

Resisting Protectionism

Introduction

HOW CAN STATES resist the temptation to protect their markets in times of economic distress and mounting foreign competition? If closure of their domestic markets is a natural response by states to serious economic difficulties, as has been the case historically, how can we explain the maintenance of open markets in times of widespread economic recession and instability? A broad understanding of international trade policy formation—one that goes beyond the usual focus on the sources of protectionism—is necessary to answer these questions. As a response to economic difficulties, protectionism not only has strong intuitive appeal but also has been much examined. But states' decisions *not* to protect their markets need more attention.

Choices about the degree of openness of a state's markets are quintessentially political ones. They entail decisions about the societal allocation of the costs and benefits of economic change. Moreover, these policy choices have undeniable political significance. For example, a key issue of the late 1980s is whether, in response to economic distress, the United States will close its markets to foreign products. Should it do so, it would completely alter the postwar international trading system and reshape the domestic political economy.

In addition to being politically relevant, exploring how trade policy is developed is interesting theoretically. The formulation of a nation's trade policy involves a struggle among domestic groups, the national government, and foreign governments. The complex interactions of these groups provide insights into the relationship between domestic and international politics. Furthermore, this struggle brings to light connections between politics and economics. It shows how the existing distribution of power among actors influences their ability to obtain the economic policies they desire and thereby affects the distribution of wealth. It also may reveal how the current distribution of wealth affects the influence these groups can wield. By illuminating relationships not only between domestic and international forces but also between political and economic ones, the analysis of trade policy making can advance our knowledge of the dynamics of the political economy.

THE PUZZLE

This study examines trade policy formulation in two periods—the 1920s (1921-31) and the 1970s (1971-81)—when certain pressures for protectionism were quite intense. According to several well-accepted explanations of trade policy, two conditions ignite protectionist sentiment. The first involves economic downturns; in this view, economic depressions, instability, and rising foreign competition contribute to the growth of protectionist pressures.¹ Second, the decline of the international economy's dominant state—the hegemon—has been seen as a precipitant for protectionist policies.² In light of these arguments, the serious economic difficulties and the declining power of the reigning hegemon in both the 1920s and the 1970s might have been expected to produce similar protectionist responses in the two periods.

Indeed the history of the 1920s has been frequently cited as an analogy for the 1970s. Casual observers predicted the coming of a protectionist spiral in the 1970s and 1980s equivalent to that of the 1920s.³ Moreover, theorists of international political economy drawing parallels between the decline of American dominance since the 1960s and the erosion of British hegemony after the 1910s also anticipated the adoption of trade policies in the 1970s resembling those of the 1920s. Robert Gilpin has claimed that "the dominant economy itself [i.e., the United States] is in relative decline and is being challenged by rising centers of economic power. With the decline of the dominant eco-

¹ Timothy McKeown, "Firms and Tariff Regime Change," *World Politics* 36 (January 1984):215-33; Giulio Gallarotti, "Toward a Business Cycle Model of Tariffs," *International Organization* 39 (Winter 1985):155-87; Wendy Takacs, "Pressures for Protection: An Empirical Study," *Economic Inquiry* 19 (1981):687-93; Susan Strange and Roger Tooze, eds., *The International Politics of Surplus Capacity* (London: Butterworths, 1980).

² Charles Kindleberger, *The World in Depression, 1929-39* (Berkeley: University of California Press, 1973), pp. 307-308; David Lake, "Structure and Strategy: The International Sources of American Trade Policy, 1887-1939" (Ph.D. dissertation, Cornell University, 1983); Robert Gilpin, *U.S. Power and the Multinational Corporation* (New York: Basic Books, 1975); Charles Kindleberger, "Dominance and Leadership in the International Economy," *International Studies Quarterly* 25 (June 1981):242-54; Robert Gilpin, *War and Change in World Politics* (Cambridge: Cambridge University Press, 1981). For more skeptical views, see Stephen Krasner, "State Power and the Structure of International Trade," *World Politics* 28 (April 1976):317-47; Robert Keohane, "The Theory of Hegemonic Stability and Changes in International Economic Regimes," in *Change in the International System*, ed. Ole R. Holsti, Randolph M. Siverson, and Alexander L. George (Boulder, Colo.: Westview, 1980), pp. 131-62.

³ Examples are Harald Malmgren, "Coming Trade Wars?" *Foreign Policy*, no. 1 (Winter 1970):115-43; C. Fred Bergsten, "The Crisis in U.S. Trade Policy," *Foreign Affairs* 49 (July 1971):619-35; June Kronholz, "Trade and Currency Wars Deepen the Depression," *Wall Street Journal*, October 23, 1979, p. 1.

omic power, the world economy may be following the pattern of the latter part of the nineteenth century and of the 1930s: it may be fragmenting into regional trading centers, exclusive economic alliances, and economic nationalism."⁴

Despite these predictions, substantial differences in trade policy outcomes characterized the two periods. This puzzle can be better appreciated if the similar preconditions yet different policy outcomes in the two periods are examined in more detail.

Serious economic distress and instability have been seen as a key precondition for rising protectionist activity. As one economist has noted:

It is generally agreed that in a modern industrial economy the cyclical state of the economy and the country's competitive position internationally are the principal determinants of the degree of protectionist pressure. Low levels of economic activity, high unemployment, unused capacity, trade deficits, rapid increases in imports, and increases in import penetration all operate to increase the temptation to protect domestic industries from import competition.⁵

Economic difficulties were strikingly similar in Western Europe and the United States in the 1920s and 1970s, marked in particular by relatively high unemployment rates and sizable agricultural and industrial overcapacity. In the 1920s these economies suffered two major downturns—in 1920-23 and 1929-33. Price fluctuations, labor unrest, and international monetary problems created further economic instability.⁶ In the 1970s these economies again experienced serious recessions in 1973-75 and 1978-82. Sparked by the oil price increases, these downturns were aggravated by rapidly shifting trade patterns, price volatility, and a confused international monetary situation. These high levels of economic distress were expected to prompt high levels of protectionism.

Indeed, given the absolute levels of economic difficulty in the two periods, the 1970s might have seen even greater levels of market clo-

⁴ Gilpin, *U.S. Power*, pp. 258-59.

⁵ Takacs, "Pressures for Protection," p. 687.

⁶ See Derek Aldcroft, *From Versailles to Wall Street, 1919-1929* (Berkeley: University of California Press, 1981), chs. 3-11; W. Arthur Lewis, *Economic Survey, 1919-1939* (London: Allen, Unwin, 1949); U.S. Dept. of Commerce, *Survey of Current Business*, various issues (Washington, D.C.: GPO, 1919-1930); U.S. Dept. of Commerce, Bureau of the Census, *Historical Statistics of the U.S., Colonial Times to the Present* (Washington, D.C.: GPO, 1975); Kindleberger, *World in Depression*, esp. chs. 5-8; League of Nations, *Economic Fluctuations in the U.S. and U.K., 1918-1942* (Geneva: League of Nations, 1942); Martin Feldstein, ed., *The American Economy in Transition* (Chicago: NBER, 1980), p. 12.

sure than the 1920s.⁷ For instance, in the United States the averages for three major economic indicators were all worse in the 1970s than in the 1920s, as table 1.1 indicates. This suggests that if economic difficulty is a precursor to protectionism, the 1970s should have experienced a significant protectionist resurgence.

A second similarity between the 1920s and 1970s linked to protectionist outbreaks is the decline of the world's hegemonic state. In the 1920s, the hegemon of the nineteenth century, Great Britain, was rapidly losing its status. From a peak of 24 percent in 1870, Great Britain's share of world trade fell to 14 percent before World War I.⁸ Its share of the world's manufacturing output tumbled from a dominant 32 percent in 1870 to a third-rate level of 14 percent by 1913, as Germany and the United States overtook it in industrial competitiveness in certain critical, advanced sectors.⁹ Moreover, Britain's control over the international monetary system was declining. Its problems in returning to and maintaining the gold standard in the 1920s, as well as its final abandonment of that system in 1931, signaled this loss of influence.

A fairly similar situation existed in the 1970s. By the early part of

TABLE 1.1 A Comparison of U.S. Economic Conditions in the 1920s and 1970s (in percent)

	1923-29	1973-79
Average annual growth in real GNP	3.1	2.3
Average mean value of unemployment rate	3.5	6.8
Average value of nonresidential fixed investment to GNP	11.2	10.2

SOURCE: Martin Feldstein, ed., *The American Economy in Transition* (Chicago: NBER, 1980), pp. 104-105.

⁷ Sidney Ratner, James Soltow, and Richard Sylla, *The Evolution of the American Economy* (New York: Basic Books, 1979), pp. 482, 502. The worst economic difficulties of the Great Depression, occurring in the early 1930s, followed, rather than preceded, the tariff increases. For instance, unemployment averaged 3 percent in 1930, the year Smoot-Hawley was passed, but rose to 25 percent by 1933, the year before the RTAA.

⁸ David Lake, "International Economic Structures and American Foreign Economic Policy," *World Politics* 35 (July 1983):525, table 1.

⁹ Ratner, Soltow, and Sylla, *Evolution of American Economy*, p. 385.

the decade, the global dominance the United States had exercised in the 1950s and 1960s had been reduced substantially as it was challenged by other nations. The United States' share of world trade dropped from 18.4 percent in 1950 to 13.4 percent in 1977.¹⁰ More telling, its share of the world's manufactured exports plummeted from a peak of nearly 30 percent in 1953 to about 13 percent by the late 1970s.¹¹ In addition, from a dominant 62 percent in 1950, its share of the world's manufacturing output had dropped to 44 percent by 1977.¹² Many American industries had lost their comparative advantages and faced bitter competition at home and abroad. The hegemony of the United States in the international monetary system was also somewhat diminished. By 1973, it had scuttled the monetary system it had created and found itself unable to fashion or direct a new, stable one. U.S. hegemony in monetary relations in the 1970s was not as limited as was Britain's in the 1920s.¹³ But American hegemony, especially in trade and production, had declined substantially by the 1970s, leaving the international distribution of power in the 1970s more similar to that of the interwar period than to that of the immediate post-World War II period. This eclipse of hegemony was expected to produce greatly increased protectionism, as it had in the 1920s.

Though a situation of declining hegemony existed in both the 1920s and the 1970s, this may be less important for explaining our puzzle than the relative position held by the United States during the two periods. The United States' international economic position relative to other countries was very similar in the late 1920s and late 1970s. Moreover, its position at these two times was very different from the one it held in the 1950s and 1960s. The United States' share of the world's manufacturing output reached 42 percent in 1929; similarly, as noted above, in 1977 it had leveled off at 44 percent.¹⁴ In contrast, the United States absolutely dominated in the 1950s and 1960s, con-

¹⁰ Lake, "International Economic Structures," p. 541, table 3; Robert Keohane and Joseph Nye, *Power and Interdependence: World Politics in Transition* (Boston: Little, Brown, 1977), p. 141.

¹¹ Feldstein, *American Economy*, pp. 193, 196.

¹² *Ibid.*, p. 191.

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

¹⁴ Ratner, Soltow, and Sylla, *Evolution of American Economy*, p. 464; Feldstein, *American Economy*, p. 191.

trolling between two-thirds and one-half of all such output in the 1950s and early 1960s.¹⁵ In trade the U.S. position was similar in the 1920s and the 1970s. Although it had greater control in the 1920s than in the 1970s, it was nowhere near as dominant at either time as it was in the 1950s. In the 1920s it was the world's largest exporter and biggest foreign investor and ranked second only to Britain in its imports.¹⁶ By the late 1970s, the United States was only the world's second largest exporter of manufactures; its 13 percent was topped by West Germany with almost 16 percent and was being challenged by Japan, which held 11 percent.¹⁷ In contrast, the United States reigned supreme in trade in 1953, controlling nearly 30 percent of all manufactured exports.¹⁸

A similar story is told by changes in other measures of economic strength. In terms of its relative economic size and productivity, the United States' position was almost identical in 1929 and 1977.¹⁹ Again the contrast to its clear predominance in 1950 is striking. Moreover, in both 1929 and 1977 the United States was similarly situated relative to its nearest rivals. In 1929 it led all countries, barely edging out Britain while retaining a substantial lead over France and Germany. In 1977, it was virtually even with West Germany but still outdistanced Japan and France.

Hence, two strong similarities in the international distribution of economic power existed in the 1920s and 1970s. In both a hegemon was in decline; and in both the United States' relative economic position was slightly superior to all others but was gravely challenged by several nations. These conditions in the international economic structure have been linked to rising protectionism and thus might have been expected to engender similar protectionist responses in the two periods.²⁰

The argument here is not that in all respects the 1920s and the 1970s were alike. Two important differences existed that may attenuate the comparison. First, the United States was a rising hegemon in the 1920s and a declining one in the 1970s. Though hegemonic stability arguments offer no theoretical reason to expect this difference

¹⁵ Feldstein, *American Economy*, p. 193.

¹⁶ Ratner, Soltow, and Sylla, *Evolution of American Economy*, p. 464.

¹⁷ Feldstein, *American Economy*, pp. 196-97.

¹⁸ *Ibid.*

¹⁹ David Lake, "Beneath the Commerce of Nations," *International Studies Quarterly* 28 (June 1984): 143-70, figures 5, 6.

²⁰ See *ibid.* I differ with Lake's interpretation of these two structures and their differences.

to affect the hegemon's trade policy, some scholars have argued for the notion of a lag. They suggest that a rising hegemon may fail to appreciate its own significance and that a declining one may not understand its weakness and need for closure. This difference may account for dissimilarities between the two periods. But such a lag has been attributed to entrenched domestic interests, about which the theory has little to say.²¹

Second, the monetary systems operating at the two times differed. In the 1920s there was a shift from a managed, flexible exchange rate system before 1925 to a fixed, gold standard system until 1931. In the 1970s the opposite movement occurred: from a fixed, dollar-gold standard to a managed, flexible rate system by 1973. The consequences of these two different systems for trade policy are unclear, however. The effects of different exchange rate systems on trade are not well understood. Some have claimed that flexible rates should hinder protectionism because such barriers are nullified by exchange rate changes.²² Others maintain that flexible rates augment protectionist pressures by increasing risk and that fixed rates are best for ensuring free trade.²³ It seems fair to say that the exchange rate systems operating in these two periods did little to provide a stable environment for international trade.²⁴

Despite these differences, the 1920s and the 1970s were similar in

²¹ Krasner, "State Power," argues that the lag during the interwar period and since the 1960s is due to entrenched domestic interests. The argument here can thus be seen as complementary to his, because it suggests which domestic interests were resisting protection in the later period.

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

²³ C. Fred Bergsten and William Cline, "Trade Policy in the 1980s: An Overview," in *Trade Policy in the 1980's*, ed. William Cline (Washington, D.C.: Institute for International Economics, 1983), pp. 59-98.

²⁴ Kindleberger and Lindert, *International Economics*, ch. 21, esp. figure 21.5. A related issue is whether the value of U.S. exchange rates affected trade policy differentially in the two periods. The claim is that the level of exchange rates was driving trade policy, especially in the 1970s. Thus the relative undervaluation of the dollar in the late 1970s weakened protectionist pressures, and its overvaluation in the early 1980s led to new pressures for barriers. The problem with this argument is that the 1920s look very similar. The U.S. dollar appears undervalued in general after World War I, once again supposedly mitigating protectionist pressures. But by the late 1920s the dollar seems overvalued relative to the mark, lira, franc, and gold, although undervalued relative to sterling. Differences in exchange rate levels, then, do not seem to differentiate the two periods a great deal. For evidence, see *ibid.*, ch. 21, figure 21.3. Note how all other currencies rise in value against the dollar after the 1931 change.

terms of their economic difficulties and the relative economic position of the United States. According to other theories, these conditions should have led to similar trade policy outcomes in the two periods. The 1970s, however, were not marked by the extensive closure of the U.S. market that occurred in the 1920s. Throughout the 1920s Western Europe and the United States responded to their economic difficulties by adopting successively more protectionist trade policies. In the United States, protectionist sentiment reignited after World War I. Industries, fearing renewed European competition, and agriculture, stunned by rapid price deflation, demanded that the government protect them.²⁵ As a result, in 1921 the Emergency Tariff Bill was enacted; in 1922, this interim act was institutionalized in the Fordney-McCumber Tariff, which raised import duties to an average of 38 percent, much above those of the 1913 Underwood Tariff.²⁶ Finally, in 1930 the Smoot-Hawley Tariff Bill was enacted. This bill represented the zenith of American protectionism; it elevated tariff rates to an average of 45 percent, with duties over 50 percent on some important items.²⁷

Western Europe experienced a similar trend in the 1920s. Political chaos and recession after World War I led to the erection of new trade barriers throughout Europe.²⁸ For example, in 1921 Britain abandoned its long-standing commitment to open markets and raised import duties through the Safeguarding of Industries Act. France acted similarly, elevating specific duties through government fiat.²⁹ Trade barriers in these countries and in Germany were increased further in the late 1920s. After 1926, monetary instability, agricultural price deflation, and social unrest ignited more protectionist pressure, eventually prompting new tariff and quota legislation.³⁰ The Smoot-Hawley

Tariff provoked European retaliation, leading to new trade restrictions matching, if not surpassing, those of the United States. This spiraling protectionism culminated in the early 1930s when, in conjunction with the global depression, it helped depress the volume of world trade by over 60 percent.³¹

In the 1970s the advanced industrial countries maintained relatively open markets for industrial goods. In fact, tariff barriers affecting industrial goods were reduced substantially, as the Kennedy Round Agreements of the General Agreement on Tariffs and Trade (GATT) were phased in and the Tokyo Round negotiations were completed. By 1971, average tariff rates for the industrial countries were approximately 10 percent; by 1979 these rates were cut to less than 5 percent.³² For the United States, these reductions meant that between 1933 and 1974 average tariff duties on manufactured products had been slashed by 72 percent.³³

On the other hand, nontariff barriers (NTBs) to trade grew in importance. Although these barriers remain difficult to measure and were not measured while tariffs remained high, their relative importance increased in the late 1970s. By that time, nearly 30 percent of all categories (not values) of American manufactured imports were affected by them, and similar proportions of traded goods were sheltered in Japan and Western Europe.³⁴ These barriers have not been that restrictive, however. They have had a limited effect on the volume of trade, unlike in the 1930s, as global and U.S. trade has continued to grow throughout the 1970s and to grow faster than production. One empirical study concludes that these new NTBs have had only limited protectionist effects; the authors point out, "on average over a full range of manufactured products, the protection given by NTBs that may limit or reduce imports . . . is not nearly as large as the protection afforded by tariffs . . . or natural barriers to trade."³⁵ Further, they project that "if the United States continues on its present policy course, the U.S. economy will be considerably more open in 1985 than it was in 1976."³⁶ Overall, despite the growth of these new trade bar-

²⁵ Sidney Ratner, *The Tariff in American History* (New York: Van Nostrand, 1972), pp. 47-48; Frank Taussig, *The Tariff History of the U.S.*, 8th ed. (New York: Putnam & Sons, 1931), pp. 449-54; William Kelly, ed., *Studies in U.S. Commercial Policy* (Chapel Hill: University of North Carolina Press, 1963), pp. 6-8.

²⁶ U.S. Tariff Commission (USTC), *Trade Barriers: An Overview*, pub. no. 665 (Washington, D.C.: GPO, 1974), 1:80.

²⁷ *Ibid.*, 1:80; Ratner, *Tariff in American History*, p. 51.

²⁸ H. Liepmann, *Tariff Levels and the Economic Unity of Europe* (New York: Macmillan, 1938), pp. 111-33; Arthur Isaacs, *International Trade: Tariff and Commercial Policies* (Chicago: Irwin, 1948), pp. 352-79.

²⁹ For Britain, see the National Institute of Economic and Social Research (NIESR), *Trade Regulations and Commercial Policy in the U.K.* (Cambridge: Cambridge University Press, 1949), pp. 13-20. For France, see Frank Haight, *The History of French Commercial Policies* (New York: Macmillan, 1941), pp. 108-112.

³⁰ NIESR, *Trade Regulations*, pp. 20-29; Haight, *French Commercial Policies*, p. 18; Liepmann, *Tariff Levels*, pp. 341-45.

³¹ Kindleberger, *World in Depression*, p. 172; see in general, Joseph Jones, *Tariff Retaliation. Repercussions of the Smoot-Hawley Bill* (Philadelphia: University of Pennsylvania, 1934), pp. 1-34.

³² USTC, *Trade Barriers*, pp. 81-82.

³³ *Ibid.*, p. 9.

³⁴ Robert Reich, "Beyond Free Trade," *Foreign Affairs* 61 (Spring 1983): 786.

³⁵ Peter Morici and Laura Megna, *U.S. Economic Policies Affecting Industrial Trade: A Quantitative Assessment* (Washington, D.C.: National Planning Association, 1983), p. 11.

³⁶ *Ibid.*, p. 103.

riers during the 1970s, a protectionist spiral like that of the 1920s was not apparent. A small net increase in protection may have occurred by the early 1980s, but this increase did not approach the levels of the 1920s and early 1930s even though two key preconditions—serious economic distress and declining hegemony—characterized both periods. Given the very fertile ground of the late 1970s, protectionism could have grown like a weed, as it did in the 1920s. For some reason, it did not.

OTHER EXPLANATIONS

The puzzle, then, is why trade policy was markedly different in the 1920s and 1970s when key pressures influencing it were similar. This question has been addressed by a number of other studies; three explanations are particularly important.

One type of explanation examines the international distribution of power. These explanations involve three modifications of the hegemonic stability thesis, which, as has been shown, cannot in its original form explain the different policy outcomes of the 1920s and 1970s.³⁷ First, some have said that American hegemony has not declined enough to set off the expected protectionist response.³⁸ It is argued that even though other countries have caught up with the United States, it still remains the strongest, especially when its military might is included. This view depends on the United States' military capabilities being an important factor in its trade policy considerations. The fungibility of these power resources, however, is questionable.³⁹ A second hegemonic stability argument in fact denies this fungibility. It considers only trade-related power resources, and it also suggests that U.S. hegemony has not declined enough to evoke extensive protectionism.⁴⁰ However, relative to its trade position in the 1920s, the United States held a similar, or even less dominant, position in the 1970s. One explanation for this disparity is the lag phenomenon dis-

³⁷ Krasner, "State Power," casts doubt on the argument.

³⁸ Bruce Russett, "The Mysterious Case of Vanishing Hegemony," *International Organization* 39 (Spring 1985):207-231; Susan Strange, "Still an Extraordinary Power," in *Political Economy of International and Domestic Monetary Relations*, ed. Lombra and Witte (Ames: Iowa State University Press, 1982).

³⁹ David Baldwin, "Power Analysis and World Politics," *World Politics* 31 (January 1979):161-94; Keohane and Nye, *Power and Interdependence*, ch. 2.

⁴⁰ Keohane and Nye, *Power and Interdependence*, ch. 3; Robert Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton: Princeton University Press, 1983), chs. 4, 9; Vinod Aggarwal, *Liberal Protectionism: The International Politics of Organized Textile Trade* (Berkeley: University of California Press, 1985), chs. 2, 7.

cussed earlier. But why such a lag occurs is not clear. A third argument that modifies the hegemonic stability thesis proposes that different configurations of states, in terms of their relative economic power, lead to different trade policy outcomes. This argument, however, has trouble explaining the differences between the 1920s and 1970s, since the configuration of states at those two times was very similar.⁴¹

A second type of explanation focuses on the existence of an international regime in trade. In this view, the GATT system of the postwar period has been partially responsible for the maintenance of a relatively open international economy. In the 1920s, the lack of any such regime helped protectionism spread. The ways GATT is seen to be working against protectionism are numerous. Some claim it operates through the externalization of a norm—e.g., "embedded liberalism"—which promotes trade but also minimizes its domestic costs and hence protectionist demands.⁴² Others suggest that the regime and its norms are eventually embodied in domestic policies and practices; that the regime constrains and shapes domestic rules and behavior.⁴³ Others see the regime as directly encouraging international commerce itself by increasing efficiency.⁴⁴ Differences thus exist over exactly how the regime has abated protectionist pressures, but generally it is seen as exerting a brake on domestic pressures for protection in the 1970s.

In these views, however, regimes play only an intermediate role. They are acknowledged as an intervening variable, influencing the preferences, pressures, and practices already established at the domestic and international levels.⁴⁵ Examination of these pre-existing factors seems necessary in order to judge exactly what effect the re-

⁴¹ Lake, "Structure and Strategy," esp. ch. 2; Lake, "International Economic Structures," pp. 517-43; Lake, "Commerce of Nations." To overcome this difficulty, Lake makes two arguments. One is that due to the disruption caused by World War I, much greater uncertainty existed in the 1920s, which prompted more protectionist activity. As a second point, he implies that the height of protectionism globally was in the 1930s, not the 1920s, when the structure was somewhat different. Protectionism, however, was rising worldwide throughout the 1920s; it hit its peak in the United States in 1930 and elsewhere by 1933 or 1934. His argument provides a more sophisticated and perhaps more accurate explanation of trade policy outcomes than do other hegemonic stability arguments, but it still has difficulty accounting for the 1920s and 1970s differences.

⁴² John Ruggie, "International Regimes, Transactions, and Change," *International Organization* 36 (Spring 1982):379-415.

⁴³ Charles Lipson, "The Transformation of Trade," *International Organization* 36 (Spring 1982):417-59; Stephanie Lenway, *The Politics of U.S. International Trade* (Boston: Pitman, 1985).

⁴⁴ Lipson, "Transformation of Trade."

⁴⁵ See Stephen Krasner, ed., "International Regimes," *International Organization* 36 (Spring 1982), esp. the introduction by Krasner.

gime has had. Regime analysis needs to be supplemented by analysis of other domestic and international forces.

A third type of explanation focuses on the structure of the domestic policy-making system. It is argued that though there were pressures for protection in the 1970s, a different policy structure existed that helped defuse them. This structure insulated political actors, especially Congress, from societal demands for protection. The state was therefore able to resist these pressures in the 1970s but not in the 1920s, when the structure was more permeable to societal input. Accounts of how this insulation occurred differ. Most acknowledge the central importance of the shift in tariff-making authority from Congress to the President.⁴⁶ Others point to the nature of the relationship between Congress and the executive;⁴⁷ some to the way trade policy is made within the executive branch;⁴⁸ some to the lessons of the 1930s and the norms and ideology now surrounding those lessons;⁴⁹ and others to the way Congress functions and responds to societal pressures.⁵⁰

This proliferation of domestic policy "structures" points out an interesting aspect of the trade policy process. Trade policy is not made within one structure in most countries. Many economic actors are involved in trade matters, and they bring their complaints and pressure to bear on different political actors. No single, coherent national trade policy exists. Policy relating to one sector may differ completely from that concerning another. Trade policy toward automobiles, for example, may differ greatly from that toward wheat, textiles, or telecommunications equipment. Moreover, for each of these industries the influence of different political actors and institutions varies. No one trade policy "structure" exists. Knowing who the relevant domestic ac-

⁴⁶ Robert Pastor, *Congress and the Politics of U.S. Foreign Economic Policy* (Berkeley: University of California Press, 1980); Judith Goldstein, "The Political Economy of Trade," *American Political Science Review* 80 (March 1986):161-84; I. M. Destler, *American Trade Politics: System under Stress* (Washington, D.C.: Institute for International Economics, 1986).

⁴⁷ Pastor, *Politics of U.S. Foreign Economic Policy*.

⁴⁸ Roger Porter, *Presidential Decision-Making: The Economic Policy Board* (Cambridge: Cambridge University Press, 1980); Gilbert Winham, "Robert Strauss, the MTN, and the Control of Faction," *Journal of World Trade Law* 14 (September-October 1980):377-97.

⁴⁹ Goldstein, "Political Economy of Trade"; Judith Goldstein, "A Reexamination of American Commercial Policy" (Ph.D. dissertation, University of California, Los Angeles, 1983).

⁵⁰ E. E. Schattschneider, *Politics, Pressures and the Tariff* (Englewood Cliffs, N.J.: Prentice-Hall, 1935); Raymond Bauer, Ithiel de Sola Pool, and Lewis Dexter, *American Business and Public Policy* (Chicago: Aldine-Atherton, 1972).

tors are and what their trade preferences are is essential for understanding the influence of a sector's policy "structure" on policy outcomes.

THE ARGUMENT IN BRIEF

The argument here differs from the three just outlined. As will be discussed in detail in chapter 2, I claim that a change in the way domestic and international economies are integrated has affected the trade preferences of domestic, nonstate actors, and has thus influenced trade policy outcomes. Increased international economic interdependence in the post-World War II period helped prevent the spread of protectionism in the 1970s and early 1980s. Certain effects of the greater integration of advanced industrial countries into the international economy altered domestic actors' preferences, and thus worked against recourse to protectionism.

This argument will be examined over time and cross-nationally. First, firms' trade policy preferences in the 1920s and 1970s are compared. Interdependence should have similar effects in both periods. Internationally oriented firms in the two periods should have resisted protectionist urges better than their domestically oriented competitors. Second, this antiprotectionist preference should be evident among firms in other advanced industrial countries who have experienced these new levels of interdependence. To address this, I examine the trade policy preferences of firms in two countries, the United States and France, in the 1970s. My argument predicts that rising international economic integration in the form of exports, multinationality, and global intrafirm trade should have affected firms' preferences *similarly* in the two countries, regardless of other differences. This finding would be striking, given the frequent characterization of France and the United States as having distinctly different domestic political structures.⁵¹

This study does not provide a complete understanding of all the factors influencing trade policy. It focuses on corporate trade preferences and does not examine directly the influence of public opinion, ideology, organized labor, domestic political structure, or other possible factors. But it does control indirectly for these influences. By looking at different industries, at different times, and in different countries, it allows these factors to vary, while showing that the basic

⁵¹ Peter Katzenstein, ed., *Between Power and Plenty: Foreign Economic Policies of Advanced Industrial States* (Madison: University of Wisconsin Press, 1978); John Zysman, *Governments, Markets, and Growth* (Ithaca: Cornell University Press, 1983).

argument still holds: despite variance in these other influences, internationally oriented firms are less protectionist than their domestic colleagues in times of economic adversity.

This study also does not account completely for trade policy outcomes. Its focus is on firms' preferences, not on policy makers' actual decisions. It is asked in the cases below whether these preferences do influence political choices. Chapter 8 explicitly compares the trade policy process in France and the United States and demonstrates how corporate preferences are integrated into the process. I argue that though firms' preferences do not account completely for trade policy outcomes, they play an important and understudied role in shaping them.

This study focuses on the domestic forces responsible for international systemic outcomes—specifically, that the global trading system collapsed into closure in the 1920s and 1930s but remained fairly open in the 1970s. For these outcomes to occur, the major industrial countries in each period had to behave similarly. They had to adopt protection in the 1920s and resist it in the 1970s. Why did this convergent behavior among different states appear? One reason the economic difficulties of the 1920s elicited protectionist responses among most industries in developed countries is that the industries had few international ties; in the 1970s many more industries resisted protectionist urges, despite the economic turmoil, because they were deeply tied to the international economy. Only the responses of industries in France and the United States are surveyed here. That they confirm the argument lends it greater credence but does not confirm that it holds for other countries. Elsewhere other factors may play a more important role either in determining firms' preferences or in shaping trade policy outcomes. Influences such as organized labor, corporatist political structures, and historical tradition, to name a few, may override or attenuate the effects of growing international interdependence on industries. The argument here only suggests an explanation for the different international *systemic* outcomes of the 1920s and 1970s.

This book seeks to contribute to the study of international political economy in three ways. First, it addresses the problem of change in policy over time. Although key questions in international political economy deal with the problem of change, more analyses of policy making at two (or more) points in time are needed to determine how policies are shaped over time. Looking at the 1920s and the 1970s, this work identifies an important force for change—the growing international economic integration of domestic economies. Second, it is hoped that the study's detailed examination of preference formation

and policy making among a number of different industries will illuminate how particular factors affect societal actors' determination of their preferences. Under certain conditions societal actors can and do understand the preferences generated by their structural positions within the economy. Comparison across industries also sheds light on the nature of states' trade policies. Developed in myriad ways at any one point in time, the stylized whole called a country's trade policy may really be a collection of often conflicting policies, each designed to address different problems. A third contribution of this work concerns its cross-national aspect. By presenting a detailed and structured comparison of trade policy making among industries in France and the United States, this study identifies and explores the sources of policy across states.

THE PLAN OF THE BOOK

This book has three sections. Chapters 1 and 2 introduce the central question, main argument, and approach. The next section, chapters 3, 4, and 5, presents the case studies, examinations of six U.S. industries in the 1920s, six in the 1970s, and six French industries in the 1970s. The final section, chapters 6, 7, 8, and 9, uses the cases to draw conclusions. Chapter 6 reviews the evidence about firms' trade policy preferences in the three sets of cases and asks whether internationally oriented firms are indeed less protectionist than more domestic ones, even when they face grave economic difficulties. Chapter 7 examines how divisions among firms in an industry affect their ability to realize their preferences. It also looks at other factors influencing firms' capabilities to shape trade policy outcomes. Chapter 8 compares the French and American trade policy processes and considers how even in a "strong state" like France, firms influence trade policy. Chapter 9 places the argument within broader debates in international and comparative political economy.