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ORIGIN: 1934–70

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The Root Problem: Political Imbalance

Seventy years ago, an assistant professor at Wesleyan University published a book on the politics of trade. Its full-blown title was *Politics, Pressures and the Tariff: A Study of Free Private Enterprise in Pressure Politics, as Shown in the 1929–1930 Revision of the Tariff.* The author sought to explain why, in enacting the now-famous Smoot-Hawley bill, the United States Congress had ignored the warnings of experts and had raised import duties to record levels. The reason, he found, was that the combined power of special interests seeking import protection had dominated the legislative process. The "history of the American tariff," he concluded, "is the story of a dubious economic policy turned into a great political success. The very tendencies that have made the legislation bad have made it politically invincible."[1]

The book became a classic, and its author rose to the pinnacle of his profession. He became president of the American Political Science Association in 1956–57, and, to this day, the E. E. Schattschneider Award is presented biennially by that organization "for the best doctoral dissertation in the field of American government."

As prophecy, Schattschneider's book was a failure. He found "no significant concentration of forces able to reverse the policy and bring about a return to a system of low tariffs or free trade." Yet before his manuscript had even reached print, Congress passed the Reciprocal Trade Agreements Act of 1934, which began a historic shift of US policy toward lower trade barriers. But if the author wrongly concluded that the tariff was "politically invincible," he was right on target in his depiction of the root

1. E. E. Schattschneider, *Politics, Pressures and the Tariff* (New York: Prentice-Hall, 1935), 283.

political problem that advocates of international trade would have to overcome. "Although . . . theoretically the interests supporting and opposed to tariff legislation . . . are approximately equal," he wrote, "the pressures upon Congress are extremely unbalanced. That is to say, the pressures supporting the tariff are made overwhelming by the fact that the opposition is negligible."[2]

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Most people benefit from international trade, for the same general reasons that most people benefit from the division of labor within nations and within localities. By participating in a broader community within which individuals and groups sell what they can produce with the greatest (comparative) efficiency, people can secure a far greater quantity and variety of goods than each individual could possibly obtain if he had to produce every one himself. There are, of course, many instances when blocking or limiting trade can bring advantages to particular groups at the expense of the broader society. But the more these groups succeed in enforcing such restrictions, the lower the standard of living and the slower the pace of economic growth for the community as a whole.[3]

As with communities, so too with nations. Specific interests can gain from import restrictions, and economic theory even recognizes cases in which a trade barrier might leave an entire nation better off, albeit at the expense of other nations.[4] In most circumstances, however, open trade—by maximizing economic efficiency—enhances the welfare and the standard of living of the nation and of the wider world.

But the costs of international trade are concentrated. They bear particularly on those firms and workers whose home markets will be diminished by foreign competition. Trade policy must respond to their concerns as well, and some form of action constraining some imports will typically be part of that response. Free trade purists deplore this, seeing a "slippery slope" on which protection for one industry leads to protection for others. But free trade, however attractive it may be as a goal, has yet to be achieved as practical policy.

A more attainable aim has been not to avoid all import restrictions but to keep those who seek them from dominating the policy process. Through much of American history, these special interests did dominate:

2. Ibid., 285.

3. For development of this argument, see Mancur Olson, *The Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities* (New Haven, CT: Yale University Press, 1982).

4. Douglas A. Irwin, *Against the Tide: An Intellectual History of Free Trade* (Princeton, NJ: Princeton University Press, 1996).

Trade policy responded to their concerns all too well. The reason for this was highlighted in Schattschneider's book: There was a chronic political imbalance between those who benefit from trade protection and those who pay the costs.

It was an imbalance in intensity of interest and, as a result, in political organization. Producers and workers threatened by imports tend to be concentrated, organized, and ready and able to press their interests in the political arena. Those who benefit from trade are generally diffuse, and their stake in any particular trade matter is usually small.

It was also an imbalance between clear, present benefits and possible future benefits. Exporters who might profit if increased US imports allowed foreigners to buy more from us are unlikely to expend the same effort to achieve a conjectural gain as their adversaries will to preserve a current market.

Finally, it was an imbalance between those who are doing well and those who are facing trouble. Firms with expanding markets and ample profits tend to concentrate on business; their worry is that government may get in their way by placing constraints on their flexibility and their profits. It is the embattled losers in trade who go into politics to seek trade protection.

Under our Constitution, the Congress has primary responsibility for regulating "commerce with foreign nations." Congress is a decentralized institution, particularly susceptible to pressure from organized interests. So if it "does what comes naturally," if the politics of benefit-seeking and logrolling goes unimpeded, the result will be a high level of trade barriers, to the benefit of certain groups and the detriment of the nation as a whole.

For a politician who must respond to concentrated interests, a vote for lowering trade barriers is therefore, as one former official put it, an "unnatural act."[5] If he or she is to vote this way—and if Congress, more generally, is to divert or turn back the pressures for trade protection—counterweights have to be built into our policymaking system. These counterweights can be ideas, such as the view espoused by Cordell Hull, Franklin D. Roosevelt's secretary of state, that liberal trade promotes peace among nations. They can be processes: means of setting tariffs that insulate Congress from direct responsibility. They can be institutions: an executive branch agency that measures its success in terms of how well it copes with trade-restrictive pressures and thus allows international commerce to flourish.

During the years following Schattschneider's classic statement of the problem, the main story in American trade politics was the development of just such antiprotectionist counterweights, devices for diverting and

5. "Outline for Remarks by William R. Pearce, before the Committee on Foreign Relations" (Des Moines, Iowa, 11 December 1974), 6. Pearce was Deputy Special Representative for Trade Negotiations in 1972–73.

managing trade-restrictive pressures. Such devices, taken together, constituted what this book labels the "1934 system" of trade policymaking, a system that not only has opened up the US market and fueled our postwar prosperity, but also has served as a pillar of our global economic leadership. The fact that during this period the United States was pursuing, credibly and persistently if not always consistently, policies that aimed to reduce its own import barriers made it possible for this country to take the lead internationally and to press others to do likewise. Thus our domestic trade policymaking system was a necessary foundation for building an international regime of relatively open trade under the auspices of the General Agreement on Tariffs and Trade (GATT), negotiated in the late 1940s and implemented in the decades thereafter. This international trade-negotiating process was, in turn, useful in American domestic politics as an argument against trade restrictions.

Postwar trade liberalization did not institute "free trade" or anything close to it. Visible and invisible national barriers to imports remained widespread. But it did bring freer trade, contributing to an explosion in the volume of international commerce and an era of unprecedented global prosperity and growth.

The regime of freer trade had strong domestic support. The 1934 system benefited from the rise of international economic liberalism among the emerging government and business elite. During the early years of the New Deal, liberalism was simply one contending viewpoint on trade. But in the decades that followed it became the dominant viewpoint. As the world slid into war in the 1930s, and as the war was fought and won, a powerful consensus formed among the American internationalists who took the lead in postwar reconstruction. That consensus was, in important part, Wilsonian: A world open for commerce would be a world at peace. Hull espoused this view explicitly. So did the talented new leadership generation that came to Washington during and after World War II.

In this consensus, the Smoot-Hawley Tariff Act of 1930 played the same role for economic affairs that Munich played for military matters. Just as British Prime Minister Neville Chamberlain's sincere search for "peace in our time" had only strengthened those who made war, so too had congressional use of trade barriers to aid Depression-hit American producers backfired, postwar leaders believed. Other nations had retaliated, exports had plummeted even more than imports, and the world economic catastrophe helped to spawn both Adolf Hitler's Nazi regime in Germany and aggressive militarism in Japan. Only by building a more open world could we prevent the sort of mutually destructive, beggar-thy-neighbor competition that had produced national economic disaster and international bloodshed. This meant reducing barriers to trade, and to cross-border economic transactions in general. And in the first two postwar decades, as Judith Goldstein has written, success confirmed the liberal ideology, just as the Great Depression had discredited protectionism.[6]

Public opinion polls underscored this elite support. When the Gallup organization, in June 1953, asked "a cross-section of people listed in Who's Who in America" whether they would "favor lowering tariffs from their present level," 67 percent said yes and only 11 percent expressed opposition. There were still prominent people in Washington in the 1940s and 1950s who called themselves "protectionists," just as there were still "isolationists," but they were on the defensive, politically and ideologically.

"Free trade" was never especially popular among the mass public. When Gallup polled citizens in the 1940s and 1950s about whether they favored higher or lower tariffs, a plurality did back the latter. But when a 1953 Roper poll inquired, "Would you rather see this country import more goods from foreign countries than we do, or put more restrictions on goods imported into this country from abroad," 37 percent opted for restrictions and only 26 percent for the goods.[7] What really mattered, however, was that trade was not high on the list of public concerns. So governmental leaders had the leeway to press the policies they felt were needed.

Liberal trade policies were further buttressed by a concern that was at the top of almost everyone's list: countering the threat of communism. Military alliances with Western Europe and Japan became the prime US instrument for containing the Soviet Union and the People's Republic of China.

Both the internal stability and the external alignment of our allies depended importantly on their economic recovery and prosperity. The United States provided massive aid to facilitate this recovery, permitting recipients to buy needed capital goods in the American market. But our allies' return to self-sufficiency also depended on their ability to sell in our market. To make this possible, not only did the United States grant market access, following the general nondiscriminatory trade rules of the newly established GATT regime, but it also acquiesced in substantial de facto discrimination against itself—in the maintenance of import and exchange controls while these countries recovered, and thereafter in the formation of a common market in Western Europe.

Such one-sided concessions were relatively painless for the United States because in the years following World War II, the American economy dominated the world as never before or since. It was competitive in all major industrial sectors. It was prosperous, as the anticipated postwar

6. Judith Goldstein, "Ideas, Institutions, and American Trade Policy," *International Organization* 42, no. 1 (Winter 1988): especially 187–88.

7. Raymond A. Bauer, Ithiel de Sola Pool, and Lewis Anthony Dexter, *American Business and Public Policy: The Politics of Foreign Trade* (Chicago: Aldine-Atherton, 1972), 85.

depression never arrived. It was insulated, with merchandise imports totaling, prior to 1960, only about 3 percent of its gross national product. And finally, exchange rate stability avoided one source of trade risk that would become important in later years.

All of these factors—the "lesson" of Smoot-Hawley, the Cold War imperative, US economic predominance, and prosperity—contributed to one crucial underpinning of the 1934 system: the fact that trade barriers were not a major source of conflict between the Republican and Democratic parties during the postwar period.

This was emphatically not the case in earlier decades. Before 1932, Republicans had used their support of the tariff to help build the broad business backing that made them the dominant party. In the early years of the Franklin Roosevelt administration, almost all Republicans opposed trade-liberalizing legislation, while the great majority of Democrats were in favor. But by the end of World War II, the business community had become less protectionist, and partisan trade divisions were waning. In the quarter century thereafter, neither party while out of office singled out trade policy as a primary point of difference with the administration in power.

This meant there could be continuity across administrations. Presidents, regardless of party, could champion liberal trade, for both foreign and domestic policy reasons. This White House support was a key to making the system work.

Such was the broad political and policy context within which American trade policy institutions developed and evolved. This system remained largely intact through the 1960s. Over the next two decades, however, it was buffeted from two sides: by economic changes that increased protectionist pressures, and by political changes that weakened the institutions erected to combat them.

The primary political change was the opening up of American political institutions. Reform in Congress, for example, made it more democratic, more responsive to the initiatives of individual members, and less capable of resisting the demands of special interests. Prominent among these interests, as ever, were elements of business and labor seeking protection from "foreign imports."

The economic changes came in three broad forms. First was the internationalization of the US economy, which placed unprecedented import pressure on US producers. Second was the relative economic decline of the United States, real and perceived, vis-à-vis its advanced industrial counterparts, particularly Japan. Third was the rapid rise of the US trade deficit in the 1980s.

With the internationalization of the American economy, trade doubled as a share of total US output of goods. This exposed more and more firms and workers to foreign competition, increasing the number of "trade losers" to whom officials would have to respond.

American anxiety about foreign competition grew as the relative position of the United States declined. The striking success of nations like Japan sowed seeds of doubt about liberal doctrine. Here was a nation that seemed committed to a "mercantilist" trade strategy, pushing exports and discouraging imports, and doing very well indeed. Other rising East Asian newly industrialized countries—Korea and Taiwan, in particular—appeared to be following Japan's example. Might they know something the United States didn't?

In this environment, many Americans became skeptical about the liberal image of a world growing more and more open, governed increasingly by common rules of nondiscrimination in trade. What they came to see was an "unfair" world where other nations played loose with the rules and "nice guys" were likely to finish last.

Compounding these problems in the early and mid-1980s was the remarkable and unanticipated rise in the international value of the US dollar. It went up 70 percent within five years, to a level 40 percent above that at which US firms were broadly competitive, before beginning to decline in 1985. The strong dollar might be good for Americans traveling abroad, but for producers it was equivalent to a 40 percent tax on exports and a 40 percent subsidy to competing imports. Foreign goods poured in as never before, and the United States suddenly faced a trade imbalance without parallel in its modern history. Imports rose to more than 50 percent above exports, and the US trade deficit swelled beyond $100 billion and kept growing. In response, restrictions on imports increased, their legitimacy grew, and protectionist proposals proliferated. The dollar's subsequent decline brought some relief for producers fighting imports and triggered a surge in American exports. But the rapid rise and slow decline of the trade imbalance left a legacy of skepticism and frustration about the benefits of liberal trade.

These political and economic changes put an enormous strain on the 1934 trade policymaking system. It eroded. It bent. But despite the fears of many, it did not break. Chapters 3 through 8 tell the story of how the system adapted to a radically different world, and how this period—1971 through 1994—ended in triumph with the creation of the North American Free Trade Agreement (NAFTA) and the World Trade Organization (WTO). The ensuing resurgence of the US economy, moreover, reestablished global US economic primacy and brought new prosperity to Americans.

Yet US trade policy was hardly home free. Chapters 9 through 11 show how globalization weakened traditional protectionism but also raised concerns about the cross-border impacts of trade, particularly on nations' labor and environmental standards. Dispute over these issues fueled a broader backlash against globalization, and led directly to President Bill Clinton's failure to win renewal of the fast-track trade negotiating authority Congress had granted to his four predecessors. Under President

George W. Bush a new threat came to the fore—bitter political polarization between Republicans and Democrats in the US House of Representatives. This broke the longstanding pattern of bipartisan trade cooperation in the key trade committee, Ways and Means, such that the 215 to 214 vote in 2001 giving the president trade negotiating authority was the closest ever, and the most partisan since the 1930s.

Such a narrow mandate has weakened US capacity to pursue liberal trade policies at home, and undercut US policy leadership abroad. So have the record-breaking trade deficits that have ballooned in the new millennium. By 2005, the newly reelected Bush administration faced a daunting set of trade challenges: unfinished global and regional negotiations; negotiating authority up for Congressional renewal; several WTO findings against US trade law and practice requiring implementation by a skeptical Congress; continuing polarization on Capitol Hill; and a public anxious over job losses and seeing trade as a prominent reason for them.

How should Americans respond? This book will conclude with comprehensive and indeed ambitious prescriptions. But first it will examine in detail how our trade policymaking system has worked over the years, and how it has changed in response to evolving pressures and needs.

Hence this book begins its analysis by setting forth the main features of the "1934 system" for managing trade pressures as that system evolved in the decades since that year's epochal legislation. Subsequent chapters focus on changes in the primary institutions and processes that deal with the politics of trade (Congress, the executive branch, quasi-judicial procedures); changes in the broader economic and political environment; and how US policymakers concluded a particularly challenging trade policy epoch with establishment of NAFTA and the WTO. We then turn our attention to major changes in American trade politics since 1994, setting the stage for a final chapter that reflects on what all this means and what might be done about it.