RESEARCH SEMINAR IN INTERNATIONAL ECONOMICS

School of Public Policy
University of Michigan
Ann Arbor, Michigan 48109-1220

Discussion Paper No. 399

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to
Representation of Constituent Interests in the Design and Implementation of U.S. Trade Policies: The Sweetland Conference

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May 28, 1997

ABSTRACT

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to
Representation of Constituent Interests in the Design and Implementation of U.S. Trade Policies: The Sweetland Conference

Alan V. Deardorff and Robert M. Stern

The University of Michigan

This chapter introduces the proceedings of a conferences held on November 8-9, 1996, in Ann Arbor, MI, honoring John Sweetland and his late wife, Gayle, for the generous gift commitments that they have made to the Michigan Department of Economics. The academic purpose of the conference was to examine how constituent interests in the private sector, non-profit sector, and government interact to determine United States international trade policy. The conference brought together authors and discussants from academic institutions, the private sector, and the Ways and Means Committee of the U.S. House of Representatives. In setting forth the aims of the conference, those involved were asked in particular to address: (1) the objectives of trade policy sought by the various interest groups who were the subject of their paper or comments; (2) how each group's interests are identified and promoted and what means are used for these purposes; (3) the extent to which the objectives and behavior of each group conform to how the political economy of trade policy is treated in the economics and political science literatures; and (4) how effective each group has been in achieving its objectives.

Chapter 1 of *Representation of Constituent Interests in the Design and Implementation of U.S. Trade Policies: The Sweetland Conference*, Alan V. Deardorff and Robert M. Stern, eds., proceedings of a conference sponsored by Department of Economics and School of Public Policy,
University of Michigan, Ann Arbor, MI, November 8-9, 1996.

Keywords: Political Economy of Trade

JEL Subject Code: F13 Trade Policy

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CHAPTER 1

INTRODUCTION

Alan V. Deardorff and Robert M. Stern

This volume contains the papers and comments that were commissioned for a conference on **Representation of Constituent Interests in the Design and Implementation of U.S. Trade Policies: The Sweetland Conference**, which was held in Ann Arbor on November 8-9, 1996. This conference served a dual purpose. First, it helped us to sharpen the focus of an ongoing project of research and policy outreach on issues of the political economy of U.S. international trade policies, in connection with a grant received from the Ford Foundation. At the same time and more important, it allowed us to honor John Sweetland and his late wife, Gayle, for the generous gift commitments that they have made to the Michigan Department of Economics. These include an endowed chair in international economics and three additional endowed chairs and related financial assistance for graduate and undergraduate students.

The conference authors and discussants were drawn from academic institutions, the private sector, and the Ways and Means Committee of the U.S. House of Representatives. In setting forth the aims of the conference, those involved were asked in particular to address: (1) the objectives of trade policy sought by the various interest groups who were the subject of their paper or comments; (2) how each group's interests are identified and promoted and what means are used for these purposes; (3) the extent to which the objectives and behavior of each group conform to how the political economy of trade policy is treated in the economics and political science literatures; and (4) how effective each group has been in achieving its objectives. To assist participants who were not conversant with the literature on the political economy of trade policy, we provided them with the introductory and concluding chapters of the 1996 book edited by Anne O. Krueger, *The Political Economy of American Trade Policy*, as well as a chapter on the "Political Economy of Trade Policy," by Dani Rodrik that was published in 1995 in Volume III of the *Handbook of International Economics*. While these chapters were aimed especially at an academic audience, they nonetheless provided an indication to the nonacademic participants of many of the important aspects and limitations of the manner in which the political economy of trade policy has been modeled theoretically and empirically. These chapters also contained many useful bibliographic references.

The individual conference papers were revised following the conference to take into account the comments of the discussants as well as points raised during the floor discussion. It was decided to include the discussants' comments as they were originally prepared based on the conference versions of the papers, in order to capture the concerns and criticisms raised by discussants in the conference sessions. We trust that readers will find the comments interesting and informative in their own right and useful supplements to the individual papers.

To assist the reader in determining which chapters may be of greatest interest, we provide brief summaries in Section I that follows. Then, in Section II, we reflect on what we have learned from the papers and commentaries about how constituent groups may influence the design and implementation of U.S. trade policies.

I. Structure and Overview of the Volume

The keynote speech delivered by John W. Sweetland in the evening of the first day of the conference has been reproduced above. In this speech, Mr. Sweetland talked about his undergraduate and graduate experiences at the University of Michigan and the personal considerations that he had in mind in designating the endowed chairs to be established in international economics, industrial organization, macroeconomics, and one additional field to be determined. He also spoke at length about the importance of the public university in U.S. society.

Following this introductory chapter, **Chapter 2** by Alan V. Deardorff and Robert M. Stern provides **An Overview of the Modeling of the Choices and Consequences of U.S. Trade Policies**. Deardorff and Stern review the normative and political economy approaches to the modeling of trade policies and identify the major limitations of these approaches. They then discuss the *transaction-cost approach* developed by Avinash Dixit in his 1996 book, which may provide a middle ground between the other approaches and enable some hitherto imperfectly understood issues of trade policy to be addressed. After discussing briefly the empirical literature relating to the normative and political economy approaches, they provide a sketch of the main features of the U.S. trade-policy process, focusing in particular on the roles played by the agencies of government together with the important constituent interest groups in the U.S. economy. They then consider how each of the modeling approaches can be interpreted in its representation of the behavior and interaction of these constituencies. Setting modeling issues aside, they also ask what can be learned from the past half-century of U.S. trade-policy experiences and conclude that there has been a distinctive movement towards more liberal and open trade in the United States and elsewhere. In their concluding remarks, they discuss the implications of the interplay of the different modeling approaches for research and policy in light of their observation about the ways in which trade liberalization and increased openness have evolved.

In his commentary on the Deardorff and Stern paper, Gene Grossman expresses his agreement on the limitations of the political economy literature, especially since there are many trade-policy phenomena that remained unexplained and there is not much guidance offered on the choice of policies. He notes that there is a need to pay greater attention to identifying the important agents and constituent interest groups involved in the trade policy process and the factors shaping their behavior as well as the existing institutional and informational constraints. Grossman suggests that more attention should be devoted to determining why trade policies rather than other policies tend to be used, how the patterns of trade policy and sectoral protection change over time, and how different constituent interest groups use the policy process to attain their objectives. He takes issue with Deardorff and Stern's characterization of the transaction-cost model as middle ground between the normative and political economy approaches. In his view, what is needed are better political economy models that pay greater attention especially to the political environment and that point the way to more effective design of the institutions and rules of trade policy.

Part II of the volume deals with **The Context of U.S. Trade Policies**. The paper by Robert E. Baldwin in Chapter 3 discusses **U.S. Trade Policies: The Role of the Executive Branch**. Baldwin first surveys the models that economists and political scientists have used to analyze the making of trade policy, noting that these models typically do not distinguish between the roles and interactions of the President and the Congress. On the basis of the observation that Congress has delegated much of its traditional authority over trade issues to the President since the 1930s, he then proceeds to develop a game-theoretic model in which the President favors increased trade liberalization and has certain foreign policy objectives in mind, while Congress is more inclined towards granting import protection or seeking greater access to foreign markets. In this model, the President is assumed to have a "first-mover" advantage, in which case his actions can result in a more favorable outcome for both the Congress and the President than would otherwise be the case. Baldwin reviews the presidential roles in trade policy since the 1950s and notes that the success or failure realized depends importantly on whether or not the President has taken a leadership role in undertaking trade-policy initiatives. Thus, when presidential leadership is weak or absent, the Congress will play a stronger role with much less favorable outcomes because of its protectionist orientation. He also notes that most Presidents typically place great importance on achieving foreign policy objectives by means of trade policies.

In his commentary on Baldwin's paper, Geza Feketekuty notes that the bargaining process between the President and the Congress should be characterized in dynamic terms insofar as both participants can alter the process and shape the policy agenda. Furthermore, he points out that the process may be different before trade negotiations begin and at their conclusion, and that foreign interests may be especially important in the concluding phase. Feketekuty also notes that Baldwin may underplay the attention given by policymakers to consumer interests in the negotiating process and to the importance attached to expanding U.S. exports. Finally, he takes issue with Baldwin, arguing that the availability of fast-track negotiating authority enhances presidential power rather than limiting it.

In **Chapter 4**, I.M. (Mac) Destler discusses **Congress, Constituencies, and U.S. Trade Policy**. He focuses on the overall role that the Congress has played in trade policy and how this affected constituent interests. His basic premise is that since the 1930s the Congress has in effect delegated primary responsibility for trade policy to the President and to administrative bodies such as the U.S. International Trade Commission. This is in contrast to Baldwin's views expressed in Chapter 3 that there is an interaction between the President and the Congress on trade matters, and that it is important that the President take the leadership initiative to ensure realization of the benefits from trade liberalization. While Destler does not deny that Congress can and does in fact at times influence the trade-policy agenda, he argues that there is more show than substance involved. Destler views members of Congress as not seeking power in making trade policy. Rather, it is more important for members of Congress to maintain and enhance their political standing at home and in Washington. What matters then is taking more general positions on trade issues and not necessarily catering to the narrow interests of particular constituencies in the districts and states. The outcome of this process is that, since the President is more inclined to favor trade liberalization, constituent interests seeking special treatment end up with much less than they would have obtained if Congress had not delegated much of its authority over trade issues. Destler identifies four conditions that will facilitate achievement of the benefits of trade liberalization: (1) presidential priority to trade expansion; (2) bipartisan support; (3) close executive-congressional working relations in support of open trade policy; and (4) broad support for free trade as the guiding principle for trade policy. In considering the outlook for trade policy in the second Clinton Administration, Destler believes that the conditions just mentioned will be largely fulfilled and that further trade liberalization will be achieved. He notes, however, that concerns over trade and the environment and the impact of trade on wage inequality could dampen the pace of liberalization.

In his commentary, Richard L. Hall notes that Destler has attempted to reconcile the protectionist impulses of Congressmen with the apparent disregard of constituent interests represented by Congressional approval of continuous movement towards freer trade in the past several decades. Hall characterizes the major assumptions made by Destler as follows: (1) members of Congress are self-interested, not ideological; (2) self-interest takes the simple form of electoral self-interest; (3) electorally self-regarding Congressional members will cater to their homogeneous "high-demand" constituencies; (4) the stronger the industry presence in a state or district, the more responsive will Congressional members be; and (5) the members will then respond to constituent interests by voting to support protectionist policies. However, according to Hall, the evidence suggests that high demand constituencies have not received the protection from Congress that they might want. He suggests that Destler has mischaracterized constituent interest groups by treating them as high demand constituencies rather than being heterogeneous in their preferences. Hall gives an example of how different constituencies in an electoral district may have different preferences as concerns protection or freer trade, and he argues that members of Congress will then have to take these differences into account in their legislative behavior. Looked at in this way, he maintains that it makes the supposed Congressional abdication of trade policy that Destler notes more understandable. It may not be surprising therefore to observe U.S. trade policies becoming more liberal over time in individual sectors when heterogeneous preferences are taken into consideration. Hall suggests further that there is a need to rethink the ways in which legislators respond to group interests. He points out that protectionist-minded groups tend to contribute more heavily to representatives who have the *strongest* predispositions toward protectionism. There is also a tendency to contribute most heavily to the electorally safest members. While this type of constituent-group behavior may appear to be irrational, it can be understood by taking into account that groups are primarily interested in mobilizing supportive legislators to work as agents on the group's behalf. That is, groups seek legislative participation from representatives on issues that affect the group interests, rather than seeking votes on measures as such. Of course, as Hall notes, legislators are responsive to group interests and to the associated political benefits involved, but lobbying activity consists mainly of providing information and helping to reduce the transactions costs that legislators face. Lobbying then is by no means simply an effort to buy votes. Hall's emphasis on heterogeneous preferences of constituents and the practices of legislators in the ways in which they represent their constituents are considerations that need to be addressed in the future modeling of the political economy of trade policy.

Part III of the volume is devoted to a series of sectoral papers that consider the trade-policy interests of industry and labor. The sectors include: automobiles; steel; textiles and apparel; semiconductors; aircraft; and financial services. These are by no means the only sectors that play important roles in the trade-policy process, but they nevertheless are illustrative of how sectoral interests make their influence felt and what the results have been in recent decades.

In **Chapter 5**, G. Mustafa Mohatarem addresses **Trade Policy and the U.S. Auto Industry: Intended and Unintended Consequences**. He provides a brief discussion of the basic economics of the auto industry, stressing the size of the firms, the number of workers employed directly and indirectly in the industry, the very large capital requirements and associated economies of scale, the importance of consumer expenditures on autos, and the high political visibility of the industry. Until the mid-1970s, the presumption was that the U.S. auto industry did not require trade protection. But pressures for government assistance from the Big Three and the United Auto Workers heightened dramatically in the face of the successive oil shocks of the 1970s and the recession in 1981-82. It is well known that a Voluntary Restraint Agreement (VRA) limiting auto imports from Japan was introduced in 1981, and it remained in place until 1994, even though it had become nonbinding several years earlier. Industry profitability increased significantly during the 1980s, but, what was not fully anticipated, the VRA led to sizable inflows of foreign direct investment and start-up of Japanese auto transplants, which tended to undermine the protective aspects of the VRA as these transplants were able to operate on a highly cost-efficient basis in the United States. This in turn has provided the transplants with an important political voice in U.S. trade policy, making it unlikely that U.S. auto firms could hope to achieve the kind of trade protection in the future that they had achieved during the 1980s. Mohatarem notes further that developing countries seeking to expand their domestic auto industries by means of protective measures are best advised to protect domestic production rather than specific companies. His view of the VRA is that it gave the Big Three breathing space and thus alleviated the otherwise serious adjustment costs that might have occurred if the industry had been left unprotected.

Chapter 6 by Douglas A. Brook deals with **Steel: Trade Policy in a Changed Environment**. Brook focuses on the role that the large integrated steel companies have played in the U.S. trade-policy process. These companies have been concerned in particular with the use of subsidies by foreign steel producers and alleged dumping in the U.S. market and with the use of U.S. trade-law remedies to deal with what is regarded as "unfair" trade practices by foreign suppliers. He describes the highly pro-active role of the different industry groups and associations that have been formed to deal with trade-related issues. He also reviews the trade policy experiences of the steel industry in the light of the political economy models of trade policy and associated empirical studies cited in works by Rodrik (1995) and Krueger (1996). He concludes that there are some issues deserving of further study, including the extent to which the steel VRAs helped the integrated producers through difficult times, how the changing structure of the industry has affected the unanimity of the industry's positions on trade issues, and the reasons why the industry has been able to maintain a powerful voice in Washington. As was also seen in the case of the U.S. auto industry, the steel industry has entered an era in which it cannot look to the policy authorities for trade protection as in the past. But so long as it is perceived that there is still widespread use of subsidies abroad and world overcapacity, continuing efforts will be made to use the U.S. trade remedy laws to "level the playing field." At the same time, since the restructured U.S. industry has become more competitive globally, greater attention will be given to policy measures designed to provide greater foreign market access.

In **Chapter 7**, **U.S. Trade Policies for the Textile and Apparel Industries: The Political Economy of the Post-MFA Environment**, Robert E. Scott points out that textiles and apparel have received more and persistent trade protection over a long period of time in comparison to any other U.S. manufacturing sector. However, this protection has been increasingly porous, and there has been a decline in and divergence of interests between the two sectors as textile producers have become more efficient and have turned more and more to export markets. There has also been an increase in the power of apparel retailers that has made interests even more divergent. The declining influence of Southern Democrats and the importance of the industry in the South may account for the loss of influence of apparel producers especially. Scott argues that the market power of apparel retailers has grown significantly, making it possible for these firms to capture monopsony rents. As a consequence, he points out that the removal of protection would redound especially to the apparel retailers' benefit rather than to consumers. Scott is critical of the failure of the NAFTA to improve the positions of the textile and apparel industries because of how U.S.-Mexico bilateral trade has responded to the peso depreciation. Finally, he calls attention to issues of labor rights and labor standards in the United States and abroad. It is interesting that the decline of the U.S. textile/apparel industries and the increased divergence of interests parallels what has been observed in the ability of other major U.S. manufacturing sectors to mobilize support for continued trade protection.

Douglas Irwin points out in **Chapter 8**, **The Representation of Economic Interests in U.S. Semiconductor Trade Policy**, that this industry does not conform to the behavior of import-competing industries such as those treated in the preceding chapters. The main concern rather has been in taking actions to open Japan's market to U.S. semiconductor producers. There have nonetheless been pressures as well to deal with alleged dumping of memory chips by Japanese firms in the U.S. market. The U.S. semiconductor industry is a high fixed-, low marginal-cost industry, is subject to volatile market conditions and profitability, and engages significantly in R&D. The Semiconductor Industry Association (SIA), which was formed in 1977, serves as the focal point for the trade-policy activities of the industry, although it hardly speaks with one voice since the interests of so-called merchant and captive firms may not coincide and there may be significant product specialization between firms. Labor in the industry is not particularly active since there is relatively high interfirm mobility of workers. The first Semiconductor trade arrangement was concluded in 1986, and it involved Japan’s agreement to end dumping in the U.S. market and in third markets and to improve access of U.S. semiconductor producers to Japan’s domestic market and to back this up with attainment of a set market-share target. The Semiconductor Agreement was extended in 1991 for an additional five years, although without dumping provisions but with continuation of the 20 percent Japanese domestic market-share target. By 1996, the U.S. market share reached 30 percent, so that when it came time to consider extending the Agreement once again, it was decided not to do so and instead to establish a more informal arrangement to deal with disputes and share information among producers. Irwin notes how important the pressures exerted by a small number of firms were and how the U.S. policy authorities accommodated these interests. But it turned out that downstream user industries were able to mobilize and to offset the more protectionist influences in the industry. And again, we now see that this industry has evolved to the point where it exercises comparatively little influence on U.S. trade policies.

In **Chapter 9**, **U.S. Trade Policy vis-a-vis the Aircraft Industry**, Raymond J. Waldmann and Jay Culbert note that The Boeing Company's global market share has dropped from 90% to 70% in the past two decades due in large measure to government-supported foreign competitors, in particular Airbus. They discuss four examples in which Boeing has been involved in seeking to shape U.S. trade policies: (1) the 1979 GATT Aircraft Code; (2) the 1992 U.S.-EC Bilateral; (3) the Uruguay Round Negotiations; and (4) the OECD agreement to limit official export financing. The U.S. position on the GATT Aircraft Code during the Tokyo Round was formulated in large measure by the Aerospace Industries Association and the Aerospace Industry Sector Advisory Committee, and it was communicated to the Office of the U.S. Trade Representative. It resulted in multilateral removal of tariffs on aircraft and a variety of strictures on government support. Boeing was also active in seeking to broaden and improve the Aircraft Code in the

Uruguay Round. Because of concern that the Aircraft Code was not working well, especially because of continuing subsidies provided for Airbus, bilateral discussions with the Airbus governments were initiated. There was also consideration of taking more direct action under Section 301 as well as in the GATT. This culminated in the 1992 bilateral agreement that was designed to reduce Airbus subsidies and other inducements. In the Uruguay Round, the industry position was that the GATT Subsidies Code should be applied to civil aircraft, and the European Union finally agreed to this with some qualifications. These actions thus demonstrate how, in Boeing's view, it has been instrumental in "leveling the playing field." In contrast to the other industry sectors considered in the preceding chapters, the U.S. aircraft industry's influence on U.S. trade policy appears to have been at its greatest in recent years.

Chapter 10, by Harry L. Freeman, deals with **The Role of Constituents in U.S. Policy Development Towards Trade in Financial Services**. Freeman describes in particular the initial impetus in the 1970s for including services in the Tokyo Round negotiations and subsequent efforts led by American Express, the American International Group, and other service providers to include services in the Uruguay Round negotiations that started in 1986. He notes that negotiations on financial services were not concluded in the Uruguay Round because the United States was dissatisfied with the liberalization commitments that other countries were prepared to make. Negotiations were resumed in 1995, but the United States remained disappointed especially in what some of the major developing countries were prepared to offer, with the result that the negotiations were suspended. The European Union and Japan were anxious to keep the financial sector negotiations going, and they worked out an agreement with the United States for a two-tier arrangement that would involve reciprocal liberalization for those countries that agreed to make commitments but would withhold liberalization and therefore most-favored-nation (MFN) treatment of financial services for those countries not prepared to make commitments. The deadline for negotiations was then extended until the end of calendar 1997. Freeman discusses the factors that are likely to come into play from the standpoint of the major countries involved and the role of private sector providers of financial services. He predicts that some type of tiered arrangement is the most likely outcome.

In his commentary on the sectoral papers, James A. Levinsohn notes how much we can learn about trade policy issues from industry specialists. He calls attention to Mohatarem's points that an unintended consequence of the auto VER was that it was undermined by Japanese investment in U.S. transplants, and that comparative advantage in today's setting may be company- rather than country-specific. While acknowledging many of the limitations of the political economy models discussed by Brook, Levinsohn stresses that the simplifications and rigor of modeling are nonetheless important to careful analysis. Levinsohn also questions Brook's characterization of the notions of fairly priced steel imports and excess capacity in the industry insofar as it downplays the relatively low prices that benefit users of steel. Levinsohn calls attention finally in Scott's paper to the split between the textile and apparel sector support on issues of trade liberalization and protection and how this sector has declined in importance. But Levinsohn questions Scott's negative interpretation of how NAFTA has affected the industry, and suggests that issues of foreign labor standards require more extensive discussion than was possible in Scott's brief paper.

In his commentary, Gary R. Saxonhouse remarks that too little attention appears to be given to U.S. trade policies designed to benefit export industries. Certainly, the experiences of Boeing and American Express are instructive in their ability to influence U.S. trade policies in ways that furthered their corporate objectives in foreign markets. Also, the fact that the Semiconductor Industry Association had effective veto power over the bilateral agreement with Japan is further testimony to the powerful role that U.S. export interests have played in designing trade policies. Saxonhouse suggests that these foreign market-access activities may, in part, have been intended strategically to forestall further foreign entry into the U.S market. In any case, the experiences of these three sectors suggests that export promotion may be as common as import protection. What remains to be explained in cases like these is how these sectors were able to exercise such influence on the trade-policy process.

Part IV of the volume deals with a variety of other constituencies and issues pertinent to U.S. trade policies. These include: trade policy and the environment; trade and human rights; trade law and trade policy; and trade policy and the media.

Daniel C. Esty discusses **Environmentalists and Trade Policymaking** in **Chapter 11**. He notes the relatively recent role that environmental groups have come to play in trying to influence trade policy and the resistance that these groups have encountered. Two events, the NAFTA and the 1991 GATT tuna-dolphin decision, brought issues of trade and the environment to the fore. The environmental groups were split on NAFTA, and the pro-NAFTA groups were instrumental in shaping the negotiating process to include special environmental provisions in the Agreement and in reinforcing the NAFTA commitment through negotiation of the Environmental Side Agreement. It is thus evident that environmental groups want safeguards to serve environmentally-sound ends. Esty raises more generally the question of what role the environmental groups should play in the trading system, particularly with reference to the WTO. He discusses a number of objections to such involvement, especially that environmental groups may represent special interests and interfere with the pursuit of trade liberalization, and that they may possibly disrupt the intergovernmental process and procedures on which the WTO is based. But he points out that it is unlikely that environmental groups would be unduly influential since they would be part of a diverse set of lobbying interests in any case, and that many of these groups are acting in the public interest. He further notes that providing access for environmental groups to WTO investigation procedures would serve to enhance the availability of information and encourage fruitful international dialogue. Some concern has been expressed that the proliferation of environmental groups could be disruptive and that it could be difficult to determine which groups should be invited to participate in the trade policy process. But he suggests that this might not be so serious since the quality of work that different groups do would become evident, and that environmental groups would have to contend with other constituencies especially from the business community. He cites here the way that the USTR opened the policy process to environmental groups in the NAFTA debate with generally positive results. The economic case for involving environmental groups in the trade policy process stems from the importance of transboundary and global externalities that reflect possible market failures. These groups can provide needed information and analysis designed to address these concerns. The political case rests on expanding the idea of global society to encompass non-governmental voices, inform public opinion, and improve the quality of WTO deliberations and decisions by introducing greater transparency.

In his commentary, Richard C. Porter recognizes the importance of environmental concerns, but he questions whether environmental groups should play a role in the WTO because it is intended to be an intergovernmental organization. Porter argues that it is production or consumption that causes environmental externalities, not trade per se, and that domestic tax/subsidies represent the optimal government policies, not trade sanctions. Porter cites the Montreal Protocol that was designed to reduce the environmental damage caused by CFCs by focusing directly on activities using CFCs and providing assistance to developing countries to make the transition to reduce their use of CFCs. The focus was thus on getting national governments to take effective action. In his view, accordingly, there is no need to include the representation of environmental groups in the WTO. Their proper role is at the national level.

T.N. Srinivasan addresses issues of **Trade and Human Rights** in **Chapter 12**. He points out that these issues have received a great deal of attention in political discourse and policy in the United States and elsewhere in recent years. Labor standards raise all of the important economic, moral, philosophical, and political problems involved in using trade policy as a means to enforce human rights, and they are accordingly the focus of Srinivasan's paper. He takes issue with the sweeping claims that have been made of the universality and eternity of certain *core* labor standards, often without regard to the diversity in the content and scope of labor standards for countries at different stages of development. Further, he points out that, while most nations have signed and ratified a set of covenants that go beyond the core labor standards, it appears that almost none of the rights involved are satisfied in reality. With regard to the concern in high income countries about labor standards in developing countries, Srinivasan suggests that, if the concern is really serious, the high income countries might consider relaxing their immigration restrictions or making income transfers to workers and to families in poor countries, especially when it is desired to reduce reliance on child labor. This would be far better than using trade sanctions to enforce higher labor standards. In considering the economic issues involved, Srinivasan shows formally that diversity in labor standards is legitimate and consistent with the case to be made for gainful trade based on comparative advantage. It is granted that there may be situations in which low labor standards can be considered as a market failure, and, if so, the optimal policy is some domestic tax/subsidy arrangement rather than trade policy. Srinivasan is especially critical of a proposal by Dani Rodrik and empirical work by Alan Krueger that seek to establish a rationale for using trade policy to enforce labor standards. He also cites the conclusions of other empirical research that suggests that labor standards play no significant role in shaping national trade performance or attracting foreign direct investment. Srinivasan considers whether issues of labor standards are best dealt with by the International Labor Organization (ILO) or the WTO. He favors using the ILO since it is the organization that was originally created to deal with these issues and not the WTO because this would involve the use of trade sanctions. Finally, he is critical of the inclusion of labor standards in bilateral, plurilateral, and regional trade agreements since they may not be in the interest of developing countries.

In his commentary, Robert Pahre notes that the acceptability of moral arguments for universal labor standards tends to change over time. He also points out that there are serious problems in using immigration policies and international transfers to deal with labor standards. A central point in Srinivasan's argument is that presumably altruistic motivations for achieving higher labor standards may be *hijacked* by protectionists. While there is no compelling empirical evidence that labor standards are in fact hijacked, there is nevertheless some scope for analyzing hijacking when policy makers are considering the use of coercive sanctions to enforce higher standards. The outcome of his analysis depends on the size of the human rights and protectionist lobbies and whether there is complete or incomplete information available.

Richard O. Cunningham in **Chapter 13, Trade Law and Trade Policy: The Advocate's Perspective**, takes issue with the central premise of the political economy view of trade policy that trade policy is politically determined. Rather, from the standpoint of the international trade law practitioner, the investigation for and the granting of import relief reflects responses to well established legal definitions and procedures that may justify such relief. He asserts that domestic political pressures rarely affect the outcome. The same applies to cases involving foreign market access. The trade lawyer is in effect then to be viewed as an advocate, not a policymaker. Based on this perspective, Cunningham explores three types of trade cases: (1) antidumping and countervailing duties; (2) discretionary import relief under the escape clause, market disruption, and the national security amendment; and (3) unfair foreign trading practices. With respect to antidumping and countervailing duties, he notes that these relate to the effort to redress unfair trading practices that have long been acknowledged to exist and that require correction. While acknowledging that the administration of the unfair trade procedures is subject to interpretation by the Department of Commerce and the International Trade Commission (ITC) and that there are examples of powerful sectoral interests that have been granted protection, Cunningham maintains that most of the cases are brought by relatively small industries who typically lack any significant ability to exert political pressure. Moreover, the political makeup of the ITC Commissioners will prevent any predisposition in deciding the investigations, and Congressional oversight of the Department of Commerce will help to insure that the unfair trade laws are vigorously enforced. These remain matters of law and interpretation rather than trade policy as such. But he does discuss two exceptions that reflect the intrusion of policy: (1) how to assess countervailable subsidies for nationally owned industries that have been privatized as in the case of steel; and (2) imports of softwood lumber from Canada. Nonetheless, what strikes Cunningham is how difficult it was for the domestic interests to affect the outcome in these cases. He also notes that policy considerations may enter in the settlement of cases especially when there appears to be some overriding political or diplomatic imperative and the petitioning U.S. industry agrees to the outcome. The examples he cites include: (1) the 1986 and 1996 settlements of the Canadian softwood lumber cases; (2) the 1978 Trigger Price Mechanism for steel imports; and (3) antidumping investigations of uranium imports from Russia and other former Soviet republics. Discretionary import relief cases involve rarely used derogations from the principle of "free but fair" trade, and domestic political forces seldom enter into the deliberations and decisions. In connection with the escape clause, he reviews the Harley-Davidson case as an example of the way in which the escape clause is designed to work to bring about a successful adjustment assisted by temporary protection. On the other hand, neither the steel nor copper industries succeeded in obtaining escape relief in their 1984 petitions despite the political importance of these industries. He notes that the national security amendment and market disruption law are of little practical importance given the end of the "cold war." In recent years, there have been more actions designed to deal with alleged unfair trade practices in foreign markets. These actions differ from import relief petitions since the U.S. Government may not necessarily be in a position to resolve the situation unilaterally and there is no effective control over other actions that a foreign government might take to counteract any constraints imposed on its policies. It is also now the case that the WTO may come to play a more important role in these types of disputes. Cunningham argues nonetheless that some important successes have been achieved by industry interests that have promoted Section 301 actions against alleged unfair foreign government practices. Cunningham's overall conclusion is that raw political power is seldom used to affect trade policy outcomes.

In his commentary, John D. Greenwald agrees with Cunningham that in most cases constituent political interests have no particular bearing on the outcome of a trade law case. In cases that do become politicized, what matters is the effectiveness of the means chosen to pursue the action rather than political muscle. Greenwald seeks to expand Cunningham's paper to emphasize: (1) the influence of foreign governments on U.S. trade policies; (2) the role and influence of bureaucratic and agency interest in decision making; (3) the process and forces that shape the provisions of U.S. trade law; and (4) the central role of trade law in U.S. trade policy. Greenwald notes that since the Japanese auto VRA in 1981 almost all industry-motivated trade initiatives have been under existing U.S. trade law or a threat of a petition under this law. Resort to trade law thus now represents the only effective way in which industry interests can be pursued, and, with the advent of the WTO, dispute settlement procedures will strengthen the role of trade policy built on trade law. While this situation might appear not to be the liking of the Congress, Greenwald notes that most members of Congress favor an open global trading system and look upon trade law remedies as a means of responding to constituent interests for assistance. In considering the process of shaping U.S. trade law, Greenwald acknowledges that it is overtly political, but there are nonetheless important constraints on what domestic interest groups can accomplish through lobbying if it means violating U.S. or WTO law and procedures. This, it turns out, is important for these interests to understand when they are bringing their influence to bear on the policy authorities. According to Greenwald, more attention needs to be given to the biases of bureaucrats and top level agency officials concerned with trade issues, citing the different views of ITC Commissioners, the roles and interests of individual Congressmen and Senators, the perceived pro- or anti-free-trade bias of particular U.S. Government agencies and whether agencies face political constraints in acceding to constituent pressures. Greenwald also calls attention to the role that foreign governments play in bringing pressure to bear in settling U.S. trade law cases, citing such examples as the steel VRAs, the semiconductor antidumping cases, Canadian softwood lumber, uranium imports from the former Soviet Union republics, and the pre-1996-election antidumping case involving Mexican tomatoes. In these cases, the leverage of the U.S. interests comes from their role as petitioner in accordance with U.S. trade law, and the foreign governments have responded by seeking settlements to safeguard their interests. Greenwald provides a brief case study of the use of an antidumping petition filed by Cray, which is the dominant U.S. producer of supercomputers, against a major Japanese producer, NEC. He points out Cray’s vulnerability to increased competition from Japanese producers of supercomputers and the possibility that U.S. national security interests would be damaged if Cray were to experience prolonged difficulties. The only option then that Cray had strategically was to file an antidumping petition that seeks to deal with allegedly predatory pricing by Japanese supercomputer producers.

In **Part I** of **Chapter 14**, Joe H. Stroud provides some reflections on **Trade Policy and the Media** from the standpoint of his position as editor of *The Detroit Free Press*. He notes that journalists are inherently oversimplifiers of complex issues in an effort to make the issues understandable to their readers. Stroud characterizes himself as favoring a relatively open trading system, but this has not always been easy to defend in cities like Detroit where it has been widely believed that trade is a danger rather than a boon to its residents. He cites some particular issues that journalists must confront in their reporting on trade matters in the popular press: (1) how to evaluate supposed expert opinion and make sure it is reflected accurately in reporting, opinion writing, and op-ed pages; (2) given the increasing fragmentation of the means of communication, how to provide serious continuity of coverage of trade issues; and (3) how to draw especially on the academic community for help in informing the press and the public on trade issues. Stroud is especially concerned about how fragmentation of the means of communication may lead to a "dumbing down" of the discussion of trade issues and to less coverage of these issues. He is also worried about the possibility of becoming overly influenced by interest group propaganda or passions as reflected for example in the rise of the Buchanan anti-trade candidacy in the 1996 election campaign, although it did appear that these extreme views did not in the end carry the day with the American public. In any event, it is the responsibility of the press to continue to present the essential features of trade issues using informed and reliable debate and data.

In **Part II** of **Chapter 14**, Jutta Hennig reflects on issues of **Trade Policy and the Media** from the standpoint of a journalist writing for a specialized newsletter, *Inside U.S. Trade*, which is a highly respected source of information on trade issues that is widely used by members of the trade policy community as well as reporters from more general newspapers. Hennig is critical of the way in which daily newspapers tend to present trade issues as a battle between free trade and protectionism rather than as a mixed picture of tradeoffs. This can make it difficult to report accurately the facts of a story, and it may lead to overlooking other important considerations (e.g., foreign policy or national security) that shape trade policy decisions. It also tends to overlook the complexities of constituent interest groups who may have heterogeneous trade-policy preferences ranging between protectionism and freer trade. She also points out that the ways in which constituents influence the policy process can be indirect and complex. The most successful constituents are engaged in export and foreign investment activities and identify most closely with objectives of the Administration in office. By the same token, there are some constituencies who may have powerful support in the Congress (e.g., steel, lumber, agriculture, and textiles/apparel) and may at times be able to influence policies to their benefit. She notes that large firms may not always be successful in getting an Administration to act on their behalf, and there are examples of smaller companies that are successful because they are situated in a politically sensitive location. The final point that Hennig makes is that reporters who fail to understand the details of an issue may not be able to tell the story "like it is." They can be misled by policy officials who are interested in representing their accomplishments in a favorable light. This is a problem especially for journalists in the general press.

Part V of the volume provides further overview and commentary. John H. Jackson addresses in **Chapter 15, Constituent Representation-Exploring the Context of the Key Policy Questions**. In setting the context, he points out that some kinds of constituent representation may be beneficial in providing information and analysis since governments may lack the resources to do everything themselves. Of course, there may also be special interest advocacy that can have harmful effects on national welfare. Jackson identifies the different types of decision makers who are the target of constituent representation and the various techniques by which constituent representation is implemented domestically and internationally. He also points out that governmental institutions themselves have become constituent representatives in international organizations or tribunals and in domestic judicial systems. In passing, he brings up the issue that national governments may wish to regulate and control constituent representation and policy advocacy, with campaign contributions being a case in point in the United States. Jackson recommends that more attention be given to studying how specific forms of constituent representation may affect economic welfare and income distribution. He notes here that the antidumping and countervailing duty rules have been severely criticized while there have also been efforts by some groups to change these rules to serve special interests. Jackson cites a second example of intellectual property protection that merits further study to determine how it may affect development of new ideas and techniques. A third example concerns the need for evaluation of the advocacy and implementation of environmental legislation and administrative actions. Finally, Jackson calls attention to the important roles that institutions and constitutions play and how they can be utilized to attain welfare enhancing results.

In **Chapter 16**, Marina v.N. Whitman discusses **U.S. Trade and Trade Policy: Challenges for the New Administration**. She identifies three challenges. The first involves regional issues relating to Latin America and Asia. Both Presidents Bush and Clinton had earlier promised an expansion of NAFTA, and it was widely expected that Chile would be the first to qualify. However, the Clinton Administration experienced difficulty in getting the Congress to go along, so that Chile's entry has been put on hold. For this now to go forward in the second Clinton Administration, it will most likely require fast-track negotiating authority, which is something that the Congress may not be in the mood to grant, particularly if it includes such things as labor and environmental standards. The Asian issues concern the United States trying to expand its access to Japan's market and how to deal with China on such matters as support for human rights, insufficient intellectual property protection, and discriminatory barriers involving imports and foreign direct investment. There are also important issues of national security at stake in U.S.-Asian relations. The second challenge relates to U.S. leadership in the WTO on a number of sectoral negotiations, pursuing the implementation of the various Uruguay Round agreements especially in agriculture and textiles/apparel, supporting and strengthening the use of the dispute settlement procedures, and working out negotiating strategies for new issues such as competition policy, trade and environment, and labor standards. The third and perhaps most important challenge is to institute domestic policy measures that will reduce protectionist pressures and continue the momentum for trade liberalization. Such measures include: appropriate macroeconomic policies with more flexible use of fiscal policy and avoidance of currency misalignments; policies dealing with labor-market adjustments and problems of wage inequality; and effective implementation of growth policies.

Bruce Wilson provides an overview in **Chapter 17** of **Trade and the 105th Congress**. Trade was not high on the agenda of the 104th Congress in 1995-96 and not much was accomplished therefore. Wilson expects that there will be a reintroduction of many of the same legislative initiatives presented but not passed in the 104th Congress as well as Congressional oversight of U.S. global and regional trading arrangements. But he notes that there has been a definite erosion in the political support for freer trade in both the newly elected House and Senate, and this does not portend well for controversial legislation such as the renewal of fast track authority. Wilson sees China as representing the most significant trade issue facing the United States in the next several years. There is the question on what terms China might be approved for WTO membership, and how to deal with issues of human rights and continuance of Most Favored Nation (MFN) treatment of U.S. imports from China.

Jagdish Bhagwati concludes the volume in a **Summing Up** in **Chapter 18**.

[To be completed.]

II. What Have (or Haven't) We Learned?

When we organized this conference, our hope was to learn more about how international trade policy is really formulated in the United States. The papers written for the conference did provide an excellent overview both of what academic economists and political scientists have learned about this process, and of what goes on in the interactions between the many parts of government that are involved in trade policy and the many parts of the private sector that seek to influence them. The discussants' comments, and also the open discussion among conference participants, reinforced this impression that we were learning about the formation of trade policy from those who really make it happen. However, when the conference was over, we realized that it had provided us more questions than answers. It had become clear only that our understanding of the political process underlying trade policy is very limited and incomplete. Even those academic economists who are at the forefront of modeling this process acknowledge this, and we are very far from having a consistent theoretical framework that will make sense of all the fascinating bits of information that arose during the conference. In the end, perhaps, the greatest contribution that the conference may have made was to illuminate our ignorance rather than remove it.

In reflecting on the conference papers and discussion, therefore, what we have learned has not so much been answers to the questions we started out with, as that there are far more questions than we realized at the start. In particular, there are a number of issues of modeling and the role of different constituent interest groups that merit further exploration. These include the following:

1. Most political economy models are focused on the influence that industries have on trade policies, based upon their roles in the economy as competitors with imports or as exporters, and as employers of scarce versus abundant factors of production. Little, if any, attention has been given to the roles of the many other interest groups such as those identified in Chapter 2 below, and those represented in some of the later chapters in this volume. And yet we found that these other interest groups in many cases do believe themselves to have substantial stakes in trade policy, and some of them have begun in recent years to play increasingly prominent roles in the trade-policy process. Models of the political economy of trade policy will remain decidedly incomplete, and for some purposes misleading, until they take these other constituent interests into account.

2. There is the further question of whether the existing models accurately represent the role of the interest groups that they do involve. The lobbying process is realistically much more complicated than is allowed for in the existing political economy models, especially insofar as non-monetary interactions may be as important as monetary contributions. We recognize, and in fact learned from some of the early political

economy models, that complication for its own sake will not help us much. But nonetheless it seems likely to be important that lobbying activities often require time and other resources as much as money, and that the motives of those involved may not be, as a first approximation, selfish. How much of this non-monetary lobbying activity goes on, and what is its form and avowed purpose?

3. Lobbyists apparently spend a great deal of their time and effort dealing with government bureaucrats rather than elected officials. Just what is it that both the lobbyists and the bureaucrats wish to achieve by virtue of these interactions?

4. Much of the political economy modeling has focused on the activities of import-competing industries that are seeking protection. This ignores the fact that export industries are quite active in seeking access to foreign markets through the lowering of foreign barriers and other means. Indeed, the role of export interests is widely believed within the trade policy community to have been an important force favoring the trade liberalization that we have observed during the past fifty years under the GATT, and yet these export interests are only imperfectly dealt with, if at all, in our models. In particular, the export interests seem not to have taken the most obvious route to their own aggrandizement: pursuit of export subsidies. As a part of the broader issue of why the system settles on some policies and not others, we need better understanding of why export interests seek and get the help that they do.

5. There is considerable evidence from the sectoral studies that sectoral influences on trade policies have become less important over time. That is, the industries that have been most prominent in seeking and obtaining protection in the postwar period, such as textiles, autos, and steel, have seen much of that protection being phased out, without any obvious other industries replacing them, at least on the import competing side. This suggests a need to consider what the appropriate time horizon

is to use in modeling protection and to take into account those forces that tend to undermine special interests in the course of time.

6. Why are trade and not other policies used in particular circumstances? It is somewhat surprising that those who specialize in studying trade policy have so little to say about this important issue, beyond the second-best idea that trade policies are typically inferior to other policies for just about any purpose. The real world clearly does not share this view, and yet we still do not know why.

7. What are the future prospects for U.S. industries seeking protection? Have conditions changed so as to make import protection more difficult to obtain? What are the other forms of influence besides trade policies that may be used in the future by constituent interest groups?

8. How do existing trade laws and institutions shape or constrain the behavior of interest groups? Without including most interest groups in our models, there is no way we can address this question, and yet it is arguably of paramount importance. Interest groups have tremendous potential to do both good and ill to society at large, and which of these they do depends not only on their motives but also on the constraints and incentives that they face. Trade policies, especially, seem to offer unusual potential for unintended adverse consequences, and the institutional framework for trade policy can be designed to avoid those consequences or not. And yet, without understanding the motives and means of the interest groups affected, we cannot hope to design those institutions to foster positive outcomes.

9. How does the public form its views on trade issues? This may be at the heart of many of the issues raised above, since it often seems that it is public misunderstanding of the effects of trade and trade policy that encourages what economists almost uniformly view as mistakes in policy. Why is it so hard to educate

the public to the realities of international economics? Are there ways in which the media can provide more effective information to the public on trade issues? Are there reasons why various interest groups themselves may be successfully thwarting such efforts? We do not know the answer, but in the end it may be necessary for political economy models of trade policy to include within them the activities of those who build them.

The foregoing list by no means exhausts all of the issues that deserve more attention. It includes only some of the most interesting, and sometimes troubling, issues that arose in our own minds during the conference and during our reading of the conference proceedings. Hopefully, readers of the chapters that follow will find a trove of additional issues that will pique their interest and lead to further study and elucidation.