CHAPTER 2

The Argument

WHY DID American trade policies in the 1970s differ from those in the 1920s, when both periods were characterized by declining hegemony and troubled international economies? I argue that the increased international economic interdependence of the post–World War II period has been a major reason why protectionism did not spread widely in the 1970s and early 1980s. The greater integration of American industries into the international economy altered domestic actors' preferences and thus forestalled recourse to protectionism. Though increased interdependence subjected the economy to new foreign competition, it also greatly augmented international economic ties for some firms. These ties manifested themselves in the form of exports, imports of critical inputs, multinational production, and global intrafirm trade. The growth of these international ties by American firms between the 1920s and 1970s reduced their interest in protectionism and thus contributed to the maintenance of a relatively open market in the 1970s, despite other pressures for closure.

THE VARIABLES

The explanation here focuses on two key variables linking domestic firms and the international economy: (1) export dependence and (2) multinationality. Each of these embodies a different aspect of a firm's integration into the world economy, and hence each gives rise to a distinct set of preferences relating to trade policy. In general, the argument is that firms with more extensive exports and multinationality should be less likely to demand protection, and more likely to resist it actively, even when facing serious import competition.

Some similarities between this argument and other domestic interest group accounts of trade policy should be noted.[1] In this literature, one

[1] Most studies focus on trade policy outcomes, but some discuss influences on corporate trade preferences and their impact on these outcomes. See Richard Caves, "Economic Models of Political Choice: Canada's Tariff Structure," *Canadian Journal of Economics* 9 (May 1976):278-300; Robert Baldwin, "The Political Economy of Protectionism," in *Import Competition and Response*, ed. Jagdish Bhagwati (Chicago: University of Chicago Press, 1982), pp. 263-92; William Brock and Stephen Magee, "The Economics of Special Interest Politics: Case of the Tariff," *American Economic Review Papers and Proceedings* 68 (May 1978):246-50; Gerald K. Helleiner, "The Political Economy of Canada's Tariff Structure: An Alternative Model," *Canadian Journal of Economics* 4 (May 1977):318-26; Robert Baldwin, *The Political Economy of U.S. Import Policy* (Cambridge: MIT Press, 1986); Jonathan Pincus, *Pressure Groups and Politics in Antebellum Tariffs* (New York: Columbia University Press, 1977); Edward Ray, "The Determinants of Tariff and Nontariff Trade Restrictions in the U.S.," *Journal of Political Economy* 91 (February 1981):105-121; Edward Ray, "Tariff and Nontariff Barriers to Trade in the United States and Abroad," *Review of Economics and Statistics* 63 (May 1981):161-68; John Cheh, "U.S. Concessions in the Kennedy Round and Short-Run Adjustment Costs," *Journal of International Economics* 4 (1974):323-40; Réal Lavergne, *The Political Economy of U.S. Tariffs: An Empirical Analysis* (Toronto: Academic Press, 1983); James Riedel, "Tariff Concessions in the Kennedy Round and Structure of Protection in West Germany," *Journal of International Economics* 7 (1977):133-43; Robert Baldwin and Kim Anderson, "The Political Market for Protection in Industrial Countries: Empirical Evidence," *World Bank Staff Working Paper*, no. 492 (October 1981); Vinod Aggarwal, Robert Keohane, and David Yoffie, "The Dynamics of Negotiated Protectionism," *American Political Science Review* 81 (June 1987):345-66. An exception to these problems is Thomas Pugel and Ingo Walter, "U.S. Corporate Interests and the Political Economy of Trade Policy," *Review of Economics and Statistics* 67 (1985): 465-73.

[2] Glenn Fong, "Export Dependence and the New Protectionism" (Ph.D. dissertation, Cornell University, 1982); R. Baldwin, *U.S. Import Policy*; Lavergne, *Political Economy of U.S. Tariffs*.

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

[4] Peter Gourevitch, "International Trade, Domestic Coalitions, and Liberty," *Journal of Interdisciplinary History* 8 (Autumn 1977):281-313; Peter Gourevitch, *Politics in Hard Times* (Ithaca: Cornell University Press, 1986).

set of hypotheses about industry trade preferences focuses on the political costs of demands for protection. It points out that the industries likely to lose from such demands are those that are export dependent and multinational. For these industries, demands for protection may spark retaliation abroad that hurts their own foreign operations. The more important foreign operations are for the industry, the less protectionist it will be.

Empirical tests of these hypotheses have produced mixed results. Several aggregate-level studies of U.S. industries have shown that high levels of export dependence reduce industries' preferences for protection and lead to lower trade barriers for these industries.[2] Other nonquantitative studies also reveal that in the 1920s the growth of an export sector contributed to attempts to open the American and foreign markets.[3] Some studies show that producer groups tied to the international economy have in the past been opponents of high tariffs.[4] Some have also linked the 1934 adoption of the Reciprocal Trade Agreements Act (RTAA), with its antiprotectionist bent, to the influence

of American exporters and multinationals.[5] These studies have lent credence to the idea that export-dependent industries may not prefer protection and may even advocate the dismantling of trade barriers.

Other studies have examined how multinationality and its related intrafirm trade affect trade policy. The idea that the spread of multinational firms would reduce trade barriers has been discounted to some extent, because these firms often enter a market to circumvent such barriers and thus come to see them as a way to keep out other foreign competitors. Instead, the growth of global intrafirm trading has led to the view that firms with such trade would be against protection of their markets.[6] Analysis at the aggregate industry level has produced mixed evidence for both the multinational and the intrafirm trade variables.[7]

Overall, these empirical tests are plagued by two problems. First, these tests look only at the industry and not at the firms within them. Firms are central, because they develop international ties, anticipate the costs of protection, and formulate trade preferences, yet most of these studies examine international ties at the industry level. In addition, since these ties are usually unevenly distributed among the firms in an industry, the influence of these ties on preferences is often obscured in industry-level analysis. Examination of both international ties and preferences at the firm level is thus likely to yield better results about what conditions corporate preferences. Second, these theories about industry preferences are embedded in models that explain actual trade outcomes. The intermediate step of explaining industry demands is rarely taken. Empirical tests of these theories thus suffer because they are only indirect tests of theories of demand. In other words, factors influencing demand may be obscured when examining outcomes, since certain variables may prompt trade policy demands that are not satisfied in the policy process. Looking at demands by firms is essential. The analysis here avoids both of these problems by focusing on firms and on their actual demands.

[5] Thomas Ferguson, "From Normalcy to New Deal," *International Organization* 38 (Winter 1984):40-94. For a contrasting view, see Stephan Haggard, "The Institutional Foundations of Hegemony: Explaining the RTAA of 1934," *International Organization* 42 (Winter 1988):91-120.

[6] Gerald K. Helleiner, "Transnational Enterprise and the New Political Economy of U.S. Trade Policy," *Oxford Economic Papers* 29 (March 1977):102-116; Gerald K. Helleiner, "Transnational Corporations and Trade Structure," in *On the Economics of Intra-firm Trade*, ed. Herbert Giersch (Tubingen: Mohr, 1979), pp. 159-84; Susan Strange, "Protectionism and World Politics," *International Organization* 39 (Spring 1985) 233-60. Lipson, "Transformation of Trade."

[7] R. Baldwin, *U.S. Import Policy*, Lavergne, *Political Economy of U.S. Tariffs*.

This work also emphasizes the international dimension, because the distinction to be made among domestic groups rests on the extent of their integration into the international economy. The first variable, export dependence, expresses the firm's ties to the international economy that arise from its trade relations. In this context, export dependence refers to the net balance of exports to imports as well as to the relative importance of these exports vis-à-vis domestic production. Thus, the level of a firm's export dependence expresses its vulnerability to reductions in these foreign sales.

The second variable involves the character of a firm's multinationality. It reveals the significance of a firm's production capacity and profits in foreign markets relative to those in its home market and thus captures a firm's vulnerability to changes affecting these foreign operations. Furthermore, it examines the nature of that foreign investment. In general, production operations abroad can be either highly integrated into a firm's worldwide trade and production network or self-contained and not dependent on other operations of the firm. In the former case, intrafirm trade flows will be very significant; in the latter each production unit will be autonomous. High levels of intrafirm trade then also indicate a significant attachment to the international economy.

The logic linking a firm's degree of export dependence and multinationality to its trade policy preferences is based on the balance of costs and benefits that would accrue to a firm from the further opening or closing of its home market, given the extent of its linkages to the international economy. These costs and benefits have three sources. First, they may be the consequence of reactions by foreign governments to such a policy change. These *policy* reactions by foreign governments are likely to entail disruption of the firm's international trade flows and/or of its foreign investments. Second, the opening or closing of markets has *economic* (price and supply) effects that will redound upon the firm and are likely to be felt in both its home and its foreign markets. Third, the firm will be concerned about the effects of a trade policy change upon its *domestic market position*. The differential impact of such a policy change upon the firms in an industry may alter the competitive position of firms within the domestic market.

These three general sources of costs and benefits generate hypotheses linking firms' international positions to their trade policy preferences. In terms of export dependence, the argument is that the higher a firm's export dependence, the less likely is it to prefer protection of its home market, even in the face of severe import competition.

Three particular factors make protection of its home market costly for an export-dependent firm. First, closing the home market may prompt retaliation by foreign governments. This retaliation may include protecting their own markets, which thus threatens the firm's exports and ultimately its profitability.

Second, even if retaliation is not forthcoming, the exporter is likely to face economic costs—as opposed to politically induced ones—that diminish its ability to export.[8] In particular, because it reduces available supplies, closure of the home market will tend to drive up the price of a firm's product and make it less competitive abroad. Protection of one market is also likely to increase competition in other markets. This supply effect means that the firm will face more competition in its foreign markets as other suppliers redirect their sales away from the closed market. The result of this shift can entail price cutting in these foreign markets and/or the loss of export sales, both of which (*ceteris paribus*) will tend to reduce the firm's profits. In addition, the closure of one country's market may diminish the foreign-exchange earnings available in other countries and make them less able to buy exports. All of these economic costs of protection will raise the export-dependent firm's resistance to protective trade practices.

A third set of costs associated with protection for these firms concerns the consequences for their domestic markets. Closure of the home market will provide differential benefits to firms within an industry. Those firms that are less export dependent and less competitive will benefit more than others. Protection will thus shift competitive conditions at home and place the export-dependent firm at further disadvantage. By strengthening some of its rivals at home, protection will be costly to the firm with strong international trade ties. All of these costs—those associated with foreign retaliation, economic changes, and domestic competition—may dissuade an export-dependent firm from seeking protection even when it faces severe import competition at home.

In terms of multinationality, the argument is that the more sizable and the more integrated a firm's direct foreign investments are, the more likely it is to resist protection and to prefer open markets, even if it is confronting intense competition from imports. For a highly integrated multinational—that is, one with substantial global intrafirm

[8] Fong, "Export Dependence," esp. ch. 1. For a theoretical discussion, see W. M. Corden, *The Theory of Protection* (Oxford: Oxford University Press, 1971); W. M. Corden, "The Costs and Consequences of Protection: A Survey of Empirical Work," in *International Trade and Finance: Frontiers in Research*, ed. Peter Kenen (Cambridge: Cambridge University Press, 1975).

trade—the costs of protecting its home market may outweigh any benefits from doing so.

Similar to export-dependent firms, the costs of protection for a multinational firm arise from three sources: foreign-government retaliation, general economic effects, and the effects on its domestic market position. First, the multinational may fear that protection at home will prompt protection abroad, which may close markets for vital inputs or for its own exports. This retaliatory protection is likely to disrupt the multinationals' integrated world trade flows and thus make foreign production more costly. In addition, retaliation may be targeted more directly against the foreign investment itself. The foreign government, in response to the closure of the multinational's home market, may impose new rules upon the firm—e.g., that it must export a certain percentage of its production. In the extreme, expropriation of the firm's foreign property may be threatened. The multinational's vulnerability to retaliation is probably greater than that of the export-dependent firm. Thus the multinational's temptation to protect the home market should be even less.

Second, a highly integrated multinational might find protection too costly because it may affect its own intrafirm trade. If the firm itself exports to its home market, then closing this market would curtail its own exports and defeat its own purpose. A firm with such internal trading networks is unlikely to see protection as the answer to its problems. Rather, the firm is likely to be an ardent advocate of open markets.

Third, as in the case of an export-dependent firm, closure of the multinational's home market will alter competitive conditions within the industry. Costs and benefits of protection will be distributed unequally among the firms, and those that are less competitive and less internationally oriented will gain relatively more overall. Protection may then strengthen the multinational's domestic rivals. Furthermore, it may induce foreign firms to locate in the multinational's home market, thus creating powerful new rivals domestically. The problems that protection causes the multinational in its home market may add to the expected costs of such a policy and, along with the costs of retaliation and intrafirm trade disruption, may prevent even a multinational in a distressed and highly import-penetrated industry from preferring such a policy.

I argue that, assuming that other solutions to their problems—such as diversification or exit—are about equally costly to all firms, internationally oriented ones should be less likely to demand protection,

given its higher relative cost to them.[9] Protection will be more costly for internationally oriented firms in two ways. It will be more costly relative to other options and as a result, other ways of resolving their problems will be more attractive for these firms. In addition, protection will benefit these firms less than domestically oriented ones. For domestically centered firms under import pressure, protection will be a less costly option since they do not have international ties. Thus, serious foreign competition will be more likely to elicit preferences for protection by domestically oriented firms than by internationally oriented ones, because it is so much more costly for this latter group relative to other possible solutions.

Preferences for Protection: Hypotheses

Preferences for or against protection, arising out of the expected costs and benefits of such a policy, can be linked to the nature and extent of firms' ties to the international economy. Four hypotheses, presented in table 2.1, are posited. First, firms with minimal export dependence and multinationality (Type I) will view protectionism as very desirable when faced with severe import competition. Protectionism will have no major international repercussions for them, while its sizable domestic benefits will be an inducement. In contrast, firms that are significantly export dependent (Type II) will be likely to resist protection, despite import competition at home. The costs of closing the home market, largely in terms of diminished exports, will outweigh the possible benefits. However, the interest of these firms will be primarily the opening of markets abroad and only secondarily the opening of the home market.

Third, firms with both substantial export dependence and integrated multinationality (Type III) will resist protection most fiercely and will be the most likely to view further opening of markets worldwide as the best response to import competition at home. Finally, multinational firms that lack substantial export dependence and intrafirm trade (Type IV) but face strong competition at home from imports will find themselves in a difficult, cross-pressured situation. Their multinational interests will raise the costs of protection, but the loss of their home market and the lack of trade ties will push toward a policy of selectively closing their home market. In particular, the less its foreign and home operations are linked together in a worldwide trading network and the more its foreign rivals are already producing in its home market, the more likely the firm will be to seek selective protection—i.e., closing the market only to its strongest competitors—since two of the key factors making protection costly for a multinational will have been removed.

A final group's interests in trade require examination; these are the foreign multinationals operating in the host market. Trade preferences of these foreign subsidiaries are likely to be of two types. Foreign subsidiaries, depending on their role in the local market, are in general expected to behave like Type III or Type IV multinationals. If the subsidiary's operations in the host market service only the domestic market and were intended originally to circumvent trade barriers to that market, the subsidiary will have little interest in reducing those barriers. The foreign enterprise will desire at least the maintenance of those barriers and perhaps even their elevation in times of rising im-

[9] The assumption that the costs of other options are about equal for all firms is debatable. It is unclear whether any systematic difference in costs exists for internationally oriented versus domestically oriented firms. It could be argued that domestically centered firms, being generally smaller and more flexible, will find adjusting to foreign competition less costly, as Michael Piore and Charles Sabel do in *The Second Industrial Divide: Prospects for Prosperity* (New York: Basic Books, 1984). On the other hand, large multinationals may have advantages—e.g., in obtaining capital or buying into new ventures—that will make adjustment less costly for them. Whether it will be more costly for one group over the other probably depends on the particular firms and industry. For an interesting discussion of how other options affect demands for protection, see Aggarwal, Keohane, and Yoffie, "Negotiated Protectionism." Their argument focuses on industries instead of firms, though.

Table 2.1 The Four Hypotheses

MULTINATIONALITY \ EXPORT DEPENDENCE	Low	High
High	TYPE IV Mixed interests; less protectionist than Type I; selective protectionist	TYPE III Least protectionist; most free trade
Low	TYPE I Most protectionist; for global protection; intensity of demand varies with economic difficulty	TYPE II Less protectionist than Type I; most favored is open markets abroad

port penetration.[10] If the operation is part of the parent's global production and trade network, however, then further protection will be undesirable, and reduction of existing barriers may even appear desirable.

Generally, the behavior of these foreign subsidiaries fits the arguments about Type III and IV firms. When foreign subsidiaries are a part of Type IV firms—i.e., those lacking an integrated worldwide intrafirm trade network—their preferences are likely to reflect those of their parents and be selectively protectionist. In other words, the more like a purely domestic firm they are, the more protectionist they are likely to be. When part of a globally integrated multinational, these subsidiaries will be more free-trade oriented, as will their parent firms.

The Growth of International Ties

The character of firms' ties to the international economy indicates one reason why trade policy differed between the 1920s and 1970s: different ties existed between the domestic economy and the world economy in the two periods. Different levels of dependence on the international economy generated different preferences for openness or closure among firms. The greater integration of the domestic and international economies in the 1970s—i.e., the greater proportion of export-dependent and multinational firms—helped forestall the adoption of widespread protectionism, despite the significant inroads made by imports in the period.

Evidence of the growth of these international ties is abundant. In general, the magnitude of American trade grew phenomenally over these fifty years; more goods and more different types of goods were traded.[11] More specifically, America's trade dependence grew substantially. U.S. industrial exports rose from about 2 percent of total domestic production in 1929 to 9 percent in 1960 and to about 20 percent by the late 1970s.[12] Likewise, its industrial imports climbed from 2.5 percent in 1921 to 5 percent in 1960 and to over 20 percent of total domestic consumption in 1980.[13] The multinationality of Ameri-

[10] C. Fred Bergsten, Thomas Horst, and Theodore Moran, *American Multinationals and American Interests* (Washington, D.C.: Brookings Institution, 1978), pp. 297-300.

[11] Ratner, Soltow, and Sylla, *Evolution of American Economy*, pp. 463-65.

[12] For measures of export dependence in the 1920s, see Robert Lipsey, *Price and Quantity Trends in the Foreign Trade of the United States* (Princeton: Princeton University Press, 1963), pp. 434-35; for the postwar period, see Report of the President's Commission on Industrial Competitiveness, *Global Competition: The New Reality* (Washington, D.C.: GPO, 1985), 1:56, chart 15.

[13] For measures of import penetration, see ibid.

can firms also rose over these five decades. The total of American direct foreign investment abroad grew from about $5.5 billion in 1929 to $11.8 billion in 1950 and to over $86 billion in 1970.[14] The internationalization of American industry also grew in relative terms. Foreign assets of United States industry accounted for only 2.6 percent of total industrial assets in 1922, but over 20 percent by the 1970s.[15] In addition, the global operations of these firms intensified, which led to the creation of webs of international trade flows within firms. In particular, exports by American multinationals from foreign production sites back to the United States have grown immensely. An almost unknown practice before the 1940s, these types of transfers now account for somewhere between 15 and 50 percent of all U.S. industrial imports.[16] In sum, the United States' integration into the international economy through both trade and multinationality has deepened considerably since the 1920s (see table 2.2).

The argument here applies on two levels. In the aggregate, the different composition of the economies, in terms of export-dependent and multinational firms, accounts partially for the overall differences in trade policy during the two periods. On a microeconomic level, differences in firms' international linkages, regardless of which economy they are embedded in, are responsible for the firms' different preferences regarding trade policy. Two highly multinational firms, one in the 1920s and one in the 1970s, may thus be expected to have similar preferences. These preferences should at least be closer to one another's than to those of other *non*multinational firms operating in the same time period. In other words, the trade preferences of a 1920s and a 1970s large, integrated multinational should appear more simi-

[14] Robert Dunn, *American Foreign Investments* (New York: Viking Press, 1926), p. 182; Kent Hughes, *Trade, Taxes, and Transnationals* (New York: Praeger, 1979), p. 94. Ratner, Soltow, and Sylla, in *Evolution of American Economy*, p. 464, show it grew in the 1920s to $17.2 billion and then retreated to $11.5 billion by end of the 1930s. Robert Pollard, *Economic Security and the Origins of the Cold War* (New York: Columbia University Press, 1985), p. 205, shows U.S. DFI dropped to its lowest point in the century so far in 1946.

[15] For the 1920s, data on the value of direct foreign investment for industry are from U.S. Senate, *American Branch Factories Abroad*, 71st Cong., 3rd sess., 1931, S. Doc. 258, p. 27; for the value of U.S. industrial GNP in the 1920s, see Lipsey, *Price and Quantity Trends*, p. 424. For the 1970s, see U.S. Dept. of Commerce, *1977 Enterprise Statistics* (Washington, D.C.: GPO, 1981), p. 375, column Q over column R.

[16] Figures for this vary widely. See Joseph Grunwald and Kenneth Flamm, *The Global Factory: Foreign Assembly in International Trade* (Washington, D.C.: Brookings Institution, 1985), p. 7; Gerald K. Helleiner and Réal Lavergne, "Intra firm Trade and Industrial Exports to the U.S.," *Oxford Bulletin of Economics and Statistics* 41 (November 1979): 297-311; Helleiner, "Transnational Corporations and Trade Structure," pp. 159-84.

TABLE 2.2 Average U.S. International Economic Ties, 1920s and 1970s

U.S. Industrial Export Dependence	
1920s	2.1% (1925)
1970s	20% (1975)
U.S. Manufacturing Multinationality	
1920s	2.5% (1929)
1970s	20% (1977)

SOURCES: For average U.S. industrial export dependence (the value of industrial exports as a percentage of total industrial GNP): data for 1920s from Robert Lipsey, *Price and Quantity Trends in the Foreign Trade of the United States* (Princeton: Princeton University Press, 1963), pp. 434-35; data on the 1970s from 1985 *Economic Report of the President* (Washington, D.C.: GPO, 1986), tables B-10, B-101. For average multinationality of U.S. industry: 1920s data on value of direct foreign investment by industry from U.S. Senate, *American Branch Factories Abroad*, 71st Cong., 3rd sess., 1931, S. Doc. 258, p. 27; data on the value of industrial GNP from Lipsey, *Price and Quantity Trends*, p. 424. Data on the 1970s from U.S. Dept. of Commerce, *1977 Enterprise Statistics* (Washington, DC: GPO, 1981), for value of all foreign assets of U.S. manufacturing as a percent of total manufacturing assets (column Q over column R).

lar to one another than do the preferences of a 1920s multinational and a 1920s nonmultinational.

This cross-sectional, microlevel hypothesis about the similarity among firms in the two periods may appear problematic. The different contexts of the 1920s and 1970s should affect firms' behavior. Some of the main differences in the two economic contexts—that is, the differences in U.S. industries' competitive position, the industries' domestic market structure, and their multinational status—may enrich, rather than vitiate, the central argument, however.

Context does shape the way a firm determines its preferences. But these preferences may still be more directly influenced by the firm's own calculation of the costs and benefits of different policies given its dependence on foreign markets. Moreover, contextual factors may enhance the role that international linkages play in the firm's calculations of its interests. The existence of more widespread and well-developed multinational ties throughout the economy in the 1970s and the contextual influence this may exercise on all industries may bolster the general argument. That more firms are tied more deeply to the international economy affects all areas of the domestic economy. In particular, it increases the political allies and ideological underpinning upon which firms hoping to resist protectionist temptations can rely.

THE CROSS-NATIONAL COMPARISON

The issue of context also relates to the national setting in which firms operate. This study's primary argument concerns changes in trade policy pressures over time. For this, analyses of American trade policy making in the 1920s and 1970s are undertaken. But the cross-sectional argument that firms with extensive ties to the international economy are less likely to demand protection of their home markets calls for examination cross-nationally. Do firms behave similarly in different countries? More specifically, do the ties of export dependence and multinationality have the same impact on firms' calculations of their trade preferences when they are located in different countries? Conversely, does the overall national context in which a firm is located have effects that override the importance of the firm's economic interdependence in the calculations of its preferences?

To address this question, a cross-national comparison is undertaken. In addition to looking at six industries in the United States in the 1920s and six in the 1970s, a set of six French industries in the 1970s is also examined. In general, finding similarities in the behavior of firms in these two countries would strengthen confidence in this study's argument. If firms based in different countries react similarly to rising interdependence, then the forces influencing firms' calculations of their trade preferences cannot be overwhelmingly dependent on their national contexts.

France was chosen because it both shares important similarities with the United States and exhibits strong differences. France has experienced growing international economic interdependence, as has the United States (see table 2.3). Thus it too should show greater resistance to protectionism as a result of changes in its firms' preferences. But France was principally chosen because of its differences from the United States. These differences make it a difficult test of the argument. Our theory suggests that French firms should react similarly to American ones to their increased interdependence, but the very different national contexts in which these firms operate make finding such similar behavior unlikely.

Among advanced industrial democracies, the United States and France are viewed as opposites in many respects. Their dissimilarity has at least five important dimensions. First, the two countries occupy different positions and roles in the international system. Although de-

TABLE 2.3 Rising U.S. and French International Economic Ties since 1950 (in percent)

	1958	1968	1981
FRANCE			
Export Dependence[a]	12	21	33
Import Penetration[b]	15	23	30
Multinationality[c]	low		10
	1960	Late 1970s	
UNITED STATES			
Export Dependence[d]	9	20	
Import Penetration[e]	5	20	
Multinationality[f]	—	20	

[a] Export dependence measures industrial exports as a percentage of total domestic industrial production. See CEREM, *Crise, Concurrence Internationale, et Stratégies Multinationales* (Paris: CEREM, 1981), p. 27, table 3; Ministère de l'Economie et de Finances, La DREE, *Une Décennie du Commerce Extérieur Français* (Paris: Documentation Française, November 1983), p. xiv.

[b] Import dependence measures industrial imports as a percentage of total domestic consumption. CEREM, *Crise, Concurrence Internationale, et Stratégies Multinationales*, p. 27, table 3; Ministère de l'Economie et de Finances, la DREE, *Une Décennie du Commerce Extérieur Français*, p. xiv.

[c] Foreign production by French firms as a percentage of total French industrial production was very low before the 1960s; it grew greatly after that. See Julien Savary, *Les Multinationales Françaises* (Paris: Presses de l'Universitaires Françaises, 1981), pp. 19-29, 110-12; John Ardagh, *France in the 1980s* (New York: Penguin, 1982), pp. 45-47; Julien Savary, "Les Multinationales Françaises," *Economie et Humanisme* 257 (January-February 1981), p. 75.

[d] Export dependence measures industrial exports as a percentage of total domestic industrial production. See Report of the President's Commission on Industrial Competitiveness, *Global Competition: The New Reality*, vol. 1 (Washington, D.C.: GPO, 1985), p. 36.

[e] Import dependence measures industrial imports as a percentage of total domestic consumption. Report of the President's Commission on Industrial Competitiveness, *Global Competition*, 1:36.

[f] Comparable data are not available before the 1970s. Data from 1977 is from U.S. Dept of Commerce, *1977 Enterprise Statistics* (Washington, D.C.: GPO, 1981).

clining, the United States is a more dominant global actor, less able to lead perhaps but still crucial. France, on the other hand, is a mid-sized power; it is considered an "ordinary" country, not a superpower.[17] This difference in international position should influence both political actors' definitions of their nations' interests as well as economic actors' views of their positions within the international economy. Second, the two differ in terms of their size and resources. The United States has a much bigger domestic market and a larger domestic supply of raw materials than does France.[18] This difference means that the United States has greater autonomy to direct its economy. In general, then, American firms have less need for and dependence on foreign markets.

Third, the role of the state in the two societies is seen as being dramatically different. France is pictured as the quintessential mercantilist state, one imbued with a powerful sense of its national interest and deeply involved in many aspects of social, economic, and political life.[19] On the other hand, the American state is characterized as the embodiment of the laissez-faire ideal, reluctant to intervene (if not incapable of it), lacking a single vision of the national interest, and highly penetrated and divided by competing societal interests.[20] Two states with such different roles and ideologies are likely to establish political contexts that vary in the incentives and costs they impose on different economic activities and hence on firms' calculations of their political preferences.

A fourth key difference between the two countries lies in the distribution of power within their political systems. While the Fifth Republic in France is viewed as a system led by a president, as is the United States, the significance of other political institutions varies. In France,

[17] Kindleberger, *World in Depression*, ch. 13; Lake, "International Economic Structures"; William Andrews and Stanley Hoffmann, eds., *The Fifth Republic at Twenty* (Albany: SUNY Press, 1981), esp. pts. 3, 5; John Ardagh, *France in the 1980s* (New York: Penguin, 1982), esp. ch. 2.

[18] Raymond Vernon, ed., *Big Business and the State* (Cambridge: Harvard University Press, 1974), esp. chs. 1, 6; Lionel Stoleru, *L'Impératif Industriel* (Paris: Seuil, 1969).

[19] Stanley Hoffmann, ed., *In Search of France* (Cambridge: Harvard University Press, 1963), esp. chs. 1, 2; Andrew Shonfield, *Modern Capitalism* (New York: Oxford University Press, 1965), esp. chs. 5, 7, 8; Stephen S. Cohen, *Modern Capitalist Planning* (Berkeley: University of California Press, 1977); John Zysman, "The French State in the International Economy," in *Power and Plenty*, ed. Katzenstein, pp. 255-94; Zysman, *Governments, Markets, and Growth*, esp. chs. 3, 6; Richard Kuisel, *Capitalism and the State in Modern France* (Cambridge: Cambridge University Press, 1981), esp. chs. 1, 8-10.

[20] Shonfield, *Modern Capitalism*, chs. 13-15, pt. 4; Katzenstein, ed., *Power and Plenty*, esp. chs. 3, 8, 9.

the ministries and their bureaucracies are seen as the central focus of policy making, implementation, and oversight. In contrast, in the United States much of this activity occurs in Congress rather than in the executive departments. Moreover, the capacity of the U.S. Congress to act as a check on executive dominance has no analogue in France, where the parliament today plays a minor role.[21] Different political actors and institutions are responsible for trade policy making in the two countries, which shapes in different ways how societal actors make demands.

Finally, the organization of political and social life in the two countries is usually depicted as being different. For the United States, organization outside of state-controlled institutions is prevalent and critically important. The desire, capacity, and need to organize into groups prevail in American life, while such behavior is less common among the French.[22] This cross-national disparity should affect how industries organize in the two countries and suggests that the aggregation of firms' interests along industry lines may be accomplished differently. These five differences in the contexts of French and American firms would make the finding of similarities in firms' calculations of their preferences and in their behavior remarkable indeed, thereby adding further validity to the argument about differences in trade policy over time.

The Case Studies and Methodology

The industries examined were selected by establishing "hard cases" for the argument. In studies of protectionism, one of the most well established hypotheses is that high and rising levels of import penetration lead to demands for, as well as high levels of, protectionism. This empirical finding suggests that industries most severely affected by foreign competition should be a priori likely to want protection. This finding was used as the main criteria in selecting the industries: those

[21] Katzenstein, ed., *Power and Plenty*, chs. 3, 8, 9; Andrews and Hoffmann, eds., *Fifth Republic at Twenty*, esp. ch. 4; William Andrews, *Presidential Government in Gaullist France* (Albany: SUNY Press, 1982), esp. chs. 5, 6; Patrick Messerlin, "Bureaucracies and the Political Economy of Protection: Reflections of a Continental European," *World Bank Staff Working Paper*, no. 568, 1983. For the United States, see Pastor, *Politics of U.S. Foreign Economic Policy*; Stephen D. Cohen, *The Making of U.S. International Economic Policy* (New York: Praeger, 1977), esp. chs. 4, 6.

[22] Alexis de Tocqueville, *Democracy in America*, trans. J. P. Mayer (New York: Doubleday, 1969), esp. pt. 2, ch. 4; Michel Crozier, *The Bureaucratic Phenomenon* (Chicago: University of Chicago Press, 1964); Stanley Hoffmann, "Paradoxes of the French Political Community," in *In Search of France*, ed. Hoffmann.

facing the greatest increases in import penetration in each period were chosen. In addition, the industries had to have high absolute levels of import penetration and had to show other signs of economic distress, such as rising unemployment, unused capacity, and falling profit rates.

These criteria imply that each of the industries selected had at least a presumptive interest in increasing protection of its home market. The key questions thus are whether they all demonstrated this preference and, if not, whether the difference between those that did and those that did not related to the extent of their ties to the international economy. If the cases demonstrate that, despite severe economic pressures, especially import competition, industries with extensive ties to the international economy withstood the temptation to demand protection better than did industries without such international ties, the argument will be strongly validated.

Tables 2.4, 2.5, and 2.6 present the cases chosen. Many previous studies of trade policy have focused on policy trends in the national

Table 2.4 U.S. Industries Selected for the 1920s (1919-23)

Industry	Level of Import Penetration[a]		Increase in Import Penetration[b]
	A[c]	B[d]	
Newsprint	7.5	13.9	85.4
Woolen Goods	4.1	12.9	215
Clocks and Watches (1919-21)	0.6	5.9	880
Fertilizer	4.3	34.9	712
Photographic Equipment	1.9	7.5	294
Textile Machinery	0.9	4.7	420

Sources: Data on the value of imports from U.S. Dept. of Commerce, *Foreign Commerce and Navigation of the U.S.* (Washington, D.C.: GPO, various issues in the 1920s); data on the value of domestic production from U.S. Dept. of Commerce, *Census of Manufactures, 1929* (Washington, D.C.: GPO, 1930).

[a] Value of imports as a percentage of the value of total domestic production.

[b] Percentage change between column A and column B.

[c] The lowest value.

[d] The highest value after the lowest.

economy or on broad economic sectors. In this study, however, the unit of analysis adopted is initially the industry, and then within the industry, the firm. The firm as it operates within the context of an industry—that is, within the structure set by the competing producers of similar goods -is the central actor, the one calculating and voicing its preferences. The industry provides the analytic framework in which this behavior makes sense and thus is used as the initial focus. This layered analysis, relying on both the industry and the firm, is useful for several reasons.[27]

First, the industry, rather than some broader economic aggregate,

TABLE 2.5 U.S. Industries Selected for the 1970s (1970-77)

Industry (SIC Code)	Level of Import Penetration[a] A[c]	B[d]	Increase in Import Penetration[b]
Footwear (non-rubber)			
3143	11	19	70
3144	15	27	80
3149	22	67	210
Semiconductors			
3674	9	22	144
Tires and Inner Tubes			
3011	5	12	140
Machine Tools			
3541	7	14	100
Watches and Clocks			
3873	18	36	100
Radios and TVs			
3651	30	43	50

Sources: Data from U.S. Dept. of Commerce, *U.S. Commodity Exports and Imports as Related to Output, 1977/76* (Washington, D.C.: GPO, 1982).

[a] Value of imports as a percentage of total domestic consumption.

[b] Percentage change between column A and column B.

[c] The lowest value.

[d] The highest value after the lowest.

[27] R. Baldwin, *U.S. Import Policy*; Lavergne, *Political Economy of U.S. Tariffs*; Takacs, "Pressures for Protection."

TABLE 2.6 French Industries Selected for the 1970s (1971-79)

Industry (NAP 600)	Level of Import Penetration[a] A[c]	B[d]	Increase in Import Penetration[b]
Glass			
1601	18	28	56.8
1602	7	15	112
Pharmaceuticals			
1901	0.7	2.2	214
1902	17	25	51
Watches & Clocks			
3401	31	59	91.3
Radio & Television			
2921	17	39	133
Footwear			
4601	12	30	163
Rubber Tires			
5201	10	20.4	108

Sources: Data from INSEE, unpublished computer printout, 1985.

[a] Value of imports as a percentage of the value of total domestic consumption

[b] Percentage change between column A and column B.

[c] The lowest value

[d] The highest value after the lowest.

must be considered because it shapes how firms experience growing economic interdependence. An examination of categories broader than the industry obscures the nature of firms' international ties, since their effects are felt most profoundly in the competition with other firms within their market. For example, a firm's export activity is influenced by the behavior of other producers of equivalent or closely substitutable products—i.e., its industry.

A second reason that the industry is central to the argument involves the logic connecting firms' interdependence to their trade preferences. This logic depends on three factors already discussed: (1) the costs of foreign retaliation, (2) the effects on profitability caused by price and supply shifts due to trade diversion, and (3) the impact of protectionism on domestic competitive position. The weight of these factors for any firm can only be evaluated within the context of its

industry. For instance, the influence of the second factor—the price and supply effects for a firm—depends upon the behavior of its competitors at home and abroad -i.e., on its industry context. In addition, the impact of various trade policies on a firm's domestic competitive situation, the third factor, is obviously conditioned by its industrial structure. If it is a monopolist or if direct foreign investment is not a likely response, then this factor will not weigh heavily in the calculation of its trade preferences. Hence, the net costs of demanding protection are conditioned by a firm's situation within the industry because this context affects how it experiences its international interdependence.

A third reason for focusing initially on the industry involves how demands concerning trade policy are made. Both firms and industry associations make trade policy demands. Firms are the actors who calculate their interests, but bargaining and conflict over the voicing of these preferences occur frequently at the industry level, since firms often seek the support of their competitors when pursuing political initiatives. Thus not only firms but also industry associations can be expected to express policy preferences. The extent to which, and the reasons why, these industry preferences diverge from those of the individual firms need exploration.

Looking at the industry, then, provides a broader view of how interests are aggregated. Overall, an initial focus on the industry is necessary for three reasons: it sets the context for understanding a firm's behavior; it conditions how a firm's international ties affect how it calculates its preferences; and it influences the way these preferences are voiced.

Though industry-level analysis is crucial for the argument made here, it is not sufficient. Viewing the industry as some unified whole leads one to overlook crucial differences within the industry and thus to misunderstand the politics of international trade. The concept of industry should not be reified. The firms within an industry are the real actors. They are the ones developing links to the international economy, calculating their preferences, pursuing strategies, and voicing demands. In this sense, the industry does not really exist. It is composed of various firms competing over the production and sale of similar products. Operating at the industry level obfuscates crucial differences among the firms. Most important for the argument here, these differences concern the character of firms' ties to the international economy, the intra-industry struggles over competitive position, and the definition of "industry" preferences. As will be shown, divisions among firms within an industry are crucial both in the definition of the industry's preferences and in their realization.

The methodology used for analyzing the cases is that of "structured, focused comparison," which requires asking the same questions of each case.[24] Two key questions are asked. The first relates to the study's independent variable, i.e., to the degree of the industry's ties to the international economy. The question is to what extent, and how, the industry is linked to the international economy. This independent variable has two components: the extent of export dependence, and the nature and degree of multinationality.[25]

The Independent Variable

The first component, the extent of export dependence, is captured by two measures: an industry's net trade position and its percentage of exports to production.[26] These indicate the direction of an industry's involvement in world trade flows as well as its vulnerability to reductions in its exports. The relative importance of different trade flows is shown partially in its net trade position: the value of its exports minus that of its imports. A positive balance suggests that exports are a more important component of its operations than are imports. A second indicator of the significance of an industry's foreign sales involves its proportion of exports relative to domestic production. This measure indicates the importance of its exports relative to its total output. The larger it is, the more costly protectionist actions will be for the industry.

Export dependence is one element used in constructing the four categories of cases. Although export dependence is continuous, it is used here in a dichotomous fashion. Industries can show either high or low export dependence. A highly export-dependent industry is one that has *both* a net trade surplus *and* a high proportion of exports to domestic production. An industry with low export dependence possesses a net trade deficit and a proportion of exports relative to do-

[24] Alexander L. George, "Case Studies and Theory Development: The Method of Structured, Focused Comparison," in *Diplomacy: New Approaches in History, Theory, and Policy*, ed. Paul G. Gordon (New York: Free Press, 1979).

[25] For a detailed discussion of the sources and problems with this independent variable, see Helen Milner, "Resisting the Protectionist Temptation: Industry and Trade Politics in the U.S. and France in the 1920s and the 1970s" (Ph.D. dissertation, Harvard University, 1986), ch. 3.

[26] For a discussion of this variable's first systematic use in explaining trade policy, see Fong, "Export Dependence," esp. chs. 1, 2. These are the ones most commonly used, and they reflect the elements of export dependence crucial to the argument here.

mestic production that is low.[27] Table 2.7 reports export dependence for the industries, showing the cutoff between high and low values.

The second component of the independent variable focuses on the extent and nature of its multinational operations. Five elements of this component can be identified: (1) the level of direct foreign investment, (2) the direction of change in this level over time, (3) the profitability of the foreign operations, (4) the extent of intrafirm trade, and (5) the direction of this trade.[28] These elements capture the basic features of multinationality. They demonstrate its importance to the firm and thus its role in the firm's calculation of its preferences.

The first three elements of multinationality reveal its value for the firm. Relative to its domestic operations, the higher its level of direct foreign investment, the more this level is increasing, and the more profitable this investment is, the more valuable these foreign operations are for the firm. The last two elements suggest the nature of these foreign operations. Whether it involves a self-contained series of national operations or a globally integrated network of production activities can in part be established by examining the degree and direction of intrafirm trade. The more extensive this trade is in both volume and geographic spread, the more integrated a firm is internationally. Overall, it is hypothesized that the more important multinationality is for the firm and the more integrated its operations, the more costly protectionist actions will be.

Like export dependence, this second component of the independent variable, multinationality, is used to classify the industries into different categories. Although it is continuous, multinationality is used dichotomously here. A highly multinational industry is one with both a high and growing proportion of foreign assets relative to domestic ones and an integrated set of foreign operations. Although comparable figures for multinationality among the three sets of cases are difficult to generate, table 2.8 lists the industries and their values for this component of the independent variable.[29]

[27] The cutoffs between high and low industries are comparable across periods and countries. In other words, a high industry in the 1920s would be so classified in the 1970s in France or the United States. Also, in the case studies, industry-level data has been supplemented and differentiated by firm-level data. Aggregate figures are presented first, and then key firms' positions within these aggregates are discussed. A similar technique was used in selecting the cases. Interlacing analysis of the industry and firm levels facilitates examination of the intra-industry struggles over trade policy.

[28] For a detailed discussion of this variable's sources and problems, see Milner, "Resisting the Protectionist Temptation," ch. 3.

[29] This table should be treated cautiously, because the most accurate data available usually is for *firms* and not industries.

TABLE 2.7 Industry Export Dependence (value of exports as a percentage of total production)

LOW			
U.S. Footwear, 1970s[v]	.05 (1970s ave.)		
U.S. Woolens, 1920s[t]	2.1 (1923)	1.3 (1927)	1.8 (1929)
U.S. Watches and Clocks, 1920s[t]	4% (1920s ave.)		
U.S. Newsprint, 1920s[t]	4.5 (1921)		1.7 (1929)
U.S. Tires, 1970s[v]	3.5 (1970s ave.)		6 (1981)
U.S. Watches and Clocks, 1970s[v]	2 (1970)	13%[a] (1977)	10%[a] (1981)
U.S. Radios and TVs, 1970s[v]	5 (1970)	10 (1977)	17 (1981)
French Radio and TVs, 1970s[s]	3.7 (1972)		
French Footwear, 1970s[s]	21[b] (1970)		18[b] (1981)
HIGH			
U.S. Textile Machinery, 1920s[t,c]	15 (1921)		11 (1929)
U.S. Machine Tools, 1970s[c]	17 (1970)	12 (1977)	18 (1981)
French Watches and Clocks, 1970s[s,d]	44 (1971)	68 (1977)	63 (1982)
U.S. Photo Equipment, 1920s[t]	23 (1919)	21 (1923)	31 (1929)
U.S. Fertilizer, 1920s[t]	9% (1920s ave.)		
U.S. Semiconductors, 1970s[v]	22 (1970)	17 (1979)	27 (1981)
French Tires, 1970s[s]	40 (1970)	50 (1979)	- -

TABLE 2.7 (*cont.*)

French Pharmaceuticals, 1970s[a]	13 (1970)	20 (1980)	—
French Glass, 1970s[a]	30 (1970)	42 (1979)	—

[a] Mainly parts.
[b] Highly concentrated among largest firms.
[c] For cotton machinery, over 25 percent.
[d] For electronic watches, 0 percent in late 1970s.
[e] Average for 1920s; some products, like phosphates, with much higher percentage.
[f] Data on the value of exports from U.S. Dept. of Commerce, *Foreign Commerce and Navigation of the U.S.* (Washington, D.C.: GPO, various issues in the 1920s); data on the value of domestic production from U.S. Dept. of Commerce, *Census of Manufactures, 1929* (Washington, D.C.: GPO, 1930).
[g] Data from U.S. Dept. of Commerce, *US Commodity Exports and Imports as Related to Output, 1977/76* (Washington, D.C.: GPO, 1982).
[h] Sources for export dependence for each industry vary from case to case; for the individual citations, see the notes in ch. 5.

Using both of these indicators, four general categories of firms can be constructed, as shown in table 2.9. Type I firms have little of either kind of international linkage. Type II firms have extensive export dependence but little multinationality. In Type III, firms possess both extensive export and extensive multinational ties. Finally, those in Type IV have significant multinational operations but little export dependence.

The Dependent Variable

The second key question focuses on the dependent variable. What are the firms' trade policy preferences? The degree of firms' export dependence and multinationality explains the nature and intensity of their demand for trade policies. Assessing the demand for such policies requires understanding what is meant by protectionism. In this study a broad definition of protection is used: any policy that increases the price of a country's imports or decreases that of its exports is considered protectionist. This definition necessitates examining a wide range of political arenas, beginning with the traditional trade policy-making ones, to determine an industry's trade preferences.

To understand industries' preferences, I surveyed their activities in a number of arenas. In the 1920s, the main arenas were (1) the U.S.

TABLE 2.8 Industry Multinationality (in percent)

Industry	Multinationality	Multinational Trade
LOW		
U.S Footwear, 1970s	4[1]	2[4]
U.S. Machine Tools, 1970s	16[1,a]	9[5]
French Footwear, 1970s	2[2]	low[5]
French Watches and Clocks, 1970s	2[2]	low[5]
U.S. Woolens, 1920s	.05[3,b]	low[5]
U.S. Watches and Clocks, 1920s	.09[3]	low[5]
U.S. Textile Machinery, 1920s	.5[3,c]	low[5]
HIGH		
U.S. Tires	19[1]	> 19[4]
U.S. Radios and TVs, 1970s	9[1,d]	14[4]
U.S. Watches and Clocks, 1970s	19[1]	10[4]
U.S. Semiconductors, 1970s	24[1]	87[4]
French Glass, 1970s	28[2]	high[5]
French Pharmaceuticals, 1970s	8[2]	high[5]
French Radios and TVs, 1970	4[2,e]	low[5]
U.S. Fertilizer, 1920s	1.5[3,f]	high[5]
U.S. Photo Equipment, 1920s	2[3]	high[5]
U.S. Newsprint, 1920s	15[3]	very high[5]
French Tires, 1970s	15[2]	very high[5]

[a] Overstated; category is all machine tools.
[b] Category is "textile yarns and knits."
[c] Category is "other machinery."
[d] Understated; includes communications equipment, which includes the large but completely domestic firm of AT&T.
[e] Understated; sector moving from low to high in 1970s.
[f] Understated; category is "other chemicals," larger than fertilizer.
[1] Figures from U.S. Dept. of Commerce, *1977 Enterprise Statistics* (Washington, D.C.: GPO, 1981), pp. 374-78; they show foreign assets as a percentage of total assets for 1977.
[2] Figures from Julien Savary, *Les Multinationales Françaises* (Paris: Presses de l'Universitaires Françaises, 1981), p. 21; they show foreign production as a percentage of total production for 1974.
[3] U.S. Senate, *American Branch Factories Abroad*, 71st Cong., 3rd Sess., 1933, S. Doc. 120, p. 31. These data are difficult to compare to the others because they show the sector's DFI as a percentage of total U.S. manufacturing DFI in 1929.
[4] Réal Lavergne, unpublished paper for the United Nations Transnational Corporations study, July 1981.
[5] See the text of the case studies for a fuller explanation

TABLE 2.9 The Cases by Type

Type I: Low Export Dependence, Low Multinationality
U.S. Woolen Goods, 1920s
U.S. Watches and Clocks, 1920s
U.S. Footwear, 1970s
French Footwear, 1970s
Type II: High Export Dependence, Low Multinationality
U.S. Textile Machinery, 1920s
U.S. Machine Tools, 1970s
French Watches and Clocks, 1970s
Type III: High Export Dependence, High Multinationality
U.S. Fertilizer, 1920s
U.S. Photo Equipment, 1920s
U.S. Semiconductors, 1970s
French Tires, 1970s
French Glass, 1970s
French Pharmaceuticals, 1970s
Type IV: Low Export Dependence, High Multinationality
U.S. Newsprint, 1920s
U.S. Tires, 1970s
U.S. Radios and Televisions, 1970s
U.S. Watches and Clocks, 1970s
French Radios and Televisions, 1970s

Congress, which handled most issues related to tariff levels; (2) the U.S. Tariff Commission (USTC), which investigated industry complaints about trade matters; and (3) industry trade associations, whose internal deliberations over trade issues were reported in various newspapers and industry trade journals. For the 1970s, four slightly different arenas in the United States were surveyed: (1) the U.S. Congress, which both authorizes tariff level changes for the GATT negotiations and introduces bills to help industries; (2) the U.S. International Trade Commission (ITC), which investigates industries' trade complaints; (3) the U.S. Special Trade Representative (STR) and other executive agencies, which decide industry complaints and handle the GATT negotiations; and (4) the industry trade associations, which develop and articulate industry-wide trade positions.

In France, an even larger number of actors is involved in the process. Most traditional trade policy is under the auspices of the European Community (EC) and not the French. The EC's Commission develops GATT trade negotiation positions and investigates industry complaints, although these activities require the input and agreement of national authorities. Domestically, concern for trade and industrial policy is centered primarily within the bureaucracy but is spread among a number of ministries. The Ministry of Industry, the Direction for External Economic Relations (DREE), the Ministry of Finance, the Ministry of Foreign Trade, the Ministry of Foreign Affairs, and other ministries responsible for particular industries are involved. Firm and industry activities in trade and industrial policy issues in all of these arenas, as well as in the industry trade associations, were surveyed.

From these sources, a detailed description of the U.S. and French industries' trade policy preferences and activities was constructed.[30] Several problems in the measurement of the dependent variable, however, merit discussion. In general, the true preferences of social actors are notoriously difficult to determine, given the advantages of posturing and obfuscation and the intrusion of hindsight. In the case studies, gauging the nature of firms' preferences is difficult for two specific reasons. First, trade policy preferences do not fall along a single, simple continuum. Although the desires for open markets and/or protection from foreign competition mark two clear extremes, demands for "fair trade," complaints of unfair trade practices, and requests for temporary aid or subsidies to ease adjustment burdens do not fall easily within these two extremes. On the one hand, these types of demands may be equivalent to calls for protectionism in a new, more acceptable guise; on the other hand, firms voicing these demands may prefer open markets in general but believe that some temporary restraint is necessary to "correct" the market or to coerce others into competing more fairly. These types of demands are not always aimed at curbing foreign competition. The degree to which they actually reflect protectionist preferences depends much upon the situation.

A second difficulty inherent in determining trade policy preferences involves assessing the intensity of such preferences. The question of how much a firm wants protection or open markets is related directly to the question of what it really prefers. For instance, claiming you prefer open markets but being completely unwilling to devote any attention or resources to realizing this preference clearly calls into question the extent to which this should be termed a preference. Con-

[30] For a full discussion of the sources and problems of the dependent variable, see Milner, "Resisting the Protectionist Temptation," ch. 3.

versely, maintaining you prefer free but fair trade, while doing everything in your power to heighten uncertainty over the future of trade in your market, may reveal a stronger protectionist bent than would otherwise be apparent.

The intensity of firms' preferences must be assessed not only to gauge the actual nature of their preferences but also to compare preferences among firms. Whether a firm prefers open markets is a first question, but whether it prefers them as much as another firm is important for the argument as well. This cross-firm (and cross-industry) ranking of preferences requires evaluating the effort that firms put into realizing their trade policy preferences. For example, in the American cases the number and type of petitions for trade relief filed under U.S. trade laws, the frequency and duration of court cases regarding foreign competition, the nature and amount of congressional lobbying, and the extent of internal political discussion and organization related to trade issues can all be employed to measure the relative intensities of different firms' preferences. Not only what a firm says it prefers but how often it states this preference and what it does to realize it are important elements in understanding its preferences.

One further aspect of this argument should be noted before examining the cases. The firms chosen were likely to act on their preferences. These firms were all in serious economic distress. It is reasonable to expect that their precarious position would prompt them to act even if that action were costly, because inactivity might mean their demise. Both rational actor and satisficing models of firms would expect these endangered firms to try to improve their situations.

Moreover, the argument is not that firms in an industry will always be able to act in a unified way to promote some industry-wide position. By focusing on the firm, the argument anticipates that firms may have very different preferences and may not be able to agree on a unified position. However, the firms in an industry may all have a similar international orientation and may develop a common position. In this case collective action problems should be minor. All will face strong economic pressure to act, and in very few instances will the number of relevant firms be large enough to pose collective action dilemmas. Because of the cases chosen, therefore, individual and collective action problems should be minimal: these distressed firms will be impelled to act, and industry-wide political activity should be impeded mostly by differences in preferences among firms.

CHAPTER 3

The 1920s U.S. Case Studies

THIS CHAPTER presents detailed analyses of six American industries in the 1920s. In each case, the industry's presumptive interest in protection is established by reviewing its high levels of economic distress, and then the nature and extent of the industry's export dependence and multinationality are elaborated. Next, the industry's trade policy preferences over the 1920s are the center of attention. The main instrument for protecting industries during this period was the tariff, and thus the industry's position on its tariff rate was the most important indicator of its trade preferences. The discussion focuses primarily on the industry's testimony to Congress during the two tariff revisions of the decade. The industry's complaints to the U.S. Tariff Commission (USTC) and the political controversies surrounding trade issues among the industry's firms are also examined. The central concern, in the analysis of each case, is to determine whether the extent of the industries' international ties affects the nature of their trade policy preferences in the predicted fashion.

CASE 1: WOOLEN GOODS

American wool manufacturers and growers in the early twentieth century were important political actors, especially in the area of trade, where they had waged fierce battles for protection throughout much of the nineteenth century.[1] Around the turn of the century, developments occurred that changed the industry: wool growers moved west, wool manufacturers were largely unable to move out of New England to lower-cost areas, and new substitute fabrics like cotton, rayon, and silk displaced wool.[2] Because of these conditions, this domestically oriented industry experienced serious economic difficulties and in the 1920s resorted once again to vigorous demands for more protection from foreign competition.

U.S. wool manufacturers' problems were continuous during the

[1] Chester Wright, *Wool-Growing and the Tariff* (Cambridge: Harvard University Press, 1910), pp. 213-27; Victor Clark, *History of the Manufactures of the United States, 1893-1928*, vol. 3 (New York: McGraw-Hill, 1929), pp. 191-210.

[2] Wright, *Wool-Growing*, chs. 7-9; Clark, *History of the Manufactures*, pp. 204-210.