NBER WORKING PAPER SERIES

RECENT U.S. TRADE POLICY AND ITS GLOBAL IMPLICATIONS

Robert E. Baldwin

J. David Richardson

Working Paper No. 1330

NATIONAL BUREAU OF ECONOMIC RESEARCH
1050 Massachusetts Avenue
Cambridge, MA 02138
April 1984

Presented at a conference on the Global Implications of the Trade Patterns of East and Southeast Asia, Kuala Lumpur, Malaysia, January 4-6, 1984. The authors are indebted to Peter B. Kenen for insightful criticism. Parts of the paper have been supported by the National Science Foundation Grant PRA-8116459 to the NBER. The research reported here is part of the NBER's research program in International Studies and project in Productivity (World Economy). Any opinions expressed are those of the authors and not those of the National Bureau of Economic Research.

NBER Working Paper #1330
April 1984

RECENT U.S. TRADE POLICY AND ITS GLOBAL IMPLICATIONS

ABSTRACT

The purpose of this paper is to describe United States trade policy since World War II, and to assess the possibility for ongoing U.S. trade-policy leadership.

U.S. trade policy has shown remarkable consistency since World War II. It has never been as purely free-trade-focussed as some commentators suggest, but it has not recently shifted toward isolationism as dramatically as alarmists fear. It has almost always been best described as "open, but fair," with injury to import competitors being the measure of "fairness." The general consistency of U.S. trade policy over time is quite remarkable given the frequent change of political party in power, especially in the executive branch, but also in the Congress.

U.S. trade-policy leadership seems still potentially strong despite a decline in U.S. hegemony. It is clearly strong in a protectionist direction. Any shift toward aggressive insularity justifies parallel trade-policy aggression in the eyes of trading partners. It is arguably strong in a liberalizing direction as well. The U.S. seems ideally poised for aggressive trade-policy peacemaking; perhaps multilaterally, but perhaps also bilaterally; perhaps with its traditional industrial trading partners, but perhaps also with Japan and newly industrializing Asian countries that play so important a role in U.S. trade, and that, on many matters, may be closer in spirit to U.S. economic philosophy than Europe, Canada, or Latin America.

Robert E. Baldwin
Department of Economics
University of Wisconsin
Madison, Wisconsin 53706
(608) 263-7397/3876

J. David Richardson
Department of Economics
University of Wisconsin
Madison, Wisconsin 53706
(608) 263-3867/3876

CONTENTS

		Page
1.	INTRODUCTION AND SUMMARY	1
2.	U.S. TRADE POLICY, 1945-1980	5
3.	U.S. TRADE POLICY UNDER THE REAGAN ADMINISTRATION	20
4.	THE KEY QUESTION: HOW MUCH OPPORTUNITY FOR U.S. TRADE POLICY LEADERSHIP?	31

1. INTRODUCTION AND SUMMARY

The purpose of this paper is to describe United States trade policy since World War II, and to highlight some of its implications for Japan and her more recently industrializing neighbors in East and Southeast Asia. As such, it is aimed at filling the void that Lawrence B. Krause (1982, p. 72) observed in his recent essay on U.S.-Japanese competition in members of the Association of Southeast Asian Nations (ASEAN):

> In formulating and executing foreign policy, the United States must recognize that its form of government is difficult for foreigners to understand. Even close European allies have trouble following the meaning behind every policy swing in Washington and responding appropriately to it. The difficulty arises in part from U.S. policy mistakes. Also, foreigners are frequently unable to distinguish those American policies that stem from fundamental American interests and thus are constant from one administration (and Congress) to the next from those policies that are subject to reversal. Developing countries with short institutional memories must be forgiven if they confuse the American policies that should not be taken too serious with those that should.

Filling this void has grown even more important as trade with East and Southeast Asia has grown. The region supplied 40 percent of all U.S. imports in 1982, almost doubling its 1962 share of 21 percent (United States (1984, Figure 10)). And the region purchased 16 percent of all U.S. exports in 1982, up from 10 percent in 1962. Without Japan, the growth is proportionally even more dramatic: the region's share of U.S. imports more than tripled from 5 to 16 percent, and its share of U.S. exports purchased doubled from 5 to 10 percent.

U.S. trade policy over this period was fairly consistently liberal. In fact future economic historians will undoubtedly stress trade

liberalization as the most distinctive feature of U.S. commercial policy over the past 50 years. As Table 1 indicates, through a series of 30 bilateral agreements and 8 multilateral negotiations, tariffs have been steadily cut to only about 20 percent of their 1930 average level.[1] The increased use in recent years of nontariff measures modifies this liberalization picture somewhat, but the trend in protection over the period has clearly been downward.

Although tariff reduction has been the dominant thrust of U.S. trade policy since the early 1930s, there have been important shifts in the nature and extent of U.S. support for this trade liberalization. Underlying the different shifts in postwar U.S. trade policy are three more basic economic and political influences. They are: first--and most important--the emergence and subsequent decline of the United States as a hegemonic power; second, the persistence during the entire period of a politically significant group of domestic industries (whose composition changed somewhat over time) that were opposed to duty cuts on the import products with which they competed; and, finally, the efforts by Congress to reduce the enhanced powers granted the President during the economic emergency of the 1930s and the political emergency of World War II.

There are a number of important conclusions of the discussion for industrializing developing countries. First, U.S. trade policy has shown remarkable consistency since World War II. It has never been as purely free-trade-focussed as some commentators suggest, but it has not recently shifted toward isolationism as dramatically as alarmists fear. It has almost always been best described as "open, but fair," with injury to import competitors being the measure of "fairness."

Table 1

Duty Reduction Since 1934 Under the U.S. Trade Agreements Program[a]

GATT conference	Proportion of dutiable imports subject to reductions	Average cut in reduced tariffs	Average cut in all duties	Remaining duties as proportions of 1930 tariffs[b]
1. Pre-GATT, 1934-47	63.9%	44.0%	33.2%	66.8%
2. First Round, Geneva, 1947	53.6	35.0	21.1	52.7
3. Second Round, Annecy, 1949	5.6	35.1	1.9	51.7
4. Third Round, Torquay, 1950-51	11.7	26.0	3.0	50.1
5. Fourth Round, Geneva, 1955-56	16.0	15.6	3.5	48.9
6. Dillon Round, Geneva, 1961-62	20.0	12.0	2.4	47.7
7. Kennedy Round, 1964-67	79.2	45.5	36.0	30.5
8. Tokyo Round, 1974-79	n.a.	n.a.	29.6	21.2

[a]Source: Real Philippe Laverge, The Political Economy of U.S. Tariffs. Unpublished Ph.D. thesis, University of Toronto, 1981.

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

U.S. import relief policy is perhaps of greater interest to East and Southeast Asian nations than any other aspect of U.S. trade policy, since it is in U.S. imports from the region that the most dramatic growth has taken place. U.S. import relief policy also shows great consistency, although different vehicles for delivering it have been selected at different times from among the escape clause, unfair trade remedies, adjustment assistance, and orderly marketing agreements. For the first two vehicles, different mixes of tariff and non-tariff instruments have been employed at various times also. The choice of tariff or non-tariff instrument has importance because it affects the complexity and predictability of U.S. trade policy, and because it determines the division of implicit revenues between the U.S. and its export suppliers.

The general consistency of U.S. trade policy over time is all the more remarkable given the frequent change of political party in power, especially in the executive branch, but also in the Congress. Party affiliation, in fact, seems no longer to be a useful predictor of U.S. trade initiative. A more useful predictor appears to be some measure of Executive versus Congressional control. The two branches of U.S. government have different outlooks on trade policy due to differences in constituencies. Conflict has punctuated relations between branches of government much more often than between political parties. Platform attempts by parties to distinguish themselves from each other on trade policy turn out more often than not to be sheer posturing.

U.S. trade policy leadership is still potentially strong despite the decline in U.S. hegemony. It is clearly strong in a protectionist direction. Any shift in U.S. trade policy toward aggressive insularity justifies parallel trade-policy aggression in the eyes of its trading partners. It is

arguably strong in a liberalizing direction as well. The U.S. seems ideally poised for aggressive trade-policy peacemaking; perhaps multilaterally, but perhaps also bilaterally; perhaps with its traditional industrial trading partners, but perhaps also with Japan and newly industrializing Asian countries that play so important a role in U.S. trade, and that, on many matters, may be closer in spirit to U.S. economic philosophy than Europe, Canada, or Latin America.

2. U.S. TRADE POLICY, 1945-1980[2]

Gaining Domestic Support For a Liberal International Trading Regime

Well before the end of World War II the foreign policy leaders of the Democratic party had concluded that the lack of an open world economy during the 1930s was a major contributory cause of the war (Gardner (1980)). They had also concluded that the United States must take the lead after the end of hostilities in establishing an open international trading system in order to make "the economic foundations of peace...as secure as the political foundation" (from a March 26, 1945 statement to Congress by President Roosevelt). Thus, even before the War had ended the Roosevelt Administration had drafted a proposal for a multilateral trade organization. It had also requested substantial new tariff-reducing powers from Congress.

A desire on the part of political leaders for a new international regime is quite different from actually bringing about such a change, especially when--as in this case--there was a lack of strong direct pressure for the change from either the country's electorate or other governments. The

most important reason for the success of the Democratic leadership in first gaining and then maintaining domestic support for a liberal posture was the hegemonic trade and payments position that the United States assumed in the immediate postwar period.[3] The United States emerged from World War II with its economic base greatly expanded, while the economic structures of both its enemies and industrial allies were in ruins. Except for Great Britain's position at the outset of the industrial revolution, economic dominance of this extent is unique in the history of the industrial nations. Even as late as 1952 the U.S. share of total exports of the ten most important industrial countries was 35 percent, whereas it had been only 26 and 28 percent in 1938 and 1928, respectively (Baldwin (1958)). The 1952 U.S. export share of manufactures was also 35 percent in contrast to only 21 percent in both 1938 and 1928. There was an export surplus in every major industrial group. These abnormally favorable export opportunities, together with the vigorous postwar economic recovery, vitiated protectionist pressure from industries whose underlying comparative cost position was deteriorating, and built support for liberal trade policies on the part of those sectors whose international competitive position was strong.

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

The fact that implementing an open international trading system did not involve any significant new increase in the powers of the President also was important in gaining domestic support for the regime change. Almost all commentators had regarded as excessive the use of logrolling during enactment of the Smoot-Hawley Tariff of 1930. This, coupled with the sense of crisis created by the Depression that followed shortly thereafter, had led Congress in 1934 to give the President authority to lower (or raise) tariffs by up to 50 percent. Consequently, the 1945 request for another 50 percent duty-cutting authorization in order to enable the United States to take a leadership role in international trade liberalization did not entail any basic changes in existing Presidential powers.

There was still considerable opposition to trade liberalization in the immediate postwar period, however. As in the 1930s a long list of industries testified during the 1940s and 1950s against giving the President the power to cut duties on imports competing with domestically produced goods. The products covered include textiles and apparel, coal, petroleum, watches, bicycles, pottery and tiles, toys, cutlery, ball bearings, glass, cheese, lead and zinc, copper, leather, and umbrellas. Pressures from these industries to halt further tariff-cutting because of their belief that they would be seriously injured were further strengthened by the opposition of many Republicans to liberalization on doctrinaire grounds. Republican advocacy of protection on the grounds that this policy promoted domestic economic development had an even longer tradition than the Democratic position in favor of liberalization, based on the belief that low tariffs reduced monopoly profits and the prices of popular consumer goods.

From the outset of the trade agreements program, the Roosevelt Administration assured Congress that no duty cuts would be made that seriously injured any domestic industry. However, in 1945 the Administration recognized the possibility that such injury might occur by agreeing to include in all future trade agreements an escape clause permitting the modification or withdrawal of tariff reductions if increased imports resulting from a concession caused or threatened to cause serious injury to an industry. Furthermore, under prodding from Republican members of Congress, President Truman in 1947 issued an executive order establishing formal procedures for escape clause actions whereby the International Trade Commission (ITC) would advise the President whether such a modification was warranted.[4]

These developments indicate that the U.S. trade-policy commitment at the beginning of the postwar period was to a policy of liberal trade rather than to a policy of free trade. It was recognized at the outset that protection to particular industries would be permitted if these sectors would otherwise be seriously injured by increased imports.

The failure of the U.S. Congress to ratify the International Trade Organization (ITO) proposed in the Havana Conference of 1947-48, or even to approve to General Agreement on Tariffs and Trade (GATT) (the commercial policy provisions of the ITO) as an executive agreement, is another indication of the early concerns of domestic political interests for import-sensitive U.S. industries (Diebold (1952)). Among other concerns, Congress was fearful that establishing a strong international organization to deal with trade matters would lead to the destruction of many U.S. industries as a result of increased imports. Numerous members of Congress and some of the groups they represented were also concerned about the increase in Presidential power that

the approval of such an organization might involve. They believed that the division of political powers among the legislative, executive, and judicial Oranches of government had shifted excessively in favor of the executive branch as a result of the unusual problems created by the Depression and World War II and were, consequently, reluctant to extend new authority to the President, especially in an area specifically reserved for Congress under the Constitution.

Gaining International Support for a Liberal International Trading Regime

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

An open international trading (and payments) system has elements of a public good. For example, adopting a mercantilistic viewpoint, if one country reduces its tariffs under the most-favored-nation principle, other countries benefit from the improved export opportunities this action creates even if they do not make reciprocal duty cuts themselves. Consequently, there is an incentive for any individual country to "free-ride" by hoping that others will reduce their own trade barriers. The net result may often be failure to secure a balanced, multilateral set of duty reductions even though they would benefit all participants. But as Olson (1965) and other writers on collective goods have pointed out, it is less likely that the public good will be underproduced if one member of the concerned group is very large compared to the others. The dominant member is so large that the cost to it of free

rides by other members is small compared to its own gain. Furthermore, the large member may be able to use its power to force smaller members to practice reciprocity. Proponents of the hegemonic theory of regime-change point to the dominant trading position of Great Britain in the nineteenth century to account for the creation of an open world trading regime then.

In parallel fashion, in the immediate postwar period the United States was willing and able to bear most of the costs of establishing a liberal international economic order (Vernon (1983, pp. 8-10)). The other major industrial countries were plagued by balance-of-payments problems and rationed their meager suppliers of dollars in order to maximize their reconstruction efforts. The tariff concessions they made in the early multilateral negotiations were not very meaningful in terms of increasing U.S. exports. U.S. negotiators were fully aware of this point. They nevertheless offered greater tariff concessions than they received even on the basis of the usual measures of reciprocity (Meyer (1978, p. 138)). In effect what the United States did was to redistribute to other countries part of the economic surplus reaped from its unusually favorable export opportunities in order to enable those countries to support the establishment of an open trading regime.

Shifts in Domestic Support for Liberalization

When the Republicans gained both the Presidency and control of Congress in 1952, some commentators expected a return to traditional protectionist policies. However, President Eisenhower and his main advisors believed that trade liberalization was an important foreign policy instrument, and Republican business leaders--especially those in the large corporations--also concluded that a liberal trading order was desirable from their own economic

viewpoint. Thus, after a standoff period in 1953 and 1954 during which protectionist Republicans in the House blocked any further tariff-cutting, the liberalization trend was renewed. In 1955, with the help of a Democratic Congress, President Eisenhower succeeded in obtaining a further 15 percent duty-cutting authority. In 1958 he was granted an additional 20 percent duty-cutting authority.

Just as more and more Republicans came to accept the desirability of a liberal trade policy as a general principle, more and more Democrats began to press for special exceptions to this principle. In the late 1940s, the industries requesting import protection tended to be economically and politically small. By the mid-1950s, the politically powerful cotton textile, coal, and domestic petroleum industries, whose employees tended to vote Democratic, were asking for protection. In 1955 the Eisenhower Administration, as part of its efforts to obtain the support of the Democrats for its liberalization efforts, pressured the Japanese into voluntarily restricting their exports of cotton textiles to the United States. In 1962 President Kennedy agreed to negotiate an international agreement permitting quantitative import restrictions on cotton textiles as part of his efforts to gain the support of Southern Democrats from textile areas for the Trade Expansion Act of 1962.[5] The coal and oil industries succeeded in obtaining a national security clause in the 1955 trade act that permitted quantitative import restrictions if imports of a product threatened "to impair" the national security. Voluntary oil import quotas were introduced on these grounds in 1958 and made mandatory in 1959.

The most significant change in the nature of support for protectionism occurred in the late 1960s when the AFL-CIO abandoned its long-held belief

in the desirability of a liberal trade policy and supported a general quota bill. The shift in labor's position was related to several developments. One was the rapid rise in import penetration ratios (and thus a rapid rise in competitive pressures) that occurred in many manufacturing sectors in the late 1960s. Another was labor's disappointment with the operation of the Trade Adjustment Assistance (TAA) program under the Trade Expansion Act of 1962.

As would be expected, this change in organized labor's position was reflected in the trade-policy votes of Democratic members of Congress. Several protectionist initiatives progressed quite far in Congress during this period and created great uncertainty regarding the direction of U.S. trade policy. It is doubtful, furthermore, that the Trade Act of 1974 would have been approved had not the President made concessions to both organized labor and particular industries subject to import pressure. The criteria for obtaining adjustment assistance were made much easier to meet labor's objections, and the multilateral arrangement on textiles was extended to cover textile and apparel products manufactured from man-made material and wool as well as cotton. In addition, the voluntary export restraints agreed upon in 1968 by Japanese and European steel producers were extended in the early 1970s.

Although the pattern of Congressional voting on trade-policy measures in the early 1970s shows that Republicans favored and Democrats opposed liberalization, it is probably not correct to conclude that this represents a permanent shift in party positions. A more accurate description of what seems to have happened is that liberalization versus protectionism is no longer a significant party issue. The vote of individual members of Congress on trade policy is now more influenced by economic conditions in their

district or state and by the pressures on them from the President (if they are both in the same party) rather than by party affiliation. Regression analysis of the voting pattern on the Trade Expansion Act of 1962 and the Trade Act of 1974 (Baldwin (1976, 1981)) indicates that party affiliation was significant in 1962 but not in 1974.

Congressional Restraints on the President

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

In the Trade Expansion Act of 1962, Congress insisted on shifting the chairmanship of the interagency committee established to recommend tariff cuts to the President from the State Department (long regarded by Congress as being insufficiently sensitive to the import-injury problems of U.S. industry) to a new agency, the Office of the United States Trade Representative (USTR). The requirement of the Trade Act of 1974 that an elaborate private advisory system

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

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

Congress has also included numerous provisions in post-war trade laws to increase the proportion of affirmative import-relief decisions on the part of the ITC. The most obvious way of trying to accomplish this has been to change the criteria for granting increases in protection when an industry is threatened with or is actually being seriously injured because of increased imports. For example, the requirement that increased imports be related to

a previously granted tariff concession was eliminated in 1974. Less obvious ways that Congress used in trying to make the ITC more responsive to its views included utilizing its confirmation powers to try to ensure that Commission members were sympathetic to its views (Baldwin (1984)). In a further effort to weaken the influence of the President over the Commission, Congress in 1974 removed all controls of the executive branch over the Commission's budget and eliminated the power of the President to appoint the chairperson. This latter change was modified in 1977 but the President still cannot appoint his two most recent appointees as chairperson.

Similar steps were taken by Congress to try to ensure stricter enforcement of U.S. trade laws relating to unfair foreign practices. For example, for many years many members of Congress felt that the Treasury Department was too lax in administering U.S. antidumping and countervailing-duty legislation. One step designed to change this was to transfer the determination of injury (but not the determination of dumping) from the Treasury Department to the ITC in 1954. In 1979, Congress completely removed the authority to determine dumping and subsidization from the Treasury and gave these powers to the Commerce Department--an agency that it believed would carry out the intent of Congress more closely.

Perhaps the most significant reduction in the President's authority over trade policy concerns his ability to negotiate agreements with other countries covering nontariff measures. When Congress directed the President to seek such agreements under the Trade Act of 1974, it stipulated that any agreements must be approved by a majority vote in both the House and Senate--unlike tariff agreements. This provision was extended in the Trade

Agreements Act of 1979. It gives Congress much greater control over the nature of any agreement, and increases its control over the pattern of tariff cuts undertaken by the President in a multilateral trade negotiation, since tariff and non-tariff concessions made by participants are closely linked. These constraints notwithstanding, Congress fully supported the efforts of the President to negotiate new non-tariff codes in the Tokyo Round, and the set of codes eventually agreed upon were approved without difficulty by the Congress.

Non-tariff Instruments of U.S. Trade Policy

Efforts increased during the 1970's to negotiate agreements that would mitigate the adverse effects of foreign non-tariff barriers (NTBs). U.S. producers were pressuring government officials for the stricter enforcement of existing U.S. "fair trade" legislation such as the antidumping and countervailing laws, and were seeking import protection under these laws to a greater extent than in the past.[6] Furthermore, domestic industries were demanding the greater use of quantitative restrictions (as compared to higher import duties) in protecting against injurious import increases.

One factor accounting for the greater number of less-than-fair-value cases has been the difficulty of obtaining protection by the traditional provisions pertaining to injury caused by import competition. Despite the 1974 easing of the criteria for determining whether import relief should be granted, only 38 cases were decided by the ITC between 1975 and 1979 and in all but 19 of these a negative decision was reached. Furthermore, the President rejected import protection in all but 7 of the 19 cases. The likelihood that the routine acceptance of affirmative ITC decisions would be interpreted by foreign governments as an abandonment of U.S. international economic leadership

appears to have made the President willing to accept only a few of these decisions. Even the Congress has been hesitant on similar grounds to weaken the import-relief criteria much beyond what they had been in the 1950s.

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

A better understanding of this point has given domestic industries an incentive to utilize U.S. fair trade legislation more extensively in seeking import protection. The incentive has been further increased by legislative and administrative changes in this area. Congress, though diluting the President's power to reduce trade barriers and to set aside ITC decisions, has at the same time given him new authority to limit imports on fairness grounds. The 1922 and 1930 tariff acts granted the president the authority to impose new or additional duties on imports (or even to exclude imports) from countries that impose unreasonable regulations on U.S. products or discriminate against U.S. commerce. The 1962 trade act further directed the President to take all appropriate and feasible steps to eliminate "unjustifiable" foreign import restrictions, and to suspend or withdraw previously granted concessions where other countries maintain trade restrictions that "substantially burden" U.S. commerce or engage in discriminating acts. The Trade Act of 1974 restates these provisions and also gives the president the authority to take similar actions in response to

> "subsidies (or other incentives having the effect of subsidies) on its [a foreign country's] exports ... to the United States or to other foreign markets which have the effect of substantially reducing sales of the competitive United States product or products in the United States or in foreign markets"

and

> "unjustifiable or unreasonable restrictions on access to supplies of food, raw materials, or manufactured or semi-manufactured products which burden or restrict United States commerce".

In amending this provision, the 1979 trade act stressed the President's responsibility for enforcing U.S. rights under any trade agreement and simplified the list of foreign practices against which he is directed to take action.

Another legislative change that encouraged the use of fair trade legislation to gain protection was the extension of the definition of dumping in the Trade Act of 1974. Dumping was declared to encompass not only sales abroad at lower prices than charged at home but also sales of substantial quantities below cost over an extended period (even if domestic and foreign prices are the same). In 1977 the steel industry filed dumping charges covering nearly $1 billion of steel imports from Japan, all the major industrial countries, and India under this provision. As Finger et al. (1982) point out, fair trade cases of this magnitude in such a key sector attract so much political opposition (both domestic and foreign) that they cannot be disposed of at the technical level, and consequently spill over into the political arena. In this instance, the steel industry was successful in convincing President Carter that their claims were justified, and the so-called trigger-price system was worked out as an alternative to pursuing the anti-dumping

charges to the final stage.

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

Other important U.S. sectors have been protected in recent years by nontariff barriers. They include the footwear, television, and auto industries. Voluntary export restraints were negotiated by the President in the first two cases after affirmative injury findings by the ITC. Although the ITC rejected the auto industry's petition for import relief, the industry was nevertheless successful in persuading the Administration of the need for import controls, and the Japanese eventually agreed to restrict their sales to the United States.

The increased use of nontariff trade-distorting measures has weakened the liberal thrust of U.S. trade policy. This is true not only because NTBs represent a move toward protectionism but because most of them have been applied in a discriminatory manner and are negotiated outside of the GATT framework. Some of the political decisions reached at the Presidential level have also occurred without the opportunity for all interested parties to be heard, as would be the case if a technical route such as an import-injury petition before the ITC was being followed, or even if a political route at the Congressional level was being pursued.

3. U.S. TRADE POLICY UNDER THE REAGAN ADMINISTRATION[7]

President Reagan took office with an unusually well-defined set of domestic and international policy objectives, and his vigorous efforts to implement them have significantly affected certain aspects of U.S. trade policy over the last three years. As often happens, however, conflicts and unexpected interactions among policy goals, difficult-to-resist domestic and international political pressures, and unforeseen events have combined to produce actual trade policies that only imperfectly reflect the administration's initial objectives. On an overall assessment, trade policy under the Reagan administration has been perhaps only somewhat more liberal than that of previous Republican and Democratic administrations.

The Administration's Trade Policy Objectives and Their Relation to Its Other Goals

Although all post-World War II presidents have supported the market system, none has been as firm in his belief in its economic efficacy as President Reagan. The administration's stance on trade issues was officially set forth by the United States Trade Representative, William Brock, before the Senate Finance Committee in July 1981. In this "Statement on U.S. Trade Policy" Ambassador Brock maintained that liberal trade is essential to the pursuit of the goal of a strong U.S. economy. At the same time, however, he emphasized that the Reagan administration would strictly enforce U.S. laws and international agreements relating to such unfair practices as foreign dumping and government subsidization.

An important implication of the market approach is that when other nations "have a natural competitive advantage, U.S. industry must either find a way of upgrading its own capabilities or shift its resources to other activities". Primary reliance was to be placed on market forces rather than on adjustment assistance or safeguard measures to facilitate adjustment in affected industries. With respect to export-credit subsidies, the objective was "to substantially reduce, if not eliminate, the subsidy element, and to conform credit rates to market rates". Along with cutting back on measures that artificially stimulate exports, the administration pledged to reduce or eliminate laws and regulations that needlessly retard exports. Three types of policies with export-disincentive effects were singled out: the taxation of Americans employed abroad, the Foreign Corrupt Practices Act, and export regulations and controls.

Several negotiating initiatives were outlined in the paper. Most significant were those aimed at reducing government barriers and subsidies to services that are internationally traded, and at negotiating new international rules dealing with trade-related investment issues (export performance and local content requirements) and government interventions that affect trade in high technology products.

With regard to developing countries, the stated goal was to ensure that the more advanced developing countries undertake greater trade obligations and that the benefits of differential trade treatment go increasingly to the poorer members of this group. Efforts to encourage greater conformity on the part of nonmarket economies with accepted principles of the international trading system were also promised.

The Reagan administration expected its macroeconomic policies to

facilitate the implementation of its trade policies. The reverse was in fact the case. The basic reason was the failure to stimulate strong real rates of growth. Money remained tight; favorable supply-side effects of fiscal policy were insignificant; interest rates rose, then fell much more sluggishly than expected; and the dollar appreciated to near-record levels. The failure of interest rates to fall as much as expected is usually attributed to very high current and prospective government deficits related to high levels of defense spending, an inability to control spending on social programs, and the relatively lower tax revenues associated with the cut in tax rates. Interest-rate developments put upward pressure on the dollar as did, apparently, political and economic uncertainties in many countries, which increased the dollar's attractiveness for safekeeping purposes.

The real appreciation of the dollar has had a significantly adverse effect on both U.S. export and import-competing industries. Exporters have found it increasingly difficult to compete abroad with foreign producers, and import-sensitive sectors have had to contend with both the sales-depressing effects of the recession and increased import pressures as U.S. purchasers shift to cheaper foreign products. The U.S. trade deficit has significantly worsened. Export industries have also been hurt by the effects of the debt crisis in a number of developing countries. As the recession spread abroad and the volume of world trade declined, those countries that had borrowed abroad heavily in the latter part of the 1970s found themselves in a situation where their exports were falling at the same time that their debt burden had risen because of high international interest rates. The restrictive monetary and fiscal policies imposed on these countries by the International Monetary Fund as the

price for agreeing to a rescheduling of their debt payments then had the effect of curtailing their imports and further compounding the export problems of U.S. industries.

Export-Promoting Policies

The adverse effect of the overvalued dollar and the debt crisis on U.S. exporters appear to have been important factors in causing the Reagan administration to modify its skeptical views on export-promoting policies. Under considerable prodding from Congress, the administration reversed its early intentions to reduce activities of the Export-Import Bank and to repeal legislation allowing Domestic International Sales Corporations (DISCs). In 1983 the administration requested Congress to increase the loan guarantee authority of the Export-Import Bank, and also to provide the Bank with a sizable standby fund to match the export-financing activities of other countries. Furthermore, instead of scrapping DISCs, the executive branch has drafted new legislation that will provide the same tax benefits for exporters, yet be consistent with GATT rules.

The administration has delivered on most of its promises to reduce self-imposed export disincentives. The 1981 tax act eased the U.S. tax burden on Americans residing abroad for at least 11 out of 12 months. In the fall of 1982 Congress passed and the President signed the Export Trading Company Act. This important legislation permits bank holding companies and certain types of banks to take an equity interest in export trading companies, and also permits a partial exemption from the antitrust laws for specified export activities that do not substantially lessen competition within the United States.

Another export-promoting measure proposed by the administration is the Business Accounting and Foreign Trade Simplification Act, which modifies certain provisions in the Foreign Corrupt Practices Act of 1977. Advocates of the changes claim that the Foreign Corrupt Practices Act has brought about a situation where American businessmen often do not even bother to compete abroad for contracts, for fear that payments regarded as legal and customary in foreign countries will be regarded as illegal under U.S. law. (Krause (1982, pp. 82-84) discusses these effects in the context on ASEAN countries.) As one example of the type of change being proposed, the new act stipulates that a U.S. firm would be liable under the law only if it "directs or authorizes, expressedly or by course of conduct" that an illegal payment be made by its foreign agent instead of being liable, as under the 1977 act, simply because it had "reason to know" such a payment was being made. The revised measure also explicitly permits payments to officials of foreign governments that are lawful under the local law and payments aimed at expediting or securing the performance of routine official action. The Senate passed the bill in 1982 but opposition to it has developed in the House.

Import Relief Policy

Most of the Reagan administration's import relief policies have been shaped by a complex mixture of free trade ideology, practical politics, and unanticipated events. On the basis of its Statement of Trade Policy, one would have expected the administration to follow a very tough stance against import protection. However, on the surface at least, the administration's actual performance in granting import relief does not seem to differ significantly from the varied record of other recent administrations.

In 1981, for example, the administration pressured the Japanese into voluntarily limiting their exports of autos to the United States, even though the International Trade Commission had earlier rejected the industry's petition for import relief. In the same year the President reintroduced sugar quotas and supported an extension and tightening of the Multifiber Arrangement. More recently, he accepted the affirmative import injury determinations of the ITC in the motorcycles and specialty steel cases. Duties were sharply raised on certain imported motorcycles and a combination of increased import duties and quotas was used to restrict imports of specialty steel items.

In contrast, on the side of liberal trade policy actions, the President permitted the 1981 expiration of Orderly Marketing Agreements on nonrubber footwear with Korea and Taiwan, despite an ITC recommendation that the Taiwanese agreement be extended for another two years. Furthermore, he has actively opposed "domestic content" legislation covering the automotive industry.

One policy to deal with increased competition on which there is a clear difference in performance between this and other recent administrations is trade adjustment assistance for workers. Prompted not only by a desire to reduce government intervention in the adjustment process but by the goal of reducing inflationary pressures by cutting government expenditures, the administration secured new legislation in 1981 that sharply curtailed the Trade Adjustment Assistance (TAA) program. It introduced more stringent qualifying requirements and reduced financial benefits. Legislation in 1982 again restored the qualifying requirements of the 1974 Trade Act, but the Labor Department has interpreted the criteria in a strict manner so that the program still remains small. The administration has proposed a "voucher" system whereby workers displaced for whatever reason would search for suitable education or training

and use vouchers issued to them by the government to pay for employer on-the-job training or for the costs of training at various schools.

It can be argued that the Reagan administration's overall import relief record is a reasonably liberal one. In speculating about what another administration might have done under similar circumstances, it should be stressed that today even a strong president shares policymaking powers in the trade field with Congress, as outlined above. Congress is much more responsive to the immediate economic problems of various industries and groups than the executive branch. Consider, for example, the auto case. In early 1981 Congress held hearings to publicize the plight of the industry and Senator Danforth, the Chairman of the Subcommittee on International Trade of the Senate Finance Committee, introduced a bill that would have imposed quantitative restrictions on Japanese auto imports. He and his colleagues preferred the President to negotiate a voluntary export restraint agreement with Japan, but apparently were prepared to push the bill through Congress (with little opposition expected) unless such an agreement was reached. Faced with this prospect and the fact that he had made a campaign speech arguing for a cutback in exports by the Japanese, the President eventually put pressure on the Japanese government for voluntary export restraints. The President might have held to a strong liberal trade position and threatened to veto any restrictive bill emerging from Congress, but it would have been politically difficult to do so in view of his own stated position and the generally recognized fact that increased Japanese imports were an important cause of injury in this politically powerful industry.

The failure to follow the ITC's recommendation to extend footwear quotas against Taiwan was probably a consequence of the President's decision on autos,

as Cohen and Meltzer (1982, p. 111) point out. The administration feared that approval of the ITC recommendation would send an undesirable protectionist signal to the rest of the world. Moreover, from a domestic political viewpoint the fact that the footwear industry is much less politically powerful than the auto, steel, or textile industries, and had already been given five years of import protection, made it much easier to reject the recommendation.

The proposed domestic-content legislation for the auto industry presents still a different set of circumstances for the President. This legislation is clearly inconsistent with the trading rules of the GATT and is likely to lead to an outpouring of protectionist charges by other countries as well as retaliation against U.S. exports. The U.S. would jeopardize its traditional role as the international leader of a liberal international trading order. Domestic political support -- even within the auto industry -- is also not nearly as strong as in the Japanese voluntary-export-restraint case, especially as auto sales pick up in response to economic recovery. Thus, the President is able to adopt a much stronger liberal trade position without high political costs.

Finally, the Administration's policy position during the international negotiations in the fall of 1981 on the renewal of the Multifiber Arrangement further illustrates the complexity of trade-policy decisions. The President had previously expressed sympathy for the view that textile imports should only expand at the same rate as the domestic market. He also needed the support of members of Congress from southern textile districts to pass the budgetary changes he proposed, and which he viewed as more important than import policy with regard to textiles. Moreover, the European Community (EC) strongly favored a more restrictive international agreement, and it would have been difficult to oppose their position.

In Pursuit of "Fair Trade"

While there is scope for disagreement concerning just how liberal the Reagan's administration's import relief record is compared with that of other administrations, there seems little doubt that the current administration has pursued the goal of "fair trade" more vigorously than any previous administration. Two efforts in this regard are especially noteworthy for Asian trade: the enforcement of existing U.S. fair trade laws, and the opening of the Japanese market to a greater extent. (For Europe the major U.S. initiative against unfair trade practices has been the attempt to reduce EC agricultural subsidies.)

The main push for stricter enforcement of U.S. laws relating to dumping, subsidization, patent infringements, and unjustifiable, unreasonable, or discriminatory foreign trade actions has come from Congress over the last several years, as outlined above. It was due to Congressional initiative that the enforcement of the fair trade laws was transferred in 1979 from the Treasury Department to the Commerce Department. However, the Reagan administration has had ample incentive for its own initiative on this front.

The initiation by the Commerce Department of a countervailing duty investigation into certain steel exports by six European countries is a good example of the administration's aggressive stance toward unfair trade practices. The case was significant for the large volume of trade involved, for the fact that it was the first time that the government had initiated such an investigation, and for the careful manner in which the Commerce Department tried to measure the subsidies.

The case was settled, however, not by imposing countervailing duties equal to the subsidies, as provided by the law, but by an agreement with the

subsidizing European Community countries. The agreement quantitatively limited the majority of EC steel mill exports to the United States for a 3-year period. It is surprising that an administration committed to "free but fair" trade settled its major fair trade case with an arrangement that was not carefully designed to just offset the alleged subsidies and is regarded as the worst form of protection by liberal traders.

There has also been a greater use of section 301 of the Trade Act of 1974, which deals with unjustifiable, unreasonable, or discriminatory trade practices by foreign countries. Prior to 1981, only 3 presidential determinations supporting the petitioners had been made, whereas in 1981 and 1982 there were 5 such determinations. Furthermore, at the urging of Congress the Reagan administration has agreed to a strengthening of section 301's provisions. Specifically, the administration supports an amendment that would explicitly extend the president's authority to retaliate against unfair practices affecting trade in services and foreign direct investment.[8]

A case brought by Houdaille Industries in May 1982 under section 103 of the Revenue Act of 1971 further illustrates the increased concern with unfair trade practices. This law permits the President to deny investment tax credit on imported goods if the exporting country "engages in discriminatory or other acts (including tolerance of international cartels) or policies unjustifiably restricting United States commerce." Houdaille requested indefinite suspension of the investment tax credit on certain numerically controlled machines imported from Japan, on the grounds that the Japanese government had for many years fostered and encouraged a cartel among its domestic machine tool manufacturers, which had given them an unfair advantage. Although the Senate passed a

resolution urging prompt retaliation, after a 10-month investigation the administration denied the request. However, at the same time, it announced that the U.S. and Japanese governments would hold talks on the issue and that there may be future action on the matter.

A second area where administration officials have vigorously pushed the notion of fairness relates to U.S.-Japanese trade more generally. There is no other trade topic that generates more heated discussion in Congress and within the administration than the U.S. trade deficit with Japan. This deficit increased from $7 billion to $18 billion between 1979 and 1982. It has become standard doctrine in parts of the government to attribute much of the deficit to unfair trading practices on the part of the Japanese. On the export side these allegedly take the form of industrial targeting -- a practice whereby the Japanese government selects certain product lines for export emphasis and then facilitates their development by coordinating research, by helping firms secure low-cost finance, by encouraging specialization among potential competitors, by providing marketing assistance, etc. On the import side, it is claimed that the unfair use of such nontariff measures as standards certification procedures, customs procedures, preferential government purchasing policies, and discriminatory distribution arrangements exclude a significant volume of U.S. goods from the Japanese market. (The average level of industrial tariffs in Japan is only about 3 percent, a figure lower than that for the U.S. or the EC.)

Since the fall of 1981 top administration officials including the President himself have pressed the Japanese to remove these unfair barriers, as well as to enlarge agricultural quotas and reduce tariff rates still further. Some success has been achieved along these lines but there is still widespread dissatisfaction with Japan's response. The reciprocity bill insisted upon by Congress is

largely a manifestation of this dissatisfaction. Recently, trade officials have begun to focus more closely on the industrial targeting practices of Japan. It is quite possible that the U.S. will take some form of trade policy actions to offset the effects of these practices.

The soundness of the case against Japan is difficult to determine. On the one hand, U.S. firms have documented numerous instances of practices that seem to restrict U.S. exports to Japan unfairly. More and more is also becoming known about the export-promoting policies of the Japanese government. On the other hand, an increase in the trade deficit for this reason would have required an increase in unfair practices, and there seems little evidence of increased unfairness. Writers such as Saxonhouse (1982) and even the President's own Council of Economic Advisors (United States (1983)) have further argued that Japan's trade pattern (a significant trade surplus for manufactured goods, more than balanced by a significant trade deficit for primary products) is consistent with the country's human and physical resource endowments. While the Council of Economic Advisors believes that major trade liberalization by Japan would do much to relieve the political strains between the two countries, they state that "Japanese trade policy does not play a central role in causing the bilateral imbalance with the United States" (p. 56).

4. THE KEY QUESTION: HOW MUCH OPPORTUNITY FOR U.S. TRADE POLICY LEADERSHIP?[9]

The General Issue

U.S. trade policy since World War II has enjoyed unique liberties and been subject to unique limitations. It has enjoyed the early postwar liberty

of serving international and national security goals without unduly serious domestic consequences. Those goals remain, with universal expectations that the U.S. will design trade policy at least in part to attain them. The expectations have, however, recently become a unique limitation on U.S. trade policy, which is increasingly subject to familiar domestic political pressures.

U.S. trade policy has always served two masters, a domestic and a foreign constituency. U.S. leadership has become more difficult in recent years as the relative strength of the domestic constituency has grown. Some have described this as the "domestication" of U.S. trade policy. "Domestication" causes tensions especially for a U.S. President, whose trade initiatives must somehow continue to serve both masters. Congress has become, by contrast, much more narrowly focussed. Ahearn and Reifman (1983) comment on "its continuing disinclination to sacrifice U.S. commercial interests for foreign-policy objectives."

Because of both domestic and foreign constituencies, no modern U.S. president feels able to promote openly a general policy of import protection. The United States is still viewed by the other major industrial nations as the leader of the liberal international trading order. These countries still basically support this regime and believe that if the United States adopts general protectionism, it will rapidly spread throughout the trading world along with beggar-thy-neighbor exchange-rate policies. It is a widely accepted view that the result of this collapse of the existing trade and financial order would be extensive job losses in export sectors and massive financial losses in industries with export and foreign direct investment interests. Because of the great political and economic power of these sectors, together with the considerable pressures foreign constituencies can

bring to bear, a president would run significant political risks if he openly pursued a policy of general protectionism.

At the same time, it is also very difficult politically for a president to resist granting protection to specific industries that are politically significant in voting and/or financial terms, and that also seem to have a good case in U.S. and international import-relief or fair-trade laws. If, for example, the ITC had rendered an affirmative decision in the recent auto case and President Reagan had rejected this decision, it seems likely that Congress would have vetoed his action, as it could have at that time with a simple majority vote. Moreover, Congress probably would have blocked other legislation desired by the President in retaliation for his decision. Even without the congressional veto a president runs this risk when he takes actions against a strongly held congressional view. It is not politically rational to turn down "good" cases for protection -- unless a president regards resistance to import relief for a politically powerful industry considered to be deserving of such relief by many members of Congress to dominate his other political goals.

Difficulties and trade-policy tensions are, of course, predictable results of growing U.S. dependence on international markets, and of decline in U.S. influence in them. Growing U.S. trade dependence increases the effect of the country's trade policy on domestic economic variables. Responsiveness (elasticity) of sectoral output, employment, and profit with respect to trade policy rises as import and export shares rise. When trade shares were small, even export and import embargoes had only modest impacts on domestic industries. As trade shares have grown, so has the attractiveness of trade policy to attain domestic goals, and to defend against "unfair" trade practices of foreign firms that are no longer just token competitors for U.S.

giants.

In contrast, as the rest of the world has grown relative to the U.S. since World War II, its trade dependence on the U.S. has declined. Responsiveness (elasticity) of global output, employment, and profit with respect to U.S. trade policy has become smaller. U.S. ability to influence world economic prosperity has therefore declined, and so has the claim of this goal to priority in shaping U.S. trade policy. The important, but non-voting, foreign constituents of U.S. trade policy have taken careful note of its reduced influence on them at the same time as voting U.S. constituents have awakened to its growing influence on them.

U.S. Leadership Internationally: Hegemony, Oligarchy, Anarchy(?)

If the tensions and trends described above are identified with the decline of U.S. hegemony, the natural question is whether they undermine the international leadership of the U.S. in establishing liberal trade policy. Several answers are possible.

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

Despite a shift in power from a situation where one country dominated the economic scene to one where there are now three major economic blocs (the United States, the European Community, and Japan), most observers agree that

the trade and payments regime continues to be essentially an open and liberal one. As Table 1 in the introductory section shows, the tariff cuts made in the 1960s and 1970s were actually much deeper than those made in the 1940s and 1950s. Furthermore, the new nontariff codes negotiated during the Tokyo Round, though often very general in their wording, do represent a significant accomplishment. The GATT Ministerial meeting in November 1982 and the leadership role that the United States played in establishing the agenda are additional indications of the continued commitment of the major industrial nations to a liberal international economic order.

A consideration of the economic theory of either market behavior or of the production of collective goods suggests why the hegemonic model fails to predict the continuation of an open system. A single firm that dominates a market is likely to stabilize its price at a monopolistic level while still tolerating some price cutting by the smaller firms making up the rest of the industry. However, oligopolistic market theory suggests that the same result is possible if two or three large firms dominate an industry. Similarly, as Olson (1965) pointed out, the free-rider problem associated with collective action by an industry can be overcome if a small number of firms (as well as just one firm) produce a significant share of the industry's output. Bargaining and enforcement costs may then be sufficiently low that property rights to collective goods can be established along with fees and penalties for cheating. Thus, the continued support for a stable, open trading order as the distribution of power changed from an almost monopolistic situation to an oligopolistic one is quite consistent with market-behavior theory.

The shift from a hegemonic position to one in which the country shares its previous economic and political power with a small number of other nations is,

however, likely to alter the country's own international behavior somewhat, just as the change in the status of a firm from a monopolist to an oligopolist is likely to change the firm's market behavior. In the U.S., the nature of the change has been to initiate trade negotiations mainly to achieve domestic economic benefits rather than to further international political and national security goals.

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

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

It is worth considering less sanguine outlooks, however, since major crises may occur, and since developing countries in particular may not enjoy the benefits of the countervailing trade policy power described above. A familiar American image may help to flesh out what could happen if some crisis prompted U.S. trade policy to become openly aggressive and nationalistic. "Frontier justice" might increasingly order trade and policy. Under frontier justice, if any government could "get away with it," it would "do it." Strong governments would survive prosperously; weak governments, tenuously. The economic problem with frontier justice is unpredictability. More organized systems of justice regularize economic exchange, establishing boundaries for what qualify as voluntary transactions, rules governing the exploitation of market advantage, and sanctions to guarantee the enforcement of contracts. Frontier justice, by contrast, could destabilize economic exchange, becoming an irritant to the market rather than its lubricant.

U.S. hegemony, undesirable though it was in some ways, clearly checked

the scope for policy aggression, much as the frontier sheriff or U.S. marshall checked the scope for frontier justice. The awkward question that a crisis might raise is what happens on the frontier when the sheriff not only grows weaker, but begins to act aggressively, "just like everyone else"?

Aggressive trade policies are to be feared more for their potential to disorder resource allocation than to mis-order it. The law of the jungle is as haphazard a way of ordering policy transactions as it is of ordering market transactions. Even laisser-faire economists have in mind some particular legal structure of common-law conventions when they favor "free" markets and liberal trade policy. The threat is that a crisis might cause longstanding legal structures and conventions governing government behavior to be abandoned. Uncertainty at best and chaos at worst could be the consequence for international trade and investment. The danger of the worst case can be appreciated by considering what happens to everyday commerce during civil disorder, when legal systems crumble and vigilantism waxes strong.

U.S. leadership in trade policy to minimize the chance of this worst-case scenario is still probably quite strong. The U.S. would seem the logical initiator in what Blackhurst (1981, p. 369 passim) has described as a return toward "conventions" in trade policy. Blackhurst has in mind conventions that would at least order, but not bind, trade policy. Governments themselves should be the constituents. Mutually agreed conventions protect governments from each other, and also from domestic political constituents in narrow pursuit of trade policies that serve their special interest at the expense of other constituents.

There are three important practical challenges in any such return toward conventions. One is to avoid over-ambitious promulgation of "rules" which, when broken, breed the unpredictability that disorders resource allocation.

A second is to keep the resource and time costs of negotiation in check so as to increase chances for a cooperative outcome. A third is to incorporate developing countries better into "convention-setting" than they have been recently.

In these lights it is worth evaluating the multilateral negotiating approach very carefully. In view of significant differences among countries concerning trade policies, multilateral negotiations may now be too cumbersome and costly in terms of what can be achieved. Negotiations among a small number of countries on selected issues of particular concern to the group may be more productive. This would represent a return to the negotiating technique followed so successfully in the 1930s under the Trade Agreement Act of 1934. The group is small enough and sufficiently concerned for the negotiations to be efficient, yet the collective benefits reaped from the most-favored-nation principle need not be sacrificed.

What this may suggest practically for the U.S. is aggressive bilateral peacemaking -- the formation of mutually advantageous coalitions with like-minded governments.[10] For example, the U.S. and Japan seem likely partners for a bilateral trade agreement that would order trade along lines that are held closely in common.

U.S. Leadership Domestically: Potential for the Reagan Administration

A President's ability to reconcile the trade-policy conflicts between domestic and foreign constituencies depends on many factors -- his political strength among voters, his economic and political goals, his effectiveness in dealing with Congress and the public, the extent to which his own party controls Congress, etc. President Reagan thus far has not exhibited special interest in international economic matters. His policy decisions in this field have been mainly reactive. While he has been guided in these responses

by a strong preference for the market mechanism, he has also shown a willingness to compromise in the face of strong domestic or international political opposition to a clear-cut market solution.

A president _can_ make a significant difference domestically in the nature of trade policy. This is most likely to occur when he initiates major trade-policy actions himself, as well as responding to well-taken pressures. In this way he is often able to transcend the narrow, short-run concerns that dominate most political decisionmaking, and gain support among legislators and the public based on their concerns for the long-run economic and political welfare of the country. An initiative in this spirit has been President Reagan's recent proposal to create a cabinet-level Department of International Trade and Industry. Yet in many ways this initiative may be premature. Clarifying initiatives toward U.S. trade strategy and policy instruments seem needful beforehand, along with credible actions to underwrite such initiatives. We turn to these clarifying initiatives after a brief discussion of the proposal for a new department.

The proposed Department of International Trade and Industry would be created by merging the Office of the United States Trade Representative, which is in the Executive Office of the President, and parts of the Commerce Department. The new department would allegedly "provide a strong, unified voice for trade and industrial matters." There are sound arguments both for and against such a merger. With the 1979 transfer to the Commerce Department of responsibility for administering the basic fair trade laws, and with the greater emphasis under the Reagan administration on enforcement of these laws, significant parts of trade policy administration are divided between USTR and the Commerce Department. Conflicts between the two agencies weaken international

effectiveness in trade disputes and sometimes send conflicting signals to domestic producers. Yet such conflicts are inevitable under the present arrangement, and would presumably be reduced with the new agency. Bringing together the economic staff of the Commerce Department and the trade officials of USTR would also stimulate the kind of in-depth economic studies that are so badly needed to prepare U.S. negotiators adequately, as well as to undertake long-range trade policy planning.

A possible drawback of the new department is that the inter-agency aspect of trade policy formation that has existed since the 1930s could be lost or seriously weakened. Trade policies affect matters over which most of the major federal departments have some control, and decisions on most issues are now reached through inter-agency meetings chaired by USTR and involving such agencies as State, Treasury, Commerce, Labor, Agriculture, Interior, ITC, and Defense. Some individuals fear that the current process of balancing the diverse views of representatives from these agencies would be lost and instead be replaced by a process in which the business-oriented views of the Commerce Department become dominant. There is also some concern that trade policy may end up being downgraded in importance, since it will no longer be directed from the Executive Office of the President.

The merger issue is not likely to be resolved soon, since there is significant opposition to it in Congress. In the meantime, the debate over the new department could be informed greatly by initiatives to clarify the strategy and instruments of U.S. trade policy.

(1) Strategy. Recent U.S. trade initiatives, especially from Congress, reveal an anomalous division of opinion concerning the proper trade strategy

for the United States. Some initatives attempt to export U.S. policy tradition to the rest of the world. Others attempt to import policy tradition abroad to the United States. Illustrating the first are new conceptions of "reciprocity" -- notions that policy abroad must provide U.S. firms with the same market opportunities as our policies provide to their firms,... or else! Illustrating the second are new conceptions of trade policy as active industrial policy -- notions that U.S. trade policy should be marshalled as an important tool in striving for an optimum industrial structure.

The two strategies above are not inconsistent of course -- trade policy abroad could become like "ours" at the same time as "ours" became like others'. The result of both strategies would be policy convergence. Thus both represent a departure from the historical U.S. approach, which is more aptly characterized as policy tolerance -- accept policy differences in general, and at the margins exchange policy concessions for mutual gain. The appeal of policy convergence over policy tolerance appears to rest in the suspicion of unfairness discussed above. One might typify it as "If they only stopped cheating on the system and played like we do, then the field would be more level; if we only 'wised up' and played like they do, we could share all their advantages." In this light, the traditional tolerance approach may appear unappealing, "the same old thing again, just chipping away at the margin." The reality may, however, be otherwise than the appearance. Chipping away at the margin of policy differences may ultimately be more fruitful than a full frontal attack on them. The strategy of U.S. trade policy needs careful scrutiny.

The issue of rules versus discretion in trade policy is closely related. U.S. tradition is rules-based and ultimately subject to litigation. Tradition

abroad is much more discretionary -- flexible, managerial, and administrative. Negotiation rather than litigation is the vehicle for resolving differences. Here there is a genuine conflict for U.S. trade policy. Movement toward an even greater use of rules can satisfy domestic constituencies but isolate the U.S. still further in international negotiations. A good example is changes in countervailing-duty law and its administration, described by Shuman and Verrill (1983). Although the rules are now clearer than ever, there is still marked sensitivity in the executive branch to foreign objections when countervailing-duty cases are aggressively pursued. Negotiations with industry and foreign governments may ensue, with the result that the admittedly clear rules are by-passed by discretionary negotiation among the participants.

Movement away from rules toward discretion may, however, aggravate the widespread sense that the U.S. government isn't actively pursuing American interests, and undermine domestic support for all U.S. trade policy. It is curious in light of this to see the strength of U.S. support for active trade policy as industrial policy. Such active policy would almost surely necessitate fewer rules-centered policy decisions and more discretionary, technocratic, and unpredictable policy directives.

Finally, U.S. initiative is much needed on the adjustment issue of how to respond to sectoral policy abroad. Such policy in due time encourages U.S. sectoral adjustment in an opposite direction, with attendant adjustment costs. Should U.S. trade policy attempt to attenuate the adjustment, accelerate it, or remain passive? And what if the policy abroad appeared likely to fail? Should U.S. trade policy attempt to avoid the doubling of adjustment costs as industrial resources move to and fro? Should active adjustment-centered trade policy be bilateral or most-favored-nation?

(2) Instruments. It may be timely for the United States to initiate the restoration of tariffs and other taxes as the chief instruments of trade policy. The increased significance of administrative non-tax policy for exports and imports is well-known. Yet some of the unfortunate by-products of this are not widely appreciated.

One result of the greater use of administrative policies is intricacy. It becomes harder to identify foreign policies, much less their effects. It also becomes harder to implement one's own trade objectives. Intricacy raises the resource cost of estimating and monitoring trade policy, no matter who initiates it. Intricacy also slows down trade policymaking. Administrative trade policy, unlike tariffs, invades the turfs of regulatory agencies, congressional oversight committees, and sometimes even the judiciary.

Intricacy increases allegations of unfairness and discrimination. This is because administrative trade policy is inherently opaque compared to tariffs or explicit export subsidies. Opaqueness tends to heighten suspicious that something discriminatory and unfair is going on below surface appearances. Opaqueness leads naturally to the increased pursuit of unfair trade cases. Furthermore, opaqueness invites Congress to respond to perceived inequity with comparably opaque initiatives. Administrative trade policy has made it increasingly difficult for the U.S. to maintain the balance in its historical position that trade should be "free but fair."

A closely related result from greater use of administrative policies is unpredictability. Unpredictability undermines the ability of the market system to function, especially impeding those markets that allocate resources over time for investment, education, and research. This in turn aggravates adjustment problems.

For example, in recent years many initatives in U.S. trade policy have been non-tax rules with discretionary over-rides. Orderly marketing arrangements in footwear and television equipment can be described in this way, as can the Tokyo Round codes on subsidization, dumping, and government procurement. Unpredictability is an unfortunate by-product because these initiatives unwholesomely mingle policing with policy responsibility. The same authorities who are charged with predictably enforcing the rules are also charged with using their discretion to revise them sensibly. The two responsibilities are in conflict. Tariffs and other tax-based trade policy provide a sharp contrast. Enforcement of the rules is the clear responsibility of the Customs Service or the Internal Revenue Service. Discretionary revision of the rules is the clear responsibility of the Congress with the Executive's cooperation, featuring relatively predictable procedures for dissemination of information, expressing opinions, etc. There is no conflict since policing and policy are vested in different groups.

Economists who applaud the benefits of price competition but are chary of non-price competition (advertising, etc.) might consider the trade policy analog. There may be much clearer benefits to "tariff competition" -- negotiating concessions in the traditional way, threatening tax-based retaliation, etc. -- than to competition among governments in administrative protection.

Deregulation in the U.S. accentuates these tendencies. The removal of regulations, most of which are non-tax directives, forces a trade policy question: should the regulations be removed for all agents, or only for domestic agents? Taking the latter route implies special treatment for foreign sellers or buyers and is by its discriminatory nature a trade policy. But the initiating authority may be none of the traditional trade policy

centers. It may be rather the Department of Energy, the Federal Communications Commission, or the Senate Committee on Commerce, Science, and Transportation. U.S. initiative is needed to clarify jurisdiction over these questions.

Implicit revenue provides, however, a possibly important counterweight for preferring the continuation of U.S. reliance on non-tax policies. Orderly marketing agreements may transfer to exporting countries enough market power, related revenues, and terms-of-trade advantage to compensate them for injury caused by reducing shipments to the U.S. Developing country exporters of potentially differentiable goods, such as the newly industrializing countries of East and Southeast Asia, may have especially strong preferences for these non-tax agreements. Even U.S. policymakers might defend them as an instrument of international compensation for what would otherwise be a clear beggar-thy-neighbor barrier.

U.S. Leadership: Entries on an Agenda for "Aggressive Peacemaking"

U.S. trade-policy initiative in "aggressive peacemaking" requires consensus-building at home and abroad. Domestic and foreign constituents of U.S. trade policy are alike in their fragmentation over the best ways of ordering international exchange. "Disequilibrium" is the word that best describes their shifting and disparate views on trade policy.

For example, there are valid national reasons why countries may wish to introduce industrial policies or behave strategically in competing for international markets. However, in the absence of well-defined international conventions concerning just what constitutes acceptable international behavior and setting forth workable dispute settlement mechanisms, there are also dangers with a strategic policy approach. When each country actively

pursues this approach and retaliates against others who do so, it is possible that all trading nations end up with lower employment and income levels than otherwise, as the sequence of actions may constitute a negative sum game.

These potential costs[11] need to be described clearly to the American public and internationally. The description needs to be rooted in current fact and recent history. U.S. leadership seems natural in this task, given U.S. comparative advantage in economic education and research, and the still strong tradition of independence and objectivity among U.S. analysts and commentators.

A cooperative international approach worked quite well for many years after World War II. However, fundamental changes in the distribution of economic power among countries, including the growth of newly industrializing countries, coupled with differences among countries in the extent to which they have pursued active and reactive trade policies, have all served to lessen the effectiveness of the rules under which the postwar trading regime has operated. What is needed now is aggressive peacemaking aimed at establishing a new cooperative approach.

Any new cooperative approach is likely to require bilateral or multilateral agreements on several key elements of trade policy. One of the most important of these concerns the types of government intervention, especially public subsidization, that should and should not be countered with offsetting actions by other governments. Present GATT rules and practices are not sufficiently precise in this area. National laws on countervailing are also too simplistic to deal with modern conditions. In particular, there is insufficient recognition of the character of activist trade policies. By no means are all such policies aimed at gaining at the expense of others. Some can bring gains to all trading parties. Yet these are not sufficiently

delineated in either GATT or national conventions. Nor are the procedures for settling disputes in this area sufficiently effective. Nor are the advantages and disadvantages of special treatment for developing-country subsidies carefully thought out.

Greater agreement among the industrial and the newly industrializing countries concerning temporary assistance to sectors faced with severe adjustment problems is also needed. Countries claiming that their subsidies are strictly for adjustment purposes sometimes find their adjustment problems made worse by countervailing duties imposed by others. The need for a new safeguards code has also been recognized for several years. Integration of a new safeguards code with preferential treatment, if any, for developing countries might be the next step.

Bilateral and multilateral agreements relating to competition policy seem necessary. When international markets are imperfect, the abnormal profits that are available are tempting targets of government trade policies.[12] However, if international understandings can be developed that discourage cartel-like behavior, abuse of dominant market positions, and attempts to monopolize, much of the incentive for such profit-shifting trade policies may be eliminated. It is unlikely that competition policy can be dealt with adequately without also strengthening existing agreements relating to foreign direct investment.

Aggressive peacemaking through cooperation may also be needed in the areas of exchange-rate, monetary, and fiscal policies. Independent actions by some nations in these policy areas have created serious income and employment problems in others, especially when compounded with international debt problems. Without cooperative efforts to mitigate these problems, agreements in such areas as subsidization may not be meaningful or effective.

FOOTNOTES

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

2. Additional detail on matters discussed in this section can be found in Baldwin (1982).

3. Authors of this explanation for the postwar establishment of a liberal international economic order under U.S. leadership include Kindleberger (1973, 1981), Gilpin (1975, 1977) and Krasner (1976). See Lipson (1982) for a succinct statement and analysis of the hegemonic model.

4. See Leddy and Norwood (1963) for a detailed discussion of the escape clause, as well as the peril point provision. The peril-point provision directed the President to submit to the ITC a list of all articles being considered for tariff negotiations, and required the Commission to determine the limits to which each duty could be reduced without causing or threatening serious injury to import-competing domestic industries. This provision was a part of U.S. trade law from 1948 through 1962, except for a brief repeal in 1949 and 1950.

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

6. Between 1955 and 1972 the average number of antidumping reports issued by the ITC averaged less than 6 per year. This rate increased to 13 between 1974 and 1979. Similarly, the number of countervailing duty investigations completed by the ITC between 1962 and 1973 was 12, while the number rose to 37 between 1974 and the end of 1978.

7. Additional detail on matters discussed in this section can be found in Baldwin (1983).

8. This so-called "reciprocity" bill also requires an annual report of foreign trade barriers and what is being done to reduce them. Congress actually preferred a considerably stronger version of the bill but accepted this compromise at the urging of the administration.

9. Additional detail on some matters discussed in this section can be found in Baldwin (1982, 1983) and Richardson (1983a,b).

10. See Aho and Bayard (1983) and Vernon (1983, pp. 40-41 passim) for more detailed consideration of such proposals, including some that would abandon MFN treatment. The European Community has been essentially following this route as it expands, and in its preferential arrangements with non-member countries. See Camps and Diebold (1983) and Greenway (1984) for arguments in favor of renewed aggressive _multilateral_ negotiating strategies.

11. "Would any of you think of building a tower without first sitting down and calculating the cost, to see whether he could afford to finish it?... Or what king will march to battle against another king, without first sitting down to consider whether with ten thousand men he can face an enemy coming to meet him with twenty thousand? If he cannot, then, long before the enemy approaches, he sends envoys, and asks for terms." (Luke 14: 28, 31-32, _New English Bible_).

12. See Grossman and Richardson (1984) for a summary of the literature on this matter.

REFERENCES

Ahearn, R. J. and A. Reifman (1983), "Trade Policy Making in the Congress," in Baldwin (1984).

Aho, C. M. and T. O. Bayard (1983), "U.S. Trade Policy: Where Do We Go From Here?", processed.

Baldwin, R.E., ed. (1984), Recent Issues and Initiatives in U.S. Trade Policy (Cambridge: National Bureau of Economic Research Conference Report).

_________ (1983), "Trade Policies Under the Reagan Administration," in Baldwin (1984).

_________ (1982), "The Changing Nature of U.S. Trade Policy Since World War II," forthcoming in Baldwin and Krueger (1984).

_________ (1981), The Political Economy of U.S. Import Policy, unpublished monograph.

_________ (1976), "The Political Economy of Postwar U.S. Trade Policy," The Bulletin, 1976-4.

_________ (1958), "The Commodity Composition of Trade: Selected Industrial Countries, 1900-1954", Review of Economics and Statistics, 40:50-68, Supplement.

Baldwin, R. E. and A. O. Krueger, eds. (1984), The Structure and Evolution of Recent U.S. Trade Policy (Chicago: University of Chicago Press for the National Bureau of Economic Research).

Bauer, R. A., J. Pool, and L. Dexter (1963), American Business and Public Policy: The Politics of Foreign Trade (Aldine-Atherton, Inc.: Chicago).

Blackhurst, R. (1981), "The Twilight of Domestic Economic Policies," The World Economy, 4 (December), pp. 357-373.

Camps, M. and W. Diebold, Jr. (1983), The New Multilateralism: Can the World Trading System Be Saved? (New York: Council on Foreign Relations).

Cohen, S. D. and R. I. Meltzer (1982), United States International Economic Policy in Action. (New York: Praeger).

Diebold, W., Jr. (1952), "The End of the I.T.O.", Essays in International Finance, No. 16 (Princeton University: Princeton).

Dobson, J. M. (1976), Two Centuries of Tariffs: The Background and Emergences of the U.S. International Trade Commission, (United States International Trade Commission: Washington, D.C.).

Finger, J. M., H. K. Hall, and D. R. Nelson (1982), "The Political Economy of Administered Protection", American Economic Review, 72: 452-466.

Gardner, R. N. (1980), Sterling-dollar Diplomacy in Current Perspective (Columbia University Press: New York).

Gilpin, R. (1977), "Economic Interdependence and National Security in Historical Perspective," in K. Knorr and F. N. Trager, eds., Economic Issues and National Security, (Lawrence, Kansas: Regents Press of Kansas).

________ (1975), U.S. Power and the Multinational Corporation (Basic Books: New York).

Goldstein, J. L. (1981), "The State, Industrial Interests and Foreign Economic Policy: American Commercial Policy in the Postwar Period," Prepared for the National Science Foundation Conference on The Politics and Economics of Trade Policy, Minneapolis, October 29-31, 1981.

Greenway, D. (1984), "Multilateral Trade Policy in the 1980s," Lloyds Bank Review, 151 (January), pp. 30-44.

Grossman, G. M. and J. D. Richardson (1984), "Strategic U.S. Trade Policy: A Survey of Issues and Early Analysis," processed March, forthcoming as a National Bureau of Economic Research Research Progress Report.

Hull, C. (1948), The Memoirs of Cordell Hull (The Macmillan Company: New York).

Kindleberger, C. P. (1981), "Dominance and Leadership in the International Economy: Exploitation, Public Goods and Free Rides," International Studies Quarterly, 25:242-254.

__________ (1973), The World Depression, 1929-1939 (University of California Press: Berkeley).

Krasner, S.D. (1979), "The Tokyo Round: Particularistic Interests and Prospects for Stability in the Global Trading System," International Studies Quarterly, 23:491-531.

__________ (1976), "State Power and the Structure of International Trade," World Politics, 28: 317-347.

Krause, L. B. (1982), U.S. Economic Policy Toward the Association of Southeast Asian Nations: Meeting the Japanese Challenge (Washington: Brookings Institution).

Leddy, J. M. and J. Norwood (1963), "The Escape Clause and Peril Points Under the Trade Agreements Program" in W. B. Kelly, Jr., ed., Studies in United States Commercial Policy (University of North Carolina Press: Chapel Hill).

Lipson, C. (1982), "The Transformation of Trade: The Sources and Effects of Regime Changes," International Organization, 36: 417-455.

Meyer, F. V. (1978), International Trade Policy (St. Martin's: New York).

Nordlinger, E. A. (1981), On the Autonomy of the Democratic State (Cambridge University Press: Cambridge, Mass.).

Olson, M. (1965), The Logic of Collective Action (Harvard University: Cambridge, Mass.).

Richardson, J. D. (1983a), "U.S. International Trade Policies in a World of Industrial Change," in Federal Reserve Bank of Kansas City (1984), Industrial Change and Public Policy.

__________ (1983b), "Currents and Cross-Currents in the Flow of U.S. Trade Policy," in Baldwin (1984).

Saxonhouse, G. R. (1983), "The Micro- and Macroeconomics of Foreign Sales to Japan," in W. R. Cline, ed., Trade Policy in the 1980s (Washington: Institute for International Economics through Massachusetts Institute of Technology Press).

Shuman, S. S. and C. O. Verrill, Jr. (1983), "Recent Developments in Countervailing Duty Law and Policy," in Baldwin (1984).

United States (1984), Twenty-Seventh Annual Report of the President of the United States on the Trade Agreements Program, 1982-1983. (Washington: Office of the United States Trade Representative).

__________ (1983), Economic Report of the President, together with the Annual Report of the Council of Economic Advisers, Washington: February.

Vernon, R. (1983), "Old Rules and New Players: GATT in the World Trading System," processed, May 11.

Wilkinson, J. R. (1960), Politics and Trade Policy (Washington: Public Affairs Press).