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UMI
ANTICIPATING U.S. FOREIGN IMPORT TRADE PRACTICES:
AN EXAMINATION OF THE DISTANCE BETWEEN
LEGISLATED POLICY AND IMPORT TRADE BEHAVIOR

DISSERTATION

Presented in Partial Fulfillment of the Requirements for
the Degree of Doctor of Philosophy in the Graduate
School of The Ohio State University

By
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*****

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ABSTRACT

This study provides an explanation for the difference between the prescriptions of US fair trade laws on the one hand, and US trade practices with respect to foreign imports on the other. It is intuitively appealing to assume that US trade laws predict to US trade practices, and this assumption is the basis for some scholars' use of trade laws as a proxy for levels of protection in the US. However, for the periods 1952 through 1968, and 1977 through 1994, US trade practices under fair trade laws deviated from the prescriptions of those laws almost 65% of the time.

This project argues that a systematic understanding of presidential decisionmaking is important for anticipating US trade behaviors in cases petitioned under fair trade laws. There are at least two processes that lead to trade outcomes; processes leading to the formation of policy, and implementation processes that lead to trade outcomes. The implementation process is the subject of this study, and it consists of presidential decisionmaking, given policy.

It is argued that a key constraint on presidential decisionmaking in the area of trade is the way in which the president views the relationship between the domestic economy and the international economy. It is posited that presidents who see the national and international economies as interdependent are internationally oriented. Presidents are posited to be nationally oriented when the national
economy is viewed as superior to or responsible for leading the international economy. Two hypotheses are tested: 1) An internationally oriented president will choose free or strategic trade practices in fair trade cases; and 2) A nationally oriented president will choose fair or protected trade practices in fair trade cases.

Two case studies from the footwear industry are chosen to test the hypotheses. There is support for the importance of the variable, but it is clear that the addition of variables that measure both congressional pressures on the president and advice from his inner circle would improve the model. An important contribution of this study is that the dependent variable, policy implementation, has been overlooked by the dominant literature on US import trade.
Dedicated to my husband

and our son
ACKNOWLEDGMENTS

I wish to thank my advisors Donald A. Sylvan, Brian M. Pollins, and David M. Rowe, for their patience and advice. I owe a special debt of gratitude to Don, whose faith in me throughout my graduate school sojourn often exceeded my own.

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I also wish to thank my parents, whom I adore, for their understanding and emotional support.

I am particularly grateful to my husband and son, who unselfishly sacrificed several years of normal family life. It is to them, for their endurance and love, that I dedicate this dissertation.
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CHAPTER 1

AN INTRODUCTION TO THE MAIN QUESTION

Why doesn't legislated US trade policy consistently predict to US behavior on imports? If there is one set of trade laws, how is it that US implementation of policy is unpredictably open or protectionist with respect to foreign imports? These questions illuminate the existence of distance between legislated import trade policy and import trade behavior. The formation and legislation of trade policy have been studied at length, as has been the openness or restrictiveness of US markets. However, studies of the process by which policy is translated into observed trade practices have been noticeably absent.

It is intuitively appealing to assume that policy governs, or is directly linked to trade practices. It is theoretically interesting, therefore, that policy does not always predict to trade practices. The formation and legislation of trade policy is inherently political, reflecting the culmination of domestic struggles between producers and consumers, between importers and exporters, between import-competing and downstream firms, and between other trade antagonists. Legislation may also reflect an effective ratification of the Executive's foreign policy (that is, the enactment of international trade agreements) after partisan or regional interests-
competing struggle in Congress. In other words, legislated trade policy may be seen as the US's final determination, after much pulling and hauling, about how to go about deciding who gains and who loses when there are competing interests with respect to imports. Theoretically, one might even guess that the politics is over at this point in the process since legislated policy provides an objective and established means for resolving conflicting claims.

Discrepancies between policy and practice, however, suggest that another political struggle occurs during implementation of policy; that is, there is another domain of political competition that is resolved between the resort to trade policy and observed trade practices. For instance, in the past, both the textile and footwear industries have filed similar claims of injury due to foreign imports under the same escape clause section of US trade law. Extensive US government intervention on behalf of the textile industry is well-documented, surely due to the prominence of the US' Multifiber Arrangement (MFA) on the agendas of the GATT rounds. On the other hand, after years of footwear industry escape clause petitions, government remedial intervention on behalf of the footwear industry never reached the levels of market restrictiveness obtained by the textile industry.\(^1\) In other words, despite similar petitions under the same trade legislation during the same time period, implementation of that legislation resulted in trade practices that varied between the two industries. US trade practices could have been anticipated according to legislated trade policy for the textile industry, but not for the footwear industry.

Scholars who have studied US trade often miss this point, and the result has been a plethora of studies that focus on explaining protectionist pressure and policy formation. The tendency is for students of US import trade to assume that protectionist pressure or legislated policy is an adequate measure of levels of US protectionism or openness. In fact, however, trade outcomes deviate frequently from the prescriptions of policy and, often, the outcome is substantially different than trade policy prescribes. In other words, the dominant studies in the area of US trade tend not to reflect empirically observed trade outcomes. By ignoring the process of implementation and actual trade practices, explanations and descriptions of US trade are based on only half of the story, and those studies' recommendations for policy are misguided at best.

This present study identifies conditions under which legislated trade policy does not predict US trade practices with respect to foreign imports, and proposes and tests a model for anticipating US trade behavior given those specified conditions. First, a review of existing research on US trade policy and practices is undertaken in order to clarify the tradition on which this study builds. Second, the conditions under which US trade policy does not predict to trade behavior are examined, and the model for anticipating US trade practices given these conditions is offered. The case-study method for testing the model is discussed, and the criteria for choosing cases is presented.

In the third part of this project, the footwear industry is investigated historically to provide the context for two case studies that follow. Next, the model is assessed
in terms of each case study. Finally, the concluding section evaluates the usefulness of the model and advances considerations for future research.

The remainder of this chapter introduces the argument on which this project's model is based.

The Argument

The argument developed in this study is that the discrepancy between US legislated trade policy and US foreign import practices can be explained using a systematic approach for understanding decisionmaking by the President. Why has the US sometimes accommodated domestic demands for protection from competing imports and sometimes not? How can one account for the ostensibly "schizophrenic" US behavior regarding the openness of its markets?²

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PROCESS LEADING TO US TRADE PRACTICES
FIGURE 1.1

The sources for variability in US trade practices can be traced to two distinct periods of political competition in the process leading to US trade behavior with respect to market openness (see Figure 1.1). The first occurs with the politics surrounding the formation of trade legislation (Pre-Policy Process in Figure 1.1). Here, workers', firms', and industries' claims about fair and unfair trade practices of foreign countries and firms, about competitive and noncompetitive conditions in the US, and about interests-specific and over-arching policy fuel the politics leading to the formation and legislation of policy about US trade practices. As will be discussed in the review of the literature in Chapter 2, this process of the formation of legislated policy has been widely studied.

A second source for variability in US import behavior occurs during the implementation of US legislated trade policy (Implementation Process in Figure 1.1); that is, the process by which legislated policy is translated into the import practices that reflect the degree of openness of US markets. This second occasion for political competition, explaining how and under what conditions US trade practices deviate from legislated trade policy, is the subject of this study.

The President is the effective final authority and, hence, the final arbiter of the political competition during the implementation of trade law dealing with injury

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due to fair trade⁴, market disruption due to communist country imports⁵, and injury
due to non-Title VII unfair practices⁶. In order to explain the way in which
implementation leads to trade practices that deviate from legislated policy, it is
necessary to examine systematically presidential decisionmaking once injury due
to imports has been determined according to the strictures of legislated trade policy.
The pivotal nature of presidential decisionmaking in this process can be demon­
strated by recalling some of the more familiar examples.

For instance, in 1980, US automakers sought import relief with a massive
($83 billion) escape clause petition against all automobile imports from Japan and
Germany.⁷ By a vote of three to two, the International Trade Commission (ITC)
issued what was considered a surprising finding that "automobiles were not being
imported in such increased quantities as to be a substantial cause of serious injury,

⁴ Injury in fair trade cases refers to the "escape clause", which is the safeguards provision (Article
XIX) of the General Agreement on Tariffs and Trade (GATT). Over the years, it has been legislated
as Section 7 of the 1951 Trade Agreements Extension Act; Section 301 of the 1962 Trade Expansion
Act (19 USc 1901(b); 19 USC 1901 (c)(1); 19 USC 1902(c)(2)); and Section 201 of the Trade Act of

⁵ Section 406 of the Trade Act of 1974 (19 USC 2436).

⁶ This refers to injuries due to unfair import practices of foreign countries that are not covered by
countervailing duty and anti-dumping sections of trade law. Non-Title VII unfair practices are
addressed in Section 337 of the Tariff Act of 1930 (19 USc 1337).

#TA-201-44, ITC Publication #1110. The "escape clause" refers to US legislation of the safeguards
provision (Article XIX) of the GATT, to which the US is a signatory, and which permits a country to
temporarily "escape" from its obligations with respect to a product when increased imports of that
product or a directly competitive product are causing or threatening to cause injury to domestic
producers of that product (Annual Report of the United States International Trade Commission,
various issues). At the time of the subject case, US escape clause provisions were embodied in
or the threat thereof. The negative finding was based on three commissioners' determination that the recession of the late 1970s was a larger cause of injury than import competition. According to the Trade Act of 1974, "substantial cause" is defined as "cause which is important and not less than any other cause," and increasing imports (although recognized by the three commissioners as injurious to the domestic industry) did not meet the "substantial cause" criteria when stacked up against the injury caused by the recession.

Critics were many, especially among members of Congress, and their views echoed those of the two dissenting commissioners. As Cohen et al. (1996) explain the opposing view,

the [late-1970s] recession itself was aggravated by the high unemployment in the U.S. car industry, and the recession also made less expensive, more fuel-efficient cars more attractive to the U.S. consumer. The recession was both cause and effect of the increase in imports that hurt the U.S. automotive industry. By treating all of the economic indicia associated with a recession as a single cause, the ITC established a principle that would make it difficult for producers in any industry during a recession to prove that imports are a more important cause of injury than the recession itself.

The year in which the petition was submitted, 1980, was an election year and, as Destler (1992) notes, it was widely considered a "political blunder" on the applicants' part to delay their petition until June since the ITC would not reach its

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8 ITC Publication #1110.

9 19 USC 2251. This understanding of "substantial cause" would later be revised in Section 202(c)(2)(A) of the 1988 Omnibus Trade and Competitiveness Act.

finding until after the November election. Alfred Eckes (1995), former ITC commissioner and Chair, provides a more detailed account. He says that President Carter expected an affirmative ITC finding, and sought to expedite the ITC investigation so that a favorable determination would be issued before the presidential election. However, the ITC's negative determination wasn't reported to the President until December 3, 1980, and, ironically, all three of the majority commissioners were precisely the three sitting commissioners who had been appointed by the President.

President Carter immediately directed his administration to "respond promptly and decisively," but it would be his successor, President Reagan, who would find a way to circumvent the ITC determination. The Reagan Administration would negotiate with Japan, and Japan would agree to voluntary export restraints (VERs). In March, 1981, the Japanese Government announced that it would voluntarily restrict passenger car exports to the United States beginning for the year April 1, 1981, and for the following two Japanese fiscal years.


12 Eckes (1995) offers his well-informed opinion: "Had the commission voted before the presidential election, or had Carter won, the domestic auto industry probably would have prevailed. One commissioner construed Carter's defeat at the polls as providing freedom to vote against protection for the U.S. industry. A second probably would have shifted sides, producing at least a 4-to-1 vote for escape clause relief." (p. 342, fn 109).


14 It is interesting to note that, despite widespread perceptions to the contrary, the Reagan administration "granted more import relief to US industry than any of his predecessors in more than half a century." (James A. Baker III quoted in Nivola, 1993:17). Equally interesting, the Carter Administration was one of the least sympathetic to petitioners for import relief.

Analyses that focus on the process of trade policy formation do not address the Executive's implementation of trade policy and, therefore, would not have been able to predict to the outcome in the foregoing case. In other words, US legislated trade policy should have led to a free-trade outcome, but the result was a protectionist non-tariff barrier to trade (NTB).

The case demonstrates that understanding policy implementation is an essential link between the formation and legislation of US trade policy on the one hand, and US behaviors with respect to imports on the other. Indeed, Cline (1983) says that "the widespread perception that the US market is substantially more open than foreign markets has little empirical support...." These perceptions of openness are based on the language in the US Code which addresses trade policy, the nature of US involvement in multilateral trade negotiations (MTNs), and/or actual relative levels of tariff barriers to trade. However, as Cline and others have noted, measures of US market openness often exclude levels of non-tariff barriers to trade.

Even so, an important part of the model developed and tested in this study rests on the argument that the difference between trade policy and trade outcomes entails more than the resort to NTBs; that is, implementation entails more than the


\[ \text{The GATT produces an annual compendium of non-tariff barriers to trade by country. Although generally useful, particularly for arguments like Cline's, it is widely considered to underestimate the extent to which countries resort to NTBs.} \]
binary option of either protectionism or free trade. Nollen and Quinn (1994) found that there are three distinct and identifiable conceptions or types of intervention: "fair" trade, "strategic" trade, and protectionism. This is useful in the current context because, where legislated trade policy appears to comply with international agreements when intervention is warranted, the nature of implementation may be either more restrictive or more open than legislated policy would otherwise prescribe.

For instance, policy may prescribe a "fair" trade type of intervention, but implementation may result in "strategic" or "protectionist" types of remedy. Hence, explaining the difference between policy and outcome involves more than examining the extent to which decisionmakers resort to NTBs, but also involves a decisionmaker's interpretation of what constitutes a justifiable level of intervention. In fact, as is often the case, a trade outcome may reflect "free" trade implementation despite an interventionist policy prescription, creating greater market openness of trade outcomes than can be observed merely by looking at trade law and levels of NTBs. In other words, the distance between the prescriptions of policy on the one hand, and trade practices on the other, is explained not only by NTBs, but by both "legitimately" more restrictive and less restrictive types of remedies. This latter, more nuanced effect of trade policy implementation is due to variability in decisionmakers' interpretations about US trade law, about domestic micro- and

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macroeconomic conditions, and about the effects of the demands of the international trade environment. A few examples help to demonstrate this point.

In 1984, ten domestic copper producers filed a petition with the ITC for import relief under Section 201 of the Trade Act of 1974. All five ITC commissioners participating in the investigation found that imports were seriously injuring the domestic copper industry. In other words, US trade law permitted intervention that was compliant with international agreements, and provided guidelines for the implementation of that intervention.

In an announcement on September 6, 1984, the President rejected the ITC's recommendation of intervention on grounds of "national economic interest". Without reference to the ITC finding of injury, the President said that "import restraint would complicate efforts to stabilize the international financial system and reduce the ability of foreign countries to import goods from the US." The President further said that "there are encouraging signs that the economic recovery is beginning to have a favorable effect on world copper prices....[and] denial of import relief on copper should act as a signal and as encouragement to our partners around the

---

20 Case #TA-201-52, ITC Publication #1549.

21 1984 Annual Report, United States International Trade Commission. However, the ITC commissioners split in their recommendations to the president for remedy; two commissioners recommended tariffs, two commissioners recommended quotas, and one commissioner recommended no relief (despite an affirmative injury finding).

22 Filed with the Federal Register on September 7, 1984.

23 Weekly Compilation of Presidential Documents.
world to resist protectionist acts and, thus, will foster that recovery." In this case, implementation resulted in more open markets than trade policy would suggest.

In the following year, the President responded to a "sense of Congress" in which Congress urged the President to negotiate voluntary export restraint (VER) agreements "for the purpose of effecting a balanced reduction of total annual foreign copper production for a period of between three and five years." The President directed the United States Trade Representative (USTR) to conduct new investigations and, upon receiving the report, again rejected import relief for the copper industry. He said that such intervention was "inconsistent" with his administration's policy to "increase the responsiveness of the domestic and international economy to market forces" and that, historically, such measures often had been inefficient and ineffective.

It is important to note that Congress has reserved the right statutorily since 1958 to reverse presidential decisions so that, technically, the President does not have the final authority on Section 201 cases. But as Nivola (1993) and others have pointed out, such legislative vetoes are seldom, if ever, cast. Nivola says that "doing so would mean resuming full responsibility for explicit acts of protection,

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24 Ibid.


26 However, the President did provide adjustment assistance for copper workers under Title III of the Job Training Partnership Act (JTPA).

27 See footnote #3.
something most congressmen...would rather avoid." Again, in addition to the prescriptions and proscriptions of trade law, the President's implementation is important for anticipating trade behaviors, and it relies on the decisionmaker's interpretation about what constitutes appropriate remedy, about domestic micro- and macroeconomic conditions, and about the effects of the demands of the international trade environment.

In another case (1954), an escape clause petition was filed with the Tariff Commission (TC) for relief from imports of lead and zinc. The TC found that foreign imports had caused injury to domestic producers, and recommended that tariff concessions to importers be modified. In letters to the Chairs of the Senate Finance and the House Ways and Means Committees, the President requested an extension on the period for reviewing the case.

On August 20, 1954, the President rejected the request for import relief. He said that a "serious question exists as to the magnitude of the direct benefits that could be expected from the recommended tariff increases" and that he was not

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28 Nivola, P.S. (1993), op. cit., p. 60. In fact, the Supreme Court's ruling that congressional concurrent resolutions cannot constitutionally override presidential determinations (Immigration and Naturalization Service v. Chadha) applies here as in other areas of the US Code. In the Trade and Tariff Act of 1984, Congress corrected for this potential limit to its authority in trade matters by substituting "joint resolution" for "concurrent resolution" (See Nivola, p.166, fn. 32).

29 Recall that the "escape clause" refers to Article XIX of the GATT. During the period of this early case, case numbers were not used and individual case publications were not issued. At this time, the relevant section of the US Code that complied with international agreements on the escape clause was Section 7 of the 1951 Trade Agreements Extension Act (TAEA). The Tariff Commission, statutorily responsible for escape clause investigations at this time, would be renamed United States International Trade Commission (USITC or ITC) in the Trade Act of 1974.
prepared to seek such benefits at the "expense of the serious adverse consequences that could follow for our international relations."³⁰

In both of these cases, the distance between US trade policy and trade behavior is explained by a president giving greater weight to the international trading environment and its effect or potential effect on the overall US economy. The trade outcomes reflected more market openness than traditional measures would uncover.

In yet other examples, observation of the more nuanced aspects of trade policy implementation demonstrates a more restrictive trade policy outcome than would be found by measuring tariff levels or by using a catch-all category for NTBs. Generally, these are cases where a president accepts ITC commissioners' findings, but chooses to implement more restrictive remedies than those recommended in the ITC report to the President. For instance, the President imposed fees that were higher than those suggested by the ITC in its 1954 recommendation to modify concessions in an escape clause case concerning Alsike clover leaf. In 1958, in the fourth investigation of injury to the industry for spring clothespins, the President concurred with the ITC finding, but rejected the ITC remedy for modifying concessions to the foreign country and imposing an absolute quota. Instead, the President withdrew the entire concession.

Other cases where the decisionmaker's action leads to more restrictive trade outcomes are those where a president accepts an affirmative finding of injury when

ITC commissioners are equally divided in their finding. This was the outcome for several of the cases in the 1970s. Among them were: high-voltage electrolytic capacitors; women's dress shoes; components of TV receivers; automotive soft trim; women's and misses' footwear; television receivers; and pipe organs.

The direction and nature of implementation then, is an important link between the prescriptions of legislated trade policy and trade outcomes.

Policy implementation has had practical relevance. A topic that increasingly is drawing the interest of scholars and, more important for the purposes here, provides effective acknowledgement that there has been distance between trade policy and outcomes, is an ostensible tendency of US trade policy in recent years to move away from multilateralism to bilateralism. The contention is that

31 Section 330(d)(1) of the Tariff Act of 1930 establishes that, when the finding and/or recommendation of the ITC commissioners is equally divided in an escape clause case, the President may consider the findings of either group to be the findings of the Commission. Later, in a refinement of this section, the Department of Justice determined that the President may break a tie vote and act on the findings of either group of commissioners. Note that this is different from the way in which ITC divided findings are handled in Title VII ( antidumping and countervailing duty) cases.

32 The ITC case numbers and ITC publication numbers for these and others are available from the author.

"administered protection" is supplanting a reasoned interpretation and application of trade legislation. That is, trade legislation increasingly reflects a set of rules that more closely regulate applications of and restrict deviations from Congressional interpretations of trade policy. Administered protection or "process protectionism" means reliance on rules to determine what is fair and unfair, and a reliance on rules to determine remedy.

As is discussed in Chapter 2, trade law in the postwar era until the 1970s had reflected Congressional efforts at least to appear to depoliticize decisions about trade. This had meant shifting culpability for trade outcomes to the executive branch, a branch of government which is more insulated from the political pressures of Congress' constituents. Members of Congress could rest assured that levels of protectionism were minimized while, at the same time, use rhetoric to appear to constituents to be concerned about increasing levels of import penetration, import-related unemployment, plant closings, and so forth. In short, the President had been given wide latitude for interpretation and implementation of legislated trade policy.

Many scholars argue, however, that there is a tendency toward administered protection since the 1970s, and this move away from presidential discretion has left

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34 Both Bhagwati (1989) and Destler (1986) are often cited as the works in which the concept, "administered protection", was first used. However, Bhagwati (1993 [1989]) attributes the development of the underlying argument to Nelson (1987). Destler may have coined the term, "process protectionism", which has the same meaning.

no room for consideration of the interests of consumers or for national interests, and is resulting in an effective rejection of multilateralism. In other words, the narrow interests of demanders of protection are not counterbalanced by the broader interests of US society and, in fact, eclipse any mitigating considerations of foreign relations, damage to the beneficial open international trading regime, and so forth. Low (1993) contends that Congress, in its efforts to gain greater control over the implementation of policy, is effectively re-politicizing the formation of trade policy when it removes or limits the discretion of the President. Krueger (1995) says that the result is a "schizophrenic" US trade policy where, on the one hand, "US policy supports an open multilateral trading system. At other times, it relies on bilateral trading relations and uses the rhetoric of 'fair trade' as a screen behind which to follow protectionist practices. The sense of Baldwin's (1985) conclusions reflects these concerns as well. Destler (1995) succinctly summarizes the observation:

Champions of [administered protectionism] defended it as a way to "depoliticize" trade issues, to "run trade on economic law". They were seen as a way to keep trade decisions "out of politics", and petitioners off legislators' backs, by establishing objective import relief rules that governed the strong and the weak alike. For major industries, however, this was not the actual result....[The] effect -- and often their clear intent -- was not to lower the political temperature but to raise it. In the large cases, "the rules" changed from a means of diverting political pressure to a means of asserting it. Typically, the policy result was not the remedy specified in law but new "special case" protection for the claimants. (p.140).

36 See especially his Chapters 3 and 4.

37 Krueger (1995), op. cit., p. 33. See especially chapters 2 and 3 for a more complete exposition of her argument.
For the purposes here, the whole discussion surrounding the apparent movement away from multilateralism and towards bilateralism or "aggressive unilateralism" is practical acknowledgement that there has been distance between trade policy and outcomes. Administered protectionism effectively means the elimination of or increasing limits to the President's discretion, and these changes to US trade law since the 1970s are the results of Congress' dissatisfaction with the trade outcomes that followed the way in which the Executive has implemented policy. In short, Congress has recognized that the implementation of policy by the President has created an unacceptable distance between policy and US trade behaviors.

Since it is often the case, however, that the President retains a high level of discretion in certain types of trade cases, an analytical approach is needed that can establish the conditions under which decisionmaking by the President does make a difference to trade outcomes, and what the nature of those decisions will be.

An example helps to demonstrate that decisionmaking is a key source for variation in this link between US policy and behavior. In 1976, the nonrubber footwear industry filed an escape clause petition with the ITC, resulting in an affirmative finding of serious injury caused by imports.\(^{38}\) President Ford rejected the ITC recommendation for remedy and, instead, provided for adjustment assistance to the domestic industry. In 1977, when the nonrubber footwear industry filed the escape

\(^{38}\) ITC case \#TA-201-7, ITC publication \#758.
clause petition again, President Carter expanded the adjustment assistance provided a year earlier, but also negotiated an orderly market agreement (OMA) for voluntary export restraint by principle suppliers (Korea and Taiwan). The petitioning industry was the same in each case, five of the six commissioners voting in each case were the same, and there were no relevant changes to trade law in the single year that separated the two cases. Why did implementation and trade practices differ? Why did one president choose a free trade outcome while, under similar conditions, another president chose a protectionist NTB trade outcome? This example, as well as others above, strongly suggest the usefulness of understanding the decisionmaking of the President if we are to anticipate US trade practices with respect to imports.

As will be further elaborated in Chapter 3's development of this project's model, the US International Trade Commission (ITC) determines the types of actions that are warranted according to US legislated trade law. Between 1952 and 1994, the ITC's findings were affirmative 25.4% of the time for escape clause and Section 406 cases. The President rejected or modified 64.7% of the ITC affirmative findings and/or recommendations. That is, for fair trade cases since 1952 that were determined according to US trade law to have involved injury due to imports, trade practices deviated from trade policy almost 65% of the time. The model proposed

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39 ITC case #TA-201-18, ITC publication #799.

40 As Nivola (1993) and Baldwin (1985) have pointed out, most methods used to measure the rate of affirmative ITC findings probably underrepresent the actual rate. Even though a petitioner's filing may receive a negative ITC determination or presidential override in one year, the same claim may be filed as a separate case in another year. There is no data about the rate at which re-petitioned cases result in the same or in different determinations.
in Chapter 3 and tested in Chapter 5 provides one approach for explaining this discrepancy between policy and practice. When the ITC finds affirmatively, according to legislated strictures that injury due to imports has occurred, why does the President sometimes adopt the remedial action recommended by the ITC, and sometimes not?

The central argument for this study is that a systematic understanding of presidential decisionmaking is important for understanding trade practices in fair trade cases. This argument follows from the observation that a unique process of political competition and decisionmaking has been relegated to the margins of other investigations into the sources of US trade behaviors. Political competition between demanders and suppliers (including both Congress and the President) of government intervention is typically understood to occur during the formation and legislation of policy, and it is assumed that these analyses explain the ensuing trade practices. This study argues that, once the initial political competition has resulted in legislation, a second occasion for political competition arises for the universe of cases investigated here. The structure of this second process is different in that the President's decisionmaking process becomes pivotal.

This project's contribution can be better appreciated through a review of the existing literature on which this study builds. The following chapter provides such a review. Chapter 3 develops the model proposed as an explanation for outcomes in fair trade cases given policy, and discusses the methodology used to test the model. Chapter 4 provides an orientation assessment for each US President since President Truman in 1952. Chapter 5 provides two case studies as a test of this
project's model, and Chapter 6 concludes with an evaluation of the model, its contributions, and considerations for future research.
CHAPTER 2

REVIEW OF THE THEORETICAL LITERATURE

This chapter considers the theoretical foundations on which current understandings of US foreign trade policy and practice are based. Since the "central puzzle" of this project concerns the distance between US legislated trade policy and trade outcomes, this review set out to uncover the arguments in previous works that had been used to explain specific trade outcomes. These are surprisingly few.

The dominant literature\textsuperscript{1} with respect to US trade employs societal, or pluralist, models. Largely based on public choice theory, these models reflect the argument that protectionist pressure is determinative in the process of policy formulation, and they assume protectionism; that is, protectionist policy is effectively considered a proxy for a country's level of protectionism, with little or no empirical observations on actual trade practices. If trade outcomes are addressed at all, it is assumed that there is no distance between policy and practice. As a more

established area of research\(^2\), this body of literature is relatively cohesive and consistent, with broad agreement on what constitutes the dependent variable and how it is measured.

Another body of US trade literature, the decisionmaking theories, is specifically organized around constraints on decisionmakers in order to explain trade outcomes.\(^3\) Scholars within this tradition tend largely to dismiss as unimportant protectionist pressure from constituents. Especially in the United States, the executive branch of government is considered to be insulated from constituent pressure and, therefore, autonomous and relatively unconstrained by policy when making decisions with respect to international trade. These models reflect the argument that, in order to explain the ostensible vagaries of trade outcomes, decisionmakers' values, belief systems, and world views are constraints on decision choices. In some versions, institutions and political processes also are argued to be constraints on decisionmakers' choices. This body of literature is less consistent in terms of agreement on the dependent variable and how it is measured and, as Odell (1990) and others have complained, many of the efforts have suffered from a lack of precision and external validity.

Although the societal and decisionmaking approaches appear to be at odds, an emerging literature finds complementarity between them, and provides

\(^2\) The seminal work of this tradition is generally considered to be E.E. Schattschneider (1935), *Politics, Pressures and the Tariff*, New York: Prentice-Hall.

\(^3\) J.S. Odell (1990), "Understanding international trade policies: An emerging synthesis", in *World Politics* (43:139-167).
Research in this area tends to adopt the empiricism of the societal models while recognizing the importance of decisionmaking processes for understanding trade practices. Too, this research acknowledges that the autonomous decisionmaker is not completely independent of congressional and interest group pressures. Nonetheless, an important shortcoming is that, while this approach examines constraints on alternatives, it does not identify the alternatives that are being constrained.

Within the societal perspective, three important interrelated explanations for trade outcomes are domestic macroeconomic conditions, US congressional autonomy, and interest group pressures. The decisionmaking perspective includes both the "statist" perspective and a literature on elite decisionmaking. This chapter considers each of these areas of scholarship, examines in detail some of the prominent contributions, and suggests theoretical shortcomings for explaining US trade policy outcomes.

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Societal Perspective

The three explanations to be considered under the societal perspective rely heavily on public choice theory, and fundamentally assume that government is, first, a rational actor with given, measurable interests. Second, government's decisions in its redistributive function reflect changes in material constraints for achieving those interests, holding preferences constant in order to "prevent the analyst from succumbing to the temptation of simply postulating the required shift in preferences to 'explain' all apparent contradictions to his predictions."6 In other words, government's decisions about who wins and who loses vary according to changes in available resources, political or economic conditions, changes in technology, and so forth, but not according to potential changes in preferences that may arise due to new leadership, "learning", differences in policymaking process, or social and institutional change.

In the more extreme versions of the interest group explanation, there is a "political market for protection", with government supplying or withholding protection according to whether or not its interests in self-preservation (re-election) are served.8 In fact, Magee and Young (1987) say that the role of policymakers is negligible in the long run, becoming little more than that of "an auctioneer in a

5 Some scholars use "societal" and "pluralist" interchangeably when describing this perspective. Others specifically reserve "pluralist" for pressure group theories only. I do not distinguish between these terms here, but will use the term, "societal", to avoid confusion.


product market". That is, the competition between the narrow interests of lobbies and the broad interests of voters are "equilibrated" by policy which is "not under the control of policymakers". The authors say that "trade policies are equilibrating variables that clear political markets; they are analogous to prices in product markets, which balance the quantity demanded against the quantity supplied." Trade policy, according to this perspective, is the result of rational utility maximizers responding to changes in economic conditions.

Constant, knowable interests and preferences are the two main characteristics of the economic theory of politics, or "public choice". The public choice approach attempts only to "explain uniformities in social order" and is "unconcerned...about the ethically relevant characteristics of the [predicted] behavior"; that is, adherents of public choice approaches claim that their predictions are based on analytically objective descriptions of patterned behavior, eschewing the subjectivity inherent in prescription.

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10 Ibid.


13 Buchanan and Tollison (1984) say that the economic approach to behavior models the behavior of persons in "well-defined market processes." With respect to criticisms of this approach, they say, "But it should be apparent that when attempts are made to stretch the central predictive model beyond these confines [of well-defined market processes]... the criticisms stemming from nonpredictive and nonscientific sources should be intensified." (17).
As is apparent in the following, these three explanations (domestic macroeconomic conditions, congressional autonomy, and interest groups) are interrelated in that each incorporates the theoretical propositions of the others, while emphasizing the key nature of its own explanatory variables. For instance, economists tend to prefer to explain trade outcomes in terms of macroeconomic conditions because these conditions are seen as a source for the behaviors of congress and interest groups as each pursues its respective interests. Hence, while congressional interests and interest groups' demands are necessary for understanding the process by which macroeconomic conditions lead to trade policies or outcomes, macroeconomic conditions are necessary and sufficient variables for predicting to the outcomes. On the other hand, scholars for whom congressional interests are central explain that economic conditions and interest group pressure may influence what a congressman perceives to be his/her interests. However, the congressman is largely autonomous in this explanation, and it is his/her "rational", self-interested behavior that predicts to trade policy and outcome given economic conditions and interest group pressure. Similarly, the interest group literature argues that actors with interests vested in particular trade outcomes become mobilized and vocal due to unfavorable and uncompensated economic conditions, and the resulting interest groups indirectly shape trade outcomes by lobbying members of Congress with their demands. However, according to this literature, it is the immediate-term, self-interested behavior of interest groups that most effectively predicts to trade policy and outcomes.

The remainder of this section considers these arguments in more detail.
**Domestic Macroeconomic Conditions**

Among the macroeconomic factors that have been argued to be determinants of trade policy or trade outcomes are real exchange rates, real interest rates, employment levels, unemployment, GNP growth (or, domestic activity), and the trade balance. As Dornbusch and Frankel (1987) explain, whichever macroeconomic variable is considered, there is an underlying assumption that the variable is causal in reducing demand for a domestic firm's or industry's products that compete with similar or substitutable imports. Reduced demand for domestically produced products reduces firms' profits, resulting in unemployment in that industry as well as in upstream and downstream industries, and potentially jeopardizing the viability of the industry as a whole. When demand reduction is the result of cheaper imports, firms, industries, labor unions, trade associations, and so forth share a common interest in restricting or eliminating the competing imports. Typically, they join forces in order to lobby congressional members, exchanging votes and campaign contributions for favorable policy implementation or new legislation.

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16 Some scholars do not cast their nets as wide in order to identify economic agents demanding import relief or protection. For instance, Milner (1988) argues that the firm should be the unit of analysis, and that the level of export dependence and multinationality of the firm is determinant of the demand for protection. See Resisting Protectionism: Global Industries and the Politics of International Trade, Princeton, NJ: Princeton University Press. Destler and Odell (1987) argue that the higher the actual opposition activity in proportion to potential opposition, the more likely that demands for protection will be derailed, regardless of larger absolute numbers of trade restraint demanders. See Anti-Protection: Changing Forces in United States Trade Politics, Washington, DC: Institute for International Economics.
Scholars have attempted to predict trade policy and outcomes by examining the changes in macroeconomic variables most likely to bring about these protectionist pressures. In a widely cited paper, Takacs (1981) was the first to offer a systematic empirical study of the relationship between macroeconomic variables and protectionist pressure on the one hand, and protectionism on the other. Protectionist pressure was measured by the number of escape clause petitions for protection for the years 1949 through 1979. She hypothesized that the higher the unemployment rate, the larger would be the number of escape clause petitions. Takacs assumed that unemployment was the result of competitive imports, reducing domestic firms' profits and resulting in worker layoffs. Additionally, she hypothesized that protectionist pressure would decrease as GNP and capacity utilization increased. GNP was used to measure the level of economic activity, while the rate of capacity utilization was to capture cyclical forces.

Takacs expected that protectionist pressure would increase with decreases in another macroeconomic factor, the trade balance (exports minus imports), for two reasons.

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18 Given that Takacs' assumption was limited to the effect of unemployment on workers, one would expect that she would have found significance for the unemployment variable only between 1962 and 1974. The 1962 Trade Expansion Act (TEA) was the only legislation that specifically made provision for affected workers to petition for relief or remedy. The 1962 TEA was replaced by the 1974 Trade Act, which removed the provision for workers' petitions to the ITC under the escape clause, and transferred that function to the Labor Department. That Takacs found significance for the unemployment variable independent of time suggests more wide-ranging effects than those concerning disaffected workers.

19 Dornbusch and Frankel (1987) also used GNP as a measure of economic activity.

20 Demand for protection runs countercyclically with the health of the economy. See, for instance, Cline (1989); Dornbusch and Frankel (1987); Magee and Young (1987); inter alia.
reasons. The increasing/decreasing trade balance is commonly considered an indicator of decreasing/increasing competitiveness. During periods of declining competitiveness, unemployment rises as imports increase, leading to pressure for government to restrict or eliminate imports. Second, governments have an incentive to erect trade barriers during periods of declining trade balances for balance of payments purposes. Takacs also examined import market share, using the same assumptions about the effect on protectionist pressure as she used for the trade balance.

In summary, Takacs regressed the number of escape clause petitions on GNP, the unemployment rate, capacity utilization, the trade balance, and import penetration in order to test to what extent macroeconomic variables influenced protectionist pressure. Since there was a high potential for multicollinearity among the variables, each equation that Takacs estimated contained GNP, either unemployment or capacity utilization, and one of the other variables. In every variation of the equations estimated, the results indicated that macroeconomic conditions significantly affected protectionist pressure.\(^1\) In other words, at least with respect to petitions for protection under fair trade laws, measures related to US cyclical economic activity and competitiveness predict to protectionist pressure.\(^2\)

While Feigenbaum, Ortiz, and Willett (1985) found that the quantitative strength of Takacs' variables may have been exaggerated, they similarly concluded, even with


\(^2\) Takacs also examined whether or not the rate of previous successful petitions predicted to protectionist pressure. The results indicated that a "demonstration effect" did, indeed, exist. (p. 690).
their adjustments, that these macroeconomic factors "significantly" influence protectionist pressures.  

Despite consensus on the importance of Takacs' contribution, the literature generally settles on only unemployment levels and exchange rates as the most important macroeconomic factors explaining demand for protection and, hence, trade policy and/or practice. Changes in levels of output, the trade balance, and real interest rates are fundamentally a result of changes in the exchange rate. Both Cline (1989) and Bergsten and Williamson (1983) go further; they argue that since even changing levels of unemployment can be explained in terms of the overvaluation or undervaluation of the dollar, exchange rates alone are the most important macroeconomic factor for explaining protectionist pressure. Bergsten and Williamson say, "Overvaluation of the dollar has proved to be an accurate 'leading indicator' of trade policy in the United States -- perhaps the most accurate of all such indicators -- in the postwar period." Similarly, Dornbusch and Frankel (1987) say

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25 Cline (1989), p. 123. Bergsten and Williamson (1983) say that, for instance, because exchange rates have an impact on international trade flows, they affect output, employment, inflation and so forth (109).

that "hypotheses concerning the exchange rate may be the most important macroeconomic theories of protection."

Nonetheless, macroeconomic factors have proven to be less reliable for predicting to trade policy and practices than its proponents have suggested. For instance, Bergsten and Williamson (1983) begin their paper by arguing that exchange rates influence policy: "From the standpoint of trade policy, the chief implication [of persistent overvaluation of a country's exchange rate] is the pressure that is generated for protectionist measures." The paper proceeds to criticize the US response to misalignment, explaining that currency overvaluation leads import-competing firms to demand protection, and this protectionist pressure translates into restrictive changes in trade policy rather than, more appropriately, to modifications of monetary policy. In order to demonstrate their argument, however, Bergsten and Williamson say that misaligned exchange rates explain the three periods of major conflict between the US and Japan (1971, 1977-1978, and the early 1980s), and that monetary policy was successfully employed to resolve competitiveness issues. In other words, the argument they develop is that "misaligned" exchange rates explain restrictive changes in trade policy, while the evidence they provide


29 This is an oversimplification of a very interesting paper in order to make the point that the authors' dependent variable is trade policy when they develop their argument in the first part of the paper. In fact, the authors argue that it is "misalignment" of exchange rates, both overvaluation and undervaluation, that leads to protectionist pressures/policies that endure beyond the incidence of misalignment.
demonstrates how exchange rates that have been re-aligned through changes in monetary policy explain the outcome of the "tensions" between the US and Japan.

There are two points worth noting at this point. First, relevant trade policy and practice remained constant during these periods. Although Bergsten and Williamson's point is to demonstrate how intervention with monetary rather than with trade policy did provide a more efficient response to misaligned exchange rates, their evidence challenges their earlier arguments about the relationship between exchange rates and trade policy. The authors convincingly demonstrate that protectionist pressure resulted from the misaligned exchange rates between the US and Japan, but this pressure led neither to changes in trade policy nor to restrictive trade practices. In other words, their evidence suggests that protectionist pressure due to exchange rate misalignment results in changes in monetary policy, not in changes to trade policy or practice.

Second, as Dornbusch and Frankel (1987) explain, the misalignments of exchange rates between the US and Japan for the three periods of conflict "are not quite as neatly coincident with the three periods of trade friction...." The misalignments of exchange rates between the US and Japan for the three periods of conflict were not quite as neatly coincident with the three periods of trade friction. This was particularly true in the second period and, in the third period (1981-1984), the yen had been stronger, not weaker, than the dollar. Dornbusch and Frankel say that, in fact, only European currencies depreciated against the dollar during this third period, but the US/European relationship did not experience the same level of

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31 Ibid.
friction as the US/Japanese relationship. The point here is that, while macroeconomic factors appear to influence the level of demand for protection, they are not reliable for explaining changes in trade policy, and they are indeterminant in terms of trade practice.

Others have criticized this approach for similar reasons. For instance, Magee and Young (1987) find that the influence of some of the macroeconomic variables "frequently discussed in the literature" is "ambiguous" for the most part. While they do agree that an unemployment variable "obviously creates pressures for protection", they still conclude that "macroeconomic variables alone provided an incomplete explanation of the path of US tariffs." Hansen's (1990) criticism targets the literature more generally: "...it is frequently unclear whether the authors are measuring supply or demand or some convoluted combination of the two.... [and] the narrow focus of some of the studies leads to contestable conclusions." These criticisms reflect the question of whether or not macroeconomic variables predict to policy or to practice, despite convincing evidence that these variables are indicators of protectionist pressure. Part of the problem has to do with differences in the measurement of protection. For instance, Bohara and Kaempfer (1991) find that the "tariff rate is endogenous in the political system" because the price level, real GNP, unemployment, and the trade balance "cause" average

33 Ibid.
Takacs' (1981) measure for protectionism is the number of successful escape clause petitions which, in addition to tariffs, would include orderly marketing arrangements (OMAs), quotas and tariff-rate quotas, subsidies and other concessions to domestic industry. She finds that, of the macroeconomic variables generally considered in the literature, only the trade balance and import penetration are significant and, then, only weakly so. Magee and Young (1987), on the other hand, find that the influence of the trade balance, in particular, is unclear. Mansfield and Busch (1995) use non-tariff barriers (NTBs) as a measure of the level of protectionism, and find that "societal" variables improve the explanatory power of the macroeconomic variables. In short, an important shortcoming of this literature is that it is not consistently comparable across studies since the measurement of the dependent variable often varies across studies.

Another important shortcoming of the macroeconomics conditions approach is that politics is removed both from the understanding of policy formation, and from the process that leads to implementation. For instance, Destler and Odell (1987) and Mucciaroni (1995) have shown that opposition to protection can be sufficiently organized and articulate to influence trade outcomes. Through case studies, Yoffie (1983) has demonstrated that "trade barriers are erected for political reasons, and they operate in a political environment. This means that who gets what, when,

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and how is a function not only of the market but also of bargaining, implementation, coercion, and the use of symbols."\textsuperscript{37}

A final criticism of this approach to be discussed here is that it does not distinguish among the various trade laws. For instance, this approach does not distinguish between fair trade laws and unfair trade laws in determining levels of protectionism. The president is the final decisionmaker in fair trade cases, and the International Trade Commission (ITC) and International Trade Agency (ITA) determine the outcomes of unfair trade petitions. It is analytically misleading to assume that the protectionist pressure that results from macroeconomic conditions affects these different decisionmakers in the same way. Too, demanders for protection under unfair trade laws must show that an exporting country is engaged in unfair trade practices, while demanders for protection under fair trade laws must show that imports are increasing and are a substantial cause of injury. It is unlikely that changes in macroeconomic conditions will affect both types of demanders for protection in the same way.\textsuperscript{38}

In summary, macroeconomic conditions no doubt make a difference in terms of the pressure brought to bear on policymakers. However, it is unclear how and when these pressures translate into changes in trade policy and/or outcomes. Without the political aspects of policy formation and implementation, trade outcomes remain underdetermined by these variables.


\textsuperscript{38} Dornbusch and Frankel (1987) develop this argument a little differently but, essentially, they make the same point in terms of exchange rates. See pp. 94 & ff.
Congressional Autonomy

The fundamental assumption of the public choice theory of congressional behavior is, generally, that congressmen attempt either to maximize their chances of being re-elected or to satisfy their own policy preferences. The seminal work is the investigation of tariff legislation by Bauer, Pool, and Dexter (1972) beginning with the Trade Agreements Act of 1953 and ending with the Trade Expansion Act of 1962. According to Hayes (1981), Bauer et al. set out to find further support for the dominant pressure group theories of the time, which viewed the logrolling Congress as little more than brokers through which demanders for protection shaped legislation by virtue of their demands for protection. Bauer et al. uncovered two key findings that sharply contrasted with the pressure group theories. First, the authors found that interest groups were poorly financed, "ill-managed", and tended to seek support only from congressmen who already supported their cause. Hence, congressmen were not experiencing the levels of pressure from interest groups that pressure group theories assumed. Bauer et al. say that the interest


43 As is discussed in the next section, the prevailing explanation for trade policy formation was based on Schattschneider’s (1935) analysis of the Smoot-Hawley Tariff Act.

44 Bauer et al., p. 324.
groups were "at best only marginally effective in supporting tendencies and measures." Second, they found that opposing interests made a difference to the legislative outcome: "We do not deny that there were large numbers of pressure groups. We are certain that, whatever the outcome, it would have been quite different if all the organized interests groups on one side had been silenced, while all those on the other had remained vocal."

Bauer, Pool, and Dexter offer their "transactional model of political influence" to explain the formation of trade legislation in terms of an autonomous Congress. The authors argue that, since a variety of interest groups seek access to congressmen, congressmen have the latitude of picking and choosing which issues to pursue. As opposed to the pressure group theories, the transactional model reflects not only the political pressure from interest groups on congressmen, but the ability of congressmen to limit or extend their attention to interest groups. Bauer et al. say that the congressman

associates more with some kinds of people than with others, listens to some kinds of messages more than to others, and as a result hears from some kinds of people more than from others. [The congressman] controls what he hears both by his attention and by his attitudes.

They conclude that:

Congressmen have a great deal more freedom than is ordinarily attributed to them. The complexities of procedure, the chances of obfuscation, the limited attention constituents pay to any one issue,

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46 Ibid.
47 Ibid., p. 420.
and the presence of countervailing forces all leave the Congressman relatively free on most issues.\(^4\)

The work of Bauer, Pool, and Dexter provides the definitive understanding of how congressional interests are believed to singularly shape trade legislation.\(^4\)

The criticisms directed toward the transactional model generally have been arguments that this perspective overstates the autonomy of congressmen in the shaping of trade policy. For instance, Hayes (1981)\(^5\) says that the transactional model is a useful response to the "oversimplified" pressure group theories following Schattschneider's (1935) lead. Nonetheless, he says that what Bauer et al. "observe as the virtual irrelevance of groups to the tariff issue in the contemporary era may be properly understood as the virtual irrelevance of Congress to the tariff issue in this period."\(^6\) Hayes argues that the Reciprocal Trade Agreements Act of 1934 (RTAA) represented the dividing line which began the "contemporary era" because the 1934 RTAA delegated tariff negotiating authority to the president and effective regulatory authority to the Tariff Commission. According to Hayes, the RTAA effectively introduced delegation as a new option for congressmen and, in delegating tariff negotiations to the executive branch and regulatory powers the

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\(^4\) Hayes (1981) says that it is the degree to which interest groups are in agreement ("consensual") or in opposition to each other ("conflictual") that determines how autonomous congressmen really are. That is, the more consensual the interest groups seeking the attention of congressmen, the less latitude the congressmen have in pursuing their preferences. See M.T. Hayes, *Lobbyists and Legislators: A Theory of Political Markets*, op. cit.

\(^5\) *op. cit.*

Hayes says that interest groups do influence congressional decisionmaking by constraining the Congress' options for supplying legislation. Congressmen can choose no bill, delegation of responsibility for the outcome, or to take full responsibility by creating responsive legislation. When interest group pressure is largely consensual, "the environment facing the congressmen...is a comforting one.... The optimal strategy is obvious; where an issue affects all the active groups in the same way, the maximizing representative will vote with these groups regardless of how salient the issue." On the other hand, when the pressure from the variety of interest groups is conflictual, any solution...must somehow allow congressmen to avoid a clear-cut choice among contending groups while at the same time permitting them to at least appear to take a clear stand on the bill.... The key lies in Congress, as a body, avoiding choice among the conflicting groups.... The solution is to pass a bill that appears to be a victory to both sides [of competing interests].... This can be accomplished through legislation that delegates the real responsibility for choice among the competing groups to an administrative agency or the courts.... The rational response to conflictual demand patterns will be to avoid clear-cut choice among contending groups through legislative delegation.
In this way, Hayes (1981) provides a compelling argument that the Congress is not as autonomous as Bauer, Pool, and Dexter contend.56

Another criticism of the congressional autonomy explanation is that it does not explain trade outcomes. The congressional autonomy perspective assumes that Congress supplies or withholds the protection demanded by interest groups which are negatively affected by imports, and the resulting policy is assumed to be the level of US protectionism. First, Congress only rarely includes individual industries in trade legislation for fear of being unable to override an almost certain presidential veto.57 Hence, trade legislation tends to be general, affecting all industries, rather than targeting specific sectoral problems.58

Second, the reality is that trade policy is not a reliable indicator of trade outcomes. Policy may be protectionist, but practice may not be; this issue is the source for this project's inquiry. Congress itself has expressed concern over the distance between legislative prescriptions and implementation, particularly beginning in the 1970s. There has been an increasing frequency with which new trade legislation has appeared, and that legislation has included an increasing attention to the conditions and details of implementation. This suggests at least anecdotal

56 There are flaws, however, in Hayes' argument. Lenway (1985) points out that "Hayes misunderstands the role of the Tariff Commission in the US trade policy process" when he assumes that Congress delegated regulatory authority to this body (the International Trade Commission after 1974). See S.A. Lenway (1985), The Politics of US International Trade: Protection, Expansion, and Escape, Boston: Pitman Publishing Inc. (pp. 36 & ff.).


58 Nonetheless, particular sectoral problems may have provided the impetus for the nature of the resulting legislation.
evidence that the assumption that levels of US protectionism are indicated by policy is not useful.59

In summary, the congressional autonomy perspective overstates Congress' insulation from constituent pressure, and provides little guidance about how Congress, in fact, arrives at its policy preferences if not constrained by constituents. In addition, this perspective virtually ignores trade outcomes, presumably using policy and outcome interchangeably. Nonetheless, as will be discussed in the next section, the congressional autonomy explanation provides useful insights when the limits of the pressure group theories are considered.

Interest Groups

Schattschneider's (1935) analysis of the Smoot-Hawley Tariff Act of 1930 introduced the idea that interest groups are the most important variable for understanding trade policy and, hence, trade outcomes.60 61 The dependent variable was the tariff level. Schattschneider had expected that there would be interest groups both supporting and opposing increased tariffs and, hence, this balance among interests would lead to coherent tariff policy based on rules the Congress had set for itself in determining whether or not to supply protection. Instead, he

59 This point is addressed in detail in chapter 1 above.


61 Milner (1986) offers what she considers to be a unique interpretation of Schattschneider when she concludes that he was not a "pressure group theorist" as "most identify him"; rather, she contends that his was a state structure explanation. See H.V. Milner (1983), Resisting the Protectionist Temptation: Industries and Trade Politics in the US and France in the 1920s and 1970s, Harvard University, Ph.D. Dissertation, fn #30 & pp. 56 & ff.
found a protectionist bias in the process for hearing petitioners' demands. Congressmen were essentially exposed only to petitions from demanders for higher tariffs, and Congress raised tariffs for each petitioner, usually individual firms, that had requested an increase. Schattschneider concluded that, when constituent pressures for and against a trade issue are unequal, the groups with the higher levels of political activity will win the attention of the Congress and, hence, win favorable trade legislation. For Schattschneider, the legislative branch was an irrelevant variable for understanding trade legislation since it was his observation that tariff levels varied directly with variation in the demands of interest groups.

Olson (1971) contributed to this literature with his theory about the conditions under which groups with common interests will organize. He theorized that, when there are common "goods" from which no interested actor can be excluded, there is a disincentive for actors to contribute to the provision of that good and, therefore, little likelihood that groups would organize to pursue the common interests of its members. He called this obstacle to organization the "free rider problem".

In order to explain the observations that groups of actors with common interests do, in fact, organize, Olson concentrated on the size of groups. He argued that when groups are large, the individual benefits from the collective good are relatively small. No single group member can "rationally" justify the cost of providing the good on its own. Members of the group as a whole will receive the benefit whether or not they contribute and, therefore, they withhold contributions. On the

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other hand, when groups are small, the individual economic benefits from provision of the good may be large enough to compensate even a single actor to bear the cost of the good’s provision and, hence, the group will organize to pursue the common interests of its members.

In terms of trade legislation, Olson’s theory of collective action has been the starting point for explaining greater political activity by those groups lobbying for restrictive trade policy. The literature generally views import restrictions as a public good from which producers largely gain and consumers largely lose. Consumers constitute a large group for which costs and benefits are sufficiently diffuse that there is no incentive to organize to oppose producers’ smaller groups, whose members each stand to gain in excess of their contribution to lobbying costs. This collective action argument is advanced to explain why demanders of protection (usually producers’ groups) have been unopposed by those whose interest would be harmed by increased protection (usually consumers).

The work of Magee et al. is well-represented in this literature, and is characteristic of the theories of endogenous protection that dominate this tradition. Magee et al. (1987; 1989) argue that both the legislative and executive branches of government in the United States are essentially irrelevant in the long run because

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54 By "endogenous protection" or "endogenous tariffs", academics mean that protection is dependent on (determined by) other variables in the analyst's model; that is, protection is not a given, or predetermined externally (exogenous). See, for instance, Bohara and Kaempfer (1991), op. cit.; Magee and Young (1987), op. cit.; or D. Verdier (1994), Democracy and International Trade: Britain, France, and The United States, 1860-1990, Princeton, NJ: Princeton University Press.
of its competitive political system. To the neoclassical model of two goods and two factors in an open economy, the authors add lobbies, parties, and voters as the political component necessary to predict to the setting of tariffs. The determinants are unemployment, the rate of inflation, and terms of trade in manufacturing.

Voters are assumed to be "rationally ignorant"; that is, voters are generally incompletely informed about trade legislation and avoid the costs of educating themselves on trade issues. They become important to the policy process, however, when either inflation or unemployment begins to immediately affect them as consumers. Inflation makes voters "more hostile to protectionist policy and...more politically vocal", while unemployment "renders voters less hostile to the protection of jobs." According to Magee et al., voters' incomplete information and relative lack of interest in trade issues provides more latitude for political parties to improve their electoral prospects by using campaign contributions to fund their message.

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66 The dependent variable, average tariffs, is calculated by dividing the total revenues from tariffs by total imports.

67 Magee *et al.*, pp. 163-165.

68 *Ibid.*, p. 165. Verdier (1994; op. cit.) argues that adding voters to his model of policy formation is critical for different reason. He says that "elections allow voters to do more than simply choose agents, but less than actually choose policies.... [Elections] allow voters to choose the rules by which their agents make policies." See especially his chapter 2.

Political parties generate these resources by offering favorable legislation to special interest groups, "trading off the benefits of the electioneering resources that this attracts against the hostility that it arouses from the general voter." Special interest lobbies are also rationally maximizing, comparing the returns from the campaign contributions to the returns from foregone alternatives. The tariff is the "equilibrium" of this "game" among the lobbies, political parties, and voters.

Because this model is advanced to explain long run processes of tariff setting, Magee et al. (1987) say that policymakers do not make policy; instead, "the underlying forces of economic and political power combine with party competition to make trade and other redistributive policies endogenous." Policymakers' preferences make a difference both in the short run, and when party competition isn't quite as perfect as represented in the model. Since unemployment, the rate of inflation, and the terms of trade are determinants in the model, a president is important to the long-run process only to the extent that he makes macroeconomic

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70 Ibid.

71 Ibid.

72 Ibid. Magee et al. (1987) say that their model provides qualified support that the determinants for tariffs is the same for non-tariff restrictions (they observe anti-dumping cases). See pp. 183 & ff.

73 Ibid., p. 147.

74 Ibid., p. 145. By "more imperfect party competition", the authors mean that when there are more than two parties, the role of policymakers would increase in importance as the power of the individual parties and lobbies decreases due to greater competition among themselves.
policy. However, the authors say that, "since that too may be endogenous, even his role is uncertain." The work of Magee et al. has provided important refinements to the interest group literature. Nonetheless, the shortcomings of this literature pervade even endogenous protection models. Verdier's (1994) work, an endogenous model itself, inadvertently demonstrates at least one criticism. Verdier says that previous endogenous models, including Magee et al., assume that the process of policy formation is exogenous. By relaxing this assumption, he usefully develops four types of policy and a fourfold typology of policy process. Among the different types of policy process, "pressure politics" is considered an "intermediate" concept which further divides into the "pluralist competition" and "logrolling" types. In other words, when the policy process itself is allowed to vary, so does the type of policy output. By contrast, the Magee et al. model is limited to tariff-setting in a given policy process. In other words, the dominant model in the interest group literature is limited to explaining only one type of trade policy under only one set of process conditions.

75 Ibid., p. 178.
76 Ibid., p. 145.
77 Verdier (1994), op. cit.
78 That is, assuming that institutions and the "rules" that policymakers follow are dynamic and malleable within the process itself.
80 Ibid., p. 25.
Baldwin's (1985) effort provides evidence that this limitation extends beyond endogenous models to interest group models more generally. He tests five models from the literature using tariff cuts from the Tokyo Round of the GATT trade negotiations as the dependent variable. He says that "variables...that proponents of the pressure group model suggest for capturing the ability of an industry to overcome the free rider problem and organize effectively -- the key point in this model -- are not significant. In contrast, performance variables...that indicate the incentive to organize are significant in the expected direction; however, these latter variables are also used in the status quo model to reflect the ability of workers in an industry to adjust to an increase in imports." In other words, while we would expect that interest groups would organize to oppose reductions in tariffs, Baldwin provides evidence that they do not do so for the reasons suggested by Olson. At the same time, the other variables advanced by interest group theorists that do have significance are not unique to the interest group explanation.

A third concern is more specifically directed to the usefulness of the endogenous model of Magee et al. (1987). The authors argue for the relevance of

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82 The five models tested by Baldwin are a pressure group model, adding machine (voting strength) model, status quo model, social change model, and a foreign policy model.


84 Of course, this test was the single event, tariff cuts in the Tokyo Round. Nonetheless, Baldwin observed tariff cuts on approximately 5,000 tariff line items, classified into 292 four-digit SIC industries. Organization across firms and industries in opposition to tariff cuts did not occur. Although this single event may be anomalous, the results at least suggest that interest group theories are unreliable for this type of policy formation.
the standard Heckscher-Ohlin (H-O) model over a specific-factors model because, in the former, both capital and labor are mobile, while capital is immobile in the latter. Since Magee et al. are specifically interested in the long-run process of policy formation, and capital is theoretically mobile in the long run, the H-O model seems appropriate. It is interesting that the authors chose to develop a model for explaining long-run processes when the scholars in this tradition claim to explain the most direct, proximal sources of policy formation. In short, the Magee et al. inquiry is different than that of other adherents of this perspective.

Rowley et al. (1995) see other problems that stem from the use of the H-O model as the basis for the Magee et al. (1987) endogenous protection model. One of these is that "industry-specific interests and not factor-based coalitions in general are observed to be active in seeking trade protection. [... The] policy stance of a mobile factor is uncertain – the so-called 'neoclassical ambiguity.'" The Magee et al. model assumes that lobbying for and against trade restrictions will occur along factor lines; capital versus labor. Rowley et al. say that lobbying occurs along industry lines; import-competing versus exporting industries. Rowley et al. say that "the evidence, at least with respect to the US, strongly favors [the industry-specific

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85 Magee et al., p. 147.

86 As the authors explain, if capital is immobile, capital in import-competing industries will pressure for restricted trade, while capital in exporting industries will pressure for free trade or export subsidies. The H-O model predicts that capital will favor export promotion generally, while labor will pressure for protection.

87 Rowley et al. (1995), op. cit.

88 Ibid., pp. 73 & ff. The following attributed.

89 Magee et al., p. 155.
factors argument]. Citing tests between these two arguments, Rowley et al. say that "capital and labor in a given industry typically do not oppose each other on the issue of protection or free trade for that industry."

Another area of concern is the interest group approach's consignment of the legislative branch to the periphery of policy formation, whether in long-run or short-run analyses. It is difficult to disregard the arguments and findings by Bauer, Pool, and Dexter that Congress has a certain degree of leverage in choosing which interest group's agenda it will pursue. Particularly since the early 1980s, when countervailing interests have become more vocal and competitive with pro-protection groups, a model of trade policy formation should account for how these interests have influenced policymakers' preferences for policy. Too, the interest group perspective overlooks the effect of executive-legislative branch relations, and the potential effect that the international context may have on perceptions in Congress.

When some of the more restrictive assumptions of these models are relaxed, the persuasiveness of the argument that interest groups are singularly important is reduced. For instance, the assumption that there are only two lobbies obscures the fact that there may be more than two interests being represented. As Magee et al.

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91 These tests were conducted by Magee et al. (1989) and, according to Rowley et al., they "declined to perform a test of statistical significance, tartly noting that to do so would simply belabor the obvious."


themselves suggest, the greater the number of competing interests, the less power that any single interest will have, which means that congressional latitude to pursue its own policy preferences is enhanced.

Finally, as has been argued above, the interest group perspective does not address trade policy implementation or outcomes. It generally assumes that policy is interchangeable with practice. Since the central argument of this approach is that interest groups will pressure Congress for their interests only until the marginal cost of lobbying equals the marginal benefit from favorable trade legislation, it is interesting that adherents of this approach are not more concerned about the actual benefits realized by these interest groups.

In summary, interest group models provide useful evidence that interest groups do, in fact, help to shape trade legislation. However, these models are limited in that they describe a single process of policy formation and policy output. By ignoring the potential for Congress to respond to considerations other than those presented by organized interests, interest group models cannot explain trade policies of wider scope, such as the regular renewals of the Trade Act and renewals of presidential negotiating authority. Finally, this important literature does not attempt to account for actual trade outcomes, which should be the benchmark for understanding the "rational" calculus of its maximizing actors.

The next section of this chapter considers decisionmaking theories that have been advanced to explain trade policies and/or outcomes.
The decisionmaking perspective generally considers US foreign economic policy to be a component of US foreign policy. The focus is on the decisionmaking unit, whether it is the state, an individual, or group of individuals, examining the conditions and factors that affect a decisionmaker's alternatives. Three important assumptions in this perspective are that, first, decisionmakers are autonomous, and in extreme versions, unconstrained by either constituents or Congress. Second, institutional structures reinforce or legitimate the decisionmaker's autonomy. Third, decisionmakers are goal-oriented, driven by "conceptions of the 'national interest' or the maximization of some social welfare function." This perspective informs two literatures, one concentrating on the effects of the international power structure on states' economic choices, and the other focusing on the cognitive aspects of elite decisionmaking.

The argument that the distribution of power in the international system explains US trade policy is also known as Hegemonic Stability Theory. An early version argued that stability in the international economic system was a collective good that would only be provided by a hegemonic leader. The leader would be willing and capable of providing open markets and of acting as a lender of last resort.

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for other states in the system. Later refinements more clearly specified the model, and further argued that systemic openness and stability was in the interest of, and therefore would be provided by, the hegemon.\textsuperscript{96}

Hegemonic Stability Theory and its variants are argued to explain the broad outlines of policy tendencies over time; that is, these theories are meant to explain the general tendency of hegemonic preference for a liberal international economic system. As such, their inquiry and dependent variable are different than that addressed in this project, and they will not be discussed further here.

The cognitive perspective is relevant, however. While this perspective hasn't yet penetrated trade studies, it is well-developed in the foreign policy decision-making literature, and interest is spreading.\textsuperscript{97} The president is usually the unit of analysis, and trade outcomes are seen as a product of the way in which he translates issues and events according to his values, beliefs, preferences, and so forth. This literature is less empirical, and has been criticized for its lack of cohesion, generalizability, and replicability.\textsuperscript{98} Nonetheless, it provides useful insights


\textsuperscript{97} J.S. Odell (1990), "Understanding international trade policies: An emerging synthesis", in \textit{World Politics} (43:139-167), p. 150.

\textsuperscript{98} \textit{Ibid.}, p.152.
through an approach that relies less on public choice theory than the literatures discussed thus far.

There is an effective consensus in the literature that both the "lessons" learned in the wake of the disastrous Smoot-Hawley Tariff of 1930\(^{99}\), as well as the constitutional authority of the president over foreign policy have contributed to the relative autonomy of the executive branch in the realm of trade policy implementation.\(^{100}\) The argument is that the US Executive is more insulated than Congress from constituent pressure, and is singularly charged with the conduct of foreign relations. A more insulated president has more latitude to make unpopular decisions than do members of Congress largely because the president's larger and different constituency provides distance from the pressures of particularistic constituent protectionist demands.\(^{101}\) As Rowley et al. (1995) explain, congressmen must respond to the smaller and more narrow interests of their individual districts. The president, on the other hand, responds to a "heterogeneous national


constituency in which specialized lobbying is more exposed to the general will."^{102}

Too, for the president, re-election is a concern only during the initial term. Hence, "his large, heterogeneous, competitive constituency, together with the lower priority accorded to re-election, provides him with substantial autonomy to pursue his vision of the public agenda...that he can control from the top."^{103}

The debacle that followed the tariff revision in the 1930 Smoot-Hawley Tariff Act was enough to make Congress realize that it was unable to restrain itself in the face of protectionist pressure, and that they had to act to reshape the policymaking process so that it would not lead to a repeat of the Smoot-Hawley tariffs.^{104} Richardson (1993) says that "Congress seemed almost to fear becoming the captive of its (voting) domestic constituency alone and recognized the importance of its (nonvoting) 'foreign constituencies'...."^{105} Destler (1995) says that Congress "no longer [gave] priority to protecting American industry. Instead, its members would give priority to protecting themselves: from the direct, one-sided pressure from producer interests that had led them to make bad trade law."^{106}

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^{102} Ibid.

^{103} Ibid.

^{104} P.S. Nivola (1993), *Regulating Unfair Trade*, Washington, DC: The Brookings Institute, pp. 58 & ff. In addition to the global protectionism that Smoot-Hawley has been blamed for initiating, Nivola says that "scores of incumbents were driven from office in the tumultuous elections of 1932," including the authors of the tariff, Senator Smoot and Representative Hawley.


The 1934 Reciprocal Trade Agreements Act (RTAA) effectively reversed the historically high tariffs of Smoot-Hawley and delegated tariff negotiating authority to the executive branch. Bhagwati (1993) says that, as a result, the "executive branch was not only freer from protectionist constituency pressures (directly and indirectly via the Congress) but also eager to indulge the newly acquired pro-trade bias." Now, Congress could appear to be sympathetic to constituents demanding protection while, at the same time, remain assured that such sympathy would not translate into protectionist policy or outcomes. Cohen et al., say that, "By design, Congress has seen to it that the executive branch takes most of the heat in carrying out the delicate task of determining how to respond to the unending procession of private sector demands for trade actions that favor their interests." Although institutional memory of the depth of the disaster may be fading, Congress continues to respect the lesson: Despite the protectionist pressures that presented opportunities to reclaim authority as recently as the formation of the 1988 Omnibus Trade and Competitiveness Act, Congress backed away. In short, there is widespread agreement that Congress recognized the relative independence of the executive branch from interest groups, and delegated part of its constitutional authority to the president for that reason.

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108 Destler (1995), op. cit., p. 65; Nivola (1993), op. cit., p. 70
Not only is the president considered more insulated from protectionist pressure than Congress, he has constitutional authority over foreign policy. The Executive Office of the President effectively defines the objectives and interests of the United States, conducting policy in ways that he believes will achieve goals and preserve interests as he understands them. Restraint on presidential leadership in the area of trade has been argued to be an illegitimate restraint on his Constitutional authority to conduct foreign policy.\footnote{For instance, C.K. Rowley \textit{et al.} (1995), \textit{op.cit..}, cite \textit{United States v Curtiss Wright} (pp. 202 \& ff.).}

By arguing the insularity and authority of the executive branch, some analysts identify presidential decisionmaking as an important explanatory variable for understanding trade outcomes. Baldwin's (1985) empirical analysis is widely considered the starting point for those examining the constraints on presidential decisionmaking that make a difference to policy outcomes.\footnote{Baldwin (1985), \textit{op. cit..}, Chapters 4 and 5.} He uses a variety of variables to test five models.

For instance, Baldwin says that a president "runs considerable political risks" if he follows an overtly protectionist course since doing so would threaten the interests of consumers, export and financial interests, and his international constituency. On the other hand, he would be hard-pressed to ignore the appeals for protection from major industries, such as textiles, steel, or automobiles, since they have the resources to mobilize Congress, industry employees, and, through the
media, the general voter. Since this perspective suggests that a president is directly influenced by the level of protectionist pressures, Baldwin chooses variables that test interest group theories.

Other variables that Baldwin suggests might affect the president's decisions include the perceived consistency of a decision with his other national goals and interests. For instance, if a president has made the reduction of inflation a high priority, he could be accused of undermining that goal if he were to grant protection to a particular industry. On the other hand, if the president perceives unemployment to be a national problem, he may be more receptive to protectionist appeals.

Baldwin also suggests that a president's relationship with Congress may affect his decisionmaking, and too, whether or not his own party controls Congress can make a difference. Hence, the expectation would be that a president's decision would have a higher chance of approval if the petitioner is the Senate Finance Committee or the House Ways and Means Committee. Further, one would expect more favorable decisions the closer the petition is to a presidential or congressional election, or if the president is in the closing stage of multilateral trade negotiations.

Finally, the last relationships to be discussed here tested by Baldwin assumed a positive relationship between the proportion of ITC members voting for

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113 Ibid., p. 122.
114 Ibid., p. 124.
115 Ibid.
116 Ibid., p. 130.
117 Ibid.
relief and a favorable presidential decision, and the degree to which presidential decisions were related to macroeconomic factors such as unemployment or inflation.

Baldwin's dependent variable was presidential decisions on ITC cases between 1975 and 1979. He found that ITC decisions were not significant in explaining presidential decisions. The inflation rate or change in the inflation rate were always significant in the various equations with two or three other variables. While the unemployment variable was the wrong sign, the change in unemployment was significant in the expected direction. The level of industry employment (a typical measure of size) was never significant, and neither were dummy variables that indicated whether or not a congressional committee had requested the investigation. On the other hand, dummy variables that indicated whether the decision occurred close to an election or during the final stages of multilateral trade negotiations were significant.

Baldwin concluded that, while political factors did influence presidential decisions, these factors were not interest group pressure variables. Instead, the president "seems more concerned with creating the impression of being generally sympathetic" when elections or multilateral trade negotiations are close or in progress. It appears, then, that the president is independent of direct constituent pressure in fair trade cases and, for the most part, independent from congressional pressure. However, Congress apparently makes a difference to presidential

\footnote{ibid., pp. 132 & ff. The following attributed.}

\footnote{ibid.}
decisions in escape clause cases when he feels that larger goals are at stake. In other words, presidential dependency on Congress in fair trade decisions is well-circumscribed and limited.

In a second round of tests, Baldwin considered these variables again to see if they make a difference to a president's decision when he is negotiating tariff reductions, rather than providing relief.\(^{120}\) For these tests, he observed tariff reductions from the Tokyo Round and Kennedy Round of the GATT. Baldwin concluded from the results that "demands from pressure groups based on short-run self-interest are insufficient to explain protection reductions and protection levels."\(^{121}\) Baldwin contends that models which stress that policy decisions are motivated by policymakers' long-run self-interest, or by interpersonal effects and broad social concerns as well as concerns for the state are also needed to explain trade policies.\(^{122}\) Further, he argues, "The tendency for the president to reject ITC affirmative findings in periods when the inflation rate is rising suggests that more than pressure group or industry voting strength politics are involved in the president's import relief decisions."\(^{123}\) Finally, Baldwin says that, while not explicitly considered in this effort, "differences among public officials in personality, \(^{120}\) Pro-protection interests would be seeking discriminatory rather than across-the-board tariff reductions, and would be pressuring for tariff reductions as close to zero as possible.

\(^{121}\) Baldwin (1985), op. cit., p. 165.

\(^{122}\) Ibid., p. 174.

\(^{123}\) Ibid., p. 173. Magee and Young (1987), op. cit., account for this observation in their model. They argue that inflation affects voters (consumers) more directly, generally leading to greater demand for imports. In the trade-off between the votes that an industry commands and the votes of consumers generally, the "rational" policymaker will choose to favor the latter.
background, and experience also play an important role in determining the nature of public policy decisions."^{124}

Baldwin's widely accepted work suggests that presidential decisionmaking in both fair trade cases and tariff negotiations may be understood in terms of the way in which a president's perceptions and beliefs shape his view of the appropriateness of alternative decision choices. Protectionist pressures from constituents do not directly impinge on presidential decisions, and a president's perceptions of the national interest in terms of macroeconomic variables is more important than the indirect pressure brought to bear by interest groups. Congressional pressures for protection are not important unless a larger trade-off is at issue.

Baldwin's findings are especially important for the present project. His evidence supports an underlying assumption of this study's model that an understanding of presidential decisionmaking requires a cognitive component. A president's national or international orientation with respect to political economic interests is offered here as one possible lens through which a president interprets and decides about trade issues.

Others have suggested as much. Bhagwati (1993) argues that interests, ideologies, and institutions have a bearing on policy formation and practice.\(^{125}\) Of relevance to the arguments in this project, Bhagwati says that two events in particular served to entrench a liberal bias in the United States. He argues that "the


\(^{125}\) Bhagwati (1993 [1988]), *op. cit.*
executive branch of the US government came to believe that the country's security interests were best served by the pursuit of liberal trade policies.\textsuperscript{128} That is, trade policy and practice was perceived by the executive branch as a useful tool of foreign policy; the "domestic political costs of liberalization would be offset by security gains in the realm of foreign policy."\textsuperscript{127} In other words, trade policies and practices reflected the belief within the executive branch that "other nations' gains from trade would promote American security...."\textsuperscript{128}

A second source for the pro-trade beliefs was the disastrous consequences of the Smoot-Hawley tariffs and, as a by-product, "the positive example of the successful postwar liberalization. And the perception that postwar prosperity was fueled (if not led) by the freeing of trade...."\textsuperscript{129} As a result, Bhagwati argues that, particularly with remarkable levels of growth in trade and direct foreign investments, "globalization creates an increasingly important, pro-trade interest" that counters pro-protection forces, reduces the numbers of pro-protection interests as firms become export-dependent, and supports the liberal bias of the executive branch.\textsuperscript{130}

As Deardorff and Stern (1987) have pointed out, "Arguments for and against trade

\textsuperscript{126} Ibid., p. 38.

\textsuperscript{127} Ibid., p. 39. This point is made also by Cooper. See R.N. Cooper (1972-73), "Trade policy is foreign policy", in Foreign Policy (9:18-36).


\textsuperscript{129} Ibid., p. 87.

\textsuperscript{130} Ibid., pp. 73 & ff.
intervention can influence policy by altering policymakers' perception of the national interest.\textsuperscript{131} In other words, a historical event and its consequences shaped the beliefs of policymakers, and also created the conditions (i.e., countervailing, pro-trade interests) that would continue to reinforce those beliefs.

In short, Bhagwati suggests that the belief in economic liberalism inherited by successive administrations explains a president's ability to withstand the onslaught of protectionist pressures from interest groups and the subsequent grandstanding and rancorous threats of Congress. Similarly, Aggarwal, Keohane, and Yoffie (1987) say that "the US government is not merely a cipher, registering political pressures.... Instead, the willingness to supply protection will be a function of [among other things] the values of governmental officials who have their own policy preferences."\textsuperscript{132}

This theme resonates in the work of Goldstein as well.\textsuperscript{133} Goldstein (1989) says that it was the combination of several "critical" events that "merged in 1934", all of which created the conditions of a "malleable" decisionmaking environment. When these conditions exist, decisionmakers are more likely to entertain new

\textsuperscript{131} Deardorff and Stern (1987), op. cit., p. 62.


"ideas" for guidance. If implementation results in an outcome which a decision-
maker perceives to be a successful, the same implementation is used the next time
such an event occurs. With each success, the "idea" becomes further institutional-
ized as a "decision rule" for the decisionmaker and, eventually, in society. Goldstein
and Keohane (1993) say that, in this way, "ideas have a lasting influence on politics
through their incorporation into the terms of political debate", and, therefore,
"when reasons are required, ideas become important." While it is intuitively reasonable to assume that a decisionmaker's percep-
tions, beliefs, and values are constraints on decisions, this perspective suffers from
shortcomings that burden many burgeoning literatures: It remains underspecified
and lacks precision. Despite the compelling empirical findings of Baldwin (1985),
for instance, the processes by which he concludes that presidential "beliefs" and
interpretations translate into policy and practice are missing. Bhagwati's assertions
that beliefs and perceived interests explain those presidential decisions that satisfy
neither Congress nor constituents is based largely on assumptions about a single
event and path dependence. Finally, despite a great deal of scholarly interest in
Goldstein's work on "ideas", typical criticisms include questions about why some
ideas are chosen over others, the specification of conditions under which ideas
become important, and why and under what conditions ideas explain a decision-
maker's choice in one case but not in similar cases.

134 p. 20.

135 Ibid., p. 23.
Nonetheless, this work at least suggests that further investigations of the cognitive component of decisionmaking on trade issues is warranted. The current project contributes to this perspective in that it argues that a systematic examination of presidential decisionmaking helps to explain the distance between legislated trade policy on the one hand, and trade practices on the other.

**Conclusion**

The various perspectives considered here under the rubrics, Societal and Decisionmaking, characterize the work from an immense literature that considers the formation and implementation of trade policy. They have in common the tendency to seek a single variable having the most explanatory power for understanding trade policy. This is, in fact, one of the most important shortcomings of this literature.

The interest group arguments, for instance, provide compelling explanations and evidence that the mobilization of special interests explains protectionist pressure and, therefore, policy and outcomes. These arguments ignore evidence that protectionist pressure does not reliably predict to policy or outcomes. Protectionist pressure simply is insufficient to predict to the nature of policy or to explain why pressure sometimes does not lead to changes in or the formation of policy. Similarly, the autonomous Congress arguments are useful for understanding

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136 While it may be argued that endogenous models synthesize a variety of variables, authors still contend that one variable is pivotal. For Magee et al., interest groups are key to the dynamics of the other variables in their model. For Verdier, voters as a group are critical.
the limits of interest group theory by demonstrating that Congress does, in fact, have leverage over interest groups. However, this perspective cannot explain how Congress comes to change or create policy if not according to the constraints of constituents.

Adherents of the approach that uses macroeconomic variables as a parsimonious explanation for the formation of trade policy convince us that these variables do make a difference. However, by ignoring the political aspects of trade policy formation and implementation that are not directly related to the macroeconomy, they cannot explain instances when these variables fail to predict policy. The literature that concentrates on elite decisionmaking is underdeveloped, effectively providing only suggestions that decisionmakers' values, beliefs, and preferences are a component in the formation and implementation of trade policy.

Some scholars have been successful in providing convincing demonstrations that these approaches are more useful when combined. For instance, Pollins (1989) combines macroeconomic variables with a measure of the political concept of diplomacy to explain levels of imports.\textsuperscript{137} He finds that the effects of diplomacy on trade flows is significant "despite the efforts of academics...to consider economics and politics in isolation of one another."\textsuperscript{136} Both Hansen and Park (1995), and Mansfield and Busch (1995) demonstrate that combining statist and societal

\textsuperscript{137} B.M. Pollins (1989), "Does trade still follow the flag?", in American Political Science Review (83:2:465-480).

\textsuperscript{138} Ibid., p. 478.
perspectives improves the predictive power of either approach alone.\textsuperscript{139} Goldstein and Lenway (1989) show that the effects of interest pressures are conditioned by historically-created "rules and norms".

As Cohen has often argued, trade policy cannot be located on an economic-political continuum, nor on a domestic-international continuum.\textsuperscript{140} He says, "Scholars keen on devising a single detailed model either will be disappointed or consigned to choosing carefully selected case studies to 'demonstrate' that a given paradigm is applicable to the whole field."\textsuperscript{141} Deardorff and Stern (1987) would agree: "Trade policy is like doing acupuncture with a fork: no matter how carefully you insert one prong, the other is likely to do damage."\textsuperscript{142}

This point suggests the most damaging shortcoming of the literature on trade: Analysts continue to use policy and outcome interchangably.\textsuperscript{143} In US fair trade and non-Title VII cases between 1952 and 1994, trade outcomes differed from policy prescriptions almost 25\% of the time. When fair trade cases alone for this period are considered, trade outcomes differed from trade policy prescriptions almost 65\% 

\textsuperscript{139} Hansen and Park (1995), \textit{op. cit.}; Mansfield and Busch (1995), \textit{op. cit.}


\textsuperscript{141} Cohen and Meltzer (1982), \textit{op. cit.}, p. 5.

\textsuperscript{142} Deardorff and Stern (1987), \textit{op. cit.}, p. 39.

\textsuperscript{143} The most consistent area for exceptions is in the decisionmaking literature.
Much of the work within the traditions discussed above claims to model explanations for levels of protectionism. This quite simply is not the case. The models tend to explain trade policy or the formation of trade policy, but neglect the process of implementation and actual trade outcomes.

This review has provided only a sampling of a vast literature, but has conveyed a sense of the strengths and weaknesses of the academic treatment of trade policy and implementation. The next chapter, which develops this study's model, makes clear that this project adopts the decisionmaking perspective and argues for the importance of a single variable. The concluding chapter, however, argues for a synthesis of perspectives in order to understand US trade practices.

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144 The president is the effective final decisionmaker in both fair trade and non-Title VII cases. However, the president has far less latitude to change policy prescriptions for non-Title VII cases.
CHAPTER 3

THE MODEL

This chapter describes the model and the methodology which are used to explain the discrepancy between legislated trade policy and US behavior with respect to foreign imports. The description is the sum of the chapter's four parts. First, the conditions where the potential exists for US trade behavior to differ from legislated prescriptions are identified. In effect, these are the sections of US trade law which provide an opportunity for presidential discretion between the time when the International Trade Commission (ITC) interprets trade law on the one hand, and the time of the eventual US trade behavior in light of a petition.

The second part of this chapter develops the model that is proposed to explain the discrepancy between the prescriptions of trade policy on the one hand, and trade practices on the other. This section begins with a detailed explanation of the dependent variable, trade practices or outcomes. The remainder of the section is devoted to specification of this project's model.

This chapter's third part provides a discussion of the advantages of the case study method for examining the distance between US trade law and US trade
practice. Finally, the chapter concludes with a consideration of the criteria for case selection, and the cases selected for this project are identified.

The Conditions

The argument developed in this study is that a systematic understanding of decisionmaking is useful for explaining discrepancies between legislated US trade policy prescriptions and US trade practices. This section of this chapter identifies the conditions under which these discrepancies may emerge: Provisions in trade law that effectively create a window for exceptions to legislated prescriptions.

Legislative Provisions

Legislated trade policy does not predict to trade practice in all cases because certain trade acts enlist the discretion of the Executive, introducing other considerations into the otherwise rules-based process that leads to trade practices. Figure 1.1 is reproduced here as Figure 3.1.

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<th>Pre-Policy Process</th>
<th>Legislated Trade Policy</th>
<th>Implementation Process</th>
<th>US Trade Practice</th>
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</table>

PROCESS LEADING TO US TRADE PRACTICES
FIGURE 3.1
As was explained in Chapter 1, this project's focus is on the second process posited in Figure 3.1; that is, the process that translates the prescriptions of US legislated trade policy with respect to imports into US trade practices (Implementation Process in Figure 3.1).

Many of the US trade acts dealing with imports establish a procedures-driven process by which an agency or department of government determines the validity of claims of injury, unfairness, or other difficulty due to foreign imports. In addition, these acts and their amendments prescribe the kinds of remedy that are appropriate and compliant with international agreements, and they identify which agency or department will implement that remedy. In other words, US trade acts specifically differentiate between the tasks of interpretation of legislation on the one hand, and implementation on the other.

To the extent that rules about either the interpretation or implementation of trade acts are unspecific, there can be variability in trade outcomes. For instance, section 203(i) of the Trade Act of 1974 provides for a follow-up review of the effects of remedial action taken under section 201. When the president requests such a review, the ITC is required to "advise the President of its judgment as to the probable economic effect on the industry concerned of the extension, reduction, or termination of the import relief provided" by an earlier successful section 201

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1 19 USC 2253.

2 Recall that section 201 of the Trade Act of 1974 amended legislation of Article XIX (escape clause or safeguards provision) of the General Agreement on Tariffs and Trade (GATT).

3 The ITC can initiate a section 203 investigation on its own motion as well.
petition. Although the legislation does provide suggested criteria on which the ITC might base this "judgment", language in the US Code does not limit the ITC to these criteria, nor does it require that all of the suggested criteria be used in coming to a final recommendation. Hence, the ITC's findings concerning the effectiveness of section 201 actions can vary according to the "economic factors which it considers relevant." That is, the language of section 203 legislation provides latitude to the ITC in choosing what it considers appropriate bases for its decisions under this section of the Trade Act of 1974 and, therefore, the unspecific nature of the rules can be a source for variability in trade outcomes following the expiration of a section 201 action.

Nonetheless, for this project, the ITC will be treated as a relatively objective interpreter of trade legislation, with the effect of attributing variability in trade outcomes to variability in legislation and presidential discretion in implementation. This is a reasonable, though arguable, representation of the process leading to trade outcomes in these cases.

That the ITC may be less than objective in its determinations in individual cases has been argued by others. For instance, Finger et al. (1982) contrast the International Trade Agency (ITA) and ITC. They find support for their proposition

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5 19 USC 2253.

6 The ITA is an agency of the US Commerce Department, accountable to the US Congress.

that IITA findings are more predictable than are ITC findings because the ITC is less constrained by "rules" in the legislation from which it derives its authority. In other words, the authors' point is that since the ITC has less guidance from legislation about the criteria for coming to its determinations, it is more vulnerable to non-economic, political influences in its decisions.

In coming to their results, however, Finger et al. do not examine the "direct specification of political criteria which allows political factors to influence a [ITC] case outcome"; instead, they relax the technical criteria required of the ITA.® While the development of the article's argument suggests that there is potential for political influence and, hence, subjectivity in ITC findings, neither the design of the research nor the results support this inference. Rather, as the authors themselves conclude, there is self-selection among the petitioning firms and/or industries, and the subjectivity that exists in the process lies in these firms'/industries' perceptions about the likelihood of success with either the ITA or the ITC.

Similarly, Hansen (1990) examines whether or not political influences can account for variability in ITC decisions.® Among the variables she considers, four are significant: the trade deficit size of the petitioner (as measured by employment), the level of representation on the relevant congressional committee, and percentage change in employment in the industry. Among her conclusions, Hansen infers that

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® Ibid., p. 456.

there is "some degree of support for a pressure group model of regulation, especially congressional dominance"\(^{10}\) with respect to ITC decisions.

While this conclusion is reasonable given her results, it remains unclear how congressional committee members influence ITC decisions, under what conditions congressional influence is exerted, or what the nature of the influence might be. For instance, one of the most important escape clause cases to date, the massive petition filed by the automobile industry in 1980\(^{11}\), is at odds with Hansen's findings: It resulted in a negative ITC determination despite unfavorable macroeconomic conditions, including high levels of unemployment, and remarkable levels of pressure for an affirmative finding from both President Carter and the Congress.\(^{12}\)

As Cohen et al. have pointed out, the ITC is an independent agency, by legislation, with no constituency to protect.\(^{13}\) Its members are appointed by the president and, according to statute, no more than three seats can be filled by individuals with the same political party affiliation at any given time. Since the creation of the ITC by Congress in 1916, members have served 12-, 6-, or 9-year

\(^{10}\) Ibid., p. 34.

\(^{11}\) See Chapter 1 above for a summary of this petition and its outcome.

\(^{12}\) While Hansen did address the high correlation between employment and petitioning-industry representation in the House of Representatives, effectively creating the statistical independence of these variables, she continued to relate the importance of the employment variable to the significance of the representation variable and assumed support for pressure group models. In fact, consideration of employment in the industry is one of the criteria suggested in legislated policy for use as a basis for ITC decision. In other words, the ITC may consider industry employment levels as a result of the language of legislation, regardless of whether or not they bring congressional pressure to bear.

terms, depending on the trade act in force at any given time, precisely because Congress wanted to reduce the chances for politicization of ITC determinations.\(^{14}\) In fact, Baldwin finds that "the founders of the ITC to free the decisions of the agency from the influence of current political pressures has been achieved by and large."\(^{15}\) He finds that what appears to be either presidential or congressional influence also can be explained by other circumstances or conditions, and that the variables that most reliably predict to ITC decisions are economic in nature.\(^{16}\) It is, therefore, reasonable to surmise that the ITC has been relatively objective in its interpretation of legislation; that is, the ITC generally has used criteria set forth in legislation in coming to a determination.\(^{17}\)

Baldwin does say, however, that any differences in ITC commissioners' voting behaviors will likely "be based on differences in basic attitudes" among the commissioners, and that the ITC's "decision pattern" appears to have been affected by changes in legislation.\(^{18}\) These suggestions are supported by Goldstein and

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\(^{15}\) Baldwin (1985), p. 111. See especially his Chapter 3.

\(^{16}\) Baldwin (1985), chapter 3.


\(^{18}\) Baldwin (1985), chapter 3.
Lenway (1989), Takacs (1981) and Eckes (1995). Goldstein and Lenway (1989) argue that all levels of government, including the ITC, are influenced by neoclassical economic liberalism which has become effectively institutionalized in the United States since the 1930s. From this and empirical observation, they contend that there has been an anti-protection attitude among ITC commissioners that has been pervasive across time generally. This is consistent with Baldwin (1985), who says that commissioners have tended to maintain their pre-appointment attitudes. Similarly, Eckes (1995) suggests that it is the perceptions of individual commissioners that may tend to vary rather than external political influences that systematically mediate ITC decisions.

Further, Goldstein and Lenway, as well as Takacs (1981) find statistical significance in changes in legislation between the Trade Expansion Act of 1962 and the Trade Act of 1974. In other words, changes in legislation have compelled

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21 Op. cit., p. 105. Baldwin contends that commissioners have maintained their pre-appointment objectivity in order to protect their professional credibility during their tenure on the Commission and afterward.


24 Baldwin (1985) also attributes a changed ITC decision pattern to differences in these pieces of legislation, but his is not a statistically investigated conclusion.
commissioners to change the criteria they've used in rendering decisions. However, the resulting changed "decision pattern" reflects the politics involved in the formation of legislation, not political influence of the members of the ITC.

As C.K. Rowley et. al., (1995) and others have pointed out, the relevant subcommittee of either the House Ways and Means Committee or the Senate Finance Committee has the leverage to influence ITC interpretation, either because they can withhold approval of the ITC budget, or they can withhold confirmation of commissioners nominated by the President. Nonetheless, C.K. Rowley et al., contend that this potential influence has not played out systematically because there are too many principals sending conflicting signals to the ITC.25 Further, the authors say that the Trade Subcommittee of the House Ways and Means Committee was no longer a major congressional player in overseeing the ITC precisely during the period of time examined by Hansen (1990). Finally, where a Senate International Trade Subcommittee variable was significant in explaining ITC decisions26, these were anti-dumping cases27 -- trade legislation which is separate from and not included within the universe of cases investigated in this project.

It would be naive to suggest that the ITC has been wholly capable of transcending political influence; individual differences in experience and knowledge


27 Section 731 of the Tariff Act of 1930 (19 USC 1671).
levels, perceptions of institutional and individual roles, perceived salience of issues, and so forth reflect external influence. However, individual differences within the ITC would not demonstrate that political influence systematically explains actions taken by the ITC as a whole. Hence, for the universe of cases examined in this study, the ITC will be considered to be more restricted by relevant sections of trade legislation than constrained by political obligations.

Referring again to Figure 3.1 above, recall that this study explores only the implementation process of the larger process leading to US trade practices. There are two restrictions that limit the types of cases to be considered: 1) the ITC interprets legislated trade policy, and 2) the Executive is the effective final decisionmaker. First, implementation begins with a particular interpretation of legislated trade policy and, in order to maintain comparability across cases, only those cases will be considered where the ITC issues an affirmative finding in terms of legislated policy. Second, this study’s argument is that a systematic examination of presidential decisionmaking is critical for anticipating trade outcomes and, therefore, only those cases are considered where the president is the final decisionmaker following an ITC decision. Hence, US escape clause cases since 1952 and Section 406 cases will provide the universe of cases for this project.

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28 See especially A.E. Eckes, Jr. (1995), op. cit., for qualified evidence from a former ITC Chair that ITC commissioners do, in fact, succumb to political influence individually.

29 Prior to the 1951 Trade Agreements Extension Act (TAEA), escape clause actions were implemented by executive order. Section 406, essentially a version of the escape clause reserved for communist countries, was first legislated in the Trade Act of 1974.
Since 1952, the "escape clause" has referred to the safeguards provisions of Article XIX of the General Agreement on Tariffs and Trade (GATT). The escape clause specifically refers to injury or threat of injury in "fair" trade cases; that is, those cases where a domestic industry is injured or threatened with injury from imports even though the foreign supplier is in compliance with the conventions of the GATT. Article XIX of the GATT permits states to temporarily "escape" from their commitments to this multilateral trading regime so that the injured or threatened industry has had time to restructure. Generally, import relief should be transparent, in the form of tariffs or quantitative restrictions.

To be found eligible for relief under escape clause provisions, petitioners need not prove that an unfair trade practice exists, as is necessary under Title VII and Section 337. However, escape clause petitioners must show a greater degree of injury - "serious" injury -- and increasing imports must be a "substantial" cause of that injury ("not less than any other cause").

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30 Over the years, the escape clause has been legislated as Section 7 of the 1951 Trade Agreements Extension Act; Section 301 of the 1962 Trade Expansion Act (19 USC 1901(b); 19 USC 1901(c)(1); 19 USC 1901 (c)(2)); and Section 201 of the Trade Act of 1974 (19 USC 2251).

31 "Restructuring" may mean becoming more competitive within the international system through investments in technology upgrades and retooling. It also may mean providing an opportunity for industry consolidation, including easing dislocations due to unemployment and retraining.

32 Title VII refers to anti-dumping (Section 731) and countervailing duty (Section 701) laws. Section 337 refers to non-Title VII unfair practices, usually dealing with intellectual property rights.

33 Prior to the 1974 Trade Act, petitioners had to show that increasing imports were the "major cause" of injury; that is, that increasing imports had to be shown to be more that 50 percent of the cause of injury.

34 Later, the 1988 Omnibus Trade and Competitiveness Act would require that relief under escape clause provisions be tailored to the needs of the injured industry and should facilitate positive adjustment to import competition.
Petitioners may be a firm, trade association, group of workers, or other entity representative of a domestic industry. Petitions also may come from the president, the Office of the USTR (since 1974), a resolution of the House Committee on Ways and Means, the Senate Committee on Finance, or from a motion of the ITC commissioners. The statute directs the ITC to determine whether a product is being imported in such increased quantities as to be a substantial cause of serious injury, or the threat of injury, to the domestic industry producing an article like or directly competitive with the imported article.\(^{35}\)

If the ITC’s finding is affirmative, it must recommend a remedy to the president. It is at the president's discretion to adopt, modify, or reject the ITC’s remedy recommendation. Since 1974, US legislation of the escape clause states that a president can reject an ITC remedy recommendation only on grounds of national economic interest.

Once the ITC has issued its *Report to the President* detailing its investigation, finding, and recommendation in affirmative cases, the president has ninety days to adopt, modify, or reject the recommendation.\(^{36}\) Since the Trade Act of 1974, the Congress may override a president's decision, but it has never exercised this option.\(^{37}\)

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\(^{35}\) See various issues of *United States Trade Commission Annual Report.*

\(^{36}\) In ITC affirmative cases where the president takes no action, the remedy recommendation of the Commission is adopted and implemented.

\(^{37}\) Actually, the "concurrent resolution" language was determined to be unconstitutional by the Supreme Court. In the Trade and Tariff Act of 1984, "joint resolution" was substituted.
Section 406 of the Trade Act of 1974[^38] targets trade with communist countries. The ITC determines whether imports of an article produced in a communist country is causing market disruption in the US. In general, if the ITC determination is affirmative, the president may take the same action as in a case involving injury to an industry under Section 201, except that the action would apply only to imports of the product from the communist country.

Cases petitioned since 1952 under the escape clause and Section 406 of the Trade Act of 1974 provide the universe of cases for this project. According to the respective statutes, the ITC interprets legislation, makes a determination given that interpretation, and recommends remedy and/or import relief to the president. Under both pieces of legislation, the president is the effective final decisionmaker on implementation for affirmative ITC determinations.[^39]

**The Model**

This section of this chapter develops the model that will be used in Chapter 5 to examine systematically the way in which the Executive does make a difference to trade outcomes, and what the nature of those decisions will be. It is proposed as

[^38]: 19 USC 2436.

[^39]: Section 337 of the Tariff Act of 1930 (19 USC 1337) also calls for determinations by the ITC and final decisions by the president. However, the cases are heard by an administrative law judge in formal evidentiary hearings. In addition, the ITC has far fewer options from which to choose remedy recommendations, and the president is limited to accepting or rejecting the recommendations (that is, he may not modify recommendations). Although the model proposed in this study still should be able to anticipate trade implementation in Section 337 cases, the difference in conditions could be a source for variation on the dependent variable. Hence, Section 337 cases were not considered for this project.
one way to represent the decisionmaking process that leads to the implementation of US foreign import trade policy; that is, trade outcomes.

In this study, there are four possible trade outcomes: free trade, fair trade, strategic trade, and protected trade. Nollen and Quinn (1994) found that, beginning in the US in the 1980s, the two traditional types of trade policy, free trade and protectionism, were expanded with two additional types, strategic and fair trade policies. The authors argue that these are four distinct and identifiable trade policy types explicitly understood by members of Congress in the formation and legislation processes of trade policy.

It is reasonable to presume that these four trade policy types existed conceptually, and not just within the US Congress, before their explicit articulation in the form of legislation. For instance, the authors' distinction between the "free" and "fair" trade types revolves around the existence or absence of a demand for reciprocity. The free trade policy type reflects the neoclassical economic argument for limiting government's role in economies to the correction of market imperfections, regardless of the policies of trading partners. The fair trade policy type, on the other hand, focuses on the policies of trading partners: "The objective...is to combat unfair trading practices by other countries in order to restore outcomes that would prevail under free(er) trade."40 In other words, the fair trade policy type employs retaliation when it is determined that the practices of trading partners result in disadvantages for US firms in foreign markets and/or US firms' losses in domestic

40 Nollen and Quinn, 1990, p.495.
markets. According to the authors, fair trade policies are reciprocity proposals in similar or related product markets, and threats to restrict foreign firms' access to domestic markets if foreign market access is determined to be restricted.41

As Nollen and Quinn themselves point out, distinguishable free and fair types of trade policies and implementation have existed since at least the nineteenth century, and certainly since the early part of this century when US policymakers were concerned over dumping in US markets by foreign firms. Further, non-tariff barriers to trade (NTBs) in the form of some orderly market arrangements (OMAs), voluntary export restrictions (VERs), and so forth are often implemented on the basis of "unfair" trade complaints, and these US practices (as well as the practices of other countries) were observable before the 1980s.42

Similarly, the authors define strategic trade policy in terms of Congressional policymakers' objectives.43 This type of policy, according to Nollen and Quinn, is a form of industrial policy that seeks to "promote the competitiveness of domestic firms in key industries at the expense of foreign firms, either to enhance the nation's

41 Ibid.

42 For instance, the focus of the Tokyo Round of the General Agreement on Tariffs and Trade (1973-1979) was on the reduction and elimination of NTBs. That NTBs were central to the talks was a consequence of the broad recognition earlier that NTBs had been and were continuing to overtake declining tariff levels as major obstacles to the free flow of trade. In fact, as C.K. Rowley et al. (1995, op.cit.) point out, the "1962 Trade Expansion Act established the framework for US participation in the sixth GATT trade-negotiating round, the Kennedy Round, and explicitly referred to the goal of reducing non-tariff barriers." (205).

43 It is useful to note at this point that the authors concede that the fair and strategic types of trade policies may be, in effect, alternative forms of protection in the traditional sense. Nonetheless, their empirical evidence demonstrates that certain conditions (namely, variables that affect Congressional members' perceptions of trade issues) predictably led to trade bills which were identified according to a priori trade policy types. They conclude that "fair and strategic trade are not simply protectionism in disguise" (518).
economic well-being or its military security. Strategic trade policies are those which target certain domestic industries for favorable government concessions and subsidies. Domestic firms within these industries are believed to be unable to compete without the government's assistance, especially where there are international oligopolies as in high technology industries. Hence, among the measures of strategic trade policies are "government's offer to domestic firms of subsidies, exclusionary contracts, or other targeted benefits in order to support trade...." Again, as with fair trade types of policies, strategic trade existed, at least conceptually, before the 1980s.

Nollen and Quinn limit their definition of protected trade policy to those practices which attempt to "block or slow down the economic adjustments that otherwise would have to be made because of international trade." Measures for this type of trade policy do not include NTBs; rather, transparent barriers to trade (e.g., tariffs, quotas) are the measurable instruments.

In short, regardless of whether or not there is a useful practical distinction between some types of strategic and fair trade policies on the one hand, and protectionism on the other, Nollen and Quinn found that Congressional policy

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44 Nollen and Quinn, 1990, p. 497.
45 Ibid.
46 J.D. Richardson's review of three books on strategic trade policy concludes that contemporary interest in strategic trade is a reconsideration of "old mercantilist" arguments using "tighter" models and greater attention to politics. In this sense, strategic trade has existed conceptually in the US since Alexander Hamilton. See J.D. Richardson (1990), "The political economy of strategic trade policy", in International Organization (44:1:107-135).
47 Nollen and Quinn, 1990, p.494.
makers recognize the four trade policy types as distinct tools for achieving distinct objectives. Measures for import relief (fair trade measures) may, at times, result in the same re-allocation of costs and benefits as, say, a tariff (protectionism), but the point is that the choice of policy is determined by policymakers' perceptions that certain policy types achieve certain objectives, rather than by random choice of a policy instrument that increases remedial intervention. Observed in this way, US trade policy is more than a choice between free trade and protectionism.

The more traditional dichotomy between free trade and protectionism is an overly simplified categorization that results in analyses where any government intervention for international trade purposes, including adjustment assistance to workers in the petitioning industry, falls under the same category as some of the most trade-distorting types of barriers (e.g., exclusion orders, quotas, and so forth). The fourfold typology supported by Nollen and Quinn illuminates the nature and extent of managed trade, providing for an improved ability to evaluate the openness of US trade policies. Equally important, as will be shown below, the typology's specificity permits development of a framework which will help to explain what Krueger (1995) has referred to as the "schizophrenia" of US trade policy.

The present study builds on the work of Nollen and Quinn. First, their dependent variable is trade policy outcome, while the dependent variable for this

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48 This is consistent with Aggarwal et al. who contend that one of the determinants of the government's willingness to supply protection is "the values of governmental officials who have their own policy preferences." (348). The authors find three categories of negotiated protectionism which are the result of policymakers linking distinct objectives with distinct types of policy tools. See V.K. Aggarwal, R.O. Keohane, and D.B. Yoffie (1987), "The dynamics of negotiated protectionism", in American Political Science Review (81:2:345-366).
project is the outcome of implementation, or trade practice. It is reasonable to expect that the same menu of types for policy outcomes exists for implementation outcomes. In fact, this expectation is the basis for the inquiry that drives the present study: What accounts for differences between policy prescriptions and trade practice? In other words, we expect that the free, fair, strategic, or protectionist prescriptions of trade policy result in free, fair, strategic, or protectionist trade practices, respectively. Despite this expectation, it does not obtain almost 65% of the time for the universe of cases considered here.49

Second, as argued in Chapter 1, there are at least two distinct occasions for political competition in the process leading to trade practices (see Figure 3.1). Nollen and Quinn's work provides one model to explain the formation and legislation of trade policy. The present project provides the next step; a model to explain trade practices given trade policy. Where Nollen and Quinn have developed a typology of policy outcomes and a useful means for measuring them, the present project develops and tests a model, using their typology, to explain implementation outcomes, or trade practices.50

Third, and as a consequence of the second point above, the unit of analysis for this project is the US President, while it is Congressional policymakers for Nollen and Quinn. As was argued in Chapter 2 and briefly in an earlier section of this

49 Recall that the universe includes all Section 201 and 406 cases for the years, 1952-1995.

50 It is important to note here that the model developed in this project does not depend on Nollen and Quinn's model of the process leading to trade policy. As noted in both Chapters 1 and 2, processes leading to the formation and legislation of trade policy are separate and distinct from those leading to trade practice for the universe of cases examined here.
chapter, the executive branch is more insulated from interests-competing lobbies than is the legislative branch and, therefore, "pressure politics" is not a useful model for understanding the implementation process that is immediately proximal to US import trade practices.\(^{51}\) That is, models of the process leading to the formation and legislation of trade policy are inappropriate for understanding the process that follows policy and results in trade practice.

This project adopts Nollen and Quinn’s typologies of trade policy, and adapts them to measure the dependent variable, US foreign import trade practices, or trade outcomes (see Table 3.1).

<table>
<thead>
<tr>
<th>OUTCOME TYPE</th>
<th>MEASURE</th>
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<tbody>
<tr>
<td>Free Trade</td>
<td>No Remedial Action</td>
</tr>
<tr>
<td>Fair Trade</td>
<td>Non-tariff Barriers to Trade</td>
</tr>
<tr>
<td>Strategic Trade</td>
<td>Subsidies &amp; Other Benefits to Domestic Firms/ Industries</td>
</tr>
<tr>
<td>Protected Trade</td>
<td>Tariffs, Quotas, &amp; Other Transparent Barriers</td>
</tr>
</tbody>
</table>

US Foreign Trade Practices
Table 3.1


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A free trade outcome exists when there is no intervention by the government for the universe of cases investigated here. Recall that the cases included in this project are only those in which the ITC has determined that injury to the petitioner has occurred. No remedial action indicates that, despite the petitioner's declining income, market share and/or employment due to import competition, the government does not intervene to mediate the effects of international competition.

Fair trade types of outcomes can be observed as those practices which are contingent on the behavior of the target trading country, and are often negotiated restrictions on trade. These are practices which are characterized as retaliatory or reciprocal, such as reduced concessions, voluntary export restraints, orderly market arrangements, and so forth.

US trade practices with respect to foreign imports which prop up or otherwise support domestic firms/industries are considered strategic trade practices. These may be observed in the form of tax concessions, research and development support, and other government practices that target domestic firms and/or industries rather than foreign industries or trading partners.

Application of transparent barriers to trade is considered a protectionist trade practice. Conventionally, these are tariffs and quotas.

The remainder of this section of this chapter specifies the model of the process leading to US import trade practices, given trade policy.

An occasion for decisionmaking by the president exists once the International Trade Commission has determined that remedial intervention is warranted. One possible way to begin to categorize that decision is to hypothesize about a condition
that predisposes a president to choose one or another type of trade practice. In the present study, a source for a president's predisposition and the possible outcomes generated by his preferences may be viewed as branches on a decision tree (see Figure 3.2). The first decision node shows that a president's national or international orientation limits his alternative implementation choices, suggesting that the orientation is a constraint on his decision. The orientation is determined by the way in which he views the relationship between the interests of the domestic economy and the interests of the international economy. If he views national interests as separate from and of greater significance than international interests, he is a "nationally-oriented" president. If, on the other hand, he equates national interests with international interests, he is an "internationally-oriented" president.

It is reasonable to consider a president's national/international orientation as a source for his preferences for at least two reasons. First, a president's perception of national and international interests is a subjective and general consideration, reflecting a president's understanding of his own role in government, the role of trade in the domestic economy and as a tool of foreign policy, the opportunities and obligations of the US in the international system, and so forth. This perception is the sum of the president's own value system, experiences, training, and knowledge level. In effect, a president's assessment of national and international interests is shaped by his representation of the context in which he operates because the representation consists of his own derived causal "rules" by which he understands and navigates through his environment. Sylvan and Haddad (1998) say that "an individual's representation is a constraint on reasoning in that it limits understanding
to a specific organization of conceptual knowledge."\(^5^2\) Further, they say that the "way in which an individual represents an issue makes a difference as to how that individual will reason about and make decisions about that issue."\(^5^3\) The importance of this representation in the present project is suggested by George (1980): "[The] chief function of the concept of national interest is to specify a means by which policymakers can make disciplined choices among interests and therefore among policy alternatives."\(^5^4\)

As a constraint on decisionmaking, this conceptualization of orientation is similar to that of constructs used by other political scientists. Among the more prominent of these is the "operational code" introduced by Leites\(^5^5\), refined by George\(^5^6\), and applied by Holsti.\(^5^7\) An operational code is a set of specific, fundamental instrumental and philosophical beliefs that predispose a political actor to choose certain behaviors. According to George, an operational code reflects a


\(^5^3\) Ibid.


\(^5^5\) N. Leites (1953), A Study of Bolshevism, Gencoe, IL: The Free Press.

\(^5^6\) A.L. George (1969), "The 'operational code': A neglected approach to the study of political leaders and decision-making", in International Studies Quarterly (13:2:190-222).

\(^5^7\) For instance, see O. Holsti (1970), "The 'operational code' approach to the study of political leaders: John Foster Dulles' philosophical and instrumental beliefs", in Canadian Journal of Political Science (3:1:123-157).
"cognitive limit on the possibility of rational decision-making in politics" that provides guidance for the researcher: "Knowledge of the actor's approach to calculating choice of action does not provide a simple key to explanation and prediction; but it can help the researcher and the policy planner to 'bound' the alternative ways in which the subject may perceive different types of situations and approach the task of making a rational assessment of alternative courses of action." Similarly, in an empirical study, Nincic assumes "low-information rationality" of actors, by which he means that "cognitive shortcuts, or 'mini theories', ... form firm yet simple premises from which [actors] make inferences about issues of politics and policy."

The point is that "orientation" in this project is used in a way similar to the way in which cognitive constructs such as belief systems and ideologies have been used elsewhere. Although generally resistant to change, their stability depends on an actor's personality, the degree of reinforcement by political culture and institutions, affective response to authority, receptiveness to "lessons" of experience and history, salience of the issue for the actor, and so forth. There is no agreement in this field about the stability of these constructs, with scholars arguing on both sides of the


60 M. Nincic (1997), "Domestic costs, the US public, and the isolationist calculus", in International Studies Quarterly (41:4:593-610), p. 598.

issue. For instance, another way to conceptualize orientation might be to consider Johnson's (1974) presidential management styles. An orientation in this study is meant as a tool for representing a political actor's proclivities to see the political world in a particular way, but it says nothing about attitudes about behavior, motivations, or intentions to act. In other words, an orientation provides guidance, but is not a guarantee, about decision outcomes.

George's (1969; 1980) explanation of the usefulness of an operational code is relevant; it is a "prism that influences the actor's perceptions and diagnoses of the flow of political events"; it is "a set of premises and beliefs about politics and not a set of rules and recipes to be applied mechanically to the choice of action"; and it "can assist, but not substitute for, analysis...and assessment of...pressures on the political actor's decisions." An orientation is argued here to be one way in which a political actor interprets the environment, and that it is connected to what he sees as alternative decision choices.

George's point provides the second reason for identifying a president's "interests" orientation as a source for determining alternative policy choices: A president's perception of national and international interests influences how he will see the political economic trade-off between the demands for protection from import competition on the one hand, and the health of the national economy and

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international relationships on the other. Figure 3.2 reflects this point. It shows that a president's national or international orientation influences the possible trade outcomes whether his decision is for more open or more restrictive practices than prescribed by statute.

A nationally-oriented president who decides for more openness will choose a "fair trade" implementation, while an internationally-oriented president deciding for

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63 Destler and Odell (1987, op. cit.) say that, "if the typical US leader begins with a personal liberal tilt, then in a given case, less than an overwhelming demonstration of political opposition [to protection] is sufficient to stiffen his or her resistance to a proposal for additional intervention in import markets." (101).
more openness will choose a "free trade" practice. Alternatively, a nationally-oriented president who decides for a more restrictive response will choose a "protected trade" practice, while an internationally-oriented president who decides for a more restrictive response will choose a "strategic trade" implementation.

For the industry-level decision, the president considers whether to increase or decrease the degree of remedial action recommended by the ITC. Free trade practices are less restrictive than strategic trade practices, and fair trade practices are less restrictive than protected trade practices. The relative restrictiveness of an outcome when the president takes no action following an ITC injury determination and remedy recommendation is irrelevant since, in these cases, trade practice follows policy prescriptions.

<table>
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<tr>
<th>Orientation</th>
<th>OPEN</th>
<th>RESTRICT</th>
</tr>
</thead>
<tbody>
<tr>
<td>NATIONALLY-ORIENTED</td>
<td>Fair Trade</td>
<td>Protected Trade</td>
</tr>
<tr>
<td>INT'LLY-ORIENTED</td>
<td>Free Trade</td>
<td>Strategic Trade</td>
</tr>
</tbody>
</table>

 Orientations and Trade Practices  
Table 3.2

64 Recall that the ITC establishes whether or not there is injury due to imports and determines a level of appropriate remedy according to US law that has implemented the results of multilateral negotiations (MTNs) of the GATT. In other words, as argued in Chapter 2, the ITC's determinations in these cases establish injury and remedy levels that are compliant with US international obligations.

65 This understanding of openness and restrictiveness is consistent with the understanding used by Destler and Odell. Although they recognize that "policy choices facing the United States and other governments can no longer be captured by a simple, liberal trade-protectionist dichotomy" (5), their analyses continue to use that dichotomy nonetheless. Their "pro-protection" position category, for instance, is applied when there is an "increase in restrictions on imports" (emphasis added). See I.M. Destler and J.S. Odell (1987), Anti-Protection: Changing Forces in United States Trade Politics, Washington, D.C.: Institute for International Economics.
Table 3.2 summarizes the foregoing argument about the types of trade practices that can be anticipated given a president’s orientation. From this, two hypotheses emerge:

H1: When a president is nationally oriented, he will choose either fair or protected trade practices.

H2: When a president is internationally oriented, he will choose either free or strategic trade practices.

In order to measure the interests orientation of a president, the Economic Report of the President is examined, particularly those chapters dealing with a president’s observations about trade and its implications for the United States. The Economic Report of the President (ERP) is due to Congress within ten days following submission of the national budget. ERPs from various presidents will be reviewed for each year of a president’s term since it is possible that a president’s perception of “national interest” can evolve during his term (see Chapter 4).

ERPs are particularly appropriate for the task of establishing the national or international orientation of a president with respect to trade. One of the major functions has been to communicate to Congress a president’s observations about the domestic economy, the position and role of the United States in the international system, US political economic relationships with other countries, and so forth.

Where a president distinguishes between the interests of the US and the interests of the international system, and when he uses that distinction to justify statements that promote US interests if even at the expense of the international system, he is considered to be nationally-oriented. Where a president identifies US
interests with the interests of the international system, especially when it means shortterm costs to the US domestically, a president is considered internationally-oriented. Conceptually, "international orientation" means that a president's understanding of national interests reflects his perception that what is good for the international system is good for the domestic system. Hence, an internationally-oriented president will be attentive to the international trading system, choosing domestic practices that will sustain a favorable international economic system.

It is expected that a nationally-oriented president will be the exception for the period examined in this study. There is an effective consensus in the literature that both the "lessons" learned in the wake of the disastrous Smoot-Hawley Tariff of 1930\textsuperscript{66}, as well as the constitutionality of Executive authority over foreign policy have produced generally internationally-oriented US Presidents with respect to trade policy.\textsuperscript{67} The argument, in its oversimplified version, is that the US Executive is


Others qualify the generalization by arguing that all presidents have resorted to elevating domestic interests over international interests at one time or another but have been and remain, (continued...
more insulated than Congress from constituent pressure, is singularly charged with the conduct of foreign relations, and is largely influenced by US institutions of liberalism. A more insulated president has more latitude to make unpopular decisions than do members of Congress largely because of his distance from the pressures of constituent protectionist demands.88 Usually this has meant limiting restrictiveness on imports in order to limit international retaliation and the closing of foreign markets. That is, US Presidents have tended to see that an open international system is beneficial to the national interests of the United States and, since this largely requires US reciprocity in terms of openness, US Presidents have used their Constitutional authority and insularity from constituent pressure to identify national interests with international interests.

Second, the Executive Office of the President effectively defines the objectives and interests of the United States, conducting policy in ways that he believes will achieve goals and preserve interests as he understands them. In the postwar era, US Presidents have repeatedly fended off attempts to economically isolate the United States from the international system. Presidential arguments for

87(...continued)


88 The 1934 Reciprocal Trade Agreements Act (RTAA) effectively reversed the historically high tariffs of Smoot-Hawley. J. Bhagwati (1993; op.cit.) says that, as a result, the "executive branch was not only freer from protectionist constituency pressures (directly and indirectly via the Congress) but also eager to indulge the newly acquired pro-trade bias." (23). See Chapter 2 above for Destler’s and others’ argument that Congress has delegated trade authority statutorily to the Executive over time precisely because Congress recognized that it couldn’t resist protectionist constituent demands as well as could the president.
sustained international involvement have ranged from the importance of international markets to US producers to the use of the economic "tool" for political purposes. Further, restraint on presidential leadership in the area of trade has been argued to be an illegitimate restraint on his Constitutional authority to conduct foreign policy.  

A third part of the explanation for the international orientation of presidents with respect to trade has to do with liberal dirigisme as it began and evolved from an earlier period of this century. It is worth repeating here that the experiences in the 1930s especially, but also events in the immediate postwar period shaped the "outward orientation" of US trade preferences. Slesinger's (1968) examination of the Economic Reports of the President, from the first one in 1947 through President Johnson's Report in 1967, shows that US presidents were explicitly aware of the profound failure of the Smoot-Hawley Tariff of 1930, the remarkable domestic economic turnaround with the tariff reversals of the Reciprocal Trade Agreements Act (RTAA) of 1934, and the domestic benefits of a restructured and rebuilt Europe and Japan. In short, presidents have recognized that the growth and stability of the domestic economic system are dependent on the state of the international economic system.

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69 For instance, C.K. Rowley et al. (1995, op.cit.) cite United States v Curtiss Wright (pp. 202 & ff.).

70 Wade (1990) uses the term, "outward orientation" to characterize policy which presses for an open international trading system in order to accommodate a state's exports and strategic practices.

The significance of the international system in influencing trade policymaking and implementation is conveyed by Eckes (1995):

After World War II the Smoot-Hawley metaphor apparently served another purpose. Like the lessons of Munich and Pearl Harbor, it helped to rationalize a continuing US commitment to international cooperation and collective security. In this task the myth of Smoot-Hawley proved a powerful weapon to discredit isolationist and protectionist sentiment, and to promote the [Cordell] Hullian vision of free trade and international cooperation. Committed to this goal, Wall Street, Washington, corporate America, academic economists, and the media elite found it expedient to thrash Smoot-Hawley at each opportunity.\textsuperscript{72}

Goldstein (1989) says that it was the combination of several "critical" events that "merged in 1934", all of which "were necessary ingredients of liberalization".\textsuperscript{73} In Goldstein's terms, liberalization reflected acknowledgement by the president and other trade policy-makers of the importance of the international system to the stability of the domestic system. Destler (1995) echoes the observations of Eckes and Goldstein, saying that "the 'lesson' of Smoot-Hawley, the Cold War imperative, US economic predominance, and prosperity" united the views of both political parties in Congress with those of the President in terms of the importance of

\textsuperscript{72} Eckes (1995; op. cit.; p. 138).

international conditions for US conditions, and "this meant that there could be continuity across administrations."^74

In other words, the US President has the Constitutional and practical structural capability as well as the motivation to identify national interests with international interests and, therefore, it is expected that US Presidents considered in this project will be internationally-oriented more often than nationally-oriented. With reference again to the President's Decision Tree in Figure 3.2, and to Hypotheses 3 and 4, we see that this expectation generates the prediction that most trade practices during the period studied can be characterized as either free trade or strategic trade outcomes, according to whether or not the president's decision is for more open or more restrictive trade, respectively. This result is also a reasonable expectation.

It is useful at this point to clarify the logic behind the assumption that fair and protected trade are the implementation alternatives available to a nationally-oriented president, while free and strategic trade are the implementation alternatives available to an internationally-oriented president. Fair and protected trade choices represent a rejection of the tenets of traditional trade theory and, therefore, it makes sense to expect that a president who would jeopardize the openness of the

^74 Destler (1995; op. cit.; p. 8). Of course, the international orientation was not limited to trade policies and practices. As Bhagwati (1993:39; op. cit.) notes, "[The] United States' embrace of trade liberalization was motivated not by cerebral faith in the economic virtues of free trade but by expectations that the domestic political costs of liberalization would be offset by security gains in the realm of foreign policy." For a structuralist interpretation of the US move to internationalism in the trade policy realm, see R.O. Keohane and J. Nye (1977), Power and Interdependence, Boston: Little, Brown; S. Krasner (1976), "State power and the structure of international trade", in World Politics (28:317-347); inter alia.
international trading system in order to benefit his national system would implement policy in ways that could be characterized as fair or protected trade outcomes. Further, free trade measures reflect the prescriptions of traditional trade theory, while strategic trade measures may be thought of as appropriate responses given the shortcomings of free trade theory.\textsuperscript{75} Hence, a president who sees a convergence between national and international interests in an open international trading system will implement policy in ways that could be characterized as free or strategic trade outcomes.

The traditional theory of free trade rests fundamentally on the observations of Ricardo about comparative advantage: States will enjoy maximized output if productive activities are concentrated in ventures where costs are cheapest relative to other states' productive capabilities.\textsuperscript{76} Left undisturbed, the market will efficiently allocate resources and compete away rents. The neoclassical view envisions a role for government under two conditions: market failure\textsuperscript{77} and the provision of public goods. Government intervention under other conditions politicizes the market, resulting in suboptimal allocation of resources and inefficient production. According

\textsuperscript{75} That is to say, strategic trade practices reflect acknowledgement of free trade theory as far as it goes, but also takes advantage of its shortcomings. See below for elaboration.


\textsuperscript{77} Market failure occurs when individual self-seeking behavior leads to suboptimal results due to, generally, the presence of monopoly, oligopoly, external economies, common property, and so forth.
to economic criteria, even unilateral practice of free trade in a system with neo-
mercantilists and protectionists is more efficient and is beneficial to the free trade practitioner.  

Protected trade practices, defined above as quotas and tariffs, are interventions that distort market processes because they change the information or signals that cue actors about what would otherwise be efficient choices in the market. Hence, resources are reallocated to less than their best alternative use, amounting to a complete rejection of the idea of the gains from trade due to comparative advantage.

Fair trade practices are defined above as those which target the practices of another state in order to retaliate or in some other way modify the target state's trade behavior. As the label implies, "fair" responses to another state's trade behavior reflect an effort to "level the playing field"; that is, to decrease either the foreign state's advantages or the home state's disadvantages in the the existing international trading environment. The point, however, is that fair trade types of practices restrict trade in the international trading system and, therefore, violate the tenets of traditional free trade theory. Cline (1993) says that the US' "limited

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78 Of course, as Bhagwati (1993) points out, such a view does not account for potential domestic political costs.

79 Among the measures for fair trade practices are non-tariff barriers to trade (NTBs), such as voluntary export restraints (VERs), orderly market arrangements (OMAs), standards, procurement rules, other bilateral agreements resulting in trade restrictions, and so forth. More transparent types of fair trade tools include limited and general exclusion orders, and reduced concessions to other states.
granting of exceptions to open trade for individual product sectors... have been
reluctant departures from the general free-trade principle..."\(^{60}\)

Free trade practices are precisely those prescribed by free trade theory. There is no government intervention in the market, and the domestic economy is
open to imports. Strategic trade practices, however, also may be conceived as
consistent with traditional trade theory if modified by the "new thinking" on
international trade. Krugman, to whom this school of thought is widely attributed,
says that "the new ideas that have begun to change our way of looking at trade
amount to a modification rather than a wholesale rejection of [the theoretical
framework of free trade]."\(^{61}\) The "new thinking" on international trade views strategic
trade practices as neither maliciously predatory toward a target nor necessarily
welfare-reducing in terms of the international system. Instead, strategic trade
reflects the exploitation of opportunities that arise because of the imperfections of
the international free trade system.\(^{62}\) That is, neoclassical free trade theory
represents an ideal that is only approximated by the international trading system,
and strategic trade practices are valid neoclassical economic responses. The
difference between traditional and "new" thinking with respect to trade, according to
Krugman, is that new thinking creates room in traditional thinking for activist policy.\(^{63}\)

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\(^{60}\) W.R. Cline (1993), "US Trade and industrial policy: The experience of textiles, steel, and
automobiles", in P.R. Krugman (ed), *Strategic Trade Policy and the New International Economics*
(211).


\(^{62}\) See, for instance, A.V. Deardorff and R.M. Stern (1987; op. cit.; pp. 42 & ff.).

New ideas about strategic trade practices recognize that rent-seeking and efforts to capture external economies (or, externalities) are valid enterprises given imperfect information and less-than-competitive conditions. In fact, Baldwin (1989)\textsuperscript{84}, Brander (1993)\textsuperscript{85}, and Wade (1990)\textsuperscript{86}, each argue that such practices actually can be systemically welfare-enhancing.\textsuperscript{87} Strategic trade practices may not necessarily be the result of some grand design to usurp the economic power of another state; rather, they are more likely efforts to take advantage of profitable situations (given an imperfect system in neoclassical terms) before another actor does. Strategic trade is neither retaliatory nor necessarily trade restricting. According to Wade (1990), strategic intervention may have a neutralizing effect, compensating for other unremedied distortions in the market.\textsuperscript{88} In these terms, then, strategic trade practices do not reflect a rejection of the tenets of neoclassical free trade theory.

\begin{itemize}
\item \textsuperscript{87} For instance, Brander uses an example based on a Cournot equilibrium model. Here, an export subsidy provided by government creates credibility in the threat of expansion by a firm in the subsidizing state. Hence, a competing firm in another state contracts. The cost of the subsidy to the taxpayers of the first state is offset by the benefit of reduced prices to consumers. However, the "strategic effect", according to Brander, is systemically positive because the expansion of the subsidized firm (due to the contraction of its competitor) leads to profits that exceed the amount of the subsidy.
\item \textsuperscript{88} R. Wade (1990, op. cit.).
\end{itemize}
Fair and protected trade practices on the one hand, and free and strategic trade practices on the other hand, can be contrasted in several ways. Cline (1993:215) explains that protectionism^ is a negative type of behavior, while strategic practices, in stimulating individual sectors, are positive behaviors. Further, he says that the former practices are driven by political considerations, while the latter reflect economic considerations.® Lawrence (1989) points out that, when policymakers opt for restricting trade, they have chosen to satisfy short-term immediate political considerations rather than the longer-term efficiency of adjustment in the domestic economic system.®

Fair and protected practices can be contrasted with free and strategic practices in terms of levels of analysis as well. Brander (1993) argues that, if policymakers disagree about objectives, then they will disagree about methods for achieving objectives. By extension, for example, those who believe that the role of government is to provide the "physical, social, and psychological environment of private agents rather than to plan what these agents are supposed to do" will see government's objectives in macroeconomic terms. The trade balance, budget deficit, exchange rate, and so forth will weigh importantly as targets for remedial intervention, and less so on protecting domestic industries or "retaliating" against... 

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^ Fair" types of practices can be included here since they retali ate against another state's trade practices.


®® Ibid., pp. 118-122.

®® Wade (1990; op.cit., p.13; emphasis in original).
states which take advantage of the adverse consequences to domestic industries. In other words, those who view US interests in macroeconomic terms are less likely to use fair or protected types of trade practices.\footnote{Dornbusch and Frankel recall that, in the 1960s, "the US president responded to rising capital outflows by capital controls rather than by restrictive trade measures." See R. Dornbusch and J.A. Frankel (1987), "Macroeconomics and protection", in R.M. Stern (ed.), US Trade Policies in a Changing World Economy, Cambridge, MA: The MIT Press (104).}

On the other hand, those who view the role of government as responding directly to constituent pressure will see objectives in microeconomic terms, and the result is trade policy and practices which, as a first response, accommodate complaints against imports by protecting or retaliating. Cline (1989) says that the severity of the recession and dollar overvaluation in the 1980s, and the failure of the Reagan Administration to address these macroeconomic problems quickly enough, led to an approach he calls "aggressive reciprocity".\footnote{W.R. Cline (1989), "Macroeconomic influences on trade policy", in American Economic Association Papers and Proceedings (79:2:123-127). See also Cline (1983: op. cit.).} He says that this "approach was based on the view that much of the trade problem stemmed from greater openness of the US market than those abroad", and Congress responded to the wave of protectionist pressure by resorting to sector-specific retaliation. In other words, it was widely recognized that macroeconomic conditions militated against the competitiveness of US industries, but the response was the use of microeconomic tools -- "fair" and protected trade policies.

To summarize, fair and protected types of trade policies and practices represent a rejection of neoclassical trade theory, are negative responses to import
penetration and injury, are guided more by political considerations, and reflect a greater reliance on microeconomic objectives and methods. These characteristics would lend greater latitude to a nationally-oriented president since they provide justification for favoring national interests at the expense of the interests of the international trading system.

Free and strategic policies and practices, on the other hand, are consistent with neoclassical trade theory, are positive responses to an open international trading system, rely more on economic criteria, and reflect macroeconomic objectives and methods. These aspects are more characteristic of the implementation alternatives available to an internationally-oriented president who sees a convergence between national and international interests because they recognize the dependence of the domestic economy on the condition of the international system.

Methodology and Case Selection

This section of this chapter considers the method employed in this study to test the model developed in the foregoing section. First, the method of "controlled comparison", or the case study method, is discussed. Next, an argument is offered for the appropriateness of the approach for this study. Finally, the criteria for case selection are presented, and the cases which have been selected to test this project's model are identified.
The Case Study Method

The case study is a frequently used method in the social sciences to investigate and explain puzzling phenomena and events. It is the "structured, focused comparison" or "controlled comparison", a class of case studies, however, that has been used successfully by many scholars to contribute to the cumulation of knowledge in the study of international political economy. According to Alexander George (1979), a structured, focused comparison (controlled comparison in the following) complements statistical approaches, and is similarly rigorous in design and analysis. The generalizability and replicability of controlled comparisons result in contributions to knowledge cumulation because they create the conditions by which a "systematic progression of well-selected" cases can lead to theory development.

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96 Ibid. George coins the term, "structured, focused comparison", and attributes the term, "controlled comparison", to Lijphart (1971).


98 George (1979), op. cit.; p. 59.
The controlled comparison is similar to statistical approaches in the formulation of the research design. The researcher may use a "method of differences" strategy, where cases with various plausible independent variables are chosen for the purpose of developing testable hypotheses. A controlled comparison research design may also reflect a "method of similarities" strategy, where cases are chosen based on their similarity in every way but variation in the value of a single independent variable. For this latter strategy, the choice of cases eliminates the possibility of other variables explaining variation in the dependent variable, permitting evaluation of the causal significance of the independent variable that has been singled out for scrutiny.

George says that the controlled comparison has a "scientific consciousness" unlike the historical recountings of the 1960s. The controlled comparison is "structured" because the dependent and independent variables are clearly specified, and a theoretically-informed, a priori decision is made as to which variable(s) will be allowed to vary. In addition, the method may be considered to be structured because the same questions of a general nature are asked across the cases to guide data collection and analysis. The controlled comparison method is "focused" because it considers only certain specific aspects of a case; that is, it centers on a single dependent variable. In short, George says that it is the

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99 George (p. 49) uses Rosenau's (1968) term to address the latter's critique of the "nonscientific, noncumulative character of case studies" in the 1960s.

100 p. 61

101 Ibid.
exacting demands of the "design tasks" that separate the controlled comparison from other types of case studies, and that create a "scientific-ness" that is commonly associated with statistical methods. The results of a controlled comparison gain plausibility to the extent that, on the one hand, an explanation is achieved which is more consistent with the available data than other explanations while, on the other hand, some alternative explanations are eliminated through a careful case selection process.\textsuperscript{102}

Among the many advantages of the controlled comparison method, three will be discussed here. First, as Milner (1986) contends, some data are not amenable to quantification, and the structured, focused comparison permits recognition and correction of inaccuracies in aggregate data.\textsuperscript{103} Further, she says, "the case study method allows close examination of the process by which preferences are formed and communicated and by which policy is made. Tracing this process in each case is very important to the study because it reveals the politics behind trade and because it has been little examined in the scholarly literature."\textsuperscript{104}

Second, the structured, focused comparison, or controlled comparison, provides a means for uncovering intervening variables, for further refinement of the conditions under which the proposed model is externally valid, and for isolating junctures in the process that affect internal validity. George says that "each case

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\textsuperscript{102} Ibid.


\textsuperscript{104} Ibid., p. 128.
that differs from other cases is used to identify a variation, a different causal pattern, within the system of variables forming the initial theoretical framework. In other words, each case is dealt with by the investigator as if it were a 'deviant' case.\textsuperscript{105}

Third and related to the points above, George argues that the structured, focused comparison is a method that can provide the "sharper formulation and a fuller statement" of the effect of independent and intervening variables on the dependent variable that is needed for most theories. It is this distinction that separates the controlled comparison from statistical methods but, at the same time, makes it complementary. The controlled comparison identifies "the conditions under which each distinctive type of causal pattern occurs" rather than attempting to address the question of \textit{how often} each outcome and/or causal pattern does occur or can be expected to occur. Thus, controlled comparison is useful for developing a differentiated theory comprised of conditional generalizations rather than frequency distributions.\textsuperscript{106} These more "discriminating explanations" are more useful for some researchers because they facilitate the development of policy-relevant theory.\textsuperscript{107}

\textbf{Controlled Comparison in the Present Study}

The most important reason that the controlled comparison method is preferred over regression analysis for the present study has to do with measurement of the independent variable, presidential orientations with respect to the international

\textsuperscript{105} George (1979), \textit{ibid.}, p. 59.

\textsuperscript{106} \textit{Ibid.}, p. 60; emphasis in original.

\textsuperscript{107} \textit{Ibid.}
political economy. The independent variable has been dichotomized as either a national or international orientation in order to facilitate parsimonious description in the development of this project's proposed model. Theoretically, regressing the trade outcomes on orientations should convey the likelihood that a particular outcome will obtain. On the other hand, information about when and why unexpected results emerge would not be readily apparent from a regression model.

As chapter 4 reveals, cardinal or ordinal measurement would result in the loss of information on the independent variable. This project takes a first cut at identifying presidential orientations by using a rudimentary system that infers a president's general proclivity to view the national political economy vis-a-vis the international political economy in a particular way, and assumes that this tendency remains consistent throughout the course of a year. Within the course of any given year, however, a president may consider a number of ITC affirmative decisions in escape clause cases, and it would be unreasonable to expect that a president unerringly would choose the same implementation.

For instance, the context in which any particular decision is made may vary substantially from case to case. A single decision in a high-profile case may become important for sending a political signal, and this instrumental nature of the decision may weigh more heavily than the merits of the case. Too, experience in office, changing national and/or international economic and political conditions, differences in interest and levels of dependence on others for information, and so

\[108\] Between the years 1969 and 1973, for instance, the Nixon Administration considered 39 escape clause cases in which the ITC had found affirmatively.
forth may lead to a gradual change in a president's orientation from one year to the next. The controlled comparison is a method which permits the researcher to observe these exceptions and understand the limits of the independent variable's influence on the dependent variable.

Case Selection

In this study, a case is an escape clause or section 406 petition for which the ITC has issued an affirmative finding of injury or threat of injury, and has recommended a remedy. Two cases are examined in Chapter 5: The 1977 footwear case during the Carter Administration and the 1985 footwear case during the second Reagan Administration. These cases were chosen according to the design demands of the structured, focused comparison.

First, cases were chosen from the Carter and second Reagan Administration because the escape clause and section 406 petitions were submitted and considered under the same legislation, the Trade Act of 1974. Generally, the changes in legislation over the years with respect to escape clause provisions affected the way in which the ITC was to interpret legislation, but did little to change constraints on presidential authority. However, the Trade Act of 1974 did add that a presidential rejection of an ITC remedy recommendation had to be justified in terms of the national economic interest, and that a president must make his decision

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109 Section 406, trade disruption due to imports from communist countries, was first legislated in the Trade Act of 1974. Hence, the following argument about case selection criteria is irrelevant to these cases.
within 90 days of the ITC's report in the Federal Register. Hence, cases to be tested in this project fall under the same legislation, the Trade Act of 1974, to control for the possibility that these minor changes might have affected trade outcomes.

Second, cases had to be chosen that would test the hypotheses that an internationally-oriented president would opt for free or strategic trade measures when he chose to modify an ITC recommendation, while a nationally-oriented president would choose fair or protected implementations. The second Reagan Administration was the only administration since 1974 where the Economic Report of the President and the accompanying Report of the Council of Economic Advisors provided consistent evidence of a national orientation. Cases from the Carter Administration were chosen to test hypotheses about an internationally-oriented president.

Cases were not chosen from the internationally-oriented Ford, Bush, Clinton, or the first Reagan administrations.\textsuperscript{110} Ford was not an elected president, and this difference might have been an additional source of variation in the dependent variable. There were no affirmative decisions by the ITC in escape clause or section 406 cases during the Bush Administration, and only one case during the Clinton Administration. Cases were not chosen from the first Reagan Administration for two reasons. First, comparing cases from one Reagan Administration with cases from the other would have been more of a test of the system for assessing presidential orientations than a test of the effects of presidential orientations on the dependent

\textsuperscript{110} Chapter 4 details the assessments of the orientations for each of these administrations.
variable. Second, due to the crude nature of the system for assessing orientations, it is more plausible that orientations differed between two individuals in their presidential capacities than between successive administrations of the same individual.

Third, another criterion for case selection was that the case was chosen if the model did not correctly predict to the trade outcome. This criterion was used in order to take advantage of the benefits of the controlled comparison method: "sharper formulation and a fuller statement" of the effects of the independent variable and discovery of other intervening variables and/or processes.

The first case to be investigated is a 1977 escape clause petition by the Senate Finance Committee on behalf of the footwear industry, ITC Publication #799, case #TA-201-18, during the internationally-oriented Carter Administration. The model developed in this study predicts that a free or strategic trade measure would have been implemented.

The second case, 1985 ITC case #TA-201-55, Publication #1717, was chosen from the second Reagan Administration. This was an escape clause petition by the footwear industry. The model proposed in this study predicts to a fair or protected trade outcome.

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111 George (1979), op. cit.
CHAPTER 4

US PRESIDENTS’ ORIENTATIONS

The purpose of this chapter is to convey a sense of the general national or international orientation of each US President’s understanding of the national interest in political economic terms since Truman. Each president’s conceptualization of national interest, and whether it is nationally- or internationally-oriented, is important because, as was explained in detail in Chapter 3, it is proposed as a variable which helps to predict trade outcomes in fair trade cases.

A president’s decision on how to implement trade policy depends on his conceptualization of the national interest.¹ For the purposes of this study, it is posited that national interest can be characterized in one of two ways -- either with a national or an international orientation. A national orientation implies a tendency to consider the preservation of the domestic political economic system as separate

¹ Chapter 2 above details congressional devolution of authority in trade cases to the President over time. This devolution of authority was a result of Congress recognizing its tendency to respond to the demands of narrow special interests, while the President’s larger constituency, his responsibilities for foreign policy, and his insularity from protectionist pressure would result in policy actions that better served the wider national interest. In other words, Congress has relied on the US President’s broader concern for national interest on trade issues in order to circumvent its own tendency to undermine the liberal international trading system.
from and of greater importance than maintenance of the international system. For instance, explicit and frequent references to US dominance and leadership in the international economic system, and explanations of how changes in domestic actions reverberate across the international system suggest the notion that US interests and conditions are significant enough to be singled out and considered first before those of the international system.

An international orientation with respect to national interest suggests a tendency to consider preservation of the international political economic system with the same or greater urgency as maintenance of the domestic system or improvement in domestic conditions. Examples of this kind of orientation include a focus on explanations of how international interests and conditions affect domestic interests and conditions, calls for global policy coordination and collaboration, and domestic policy development that is discussed in terms of the way in which it is consistent with the more central recommendations about global policy.

Despite the fact that, for instance, presidents often equate international interests with US interests, they may causally associate international conditions with domestic conditions or vice versa. If a president's focus is on taking actions that modify domestic conditions in order to preserve the international system, his conceptualization of national interest is considered to be internationally-oriented in this study. On the other hand, if a president attempts to modify international conditions in order to preserve or improve domestic conditions, his understanding of national interest is nationally-oriented for the purposes of this project.
National and international orientations are proposed as general tendencies rather than as absolute indicators. As such, it is reasonable to expect that these are predispositions that would be revealed in prepared speeches, public documents, press releases, and so forth. The annual *Economic Report of the President* (ERP) and the accompanying *Annual Report of the Council of Economic Advisers* are used in this study as primary sources for developing a sense of the national or international orientation of each US President's understanding of the national interest.\(^2\)

The *Economic Report of the President* is a product of the 1946 Employment Act passed by a Congress concerned about the potential for high unemployment due to demobilization following the war. The Act established the Council of Economic Advisers, the Joint Economic Committee, and the Economic Report of the President. The President's Economic Report was established mainly as a vehicle through which a president would deliver his assessment of US employment levels and productivity, and through which he would sketch his policies and actions from the previous year that had served to improve employment and productivity. In addition to consideration of domestic conditions such as inflation that affect employment and productivity levels, presidents and their Councils of Economic Advisers (CEA) invariably have addressed international conditions that affect the domestic economy, and domestic political economic conditions that affect or have the potential to affect the international system.

\(^2\) More extensive resources are consulted when establishing presidential orientations in the individual case studies of this project. See Chapters 5 and 6 following.
ERP formats have changed little since the first one in 1947. According to Slesinger (1968), "The Council's Report became essentially an analytical and statistical support for the President's more general review. In effect, the President's Report gave the summary and the framework and the Council's Report filled in the details." This study proceeds on the assumption that these reports provide, at a minimum, the way in which a president wants the Congress and the public to perceive his understanding of political economic conditions and the reasoning that underlies this understanding.

The remainder of this chapter provides a first guess as to the national or international orientation of each president's understanding of the national interest in terms of the political economy since 1952, and a characterization of the types of policy actions that can be expected given the model proposed in this study.

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4 It is important to note that intentions to act are not being addressed here. In terms of the psychology literature, the formulation of orientation used here may be aptly characterized by the concept, "attitudes toward behavior", rather than the concept, "intentions". Attitudes toward behavior are components of the larger construct, intentions. Intention is generally understood in terms of the theory of planned behavior, which expands on the Fishbein-Ajzen reasoned action model, and includes non-volitional elements of control. For an excellent, succinct review of this topic and literature, see A.E. Eagly and S. Chaiken (1993), The Psychology of Attitudes, New York: Harcourt Brace Jovanovich College Publishers.
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**Truman:** Internationally-Oriented National Interest

(Years in Office: 1945-1952 Relevant ERPs: 1953

The Truman Administration conveyed an internationally-oriented understanding of national interest in terms of the political economy. The overwhelming international concern was defense and security, and economics was discussed instrumentally; as a tool with which the United States would fashion an international system favorable to US political interests. The following quotations provide evidence for this observation.

- Economic issues and international issues are now inseparably connected. (1952: 1).

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An *Economic Report of the President (ERP)* is a president’s report on current economic conditions and his assessment of the economic conditions of the prior year in the United States. Hence, a President’s first ERP is submitted the second January or February after assuming office.

Recall that period examined in this study begins with the year 1952, which is covered by the 1953 *Economic Report of the President (ERP)*, and is the final year of the Truman Administration. In order to develop a better sense of the national or international orientation of this administration, the 1952 ERP has been reviewed as well.
I want to direct special attention to that part of our security effort which is aimed at increasing the strength of other free nations. Most of our aid is going to Western Europe. The Western European countries can shoulder only part of their heavier defense outlays through increased productivity. (1952: 8).

Our economic and military aid to free nations banded with us against aggression must be kept under vigilant and continuous review. (1952: 14).

It is our purpose, in the interest of security, to strengthen the individual and collective defenses of the nations of the free world, to encourage production and the development of their resources, and to facilitate their effective participation in the United Nations system for collective security. (1952: 121).

To provide aid in a way which contributes most to attaining its purposes, it should be recognized that the distinction between "military" and "economic" aid bears no close relationship to the distinction between the military and economic objectives of aid. (1952: 125).

The United States has long been interested in the material progress of the peoples of these areas, both because that progress is an end in itself, and because it is one of the most essential elements in the development of stability and democracy. In the present state of world tension, this interest has become an urgent concern. (1952: 126).

The international responsibilities of the United States are carried out in part through its political and moral influence, and in part through the use of its vast economic strength. (1953: 26).

In short, the free world cannot be permanently peaceful until the free world makes further progress toward full and more productive employment. Prosperity, like peace, is indivisible and in our pursuit of a full employment policy at home we must never lose sight of this supremely important truth. Hence our concern with the economic development of other free countries. (1953: 27).

We are engaged in forging a strong community of free nations with great defensive strength. Basic to the other free nations' military strength is their economic strength. The more they are enabled to pay their own way, the better for us as well as for them. (1953: 79).

The reason why the United States has concerned itself with this problem [the "dollar shortage"] is largely that, particularly in view of the communist threat acutely felt since the end of World War II, we have had an enormous interest in the strengthening of the free nations at a more rapid rate than they could achieve through their own productive output and through the volume of international trade which this productive output would support. Stated simply, this has been the main rationale of our aid programs. (1953: 137).

...we must continue to readjust, but not to scuttle, those programs of transition from conditions at the end of World War II to conditions in the years ahead when the peace and prosperity of the free world may be more firmly founded upon more permanent measures. (1953: 151).
Hence, US economic foreign policy was subsumed by a larger foreign policy purpose; that is, trade and financial assistance was in service to the goal of entrenching fidelity to an international system preferred by the United States. Economic dependence on, or interdependence with, the United States was seen as fundamental to the formation of a stable international political community of "free" states. The Truman Administration provided further evidence of its internationally-oriented conception of the national interest when it asserted the need to sacrifice domestic economic conditions and policy in order to support a world system favorable to the United States. The following statements support this interpretation.

- These various types of defense-related expansion — both military and civilian — will absorb scarce resources... at a much faster rate than we can expand the supply during the next 12 months or so. The meaning of this is simple: In order to accomplish what we cannot afford to do without, we must give up many of the things that we can afford to do without....The demand for vital business expansion means that many nonessential forms of private investment must be deferred....The American consumer — which means all Americans — will also have to relinquish some of the enjoyments which would be possible if the cost of security were not so high. (1952: 10).

- The major burden of restraining inflationary pressures in other countries must rest upon these countries themselves, but the United States can do much to help. The most important contribution we can make to a solution of this serious problem, apart from the alleviating effect of our aid, is to control our own domestic inflationary pressures effectively. (1952: 130).

- Should the United States reduce sharply or prematurely the military and economic aid which is doing so much to strengthen the free world, this country might be forced to abandon the domestic gains which it plans for the future. For if communism should gain abroad, we would have to become an armed fortress at terrific cost. The prerequisite of a free, strong, and prosperous America is full participation in the effort to create strength and prosperity throughout the free world. (1953: 26 & 27).

- For a time, we cannot afford in our own self-interest to taper off what goes under the name of assistance so rapidly as to prevent the fuller fruition of the great productive gains in these other free countries — gains which have resulted in part from this assistance since the end of World War II.... (1953: 137).

- It does not mean that the United States can help sufficiently in the build-up of international economic arrangements by pursuing a narrowly selfish course, or by thinking that we can get benefits without paying the cost. The build-up of world trade will involve some inconveniences to some sectors of our domestic economy, though these inconveniences will be a
minor price to pay for improved world conditions, and far less costly than the aid which thus far has proved temporarily necessary. (1953: 138).

While we in the United States must conserve our own strength, and while we join with the other free nations in their desire for greater financial independence, we cannot safely afford to avoid the palpable fact that our own economic position is unique, and that, because we have so much, we have the most to gain by maintaining a predominantly free world and the most to lose if the balance of strength should shift over to the totalitarians. (1953: 138).

Reduction of import barriers could not, of course, be achieved without cost. Some individuals may be harmed thereby....But that part of the world's dollar earning problem which stems from the curtailment of the United States [sic] demand for foreign products imposed by unnecessary import barriers is the responsibility of the United States, and can only be remedied by action here. (1953: 145).

It is reasonable to conclude, then, that the Truman Administration had an internationally-oriented conception of the national interest in its final year. Its aversion to communism led the Administration to identify longer-term US interests with international conditions. Truman used domestic policy and resources in order to promote other states' economic and political allegiance to an international system preferred by the US, if even at the shortterm expense of US domestic conditions.

According to the model developed in Chapter 3, we would expect trade practices that could be characterized as "free" when the President opted for more openness. When he opted for more restrictive implementations, we would expect that trade practices could be characterized as "strategic".

**Eisenhower I: Internationally-Oriented National Interest**
*(Years in Office: 1953-1956 Relevant ERPs: 1954-1957)*

The ERPs for the four years of the first Eisenhower Administration provide evidence that the understanding of national interest in political economic terms was internationally-oriented. Eisenhower emphasized common economic interests of
"free" states, and urged these states to choose policies that recognized the impact of domestic practices on the international economic system. In other words, the Administration viewed the United States as a partner in a community of states, and conveyed its expectations that other states would do their share, along with the US, in maintaining a liberal international system. The following are some of the statements on which this observation is based.

- It is a responsibility of governments to create and maintain the circumstances in which private traders can conduct their transactions with the fewest impediments from exchange controls or trade restrictions. Sustained prosperity in an interdependent world is a task of all free nations, working together. (1954: 108).

- In common with other countries, the United States is determined to continue its efforts to attain the common objective — a steadily expanding world economy. (1954: 109).

- A policy to promote economic growth and stability cannot be limited to our domestic affairs, but must, of necessity, extend to our relations with other nations. One of the basic lessons of history is the interdependence between prosperity at home and prosperity abroad; between depression at home and depression abroad. This close link might conceivably be broken by the adoption of nationalistic measures, tending to isolate individual nations and areas from outside fluctuations. The objections to such policies are, however, overwhelming.... Equally important, economic isolation is no guarantee of internal stability. The severity of the depression of the thirties was aggravated by the nationalistic character of the programs devised to combat it, as "beggar-my-neighbor" policies spread currency depreciation, tariff increases, import restrictions, and exchange controls from country to country. Flexible trade and capital movements, supplemented by cooperative policies between governments and central banks, are far more likely to help stabilize national economies, to cushion the impact of domestic disturbances, and to prevent their spreading to the world at large. (1954: 109).

- The system toward which we must work is one which will provide increasing opportunities for mutually advantageous trade among the free nations, and which can operate without the repeated extension of grand-in-aid from any nation. There is no single measure by the United States or any other nation which can bring such a system into being.... The principal contribution that the United States can make to the achievement of an efficient system of international trade and payments is to maintain a vigorous, healthy, and expanding economy. (1954: 109).

- These policies of the United States should facilitate, and be accompanied by, similar measures by other nations to reduce governmental interference with the free movement of goods and capital. (1954: 100).

- The nations of the Free World are economically interdependent and no one of them can afford to act upon a narrow view of its own interests or with primary regard to the special interests of any particular industry or group. (1955: 51).
It is to the advantage of each nation to attend to the barriers that have caused international trade and investment to lag behind the growth in production and incomes. (1955:51).

Experience has also shown that efforts to expand world trade are most effective when tariff reductions are negotiated on a reciprocal, multilateral basis. (1956: 89).

The United States can take pride in the progress that has been achieved in cooperation with other countries in enlarging the mutually advantageous flow of goods, capital, technology, and enterprise within the Free World community. Continuance of this trend will build an international environment that is increasingly favorable to the maintenance of peace and the extension of prosperity. (1956: 91).

A major objective of United States foreign economic policy continues to be to facilitate and increase the international flow of goods and capital on a nondiscriminatory basis. Since the volume of our imports and the amount of private funds available for investment abroad depend mainly on domestic prosperity, a stable and growing economy at home is an essential foundation for a sound structure of world trade. (1957: 54).

Multilateral negotiations under the GATT have been more effective than bilateral negotiations in reducing trade barriers and discriminatory restrictions against our exports. (1957: 54).

From the foregoing, the first Eisenhower Administration imparted a sense that it was not enough to oblige other states' commitment to a liberal international economic order by providing US aid and security guarantees. Instead, Eisenhower sought to have other states demonstrate that commitment through participation. Further, as the following statements reveal, the Administration attempted to persuade other states of the value of the system by linking a stable, prosperous international economy to security.

Sustained economic growth is necessary to the welfare and, indeed, to the survival of America and the free world. (1954: iii).

The foreign economic policies of the United States can be a powerful instrument for strengthening the security of our Nation and the Free World... Now more than ever, our own permanent interests of national security and the general welfare must take precedence over all other considerations. (1955: 51).

Against the Communist ideology of the omnipotent State, owning all means of production and dominating all economic activity, the United States holds forth the ideals of personal freedom, private property, individual enterprise, and open markets. We should bear in mind that, in the long run, other countries are far more likely to rally to liberal ideals if we take the steps within our power to encourage them to join us in mutually beneficial economic intercourse. Hence,
our trade and investment policies affect our ability to increase the solidarity of the Free World. (1955: 52).

- It is clear that our long-term interests are well served by expansion of the international flow of goods, capital, enterprise, and technology. Sound policies to promote these ends will powerfully advance our national security and economic welfare, and help to build a stronger and more unified community of free nations. (1956: 88).

- Two promising moves now under study would further the economic integration of Western Europe. One is the establishment of a common market, without internal trade barriers, among the six continental nations comprising the European Coal and Steel Community. The second is the association of the United Kingdom with these countries and other continental nations in a free trade area. These moves, if brought to a constructive conclusion, should add much to the growing economic strength and political unification of the area, with substantial benefits to the United States and the entire free world. (1957: 56).

The Eisenhower Administration's perception of the national interest in a political economic sense can be considered to be internationally-oriented. The international economic system was viewed as a community of "free" states with shared political and economic interests. Further, the Administration explained its own domestic policies in terms of the effects on this "community", as well as urging other states to recognize that their practices impinge on the maintenance of the international system. In other words, the Eisenhower Administration sought to shape domestic policies in ways that contributed to the maintenance of a liberal international economic system.

According the model proposed in this project, we would expect that decisions by the Eisenhower Administration for more open trade would result in practices that can be characterized as "free". With respect to decisions for more restrictive trade, we would expect implementations that could be characterized as "strategic". 

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Eisenhower II: Internationally-Oriented National Interest

The political economic understanding of national interest for the second Eisenhower Administration can be portrayed as internationally-oriented. During the second four years, the Administration conveyed greater concern about whether or not the industrial states which had largely recovered from the devastations of war were sufficiently meeting their duties, as perceived by the Administration, to the international system. Underlying the concern was the belief that the US' position in the international system was being damaged by other states' reluctance to shoulder some of the burden. The following quotes from the relevant ERPs reveal this concern.

- The interaction between economic developments in other countries and in the United States was again evident in 1957.... It is important that policies pursued here and abroad promote economic growth and counteract strains that would lead to raising and hardening trade barriers among nations. (1958:40).

- It is basic to our interests and to those of the larger community of nations that these new groups [the six countries of the Common Market, and the Free Trade Area] pursue policies favoring the expansion of international trade and that they contribute effectively to the economic growth and unity of the free world. (1958: 71).

- Throughout 1959, the United States emphasized that the strong economic position attained by the other industrial countries justified moves on their part to liberalize commercial policies and to expand foreign investment.... Thus, at the Fifteenth Session of the Contracting Parties to the General Agreement on Tariffs and Trade, it was agreed that discriminatory import restrictions based on financial reasons, largely affecting the United States, should quickly be eliminated. Moreover, the rise in reserves of most industrial countries provides the basis for reducing quantitative import restrictions generally. The United States pressed this view at other international meetings also, as well as directly with the governments concerned. (1960:51).

- It is hoped that the industrial countries, consonant with their growing financial ability, will increase their long-term lending to less developed countries, and this subject is being actively discussed with the governments concerned. For its part, the United States will continue vigorously with its plans to aid the economic growth of less developed countries. (1960:68).

^ The 1959 Economic Report of the President, which assesses 1958, is not considered here.
The United States also continued to urge other countries — particularly the economically and financially strong ones — to eliminate remaining discriminatory restrictions on United States goods and services and to lower tariffs and other barriers to trade. (1961:39).

In particular, the great economic strength of the countries belonging to the European Economic Community and European Free Trade Association should facilitate a significant lowering of tariff barriers during the forthcoming Geneva GATT negotiations. (1961:40).

The United States continued to stress the need for a strengthened determination by all the industrial countries to share in providing funds to the less developed parts of the free world. (1961:40).

As a result of this over-all lack of balance in world payments, the substantial increases of international reserves of recent years continued to be concentrated in a small number of countries, particularly in continental Europe. Originally, this inflow was justified by the extremely low level of reserves of these war-devastated countries, but today the reserves of most of them, by and large, seem ample. (1961:41).

The United States has many responsibilities in the world economy. These include keeping the dollar strong, in view of its key role in international trade and payments, maintaining liberal commercial relationships with other countries, contributing to the defense of the free world, and supplying a share of the capital resources needed by less developed countries. But the United States cannot play its part fully unless other industrialized nations pursue policies required by their positions in the world economy. This fact is now increasingly recognized. A helpful start has been made in the sharing of development costs and other burdens and in the cooperative reduction of existing payments imbalances, but further efforts are needed if the international financial mechanism is to work properly and the free world's economy is to move ahead steadily. (1961:41).

In fact, it is the worsening position of the US balance of payments that prompted the Administration to begin to look outward for solutions. Still, the Eisenhower Administration retained its international orientation because it sought to control the damage by coordinating policies (mainly with respect to other states' retention of dollars for foreign reserves), rather than by imposing a singularly self-interested solution.

During the second four years in office, Eisenhower and his CEA continued to link the security of "free" states with economic conditions, and they resumed their calls for other strong states to join the US in choosing domestic policies that were consistent with maintenance of a liberal international economic system. In other
words, the Eisenhower Administration sought to maintain a liberal international system by facilitating cooperation among free states and by attempts to coordinate domestic policies. The following statements provide evidence for this interpretation.

- The latest challenge of international communism will require a further increase in the economic claims of national security, which are already heavy.... Whatever our national security requires, our economy can provide and we can afford to pay. (1958: v & 53).

- The economic policies of the United States, both domestic and foreign, have an important bearing on these prospects. In the field of domestic economic policy, growth and stability are important objectives not only for this country's welfare but also for their effects on foreign countries through our imports and in other ways. In the field of foreign economic policy, our aims are expressed in programs of economic and technical assistance for promoting economic development abroad and in efforts to extend the liberalization of trade. (1958: 48).

- The various measures of United States assistance to, and cooperation with, other countries have played a significant role in strengthening national economies abroad. (1958: 71 & 72).

- Our Mutual Security Program is designed to strengthen the nations whose independence and welfare are essential to our own. This calls not only for military assistance but for economic support also, since some countries cannot, without such support, make the military effort needed in the common interest.... Some other highly developed countries are able to participate in this endeavor. An additional reason for welcoming the new moves toward greater economic integration in Western Europe is that they should increase the foreign resources available for this purpose. (1958: 72).

- The economic potential and the security of the free world, and the future growth of the less developed countries, depend in large measure upon the economic strength of the United States in both its domestic and its international aspects. With a view to safeguarding that strength, action was taken in 1959 to improve the United States balance of payments, in which a sizable deficit was anticipated for the year. The payments deficit underlined the importance of the firm fiscal and monetary policies being pursued to restrain domestic inflationary pressures and to assure stable economic growth. (1960: 51).

- The United States intends to continue encouraging the removal of remaining restrictions on imports from the dollar area. These efforts, which are expected to result in a further expansion of United States export opportunities, will be made in such forums as the General Agreement on Tariffs and Trade and the International Monetary Fund, as well as through bilateral consultations with foreign governments. (1960: 68).

- The achievement of a reasonable equilibrium in the Nation's international transactions continued to be a goal of our policies in 1960. (1961: iii & 33).

- The United States balance of payments in 1960 was heavily influenced by developments abroad. As foreign barriers to international transactions have been reduced and as Western Europe and Japan have regained their earlier positions in the world economy, the links among the major economies of the free world have become much closer than in earlier years. (1961:35).
The effort centered on measures to increase United States exports and to reduce the balance of payments impact of Government military and economic programs abroad in a manner consistent with responsibilities and long-standing policies. Underlying these steps were equally important policies relating to the domestic economy. Fiscal and monetary policies had as one of their major objectives the maintenance of confidence in the dollar as a sound and reliable currency. (1961: 39).

International institutions were urged to use currencies other than dollars as fully as possible, and other strong countries were encouraged to permit borrowing in their capital markets by these institutions and by other borrowers, where appropriate. (1961: 40).

Most countries continued in 1960 to move toward the free and multilateral trade and payments system which has been the goal of the United States since the end of the war and for which the United States has pressed with particular vigor in the last few years. (1961: 40).

The institutional framework of world finance was improved in 1960 through the establishment of the International Development Association and the Inter-American Development Bank. (1961: 40).

Now that freedom for international short-term capital movements has been substantially enlarged, and the economies of the major countries abroad have been greatly strengthened, it appears that interest rate considerations may have an increasing influence on short-term capital flows. However, the international financial mechanism today seems strong and flexible enough to allow solutions to the resulting difficulties to be worked out. (1961: 41).

The second Eisenhower Administration's understanding of the national interest in political economic terms may be considered to be internationally-oriented. One of the most prominent elements of the Administration's viewpoint as revealed through the ERPs was the effort to engage other states in cooperating to choose domestic policies that were consistent with maintenance of a liberal international economic system. Further, the fact that the US chose to modify domestic policies in order to maintain the international system, rather than the other way around, is additional evidence to support the argument that the second Eisenhower Administration held an internationally-oriented concept of national interest.

The model developed in Chapter 3 would predict that Eisenhower would opt for trade practices that could be characterized as "free" when he chose greater
openness than recommended by the ITC. When he chose greater trade restrictiveness, the model would predict that implementation could be characterized as "strategic".

**Kennedy: Internationally-Oriented National Interest**  
(Years in Office: 1961-1963  Relevant ERPs: 1962-1963)

The short-lived Kennedy Administration's understanding of national interest was internationally-oriented, although the way in which this orientation was manifested through the ERPs was slightly different between the two years. During 1961, as reported in the 1962 ERP, the Administration emphasized the important role of the US in maintaining the international monetary and trading systems. Leadership was frequently referenced as a US responsibility to the system. This idea of leadership was not so much in terms of leading by example in the way asserted by the Reagan Administration (see below); rather, Kennedy conveyed his sense that the US, by virtue of its size and prosperity, had an obligation to shore up the international system so that other states, including the US, could benefit from it. In other words, where the nationally-oriented Reagan conceptualization of leadership might be represented as "what is good for the US is good for the international system", the internationally-oriented Kennedy understanding might be represented as "what is good for the international system is good for all states and, therefore, good for the US".

- The nations of the West are encouraged and enlivened by America's determination to make its full contribution to this joint effort. We can do our share. (1962:9).
- We must attain a balance in our international transactions which permits us to meet heavy obligations abroad for the security and development of the free world... (1962: 10).
If we are to meet our international responsibilities... (1962: 13).

The momentum of our economy has been restored. This momentum must be maintained, if the full potential of our free economy is be released in the service of the Nation and the world. (1962: 27).

The recovery and growth of the US economy are not important for the United States alone. On the vigor of our economy depend in large measure the strength and stamina of the free world and the standing of freedom in the minds of men everywhere. Leadership in the world requires the support of a growing and dynamic domestic economy, using to the full its vast productive capacity. (1962: 144).

The obligations of world leadership entail large government outlays abroad. (1962: 144).

Economic growth at home will support, and will be supported by, progress and development abroad... (1962: 145).

...full recovery and economic growth, primary national goals in themselves, are also essential elements in the long-run capacity of the United States to meet its international commitments and responsibilities. (1962: 149).

The 1963 ERP for the 1962 Kennedy Administration, however, emphasized the message that the US was not the only state with obligations for maintaining the system. In particular, although the Administration supported progress toward European economic integration, it argued that the large markets and potential effects on capital flows resulting from the European Economic Community (EEC) created a responsibility to the international system that was not unlike that of the United States'. Similarly, more attention was given to pointing out that other states should help to share the burden of the massive capital outflows from the US as it provided for international security and development assistance.

The progress of the European Economic Community (EEC) toward a rapidly growing, unified, tariff-free market encompassing six European countries...has already profoundly altered world economic relationships. The EEC offers a domestic market broadly comparable to the United States and an import market even larger. Liberal access to this market will be vital to future foreign trade; exclusion by restrictive import tariffs or other barriers could seriously affect the trade and economic development of many countries of the free world. (1963: 92).

It is now generally acknowledged that the responsibility of the industrial nations for providing capital and technical knowledge to other countries for economic development requires more than the occasional and sporadic efforts made before the mid-1950's [sic]. (1963: 92).
Particular attention is being given to the share and terms of development assistance extended by other industrial nations and to their share of the common costs of defending the free world. Greater effort on their part would not only increase free world security; at the present time it would also contribute to better balance in international payments. Countries in which US military forces make large expenditures are being urged to offset these expenditures, for example by purchasing military equipment in the United States. (1963: 98).

But reconstruction, prosperity, and growth have restored Europe's historic position in the world economy. And now the movement toward European unity is leading to a major restructuring of international economic relations. (1963: 106).

The whole free world can benefit from removal of age-old national barriers to the full utilization of Europe's productive strength. But the nations of the free world, both within and outside the EEC, must assure that the EEC uses its new power, not as a lever to secure gains for its members at the expense of nonmembers or for some of its producers at the expense of others, but as an engine to promote economic progress and cooperation throughout the world. (1963: 113).

Although the countries of continental Europe, and particularly the EEC member countries, have grown in financial and economic strength since the war, they have not assumed international investment and banking responsibilities commensurate with their importance in world trade. (1963: 115).

The greater integration of the world economy is occurring only gradually: but the limits such a development may place on independent national action should be anticipated and faced squarely. (1963: 122).

Maintenance of the international economic system was a significant and important foreign policy goal of the Kennedy Administration, even if this meant costs to the US domestic system in the short term. Underpinning the importance of the economic system was the implicit assumption that success in maintaining the economic system meant that there had been success in maintaining the political system, frequently referred to as the "free world". There are frequent references to the necessity for cooperation and coordination of policies among states in order to sustain the system.

We are discussing with certain of our European allies the extent to which they can increase their own military procurement from the United States to offset our dollar expenditures there....We have sought to induce other advanced countries to undertake a larger share of the foreign aid effort. (1962: 14).

For the first time in a generation, the Treasury is helping to stabilize the dollar by operations in the international exchange markets....During the past year, we have consulted periodically
with our principal financial partners, both bilaterally and within the framework of the OECD. These consultations have led to close cooperation.... (1962: 15).

- We must assure access of the products of our farms and factories to the world's largest market outside our own....It will also make it possible to offer the free nations of other continents greater access to markets on both sides of the Atlantic. (1962: 147).

- A fundamental requirement for increasing our trade balance is a domestic environment of full recovery and growth without inflation. (1962: 161).

- In a setting of full employment, these measures can help to move our growth rate to 4 percent and above, the American people toward greater abundance, and the free world toward greater security. (1963: XXVII).

- These developments have one common characteristic: they bring countries closer together. They tend to integrate the free world economy. (1963: 92).

- The close dependence of other countries of the free world, and particularly of the less developed countries, on large and steady foreign exchange earning to finance needed imports gives them, as well as the United States, a special interest in economic developments in Europe. (1963: 99).

- The American economy is still the ultimate example — the showcase— of free enterprise in action. A sluggish American economy will raise doubts everywhere, and especially in the newly developing nations, about the ability of a free enterprise economy to perform efficiently and to grow continuously. (1963: 103 & 104).

- In return for assurances that the EEC will set prices at levels which will allow efficient exporters continued access to their markets, the United States may have to limit its own export subsidy program and subject its own domestic price policies to international review....Quantitative restrictions, prohibitive import duties, and subsidies are out of place in the world which both the United States and other industrial nations are trying to build. (1963: 114 & 115).

- The industrial nations can make an essential contribution to worldwide economic development by accepting, and indeed encouraging, the expansion of imports from the newly developing countries....The United States has taken an active role in promoting this cooperation. (1963: 120 & 121).

- Whichever method is emphasized, international cooperation requires consensus on objectives and machinery for coordination. (1963: 125).

- Many sources of payments imbalance can be eliminated with little sacrifice of basic objectives, national or collective. Mutual consultation can lead to better timing of monetary and fiscal measures taken for purposes of international stabilization. (1963: 126).

- The need to coordinate policies is not a wholly new burden on nations. After all, circumstances by themselves sooner or later compel a certain rough coordination of policies....But international cooperation must also include ways to accommodate desirable divergence in national policies, resulting from differences in national objectives and national circumstances. (1963: 127).
There is reasonable evidence, then, to suggest that Kennedy's understanding of the national interest was internationally-oriented. The apparent importance of international system maintenance was revealed in efforts to adjust or create domestic policies to sustain the system, in recognition of US responsibilities to the system, and in attempts to persuade other states to value the international system in the same way by assuming responsibility for their own share of the burden of maintaining it.

Given the model developed in Chapter 3, and given Kennedy's international orientation, we would expect that he would choose trade practices that could be characterized as "free" when he decided for more openness, and practices that generally could be represented as "strategic" when he opted for more restrictiveness.

Johnson: Internationally-Oriented National Interest
(Years in Office: 1963-1968  Relevant ERPs: 1964-1969)\(^8\)

The sense of national interest conveyed by the Johnson Administration was internationally-oriented. The largest single international political economic issue consistently addressed by the Administration was concern over increasing US international payments deficits. This was not the result of trade accounts, as the Johnson Administration was quick to point out; indeed, the volume of exports still exceeded imports. The external imbalances were the result of massive outflows of capital, due to expenditures on prosecution of the Vietnam conflict and other

\(^8\) The 1968 Economic Report of the President, which assesses 1967, was not reviewed here.
defense measures, relatively large amounts of economic assistance to developing
countries, private capital movements, and the tendency of other states to prefer to
hold dollars as a reserve currency.

The way in which Johnson and the CEA viewed the problem evolved during
his term in office and, therefore, the solution to the problem changed as well.
Nonetheless, the way in which the Administration characterized the solution in either
case revealed an internationally-oriented concept of the national interest. Initially,
Johnson attempted to correct the imbalance through modifications in, first, domestic
fiscal policies, and later, through domestic fiscal and monetary policy changes. In
other words, rather than alter the international system in order to correct domestic
problems, the Johnson Administration attempted to alter domestic policies in order
to avoid disrupting the international system.

By the end of his term in office, however, it was apparent that Johnson
recognized that domestic policy modifications would not be sufficient to stem the
outflow of capital, given the existing international economic system, and his
Administration repeatedly argued for greater cooperation from other states
(particularly those with surpluses) to shoulder their implicit responsibilities for
maintenance of the international system.

By 1966, the Administration's frustrations were apparent. Johnson and the
CEA had been reluctant to resort to monetary policy to arrest the outflow of capital,
fearing the potentially adverse effects on the world economy. However, as other
states continued to maintain payments surpluses at the expense of the United
States, the US sharply tightened monetary policies in order to restrain its own
demand. The response of other states with surpluses was to further restrict their own demand with tighter monetary policies. The net result was that, although US deficits declined, there was an increase in worldwide interest rates. It was clear that the Administration's efforts were failing to persuade other states to develop domestic policies that were consistent with maintenance of the international economic system.

Nonetheless, Johnson continued to press for international cooperation in coordinating domestic monetary policies. As can be seen below, however, the Administration's patience was waning. In 1968, the Administration suggested that it would have little recourse but to implement domestic changes which, due to the relative significance of the United States economy in the international economy, could result in a serious negative impact on the world system of trade and payments. Still, this was the final year of the Johnson Administration, and his term of office concluded with the sustained calls for cooperation in addressing the worldwide imbalances rather than implementing actions that would have proved detrimental to the system.

The following statements from relevant ERPs provide some of the evidence to support the foregoing assessment.

- A declining US payments deficit will affect the functioning of the international monetary system, since this deficit has been a major source of growth in world monetary reserves. Moreover, the large volume of outstanding short-term liabilities to foreigners, if combined with continued large US deficits, could raise questions about the effective working and continued stability of the system. (1964:121).

- Success in bringing US external payments into equilibrium will also depend, however, on developments and policies abroad. Not only will sustained economic expansion in the leading industrial countries benefit their own citizens and the economies of the less developed countries, but also it is important for the continuing expansion of US exports. (1964:130).
The United States has no reason to expect surplus countries to accept inflation, just as they have no reason to expect the United States to accept unemployment and unused capacity because of its payments deficit. All countries should be aware of the undesirability of initiating a chain of competitive upward movements in interest rates such as would occur if surplus countries—in their efforts to stop advancing prices—took monetary actions that attracted large amounts of capital from deficit countries. (1964: 133).

Discipline to correct imbalances, whether surpluses or deficits, is necessary; but that discipline should exert its influence toward adoption of policies that expand rather than restrict real income, emancipate rather than shackle international trade, encourage rather than impede the flow of productive capital. (1964: 135).

Similarly, the system that makes the United States an international bank imposes special responsibilities. Unless this country pursues policies that encourage confidence in the continued stability of the dollar, the entire international monetary system will become vulnerable to instability or even breakdown. This responsibility imposes limits on the policies, both domestic and international, that the United States, as a reserve currency country, may pursue. It is equally clear, however, that other countries, in their own self-interest, share this responsibility for maintaining a viable international payments system. (1964: 137).

Deficits of this size [in the balance of payments] threatened to undermine confidence in the dollar abroad and limited our ability to pursue, simultaneously, our domestic and overseas objectives. As a result, restoring and maintaining equilibrium in the US balance of payments has for some years been recognized as a vital goal of economic policy. (1965: 4; emphasis in original).

In the process of restoring external balance we must continue—in concert with other nations of the free world—to build an international economic order. (1965: 8).

We will continue to seek agreement on these problems with other countries; we are confident that effective solutions will be found. (1965: 14).

It was clear, however, that economic expansion alone could not bring about the needed improvements in our external position, particularly in view of continuing US commitments for the defense of the free world and assistance to the developing countries. An array of special policy measures was thus required to permit simultaneous progress toward domestic expansion and external balance, in ways that would minimize any conflict with the basic longer-range US goal of growing freedom in world trade and payments. (1965: 72).

Cooperation among financial and economic authorities throughout the world is, of course, also needed to create conditions that will discourage the development of such pressures in the first instance [regarding international intervention to shore up Italy's balance of payments, and intervention to alleviate pressures on the British pound during 1964]. Cooperation can foster a smoother and more responsive process of balance of payments adjustment within an environment conducive to economic growth and increased freedom of international trade and payments.... Encouraging as these steps toward greater international monetary cooperation have been, it is clear that much remains to be done to improve the process of international payments adjustment and that there is scope for further strengthening of existing cooperative arrangements as well as the international monetary mechanism. (1965: 79).

In 1965, we reduced our balance of payments deficit to less than half that in 1964 and 1963. We have shown a skeptical world that a voluntary program—relying on the patriotic cooperation of businesses and banks—could work.... Last year we moved forward toward
payments balance without sacrificing our vital domestic or international objectives. (1966: 9).

- As we achieve and maintain balance in our external accounts, dollars will no longer add to international monetary reserves as they have in the past.... The free world must look to new sources of liquidity — rather than to deficits in the US balance of payments — to support growing international trade and payments. (1966: 140).

- But these [industrial] countries are now confronted with the problems of determining how their economies can successfully adjust to the requirements of an increasingly integrated world economic system and how international monetary arrangements can best serve to assist and facilitate this adjustment. (1966: 1400).

- The American commitment to the Kennedy Round...is as firm as ever. But the protracted internal crisis of the EEC has prevented any significant negotiations with that group of states since last summer. The longer this paralysis continues, the more uncertain are the prospects.... (1966:146).

- In the past 15 years, many potential strains have been effectively masked by large US deficits. They have allowed most other countries to maintain rapid expansion while still gaining reserves.... Had the US international payments been in equilibrium during this period, many more potential strains would have become visible. Once the umbrella of the US deficit is removed, the problems of adjusting to rapid growth and change in a world of relatively free trade and payments may become more evident and more difficult to resolve. (1966:148).

- The challenge to the developed nations as a group is to find mutual arrangements and institutions that can support healthy economic growth and at the same time maintain reasonable external equilibrium in a world community of increasing interdependence. (1966: 149).

- Surplus countries tend to argue that the primary task of bringing about adjustment must necessarily lie with deficit countries, since it would be unreasonable to expect the surplus countries to suffer such inflation as might be induced by expansionary actions on their part. Deficit countries, on the other hand, argue that if they bear a greater share of the responsibility for adjustment, this imparts a deflationary bias to the world economy.

- There is no a priori case for assigning a greater share of the responsibility to either deficit or surplus countries. Countries in either situation should be willing to use the instruments at their disposal in the most effective way. (1966: 154).

- In any case, much can be done to improve further the existing mechanisms of international consultation and cooperation to help to assure that the measures used by individual countries are best suited to the interests of the international community as a whole. (1966: 155).

- Expansion of world reserves through a growth of dollar holdings worked well in the earlier postwar years, when official reserves outside the united States were low. However, the United States can now no longer continue to run large-scale balance of payments deficits without endangering confidence in its own currency. (1966: 156).

- The worldwide economic impact of their national policies places a special responsibility on the major developed countries. (1967: 170).

- Payments adjustment should be pursued in ways compatible with each country's major domestic objectives and with the broad interests of the entire international community. (1967: 187).
The foreign exchange costs of the security program, even excluding Vietnam, remain high. The United States is prepared to play its full part in supplying the necessary real resources for the common defense. But it seems reasonable to expect those allied countries whose payments positions benefit from US expenditures for the common defense to adopt measure to neutralize their "windfall" foreign exchange gains — especially when their reserve positions are strong. (1967: 189).

Actions by the United States to improve its payments position cannot by themselves assure that the world payments pattern will be either sustainable or desirable from an international point of view. Such a result is only possible through appropriate efforts of both deficit and surplus countries. (1967: 181).

From the viewpoint of a viable international payments pattern consequently, there is no real alternative: It is the countries with strong underlying payments positions and large reserves which must absorb a major share of the impact of reduced US and UK deficits. In particular, a marked reduction is needed in the chronic over-all surplus of the major industrial countries of Continental Europe... The surplus countries also bear a significant share of the responsibility for assuring that the manner in which adjustment takes place is, to the greatest extent possible, consistent with the broad objectives of the international economic community as a whole. (1967: 192).

If the major surplus countries adjust mainly by permitting their trade surpluses to decline, this can lead to a substantially improved trade surplus for the United States and permit it to maintain and even augment its role as a major capital exporter. Alternatively, if the large surplus countries — and particularly the EEC countries — wish to continue to maintain a substantial surplus on current accounts, they should assume a larger share of the responsibility for providing financial capital where it is needed. Some progress in this direction has, in fact, recently been made, partly under the spur of the more restricted access to US capital markets. (1967: 194).

The essential tasks for 1967 thus are to improve the process of payments adjustment through increased international cooperation and to move decisively toward establishing a mechanism for deliberate reserve creation [rather than relying on increasing US deficits to increase world reserves]. (1967: 197).

Our international accounts were in balance in 1968 — for the first time since 1957. Much of the improvement came from the program I announced in an atmosphere of world financial crisis a year ago.... To maintain our gains, ever closer international cooperation is needed among the highly interdependent nations of the world. Countries in deficit must meet their responsibilities. And countries in surplus must also pursue appropriate policies — striving especially for rapid economic expansion and giving world traders greater access to their markets. (1969: 14 & 15).

Work on other nontariff barriers is going forward in the GATT. Continuing and concerted efforts are necessary both for the United States and for its trading partners. Meaningful negotiations require that the United States as well as foreign countries be prepared to make concessions. (1969: 126).

International understanding, carefully nurtured during periods of calm, has permitted the multilateral assessment of problems and the determination of mutually acceptable solutions.... At times of severe strain, such as the British devaluation in 1967, international cooperation has contained crises and prevented chain reactions. (1969: 128).
While the situations of surplus and deficit countries are symmetrical, incentives to adjust may not be equally strong in the two cases. There is no definite limit on the accumulation of reserves, so surplus countries often are under little pressure to restore equilibrium.... if real progress is to be made in achieving a better balance of world payments, it is crucial that surplus countries participate in the adjustment process.... (1969: 139).

The international monetary system established at Bretton Woods and developed through the years has made a major contribution to international economic growth. This system has served the world well, but it has increasingly been subject to serious strains. (1969: 150).

In dealing with what was a particularly critical issue, the Johnson Administration initially attempted to correct the problem with domestic policy that was consistent with maintenance of the international economic system. When it was apparent that the solution went beyond domestic policy tools, the Administration attempted to coordinate multilateral rather than take unilateral action. Again, this decision reflected concern for maintenance of the international system. Hence, it is reasonable to conclude that Johnson's understanding of national interest in political economic terms was internationally-oriented.

The Johnson Administration demonstrated characteristics of an international orientation in other issue areas as well. The Administration frequently referred to its commitment to a liberal international trading system, and strongly supported the Kennedy Round of the GATT. Also telling was the financial and moral commitment to assistance to developing countries. Finally, the Johnson Administration supported international institutions as forums for dispute resolution, and as sources for establishing ground rules to guide states in choosing both domestic and international policies consistent with maintaining a stable community of free states.

The model developed in Chapter 3 would predict that, when Johnson opted for more openness than recommended by the ITC, trade practices could be
characterized as "free". When he chose more restrictive trade practices, implementa-
tion could be characterized as "strategic".

**Nixon: Nationally-Oriented National Interest during first 4 years**
**Internationally-Oriented National Interest during final year**

The Nixon Administration's conception of national interest in political
economic terms can be characterized as nationally-oriented. The international
political economic consideration for the first four ERPs (1970-1973) was overwhelm-
ingly focused on the world monetary system, particularly on stabilization of
exchange rates. The President and his CEA made the case that the Bretton Woods
system was outdated in terms of its capacity to rectify external imbalances, and
other states' divergent, inconsistent, and exploitative policy responses created an
unreasonable burden for the US. Of special concern were the greater constraints
that this system placed on the US' ability to control its own domestic policy and
external balances – international limits to discretion from which other states in the
system were immune.

- Because the dollar plays a central role in the international monetary system, the United
  States is more constrained in its adjustment policies than other countries. Since the United
  States does not have primary control over any market exchange rate, other nations in effect
determine the exchange value of the dollar. It is generally recognized that exchange rates
are a matter of international concern.... Yet the United States clearly exercises only indirect
influence over the exchange value of its currency, in contrast to the more direct control
exercised by other countries. (1970: 140).

- The US dollar plays a number of key roles in the international monetary system.... As a result,
developments in the United States economy and balance of payments, and the attitudes
other countries take toward these developments, are of key importance in the smooth
functioning of the international monetary system. (1971: 146).
In the present international monetary system, in which the dollar serves as a yardstick, other countries, by selection of their exchange rates, in effect determine the exchange value of the dollar. The balance-of-payments position of the United States, however it is measured, depends therefore not only on the state of our domestic economy and on the economic behavior of our citizens and Government but on the economic performance and policies of other countries, including their decisions about exchange rates. Individual countries take actions that they consider appropriate to their particular circumstances. Collectively, those actions are not always easily reconciled with other countries' statements about the most desirable payments position for the United States. (1971:151).

...regardless of our domestic performance, there are no measures which the United States can take to satisfy balance-of-payments demands of various countries if these demands are fundamentally inconsistent. No matter what constraints the Government imposes on the domestic economy, and no matter how many measures it adopts to alter or control individual categories of international transactions, the United States will not be able to abolish its balance-of-payments deficits if most of its major trading partners establish exchange rates and follow other balance-of-payments policies that enable them to run surpluses over and above their SDR allocations. (1971:151).

The suspension of the convertibility of the dollar shock was felt around the world....[The effects of these changes led to] international negotiations...to stabilize exchange rates at levels that would help in correcting worldwide disequilibrium, of which the US balance-of-payments deficit was the most obvious symptom. These negotiations led to significant agreements on a number of points: 1. Realignment of exchange rates...; 2. Commitment to discussion of more general reform of the international monetary system; 3. Widening of the permitted range of variation of exchange rates...; 4. Commitment to begin discussion s to reduce trade barriers, including some most harmful to the United States; 5. Assumption of the costs of common defense by some of our allies; 6. Elimination of the temporary US surcharge on imports. (1972:4 & 5).

For the first time in over a decade the United States is moving decisively to restore strength to its international economic position. (1972: 5).

...the role of the United States within the international system as a whole and the role of the US dollar within the monetary sector of the international system will have to be redefined in ways consonant with future realities rather than with those prevailing in the past. (1972: 148).

...the suspension of the convertibility of the dollar into gold...gave public recognition to the fact that the postwar international monetary arrangements, known as the Bretton Woods system, had become untenable. (1973:120).

The US proposal would in extreme circumstances permit the imposition of direct restraints for balance-of-payments purposes....This view contrasts with the present rules of the General Agreement on Tariffs and Trade (GATT).... (1973:127 & 128).

The Administration's complaints reveal an understanding of the problem such that the international system would have to be modified in order to preserve the domestic system. The US under the Nixon Administration was no longer willing to absorb the costs of the existing international monetary system. This merely
suggests a nationally-oriented conception of national interest, since an internationally-oriented administration might have viewed the circumstances in the same way. However, while we would expect that an internationally-oriented administration would have continued a multilateral approach for resolving the problems, the Nixon Administration announced its unilateral response 2-1/2 years after taking office. On August 15, 1971, Nixon announced the New Economic Policy (NEP), "designed to bring the Nation to higher employment, greater price stability, and a stronger international position." (1972: 3). This bold action suspended conversion of dollars into gold and other reserve assets, and imposed a temporary surcharge on imports that amounted to approximately 10%. In effect, the Administration had wrested back control over domestic conditions and, more important, forced an agenda of issues on the international community.

The idea of equity on US terms in the monetary realm was mirrored in the trade realm, as well. There is frequent reference in the ERPs to US leadership and dominance in both systems. A national orientation is conveyed with respect to trade issues, however, in the justifications that the President and the CEA give for departures from a free and open international trading system.

The trade bill submitted by the President to Congress in November continues the movement toward freer world trade, and it also explicitly recognizes the importance of insuring that US producers have fair access to foreign markets....It would broaden the present [Presidential] authority to act against countries that treat US products unfairly and would provide new authority to act against those countries that grant export subsidies which result in unfair competition against US exports in third markets. (1970: 120).

Of course, an internationally-oriented administration may not have represented the "problem" in this way, if it recognized a problem at all.
The US economy and developments in our own external payments have a profound influence on the stability and growth of the world trading and financial system. (1970: 124).

In our market-oriented policy, our domestic goals and our international goals are interrelated. Success in our struggle against inflation will help to safeguard our international economic strength, and allow our highly productive enterprises and workers to compete in world markets. (1971: 9).

There may occasionally be sound reasons for reducing the burden of adjustment on import-competing industries by obtaining agreement from foreign exporters to restrict their shipments. Such voluntary agreements affect prices in the importing country in the same way that quotas permitting a like volume of imports would do, but their provisions tend to be more flexible than those of legislated quotas. [A discussion follows where tariffs and voluntary export restraints are argued to be preferable over quotas.] (1971: 156).

For a country to benefit from trade liberalization, it is not necessary that its trading partners also have liberal policies...Nevertheless, experience suggests that progress toward freer trade is more likely to be achieved through reciprocal action....Moreover, a country that imposes fewer restrictions on imports than do its major trading partners makes its industries bear a disproportionate share of the burden of adjustment to changes in the pattern of international trade.... (1971: 158).

However, in a world where trade and investment flows are subject to either special impediments or incentives, more direct measures to stimulate exports may sometimes be justified. (1972:167).

Moderation of imports through arrangements with the main suppliers is a technique that has been used for several years both here and abroad....The use by the United States of voluntary agreements with foreign governments or private groups to restrain shipments to the US market has some attractions over other forms of import restraint.... (1972: 169).

Our proposals have been, and will be, put forth in the US national interest. But this is not contrary to the interest of other countries. (1973: 7).

[The second of two major objectives in 1972] was to make progress on reform of the international economic system, affecting monetary, trade, and investment relationships. The existing system has been unable to cope with shifting patterns of trade and imbalances in international payments which have resulted in repeated international economic and political tensions. (1973: 113).

In approaching these negotiations [Tokyo Round MTN] the United States seeks, as it has since the end of World War II, a more open and equitable world trading system....These benefits to the United States will not conflict with the interests of other countries.... (1973: 132).

Certain institutional reforms would greatly help the movement toward a more open and more equitable trading system. The present GATT framework, which has served well for the liberalization of trade, particularly tariff barriers, now needs to be strengthened and modified. (1973: 134).

The reform of the international monetary and trade systems will have a global focus....Not all problems that arise in international economic relationships can best be solved in a global framework, however, since many issues that arise are of special interest to certain groups of countries. (1973: 135).
Recent experience has shown the need for certain reforms in current rules and practices. The rules should more explicitly define international standards of conduct and yet provide greater flexibility in the means of discharging these international responsibilities. (1973: 140).

Among the four "lessons" learned from our past experiences in combatting inflation:... 2. The importance of the rest of the world....it will be hard for us to have a stable economy in an unstable world.... 4. The importance of free markets. In the past several years, under the pressure of emergency conditions, we have made great, but temporary, departures from reliance on free prices and free markets. In special circumstances and for short periods these departures have been helpful. (1974:5; italics in original).

The draft bill before the Congress would improve the President's ability to manage US trade policies in several respects. (1974: 218).

The ERPs for the Nixon Administration did provide indications of movement toward an internationally-oriented understanding of national interest in his last full year in office (1974 ERP for 1973). With the successful imposition of floating exchange rates on the international system and domestic improvement in external balances, the Administration turned to emphasizing global rules, norms, conventions, procedures, and so forth to provide international "guidance" to governments when choosing domestic policies.

Yet despite this diversity, countries cooperated with each other to a remarkable extent, as they had in 1972, and from their cooperation one could begin to see the development of some conventions to guide countries in their monetary relations. (1974: 196).

Although no attempt was made to agree on a code of conduct to guide governments in formulating their exchange rate and intervention policies, extensive consultations have led to wide acceptance of some basic tenets that should influence the formulation of policies in this area. (1974: 199).

...the formulation of a more general code of good conduct for exporting countries, and the adoption of more systematic procedures for the resolution of disputes over the access to supplies, should be addressed in the context of the forthcoming multilateral trade negotiations. (1974: 212).

Since the current international rules and procedures have proved largely unworkable in practice, governments have generally worked out informal arrangements with each other. It would be desirable to bring these arrangements within an accepted international framework in which the interests of third parties could be better protected. The adoption of certain
internationally accepted principles could also reduce some of the political friction which has tended to be associated with the negotiation of such arrangements. (1974: 217).

the events of the past year have demonstrated that access to supplies can be as much a problem as access to markets, and that international guidelines on access to supplies can be as valuable as international agreements about access to markets. (1974: 217).

In the context of the postwar period, developments in the international economy during the past year appear rather turbulent. In all these different ways, the world received an effective demonstration of the extent to which economic interdependence has become a reality. (1974: 219).

The Nixon Administration's understanding of national interest in political economic terms can be characterized as nationally-oriented during his first four years in office. The international system is seen as the source for domestic problems, and efforts are made to modify the international system in order to sustain or improve domestic conditions. Evidence that is the most supportive of a national orientation assessment, however, is the Administration's unilateral action to effectively force its preferences on the international system, and its regular justifications for departures from its commitments to a free and open trading system.

Nixon's final full year in office, on the other hand, more closely reflects an international orientation. There is less emphasis on domestic conditions, and greater attention to the evolution and creation of international principles and norms. The focus turns from the concerns in the earlier years about system equity to concerns about system predictability and and consistency.

The model proposed in this project would predict that trade practices during the first four years of the Nixon Administration could be characterized as "fair" when the President opted for more openness. When he decided for more restrictive trade actions, the model would predict that these would be "protectionist" types of implementations.
During his last year in office, Nixon's international orientation would suggest that decisions for more openness could be depicted as "free" types of practices, while decisions for more restrictiveness could be characterized as "strategic" types of implementations.

Ford: Internationally-Oriented National Interest  

The three ERPs during the Ford years in the White House convey a conceptualization of national interest in political economic terms which was internationally-oriented. The view of the United States' position in the international system was consistently conveyed as one of six industrialized countries\(^\text{10}\) whose economies, together, sufficiently characterized the state of the international economy. Reference to the need for cooperation and the mutuality of interests among these states was frequent.

- What we do affects the economies of other nations, and what happens abroad affects our economy. Close communication, coordination of policies, and consultations with the leaders of other nations will be essential as we deal with our economic and financial difficulties, many of which are common to all the industrial countries of the Western World. (1975: 7 & 8).

- As we enter 1976, the American public still confronts its two greatest personal concerns: inflation and unemployment....It is now clear that we have made notable progress. The sharpest recession in the post-World War II period hit bottom last spring, and a substantial recovery is now under way. (1976: 3).

- In recent years the economies of most nations suffered from extraordinarily high inflation rates...and then moved into a deep recession. The simultaneity of this experience demonstrated once again the strong interdependence of the world's economies....Because of this growing interdependence, however, domestic policy objectives cannot be achieved efficiently unless we also take account of economic changes and policy goals in other countries. (1976: 7).

\(^{10}\) Along with the United States, the ERPs specifically analyze the economic performances of Great Britain, France, Germany, Italy, and Japan.
Just as the downturn was deepened because activity fell at the same time in many countries, recovery paths may become considerably steeper than now appears likely because upturns in individual countries, led by the recovery in the United States, are beginning to reinforce each other. (1976:128).

The experience of 1972-73 has shown that simultaneous measures to reflate national economies, without due regard to the amount of spending power that is being built up collectively, can lead to worldwide inflation. Similarly, the simultaneous deflationary policies of 1973-74 led to cumulative recessions. Thus in formulating national demand management policies explicit account needs to be taken of changes in world demand. If domestic policy objectives are to be achieved efficiently in an interdependent world, economic changes and policy goals in other countries must be given explicit consideration, precisely because they affect the path of any national economy, even the largest. (1976:137).

To facilitate the achievement of internationally cooperative behavior in exchange markets, the French and the US authorities have suggested an intensification of the consultative arrangements among governments and central banks of major countries. (1976:147).

Much progress was evident in the rest of the world last year, and international economic cooperation continued to improve. (1977:5).

The growing recognition among nations of their interdependence has helped to create the cooperation that is now apparent among members of the industrial community. (1977:6).

The points from the foregoing statements suggest that the Ford Administration saw preservation of a cooperative international system as key to sustaining improvement in the domestic system. However, even though the US was recognized as the largest state and that it was recovering earlier than other states, the Administration refused to adopt the role and cost of global leader. This position apparently was taken due to a belief that consistent, prudent policies coordinated among all states would result in a more stable international system in the longer term, which would be more beneficial to the United States domestically than would demand management in the US to compensate for inward-looking policies of other states.

Broadly speaking, countries have refrained from beggar-my-neighbor policies through which they might have tried to shift some of their domestic and international problems to other countries at the cost of a shrinkage in world trade and a loss in economic welfare. (1975: 187).
In May, 1974 the OECD nations pledged not to take unilateral measures which would tend to shift deficits to other nations. Specifically, the governments of 24 member countries agreed, for one year, to avoid introducing restrictive measures affecting trade or other current account flows. The pledge will very likely be renewed in May 1975. (1975: 194).

In recognition of our growing interdependence, I have consulted closely with the heads of other governments, individually and jointly. At the Economic Summit at Rambouillet last November, I met with the heads of government of five other major industrial countries. There we laid the foundation for closer understanding and consultation on economic policies....Finally, I have agreed with my foreign colleagues that, in order to create the proper conditions for lasting and stable growth, we must take important, cooperative steps in monetary matters, trade, and energy. (1976: 7).

Hopes for recovery of domestic economic activity in most of the smaller countries, and in a number of larger ones as well, have centered upon export-led growth. Because of the depth and the length of the recession, the authorities in some of these countries have been urging others, particularly the United States, to adopt more expansionary policies that would produce greater external stimulus and thereby help put their economies back on a satisfactory growth path. Our analysis indicates, however, that further expansionary action in the United States — within reasonable bounds — would do little to accelerate world recovery. (1976: 134 & 135).

Uncertainties about future policy action, both in demand management and in social policy, should not be added to the uncertainties already created by the oil crisis and by the inflationary experience of the past several years. (1976: 137).

The commitment to pursue internationally compatible policies and to avoid beggar-thy-neighbor policies may become increasingly important in months to come....The political pressures on governments to take a narrowly nationalistic view of these problems may therefore intensify. (1976: 138).

Of course the monetary, fiscal, and other policies that individual authorities adopt to stabilize their economies and to adapt to the higher oil import bill...constitutes "managing" their exchange rate in the wider sense of the term. It is of continuing importance that this "management" of exchange rates not lead to competitive devaluations or other self-defeating and disruptive policies, but be accomplished in an internationally cooperative manner. (1976: 140).

Under these arrangements [cooperative behavior in exchange markets] there may be somewhat more frequent intervention than in the past. But the main point is that decisions on intervention in exchange markets will be based on better information, and that a growing understanding may also develop which recognizes that managing the exchange rate rather than the economy may only serve to introduce disequilibria and lead to misallocation of resources. (1976:147).

Serious social and political problems have made these adjustments more difficult....Policy changes and adjustment will doubtless be needed in 1977 and thereafter. But policies must hold to a reasonably steady and predictable course. In particular, the measures we select to further our economic expansion must not raise the risk of future inflation. (1977: 5 & 6).

The reliance on monetary policy reflects what are perceived to be political constraints in a number of cases. Where social friction is growing and union support of demand management policies has been gained on the basis of understandings regarding transfer payments and public sector employment opportunities, it is proving difficult to change the policy mix. Partly because of such dilemmas a number of these countries have looked increasingly to rising
demand in the United States, Germany, and Japan to resolve their external payments
difficulties as well as to encourage domestic investment. As noted above, however, stronger
demand emanating from the three large industrial countries can help to smooth the
adjustment process, but it cannot take the place of well-conceived domestic stabilization

The Ford Administration's understanding of national interest was
internationally-oriented. The role of the United States in the international system
was seen to be in the contributions it could make as a cooperative member, rather
than leader, of a system of coordinated, consistent domestic policies. In fact, the
Administration rejected other countries' calls for the US to take on the role of engine
of growth for the global economy. In short, the Ford Administration sought to
preserve a cooperative international system of domestic policy coordination in order
to sustain the momentum of an improving US domestic economy.

According to the model proposed for this project, we would expect that Ford's
international orientation would lead to policy implementations that can be character-
ized as generally "free" when he opted for more openness, and as generally
"strategic" when he chose more restrictive types of practices.

Carter: Internationally-Oriented National Interest

Following a review of the ERPs for the Carter Administration, it is reasonable
to surmise that his understanding of the national interest in political economic terms
was more internationally-oriented than nationally-oriented. The Carter Administra-
tion was mired in a particularly difficult period of time when the domestic and
international economies were burdened by inflation, recession, and the untoward
effects of OPEC actions on trade balances. Carter and his CEA treated these difficulties as though they were a single global or transnational issue that could not be resolved on a state-by-state basis.

Throughout the ERPs, there were calls for coordination among states to formulate concerted international actions since no single state, including the US, was believed to be capable of overcoming the adverse effects of the international system on the domestic economy. In fact, as indicated below, the Carter Administration saw the decline of the US hegemon as partially enabling declining economic conditions both domestically and internationally. The following are some quotes that support this observation.

» The problems we face today are more complex and difficult than those of an earlier era. We cannot concentrate just on inflation, or just on unemployment, or just on deficits in the Federal budget or our international payments. Nor can we act in isolation from other countries. We must deal with all of these problems simultaneously and on a worldwide basis. (1978: 4).

» The condition of the world economy requires above all that nations work together to develop mutually beneficial solutions to global problems. (1978: 21).

» The problems are global and the pursuit of appropriate domestic policies is constrained.... (1978: 112)

» The consequences of insufficient attention to the global implications of national policies are seen in the inflationary pressures generated by the simultaneous expansion of 1973 and in the poor performance resulting from too great a reliance on export-led growth in 1977....The international discussion of goals and the means to achieve them is necessary to assess the consistency of individual countries' aims, to guide the formation of policies that have good promise of achieving them, and to respond to developments that push economies off their desired courses. (1978: 112).

» Developments last year reminded us once again of the interdependence of our economy and those of other nations around the world. (1979: 12).

» The extent of independence...is limited and the need for some coordination of economic policies remains. Indeed, to some extent the major lesson of 1977 and 1978 is that policy divergences produce severe strains..... (1979: 135).

» The need to realign and coordinate economic policies, both in the United States and abroad, so as to promote external adjustment and reduce divergences in economic performance across countries was increasingly recognized during 1978. (1979: 141).
Other countries besides our own suffered important setbacks in 1979 from the dramatic increase in oil prices. Growth prospects worsened, inflation increased, and balance of payments deficits rose. In such difficult times economic cooperation between nations is especially important. (1980:140).

An important but perhaps inevitable case of the emergence of a more difficult environment for trade is the decline in the relative dominance of the United States in the world economy. (1981:207).

It must be recognized that the only real alternative to closer cooperation is to risk a cycle of trade retaliation that would leave all countries substantially worse off. (1981:208).

Better integration of trade policy into overall economic policy formation is needed in all countries to provide a clearer perspective on its real costs and benefits. (1981:213).

In effect, then, Carter and his CEA conveyed their thinking that international conditions were inexorably fueling domestic problems, and the US alone could not contain the damage. This suggests an international orientation since this Administration looked outward for solutions to domestic problems. Indeed, the Carter Administration's domestic policy efforts hinged on policy collaboration internationally. In order to arrest inflation and declining trade balances, Carter proposed that the US would restrain demand if other states would stimulate demand in their own countries.

Perhaps more telling of an international orientation in political economic terms was the Carter Administration's strategy for choices for US trade practices. While Carter and the CEA insisted that this Administration was "committed to a free and open international trading system", it was frequently made clear in the ERPs that this commitment depended on other states binding themselves to the same pledge.

It is important that other strong nations join with us to take direct actions to spur demand within their own economies. World recovery cannot proceed if nations rely upon exports as the principal source of economic expansion. (1978:21).
A keystone of our international economic policy is to work with our trading partners to protect a free and open trading system....The United States will firmly resist the demand for protection that inevitably develop when the world economy suffers from high unemployment....But international competition must be fair. We have already taken and we will, when necessary, continue to take steps to ensure that our businesses and workers do not suffer from unfair trade practices. (1978: 22).

The Administration remains committed to a free and open trading system. (1978: 134; and 1979: 160).

The Administration has been working with foreign governments to reverse the worldwide slip toward more restrictions on imports and restore the trend toward trade liberalization....[It] is essential that agreement on significant liberalization be reached.... (1978: 137).

...the large benefits that come from open trade are less visible when markets are growing more slowly. The challenges facing trade policy are difficult: to preserve, and indeed enhance, an open trading system in the face of strengthened protectionist pressures;... and to ensure that market processes are not subverted as the primary determinants of evolving comparative advantage. (1980: 180).

...protection, even when it appears attractive from the point of view of an individual country, is very costly to all countries....Trade actions, when judged necessary, must therefore be implemented in ways that minimize the risk of an escalating retaliatory cycle....The principal focus of trade policy must be on adjustment not preservation. (1980: 183).

Preservation of an open trading system must therefore become a truly multilateral effort and the shared responsibility of the major trading nations. It is probably true that few governments today can effectively resist taking actions to redress what are viewed domestically as the unfair trade practices of others. All countries must therefore practice self-restraint, not only in the traditional sense of minimizing protectionist measures against imports, but also in avoiding measures that artificially promote exports at the expense of other countries. (1981: 208).

Self-restraint among countries in the use of subsidies is therefore necessary. (1981: 211).

Indeed, a simon-pure attitude is unwarranted on the part of any country, and unrealistic when other countries also yield to such pressures. From a broader perspective, however, it is highly important to keep restrictive trade policies within circumscribed limits. (1981: 213).

When other countries did "yield to such pressures", the Carter Administration did not see itself as retaliating; rather, US responses were seen as easing the transition to adjustment with as little disruption to the international system as possible. For example, the trigger price mechanism was a response to "developments in the carbon steel industry [that] presented the Administration with a particularly difficult trade policy problem." (1978: 136). The Administration

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recognized that the major problems for the steel industry were caused within the industry itself. The ITC's affirmative finding of dumping by Japan, however, justified intervention to Carter and the CEA. Nonetheless, the trigger price mechanism was advanced as the response most in keeping with the Administration's commitment to a free and open trading system while, at the same time, effectively serving notice that the US would not ignore predatory or exploitative practices by other countries.

The trigger price concept has significant advantages over alternative measures. Although in a static and certain world of perfect competition a trigger price, a quota, and a tariff that gave the same protection would have the same effects on prices, their effects differ in practice. A tariff that assured the same protection would have directly increased steel prices by more than the trigger prices will. A quota would have resulted ultimately in an even larger rise in the price of imported steel and reduced competition in steel markets; it would also have undermined incentives for domestic producers to control costs and prices. Under the trigger price system, domestic producers will continue to face foreign competition at prices that reflect the costs of efficient foreign producers. If domestic steel prices are set to meet this competition, domestic producers should be able to regain the market share they lost in 1977. (1978: 137).

It is reasonable to conclude that the Carter Administration's concept of national interest in political economic terms was internationally-oriented. First and foremost is the Administration's observation that domestic economic problems were directly due to international economic conditions, that they represented a global issue, and that these problems could be ameliorated only by concerted action with other states. In addition, the responsibility of the US in the international system was seen to be one of playing by international rules and, where necessary, US market restricting practices would be chosen in a way to minimize disruption to a free and open system. Retaliatory responses do not appear to have been an option.

From the model proposed in this project, we would expect that Carter would choose trade practices that can be characterized as "free" when he opted for more
openness, and characterized as "strategic" when he decided for more restrictive responses.


Nationally-Oriented National Interest 1984


Evidence from the relevant ERPs during the first Reagan Administration indicates that the Administration's understanding of national interest in international political economic terms was internationally-oriented during the first two years, and nationally-oriented during the final year. While national interest is considered to be internationally-oriented during the third year for this project, some of the statements in the 1984 ERP suggest movement toward a national orientation.

Throughout the first Reagan Administration's term in office, the primary concern was unrelenting domestic inflation that the Administration considered to have been inherited due to the poor domestic policy choices of previous administrations. While the high value of the dollar and the increasing trade deficit were also disturbing, both were explained as temporary conditions that would be resolved without intervention as other states' economies recovered and stabilized. The long-term interests of the US dictated that these were unavoidable but acceptable costs to bear given the "uneven geographical distribution of the recovery" (1984: 43, 62 & ff, 185; 1985: 101).

In any case, during the first three years, Reagan and the CEA determined that domestic problems would be settled by resort to domestic policy since, to do otherwise, might disrupt efficient market mechanisms in the international system of
trade and investment. Consistent with this position, the Administration frequently cited the benefits of a liberal global economic system for all states, and explained its commitment to maintenance of that system.

In other words, during the first three years of his term in office, Reagan opted to alter domestic policy rather than seek changes in the international system, and recognized and supported the benefits to all states from nonintervention in a market-oriented international economy. The following excerpts from the relevant ERPs help to support this observation.

- A decline in our competitiveness in many world markets reflected, in part, problems of productivity at home. A strengthened domestic economy will mean a faster growing market for our trading partners and greater competitiveness for American exports abroad. (1982: 8).

- I see an expansion of the international trading system as the chief instrument for economic growth in many of the less developed countries as well as an important factor in our own future and that of the world's other major industrial nations. To this end, I reaffirm my Administration's commitment to free trade. (1982: 8).

- More generally, the Administration's approach to international economic issues is based on the same principles which underlie its domestic programs: a belief in the superiority of market solutions to economic problems and an emphasis on private economic activity as the engine of noninflationary growth. (1982: 167).

- As the economic environment in which these institutions operate continues to change, we must assure that these institutions continue to evolve in a manner suitable to maintaining and strengthening the open international economic system from which we all benefit. (1982: 168).

- ...both the United States and the rest of the world would benefit from a stronger and more stable US dollar. The strength and stability of the dollar depend directly on the ability of the United States to pursue noninflationary economic policies. In the late 1960s and 1970s the United States failed to meet this objective. (1982: 169).

- Fundamental to any effective trade policy is carrying out domestic programs that increase the incentives to invest, to raise productivity, and to reduce costs, thus helping to lower inflationary pressures. These policies will strengthen the ability of American firms to respond to changes in domestic and international markets. (1982: 176).

- Market forces, rather than government bail-outs, will be relied upon to make appropriate adjustments. (1982: 177).

- The gradual opening of the world economy to trade in the postwar period has brought major benefits both to the United States and to our trading partners. Long experience has shown that the benefits of trade tend to be mutual. (1982: 177).
Such pressures for further government intervention reflect a potentially troublesome "neomercantilist" view which stresses export expansion to the near exclusion of all other factors in a healthy international trading climate.... There is a fundamental inconsistency between such neomercantilism and the overall economic philosophy of the Administration, which is committed to the goal of less, not more, government interference in the marketplace. (1982: 178).

I am committed to a policy of preventing the enactment of protectionist measures in the United States, and I will continue working to persuade the other nations of the world to eliminate trade distorting [sic] practices that threaten the viability of the international trading system upon which world prosperity depends. (1983: 7).

The international flow of capital into the United States and from the United States to other countries is also of great importance. The United States should play a primary role in preserving the vitality of the international capital market. (1983: 7).

In spite of its huge benefits, however, this liberalized trading system is now in serious danger.... These problems must not be allowed to disrupt world trade. (1983: 51).

There is no question, however, that increased foreign competition has forced some sectors of the US economy to contract. This is partly a consequence of the fact that trade has become more important to the US economy. Specialization by nations is the reason for international trade. If the United States is to expand its trade, the US economy must become more specialized. This means that some sectors will grow and others will shrink.... Specialization of this kind is desirable both for the United States and for its trading partners. (1983: 58).

Accumulating structural problems have combined with short-run macroeconomic stresses to produce a resurgence of protectionist pressures. The Administration's aim, nonetheless, is to preserve and extend the benefits of freer trade. To do this will require resisting protectionist pressures at home while continuing to urge foreign governments to eliminate their more objectionable trade-distorting policies. (1983: 60).

Whether the trade and current account deficits persist will largely depend on US macroeconomic policies, particularly on the fiscal side.... Large projected US trade deficits are a result of macroeconomic forces, particularly large budget deficits. The main sources of the US trade deficit are to be found not in Paris or in Tokyo, but in Washington. (1983: 67).

These pressures must be resisted.... Although protectionism and export subsidies provide no answer to the problems caused by a strong dollar, the pressure to use them is increasing. Many of the exporting sectors, which make up the traditional constituency for freer trade, appear to have become convinced by the strength of the dollar and resulting loss of US competitiveness that a more interventionist policy is needed. (1983: 68).

Although the government cannot significantly affect exchange rates through direct intervention, monetary and fiscal policies do indirectly affect the exchange rate. A feasible strategy for bringing the dollar down would involve looser monetary policies and tighter fiscal policies. (1983: 69).

The United States has a major stake in the success of the European countries in dealing with their macroeconomic problems. The stake is not simply due to the fact that the major European countries are also allies of the United States, nor is it simply due to the fact that roughly one-quarter of US exports go to Western Europe. More than this, Europe is a key
part of the world economy, with an aggregate GNP as large as that of the United State itself. If European countries remain mired in economic stagnation and turn toward increased protectionism as a consequence, little chance will remain of saving the open trading system. (1983: 72).

In recent years temporary macroeconomic factors — the rise in unemployment during the last recession & the high value of the dollar — have exacerbated the economic difficulties of sectors vulnerable to import competition, and have intensified accordingly the political pressure to protect them.... [Even]exports, traditionally a free-trade constituency, have joined in producing these pressures due to the strong dollar and subsidies by foreign governments.... The Administration's policy is to resist these pressures. (1984: 58).

...the greatest danger, in the United States as elsewhere, is that the desire to boost exports and reduce imports will be reflected in protectionist measures. The only sound way to improve the US trade balance is to adopt macroeconomic policies consistent with a recovery in which all sectors of the US economy share.... The liberal world trading system can only lose if its members resort to heightened barriers to the international flow of goods, services, capital, and labor. (1984: 86).

An industrial policy would not solve the problems faced by US industry and would instead create new problems.... Most of the problems of US industries can be solved with prudent monetary and fiscal policies.... (1984: 88).

These industries are now going through significant adjustments. If foreign firms continue to produce goods at lower costs than US firms, then domestic output and employment in the affected industries will fall. The only ways to reduce the cost differentials are to increase productivity or to reduce or even reverse the growth in real wages. Otherwise, preserving output and employment would require a continuing subsidy from consumers or taxpayers to workers and stockholders in these industries. (1984: 92).

The change from an international orientation to one that could be more aptly characterized as a national orientation was observable in two respects. First, in the first two years of the Administration, there was frequent mention of the importance of negotiation and consultation internationally to maintain the international system. By the third year, however, the need for international cooperation began to be asserted on US terms. That is, the Administration tended to refer to the international economic system in terms that suggested that the global system of trade and investment should accommodate US domestic conditions.
This leads to a second indication of movement toward a national orientation: The Reagan Administration began to identify instances where intervention was warranted. Indeed, in the 1984 and 1985 ERPs, the CEA referred to the prior years in which the US had departed from progress toward greater liberalism. Further, the language began to convey a tone of dominance, where successes in US domestic conditions were used as evidence that the US system should be a template for the international system. That is, the Administration implied that the international system, in order to recover and prosper, should adopt US prescriptions.

For instance, consider the following statements from the 1982 ERP:

- International cooperation is particularly vital, however, in confronting the challenge of increased protectionism both at home and abroad. My Administration will work closely with other nations toward reducing trade barriers on an even-handed basis. (1982: 8).
- When making a decision on whether exchange-market conditions justify intervention, the US Government will consult closely with the governments of other major industrial countries. (1982: 173).
- In today's environment, addressing issues such as defense and the evolution of international economic arrangements are part of this challenge. The nature and mutual importance of these issues implies that solutions to these problems must be arrived at through consultation.... (1982: 182).
- Solutions to common problems in the world economy should be found through continued efforts at cooperation and consultation among nations.... (1982: 183).

The foregoing statements illuminate the importance to the Administration that year of other states' input on issues, and that the input was part of the process used by Reagan and the CEA to generate solutions. By contrast, the following statements from the last year of this first term suggest that the Administration felt it had the latitude to take unilateral actions, justified by its relative success and dominance in the international economic system.
The United States is acting as an engine of growth in the world economy. (1984: 85).

A growing, open US market provided strong stimulus to its trading partners in both the industrialized world and in debt-burdened developing countries. [US domestic policies that led to increased demand for imports] was a critical factor in their improved economic health. (1985: 99).

As the leader in the global recovery, the United States with its comparatively open markets has played a disproportionate role in absorbing the output of the debtor countries. (1985: 107).

[US policies] are also developed within the larger context of a dynamic international marketplace and the sometimes abusive trading policies of other countries. Against that backdrop, US actions in 1984 represent progress toward freer trade, as well as some increases in protection. (1985: 111).

In characterizing US actions in international trade and finance in 1984, one cannot say that US policy greatly advanced the cause of free trade.... (1985: 114).

[CEA cites Presidential speech on 9/25/84]: For the millions around the globe who look to us for help and hope, I urge all of you today: Join us. Support with us a new expanded round of trade liberalization.... (1985: 114).

A potential problem with multilateral negotiations is that they may be stalled by a relatively small group of countries. If this occurs, the United States and others may eventually be forced to resort to secondary strategies for liberalization. (1985: 125).

...the possibility of FTAs or, more broadly, plurilateral negotiations offers the United States and others the option of using a free-trade instrument, rather than protectionism, as a lever against protectionist countries that are recalcitrant in fully multilateral negotiations.... Threat of a sanction should always be accompanied both by an unambiguous explanation of which trading practice the sanction is aimed at eliminating and by credible assurances that sanctions will be removed when the restrictive practice halts. (1985: 126).

The understanding of national interest in political economic terms for the first two years of the first Reagan Administration generally can be characterized as internationally-oriented. Interstate cooperation and consultation were important considerations in the development of policy, the Administration was concerned that the international system operated in a way that benefited all states, not just the United States, and efforts to resolve domestic economic problems were generally restricted to changes in domestic policy in order to minimize the effects on the international economic system.
During the third year, this international orientation was still strong, but evidence of a national orientation began to emerge. By the final year of the Reagan Administration's first term in office, national interest in international economic terms was nationally-oriented. The 1985 ERP conveyed expressions of US dominance in the international system, and that position was argued to justify departures from efforts at greater liberalization of the international economic system.

The model developed in Chapter 3 would predict that, during the first two years of the Reagan Administration, trade practices could be characterized as "free" when the President opted for more openness. When the President chose more restrictiveness, implementation could be characterized as "strategic". The third year should generally follow these expectations.

During the final year of Reagan's first term, we would expect trade practices to be "fair" when the Administration decided for more openness, and "strategic" when chose more restrictive practices.

Reagan II: Nationally-Oriented National Interest

Several unmistakable themes that pervade the ERPs of his second Administration suggest that President Reagan's conception of the national interest in political economic terms was nationally-oriented. Among the more important is the frequent reference to dominance and leadership provided by the US in the international economic system. Both the President and the CEA assert the importance of US efforts in bringing about improvements in the international trading
system, in largely enabling global economic expansion, and in implementing the policies that created a domestic economic environment that other states hoped to copy.

Some quotes from the texts help to illuminate this observation:

- Growth in world trade has resulted from a major effort led by the United States.... (1987:125).
- This Administration has been a force for economic change in the United States and, by our example, in the world at large....The United States has been a constructive force in the world economy, not only by demonstrating the benefits of private enterprises.... (1988: 7 & 8).
- Twice in this century the United States has taken the lead in setting a new course for the world's trading system.... (1988: 127).
- When I took office 8 years ago there was widespread doubt concerning the ability and resolve of the United States to maintain its economic and political leadership of the Free World....we have restored respect for America.....The world today is far safer, and more prosperous, than it was 8 years ago. And the America of today is, once again, brimming with self-confidence and a model for other countries to emulate. (1989: 3).
- The United States has played a central role in the evolution of international capital markets throughout the postwar period....By providing this leadership and by fostering a stable worldwide market system..., the United States reinvigorated the world economy....The United States remains a world leader...that stands as an example for the rest of the world." (1989: 105).
- ...trade deficits of the 1980s reflected the relative strength of the US expansion. (1989: 123).
- ...foreign nations have begun to acknowledge and emulate the success of US policies.... (1989: 128).
- ...United States' desire to help construct a world trading system that is open to, and benefits, all nations, [and adopting US-style domestic policies] will ensure America's role as a model for the rest of the world. (1989: 184 & 185).
- With these policies acting as a foundation, national economies can build on the achievements gained during this President's stewardship of the US economy, and can continue to improve standards of living worldwide. (1989: 289).

The foregoing suggests that the international role of the US, given its dominance, was viewed as one of shaping the international system through its leadership, and that this responsibility had been dutifully discharged. The way in which it was seen to have been discharged is another theme within the texts of the
second Reagan Administration’s ERPs, and provides further support for the observation that his understanding of the national interest was nationally-oriented.

The major way in which the President and the CEA saw the US under the Reagan Administration as successfully and importantly leading the international system to healthier economic conditions was in the area of trade. Once the success of the Administration’s preferred policies for improving domestic conditions had been demonstrated, the US was seen to have a responsibility to pressure/lead states in the international system to these same successes in order to achieve continued progress at home as well as for the welfare of the international system. Hence, there are frequent references to the Administration’s efforts to modify the international system so that the system was better able to accommodate a "changing world" and to facilitate further expansion of the domestic economy. In other words, the Administration attempted to modify the international system in order to sustain the momentum of improving domestic economic conditions.

Again, some examples from the texts serve to support this argument:

► We also strive to ensure that trade is fair by vigilantly enforcing current trade laws....we hope to convey the message that a commitment to free and fair trade is a reciprocal obligation in this increasingly interrelated world trading community.... (1986: 10).

► The purpose of recent US trade actions is to hold all parties to their commitments to free and fair trade principles....The Administration's program of free and fair trade provides a strong basis for continued economic expansion in the United States and the world. (1986: 128).

► We can gain by working steadfastly to eliminate unfair trading practices and to open markets around the world. This year, I will continue to press to open foreign markets and to oppose vigorously unfair trading practices wherever they may exist....We must sustain world economic growth....For US exports to grow, the economies of our trading partners must grow. (1987: 5).

► The United States, as the largest participant in world trade and as a long-time champion of free trade, stands in a unique position to fight this move toward greater protectionism. (1987: 126).
Finally, maintenance of an open system of world trade is essential to the process of reducing external imbalances in an environment of noninflationary growth for the world economy. (1988: 126).

This was the first Administration to seek, on its own initiative, changes in foreign trade practices that harmed American business. These policies have helped reduce foreign trade barriers and given American Companies a chance to compete on equal terms. (1989: 9).

By reducing inflation until price stability is restored, and continuing its policies of promoting domestic growth, the United States will ensure the continued use of the dollar throughout the world as a means of payment, a unit of account, and a store of value. (1989: 136).

The United States has...encouraged the rest of the developed and developing world in its renewed regard for the incentive-based, free-market policies that have enabled the United States to achieve this goal. The continuation of these policies can lead to economic prosperity that is the common goal not only of the United States but of all nations of the world. (1989: 146).

In looking back upon the past four decades, it is clear that the United States discharged its leadership responsibilities by helping to construct a world that offered hope, freedom, and the chance for prosperity for all who sought it. The cornerstone of US policy was a vision of a world united, not divided; one in which the nations of the world were free to exchange their goods, and their ideas, for the betterment of all. (1989: 147).

Recognizing that political stability required economic prosperity, the United States adopted a policy of promoting rapid economic growth abroad. (1989: 153).

With respect to Section 301 of the new Omnibus Trade and Competitiveness Act: This provision may make it harder for the United States to obtain agreements from foreign countries to modify their practices. (1989: 178).

One more observation providing evidence of Reagan's national orientation during his second term is worth noting in this section. Reagan's focus on further progress in opening the international trading system was a response to domestic conditions. Since the mid-to late-1970s, domestic inflation and the increasing trade deficit were prominent subjects of concern in the annual ERPs. While Carter's policy response had been to restrain domestic demand in order to deal with the effects of the international system (see above), Reagan's response was to choose "growth-oriented" policies. This meant he would attempt to improve the relative growth in productivity to exceed the rate of increase in demand. An important
component for this strategy to work was to have external markets for the increased productivity and, therefore, his second Administration focused on opening markets for US goods in the international system. In fact, opening markets in the international system and reducing unfair trade practices was a dominant goal in international political economic relations in his second term. In other words, the second Reagan Administration attempted to modify international practices in order to improve domestic economic conditions.

The ERPs of the second Reagan Administration provide evidence that his understanding of national interest in political economic terms was nationally-oriented. There is substantial reference to US leadership and dominance in the international political economy, the US role in the international arena is seen as one of almost singular responsibility for shaping a system that improves the welfare of all states, and US goals and practices internationally can be characterized as efforts to effect changes in the international system in order to improve domestic conditions.

According to this project's model, we would expect that the second Reagan Administration would choose trade actions that can be characterized as fair trade practices for ITC cases in which he opted for more openness. For ITC affirmative cases where he opted for more restrictiveness, we would expect trade implementation that can be characterized as protected trade practices.

**Bush: Internationally-Oriented National Interest**  
The understanding of national interest in international political economic terms conveyed in the Bush Administration ERPs was internationally-oriented. Bush and the CEA frequently referred to the economic and political importance of the United States globally as had all previous administrations. However, Bush neither argued that US prominence created a unique responsibility to the international system, nor did he suggest that US prominence provided an opportunity for the US to impose its preferences on the system. Instead, the Bush Administration's position was that all states had a vital stake in open and free global markets for trade and investments regardless of size, and none had more or less responsibility in promoting a liberal system. The Bush Administration recognized that the health of the US economy depended as much on the stability and prosperity of the international system as the health of the international system depended on the stability and prosperity of the United States.

The Bush Administration repeatedly referred to the integration, internationalization, globalization, etc., of the international economic system. These references were made in order to point out the dependence of each state, including the United States, on a free and open international economic system, and the dependence of a viable international trade and investment system on the domestic policies of states. Bush and the CEA explained that the United States would pursue domestic macroeconomic policies that would minimize disruption globally, and called on other states to formulate policies that reflected consideration of the interstate implications of those policies. Discussions about the international economic system centered on the importance of nonintervention in both domestic and international markets for
trade and investment, and continually argued for the coordination of macroeconomic policies and the strengthening of rules-based institutions to guide formulation of domestic policies. In effect, the understanding can be characterized as a convergence between domestic and international interests because neither was treated as more important than the other. The following statements, together, provide evidence for this interpretation.

- The United States is part of an increasingly integrated global economy, in which domestic fiscal and monetary policies affect the economies of other nations, though the main impacts are on the domestic economy. My Administration remains committed to participating actively in the valuable process of coordinating macroeconomic policies internationally. (1990:5).

- The 1980s have underscored the increased importance of global economic events in shaping our lives. (1990:7).

- America will continue to lead the way to a world of free, competitive markets. Increased global competition is an opportunity for the United States and the world, not a threat.... (1990:7).

- Successful completion of these [Uruguay Round] negotiations will expand the world's gains from free and fair trade and raise living standards in all nations. (1990:8).

- As the 1980s, and 1989 in particular, have shown, America's response to these challenges can make a critical difference to the well-being of people all over the world. (1990:32).

- The fact that the United States has important connections to the rest of the global economy must be considered in the design of fiscal and monetary policy. These policies influence economic performance in part through their effects on exchange rates, on international capital flows, and on the trade balance. (1990:89).

- Growing recognition of mutual concerns and international economic linkages has heightened awareness of the potential benefits from enhanced international coordination of economic policies. A challenge for the 1990s is to use and improve the process for policy coordination developed in the 1980s to achieve sustained, noninflationary growth for the global economy. (1990:89).

- Through international trade, economic expansion in the rest of the world contributes to the health of the US economy. (1990:89).

- The complex interactions among countries, however, should be taken into account in policy design. US policymakers must recognize that international linkages influence the effectiveness of their policy actions. (1990:90).

- Recognition of the increasingly integrated global economy and dissatisfaction with economic performances, including exchange-rate swings and persistent external imbalances, have precipitated calls for more consistent and compatible policies among major industrial
countries. Since 1985, these countries have strengthened the process for international coordination of policies. (1990:94).

There is no single definition of international policy coordination. To some, the term has a rather lofty meaning: jointly determined policy actions in support of mutually agreed-upon objectives. However, national objectives will often differ substantially or conflict with one another. A more limited definition of policy coordination would be: a process through which national policies are modified in recognition that economic performance is interdependent. (1990: 94).

The arguments in favor of policy coordination stress that the effects of one country's policy spill over to other countries. However, policymakers may not take these spillover effects into account in weighing the costs and benefits of policy options. Coordination can improve domestic policy decisions by helping policymakers to consider the global implications of their actions. Thus, macroeconomic policy coordination can also make a positive contribution by encouraging individual countries to pursue the proper credible and systematic policies at home. (1990: 95).

The United States is part of a global economy that is becoming increasingly integrated. This development implies both that policymakers must take international linkages into account when they design monetary and fiscal policies and that there are potential gains from working together. (1990: 97).

The United States has also been a leader throughout the postwar period in working with other countries toward a more open international trading system. (1990: 225).

All countries must press forward to facilitate and safeguard a smoothly functioning global economy. Conflicts should be resolved through negotiation of rules. In this regard, GATT is a critical multilateral institution, providing a unified set of rules and disciplines for trade policies of member countries, and a framework for policy liberalization and dispute settlement. The President has made successful completion of the Uruguay Round a major trade priority. (1990: 264).

In today's highly integrated world economy, international economic policy issues are inseparably intertwined with domestic policy issues. International features arise naturally as one considers traditionally domestic issues such as fiscal policy, monetary policy, and environmental policy. (1990: 264).

The principle that market forces, not government planners, are the best source of lasting prosperity is as valid in global markets as it is within individual economies. (1991: 33).

Coordination of macroeconomic policies across countries can help governments increase sustainable growth worldwide. This evolving process of cooperation has achieved some important successes. International macroeconomic policy coordination continues to be essential as the world economy reacts to the effects of the oil price shock and changing credit conditions. (1991: 34).

The primary thrust of US trade policy is to use multilateral discussions and fora such as GATT and the Organization for Economic Cooperation and Development to promote free, rules-based trade. Indeed, the multilateral Uruguay Round negotiations are the President's top trade priority. (1991: 252).

Foreign direct investment in the United States is a sign of strength in the economy, not of weakness. It is also a sign of the increasing internationalization of the economy through
which US firms will be strengthened and made more competitive. This investment and the global orientation of companies benefit the United States. (1991: 258).

International trade and investment make important contributions to US and world prosperity. In the broad sweep of history, rising prosperity and rising international trade have gone hand in hand.... Domestic economic growth contributes to the rapid growth of international trade.... At the same time, increases in trade and investment are powerful engines contributing to efficiency and growth. (1992: 193).

The presence of such temptations[to use protection to stimulate domestic employment at the expense of foreigners], which all countries are likely to face, does not justify going ahead with that protection, however. Rather, these temptations signal the need for strong international rules to avoid the reciprocal trade wars that would result if all countries shortsightedly pursued such policies. (1992: 200; emphasis in original).

The increase in total foreign investment in the United States reflects both the worldwide trend toward greater economic integration and the American economy's underlying dynamism and attractiveness. (1992: 205).

The increased globalization of both markets and corporate production networks is forging an international consensus on the need for multilateral rules governing national policies toward foreign direct investment. (1992: 208; emphasis in original).

As the United States becomes more integrated into the world economy through trade and financial flows, international forces exert a greater influence on the Nation's economic performance and affect the transmission of domestic economic policies to the national economy. (1992: 273).

Throughout history, international trade and finance have been powerful engines of growth for the United States and the world. International trade has benefited all countries; one country does not capture the benefits of open trade at the expense of its trading partners. (1993: 279).

There is further evidence to buttress the contention that the Bush Administration's understanding of national interest in political economic terms was internationally-oriented. It is apparent from the ERPS, excerpts of which follow, that Bush and the CEA saw the external environment as a highly important source of variability in US domestic economic conditions. This position was reflected in the Administration's strong promotion of international political economic institutions as vehicles for creating certainty and stability in the international political economy. For each of the years during his term in office, the "successful completion" of the
Uruguay Round was Bush's "highest trade priority", and this was stated repeatedly in each of the ERPs and the Annual Reports of the CEA. Bush and the CEA endorsed bilateral, regional, and multilateral agreements largely as a means for gaining other states' commitments to minimize intervention in domestic and international economies, and to entrench further the liberal international economic order.

- While concerns that economic integration under the EC 92 initiatives will lead to a Fortress Europe are exaggerated, it is essential that the United States remain vigilant in monitoring the EC directives to ensure that new barriers are not raised to trade with the United States and other countries outside the EC. (1990: 31).

- The Administration is deeply committed to supporting market-oriented reforms around the world. The major responsibility for their success rests with the peoples of these countries themselves and their ability and desire to implement the measures necessary to improve their economies. (1990: 31).

- A fundamental principle underlying the economic policies of this Administration is that governments should establish clear and credible rules for economic policies.... This principle is as applicable to international trade policy as to fiscal and monetary policy. The goal of US trade policy is to create ever-expanding trade opportunities free of barriers and based on a system of clear and enforceable rules. (1990: 254).

- Several Administration initiatives have been pursued in bilateral or regional contexts.... But by focusing on rules such as nondiscrimination, by ensuring that reductions in barriers apply to all countries, and by eschewing the fixed quantity approach of managed trade, these efforts have also helped to increase trade opportunities for all countries and are consistent with US support for multilateral trade liberalization. In fact, the principles guiding the architects of GATT — the principle international agreement regulating world trade — are the same as those underlying US trade policy. (1990: 254).

- My Administration will continue to push aggressively for open markets in all nations, including our own, and will continue to oppose protectionism.... Government attempts to overrule the decisions of the international marketplace and to manage trade or investment flows inevitably reduce economic flexibility and lower living standards. (1991: 9).

- These improvements would significantly increase the ability of the global economy to raise living standards in the United States and around the world. (1991: 9).

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11 The most notable, of course, were the Uruguay Round of the GATT, the OECD, the Enterprise of the Americas Initiative, and NAFTA.
Markets and companies are increasingly global in scope. The resulting increase in trade and investment benefits the United States and the world as a whole by allowing resources to be more productively and flexibly utilized. (1991: 242).

One of the most significant developments in US international economic policy in recent years is the US-Japan Structural Impediments Initiative. This initiative is a new, cooperative approach to opening markets. (1991: 255).

The increase in US exports...was one of the important factors that kept the recession from being more severe. (1992: 72).

Several major developments are under way that could open international markets further and boost worldwide prosperity. These developments come as many countries of the world face the prospect of temporarily slower economic growth. Although such periods often lead to renewed calls for protection, now is not the time for the United States or its trading partners to turn inward: There is simply too much at stake. Retreating from a focus on open international markets now would undermine opportunities to promote a growing and efficient world economy. (1992: 193; emphasis in original).

The view embraced in the GATT and shared by the Administration is that bilateral initiatives can complement multilateral initiatives, by stimulating efficient trade within the region and by stimulating further steps toward multilateral liberalization as well. (1992: 210).

For both US exporters and investors, EC 92 offers potential benefits, partly because it creates an integrated market, and partly because the process of integration could promote growth. As a trading partner, the United States (as well as other non-European countries) could gain through increased EC demand for imported products. The realization of these benefits, however, depends on the EC market's openness to external trade and how much more competitive European companies become. (1992: 224; emphasis in original).

In a series of multilateral, regional, and bilateral initiatives, this Administration has set forth a forward-looking program, opening markets not closing them, in order to expand trade and growth for our Nation and the world. (1993: 4).

Regional integration such as NAFTA can further promote free trade. The administration's [sic] objective is to expand open and transparent trade worldwide. Government policies should be aimed at opening rather than closing markets. Multilateral, regional, and bilateral trade agreements are instruments to realize such an objective. Multilateral integration is the most important, with regional integration and bilateral agreements fulfilling a complementary role.... These conditions make it more likely that regional integrations [sic] will have an overall liberalizing impact, and will not promote trade within the region at the expense of trade with outside countries. (1993: 321 & 322).

In spite of the difficulties in picking "winners", a number of governments are likely to continue active participation in research and development activities, which could lead to an international competitive race to subsidize high technology. To limit this danger, bilateral and multilateral mechanisms may be needed to identify what types of support may be legitimate. In the aircraft industry, for example, the United States and the EC recently agreed to limit development subsidies and prohibit future production subsidies. This agreement demonstrates how nations can cooperate on questions of government support. (1993: 324).

International trade is mutually beneficial — it benefits all countries involved.... The benefits of freer trade can be obtained by regional as well as multilateral agreements. (1993: 326).
The Bush Administration's understanding of national interest in international political economic terms can be considered internationally-oriented. Among the most prominent reasons was the apparent identification of domestic interests with international interests. Also important were the strong sense that international forces significantly affected domestic conditions, the continual calls for coordinated macroeconomic policies, and the promotion of rules-based institutions to guide the formation of member states' domestic policies.

The model developed in this project would predict that, when Bush opted for more openness, trade practices could be characterized as "free". When he opted for more restrictiveness, implementation could be characterized as "strategic".

**Clinton: Internationally-Oriented National Interest**

The Clinton Administration's understanding of national interest in international political economic terms was nationally-oriented for the period investigated here. Clinton and the CEA sought to maintain the momentum of an improving domestic economy and, through the ERPs, explained that participation in the international economic system was critical to US economic expansion. One of the most significant foci of the ERPs was the Administration's policy of export promotion, and the repeated phrase, "compete, not retreat", provides evidence of this outward orientation.

- Raising the living standards of all Americans is the fundamental economic goal of my Administration. That is why all of our initiatives in international trade share a common purpose: to open markets and promote American exports. (1994: 6).
This Administration's focus on exports does not signal a revival of mercantilism. Rather, it reflects a belief that America's export promotion efforts have lagged behind those of other countries and that our markets are already among the most open in the world. (1994:46).

The fast-growing countries of Asia have provided a rapidly expanding market for US exports. The increasing importance of Asia in US trade appears to contradict the common contention that the world is devolving into three trading blocs centered on Europe, Asia, and North America. (1994: 211).

The Administration's trade policy begins at home with an activist commitment to promote American exports both by reducing domestic barriers to them and by improving the efficiency of our export promotion programs. (1994: 214).

The Administration's trade policy can be described as "export activism" - the United States will work actively to open foreign markets, and in return we will keep our market open. NAFTA is a key component of this activist strategy. (1994: 231).

One consequence of this rapid growth [in APEC countries] is striking: as long as the Asian countries grow faster than the United States, they will become more important in our trade while we will become less important in theirs. Therefore past trade strategies based on threats of market closure are liable to become less and less effective. (1994: 231).

Our efforts to prepare the American people to compete and win in the new global economy cannot succeed unless we succeed in expanding trade and boosting exports of American products and services to the rest of the world. (1995: 5).

The Administration has also worked to promote American products and services to overseas customers. When foreign government contracts have been at stake, we have made sure that our exporters had an equal chance. (1995: 6).

We live in an increasingly global economy in which people, products, ideas, and money travel across national borders at lightning speed. (1995).

The expansion of international trade is integral to raising American incomes, and exports play an increasingly important role in providing a livelihood for American workers. (1995: 36).

In its bilateral negotiations, the Administration has been forceful in seeking market-opening measures in Japan, China, and other countries and in advancing the interests of US exports through its National Export Strategy. (1995: 36).

Export and investment opportunities in emerging markets in Latin America and Asia will be a key engine of growth for the US economy over the next decade. (1995: 215).


The President's policy to "compete, not retreat" rests on the recognition that a dynamic economy, with its associated opportunities and despite its hardships, provides the best prospects for increasing incomes for Americans over time. The Administration has chosen to continue to press for further trade liberalization in order to open up foreign markets for US exports, while at the same time vigorously promoting US commercial interests abroad. (1995: 253).
We must continue to encourage exports, since jobs supported by goods exports pay on average 13 percent more than other jobs. My Administration has concluded over 200 trade agreements...seeking an open world marketplace and fair rules for exporters of American goods and services. As a result, merchandise exports have increased by 31 percent. (1996: 5).

The importance of exports to the US economy has been strikingly apparent in the last 3 years; US exports of goods and services have grown by 20 percent, accounting for about one-third of real GDP growth. (1996: 225).

As the 21st century approaches, the Administration firmly believes that economic isolation would lead only to economic decline, and that the most promising way forward is to rise to the challenges of the international market. We can and must compete, not retreat, in the face of global competition. (1996: 225 & 226).

The United States has led international efforts to liberalize world trade and investment, and this Administration has actively sought to eliminate foreign market barriers to US exports. Regardless of their effects on the overall trade balance, these market-opening policies raise US incomes by securing the gains from international trade. (1996: 232).

This Administration has embraced an outward-oriented, protrade, progrowth economic strategy. (1996: 233).

The Administration's protrade policies have been associated with rapid export growth. (1996: 249).

More revealing for the purposes of this project is the way in which the Clinton Administration argued for the necessity of a policy of export promotion -- by pointing to US interdependence in an integrated global economic system. The consequence of this perceived "reality" was recognition of a convergence of interests, insistence that the same "rules" apply to all states, and the development of strategies to benefit from the inexorable impact of the international economy on the domestic economy. In other words, as the following demonstrates, the Clinton Administration connected the success of the domestic economy to the conditions in the international economy.

This emphasis on exports is driven by two simple facts. First, America is part of an increasingly integrated world economy and must adapt to this new reality if we are to stay on top.... Second, export industries offer the kind of high-wage, high-skill jobs the country needs. ... In short, to realize our goal of higher living standards for all Americans, we must compete, not retreat. (1994: 6).
As economists have long predicted, freer trade has been a win-win strategy for both the United States and its trading partners, allowing all to reap the benefits of enhanced specialization, lower costs, greater choice, and an improved international climate for investment and innovation. (1994: 205).

During much of the last 50 years, the United States was the only global economic superpower. But now there are three: The European Union..., Japan, and the United States; and all increasingly interdependent as a result of trade and capital flows, and increasingly competitive. (1994: 206).

This Administration is committed to a high-wage strategy to enable the United States to take advantage of the new opportunities and to meet the new challenges of the changing global marketplace. (1994: 206).

This analysis suggests that, to achieve its trade policy goals in the region, the United States will increasingly have to act in concert with other countries rather than unilaterally. Thus it may be desirable to begin establishing the appropriate institutional infrastructure for cooperation now, and APEC is the leading candidate. (1994: 231).

As tariff and nontariff barriers to trade fall and as national economies become more integrated into the world trading system, differences in national business practices and laws become more important determinants of trade outcomes. (1994: 239).

The stability of the dollar and the cyclical behavior of the Japanese and European economies are important in understanding the likely impact of the President's deficit reduction package on the US current account. (1994: 242).

This Administration understands that expanding trade relations are not only inevitable but critical to the future health of the US economy. It is determined to ensure that the growing interdependence with our trading partners brings benefits to the United States. (1994: 248).

Last December's Summit of the Americas set the stage for open markets throughout the Western Hemisphere. The Asia-Pacific Economic Cooperation (APEC) group is working to expand investment and sales opportunities in the Far East. We firmly believe that economic expansion and a rising standard of living will result in both regions, and the United States is well positioned both economically and geographically to participate in those benefits. (1995: 6).

By encouraging investment and research and development to maintain and increase US competitiveness, and by investing in people..., the Administration seeks to ensure that Americans gain all the benefits possible from competing in world markets. (1995: 37).

More rapid growth at home than in the rest of the world was a major factor responsible for the deterioration in the Nation's external position. (1995: 64).

The American approach has been that of nondiscrimination: negotiated reductions in trade barriers should apply to all trading nations; individual nations should not cut deals that benefit themselves at the expense of others. (1995: 203).

Of course, the Uruguay Round agreement and the WTO do place obligations on the United States, but the balance of obligations in this accord is favorable, both because the United States had considerable influence on the Uruguay Round outcome, and because this country
has a transparent, rules-based system and the WTO represents a convergence toward a system of this type. (1995: 213).

This is not to say that the United States should ignore fundamental national interests in deciding whether to implement a WTO panel decision, but simply that our willingness to be bound by international trade disciplines will in large part determine whether those disciplines will be observed by others. (1995: 214).

But the United States and the other WTO members are determined that China must join on commercial, not concessional, terms. This is critical for maintaining the integrity of the global trading system and integrating China into it. (1995: 239).

But the global character of most markets has been the impetus for increasing consultation and cooperation among competition policy agencies, and this is likely to lead to some convergence in practice and approach. (1995: 247).

...export growth was a significant component in the strong performance of the American economy in 1994. Growth of exports has also been an important contributor in moving Americans toward higher paying jobs. (1995: 253).

...strengthening of the underlying rules and the international dispute settlement system will lead to a convergence toward a rules-based, transparent, and nondiscriminatory world trading system, much like the one the United States already has. The balance of concessions and prospective gains from this convergence are greatly to our advantage. (1995: 254).

The Administration has pursued an aggressive trade policy to open markets abroad.... This Administration has insisted that other countries live up to their obligations under international and bilateral agreements and has attacked remaining barriers that discriminate against US exports. (1996: 226).

Even those nations that have adopted the general rules of the trading system often come under pressure to intervene in particular instances - to protect industries going through difficult adjustments to foreign competition, to skew the rules in favor of domestic companies, or to try to influence foreigners to purchase from domestic firms. An aggressive policy to protect American interests from such practices abroad helps ensure that US firms do not lose out, and that foreign governments are less inclined to try to bend the rules. (1996: 233).

Fundamentally, the trade deficit is caused by macroeconomic factors, not trade policy, which is capable of making only marginal changes in the overall deficit. Eliminating or substantially reducing the trade deficit will require macroeconomic policy measures, such as the elimination of the Federal budget deficit. (1996: 249).

A system of liberal international trade and investment boosts overall living standards by allowing all participants to concentrate on what they do best, to learn from others, and to ensure competition.... Abundant evidence testifies to the advantages of open markets over protectionism. Countries with outward-looking, liberal trade and investment policies grow faster, the data show, than countries with inward-looking, closed policies. The general consensus [sic] among economists is that open markets raise growth and productivity. (1996: 280).

The continuing external deficit remains a cause for concern, but it must be kept in mind that the deficit is caused by macroeconomic factors, not trade policy. It should not be used as a test of whether trade is beneficial or whether our trade policy is effective. (1996: 280).
Clinton and the CEA asserted the Administration's active support of a liberal global trade and investment system because, they argued, a free and open international system presented the greatest number of opportunities for the parallel US domestic system. Negotiations and initiatives at all levels were considered "building blocks" of a multilateral liberal consensus, where even unilateral measures to force compliance were justified as a means of achieving this objective.

- The Clinton Administration supports the goal of freer trade on a reciprocal basis. In pursuit of that goal, the Administration is dedicated to working with the private sector and its trading partners to open foreign markets through bilateral, regional, and multilateral trade agreements. (1994: 214).

- Along with these unilateral actions [as part of the National Export Strategy initiative], the Administration has engaged numerous foreign countries in bilateral trade talks. (1994: 215).

- In each trade area, the Administration is carefully monitoring Chinese implementation of the bilateral agreements and will use all means at its disposal to ensure compliance. Successful implementation will lay the foundation for Chinese accession to GATT and a far closer economic relationship between the United States and China. (1994: 221).

- Some issues cannot be handled on a bilateral basis, and the Administration has been deeply engaged in a number of regional efforts. (1994: 225).

- By lowering tariffs and providing a framework for cooperation in international trade, GATT has contributed significantly to a more harmonious world trading regime. (1994: 238).

- The Administration's efforts come at a moment of historic opportunity in the global trading system. (1995: 36).

- This Administration, like its predecessors, has responded to these changes [in international trade since the 1950s] by pursuing liberalization and the promotion of exports at a variety of negotiating levels. (1995: 203).

- Even though nations will seek concessions by others in areas of most immediate interest to themselves, nondiscrimination makes trade liberalization a public good — what is produced by one country in negotiation with another is available to all. This gives rise to the coordination problem shared by all public goods, that of getting each party to participate rather than sit back and let others do the liberalizing, free-riding on their efforts. The solution to this dilemma requires commitment on the part of the major trading nations, coupled with ingenuity and the artful use of the fear of exclusion. Thus, while the United States has continued to support multilateral liberalization efforts, it has been forceful in bilateral negotiations as well, and has also pursued liberalization on a regional basis, both as a way
of extending market opening and as a way of pressing for greater liberalization in the full multilateral arena. (1995: 204; and, similarly, 1996: 233).

- In practice, the United States has always had a major influence over the course of GATT policy, not because it has had a larger formal vote but, in baldest terms, because it brought the largest market to the table. The WTO does not change this. (1995: 121).


- The Administration's regional initiatives in the Americas and in the Asia-Pacific community are critical for placing the United States squarely at the fulcrum of two of the most dynamic regions in the world. (1995: 217).

- When structured according to principles of openness and inclusiveness, regional blocs can be building blocks rather than stumbling blocks for global free trade and investment. Seen in this light, carefully structured plurilateralism is a complement rather than an alternative to US multilateral efforts. (1995: 219).

- To ensure that its plurilateral initiatives strengthen the multilateral trading system and enhance market opening globally, the United States is pursuing a policy of open regionalism. (1995: 220).

- At any time the United States is engaged in several negotiations with individual countries on trade issues or disputes. These bilateral negotiations are less glamorous than multilateral or plurilateral trade initiatives, but they are extremely important in opening up markets, settling disputes, and protecting US trading rights. In addition, these negotiations are often where new trade issues are first discussed or tested. (1995: 231).

- Despite the length [sic] and occasional acrimony surrounding sectoral liberalization negotiations with Japan, the talks work. (1995: 234).

- International trade has been and will remain a powerful source of growth, opportunity, and challenge for the American economy.... Trade adds to the opportunities and dynamism of the economy, and to the adjustments required over time. (1995: 251).

- This Administration will continue to pursue a more open world trading system, through multilateral, plurilateral, and bilateral trade negotiations.... Although we negotiate on a variety of levels, the basic goal is always the same: the advancement of open markets on a nondiscriminatory basis. This goal has characterized our bilateral negotiations, which have sought open markets, not special entry for American firms. In plurilateral negotiations, we have emphasized the principle of openness to new entrants. The United States also has a strong interest in strengthening the underlying rules of the trading system and the dispute settlement process, both because to do so fosters more efficient and fairer trade, and because it results in the kind of system in which American firms most comfortably operate and compete. (1995: 254).

- We are using all the tools available to us — multilateral, regional, and bilateral — to advance our protrade agenda. This multilevel approach to trade policy has become particularly important as the nontraditional aspects of trade policy have assumed increasing importance, and as global trade patterns have shifted toward emerging markets. Recognizing that success is measured not by the number of agreements signed, but by concrete results, the Administration has taken great pains not only to reach mutually beneficial agreements with
our trading partners, but also to follow through in implementing, monitoring, and enforcing those agreements. (1996: 234).

- The Administration has promoted the creation of regional trade agreements as stepping stones toward global free trade. (1996: 238).

- Regional initiatives founded on the principles of openness and inclusivity serve to strengthen the multilateral trading system.... Regional agreements often achieve deeper and broader economic integration than multilateral agreements because, as neighbors, members have substantial interests in common. Such agreements therefore often become models for future multilateral liberalization in new areas.... The expansion of regional free-trade areas has also encouraged nations to find more common ground in multilateral negotiations. (1996: 238).

- The focus of US bilateral agreements is to open foreign markets to producers from all countries, not just those from the United States. These agreements are designed to support a more open, less distorted world trade regime. (1996: 245).

- The Administration's trade agreements specify qualitative and quantitative indicators of progress, agreed to by both countries, and the Administration has actively reviewed and monitored the agreements it has reached, comparing actual progress made against these indicators. (1996: 245).

It is reasonable to conclude that the Clinton Administration's understanding of national interest in international political economic terms was internationally-oriented for the three years examined here. Clinton and the CEA eschewed inward-looking, isolationist policies, actively seeking instead the expansion opportunities perceived to exist in a liberal international system. The Clinton Administration actively pursued further market-opening agreements in trade and investments and, in its own words, the Administration was "forceful" and "aggressive" in its insistence that member states comply with the terms of international agreements. In short, Clinton and the CEA recognized an international system of interdependent economic relationships among states that had a profound impact on the US domestic economy, and this largely influenced the Administration's outward-oriented policies.

According to the model developed in Chapter 3, we would expect that the Clinton Administration's trade practices could generally be characterized as "free"
when he opted for more openness. When he chose more restrictiveness than recommended by the ITC, we would expect "strategic" implementations.

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Table 4.1 provides a summary of this project's assessment of each presidential administration's understanding of national interest in terms of the international economic system.

<table>
<thead>
<tr>
<th>President</th>
<th>National Orientation</th>
<th>International Orientation</th>
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<tbody>
<tr>
<td>Truman</td>
<td>1952</td>
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<td>Eisenhower I</td>
<td>1953-1956</td>
<td>1953-1956</td>
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<td>Nixon</td>
<td>1969-1972</td>
<td>1973</td>
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Presidents' Orientations
Table 4.1
CHAPTER 5

THE 1977 AND 1985 FOOTWEAR CASES

The purpose of this chapter is to investigate whether or not the international orientation of President Carter and the national orientation of Reagan can account for the discrepancy between legislated trade policy and trade outcomes in the 1977 and the 1985 footwear cases, respectively. Of the fourteen possible cases\textsuperscript{1} during the Carter Administration, the model developed in Chapter 3 correctly predicts to nine of the trade outcomes, or approximately 64.3% of the time. Of the three cases during the second Reagan Administration, the model correctly predicts to two of them. The focus for each of the two cases presented here is on the independent variable, presidential orientation, and emphasizes two main aspects of influence on trade outcomes.

First, further development of the evidence of the orientation assessment is provided, particularly in the context of the individual case being examined. As was explained in Chapter 4, the initial assessment was based on a single source, the annual *Economic Report of the President*, and was assumed to hold true generally.

\textsuperscript{1} Recall that a "case" for this project is an escape clause or a section 406 petition for which the ITC found affirmatively.
for the administration across cases for any given year. However, variations in the intensity of that orientation could generate variations in trade outcomes. In other words, the more/less strongly a president adheres to the beliefs that give rise to the orientation, the more/less useful will be the orientation for anticipating trade outcomes. One way to gauge the intensity of the orientation is through observation of the frequency with which it appears to be a substantial or sole justification for actions.

Second, the way in which the orientation is translated into trade implementation is of interest. Recall that the relevant hypotheses to be tested for the Carter Administration are: 1) an internationally-oriented president will choose an implementation that can be characterized as "free" trade when he chooses less restrictive measures, and 2) an internationally-oriented president will choose an implementation that can be characterized as "strategic" trade when he chooses more restrictive measures. These are the implementation alternatives available to an internationally-oriented president because, as was argued in Chapter 3, free and strategic trade practices are consistent with neoclassical trade theory, are positive responses to an open international trading system, rely more on economic than political criteria, and reflect macroeconomic objectives and methods. Alternatively, the relevant hypotheses to be tested for the second Reagan Administration are: 1) a nationally-oriented president will choose an implementation that can be characterized as "fair" when he chooses less restrictive measures, and 2) a nationally-oriented president will choose an implementation that can be characterized as "protected" trade when he chooses more restrictive. Fair and protected
trade measures are the implementation alternatives available to a nationally-oriented
president because they are not consistent with neoclassical economic theory, are
negative responses to an open international trading system, they rely more on
political criteria to resolve trade problems, and they reflect microeconomic objectives
and methods. The way in which the orientation guides the decision should be
observable in the president's formulation of trade practices that are consistent with
these assumptions.

This chapter begins by sketching the history of the US footwear industry's
difficulties in adjusting to the more demanding levels of competition created by
exposure to a more open international trading system. In a larger sense, this history
reflects the industry's resistance to adjustment to the realities of a loss of compara-
tive advantage. More narrowly, it reveals the transition to a restructured industry,
where the once-dominant voice of traditional, inflexible manufacturing firms was
replaced by that of firms which adapted to the changing environment by building the
retailing and importing segments of their businesses.

These changes in the footwear industry are a useful backdrop for under-
standing trade outcomes for this industry. The extraordinary difficulties experienced
by US footwear firms, at one time employing 240,000 people, were well-recognized
both by members of Congress and by the executive branch. Further, the industry

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2 Both Milner (1988) and Yoffie (1983a, 1983b), *inter alia*, refer to the decline of the footwear
industry in the United States. Although "decline" is an apt characterization of the manufacturing
sectors, "change" or "adjusted" is more descriptive of the industry as a whole.

3 This figure is from Yoffie (1983a, 1983b). USITC Publication #1717 says that "the peak
employment year for the industry was 1967, when employment reached 231,000." (p.A-17). Yoffie
says that his figure is from "the early 1960s" without citation (1983a, p.323).
was relatively well-organized and concentrated in two regions of the country. It is interesting, therefore, that the industry never received the global protection for which it repeatedly lobbied, nor reliable relief from imports provided for by existing legislation. By examining the process most proximal to trade policy implementation, presidential decisionmaking, this project seeks to explain why trade outcomes could not be anticipated by considering the prescriptions of legislated trade policy, nor by observing Congressional pressure and demands from domestic special interests.

This chapter proceeds by examining in more detail the 1977 nonrubber footwear escape clause case during the Carter Administration, and the 1985 nonrubber footwear escape clause case during the second Reagan Administration. In neither case did the model developed in chapter 3 predict to the outcomes. By using the method of structured, focused comparison⁴, this project attempts to account for the ways in which these cases proved to be exceptions. Four general questions that underpin the assessment of the presidential orientation are "asked" of each case: 1) Does neoclassical economic theory fairly represent the way in which the President viewed the political economy and, in particular, trade policy? 2) Did the President demonstrate a positive or negative response to an open international economic system? 3) Were economics or politics more important among the issues considered by the President in making his decision? and 4) Were macro- or microeconomic objectives more relevant to the President's decision? The

⁴ See chapter 3.
answers to these questions help to evaluate the strength of the presidential orientation for each of the individual cases being considered.⁵

It is posited that, to the extent that the answers to these questions deviate from those expected of the assessed orientation, we can expect deviations from the model's predicted trade outcome. On the other hand, when the answers to these questions are consistent with those expected of the assessed orientation, but the trade outcome differs from that predicted by the model, then presidential orientation does not explain the distance between legislated trade policy and trade outcomes, and the model proposed in chapter 3 is not a useful representation of the process of trade policy implementation.

The chapter concludes with a summary and discussion of the important points revealed in the two case studies.

The US Footwear Industry in the 1970s

Between 1973 and 1978, the footwear industry petitioned the US International Trade Commission (ITC) 355 times for relief from imports⁶, evidence of the dire economic straits in which the US footwear industry, "the largest producer of shoes in the Western world",⁷ was swimming. In 1968, 181.5 million pairs of shoes were imported into the United States. Within the first 9 months of 1976 alone, imports

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⁵ The relevance of these questions to this study's hypotheses is discussed in detail in chapter 3.


had reached 289.8 million pairs. The value of imports increased from $563 million in 1970 to $1.1 billion by 1975. Nonrubber footwear was produced in 36 states, mainly in the Northeast and Mid-Atlantic regions, and the number of firms had declined from 700 in the early 1960s, to 597 in 1969, to only 376 firms in 1975. By 1977, unemployment in the footwear industry had reached 10-12 percent. In 1975, employment in the industry was 27 percent below the average of 1960-1964, compared to a 9 percent increase in employment for US manufacturing as a whole. In the early 1960s, 240,000 people had been employed in an industry producing 600 million pairs. By 1977, there were 160,000 workers producing 390 million pairs.

According to Eckes, problems in the footwear industry became apparent in 1970, when a 50 percent reduction in duties on nonrubber footwear imports became effective following legislation of agreements from the Kennedy Round of the General

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8 USITC Publication #799, p. 10.
12 Ibid., p.12.
14 Yoffie (1983).
Agreement on Tariffs and Trade (GATT). In 1970, President Nixon urged the footwear industry to formally petition the ITC under the escape clause provisions (at the time, section 301 of the 1962 Trade Expansion Act (TEA)) for relief from increasing imports. When, in January 1971, the ITC issued its report to the President, the Commission was evenly divided as to whether or not injury or threat of injury had occurred due to imports, but commission members who had found affirmatively recommended quotas. According to statute, the president can choose either the affirmative or the negative finding of the ITC when its members are evenly divided, and President Nixon chose the negative finding and took no action.

The President's inaction surprised the footwear industry. The investigation had revealed that footwear imports had risen from 18 percent of domestic consumption in 1967 to 30 percent in 1970, and that the number of production workers in the industry had fallen from 202,000 to 185,000. This 1971 decision would be the beginning of a series of more active and public efforts by the industry

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16 ibid., p. 246. Concern about the impact of the reduced duties on the footwear industry began shortly before the 1970 legislation. The ITC instituted investigation #332-56, Tariff Commission Publication #276, an information-gathering investigation at the request of the president, and reported in January, 1969. In December, 1969, the ITC issued its report to the president on investigation #332-62, Tariff Commission Publication #307, a supplemental information-gathering investigation instituted at its own behest. It was information from these investigations that gave Nixon cause for urging the industry to petition under the escape clause.

Milner (1986) surmises that Nixon encouraged the escape clause petition in order to deflect pressure away from a Congress more sympathetic to inserting into the impending trade bill specific language that would provide global protection for both the textile and footwear industries (p.308).

17 Investigation #TEA-l-18, Tariff Commission Publication #359.

18 Actually, President Nixon selectively provided for adjustment assistance.


to gain the levels of protection afforded the textile and apparel industry. Indeed, Milner (1986) says that disappointment over the decision "seemed to goad the industry into an increased number of diversified activities to realize their demands." In addition to their attempts to shape legislation, the footwear industry submitted numerous petitions to the ITC over the following years, using escape clause, countervailing duty, and antidumping sections of trade legislation. Too, organization-building and lobbying efforts became central activities.

The industry had little alternative but to resort to the government for remedial intervention. Technological advances were held hostage by the manufacturer of shoe production equipment, US Shoe Manufacturing Corporation. In addition, this low-skilled, labor-intensive industry was already paying $3.50 less than the average wage in other US manufacturing industries. Despite these low wages in the US footwear industry, exporting countries were still able to operate at a significant production cost advantage. For instance, by 1985, Korean wages were still only 13 percent of US compensation in the footwear industry, and the cost advantage for a

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21 That the industry's goal, from the beginning, had been to achieve protection at the level of the textile and apparel industry is widely acknowledged. See, inter alia, Cohen and Meltzer (1982); Destler (1986, 1992, 1995); Eckes (1995); Milner (1986); Yoffie (1983a, 1983b).

22 p.305.

23 Personal conversation with former SCOA Industries Inc. executive. Later, US Shoe Manufacturing Corporation was charged with antitrust violations but, by then, the manufacturing sector had declined sufficiently to discourage new investment in shoe production machinery. See also Yoffie (1983a).

typical ladies' pump favored South Korea by as much as 30 percent. In fact, the Korean Footwear Exporter's Association estimated that the price gap between the United States and Korean leather shoes was even larger.

With little hope of preserving the US manufacturing sector other than through government intervention, the industry redoubled its efforts on two fronts. It increased its lobbying activities in an effort to help shape a new trade bill that was being debated in Congress in 1973. The footwear industry wanted specific consideration in the new bill not unlike the Multifiber Agreement in Textiles, and several amendments that would constrain the authority of the Executive. In addition, the industry was encouraged by the then-Special Trade Representative (STR) Eberle, who praised the new escape clause provisions as "ideally suited for use by the footwear industry," and the groundwork was put in place for a new escape clause petition.

When Congress passed the Trade Act of 1974, the footwear industry could claim some small measure of victory. Among the amendments favoring footwear, one excluded footwear from the duty-free treatment offered to developing countries. Other amendments authorized the President to negotiate an agreement on footwear within the GATT, barred Treasury from waiving countervailing duties on

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25 USITC Publication #1515, p.43.

26 Ibid.


footwear, and permitted relief to "industries like footwear if that industry was hurting in one geographic region even though it was not hurting in the country as a whole". The footwear industry was also instrumental in the Trade Act's provision that the President could reject an affirmative ITC escape clause finding only on grounds of national interest. The footwear industry was mentioned five times in the act. Still, stronger, more specific language concerning footwear was omitted when STR Eberle "reassured the Senate that additional legislation was unnecessary". The industry was satisfied with this small measure of success, given Eberle's pledge "that the administration would move 'expeditiously' to provide relief". 

According to Yoffie (1983a), however, the Office of the Special Trade Representative opposed global protection for the footwear industry and, by keeping specific language out of the Trade Act, the industry had been maneuvered into relying on the discretion of the President for relief rather than a more sympathetic Congress. The industry submitted an escape clause petition in 1975, calling for tariff-rate quotas based on re-calculated lower import levels. In its report to the

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30 Ibid.
32 Congressional Record, 12/13/74, cited in Ibid.
35 Milner (1986), p.306. A tariff-rate quota recognizes existing duties from the TSUSA up to a particular quantitative threshold, then imposes additional duties on imports over that threshold. In a remedy recommendation, the ITC can adjust the threshold level, or quota.
President in February 1976, the ITC rendered its first unanimous escape clause affirmative finding of injury under the Trade Act of 1974, but remained divided as to remedy recommendation: three commissioners recommended tariffs, two recommended tariff-rate quotas, and one commissioner recommended adjustment assistance. President Ford granted only adjustment assistance to the industry.

By this time, the footwear industry had realized only marginal successes in shaping legislation, and had yet to make substantial headway in its petitions under existing legislation. This result was despite the stronger organization of its trade association, the American Footwear Industries of America (AFIA), the creation of a footwear caucus in Congress, teaming up with the textile and apparel industry, extensive lobbying efforts among the various offices of the Executive, and an increased effort to make its cause more public. Out of 155 petitions for adjustment assistance since 1963, only 30 had received affirmative determinations by the ITC. There had been only two antidumping petitions, both of which resulted in unanimous negative injury determinations. Countervailing duty investigations stretched on for months at a time with no final determinations from Treasury. Only when the AFIA brought suit against the US government for delaying did Treasury announce countervailing duties on Brazil, Spain, and Argentina.

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36 ITC investigation #TA-201-7, USITC Publication #758.
It was about this time, however, that the "dual" industry\(^{41}\) that had developed became important. Thirty percent of domestic production by value was accounted for by the four largest firms in the industry, and 21 firms accounted for fifty percent. The other fifty percent of US output was produced by 340 firms.\(^{42}\) As Yoffie points out, these 21 firms remained competitive in the face of imports without government intervention.\(^{43}\) The vast majority of firms in the industry were small entrepreneurial ventures in small towns, with populations of less than 10,000 people,\(^{44}\) dedicated only to manufacturing. These small firms were ill-equipped financially to diversify, and too small to consider large-scale marketing plans and sales promotion.\(^{45}\) Meanwhile, the larger firms had begun to concentrate on offshore manufacturing, importing, and retailing, reducing the contribution to their businesses from domestic manufacturing.\(^{46}\) These larger enterprises still had an interest in import relief, but

\(^{41}\) Eckes (1995); Destler and Odei (1987), p.63. Reference to the industry's dual nature is also provided in Commissioner Ablondi's dissent from the remedy recommendation in the 1977 case. See USITC Publication # 799, p.41.


\(^{44}\) Cohen and Meltzer (1982), p.95.

\(^{45}\) Personal conversation with former SCOA Industries Inc. executive. See also Yoffie (1983a, 1983b).

\(^{46}\) Personal conversation with former SCOA Industries Inc. executive. Among the larger companies that had changed focus were Melville Corporation, Endicott-Johnson, Morse Shoe, US Shoe Corporation, and others. The executive interviewed here said that SCOA Industries Inc. had begun to concentrate its energies away from manufacturing in the early 1970s and, by 1979, had sold or closed all of its manufacturing subsidiaries. Some of these corporations had bought offshore manufacturing firms as well. See also Milner (1986, 1988).
they also began to oppose some of the remedies demanded by the industry representative, the AFIA.

The AFIA generally represented the small firms and, while the larger firms had always contributed a disproportionately smaller share to the association, they had begun to contribute and strengthen the opposing association for retailers and importers, the Volume Footwear Retailers Association (VFRA). By the late 1970s, the larger firms which were more profitable began to resign from the AFIA, increasing the political power of the VFRA in opposing trade restraints in hearings on trade issues both at the ITC and Congress.

Meanwhile, Ford's decision in the 1976 escape clause case had angered both the footwear industry and the Congress. Reeling from the defeat, the AFIA was joined by the AFL-CIO in lobbying the Congress for another escape clause petition less than a year after the ITC's previous decision. The next ITC footwear escape clause investigation was instituted on October 5, 1976, at the request of the Senate Finance Committee on behalf of the footwear industry.

The foregoing has provided the context for the two cases that will test the hypotheses of this project. The next two sections examine the 1977 and the 1985 footwear cases in more detail.

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49 Yoffie (1983a).
The 1977 Footwear Case

In the 1977 nonrubber footwear case, four ITC commissioners found injury and two found "serious" injury. Four commissioners recommended tariff-rate quotas, one recommended five-year declining rates of duty to replace existing TSUSA rates during those five years, and the sixth commissioner felt that adjustment assistance was sufficient to remedy the nonrubber footwear industry's injury. Among the variety of considerations taken into account by the Commission were: the increase in imports in absolute terms and relative to domestic production; capacity utilization; the declining number of firms producing footwear; employment and unemployment; the proportion of the domestic market supplied by imports; decreases in production by region; producers' efforts to compete with imports; profit and loss experience of domestic producers; and the amount of compensation that might be due to exporting countries under the provisions of the GATT if a tariff, a quota, or a tariff-rate quota were implemented. Further, the ITC considered that "numerous factors -- the recent recession, the inability to keep pace with technological and style changes, and decreased productivity, among others -- have been alleged by some witnesses as more important causes than imports of any injury to the domestic footwear industry", and it was concluded that "even though [these

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51 Ibid.
other factors] may have contributed in part, imports have been the most important cause of injury.\textsuperscript{52}

The newly-elected President Carter could have chosen any of four types of trade measures. He might have accepted the protectionist tariff-rate quota recommendation of the ITC, or chosen even more restrictive measures than those recommended.\textsuperscript{53} He might have chosen a free trade alternative, denying all remedial intervention by government. Third, he could have opted for a strategic trade implementation, providing for adjustment assistance and/or other concessions by government to the domestic industry. Finally, President Carter had the option of providing for a fair trade measure, such as a negotiated settlement outside of the provisions of the GATT.

In the end, Orderly Marketing Arrangements (OMAs) with Korea and Taiwan, and an industry revitalization plan, together, constituted the Administration's solution, and represented both a fair and a strategic trade practice. The OMAs, a fair trade measure, were meant to restrict imports from the largest foreign suppliers through bilateral negotiations. This would provide temporary "breathing space" while the revitalization program, a strategic trade measure, operated to restructure the industry to make it competitive in an increasingly international trading environment.

\textsuperscript{52} \textit{Ibid.}, p. 13. In effect, this is the statutory definition of "substantial cause"; cause that is not less important than any other cause.

\textsuperscript{53} For instance, Carter could have chosen higher tariff levels and/or smaller quotas.
The solution reflected the President's compromise between competing domestic and international pressures. Labor's interests had become an important domestic constraint, particularly since President Carter had courted the labor vote during the recent election. Labor's presence alongside the AFIA suggested that his decision in the 1977 nonrubber footwear case would be seen as a gauge of his follow-through on pre-election commitments, and Carter was aware of this not-so-subtle domestic constraint. In his *Message to the Congress Transmitting a Report*, the President directed the "Secretaries of Commerce and Labor...to ensure effective use of the resources available under existing law for the benefit of the shoe industry and the communities in which shoe plants are located." When talking with reporters two weeks after his decision, Carter effectively signaled Labor that he had addressed their concerns: "To the extent that we can follow my own campaign commitment in this respect, voluntary constraints, first of all with our country putting pressure on them... And, of course, we are moving...to help revitalize the industry because in the long run you cannot benefit from having very old and outmoded manufacturing plants competing, with artificial protection, with the more modernized and more productive plants. Of course, the difference in labor costs -- we try to accommodate for that."

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56 Ibid., p.552.

57 April 16, 1977; from Ibid., p.644.
The speed with which the Senate Finance Committee had brought about this new petition, so close on the heels of the disappointing decision under the Ford Administration, was evidence enough of the strength of congressional preferences. Yoffie (1983a) says that "this time, Congress, labor, and the industry would not be easily placated.... By April, Congress was ready for a fight."^58

International pressures were in evidence as well. Providing global protection for the footwear industry risked retaliation by other countries in other industries. As in the footwear escape clause cases in both the Nixon and Ford Administrations, the National Security Council staff and the State Department weighed in against protection, arguing that import relief would jeopardize larger national interests in international relations and foreign policy. National Security Adviser Brzezinski warned that European countries, especially Italy, Britain, and France, saw shoes as a "test case", and import relief could negatively affect Carter's initiatives at the upcoming London Economic Summit. Further, he argued that restraints would raise doubts about the Administration's frequently articulated goal of helping economically struggling developing countries. Too, the Tokyo Round negotiations of the GATT had stalled, and many officials in the Administration viewed it as an international role of the US to restart the process toward progress in further reducing

^58 p.338.


^60 Ibid. On the importance that the Carter Administration placed on efforts to aid the developing world, see various years of The Economic Report of the President, and various dates of The Public Papers of the President.
protectionist policies in the international trading system. The State Department argued that the potential damage to the "North-South dialogue" caused by any new restraints would "encourage radical LDC polemic", and that Spain and Greece, "countries whose friendship and economic health are of importance to us," had declared that footwear exports were "vital" to our "bilateral relationship".

Trade adjustment assistance (TAA) had been the dominant policy tool used by presidents over the prior fifteen years in their decisions in affirmative ITC escape clause petitions because, theoretically, it represented a way to address domestic and international pressures simultaneously. By providing concessions and income, TAA was supposed to facilitate domestic adjustment by enabling firms to modernize and workers to re-train to compete effectively in a more international environment. At the same time, TAA was consistent with an open international trading regime in that it did nothing to restrict trade.

The footwear industry and, now, Congress considered TAA an anemic, ineffective instrument that had failed to correct the import problems of the industry in the past. Whereas TAA operated under the assumption that adjustment could take place alongside an increase in competitive conditions, the industry had become insistent that any new remedy must provide import restraints first before measures

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63 Cohen and Meltzer (1982).
to facilitate adjustment would succeed. With domestic market penetration at 49 percent and rising, trade adjustment assistance alone would not be a sufficient governmental response now that the footwear industry had mobilized congressional interest in its case.

In fact, five options were considered within the Administration in the initial stages of development of a response: voluntary export restraints (VERs), tariff-rate quotas, Orderly Marketing Agreements, quantitative restrictions, and trade adjustment assistance. When the various departments and agencies reported to President Carter, the options had been reduced to two: The State Department, Treasury, the Council of Economic Advisers, Commerce, and Agriculture supported the ITC's recommendation for a tariff-rate quota, while Carter's Economic Policy Group argued for no relief. According to Yoffie (1983a), Carter dismissed both alternatives when Stuart Eizenstadt suggested that an Orderly Marketing Agreement with the major suppliers would provide a compromise and "avoid the otherwise inevitable conflict with Congress." Only the President and the Office of the Special Trade Representative approved of the OMAs. While the State Department felt that voluntary export restraints (VERs) would better serve foreign policy interests than

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64 Ibid.


67 Ibid. The Economic Policy Group was composed of the Vice-President, five Cabinet Secretaries, and the heads of five units within the executive branch.

68 Ibid.
would OMAs if some type of non-tariff restraint were to be implemented, the Labor Department felt that neither OMAs nor VERs would be effective.\(^69\)

The footwear industry felt that OMAs were not an optimal outcome, but they accepted the remedy; consultants advised that this was probably the best outcome that the industry could get at this point.\(^70\) The footwear industry remained skeptical that the "revitalization plan" component of the outcome would amount to much more than adjustment assistance had in the past. As noted above, the industry felt that it could not "revitalize" or adjust until the increase in imports was arrested or, preferably, rolled back to earlier levels.\(^71\) The industry was reassured, however, that the two countries contributing the most to recent increases in nonrubber footwear imports\(^72\) were targeted by the OMAs, and non-targeted supplying countries would be "capped" at existing levels of their imports.\(^73\)

Frequently, discussions about the presidential decision in the 1977 nonrubber footwear case focus only on the OMAs with Taiwan and Korea, and the trade outcome is considered a "protectionist" practice. Two points are worth noting here.

\(^{69}\) Ibid. \\
\(^{70}\) Ibid. \\
\(^{71}\) Cohen and Meltzer (1982), p.100. \\
\(^{72}\) Korea and Taiwan accounted for close to 100 percent of the increase in nonrubber footwear imports since 1974. See Eckes (1995), Cohen and Meltzer (1982), and Yoffie (1983a, 1983b). \\
\(^{73}\) The footwear industry alleged that STR Strauss had promised to enforce "caps" on countries not targeted by the OMA. See also Cohen and Meltzer (1982), Eckes 1995), and Milner (1986). Strauss later told the industry "that he had no authority to make such a promise, and that although he 'may have made the statement', it was 'unrealistic' for them to expect such a policy." (Yoffie, 1983a, p.340). Nonetheless, President Carter explicitly included these caps in his decision, and delegated authority to the STR over the life of the OMA to enforce the caps on non-targeted supplying countries. Strauss chose not to exercise this authority. See Paragraphs 3, 4, and 5 of Presidential Proclamation 4510, June 22, 1977.
First, even if the OMAs had been the only aspect of the policy implementation, it was far less restrictive than the remedy recommended by the ITC. The OMAs with Taiwan and Korea were "leaky" treaties. With the late starting dates, first-year concessions of 27 percent, US concessions on rollback, exclusion of other types of footwear, ineffective sanctions, and shorter duration of the treaty, the Koreans, for example, were able to export to the US 58 million pairs of their 60 million pair export capacity in the first year of the OMA. Dichotomizing the dependent variable, trade outcomes, as either free or protectionist practices would not provide leeway for the distinction between this outcome and, for instance, more restrictive and costly across-the-board tariff increases or quota reductions. For the purposes of understanding US trade policy implementation, it simply is analytically misleading to categorize OMAs under the same rubric as global protection.

Second, while the OMA component of Carter's decision leads observers to conclude that the outcome was protectionist, given that "free" trade is the only alternative category in existing frameworks, the central component of the outcome, and the one to which the government devoted the most resources, was the revitalization program. The Footwear Industry Revitalization Program (FIRP) was unquestionably a strategic trade measure. Its centrality to the Administration's concept of remedy for the industry is evidence that the thrust of the decision was neither to protect the industry nor to restrict trade; rather, the trade outcome

75 Yoffie (1983a), p.344. When rubber footwear is considered as well, footwear imports had increased from 49 percent of the domestic market in 1976 to 55 percent in 1979.
reflected the Administration's efforts to minimize disruption to the international system while, at the same time, maximize opportunities for the domestic industry to become competitive within the international system.

While the OMAs had been a political response to stem the pressures on the Administration from Congress and special interests, the FIRP was developed as an economic response to remedy the larger, more fundamental problem of uncompetitiveness that had plagued the industry since the Kennedy Round had exposed the industry to international competition. The footwear industry and Congress viewed imports as the most important "cause" of the problem. The Administration, on the other hand, sought to re-evaluate trade policy with respect to footwear, and develop greater coherence with respect to government intervention.

In fact, Cohen and Meltzer (1982) contend that the Administration saw the decision as an opportunity to "establish new ground in dealing with import relief and industry assistance matters." Further, the authors say that "the footwear program was grounded in major US trade objectives and emerging notions of US industrial policy.

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76 Yoffie (1983a, 1983b) argues that the OMAs were a political response to international pressures as well. He says that the built-in flexibility and ambiguity reduced the impact of the treaties so that Taiwan and Korea "could maintain and in some cases increase their share of the US shoe supply." (316). In short, there were sufficient loopholes in the treaties such that Taiwan, Korea, and non-restrained suppliers did not complain.


79 p.91.
Attempting to address long-standing problems of competitive adjustment and import relief, this initiative carried implications extending well beyond the particular target.\textsuperscript{80}

Officials in the Carter Administration who were involved in the development of a new program believed they had been charged with creating "something innovative and different", with a focus on measurable domestic industry restructuring and revitalization.\textsuperscript{81} Sidney Harmon, a major architect of the program, said that "the government's role would be a new one: to serve as temporary facilitator of industry reconstruction and growth."\textsuperscript{82}

The strategic nature of the FIRP was evident in its major program components. First, trade adjustment assistance (TAA) was reshaped to provide for more accessibility by firms and workers, and to increase the use of consultants to tailor technical assistance to firm-specific needs. During the three-year integrated program, more than 150 projects were undertaken, and three times the number of footwear firms had been certified to receive TAA than in all of the fifteen years of TAA that had preceded it.\textsuperscript{83} Over $56 million in loans and loan guarantees were granted through the program.\textsuperscript{84}

A second component of the program involved marketing improvement programs. The government conducted marketing seminars, where retailers and customers...
footwear manufacturers could network. More important, this gave producers the opportunity to hear from retailers about consumer preferences and the shape of market demand. Further, the government developed export promotion programs for domestic manufacturers. According to Cohen and Meltzer (1982), US foreign sales soared over the first three years of the program, going from 5.4 million pairs at a value of $35.2 million in 1977, to 13 million pairs at a value of $112 million by 1980.\textsuperscript{85}

The third major component of the FIRP had to do with the government's emphasis on technology development and use. The government created the American Shoe Center (ASC) to provide ongoing training, product testing, and to promote adoption of new technologies.\textsuperscript{86} In addition, the FIRP facilitated technology development and utilization projects to increase domestic competitiveness, identifying areas where existing technology could be transferred to the footwear industry and uncovering other areas in the industry where the potential for gains from new technology existed.\textsuperscript{87}

In summary, President Carter rejected the ITC's protectionist remedy recommendation in the 1977 nonrubber footwear case. The remedy adopted had two components in order to address two respective issues. First, the fair trade measure, OMAs negotiated with Korea and Taiwan, was meant to "politically satisfy

\textsuperscript{85} p.104.

\textsuperscript{86} Ibid. In 1982, after the trade measure had expired, the ASC merged with the industry's representative, the American Footwear Industry Association (AFIA), and the new entity was called the Footwear Industry Association (FIA). See USITC Publication #1717.

\textsuperscript{87} Cohen and Meltzer (1982).
the industry and Congress.®® The measure was temporary, ineffective due to poor
construction, and lacked the credibility and enforcement that a more committed
Administration would have provided. However, the OMAs were effective in quelling
the demands of special interests and, hence, they relieved the Administration of
pressures from Congress without sacrificing the President's objectives of minimizing
disruption to the international trading system®®.

The second component to the trade practice that was adopted, the FIIRP, was
a strategic measure that was the practical centerpiece of the Administration's
remedy. President Carter viewed footwear industry problems as fundamentally a
result of uncompetitiveness, and government intervention to restructure and
revitalize the domestic industry constituted the greater portion of his decision, and
by far accounted for the greater share of government efforts and resources devoted
to the decision's implementation.

This project's model can be used to explain why the internationally-oriented
President Carter chose a remedy that included a more restrictive trade measure (the
OMAs) along with the strategic practice (the FIIRP) predicted by the model. Recall
that this study hypothesizes that an internationally-oriented president chooses either
a free or strategic trade outcome. Chapter 3 argued that this is because free and

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®® Economists would consider this outcome suboptimal on economic efficiency grounds. However, in terms of the "international political economy" as understood by Cohen, where neither politics nor economics alone provide a sufficient gauge for assessing optimality, the OMAs in this case might be argued to be a fairly efficient policy alternative. See S.D. Cohen (1994), The Making of United States International Economic Policy: Principles, Problems, and Proposals for Reform, Westport, CT: Praeger Publishers. A similar, less-detailed point is made in J. Bhagwati (1993 [1988]), Protectionism, Cambridge, MA: The MIT Press.

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strategic trade practices are consistent with neoclassical economic theory, they are positive responses to an open international trading system, they respond more to macro- rather than to microeconomic objectives and methods, and because economic criteria carries greater weight than political criteria in the formulation of the trade practice. This project posits that an internationally-oriented president sees domestic interests as contingent on international interests, and that these four characteristics of strategic trade measures are consistent with this type of orientation.\(^{50}\)

To the extent that President Carter’s justification for his decision in this case deviates from these characteristics, we can expect deviation from the model’s predicted outcome. Indeed, this project’s research design is such that it would be reasonable to expect that the deviation from these characteristics would provide an explanation for the unanticipated OMA component of the final decision. On the other hand, if President Carter’s justifications closely adhered to these characteristics and, nonetheless, he chose the OMAs as a component of the final decision, then the model is not a useful framework for anticipating trade outcomes.

The various memoranda, official pronouncements, directives to government agencies and departments, and so forth conveying Carter’s decision in the 1977 nonrubber footwear case provide additional evidence that the President was internationally-oriented, and that the fair trade component of the final decision, the OMAs, was a reluctant departure from a preferred remedy. Carter strongly

\(^{50}\) See Chapter 3 for elaboration.
supported an open international trading system. Further, he largely was concerned about inter-industry as well as industry-consumer economic burden-sharing issues within the national economy, demonstrating macro- rather than microeconomic objectives. Third and perhaps most important, the President's view, that the industry's uncompetitiveness within an international environment was a more important problem to be confronted than was the increasing level of imports, was the basis for a remedy that was more heavily weighted toward domestic economic adjustment rather than toward satisfaction of domestic political demands at the expense of international relations. Thus, Carter's justifications for his final decision closely adhered to three of the characteristics of a strategic trade measure. However, Carter was less committed to the prescriptions of neoclassical economic trade theory. The "costs" from temporary departure would be recuperated by a revitalized, more competitive industry; that is, Carter ignored the industry's lack of comparative advantage with respect to wages and unskilled labor. The following provides evidence to support the foregoing assessment.

President Carter's international orientation was demonstrated alongside his concern about the ramifications of his decision for both the national economy and the political position of the US in the international system. He argued that larger US economic and political interests were better served by choosing policies that took account of the interests of the international trading system. For Carter, these US interests included jobs, domestic inflation, and historic US leadership in an open international system. In his Statement on Administration Actions, the President said, "I am very reluctant to restrict international trade in any way. For 40 years, the
United States has worked for the reduction of trade barriers around the world, and we are continuing to pursue this goal because this is the surest long-range way to create jobs here and abroad. Further, "I have decided to reject the restrictive tariff rate quota recommended by the International Trade Commission because that recommendation did not fairly balance our concerns for domestic jobs and production, inflationary pressures, and expanded world trade." Carter conveyed six "reasons" for his remedy decision in the Message to the Congress Transmitting a Report, and five of these illustrate his concern over the larger national economic interest as well as the political implications of his decision for the US in the international system.

I have determined that the import relief recommended by the Commission does not represent an appropriate balance among the industry, labor, consumer, and international interests involved:

1) The remedy would be highly inflationary and add substantially to consumer costs, particularly those of low and middle income purchasers of footwear.

2) The consumer cost per job would be excessive under the Commission remedy.

3) Imposition of a remedy as restrictive as that of the USITC would weaken US leadership in international efforts to reduce trade barriers and would make it more difficult for other governments to deny increased protection to their industries that face increased import competition.

4) The Commission's allocation of its tariff rate quota...would be particularly burdensome on developing countries.

5) ...Retaliation is normally avoided by granting compensatory US tariff cuts on products of trade interest to the countries affected. But

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91 April 1, 1977.

92 April 1, 1977.

93 Carter's sixth "reason" was that he felt that the 5-year "breathing spell" provided by the ITC in its remedy recommendation was unnecessarily long.
this means that other domestic industries and workers would pay a large bill for the high level of relief given to the shoe industry.

Carter's considerations in coming to his decision were repeated throughout the documents that implemented the trade measures. In the Memorandum for the Special Representative for Trade Negotiations, he directed the STR: "In seeking these agreements you should remain mindful of the interests of American consumers and the difficult economic problems faced by a number of our trading partners, in particular the developing country suppliers with serious balance of payments deficits." Further, the Executive Office defended the remedy as a measure that would preempt resort to protectionist types of outcomes. In the Announcement of Signing of an Orderly Marketing Agreement⁹⁴, STR Strauss said:

Any agreement such as the one we have just concluded...represents a temporary trade restriction which the President has said he is very reluctant to take. These [Orderly Marketing] Agreements are not the ideal long-term solutions to our trade problems.... [The agreements are] a useful, effective, and acceptable way of giving one of our basic domestic industries a reasonable temporary period in which to adjust to severe, sudden, short-term market disruptions, and to become more competitive.... As such, it comes to grips with an immediate economic problem, which if allowed to continue to fester, could cause injury to our workers and industry to reach such proportions as to fuel the fever of protectionism. In this total context, we have just administered an emergency antiprotectionist prescription.⁹⁵

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⁹⁴ April 14, 1977.
⁹⁵ Emphasis added.
The STR also made a point to note that he did not anticipate any "significant inflationary impact nor adverse effect upon consumers" in the implementation of the remedy.\textsuperscript{96}

While answering reporters' questions on April 16, 1977, President Carter was clear that he had taken into consideration the interdependency between domestic and international interests: "One of the major issues that I have to resolve is the correlation of permitting international trade to continue without creating tariff warfare, which is very helpful to our own economy [sic], our exports, and also the prices that consumers pay on the one hand, and restricting unwarranted imports from other countries."\textsuperscript{97}

As noted earlier, section 201 of the Trade Act of 1974 stipulated that a president could reject an ITC recommendation only on grounds of national interest. The foregoing, then, is at least the way in which Carter wanted his sense of national interest to be publicly represented. That is, for Carter, the idea of national interest that superceded industry-specific interests and demands and risked Congressional rancor included concerns about jobs "here and abroad", product-specific consumer costs as well as general levels of domestic inflation, the US image and its ability to lead internationally, and adverse effects on developing countries. In summary, President Carter's decision was justified in economic terms, and it reflected his...

\textsuperscript{96} Announcement of Signing of an Orderly Marketing Agreement, June 14, 1977.

\textsuperscript{97} Public Papers of the Presidents of the United States: Jimmy Carter, 1977, p.644.
concern for macroeconomic objectives and the consistency between US policy measures and international interests.

There is evidence to support this project's argument that President Carter viewed the Administration's remedy as largely a strategic trade measure, one which facilitated competitive advantage\(^\text{98}\) for the longer-term benefit of both the industry and the national economy. In the *Statement on Administration Actions*, he said, "Over the long haul, the solution to difficulties in the shoe industry lies not in the restriction of imports but elsewhere -- in innovation and modernization of our own production facilities and the financing to make these possible." In order to achieve this "solution", he called on the Congress to support through legislation the outlines of what would become the FIRP: "technological aid to increase production efficiency and develop new production methods; data and market research to pinpoint new marketing opportunities; assistance for affected communities and workers; help with promotion and marketing services; and financial assistance to support these initiatives."\(^\text{99}\) The strategic nature of the FIRP component of the remedy was conveyed to policymakers charged with developing the industry revitalization program: "The goals of the program [the FIRP] are threefold: to help the industry become more competitive; to support the industry in the development of business opportunities; and to provide jobs for affected workers.... Government can encourage the revitalization of trade-impacted industries through technological


\(^{99}\) *Statement on Administration Actions*, April 1, 1977.
support and guidance, data and market research, and marketing and promotion services.**100**

While the foregoing provides compelling evidence that this internationally-oriented president's justifications were largely consistent with the characteristics of a strategic remedy, it does not explain the "fair trade" component of the trade outcome, the OMAs with Taiwan and Korea. In order for this project's model to account for the OMAs, an internationally-oriented president would have to deviate from the characteristics that link the orientation to the trade outcome. In the nonrubber footwear case of 1977, President Carter did so when he reluctantly departed from the tenets of neoclassical trade theory in order to deflect industry demands and, hence, temper Congressional pressure.

As argued in Chapter 4 above, President Carter was committed to a liberal international trading system, generally subscribing to the idea that comparative advantage was an efficient and equitable strategy for maximizing the gains from trade. Nonetheless, there were two conditions under which he appeared to depart from this commitment. First, Carter justified intervention when he perceived other countries to be yielding to domestic protectionist pressure. Second, Carter saw temporary intervention as a reasonable digression when the international trading environment changed too rapidly for domestic adjustment, causing severe dislocation and hardship. This second condition was particularly salient for the President in the 1977 nonrubber footwear case.

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100 Memorandum for the Heads of Certain Departments and Agencies, April 1, 1977.
In the *Statement on Administration Actions*, Carter noted a 40 percent decline since 1968 in the number of firms in the shoe industry, and a loss of 70,000 jobs. Further, he pointed out that the two largest foreign suppliers had increased their exports of footwear to the US by over 100 percent during the prior two years, and that imports from these countries "seem to be increasing even more rapidly in recent months." It was for this reason that the President directed the STR to "make the necessary agreements with the appropriate foreign exporting countries to moderate the problems caused to our industry by rapid shifts in trade."\(^\text{101}\)

Carter was aware of the fact that the OMAs were at odds with his Administration's strongly-worded positions supporting an open international trading system, and he attempted to excuse the digression with the assurance that the treaties were temporary, 'voluntary', and targeted rather than global. When answering reporters' questions on April 16, he stated, "The two primary countries that I think have increased their imports to our Nation too much have been Korea and Taiwan.... I believe that when we come out with a mutually acceptable agreement, with as much of it being voluntary as possible, that it will be a reasonable approach."\(^\text{102}\) When talking with reporters on April 30, he said, "My general inclination, though, is to not erect trade barriers. I think in many instances, we've been successful on a bilateral basis in getting voluntary agreements on constraint [sic]."\(^\text{103}\) STR Strauss

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\(^\text{101}\) *Message to the Congress Transmitting a Report*, April 1, 1977.

\(^\text{102}\) *Public Papers of the Presidents of the United States: Jimmy Carter*, 1977, p.644.

\(^\text{103}\) *Ibid.*, p.755. It is interesting to note here that Carter did not view OMAs as trade barriers, although the IPE literature considers them as such. This distinction made by Carter lends support (continued...)

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highlighted these points in the *Announcement of Signing of an Orderly Marketing Agreement* on June 14. He praised the governments of Taiwan and Korea for their "cooperative statesmanship" in developing "fair and equitable negotiated solutions" to the problems being experienced by the US footwear industry. Further, he said that "any agreement such as the one we have just concluded represents a temporary trade restriction which the President has said he is very reluctant to take. These [Orderly Marketing] Agreements are not the ideal long-term solutions to our trade problems."\(^{104}\)

In summary, President Carter's decision in the 1977 nonrubber footwear case resulted in a largely strategic trade measure, an outcome that has been argued to be the result of Carter's international orientation. On the other hand, the OMA component of the implementation, a fair trade measure, was the result of the President's conditional faithfulness to liberalization; that is, to the extent that there were exception conditions to the orientation, Carter deviated from the outcome predicted by this project's model. Hence, the 1977 nonrubber footwear case provides evidence that the model is a useful framework for understanding trade outcomes for internationally-oriented presidents.

The next section provides a case study of the president's decision in the nonrubber footwear escape clause petition in 1985 in order to test the hypotheses

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\(^{103}\) (...continued)

to one of the fundamental arguments being made in this study -- that policymakers recognize more than the free vs. protectionist dichotomy widely assumed to exist by trade policy observers.

that nationally-oriented presidents will choose either fair or protected trade measures.

The 1985 Footwear Case

In the 1985 nonrubber footwear case, three ITC Commissioners determined that increasing footwear imports were a substantial cause of serious injury to the domestic industry, and two Commissioners determined that imports were a substantial cause of threat of serious injury to the domestic industry, a unanimous affirmative determination of injury or threat of injury. Four Commissioners issued the ITC's remedy recommendation of five-year declining quotas to be allocated via a system of auctioned import licenses. Among the criteria used by the Commission in coming to its determination and remedy recommendation were: relative and absolute increases in the volume of imported footwear, value of imported shoes deflated by the Producer Price Index, ratio of imports to domestic production and to domestic consumption, productivity of the domestic industry, production levels of the domestic industry, employment and unemployment in the industry, capacity utilization, composition of the mix of footwear imports compared to the composition of domestic production, profitability overall in the domestic industry.

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106 Only five ITC Commissioners participated in the 1985 nonrubber footwear case.

107 One Commissioner, while finding threat of serious injury, felt that there was no action available to Commissioners that would remedy the problems faced by the footwear industry, and recommended only trade adjustment assistance. See Remedy Views of Commissioner Liebeler in USITC Publication #1717, (pp. 172 & ff.).
industry, profitability in the domestic industry by firm size and by type of footwear produced, and the cost to the domestic economy of alternative remedies available to the Commission by statute.

In coming to their decisions, each Commissioner spent time explaining the reversal of their determinations from the previous year. However, they enumerated their reservations about providing remedy in the present case. Commissioners conveyed concern that, in many ways, the industry's problems were either beyond the industry's control or were self-inflicted, and that these types of problems were irremedial. Commissioners generally recognized that the US footwear industry had lost its comparative advantage in the production of shoes. They noted that wages in supplying countries were still substantially lower than in the US, with a Taiwanese producer, for instance, paying less than one-fourth the hourly wage of its US counterpart. Further, various Commissioners noted that some of the causes of increased imports—technology transfers abroad, reduced transactions costs (e.g., in communications and transportation), the high value of the US dollar, relatively low capital requirements—had increased ease of market entry by foreign suppliers, but were conditions that would continue to erode the domestic industry after any temporary remedy provided by the Commission had expired. In short, several of

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108 Less than a year before, in response to a 1984 Section 201 petition from the footwear industry, the ITC had issued a unanimous negative finding of injury or threat of injury from imports. See Case #TA-201-50, USITC Publication #1545.

109 Recall that, by statute, Section 201 permits only temporary escape from international obligations.
the Commissioners were doubtful that the footwear industry could recover during a period of temporary relief from imports.

Commissioners also suggested that the structure of the domestic industry and bad decisions from the past were sources of its current difficulties. Large firms competed with smaller firms domestically, reflecting consolidation of the domestic industry. Hence, some loss of productive capacity, plant closings, and unemployment was to be expected. Too, the decision by domestic producers not to respond to shifts in consumer tastes by generally ignoring increasingly prosperous lines was recognized by Commissioners as contributing to the difficulties being experienced by producers. One Commissioner noted Congress' intention in this regard: "The escape clause is not intended to protect industries which fail to help themselves...."

Commissioners also took issue with petitioners' projection of the amount the industry would have to invest in order to become competitive, since the ITC's survey and research indicated that individual firms actually intended to spend only 1/7 as much. Petitioners' credibility was further questioned with their projections about employment. Petitioners had noted the increased employment in the industry

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111 Some Commissioners also noted that US producers themselves contributed to increased imports by expanding their own importing segments of their businesses. However, this point apparently was not determinative since it was not pursued in the Report to the President and no data in this regard were provided in the report's appendix.

that could be expected if given "breathing space", but neglected to inform the Commission that an even larger number would become unemployed when any import restrictions expired: Fewer workers would be needed regardless of whether or not the industry improved productivity levels.\textsuperscript{113}

One of the issues of greatest concern to Commissioners in making their determination was the degree to which reduced domestic consumption during the previous year had contributed to reduced sales and profitability of domestic producers.\textsuperscript{114} ITC staff research and the results of a statistical shift-share analysis\textsuperscript{115} produced evidence that imports accounted for forty percent of the decline in the industry's performance, while sixty percent of the decline was attributed to reduced domestic consumption of footwear.\textsuperscript{116} In other words, declining domestic consumption was a greater cause of industry injury than was the level of imports. Nonetheless,

\textsuperscript{113} Commissioner Liebeler's exasperation with petitioners was evident. She referred back to the 1976 and 1977 nonrubber footwear cases, noting that the "same law firm" for the "same industry" was making the "same plea" for temporary relief for a third time, "once again arguing that during the period of import relief they will modernize their plants and equipment and increase productivity." Liebeler said, "This industry has had ample time and opportunity to adjust to freer international competition." See USITC Publication #1717, p.176 & ff.

\textsuperscript{114} In fact, this issue constituted an important part of the respondents' case: that decline in domestic demand during 1984 was a more important cause of injury than was an increase in imports. The respondents in the 1985 nonrubber footwear case included The Footwear Retailers of America (FRA), Volume Shoe Corporation, National Shoe Retailers Association, The American Association of Exporters and Importers (AAEI), Nike, Adidas, Puma, the European Confederation of Footwear Industries (CEC), two associations of Brazilian footwear exporters, the Taiwan Footwear Manufacturers Association, Aris Isotoner, Inc., Mexico's National Footwear Chamber of Commerce, and the Korean Footwear Exporters Association (KFEA). See Brief in Opposition to a Remedy Imposing Import Restrictions, May 28, 1985.

\textsuperscript{115} Commissioner Liebeler departed from her colleagues. She rejected the shift-share analysis since it bifurcated cause. Instead, she modelled the demand and supply curves of the industry and, based on these models, determined that increased imports were a substantial cause of threat of serious injury to the domestic industry.

\textsuperscript{116} Commissioners noted that reduced consumption in the US explained a decline in footwear imports as well.
less, the Commissioners referred to two different sources to justify their decision not to use this information as determinative. First, from Section 201\textsuperscript{117}: "[The] presence or absence of any factor which the Commission is required to evaluate...shall not necessarily be dispositive...." Second, Commissioners referred to S.Rep. 1298, 93rd Congress, 2d Session 120-121:

The Committee recognizes that "weighing" causes in a dynamic economy is not always possible. It is not intended that a mathematical test be applied by the Commission. The Commissioners will have to assure themselves that imports represent a substantial cause or threat of injury, and not just one of a multitude of equal causes or threats of injury....

These objections and reservations mentioned by the Commissioners are useful because they were included in the Commission's report to President Reagan, and constituted an important source of information for the Administration.\textsuperscript{118}

President Reagan could have opted for any of four courses of action once he decided to change the remedy recommendation of the Commission. According to the model developed in chapter 3 above, he might have chosen a protectionist response; that is, for instance, he might have increased or decreased the level of quotas recommended by the ITC, or he could have imposed tariffs. Fair trade measures were an option as well. Reagan could have negotiated orderly marketing

\textsuperscript{117} 19 USC 2251 (b)(2)(D).

\textsuperscript{118} Eckes was a participating Commissioner in this case, and in his 1995 book (op.cit.), he says that Reagan's 1984 appointment of Commissioner Liebeler was largely ideological. He suggests that the President's decision in this case could have been presaged by observing Liebeler's determination and views on remedy. See his page 254.
arrangements (OMAs) or other types of "voluntary" trade restrictive measures. A strategic trade practice would have resulted had Reagan decided to implement some type of program that granted concessions to the domestic industry, provided subsidies, or in some other way promoted domestic modernization and competitiveness. Finally, the President could have chosen a free trade implementation, refusing any government involvement in the footwear industry.

The model predicts that a nationally-oriented president would opt for a "fair" or "protectionist" trade practice. However, the nationally-oriented President Reagan decided to implement a free trade measure, and chose not to restrain imports under fair trade laws. Nonetheless, in apparent recognition of the disadvantages caused by the unfavorable domestic economic conditions as well as extraordinarily strong congressional political pressure, he did instruct Special Trade Representative (STR) Yeutter to begin investigations into any unfair trade practices of foreign competitors.

This outcome presents a problem for the model proposed in this project. Either the model is not a useful framework for anticipating trade outcomes, or it misses or in some other way inadequately represents a variable(s) that affects trade outcomes for the universe of cases considered here. Too, as was the conclusion in the case study above, the President may have deviated from the characteristics posited to link the assessed orientation to the expected outcome. To the extent that the President might have deviated from these characteristics, we could expect deviation from the outcome predicted by the model. The following discussion begins by revisiting the orientation assessment of President Reagan, and proceeds with a more in-depth examination of the context of President's decision.
Recall from Chapter 4 above that, in the third year of Reagan's first term in office, the evidence from the Economic Report of the President (ERP) was inconclusive for demonstrating either a national or international orientation. By the final year of his first term, the evidence suggested that Reagan was more nationally- than internationally-oriented. All four ERPs from his second term in office, however, fairly strongly support a national-orientation assessment given the criteria used in this project to evaluate an orientation.\textsuperscript{119}

The immediate context of the decision in the 1985 nonrubber footwear escape clause petition is puzzling in this regard: President Reagan demonstrated characteristics of both orientations. For instance, in the official pronouncement of his decision\textsuperscript{120}, a nationally-oriented belief in the superior status of the US in terms of its global leadership role was demonstrated: "The United States can set an example to other countries. We must live according to our principles and continue to promote our prosperity and the prosperity of our trading partners by ensuring that the world trading system remains open, free, and above all fair." On the other hand, evidence of an international orientation is evident in the same document: "Our economy is truly interwoven with those of our trading partners. If we cut the threads that hold us together, we injure ourselves as well." However, in the larger context

\textsuperscript{119} See Chapter 3 above for the criteria for evaluating an orientation. In Chapter 4, the national orientation assessment for Reagan's second term was based on "substantial reference to US leadership and dominance in the international political economy, the US role in the international arena is seen as one of almost singular responsibility for shaping a system that improves the welfare of all states, and US goals and practices internationally can be characterized as efforts to effect changes in the international system in order to improve domestic conditions."


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of the national political economy, Reagan’s strategy reinforces the national orientation assessment. In other words, while there is low degree of confidence in the President’s national orientation assessment in the 1985 footwear case, there is a good deal of evidence supporting a national orientation assessment for Reagan on the larger issue of his second Administration’s overall policy position on trade.

A comparison with the case study above helps to make this point. There were several similarities in the conditions surrounding the 1977 nonrubber footwear case during the Carter Administration, and those surrounding the 1985 case during the second Reagan Administration. Both were cases that had been reopened less than a year after a previous ITC decision at the request of the Senate Committee on Finance on behalf of the footwear industry. Both occurred during a period of domestic inflation and increasing trade and budget deficits, provoking vocal responses from a Congress pressured by import-competing constituents. The differences in responses between the two presidents, however, can reasonably be attributed to the differences in their orientations. On the larger issue of these problems in the domestic economy, the internationally-oriented Carter sought to coordinate policies with other states such that the US would restrain demand while other countries were urged to stimulate domestic demand. In other words, the Carter Administration saw the situation as a macroeconomic problem, the resolution

121 Indeed, in the face of protectionist pressures from businesses and threats of protectionist legislation from Congress due to the high value of the dollar, President Reagan demonstrated his national orientation when he said in February, 1985, that the "main problem is not the strength of the dollar; it’s the weakness of foreign currencies." Cited in Cohen (1994), p.231.

122 See discussions in the relevant ERPs during the Carter Administration.
of which required macroeconomic methods and international policy coordination\textsuperscript{123} -- an effective "global issue".

On the other hand, recall from Chapter 4 above that Reagan chose growth-oriented policies to resolve these problems:

Reagan's focus on further progress in opening the international trading system was a response to domestic conditions.... This meant he would attempt to improve the relative growth in productivity to exceed the rate of increase in demand. An important component for this strategy to work was to have external markets for the increased productivity and, therefore, his second Administration focused on opening markets for US goods in the international system. In fact, opening markets in the international system and reducing unfair trade practices was a dominant goal.... In other words, the second Reagan Administration attempted to modify international practices in order to improve domestic economic conditions.

In his second term, Reagan sought to shape the international system in a way that would permit him to use it as an outlet for what he hoped would eventually be a situation of domestic overproduction. The strategy reflected his apparent concern over declining domestic economic conditions (due to the existing condition of an excess of demand over production)\textsuperscript{124} that challenged the credibility of his persistent

\textsuperscript{123} The term, "coordination", is used here conceptually in a way similar to that introduced by Stein. The international systems of trade and capital flows may be understood as regimes for dealing with the dilemma of common aversions, where actors share agreement only on the nature of the least preferred outcome. In these cases, there are multiple equilibria, and there is disagreement about which is the preferred equilibrium. These types of regimes exist to facilitate the convergence of actors' expectations so that actions can be coordinated (as opposed to the collaboration necessary to reach the single equilibrium in regimes which have been created to solve the dilemma of common interests). See A.A. Stein (1983), "Coordination and collaboration: Regimes in an anarchic world", in S.D. Krasner (ed.), \textit{International Regimes}, Ithaca, NY: Cornell University Press (115-140).

\textsuperscript{124} Cohen (1994, p.231) points out that, in this same regard, the Reagan Administration also called for federal spending cuts in order to reduce the budget deficit, thereby reducing US reliance (continued...)
claims of a superior US system and global leadership. That is, Reagan didn't attempt to coordinate the policies of other states in the international system; rather, he chose a domestic policy for responding to domestic conditions without consulting other states, and intended to impose this policy on other states with apparently little or no concern about the potential effects on the international trading system. One can reasonably argue that Reagan's efforts were those of a nationally-oriented president; that is, one who put domestic interests above international interests.

Reagan was a "free-trader", adamantly anti-protectionist in principle. However, by his second term in office, the costs of maintaining the free-trade principle were beginning to undermine the domestic economic system that Reagan had held up as a model for other states to emulate. The United States, with the largest markets in the world, had recovered relatively quickly from the global recession of the early 1980s while other states continued to struggle. Foreign investment continued to flow into the US, increasing the value of the dollar to the extent that foreign competitors were realizing a cost advantage by as much as 30 to 40 percent. Between 1980 and 1985, imports had increased by 50% to an average annual rate of 6%, while the average annual rate of US exports had fallen

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124 (...continued)
on imported capital and goods to satisfy excess demand.


from the previously meager rate of 2% to an even worse rate of 0.6%. The result was a US trade account, approximately in equilibrium as recently as 1980, with a deficit of $120 billion in 1985.

Around 1984, the Administration's free trade stance began to include calls for "fair" and "equitable" trade in the international system. President Reagan increasingly resolved "unfair" trade practices through the use of "voluntary" negotiated restraints on imports, "remaining a free trader in principle" while "protecting his political flanks in practice." Nivola says that Reagan justified "the evolution of his hands-on commercial agenda largely in terms of aid to the 'victims of unfair trade'. Since 'victims' existed, and unfair trade was not a phony issue, such a formulation could claim moral authority." Although it was still politically unpopular in both the Administration and Congress to call for overtly protectionist practices, penalizing "unfair" trade created the conditions for bipartisan trade politics. As a consequence, the "Reagan Administration trumpeted the president's free trade instincts, but high officials simultaneously commended him for

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128 Ibid. At the time of the 1985 footwear case, predictions were that the trade deficit would approach $150 billion by the end of the year. See The New York Times, August 29, 1985.


130 Destler (1995), p.179. Nivola (1993) provides an example. He says that when the ITC found in 1984 that the steel industry had been injured, but not primarily due to foreign unfair pricing, the Reagan Administration nonetheless claimed "massive unfair trade practices" as the justification for its intentions to negotiate VERs (p.59).

131 Nivola, Ibid.

132 Ibid., p.17.
having 'granted more import relief to US industry than any of his predecessors in
more than half a century.' By the end of the second Reagan Administration,
some 23 percent of $500 billion in annual imports was remedially restricted at an
annual cost of $80 billion for the protection. President Reagan was one of the
most protectionist presidents in postwar history.

Destler (1995) characterizes the trade practices of the second Reagan
Administration as a "shift to activism", especially apparent in 1985. In addition to
the meeting of the Group of Five in midyear, which resolved to weaken the value of
the dollar, Reagan formalized his "free, but fair" trade strategy shortly after his
decision in the footwear case in radio addresses on August 31st and September 7th,
and again in a White House speech on September 23rd. These public pro-
nouncements were important in that they represented follow-through on his implicit
commitment in the 1985 nonrubber footwear case: The Reagan Administration
would not intervene in "fair" trade cases, but would aggressively pursue cases of
"unfair" trade.

\[\text{Refer to footnotes for further details.}\]

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133 Remarks by Treasury Secretary James A. Baker III cited in Nivola (1993). Also cited in


135 Interestingly, Nivola (1993) points out that Nixon, the only other nationally-oriented
president in this project, similarly sought a strategy for maintaining a free trade posture while providing
extensive levels of import restraint. (p.110).

136 p.125.

137 Discussed further below.

138 Recall that the escape clause, Section 201, addresses only "fair" trade cases. Super/Special 301, countervailing duty, and antidumping petitions are examples of "unfair" trade
cases.
The Administration's change in posture with respect to trade issues became apparent shortly after James A. Baker III became treasury secretary in February, 1985. Cohen (1994) says that Baker was given an effective mandate by Reagan to develop a new approach that would guide the Administration's responses on trade\textsuperscript{39}, an approach that simultaneously would maintain the President's image as a free-trader, respond to Congressional pressures for protectionism, and reconfirm the superiority of the US economic system. Baker worked within the Economic Policy Council (EPC) to unify the objectives of the office of the USTR, Commerce, State, and his own Treasury departments. Baker established the groundwork in an EPC session for an "aggressive, energetic trade policy package" that did not abandon the President's "mandate":

> Look, nobody wants to sell out our free-trade policy.... But we've got to be damn sure we can sustain the president's veto. And to do that, we're going to have to do some things. We're going to have to recognize the political problem with Congress. We're going to change our language and tell our allies they have to open their doors. We're going to have to start being a little tougher on enforcement [of unfair trade practice laws].\textsuperscript{140}

In effect, Baker had shifted the focus from domestic macroeconomic policy and opened the door for micro-management of complaints from domestic import-competing industries. The Administration still could reject intervention in fair trade cases, but now could justify intervention in international markets on behalf of single


\textsuperscript{140} As reconstructed in \textit{Ibid.}, p.240.
industries if they petitioned under unfair trade laws. The arena for testing the new strategy was the 1985 nonrubber footwear case.\footnote{141}{Ibid.}

Indeed, Eckes (1995) suggests that it was Reagan's decision in the footwear case that solidified what would become the Administration's general policy response to mounting pressures for protection throughout his second term: "[The] turning point came in 1985, when the Reagan White House chose to reject a unanimous ITC finding of injury in the nonrubber footwear investigation. At high levels of the administration a perception had emerged that section 201 of the Trade Act [of 1974] was a protectionist law\footnote{142}{Destler (1995) and Eckes point out that the Reagan Administration effectively told various petitioners in the mid-1980s that they were "cry babies" when they complained that the high value of the dollar undermined their ability to be competitive with foreign goods! Cohen et al. say that the Administration "told the private sector to live or die by the market mechanism and bragged that the strength of the dollar was a welcome reflection of US economic strength." See S.D. Cohen, J.R. Paul, and R.A. Blecker (1996), \textit{Fundamental of US Foreign Trade Policy: Economics, Politics, Laws, and Issues}, Boulder, CO: Westview Press (18-19).}, and that "the Reagan administration pragmatically turned to export restraint agreements to address the problems of several major industries...."\footnote{143}{Destler and Odell (1987).} Since Reagan had implemented trade restrictive measures in other, larger industries (most notably the auto industry\footnote{144}{These began in his first term, with the voluntary export restraints (VERs) negotiated with Japan in 1981. Other industries favored by the Administration's pursuit of unfair trade practices were machine tools, apparel and textiles (covered by the Multifibre Agreement), and industries affected by violations of intellectual property rights (IPRs).}) and planned to continue to do so, he would risk being branded a protectionist president if he also adopted the remedy recommended by the ITC in the footwear case.\footnote{145}{Destler and Odell (1987).} Ryan (1995) says that
"when the Reagan administration put together a major policy position on trade, protection for footwear was not part of the mix."\textsuperscript{148}

It was important that Reagan maintain his anti-protectionist, free-trader image so that his strategy would achieve his domestically-oriented goal of maintaining a globally superior domestic economic system. Nonetheless, pressures from Congress to restrict trade had increased to the point where the footwear case was becoming a showcase.\textsuperscript{147} The industry had been successful in getting some 40 Senators to write to the President urging him to provide relief\textsuperscript{148}, and Congressional members were threatening to legislate shoe import quotas if the President's decision were negative. By August 4th, Reagan's Cabinet had decided to recommend that the President impose quotas.\textsuperscript{149} The President had been expected to accept the advice, particularly since it would "mend fences with key Senate Republicans."\textsuperscript{150} One source said, "The discussion is now over how to draw up the quotas...."\textsuperscript{151} Reagan was scheduled to leave for a vacation that would extend beyond the

\textsuperscript{146} p.75.

\textsuperscript{147} In fact, over 300 pieces of protectionist legislation had been introduced in Congress since the beginning of the year. See \textit{The New York Times}, August 6, 1985.


\textsuperscript{149} \textit{The New York Times}, August 6, 1985. Cohen (1994), on the other hand, says that the President's Cabinet was deadlocked on the nature of a recommendation (p.173).

\textsuperscript{150} \textit{Ibid.}

\textsuperscript{151} \textit{Ibid.}
deadline for a presidential decision, and aides were reported to have wanted a
decision before he left. The President did not make his decision before he left.

Pressures against the protectionist remedy were significant as well. The New
York Times editorialized twice against protection. The Footwear Retailers of
America (FRA) and other respondents in the ITC case lobbied the ITC, Congress,
and the Administration with information about changes in the domestic footwear
industry that had led to profitability for the more efficient producers, about the higher
levels of importing by domestic firms, and about the costs to consumers per
footwear industry job saved. They concentrated on Republican Senators in the
West, and were able to persuade 19 Senators to write a letter to the President
encouraging him to reject import restrictions. Destler and Odell (1987) say that
the FRA's "campaign was not only heavy but also sophisticated in political
technique."

As late as a week before the presidential review period would expire, in a
telephone interview with a news reporter, the President claimed that he had not yet
determined what his answer would be. Nonetheless, it was apparent that the free-
but-fair trade strategy would be the basis for his decision: "I don't think that

152 Recall that, under Section 201, the president has 90 days to make a decision. If there is
no action by the president, the ITC remedy recommendation is adopted.


154 Formerly the Volume Footwear Retailers of America (VFRA).


156 Ibid. See also Destler (1995), p.196.

157 p.53.
protectionism is the way to go. We're trying to talk to our trading allies about a meeting to get trade more open, more fair, between all countries...." The final decision, conveyed on August 28th, denied import restrictive remedy to the nonrubber footwear industry, but assured the public and Congress that the President would aggressively pursue "unfair" trade practices.

In the *Statement on the Denial of Import Relief for the Nonrubber Footwear Industry*, President Reagan said that "placing quotas on shoe imports would be detrimental to the national economic interest. While we support the principle of free trade, we must continue to insist of our trading partners that free trade also be fair trade." Again, in the *Memorandum* to USTR Yeutter as well as in his *Message to the Congress*, he said, "I believe my decision today will promote our national economic interest by encouraging an open, nondiscriminatory and fair world economic system...."

Among the reasons President Reagan gave for his decision was that "import relief would lessen the ability of these foreign footwear suppliers to import goods...

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159 Cohen (1994) says that it was Reagan's economically liberal "value system" that led to his decision to reject escape clause relief (p.173).

160 In *Public Papers of the Presidents*..., p.1015.

161 *Memorandum Announcing the Denial of Import Relief for the Nonrubber Footwear Industry*, August 28, 1985, and *Message to the Congress Reporting on the Denial of Import Relief for the Nonrubber Footwear Industry*, August 28, 1985, both in *Public Papers of the Presidents*..., p.1016 [emphasis added] and p.1017, respectively.
from the United States and thus cause an additional decline in US exports.\textsuperscript{162} Further, the President expressed his concern that trade restrictions would "seriously damage relations with our trading partners,"\textsuperscript{163} and would cost $2.1 billion "through compensatory tariff reductions or retaliatory actions by foreign suppliers."\textsuperscript{164} In addition, it appears that the information supplied by ITC Commissioner Liebeler as well as by the FRA had been useful to Reagan in making his decision.\textsuperscript{165} For instance, Reagan argued that there was "no reason to believe that quotas would help the industry become more competitive", that quotas would divert resources away from more efficient uses into footwear production, and that, since the expiration of the Carter OMAs and greater exposure to international competition, the shoe industry "had begun to show positive signs of adjustment."\textsuperscript{166} These were the most prominent reasons Commissioner Liebeler had given in denying import relief.\textsuperscript{167} Reagan further justified his decision by explaining that the quotas recommended by the ITC would cost mostly low-income consumers nearly $3

\textsuperscript{162} See Memorandum.... to USTR Yeutter (op. cit.), and Message to the Congress.... (op.cit.). This had been the exact argument given by the Government of Argentina in testimony before the Subcommittee on International Trade of the Senate Committee on Finance on June 22, 1984, on the matter of Import Relief for US Nonrubber Footwear Industry (S.hrg.98-1208, p.218), and by two Brazilian associations of exporters of footwear in the public hearing before the ITC in the 1985 nonrubber footwear case (USITC Publication #1717). Reagan specifically identified Brazil in this regard in both the Memorandum and in the Message to the Congress.

\textsuperscript{163} Statement on Denial of Import Relief.... (op. cit.).

\textsuperscript{164} See Memorandum... to USTR Yeutter (op. cit.), and Message to the Congress.... (op. cit.).

\textsuperscript{165} Commissioner Liebeler had been the only Reagan appointee on the ITC at the time of the 1985 footwear case, and the only commissioner to deny remedy. Recall that the FRA was the industry's association in opposition to import restraints.

\textsuperscript{166} Statement on the Denial of Import Relief.... (op.cit.).

\textsuperscript{167} USITC Publication #1717, pp.181 & ff.
billion, or $26,300 per job saved, for jobs that paid on average only $14,000.\textsuperscript{168} This was the kind of information provided by the FRA in its lobbying campaign against import restrictions.\textsuperscript{169}

Alongside his general refusal to permit government remedy in fair trade cases, another important aspect of President Reagan's decision was his effective promise to pursue and remedy unfair trade practices under separate legislation. After asserting the importance of free, but fair trade, Reagan instructed the USTR "to take action to initiate investigations under section 301 of the Trade Act of 1974...to root out any unfair trade practices that may be harming US interests."\textsuperscript{170} Three days later, in his \textit{Radio Address to the Nation on Free and Fair Trade}, the President explained that his decision was not limited to the denial of relief to the footwear industry, but that, "of course, free trade also means fair trade. We will move vigorously against unfair trading practices, using every legal recourse available to give American manufacturers a fair shake at home and open markets abroad."\textsuperscript{171} One week later, in another radio address, he pointed out that he had instructed the USTR to begin investigations into unfair trade practices of other states, and that "we have the authority to counter unfair trading practices by initiating investigations, entering negotiations, and taking active countermeasures if those

\textsuperscript{168} \textit{Memorandum.... (op. cit.).}

\textsuperscript{169} Destler and Odell (1987).

\textsuperscript{170} \textit{Statement on the Denial of Import Relief.... (op. cit.).}

\textsuperscript{171} From \textit{Public Papers of the President.... (op. cit.)}, p.1032.
negotiations are unsuccessful." Further, the President said that, based on the results of the investigations, he was directing the USTR to start proceedings in three cases of unfair trade. He said that he meant to "convince our trading partners to stop their unfair trading practices", and that he was "determined to see international trade conducted fairly...." Reagan was clear: "I'm committed to and will continue to fight for fair trade.... Our objective will always be to make world trading partnerships freer and fairer for all." 

These radio addresses were precursors to his "fair trade" speech at the White House on September 23rd in which the President "delivered a tough sounding speech averring that other countries had to do their share to help the United States ensure an open trading system." This speech established the Administration's new overarching strategy for dealing with trade issues: The President would continue to emphatically reject the protectionist responses available under the fair trade laws, but would aggressively pursue options available under unfair trade laws. Reagan said that "all must abide by the rules.... Above all else, free trade is, by definition, fair trade.... I will not stand by and watch American businesses fail

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172 Radio Address to the Nation on Free and Fair Trade, September 7, 1985, in Public Papers of the President... (op. cit.), p.1053.

173 Ibid.

174 Ibid.

175 Remarks at a White House Meeting with Business and Trade Leaders, September 23, 1985, in Public Papers of the President... (op. cit.), p.1127.


177 See also Destler (1995), p.126, op. cit., on this point.
because of unfair trading practices abroad.\footnote{Remarks at a White House Meeting... September 23, 1985, (op. cit.), pp.1127 & ff.} In this speech, President Reagan proceeded to detail measures that had been undertaken, for the first time since legislative enactment, to bring unfair trade practices cases against firms and governments in Brazil, Korea, Japan, and the European Community.

At the same time, Reagan defused protectionist pressure on Congress and, hence, Congressional pressure on the Executive Office, by seeking to "work with the Congress to put into place any necessary legislation that would help us promote free and fair trade." Destler (1995) says that the "fair trade" speech, as an olive branch, was effective: "So the system held.... Congress refrained from reclaiming, directly, the primary trade power granted by the Constitution. Pro-trade interests rose to counter the forces for restriction."\footnote{Destler (1995), (op. cit.), p.207. See also Cohen (1994), (op. cit.) p.241.}

The foregoing demonstrates that the outcome of the 1985 nonrubber footwear case was far more extensive than the "free" trade option chosen by the President in response to the ITC remedy recommendation, and is consistent with the observations of Cohen (1994), Krueger (1995), and Low (1993), among others, who have argued that the substantial decline of Section 201 fair trade law petitions in recent years can be explained in large part by US industries' redirected preference for petitions under unfair trade laws, more frequent and direct pleas for Congressional involvement, and lobbying of the Executive Office for Super 301 consideration. The implementation of the free-but-fair strategy was a departure from
the more conventional practice of staying within the limits of the legislation under which a petition was submitted. The Reagan Administration's message to Congress and domestic industries had been that it would effectively redirect or redefine complaints in a way that made the administration's response consistent with Reagan's larger goals for the US.

To summarize, Reagan, a nationally-oriented president, implemented a trade practice in the 1985 nonrubber footwear case which, according to the model developed in this study, would have been more consistent with trade practices hypothesized to be chosen by internationally-oriented presidents. In this respect, the model was not useful for predicting to US trade behavior in the 1985 nonrubber footwear escape clause case. The model does not provide for alternatives available to presidents beyond the specific legislation under which a particular petition is submitted, and does not account for situations where the decision in a particular case is treated as a tactical component of larger strategic goals. Hence, while Reagan's pursuit of the free-but-fair strategy was consistent with the characteristics that link a national orientation with "fair" or "protectionist" behaviors, the free trade outcome in the 1985 footwear case does not support the model's hypotheses with respect to national orientations.

The foregoing suggests that, while the model is not useful for understanding the decision in the 1985 footwear case, it proved useful for anticipating the Administration's eventual position on trade more generally; that is, the model was useful at a higher level of analysis. The following briefly examines how the posited
characteristics of a national orientation can explain the free-but-fair trade policy of the second Reagan Administration.

Recall the four questions asked across cases, the answers to which provide the characteristics of an orientation that are posited to link that orientation to particular policy choices. For a national orientation, it is expected that: 1) political issues are more determinative than economic issues in coming to a decision; 2) microeconomic, rather than macroeconomic, methods and goals are central; 3) responses to international effects on the domestic economy are relatively negative; and 4) there is little reliance on the tenets of neoclassical economic theory for guidance or justification of decisions. These characteristics of a national orientation are posited to lead to "fair" or "protectionist" trade measures. The Reagan Administration's free-but-fair trade strategy reflects relatively close adherence to the first three of these characteristics.

The second Reagan Administration's free-but-fair trade policy was largely determined by political preferences and political pressures. As noted in Chapter 4 above, the ERPs for the second Reagan Administration convincingly demonstrate that it was important to Reagan that the US system be perceived as the superior system internationally. These perceptions would legitimate Reagan's political preferences for guiding the international system in a direction that would further strengthen the domestic system; that is, he hoped to shape the international system in a way that would promote domestic interests. His economic preferences for free trade and open markets accommodated his political preferences internationally.
However, domestic political pressures for protectionist trade policies threatened to undermine the neat accommodation between the nationally-oriented characteristic of his political preferences and the internationally-oriented characteristic of his economic preferences. By 1985, he could no longer ignore demands for restrictive trade policy as he had in the past, since it was becoming clear that Congress would legislate sectoral protection and restrict presidential discretion.180

It was Treasury Secretary Baker who, as noted above, sought to bridge the divide between the Executive and Legislative branches’ economic preferences. The Administration could not retreat from its anti-protectionist stance without jeopardizing the US image Reagan had worked to develop at annual economic summit meetings with Western leaders and in bilateral talks.181 And, without the free-trader image, Reagan would be unable to implement his plan to stimulate US production and use international markets for domestic overproduction. The resulting free-but-fair trade strategy permitted Reagan to continue his rhetorical posturing on free trade. That is, since the Administration could maintain the image of free-trader by eschewing petitions under fair trade laws, it could continue cajoling other states into providing more open markets. At the same time, however, the "aggressive" pursuit of Section 301 of the Trade Act of 1974182, implemented for the first time immediately following


182 Section 301 of the Trade Act of 1974 permits the president to authorize the USTR to retaliate against foreign trade practices that disadvantage US exports. It became known as Super 301 and Special 301 in the 1988 Omnibus Trade and Competitiveness Act since it transferred retaliatory discretion from the president and added two new provisions: Super 301 required the USTR (continued...
the 1985 footwear decision, meant that the Administration would effectively sectorally restrict trade. In other words, the Administration had resorted to microeconomic methods for resolving trade issues.

In summary, the second Reagan Administration demonstrated a largely national orientation at the level of national trade policy. Politics was determinative in policy development, the free-but-fair trade policy was a negative response to the effects of the international system on the domestic system, and the resolution of trade issues was achieved using microeconomic methods. The free trade component reflected Reagan's departure from a national orientation -- his insistence on free trade principles.

**Summary and Discussion**

If one were to observe the outcomes of the 1977 and 1985 nonrubber footwear escape clause cases strictly according to the remedies available by statute, the 1977 case would be evaluated as a "fair" trade outcome and the 1985 case would be judged as a "free" trade outcome. Closer examination, however, reveals that these assessments do not adequately reflect the level of trade restriction. Employing the structured, focused case study method is helpful for gaining insights into both cases. First, neither the prescriptions of legislation as interpreted by the ITC nor Congressional and/or interest group pressure were sufficient for predicting

182 (...continued)

...to retaliate against unremediated or uncompensated foreign unfair practices, and Special 301 required the USTR to maintain a list of countries that failed to enforce US intellectual property rights. See Cohen *et al.*, (1996), *op. cit.*, chapter 7.
to trade practices. Second, the analysis in the second case study illuminated where refinements in this project's model would increase its usefulness as a framework for anticipating US trade outcomes.

In the 1977 case, the Orderly Market Arrangements (OMAs) with Taiwan and Korea, one element of a two-part decision, represented little more than shortterm political maneuvering by the Carter Administration to bridge tensions between the executive branch and the Congress, and to honor commitments made to labor in the election campaign. As discussed above, Carter did not see the OMAs as an effective corrective for the industry's problems, and did not consider them to be trade restrictive or protectionist since they were "voluntary". Too, the OMAs did little to affect the level of footwear imports.

On the other hand, the Footwear Industry Revitalization Program (FIRP), the other component to Carter's decision, was not a statutory presidential alternative. Nonetheless, it was the innovative centerpiece of the Administration's response, and was considered by the Administration as the best strategy for remedying the footwear industry's problems: The FIRP by far commanded more governmental resources and Administration commitment. In other words, the "fair" trade measures, the OMAs, were a relatively minor component of the Carter decision in the 1977 nonrubber footwear case, while the "strategic" trade measure, the FIRP, represented the essence of the Administration's decision. Hence, the presidential decision in the 1977 nonrubber footwear case is more aptly characterized as a "strategic" trade outcome, one of two outcome alternatives predicted by this project's model. The extent to which Carter departed from the characteristics of an
international orientation can account for the OMAs, the "fair" trade component of the
decision.

In the 1985 case, the "free" trade decision was less of a response to the case
itself than a tactic that advanced a larger national strategy. That is, the decision was
neither a response to industry import injury nor to the level of footwear industry
competitiveness; rather, it was part of the implementation of the Administration's
larger goals of maintaining a position of global economic leadership and arresting
increases in the trade and budget deficits, while accommodating the President's
insistence on an anti-protectionist image. The decision in the 1985 footwear case
was the springboard to the second Reagan Administration's free-but-fair trade
strategy, inaugurating the most protectionist administration in the postwar era. As
in the 1977 case, neither observing Congressional and/or interest group pressure
nor observing the prescriptions of legislation predict to the outcome. This project's
orientation assessment of President Reagan, while also inadequate for predicting
his decision, was useful for interpreting the larger context of the case and for
anticipating the Administration's overall policy position on trade. The characteristics
of the orientation did not provide the posited link to the decisional outcome,
suggesting that either; 1) the characteristics are inadequately specified, and/or 2)
another variable(s) intervened to mitigate the expected effects of the orientation on
the decision. As briefly argued in the case study above, the posited link
between the characteristics of Reagan's orientation and the Administration's general
policy position on trade hold up. In this larger context, three of the characteristics
of Reagan's national orientation can be linked to the free-but-fair trade policy: 1) he
chose microeconomic methods to resolve trade issues; 2) political issues, such as global leadership and the pressures from Senate Republicans, were more important than economic issues in the development of the policy; and 3) his response to the effects of the international system on the domestic system was to restrict trade. However, on the fourth characteristic, adherence to the tenets of neoclassical economic theory, Reagan departed from the national orientation. He was a resolute free-trader, a trait posited to be characteristic of an international orientation.

The free-but-fair policy reconciled the inconsistencies between being anti-protectionist and insisting on open markets on the one hand, while choosing sector-specific trade restrictions on the other: Reagan would be sympathetic to complaints of unfair trade, but reject appeals for protection in cases of fair trade. Hence, beginning with the 1985 nonrubber footwear case, his interpretations and justifications in fair trade cases provided evidence of an international orientation. In short, Reagan demonstrated a national orientation except in fair trade cases.

In summary, a president's orientation with respect to the international political economy is an important but insufficient variable for anticipating trade outcomes. While Congressional and interest group pressure are also important in that they provide the political constraints on alternatives available to a president, they are limited in that they do not delineate the set of alternatives that are being constrained. This project's model provides at least one way to represent those alternatives.
This chapter concludes this project with three final points. First, the model is revisited, its strengths and weaknesses are discussed, and refinements that would improve its usefulness are considered. Second, the contribution of this study to the literature on trade policy and outcomes is offered. Finally, the way in which the findings and puzzles of this study suggests avenues for future research is considered.

The Model Revisited

The central observation which motivated this study was the apparent unpredictability of US trade outcomes: If there is one set of trade laws on the books, why is there uncertainty about what will be US trade practice when trade becomes an issue? Even with "fair" trade cases, where the escape clause has been part of legislation since 1951, trade outcomes have been regularly at odds with the

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1 Actions under the escape clause were implemented as Executive Orders before the 1951 Trade Agreements Extension Act (TAEA). Beginning with the Trade Act of 1974, Section 406 became an additional piece of fair trade legislation that specifically dealt with imports from communist countries.
prescriptions of trade policy. In fact, between 1952 and 1968, and between 1977 and 1994\(^2\), outcomes in fair trade cases have deviated from policy prescriptions almost 65% of the time. Further, departures from the prescriptions of policy do not neatly sort according to the political party in the White House, nor according to the size of the industry, nor according to changes in fair trade legislation over time. What accounts for the distance between the prescriptions of trade policy on the one hand, and trade outcomes on the other? In other words, why doesn't policy predict to outcomes?

As Chapter 2 made clear, the literature provided little direction for finding an answer. The majority of US trade studies investigate sources of protectionist pressure or the formation of trade policy. Few observe actual trade practices, and those that do tend to be limited to average tariff rates or non-tariff barriers to trade, but not both. No studies that I'm aware of examine the process of implementation that would explain the distance between policy prescriptions and actual trade outcomes.

Understanding the process of policy formation is certainly useful. However, an important contribution of this project has been the demonstration that it can be more valuable to observe rather than assume the trade practice that is carried out. Neither protectionist pressure nor the prescriptions of policy are reliable indicators

\(^2\) Presidential decisions in fair trade cases under the Nixon and Ford administrations are not available. International Trade Commission (ITC) publications did not reference them, neither the ITC nor the Office of the United States Trade Representative (USTR) systematically recorded them, the Nixon Library (a branch of the National Archives) does not have these decisions, and the White House has indicated that they "may be recorded on index cards somewhere, but these are not available to the public or researchers."
of US import trade practice and, hence, they are not reliable indicators of the level of US openness or restrictiveness. In terms of this project, the politics involved in protectionist pressure and the formation of policy provides no information about resolving the distance between policy and practice. In short, since the dependent variable for the dominant studies on US import trade tends to be either protectionist pressure or policy formation, those studies tell us little about actual levels of US restrictiveness or openness, or about how to predict those levels. In other words, the more useful dependent variable has been ignored.

Several considerations guided the attempt to develop an explanation for the distance between policy and practice in this study. First, in order to maintain comparability, the study was confined to cases falling under a single type of trade issue and, therefore, they were cases relevant to one type of trade legislation. Second, the conditions were identified under which trade practices might vary from policy prescriptions. Finally, a possible source for variation in conditions was chosen for analysis.

Escape clause cases were chosen for a number of reasons. Escape clause cases are "fair" trade cases; that is, these are cases where a firm or industry is injured or threatened with injury due to increasing imports that are in compliance with international conventions. These cases are comparable because they all fall under the same trade legislation. Another reason these cases were chosen is that a menu of possible policy prescriptions is the same menu for possible trade outcomes. In other words, the universe of possible policy prescriptions is the same as the universe of possible trade outcomes.
Fair trade cases were interesting for other reasons. The potential for variation between policy and practice is directly related to presidential decision-making choices. If variation depends entirely on the decision of the president, one would expect patterns of trade outcomes according to political party. These patterns do not emerge. Another interesting aspect of escape clause cases is that they are fair trade cases. If the global hegemon is willing to absorb the costs of hegemony in order to reap the benefits of an economically liberal international system, how would the hegemon justify protection against fair trade?

In order to have a baseline for interpretation of policy, the International Trade Commission (ITC) was argued to be a relatively objective interpreter of escape clause legislation; that is, ITC recommendations are considered to be measurements of trade policy prescriptions. Both the possible ITC recommendations as well as presidential decisions to adopt, reject, or modify ITC recommendations fit neatly into a typology borrowed from Nollen and Quinn (1994): free, fair, strategic, and protected trade practices. The null hypothesis, then, is that the type of presidential decision (or, trade outcome) is the same as the type of trade practice prescribed by policy (as interpreted by the ITC) for any given fair trade case. As mentioned

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5 Recall that a "case" is any petition under the escape clause or Section 406 for which the ITC has determined affirmatively. Petitions for which the ITC had made negative determinations are irrelevant since there would be no trade outcome to measure against a policy prescription.
above, this was not true almost 65% of the time for escape clause and Section 406 cases.

Since there is good evidence that the ITC has been a relatively objective and reliable interpreter of the escape clause over time,\(^6\) it is apparent that the difference between trade policy prescriptions and trade outcomes is due to the variability of presidential decisions in fair trade cases. Therefore, this project has argued that a systematic understanding of presidential decisionmaking is necessary in order to understand US trade practice in fair trade cases.

As was argued in Chapter 3, an important element of decisionmaking is the set of beliefs that guide a decisionmaker's interpretation and perception of issues. For this project, a president's interpretation of fair trade issues depended on his set of beliefs about the relationship between the US domestic economy and the international economy. Where there was a preponderance of evidence that a president saw the domestic economy as more important, or even responsible for leadership of the international economy, he was posited to be nationally oriented. On the other hand, when there was evidence that a president saw domestic and international economies as interdependent, he was posited to have an international orientation.\(^7\) Further, it was argued that presidents with national orientations would

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\(^7\) Note that national and international orientations in this project were described strictly in terms of the perceived domestic/international economic relationships, not to be confused with the power relationships that have been argued to be determinative of foreign policy more generally.
choose either fair or protected trade practices, while the alternative trade practices available to presidents with international orientations were free or strategic trade.

This generated two hypotheses. If a president is nationally oriented, he will choose either fair or protected trade practices in fair trade cases. If a president is internationally oriented, he will choose either free or strategic trade practices in fair trade cases. Between 1952 and 1994, excluding the cases with missing presidential decisions during the Nixon and Ford administrations, the model correctly predicted 88% of the trade outcomes in fair trade cases for which the ITC determined affirmatively and for which a president opted to change the ITC recommendation. For presidents who were argued to be internationally oriented, the model correctly predicted 93.5% of the trade outcomes. For the single presidential administration argued to be nationally oriented and for which data was available, the model predicted 50% of the trade outcomes.®

® In Chapter 4, the Nixon and second Reagan administrations were argued to be nationally oriented. Since presidential decisions in fair trade cases under the Nixon administration are unavailable, the second Reagan administration was the only nationally-oriented administration observed in this project.
<table>
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<th># of Pres Changes</th>
<th># Correct Predictions</th>
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<tr>
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Table 6.1
Prediction Rate of Model

Since a presidential decision in a fair trade case determines the US trade practice in that case, presidential decisions are appropriate proxies for US trade outcomes. Table 6.1 reports the success rate of this project's model in predicting trade outcomes given an affirmative finding by the ITC and given a president's decision to modify the ITC recommendation. Overall, the model correctly predicted trade outcomes 88% of the time.

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9 Presidential decisions in fair trade cases under the Nixon and Ford administrations are not available. International Trade Commission (ITC) publications did not reference them, neither the ITC nor the Office of the United States Trade Representative (USTR) systematically recorded them, the Nixon Library (a branch of the National Archives) does not have these decisions, and the White House has indicated that they "may be recorded on index cards somewhere, but these are not available to the public or researchers."
The largest difficulty for the model occurred during the two Reagan administrations where, given the President's decision to alter the ITC recommendation, the model predicts only 50% of the outcomes. This does not challenge the usefulness of the model. Instead, it suggests for at least two reasons that additional variables would enhance the power of the model. First, since the second Reagan Administration provided the only president argued in this study to be nationally-oriented, it appears that the model is less powerful for nationally-oriented presidents. However, the model's success rate is the same for Reagan's first Administration, where it was argued that he was internationally-oriented. This suggests that another variable mediated the effect of the orientation on Reagan's decisions. Second, when decisions from both Reagan Administrations are excluded, the success rate of the model is 93.1% for the presidential administrations reported here. This suggests that the results from the Reagan Administrations are anomalous. Given these two considerations, it would be useful to be able to consider the decisions of another nationally-oriented president before drawing conclusions about the model's prediction power for nationally-oriented presidents. In addition, further investigation of the decisions in the two Reagan Administrations are warranted to determine which additional variables would improve the model.

Figure 6.2 reports the distribution of observations of trade outcomes in terms of presidential orientation. These are the thirty-three fair trade cases between 1952 and 1994 for which the ITC found affirmatively and for which a president opted to modify the ITC recommendation. The majority of cases are distributed in the predicted direction.
Since both Reagan administrations appear to be anomalous, and since one of these is the only nationally-oriented presidency observable for this study, the results of a statistical test would be questionable. Nonetheless, a chi square test was performed with the null hypothesis stating that trade outcomes do not distribute according to the orientations of presidents. That is, for instance, regardless of what the true percentage of Free/Strategic outcomes for each orientation type may be, the null hypothesis states that we would expect that in the long run there would be the same proportion of Free/Strategic outcomes for each orientation type as the proportion of Free/Strategic outcomes for all observations. The result, a chi square of 2.868, is significant at the .10 level.\(^\text{10}\)

The results of the two case studies in Chapter 5 suggest the value of the case study methodology for this topic, and uncover useful considerations for refining the model. For instance, the model appeared to incorrectly predict a free or a

\(^{10}\) This significance level is questionable given the small numbers in three of the cells. Nonetheless, the results are in the correct direction.
strategic trade practice in the 1977 footwear case. The case study method was particularly useful in demonstrating that the "fair" trade outcome, orderly marketing arrangements (OMAs), implemented in the 1977 footwear case were largely irrelevant to the apparent intent of the internationally oriented Carter administration. The OMAs were poorly constructed, lacked the commitment of the administration to enforce them, and were ineffective in curtailing footwear imports. On the other hand, the Footwear Industry Revitalization Program (FIRP), a second part of the 1977 decision, was a strategic measure, and was the effective centerpiece of the administration's attempt to remedy the footwear industry's competitiveness problem. Nonetheless, the trade outcome for this case is recorded as a "fair" trade outcome, an orderly marketing arrangement, without reference to the FIRP. In other words, while the trade outcome were officially recorded as trade restrictive OMAs, the actual outcome was the strategic FIRP; the model, in fact, correctly predicted to the strategic trade outcome.

As mentioned above, the rate at which the model correctly predicts to outcomes appears to be 88%. However, given the results of the 1977 footwear case, this rate is clearly understated. One could argue that the model is biased toward underestimating the rate of successful prediction more generally for cases in which the recorded decisions were fair or protected trade practices. Particularly in light of the 1977 footwear case, where the OMAs were negotiated more as a measure to defuse protectionist sentiment than as a serious commitment to remedy injury from imports, it is reasonable to suspect that other escape clause decisions since 1952 amounted to little more than window dressing.
The president has an incentive to obscure decisions for free trade practices when demands for protection are particularly strong. Particularly when pro-protectionist forces command large amounts of resources and are well-organized, a president may become concerned about his own re-election and/or his party's performance in congressional elections. Too, when there are other, larger issues pending in Congress, the president may choose a more restrictive decision in a single case in order to relieve Congress of constituent pressure. In return, the Congress may extend presidential authority for multilateral negotiating agreements, or weaken or withdraw pending restrictive trade legislation. Therefore, even though the president is charged, by Congress, with making decisions that put the diffuse national interest above the concentrated interests of petitioners, there are situations under which he has incentives to leave at least the perception that he is providing relief for demanders of trade restrictions.

On the other hand, there is little incentive for a president to choose free or strategic outcomes to disguise other types of trade practices. First, the interests lobbying for free trade haven't exerted the level of pressure that pro-protectionist

11 Baldwin (1985) says that both of these factors were important in predicting to presidential decisions. See *The Political Economy of US Import Policy*, Cambridge, MA: The MIT Press.

Second, presidents generally have preferred free or strategic trade practices, so there hasn't been an agenda of trade restrictiveness to hide in the face of a pro-free trade environment.

Therefore, while fair or protected trade practices may be implemented merely to serve as a brake on protectionist momentum so that implementation of other less restrictive practices can go forward, free or strategic practices are not responses that would deflect protectionist pressure and, hence, are not likely to be symbolic gestures. This implies that the model will understate the level of free or strategic trade outcomes unless each case is observed using a "structured, focused comparison" methodology.

While this demonstrates a strength of the case study method, it suggests a shortcoming of the model. It has been argued throughout this project that there are effectively two processes leading to trade outcomes: the policy formation process and the implementation process. This study assumed that the political competition among interest groups and congressional responses were important for understand-

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14 The results of orientation assessments in Chapter 4 above indicated that, since 1952, only the Nixon Administration and the second Reagan Administration were nationally-oriented. And, for the second Reagan Administration, his national orientation was at odds with his strategy of using free trade policies to advance the domestic economy.

ing the policy formation process, but that the president, insulated and independent of protectionist pressure, was sufficient for understanding the implementation process. The results of the studies of both the 1977 and the 1985 footwear cases demonstrate that, first, a more sophisticated understanding of a president's orientation is needed and, second, that protectionist pressure does affect the president, even if only to result in efforts to divert that pressure. The method for assessing orientations for this project was less rigorous than other analyses from the literature on foreign policy decisionmaking. The "rules" or "code" for assessing presidential statements in the Economic Report of the President was not precise and may not be replicable. In addition, the four questions asked across cases to link the orientation to the decision may not have been sophisticated enough to capture important nuances of the implications of the orientation for the decision.

Second, in both cases examined in this project, the presidents had to confront congressional pressure for government intervention. For Carter, the OMAs enabled congressmen to hand something to their constituents. By relieving Congress of constituent pressure, the president relieved himself of congressional pressure. For Reagan, a free trade decision for the footwear industry would have been politically costly without a concession to the intervention demands of the

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Congress. With the almost simultaneous announcement of the free-but-fair trade strategy, Reagan was able to contain protectionist sentiment and divert it away from free trade laws.

Hence, the evidence from this project challenges the idea of an independent presidential decisionmaker. While it is clear from the case studies that the national/international orientation of the president is useful for anticipating the alternative trade practices he will prefer, he is further constrained by congressional pressure in the form of threats of new protectionist legislation. In addition, to the extent that congressional constituents bring protectionist pressure to bear on the Congress, these interest groups indirectly constrain the president. As should be clear from the literature review in Chapter 2, this, in itself, is not a new finding.

The contribution, however, is that the case studies in this project support development of a model that synthesizes the ways in which the executive, legislature, and interest groups interact. Neither the president nor the Congress is an "auctioneer" in the "market" for protection from imports. The history of the footwear industry's inability to gain government intervention is compelling testimony to the limits of pressure group theory. Too, while congressional pressure can affect the president's decision in a fair trade case, the president does not wholly concede to the pressure in the way preferred by Congress. Finally, the president must take into account the demands of constituents and Congress, even if for no other reason than that he will need support for other initiatives later.

This project's model could be improved by adding at least one more step to the way in which it represents the implementation process. Recall that each
presidential orientation suggested two possible trade practice alternatives. It would be interesting and potentially fruitful to develop a way to determine, given a particular orientation, why a president chooses one alternative over another. For instance, an internationally oriented president will choose either a free or strategic trade practice, and a free trade practice can be considered less trade restrictive than a strategic trade practice. Similarly, a nationally oriented president will choose either a fair or protected trade practice, and a fair trade practice might be considered less trade restrictive than a protected trade practice.

One possible alternative would be to revisit Baldwin's (1985) finding that the most important external constraints on a president are how close the decision is to a presidential or congressional election, and how close the decision is to multilateral trade negotiations. Based on his findings, one would hypothesize that a president would be more restrictive, under conditions of protectionist sentiment, the closer the decision came to elections or multilateral negotiations.

The most important refinement for this model would be to add variables that measured congressional pressures on the president, and a measure for the effect of advice from those in a president's inner circle. In the former case, a congressional pressure variable might be the proximity of the decision to elections or to multilateral trade negotiations, as discussed above as a finding by Baldwin (1985). A measure for the advice from a president's inner circle might take the same form

\[ \text{\textsuperscript{17}} \text{Also important were the inflation rate and change in unemployment (although employment and unemployment variables were insignificant and the wrong sign).} \]

\[ \text{\textsuperscript{18}} \text{Baldwin did test to see if the president's decision could be partially explained by whether or not the Senate Finance Committee was the petitioner. This variable was insignificant.} \]
as the measures for the different values that a final decision takes in this project; free, fair, strategic, or protected trade practices. Hypotheses could be generated and tested about the conditions under which one or the other of these variables has an effect on the president's decision, given his national or international orientation.

Contribution to the Literature

This study has provided support for some of the existing understandings of US trade policy and behaviors, and challenges others. This section places this study in the literature, then considers the project's contribution to the trade policy literature that was developed in Chapter 2.

This study clearly fits into the decisionmaking, rather than societal, literature on trade as described in Chapter 2. It assumes that a president's beliefs and values are constraints on how he understands trade issues and, therefore, what he sees as alternative policy choices. In addition, the dependent variable for this project is the actual trade outcome for any given case, which is another characteristic more likely to appear under the decisionmaking rubric. Finally, the model presented here assumes a wide latitude for the president in making trade decisions, relatively unconstrained by other forces such as the Congress and interest groups.19

19 Note, however, that the model does consider the president to be constrained by his perception of the importance of the international economy to the domestic economy. This is the basis for the orientation assessment.
To a large extent, this study's model operationalizes many scholars' theoretical arguments that, due to the domestic structural insularity and authority of the president, one generally can anticipate trade behaviors by observing variables that affect presidential decisionmaking.\(^\text{20}\) This project's case studies, however, tend to support Baldwin's (1985)\(^\text{21}\) observations that, while the president's perceptions of national interest, broad social concerns and interpersonal effects are pivotal for understanding outcomes in fair trade cases and in tariff-reducing negotiations,\(^\text{22}\) these perceptions are conditioned by the effects of congressional pressure and, indirectly, voters' support.

This is not to say that congressional and interest group pressures are sufficient proxies: It is to say that the president's perception of, or his *interpretation* of these pressures is important. Indeed, this may explain why societal models cannot predict to outcomes in fair trade cases. It is not the pressure itself that translates directly into outcomes as the adherents of societal models assume; it is the president's perception of these pressures that explains implementation of fair trade policy. A president's experiences, level of training, knowledge level and so forth help to shape his set of beliefs, values, and preferences; and these are the sources for his "mental explanations" of trade issues and his decisions about their resolution. This is a significant departure from the dominant societal perspective, \(^\text{20}\) See, for instance, Bhagwati (1983 [1988]), *op. cit.* Both Chapters 2 and 3 above address this point in detail, providing additional relevant citations. \(^\text{21}\) *Op. cit.* \(^\text{22}\) *Ibid.*, p. 174.
which views the president as a "rational" actor who supplies protection based on who provides the best chance for his re-election.

This point is not new, but suggests another contribution of the results of this study. While there are many trade scholars who agree that decisionmaking is an important variable for understanding trade outcomes, few studies, if any, model decisionmaking other than through a public choice approach. It is interesting that, although the foreign policy decisionmaking literature has benefited from the cognitive revolution\textsuperscript{23} and the relatively new field of political psychology, the trade decisionmaking literature acknowledges the importance of, but has yet to apply, these useful insights. The present project has provided a modest first step by suggesting that a president's national/international orientation may be an effective filter through which he understands fair trade issues.

This project has also demonstrated the importance of distinguishing between policy and outcome. The distance between policy and practice is close to zero for trade issues that are dealt with by legislation that has been characterized as "process protectionism" or "administered protectionism",\textsuperscript{24} while this project has shown it to be quite large for fair trade cases. Nonetheless, even for the former trade cases, where societal models tend to assume that pressure translates into


policy and/or practice, institutions "administering" policy do not always supply the protection demanded by petitioners.\textsuperscript{25} For instance, Hansen and Park (1995) find that the predictive power of interest group theories is improved by including a national interest component,\textsuperscript{26} a conclusion supported by the empirical work of Mansfield and Busch (1995).\textsuperscript{27} Moreover, a recent work has argued that even endogenous models, an important societal type of model, have room for an "executive politics" type of trade process under certain conditions.\textsuperscript{28} The point here, again, is that the significance of decisionmaking implies a limit to the explanatory power of societal models.

By providing support for decisionmaking perspectives, this project has demonstrated the importance of bringing politics back into the public choice models. The 1985 footwear case under the second Reagan Administration, in particular, was useful in this regard. There were overwhelming levels of protectionist pressure from important labor groups that could deliver votes, over 300 protectionist bills had been introduced in the Congress by the time of the President's decision, and the

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\textsuperscript{26} Hansen and Park (1995), \textit{op. cit.}


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final decision was approximately one year before a presidential election. Even Reagan's inner circle of advisors was predicting that he would decide in favor of the footwear industry. A public choice approach would have predicted a protectionist outcome. However, Reagan chose not to intervene against imports; a free trade outcome.

In fact, probably no model of trade outcomes would predict to this outcome unless it included a cognitive component. This illuminates the importance of accounting for the potential vagaries inherent in human decision. Reagan effectively responded to this trade issue by redefining the trade issue. Fundamentally, unless politics is a component of a model, there is no room in the model for change.

An implicit contribution by this project to the literature has been that a distinction among types of trade legislation is needed generally, and broad agreement about what constitutes "protectionism" more particularly. For instance, both Krueger (1995) and Low (1993) criticize US trade policy and behaviors, but combine fair and unfair trade laws when demonstrating their general arguments. While recommendations about improving either type of trade legislation is justifiable, it doesn't make sense to make the same general complaints and recommendations about both types together. For instance, the argument that the US is moving from multilateralism to bilateralism with respect to trade policy and outcomes due to increasing resort to process protectionism is a warranted and useful criticism when

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29 Recall that Baldwin's results suggest that a president will choose a more restrictive trade practice the closer the decision is to presidential or congressional elections.

30 Both op. cit.
observing anti-dumping and countervailing duty legislation, but it is irrelevant to escape clause legislation. Low (1993) goes so far as to say that the reduced number of escape clause petitions in recent years can be accounted for by the increased number of anti-dumping and countervailing duty petitions.\textsuperscript{31} A review of the industries petitioning under the escape clause on the one hand, and those petitioning under anti-dumping and countervailing duty laws on the other shows that, in fact, these are not the same industries at all.\textsuperscript{32} The point here is that it is not useful to the cumulation of knowledge in the discipline to lump different types of trade legislation together, and assume that there is one policy for which there could be one general criticism that could bring about one general set of recommendations for US trade policy improvement.\textsuperscript{33}

In providing support for Nollen and Quinn’s (1994)\textsuperscript{34} distinction among four possible types of trade outcomes, this project’s model has implicitly demonstrated the need for greater precision in the literature about what constitutes protectionism. To assume that protectionist pressure or trade policy is an indicator of protectionist levels in the US, as various societal models do, overlooks the distance between policy and outcome. Either assumption generates misleading conclusions. Too, as


\textsuperscript{32} Dornbusch and Frankel (1987) offer one possible reason. They argue that escape clause petitions are likely indicators of macroeconomic sources of protectionist pressure, while anti-dumping and countervailing duty petitions are likely indicators of microeconomic sources of protectionist pressure. See “Macroeconomics and protection”, in R.M. Stern (ed.), \textit{US Trade Policies in a Changing World Economy}, Cambridge, MA: The MIT Press, pp. 94 & ff.

\textsuperscript{33} This point has been made many times by S.D.Cohen. See, for instance, S.D. Cohen (1994), \textit{The Making of United States International Economic Policy}, Westport, CT: Praeger.

\textsuperscript{34} Op. cit.
was argued at some length in Chapter 3 above, it is analytically misleading to dichotomize trade outcomes as either free or protectionist outcomes. For instance, trade adjustment assistance to workers is simply not the trade diverting outcome that voluntary export restraints (VERs) are.

A final contribution to be discussed here is the potential usefulness of this project's model for adding to the "ideas" literature, including the major contributions by Goldstein.\(^{35}\) The general argument is that during periods of crisis or in new events, the decisionmaking environment becomes uncertain and "malleable", and decisionmakers become "vulnerable" to new "ideas". As these new ideas are tried and shown to work, they become institutionalized over time, providing guidance for dealing with subsequent occurrences of the event or similar events. The most frequent criticisms of this work are that it is unclear how these "ideas" are generated, why a decisionmaker would choose one idea over another, and the lack of clarity about how to identify "malleable" environments. The present project may prove useful for answering the second criticism. A cognitive component to a model of trade outcomes might include hypotheses about why some ideas are chosen over others.

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Future Research

In addition to the refinements to the model that were suggested in the previous section, the implications of this study point to future research that would contribute to the literature on US trade practices and increase the value of this study's model.

To begin, additional case studies are warranted. First, it would be useful to see that the cases for which the model correctly predicts were decided according to the four general questions asked across cases and posited to link presidential orientation with decision outcome. These cases should be chosen from among the other ITC affirmative cases that were decided according to the Trade Act of 1974. In addition, cases for which the ITC decided affirmatively under the Trade Agreements Expansion Act of 1951 (cases between 1952 and 1962) should be examined in order to provide evidence that presidential orientations are linked to trade outcomes under different legislation; that is, these cases should be investigated to demonstrate that the orientations rather than the 1974 trade legislation explain trade outcomes.

Second, the power of this study's model could be more confidently evaluated if studies of cases during the administration of the only other nationally-oriented president, Nixon, were observed. An avenue not pursued and, apparently, the single avenue left to pursue in order to acquire information for these cases is through petition under the Freedom of Information Act for documents that may
contain this information at the Nixon Library. Particularly since the results of the second Reagan Administration are believed to be anomalous, Nixon Administration cases are important for supporting this study's argument about trade outcomes during the administrations of nationally-oriented presidents.

Finally, additional cases during both Reagan Administrations are necessary in order to investigate the suspicion that the way in which Reagan's orientation affected his decision choices was anomalous. Cases from both administrations should be chosen since the model's performance for both the internationally-oriented and nationally-oriented administrations was not as expected. Among these cases should be those for which the model did correctly predict the outcome. These latter cases should reveal that the same exceptions, or new intervening variables, are operating that are discovered for the cases for which the model incorrectly predicted.

Alongside new cases, confidence in this project's model would be increased if additional information through interviews were to be collected. Particularly since both the pressures from Congress and the advice of a president's inner circle appear to mediate the effects of a president's orientation on his decision choices, interviews with members of the relevant Senate Finance Committees, House Ways and Means Committees, as well as interviews with former Special Trade Representatives, Economic Advisors, and so forth, should help to clarify the types of inputs these other actors contributed. Further, these interviews would reveal what

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36 Personal conversation with Nixon Library NARA researcher.
these actors saw as the president's options, and these could be contrasted with the
general impressions from all of the interviews about what were believed to be the
options that a particular president entertained. This type of information would help
to isolate how and to what extent these additional inputs affected a president's
decisionmaking process.

Another avenue for future research would incorporate the work of other
scholars. For instance, the work of both Destler and Odell (1987) and Milner (1988)
is relevant. Destler and Odell argue that when active free-trade interests as a
proportion of potential free-trade interests is larger than active protectionist interests
as a proportion of potential protectionist interests, the free-trade interests prevail in
the competition for favorable trade outcomes. Consistent with this argument, Milner
(1988) contends that the greater the multinationality and export-dependence of a
firm, the more it will favor free-trade outcomes. In other words, while Destler and
Odell (1987) test hypotheses about the supply of protection, Milner (1988) tests
hypotheses about the demand for protection. That is, the dependent variable for
Destler and Odell is trade outcomes, while the dependent variable for Milner is
demand for protection.

Destler and Odell's results are more suggestive than confirmations since they
are based on correlations. Their considerations for strengthening the results,
however, are the ways in which other variables might constrain a president's

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decision. Among these are the effects on the president of political institutions, ideology, the international system, and prior commitments. The usefulness of the current project's presidential orientations seems apparent: whether a president is nationally or internationally oriented might suggest how these other variables affect his decision. For instance, the orientation as it was developed in this project already considers at least one way in which the international system has an effect on the president's decision choices.

A model could be developed that anticipates levels of protectionist demand and counterbalancing interests based on Milner's results. Destler and Odell's results could provide the basis for measuring the level of competition between demanders for protection and demanders for free trade. The supply of that protection would be based on hypotheses about how the national or international orientation of the president suggests his predisposition with respect to a resolution of the competition, and how other variables might be interpreted to affect his decision.

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38 These are consistent with the observations of Baldwin (1985), op. cit.
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