managerial power to the Executive Committee and the Council of OEEC, particularly in order to provide

In comparison to these options, working to expand the ECSC appeared to be the best game in town for liberalization. To be sure, the Dutch hadn't had much to gain from the existing sectoral approach, and with a membership limited to the six members of "Little Europe" there was continued danger that the French would dominate the Community body -- pushing either in a protectionist and/or into an excessively *dirigiste* direction. But unlike the other institutions, it already had standing institutions for monitoring, enforcing, and making automatic and self-fulfilling commitments toward trade liberalization -- whether limited to tariff reductions or more thorough-going liberalization as had been applied to coal and steel. Moreover, the Dutch had more bargaining power, in fact power beyond its actual relative economic position, in the ECSC decision-making structures than it did in either the OEEC or GATT (Griffiths and Milward 1985, p.5). Thus, some expansion of the ECSC offered the best hope for liberalization. This was particularly true in the current climate in which various countries sought expansion of the Community's competency, and expected the EDC to be governed by institutions less powerful and interventionist than the High Authority, making a Community-based liberalization less fearsome. (Ibid., p.6). The Dutch could use this momentum for and benign orientation of continued integration to leverage its trade liberalization goals.

At the same time that they would use the integration project as vehicles for its liberalization, the Dutch also saw adding the general liberalization project to the integration project as a way of improving the EDC and EPC projects, as political and defense projects. The reasoning, here, as Milward persuasively argues, was that the Dutch had by the early 1950s redefined their own sense of security as going beyond the defense of their land-mass and towards their own economic integration with Germany and the rest of Europe, and as a strong economy. They had, in short, expanded their own definition of security (Milward 1992, p.173ff.).

2.1.1. The Beyen Plan: Compensated Liberalization via Supranational Readjustment Assistance

Re-fashioning the EDC and EPC complex to include the liberalization project had to be done before the foreign ministers' meeting in Luxembourg, however, because of momentum to close the books on the former proposals one way or the other. It was at this point that Jan Willem

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'compensations' from a common monetary fund to governments whose industries were particularly damaged by this process" (Ibid, p.1). Despite the willingness to accept supranational provision of such liberalization side payments, however, the Italian and, to a quieter extent, the French governments strongly opposed the liberalization. Given the preference of these countries to retain either tariffs or quantitative restrictions, prospects for more liberalization in the immediate future within the OEEC didn't look any better. Italian proposals to lower intra-European tariffs towards creation of a preferential tariff zone in West Europe might help the Dutch if negotiated quickly, but would do nothing about quota restrictions, might violate GATT rules even if quotas were included in the preferential reduction, and would not likely help open outlets for Dutch agricultural products because of the tendency for all the European countries (including, especially, Germany) to exempt agriculture (Ibid.; Milward 1992, p.).

Beyen entered the picture.[43] Beyen more than Luns and others in the cabinet realized that the best option for Dutch defense, political, and economic interests was to insert the liberalization program into the impending discussions of the EPC. And with the Luxembourg foreign ministers meeting upon him, without full cabinet go-ahead he got the other ministers to agree to "lay down, if they were capable of agreement, economic guidelines for the future activity of a Political Community" (Griffiths and Milward 1985, p.9).[44]

With this as one of his first acts as foreign minister, Beyen's second was to devise a particular plan for such activity, in particular a plan to liberalize trade under the auspices of the Political Community being developed. After the state commission set up to review Dutch European policy handed down its findings in October -- among other things concluding that Holland should make its participation in the EDC contingent upon "satisfactory progress on the economic front" (i.e. trade liberalization of some kind) -- Beyen developed plans of what would constitute such progress. He proposed that the eventual goal should be the creation of a customs union, since attacking all barriers to trade, including all external tariff and non-tariff barriers, would be politically futile. Such a customs union, moreover, would need to directed by some supranational authority, and should begin in those sectors most restricted by commercial barriers.

Crucially, however, he believed that the liberalization "would have to be attained in stages as and when improvements in the separate national economic situations allowed. If it were implemented at once economic disturbances would produce a resurgence of protection" (Griffiths and Milward 1985, p.10). This was the extent of detail in the first salvo of Beyen's plan, as he was simply proposing that the Dutch cabinet set up a commission with him at the helm to work out the details. But even in their generalities, it was clear that Beyen's plan was closely focused on anticipating political opposition and doing what was necessary to defuse, avoid, or channel it.

By the time of the next foreign ministers meeting in Rome in February 1953, the Beyen Plan was fully formed. The most controversial element in his plan was that the proposed customs union was no longer to be left fully in control of supranational authorities, but was instead to be directed by a particular target date and timetable specified in the treaty (Ibid., p.11). As for the particular barriers to be reduced, his plan also proposed that behind a common external tariff and tariff reductions the treaty would also need to lay out a program for "removing quantitative trade

[43] He and Joseph Luns were appointed as joint foreign ministers to replace Stikker after the general election, with Beyen in charge of multilateral relations and Luns of Benelux affairs (Griffiths and Milward 1985, p.6).

[44] He proposed in a general way economic reforms to keep the liberalization card alive, even though a Dutch state commission had only just been set up in August to advise the government of the whole issue of European integration. His proposal was to get the proposed ad hoc Assembly (proposed by the Italian to test-run and devise the form EPC ought to take) to consider the economic issues in addition to the political foundations for an EPC.

restrictions, transport monopolies and discriminations and barriers to invisible transactions" (Ibid.). Thus, he proposed much more than tariff liberalization.[45]

Embellishing on his original acknowledgment of the politically divisive dislocation that liberalization would provoke, Beyen also proposed that the supranational Community should also "administer a series of safety clauses under fixed values" (Ibid.). Most importantly for this study, finally, Beyen proposed adjustment assistance that counts as proto-side payments to the potential victims of liberalization. To ease and facilitate adjustment, Griffiths and Milward report, "the familiar idea from 1950 of a 'European Fund' was resurrected, to be deployed by the Community in cases where there were 'fundamental difficulties'" (Ibid). By resurrected, they are referring to the proposal by Stikker in his liberalization proposals to the OEEC, not to the Monnet/Schuman proposals for a readjustment fund with the ECSC liberalization. But the basic proposals to supra-nationally fund adjustment for workers and firms were the same. In this case, however, Beyen's background, initial proposals, clear cognizance of the plight of Stikker's earlier problems with OEEC liberalization suggest that what he had in mind doing what was politically necessary to get through the liberalization, not *dirigiste* notions of what was optimal for welfare.

Important for the side payment politics of what was to follow, Beyen's plan did not include any talk of policy harmonization of social, wage, fiscal or monetary policies as part of the customs union or move to the common market. His plan instead focused first and foremost on the reductions of tariffs and a few other non-tariff barriers within a specific time table and target date encoded in the Treaty, reductions that would be the major and first step towards a true common market. Beyen and the Dutch government were not interested at the time in pursuing policy harmonization as part of that common market, neither harmonization of the monetary and currency policies that some within the Dutch cabinet would need attention, nor any upward-leveling in wages, welfare and social conditions. For Beyen and many Dutch officials, there was a long-term interest in such harmonization, but not as a way of off-setting the pain of liberalization or as a means to defuse political opposition through such off-setting, but instead as the substance of liberalization. Disparities in social and monetary conditions were, after all, distorting of trade patterns, for instance by making high wage countries produce more expensive products. The main reason for excluding any harmonization in Beyen's plan, however, was that doing so would "make the treaty unacceptably complex" and slow the process of liberalization which was the Dutch government and industry's main motivation for backing the plan (Milward 1992, p.189).

Behind this position, however, was something stronger. Harmonization was not just objectionable for the complex negotiations it would entail, it would also entail supra-national intervention and competencies, and would inspire calls for upward-leveling of social conditions, as

[45] The Plan also called for regulation of the Community's relationship with non-members from the start in the treaty's terms.

had come from the Belgians, and to a lesser extent from the French, in the fight over the ECSC. Such upward-leveling would entail more supra-national intervention and competency -- something the Dutch were uncomfortable with on sovereignty grounds -- and would also entail a *dirigisme* that, like the Germans, they feared would be inflationary and constraining of capitalist maneuver.

With its parameters set on what and how to liberalize and on how to defuse potential opposition -- safeguards and adjustment assistance rather than harmonization -- the plan and its sweeteners were very soon to be put to its first test, since Beyen very soon unveiled his plan to the Rome foreign minister's meeting in Rome. The participants at the meeting had to decide whether or not the EPC proposals should be "weighed down" with additional protocols of any kind, let alone ambitious economic liberalization proposals. The issue was how the various publics, interest groups and parliamentary actors would receive such a baroque package. This issue was particularly important in French parliament, which was becoming increasingly divided on the integration issues, but it applied to all the member countries. For his part, Beyen claimed that "it was doubtful if a parliamentary majority for ratification could be found in the Netherlands without including in the treaty a proposition for a common market" (Ibid, p.11). Whether or not this was true, it was a claim that set the terms of further discussions over the EPC and the first stage of negotiations for a customs union that was ultimately to yield the EEC. Understanding those and all subsequent negotiations on the Beyen plan and the EEC requires an overview of the basic perspectives within the member countries on the Beyen trade liberalization proposals.

2.2. Country Positions: Demands for Safeguards and Side Payments Abound

When Beyen and the Dutch were attempting to insert their customs union trade liberalization into the EPC and EDC integration project, there were a variety of issues at stake beyond such liberalization. And this colored the perspective of all the countries, more accurately many of the most influential state and societal groups within all the countries, in the subsequent negotiations over Beyen's trade liberalization proposals. But the liberalization proposed inspired direct interest and controversy in the countries even when his memo was first released in December 1952. And as the liberalization project increasingly moved to the center of the integration process, after the EDC and EPC initiatives went down in flames, these controversies became more intense and engaged the most important players in the Community negotiators.

Throughout the negotiations, both when liberalization was a side bar and then later at the center, the reaction in different countries included clear and explicit demands for safeguards, including what constituted liberalization side payments beyond Beyen's proposed sweeteners. Most country representatives to the negotiations, sometimes reflecting sentiments of vocal societal groups and sometimes acting more autonomously, took the position that the Beyen plan customs

union liberalization would not be economically or politically workable without more harmonization, more common policies, on a variety of microeconomic and macroecconomic conditions. But the countries had very different ideas about what other kinds of coordination or linkage were necessary and why, and it was in those differences that lay some of the most intractable and divisive struggles over the Beyen Plan and the EEC provisions it later spawned. After a very brief summary of the compensated liberalization stances of Belgium and Italy, the stance on such liberalization of the two Community big guys deserve slightly more attention.[46]

The Belgian reaction to the plan for general customs union liberalization was a less acute repeat of its ECSC performance. Even though the preferential trade access they enjoyed to the Dutch market as part of the Benelux free trade area would be threatened by the wider Beyen customs union, the Belgians favored trade liberalization for the kinds of reasons that motivated their main small-country partner and progenitor of the plan. Soon after the plan was unveiled and throughout the negotiations prime minister van Zeeland and his foreign and economics ministries were officially on-board with Beyen's aggressive tariff and non-tariff cutting. But at various stages in the negotiation over the cutting, the Belgian delegation stated it did not provide for enough harmonization, both as the substance of reducing non-tariff barriers to trade, AND to prevent excessive dislocation, hence, demands for protection in Belgium or elsewhere. The harmonization they had in mind included institutions to ensure currency convertibility and the free movement of capital throughout West Europe, movement which they believed in the long run could and would reduce disparities in income and social conditions across West Europe.

Beyond such harmonization, however, Belgium was a high cost producer in general, with a higher level of wages and welfare payments than most of their trading partners, and most workable plans for monetary coordination would presumably threaten this position -- maybe not lowest common denominator adjustment, but presumably somewhere between the lowest and the highest denominator. Thus, they also wanted the customs union to explicitly move towards harmonization of social policies that would ensure *some* upward-leveling to the level of Belgian wages and conditions (see Milward 1992, p.189,fn.87). Such a position, of course, was similar to their "plan A" in the ECSC negotiations discussed above. But with the liberalization being

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[46] In addition to the national groups in state and society, the advent of the ECSC also created supra-national actors who had and acted on their perceived interests in greater High Authority, Assembly and general supra-national competencies. Among their pleas were those relevant to side payment politics. In March 1956, when the struggle over Beyen Plan liberalization was at its height, the High Authority and Assembly representatives and integrationist champions "cautioned governments not to repeat the 'mistakes' of the ECSC Treaty in its subordination of labour and welfare policy to free trade and economic expansion, and to be ready for supranational planning measures in easing the adjustment to competitive conditions" (Haas, p.110, fn. to October 1955). This was noted in march 29th 1956.

Contrary to the hopes of those supporting the functionalist integrationist view that these actors mattered, there is no evidence that their statements provided anything but window-dressing to the real action among and within nation-states. Monnet and Spaak, in their non-governmental capacities are the exception to this rule.

general rather than sector-specific, and with the talk of the customs union being extended to countries well beyond "Little Europe," the plan was renewed.

The Italians were generally in favor of Beyen customs union liberalization, but were the most consistent supporters of the readjustment assistance and other safeguards. Underlying its concern with such safeguards was that Italy represented one of the lesser developed and competitive of the ECSC six in many industrial and agricultural sectors, and because it had a particularly acute regional disparity problem with its Mezzagiorno region, the least developed region in the ECSC Six. Part of the Italian government strategy for ensuring consideration for the effects of the Beyen plan on this region was to push for a broad commitment to help promote its development. But a bigger part was to focus on particular provisions and insist that the Common Market "include a positive European labour policy, a European re-adaptation fund, a European investment fund to aid such schemes as the Italian Vanoni Development Plan...." (Haas 1958, p.275). At no point in the negotiations, however, did they take a stand explicitly conditioning their support for the customs union liberalization on the provision of such assistance. Counterfactually, they might have been more hesitant to support the agreement if such provisions were not included, but as we shall see, France and other countries ensured that this counterfactual was never tested.

2.2.1. France: In a Country Divided, Social Harmonization as the Price of Liberalization

The position and evolution of the French polity on the Beyen Plan liberalization was as important to EEC side payment politics as it was divided. Through the five year period spanning Beyen's initial proposal and the signing of the Treaties of Rome, the French government fell three times, and with each successive regime came a very different stance on the entire integration project and on the role of Beyen's customs union liberalization in that project. These shifts, of course, were underlain by serious divisions within the French polity -- ranging from integrationist enthusiasm and support for free trade centered in the Christian Democratic MRP; to more guarded support for the interventionist project providing it supply adequate protections to economic dislocation and social conditions, as developed gradually in the socialist SFIO, and IRP; to vehement and unqualified opposition to the integrationist "threat," centered in the Gaullist RPF.[47]

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[47] At the time of the Beyen Plan the French Assembly and party politics were organized by seven parties or standing coalitions of parties. The largest party in terms of votes in parliament, was also the most hostile to the integrationist project: the Gaullists with 121 seats. The second largest party in terms of seats (107 seats in 1953-55), however, was Robert Schuman's MRP (Mouvement Républicain Populaire), the only party for which European integration was "the unanimously accepted first principle of modern politics" (Haas 1958, p.115). At the time of Beyen's proposal they were in government coalition with the Guallists, the RPF (Rassemblement du Peuple Français).

In between there was the Socialist Party (SFIO), the second or third largest party depending on the year (in 1953, number three with 103 seats; in 1955, number one with 150) (Ibid., p.156-7). The party had opposed the ECSC, but was generally split, and under Guy Mollet's leadership was in the process of undergoing a shift on the

Among the most stable and influential "middle" in industry and government interested and involved in the international negotiations, the Plan's liberalization was a threat to the competitive position of French industry and social welfare conditions, and was a distant second-best vehicle for European integration. Out of this position, in turn, sprung strong French demands that the customs union liberalization be accompanied by supranationally-implemented safeguards and social harmonization. The latter of these demands was at the center of the EEC's side payment politics.

Even though France had led the push for Europe-wide customs union liberalization, such a position became politically untenable as the country's balance of payments position worsened in the late 1940s and the beginning of the 1950s. As the payments position fluctuated, there was some debate among economists and, in a more limited way, in the cabinet about why there had been a virtual stagnation of exports.[48] At stake in this dispute was the recognition that Germany represented by far the best prospect for increasing French exports. France's trade with its African and Asian empire consisted of more low-value-added goods and had, in any event, not grown substantially in recent years. Trade with Germany, however, grew significantly more substantially, and showed no signs of slowing down. Thus, where the old post-war French spirit behind liberalization had sagged in recent years, it was not as bad as before.

Liberalization under the auspices of "Little Europe" organization, moreover, *could* be one of the least costly routes toward liberalization. As a customs union it would focus on liberalization in the areas where growth was most promising, while potentially allowing some protection from third countries, and through any decision-making under supra-national institutions France commanded substantial influence in shaping safeguards, exemptions, etc. Milward 1992 summarizes the government's position as an increasing recognition that France "needed to emerge from the protectionist womb, and the Community offered the least painful way" (p.204). A French delegate chose a different metaphor in expressing his country's openness to economic proposals like Beyen's: "We are emerging from the circle of protectionism" (quoted in Griffiths and Milward 1985, p.34).

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integration and liberalization projects, moving to support integration, and liberalization, with upward harmonization and other safeguards. In taking such a potentially compensated liberalization stance, the SFIO was sometimes joined by the majority of the rightist Independent Republicans and Peasants, who had become in the successful aftermath of ECSC increasingly supportive of further integration, including that involving trade liberalization. Plenty of these Republicans, however, were ambivalent about liberalization on grounds that competition would hurt French industry, due to the latter's higher social costs. Throughout the period under review, they commanded, 91 seats, tying for the fourth largest Parliamentary presence).

The party system was rounded out by a substantial showing of the strongly anti-integrationist and anti-liberalization Communists and, increasingly similarly inclined Radicals, under M. Mendés-France and Edgar Faure (Radicals René Mayer, Pléven, and Maurice Faure were more defensive of integration) (Haas 1958, pp.121-23). After January 1956, this overall distribution of seats was to change dramatically, with significant implications for compensated liberalization. See below.

[48] Among the various positions in the ensuring debate was the arguments by some that it was due to an overvalued currency and by others that it was due to protectionism, causing output costs to rise faster than those of its competitors (Milward 1992, p.204).

On the other hand, such liberalization within Community auspices as the Beyen Plan proposed raised important two important issues for France, both with the implication that political opposition would be substantial. First, any substantial reduction in tariffs, let alone quotas and other non-tariff barriers, would be economically dislocating in a number of the country's less competitive manufacturing sectors as German manufactured goods could gain freer access. Second, France needed to retain its continued economic ties with its "franc area" colonial network in Africa and Asia, and a customs union of just "Little Europe" would threaten these ties, yet a fully expanded area might bring in other European powers that would further exacerbate the potential dislocation of liberalization. These considerations ensured that the liberalization would come with some real political costs and risks, whatever strategy the government pursued to deal with them.

Such political costs and risks of liberalization were problems on their own, but they were particularly troublesome to the French given that the liberalization was being pursued as part of European integration. For those who really wanted liberalization this was fine, since the Community institutions, at least if Beyen's Plan got through, would be more certain to yield concrete results and able to lock-in those results. But to many others it could threaten the integration project writ-large. Throughout the French polity, that project was considerably more divisive an issue than was liberalization, with some groups seeing the Union as an indispensable method of containing Germany and organizing the economy, and with others seeing it as a principal threat to national autonomy and integrity.

In this context, liberalization was, at worst, a clear liability for the integration cause, and at best a second-best vehicle for it. When the Beyen Plan was an addendum to the inter-ministerial discussions of the EPC, the Plan simply got in the way of completing and securing French Assembly approval of the EPC and EDC, which were already divisive and politically precarious initiatives. And when those initiatives did, in the event, die, French integrationists placed their intergrationist bets on a different horse, the Euratom project. This project, mainly Jean Monnet's baby, called for the supra-national regulation of all peaceful atomic energy production. Among its many advantages from the French point of view, what area of economic or political activity most justified invasion on the sovereignty of nations as the industry related to mass destruction, requiring massive scientific investment and control, and just beginning to be looked at by nations. To the Gaullists and other less anti-europeanists, Euratom was the least objectionable vehicle for integration. And adding a much more politically divisive and risky trade liberalization to the mix might unravel that integration.

As a result of this mix of motivations, the French strategy for dealing with the Beyen Plan proposals had several elements. As long as the EDC and EPC integration initiatives were alive and being developed, the French sought to simply delay or water-down any significant trade

liberalization initiatives such as Beyen's. When the liberalization initiative became more at the center of the integrationist project, mainly by the initiative of other countries and by the failures of the EDC/EPC, the next strategy was to ensure that the various risks and costs -- both political and economic -- of customs union liberalization be minimized or compensated for. Minimizing the costs motivated the negotiators to seek certain exemptions, delays or phasing in of the liberalization, and revision of the treaty to be less dislocating as far as the liberalization went. Of the latter, the most dramatic initiative was to demand that France be granted special treatment in letting its franc area trading partners be granted preferences and access to the customs union.

Much more important for the politics of side payments, and for the developments of the Beyen plan, the French negotiators also revived their traditional demands for upward-leveling in the social and wage conditions of the Community members. There was, of course, by early 1953, a significant tradition of such French demands. During the original Monnet/Schuman plan there was a commitment to pursuing such harmonization towards an "equalization of conditions," and during the ECSC negotiations the French pressed for significant action on such conditions -- in the direction of upward leveling -- thus giving strength to the similar demands from the more economically defensive Belgian delegation.

After the ECSC was established, moreover, the French delegation and government harangued the Council of Ministers with arguments that significant disparities in wage levels across the member states demanded some upward leveling or at least compensation. For instance, in January 1953, the French ECSC delegation showed statistics "revealing" that wages were between 15 and 20 percent higher in France than in Germany, and that the disparity was even higher if wages included fringe benefits that were part of general "social conditions" -- in particular, family allowances, worker housing, etc. (Haas 1958, pp.270-1, fn.68).[49]

Before the negotiations over the Beyen Plan liberalization, this support for upward leveling harmonization had a combination of motivations. These included, of course, the general dirigiste goals of planners like Monnet and others in the Planning Commission. They also included the desire to retain cohesion of the community members as a necessary condition for integration. Perhaps less than the Dutch, moreover, they saw harmonization of some kind, not necessarily

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[49] The disparities, of course, were disputed by the German representatives and, as Haas point out, "are by no means to be taken as factually established" (Haas 1958, p.271).

French and German Social Costs
as a percentage of Pure Wages

	France	Germany
Total Kinds of Aid	79%	53%
Family Allowances	18%	2%
Worker Housing	16%	5%

Source: *Etudes et Documents* (January 1953), pp.52-54; cited in Haas 1958, p.271fn.68).

upward leveling, as the substance of non-tariff barrier reduction. As upward leveling, finally, the demands for harmonization also reflected at least some concern to provide safeguards or compensation to off-set the costs of the liberalization proposed or being implemented by the ECSC. At the time, however, this last motivation was certainly not discernibly stronger than the others, certainly compared to the Belgians, whose ECSC demands were motivated by providing some safeguards or compensation to off-set the costs of the proposed liberalization.

In the struggle over the Beyen plan, however, not only did all of the various motivations for upward-leveling harmonization apply, but the last one -- as a method of off-setting the costs of trade liberalization -- loomed substantially larger. Such a claim is difficult to prove, but there is some general evidence, and the narrative below will suggest more. First, the French consistently demanded upward leveling, never any harmonization that would entail planned reductions in the conditions or wages of the French industries. As a July 28, 1955 dispatch expressing the opinion of trade association manufacturers in *Usine Nouvelle,* France must be sure that the partners involved in the integration and liberalization narrow their different starting positions, "otherwise, we risk the impairment of the vitality of the socially most advanced countries (July 28, 1955; quoted in Haas 1958, p.192).

Second and more importantly, the French industrialists speaking-up during the customs union discussion, not only called for safeguards and delays, but also for policy harmonization. And these demands did not come from competitive industries wanting lowering of non-tariff barriers. Instead they came from the Chamber of Commerce generally, and most vocally from the most regulated, high-wage industries -- and high cost industries -- who anticipated a serious competitive threat from the lower cost German manufacturers, especially autos and steel (Haas 1958, p.192-3). These high-cost producers explicitly stated their concern as a fear "of higher French export prices...due to higher wages and social charges...." and predicted "chaos and suffering if France is compelled to eliminate her tariffs without having first obtained the equalisation of taxes and social charges" (Haas 1958, p.192). And finally, the negotiators continually used language and made demands in ways and with timing that suggest mainly a concern to off-set the costs of the proposed customs union liberalization.[50]

This distinction between the different motivations for the harmonization proposals matters, of course, because at issue is whether harmonization demands represent calls for liberalization side payment or something else. As the narrative reveals, the discussion of harmonization upward-leveling during negotiations over the Beyen Plan were of liberalization side payments. As it turns out, the harmonization proposals tabled as compensation for tariff reductions were at the center of the liberalization struggle, not just of the side payment politics. And the reason is because of Germany's position on the Beyen Plan.

[50] See Section 2.4. below for details.

2.2.2. The Germans: Beyen Plan as Second-best Path to Liberalization and Political Union

For the German polity and delegation the Beyen Plan was only slightly more desirable than it was for the French. Of course, the positions of specific groups and representatives varied and evolved, but the position boiled down to this: whereas in France the liberalization was the least painful path for basically unwanted liberalization and a second-best path to integration, for the Germans it was a second-best plan for both trade liberalization and European integration. Once other countries made their reactions to the liberalization plan known, moreover, the German concerns on both of these counts deepened.

With Germany's post war political history, general trade openness was probably a political necessity, but it's basic industrial structure also suggested that broad-based, but selective, trade liberalization was highly desirable. Germany's trade was mainly within Western Europe, more than 60 percent of its exports in the early 1950s and growing, though a great deal of this trade was with countries outside the EPC and EDC, and later EEC discussions, including Denmark, Switzerland, and the U.K. (Milward 1992, pp.196-7). The main trade benefit of the customs union proposal was that it promised to improve access to the French and Italian markets. These two countries only accounted for 13.15 percent of the total increase in value of German exports, only one percent more than much smaller economies like Denmark, and yet they were much larger markets (Ibid., p.197). As for the industry profile, for many of its internationally competitive manufacturing industries, especially machine tools and other capital goods, Beyen plan trade liberalization was desirable. But for others, such as cement, woolens, and cars, it wasn't clear what a customs union would hold, and for cotton textiles and agriculture, further trade liberalization was thought "to be dangerous" (Ibid, p.199). The various segments of industry were not politically active in trying to influence government response to the Beyen plan, but the Bundesverband Deutschen industrie (BDI) generally favored the customs union, but sought to ensure that it grow and lead to real liberalization (ibid., p.200).

Within Adenaur's governmental cabinet, where the Beyen Plan was discussed as early as February 20, 1953 -- the positions took account of this general economic position. As general trade policy, the plan for customs union liberalization offered substantial benefits, especially in the increased access to French and Italian markets it promised. But these benefits had to weighed against the opportunity cost of pursuing a customs union that included, likely, only six European trading partners, when Germany's trading ambit was much larger and other liberalization avenues might suffer. This was particularly true if the external tariff were high, and so much of the German concerns focused on what this external barrier would be, and on ensuring openness to non-members. Also compared to the other trade fora, such as GATT, German ministers feared

that the customs union liberalization would require significant reductions in German protection of its vulnerable agriculture.

Most important for the side payment politics at the center of the negotiations, however, at least a few members of the Ministries of the Economy and Finance were interested in policy harmonization, but certainly not of the kind sought by Belgium, and later, France. Especially early in the discussions of the Beyen plan, some ministers were interested in linking the customs union framework and development to some kind of macroeconomic coordination. Finance minister Fritz Schaeffer, for one, saw it "as a genuine possibility," and believed further that for a customs union to be politically and economically feasible the members "would have to agree on a codex of international rules covering far more issues than tariff reductions and the removal of non tariff barriers" (Milward 1992, p.199). What he had in mind, here, was that these other rules would be necessary to minimize, or forbid, inflationary policies.[51] Herein lay some overlap with at least the Belgian interest in macropolicy harmonization.

Neither Schaeffer nor the other Germans, however, wanted anything to do with the kind of extensive and far-reaching social policy harmonization that the Belgians and French wanted linked to the customs union as a way of safeguarding the higher social conditions in their countries. The various negotiators and Ministry officials, including Adenauer, opposed such linkage for reasons similar to, but going beyond, the Dutch reasoning. The various statements and positions to be revealed in the negotiations stated that the linkage would entail excessive supra-nationalist governmental intervention that would be doomed to fail more than national regulation -- "the larger the plane, the more difficult to grasp the total economic structure...and the more tragic will be the results " (Erhard 1954, p.120; quoted in Haas 1958, p.277). Beyond the general perils of supra-nationalism, the linkage would tie German and other economics ministries to the whimsy of inflationary and irresponsible practices, and they would remove a source of some commercial competitive advantage (Haas 1958, p.277). Although most of the negotiators on the German delegation have felt this way, by far the most active and influential of those to oppose the linkage was the Minister of the Economy, Ludwig Erhard. Much more laissez-faire than many of his counterparts in the French ministry, he responded to French proposals for such linkage by flatly opposing "any treaty which would internationalize the increases in welfare to which both French and German governments were committed" (Milward 1992, p.213). As we shall see in the summary of the negotiations, Erhard was the key German player in negotiating the side payment package ultimately to emerge from the EEC struggles.

[51] It should be said that the influential Ministry of Economy, Ludwig Erhard, currency convertibility needed to be a priority linked to tariff liberalization, but beyond this was skeptical if not hostile to the idea of any further macroeconomic coordination, even that directed at ruling out inflation.

If these considerations made the Beyen Plan a distant second-best approach to trade liberalization, German negotiators saw it was also the second-best approach for European integration. Such integration was an unambiguous political virtue for Germany, promising consolidation of the supra-national equality granted Germany under the ECSC. The EDC and EPC were clear first-best vehicles for consolidating that integration -- being so clearly about High Politics. The customs union vehicle, on the other hand, was clearly not about High politics, and had ambiguous implications for the plight of EDC and EPC. The main worry was that the Beyen proposals might be an obstacle to getting the EDC treaty up, ratified, and running, both because it would take lots of time to negotiate and write-into the existing Treaty the kind of liberalization details and schedules Beyen proposed, and because the economic clauses might imperil political acceptance of the thing in the country where acceptance was most precarious -- France.

On the other hand, the liberalization proposal had some benefits, both for the EDC/EPC route to integration, and as the center of such integration once that first-best strategy died. The economic integration, it was thought, was general and might not spark as much opposition in the various member countries, and the push by some countries for more harmonization as a side payment to off-set the risks of the liberalization might have a good political side effect: such harmonization "would be a stronger incentive to create another supranational authority where the Federal Republic would gain a further measure of equality" (Milward 1992, p.197). Finally, domestic-politically, the integration via Euratom -- the main alternative vehicle for integration developed in parallel with the Beyen customs union -- was more of a dog than was integration via a common market, at least among industrialists.

Thus, in Germany's reaction to the Beyen Plan liberalization, we have, like the other countries, a repeat of their ECSC performance. Modest, second-best economic benefits at best -- with a willingness to offer substantial economic concessions to bargaining partners -- with interest and action fueled mainly by much more unambiguous gains in the political arena. As we shall see, however, there were real limits to how much the Germans, at least Erhard, would compromise -- with major implications for compensated liberalization.

2.3. The Negotiations, Part One: The Beyen Plan in the Ill-fated EPC Negotiations

It took some time, however, before negotiations over the Beyen Plan revealed these limits. For nearly two years after Beyen first formally introduced his Plan to the foreign ministers at their Rome meeting in February 1953, these negotiations bore little fruit, and in fact shrouded the many differences among "Little Europe's" polities and delegations over trade liberalization. The reason is that all discussions of the Beyen plan liberalization was tied-up, and wrapped-up, in struggles over the European Defense Community (EDC) and European Political Community (EPC).

By the time of the Rome foreign minister's meeting, most of the member-country parliaments had already or were on their way to passing the EDC Treaty, which the member country delegations had been signed in 1951. France was the exception, and the fragility of the MDP and Gaullist coalition government and its parliamentary divisions over the issue of integration suggested that the vote was going to be close -- and it was looking worse and worse by the day. While everyone bit their nails and waited, and tried to influence the vote, the ministerial and supporting delegations spent much of their time discussing the elements of the EPC treaty, which was to set up the supra-national parliamentary and executive institutions to govern the common defense policy that would need to be devised should the EDC pass.

As for the economic liberalization project Beyen sought to inject into this EPC discussion, only the Dutch delegation really pushed to have a concrete set of economic or customs union proposals be part of the EPC treaty. Within a range of opinions about all constitutional and economic matters, all of the other negotiating delegations were most interested in focusing on and ensuring passage of a minimalist EPC program. Such a program would entail ironing out the many constitutional, and organizational questions, and for the substance of what the resulting government should do would begin by integrating oversight of the EDC and the ECSC. The economic liberalization issues might be major initiatives in the long term, but they were not crucial to the success of the EPC, and they would simply distract from and delay the EPC project, since the economic issues would require so much negotiation, even if the countries were in the same ball-park. And finally, most of the delegations recognized that the economic liberalization initiatives in Beyen's plan could tip the French Assembly balance in favor of the Gaullists, thereby making all of their EPC and EDC effort for naught.

At the level of generalities, however, the foreign ministers meetings yielded enough agreement on the Beyen Plan to keep the idea of a customs union alive in the EPC discussions. At the initial Rome meeting, the Belgian and Italian delegations supported Beyen's basic Plan, and his position that the economic customs union clauses would need to be a part of the EPC Treaty to satisfy enough Parliamentary majorities. And the conference communiqué tasked the ad hoc Assembly being set up to consider Beyen's Plan and develop their results in the Draft Treaty they were to draw up. That *Assemble ad hoc* did so, handing over its results to the next minister's meeting in March, and then pronouncing it at the foreign minister's May meeting in Paris (Griffiths and Milward 1985, p.13).

In addition to the details on the size, division of power, and procedures for the supra-national institutions, the Treaty stipulated that the proposed European Community be "endowed in the Draft Treaty with economic powers which would make possible a progressive development towards a common market" (quoted in Griffiths and Milward 1985, p.13). Of the specific provisions proposed, moreover, the Treaty called for the creation of a readjustment fund, along the

lines of the ECSC readaptation fund, to safeguard against excessive dislocation (Ibid). But the liberalization was only to be accomplished via measures proposed by the Executive, and approved by unanimous Council of Ministers vote and by a majority of the two Parliamentary Chambers. More problematic was the *Assemblé* statement that the "Treaty does not...contain any obligatory provisions concerning economic integration, and the safeguards foreseen are such that if they are exploited they would make impossible any substantial progress" towards the liberalization proposed (Ibid). In other words, only a general agreement was possible; beyond that, the *Assemblé* representatives ran into to trouble.

The same was true in subsequent ministerial and working group deliberations. In so far as specifics were discussed, in fact, there was apparent convergence on the idea that the tariff reductions at the center of the Beyen Plan would have to be accompanied by other common policies through harmonization. Thus, the German delegations argued that the customs union necessitated that "monetary and financial harmonization...be treated on an equal footing with the elimination of trade barriers" (Griffiths and Milward 1985, p.23). In these arguments, the Germans were consistently joined by the Belgian delegation, and to some extent also by the Italian delegation.[52] The French, for their part, were happy to discuss the details of such harmonization, but only as a delaying tactic while they awaited final fiddling with the EPC constitutional provisions and, hopefully, EDC approval. Of course, such generally worded sentiments on harmonization, without any real detailed commitments in sight, masked the real controversy that lay just beneath the surface of the agreement.

When the negotiations seemed headed toward these demands for common policies in other areas, Beyen and others in the delegation (e.g.J.Linthorst Homan, the chief negotiator) were interested in making concessions in that direction to get the details of the liberalization onto paper. Such a willingness was foreshadowed by recommendations of the Dutch Commission report that Beyen had called for in his initial cabinet statements of the Plan. That report supported the thrust of Beyen's designs, but declared that "the opening of frontiers is almost impossible as long as a certain measure of coordination has not been achieved in the areas of general economic, financial, monetary and social policy" (Griffiths and Milward 1985, p.13).[53] Since the ministerial and study group discussions were suggesting the necessity of the same kind of harmonization, Beyen and his negotiators became increasingly convinced that the existing safeguards in the Plan and Treaty, and the elements of liberalization would require something more.

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[52] The latter "pleaded for economic policy coordination as the only way to cope with a programme of automatic tariff reductions," arguing that the new European EPC should have powers by itself to make laws on policy coordination (Milward 1992, p.190; see fnote 91).

[53] This case for harmonization, not surprisingly, focused as much on removing barriers to trade as on ensuring that liberalization was not too costly for the victims.

In their attempts to adjust the Dutch position, however, the negotiators came up against strong and rigid opposition in the Dutch cabinet, principally from Prime Minister Drees, that any movement in position would suggest that broad harmonization and liberalization principles were enough, that automaticity would not be necessary from the Dutch point of view. This, in turn, would allow the other delegations to accept only symbolic commitments. And to Drees, this was unfathomable: "Even if the French only want a head-dress for the ECSC and the EDC, the Netherlands should still say no, in view of the fact that we should not be prepared to surrender part of our sovereignty for the creation of an empty husk." (in Griffiths and Milward 1985, p.28).

Before any details on harmonization or any other part of the Beyen proposal went much further, however, the French Assembly rejected the EDC Treaty on August 31st, 1954.[54] Just as the Germans and French delegations had most feared, the debate in the Assembly included plenty of talk of the problems associated with negotiating and accepting common market integration that the Beyen plan had explicitly placed on the EPC agenda (NYT Nov.19, 1956, p.22-4?). And, interestingly, the government's own attempt to increase the ECSC Council of Minister's attention on the problems of equalization of conditions through upward-leveling harmonization may have somewhat back-fired. The French delegation, as we saw above, presented to the ECSC statistics showing how much higher its social costs were than its competitors as a way to encourage the High Authority and the Council of Ministers to accept greater competency and commitment to social harmonization (Haas 1958). Whether the arguments mattered or not, opponents of the EDC and EPC in the Assembly used these statistics and arguments against the integrationists, suggesting that the EPC and EDC were steps in the direction of dangerous customs union liberalization (Milward 1992, p.203). And with the Beyen plan firmly, if ambiguously, on the EPC plate, such scare tactics were more believable.[55]

Whatever the origins of the EDC defeat, the consequences for customs union liberalization were clear. Since the EPC's main raison de'tre lay in providing a governing structure for that

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[54] Here was the vote break-down:

	Total	Yes	No	Abstain
Gaullists	121	16	83	–
Independents&Peasants	91	45	22	–
Radicals (RGR, UDSR&RDA)	91	41	44	3
MRP	85	80	2	4
SFIO	107	50	53	1
Communists and Progressives	103	–	99	–
Others*	48	32	16	1
TOTAL 646	264	319	12	

* Others include members without party affiliation and Overseas Independents.
Source: Haas 1958, pp.156-7.

[55] The liberalization subject was not, however, at the center of the discussions, but rather a side-bar to the main issue of sovereignty. And in so far as it was, there was no further discussion of liberalization side payments other than those about the facts of different social levels and of French frustration in getting the Authority or Ministers to take up such harmonization.

Community, all the work on the constitutional provisions sank with EDC. And for the time being, so did the Beyen Plan trade liberalization.

2.4. The Negotiations, Part Two: From Apparent Doom to Messina

The French parliament's rejection of the EDC may have immediately taken the wind out of Beyen's sails, but ironically the rejection was also his Plan's savior -- and a key factor ensuring that its liberalization evolved towards more generous *compensated* liberalization. The rejection of the EDC wiped the slate of European integration clean, leaving the Beyen plan liberalization as one of the only and most developed subjects of discussion that could be a vehicle for reviving the integration project. The rejection also highlighted the precarious position of the integration and liberalization in domestic polities, especially France's, and underscored the importance of crafting integration or liberalization packages that could pass ratification muster. With these twin developments, side payment politics moved to the center of the struggle over liberalization and over the whole European integration project.

In the immediate aftermath of the French Parliament's rejection of EDC, the liberalization project lay dormant. For all groups interested in integration and liberalization, the lesson of the rejection was that no significant integration initiative -- whether or not the common market proposals were a part of that initiative -- had to wait until more congenial political winds were blowing through the French parliament and government. The Mendés-France coalition government with its Gaullist RPF buttress still predominated, and although there was a real sense that the coalition couldn't hold too much longer, it was still very much in control. Beyen, evidently, decided that his own liberalization initiative would have to wait at least until the Prime Minster responsible for letting the EDC go down was out of office (Milward 1992, p.193). The Germans and others, however, were more hesitant still. Everyone chose to wait it out.

The integration project moved forward almost immediately, however, through policy initiatives some distance from customs union liberalization. Most of the action took place in Jean Monnet's corner. Immediately after the Parliament's action, Monnet resigned his Presidency of the ECSC High Authority in protest and in an attempt to drum-up support and sympathy for the cause of "Europe." When he wasn't re-nominated for a second term, he carried on his crusade from outside supra-national or national government, with the founding of his Action League, and extensive collaboration with fellow integrationists like Paul-Henri Spaak (Yondorf 1965, pp.885-90). Before this founding, Monnet had already decided on common regulation of peaceful nuclear and other forms of electricity production as the most promising vehicle for restarting the integration project -- what was to become called the Euratom project. Spaak, for his part, placed his bets on the transportation sector. Both "vehicles" for integration carried forward the ECSC sector-based

planning approach to developing "Little Europe" -- more so, in fact, than ECSC. Within a year, the collaboration between Monnet and Spaak had matured to the point that they were ready to peddle their wares. Like Beyen, however, they were waiting for the French political climate to improve (Haas 1958, p.260-70).

Some improvement came with the fall of the Mendés-France government in February 1955. The new Prime Minister, Edgar Faure, also a "radical socialist," was generally skeptical of the integration project, and was just as tied down by the Gaullists as his predecessor. But he was new blood, was modestly more interested in the common market and integration projects than Mendés-France, and had signaled desire to keep the projects alive through his foreign minister Antoine Pinay. This gave Beyen, Monnet and others some incentive to move on their respective liberalization and integration initiatives. For Spaak and Monnet it meant sending off to the ECSC foreign ministers their proposals to act on either the Euratom or common transportation projects.

For Beyen, it meant moving immediately on a new, more flexible version of his customs union plan, and approaching the Dutch cabinet for permission to promote it internationally (Milward 1992, p.193; Zurcher 1959, p.95?). The new Plan contained the same focus on general, explicitly scheduled, and binding tariff and other barrier reductions, to be enforced by an executive body like the High Authority. But the proposal explicitly took account of the treacherous political straights it would have to navigate in France, and not only re-inserted provisions for a Readjustment Fund, but also wrote-in a special transition period that would delay the adjustment that French government firms would have to endure in conformance with the Treaty (Ibid.). Although the Dutch cabinet included skeptics like Prime Minister Drees, whom thought the liberalization would not bear fruit and be worth the sweat, it gave its approval to the new Plan.

The next step for Beyen was to get the Belgian and Luxembourg ministers on board the new liberalization initiative, so that Holland could approach the rest of the ECSC six with a common Benelux front. The other ministers had to agree, however, to take on Beyen's proposal in the midst of alternative vehicles for integration and avenues for liberalization. Only a matter of days before Beyen made his pitch, the same ministers had received notice of the Monnet/Spaak initiatives, suggesting alternative integration vehicles. And between the fall of EDC and the Beyen pitch day, some within the Belgian foreign ministry -- importantly, not at Spaak's initiative or with his particular approval -- had devised an alternative liberalization avenue, a Europe-wide plan to lower tariffs and potentially other barriers, sans agriculture, through treaty agreement.

The Benelux ministers decided on a compromise that kept all the initiatives alive, but put the most momentum behind an even more politically conscious version of Beyen's common market proposal. They decided to support scaled-down versions of the Monnet/Spaak proposals, with more emphasis on joint research, regulation and coordination and less emphasis on joint-production and funding policy. On trade liberalization, the Ministers agreed that Beyen's customs

union for the ECSC Six was the right place to begin, and accepted that tariff reductions at a scale and on a time-line explicitly delineated in a treaty governing the first phase be the foundation of that beginning. But they also wanted the tariff-cutting automaticity to be the first step towards a common market, including a general plan for harmonizing a range of macro- and micro-economic policies (Milward 1992, p.195). And they also rubber-stamped Beyen's plan to keep and emphasize the European Fund adjustment assistance, and to be open to delayed application of the customs union to France. Thus, the Benelux position proposed Beyen's original customs union liberalization with an explicitly open door to negotiation on a completely new vehicle of integration, the Euratom, as well as to safeguards, delays, harmonization, and adjustment assistance.

After the Benelux Ministers sent the other ECSC foreign ministers a statement outlining their basic proposal to pursue both the revised-Monnet/Spaak initiatives AND the revised-Beyen liberalization, the Six agreed to consider the Benelux proposal at the forthcoming Messina foreign ministers conference in May 1955. The deliberations in this meeting centered on whether to pursue the Euratom and/or the customs union liberalization, and if the latter, what should the safeguards and parameters of the liberalization be. In turn, these discussions turned on questions of the politically possible as well as desirable.

The French representatives emphasized such questions, imploring the ministers at the meeting "that they must consider not what they *should* do, but what they *could* do without the French government having to face a debate in the Chamber" (Coulson 1955, p.4; quoted in Milward 1992, p.210). What the French delegation thought could be done, it turned out, was pursue the Euratom. This proposal was the least objectionable to the Gaullists, whereas trade liberalization still could be expected to run-up against more resistance -- from the majority of industrial and agricultural groups skeptical or afraid of customs union and from the Gaullists who would see the liberalization integration as the worse of two integration evils. Taking this position as well was Monnet, who to Spaak repeatedly "insisted that his own [Euratom] was the only viable political way forward, because given opinion inside the French government, there was no point in Beyen's challenging French protectionism" (Milward 1992, p.194).[56]

Other delegations, however, were more skeptical of the virtues and sure of the vices of the Euratom, and took the opposite view of France's, though recognized the political exigencies of doing so. The Benelux delegation, as their earlier meetings had revealed, were interested in only very modest versions of the Euratom. In taking this position they were joined by the German delegation, which saw the called-for regulation as potentially too intrusive, again too laced with the kind of Monnet planning they had successfully minimized in the ECSC discussions. The Euratom

[56] A number of French government officials, however, were also themselves supportive of ending its infatuation with protectionism, even though a number of industrial and agricultural groups were opposed. Such a tension not only focused attention on issue linkage, safeguards, and other tactics, but also the decision to consult with the industry and agriculture groups as little as possible (Milward 1992, p.208).

regulation of atomic energy was more appropriate than community regulation of transportation, but neither was in and of itself a winner. Trade liberalization, on the other hand, offered more obvious benefits. For the Germans, however, the main goal was to get integration going as quickly as possible to secure the many high politics political benefits any integration vehicle provided. And so for them, the main issue was which vehicle was likely to bear the most fruit and to simultaneously gain the approval of the other delegations and secure passage of the French Parliament. In this vein, the key decision at Messina came at a session on May 22nd when a show of hands at a meeting of ministers to gauge whether the Beyen or Euratom routes was most preferred suggested to the Germans that the Beyen plan would be the better vehicle for foreign policy goals than would be Euratom (Milward 1992, p.201). This quickly created a dynamic where the other delegations were willing to keep pursuing the Euratom initiative, but only alongside the Beyen trade liberalization (Kitzinger 1967, p.69-70).

As a result, the Messina meeting culminated in a decision to refer both the Euratom and the Beyen plan liberalization to an ad hoc committee under Spaak's leadership to study and take further action (Kitzinger 1967, p.69). In such a situation, the French had no choice but to vote along with the rest of the delegations, even though it dreaded the liberalization material. This Messina compromise set the agenda for the Spaak Committee and subsequent ministerial meetings on integration. Recent historiography disputes the view that the Messina conference was such an important event for the history of European integration, and takes the position that rather than "re-launching Europe," the meeting was simply a continuation of a long series of ministerial meetings on the cluster of issues involved in the integration project (Milward 1992, pp.195-6).

For the politics of side payments, however, Messina's principal development --that France and German agreed to the Benelux plan's parallel pursuit of Euratom and Beyen plan liberalization -- *was* major. It pushed into the center of the integration negotiations discussion of provisions that constituted liberalization side payments to the victims of trade liberalization. First, it put the French delegation into a position where their favored route to integration, favored because they believed it would be necessary to secure the French Assembly's ratification of any package of integration, required acceptance of the liberalization provisions. This, of course, is issue linkage. The flip side of the coin, moreover, is that as the other delegations made clear that they wanted to go forward with the Beyen plan liberalization, the French delegation was put in a position that they had to push the Euratom as a condition for their support of the liberalization -- and doing so was recognizing that the Euratom's inclusion into the overall integration package would be necessary to get the support of some groups in the French polity to accept such a package even though it called for substantial trade liberalization. This, in other words, is a large-scale *liberalization* side payment, as well as issue linkage.

Second and more directly of importance to compensated liberalization, the continued pursuit of trade liberalization as the main vehicle of ECSC-Six action heightened for all involved, not just the French delegation, the importance of packaging that liberalization so that it would be acceptable to the French ratifiers. This included, of course, the willingness to continue pursuing the Euratom. But it also thrust into the center of negotiations a variety of other safeguards, delays, exemptions, adjustment assistance and other provisions that represented liberalization side payments. Principal among these was harmonization through the upward-leveling of some common economic policies that affected the competitive position of French industries.

2.5. Negotiations, Part Three: From Messina to EEC Compensated Liberalization

Spaak Committee deliberations consolidated the compromises at which the Messina conference hinted, and brought negotiations to a head over liberalization side payments. During the study group negotiations, the Dutch delegation continued to press its demands that the first round of liberalization, whatever its length and even if it focused mainly on tariffs, be irreversible, scheduled, and written into the integration treaty. In very little time it became clear that the German and all other delegations, save France, supported this basic automaticity. Also soon into the negotiations it became clear that the various delegations were not going to accept any movement on the Euratom without significant common market action. The German delegation had some concerns about whether the external tariff would be appropriately low, and on whether there would be a parallel move to dollar convertibility for W.European currencies (Milward 1992, p.201). But most of the negotiations involved moving towards clearer and more irreversible customs union liberalization as the heart of any integration effort.

To these trends in the Spaak deliberations, the French delegation reacted in two ways. The first was to essentially delay for time, and discourage any clear movement on the liberalization front, in the hopes that the results would become ambiguous and less politically fractious. This, some historians and participants have noted, was the essence of "the French view," where the French delegation would say that "while the common market was quite possibly desirable in the long run, it was essential that it should not give rise to any ideological conflict....," and that this underscored "the importance of going slow on this front, and contenting themselves with long and patient studies concerning wages, social benefits, protection of industries, etc." (Pineau quoted in Milward 1992, p.211).

As the other Spaak delegations moved closer and more insistently to clear and specific tariff reductions written into the treaty and to seeing such reductions as the price of any other integration action, the simple delay tactic had to give way to another French reaction. Spear-headed by the delegation's leader Olivier Wormser, the French delegation stated that they would only commit to

go through the first stage of the proposed tariff cuts, with the right to withdraw if it was not working and if there was not adequate harmonization on social costs to level disparities in wages, social benefits, manufacturing costs and other conditions. This kind of exemption and harmonization was completely unacceptable to some of the delegations, especially the German, all of whom saw it as a rejection of the basic idea of automaticity at the center of Beyen's plan, and some of whom (the Germans and the Dutch) thought that disparities in wages and other social benefits and conditions would and should be eliminated through market exchange rather than government fiat.

When the Spaak committee delivered its report to the conference of foreign ministers in Venice in May 1956, these positions hardened. The report recommended action on both the Euratom and common market fronts, and in the latter it recommended scheduling for the first-round move to the market binding and irreversible tariff cuts, with the first round to take around four years (Zurcher 1958, p.135-7). At the Venice meeting, the other delegations went beyond the report in making it clear that such automatic moves to a common was a necessary condition for their negotiating also on Euratom.

The French position, solidifying and embellishing what Wormser had initially stated in Spaak deliberations, was equally firm, if not as simple. France would accept inter-governmental discussions on such a common market proposal, but insisted that (1) harmonization be achieved to level disparities in manufacturing costs *before* the end of the first four-year stage; (2) that it could keep its temporary export subsidies and import surcharges until prices, wages and manufacturing costs had been sufficiently harmonized; and (3) that it could reject any agreement that would not offer escape from further automatic stages of tariff reduction after the initial four-year stage (Ibid., p.211). Of these positions, the most important was the first. "It was only on the basis of this understanding [that harmonization be central to the first stage of reductions] that France entered into the inter-governmental negotiations on the Spaak report" (Milward 1992, p.211). With shades of the old "French View," the delegation went so far as to say the first stage of tariff cuts ought to be defined in terms of cutting and harmonization objectives rather than a period of time.

At the Venice meeting, the other delegations accepted that the customs union would need to pursue some harmonization during the first phase of tariff cutting, with some countries happy to do so -- though for completely different reasons (e.g. seeing macroeconomic harmonization as precondition and substance of liberalization, rather than as off-setting costs of tariff cutting). They also accepted the idea that temporary export subsidies and import surcharges be maintained pending such harmonization, but insisted that the treaty have written provisions with a "schedule and method" of harmonization and of reducing the subsidies and surcharges. The French saw this as too confining, particularly threatening to the French franc.

This Venice meeting set the basic agenda for the rest of the negotiations: what exemption and harmonization safeguards would France have to be granted in order for it to accept the tariff cutting regimen. Whether and how far the ECSC-Six would move towards tariff and non-tariff barrier liberalization rested on exemptions, transition delays, and harmonization. In the theory of compensated liberalization most of these represented exemption or revision demands, but the harmonization proposals represented demands for liberalization side payments, because they were clearly designed not as the substance of liberalization and not as an integration end unto itself -- though these motivations were present to some extent -- but mainly to compensate or off-set the costs of the proposed *tariff-cutting*. As Milward 1992 observes:

> Had something weaker been possible [weaker than the multi-round tariff cuts being considered by the Spaak committee], or had it been possible for France to commit itself only to the first four-year stage and then, if it wished, withdraw, the fears that the tax, social security and wage burden on French manufacturing costs would remain much higher than in Germany would not have had to be translated into demands for prior harmonization and these into the beginnings of a European Community social policy. (p.210)

In short, the automaticity of the proposed tariff-cutting, the Euratom-customs union linkage, and the tangle of France's domestic politics conspired to hold the future of the EEC and Euratom hostage to the provision or promise of side payments.

By January 1956 the outcome of the French elections pushed the negotiations more solidly in this corner. The election saw major losses for the Gaullist RPF (from 121 to 22 seats in the Assembly) and modest losses for the socialist SFIO (107 to 95) and the MRP (85 to 73 seats). It also saw major gains for the communists (103 to 150) and the Poujade protest movement (52 elected), and modest gains for the Independents and peasant satellites (91 to 95 seats) (Haas 1958, p.157). The governing coalition to emerge from this shift was a coalition of the MRP and the Socialists. Although these changes made some observers worried that the integration and liberalization project was lost -- in part because the Poujade movement was even more hostile to the project than the Gaullist RPF and in part because the SFIO had wavered and split on integration -- it actually boded well. The SFIO leader Mollet was the new Prime Minister, and he had become supportive of the common market in its integration guise, and the MRP were even more so, and the integration project have been "one plank of a possible agreement" within the governing coalition (Milward 1992, p.210; Haas 1958, p.273).

More important for side payment politics, the emergence of the Left and of the SFIO in particular into the position of government meant greater dependence of socialist votes, and this in turn "increased the strength of the demands for harmonization, for a treaty which would solidify French welfare gains, rather than endanger them in a direct manufacturing competition with Germany" (Milward 1992, pp.210-11). Mollet himself pushed this theme, as in his speech to the National Assembly: "The government is resolved to set up a [General Common Market in Europe]

in a way that will ensure necessary transitions and adaptations and prevent competition from being corrupted by disparities in the various taxation and social security systems," and such measures "have to be taken to protect the worker from all the risks which might result from the elimination of frontiers" (Mollet, quoted in Haas 1958, p.274).

For the next six months after the Venice meeting in May 1956, then, the liberalization negotiations focused on a variety of disputes, including how to deal with France's African franc zone trading partners and the relative power of the supranational institutions governing the customs union, but harmonization was central. Apparently, the French government under Mollet had decided that the customs union liberalization treaty should be signed and sent to Parliament, but that "reasonable show of public concession by the others on the issue of harmonization" would be necessary to win ratification (Milward 1992, p.212; see also Urwin 1995, p.77-85?).

As for specifics, France's particular demands for the harmonization of wages and social costs focused on leveling, mostly upwardly-leveling, three costs: the work week; equal pay for the sexes; and holiday pay. The first stemmed from the observation that, for a variety of reasons, the French working week was only forty hours, compared to forty-eight in Belgium and Germany (Milward 1992, p.212). The harmonization demand was that "the working week in manufacturing in the common market should be standardized, at least as far as the basis of calculating pay was concerned, and that overtime payment rates should also be standardized" (Ibid.).[57] The second demand stemmed from France's claim that they had equal pay for men and women, whereas their European trading partners showed women's pay averaging only 60-65 percent of men's. Thus, the harmonization demand was that all countries should, like France, regulate if not successfully establish, equal pay for men and women. And the third demand stemmed from France's claim that its employers paid higher paid holiday benefits to their employees, and so the harmonization demand was that other ECSC countries pay the same amount as France.

A number of delegations had problems with these various demands, but the German delegation was the most consistently and strongly opposed, and the minister of economic Erhard was positively volatile in his opposition. The particular harmonization demands would not have required much adjustment for the Germans. For instance, differences in overtime and holiday pay in France and Germany did not amount to significant cost increases for German employers in the context of overall manufacturing costs. And Milward 1992 points out that the employers might expect domestic pressures to push for such increases in any event (p.213). But any demanded upward leveling would, ironically, threaten the hallowed principle of free collective bargaining, and be opposed even by the unions. More than this, however, Erhard and others feared wage

[57] According to Milward 1992, this demand grew out of specific grievances about cost disparities that the French auto industry expressed to an inter-ministerial commission reviewing trade policy for the OEEC arena. If this is true, than this stand of the harmonization demands has a particular industry interest-group source, rather than a general negotiating platform devised by the trade delegation.

increases in Germany, and were opposed to the kind of upward leveling harmonization France proposed on a variety of general ideological grounds, such as the anti-inflationary, anti-dirigiste bias discussed above.

The most intense struggle over the French demands took place on October 21-22, 1956, two days set aside for the ministers to reach agreement on harmonization. Before the meetings, the French had moderated their proposal. Rather than demanding that all the specific harmonization demands be met in the first four-year tariff cutting period, they demanded that the other countries agree to legislate for equal pay for the sexes within a couple years of the treaty's signature, and that they devise "a method of harmonizing working hours and overtime payments, as well as holidays with pay, by the end of the first stage of tariff removal," which was to last four years altogether (Milward 1992, p.213). Only if the other countries successfully harmonized these elements would France have to advance to the second stage of automatic liberalization. And in the second and subsequent stages, in any event, member states should equalize wages before final achievement of the tariff-free customs union. Devising a method in the first stage for some equalization, of course, did not mean actually achieving harmonization, and therein lay the generosity in the new French proposal. They saw it as steering clear of the toes of German collective bargaining rights.

This compromise proposal, however, did not make the October sessions resolve the issues as hoped. Two of France's three demands were resolved simply. All the delegations agreed to promise to legislate equal pay for the sexes, and a study presented to the delegations revealed that arrangements for paid holidays over an entire working year were roughly equal in the different countries (Ibid, p.214). The demand that overtime payment be standardized on the basis of France's forty-hour work week was the only remaining hurdle. The French emphasized that they would have the right to refuse moving to the second round of tariff cutting if the such standardization was not agreed upon by the end of the first round. This demand violated the principle of irreversibility that Beyen and others held dear, but Erhard was the main opponent. Although he had been refused permission by the delegations to attend the harmonization sessions, he attended, vehemently opposed the French harmonization demands, and when negotiations seemed to stall, portrayed the talks as deadlocked to the press (Ibid). With this counter-productive antic, the meetings ended with the harmonization issue unresolved, and the liberalization package on hold.

That hold was lifted when the Prime Minister Mollet and Chancellor Adenauer stepped in. Amidst a swirl of world events like the Soviet invasion of Hungary and the Suez crisis that highlighted the importance of the integration project, they met on November 6, 1956, intent on resolving what they saw as trivialities standing in the way of a politically grand agreement. Although the conciliation was mutual, when it came to the harmonization side payment provisions France got almost everything it wanted, and Adenauer reversed Erhard's recalcitrance. In

subsequent inter-governmental meetings, moreover, remaining issues other than harmonization were also resolved quickly, and usually in France's favor, including the degree of supra-national powers created to oversee the liberalization and the treatment of the African franc zone countries (Zurcher 1958, p.135-8). The exclusion of agriculture from the Treaty provisions, and the commitment to deal with it later was a more mixed bag for France. In the end, France's general political strength and importance among the ECSC negotiating countries, and its domestic-political vulnerability, extracted substantial exemptions, revisions, and side payments from the other countries that were generally more accepting of the EEC liberalization.

2.5.1. The EEC Agreement: Compensated Liberalization Through European Social Fund and Wage Policy Harmonization

When Germany agreed to the French position, the other delegations quickly fell-in with the Franco-German line, even though the Dutch and others were unhappy at the special treatment France was being accorded in order to win quick agreement. Within three months, the deals were done, and in March 1957, the countries signed the Treaties of Rome establishing the Euratom Community (the First Treaty) and the European Economic Community (the Second Treaty).

The core of the EEC was an ambitious liberalization regimen following Beyen's basic focus on irreversibility and automaticity (Zurcher 1958, p.136). The tariffs were to be reduced in stages to establish the customs union, and at each stage tariff reductions would be automatically applied according to the schedule laid down in the Treaty. The first stage was to last either four or five years, the exact length being left unclear to accommodate the French. But this first stage would require all member countries to reduce tariffs by 10 percent, plus a special provision to reduce all those tariff posts over 25 percent. After the first stage, the second stage would involve reductions of an additional 30 percent within a second four-year period, followed by annual reductions of 10 percent for all subsequent years. The method for calculating these reductions was to average the tariffs on groups of commodities, weighted by the value of imports of other member states. The formula had the effect of forcing the first and deepest cuts on the highest tariffs (Hine 1985, p.4).

The common external tariff was to established by averaging the tariffs member countries currently imposed on "third-party" countries, with the national tariffs calculated to be the lower of most recent duty before treaty ratification or the mean of the previous three years. If the mean departed from a particular member country's national tariff by more than 15 percent, the reductions by those countries could be less, according to a set number for particular sectors -- raw materials having the lowest duty floor (10-15 percent), and finished products the highest (35-40 percent).

Quotas were also targeted for reduction in the treaty, though without the same clarity and detail. After the first 10 percent tariff cut, member countries were not to create new quotas on intra-EEC trade, existing quotas were to be applied according to a most-favored nation principle

within the EEC by 1959. The remaining quotas were also to be increased uniformly cut, though at a rate and scale left unstated and to be discussed in the Council of Ministers and EEC Commission. The depth, automaticity, and irreversibility of these tariff and quota cuts were well beyond anything the member countries had been able to achieve in other trade policymaking arenas. So it is fair to say that the liberalization commitments were very substantial.

The EEC Treaty and informal arrangements, however, also called for substantial safeguards and side payments, more for France than the other signatories. The major safeguards lay in the decision-making terms of the supra-national institutions created to oversee the various stages of tariff and other barrier reductions. At France's insistence, the Council of Ministers had authority to set the terms and pace of moving beyond the first stage of tariff cutting -- by unanimity for the first four or five years, and then if more time had elapsed by qualified majority vote. France was also exempted from the automaticity of the Treaty's application to its temporary export subsidies and import taxes; it would be expected to eliminate its temporary import taxes and export subsidies, and would have to consult periodically with the other delegations in the Council of Ministers on progress toward this elimination, but it would not be held to a fixed time limits.

Most important for this study, France also won a liberalization side payment through its upward-leveling harmonization demands. France could delay its tariff reductions at the end of the first stage if there was not effective standardization of overtime regulations it could not "be shown that pay increases elsewhere had been faster than in France" (Milward 1992, p.215). This included accepting that overtime hours and rates should be similar to those in France in 1956. This was a side payment, rather than simple harmonization, because in the Treaty and in the bargaining France had tied the harmonization demands as compensating for the pain of the proposed tariff-cutting liberalization, a kind of liberalization different than that of harmonization leveling.

Finally, the Second Treaty of Rome also created a liberalization side payment for all its signatories in the establishment of the European Social Fund, but mainly at the behest of the Italian delegation, which was concerned that EEC liberalization would exacerbate the problems of its Mezzagiorno region.[58] This establishment was far and away less controversial than the harmonization side payment to France, and was in fact in the liberalization treaty from Beyen's first permutation of the Plan. According to Article 123 of the EEC Treaty, the ESF was designed "to improve employment opportunities for workers in the internal market and to contribute thereby to raising the standard of living" (Common Market Law Reports 1992, p.659). In particular, it sought "to facilitate their adaptation to industrial changes and to changes in production systems in particular through vocational training and retraining" (Ibid). The fund was, thus, directed only at

[58] Since Tsoukalis 1993 claims that the ESF and the European Investment Bank (EIB) were, together, offered to appease these Italian concerns, the EIB may also represent side payment compensation. There is no confirmation of this claim, however, in the more detailed histories of the negotiations.

workers, whereas its ECSC readaptation fund counterpart was also directed at trade-impacted firms. The Treaty also stipulated that the ESF was to be administered by the Commission, the successor to the High Authority, with the advice of a consultative committee of representatives of governments, trade unions and employers' organizations (Article 124, Ibid, p.660). Funding and implementation, however, were to be left to the Council of Ministers, subject to rules of qualified majority voting established in Article 189c (Ibid, p.660 and pp.696-7). The scale and details of the adjustment assistance, therefore, was not really known at the time of signing.

2.6. The Ratification: No National-level Side Payments, No Problems

The signing of the Second Treaty did not end the fight for the EEC, since only three years earlier the French Assembly had in one negative ratification vote, made all the months of negotiations and the ratification of the EDC in all other states moot. When the six delegation signed the two treaties, therefore, almost all of the member government, especially Germany's, insisted on awaiting the outcome of the French Assembly's ratification fight before moving to ratify themselves (Zurcher 1958, p.142).[59]

Such fears were, in the event, unfounded. The National Assembly's ratification came swiftly and easily in July 1957 by a vote of 341 to 235 (Council of Europe News, p.4).[60] The opponents consisted of around nineteen Mendés-France Radicals, the Communites, the Poujadists, and a number of Gaullist RPFers and Right wing Independents (NYT, July 10, 1957). Some of the debate focused on the grand politics of European integration, as captured by Maurince Faure's invocation: "Well, there are not four Great Powers, there are two; America and Russia. There will be a third by the end of the century: China. It depends on you whether there will be a fourth: Europe" (Camps 1964, p.88). But the concern that the Common Market would cause economic dislocation among those less able to compete in a tariff-free customs union was the major focus of the Parliament's discussions at all stages of the negotiating (ECSC Bulletin 1957, p.1).

Throughout the development of the Beyen Plan negotiations -- in their Messina, Spaak report, and post-Spaak permutations -- members of the French National Assembly kept close tabs on the state of progress and made a variety of demands for safeguards and side payments. Like the fight over the ECSC, moreover, they passed resolutions before and after the Treaty of Rome pressing these demands. On January 22, 1957, for instance, the Assembly adopted a non-binding

[59] For this reason, this section on ratification only discusses the French story. The other member countries ratified the Treaties without incident, most acting after the French. The German Bundestag acted on July 6th, only four days before the French Assembly, when passage by the latter seemed secured. The Bundesrat followed on July 19th. Here are the other passage dates: Italian Nenni on July 30th (311-144); Belgium's Senate on November 28th (134-2); Luxembourg's parliament (46-3); the Netherlands upper chamber on December 4th. See Zurcher 1958, p.145.

[60] On July 24th, the Council of the Republic also voted approval of the Treaties, 222-70. See Council of Europe News 1957, p.4.

resolution saying that the draft treaty of the EEC met "the essential interests of the French economy" and would be acceptable, provided that the government, before signature, got a variety of specific benefits that went beyond the existing draft. These included, among other things, harmonization of social security payments and "a national investment policy designed to strengthen and prepare France for participation in the common market" (quoted in Haas 1958, p.124). Such resolutions and other actions, although non-binding, were designed to influence the international deliberations by signaling Parliament's willingness to ratify existing Treaty provisions.

Unlike the ECSC ratification fight, however, the Assembly never attached any riders to its passage of the liberalization, not a single policy that either watered down or called for side payments on which French compliance with the international agreement was made conditional.

After passage of the Treaty of Rome, member countries continued the proliferating use of industrial subsidies and other kinds of state aid to industry, aid that might be construed as side payment compensation even though it didn't emerge from explicit struggle over the EEC implementation or other deepening of the EC liberalization. State aids did help the victims of the internal market liberalization, but the timing (before as well as after ECSC and EEC) and targeting of these subsidies (to "national champions" not vulnerable to competition as well as to "lame ducks"), the parallel growth of such subsidies in non-EEC countries, all suggest that their motivations were distinct from that liberalization. And since the Treaty of Rome (Articles 92 and 93) mandated all countries to apply for and receive Commission approval for state aid roughly above 100,000 ECU, much of this state aid which was not Commission-approved represents protectionist exemption rather than side payment compensation.[61]

This did not mean that the national-level parliamentary institutions were not involved in the side payment politics of the EEC liberalization, it simply meant that their activity was no longer focused on providing and demanding safeguards, revisions, exemptions, and side payments at the national level. Instead, their activity, whether the resolutions were binding or non-binding, was focused on influencing the international level of negotiations, and internationally-funded and administered policies and actions that could be the subjects of exchange, including side payment exchange. As Haas 1958 observed of the January 1957 non-binding resolution:

> While supporting the principle of EEC, the French politicians nevertheless managed to link with the agreement the special protective devices to which they remain attached: like the Independent Republicans, *they merely transferred them from the national to the European level.* (p.124, italics mine)

Haas made this statement as a small piece of evidence for his functionalist, spill-over perspective, one mechanism of which was the creation of new capacities at the international level that gave groups at both the domestic and international levels of policymaking incentives to further take

[61] Chapter Seven will discuss the evolution of such state aids and the reasons most do not represent side payment compensation.

advantage or and expand supranationalism. For this study, it should be seen as a small piece of evidence of how the existence of a supranational European institution capable of funding adjustment assistance and providing other kinds of policy goods will tend to obviate the need, and discourage domestic and international actors from agitating for side payments and other safeguards at the national level. In other words, this is dynamic illustration of the "displacement effect" that can account for some of the broad differences between the US and European patterns side payment provision at the international-level and stage of liberalization vs. the national level and stage.

2.7. Implementing the ESF and Harmonization Side Payments

Before turning to explanation, a brief word on implementation of the EEC's two main liberalization side payments is in order.[62] The Social Fund was operational as of roughly 1962, and enjoyed some notable successes in the 1960s (Petaccio 1971, p.250). It ended up being set up along the lines of the ECSC re-adaptation fund, in its focus on financing job retraining and resettlement projects, and in following the principle of additionality. Thus, the ESF mainly acted "as a clearing house" through which reimbursements were channeled by member governments to public bodies which sponsored manpower retraining and resettlement projects (Ibid, p.251). And the ESF monies covered 50 percent of the project costs and financing that national entities incurred in their implementation.

Between 1960 and 1968, nearly one million people (959,258) received benefits from such Social Fund activities. Of the total requested monies, 95 percent were approved by the Commission, totaling more than $80 million in 1968 dollars (CEC 1969; cited in Petaccio 1971, p.254). This means that more than $160 million were spent on retraining and resettlement programs, co-funded and implemented at the national level. The largest applicant and recipient country was Italy, receiving more than $27 million ESF funds to assist 543,347 workers in the period. The next largest was Germany, with $22 million to assist 287,404 workers. France was a close third in funding, $21 million, but a distant third in workers assisted, 109,090 (Ibid).

As early as 1965, however, the program was criticized for a several inadequacies, such as problems in reimbursement procedures, sluggish distribution of payments, and poor coordination between different manpower projects (Ibid., p.252ff.). These criticisms motivated the Commission to propose and the Council of Ministers to enact a general reform in the ESF, among other things de-emphasizing isolated projects in favor of more community-oriented programs.

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[62] Unlike the ECSC Readaptation Fund, the ESF has a history at the center of subsequent EU side payment politics. Thus, it isn't necessary to provide an overview of its long-term implementation, through to the present, as was appropriate for the ECSC Fund. Chapters Nine and Ten provide some of that later history.

The harmonization mandates to benefit French producers, on the other hand, proved to be less significant in actual policy outcomes -- though as we shall see in subsequent chapters, very significant in future bargaining. The same French auto and other manufacturing industry groups that had pushed successive French governments to push for upward-leveling harmonization to compensate for tariff cuts did little subsequently to monitor and continue the harmonization. As Milward 1992 points out, the Mollet-Adenauer agreement on how to deal with the harmonization as compensation provided that French firms could petition for certain safeguards to be provided by France or the High Authority if German overtime hours and rates were not "equalizing." But these firms submitted no such petitions, opting instead to collaborate more closely, perhaps because of EU incentives, with their fellow German and French producers, to regulate production and sales (Milward 1992, p.216). In any event, the years following EEC's creation were major expansion years for German industry, with union bargaining and political pressure leading to a substantial sharing of the wealth in the form of increased wages and welfare benefits. How much this was inspired by the EEC imperative to harmonize to appease France needs to be answered elsewhere. Here the history suggests that the harmonization side payments may have played a role, though given the changed focus of French industry groups the payments probably mattered less than independent developments in German industrial relations.

3. Explaining ECSC and EEC Supra-national Compensated Liberalization

The first decade of European internal-market liberalization under the mantle of European integration represented consistent and supra-national compensated liberalization. In both the ECSC and EEC episodes, compensation emerged from the bargaining at the inter-governmental level, with assistance to be overseen by supra-national institutions, whereas bargaining during domestic phases of the episodes yielded little or no such compensation. Within this similarity between the cases, however, were important differences between the ECSC and EEC, especially in the substance of the compensation provided. The case histories of these chapters, thus, raise two explanatory questions. How can we explain the contrast between supra-national compensation and the virtual absence of domestic compensation shared by both cases? And how can we explain their differences? We can answer both these questions by explaining the pattern of compensated liberalization of each episode in turn.

3.1. Explaining ECSC Supranational Side Payments

The struggle over the ECSC revolved mainly around the unprecedented delegation of sovereign competencies to the High Authority and other European-level institutions, trade

liberalization at the center of the customs union also loomed large. To contend with the economic and political dislocation such liberalization might cause, the bargaining over the ECSC liberalization focused initially and unsuccessfully on some broader labor market harmonization, under the mantle of "equalization of conditions." But ultimately it elicited a variety of less ambitious safeguards and side payments, embodied in the Transitionary Provisions.

A variety of other conditions played a role in facilitating political support and sustainability of the customs union liberalization, such as the strong and sustained post-war economic boom that sustained demand for coal and, especially, steel, not to mention the exigencies of the Cold War. But the details of the bargaining history suggest that the Transition Provisions mattered. As Diebold 1959 points out, "if there had been no safeguards against dislocation, the Treaty would have been less acceptable in the first place and would have generated more opposition as its effects were felt" (p.195). And for Belgium, in particular, they were crucial -- "at the center of Beglium's acceptance" (Ibid., p.67-8).

In the short term, the transitionary subsidization schemes that constituted compensatory exemption were by far the largest and most important of the Transition Provisions. The subsidization compensation was massive compared to the Readaptation Fund in the first several years, with the latter not doing anything or spending a penny until the late 1950s. And during the negotiations and most of the transition period, Belgian negotiators and interest groups, as well as other vulnerable groups in France and Italy, focused more on subsidy compensation than on the Readaptation Provisions. But whereas the subsidization schemes faded soon after the Transition Period, the Readaptation Fund blossomed from a marginal and shaky program of co-funding assistance, to a major and stable initiative that played an important role in compensating for and politically facilitating the gradual removal of the subsidization. And it continues to play an important role in facilitating adjustment in declining sectors like steel and coal, in the European Union regions most vulnerable to creative destruction, helping to fund and administer a wide array of provisions for dislocated workers and firms, including retraining and relocation.

Meanwhile, the ECSC case revealed that despite substantial domestic political ferment, and some domestic-parliamentary activity during the international negotiations, there were virtually no side payment promises made or provided at the national level of stage of liberalization. And in the ratification phase of the domestic-parliamentary activity, only the French Assembly made promises that represented anything akin to exemption or side payments -- in the form of the Moselle Canal commitment to manufacturing groups and their legislative champions. All of the other six member countries negotiated and ratified the ECSC with plenty of domestic activity, but most of that was

activity directed at the international-level proceedings and not a single payment or exemption provided at the domestic level.[63]

What explains this contrast within the ECSC? The case history points to the role played by the initial planners of the ECSC, Schuman and, especially, Monnet, who devised a customs union proposal that from its earliest iterations included plans for safeguards and transitional delays -- including readaptation programs at the supra-national level. Such adjustment assistance reflected some combination of Monnet's general dirigisme and anticipation of the political problems that economic dislocation can pose to the customs union and integration projects.

But the history of the case's bargaining phases points to the role played by powerful and insistent domestic-groups in Belgium and Italy, and to some extent in France, fearing the dislocation of the customs union liberalization. These groups were strong enough and vocal enough that their demands were felt by national-level legislators and executive-branch leaders who directed their delegations to safeguard against the perceived threats. These demands, in turn, ensured that the adjustment assistance provisions that may have been Monnet's flight of fancy, became a serious and substantial part of the High Authority's competencies.

The platforms of various national interest groups, and more clearly those of their national delegation representatives in the inter-governmental negotiations, were consistently and explicitly focused on issues separate from the liberalization within the ECSC. For instance, Belgian industrialists, labor, and government officials pressured their delegation to seek a variety of harmonized labor market and welfare standards, including subsidization of such standards to level the playing field, to off-set the costs of the liberalization. With the exception of the Moselle canal demands in France, however, the active groups involved in the domestic phases of negotiations approached bargaining with substantially narrower platforms than did the national delegations during the international phases of the negotiations.

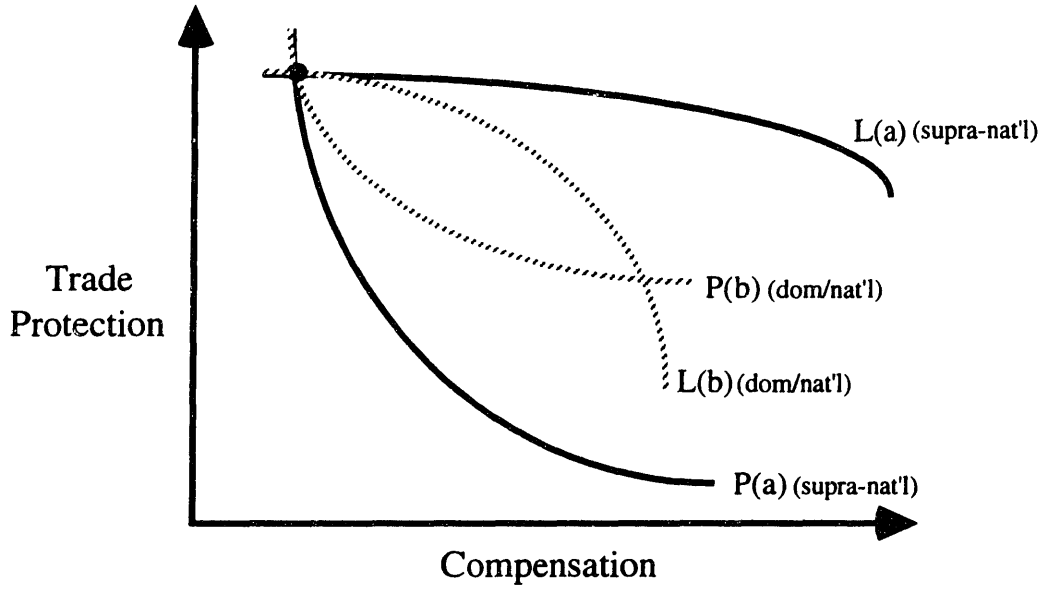
These contrasting power-platform conditions, however, were grounded in the institutional setting within which bargaining took place.[64] Since the ECSC was explicitly and contentiously intended as the first step in broad economic and political integration, the groups came to the bargaining table with the hope and expectation that a variety of issues would be part of the coordinated activity -- along side, and indeed part of, the trade liberalization. The inter-governmental discussions over ECSC, in short, involved broad jurisdictional breadth of the negotiating arena, and this breadth in turn encouraged the national delegations and national interest groups to approach supra-national phases of the episode with broader platforms. And whatever

[63] Chapter Seven, again, discusses the proliferation of various state aids to industry that grew in the early post-war period and grew and proliferated into the 1980s. See also discussion below on founding of the EEC.

[64] The explanatory role of institutional conditions in this ECSC case preview the importance of institutional conditions in fostering the broad pattern of side payment politics in the EC vs. US. See Chapter Seven, in particular the discussion at the end of that chapter (Section 4), for further and more detailed discussion of what explains the differences between the US and EC patterns of compensated liberalization.

the stated platforms, the breadth fostered greater willingness to link protection with side deals. This strongly encouraged side payment compensation during the inter-governmental deliberations, with a focus on supra-national compensation.[65]

Figure 6.1
Liberalizer-biased and Protectionist-biased Delegations
During Supra-national Phases of ECSC Episode Compared to
Liberalizer and Protectionist Coalitions in Domestic/National Phases



At the same time, the ECSC High Authority obviously did not have significant preexistent welfare provision, in contrast to the national-level political economies. This made the provision of special welfare assistance at the supra-national level acceptable as well as relatively easy, whereas at the national level the preexistent welfare states may have obviated the demand for special assistance for the particular liberalization, and certainly implied that special assistance would clash with the political necessity and normative goal of solidarism and equal treatment in the domestic welfare state. The early resistance in Italy to use re-adaptation funding at all, out of concern that it would inspire rumblings from non-coal and steel groups, shows the latter dynamic in action. And it arose when the supra-national funding covered only half, not all of the costs of the relocation and readjustment program Italy sought to implement.

[65] The inter-governmental bargaining arena had other institutional characteristics that encouraged supra-national side payments. That the ECSC was the beginning of a larger project also had the effect of lengthening the shadow of the future and making the provision of the various safeguard provisions important to provide and implement in order to retain continued political support for the broader economic and political integration. And the bargainers sought also to set-up supranational policymaking capacities that made it easier for liberalizers in one country to buy-off opposition in another. In addition to these advantages of the integration project, the negotiating arrangements in Paris limited the number of actors who were engaged in the bargaining, allowing a clear and politically less-compromised, exchange of information and ideas about potential issue linkages.

Thus, the institutional characteristics of the national and supra-national settings encouraged supra-national side payment compensation during the inter-governmental negotiations and discouraged national compensation during domestic negotiations. This contrast in the national and supra-national bargaining dynamics that underlay the ECSC liberalization can be roughly captured in Edgeworth terms in Figure 6.1 above. The broad jurisdiction of the nascent integration project, combined with the paucity of welfare at the supra-national setting, gave marginal countries significant political influence in the inter-governmental deliberations and encouraged all the negotiating delegations -- whether sympathetic with the liberalizer or protectionist camp -- to approach the negotiations willing to trade-off liberalization and other benefits. This is reflected in the relatively steep P(a) and relatively flat L(a) curves for the national delegations and groups arrayed in the respective camps -- Belgian, French, and Italian delegations largely on the protectionist side of the aisle, and the German and Benelux delegations largely on the liberalizer side; and with sub-national groups broadly aligning themselves with either the protectionist or liberalizer position, sometimes in contrast to the broad position taken by their national delegation.

The relatively broad jurisdiction but generous welfare provision characterizing the domestic setting, however, combined with the displacement effect of providing supra-national compensation underlie the tendency of the domestic-bargain partisans to approach with relatively narrower platforms -- disinterested in welfare side payments and more focused on getting supplementary assistance at the supra-national level.[66] This can be captured by the relatively flat P(b) and relatively steep-sloped L(b) -- and the resulting narrow zone of possible agreement that would entail side payment compensation.

3.2. Explaining EEC Supranational Side Payments

In contrast to the ECSC Treaty of Paris, the founding of the EEC in the Second Treaty of Rome was from the beginning most prominently a trade liberalization initiative, though it was also explicitly and importantly seen as a vehicle for broader integration. And also in contrast to the ECSC experience, the trade liberalization at the center of the EEC caused less concern about supra-national oversight than it did about how the tariff reductions would lead to excessive and politically unacceptable dislocation for workers and firms unable to compete in the low-tariff customs union. A number of country delegations, pushed or backed by industrial and other interest groups in their domestic polities, sought to negotiate a variety of exemptions, delays, revisions, and other safeguards to limit or off-set the political and economic risks the Beyen plan tariff-cutting implied.

[66] For a given country, the status-quo ante is the same, so the two different bargaining environments share the same starting point.

France was by far the most vocal and dominant among these, but Italy and Belgium, and even Germany expressed the importance of safeguarding against excessive cost.

Most importantly, unlike the ECSC, the central political compromises resolving the conflicts over EEC liberalization involved providing side payments. Granting exemptions from the reach of the Beyen plan was important at various stages in the negotiations, such as the early and almost consensual decision to exclude agriculture from the reach of the foreseeable tariff-cutting phases. Revision of that plan at various stages was also important to the negotiated outcome, as with the late and controversial decisions -- to appease France -- to make the move to the second stage of tariff-cutting subject to unanimous decision in the Council of Ministers and to grant customs union inclusion and assistance to France's African franc-zone trading partners. But central to the resolution of the conflict between the groups most gung-ho about the liberalization -- Germany and the Benelux countries -- and those fearing its costs -- especially France, but also Italy -- was the provision of grand issue linkage, supranational adjustment assistance, and harmonization all of which constituted liberalization side payments.

The grand issue linkage was that between the Euratom and the EEC, with Germany and Benelux demanding the EEC before accepting Euratom and with France negotiating on the EEC to get the Euratom. Both issues were on the agenda, and it was clear that France would not negotiate on the EEC, and might not have its Parliament pass any integration legislation, if the Euratom were not part of the package -- even though the Euratom offered few benefits to those concerned about the economic costs of liberalization. The existence of such grand issue linkage involving the major powers, France and Germany, as well as the minor ones, conflicts with the expectation of some EU scholars (e.g. Moravcsik 1993) who hypothesize that issue linkages across such conceptual distance will tend to involve more marginal issues and more marginal states.

The founding of the European Social Fund was more relevant to the groups fearing dislocation due to EEC trade liberalization (and more consistent with convention expectations among EU scholars). It was an idea similar to the readaptation funds provided as part of the ECSC, even though the ESF was to provide retraining and relocation benefits for workers, and no benefits for firms. Like the ECSC Re-adaptation program, however, the ESF was consistently kept in the package at the behest a country concerned about the effects of trade liberalization, in this case Italy worried about its Mezzagiorno. The programmatic similarity became crisper as the ESF was implemented according to similar principles of additionality and explicitly borrowed from the ECSC fund experience in its implementation. As important as the ESF may have been in providing benefits in the immediate aftermath of the EEC and well into the future, it was not a central part of the core compromise between France and Germany that made the final Treaty possible.

That distinction went to the wage and social benefits harmonization that the French managed to wrest from the German delegation, ultimately requiring the intervention of respective

countries' heads of state. The harmonization entailed promises by member countries to upwardly level wage laws and standards to French levels -- to establish equal pay laws, to increase overtime and holiday pay, to compensate for disparities in working hours. Such harmonization represents a side payment because it was offered not as the substance of liberalization, and not as a general commitment to integration and common standards, but first and foremost as compensation for the tariff-cutting French industry had to grudgingly endure. As a liberalization side payment, the provision of such harmonization stands in contrast to the inability of the Belgian government and delegation, with support of the French delegation, to extract parallel upward-leveling harmonization in its fight to mitigate and compensate for the costs of the ECSC liberalization.

All of these side payments were supra-national side payments, negotiated at the international level and to be provided supranationally. They stand in contrast to the absence of any such side payments -- or for that matter other tactics for defusing political opposition such as revision or exemption -- at the domestic level and stage. As with the ECSC, there was ample involvement by domestic political actors and broad influence of domestic institutions, but this activity was focused on influencing the exchanges and provisions at the international level. Comparing the French ratification fight over ECSC with that over the EEC highlights that difference: the provision of riders in the former and nothing in the latter.

What explains this pattern of provision and the contrasts with the ECSC? As with the ECSC, the broad array of side payment provision is consistent with the institutional advantages of EC policymaking, combined with meager supra-national welfare state development -- all in contrast with substantial national-level welfare provision. In the EEC, in fact, there were greater and more institutional advantages than there were with the ECSC negotiations. The maintenance of a forum in which the delegations could exchange information freely about disparate issues was probably important, as was the way the integration project increased the importance of fulfilling exchange commitments, fulfilling a cohesion imperative, in order to maintain goodwill in subsequent development of that integration. Similarly and also like the ECSC, the groups and countries expecting to win the most from the liberalization were able to easily use proposed-supra-national competencies to compensate the losers, even if they resided in other countries. Most important, however, the Beyen plan liberalization was pursued in the context of the EC project of economic and political union, by definition meaning that many more issues were on the negotiating table than would customarily be the case in trade liberalization discussions. This factor, alone, is the key to understanding the Euratom as a side payment. But it also applies to the ESF and harmonization, with a common market and not a simple customs union being the long term goal.

With the provision of harmonization to compensate France for tariff cuts, this condition was critical. Harmonization was a central and ambitious part of the long-term goal of economic union, toward which the EEC was to head. Even before harmonization was being discussed as a

possible side payment to buy off French opposition to the automaticity of tariff cuts, the country delegations were interested in bringing it into the negotiating arena, either as part of the planning conception of integration, or more minimally as the substance of liberalization. Such preexistence made it easy for liberalizers and protectionists to seize on the upward-leveling as a way to buy off opposition to tariff cutting, even when these motivations for harmonization had to be set aside. And these motivations might have made some of the negotiating delegations more willing to use harmonization as a side payment in the tariff-cutting discussions, if they thought it would make it easier to inject harmonization as part of non-tariff barrier cutting or as planning integration in subsequent development of the EC.

The advantages the EC institutions offered to the possibilities of providing side payments through issue linkage also help explain why the liberalization side payments were provided at the international and not the national level of policy provision and stage of negotiation. As with the ECSC case, the disparity between EC-level welfare provision and national welfare provision was still massive -- especially and most obviously since the ECSC readaptation fund was not even to apply to dislocation in other sectors of the new customs union. And the national-level provision may still have obviated the need for and increased the political risks of providing special welfare assistance to the victims of the EEC, rather than the victims of technological innovation or some other economic disturbance.

Thus, the main factors that explain the scale of supranational compensation and the absence, or virtual absence, of national/domestic compensation is the coincidence of broad jurisdiction and modest welfare provision at the supranational level, and broad jurisdiction and *generous* welfare provision at the national level.[67]

Beyond these broad conditions, the power conditions and, to some extent, the transaction cost conditions were more favorable for the provision of liberalization side payments in the EEC case than in the ECSC case. France was much more powerful a player than was Belgium, the principal champion of safeguards in the ECSC fight. And the French parliament's recent rejection of the EDC made strengthened its demands at the bargaining table by making France's claim that special treatment of a variety of forms was necessary to secure ratification a credible one -- in the ways now familiar to students of two-level games. Unlike the ECSC, moreover, the integration project entailed more issues in the fight for EEC -- political integration, the atomic energy provision, more serious discussion of harmonization of macro- and micro-economic policies, etc. -- than was true in the fight for ECSC. These differences were particularly important for the provision of the Euratom and the upward-leveling harmonization in the EEC case, and the absence of such grand issue linkage or harmonization in the ECSC case.

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[67] Again, see Chapter Seven, in particular the discussion at the end of that chapter (Section 4), for further and more detailed discussion of the explanation.

Figure 6.2
Liberalizer-biased and Protectionist-biased Delegations
During Supra-national Phases of EEC Episode Compared to
Liberalizer and Protectionist Coalitions in Domestic/National Phases

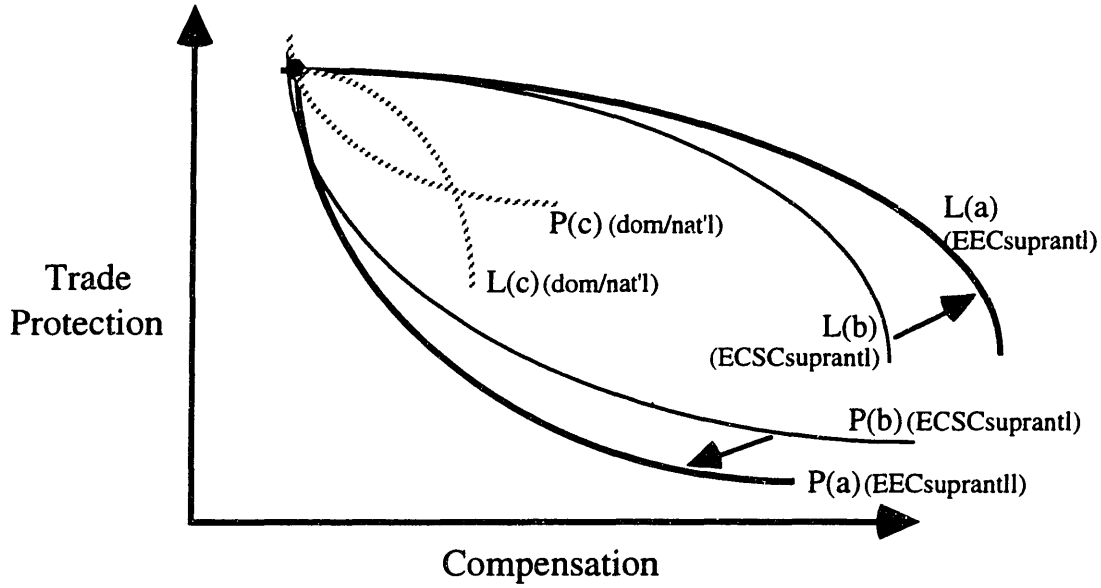

Figure 6.2 graphically captures the way the institutional conditions, especially jurisdictional breadth and welfare provision, encouraged supra-national compensation and discouraged national compensation. The broader jurisdiction of the EEC compared to the ECSC arena supported more linkable issues, and greater opportunities and greater willingness to trade lower protection for some kind of side payment provision -- hence the flatter L(a) and steeper P(a) than L(b) and P(b) respectively. Through displacement and the existence of relatively more generous welfare provision, however, the national bargain was still likely to be more constrained -- hence a repeat of the pattern in Figure 6.1 for the ECSC of relatively steeper L(c) and flatter P(c).

4. Conclusion: The Legacies of Supra-national Adjustment Assistance and Harmonization for Future Internal Market Liberalization

The side payment politics of the ECSC and EEC compensated liberalization had important implications for the future side payment politics of the European Union. Two deserve mention by way of conclusion. The first is that the implementation and provision of side payments provided in the ECSC and the EEC affected the propensity to provide similar such side payments in subsequent rounds of EC internal market liberalization, just as the provision and implementation of the US trade adjustment assistance program affected future provision of such assistance and of side payments generally in US trade policymaking. In the development of the internal market, however, the legacy was more benign than that of the US TAA. This was particularly true of the two supra-national adjustment assistance programs created, the ECSC Re-adaptation fund and the

EEC European Social Fund. Although both of these programs had slow starts in their implementation, they won some significant successes in at least mitigating some of the pain of liberalization, and in some case also played a significant role in promoting and facilitating actual adjustment to new areas of economic activity. These successes made the future expansion and provision of new adjustment assistance programs as the internal market developed more attractive, as we shall see in the next chapter.

The provision of the harmonization as compensated to off-set the pain of tariff liberalization, however, has a more mixed legacy. Some commentators writing at the time of the EEC's and noting France's ability to wrest from the other delegations a significant commitment to upwardly harmonize wage policies, expected that future negotiations towards European Union would elicit more extensive and more common demands for harmonization as part of the integration project. Haas 1958, for instance, conjectured that the industries who pushed the French negotiating team to demand the wage policy harmonization would likely move on to new issues, again as part of his functionalist spillover expectation: "The compromise on the question of social charges will induce French industry to accept the common market as it accepted ECSC. In the process, however, it will demand that Germany grant equalisation of taxes and employers' contributions as proof of its 'faith in Europe,'..." (p.192). As it turned out, such harmonization didn't become as central a part of the subsequent development of the European Union. It did not continue to be a subject of side payment linkage, as Chapter Nine describes and explains. And it did not become a commonly pursued goal unto itself or a subject of trade liberalization, especially after the Single European Act's decision to follow the principle of mutual recognition rather than harmonization as the route to dealing with most non-tariff barriers. Why this was so is beyond the scope of this study, let alone this chapter.

It is worth pointing out now, however, that the *tariff and quota* liberalization project at the center of most European Community activity for its first two decades represented the period when upward-leveling harmonization of social provision and other conditions had the best chances of becoming a part of the EU integration project. During these years, harmonization had a variety of motivations, including harmonization as the substance of trade liberalization and as a way of integrating into a common market, a social capitalism. But it also was and could be motivated by its usefulness as a simple side payment bargaining tool -- to compensate for the costs of tariff and quota liberalization, liberalization of policy protections distinct from the social provisions that might be harmonized. As a bargaining tool, a buy-off device, harmonization had stronger political chances of becoming a part of the integration agreements -- particularly biased toward the economies with more generous social welfare conditions, since they are likely to be the countries that will use such conditions as an excuse for higher tariff and non-tariff barriers. As the next Chapter shows and explains, however, this was not to be.

Chapter Seven:
Structural Fund Side Payments from the Enlargements to the Single European Act and Beyond, 1960-1992

1. The Second Enlargement: Compensated Liberalization via Integrated Mediterranean Programs
    1.1. Greece: Modest Compensated Liberalization, Followed by Demands for More
        1.1.1. Greece's Initial Accession Agreement: Meager Side Payment Compensation
        1.1.2. Trouble Inspires Proposals for the Integrated Mediterranean Programmes
    1.2. Iberian Enlargement: Compensated Liberalization for Status-quo and Applicant Countries
        1.2.1. The Iberian Enlargement Negotiations: Greece's Clear IMP Conditionality
        1.2.2. The Accession as Compensated Liberalization: Adjustment and Regional Assistance for the Applicants, IMPs for the EC Ten
        1.2.3. With Nothing Else Provided at Home
    1.3. Implementation of the IMP Side Payment Compensation

2. The Single European Act and It's Structural Funds Reform Off-spring: Large-scale and Patient Compensated Liberalization
    2.1. The Road to the SEA Liberalization
    2.2. Country Positions: The Rich not Against but also not With the Poor
        2.2.1. Portugal, Spain, Greece, and Ireland: Economic and Political Risk Rather than Cost
    2.3. Negotiating the *Promise* of SEA Compensated Liberalization
        2.3.1. The SEA as Promised Compensated Liberalization
    2.4. Negotiating the *Provision* of SEA-Structural Funds Compensated Liberalization
        2.4.1. The Structural Funds Reform Fulfilling the SEA Promise
    2.5. No Side Payment Politics at the National Level
    2.6. Implementing SEA-Structural Funds Reform

3. Interpreting State Aids amd Welfare: The Minimum of Side Payments at the Domestic Level

4. Explaining Internal Market Compensated Liberalization After the EEC
    4.1. Deepened Supra-nationality and Generosity in Contrast to National Liberalization Politics
    4.2. Narrowing Focus on Structural Funds as Prime Subject of Side Payment Linkage
    4.3. Increasing Generosity of Structural Fund Compensation
    4.4. Increasing Patience of Structural Fund Compensation

5. Conclusion: The Future of Structural Fund Side Payments in European Integration

The 35 years since the EEC's founding has seen on-again, off-again growth in the breadth and depth of economic, political and security community. As the community has grown from six to nine, and then from nine to twelve, the focus of integration activity has in the last ten years increasingly shifted from trade liberalization towards monetary union, and political and defense community. But that shift reflects the remarkable successes in internal market trade liberalization. In fact, up until the 1990s, much of the integration story after 1958 -- from the enlargements to the Single European Act -- was still a story of trade liberalization.

As with the founding of the ECSC and EEC, it has also been a story of compensated liberalization. Every major agreement to lower tariff and non-tariff barriers has been accompanied by continued use and expansion of the supra-national adjustment assistance programs created in 1951 and 1958, and by the creation and expansion of regional assistance programs set up in major part to off-set the risks of the liberalization. Collectively, these supra-national funds and programs are referred to as the "structural funds." The Structural Funds include (1) the European Social Fund (ESF), to assist displaced workers in the EEC; (2) the European Regional Development Fund (ERDF), to address regional disparities and founded in 1975 through extended negotiations over Britain's 1973 accession; (3) the "Guidance" Section of the European Agricultural Guidance and Guarantee Fund (EAGGF), to assist firm and worker adjustment as part of the Common Agricultural Policy (CAP); and since 1991 (4) the Cohesion Fund, devoted to funding large-scale environmental and transportation/infrastructure projects.[1] Each of the EC liberalization episodes since 1958 has yielded some substantial use or expansion of one or all of these structural funds as liberalization side payments, increasingly the only subject of such compensation.

As with the ECSC and EEC compensated liberalization, this compensation was supra-national in its negotiation and provision, and contrasts with the lack of such liberalization side payments both at the national, especially ratification, stage of the liberalization, and at the national-level of public policy provision. The domestic disputes about joining or accepting new members into the customs union and about lowering trade protection among existing EC members have yielded continuous threat to the scope and character of the liberalization, but has done so almost exclusively at the international level and stage, rather than the national level and stage. And at the latter, the struggles yielded few if any liberalization side payments -- even if we consider the use of state aids to industry and agriculture throughout the development of the internal market.

This Chapter finishes the story of Europe's internal market compensated liberalization, via supra-national structural funds rather than domestic side payment compensation. The core

[1] The structural funds support a variety of programs that should be seen as extensions of the funds, including the Integrated Mediterranean Programs (IMPs), created through negotiations over the second, Iberian Enlargement, and discussed in detail in Section 2 of this Chapter. The ECSC Re-adaptation fund, though providing funding and benefits for labor marekt programs that are identical to the ESF funds, are usually treated separately -- conceptually, politically and administratively -- from the structural funds.

explanatory puzzle of the chapter remains that of the entire Part Three, namely what accounts for the consistent supra-national side payment provision, in contrast with the absence of such provision at the national level and stage, and with the modesty and shakiness of US compensated liberalization? A more complete answer to that question than provided in Chapter Six is now possible through this chapter's history of the rest of EC internal market liberalization.

But the post-1958 history of EC internal market compensated liberalization raises a couple of other, somewhat puzzling, empirical patterns that also deserve explanation. The first is that the structural funds became increasingly the prime subject of side payment compensation during the internal market trade liberalization -- and, in fact, continues to be the prime subject with monetary union and other major initiatives at the center of the integration project -- whereas other kinds of linkage became less so. Beyond explaining "why structural funds and not something else?," the history needs to explain why those subjects provided in the past became eclipsed by structural funds. Most important of the former is the harmonization of government and industrial relations practices as compensation to off-set the risks of liberalization of other protections -- as France had successfully demanded in the creation of the EEC. Although Haas 1958 and many others speculated that harmonization would become more common and intractable in EC negotiations -- whether or not as part of side payment linkage -- successive episodes of EC liberalization included little policy harmonization. Not only was harmonization no longer made the subject of side payment linkage to compensate for liberalization of other protections, it was also dropped as the main mechanism, or substance, of non-tariff barrier liberalization, in favor of mutual recognition. This chapter tries to explain this trend, in contrast to the side payment rise of the structural funds.

Second, the history also exhibits significant increases in the generosity and ambition of the structural fund side payment compensated. In the first enlargement, for instance, there was provision of *existing* ESF and EAGGF relief to the new entrants as compensation for the risks of the EC liberalization, but there was no creation of a *new* policy of assistance or of any other side payment to address liberalization risks. The significant creation of the ERDF during that episode was certainly a side payment, but not to compensate for liberalization. The second enlargement, however, not only provided for provision of assistance under the existing structural fund programs, but also called for substantial new provisions and funding for new entrants and for the status-qua EC members having to "absorb" those new entrants. And finally, the establishment of the Single European Act and the Delors I Package linked to that Act called for and provided the most substantial liberalization side payment package of all the cases, through the doubling and restructuring of the structural funds.

Finally, the last case of compensated liberalization, SEA-Structural Fund Reform, began a trend that has persisted in EC policy-making since: the fund side payments were promised in very general language at the time the agreement was internationally agreed-upon, but were not devised,

funded or implemented until years later. During the interim there were pressures to opportunistically leave such promises unfulfilled, since liberalization had already been initiated and, in many cases, ratified. Yet the liberalizers agreed to fulfill the side payment promises already made. The acceptance and fulfillment of such a side payment well after and in a separate policy-making decision from the liberalization initiative stands in contrast to the US history, such as the Nixon-Schultz side payment package offered to and rejected by organized labor in the 1974 Trade Reform Act -- discussed in Chapter Four. It also contrasts with previous EC history, in which the consistent side payment compensation was consummated at the time of the liberalization episode. What explains all these contrasts -- consistent and more generous supranational side payment compensation in contrast to national level and stage of liberalization; the narrowing focus on structural funds, and the increasing generosity and patience of those funds as side payments?

This Chapter's answer draws on and illustrates the theory of compensated liberalization and its focus on institutions and group power and platforms. In the penultimate section, moreover, the Chapter competes the propositions derived from the literature on EC policy-making explicitly focused on side payment politics against those derived from the theory of compensated liberalization. Much more than the attention given the side payment politics in the ECSC and the EEC, the literature on the European Community and on side payments generally has directed substantial attention on the development of the structural funds as side payments for states or groups expecting to suffer from the integration process, especially moves to the internal market. That literature provides a number of useful insights that can help explain the various patterns of compensated liberalization in the post-EEC internal market. But the Chapter in general, and Section Four in particular, tries to show how and why the theory of compensated liberalization explains more and more completely the post-EEC side payment developments.

The Chapter makes this case through its account of the three main cases of internal market liberalization since 1958, divided into four sections. The first is the Second Enlargement cases, the enlargement to include Greece in 1981, and the Iberian enlargement to include Portugal and Spain in 1985. The second and most section focuses on the linked negotiations over the Single European Act in 1986 and the 1988 Structural Funds reform, the former being the ambitious initiative to remove all remaining non-tariff and tariff barriers to internal market trade by the end of 1992. The SEA receives the most attention, mainly because its side payment politics were more complicated and important.[2] Following the case studies is a brief section on the development and use of state aids during development of the EU. Here the focus is on why such aids provided assistance to the losers of liberalization but were generally *not* side payment compensation. The fourth section

[2] But also because the enlargement case studies rely almost wholly on secondary sources, which are also less developed than those on the SEA; and because the availability of primary source information on the latter is better, or at least more readily available, than that on the enlargements.

develops an explanation of the internal market developments, and of the contrast between EC and US compensated liberalization. A fifth section briefly concludes.

1. The Second Enlargement: Compensated Liberalization via Integrated Mediterranean Programs

In June 1975, the same month that the British public voted to confirm Britain's continued participation in the Common Market, the Greek government submitted its application to join the European Economic Community. Within two years the governments for Portugal, in March 1977, and for Spain, in July 1977, followed suit. For the polities of all three applicant countries, the motivations to join the Community were as politically grand as those for Germany and France to begin the ECSC and EEC. All three applicant countries had recently emerged from the yoke authoritarian rule, had embarked on ambitious plans for political and economic modernization, and saw the EEC and the European community project writ-large as a way to announce, anchor, and consolidate this transformation.

But as with the EEC and ECSC, the main vehicle for such heady transformative objectives was joining the EEC customs union, at core nothing more or less than thorough-going trade liberalization. Prior to application, all three countries had established trade agreements with the EEC Nine that had already established, albeit to varying degrees, trade liberalization. Greece and Portugal, in fact, nominally had industrial free trade with the EEC, though there were important exceptions involving sensitive industries in all countries involved. But substantial tariff, quota and other non-tariff barriers remained to trade between the EEC Nine and all three applicant countries, and all three countries in any event remained completely outside the highly regulated Common Agricultural Policy (CAP). The entry into full European Community membership meant an elimination of many of these barriers and incorporation into the CAP arrangements -- all of which constituted trade liberalization more dramatic than the earlier agreements had established.

Much more than the First Enlargement of the EEC, this liberalization was expected to impose major uneven distributional consequences on both the EEC Nine and on the applicant countries -- consequences that fueled sharp controversy within and among the applicant and member countries. That Greek and Iberian accession would do so was obvious to everyone and was fore-ordained by the most aggregate of statistics. The three applicant countries, for instance, had per capita incomes well below the EC average, despite rapid industrialization that narrowed the gap.[3] And the combined populations of the new entrants would raise the EEC population from 260 million to 320 million (Deubner 1980, p.230; Hine 1985, p.146). This combination of being poor

[3] In 1978, Deubner 1980 reports, here was the per capita GDP of the three, compared to the other EC nine (in U.S.$1,000): Greece (2.8), Portugal (1.7), Spain (3.1), Denmark (9.0), Germany (8.4), Belgium (8.1), Netherlands (7.7), France (7.2), U.K. (4.4), Italy (3.5), and Ireland (2.9) (p.230, fn.3).

and populous meant that substantial trade opening was destined to pose problems. As it turned out, the liberalization posed more problems for agriculture than for industry, but the liberalization provoked widely recognized and serious adjustment risks in a number of applicant and EC Nine countries in both sectors.

Deciding how to deal with these risks were at the center of all three accession negotiations, and to the sustainability of Greece's participation in the EEC. The resulting accession agreements for all three countries entailed a variety of safeguards, transitional delays, and exemptions, but also reform of established adjustment assistance and regional assistance provisions as well as the creation of new provisions -- targeted more generously at the EC Nine members and Greece rather than at the Iberian applicants. The adjustment and regional assistance represented substantial liberalization side payments -- significantly more generous and substantial than those provided during the First Enlargement. Also more than the First Enlargement, these liberalization side payments were central to Greece's sustained membership in the EEC customs union, and to the acceptance of the Iberian enlargement.

The question for this section, of course, is, why were significant liberalization side payments provided to the entrants and the EC members, why was the assistance more generous towards the latter (plus Greece), all in contrast to the absence of side payments at the domestic level? The answers lie in the inter-twined side payment politics of all three applicant-country negotiations, and in the conditions affecting protector-power and transaction costs underlying those politics. Since Greece's negotiations took place and were initially resolved two years before the Iberian accession, the history of those politics begins with Greece.

1.1. Greece: Modest Compensated Liberalization, Followed by Demands for More

Greek accession to the EEC was initially an un-controversial and uncomplicated affair. Having recently emerged from the authoritarian interregnum under the Junta of Colonels who had taken power in April 1967, the Greek government leadership was strongly interested in EEC membership. Most interested, perhaps, was the leader first to replace the Junta in 1974 -- the Greek Prime Minister and, after May 1980, President, Karamanlis. Karamanlis was active in lobbying his own government for Greek application and acceptance to the Community and, after the formal application for membership in 1975, was equally active in lobbying the EEC Nine, then Ten, in Brussels (Arter 1993, p.193). Given the recent political history, the EEC Nine were hard-pressed to accept the application (Ibid., Hine 1985, p.148).

They were all the more so since Greek-EEC relations had long been developing towards Greek membership in the Community, under its apprenticeship status following signing of the Association Agreement in 1961. Through this Agreement, Greece and the EEC members had

accepted considerable trade liberalization, with the Greek government agreeing to cut its tariffs on EEC imports in half, while the EEC granted Greek manufactures duty-free access to the EEC market. The Agreement also called for associated membership into other EEC institutions, including agricultural policy harmonization and trade, though this harmonization was never really achieved (Hine 1985, p.147). Thus, when domestic and international negotiations over the Greek application for entry commenced, the trade liberalization process was already well underway.

There was, however, considerable trade liberalization implicit in the EEC membership, via continued tariff-lowering and new quota elimination by Greece, and via full entry into the CAP by the EEC. Moreover, Greek trade barriers toward third countries were higher on average than the Common Customs Tariff (CCT) levels that it would have to accept upon accession.

And this trade liberalization posed modest adjustment problems for some segments of Greek industry and for a few segments of EEC agriculture. The Greek industries most likely to suffer from the new EEC competition were transport equipment, electrical and mechanical engineering industries (Hine 1985, p.151; Tsoukalis 1981, p.100). On the other hand, Greek agricultural producers were very competitive in some foodstuffs, especially peaches and tomatoes, and these products were expected to threaten EEC producers. Beyond these particular worries, however, both the EEC and especially the Greek government and industry worried about the broad need for structural reform in the Greek economy. After a considerable boom during the 1950s, the economy had slowed during the Junta years, with rising unemployment, inflation, and defense expenditures, and with very little investment, especially in productivity-enhancing product or production processes (most was in "property") (Arter 1993, p.194). And much of the industrial sector comprised small and medium-sized enterprises with low productivity and little investment or expansion capital (Hine 1985, p.147; Arter 1993, p.194).

With these expected distributional consequences, the Greek delegation sought a variety of safeguards to promote such adjustment and to help the vulnerable industries in the transition. The EEC countries, meanwhile, were basically un-threatened by the accession, with the modest exception of the tomato and peach segments of agriculture. As a result, negotiations over accession were uneventful, and on January 1, 1981, the Treaty of Accession had been signed to grant Greece full EEC membership -- with an agreement that reflected the respective concerns.

1.1.1. Greece's Initial Accession Agreement: Meager Side Payment Compensation

The resulting accession agreement called for considerable trade liberalization beyond that already accepted as part of the Association Agreement. Greece was to conform to the guidelines of full EEC membership, including the following: abolish its remaining customs duties on EEC goods; align its external tariffs with the Common Customs Tariff (CCT); participate in the EEC's Generalized Scheme of Preferences; end its import deposit scheme; and remove quotas on EEC

imports. The EEC, for its part, agreed to "eliminate its few remaining tariffs on Greek steel exports ... and to extend the CAP to Greek agriculture" (Hine 1985, p.147).

To safeguard against excessive dislocation and to take account of Greece's various industrial and agricultural adjustment problems, the accession agreement also called for a number of safeguards. Most importantly, the trade liberalization that both Greece and the member countries were to absorb was to be phased in over a transition period. Greece's quotas were to be eliminated immediately, but its import deposit scheme was to be phased out over three years, by 1984, and its tariff reductions were to be phased in over five years, by 1986. The five year transition period, apparently, simply built on the precedent set by the First Enlargement's free trade transition period. The EEC, meanwhile, would phase in reductions of its steel tariffs by the end of the same five year transition period, as would most of the agricultural trade under CAP. In tomatoes and peaches, however, the EEC producers would have a longer transition period to adjust: seven rather than five years (Hine 1985, p.48-9; Tsoukalis 1981, p.101).

In addition to the transition delays, Greece was also to be granted adjustment assistance and regional development assistance under the various structural funds, including the "Guidance" section of the EAGGF, the ERDF and the ESF (Hine 1985, p.148). Since these funds were not part of the provisions being liberalized -- the Guarantee section of the EAGGF, being the most contentious part of the CAP, was a part of the liberalization -- and since they were directed at redressing some of the general adjustment problems Greece would face in its entry to EEC customs union, they represent liberalization side payments. The amount of money was uncertain, but together with the European Budget funds that Greece was to receive through the EAGGF Guarantee section, the new member was to become a net recipient of funds from the European Budget, to the tune of 120 million in 1981, 600 million ECU in 1982, and an anticipated 800 million ECU in 1983 (1985 ECU) (Ibid).

In the ratification fight, the Greek parties were bitterly divided, but Karamanlis's New Democracy party secured approval without having to resort to rider promises and legislation, although he did make general predictions and commitments. The Socialist Party (PASOK), under Andreas Papandreou was the main opposition to the pro-Europe New Democracy Party; it had gained 25 percent of the vote in 1977 (Arter 1993, p.194). PASOK was joined by the Communist party opposing the Treaty of Accession as well as Greece's participation in NATO, which Greece had joined in 1952. When Karamanlis sought ratification of the Treaty of Accession in June 1979, both PASOK and the Communists boycotted the parliamentary vote. This, of course, considerably eased the procedural ratification. And it obviated the need or demand for rider legislation. Still, Karamanlis acknowledged the need for structural adjustment to deal with the new membership, and claimed "that considerable effort would be necessary to modernize Greek industry, overhaul a relatively inefficient agricultural sector and transform public and private administration..." (Arter

1993, p.194). This was as close as the parliamentary divide came to eliciting safeguards or side payments at the national level.

1.1.2. Trouble Inspires Proposals for the Integrated Mediterranean Programmes

It was only after Greece's accession to EEC membership in 1981, however, that the real political problems arose. In October 1981, PASOK unexpectedly won a majority at the polls, bringing a new anti-EC government into power. The new Prime Minister Popandreau demanded re-negotiation of Greece's terms of entry to the Community, and threatened to hold a referendum on membership altogether. Before Popandreau acted on this threat, his government broke EEC rules, and restricted trade through "a general control of agricultural imports, especially of livestock products" (Commission of the European Communities[4] 1983a, p.24; in Hine 1985, p.148).

The threats of departure from the EEC and the derogation of customs union rules was accompanied on March 19, 1982, by a slightly more conciliatory Greek government memo claiming that EEC membership was making economic growth, recovery, and adjustment more difficult, and calling "for a special effort of solidarity from the side of its new partners" (De Witte, p.20). In particular, the memo asked the other EEC members to grant "increased financial aid and a temporary derogation for Greece from Community competition rules (e.g. on state aids, including export aids for small and medium sized firms)(CEC1982,p.90;quoted inHine'85,p.148).

The European Commission argued that a solution "could be achieved within the framework of EEC rules," and released within a year a series of proposals designed to address Greece's various adjustment problems through further structural fund assistance, and through the creation of a new cluster of regional assistance policies called Integrated Mediterranean Programmes (IMPs). The former were outlined in a set of proposals in a March 29, 1983 Commission Report *Greece in the Community: Assessment and Proposals* (CEC 1983b). The report acknowledged the "severe difficulties faced by Greece" but also pointed out that many were endemic to Greece's recent political economic history, not to EC membership, and also pointed out that some of the problems were caused by the general economic crisis to which all EC members had to adjust. Having stated this, however, the report called for immediate action through existing structural fund assistance to help Greece, including aid for irrigation and other infrastructural projects.

The Integrated Mediterranean Programmes proposal, on the other hand, called for more long-term adjustment assistance. The IMP ideas had been long part of the Commission's reform of existing regional policies, and was informed by the same ideas about integration and about programmatic rather than ad hoc regional assistance that was soon to drive the 1984 ERDF

[4] Hereafter referred to as "CEC."

reform.[5] These proposals were give new or accelerated force, however, when Greece tabled its thinly-veiled threats to pull out of or violate the EEC customs union unless further assistance could be provided by the Commission.

Thus, on March 23, 1983, almost a week before releasing its specifically Greek assistance, the Commission released proposals for the Integrated Mediterranean Programs (CEC 1983a). The IMPs would "implement in a coordinated way over a limited period of seven years Community actions to facilitate the structural adjustment" of the Mediterranean regions of the Community (Yannopoulos 1989, p.289). The particular programs were to include a wide array of activities, including human resource development, relocation and cessation of production, rationalization investment, and other measures to assist agricultural, forestry, fishery industries, as well as general infrastructural and labor market conditions in the EEC. And they were to be funded out of a variety of sources, including the European Investment Bank and the existing structural funds, as well as new budgetary allocations. Making special mention of the Greek situation, the report forecast that the IMP assistance would cost the European Budget of 2542 million ECU, substantially more than the original net benefits to envisaged at the time of Greece's original accession (CEC 1983b; quoted in Hine 1985, p.148).

If the IMP proposals had been passed as proposed by the Council of Ministers, it would have represented a liberalization side payment to compensate Greece for its EEC customs union adjustment. By then, however, the Council's attention was focused on handling the Spanish and Portuguese applications for EEC membership. That may have prevented them from taking fast action on the IMP on Greece's behalf, but it ultimately fueled further support for the IMP proposals as compensation for the substantial dislocation to some French, Italian, and Greek agricultural producers expected to suffer from the Iberian Enlargement. As a result, the IMP's were rapidly being caught up in political struggles that had them double-timing as side payment compensation for Greece's new membership adjustments, and as side payment compensation for Greece, together with France and Italy, for the adjustment costs of Iberian accession.

1.2. Iberian Enlargement: Compensated Liberalization for Status-quo and Applicant Countries

Unlike Greece's accession politics, the Iberian enlargement sparked sharp distributional conflict from the start. The broad political and economic circumstances of the Spanish and Portuguese applications were similar to Greece's in that all the Iberian countries were also recently emerging from authoritarian rule and undergoing substantial economic transformation. In fact, the

[5] The idea of "programme" rather than "project" was introduced in the 1984 Regulation in Article 7 as "series of consistent multiannual measures directly serving Community objectives and the implementation of Community policies" (quoted in De Witte, p.12). The idea of "integrated" services was proposed under Article 34 of the ERDF reform: "investments and measures...which form part of an integrated development approach, for example, in the form of integrated operations or programmes, may be accorded a priority treatment" (quoted in De Witte, p.14-5).

transformations for Portugal and Spain were more dramatic than for Greece, given the more sustained, economically-closed and autarchic governance under Spain's Franco, and Portugal's Salazar and Caetano. As with the Greek application, most observers were certain that the EEC would have to accept the Iberian membership, at least in some form. But unlike Greece, the Iberian enlargement threatened much more substantial economic dislocation for both the EC Nine and the applicants, by virtue of the degree of liberalization membership would entail and the industrial and agricultural profile of the applicants -- especially Spain.

Before Spain and Portugal joined Greece in lodging respective applications for EC membership, they too had entered into trade liberalization arrangements with the Community. Along with its fellow EFTA states, Portugal had signed an industrial free-trade agreement with the Community in 1972, with the result that by July 1977 Portuguese industrial exports enjoyed free access to the Community, except for a few products that were particularly "sensitive" in the EEC, such as textiles and steel (Arter 1993, pp.192-3). And the Portuguese, for their part, allowed virtually free access to the industrial imports from the EEC. Although not part of the EFTA countries and having eschewed a proposal from the Community for an EFTA-like industrial free trade agreement, Spain in 1970 had signed a preferential trade agreement with the EC Six, resulting in a 25 percent reduction in Spanish tariffs on EC products and a 60 percent reduction in Community tariffs on Spanish industrial products. At least in industrial products, therefore, liberalization was already well afoot.

Unlike the Greek accession, however, the Iberian accession promised more substantial trade liberalization, particularly for Spanish-EC trade. Although the 1970 agreement had eased trade substantially, the EEC's industrial tariffs on Spanish products were still almost half of the Common External Tariff, averaging between 3-4 percent as average nominal customs duties (Hine 1989, p.8). Spanish tariffs on EC products were even higher despite its 25 percent cuts in 1970, with some tariffs as high as 23 percent as average customs duties, and the average duties being above 10 percent (Ibid). For Spain, the adjustment to the EEC membership was to be exacerbated by the fact that its tariffs on industrial products from third countries was substantially higher than the EEC Common Customs Tariff, with the former averaging around 17 percent and the latter averaging around 6 percent (Ibid). In part because of the tradition of such protection hampering Spanish trade, Spain was by far the least open to industrial trade of any EC member.[6] Spanish accession was expected to require elimination of all trade barriers between the Iberian and EC countries, constituting an absolute drop of more than 10 percent of nominal customs duties on Spanish imports from both the EC and third countries (Ibid, p.8). Both Spain and Portugal,

[6] In 1986, v ell after accession, Spanish imports of manufactured goods for that year were only 11 percent of Spain's GDP, Italy's 14.4 percent being the next lowest. On exports, Spain exported an equivalent of 10.9 percent of GDP compared with the EC average of 21.7 percent (Hine 1989, p.7).

meanwhile, had been fully excluded from the CAP, and had never even nominally negotiated some incorporation -- as had Greece.

In turn, the liberalization of these remaining barriers to EC-Iberian industrial trade and of full incorporation into the CAP promised substantial dislocation for both EC member states and for the Iberian applicants. Agricultural liberalization was expected to cause the biggest problems, but industrial trade also threatened major risks. Again, the major problem in both industry and agriculture was Spanish accession.

Lowered barriers to trade in industrial products was expected to pose serious problems for both the EC and Spain because, unlike Greece and Portugal, Spain was a large producer in a number of industries that competed directly with EC producers. Spain was particularly worried about electrical appliances, industrial and agricultural machinery, office equipment and chemical products (Tsoukalis 1981, p.100). But they also faced new and substantial competition from Portugal's low-cost textile and clothing products (Hine 1989, p.13; Ashoff 1980, pp.300-2). The EEC members, for their part, were concerned that Spain's industrial strength lay principally in old, labor-intensive industries that were already in decline in the EC -- including textiles, shoes, ship-building and steel (Eussner 1983, passim). Spanish accession would exacerbate the EEC industries' already arduous adjustment challenges (Bienefeld 1982, pp.109-111: Hine 1989, p.12-3; Eussner 1983). On the whole, however, Spain's worries on industrial competition from the EC was greater than EC worries about Spanish industrial competition.

The opposite pattern of dislocation risk applied to the prospect of increased EC-Iberian agricultural trade. The large proportion of the Spanish population was still engaged in agriculture, roughly 17 percent overall and substantially higher than that in some regions (Ritson 1982, p.92; Hine 1989, p.16). The country's agricultural output, moreover, represented about 16.5 percent of the EC Ten's (including Greece) total agricultural output (Ritson 1982, p.92). This production was in products that competed with those produced in the EC's Mediterranean zone, concentrated in Italy, Southern France, and Greece. In general, the competition posed by the Spanish accession threatened to dislocate small producers in these regions, which had few economic alternatives that could absorb the adjustment. But the CAP operated differently depending on the particular product, and this affected the particular adjustment problem that Iberian accession posed to both the applicant and member populations.

Iberian inclusion into the CAP posed two kinds of problems for EEC Ten members, economic dislocation and budget problems. Fruits and vegetables was one area that the Spanish agricultural producers were particularly strong, and this was the area likely to pose the most dislocation among the EC Ten. Since these are perishable products, the EC CAP was generally set at a relatively low, close-to-market-clearing, price, since the EC would have to pay for and destroy most of what didn't clear. Instead, the CAP system prior to Iberian accession protected the EC

price mainly by imposing customs duties and reference prices at the border. Removing such protections, in turn, meant that low-cost Spanish producers would no longer have to observe the reference prices, would be free to enter the EC market, and would significantly depress the EC price -- thereby displacing many producers in Southern France, Italy and Greece, "as well as those producing under glass in the Netherlands and elsewhere" (Hine 1989, p.16-7).

Other agricultural products like wine and olive oil, meanwhile, posed a budgetary problem for the EEC Ten. Wine, olive oil, and other less perishable products were supported under the CAP through price supports more than through border controls. Prices on these products had been set at a high rate through the "guarantee section" of the EAGGF that would sometimes require substantial Community buying for surplus disposal -- generally in the form of export subsidies. This already imposed a controversial burden on the guarantee section of the EAGGF and, hence, on the EC budget. With Spain and Portugal producers already being very large and competitive in wine and olive oil, the producers would have strong incentives to even increase production to take advantage of the existing CAP price. This, of course, would further burden the European Budget (Ritson 1982, pp.105-6).

Although the EEC Ten had the most to fear from dislocation and budgetary adjustment as a result of increased agricultural trade, the Spanish and Portuguese farmers also had something to fear (Rodriguez 1983, p.214-16). For instance, Spanish milk and dairy production, concentrated in Spain's northwest, operated at substantially higher cost than the large farm combines dominating EEC dairy. The result was that the Spanish and Portuguese dairy producers could be expected to have to compete within the EEC at lower CAP prices, leading to substantial adjustment and dislocation. This was expected to be a particularly onerous burden because there were so few work and production alternatives in these regions.

1.2.1. The Iberian Enlargement Negotiations: Greece's Clear IMP Conditionality

With this array of off-setting agricultural and industrial risks for the EC Ten and the Iberian applicants, the negotiations over the Iberian enlargement were substantially more drawn out and contentious than those for Greek accession. The negotiations began in 1979, but only after France got over its 1981 threat to slow down the enlargement process altogether did the delegations get to grips with the key details of accession, and this was not to happen until 1984 (Arter 1993, p.197).

The accession negotiations focused on a variety of issues, ranging from traditional concerns to protect national sovereignty, to regulation of labor migration, to participation in NATO, to the compensatory arrangements for non-member Mediterranean countries likely to suffer the preferential treatment promised to the Iberian countries.[7] Dominating the negotiations,

[7] The European Commission produced reports analyzing and proposing solutions to a variety of these as the negotiations evolved. See, for instance, the report on how to deal with the non-member Mediterranean trading

however, were the issues posed by the aforementioned risks of the trade liberalization: (1) how to curb the additional costs to the Budget resulting from extension of the CAP to applicant countries; (2) how to "balance the claims of the EEC and the applicants for a rapid transition to free trade where their industries are strong and for a long period of adjustment where their industries are weak"; and (3) how to ensure that the livelihood of farmers in southern France and Italy, and throughout Greece, would not be undermined by a flood of low-cost produce from Spain (Ibid). In discussing all these issue the delegations focused on liberalization side payments as well as exemption and revision safeguards, but it was on safeguarding the vulnerable farm groups of the EC Ten that side payment politics proved to be central.

The parameters of the negotiations to address the three major issues were influenced by the terms of accession established under the First Enlargement and the recent Greek enlargement. This meant that some transition period would be necessary, roughly five years, during which liberalization would be phased in. It also meant that the various vulnerable groups in the acceding and member countries would be offered some structural fund assistance. During the roughly five years of debate over Iberian accession, the issue was really only how long and in what form the transition periods ought to be, how generous and long-term should structural fund assistance be, and what other safeguards beyond these would be necessary or acceptable.

Not surprisingly, the respective delegations negotiating over these various safeguards with strong and often conflicting demands. In general, the Italian, French and Greek delegations strongly pushed for long transition delays, exemptions, and safeguards for their Southern agriculture, and for much shorter and front-loaded transition periods and safeguards for Spain's industrial products. The Spanish and Portuguese pushed for the opposite: longer delays and benefits in industrial product tariff liberalization and shorter delays in agricultural liberalization implicit in CAP inclusion.

Of the particular provisions that the delegations sought going beyond the basic transitions and structural fund assistance. the most dramatic was the demand by the French, Italian, and Greek delegations for special assistance through the Integrated Mediterranean programs to compensate for the threat of Spanish agricultural competition. From early on in the negotiations, the French and Italian delegations had called for various structural fund assistance, but when the Commission tabled the IMP proposal in the context of Greece's derogation of EC rules and pleas for Community Assistance, their attention shifted to support for the IMP program in particular. As soon as Greece was a participant in the Iberian Accession negotiations, however, it suddenly had two reasons to lobby for the IMP, its own general reluctance and the Spanish agricultural threat. In the end, Greece became the key champion of the IMP program in the accession negotiations.

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partners in EC Commission 1984, including proposals for compensating these countries through preferential trade and adjustment policy measures (pp.102-38).

The key turning point in the accession negotiations took place between September and December 1984 at the Dublin Summit of EC Ministers. By that time, the Enlargement negotiations were focused on two broad issues involving Spanish accession: whether Spain would fully agree to participate as part of NATO and whether sufficient safeguards could be devised to alleviate the potential dislocation Mediterranean agricultural groups in the face of Spanish competition. The Dublin Summit was called expressly to discuss the EC and NATO negotiations with Spain, and at the meeting there was "certainly recognition of the need to act decisively to assist [Spanish President] Gonzalez in his task of convincing his party to support continuing NATO membership. It was accordingly agreed to present a comprehensive package that would provide for definite Spanish entry into the Community" (Arter 1993, p.198).

With the problems faced by the Mediterranean member countries, the price of such a package became the IMP proposals. In December during the Dublin meetings, Greece "threatened...to veto the new Southern enlargement of the Community until such as it received a formal guarantee from its Community partners that the Integrated Mediterranean Programmes would be launched" (De Witte 1990, p.19).[8] To this clear conditionality, making the IMP proposals a very explicit liberalization side payment package, the other EC Ten members apparently got the message. At the next meeting of the European Council in Brussels, on March 30th, 1985, agreement on the main terms of the IMP scheme was reached, and in April the Commission submitted a revised and less ambitious proposal for the specific funding and parameters of the scheme. The Council of Ministers contemporaneously negotiated the details of this proposal and the details of Spanish and Portuguese accession (Urwin 1992, pp.207-8). And within months, both the accession and the IMPs were established, the Iberian Accession Treaty signed on June 12, 1985, and the Council Regulation 2088/85 setting up the IMPs implemented on July 23, 1985 (CEC 1985; De Witte 1990, p.19).

1.2.2. The Accession as Compensated Liberalization: Adjustment and Regional Assistance for the Applicants, IMPs for the EC Ten

The package of agreements defining the terms of the Iberian Enlargement generally split the difference between the respective demands of the Iberian applicants and the EC Ten, but the Ten basically got the better deal. This was true in all aspects of the benefits -- the transitions periods, the pace of reductions, the extra exemptions, and the various forms of regional and adjustment assistance that constituted the side payment compensation. Thus, it was compensated liberalization

[8] See also Arter 1993, who argues that "Greece...made the Integrated Mediterranean programmes set out by the European Council in March 1985 a *sina qua non* of Spanish and Portuguese entry" (p.194). And also Urwin 1992, pp.207-8, and Marks 1992, p.199, for general recognition that the IMPs constituted side payments "to offset the increased agricultural competition that was bound to result from the inclusion of Spain and Portugal in the Community" (Marks 1992, p.199).

for everyone, but the liberalization for certain members of the EC Ten was more compensated. To see how, it's easiest to separate the industrial from the agricultural compensated liberalization.

The industrial trade liberalization provided safeguards mainly in the form of transition periods. Spain and Portugal had asked for a ten year delay in view of how much industrial liberalization it was to accept and in view of the agricultural delays. The EC Ten generally wanted much fewer, and the precedent, hence focal point, was a five year transition period. The compromise struck was for a seven year delay, meaning that by January 1, 1993, all quotas and tariffs would disappear on EC-Iberian trade. The delegations also compromised over the pace at which cuts would be phased in, with Spain wanting them delayed until the last minute of the transition and the EC Ten wanting them front loaded: the agreement split the difference in that Spain would reduce its tariffs on autos and open a tariff quota instead, within three years, and on all manufactures tariff reductions would be phased in and modestly front loaded (Hine 1989, p.14).[9] Industrial tariffs on non-member countries were to be aligned with the CCT following the same schedule, but special arrangements applied to Spain and Portugal's adoption of the EC preferential arrangements, such the GSP and the Lomé Convention. And in addition to the tariff reductions, other quota and a few other non-tariff barriers, such as Spain's import levy tax, were to also be eliminated, phased out over several years via expanding quota amounts. The phasing out of quotas on EC imports was to move substantially faster than that for third country imports.

The EC tariff and quota reductions on manufacturing products from the Iberian entrants was to follow the same basic time table as the entrants. But there were two exceptions where the producer groups obtained special treatment: clothing and textiles, and iron and steel. For the former, EC Ten could retain "a mixture of administrative and quota controls...during the transitional period" -- seven years (Hine 1989, p.15). For iron and steel, Spain would carry out a three-year restructuring program along the lines of similar restructuring in the Ten, restructuring that would substantially reduce rolled steel capacity (not to exceed 18 mill. tons). During this restructuring, the EC could retain its quantitative restrictions (Ibid).

Beyond the delays and phasing-in of the tariff and quota reductions, Spain and Portugal in particular also received some special exemptions from the reach of the liberalization. For some period of time, for instance, Spain could establish new quotas to replace lowered tariffs on selected Portuguese manufactures, including some types of textiles and clothing. They could also monitor imports of pulp, paper, iron and steel, and set up new barriers should the threat of dislocation be too great. The latter was to follow the general safeguard clause in the Accession Treaty (Article 379) that granted escape to both the entrants and the member countries. The clause stipulated that,

[9] Within the first year, tariffs were to be reduced, as a percentage of the base duties, by 90%, by another 77% the following year, another 62.5% the next, and successively lowered by decreasing percentages, until they were zeroed out by January 1993 (Hine 1989, p.14).

should there be "difficulties which are serious and liable to persist in any sector of the economy or which could bring about a serious deterioration in the economy of an area," trade restrictions could be re-imposed during the transitional period (quoted in Hine 1989, p.15).

Finally, Spain and Portugal were to receive a variety of kinds of financial assistance from the three EC structural funds, including the European Social Fund, the European Regional Development Fund, and the Guidance section of the EAGGF. The amounts promised were not clear, but they were to be phased out in any event within a few years into the transition period. Importantly, none of this funding and assistance was to take the form of Integrated Mediterranean Program assistance, even though such assistance was funded and administered in part by the existing structural funds.

In agriculture, the compensated liberalization was substantially more generous, and it was directed almost exclusively at the EC Ten. First, the liberalization itself was to be phased in significantly more slowly than the industrial tariff reductions, and was therefore consistent with EC Ten desires. Spain and Portugal would be gradually integrated into the CAP, with establishment of variable import levies, export subsidies, tariffs, and intervention buying set up immediately. But the actual alignment of prices toward CAP levels was to phased in, generally over a period of 7 years -- like the industrial tariff reductions. But fruit and vegetable products were to phased in more slowly -- over 10 years, with the first 4 keeping price differences frozen á la pre accession, and with some reference pricing in place throughout the transition (Hine 1989, p.18). Olive oil, similarly, would be phased in over 10 years, with a 5 year freeze in price alignment.

In addition to this slower phasing, the EC Ten would also be allowed to monitor agricultural trade in a range of products, with the right to suspend imports immediately if price ceilings were violated, and with the general Article 379 safeguard clause in place in any event. And even before the accession agreement was signed, the agricultural producers in the EC Ten managed to get several hitherto uncontrolled products brought under price control and support under the CAP. In short, there was significant new or "hair-trigger" exemption.

Most generous and significant for side payment politics, however, was that the accession was to be accompanied by a series of regional and adjustment assistance programs to the EC Ten, particularly the Mediterranean regions of those Ten -- southern France, southern Italy, and Greece. These went well beyond the regional and adjustment assistance compensation provided to the Iberian entrants for either industrial or agricultural dislocation. Some of the assistance was to be provided under the Guidance section of the CAP's EAGGF. This included the EC's farm structural reform program that was designed to provide financial assistance to farmers wishing to modernize and readjust their operations, or to quit farming altogether. That same section was also to provide "less favored areas" throughout the EC Ten with "compensatory allowances" for various agricultural products, usually "headage" payments on livestock (Hine 1989, p.19). More

ambitiously, the Guidance Fund was also to support a variety of other infrastructural schemes in the region, such as contributing to the costs of drainage projects (Ibid). All of these represent liberalization side payments because they were directed at helping those countries and peoples within countries expected to suffer from the Enlargement's new competition, and because the provisions were separate from the CAP provisions being liberalized.

Most ambitious as accompanying provisions, however, was the Integrated Mediterranean Programs that the Greeks especially, but the French and Italians also had demanded as compensation for the Spanish agricultural competition that the liberalization promised. Like the Commission's original, March 1983 proposal, the program would focus on three-to-seven year programmes rather than discrete projects, and would integrate a variety of services focusing on improving conditions in a variety of sectors intensive in the EC Ten Mediterranean region, as well as on infrastructural and general training and research investments (Yannopoulos 1989, p.288-9). As it was instituted, the IMPs were to be established and run for seven years with a total budget of 6.6 million ECU, with half of the money (3.3 billion ECU) to fund agricultural renewal projects in the EC-Ten, 5.8 percent (383 mill.ECU) for forestry, 5.4 percent (356 mill.) for fisheries, 21.2 percent (1.4 billion) for "non-agricultural development", and 17.6 percent (1.2 billion) for general infrastructure, training and research (Yannopoulos 1989, p.289-90; De Witte 1990, pp.21-2).

The particular focus of these various programs and the level of EC supra-national institutional involvement they entailed varied. For instance, under the agricultural measures, it included restructuring and rationalization measures for selected products like wine, table grapes and olive oil -- generally toward more productive production and higher value-added segments of the product categories. The non-agricultural sector spending, on the other hand aimed to create new jobs "with the purpose of offsetting job losses in agriculture," by encouraging creation and expansion of small and medium-sized enterprises in craft industries that were upstream and down stream of agriculture, and in rural tourism (Yannopoulos 1989, p.291). Consistent with the established additionality principle, national government were supposed to co-fund many of the programs and to implement them. In general Community participation was through "investment subsidies or subsidies for training and research and development, as well as in the form of income support or compensatory allowances to farmers" (Yannopoulos 1989, p.290).

As for the distribution in the spending and raising of the 6.6 billion ECU budget, IMP funds were to be distributed roughly evenly between the EC Ten Mediterranean states to have pushed for the IMP scheme. About 2 billion ECU was to go to Greece, 4 billion French Francs to France, and 150 billion lire for Italy. None of the money was to go to Spain or Portugal, even though they expected to sustain agricultural adjustment problems as well as the vulnerable members of the EC Ten. On the revenue side of 6.6 billion ECU budget, 4.1 billion was to come from the Community budget (1.6 billion from additional spending; 2.5 billion from existing

ERDF, ESF and guidance Section of the EAGGF Structural funds). The remaining money was to come from the European Investment Bank loans and related instruments (Yannopoulos '89,p.290).

1.2.3. With Nothing Else Provided at Home

The provision of IMP and other structural fund side payment compensation, as well as a variety of other transitional safeguards, contrasts with the relative quiet on the domestic front. Both the Portuguese and Spanish polities were broadly supportive of the EC membership, on a variety of economic and political grounds, and the concerns with the distributional costs of the liberalization and with the terms of accession never spilled over into significant domestic debate. Despite the Portuguese socialist and interventionist tradition, the Socialist ruling party in control during the latter and most contentious years of the international negotiations was strongly supportive of the accession, regardless of the various terms being batted around the negotiating table (Arter 1993, p.195-6). All the major and mainstream Spanish political parties, meanwhile, had been strongly behind EC accession from the beginning -- more unified in this respect than any of the Second Enlargement applicant party systems (Ibid, p.196). Never, in other words, was there a need to provide special legislative benefits to buy off powerful, or vulnerable opposition.

In the EC Ten, meanwhile, there was never any need for domestic legislative action. And even when political controversy at the international level was particularly shrill, there was never any autonomous, legislative or executive activity threatening to exempt or revise the liberalization, or to provide side payments to the losers -- beyond what was being supported at the EC-level.

1.3. Implementing the IMP Side Payment Compensation

The early implementation of the IMP consolidated its multiple roles as regional redistributive policy, regional development, trade adjustment assistance, and crass political side payment compensation. Within a few years of the IMP's 1985 enactment, the programmes had been set up in the three recipient countries, several in France and Greece and one in the Molise region of Italy (CEC 1988a). When the actual projects within the programmes were set up and the actual moneys spent, the priorities differed somewhat from the Commission's proposal. Agricultural adaptation was the highest priorities only in the French IMPs, consuming 38.4 percent of its IMP allotment, whereas the Greek IMPs allocated only 16.5 percent of its moneys to this role (only the third highest priority), and the Italian IMP gave virtually no money for this purpose. The French IMP's also gave substantial support for energy development and new technology development (21 percent), and for the development of upland areas (22.3 percent). Developing tourism was the only other significant target of support (12.1). The Greek IMPs, meanwhile, gave more than half of its moneys to energy development (28.7 percent) and infrastructural investment

(26.5 percent), and joined France in providing a sizable support program for tourism (10.9 percent) (CEC 1988a, Appendix 4; reproduced in Yannopoulos 1989, p.29). The Italian IMP, finally, focused almost exclusively on the development of upland areas (62.9 percent) and on new technology development (35 percent) (Ibid).

From the point of view of how the programs fulfilled their various purposes, the story appears to have been mixed. As actual adjustment assistance designed to promote economic development and adjustment out of non-competitive and into more competitive economic activity, the programs had relatively disappointing results, with the minority of the programs forcing or strongly encouraging changes or conversions out of one crop or agricultural activity into more promising ones, or out of agriculture altogether (Yannopoulos 1989, p.294). Some of the industrial investment, moreover, went toward developing textile and clothing industries, changes that didn't have clear promise in the medium term. On the other hand, the tourist, rural upland development, and high technology research did provide some long- and medium-term benefits that diversified what were hitherto almost completely agricultural regional economies.

On more political grounds, some IMP investment projects were motivated less by adjustment imperatives that by "local party political anxieties" (Ibid, p.293). French regions to receive aid, for instance, included the *départements* of Drome and Ardéche, as well as those that were more bona fide Mediterranean adjustment problems, and in Italy, the list included the Appenines in the prosperous Emilia-Romagna (De Witte 1990, p.23?). But such a pattern of investment simply continued what was the basic political origin of the whole IMP enterprise. And by broad political calculations, the continued smooth and unwavering political support throughout the EC Ten for the Iberian Enlargement, and in Greece for its own continued involvement, is prima facie evidence that this basic motivation was effective.

Broadly successful on these political and compensatory grounds, the IMPs also foreshadowed more thorough-going reforms of all the structural funds. The IMPs were the first testing ground for the move away from discrete project assistance with a narrow functional focus, to more long-term, multi-project programs that integrated a variety of functions. In that respect, they were part of a general reform process that kept the structural fund reform process on the broader EC Commission policy-making agenda, ripe for continued focus as a subject for side payments compensation at the next liberalization turn.

2. The Single European Act and Reform of the Structural Funds: Large-scale and Patient Compensated Liberalization

The drawn-out completion of the Second Enlargement was just one of a series of major compromises among the EC-Ten that helped inspire and make space for more grand political and economic initiatives designed to "re-launch" the integration project. These proposals included the

whole gamut of integration vehicles brewing since the founding of the ECSC, including increased political integration, monetary union, and defense cooperation. But through conflict over how best to promote integration demands and fears of the member states, the vehicle to emerge as the centerpiece of this re-launching entailed "a return to the origins" of the EC: trade liberalization toward a single internal market (Delors 1988, quoted in Moravcsik 1991, p.24). Between 1984 and 1986 a series of negotiations yielded a package of integration reforms, most prominently, EC political reform and completion of the free trade area begun, but left unfinished, by EEC liberalization. The SEA proposed to end all barriers to trade within the EC by 1992, and the principal mechanism for doing so was mutual recognition of national regulatory practices rather than regulatory harmonization. Such ambitious liberalization was to be overseen by the Commission and Council, and in most areas to be decided by qualified majority rather than unanimity.

Such liberalization ended up being generous compensation liberalization, though it took a couple of years to consummate the "compensated" side of the deal. Among the package of reforms included in the SEA along-side this liberalization was the promise to substantially reform and increase support for regional development of the Community's poorer areas through the various structural funds, in the interest of fostering "economic and social cohesion." No money increases were promised, and no particular plans outlined, but the general promise for reform was written into the SEA Treaty provisions. The promise was made at the behest of the four delegations representing the poorer members of the Community (Ireland, Greece, Portugal, and Spain), who had explicitly conditioned their support for the SEA trade liberalization on making and fulfilling such promises. Such linkage made the cohesion policy promises side payment promises -- so the SEA liberalization promised, but didn't provide, compensated liberalization.

Translating this promise into provision took another two years of budgetary wrangling. A key part of that wrangling was whether, how, and how much to fulfill the general promises made in SEA in 1986, and this was resolved in the 1988 acceptance of the Delors I package, where the EC 12 agreed to double and restructure the structural funds by 1992. Explicitly demanded, offered, and accepted to off-set the risks that the poorer countries faced in adopting the SEA liberalization, this represented side payment compensation of unprecedented scale and patience.

Such compensation is remarkable in the contrasts it strikes. Like the previous cases of internal market liberalization, this extended provision of such compensation contrasts with the absence of such provision at the domestic level, and in general to the pattern of side payment politics in the US. However, more than the other cases, in Europe as well as the US, it represents a patient acceptance of a compensation promise in the face of temptation to renege by withholding increased assistance as liberalization commences. Like the Second Enlargement, only more so, it also contrasts with the relative decline in use of policy harmonization as a subject of side payment compensation. Such harmonization, including social and environmental policy harmonization that

would directly impact upon the distributional consequences of liberalization, was included in the SEA package, but it was weak as the subject of liberalization, given emphasis on mutual recognition, and it was not the subject of explicit linkage to the acceptance of the liberalization in general. Finally, in stark contrast to the Second Enlargement, the SEA/Delors I Reform package provided substantial benefits to the poorer members of the Community and less to the EC-Ten.

2.1. The SEA as Compensated Liberalization Promised

Like all the histories of compensated liberalization, this one begins with the basic fact of a liberalization initiative. Unlike the calls for trade liberalization at the center of the ECSC and EEC integration initiatives, the trade liberalization that was to become the centerpiece of the Single European Act did not have clear authorship like the Schuman/Monnet and Beyen plans, and did not become a principal focus of the integration project until very close to actual negotiation of the SEA. To be sure, the SEA's liberalization did become associated with EC Commission President Jacques Delors's plan for a single market by 1992, but that was late in the game. This proposal actually grew out of a long lineage of failed or frustrated initiatives with many authors, and made it onto the integration agenda amidst a slew of other vehicles for recharging the integration project.

For several years prior to the SEA negotiations, groups at all levels of political activity surrounding European integration had been peddling proposals for trade liberalization to complete the single market initiated under the ECSC and EEC customs unions. At the inter-governmental level, the European Council had since its 1974 inception discussed and tasked commissions to develop proposals for moving to complete the internal market. At that same level, the ill-fated Genscher-Columbo initiative, tabled in 1981, called for a variety of initiatives to "re-launch Europe," including internal market liberalization (Moravcsik 1991, p.33). Within the supra-national EC institutions, likewise, the so-called "Kangaroo Group" of EC Parliamentarians, founded in 1981, focused on the trade liberalization initiatives as the principal focus of integration activity, and in 1983 "launched a public campaign in favor of a detailed EC timetable for abolishing administrative, technical, and fiscal barriers" (Ibid, p.22). These initiatives dove-tailed with a number of other internal market liberalization pushes from groups outside international or national government, most prominently those from individuals and groups in international business (Ibid., Sandholtz and Zysman 1989, p.116-20). When such liberalization proposals were discussed, they were usually packaged with a range of other proposed reforms designed to reinvigorate the integration project, combining issues as diverse as political union and regional fund reform.

Before the mid-1980s, however, none of these packages had much of a fighting chance. Through most of the 1970s and early 1980s a series of EC-agenda distractions and political differences among the EC members made progress on any significant initiative or package of

initiatives impossible. First, the EC were mired in a thicket of inter-twined controversies over the Second Enlargement, CAP reform, and more general budgetary reform to remedy Britain's angry net-contributor position. With these fights there was simply no room on the EC agenda for anything significant and new.

Even if there were room on the EC "docket," the governments of the member countries had such diverging political economic agendas that any new initiatives, especially involving thorough-going liberalization, would be unworkable. Here, the most important snag was the deep divide between the social democratic and nationalist agenda championed by the radical wing of France's ruling Socialist Party, and the relatively more internationally open and macro-economically conservative British and German ruling parties. The former was interested in stepped-up European integration, but only towards a more interventionist, socialist or *dirigiste* EC, while the latter, especially Britain's Conservatives, saw internal market liberalization as the *sina qua non* of any integration activity. Cutting across this rift between France on one hand and Germany and the UK on the other, was another rift over the general commitment to political union and other elements of the integration project, with the UK generally much more hesitant than Germany and France to accept any new EC competencies that might threaten national autonomy. These forces conspired to frustrate the integration project, inspiring widespread "Euro-pessimism" and calls for multi-tiered community initiatives that would seriously compromise the EC-twelve internal market liberalization (c.f. Moravcsik 1991, passim; Sandholtz and Zysman).

It took a temporary trimming of the EC-agenda thicket and convergence in the political economic orientations of ruling governments to clear the path for internal market liberalization and other integration "vehicles." Political economic convergence happened first, with François Mitterand's decision to shift his Socialist Party's agenda away from the radical wing's brew of nationalization, increased welfare expenditure, and *dirigiste* intervention, and toward a more internationally open and macro-economically austere path -- in other words, towards the German and British path.[10] Part of that shift, moreover, was a renewed commitment to re-invigorating the integration project, and that commitment helped shake loose a series of compromises that cleared the EC agenda of some of its most long-standing and seemingly unresolvable blockages, including the Iberian Enlargement and, more clearly rooted in French conciliation, resolution of the CAP-EC budget reform complex. And roughly coinciding this shift, finally, was increased threat to move forward on the integration project with or without Britain, a threat that inspired greater conciliation from even the most sovereignty-squeamish Thatcherites (Ibid, passim).

[10] As Moravcsik and others argue, this shift was motivated by a variety of conditions, including how threats of further capital flight made austerity arguably inevitable and after the Communist party's decline allowed the President to jettison his Party's radical wing (c.f. Moravcsik 1991, p.30, fn.28).

These shifts came together and bore their first fruit in the June 1984 Fountainebleu summit. The meeting finally resolved the budgetary wrangle by linking CAP reform, including some reduction in Guarantee rates, and more generous rebate scheme for the UK, to higher VAT rates to raise EC revenue.[11] This Mitterrand-led resolution cleared the way for the heads of government to agree on "a package of internal liberalization, coordinated stimulation, and collaborative research and development" (Moravcsik 1991, p.38). Mitterrand also sought to coordinate new initiatives on political reform, but received less support. Beyond these declarations, the Fountainebleu summit also created two committees to investigate the various initiatives: the Adonnino Committee to investigate customs formalities for individuals, harmonization of professional degrees, etc.; and much more important for side payment politics, the Dooge Committee to consider institutional, political and economic initiatives, including internal market liberalization and regional fund reform (Urwin 1995, pp.225-27). As this was the re-launching of ambitious single market integration, Fountainebleu was the SEA's Messina summit, and the Drooge its Spaak commission.

From this turning point, a rapid sequence of decisions lay the ground-work for a decision to hold an intergovernmental conference to agree on a package of internal market liberalization and other reforms. The Dooge deliberations and report made it clear that the member countries could agree more on the single market liberalization than on a number of major procedural reforms it was tasked with considering, especially relaxing or ending the Luxembourg Compromise upholding the practice of unanimity voting in favor of some kind of qualified majority scheme. Although it was not a major subject of discussion, the Drooge participants also agreed on the need to improve and restructure regional and adjustment policies in the structural funds. During Drooge deliberations, Jacques Delors had taken on the EC Commission presidency and had announced in his first speech to the EC Parliament the goal of completing the internal market by 1992. Partially based on the Drooge report and at the Mitterrand-Delors initiative, the EC Council endorsed the 1992 single market goal, and within a matter of weeks Internal Market Commissioner Lord Cockfield drafted the White Paper laying out some 300-hundred details on how to reach that goal (CEC 1985b). At the Milan summit in June 1985, member countries could agree on little beyond that White Paper, but did commit themselves participate in an inter-governmental conference to reform the Treaty of Rome to launch the internal market and other reforms (Urwin 1995, pp.226-8).[12]

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[11] Significant for the history of side payment politics, this package that linked at the international level three issues -- CAP reform and UK rebate to increased VAT rates -- was facilitated by a second package of issue linkage, also decided at the international level but focused more on particular domestic groups: the pain of reduced CAP Guarantee subsidies to some farm groups was to be compensated for by the provision of some new adjustment and regional fund assistance, mainly through the Guidance section of the EAGGF.

[12] In fact, the UK, Denmark, and Greece were reluctant to commit themselves to such conference devoted to Treaty revision. When a majority vote was called to decide whether to convene the conference, under EEC Article 236, the three voted against, but acceded to the majority vote and agreed to attend. Their hesitancy lay mainly in disagreements with the proposed procedural changes, like majority voting and European Parliamentary competency (Urwin 1995, pp.227-8).

The conference was schedule for October 1985. At the center of the agenda was an expected package including some detailed commitment to trade liberalization through the reduction of the many non-tariff barriers laid out in the White Paper, combined with or even linked to a series of political reforms, especially some move towards qualified majority voting, certainly on many single market issues, but perhaps many others. But in addition to these center-pieces, the agenda also included a variety of other reforms, including defense cooperation, social and environmental policy coordination and harmonization, foreign policy competency, and structural fund reform. As in a variety of areas, moreover, the structural fund reform process brewed outside of the inter-governmental struggles for some time, through the Commission's development of various reforms to improve integration of programs, through a focus on longer-term programs rather than discrete projects. Much of this activity was focused on the reform of the ERDF and implementation of the new Integrated Mediterranean Programmes, set up in July 1985, after the Milan summit and before the intergovernmental conference. Whether any and all of these reforms would be major subjects of discussion at the conference, and what kinds of issue linkage would be demanded or accepted, was shaped by the various country positions that constrained the negotiating delegations.

2.2. Country Positions: The Rich not Against but also not With the Poor

The twelve member delegations and polities they represented approached the intergovernmental conference with important differences over the whole gamut of issues to be discussed. And on some of these issues, the main differences were among the large member states. On the 1992 internal market liberalization and the side payment politics it provoked, however, the important distinction was between the rich countries and the poor ones, for it was along these lines that the member delegations were divided over what, if anything, to demand to mitigate or off-set the expected costs of the liberalization. Although the richer and larger countries differed over plenty, especially over the degree and nature of procedural reform, they all tended to see the single market project as a relatively un-problematic vehicle for or focus of integration. But the poorer countries, or at least their governments, saw the single market as a more ambiguous and complicated proposition.

Germany and the Benelux countries were the most compliant countries on the center-piece issues to be decided at the conference. With EC-member countries consuming a full half or more of their exports, all four had a very strong interest in retaining and expanding that market access through the Single market liberalization. Since the signing of the EEC, in fact, Germany had consistently been the most liberal of the member countries on issues of both internal market and external market trade -- agricultural issues notwithstanding. And even Belgium's weak sectors, such as coal and steel, would not face significant market opening through the internal market

liberalization, for they already had in EEC and ECSC. So within this group the only trepidation lay in whether the liberalization would impact upon the CAP, and as the recent deliberations had not brought the CAP into the 1992 internal market initiative, there was little worry for at least the medium term. On the procedural issues discussed, moreover, the Germans and Benelux had been willing for some time to go along with, indeed pushed, the French to soften the Luxembourg Compromise and to increase the Commission's and Parliament's competencies.

Britain's position on these same two center-piece issues was more divided. Especially under the Thatcherite wing of the Conservative Party, the British government and its delegation was deeply suspicious of the procedural reforms, fearing that increased supra-national competencies and extensive qualified majority voting would steam-roll Britain's sovereign interests. But on the single market project, Thatcher especially was completely gung-ho, and in fact this liberalization project was her government's prime interest in the whole integration project. As a result, many proposals from the Conservative government, and by the Thatcher-appointed Cockfield, made it into the White Paper outlining the specifics of liberalization, especially in financial services. The Party's interest in liberalization was so strong, in fact, that they recognized the need to soften their position on qualified majority voting in order to facilitate the implementation of the 1992 proposals. With such a position, there was little doubt that the delegation would accept other, less threatening, trade-offs to achieve freer trade -- including linkage to various funding or redistribution proposals.

France's position, and to some extent Italy's, was the basically the opposite of the British one when it came to the basic trade-off between procedural reform and trade liberalization, but for the purposes of liberalization side payment politics was perfectly compatible. Since Mitterand had shifted his party away from its radical wing, the French government was interested in general international openness, of which internal market liberalization was a vital part, but they were still concern about the potential adjustment costs associated with such liberalization. Instead, the 1992 liberalization's value lay mainly in its potential to leverage other countries, including most prominently Britain, to re-charge the integration project in its many other political and social dimensions. Procedural reform, then, was as high a priority for the Mitterrand's delegation as was Delors's 1992. However, precisely because they recognized the costs of liberalization, more than because they so wanted liberalization, the delegation was interested in a variety of other reforms that might off-set liberalization's costs -- including social policy harmonization and expanded structural fund reform, along the lines of the IMP reforms that had so recently been beneficial.

2.2.1. The "Poorer" Members: Economic and Political Risks Were the Worry, Not the Costs

The poorer countries in the EC-12 approached the intergovernmental conference with general support for many of the single market and procedural reforms to be agreed upon -- and in that sense, oddly most like the German government's stance, among the three dominant member countries. In details on many of the issues, moreover, the various poorer economies -- by various measures, including per capita GDP and production value added -- had less in common with eachother than they did with one or another of other dominant countries. But the internal market liberalization posed similar problems for all four, and in seeking some redress for these problems the poor delegations found common cause. The problems which provoked this common cause, however, lay less in anticipated economic costs of the liberalization to various industrial or agricultural groups than in anticipated political and economic risks for the polity.

At the time the elements of the internal market liberalization were first being discussed in detail, in the context of the White Paper, the distributional implications across and within the member states were ambiguous -- with plenty of reasons to expect that the liberalization would disproportionately benefit, not harm, the poorer economies. A report released well after the intergovernmental conference captured the general point that applied well to the situation in mid-1985: "it is a matter of dispute at the moment among economists, including within the Commission, as to whether economic and monetary union will be good for everybody or only good for some. Some of these economic arguments miss the point. The point is that, first of all, you cannot prove anything in advance with any certainty" (CEC 1991, p.3; quoted in McAleavey 1993, p.25-6).

Between the poor and the rich countries, moreover, recent trends in per-capita GDP growth made the specific point that the 1992 liberalization might not be bad, and might actually be beneficial. Throughout the period of their membership in the EEC, the Iberian countries, Greece, and Ireland remained the poorest members of the 12 -- together averaging less than 75 percent of the EEC-12 average. But throughout the same period, during which the countries accepted significant internal market trade liberalization, their relative poverty didn't get worse, and in fact there was over a slightly longer period evidence that their growth in per capita income and employment was greater than that for the "core" EC states (Keeble et al. 1988, pp.104, 11; quoted in Marks 1992, pp.201-2). Assessments by economists of the cross-country implications of the single market, based on a variety of models of trade liberalization that focused on exploiting comparative advantage and on exhausting scale economies, suggested that the peripheral poor countries might have more to gain from the internal market liberalization than would the richer countries (Neven 1990, p.46; quoted in Marks 1992, p.199).

As for the distributional consequences within the poorer economies of the 1992 liberalization, the picture also looked reasonably good. The countries that had just completed their accession negotiations -- Greece in 1981, and Spain and Portugal in late 1984 -- the expected distributional implications of the internal market were similar to what they had recently accepted to endure, with their various transitions and safeguards. As the previous case history suggested, such liberalization posed a variety of modest problems for agriculture and more serious ones for industrial manufacturing, but in general the low-wage conditions of the new-comers suggested that the liberalization would provide substantial, significantly greater, benefits to existing industrial and agriculture sectors, as well as the usual benefits to consumers. This was also true through the promise of foreign direct investment from investors outside of the EC 12 interested in getting or keeping a foot-hold in the European Community market and able to take advantage of the relatively lower-wage and cost conditions of the poorer members.

In Ireland the liberalization was even less troublesome in its distributional consequences. In addition to the consumer benefits promised by a completed internal market, a number of export oriented industries that had hitherto had difficulty gaining access to EC markets, particularly on the continent, stood to gain substantially from the 1992 removal of discriminatory procurement practices, state aids, documentation, and other non-tariff barriers (McAleese and Matthews 1987, pp.46-9). This was true, for instance, of food and drink producers, pharmaceutical and other health-care providers, and some electronics industries. The liberalization also promised indirect benefits foreign direct investment, though it might not do as well in this regard as it had in the recent past given the Second Enlargement.

The various expected costs of the liberalization, meanwhile, were not expected to be very strong for the producers traditionally dependent upon non-tariff barrier relief. Some service industries such as insurance might be threatened by the internal market, depending on what happened with off-shore and third country investments. Manufacturing industries in auto parts and assembly, and other manufacturers, had traditionally and continued to receive state-aids that would be outlawed by the prospective liberalization, but by 1985 these industries had already undergone substantial structural adjustment that left them relatively viable and internationally exposed (McAleese and Matthews 1987, pp.51). For this or whatever other reason, there was "little concern being expressed in industrial circles at the implications of [the internal market liberalization] for Irish industry," unlike their opposition and concern expressed during the 1972 accession negotiations (Ibid).

The prospect of internal market liberalization may have had uncertain implications, even promising some greater long term economic benefits through exploited comparative advantage and scale economies, but the transition to a single market also promised uncertainty and the risk of economic recession, unforeseen dislocation for some sectors of the economy, and other economic

problems. As Marks 1992 and others have observed in general terms, these economic risks were much greater for the poorer than for the richer EC members, and these greater risks, in turn, posed even greater risks for the *governments* in those poorer than richer countries (McAleavey 1993).

The greater economic risks were due to the lack of a social safety net or a cushion of affluence in the poorer countries (Marks 1992, p.202-3). Poorer societies lacked general economic affluence of the richer states, with lower income levels implying that most citizens' incomes paid for subsistence needs like food, clothing shelter, etc. Should the internal market cause a down-turn or more concentrated dislocation, any lost income or unemployment would generally be felt more strongly and bitterly than in richer societies. Moreover, the poorer countries, especially Greece, Spain, and Portugal, had less developed and generous government programs to guarantee income support, adjustment assistance, or other safety net services should the economy suffer from the internal market liberalization (Ibid). So the economic risks of the single market were greater.

The political risks involved in the transition to the internal market were also significantly higher in the poorer countries (Marks 1992, 1993; McAleavey 1993). First all of the poorer EC countries were relatively new members to the EEC, whose polities had not felt palpable benefits of membership and were generally "unaccustomed to the idea of membership" (Marks 1992, p.). Greece, Portugal, and Spain, moreover, were under-going significant economic and political transformation of which trade liberalization was only a part, with existing democratic government having or at least sensing only fragile footing. With these characteristics, the governments in the poorer countries faced greater risks that their polities would blame any economic down-turn or dislocation, whether or not it was caused by transition to the internal market, on the single market initiative, and since such an initiative was to be a clear inter-governmental choice, on the ruling governments (Ibid). The governments of the new democracies, of course, had more to fear in this vein than did the Irish government.

With these greater political and economic risks, the government delegations were conscious to off-set or mitigate the risks of single market liberalization, even if "distributional coalitions" within their societies did not emerge against freer trade, and even if the expected economic implications of the shift were, on the whole, favorable.[13] The delegations could approach the liberalization with an eye to ensuring that the internal market initiative provide safeguards and escape clauses to deal with the risks. And since the inter-governmental conference was to consider a wide range of policies and programs along side the procedural and internal market liberalization centerpieces, there were plenty of possibilities for off-setting those risks through side payment compensation. Among the possibilities were social policy harmonization. But such

[13] A later study showed public opinion in the four countries to more generally in favor of the 1992 program than the "rich" country publics. EC Commission 1988d, p.20.

harmonization, even if it entailed subsidized upward-leveling in social welfare and other conditions relevant to mitigating or off-setting internal market risks, would likely be very expensive to the other member countries and very complicated to negotiate.

Reform of the structural funds was a more obvious target. The countries involved in the Second Enlargement had recently relied on such funds to off-set the costs and risks of EEC liberalization, with Greece receiving substantially more than the Iberian entrants. Greece went into the inter-governmental negotiations, therefore, with clear concern for the risks of the internal market liberalization and a recent and strongly positive experience with using structural fund expansion and reform to off-set such risks. Portugal and Spain, meanwhile, had received some structural fund assistance as well for the costs and risks of their accession, but had seen the more substantial fund assistance and reform go to the EC Ten. Ireland, finally, had recently undergone general economic downturn, potentially linked to problems of the EEC liberalization, and also faced the long-term prospect of reduced CAP Guarantee funding on which they had traditionally benefited since accession. This drew attention to another set of budgetary programs that could take up the slack as well as deal with the internal market's risks.

2.3. Negotiating the Promise of Compensated Liberalization in the Single European Act

The Inter-governmental Conference (IGC) got underway with its first Ministerial meeting on September 9, 1985, and it took more than five months before agreement was reached with the first signing on February 17, 1986.[14] The deliberations were broken down into two broad working groups, one focusing on the European Political Cooperation (EPC) proposals tabled principally at the Milan Summit, and the other focusing on all the trade, monetary, cohesion, and other issues pertaining to revision of the EEC. The latter working group, chaired by Luxembourg representative Jean Dondelinger, set a dead-line for submission of proposals to be considered as October 15th, and received over 30 proposals from the Commission and every member State except the UK (Corbett 19, p.244). The working parties comprised country delegations, whose members were drawn from a variety of ministers germane to the issues under consideration, mainly Economics and Foreign Affairs ministries. These groups met almost weekly from the beginning of September through December, and they reported to the Foreign Ministers, who met

[14] My account of the inter-governmental negotiations draws on several secondary and primary sources. A few historians have written relatively detailed accounts of the proceedings, especially Corbett 1986, Corbett 1987, Gazzo 1986, and Lodge 1986. The Corbett accounts are the most detailed. Gazzo 1986, however, provides an assemblage of primary source documents from the negotiations, including Agence Europe bulletin reports, press releases, private letters, formal policy proposals, as well as official Treaty and supporting documents. It, therefore, provides the best source for information. My account draws on all of these sources, especially Gazzo's complication of documents, supplemented by several EC Commission *Bulletins* that provide some day-to-day details on the side payment politics.

on six occasions before the Luxembourg summit in December 1985 and held an additional meeting immediately prior to that summit. The Heads of government discussed the issues at the Luxembourg summit, and when issues weren't resolved, the Foreign Ministers held a final meeting on December 16th and 17th (Ibid).

The deliberations were as wide-ranging as had been planned. The center-piece issues, internal market liberalization and procedural reform, dominated the sessions, but a variety of others were brought into discussion, either in connection with the center-piece deliberations or as separate agenda items. Thus, the working parties, the ministerial meetings, and the Heads of State also discussed monetary capacity, the environment, research and development policies, social policy, human rights, political cooperation, and cohesion (Corbett , Gazzo 1986, Lodge 1986, passim).

By all accounts, however, the widespread hopes of making significant progress on a number of these issues during the IGC went unfulfilled. Making substantial progress on a variety of the issues, especially the political cooperation, monetary policy, and procedural reform, has been called by some the "maximalist program," in contrast to a "minimalist program" limited to internal market liberalization and only those procedural and substantive issues pursuant to that liberalization (Gazzo 1986, p.7-8; Moravcsik 1991, p.). If so, the IGC negotiations was basically a story about the maximalist program getting "progressively sacrificed" in favor of the minimalist one (Moravcsik 1991, p.; Gazzo 1986, pp.7-9). As a story about side payment politics, however, such down-grading in the IGC agenda still involved clear and explicit side payment linkage and the promise of compensated liberalization.

As for the internal market liberalization that dominated the discussions, the working groups and ministerial meetings worked primarily from a Commission proposal that embellished the Delors plan and the Cockfield White Paper. It called for creating by 1992 an internal market, defined broadly as an area "in which persons, goods and capital shall move freely under conditions identical to those obtaining within a Member State" (CEC, quoted in Corbett 1987, p.245). The mechanism by which the EC was to achieve this internal market was a combination of regulatory harmonization where differences operated as non-tariff barriers, and of mutual recognition of such differences, with the particular mix left for the Council of Ministers and the EC Commission to decide. It also proposed, however, that those differences not harmonized by 1992 would be automatically accepted through mutual recognition. The Council was to act toward liberalization through qualified majority voting, except for the free movement of persons, and the Commission was to implement Council directives with substantial autonomy (Corbett 1987, p.245).

Discussions focused on a variety of issues -- including the definition of the internal market, the deadline for its achievement, the rules by which particular barrier reductions would be decided -- most of which involved various members state delegations requesting changes that constituted revision of the ambition of the internal market liberalization, or exemption from the reach of that

liberalization. Much of the discussion, for instance, focused on delimiting majority voting relevant to single market liberalization. Denmark and Greece preferred unanimity voting generally; the UK, Germany, Netherlands and Ireland wanted to retain unanimity for taxation and fiscal differences; and Ireland, concerned about the competitive position of its insurance and banking services, supported majority voting except for these sectors (Corbett 1987, p.245). Other countries sought to limit the range or direction of harmonization that might be the subject of internal market liberalization. Thus, Denmark and Germany expressed worries that such harmonization could require that they lower "their standards of environment and consumer protection" (Ibid).

Three of the poor countries -- Greece, Ireland, and Portugal -- also released unilateral declarations on the need to mitigate costs on sensitive economic sectors (Corbett p.247). Greece unilaterally stated "that measures taken pursuant to Arts.70 (1) and 84EEC," the harmonization and mutual recognition directives, "must not harm sensitive sectors of Members' economies" (p.212). And at the Foreign Ministers' meeting, Ireland "added another unilateral declaration designed to protect its sensitive insurance sector but confirming its agreement in principle to the qualified majority voting on Art.57 (2)" (Lodge 1986, p.212). Such demands all constituted a combination of delays, revision and exemption -- in short, rolled-back liberalization.[15]

The discussion of most of the various other issues on the IGC agenda, meanwhile, never got explicitly linked to the internal market liberalization. For instance, discussion of monetary, research and development, environmental, and social policy harmonization and EC policy, either got discussed as actual subjects of internal market liberalization -- i.e. leveling differences that might act as non-tariff barriers -- or was focused on achieving the policy improvements as integration goals unto themselves. The secondary and primary accounts show no sign that any of these issues involved groups linking their position to their support of particular market liberalization reforms.

On only one issue did the IGC deliberations involve such explicit linkage: the cluster of issues and policies under the mantle of "economic and social cohesion." During deliberations focused on internal market reforms, and those focused on the cohesion policy issue as a separate agenda item, the poorer countries, especially Ireland, Greece and Portugal explicitly conditioned their support for internal market liberalization on adequate progress toward improved cohesion policy. As Corbett 1986 recounts, during the internal market discussions the Greek, Irish and Portuguese delegations, "fearing the centipetal [sic] effects of an integrated market, linked their position to the outcome of negotiations on cohesion" (Corbett p.245).

The specific linkage demanded came out in the discussions over the economic and social cohesion issue. Proposals on Community cohesion were tabled by the Commission, France,

[15] Other issues included derrogations, the automaticity of mutual recognition once 1992 arrived, as well as the usual requests for safeguards. See Corbett 1987, pp.245-6; Lodge 1986, pp.210-213; and Gazzo 1986, passim.

Ireland and Greece, with much of the discussion and the final compromise based on revision of the Commission proposal (Corbett 1987, p.248-9). That proposal, tabled on September 30th, focused on promoting cohesion by revising the Treaty of Rome to include five Articles on cohesion. These focused on promoting the core objectives of cohesion,[16] by appropriately implementing "the internal market," by coordinating states' economic policies," by setting up new policies, and by "rationalizing the operation" of existing ones (Lodge 1986, p.213). Principal among the policy actions was "setting up one or more structural funds" focused on regional development and adjustment, and setting up a new loan-granting mechanism (Commission, p.38; in Gazzo p.38). The Commission also proposed reforming and restructuring the new and existing structural funds and loan mechanisms, in order to coordinate and make more efficient the achievement the core cohesion objectives. And most importantly, the Commission proposal clarified that details of the expanded and reformed cohesion policy might not be worked out at the IGC but that a specific commitment and plan to do so should be in the treaty (Gazzo 1986, p.38). The Greek, Irish, and French proposals overlapped this Commission offering.[17]

Deliberations over these various proposals focused both on the general goals and theme of social and economic cohesion, and on the specific Community actions to promote such cohesion. The various accounts concur in claiming that "there was a clear divergence between those countries likely to benefit ," the poorer countries (Ireland, Portugal, Spain, and Greece), "and some of those likely to contribute" to the various re-distribution policies proposed. Principal among the latter were Britain and Germany; France was more favorably disposed to the expanded structural funds and other commitments. For instance, an Italian amendment supported by Ireland Greece, Spain Portugal, and the Netherlands, was designed to ensure adequate funding for all the structural funds, and elicited objections particularly from Germany and Britain (Lodge 1986, p.213). These delegations were uneasy with structural fund expansion, and tended to "argue that cohesion could best be obtained by providing the same economic conditions throughout the common market and that emphasis should therefore be on convergence of economic policies" (Corbett 1987, p.248). However uneasy, they never threatened to veto any major parts of the internal market or other packaged agreements if the Commission or other proposals were adopted at the IGC.

The poorer country delegations, however, took a substantially stronger position, making the outcome of the social and cohesion policy provision an explicit condition for their support of

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[16] These objectives were: "improving employment prospects in the Community and encouraging social innovation, encouraging the modernization of agriculture...., contributing to the development of less favored regions and the reconversion of regions experiencing crisis, and encouraging the adaptation of the European economy to technological changes" (EC Commission, in Gazzo 1986, p.38).

[17] Ireland's proposal sought specific provision in the EEC treaty for regional policy, as well a for another provision increasing the EC's cohesion "by improving citizens' living and working conditions" (Lodge 1986, p.213). France's alternatives to the Commission proposals highlighted the need for a public finance union.

the internal market. The Progress Report by the Preparatory Group, setting the agenda for the second session of the IGC on October 21st, officially chronicled this linkage:

> Some delegations, without commenting on the Commission's specific proposals, considered that appropriate practical provisions in this sector *were a condition for acceptance of the proposals on the Internal Market.* They referred to the commitments which had already been entered into along these lines on several occasions and the resultant need for the Community to equip itself with the means, including financial means, to help reduce the disparity in the economic development between the Member States and the regions. (IGC Preparatory Group, in Gazzo, p.58; emphasis in original text).

Even though the cohesion policy provisions demanded and proposed make no explicit reference to redressing the risks of internal market liberalization, as some of the ECSC and ESF adjustment assistance did, this linkage constitutes a demand for side payment compensation.

And through the intervention of Delors, the various delegations were able to come to a compromise on the cohesion issue, and hence to make a side payment promise (Corbett 1987, p.248). The compromise involved dropping the demand for the new loan facility, omitting explicit references to restructuring the ESF provisions (some delegation representatives thought this would be redundant), and most importantly, accepting that the details on increased funding and rationalization be left until later, but planned, EC action.

2.3.1. The Single European Act as Promised Compensated Liberalization

Negotiation of the various issues in the Inter-governmental Conference consumed more time and achieved much less than many had hoped, but a Single European Act encompassing internal market liberalization, procedural reform and a variety of other issues was ready for signature on February 17, 1986. On that day, only nine of the EC twelve actually signed the SEA, with Denmark, Italy and Greece withholding their support pending a Danish referendum on the SEA project. The day after 56 percent of the Danish public gave their government their go-ahead to adopt the Luxembourg package, all three member states gave their signatures as well, on February 28th in the Hague. When whittling away at the "maximalist position" was complete, the minimalist result disappointed many pro-Europe supporters, especially those committed to more EC supra-national competencies, but it was an ambitious program of compensated liberalization.

The compromise reached on the schedule, form, and decision-making process towards internal market liberalization reflected a variety of the revisions of and exemptions from the original Commission proposal demanded during the conference. But it was still a very ambition liberalization. The 1992 deadline was adopted, but was not to trigger "automatic legal effects" (Corbett 1986, p.245). The qualified majority voting rule was to apply to Council directives for "the common customs tariff, banking, medical and pharmaceutical professions, services of nationals of third countries, liberalization of exchange policies and movement of capital..., and air

and sea transport" (Ibid, p.246). It would not apply, however, to those directives designed to reduce NTBs through harmonization of fiscal policy or free movement of persons. The agreement also called for a high level of harmonization on issues involving health, safety, consumer protection and the environment. Where any harmonization is decided by qualified majority states would through an application process "be free to apply national provisions on grounds of major needs or relating to the protection of the environment or working conditions" (Ibid). In addition to the exemption and revision implicit in these measures, the unilateral declarations in defense of sensitive sectors held as limited exemption from the internal market liberalization. But these provisions that "rolled-back" the liberalization did not prevent the SEA internal market from being more far-reaching than any international trade liberalization in history.

With the various economic and social and economic cohesion provisions provided as the conditions for the support of the internal market by several countries -- most explicitly Portugal, Greece, and Ireland -- the SEA also promised side payment compensation. The SEA revised the Treaty of Rome to include a variety of social and economic cohesion commitments, closely paralleling but slightly watering-down the Commission cohesion proposal. The provisions were encoded under "Title V: Economic and Social Cohesion," and were detailed in Article 130 (sub-articles A through E). The article provisions emphasized reform and expansion of the various structural funds (ERDF, ESF, and Guidance Section of the EAGGF) and other provisions (e.g. EIB and the ECSC Re-adaptation Fund) (Article 130b). Implementing decisions were to be made by qualified majority rather than unanimity, thus easing the ERDF implementation, which had hitherto been constrained by unanimity (Article 130e).

The social and economic cohesion provisions, however, were only an ambiguous promise of assistance, and were thus only an ambiguous promise of compensated liberalization. The Article 130 provisions never mentioned any details about the level and direction of the reforms of the structural funds. And, in fact, never promises to increase the level of funding or sweep of the funds (Shackleton 1991, p.107). The member countries did, however, express a general commitment at the SEA to increase structural fund finances, "by a declaration referring to the conclusions of the European Council meeting of Brussels in 1984 that the funds would be 'significantly increased in real terms within the limits of financial possibilities'" (Corbett 1987, p.249). And although details were left for future action, Article 130d set a schedule:

> Once the Single European Act enters into force the Commission shall submit a comprehensive proposal to the Council, the purpose of which will be to make such amendments to the structure and operational rules of the existing structural Funds ....The Council shall act unanimously on this proposal within a period of one year, after consulting the European Parliament and the Economic Social Committee. EC Commission, in Gazzo 1986, pp.127-8).

Thus, the cohesion provisions represented a promise for side payment compensation, a clear and scheduled one, but a promise nonetheless. Whether this was a promise to be fulfilled or forgotten was answered over the course of the next two years.

2.4. Negotiating the *Provision* of SEA-Structural Funds Compensated Liberalization

Although the Commission fulfilled its SEA mandate to propose reforms within a year of the Treaty's passage, the proposed structural fund reforms, and hence the side payment promise, became caught up in the tangle of budget issues that had been the integration project's traditional road-blocks. The Commission's proposals for structural funds reform and expansion were initially aired as part of the general Delors I package, named after the main initiator and champion of the reforms Jacques Delors, and laid out in the February 17, 1987 report by the Commission President, *Making a Success of the Single Act: A New Frontier for Europe* and embellished in a later report (CEC 1987b; EC Commission 1987c). The Delors I *Making a Success of the Single Act* package focused on changes in CAP, revenue, and the UK rebates, as well as structural funds financing. As the title itself implies, the proposal reiterated the Commission's insistence "on the intimate link between the establishment of the internal market and cohesion" (CEC 1987b; De Witte 1990, p.28). The Delors package "was presented as a necessary precondition for the successful implementation of the internal market programme" (Tsoukalis 1993, p.243).

The actual details of the structural funds proposal, however, waited until Commission on July 31, 1987 submitted its "comprehensive proposal pursuant to Article 130d" laid out in Title V of the SEA Treaty (CEC 1987d).[18] The first recommendation in this proposal was "that the process of completion of the internal market should be accompanied by a parallel expansion of budgetary credits for the structural funds, resulting in a doubling, in real terms, of the allocation to those Funds by 1992" (quoted in De Witte 1990, p.29). This implied a planned increase from 7 to 14 billion ECU, a rise in their percentage share of the overall budget from 9 percent in 1987 to 25 percent by 1993 (Shackleton 1991, p.107; Allen 1996, p.215, 19). Although the proposal also called for substantial and ambitious restructuring and coordination of the structural funds along the lines laid out in the proposed ERDF Reforms and the IMP regulation in 1985, this budgetary increase was the most dramatic element of the proposal.

Such an audacious request was justified, the report argued, by the insufficiency of previous regional policy packages to narrow the large gap between the poorer and richer regions combined with the likelihood that "completion of a genuine internal market was expected to widen even further the 'natural' gap between dynamic and backward or declining regions" (De Witte 1990, p.29). The proposed restructuring of the doubling of funds called for the largest portion (65%) to

[18] An amended proposal was submitted on March 23, 1988 (EC Commission 1988c).

be devoted to helping poorer regions with per capita income less than 75 percent of the EC average (CEC 1987d; see also McAleavey 1993, p.23). Therein lay the idea that the reform would remedy the gap between "dynamic" and "declining" regions.

The structural funds proposals were negotiated along with the other budgetary elements in the Delors I package between roughly June 1987 and February 1988, mostly under the Danish presidency of the Council in the latter half of 1987 (Laffan and Shackleton 1996, p.80). There was intense controversy over the overall size of the budget and the need to discipline CAP expenditure, but equally over the commitment of Structural Fund resources to the poorer regions (Tsoukalis 1993, pp.243-4). The restructuring provoked much less concern, mainly because its immediate budgetary implications were very modest and were so overshadowed by the proposal to double overall funding.

As with the negotiations over the SEA, "the major split was between the poorer states fighting for a larger budget and the paymasters who sought to restrain the level of any such increases" (Laffan and Shackleton 1996, p.80). Germany and Britain, more specifically, were the reluctant paymasters, in contrast with France and Benelux countries, which would also be footing the bill. Britain's delegation, however, was the most reluctant. As the negotiations over the budget commenced, it became clear that Mrs.Thatcher assumed that Article 130 in the SEA promising substantial structural fund reform was "merely symbolic" (Ibid).

On the other side of the aisle, representatives from the poorer states -- including those at the highest level and this time including Spain as well as Ireland, Portugal and Greece -- joined the Commission in linking completion of the internal market to an increase in the structural funds.[19] As one senior Commissioner was to later observe "without the Structural Funds five members would have had severe doubts about signing up for the Single European Act" (Audit Commission 1991, p.12; quoted in McAleavey 1993, p.23). In making these pleas, the Commission and the poorer states were joined by the European Parliament and other groups commissioned to study the implementation of the internal market (European Parliament 1988; Padua-Schioppa et.al. 1987).[20]

The attempt to resolve this and other disputes over the budget didn't succeed before or during the Copenhagen European Council meeting in December 1987 as the Ministers and others had hoped, so the Council agreed to set up a special meeting in Brussels in February 1988 under to Germany presidency "in order to overcome the deadlock" (Laffan and Shackleton 1996, p.80). To

[19] See, for instance, the Spanish Prime Minister Felipe González's position outlined in *L'Europe de la Communauté des douze á l'Union Européene: Objectif 1992*, cited in De Witte 1990, p.28.

[20] The Padoa-Schioppa report, authored by Tommaso Padoa-Schioppa, previously a senior Commission official was asked to investigate the "economic consequences of the decision taken in 1985 to enlarge the Community to include Spain and Portugal and to create a market without internal frontiers by the year 1992" (Cutler et.al. 1989, p.77; quoted in McAleavey 1993, p.22). The report claimed that as markets integrate there were tendencies promoting both convergence and divergence in development and income, and said that "adequate accompanying measures are required to speed adjustment in the structurally weak regions and countries, and counter tendencies towards divergence" (p.4; cited in McAleavey 1993, p.22).

"avoid a collapse in the Community's financial structure, Chancellor Kohl successfully brokered a deal during the three days of that meeting, among other things overriding Thatcher's reluctance to accept the doubling of the Structural Funds (Ibid).[21] As one observer noted, the agreement on structural funds was possibly only because "Kohl wanted to secure agreement and was willing to push for it, even though it meant a significant increase in Germany's contributions to the budget. The German government *wanted to maintain consensus on the internal-market programme"* (Ibid, italics mine). Thatcher and the British government, apparently, was caught by surprise "because it had assumed that the Germans were in the austerity camp" (Ibid).

2.4.1. The Structural Funds Reform Fulfilling the SEA Promise

The structural funds reform, coming as it did within the deadline set by Article 130d of the 1986 Treaty revision, fulfilled the SEA's promise of compensated liberalization. Representing by far the most dramatic development in the Community's regional policy history and getting developed so quickly compared to the more drawn out ERDF and IMP experiences, the reform came as a surprise to many, even "general astonishment" (Shackleton 1991, p.107; De Witte 1990, p.30). The quantitative part of the reform -- the doubling of the various structural funds -- was enacted through a series of Council directives and by an Inter-institutional Agreement on Budgetary Discipline and Improvement of Budgetary Procedure designed to ensure that the budget commitments wouldn't be undone through Commission, European Parliament, and Council In-fighting (Laffan and Shackleton 1996, p.80).

The qualitative part of the reform was more complicated, and involved no fewer than five Council Regulations (De Witte 1990, p.30). The most earliest and most overarching was the "framework Regulation" (2052/88) of June 24, 1988, laying out the functional and geographic concentration of the various structural funds, and many of the relations between them (CEC 1988e).[22] Article One of the Regulation laid out and related six Objectives, in particular. *Objective 1* regions were those least developed regions of the Community "with per capita GDP of less than 75 percent of the EC average" (Marks 1992, p.207).[23] The eligibility of regions was to be determined by the Council of Ministers, and was expected to include "Northern Ireland, Corsica and the French Overseas Department, ten Spanish regions, eight regions in the sought of Italy and

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[21] The other provisions included raising the ceiling of the financial resources available to the Community to 1.2 percent of GDP by 1992; extending the system of "own resources" to include a new fourth resource based on relative wealth of the member states, as measured by per capita GNP; binding overall CAP spending to be no more than 74 percent of the growth in Community GNP; a continuation of the complex rebate system, set up at Fountainebleu, for the UK's budget contributions (See Laffan and Shackleton 1996, p.79-80)

[22] The other Regulations were adopted on December 19, 1988, and included the following: Regulation 4253/88 (coordination between Funds); 4254/88 (Regional Fund); 4255/88 (Social Fund); and 4256/88 (Agricultural Fund). See EC Commission *Official Journal* 1988e.

[23] Some of the regions ruled eligible were slightly above that 75 percent threshold (Tsoukalis 1993, p.244).

the whole of Greece, Ireland and Portugal," encompassing 21.5 percent of the EC population (McAleavey 1993, p.10; Marks 1992, p.207). This aid was allocated 65 percent of the increase funds, by far the largest of the six objectives, and was to be funded principally out of the ERDF (80 percent of this fund was to go to Objective 1 regions), but also by the ESF, the EAGGF, the EIB and the ECSC Re-adaptation fund (Allen 1996, p.225).

The other funds were to receive substantially less of the expanded funding. *Objective Two* was to convert regions seriously affected by industrial decline, where unemployment was above the EC average, and applied to some sixty regions throughout the Community, comprising almost 17 percent of the EC population. It was to receive around 11 percent of total structural fund moneys. and was also to be covered by more than one of the funds, including the ERDF, the ESF, the EIB and the ECSC (Ibid). *Objective Three* focused on combating long-term unemployment, while Objective Four on facilitating occupational integration of young people, and were mainly the preserve of the labor adjustment assistance funds, ESF and the ECSC, though were also to receive EIB money. Together they were to consume 11 percent of the total package (about 7.45 billion ECU between 1989-93). *Objective Five* focused on agricultural and forestry assistance (5a) and at the development of rural areas through diversification away from agriculture (5b), and was funded to the tune of some 6 billion ECU (about 10 percent of total) by a combination of the Guidance Section EAGGF, ERDF, ESF and EIB (Ibid). *Objective Six,* finally, was to deal with problems particular to the thinly populated regions of Nordic countries (Allen 1996, p.225).

The structural fund reforms also called for a variety of changes in the interaction, administration, and implementation of the structural fund programs. These included increasing attention to coordinating expenditures across member states, and increasing the role for regional authorities (Allen 1996, p.223-9). Some of the most important were changes in the emphasis from projects to multi-annual, -task, and -regional programs (e.g. the Integrated Development Programs (IDPs)), and improved coordination among the funds -- reforms already being implemented in the new IMP provisions (De Witte 1990, p.). And although the principle of additionality applied, and was actually formalized as a "principle" of the reforms, the cap on the EC's share of funding for particular programs was to increase from 50 to 75 percent (ibid.; Marks 1992, p.210).

The nature and origins of these structural fund reforms and expansion represented a clear fulfillment of the SEA side payment promise. The Irish, Portuguese, Greek, and, to a lesser extent, Spanish delegations, all lobbied heavily for the funds, clearly conditioning their support for the SEA trade liberalization on their reform and expansion. And after the SEA, all four countries continued to lobby for such reform and expansion with explicit reference to the risks of completing the internal market. The increase and reform, finally, was explicitly offered by the Commission and the richer member states, especially Germany, as compensation to off-set the risks of internal market liberalization. Although a number of regions in many of the member countries, the poorer

countries were to receive the lion's share.[24] For all these reasons, many EC historians and political scientists have explicitly acknowledged the reform as a side payment to compensate for internal market liberalization risks.[25] There were other motivations to expand and reform the structural funds, to be sure. But that doing so was explicitly and strongly demanded and offered as a condition for acceptance of the SEA reforms, and for future internal market cooperation, makes the liberalization side payment motivation significant.[26] In historical context, however, we also can see that the scale of the funding also makes it the most generous side payment compensation provided in the history of European liberalization.

2.5. No Side Payment Politics at the National Level

Like the previous cases, this supra-national side payment compensation contrasts with the absence of any counterpart at the national level. Leading up to and during the Inter-governmental Conference for the Single European Act, several parliaments adopted resolutions to influence the deliberations. All of these resolutions were non-binding, the negotiations still not completed, and focused mainly on the procedural reforms at the center of the "maximalist program" (Corbett 1987, p.243). For instance, in mid-October, the Italian Senate Foreign Affairs Committee unanimously urged the government "to keep the European Parliament's Draft Treaty at the centre of debate, to confer legislative powers on the EP and to support the EP's proposals for associating itself with the IGC" (Ibid). They were joined by similar gushings from the Italian Chamber of Deputies, and though less effusively, from the Irish, Dutch French, and Belgian parliaments (Ibid).

Actual ratification of the SEA, moreover, turned out to be pretty uneventful (Moravcsik 1991, p.44). Although all the governments had representatives expressing skepticism, none

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[24] Although before and after the reforms roughly 43 percent of the EC population was eligible for structural fund assistance, the various Objective criteria "has resulted in a significant reduction in coverage in the north of the Community in favour of the southern and western periphery..." (Liebman and Montalvo 1992, p.400).

[25] Among the many equally explicit statements, Tsoukalis's is as concise and explicit as they come: "The creation of new resources was the necessary side-payment for the political acceptance of the internal market programme and a means of preparing weaker regions for the new cold winds of competition" (Tsoukalis 1993, p.243). For others, see: Allen 1996, pp.214ff; McAleavey 1994, pp.18-26; Marks 1992, passim; Marks 1993; Moravcsik 1991, p.43; Shackleton 1991, p.107; Laffam and Shackleton, pp.79-80; Pelkmans and Winters 1988, p.76; and Ross 1995, p.40.

[26] There were at least four related, or at least compatible, motivations for the Structural Funds expansion, if not reform, other than as compensation for the trade liberalization: (1) they would directly buy off opposition to the lowering of CAP by providing benefits, mainly under the EAGGF Guidance Section, to the same groups who were hitherto receiving CAP Guarantee Section EAGGF benefits; (2) they would provide a strong financial incentive to lower the CAP as a way of funding a new program, within a fixed budgetary pie, as a way to build a stronger coalition of supporters who have nothing to do with the CAP beneficiaries or losers behind CAP reduction, with the idea that the structural funds can be more easily reduced politically than can the CAP; (3) the Fund expansion would symbolically deflect criticism from various groups away from CAP reduction; and, of course, (4) they would remedy the budget deficit by those who pay for the CAP disproportionately, and who need something in return, with the structural funds being a way to provide such funds (á la ERDF origins).

passed resolutions, binding or not, to revise or alter their governments' participation in the internal market process. The letters of intent were governmental propositions, to be sure, but they were tabled and consistent with the supra-national integration process. More seriously and genuinely at the national-level and stage of liberalization was hesitation shown by the Danish, Italian and Irish governments when the SEA was ready for signing. The Danish delay was the most serious. It's Folketing on January 21st, 1986 had rejected the draft, with the opposition demanding re-negotiation, and inspiring a referendum. But none of the governments, including Denmark's, focused on the problems of trade liberalization, and focused much more on general problems of sovereignty, and grand political and defense issues (Corbett 1986, p.266; Gazzo 1986, p.113).[27]

2.6. Implementation of the SEA-Structural Funds

Understanding the generosity and future of the reforms as side payment compensation requires a word on basic scale and direction of the implementation, and of the 1992 reforms. After the 1988 structural fund reforms were enacted, the Commission was active establishing a list of regions eligible for assistance under the various criteria, and then in encouraging and developing actual programs. Of the programs developed as Integrated Development Programs, Community Support Frameworks, and more discrete projects, the vast majority were initiated by national and sub-national governments, rather than by the Commission. Between 1989 and 1993, more than 60 billion ECU (in 1989 prices) were earmarked for actions in the various regions under CSFs (Hall and van der Wee 1992, p.400). And at the end of 1990, another three billion Ecu were added to assist the new German *Länder* (Tsoukalis 1993, p.245).

The implementation of these programs has marked a shift away from infrastructural investments and towards productive investment in industry and human resources. Before the 1988 reform, some 80 percent of the Fund expenditure, especially under the ERDF, went to support investment in transportation, telecommunications, energy and water infrastructure. This amount has since been substantially reduced, in the period 1988 to 1991 to 55% in Objective 1 regions and a mere 16% in Objective 2 regions (CEC 1991). During this latter period, a substantially greater proportion of the resources -- 40% of Objective 1 and 80% of Objective 2 -- were used "to support investment in industry and services, to improve the business environment and to develop human resources" (Hall and van der Wee 1992, p.400). This orientation of the funding, of course, varies project to project and country to country -- for instance, with Spain still disproportionately spending its share of Funds on infrastructural investment -- but the overall shift is clear (Ibid).

[27] A letter exchange between the Danish writer and Euro-skeptic Ebbe Reich and his extreme opposite Spinelli reveals the focus of concern. In it Reich outlines a variety of concerns as characteristic of the Danish skepticism, none of which concerns the trade liberalization. In fact, such liberalization, in Reich's view, is one of the few features of the EC that could make integration palatable (see Gazzo 1986, pp.113-16).

In macroeconomic terms the programs are modest, but as proportion of total national investment they are significant. Between 1989 and 1993, the structural fund budgets amounted to between 1.2% and 1.6% of the GDP in Objective 1 regions. Among the three weakest member states, the numbers are slightly higher, but still modest: Ireland, 2.3%; Greece, 2.9%, and Portugal, 3.5% (Tsoukalis 1993, p.245). As a percentage of total national investment -- both public and private -- the structural fund programs ranged from 7% to 11%, and have grown since 1988 (Hall and van der Wee 1992, p.401). In 1993 the Community funds in total represented 11% of total investment, 7% in Ireland, and 8% in Portugal (Laffan and Shackleton 1996, p.74).

At the time of the 1988 reforms, the Council pledged to revisit the scale and direction of the structural fund reforms developed between 1991 and 1992. In the event, the structural funds reform was caught up in a similar budget wrangle to the one through which they were doubled in 1988, with similar linkage to the continued deepening of the internal market. Although this linkage is in itself of interest to the history and theory of compensated liberalization, to be discussed shortly, what matters here are the substantive changes in the structural funds that retained its increasing status and scale in the EC budget.

There, the member states agreed to increase the size of the funds from 18.6 billion Ecus in 1992 (reflecting more than doubling of the funds as planned between 1988 and 1993) to 30 billion Ecus in 1999 (at 1992 prices) (Shackleton 1993; Allen 1996, p.219). This implies an increase in

Table 7.1.
Structural Funds, 1994-1999:
Breakdown by Member State and Objective(in million Ecus at 1992 prices) (a)

Country	Object.1	Object. 2	Objcts3&4	Object. 5a	Object. 5b	Commty. Initiatives	**Total**	(%)
Belgium	730	160	465	192	77	178	1,822	1.3
Denmark	-	56	301	263	54	87	760	0.5
Germany	13,640	733	1,942	1,134	1,227	1,265	19,940	14.6
Greece	13,980	-	-	-	-	990	14,970	10.9
Spain	26,300	1,130	1,843	432	664	2,242	32,610	23.9
France	2,190	1,765	3,203	1,913	2,238	1,232	12,541	9.1
Ireland	5,620	-	-	-	-	374	5,994	4.3
Italy	14,860	684	1,715	799	901	1,505	20,464	15
Luxmbrg	-	7	23	40	6	6	82	
Netherlds	150	300	1,079	159	150	212	2,050	1.5
Portugal	13,980	-	-	-	-	1,233	15,213	11.1
UK	2,360	2,142	3,377	439	817	814	9,949	7.2
Total	93,810	6,977	13,948	5,369	6,134	10,137	136395(c)	
(%)	68.7	5.1	10.2	3.9	4.5	7.4 (b)		

(a) Objective 2 total and breakdown for 1994-6 only

(b) These figures are for the 9 Community initiatives agreed by July 1994

(c) The actual total for 1994-9 will be 141,471 million ecus. The difference is made up by the 1997-9 tranche of Objective 2 funding, other Community initiatives and a small amount to be spent on innovative measures.

Source:Allen1996,p.221.

the proportion of the overall EC budget from 28 percent in 1992 (compared with the 9 percent in 1987 and the proposed increase to roughly 25 percent by 1993) to 35 percent in 1999. The Maastricht Accord set up and the Edinburgh meeting implemented a new structural fund, the Cohesion Fund, to finance large-scale trans-European transport networks and environmental improvement projects in Member states with per-capita GNP below 90 percent of the EC average (McAleavey 1994).

The reforms have also called for more modest qualitative changes. These included improvements in implementation and coordination across regions and between regions and Community institutions. The basic orientation of the various Objectives has remained, however. In addition to the new German Länder, the Commission and Council since the reforms have given Objective One status to regions in the richer states, including Hainault in Belgium, the Highlands and Islands in the UK, and the Flevoland in the Netherlands) (Allen 1996, p.226; Hooghe and Keating 1994). And the additionality principle still applied, with the structural funds to support no more than 75 percent of total program budgets, and with 90 percent of the structural funds expected to go towards nationally-initiated programs and 9 percent towards Community initiatives in the 1994-1999 period (Allen 1996, p.223). The overall budget projections for the structural funds is summarized in Table 7.1 below.

In short, the structural funds have been implemented in a way that not only consolidates, but exceeds the reform and expansion begun in 1988 with the SEA fight. Leaving aside very important issues of the funds' effectiveness, this continued expansion means that the funds are an important part of EC economic life. They may or may not be effective in narrowing regional disparities, in promoting development, and achieving its various other goals, issues that are beyond the scope of this study, but they are programs that affect many people's lives and conception of the EC -- and that enjoy substantial support.

And for the side payment politics, this support is the key to the implementation story. Through their consolidation, the structural funds have generated support from a number of constituencies to fight for their continuation and expansion -- both in the member states, in the supra-national EC institutions, and among trans-national non-governmental organizations (Hooghe and Keating 1994; Allen 1996, p.220; McAleavey and Mitchell 994, passim). As the Conclusion will show, the interesting point is that such fighting on behalf of the structural funds is still linked to development of the internal market project -- through side payment politics as a legacy of the SEA-Structural Funds liberalization episode. This legacy has more meaning, however, only in the context of a clear explanation for the developments in the post-EEC liberalization episodes, and it is to that which we now turn.

3. Interpreting State Aids and Welfare: The Minimum of Side Payments at the Domestic Level

In all of the EU internal market liberalization episodes reviewed in this and the previous Chapter, we have seen that struggles over the domestic and international negotiation of the liberalization yielded plenty of supra-national side payments but little or no side payment compensation at the domestic/national level. Yet we know from the literature on the relationship between economic openness and the public economy that national governments, especially continental European governments, provide plenty of assistance to cushion the blows of economic openness. And we know, further, that in many cases national assistance of various forms goes up as countries become more open over time and when we compare less with more open economies (Blais 1986, Cameron 1978, Katzenstein 1985, Garrett and Mitchell 1996. Rodrik 1997). To what extent do these links between openness and the public economy involve side payment compensation, understood to mean assistance that is both intended to help victims of liberalization and separate from the protections being reduced? Thus, to what extent is EC compensated liberalization really a supra-national affair?

In the European setting, as in the US setting, the answer to these questions is that most government expenditures that seem traceable to changes in openness do not reflect side payment compensation, and hence EC side payment compensation tends to be supra-national -- even though the overall package of public assistance to the victims of openness are both supra-national and national. The reason changes in public subsidies, broader welfare assistance, and other public expenditures generally do not constitute side payment compensation is because they either are not targeted to help the victims of the EC internal market liberalization, or are not separate from the core protectionist being reduced by that liberalization. To see this, consider the welfare and state aid subsidization in turn.

Between the 1950s and the 1980s, EC member countries did, indeed, expand their income transfers, health care policies, active and passive labor market policies, and the like. And there is some, though limited, evidence that the countries that liberalized the most expanded such welfare spending the most -- at least into the early 1980s.[28] But these welfare expansions were generally separate from the internal-market liberalization process and politics. During the domestic and supra-national phases of the internal-market episodes, as we have seen, national and sub-national

[28] The evidence is shaky, in that the longitudinal data looks at trade as a percentage of GDP, not at policy liberalization, and in that the longitudinal studies that do exist are divided over whether *increases* in openness/liberalization inspired expansions of public spending, particularly welfare. Garret 1995 and Garrett and Mitchell 1996, for instance, claim the evidence generally suggests that *changes* to openness correlate with modest welfare contractions -- except among the countries with strongest "Left-labor power." Rodrik 1997, however, claims that greater openness caused greater public spending, particularly when looking at social welfare spending rather than government spending generally (pp.49-59).

Table 7.2
State Aids to Industry and Agriculture as a Percentage of GDP, 1960-94

	1960	1965	1970	1975	1980	1981-6	1986-8	1988-90	1990-2	**1992-4
Belgium	1.9	2.3	2.9	3.9	4.1	4.1	3.2	2.8	2.9	2
Denmark†	0.3	0.8	2.7	2.8	3.2	1.3	1	1.1	1	1
France	1.6	2.2	2	2.4	2.5	2.7	2	2.1	1.7	1.4
Germany	0.8	1.3	1.7	2	2	2.5	2.5	2.5	2.4	2.6
Greece	*	*	*	*	*	2.5	4.5	3.1	1.9	1.7
Ireland†	3.3	4	4.9	6.9	8.4	4	2.7	1.9	1.2	1.5
Italy	1.4	1.3	1.5	2.7	3	4	3.1	2.8	2.4	2.3
Luxembourg	na	na	na	na	na	6	4	3.9	2.4	2.1
Netherlands	1.2	0.7	1.3	1.8	2.7	1.5	1.3	1.1	0.9	0.8
Portugal	*	*	*	*	*	*	1.5	2	1.5	1.2
Spain	*	*	*	*	*	*	2.7	1.8	1.3	1.2
UK†	1.9	1.6	1.7	3.5	2.4	1.8	1.1	1.2	0.5	0.4
EU	**1.2**	**1.5**	**1.9**	**2.6**	**3.5**	***2.8**	**2.2**	**2.1**	**1.8**	**1.7**

*EEC 10 figure excludes Portugal and Spain, which were not yet members.

† 1960-70 figures included, but not incorporated into EC total, since Denmark, Ireland and UK were not in EC until 1973

** Data for 1992-94 are underestimated. France, Greece Ireland, Italy, Luxembourg, Netherlands, Portugal and Spain supplied no or incomplete data on aid to agriculture (EC 1997: 35)

Sources: Blais 1986; Dylla 1997, Appendix p.1; OECD Nat'l Accounts; CEC selected years.

groupings complained plenty about the liberalization process, but they did not ask for reforms or expansion of national welfare schemes as part of the struggle over the EC agenda.

And if we look at the political struggles that did underlie expansion of those welfare schemes, we see that they generally were episodic changes, temporally separate from the EC project, and fueled by broader coalition struggles about how national governments can better deal with all kinds of economic dislocations and inequality problems -- not the suffering from liberalization per se -- and by partisan or personnel changes in leadership. For instance, the major changes and expansion in German welfare provision, especially the major expansion in employment policies in the 1969 Work Promotion Act represented a change in the composition in government -- the electoral and government successes of the SPD.[29]

As for state aids, various forms of such assistance to industry and agriculture -- including nationally-funded and -devised industrial and agricultural subsidies, tax breaks, "crisis cartelization," etc. -- grew substantially over the first twenty years of the internal market

[29] In this particular case, I have studied Bundestag documents on debate over the reform and expansion of the active labor market components of the policy package. And in those deliberations I found no examples of partisans demanding new employment policies to deal with trade liberalization in the EU project past, present or future.

liberalization. Table 7.2 below captures the bulk of this assistance, the state aids that include all national subsidies outside EU structural fund auspices. As the Table shows, the average level of state aids as a percentage of GDP nearly tripled between 1960 and the early 1980s, from 1.2 to more 3.5 percent, before gradually declining in the latter half of the 1980s and early 1990s -- back to an average of 1.7 percent between 1992 and 1994. This entire post-1959 period, of course, encompasses the liberalization that has been the subject of the last two chapters. So already the correlation is present in even the crudest form. More significantly, Blais 1986, Blais and Fels 1985, and others have shown that for countries including but going beyond the EU, tariff reductions were statistically significantly correlated with *increases* in such state aids; Blais 1986 claimed that "everything else being equal, a reduction of 3 percentage points in tariffs leads to an increase of 1 percentage point in public subsidies" (p.210).[30] Given that such state aids are targeted at the potential losers of trade liberalization, this supports the idea that domestic subsidization might have entailed side payment compensation.

But several considerations suggest otherwise. First, for several reasons the increases in state aids might have had benefited the losers of EC internal market liberalization, but were not targeted and created to off-set such losers. Instead, they were more a reflection of broader demands for government redress for broader problems plaguing non-trade as well as tradable sectors -- Blais's own statistics shows a statistically much stronger correlation between unemployment and subsidies than between tariff reductions and subsidies -- and for broader public policy goals like social solidarity and equality.[31] And in any event, the period also saw substantial tariff and NTB liberalization vis á vis non-EU countries, not just internal market liberalization. In the content of the politics, moreover, the struggles over the EC internal-market episodes under review here make no mention of subsidization as a way to off-set the costs of the internal market liberalization -- except in so far as such subsidization is seen as an explicit exemption from the reach of that liberalization. The domestic-political struggles over subsidization itself might reveal important demanders or suppliers of subsidization linking their position on subsidies to past or future internal market liberalization. I have not tested for such activity, so the conclusion that proliferation of state aids is not targeted to redress internal-market liberalization is tentative.

In any event, many state aids were, in fact, *exemptions* from the reach of liberalization, rather than *compensation*. Many national subsidization schemes grew and developed out of the explicit phasing-in exemptions allowed by the ECSC and the EEC, and as discussed above. Many

[30] Such results should be interpreted with caution, especially given the concern with side payment politics. The Blais 1986 correlation is cross-sectional across various European and other countries in a given year, thus lacking the longitudinal dimension most relevant to our concerns with how countries respond to changes in levels of protection. The only true longitudinal studies, to my knowledge, do not break out subsidies from other expenditures, and focus on trade as a percentage of GDP rather than trade liberalization.

[31] No studies exist that look for correlations between such broader concerns -- as captured by, say, inequality levels -- and subsidization.

developed outside of these official mandates, a significant sub-component of which were not separate from the NTBs the EEC explicitly sought to reduce. Many of these subsidy schemes, for instance, violated Articles 92 and 93 of the Treaty of Rome, though the Commission did not effectively fulfil its mandate to monitor and control such subsidies. After 1986, with the passage of the SEA, the overlap between state aids and the protections to be liberalized under the internal market mandate was significantly greater. And after the SEA, the Commission acted more strongly to liberalize such subsidies. by issuing more judgments on the use of aid, and demanding more firms to repay illegitimate aid (Stuart 1995, Dylla 1997).[32] Whether a reflection of this Commission activity in the post SEA period, or of a separate and more general trend away from dirigisme, Table 7.2 captures the very significant decline in the use of such state aid as a percentage of GDP in the post-1985 period.

State aid, therefore, appears to have provided assistance for those industries suffering from EC liberalization, but the assistance was not likely side payment compensation -- especially in the sense of entering into actual negotiations over the approval or disapproval over the water-shed inter-governmental episodes that are the main stepping-stones to internal market liberalization. This is most clearly true in the post-SEA period, but likely applies to the period between 1958 and 1986 as well. In short, taking into account broader welfare and state aid changes during the period in which the internal market liberalization matured, we can see some expansion in the public economy that helped humanize and facilitate that liberalization. But this expansion constitutes a complement to rather than examples of side payment compensation. Hence, EC compensated liberalization was essentially a supra-national affair.

4. Explaining Internal Market Compensated Liberalization, 1973-1988

As histories of compensated liberalization, the three internal market episodes discussed in this chapter -- the Greek and Iberian Enlargements, and the SEA-Structural Funds Reform -- are as noteworthy for the contrasts they reveal in the history of internal market liberalization as for the continuity they share with the other cases in that history, the EEC and ECSC. Like founding episodes in EC integration, the most recent series of negotiations yielded generous side payment compensation for vulnerable groups fearing the costs or risks of freer trade, with the compensation devised during the international deliberations, and involving policies funded and administered by the EC's supra-national institutions. Also like the previous cases of compensated liberalization, the

[32] As a 1978 Commission statement lamented, "granting of state assistance could cause a permanent drift towards protectionism within the Community, both as between the Member States and in relations with the rest of the world" (CEC 1978, p.123). And more recently the Commission communications have often stated the commitment to "controlling state aids with the objective of reducing overall levels of state aid and reliance by firms on public support" (CEC 1996, p.20).

accompanying deliberations that took place within national polities yielded no national policies that would independently compensate or mitigate such fears. In fact, this pattern is clearer in the structural funds cases than in the EEC and ECSC cases, both of which sparked more domestic political action separate from the international level and phase, and generated more legislative riders than the virtual domestic-legislative quiet in the structural funds cases. Thus, the Enlargements and SEA-Structural Funds Reform deepen the pattern of generous and supra-nationally provided and negotiated compensated -- in contrast with the US's less generous and nationally provided and negotiated compensation.

But the contrasts within the history of internal market liberalization are just as important to the theory and hope of compensated liberalization. The Enlargement and SEA-Structural Fund histories reveal a trend in internal market politics towards a narrowing focus on the issues and policies that become the subjects of side payment linkage. Whereas the EEC and ECSC cases revealed a variety of such linkage, including not only supra-national adjustment assistance, but also the packaging of grand issues such as the Euratom to the EEC, and the push for policy harmonization to off-set the costs of tariff reductions (successful in the EEC, unsuccessful in the ECSC). All the major internal market liberalization episodes since that time, however, have converged upon creating, expanding, and reforming supra-national adjustment assistance and other regional development budget programs -- clustered under the rubric "structural funds" -- as the principal subject of side payment linkage, to the exclusion of harmonization or grand packaging.

The history of the "structural fund episodes" also revealed important differences not only with the EEC and ECSC, but among themselves: increasing generosity and patience in structural fund side payments. The Second Enlargement yielded substantially greater side payment compensation than the first enlargement, and included the creation of a new structural fund program, the IMPs: more money was involved, more people to be served, and more ambitious intervention conceived. The SEA-Structural Fund reform, moreover, yielded still more generous side payment compensation, a doubling in the funds, and concentrated the benefits on all poorer regions of the EC Twelve rather than on the incumbent regions as the IMP compensation had done. Finally, the SEA-Structural Funds Reform provided side payment compensation in two steps, a promised commitment made in the SEA Treaty and fulfilled through the budget reform two years later, making it compensation of unprecedented patience.

How can we explain this mix of contrasts and continuity? Luckily, the side payment politics that characterize the creation and reform of the structural funds have been more widely-recognized and analyzed than any of the previous cases of compensated liberalization -- in the US or Europe. Historians and political scientists focusing on broad theoretical issues of issue linkage, on the political economy of European integration, and most narrowly on the development of the structural funds, have commonly and explicitly recognized that the creation and reform of the

ERDF, the IMP, and then the subsequent expansion and reform of the whole package represented side payments for the problems of integration, including in the latter two cases, the problems of trade liberalization.

Most of these writings describe and explain these side payments as a predictable consequence of the basic payoff structure of the internal market bargaining, with the nations acknowledging liberalization's uneven distributional consequences and seeking pareto improvement -- the nations expected to lose demanding and getting compensation from those expected to win (McAleavey 1994; Marks 1992, 1993; Shackleton 1991, 1993, 1996). A few more accurately see side payments as more complicated and difficult, and suggest a variety of useful propositions, such as that side payments should be marginal, targeted at less central bargainers, be provided late in negotiations, and be generally limited by big issue linkage tending to spark strong domestic opposition (Moravcsik 1993; Weber and Wiesmuth 1987).

All of these treatments, especially the more nuanced contributions, provide leverage to explain the patterns of continuity and change established by the structural fund episodes of internal market liberalization. But there is much in these patterns that the ample attention provided to the episodes still cannot explain, or explain well. The theory of compensated liberalization covers some of the same ground as existing accounts, but it also offers many contrasting interpretations. Through synthesis or disagreement with existing accounts, this theory draws attention to a number of historical and institutional conditions that mediate protectionist power and transaction costs that, in turn, better and more fully explain the patterns of continuity and change in SEA-Structural Fund compensated liberalization. Such a focus better explains, in particular, the continued trend of supra-nationality, the post EEC trend towards structural fund compensation and away from alternatives, and the increasing patience and generosity of the successive episodes of compensated liberalization. Consider the explanation of each in turn.

4.1 Deepened Supra-nationality and Generosity in Contrast to National Politics

The basic supra-nationality and generosity of side payment compensation in the history of internal market liberalization is what most distinguishes the European trade liberalization experience from the US, and with the history of the internal market liberalization complete, we can consider a more complete explanation of it than was possible in Chapter Six. EC internal market liberalization's supra-nationality and generosity is left unexamined by the existing attention to structural fund side payments. Indirectly, however, some of the more thoughtful contributions suggest reasonable expectations, only they are the opposite expectation of the actual pattern. Some of the most thoughtful work, for instance, has pointed out the way significant side payment provision at the international level of EC bargaining will be constrained by the way such provision

will inspire strong domestic opposition that, in turn, requires domestic side payments (Friman 1994, Moravcsik 1993). This, in turn, suggests that the realization of international side payments, even if it entails supra-national policy provision, might rest on national provision of side payments.

This expectation that supra-national side payments may require national ones is important and plausible, and such a pattern may have emerged in other settings, but it is inconsistent with actual history of internal market liberalization, including the Enlargement and SEA liberalization episodes.[33] In fairness to this perspective, it might be argued that the reason no national-level provision arose was because the supra-national provision and issue linkage was neither significant nor divisive enough, as a budgetary item, to provoke strong domestic opposition. This may explain partly why the side payment politics converged on budgetary items like the structural funds, another of the perspective's expectations (Moravcsik 1993, Weber and Wiesmuth 1987). But the perspective misses how generous budgetary items can be in redressing perceived risks of liberalization, how such subjects of side payment linkage can be targeted at buying off opposition from domestic interest groups, via their national delegations,[34] and in so doing can *displace* demands for safeguards at the domestic level. In short, the focus on the EC side payment politics without attention to its US counterparts makes it easy to overlook the significance, let alone the origins, of the EC compensation's generosity and supra-nationality.

The theory of compensated liberalization offers a more complete explanation of this deepened supra-nationality and generosity. As Chapter Six have already laid out, the theory of compensated liberalization draws attention to how the integration project and its institutions exhibit a number of features that allow bargaining at the international phase of the negotiations, and relying on EC supra-national competencies, to overcome power and transaction cost barriers that commonly stand in the way of side payment issue linkage. There are five principal advantages of EC institutions, and the structural funds episodes reveal a maturation in those advantages beyond the ECSC and EEC founding.

First, with liberalization being part of the integration project, the bargaining delegations approached the trade policy bargaining along-side a dense thicket of other issues that got discussed in detail and could be made subject of side payment linkage. This was true in the ECSC and even more so in the EEC/Euratom discussions. But during the Second Enlargement and, especially

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[33] It may have emerged, for instance, in the multi-level struggle over CAP reform and the UK rebate, resolved temporarily at the Fountainebleu summit. There, the international linkage, or side payment, between UK rebate and CAP reductions on the one hand, and increased revenue sources on the other, was made possible by a second set of side payments to off-set opposition from agricultural groups. These side payments included mainly EAGGF Guidance funding, as mentioned above, but it also supposedly involved increased domestic policy provision -- in other words, national-level side payment compensation.

[34] Using the budgetary issue linkage as a method to buy-off domestic opposition contrasts with the implication of the existing perspectives, which imply that the internationally-provided side payments or issue linkage are targeted at different actors than are national-level side payments, when in fact all are generally targeted at domestic interest groups as well as national delegations, through the two-level side payment politics discussed above.

during the wide-ranging Inter-governmental Conference that created the SEA, the integration project had matured to include a cluster of proposals for action on a wide range of issues, including monetary union, political and defense cooperation, and social and environmental policy harmonization. This constitutes a broad jurisdictional breadth in the parlance of the theory of compensated liberalization developed in Chapter One.

Second, with liberalization tied into the integration project, the delegations were more and increasingly conscious of "the shadow of the future," both in the current negotiation and in future interactions. This had the effect of increasing concern for the happiness of bargaining partners, and increasing concern for reputations. As the integration project came to encompass a denser set of issues, and as it became more stable in its future compared to the precariousness of the EEC and ECSC episodes, groups at all levels of the polity became more aware of the EC's existence, and its future promise.

Third, the EC's supra-national competencies improved monitoring capacities that, in turn, made it easier to identify and understand all the various issues and affected groups, thereby making it easier to identify linkages that would be pareto improving and impose minimal third party externalities. Such capacities also made it easier to monitor compliance with EC agreements. As the number of EC Commission competencies spread into new areas, and deepened within existing ones, its ability to gather and disseminate information about possible and past linkages increased.

Fourth, the EC's budgetary and policy-providing competencies made it easier for the beneficiaries of liberalization in one country to provide benefits to compensate the losers in another country through linkages outside the liberalization focus. With the ECSC and EEC such competency was in its infancy, and in fact doubts about its existence or independent funding presumably diminished the possibility of using the supra-national budget and administration as policies to be linked to liberalization concessions. With the maturation of the EC project, however, these doubts faded, all the more so as the EC developed its independent revenue facilities, and as the implementation of the structural funds communicated to the sub-national groups and their national delegations that there was pork to be had.

Fifth and finally, the EC's unanimity voting rules increased the power of marginal protectionist groups, providing they could get the attention of their national delegation, and thereby increased the search for pareto-improving package-deals. After the Luxembourg Compromise, all decisions, including those over trade liberalization, were subject to unanimity voting in the Council of Ministers. The Single European Act, however, was important as much for the re-assertion of qualified majority voting as for trade liberalization, and although the range of issues over which the latter applied was limited, most aspects of trade reduction and harmonization towards the single market were included. So the last internal market liberalization case saw a moderation rather than intensification in this advantage for compensatory rather than rough-shod liberalization.

With these five advantages, the national and international fights over internal market liberalization was more likely to yield side payment compensation during the international deliberations and to involve supra-national policy provision. With such increased likelihood of supra-national provision, the theory of compensated liberalization suggests two final conditions that made it increasingly *unlikely* that such side payment compensation would be accompanied by anything else during national phases of the bargaining and by national governments. Here, the development of the integration project after the EEC saw the deepening of one, and the diminution of the other of these tendencies.

First, the existence or prospect of side payment provision at the supra-national level would *displace* the need and interest in supplementary provisions nationally. Here the maturation of the whole integration project's institutions and bargaining practices were key. In the ECSC, there was no precedent of supra-national safeguard or compensation provision to assuage fears of domestic groups that their interests would be compromised by the supra-nationally devised liberalization. In the EEC, there was such a precedent, but it was a recent and relatively weak one -- for actual policy benefits under the re-adaptation fund and the subsidization schemes in the transition period were still being tried and revised. After that time, however, EC structural fund provision increased its activities gradually and continually, disseminating within the polity the expectation that supra-national institutions could be relied upon to provide benefits -- or, again, pork. Such a pattern mirrors, and plausibly helps explain, the shifting focus of domestic-political ferment away from national phases of negotiations and on demands for national-level safeguards and compensation, towards the supranational phase and level. The displacement effect, in short, grew stronger.

Second, the generosity of welfare provision at the national level, in contrast with the relative underdevelopment of such welfare provision at the EC supra-national level, made side payment provision accompanying liberalization an unnecessary, and even inappropriate, supplement to general systems of welfare. Here, it is important to point out that the maturation of the EC-level policy-making worked against an increased reliance on the most developed areas of supra-national policy-making as subjects of side payment compensation: delegations and domestic groups would increasingly believe that the preexistence of supra-national provision to compensate for and safeguard against economic suffering from liberalization would obviate the need to provide new assistance with successive liberalization episodes. The supra-national competencies, although more and increasingly developed than during the ECSC and EEC episodes, were nonetheless a pale comparison to their national counterparts. Thus, bargaining over the fears of dislocation due to trade liberalization would still leave the international a more obvious target for redress than the national system.[35]

[35] This is the flip-side of the coin of how the development of supranational structural fund provision, and the dissemination of that development, favors displacement of national by supra-national compensation provision. The

Chapter One emphasized two of the above institutional characteristics in trying to predict the incidence of compensation during liberalization episodes: jurisdictional breadth, and welfare generosity. And these two conditions figure prominently in the above explanation. The history does not confirm that these two conditions matter more than the other institutional conditions relevant to transaction costs and power. Nonetheless, the hypothesized interaction between jurisdictional breadth and welfare generosity holds tone when we compare the EC with the US institutional settings and the two continents' patterns of compensated liberalization. And we have the historical support to summarize the hypothesized and actual differences between the US and EC patterns of compensated liberalization.

Recall that US trade liberalization was conducted in domestic institutional settings that combined reasonably broad jurisdiction breadth (House Ways and Means and Senate Finance have broad authority) with a relatively modest array of welfare provision. The international phases of US trade liberalization, meanwhile, took place in an institutional setting that combined narrow jurisdictional breadth (e.g. GATT is single issue-oriented) with virtually non-existent welfare provision. Such a combination predicts that bargaining at the supranational level will tend to discourage groups from identifying and demanding secondary bargaining distinct from liberalization under review, but will encourage such linkage domestically. Figure 7.1 captures this contrast within the US cases, where P(a) and L(a) represent the average indifference curves of protectionists and liberalizers, respectively, in national-level bargaining, and where (P(b) and L(b) represent protectionists and liberalizers (in national delegations and any mobilized sub-national groups) in international settings. P(a) is relatively steep and L(a) relatively flat, compared to P(b) and L(b), suggesting that the former pairing encourages substantially more linkage than the latter.

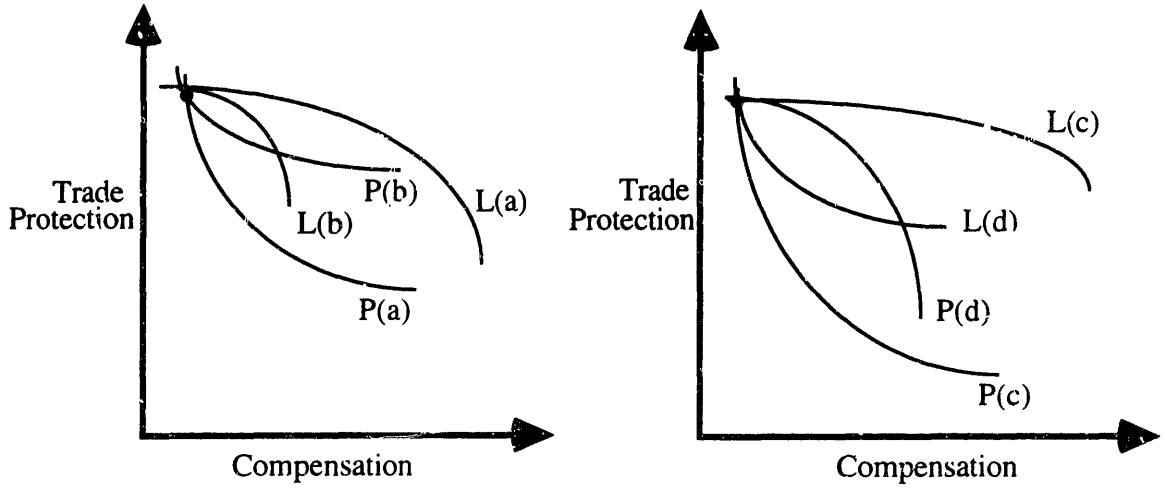
The EC compensated liberalization represents almost the mirror image of this institutional pattern. EC supranational institutions through which internal market liberalization was negotiated -- inter-governmental conferences and Council of Ministers -- involved relatively broad jurisdictional breadth as an artifact of the integration project. At the same institutional level, welfare provision was, even as late as the early 1970s, very modest. Such an array of institutional characteristics predict that liberalizers and protectionists in the supra-national phases of the liberalization will be strongly encouraged to link liberalization to side issues -- even more so than US domestic bargaining. The relatively steep P(c) and flat L(c) in Figure 7.2 capture this result, with the relatively large zone of possible agreement. Meanwhile, national level institutions through which the respective EC member states ratified EC internal-market liberalization generally combined broad jurisdictional breadth with generous welfare provision -- especially on the

Figure 7.1 Figure 7.2

more generous and developed the structural funds become, the more likely will the welfare generosity *dissuasion* effect undermine the *displacement* effect in shaping incidence of structural funds as a subject of side payment linkage.

US Trade Policy-making Institutions:
Domestically Low Welfare and Broad Jurisdiction;
Supra-nationally Low Welfare and Narrow Jurisdiction

EC Internal-market Institutions:
Domestically High Welfare and Broad Jurisdiction
Supra-nationally Low Welfare and Very Broad Jurisdiction



continental states leading the integration project, and especially labor market policies most relevant to the dislocation of the internal market. Through displacement and through reluctance to encroach upon preexisting welfare, the result is that liberalizer and protectionists operating in the domestic phases will avoid secondary bargaining over side payment compensation -- hence the relatively flat P(d) and steep (L(d) in Figure 7.2.

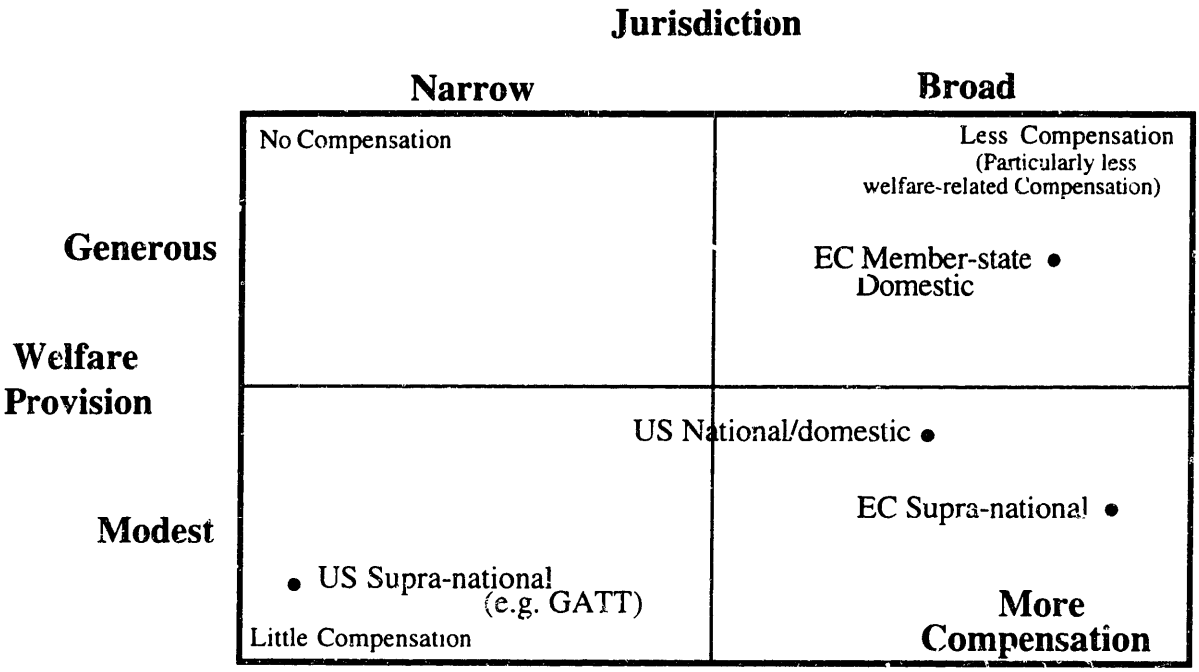
These bargaining tendencies, finally, predicts different patterns of side payments in the US and EC. In the US the theory predicts and history broadly reveals relatively modest compensation at the international level or by supranational institutions, but more frequent and generous compensation at the national level. And in the EC the institutional characteristics predict generous and frequent compensation at the supra-national level and relatively modest provision at the national level. Figure 7.3 schematically captures the predicted and observed outcomes.

4.2. Narrowing Concentration On Structural Fund Compensation

To understand why the development of internal market liberalization saw a narrowing focus on structural funds as the subject of side payment linkage, to the exclusion of other subjects like social policy harmonization or more grand packages like the Euratom, scholarship on EC side payments is substantially more helpful. Several scholars have pointed out that, in so far as EC bargaining elicits issue linkage and side payments at the international level, it will tend to converge upon budgetary issues like structural fund pork, because the preferences of domestic groups tend to be less intense over such issues (Moravcsik 1993), and because its fungibility makes it easier to

Figure 7.3

Institutional Settings (National and Inter-/Supra-national)
in US and EC national and Supranational



fashion packages of benefits that avoid alienating other national or domestic groups (Moravcsik 1993, p.505; Weber and Wiesmuth 1987, and McAleavey 1994, pp.31-2). Such an explanation helps us understand why structural funds gradually displaced other subjects of linkage relied upon in the ECSC and EEC negotiations. Linking some harmonization to off-set trade liberalization in another area, or linking such liberalization into more grand package deals might be more possible in the EC than in other institutional settings, but the likelihood that these deals will provoke more opposition -- either third party externality opposition, or opposition from liberalizers -- make these subjects of linkage less attractive than structural funds.

The theory of compensated liberalization overlaps this useful explanation, but in its focus on transaction cost and power conditions underlying side payment issue linkage, it also points to a couple of other explanations for the shift in emphasis. The overlap lies in the observation that harmonization entails many more actors, compromises by entrenched policy administrators and practices. This makes harmonization more likely than structural fund provision to make it difficult to get information about and understand the distributional implications of such linkage, and to provoke opposition from those third parties ambivalent or disinterested in liberalization but opposed to the changes harmonization would bring. And these are precisely the effects that make side payment linkage generally more costly in transaction cost terms than other intra-issue links. Structural fund provision, on the other hand, does not spark such high transaction costs. And

once the funds have been used more than once as such subjects, the costs of sticking with them as side payment compensation are relatively much lower than looking for new side payment subjects in subsequent liberalization episodes.

The added explanations for the focusing on structural fund linkage are, first, that the structural fund reforms were already on the EC Commission's and the Council of Ministers' agenda for policy development, certainly in a more detailed and developed way than harmonization proposals or other possible policy subjects of linkage. This made it substantially easier to identify and focus on such fund reforms as the prime mechanism for off-setting liberalization. We saw this effect when Britain was first acceding to the EC, when the ERDF proposals already on the agenda fell into everyone's lap just when they were searching for a way to compensate for the UK's CAP-induced net-contributor status. The similar dynamic applied when the IMP proposals made IMP an obvious subject of side payment linkage for Greece's continued acceptance of accession liberalization and for Greece, France, and Italy to accept the Iberian Enlargement's agricultural competition.

Finally, the theory of compensated liberalization reminds us that policies that were once the subject of side payment compensation for some liberalization might later become, themselves, the subject of liberalization -- and, hence, by definition no longer a side payment if traded off against other elements of the liberalization. That is what happened with at least one of the alternative subjects of linkage used in the EEC and ECSC liberalizations -- social and wage harmonization. This doesn't explain anything for the First and Second Enlargement liberalizations, during which EEC membership entailed principally tariff and quota liberalization. But it does explain why SEA liberalization and the search for compensatory safeguards didn't focus on harmonization as opposed to structural fund provision or reform: general policy harmonization was either the subject of liberalization, as the alternative to mutual recognition, or was the target of other integration goals like environmental cooperation.

4.3. Increasing Generosity of EC Side Payment Compensation

The second historical shift revealed by the sweep of EC internal market liberalization is the increasing generosity of the structural fund provision. The EC side payment literature, unfortunately, is little help here. A corollary of the claim that budgetary issues will predominate other subjects of side payment linkage is that they will tend to increase. But this claim is not anywhere developed, let alone stated. And in any event, such hypotheses would explain why structural fund provision increased significantly in each episode of liberalization rather than gradually.

The theory of compensated liberalization's focus on a few determinants of protectionist power and transaction cost conditions provides a reasonable explanation for both increased generosity and patience. The most obvious explanation for the increased generosity of the structural fund provision from the First to the Second Enlargements, and from those Enlargements to the SEA-Structural Fund Reform involves the increase and distribution of protectionist political power over the three episodes. First, the Second Enlargement constituted substantially more thorough-going and more dislocating trade liberalization than did the First Enlargement. British and Danish participation in EFTA, and Ireland's openness to most EC states and Britain, implied that EEC accession entailed significantly less reduction in tariff and other barriers to meet EEC standards than was true with the Greek and Iberian accession. More importantly, the liberalization involved in the latter was substantially more dislocating due to particular industrial and, especially, agricultural characteristics in the Iberian enlargement. Together these provoked stronger and more uneven distributional consequences within and across the entrant and member states, in turn fueling a much greater degree of opposition to the liberalization provisions implicit in enlargement.[36]

The SEA-Structural Fund Reform, moreover, constituted still more thorough-going and potentially dislocating trade liberalization than the Second Enlargement, and this provoked stronger protector opposition within some delegations -- particularly the ones representing poorer states and concerned about the risks rather than the costs of the SEA. At the same time, Spain and Portugal had moved from countries seeking invitation and accession into the EC club, to full-fledged EC members. At the time of the SEA, unanimity voting implied directly that these poorer countries, especially in coalition with one another, could and did threaten to veto the liberalization if they didn't receive substantial structural fund reform and expansion. Once that reform and expansion was promised, these countries could then vote together and achieve qualified majorities to overturn the implementation of the SEA liberalization if that promise wasn't kept.

In addition to these various shifts in the power position of the poorer, more protectionist member states pushing for greater generosity, the theory of compensated liberalization also generates the general expectation that successive episodes of bargaining over trade liberalization will elicit continued upward-ratcheting in the level of adjustment assistance side payment provision. The reasons for such upward-ratcheting are several-fold: that protectionists see the structural funds as imperfect substitutes for protection while liberalizers do not see reductions in the funs as imperfect substitutes for liberalization; that a constituency agitating for expansion of programs created through side payment compensation will agitate for their expansion; and that the transaction costs of working with old and established subjects of linkage makes it easier to stick with such subjects.

[36] The concerns with sovereignty, of course, were a completely different story.

4.4. Increasing Patience of Structural Fund Compensation

This brings us to the final historical shift, the unprecedented patience of structural fund compensation following the SEA liberalization. The EC side payment literature suggests two possibilities. Most generally, the general perspective from which that literature draws is sensitive to the general advantages of EC institutions, including lengthening of the shadow of the future and issue density, that might make more patient side payment linkage possible. But this claim is, like that on increasing generosity, neither stated nor developed. In any event, it doesn't explain why the patience of the side payment linkage wasn't just better than other settings, but actually increased within the existing EC institutional setting.

A few scholars who focus on the structural funds as side payments suggest a more detailed and convincing explanation, one that basically focuses on the transaction costs of actually negotiating structural fund reform as a side payment along-side the liberalization:

> whilst the increase in the side of the structural funds played an important role in facilitating the basic...decisions that led to the SEA...much of the haggling over distributive implications was effectively left until later, because "the resolution of both types of decision simultaneously would be practically impossible" (Allen 1996, p.220, quoting McAleavey 1994; Shackleton 1991).

Such an explanation is certainly on the right track, but again doesn't recognize the historical shift that the separation entailed in the history of EC compensated liberalization, and begs the question why such separation took place with the SEA and not before. The answer may be in the particular complexity of the structural fund reform or in its level of expansion, but that is not stated, nor is it necessarily accurate since all of the reforms had already been devised by existing EC Commission studies on ERDF and IMP reform.

In any event, such an explanation doesn't acknowledge precisely the barrier to patient side payment compensation that other contributors understand all too well: that promising to provide compensation tomorrow for liberalization you agree to today introduced problems of opportunism that make such an offer either politically unacceptable or unfulfilled (c.f. Weber and Wiesmuth 1991, p.255). It is certainly true that the SEA liberalization was to take several years to implement, with a number of decision-points along the way that the protector coalition -- in this case, the delegations representing the poorer states -- could band-together and veto. But most such points required qualified majority voting and might be punished by the liberalizers in other ways. These made it uncertain that any reneging on the promise to expand the structural funds reform , as Margaret Thatcher and her UK delegation certainly wanted to do, would actually receive sanctions. How is it, then, that the EC internal market bargaining allowed such patience to prevail in 1986-88 and not before?

The theory of compensated liberalization suggests an explanation that overlaps the literature's silently transaction cost focus on the complexity of negotiating details of structural fund reform, but also focuses on how bargaining history can make the separation of promise and fulfillment politically viable. Like the existing literature, the theory of compensated liberalization reminds us that the costs of developing a detailed program along-side liberalization might be too costly and lead to separation of promise and provision, and reminds us that such separation might be more possible in the EC's integration project that lengthens the shadow of the future and issue density that, in turn, increases concern for reputation.

But such conditions, as just noted, do not explain the historical shift in the patience as such. Instead it is important to consider that the particular structural fund reform was, indeed, unusually costly to negotiate in transaction cost terms, due to the complexity of re-structuring the various structural fund mechanisms and in restructuring the budget so that significant expansion could be paid for and agreed to. Likewise, it is also important to recognize that the shadow of the future, generally lengthened by the EC integration project, was made darker and more looming in the early post-SEA years as the member countries were turning their attention to further, and to poorer countries even more dislocating and economically risky, monetary union as part of completing the internal market. Finally, the theory of compensated liberalization also reminds us that the history of past bargaining between protector and liberalizer coalitions, and in particular the incidence of cooperation or reneging in that past bargaining, will influence reputations for trustworthiness in the present. The recent history of the structural fund reforms in the Second Enlargement, and in the successful and growing implementation of those reforms through the IMP policies and the ECSC re-adaptation fund, improved the EC's and the paymasters' reputation (i.e. Germany) for fulfilling promises, including the promise to double Structural Fund funding.

5. Conclusion: The Future of Structural Fund Side Payments in European Integration

For the same reasons that the structural funds increasingly became the focus of side payment politics during EC internal market liberalization, they have continued to be the focus of such politics in subsequent EC integration activity and are likely to do so into the integration project's indefinite future. Brief consideration of this claim by way of conclusion summarizes the legacies of past and the direction of future EU internal market side payment politics, and sets up the next chapter's discussion of the very different side payment politics in Europe's external market and extra-EC trade liberalization.

After fulfillment of the SEA promise in the 1988 Structural Fund reform, the re-invigorated EC integration project quickly moved forward to consolidate and expand the integration in a variety of areas. Along-side the implementation of the Single European Act's liberalization, and the

development of greater political and defense cooperation, the EC project turned its attention away from internal market trade liberalization and towards even more ambitious monetary, fiscal, and social policy union. In the run-up to the Maastricht summit that established the European Union the centerpiece of this activity was monetary union. Although this was not trade liberalization, it had equally acute and politically fractious distributional consequences, again pitting the poorer member states against the richer ones.

With the structural funds firmly entrenched as the center-piece of side payment policies by the time of the SEA, this conflict again inspired the provision of structural fund reform as compensation for the risks of monetary union. The Commission, the Parliament, the weaker member states, and their structural fund benefactors, all discussed any future reform or expansion of the structural funds as necessary to consolidate and retain support for the internal market program. British EC Commissioner Millan succinctly captured the spirit of this linkage in his testimony to the House of Lords Select Committee on the European Communities in 1991:

> ...what I think is happening at the moment is that some of the member states, led principally by Spain but with tacit or explicit support from Greece, Portugal and Ireland are saying, "Before we agree to the Treaty arrangements which are now proposed to be agreed in Maastricht at the end of this year, we must have some assurance that our problems in the context of EMU particularly but also more generally are properly taken care of, and that means finance" (quote in McAleavey 1994, p.24)

In the event, the funds were expanded and reformed on that basis, again with a separation in the promise and actual fulfillment of the reforms, the most recent and significant of which occurred at the Edinburgh European Council meeting in December 1992 (Shackleton 1993; Laffan and Shackleton 1996; Allen 1996; Marks 1992; McAleavey 1994; Tsoukalis 1993).

This repeat-performance that so resembled the SEA-Structural Fund Reform simultaneously reflects the legacy of past internal market side payment politics, and foreshadows their future. Were it not for the successful fulfillment of the promises to expand the structural funds in the SEA episode, and for the reasonable implementation of the structural fund programs, it is clear that the various groups, especially those in the poorer countries, not have accepted the offer to further reform and expand those programs in 1991, and this in turn may have made it substantially more difficult for those countries to have signed on to the project. Since the monetary union project is continuing to divide the EC member states, along similar country lines (only with some "rich" states finding common cause with the "poor") and out of similar fears, the structural funds are likely to continue being the target of side payment linkage to compensate for rather than roll-back internal market union.

Chapter Eight:
Conclusion

1. Compensated Liberalization Described
    1.1. US Compensation: Inconsistent, Modest, and National -- with some Exceptions
    1.2. EC Compensation: More Consistent, Generous and Supra-national

2. Compensated Liberalization Evaluated
    2.1. Compensation's Modest Redress and Unintended Dangers
    2.2. Buying Openness, and the Occasional Lemon

3. Compensated Liberalization Explained
    3.1. The Egoist Theory Corroborated, but Weaknesses Revealed
    3.2. The Egoist Theory Relative to Its Alternatives
    3.3. The Theory Explaining the Wealth of US-EC Compensated Liberalization

4. The Future and the Possible: Using Side Payments to Better Humanize and Facilitate Openness
    4.1. What is to be Done?: A Few Recommendations for Liberalizers and Protectionists

5. Further Research to Improve and Extend Our Understanding of Compensatory Side Payments
    5.1. Better Description and Evaluation
    5.2. Better Explanation: Refining the Egoist Theory of Compensated Liberalization
        5.2.1. Taking Anomalies Seriously
        5.2.2. Deducing New Hypotheses from the Egoist Bargaining Framework
        5.2.3. Generating New Hypotheses Through Induction
    5.3. Extending Research Into New Territory

The ambition of this study has been to better understand the use of side payment compensation during struggles over liberalization, on the premise that such compensation represents one way countries can deal with the distributional conflict and policy dilemmas inherent to increasing economic openness. To pursue this ambition, I began by recognizing the state of our knowledge about the basic questions surrounding compensated liberalization: (1) when has compensation emerged from struggles over liberalization?; (2) to what extent has compensation fulfilled its promise to off-set social costs of and facilitate freer trade?; and (3) what can explain why compensation gets provided at some times and places, and not others? The state of our knowledge, I have tried to show, is pretty rudimentary. Existing political economy suggests different answers to these questions, but lacks the theoretical or empirical development to adjudicate those different answers, let alone to provide adequate ones.

To provide better answers, this study developed a strategy, theory and empirical program to describe, evaluate and explain the incidence of side payment compensation. The strategy was a set of measurement and assessment criteria to describe and evaluate the incidence of compensation. The theory was an informal bargaining framework and a few measurable factors that can explain, through that framework, variation in the incidence of compensation over time and space. And the empirical program was a comparison of nearly two-dozen episodes of US trade liberalization since 1934, and of five episodes of European Community internal-market liberalization since 1951 that provided the groundwork for describing, evaluating and explaining compensated liberalization.

This final chapter considers what we have learned from such a study. The first and most important task is to step back from the details of the theory and case studies to summarize the descriptive, normative, and explanatory findings. The goal, here, is to understand in light of the previous seven chapters when and to whom compensation has emerged from the US and EC liberalization experience; to what extent that compensation has actually off-set the social costs of and facilitated freer trade; and perhaps most importantly, to understand what explains the incidence of such compensation in the US and EC experience. On this last explanatory issue, the main question is to what extent the history conformed with the expectations of the egoist theory of compensated liberalization developed in Chapter One. Taking each set of findings in turn -- beginning with the description, moving to the evaluation, and then the explanation -- such an overview involves summarizing: the problems in the literature which motivated this study; the strategy or theory I developed to improve upon that literature; and the findings and limitations of applying that strategy and theory to the US and EC history.

The rest of the chapter tries to make use of but look beyond these descriptive, normative, and explanatory findings. In the fourth section I consider what the findings tells us about the future of compensated liberalization, and especially about what liberalizers and protectionists can do to better humanize and facilitate openness. Then, in a fifth section, in light of the limitations

and promise of the existing findings, I outline some paths for further research to improve the description, evaluation, and explanation of compensated liberalization, and to understand side payment politics in different empirical settings and issues.

1. Compensated Liberalization Described

The most straight-forward task of this study has been to describe the incidence of side payment compensation over a significant swath of time and space. The importance of this task lies in disagreement and silence in existing political economy research. As I tried to show in Chapter One, political economists are divided on whether such side payments are rare or common parts of political life, "under-provided" or "over-provided" depending on one's attitude about the propriety of such compensation. Yet, none of this literature investigates even the basic descriptive landscape of compensation. Meanwhile, a number of political economists focused on how different countries respond to the vagaries of openness have found some evidence that more open economies, and possibly more liberalized economies, tended to have more extensive welfare spending, industrial subsidization, and other kinds of spending in the public economy. Yet this literature says nothing about the micro-politics that might connect openness and liberalization with increased government spending. So, between disagreement over side payments per sé, and ambiguity over whether and to what extent side payments link openness with government spending, we need more substantial description of the incidence of side payments.

As Chapter One explained, such description is not as easy at one might expect, and the strategy I have used cannot capture the full incidence of compensation. The difficulty, we have seen, is that compensation is not necessarily observable by the content of policies provided, since some compensation may or may not focus in substance on the victims of liberalization, but is compensation if it is intended to help the victims of a given liberalization AND is separate from the provisions being liberalized. My strategy has been to scour the bargaining history of liberalization episodes to find all promises or policies that fulfilled both of these conditions. With this measurement strategy, some side payments might go unnoticed, such as those devised behind closed doors, while other provisions might appear to be side payments but are really something else, such as policies with causal underpinnings in addition to being buy-offs for the losers of liberalization. I chose the US and EC history partly out of the hope that the very good information about the content of bargaining in these cases minimized both of these problems. And we have seen that most, though certainly not all, of the cases I code as side payment compensation are unambiguous. When they were ambiguous, however, I tried to qualify their description as such.

This measurement strategy and its limitations in mind, what did the US and EC histories of liberalization reveal about the incidence of compensation? Chapters Two through Seven revealed

that compensation varies widely in when and to whom it has been provided. In both the US and the EC, compensated liberalization has been the exception to the rule from the point of view of all the groups who stand to lose from liberalization. The rule for most groups in most episodes has been some combination of no redress along-side liberalization or only protectionist redress that compromises the liberalization. And in both the US and EC histories, side payment compensation generally did not take the form of promises or provision of the major expansions in the public economy that correlate with greater levels of openness, meaning that side payments are not the main mechanisms by which industrialized societies have traditionally cushioned themselves from the vagaries of openness. Yet, the history offers dozens of instances of sizable side payment compensation that loom large in the politics and the humanity of struggles over liberalization.

1.1. US Compensation: Inconsistent, Modest, and National -- with a Few Exceptions

The incidence of such compensation varies substantially across time and space in the US and EC histories. Chapters Two through Five showed that the US trade liberalization was marked by a pattern of compensation that was *inconsistent* in its incidence, *modest* in its scale and scope, and *national* in the institutions through which it was been provided and negotiated. Table 8.1 summarizes this pattern. As Chapter Two showed, some eleven US liberalization episodes between 1934 and 1962 proved to be episodes of compromised and uncompensated liberalization, since not a single package of side payment compensation emerged from the struggles. Through bargaining over the 1962 Trade Expansion Act, however, compensation was provided for the first time, mainly in the form of trade adjustment assistance to workers and firms. In all subsequent episodes of US liberalization, as we saw in Chapters Three through Five, negotiations yielded some compensation offers, always including reform or expansion of the TAA but also including other compensation subjects, such as tax breaks and the proposals to reform welfare provisions.

Most of this US compensation has been modest in the scale of benefits provided and the number of groups helped. And the adjustment assistance program, in particular, has been the object of retrenchment when trade liberalization initiatives are not under review. The NAFTA liberalization, however, represents a partial exception to this pattern in that it yielded more generous and diverse compensation, in the form of adjustment assistance, environmental cleanup, tri-country commissions for monitoring labor and environmental standards, and a series of last-minute benefits targeted more narrowly at ambivalent legislators.

Finally, most of this US compensation was negotiated during domestic phases of the episode and provided by national governments, with very little compensation negotiated during international phases of negotiations or provided by supra-national institutions. But the NAFTA trilateral commissions were notable exceptions to this rule.

Table 8.1
Incidence of Side payment Compensation in the US, 1934-93

Trade Liberalization Episodes	Side Payment Compensation: Kind of Compensation Promised or Provided	Level of Provider	Stage of Liberlztn.
1.-11.1934-58 RTAA and subsequent extensions (1938 through 1958)	No Side Payments	—	—
12.1962 Trade Expansion Act (for GATT Kennedy Round)	1.Trade Adjustment Assistance	Natl.Govt.	Domestic
	2.Limited Tax and Misc. Benefits for Textiles and Lumber	Natl.Govt.	Domestic
13.1965 US-Canada Auto Pact	TAA Reform and Expansion	Natl.Govt.	Domestic
14.1968 Trade Expansion Act	Proposed TAA Expansion	Natl.Govt.	Domestic
15.1974 Trade Reform Act (for GATT Tokyo Round)	1.Welfare and MNC Tax Reform (proposed and rejected).	Natl.Govt.	Domestic
	2. TAA Expansion and Reform	Natl.Govt.	Domestic
16.1979 Wine-Gallon Dispute (during Tokyo Round)	Tax Rebates	Natl.Govt	International
17.1988 Omnibus Trade Act	TAA Reform and Expansion	Natl.Govt.	Domestic
18.1990-3 NAFTA	1.NAFTA Trade Adjustment Assistance	Natl.Govt.	Domestic
	2.Promised Welfare Reform	Natl.Govt.	Domestic
	3.Institutions to Monitor and enforce Labor Rights.	Some supra-national	International
	4. Institutions and NADBank to monitor, enforce, upgrade environmental standards and cleanup border areas.	Supra-national	International
	5. Pork benefits to individual legislators (e.g. C-17 aircraft, agric.research center, school-lunch purchase preferences)	Natl.Govt.	Domestic

1.2. EC Compensation: More Consistent, Generous, and Supranational

Chapters Seven and Eight compared this US pattern to EC internal market liberalization since 1951. In those chapters, I tried to show that compared to the inconsistent, modest, and national compensated liberalization in the US, EC liberalization had nearly the opposite pattern of compensated liberalization: more *consistent* in incidence, more *generous* in scale and scope, and

more *supra-national* in the institutions through which it has been provided and negotiated. Table 8.2 summarizes this pattern.

All five of the major episodes of EC internal-market liberalization yielded substantial side payments to buy the support of national delegations explicitly conditioning their support for liberalization upon provision of compensation packages. As we saw in Chapter Six, negotiations over the ECSC yielded the ECSC Re-adaptation program to fund job retraining and relocation for workers, and restructuring for firms, as part of the other transitional arrangements that included temporary subsidization. Chapter Six also showed how the European Economic Community (EEC) negotiations elicited not only a European Social Fund (ESF), a broader version of this Re-adaptation program, but also explicit commitments to upwardly-harmonize equal-wage laws, length of the standard work week, and vacation benefits -- all to off-set the pain from EEC liberalization. Chapter Seven, meanwhile, chronicled how the Greek and Iberian enlargements yielded new and expanded Structural Fund programs like the Integrated Mediterranean Programmes (IMP) to compensate and promote adjustment among vulnerable agricultural producers in incumbent countries. That Chapter also focused on how the Single European Act yielded the commitment to expand and reform all Structural Funds programs to off-set the risks of SEA liberalization, ultimately doubling the Funds budget to nearly $170 billion between 1994-99.

All the structural fund reforms and changes that I coded as side payment compensation had motives distinct from the push to off-set the risks of internal market liberalization, but my claim has been that the "compensation" motive was a necessary condition -- that without the internal-market and the distributional consequences of that liberalization, the various provisions would not have been provided. And only those structural fund provisions separate from proscribed NTBs counted as side payments -- leaving out, for instance, the Guarantee Section of the EAGGF.

In any event, these and other EC side payment provisions were provided by supra-national institutions under EC Council of Ministers and EC Commission decisions and policies, and negotiated during the international, inter-governmental stages of the episodes. During the domestic stages of negotiating these episodes, very little side payment compensation was ever seriously discussed, let alone enacted. And national governments appear to have provided very little side payment compensation at any stage of the negotiations. There were a few exceptions to this rule, such as the commitment to build the Moselle Canal during the French National Assembly's deliberations over the Treaty of Paris. And Chapter Seven also considered ways in which some welfare and state-aid expansion in Europe might be construed as side payment compensation. But on the whole, whereas US compensated liberalization has been primarily national and domestic, EC compensated liberalization has been primarily supra-national.

Table 8.2
The Incidence of Side Payments
in EC Internal-market Liberalization, 1951-88

Trade Liberalization Episode	Side Payment Compensation: Kind of Compensation Promised or Provided	Level of Provider	Stage of Librlztn.
1. 1951 ECSC	ECSC Re-adaptation Fund	Supra-natl.	International
2. 1958 EEC	1.European Social Fund (ESF)	Supra-natl.	International
	2. Linked Social and Wage Heightening to Tariff Rdctns	Supra-natl.	International
	3.Linked Tariff Reductions to Euratom	Supra-natl.	International
3. 1972 First Enlargement	ESF;GuidanceSctn.EAGGF;ERDF	Supra-natl.	International
4. 1981 Greece Enlargement	Structural Funds and IMP	Supra-natl.	International
5. 1985 Iberian Enlargement	Structural Funds and IMP	Supra-natl.	International
6. 1986 Single European Act-Structural Fund Reform	Expanded and Reformed Structural Funds	Supra-natl.	International

Finally, the EC internal market history revealed some important variation over time in the pattern of side payments. Chapters Six and Seven revealed increasing generosity of the supra-national side payments as measured by the people helped, the money spent, and the ambition of programs provided. Chapter Seven revealed a narrowing in the range of policies relied upon as subjects of side payment linkage, from a diversity of subjects including social and wage policy harmonization to off-set tariff reductions, towards a concentration on the EC Structural Funds to off-set risks. And Chapter Seven also revealed the increasing "patience" of the EC side payments, that is, the separation of the promise and actual provision of structural fund reform and expansion as a side payment for liberalization.

2. Compensated Liberalization Evaluated

We should care about this variation in US and EC side payment compensation because industrialized societies have a stake in whether compensation gets provided. As Chapter One explained, however, political economists disagree about those stakes. On the one hand, scholars who strongly differ in their view of the propriety of free trade agree in suggesting that compensation can simultaneously off-set the social costs of and thereby humanize freer trade, and in the process defuse political opposition, promote economic adjustment and thereby facilitate

openness. On the other hand some scholars have looked at the theory and record of such compensation and concluded that compensation might fall well short of this promise, by providing little real redress for the real victims of openness, inviting rent-seeking abuses, doing little to buy-off opposition or promote adjustment. As Chapter One explained, however, this disagreement has yet to be resolved or moved forward, for lack of empirical research into the real record of compensation's accomplishments and pit-falls in any significant swath of history.

The second major goal of this study, then, was to look into that record in the US and EC history, figure out when and to what extent compensation really did off-set the social costs of and facilitate openness. As explained in Chapter One, I tried to evaluate the experience with compensation according to criteria found in existing political economy literature, and my strategy for measuring those criteria were self-consciously qualitative. In the six empirical chapters we have seen that the quality of the information gathered varied from case to case, tending to be better for the short term than for the long term indices of compensation's usefulness. But the measures still generated some interesting and useful results.

The cases revealed substantial variation in the degree to which compensation off-set social costs of and facilitated freer trade, but on the whole compensation can said to have fallen short of its promise, and to contain some unintended and unexpected dangers for industrialized societies. Yet, compensation can also be said to have provided real redress for the losers of openness and to have bought and secured freer trade.

2.1. Compensation's Modest Redress and Unintended Dangers

To assess how much compensation off-set social costs in all of the cases where compensation was provided, the case studies measured (1) the scale and scope of compensation; (2) the distribution of the compensation's benefits in comparison to alleged pain of liberalization's "victims"; (3) the extent to which the scale of compensation went beyond actual or anticipated pain; (4) the scale and distribution of financial and other costs of compensation; and (5) the effectiveness of the compensation programs' implementation. In the process of assessing the experience with side payment compensation across decades of history, however, the study also unearthed information about whether compensation humanizes openness that went beyond these five measures.

By all these measures, the story was mixed. Across the compensation provided in the US and EC histories, we have seen that the generosity of the compensation provided varied a lot, case to case. Some of the compensation packages were quite generous in terms of the moneys spent and the level of redress provided in comparison to the perceived needs of the target group. As Chapters Three through Five tried to show, this can be said of the adjustment assistance provided

to auto workers in the 1965 Auto Pact and of the later adjustment assistance packages after the 1988 Omnibus Trade Act and the NAFTA bridge assistance, not to mention the generous compensation to environmental groups under the NAFTA. And Chapters Six and Seven tried to show how some of the supranational compensation coming out internal-market negotiations were also quite generous, such as the later uses of the ECSC Readaptation program and the IMP program for dislocated agricultural producers. On the other hand, many other compensation packages fell far short of the perceived needs of the target group. Chapter Three argued as much of the first TAA program, despite its promising design. Chapter Five, likewise, explained how the various compensation packages provided organized labor during the NAFTA may have been financially generous, but fell short of what Labor's perceived needs were.

More generally, the case studies showed that the distribution of compensation consistently did not coincide with the distribution of perceived losses and risks from liberalization. Instead, many groups who stood to lose the most from a given liberalization episode received nothing or less compensation than those who stood to lose less. Chapter Two for instance, showed how textile and lumber producers received significantly more compensation than did their more vulnerable clay pot, leather shoe, and other import competing counterparts. Chapter Five's discussion of the NAFTA case told a similar story, with the biggest losers being far from those getting the most generous side payments: compare, for instance, the well compensated winter fruit and vegetables producers with the uncompensated flat auto glass producers. Similarly, Chapter Seven explained how the IMP program provided during the Iberian enlargement was targeted at and dispensed benefits to the producers in incumbent EC states such as Greece, France and Italy, while the episode yielded little new side payment redress to the industrial and agricultural losers in the applicant countries.

The US cases suggest an important conclusion, or at least a hypothesis, about the distribution of the redress provided: side payment compensation provided in the corpus of last minute legislative struggle involving protectionist and liberalizer legislators tends to provide benefits that are further afield from the real interests of the victims of the liberalization under review. The reason is pretty simple. In earlier proceedings, the actual groups expected to suffer from liberalization have more voice and can focus side payment politics on their anticipated suffering. In the later proceedings, however, the legislative "agents" of the societal "principals" dominate side payment politics, and their incentives are tied to an entire constituency, making them willing to accept side payments that will cauterize the electoral pain of liberalization imposed on free trade's victims, but not necessarily that will help the particular societal victims of liberalization.

Even if the distribution of benefits don't align well with the distribution of suffering, the cases show very few cases of side payment recipients demanding or receiving compensation more generous than the losses they expected to result from the liberalization. This is particularly true if

we look at the losses and demands of protectionist groupings, such as the losses that organized labor were expected to suffer from liberalization in the 1970s -- well above the TAA benefits they demanded, and certainly above the benefits they received. If we look at individual recipients, this is less true: early implementation of the TAA often went to temporarily laid-off auto workers who would collect UI supplements while waiting to get re-hired -- even though such workers could find temporary work in the interim. And there are even a few cases of recipient *groups* getting compensation that outstripped their losses -- such as the over-generous package of side payment benefits provided to the Florida fruit and vegetable producers for the ambiguous and negligible NAFTA losses. Such might also be said of some structural fund side payments, such as EAGGF funding and ERDF funding in Ireland. These cases, however, are the exception to the rule, with the exceptions growing out of side payment politics involving legislative "agents" rather than societal "principals." The rule remains compensation well within the realm of expected loss.

As for the scale and distribution of the costs of side payment packages, again the cases revealed significant variation. Most of the adjustment assistance and other compensation provided in the US history was paid for through general revenues -- meaning that the financial costs of the side payments were distributed across the nation-wide tax base. Such a burden roughly coincides with the demography of those most likely to benefit from the liberalization that compensation helps to buy -- namely consumers. Some TAA and other benefits, however, were to be paid for by more targeted revenue sources, such as employer taxes -- a burden slightly less fairly distributed given that employers are not the main beneficiaries of liberalizaiton.

In the EC, most of the structural fund and other side payment benefits were similarly paid for out of general EC coffers, with revenue increasingly coming from the EC-wide VAT -- again with consumers bearing the burden and reaping the potential benefits of the compensated liberalization. But the principle of additionality insured that many programs tied to such compensation would be paid for by a variety of national revenue sources, and in any event some of the EC budget came from national contributions that did not coincide well with the benefits of the liberalization. Finally, the welfare and industrial subsidization costs of the compensation programs in the EC and the US also constituted costs for some groups by virtue of violating *laissez faire* economic principles.

As for the longer-term redress, the story is more checkered. For instance, the various programs created through US and EC side payment compensation have varied a great deal in how much they promote economic up-grading for the individuals and firms involved -- as existing implementation studies make clear. Beyond such a generality gleaned from a handful of secondary sources, however, the study unearthed one important and unexpected finding about compensation's long-term redress.

Peppered throughout the US and EC histories were clues that side payment compensation might have had an unintended cost for the broader policy arrangements that industrialized societies have set up to mitigate the costs and risks of the market-place. Compensating the losers of trade liberalization has done little to institutionalize or build support for, and may even have unwittingly undermined, those broader arrangements. For instance, Chapters Three and Four chronicled US labor's waning interest in and Congress' jealous support for a minimal TAA as a symbolic but politically important gesture of compassion -- due in part to the initially tight eligibility requirements and minimal benefits in the early TAA. The two chapters explained how this yielded cycling fortunes for TAA -- weak, precarious but persistent use of trade adjustment assistance as a cornerstone of US compensated liberalization. This cycling support and weak assistance has provided fodder for the opponents of various labor market initiatives, such as public training policies, on grounds that such policies are open to abuse and do not work. And it has, in any event, played a small role in sapping energy behind efforts to develop more generalized and more generous active labor market policies.

In Europe, providing targeted compensation during internal market liberalization may have had a similar unintended cost, though through a different mechanism. The EC compensation, as Chapters Six and Seven explained, tended to involve supra-national benefits, and tended to draw attention away from domestic programs during the ratification and other domestic phases of negotiations over the internal-market project. In so far as this displacement effect has occurred, the EC side payments may have drawn some attention away from domestic programs that might be more capable and promising solutions for mitigating liberalization's risks -- more promising than those supranational benefits whose development and expansion suffer even greater collective action problems and weaker administrative capacities.

Such longer-term risks and the various shortcomings in the scale and distribution of compensation's more short term costs and benefits suggest that side payments in the US and EC history have fallen well short of their promise to humanize openness. Having said this, one should not lightly dismiss the real benefits that compensation has provided to some groups -- benefits that go above and beyond preexisting arrangements, and benefits that the groups themselves consistently ask to maintain and expand.

2.2. Buying Openness and the Occasional Lemon

To assess whether compensation actually facilitated freer trade, the case studies measured (1) how much compensation lowered existing protectionist opposition; (2) how much it inspired new opposition from groups opposed to compensation; (3) how much it sparked new opposition from groups seeking to extort more generous compensation; and (4) how much compensation

encouraged groups to exit the aggrieved sector of the economy. By these various measures, the history again provided a mixed story, but this time on the whole painted a picture of compensation conforming more strongly to its promise to facilitate openness.

The cases yielded the most information about the first of these criteria, whether a given compensation package actually lowered opposition from the protectionist groups at whom it was targeted. And here the cases varied widely. Several incidents of compensation appeared to have fulfilled all political expectations by turning opponents into supporters or by garnering the support of protecitonist groups who had made their support explicitly and credibly contingent upon provision of compensation. The first provision of Trade Adjustment Assistance was a clear example of the latter, in that ample correlational and documentary evidence suggests that AFL-CIO and other member unions supported the TEA liberalization contingent upon such assistance, and that this support was necessary to the passage of that liberalization. The 1965 adjustment assistance to the UAW, and the NAFTA environmental compensation were similar stories, though in the latter case some environmental groups were swayed while others grew more protectionist. Athough their political effects are more difficult to separate out from other bargaining dynamics, other examples of effective compensation include the ECSC Readaptation Fund, the harmonization and ESF provisions, the IMP provisions during the Iberian enlargement, the SEA structural funds expansion, and some of the last-minute NAFTA NADBank and several of the "pork" provisions.

Other incidents of compensation were politically less effective in that they failed to buy any group's vocal support for liberalization, but at least moderated the level of group opposition. Such can be said for the 1974 TAA package that moderated UAW opposition, and of NAFTA compensation, which showed signs of moderating Richard Gephardt's protectionist zeal -- and his handing-over the anti-NAFTA helm to David Bonior.

All of these examples of successful compensation focus on the initial passage of the liberalization -- international negotiation and domestic authorization and ratification. The case histories also showed a couple of examples of compensation successfully buying acquiescence with or moderating opposition in the *medium-term* implementation and sustainability of liberalization. The clearest example of this was the ECSC Readjustment assistance. Chapter Six showed how the Italian delegation made its support for the ECSC conditional upon the ECSC Readaptation funds. But it also showed how continued disbursement of these funds made it politically possible for the High Authority to remove the temporary exemptions and subsidization provisions that Belgium had demanded as transitional arrangements. Without the readaptation assistance, member governments and their supra-national counterparts in the High Authority would have had a harder time justifying an end to the subsidization or preventing protectionist back-lash.

As several of the case studies showed, however, not all of the compensation packages were successful in defusing opposition of groups at whom they were targeted. The clearest failures

were the Schultz MNC/welfare regulation that might have appeared to outsiders and in retrospect as more generous compensation than the TAA alternative, but was resolutely and universally rejected by all protectionist groups at whom the package was directed. Similarly, the Kennedy Administration's side payments provided within the seven point assistance package for the textile industry -- a package that combined side payments with protectionist exemption -- was completely unsuccessful in swaying textile labor and industry associations. Only the VER exemption in that package had the desired effect of buying off textile opposition. Even where some of the packages made a difference, several made *less* of a difference than had been hoped by their providers. The best example of this has been the repeated and mostly vain attempt to expand TAA to moderate or buy support of the AFL-CIO and laborite legislators. On a smaller scale, the NADBank assistance during the NAFTA was also a disappointment, in that Clinton officials had hoped the assistance would buy nearly a dozen votes in the Hispanic caucus, but probably turned out only a few.

In the short and medium term, the case studies showed that a number of side payments discussed or provided during bargaining provoked opposition from groups otherwise supportive of freer trade or disengaged from the trade. Such opposition, however, generally put limits on the content of the compensation actually provided, but did not deepen as to off-set whatever opposition the compensation defused.[1] For example, the Labor and environmental side agreements in the NAFTA case mobilized very strong opposition among liberalizers (and even some protectionists) to more ambitious versions of the international monitoring and harmonization supported by some protectionist groups, especially organized labor. The result was scaled-back institutions. The story was the same with the MNC/Welfare reform compensation in Chapter Four, and with the TAA in Chapters Three and Four was similar -- though in the latter case, proposals to scale back initial TAA offers often were drowned-out by proposals to expand.

And the case studies revealed very few examples of groups on either side of the free trade aisle stepping-up their opposition to liberalization independent of anticipated problems with the liberalization, as a way to get more compensation. Measuring such extortionate demands, of course, was difficult in any event. But even by a general measure of such stepped-up opposition the Chapters revealed only a couple of cases. The clearest grew out of the last minute pork dispensed by the Clinton Administration during the NAFTA, where the record showed a few legislators explicitly holding their support hostage to provision of some compensation, even when these legislators had previously committed themselves to support the NAFTA. This example suggests again that side payment politics involving legislative agents in last-minute bargaining may have less desirable results than those involving interest group principals and taking place earlier. Finally, SEA compensated liberalization involved the Irish delegation holding its support for the single-market hostage to Structural Fund expansion, even though the country was expected to

[1] The explanation section below will discuss such constraints in a moment.

suffer relatively few distributional costs of such liberalization. This smacks of extortion, but it may well have reflected a combination of fairness norms (support for EU cohesion) or genuine perception of risk. Again, the examples of such abuses are very few and far between.

If the short- and medium-term political benefits of side payment compensation appear to have been significant amidst the variation, the longer-term benefits are less impressive. First, in so far as the case studies included review of implementation studies, the chapters offered some information on the degree to which compensation provided incentives and assistance to upgrade or exit non-competitive economic activity. Here the story was mixed, but generally showed that various programs explicitly seeking such adjustment fell well short of their mark. This was certainly true for the early implementations of the TAA program in the US and the ECSC Readaptation program in the EU -- where groups tended to use mainly the income support elements of the program, and much less so the training and relocation elements. In the TAA case, implementation has been better in the last ten years, with the proportion of recipients engaged in training and using relocation assistance going substantially up, and with the number of those recipients using that assistance to exit the aggrieved sector also going up (Corson et.al. 1995).

Second, the cases suggest only impressions of how much compensation lends general legitimacy to openness. Survey data in the US has shown that citizens tend to be much more accepting of liberalization and more hostile to protectionist demands when adjustment assistance programs are created along-side initiatives to off-set pain (Laudicina 1973). This suggests that such compensation can generally consolidate support for openness. On the other hand, as we have seen side payments might have done little to strengthen and may even have undermined the viability of broader welfare arrangements for mitigating the pain of markets, thus off-setting the gains implicit in the poll results.

In short, the evidence adds up to qualified support for the political effectiveness of side payment compensation. In the US and EC experience, the study has shown that compensation tended to fall short of its promise to buy-off discontent and facilitate openness in the short and long-term. But amidst variation in its political effectiveness and pit-falls, the compensation generally provided net benefits for liberalization.

3. Compensated Liberalization Explained

The description and evaluation of compensated liberalization -- showing marked variation in but significant usefulness of compensation -- makes its explanation all the more urgent. And such explanation has been the principal and most challenging task of this study. As Chapter One sought to show, existing attention to the origins of compensation is thin and diffuse, but can be roughly divided into "altruist" perspectives that essentially see side payment compensation

provided to satisfy norms or social contract standards of fairness, and more "egoist" perspectives that see compensation as an expedient of narrowly self-interested bargaining between protectionists and liberalizers. This egoist bargaining perspective, in turn, can be roughly divided by the various conditions thought to strongly influence bargaining: group or institutional conditions on both the demand and supply sides of the trade and other policy-making.

As Chapter One also sought to show, this array of explanations suffers from both empirical and theoretical shortcomings. The empirical problem was the same as for all writings about compensation -- that they lack empirically grounded studies to test and adjudicate among the various explanatory possibilities. The theoretical problems were that the various egoist and altruist perspectives tended to be: (1) under-identified, failing to distinguish compensation from its compromised or uncompensated liberalization alternatives; (2) under-developed, failing to explain variation in incidence over significant swaths of time and space; and (3) under-specified, failing to identify measurable and testable group, institutional or other characteristics that could underlie egoist or altruistic provision of compensation.

In light of these problems, Chapter One developed a theory of incidence that strived to be more identified, developed and specified. The theory consisted of a framework of egoistic bargaining between liberalizers and protectionists, and of several group and institutional characteristics operating within that framework. The framework built on the premise that compensation will be provided when protectionists see some side payment as an imperfect substitute for continued protection, and when liberalizers see providing such compensation as necessary to secure passage of liberalization and as an acceptable alternative to protectionist methods of securing such passage.

Working within this framework, I identified a pair of group and a pair of institutional characteristics that I argued were measurable and likely to explain significant variation in the incidence of compensation. First, I argued that compensation was more likely when and to protectionist groups with more political resources to threaten or retaliate against the liberalization initiative, and with broader, more multi-issue trade policy platforms that signal willingness to accept and possible subjects of side payment linkage. Even though liberalizers could also set the bargaining agenda and in any event set constraints on whether, what and how much compensation could be provided, I argued that this coincidence of protectionist power and platforms could explain significant variation over time and space. Second, I argued that compensation was more likely when the institutional settings within which egoistic bargaining took place combined modest welfare provision with broad jurisdiction, and less likely when those settings combined more generous welfare and narrow jurisdiction.

The bulk of the US and EC histories in Chapters Two through Seven sought to illustrate and test this theory of compensated liberalization. In general the hope was that the empirical

comparisons would be consistent with the hypotheses deduced from the theory and framework. But in the case I also tried to test the limits of the theory in two other ways. I tried to compare the explanatory power of the egoistic bargaining theory I offer with more altruist interpretation of when compensation ought to be provided. And I tried to reveal how much of the wealth of variation in the incidence of compensation in the US and EC history the theory could explain. How did the theory hold up to these three challenges?

3.1. The Theory Corroborated, but Weaknesses Revealed

As a general illustration and test, the history broadly supports my egoist bargaining theory. In the US history, group and institutional variations across episodes, groups, and sectors predict significant variation in the incidence of side payment compensation as distinct from uncompensated and compromised liberalization. For instance, in the period between 1934 and 1962, Chapter Two described how protectionist groups opposed to the RTA legislation and liberalization either lacked the political resources to viably threaten the liberalization, or approached the episodes with narrow, unconditionally protectionist platforms, predicting what the history revealed: uncompensated liberalization for the weak; compromised liberalization for the strong and single-minded protectionist. As Chapter Two also described, the shift in the platforms of textile groups to more multi-issue protectionism, and of organized labor away from unconditional to conditional free trade -- linking support for liberalization to the provision of trade adjustment assistance -- predicted the advent of compensated liberalization in that year.

Chapters Three and Four showed how subsequent trade policy-making and implementation of the TAA compensation fueled a split in organized labor's platform, with the UAW continuing with the 1962 multi-issue conciliation and with the AFL-CIO closing-in on unconditional protectionism. Here the history predicted continued and expanded side payment for the UAW in the 1965 Auto Pact, but increasingly modest TAA and other compensation in subsequent domestic struggles over the liberalization. The power-platform conditions also predicted how in the Kennedy and Tokyo Round international phases of episodes, most protectionist groups lacked the political resources to threaten the liberalization being devised. Combining this with the very narrow jurisdiction of the supra-national institutions through which US liberalization got negotiated, and the theory predicted a lack of compensation during such phases and the general confinement of US compensated liberalization to the domestic realm.

Chapter Five, moreover, showed that the power-platform conditions also predict the exceptions to these post-1965 rules of modest and national side payment compensation. During the three-year struggle over the NAFTA liberalization, a protectionist coalition of unprecedented breadth and power mobilized to fight against or to modify the agreement. And that coalition was

dominated by a number of groups -- especially the highest echelons of the AFL-CIO and, more resolutely, both the extremist and moderate wings of the environmental movement -- approaching the bargaining with explicitly multi-issue platforms, and championing subjects of side payments focused on new supra-national institutions and actions. Such power and platform conditions broadly predict, again, what the history revealed: diverse and relatively generous side payments including adjustment assistance, border cleanup funding, and compensation that included supra-national labor and environmental institutions.

The EC and US comparisons in Chapters Six and Seven also bore out several predictions of the theory, particularly those of the institutional conditions. The chapters showed that the EC internal-market liberalization -- being part of a broader integration project -- took place through international institutions with extraordinarily broad jurisdiction and yet offered minimal preexisting welfare assistance. Meanwhile, the EC domestic institutional setting combined relatively broad jurisdiction with much more generous preexisting welfare. Such an institutional array -- especially in the context of many protectionist groups and delegations consistently sporting significant power and multi-issuue platforms -- predicted what the history revealed: consistent side payment compensation at the supranational level, and rare compensation at the domestic level. Chapter Seven also emphasized how the welfare and jurisdiction in the EC's supra-national and national institutional settings was roughly the mirror image of the US settings, which had modest welfare and very narrow jurisdiction at the supra-national setting and modest welfare and broad jurisdiction at the national setting. Thus, the US institutions predicted what the history revealed: more side payments at the domestic than the supranational level. And the institutional differences between the US and the EC also predicted that EC side payment compensation ought to be more generous than the US compensation, since the integration project entailed a very broad jurisdiction of the international institution and mandated groups to approach the liberalization episodes with even broader platforms than was common for US protectionists in any bargaining arena.

The US and EC liberalization history, however, did not fit all of the theory's predictions. First, the history includes several instances where the group and institutional conditions predict no side payments -- that is, predict either uncompensated or compromised liberalization -- and yet we see side payment compensation. In Chapter Two, for instance, the power-platform conditions revealed how the softwood lumber industry had incidental power resources that allowed it and its legislative champions to threaten passage of the TEA in the Senate, but the platforms of that industry in a number of legislative hearings made scarce mention of several of the side payment provisions ultimately provided with Kennedy's six point plan. This predicts compromised, not compensated, liberalization; yet the result was the latter.

Similarly, Chapters Four revealed cases where compensation was offered or provided, even though the groups at whom they were targeted were powerful but single-minded

protectionist. One such instance was the package of MNC and welfare regulation side payments that Schultz and other members of the Nixon Administration offered to soften the opposition of organized labor and protectionist industries, even though these groups had basically eschewed interest in any side payment compensation.[2] Also in Chapter Four, the wine gallon episode revealed a case where the incidental power of the domestic distilling industry in the US was in a privileged position to receive redress, but where its platform before and during the negotiations never made explicit reference to issues other than protectionist redress -- and yet were liberalizers crafted and provided a side payment package. Finally, Chapter Five's discussion of the NAFTA case revealed a number of examples of side payments, particularly the last minute "pork" packages offered to the Florida winter fruits and vegetables and to other industrial groups, all of whom had single-issue protectionist platforms.[3]

These anomalies suggest that the group-institutional conditions on which my theory focuses are *unnecessary* conditions to the provision of compensation. And they point to how compensation may grow out of liberalizer initiatives regardless of protectionist disposition, particularly when liberalizers are really desperate to clear political obstacles from liberalization and where protectionist exemption or revision are for some reason ruled out as options.

Second, the history also includes a few anomalies suggesting that the group-institutional conditions are *insufficient* conditions for the provision of compensation -- where the group and institutional conditions predict provision of side payment compensation, and yet we see either uncompensated or compromised liberalization. We saw an important example of this in Chapter Three, where the AFL-CIO and a number of member unions approached the late-1960s liberalization episodes with a multi-issue platform, very skeptical of TAA compensation but still clearly demanding extensive tax and regulatory changes on MNCs and outgoing foreign direct investment. This positioning was a stepping-stone to a complete narrowing in the platform, unconditional protectionism with explicit unwillingness to link trade protection with any side assistance. But in the late 1960s and first couple years of the 1970s, the MNC multi-issue platform predicted some compensation. Yet, as Chapters Three and Four showed, many government and business liberalizers were very hostile to the idea of providing any MNC-related compensation, though they did offer TAA expansion in its stead. Such an anomaly suggests that the theory's conditions are *insufficient* conditions for compensation. And it suggests that we must pay attention to the constraints posed by the positioning of liberalizer groups on what power-platform conditions will yield.

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[2] Though the MNC package partly reflects the interest of the AFL-CIO in MNC regulations designed to discourage outgoing FDI.

[3] The continued provision of the TAA program in the early 1980s, even after the AFL-CIO *and* the UAW had gone unconditionally protectionist is a similar example of the theory predicting uncompensated or compromised liberalization and the history revealing compensation.

Although these various anomalies suggest that the group-institutional conditions on which I focused might not be necessary or sufficient conditions for the provision of compensation, the significant majority of the predictions derived from those condi ions were consistent with the history. This suggests that the history provides ample illustration and some corroborating evidence that those conditions are important forces in shaping side payment politics.

3.2. The Group-Institutional Theory Relative to Its Alternatives

Did giving pride of place to egoistic bargaining, to protectionist power and platforms, and to jurisdiction and welfare of institutional setting, fit the US and EC history more closely than altruistic forces, liberalizer conditions, and other institutional conditions? Here the history again supports, though not without qualification, the *relative* explanatory power of the egoistic bargaining framework on which I have focused, and of the particular group and institutional conditions within that framework.

The case studies showed plenty of instances where the egoist bargaining predictions fit the history significantly better than the altruist perspective. In particular, both the US and EC liberalization history included many examples of groups anticipating the greatest vulnerability or losses getting significantly less or no compensation relative to other protectionist groups anticipating lower vulnerability and losses. In the US, for instance, the 1962 TEA episode saw significantly less compensation for clay pottery, watches, leather shoes than was provided to textiles and softwood lumber. And the 1979 Tokyo Round saw compensation to distilled liquor industry and not to other groups anticipating equal or greater losses as a result of the impending GATT liberalization. In the EC, moreover, the Iberian enlargement elicited creation of the Integrated Mediterranean Programmes (IMP), giving substantially more compensation to fruit and vegetable producers in incumbent countries than was to be provided to more vulnerable industries and agriculture in applicant countries. In most of the above cases, meanwhile, the power and platforms of protectionist groups accurately predicted uncompensated liberalization for the weak, and compensated liberalization for the powerful and multi-issue protectionist.

In some of the US and EC cases, however, the egoistic bargaining framework fared no better than the altruist perspective. In a few cases, statements of liberalizers offering compensation, and the intended targets of the compensation provided, were consistent with the argument that norms or standards of fairness underlie compensated liberalization. This was true for the offer and provision of trade adjustment assistance, where the Kennedy Administration personnel and many of their liberalizer allies in business, were vocally in favor of adjustment provisions that would not only defuse opposition but would off-set the particularistic suffering necessary for the general gain of openness. Similarly, the Schuman plan and the Monnet

precursors expressed dirigiste values of regulatory and trade policy that explicitly introduced safeguards and other provisions to cushion the adjustment costs of ECSC liberalization -- thus predicting Readaptation Assistance. And the SEA expansion of the Structural Funds grew partly out of a German delegation and government expressing long-term commitments to cohesion and equity of the internal market, as well as out of the more political motivations of their Thatcherite counterparts. Even though these cases are consistent with the egoist bargaining theory as well, they cannot out rule the altruist alternative.[4]

What about the pride of place my particular application of the egoist bargaining framework gives to protectionist power and platforms rather than liberalizer conditions, and to welfare and jurisdiction rather than other institutional conditions? In many cases, the focus on protectionist power and platforms as the main predictors of compensation seems to have had more explanatory power than liberalizer conditions that might also set the bargaining agenda or pose constraints on what is supplied. This is true for the advent of side payment compensation, for instance with the AFL-CIO's positioning playing a key role in getting TAA compensation on the agenda and through the ides of Congressional review, even after business supporters and Kennedy Administration strategists were sanguine about its killing. It can also be said of the 1965 Auto Pact compensation, of the NAFTA labor and environmental side agreements, where liberalizers certainly set constraints but generally responded to protectionist demands in pursuing the assistance in the first place. The same can be said of many EC structural fund provisions, especially the IMP and the SEA reforms.

There are some cases, however, where the liberalizer constraints and where institutional conditions other than welfare and jurisdiction loomed as large or larger in the story than did the protectionist power and platforms. This is certainly true in those cases where the liberalizers were stronger in introducing compensation -- the lumber side payments in 1962, the continued use of the TAA after Labor platforms moved towards unconditional protectionism, the wine-gallon compensation in 1979, the Schultz compensation package in 1974, and the last minute "pork" side payments in the NAFTA episode.[5] And when liberalizers vetoed some of organized labor's stronger side payment demands in the 1960s (for MNC and outgoing FDI regulations) and in the NAFTA episode (for stronger, better-funded labor monitoring and harmonization), the liberalizer constraints played a crucial role in explaining the outcome of more modest compensation.

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[4] There are even a couple of cases where the altruism perspective arguably fits the history somewhat better than the egoistic bargaining perspective, such as the continued provision of the TAA program during liberalization episodes after both the UAW, the AFL-CIO and a number of liberalizer groups lost interest. In these post-1980 cases, the continued use of TAA seems to reflect some combination of its symbolic value in buying off constituency ambivalence and of its equity value in providing some relief for the victims of openness. In so far as it is the latter, the altruist perspective gains some points over the egoist framework offered here.

[5] In a few of these cases, liberalizers were the main agenda- and constraint-setters on what happened with the compensation, but it isn't clear whether the compensation was introduced for expediency (hence egoistic bargaining) or equity (hence norms or standards of fairness) reasons.

Finally, there are some cases where the welfare and jurisdictional conditions have to share explanatory credit with other institutional conditions. For instance, the generosity and supranationality of EC compensation has plenty to do with budgetary capacities, and with information-gathering capacities of the EC Commission. And the last minute NAFTA compensation has a lot to do with the institution of Fast Track negotiating authority that precluded liberalizers from resorting to protectionist exemptions and revisions in order to buy support of the agreement -- given that Congress was allowed only an "up or down" vote on the international agreement, not any amendments.

In short, the egoist bargaining framework with its focus on protectionist power-platforms and on the institutional setting's jurisdiction-welfare has to share explanatory space with their alternatives. But the history still suggests that my approach can explain more of the variation than the altruist perspective and/or liberalizer and other institutional constraints.

3.3. Explaining the Wealth of US-EC Compensated Liberalization

The final standard by which we can judge the theory of compensated liberalization is the amount of variation in the US and EC comparisons that the theory can explain. I believe that the theory does a pretty good job accounting for the broadest patterns of variation in the US and EC cases: that US compensated liberalization tends to be *inconsistent* in incidence across time and group, *modest* in scale and scope, and *national/domestic* in the institutions through which compensation is bargained and provided, whereas EC compensated liberalization tends to be more *consistent, generous* and *supra-national.* And in some important details within and across episodes -- like the advent of US side payments in 1962, or the exceptional scale and scope of NAFTA compensation -- the theory provides a pretty strong account.

The history contains many other details, however, that the theory cannot adequately explain. As we have already seen, this is true for the wine-gallon compensation in 1979, where the theory does not predict any compensation given the liquor industry's single-issue platform. And it is true for the differences between the compensation packages in the NAFTA, where the theory predicts more parity in the generosity of the Labor and environmental tri-national institutions and other side payment packages, but where liberalizer constraints appear to have yielded a less generous Labor package.

Beyond the variation that cannot be explained because of anomalies, however, the history also showed variation in compensation that was not in any event predictable *ex ante* by the theory. For some cases like the Lumber compensation in 1962, and the wine-gallon compensation in 1979 the theory I develop makes at least partial sense of the compensation, since in both cases the incidental power resources allowed the groups to threaten passage of the liberalization. But such

resources can only be measured *ex post,* when we can look back on the various incidental sources of power. In this sense, the *predictive* power of the theory can be quite limited.

In any event, the cases also show variation outside the explanatory orbit of the theory developed here. For instance, the history shows huge variation in the *content* or form of compensation that also merit explanation, but which the egoist theory focused on protectionist power-platforms and on institutional welfare/jurisdiction cannot explain. For instance, the EC cases showed important narrowing in the focus of compensation from a diversity of subjects like harmonization, to structural fund compensation. As we saw in the end of Chapter Seven, such a shift can be understood in light of the egoist bargaining framework I propose, but not in light of the particular group and institutional conditions on which I focus. Instead, liberalizer constraints again entered the fray, as did other institutional conditions like budgetary capacities. Such a shortcoming in the theory simply means that other conditions might need to be incorporated into the framework to explain details as opposed to basic incidence of compensation.

4. The Future and the Possible: Using Compensation to Better Humanize and Facilitate Openness

With this (over-) abundance of findings about compensated liberalization in the past, what can be said about the future? One thing we know is that the distributional conflict and policy dilemmas of increasing economic openness are likely to be as acute in our future as in our past. Close to home, we know that trade liberalization continues to be a central component of US foreign economic policy, with continued expansion and deepening of the GATT/WTO multilateral trade liberalization, with extension of the NAFTA to other Latin American countries, and with bilateral and regional trade liberalization with Asia and Europe. And we know that such liberalization continues to provoke intense distributional conflict -- most recently evidenced in the US by the post-ponement of Fast Track negotiating authority for these various liberalization efforts, a delay fueled by deep reservations about openness among labor and environmental groups and their Congressional representatives. Such conflict on this, and a greater scale, brews throughout the developed and developing world.

At the same time, political economic developments have also heightened the policy dilemmas countries face in trying to deal with such conflict. As we saw in Chapters One and Seven, one of the ways industrialized countries have traditionally dealt with distributional conflict of openness has been to erect a variety of welfare and other broad policy arrangements to cushion the pain and mitigate the risk of economic openness -- through a diffuse process that we have seen was generally separate from side payment politics. Such embedding of liberalism, however, has in recent years come under attack by deepening economic globalization. No longer do we see the most open countries, or the countries that move toward greater openness, correlated with greater

welfare and other government expenditures. As a number of scholars contend, the withering of this correlation can be explained by fiscal constraints imposed on countries by more extensive globalization of commercial and financial markets -- encouraging capital flight from higher taxation, competition in regulatory laxity, etc. (Rodrik 1997; Ruggie 1995). Even if countries retain some room for fiscal maneuver and for social democratic exceptionalism (Garrett 1997), the future seems likely to pose more rather than fewer constraints on this particular strategy for dealing with the conflict and dilemmas of openness.

The result, of course, is that the strategy of uncompensated liberalization (humanized via diffuse embedding of liberalism) is likely to become less viable and attractive in political life, while compromised liberalization or protectionist closure is likely to become more tempting. Indeed, these are precisely the developments that have inspired free-market liberals such as Rodrik and Ruggie to sound the alarm of -- and more left-oriented progressives like Greider and Faux to sound the battle cry of -- a protectionist back-lash against openness.

Although pundits and scholars in both of these camps don't recognize the point, it is precisely this heightened dilemma of globalization that makes compensation an increasingly important method of controlling the distributional conflict and policy dilemmas posed by greater economic openness. The last six empirical chapters have tried to show that such compensation, despite falling short of its promise to humanize and facilitate freer trade, has at least sometimes done both. And we have seen also that such compensation has not been, and need not be, a significant fiscal burden -- even the EC Structural Funds can be said to be modest compared to domestic welfare arrangements. If uncompensated liberalization with the possibility of sustained or increased welfare arrangements is not viable, the provision of fiscally modest compensation becomes one of the only alternatives to some kind of protectionism. Side payment compensation, in other words, may turn out to be the only game in town.

4.1. What is to be Done?: A Few Recommendations for Liberalizers and Protectionists

While side payment compensation may increasingly be the most promising way countries might realize the benefits while mitigating the social costs of economic openness, this dissertation has taught us that compensation is not a panacea for what ails us, in that it hasn't always or sufficiently off-set the social costs of and facilitated freer trade. It has also taught us that compensation is, in any event, a relatively elusive creation of political struggles over liberalization. The question, then, is what can be done? What does our understanding of the political conditions under which compensation has been provided, and of when and how compensation has fulfilled or fallen short of its promise, tell us can be done to better humanize and facilitate openness?

First and most generally, the study tells us that side payments can be a useful tool for mitigating the social costs of and facilitating trade liberalization -- a tool that could stand more use -- if compensation packages are well-designed. Well-designed side payments, the study suggests, need to strike a balance between the compensation's equity purpose (to off-set social costs) and its efficiency purpose (to facilitate openness), and between its long-term and short-term benefits. In general, fulfilling the equity purposes of compensation means designing benefits that off-set real losses and risks of the victims of a particular liberalization, without inviting abuses or demands from less affected groups and without imposing high third party costs. Fulfilling the efficiency purposes requires both addressing the demands of powerful groups who can stand in the way of the liberalization, and promoting economic adjustment out of less competitive sectors. Sometimes there's a tension between these purposes, as when compensation seeks to help and buy off the politically most well-placed protectionists who are far from the most aggrieved and who demand side benefits that are costly but easy for legislatures to implement.

Balancing the long and short term benefits of compensation can also be tricky. On the one hand, compensation should be designed to either steer fully clear of preexisting and more general welfare arrangements, or should provide benefits through improvement in those arrangements. This will safeguard compensation from competing with or undermining those broader arrangements. On the other hand, to actually provide redress, compensation packages need to be easily approved by domestic legislatures, and to provide quick and visible relief. This argues in favor of more targeted compensation benefits. And when such compensation is targeted to help dislocated workers, it will likely be institutionally separate from but overlap broader welfare arrangements. Finally, compensation packages must also strike a balance between long and short-term *efficiency*. On the one hand, they should promote adjustment out of non-competitive activity, and minimize the financial cost of programs, especially costs to third parties. On the other, what protectionists demand as buy-offs in exchange for liberalization may require less adjustment-oriented benefits and/or benefits to those with more political influence than vulnerability.

What, then, can liberalizers and protectionists do to bring about such balanced compensation? First, liberalizers can offer and accept compensation that strikes a balance between long-and short-term benefits, and between efficiency and equity purposes of compensation. The cases reveal examples of liberalizers doing just that, such as the most recent revisions of US trade adjustment assistance and the trilateral environmental monitoring institutions under the NAFTA.

Second, liberalizers need to design compensation packages mindful of the history of past compensated liberalization. In particular, they need to remember that past compensation packages may have been designed or implemented in a way that undermines the receptiveness of various groups to any new compensation. For instance, the US cases revealed the disappointing implementation of the early Trade Adjustment Assistance program made protectionist groups and

their legislative champions wary of adjustment assistance and compensation generally. Any future compensation needs to confront this wariness by being explicitly distinct from and better than the previous compensation programs and administrative procedures that protectionists distrust. And the compensation liberalizations consider should target particular needs and worries that protectionists express.

For protectionists, the study suggests a simple recommendation: Approach trade initiatives with more multi-issue trade platforms, rather than single-minded protectionism. This will likely yield better outcomes, even measured by the narrow interests of some protectionists, and even if the liberalization in question may be "killable." Rarely has the tension between doing what is necessary to kill liberalization and what is necessary to get a more humane liberalization been so great that groups were better off with unconditional protectionism. This means that not only is a multi-issue stance better for aggregate welfare, it usually doesn't hurt and probably inspires better results for vulnerable groups. And where compensation has been poorly provided in the past, it may be better to fight for improved compensation than to "throw the baby out with the bath-water" through unconditional protectionism.

These three recommendations apply to many contemporary struggles over economic openness, and can be illustrated in reference to the recent struggle in the US over Congressional approval of "Fast Track" negotiating authority for future trade liberalization. The Clinton Administration tried to assemble a winning coalition behind the Fast Track by crafting a series of compensation packages, including more funding and reform of worker and community adjustment assistance, and a very modest and ill-specified push for labor rights through the International Labor Organization. This failed to buy enough support from Democratic legislators sympathetic with the concerns of organized labor and environmental groups. It failed in part because organized labor and other protectionists, remembering past disappointments, have long since lost interest in adjustment assistance as the substance of compensation. Labor and environmental groups do, in fact, have multi-issue trade platforms, but the demands involve protections for labor rights and environmental standards rather than adjustment assistance. Yet, given recent unconditional stances of many protectionist groups, many liberalizers reasonably construe this new platform as an attempt to exploit "fair trade" protection of standards as a vehicle to close down international trade.

The above recommendations suggest how both protectionist and liberalizers could do better. Labor and environmental groups should clarify their platform to include the possibility of genuine and ambitious labor and environmental action as a possible subject of side payment linkage, separate from the negotiated trade liberalization -- even if they at the same time call for inclusion of labor and environmental standards with main trade liberalization, with the threat of trade sanctions against countries unwilling to protect agreed-upon standards. These same protectionist groups should also consider ways in which adjustment assistance -- either as a stand-

alone program or, better, as part of more comprehensive active labor market policy reform -- could be a useful form of compensation in exchange for moderated opposition or outright support.

Meanwhile, the Clinton Administration and their liberalizer allies should consider compensation packages that give meaningful redress to a protectionist coalition with a different platform than a decade ago, and a coalition skeptical of past compensation failures. Liberalizers should again offer new and improved adjustment assistance, possibly connected to more general labor market policy reform -- in any event in a stable form that will resist retrenchment in the liberalization off-season. And more promising still, liberalizers could offer genuine policy reform, action, and funding on international labor and environmental standards through bilateral and multilateral initiatives separate from trade negotiations -- involving, say, the International Labor Organization. Such compensation packages would off-set important social costs of liberalization and would likely defuse a lot of protectionist opposition -- more so, certainly, than recent compensation efforts. And precisely because such efforts would not compromise the liberalization to be negotiated and would possibly buy necessary support for such liberalization, groups wary of "polluting" trade policy with labor and environmental standards will not likely oppose the result.

5. Further Research to Improve and Extend Our Understanding of Compensatory Side Payments

Better advice on how to better humanize and facilitate freer trade will require better information and research on compensated liberalization. And by way of conclusion, I want to identify several avenues of further research that will improve and extend the research begun here. In keeping with the three-way focus of the study, I consider such avenues for better describing, evaluating and explaining compensated liberalization. And then I consider avenues for extending the research into the use of side payments in other empirical settings and areas of political life.

5.1. Better Description and Evaluation

This study's description of compensated liberalization provided an account of the mix of outcomes during struggle over liberalization -- compensated, compromised, and uncompensated liberalization. The problems in such description were that the description may have missed back-room exchanges, may have misinterpreted some buy-off motivations as necessary to the offer of some policy that then gets registered here as side payments, and may have discounted the side payment underpinnings of policies provided subsequent to the liberalization episode under review. To better describe the incidence of compensated liberalization, then, further research could: (1) look more closely at back-room deals, using more interviews than this study relied upon; (2) look in more detail at the causal importance of the political buy-off motives surrounding some policies,

such as the EC Structural Funds expansion, relative to other causes; and (3) consider in more detail the micro-politics of policies that benefit the victims of some liberalization, but that are provided subsequent to the liberalization -- policies such as state aids in Europe.

This study's evaluation of side payment compensation was more complicated and had more blind- and rough-spots. I believe that the information gathered on the short- and medium-term costs and benefits of compensation -- the scale and distribution of redress provided, of the scale and distribution of the costs of that provision, and the defusion of existing political opposition -- was about as good as one can hope to gather. But information on possible rent-seeking and extortionate abuse could use more focused study. More importantly, the longer-term consequences of side payments in humanizing or facilitating openness needs further study. Not only do we need better implementation studies focused on the scale of redress provided and of the economic adjustment facilitated, but we also need some study into the unintended costs of side payments that this study unearthed. This would entail some research into the politics of welfare and industrial policy-making -- at the national and, in the case of the EU, supra-national levels -- with an eye to the role that beliefs and political coalitions crafted over past compensation play in those politics.

5.2. Better Explanation: Refining the Egoist Theory of Compensated Liberalization

The case studies and this conclusion tried to show that my egoist theory of the incidence of compensation (1) was broadly corroborated by the US and EC histories, (2) fit that history more closely than its altruist or other alternatives, and (3) explained much of the variation in that history. But we have seen that the egoist theory I have defended has problems with all three of these challenges. In particular, the illustration and testing of the theory have revealed that, within the egoistic framework I propose, giving pride of place to protectionist power and platforms, and to institutional welfare and jurisdiction has its limits: These conditions prove to be both unnecessary and insufficient to the provision of compensation, they do not always explain more than their alternatives, and there are aspects of US and EC variation that they cannot explain. In light of these weaknesses, consider three kinds of improvements to the theory of compensated liberalization that further research could develop.

5.2.1. Taking Anomalies Seriously: First, further research needs to refine the egoist theory to take better account of liberalizer agenda-setting and constraints that underlie specific anomalies to my focus on protectionist power and platforms. We learned that the positioning of liberalizers sometimes set the bargaining agenda in side payment politics, as much as did the coincidence of protectionist power and platforms. And we learned that liberalizer positions sometimes set important constraints on what compensation is actually *supplied* in response to protectionist demands. Even though protectionist power and platforms explicitly encompass conditions on both

the demand and supply sides of side payment politics, these anomalies suggest that the egoist framework needs to be refined to take more explicit and developed account of liberalizer positioning. As Chapter One showed, such conditions explicitly fit into the bargaining framework I developed, expressed in the premise and Edgeworth Box representations of bargaining. But I believed that protectionist power and platform conditions matter more and are more measurable than the liberalizer positioning and constraints, and so assumed liberalizer constraints could condition the incidence of side payment politics but could be abstracted from. Since this assumption is only partly correct, future research should more explicitly consider and develop the role liberalizer positions play in shaping and constraining the incidence of side payments. This requires finding more measurable indices of liberalizer agenda-setting and constraints -- measures that go beyond post-hoc observations I have made in applying my theory to the history.

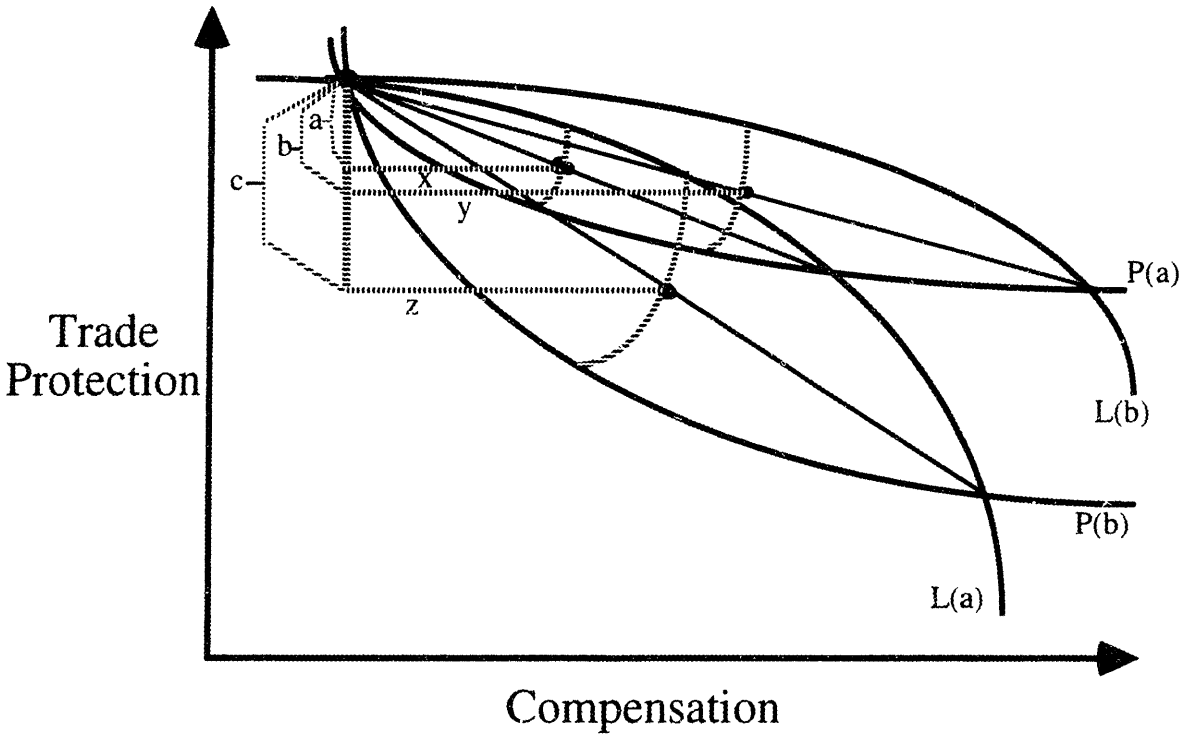
5.2.2. Deducing New Hypotheses from the Egoist Bargaining Framework: Second, further research should develop and test some of the hypotheses that can be deduced from the egoist framework I proposed in Chapter One. That framework was premised on the idea that compensation gets brought into bargaining when liberalizers see compensation as necessary and as a desirable substitute for protection, and when protectionists see compensation as an imperfect substitute for protection. Throughout the thesis I have used the heuristic of Edgeworth boxes to capture this framework and particular applications of it to explain the US and EC history. The focus on power and platforms, and on the welfare and jurisdiction of institutional settings grew out of that framework, as can any refinements that look at liberalizer constraints. But Chapter One also suggested that other propositions can be deduced from the framework.

By way of illustration, consider one such proposition. The framework suggests that the amount of compensation likely to be exchanged for a given amount of liberalization (ratio or compensation to liberalization) will vary depending on the preferences of liberalizers and protectionists. All other things being equal, the more favorably liberalizers look upon compensation as a substitute for protection, the lower the ratio of liberalization (change in protection) to compensation -- meaning that egoistic bargaining will tend to yield less liberalization bang for the compensation buck. And all other things equal, the more favorably protectionists look upon compensation as a substitute for protection, *the higher*the ratio of liberalization to compensation -- meaning egoistic bargaining will tend to yield more liberalization bang for the compensation buck. Such a hypothesis can refine our expectations and understanding of the mix of liberalization and compensation to anticipate from bargaining over liberalization.

Figure 8.1 expresses this idea through the slopes of the respective indifference curves in the Edgeworth space, with the resulting zones of possible agreement suggesting the likely bargaining outcomes (some ratio of compensation to liberalization). For a given protectionist curve P(a), a flatter liberalizer curve, L(b), yields a higher ratio of compensation to liberalization, x:a

(more compensation for a given amount of liberalization), while a steeper liberalizer curve, L(a), yields a lower compensation-to-liberalization ratio y:b (less compensation for a given amount of liberalization). And for a given liberalizer curve L(a), a flatter protectionist curve P(a) yields a higher compensation-to-liberalization ratio x:a (more compensation for a given amount of liberalization), while a steeper protectionist curve P(b) yields a lower compensation-to-liberalization ratio z:c (less compensation for a given amount of liberalization).[6]

Figure 8.1
Varying Willingness of Liberalizers and Protectionists to Exchange Protection for Compensation Should Yield Predictably Different Mixes of Compensation and Liberalization



Such a hypothesis, however, is difficult to apply empirically because of difficulties operationalizing "protectionism" and "compensation" levels, not to mention liberalizer and protectionist preferences over linking compensation to protection. To put this and other

[6] The ratios of compensation to liberalization represent likely averages to result from the different protectionist and liberalizer indifference curves, and the different zones of possible agreement they create. If information is perfect and other bargaining transaction costs are low and power not an issue, then liberalizers and protectionists will reach agreement somewhere on the contract curve at the pareto frontier. The positioning of these contract curves differ depending on the pareto space created by the respective curves. The graph roughly suggests that the bargaining outcome on the respective contract curves will entail the protectionists and liberalizers sharing the gains of exchange equitably. But the theory predicts that agreement can be reached at any point on that curve. The point is that the ratios created by any range of outcomes will, all other things being equal, yield predictable differences in the ratio of liberalization and compensation -- consistent with the different ratios captured in Figure 8.1.

hypotheses to work, future research could find better measures of these variables, so as to support more refined hypotheses about the likely mix of protectionism and compensation in bargaining over liberalization.

5.2.3. Generating New Hypotheses Through Induction: Third and finally, further research into the origins of side payment compensation should look to a number of factors that the case studies inductively suggest can explain important patterns of compensation. One such factor is the identity of the protectionist groups engaged in bargaining, that may affect the compensation likely to be demanded: The cases showed different kinds of side payment politics when the protectionist groups are interest groups appealing to legislatures or executive leaders for redress, and when the protectionist demanders are legislative agents representing protectionist firms or workers as members of their constituency. The legislative agents acting on behalf of protectionist members of a constituency may well demand compensation that has little to with the real pain caused by liberalization, and may have an easier time making extortionate or rent-seeking demands. Further study could investigate this hypothesis.

The cases also suggested a number of institutional conditions other than welfare and jurisdiction, an important one of which was whether legislative rules exist that limit the legality or possibility of providing protectionist exemption or revision to some proposed liberalization. Such rules should inspire, on the whole, more side payments than settings without such rules. The Fast Track voting procedures guiding US liberalization ever since the 1974 Trade Reform Act is such an institutional rule, where liberalizers are not allowed to change an internationally agreed-upon liberalization initiative when considering ratification. This tempts liberalizers to resort to compensation and other non-trade-related buy-offs to secure ratification.

5.3. Extending Research to New Empirical Settings and Policies

Whether or not further research can significantly improve upon the techniques for describing, evaluating, and explaining compensated liberalization, it should consider the use of side payments in other empirical settings and policy areas. Sticking close to this study's focus, further study should consider compensation EC trade relations with "third" countries, in the context of both multilateral and bilateral trade arrangements. The use of side payments in these external relations can be expected to differ significantly from those in internal-market relations, in that the integration project and institutions do not so clearly constrain bargaining dynamics when the trade issue at hand is external market liberalization. Still in the realm of trade liberalization, further research should consider the use of side payments by and among other industrialized countries other than the US and EC members -- to include, especially Asian economies. Japan, for instance, differs from the Western economies in how the polity responds to the distributional

conflict arising from openness. Side payment compensation plays a significant role in that response, though we currently don't know how such compensation differs in its origins and usefulness compared to the use of compensation in the US and Europe. Finally, compensation has a role to play in theory, if not in past experience, in developing country trade liberalization.

Beyond trade liberalization, of course, countries spark distributional conflict in the other ways in which they move from more to less regulated economic life. Liberalization on an international scale includes financial markets as well as commercial exchange, and financial deregulation sparks significant but different distributional conflict in which side payments might again play a role. And industrialized, developing, and transitional economies have over the last several decades experimented with and sought several kinds of domestic deregulation and privatization of industries and services. Such privatization creates conflict and policy dilemmas as acute as those sparked by trade liberalization, and the use of compensation and other forms of redress has played an important role in those politics. Here, Carol Graham's work on transitional and developing economies provides a number of useful insights with which the compensated liberalization experience discussed in this study should be compared (Graham 1994, 1997).

Finally, exposing an economy to market forces is not the only issue in political life that sparks distributional conflict over a change that benefits society as a whole but has costs for groups within. Indeed, modern political life is crammed with such issues. For instance, they include a host of global commons and environmental issues like control of greenhouse gasses, acid rain, over-fishing, deforestation, and waste facility siting. The international and domestic politics over these issues have been testing grounds for a variety of different kinds of side payment compensation, with experiences that can be compared to the tale of compensated liberalization told here. Mindful of the promise, pitfalls, and political complexity of compensation, further research into all these areas can reveal better ways not only to humanize and facilitate economic openness, but also to better reconcile the innumerable tensions between particularistic and general interests.

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