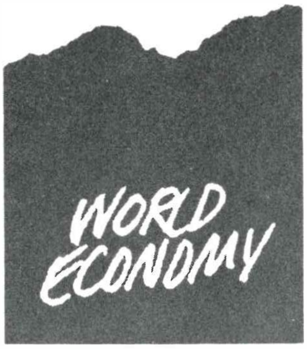

The rise of the new protectionism in North America

By David G Haglund and Alex von Bredow

**From 1894 to 1970 the United States experienced continous trade surpluses.
Since the 1970s, however, trade deficits have become the norm and there are now many signs of a growing US trade protectionism. The authors summarize the the main explanations that have been advanced and attempt to weigh thier significance.**

It is one thing to recount developments that arguably are evidence of a growing US trade protectionism. It is quite another thing, however, to explain protectionism. In the following pages we shall summarize the main explanations that have been advanced, and attempt to weigh their significance. For the purpose of simplicity, these will be grouped under two main headings: macroeconomic explanations, and political ones. In our concluding paragraphs, we shall survey some additional systemic considerations.

Macroeconomic causes

No single macroeconomic factor can be isolated in explaining the rise of the new protectionism in the United States; rather, there are a number of interrelated factors that collectively account for this phenomenon. These factors we analyze separately, although we think it important to stress their interrelatedness.

Perhaps the most direct explanation has been the soaring US trade deficits of the 1980s. The United States experienced continuous trade surpluses from 1894 to 1970. Since 1970, however, deficits have become the norm,[1] and they became worrisome in the late 1970s, when the deficit hit $30 billion (GUSD) a year.[2] Even then the United States continued to enjoy a surplus in manufactured goods, although a hefty oil-import bill caused the merchandise-trade account to slip into deficit.[3] The trade deficit - including manufactured goods - was growing at alarming rates by the mid-1980s, reflecting both a stagnation in exports and a surge in imports. Total US exports fell slightly in the period from 1980 to 1985 from 224.3 GUSD to 214.4 GUSD, whereas imports shot up in the same period from $249.8 to 338.9 GUSD.[4]

The importance of the trade deficit as a generator of protectionism cannot be overstated, for its sheer enormity has alerted the US public and politicians to the importance of trade policy, fostering a climate within which protectionist sentiment could not help but flourish. The trade deficit has now become a barometer of US economic prowess in the minds of many Americans, with implications extending far beyond the sphere of political economy.[5] Until it falls to a politically acceptable (if necessarily imprecise) level, the pressure for protectionism can be expected to remain strong.

What accounts for this trade deficit? In part, the answer lies in the fact that the US economy has become significantly more integrated into the world economy. The most dramatic evidence of this can be seen in the figures for exports and imports as a share of GNP at the beginning of each of the past four decades. Exports as a percentage share of GNP were 6.3 in 1950, 7.7 in 1960, 9.2 in 1970, and 19.7 in 1970. The comparable percentage shares for imports were even more dramatic: 5.6, 5.8, 8.7, and 21.7.[6] In other words, the importance of trade has more than doubled since the start of the 1970s.

Further evidence of the internationalization of the US economy can be gleaned from figures showing that 40 percent of farmland is now devoted to exports, that one-sixth of all jobs in manufacturing are tied to exports, that between 25 and 33 percent of the profits of US corporations come from their international activities, and that imports account for more than half of US needs in 24 of the 42 most critical primary products.[7]

The importance of these figures derives from the fact that US goods are now facing increasingly strong competition from imports; according to one estimate, 70 percent of all US goods production now face foreign competition.[8] Thus, the potential for protectionism has grown because the number of industries affected by foreign trade has increased at the same time that international competition has become fiercer and macroeconomic forces have put pressure on the US economy.

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The article was first published in *US Trade Barriers and Canadian Minerals: Copper, Potash and Uranium*, Centre for Resource Studies, Queen's University, Kingston, Ontario, 1990.

A dramatic stimulus to protectionism was supplied by the overvalued US dollar during the first half of the 1980s. Between 1980 and February 1985, the trade-weighted dollar rose by an incredible 70.2 percent, reaching a level that put the dollar 40 per cent above the value where US products could be deemed broadly competitive.[9] The cause of this inheres chiefly in the US budget deficit, which has necessitated high domestic interest rates that in turn have attracted large capital inflows and driven up the currency's value. There were other factors to consider as well. For instance, as the dollar was rising in value during the early Reagan administration no attempt was made by the White House to intervene in international currency markets to stabilize its value. The West Germans and the Japanese did intervene, but their efforts proved ineffective without complementary US actions.[10] Moreover, the nervousness of many investors regarding the LDC debt crisis, coupled with the obvious pro-business orientation of the new Reagan admistration made the dollar seem a safe haven indeed for investment at the start of the 1980s.

The overvaluation of the dollar had powerful effects that contributed greatly to the rise of protectionism within the United States. US exports became overpriced and incompetitive, and imports became cheaper and more attractive. In addition, competition from imports reduced domestic investment, and the return on foreign investments fell. Coupled with this is what some economists see as a link between the overvalued dollar and the growth of unemployment: Deaudorff and Stern, for example, suggest that for every percentage point drop in US price-competitiveness, the trade deficit rises by 3 GUSD and 70 000 people become unemployed.[11] Together, these factors can be seen to have contributed to the rise in protectionism by increasing the trade deficit and, with it, the pressure on import-competing industries.

There is another consideration to bear in mind when discussing the rise in protectionism resulting from the overvalued dollar: the "ratchet effect." This holds that whenever a currency becomes overvalued for a prolonged period there will be an increase in the level of protectionism; however, when the currency returns to equilibrium or becomes undervalued, the protectionism does not disappear. Instead, the level of protectionism "ratchets" upwards every time a currency gets overvalued.[12]

The importance of the overvalued dollar in the rise of US protectionism is suggested when one seeks to explain why the trade deficit would not immediately improve once the dollar began to fall. The reason can be found in an economic concept called the J-curve, which is associated with the argument that over the short term (18 months to two years) the effect of a devaluation will be to worsen a trade imbalance.[13] The J-curve, although not actually "keeping" the US trade deficit higher than it otherwise would have been after the dollar began to fall in September 1985, might nevertheless be said to have made an indirect contribution to the rise in protectionism.

A macroeconomic factor that deserves to be singled out for discussion in this context is high interest rates. The United States has been forced to raise interest rates in order to restrain inflation and finance its 200 GUSD budget- ary deficit. The effect of this rise has been accentuated by Japanese economic policies. In the 1980s Japan has been following a reverse economic policy mix from that of the United States, one characterized by tight fiscal but loose monetary policy, and low interest rates. This resulted in a wider-than-normal differential between the two countries' interest rates; hence capital flowed into the United States faster than it otherwise might have.

High US interest rates contributed to the rise of protectionism in two main ways. First, they made it very attractive for international investors and currency traders to purchase dollar-denominated assets. With the US economy drawing in foreign capital, the dollar's value was forced upward, in turn increasing the pressure for protectionism. Secondly, the rise in interest rates increased the debt-servicing costs of those countries that owed money to US banks. This meant that many heavily indebted Third World countries, particularly those in Latin America, were forced to restrict imports severely to prevent a worsening of their balance of payments. In 1982, for example, Mexico, Chile, and Argentina all halved their imports, and the LDCs as a whole cut their trade deficits by 14 GUSD.[14] The effect of this on US exports to Latin America was disastrous: in only two years (1981 to 1983) the US trade balance with Latin America shifted from a 7.5 GUSD surplus to a 14 GUSD deficit.[15] Thus, high interest rates contributed to making it more difficult for the United States to export to the heavily indebted Latin American countries.

Parenthetically, interest rates have also contributed to the rise in US protectionism in the period during which the dollar began to fall. The reason for this is that falling interest rates and the huge budget deficit encouraged domestic consumption and thus the demand for imports, which normally should have fallen along with the dollar.[16]

No analysis of the rise of protectionism in the United States can overlook the increasingly strong international competition facing US companies in a range of products. This competitive problem is not unique to the United States, but rather is part of a widespread change that has been occurring in the international trading system. In the 1960s and 1970s Japan and the NICs experienced spectacular growth in their manufacturing sectors, combined with an even more rapid growth in their share of world trade. Collectively, the NICs' share of world trade grew from 6 percent in 1970 to 11.4 percent in 1983, with South Korea, for example, experiencing 28.8 percent annual growth of exports from 1960 to 1977.[17] The NICs' success in particular sectors was even more spectacular (See table 1). In the textile sector, and despite ever-growing protectionism, developing countries were able to increase their share of US consumption from 7.3 percent in 1973 to 17.4 percent by 1981. Similarly in the steel industry, developing countries increased their share of the US market from 5 percent in the 1960s to 26 percent by 1982.[18] Clearly, a systemic change had taken place in the international trading system, and the United States was feeling the effects.

How does this systemic change relate to the rise of US protectionism? In two ways. First, fiercer international competition has increased the number of US industries that have been hurt by imports, and this in turn has meant that the constituency for protectionism has grown. This is especially the case in the huge steel automotive, and textile sectors, but many smaller industries have also been affected. Secondly, numerous US industries have suggested that although they could compete against fairly traded goods, they are increasingly forced to compete against unfairly subsidized foreign products. This perception has generated support for protectionism because it has led to calls for tougher trade-remedy laws and more vigorous application of the existing laws.

Because the perception that US industries are facing unfair international competition is so tenaciously and widely held in Washington, it is useful at this juncture to comment briefly on its validity. The evidence is not conclusive in either direction, largely because there is so little agreement on what constitutes a subsidy. All we shall do here is to summarize briefly the arguments of both sides of this debate.

The idea that the United States has faced unfair international competition is based on the assumption that it subsidizes its production to a lesser degree than its major trading partners. This position is articulated by Gary Hufbauer and Joanna Erb, who argue that industrial subsidies in the United States have consistently been lower and have risen less rapidly than have those of its major trading partners, and that official export credit authorizations have also been proportionately lower (See tables 1 and 2).[19]

The claims of this side of the debate are buttressed when one examines such phenomena as the impact of the European Common Agricultural Program on US farm exports, the lack of adequate international protection for intellectual property rights, or the use of export targeting by any number of states.

The contrary view asserts that complaints about unfair competition are merely a cover for increased protectionism. Supporters of this position point out that sectors protected by overt non-tariff barriers include 34 percent of US manufactures, compared to 10 percent in Canada, 20 percent in Germany, 32 percent in France, 34 percent in Italy, 22 percent in the United Kingdom, and only 7 percent in Japan. It is particularly unfair, they argue, to single out Japan as being a prominent unfair trader: Japan has abandoned the infant-industry protection that it once practised, its tariffs and overt non-tariff barriers are on the whole as low as or lower than those of the United States, and it imports more as a percentage of GNP.[20]

Moreover they note that although "unfair" competition is never adequately defined, it is nonetheless used in a way that implies that costs of production could or should be equalized. Taken to its logical conclusion, they say, this would mean that comparative advantage would be eliminated and trade would virtually cease.[21] It should also be kept in mind that the United States recovered from the recession of 1981 and 1982 sooner than did most other countries. The effect of this was that the global demand for imports grew unevenly, with the United

Table 1
OECD imports of manufactures from the NICs, 1963 and 1977 (per cent)

Commodity Group	1963	1977
All manufactures	2.6	8.1
Paper	0.3	2.2
Chemicals	2.1	2.5
Machinery (non-electric)	0.3	2.8
Transport equipment	1.0	2.8
Iron and Steel	1.3	4.8
Non-metallic mineral manufacturing	2.7	4.9
Manufactures of metal	1.5	7.4
Rubber manufactures	0.5	7.5
Textiles	5.7	10.8
Miscellaneous finished manufacturing	4.2	11.2
Electrical machinery	0.8	12.0
Wood and cork manufactures	12.3	23.8
Leather footwear & travel	7.2	31.3
Clothing	217.3	38.5

Source:
Adapted from OECD tables 4 and 5, in David Greenaway, *International Trade Policy: From Tariffs to the New Protectionism*, New York: St Martins Press, 1983, p 156.

States registering by far the largest increases. For example, in 1983 and 1984 more than half the growth in world trade was accounted for by increased US imports, and the exports of France, Germany, Japan, Korea, and Taiwan to the United States all rose by more than 33 percent in each of these years.[22] These figures can lead many Americans to the mistaken conclusion that their market has been and is considerably more open to foreign imports than are the markets of other countries, which in turn leads many to support calls for protectionism.

Yet another macroeconomic factor deserving some consideration as a possible source of the new protectionism, at least at the outset of this decade, were the relatively high levels of unemployment experienced by the United States during the late 1970s and into the 1980s. Intuitively, one might expect that, if unemployment rose, so too would the pressure for protection.

However, little evidence exists indicating that a such relationship holds on an economy-wide basis. C. Fred Berg-sten, for instance, points out that since 1962 periods of high unemployment have often coincided with the adoption of trade-liberalizing measures, and periods of relatively low unemployment have often witnessed increased protectionism.[23] But this is not to say that unemployment in a specific sector (potash, for example) is unlikely to lead to increased protection in that sector, and it is in this context that we suggest a possible link between unemployment and protectionism.

In an important study of ITC injury determinations, Robert Baldwin has found that changes in net unemployment, sales, and profits were the conditions most likely to lead to an affirmative injury determination.[24] As well, the fact that many of the industries that have experienced the greatest levels of unemployment (eg steel and automobiles) have often been large and politically powerful has meant that the pressure for import relief in these industries has risen greatly.[25] Therefore, although the national level of unemployment may not have had much impact on the overall level of protectionism, sectoral unemployment may have contributed importantly to its rise in the United States.

A final macroeconomic explanation to consider has been the postulated long-term decline in US industrial competitiveness.[26] According to those who focus on this variable, too many US industries are simply no longer able to compete on an even footing with imports, and thus they regard protection- ism as a preferred alternative to undergoing a costly and painful contraction or reorganization of their industries; in short, protection beats adjustment.

There is obviously no single statistic that can measure competitiveness, but an indication of the competitive problems can be glimpsed from the following: since the late 1960s there has been a steady deterioration in the trade balance; US industries have lost market share in almost all sectors; productivity growth has fallen to unusually low levels; and profitability and investment per worker have also fallen.[27]

Furthermore, this trend has been evident in not just a few key sectors but in almost all major industrial sectors, and it has been particularly strong in comparison to Japan and the NICs.

The importance of this is that it suggests that US protectionism may not be simply a response to short-term economic problems but may rather be based on more fundamental long-term problems in its economy. Admittedly, part of the decline in US competitiveness was due to the overvalued dollar, which has since fallen in value, but there are still important structural prob- lems in the US economy that will likely keep up the pressure for protectionism.[28]

Political factors

Two political explanations have been advanced for the rise of protectionism in the United States: the first and by far the most important holds that there has been a fundamental breakdown in the way US trade policy is made; the other maintains there was a distinct lack of leadership from the Reagan administration in trade policy, a lack that has been carried over into the Bush administration. We explore these in turn.

To understand why many analysts think there has been a complete collapse in the trade policy-making system in the United States, it is well to have some un-

Table 2
Official export credit authorizations related to exports of manufactured goods (percentage)

Country	1973	1974	1975	1976	1977	1978	1979
Canada	na	na	12.3	10.5	10.7	14.9	11.7
United States	19.7	13.3	11.2	8.5	6.9	7.8	8.1
Japan	53.3	43.0	43.2	49.6	43.3	33.8	39.7
France	31.7	35.1	48.9	51.0	38.5	51.7	42.5
Germany	5.9	9.3	10.0	11.4	13.9	11.9	9.6
Italy	4.4	4.1	15.8	10.6	8.0	18.2	13.1
United Kingdom	20.4	44.5	26.5	27.4	23.5	60.9	47.5

Source:
US Export-Import Bank, Report to the US Congress on Export Credit competition and the Export-Import Bank of the United States. Compiled using OECD figures

derstanding of how the system operated before it supposedly fell apart.

The trade policy-making system that is said to have crumbled in the 1970s (referred to here as the old system) was created in 1934 with the passage of the Reciprocal Trade Agreements Act. This act was significant because it gave the President the authority to enter into bilateral agreements to cut tariffs by up to 50 percent on a reciprocal basis, thereby transferring considerable power over trade policy from Congress to the Executive.[29] Congress continued to exercise its constitutional powers "to regulate commerce with foreign nations by passing trade laws, but the day-to-day administration of trade policy was shifted to the Executive."[30] The rationale behind this shift was that the experience of the Smoot-Hawley Tariff Act had led many to believe that Congress was excessively vulnerable to protectionist pressures, which the Executive would be better able to withstand.[31] Thus, the cornerstone of the old system of trade policy-making was the insulation of Congress from product-specific protectionist pressures. To accomplish this insulation, ways had to be found to deflect these pressures elsewhere, where presumably they might be more easily dealt with. A number of methods were devised to do this.

One of the most important aspects of the old system of trade policy-making was Congress' need for a means of restricting its ability to grant protection. This need was met by making it difficult for protectionist legislation to continue getting passed by any number of Congressional committees. Trade policy-making power within the Congress was instead highly centralized in two committees, the Senate Finance Committee and the House Ways and Means Committee. This made it easier for the President to negotiate deals with the Congress, and it avoided conflicts between congressional committees. More- over, power was also highly centralized within these two committees; the chairmen controlled their committees very tightly, and a bill was rarely reported out without the chairman's approval. As well, once a bill made it out of committee, the chairman was almost always able to prevent amendments getting attached on the floor. During this era, the seniority system in both houses of Congress kept control over these committees relatively stabilized. This meant not only that groups seeking protection could not advance their cause by unseating a committee chairman, but also in practice that the chairmen tended to be liberal (in the economic sense) southern Democrats who had an uncanny ability to get themselves re-elected. Finally, there was not much danger that junior members of either committee could get very far in pursuit of protection for a favored industry because there were no subcommittees within which junior members could operate and because the Executive and the chairmen were the only ones who had access to high-quality, independent information on trade.[32]

An important objective of trade liberalizers, under the old system, was to find a method of deflecting pressures away from the Congress when industries felt they were being hurt by imports. This was accomplished in two main ways. The first was to use the trade-remedy laws; the laws had been made liberal enough that it was difficult to obtain relief, yet at the same time the impartiality of the process was such that those who failed to obtain relief did not and could not take their grievances back to the political arena. The second method employed, usually when large industries were seriously hurt by imports, was to accord minimal protection on an ad hoc basis, thereby preventing the organization of a broadly based coalition supporting protectionism.

We should mention two further considerations that facilitated the working of the old system. During the era in which it functioned, there was a bipar- tisan consensus in favour of trade liberalization, and since the public had little interest in trade policy, this meant that the Executive was able to move trade policy in a liberal direction with little or no organized opposition. Moreover, the Executive was able to minimize whatever protectionist pressures existed by arguing that such pressures could damage on-going trade negotiations. Of course, this implied that there always had to be some form of negotiations underway, but in the period between the establishment of GATT and the end of the 1960s, this was usually true.

The breakdown of the old system began in the early 1970s, for reasons involving political changes that were taking place in the Congress and Execu- tive Branch, and in US society. One of the first elements of the old regime to collapse was the seniority system within the congressional committees. In 1971 the Democratic caucus democratized the committee system by selecting chairmen by a vote within the caucus, and by permitting such a vote whenever ten Democratic members wanted one.[33] This procedure, shortly thereafter adopted by the Republicans, weakened the control of the committee chairmen and eventually led to the ouster of three important chairmen in 1974 and to the retirement in 1975 of the long-standing chairman of the House Ways and Means Committee, Wilbur Mills.

Closely related to this was the growth of subcommittee government. In 1973 the Democrats adopted a "subcommittee bill of rights", which set out a series of new procedures to limit the power of committee chairmen and to increase the role and importance of subcommittees. Committee chairmen were no longer allowed to chair more than one of their own subcommittees, and no member could chair more than one subcommittee. As well subcommittees were allowed to call their own meetings, choose their own staff, and have bills in their jurisdiction automatically referred to them; all members of the majority party were guaranteed assignment to at least one major committee. Furthermore, the size of the Ways and Means Committee was expanded from 25 to 37, and most of its trade functions were handed over to its Trade Subcommittee.[34] These changes increased substantially the opportunity for junior members to contribute meaningfully to the legislative process. In 1983, for example, all but one Republican Senator chaired a committee or subcommittee, and more than half of the House Democrats held similar positions.[35] It might be argued that, since subcommittee chairmen are not as powerful as committee chairmen, their ability to resist protectionism is considerably less.

As the importance of subcommittees has grown, so too has the phenomenon of multiple committee referrals, sparked by the tendency of trade negotiations to deal increasingly with non-tariff barriers. As a result, trade has been brought into the jurisdiction of an expanding number of subcommittees. In 1982, for example, there were 18 congressional committees and 21 subcommittees with some jurisdiction over trade.[36] The phenomenon of multiple committee referrals has made it more difficult to pass trade legislation, increased the number of groups that can influence trade policy, and weakened the power of the Senate Finance and House Ways and Means Committees.

Another important contributor to the breakdown of the old system has been the ability of individual members of Congress to make themselves much less dependent on information supplied by committee chairmen, for a number of reasons, among which has been the rapid increase in the size of standing committee staffs. In 1955 there were only 386 committee staffers in the Senate and 329 in the House, but in 1983 these numbers had risen to 1 000 and 2000.[37] At the same time, there has been a sharp rise in the personal staffs of members of Congress. From 1972 to 1980, these staffs in the House rose from 5 280 to 7 000; those in the Senate went from 2 400 to 3 600.[38] In addition, members of Congress have new or improved support services, such as the Congressional Research Service, the General Accounting Office, the Office of Technology Assessment, and the Congressional Budget Office.

These enhanced resources not only make a member of Congress more independent of a committee chairman, but they also make it easier to challenge a chairman who is trying to resist protectionism.

Finally, a set of new procedures was adopted to make the workings of Congress more transparent. Committee hearings were opened up to the public and recorded votes were held, even on amendments. This naturally tends to contribute to increasing the degree of public scrutiny of members of Congress, arguably making it more difficult for them to reject pleas for protectionism from important constituents.

Also of significance to the breakdown of the old system has been the erosion of the Executive's power in trade policy-making. In particular, the Executive branch has found it more and more difficult to get authority for multilateral trade negotiations, and has been forced into working with Congress on the formulation of major new trade acts. As well, presidential discretion in trade actions has also been coming under attack. In 1984 Congress gained the right to pass a resolution overturning a president's decision to ignore an affirmative ITC injury ruling, and the 1988 trade legislation will require retaliation against countries that do not open their markets adequately to American products. The transfer of decision-making authority in antidumping and countervailing duty cases from the Treasury Department to the ITC has further weakened Executive branch powers.

The history of the *Office of the United States Trade Representative* (USTR) illustrates well this weakening of Executive authority over trade policy-making. The USTR was set up in 1962 under the Trade Expansion Act and given the authority to negotiate international trade agreements for the United States. From the beginning, however, the USTR's position was somewhat tenuous. President Nixon made two attempts to kill the position of USTR by amalgamating it within his Council on International Economic Policy, and it was not until 1974 that Congress made it a statutory agency within the Executive Office of the President. The USTR was strengthened and expanded by President Carter in 1979, but once again, in 1983, an administration tried to subsume it within a new Department, the mooted International Trade and Industry. The ambivalent attitude of most presidents towards the USTR, coupled with its lack of visible leverage when trade negotiations are not underway, has weakened Executive leadership in trade policy-making.

Two broader societal factors contributing to the breakdown of the old system are also worthy of mention. First, the bipartisan consensus in favour of liberal trade policies has clearly disappeared. The Republicans as a rule continue to support trade liberalization but the Democrats are now more likely to favour protectionist policies. The best explanation for this shift concerns the changing electoral bases of the two main parties. The traditional political base of the Democrats used to be the south whose voters had a longstanding bias towards free trade. Over the past few decades, however, there has been a shift resulting in greater prominence for the Republicans in the south and west, with the Democrats gaining ascendancy in the "Rustbelt" states of the Midwest. This new political alignment puts one of the Democrats' main bases of support in a region that is much more likely to call for protectionism; not surprisingly, the Democrats have felt the need to express the interests of this constituency.

The second societal factor implicated in the breakdown of the old system inheres in the growth in the number of groups active in the field of trade policy, and also in the existence of a broadly based coalition supporting protectionism. The increasing involvement of domestic groups in the trade policy-making process stems from the fact that there are now more economic entities that are affected by trade, with the result that these groups have considerably increased the pressure on Congress to enact protectionist legislation. That the US labour movement now supports protectionism is even more significant, for it had traditionally supported trade liberalization; beginning in the early 1970s, its position reversed. The reasons for this change are too numerous to mention here, but its effect has been to increase the protectionist pressures on the Democratic Party and the Congress in general.[39]

Taken together, these political factors supply a persuasive explanation for the rise in US protectionism. In summary, the traditional mechanisms that had been devised to shield the Congress from protectionist pressures had either disappeared or been greatly weakened. The pressures on Congress became stronger and more persistent, the Executive branch's ability to divert attention away from the Congress had been reduced, and the internal mechan- isms within Congress that had been used to prevent protectionism had all broken down. No new liberalizing system has been devised to replace the old one, and consequently the amount of protectionism granted has risen considerably. There is a further political explanation of the rise of the new protectionism in the United States: the lack of leadership shown by the Reagan administration in the field of trade policy. Incredible as it may seem, for nearly a full year after the 1984 election the Reagan administration took almost no action in the field of trade policy, and this despite the fact that the trade deficit and value of the dollar were both soaring. The President refused to intervene in foreign-exchange markets to halt the rise of the dollar, and his veto of a textile industry bill seemed to confirm the suspicion that he was unconcerned about the plight of those hurt by imports. The situation was further aggravated by the length of time (more than three months) consumed in getting Clayton Yeutter installed as the new USTR (which gave the appearance that nobody was really in charge of trade policy), as well as by the widespread perception that Yeutter lacked the political clout of some of his predecessors, such as Robert Strauss or William Brock. The absence of leadership shown by the Reagan administration in 1985 meant that Congress was not being shielded by the Executive from protectionist pressures, and consequently the ability of Congress to resist these pressures was considerably reduced. Although this explanation cannot account for the rise of protectionism prior to 1985, it does provide a good starting point for underderstandin the context within which the Omnibus Trade Bill appeared in 1986.

Conclusion

The growth of new protectionism in the United States has been both cause and consequence of the "hegemonic decline of that country in the world economy. Advocates of this thesis are many, and include such writers as Charles Kindleberger, Robert Gilpin, and Stephen Krasner, who suggest that it is the role of a hegemonic power to maintain an open international trading system and that, as the power of the hegemon declines, a pattern of increasing protectionism will appear. They argue that only a hegemonic power has both the power and the interest to establish and maintain an open trading system, but as its power recedes it will become increasingly unwilling or unable (or both) to perform the role it once played. This systemic explanation of the new protectionism raises two important questions:

- Is the United States experiencing hegemonic decline?
- If it is, how well might this explain the growth of protectionism?

The existence of US hegemonic decline is disputed by some, but we argue there are some apparent signs of it.[40] Between 1950 and 1980, for example, the US share of world trade fell from 20 to 10 percent and its share of world product fell from 40 to 20 percent.[41]

The termination of the Bretton Woods system, the collapse of the US-sponsored international energy regime in 1973, and the weakening of the GATT also point in the direction of US hegemonic decline. Although this explanation correlates well with the trend towards increasing protectionism, it is difficult to assess the extent to which the latter trend is a function of hegemonic decline. Indeed, it seems at times as if "hegemonic decline" itself, far from explaining change, is really only a code word for the collection of factors (many of which we discuss above) that together account for change.

There is a second, rather different, systemic explanation that associates the rise of the new protectionism with the absence of meaningful multilateral trade negotiations. The "bicycle theory", as this explanation has been called, asserts that the trading system must continue to make progress towards trade liberalization or risk falling into a morass of protectionism.[42] The argument goes on to suggest that it is easier for a government to resist protectionism when it can point to the existence of trade negotiations, but more difficult when there are none underway. This theory accounts well for the rise of US protectionism in the period after the Tokyo Round, because the failure of the GATT Ministerial Meeting in October 1982 and the skepticism about the prospects for the Uruguay Round have arguably made it difficult to resist protectionism. However, the explanation is much less applicable to the 1970s. For most of this period the Tokyo Round was underway and the Carter administration made considerable use of its right to waive countervailing duties, yet the level of protectionism still rose. Thus, the validity of this theory must remain open to doubt.

Moreover, and especially germane to our study, is the possibility that the absence of optimism for the multilateral route to liberalization may have accounted, faute de mieux, for the interest of the administration in securing a bilateral accord with Canada. Ironically, it could well be the current pessimism attending the future of multilateral trade liberalization that has led to the quest for bilateral liberalization in the United States as well as in Canada (albeit for slightly different reasons).[43]

Notes:

1 I M Destler, *American Trade Politics: System Under Stress*, Washington, Institute for International Economics, 1986, p 44.

2 Arthur F Burns, "The American Trade Deficit in Perpective", Foreign Affairs 62 (Summer (1984): 1058.

3 Peter G Peterson, "The Morning After", Atlantic Monthly, October 1987, p 43.

4 Destler, *American Trade Politics*, pp 82, 170.

5 For a penetrating look at the security implications of a declining US economy, see David P Calleo, *Beyond American Hegemony: The Future of the Western Alliance*, (New York: Basic Books, 1987). Also see Felix Rohatyn, "Restoring American Independence", *New York Review of Books*, 18 February 1988, pp 8-10.

6 Destler, *American Trade Politics*, pp 40-41.

7 C Fred Bergsten *The United States in the World Economy: Selected Papers of C Fred Bergsten*, 1981-1982 (Toronto: Lexington Books 1983), p. 18.

8 Ira Magaziner and Robert Reich, quoted in Lawrence A Fox and Stephen Cooney, Protectionism Returns, *Foreign Affairs* (Winter 1983/84): p 77.

9 Destler, *American Trade Politics*, p 52.

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25 But this, in turn, can lead to a reduction in protectionism for industries with less political leverage.

26 Lester C Thurow and Laura D'Andrea Tyson, "The Economic Black Hole", *Foreign Policy* 67, Summer, 1987: p. 21.

27 Bruce R Scott, "US Competitiveness: Concepts, Performance and Implications", in *US Competitiveness in the World Economy*, ed. Bruce R Scott and George C Lodge, Boston: Harvard Business School Press, 1985, pp 3-21.

28 W M Corden, Revival of Protectionism, p 11.

29 Although it constituted the first downward movement of tariffs since the Underwood Act of 1913, the Reciprocal Trade Agreements Act was far from a free-trade measure; it could perhaps be best characterized as "adjusted protectionism". William Diebold, Jr, *New Directions in Our Trade Policy*, Studies in American Foreign Relations, no 2, ed. Percy W Bidwell, New York: Council on Foreign Relations, 1941, p 23. For a study of the Trade Agreements Program, see Dick Steward, Trade and Hemisphere: *The Good Neigbour Policy and Reciprocal Trade*, Columbia: University of Missouri Press, 1975.

30 Finlayson, "Canada, Congress and US Foreign Economic Policy", p 130.

31 E E Schattschneider in his classic book, *Politics, Pressures and the Tariff*, New York: Prentice Hall, 1935, wrote "Although ... theoretically the interests supporting and opposed to [tariff] legislation are ... approximately equal, 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." p 285.

32 Finlayson, "Canada, Congress and US Foreign Economic Policy", pp 139-40.

33 Ibid, p 145.

34 Destler, *American Trade Politics*, p 59.

35 M J Abrams, "Congress and the Trade Policy-Making Process", Speech to the Trade Policy Committee of the Canadian Manufacturers Association, Washington, 6 October 1983, pp 13-14.

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40 See, for a skeptical view, Samuel P Huntington, "The US-Decline or Renewal?", *Foreign Affairs* 67, Winter 1988-89: pp 76-96.

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Helpful for shedding light on US perceptions of the FTA is Clyde H Farnsworth, "US-Canada Pact Implies big Change for World Trade", *New York Times*, 23 November 1988, p 1

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