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Policymakers and trade legislation.¹

The surveys we are to undertake in this project provide us a unique opportunity to explore whether our theories accurately capture the key determinants of trade policy. There is now an extensive literature based on rational choice theory explaining how trade policymakers behave. Trade policy in this literature is generally equated with border barriers -- for the most part tariffs-- although barriers to factor mobility (investment and immigration) are also considered. Interests are usually viewed from an economic perspective (factor ownership, consumption) and influence is exerted primarily through financial contributions. By exploring the implications of these factors, the literature has given us valuable insights and is certainly an advance on perspectives considering only aggregate national welfare.² It has also proved fruitful in empirical applications. But there are additional features of global integration that have not been emphasized that we have the opportunity to incorporate in our surveys. In this memo I will briefly discuss some of the key variables that influence trade policymakers in general and legislators in particular. I will try not only to consider the traditional formulations that have dominated the literature but also to introduce some additional considerations that I believe have not been given the attention they deserve.

Determinants of Policy

In his survey of the political economy of trade policy, Dani Rodrik describes how trade policy outcomes reflect a very complex interaction of demand and supply forces.³ The demand for trade policy reflects (a) individual preferences and (b) the behavior of interest groups; the supply of policy reflects (c) policymaker preferences and (d) the institutional structure of government. In order to keep their models tractable, theorists have inevitably been forced to emphasize some of these channels at the expense of others. Our surveys offer an opportunity to explore whether they have made the right choices or whether other considerations are actually more important.

¹ Memo prepared for the conference: The Political Economy of Globalization: How Firms, Workers, and Policy-Makers Are Responding to Global Economic Integration.

² For overviews see Gene M. Grossman and Elhanan Helpman, *Interest Groups and Trade Policy* Princeton University Press, 2002 and Helen V. Milner, 1997 *Interests, Institutions and Information* (New Jersey: Princeton University Press

³ See Dani Rodrik "Political Economy of Trade Policy Ch 28 in *Handbook of International Economics* Vol. III Grossman Gene and Kenneth Rogoff (eds) Amsterdam: Elsevier 1995.

Indeed, some theoretic formulations emphasize just one dimension of the supply-demand framework. In pure models with “direct democracy,” only voter preferences matter (e.g. Mayer 1984).⁴ In “tariff-formation” models only lobbying, or contributions matter and protection reflects the impact of contending interest groups. (e.g. Findlay and Wellisz)⁵ In “electoral competition” models the key role is the contributions interest groups give to parties in elections (e.g. Magee, Brock and Young (1989) and Mayer and Li (1994)).⁶ In “policymaker preference” models, policymakers reflect a preference function that balances the general interest against those of particular sectors. (e.g. Hillman (1982)).⁷ The most inclusive of the models is that of Grossman and Helpman (1994) who capture both the demand and supply side considerations in a single model that still remains tractable (for them).⁸ They explore the interactions between incumbent politicians who chose their policies in part to elicit contributions and in part to enhance the general wellbeing of the public and special-interest groups that care only about the welfare of their members. Important extensions have been made in making lobbies endogenous and placing the model in an international negotiations context (e.g. Bagwell and Staiger 1999)⁹

These models have had some success in explaining behavior. Dutt and Mitra (2002) have found support for the direct democracy formulation.¹⁰ The Grossman-Helpman model has been used successfully by Goldberg and Maggi (1999) to explain non-tariff barriers in the United States.¹¹ It has also been applied to Australia, Mexico, Turkey, and even in a non democratic setting to analyze policies towards multinationals in China.¹² The virtue of these exercises is that they are firmly grounded in theory, the problem however is that they may be overlooking alternative explanations.

Our survey questions should explore the basic elements of these models to help determine how policymakers themselves believe they trade off general welfare and special interests when they legislate. However, I will also suggest that our scope should

⁴ Mayer, Wolfgang, (1984) “Endogenous tariff formation” *American Economic Review*, 74 970-985

⁵ Findlay Ronald and Wellisz, Stanislaw (1982) “Endogenous Tariffs, the political economy of trade restrictions, and welfare” in Bhagwati, Jagdish (ed) *Import Competition and Response* (Chicago: University of Chicago Press).

⁶ See for example Magee, Stephen P, Brock, William A. and Young Leslie (1989) *Black Hole Tariffs and Endogenous Policy Formation*, (Cambridge: Cambridge University Press) And Mayer Wolfgang and Li, Jun (1994) Interest Groups, electoral competition, and probabilistic voting for trade policies” *Economics and Politics*, 6:59-77.

⁷ Hillman, Arye L. 1982 “Declining industries and political support protectionist motives”. *American Economic Review* 72:1180-1187.

⁸ Grossman Gene M and Elhanan Helpman (1994) “Protection for Sale” *American Economic Review* 84: 833-850

⁹ Bagwell, Kyle and Robert W. Staiger, 1999 “An Economic Theory of GATT” *American Economic Review* 89:215-48.

¹⁰ Dutt, Pushan and Devashish Mitra 20002. “Endogenous Trade Policy through Majority Voting” *Journal of International Economics* 58: 107-34.

¹¹ Goldberg Penelopi Koujianou and Giovanni Maggi 1999 “Protection for Sale: An Empirical Investigation” *American Economic Review* 89: 1135-55.

¹² For an excellent survey and these references see Robert C Feenstra (2004) *Advanced International Trade: Theory and Evidence* (Princeton: Princeton University Press

be broader. In what follows I will briefly point to both traditional and novel dimensions that we could capture.

Constituent Preferences As conveyed in the introduction to this conference, the international policy economy literature has built upon traditional trade theories. The wellbeing of constituents reflects both their consumption patterns and their ownership of factors of production. Consumption may be influenced by trade through changes in prices and product variety. Income is dependent on the nature of productive factors. If factors are mobile, the principle channel is the Stolper-Samuelson effect; if they are immobile, or sector – specific (Ricardo-Viner), industry and regional effects may be important.

These considerations need to be supplemented in two important respects. First, other arguments may belong in constituents' preference functions. Some constituents may prefer policies that advance the interests of others rather than only themselves. Other constituents may give weight to non-economic values (community, sovereignty, nationalism, identity, equity). For constituents with these additional values, the process by which trade policy decisions are made may be an important source of their attitudes.

Second, attention must be paid to knowledge formation. In reality constituents may (should) be uncertain about how trade policy measures will actually affect their economic interests. Such uncertainty is particularly likely when trade policies involve agreements (such as the Uruguay Round) that are complex and multi-dimensional. It is also likely to be present when the winners/losers may only be known in the future. Uncertainty is also prevalent when trade agreements are used as complement to other policy measures (for example economic reforms). This makes the nature of the information which constituents receive and the mechanisms by which they filter such information crucial determinants of their choices. It also suggests that risk aversion should be given considerable weight in their preference functions.

Interest groups/parties. These constituent preferences may influence policy-makers directly through elections or they may be aggregated through parties and interest groups. Sometimes trade positions are simply one of many that parties develop. On occasion however, views on international integration may actually be the dominant reason for their formation. In Europe, for example, anti-immigrant sentiments have become the key issue for numerous right wing parties.

Special-interest groups will engage in organized activities such as lobbying, campaign contributions, demonstrations and providing organizational assistance. Some theories place particular emphasis on the role of special-interest groups in providing finance. Money matters. But special - interest groups have additional sources of influence. They may directly seek to persuade legislators to support their positions and in so doing leverage their specialized knowledge and expertise. They may also seek to influence policymakers indirectly through changing public opinion by media campaigns, demonstrations and advertisements. They may also seek to enhance their credibility by obtaining endorsements. They may try to mould legislators' perceptions on where the public stands by generating letters, e-mails and visits from constituents. They may form

coalitions and alliances with other groups with similar interests. Anti-globalization forces for example have become particularly effective in orchestrating their efforts through the internet. Interest groups may also enhance their influence by delivering blocks of voters and mobilizing their organizational capacity, for example, in getting out the vote. In all these cases the capacity of groups to engage in collective action is an important determinant of their effectiveness. The costs of exerting influence could be associated with industry and factor of production characteristics. In the surveys, we should explore which of these activities our respondents consider to be most important and effective and what they consider to be the principle constraints on their actions.

The Preferences of Policymakers. The supply of trade policies will also reflect policymaker preferences about issues and processes. Trade policymaking is generally jointly carried out by legislators, the executive (President or Prime Minister) and bureaucrats (Ministers, civil servants). The interests and perspectives of these actors may differ. Legislators, in particular, will have strong desires to be reelected. By contrast, bureaucrats may give more weight to the interests of the executive -- particularly if they are appointed -- and/or of their careers and departments -- particularly if they have tenure. Just as constituents may value more than their narrow economic interests, so policymakers, in addition to seeking reelection or retaining power, could also have other goals such as favoring particular groups or parties, or maximizing social welfare and promoting economic development.

Like their constituents, policymakers are often forced to decide on the merits of complex, prepackaged agreements and will be uncertain of their likely impacts. Under these circumstances they too will base their decisions on information gained from a multiplicity of sources: experts, media, constituents, interest groups etc. The ability to provide information may therefore be an important source of influence.

Trade policy measures have expressive as well as instrumental significance. Indeed, in systems where they do not actually have power, legislators find it particularly attractive to propose policies (or cast votes) that could advantage their constituents when they are sure that the policies they propose will not be adopted.

These considerations suggest that our questions should try to ascertain measures of policymaker preferences that give us insight into how they trade off personal, institutional, general and special interests. We should also explore the basis on which they reach decisions and the degree to which they believe they give weight to the views of their constituents, special interests, party, experts, the media, etc.

Institutions. Policymakers will surely be affected by the institutional structure of government in which they operate. The distribution of trade policy power among the branches of government and within the legislature plays an important role. In the United States, for example, the constitution gives the Congress the power to “regulate Commerce with foreign nations” but the President has “the power to make Treaties”. Within the Congress particular legislative committees such as Ways and Means and Senate Finance are especially influential. In the European Union however, legislative power over trade

policy rests with the European Council of Ministers rather than national parliaments and nonbinding advice is given by the European Parliament. In addition, in the US, trade policy is heavily shaped by the President, several Cabinet departments and other parts of the executive office of the President (USTR, CEA, OMB). In Europe, the Commission and various Directorates within it perform this role. Actors who have responsibility for trade policy have opportunities to use it to advance their interests and their power, sometimes at the expense of those who do not.

The executive will have to consider not only how decisions affect her/his ability to retain power, but also in cases where ratification is required, the response of the legislature. The reactions of legislators will in turn be sensitive to the way elections are organized (districts, parties, campaign finance and rules etc). For legislators (and executives) the relevant median voter is depends critically on the nature of electoral system. One aspect relates to the size of the district. Small districts are likely to give more weight to the returns to particular local industries. Larger districts are more likely to have diverse industrial structures. Under these circumstances, the smaller the districts, the more polarized the views that will be represented. Indeed it is striking that in the United States trade bills are far more controversial in the House of Representatives where districts are relatively small than in the Senate where they are generally larger.

A second aspect is the timing of elections. Trade might bring benefits in the long run, but create dislocation in the short run. Thus the frequency with which elections are held could surely be relevant (as is the ability to time when elections are to be held.) Those required to stand for elections frequently may be expected to give greater weight to adjustment costs. This too may explain differences between the attitudes of members of the House and the Senate on trade in the United States.

A third aspect relates to the importance of political parties and in particular the role of party discipline. This is important both for legislation and elections. In a system with weak discipline the relevant median voter is in a particular constituency. In a system with strong discipline, by contrast, the party as a whole will have to take account of the effects across many districts. Legislators who owe their positions more to the party than the endorsement of their constituents may give less weight to local impacts.

A fourth aspect might be the closeness of the election. Elections in which incumbents feel secure could result in greater deviation from constituent preferences. But it is uncertain what the impact might be. Some might feel free to give more weight to favored special interests, others to give more weight to aggregate social welfare.

A final dimension is the nature of the system for legislative elections. There are important differences for example between systems based on majorities in each district when elections cover many issues. With proportional representations a more diverse set of interests can get a seat at the table. Thus in some countries where such systems are common, the Greens, with very strong preferences on one issue have been able to gain power by contrast the influence of environmentalists in other systems must be exerted indirectly through parties.

In discussing the preferences of both constituents and policymakers I pointed to the important role played by perceptions. These become very important in establishing the context in which they interact. In many countries global forces are increasingly seen as virtually synonymous with all structural change. Trade is blamed or given undue credit when the real sources of change are domestic or technological in nature.¹³ This gives trade policy great political salience – perhaps greater than it deserves. We need to be sure, therefore, that our surveys also capture how these additional concerns and perceptions influence trade policymakers and constituents even where our theories and empirical studies may suggest these views are mistaken

Given the uncertainties and complexities of trade policy, it should be no surprise that trade politics doesn't only function at a rational level. Indeed, the policy competition also occurs through more symbolic conflicts. The debates over trade policies have become focal points for a host of concerns, some of which are only tangentially related to the effects of the policy measures being considered. NAFTA was a prime example.¹⁴ Serious economic studies suggested economic effects that were relatively trivial for the United States and that the marginal impact on the environment for example was likely to be small. But the symbolism of NAFTA was potent, as the rhetoric of “giant sucking sounds” and “runaway plants” provided an opportunity for groups to mobilize their supporters. Thus NAFTA served as a referendum on more general concerns about economic trends and foreign, environmental and immigration policies. The vote on China-PNTR similarly incorporated a wide range of concerns, fears and hopes.

Additional Considerations: Power and Process.

Many of the concerns raised about globalization relate to questions of fairness not only in the rules governing trade, but also in who gets to decide them, issues that are not really the focus of many of the IPE models. What is decided and who gets to decide can be fundamentally altered through trade agreements.

Globalization changes the relative costs of domestic regulatory policies to the degree that they affect and are affected by trade. Tough anti-pollution regulations, for example, may lead to a comparative disadvantage in pollution-intensive production. The more open the economy, the greater these shifts could be. If countries have a revealed preference for less internal pollution such changes should be viewed favorably –they get more of what they want. But the associated reductions in production are not always viewed favorably: tough domestic regulations could reduce capital flows and thus tax revenues and induce concerns about international competitiveness may grow. Legislators will inevitably feel the brunt of these pressures as these international competitive pressures increase a voice concerns about a race to the bottom.

¹³ For an example see Martin Baily and Robert Z Lawrence “What Happened to the Great U.S. Job Machine? The Role of Trade and Electronic Offshoring” Brookings Papers on Economic Activity (2:2004) pp 211-284.

¹⁴ See Frederick W Mayer, *Interpreting NAFTA: The Science and Art of Political Analysis*, (New York: Columbia University Press) 1998.

While economists give little attention to the notion of fair trade, there are few more potent political refrains than calls for a “level playing field.” As increased trade and factor mobility change the costs and benefits of domestic policies as well their feasibility, therefore, there are inevitably pressures for policy harmonization or at least disciplines that enlarge the scope and depth of trade agreements. Thus trade agreements encompass far more than border barriers. The scope of bilateral and multilateral trade agreements today is typically wide and deep. Agreements cover issues such as domestic subsidies; regulation, intellectual property protection, competition policies labor, environment, services etc and they may considerably constrain domestic policies.

Trade agreements not only affect domestic policies but fundamentally alter the distribution of power over domestic (and international) decision-making. Executives, legislators, bureaucrats, interest groups and constituents that were once focused purely on domestic considerations are thus drawn into the trade arena. As new actors and interests enter the fray, debates over trade become the battleground for political conflicts that reflect a range of concerns that is wider than the narrow economic impact of trade. These concerns are not (only) about the impacts of policies on relative prices, but about shifts in the distribution of power.

As the issues in trade agreements change, so too do political alliances. The introduction of labor and environment into the trade debate may give rise to new political alignments that make trade policy a more partisan issue. Parties reliant upon workers and unions in developed countries find it hard to support trade agreements, for example, if they fail to enforce worker rights. Similar pressures may be felt by Green parties or those aligned with environmentalists. Instead of the traditional trade debates relating to relatively narrow economic interests, along the lines of free trade versus protection, the trade policy arena becomes a forum in which social and other concerns are addressed.

As the scope of agreements widens so too does the number of legislators and committees drawn into the formulation of policy. In the US for example, until the Tokyo Round, trade policy was heavily concentrated in the Senate, in the Finance Committee and in the House, in Ways and Means, because the major issues related to tariffs which were essentially taxes. But the broadening of the purview of trade implied the need for others to be involved. In the Uruguay Round a large number of committees felt obliged to participate in decision-making.¹⁵ On the one hand, the salience of trade as an issue made the trade committees more powerful; on the other hand, it also forced them to share their power to a greater degree.

¹⁵ At one time the chairman of the two tax-writing committees could control the contents of trade bills. Now participation spread to include the House Energy and Commerce Committee (domestic content, certification standards), the House Foreign Affairs and Senate Foreign Relations committees (foreign loans, export controls), the Judiciary Committees (antitrust reciprocity), the banking committees (financial services, foreign investment, the export-import bank) the agricultural committee (farm trade), and armed services committees (procurement) and so forth.

This shift also has important implications for those seeking to influence trade policies. The focus is away from the iron triangle of congressional committee chairs, well financed lobbies and well –placed bureaucrats. Some characterize the new model as having a configuration that entails the formation of networks. Like minded legislators and sympathizers across committees and even political appointees in the administration all ban together to influence policies.¹⁶

Trade agreements may permanently change the scope of the domestic policies that legislators might be able to adopt. Bundling particular issues into a trade agreement may help overcome domestic opposition. Conservative legislators for example, may not like labor standards but some might go along if at the same time, a trade agreement benefits their export constituents. Liberal legislators might not like freer trade, might find agreements appealing if they help strengthen such standards abroad. Thus both the left and the right have tried to use trade agreements as a mechanism to advance their domestic policy agendas and constrain their opponents. On the left, an example is the promotion of a social clause in the European Union; on the right, the use of such agreement to promote domestic reforms and deregulations –as for example, the conditions associated with China’s accession to the WTO. But those who are weakened by these maneuvers will inevitably question the process.

Once the rules are set, new constraints are imposed on legislators and their ability to grease the political wheels using regulations which have a protective effect is reduced.

¹⁷One appeal (domestically) of the Clean Air standards was that they discriminated against foreign petroleum refiners, but Venezuela forced these provisions to be changed through a case at the GATT. Regulators too face similar constraints. As long as trade policy was focused on border barriers, regulators could operate independently. Thus an agency such as the FDA was unconcerned about international policy. It held the cards when it came both to setting standards and in conformity assessment. But deeper integration and the efforts at achieving mutual recognition of conformity assessment between the US and the EU dramatically change the demands on it during negotiations and the future environment in which it will operate.

As responsibility for decisions is reassigned through international agreements and international institutions, questions are inevitably raised about their legitimacy. International organizations are vulnerable to charges that they lack legitimacy because the standards for legitimate governance are generally set by those of the nation state. Global governance is inevitably likely to be less democratic and thus less “legitimate” than the nation state. In particular, international organizations derive their legitimacy in part from the notion that their members, national governments, accurately reflect the interests of their constituents. But this notion can be questioned either when there are

¹⁶ See Robert E Cumby and Theodore H. Moran Testing Models of the Trade Policy Process: Antidumping and the New Issues” In Robert E Feenstra (ed) *The Effects of U.S. Trade Protection and Promotion Policies* (NBER University of Chicago Press 1997).

¹⁷ See the comments by Sharyn O’ Halloran on the paper by David Vogel “Social Regulations as Trade Barriers” in Pietro S. Nivola (ed) *Comparative Disadvantages? Social Regulations and the Global Economy* (Washington DC: The Brookings Institution). 1997 pp132-145.

other international non-governmental actors with claims to represent certain interests or when national governments are seen as insufficiently representative, or insufficiently informed and competent. In addition, international organizations are often set up to focus on a single purpose such as health, or trade or finance. This focus is particularly vulnerable to accusations that other factors are not being given sufficient weight.

These examples are important because they illustrate how globalization in general and trade agreements in particular may disturb domestic political equilibriums and permanently change policy options and power relationships. Sometimes, policymakers may welcome these restrictions on their ability to “sell protection.” Sometimes they may resent it. But it would be interesting in our surveys to explore the attitudes of policymakers and other actors to international agreements and institutions. In particular it would be interesting in an international survey to be able to compare how policymakers view the constraints imposed upon them/and the benefits they derive from their membership in the WTO and other trading arrangements.

Implications. This description suggests many questions we might ask specifically of policymakers. In our surveys we have an opportunity learn what their views of trade are and why they hold them. We should also ask policymakers what they believe are their constituents views on trade and how closely these correspond to their own. (We will be able to compare what they say with the answers given to us by other survey respondents).

We should also find out how they make their decisions. One of the major issues in the literature concerns the relative weight given to special interests versus that given to the general interest. Questions that could illuminate these weights would be useful. What role is played by their political party, meetings with their constituents and firms and organizations in their districts, national lobby groups, other colleagues and their interaction with experts and the media. It will be interesting to compare the answers of legislators with policymakers in the executive branch and the views of the legislators. It would also be informative, even if not determinative, to ascertain the role they believe financial contributions play in giving interest groups access and influence over their decisions.

It would also be helpful to ascertain what they believe the principle impacts of trade agreements and policies are on the welfare of the nation as a whole and on specific groups. In addition, it would be interesting to see how important they believe the strictly economic considerations are as opposed to other considerations relating to trade's effects on domestic regulatory policies and international policies.

