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Trade Policy of the Reagan Years

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ABSTRACT

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In spite of an ideological stance that should have favored free trade, the trade policies of the Reagan years were a mixture of both free trade and protection that were not all that different from those of preceding administrations. This paper examines the record of the Reagan period in terms of the volume of trade itself, the levels of tariffs and nontariff barriers, and the filings of actions under U.S. trade law. All of these indicators present the same mixed message: that the Reagan administration was neither the bastion of free trade that some had hoped for, nor the bastion of protection that others have claimed it turned out to be. The greatest damage to the system of liberal trade during the Reagan years may have come, not from trade policies directly, but indirectly from the macroeconomic policies that buffeted trading industries through an unprecedented aggregate trade deficit and swings of exchange rates.

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I. Introduction

The Reagan administration was founded upon a commitment to free market principles, in the international arena as well as domestically. However, there is wide agreement that in practice the Reagan years were marked by much less withdrawal from government intervention in trade than in domestic economic affairs. On the contrary, some have condemned the Reagan administration as the most protectionist since Herbert Hoover, an astonishing criticism given the ideological stance that was consistently maintained. In this paper I will review the record of the Reagan years as it relates to trade and trade policy, and I will attempt to discern whether this condemnation of that record is justified.

Disappointment in the trade policies of the Reagan years is widely felt. Given the free-market orientation of the administration's ideology, one might have expected to witness a marked movement in the direction of freer trade.[1] Instead, the best that even the Reagan administration itself can say about its trade policies is that "The record of the 1980s has largely paralleled that of the 1970s."[2] Having participated in the Reagan administration for a time and then left it, William Niskanen views the record more critically:

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[1]However, the official policy of the administration was not unambiguously in favor of free trade, but rather espoused a possibly contradictory mix of free trade and "fair trade." The "Administration Statement on International Trade Policy" of September, 1985, began with the statement, "A policy of free and fair trade is in the best interest of the citizens of the United States and the world." (USTR (1985))

[2]Council of Economic Advisors (1989, p. 160).

> Trade policy in the Reagan administration is best described as a strategic retreat. The consistent goal of the president was free trade, both in the United States and abroad. In response to domestic political pressure, however, the administration imposed more new restraints on trade than any administration since Hoover.[3]

And this view is evidently shared abroad, where the *Economist* notes, "Mr. Reagan claimed to be a free trader, but he has been the most protectionist president for decades."[4]

Charles Pearson (1989) has provided the most recent and detailed critical evaluation of the Reagan trade record, and he finds it wanting both by the standard of free trade and by the less demanding standard of liberal trade:

> When measured against the criterion of a *laissez faire*, or free trade, policy the Reagan record falls short.... Yet even when measured against the less demanding criteria of liberal trade — resisting new import restrictions, nondiscrimination among trade partners, a broad (traditional) view of reciprocity, minimal subsidization or restriction of exports, and a reluctance to use trade policy to promote foreign policy objectives — the Reagan record also falls short, and, arguably, shorter than that of all other post-war Presidents.
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> The practice of U.S. trade policy in the past eight years has been characterized by frequent rhetorical bows toward liberal trade and some actions that promote liberal trade, but it also displayed a ready acceptance of departures based on "political" or pragmatic considerations, not on principle. In this respect the Reagan administration is indistinguishable from its predecessors in the postwar era.[5]

Readers who wish a detailed discussion of the bases for these conclusions should read Pearson's excellent treatment directly. What I will provide here is a bit more of an overview of the issues involved and some broad indicators of the stance of trade and trade policy during the Reagan years.

I begin with a brief review of some of the major trade policy events of the Reagan years. These are listed and briefly described in Table 1. They reveal what others also have mentioned as the two distinctive threads of the trade policy of the era: continued and

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[3]Niskanen (1988, p. 137).

[4]*The Economist*, January 21, 1989, p. 75.

[5]Pearson (1989, p. 2).

increased trade restrictions and discriminatory reductions in trade restrictions. With only two exceptions, the items listed in Table 1 fall into one or the other of these two categories.

The two exceptions are important, however, and should be mentioned first. One was the attempt in 1982, at the first GATT Ministerial in nine years, to extend liberalized trade to agriculture and services and to inaugurate a new round of multilateral trade negotiations. These attempts failed, and the Ministerial ended without any major breakthroughs, in part because of the worldwide recession but also in part because the U.S. "backed off from [the latter] goal even before the meeting began."[6]

The other exception was the successful inauguration of the Uruguay Round of multilateral trade negotiations finally in 1987. Here the Reagan Administration did take charge, not only in getting the negotiations underway, but also in forming their agenda. The Uruguay Round negotiations are currently proceeding in a number of areas, including not only agriculture and services, but also such new areas as intellectual property rights and trade related investment measures.[7]

With the exception of these two ventures into the realm of multilateral trade liberalization, all of the events listed in Table 1 represent either increased barriers to trade or only discriminatory reductions in barriers. Thus, the U.S. either renegotiated existing barriers or negotiated new ones in textiles, autos and sugar in 1981, in steel in 1982 and 1984, in machine tools and textiles in 1986, and in semiconductors in 1987. At the same time, the U.S. eliminated trade restrictions, but only with particular trading partners, in the Caribbean Basin Initiative in 1983, the US-Israel Free Trade Agreement in 1985, and the US-Canada Free Trade Agreement in 1988. Given the special place that had previously been accorded to the Most Favored Nation principle of nondiscrimination in the GATT for the preceding 35 years, the departure from this principle in the negotiation of these free trade agreements has been cause for concern.

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[6] Aho and Aronson (1985, p. 20).

[7] See Baldwin and Richardson (1988) for extensive discussion of the Uruguay Round.

On the other hand, the U.S. position is that these free trade agreements will serve as stimuli to multilateral liberalization. The hope is that countries who are left out of such bilateral arrangements will recognize the advantages of being included, and so will be more amenable to participation in multilateral reductions in trade barriers. This could be especially useful if the bilateral arrangements are also able to lead the way into hitherto uncharted territories of liberalization, such as the new topics being discussed in the Uruguay Round. The success of the US-Canada FTA in dealing with some of these issues is indeed suggestive that this may be the case. On the other hand, until the Uruguay Round is completed successfully, it will be impossible to know whether the short-term adverse effects of discrimination are outweighed by the long run benefits of the stimulus these agreements may provide to progress on the multilateral front.

Finally, I should mention one other theme of the trade policies of the Reagan years that does not stand out as clearly in the listing of events in Table 1 but that is nonetheless distinctive of the period. U.S. trade policies have been used actively in an effort to induce our trading partners to open their markets, and thus to expand trade not just by increasing US imports but also by pressing for increases in exports, both of the U.S. and of other countries as well.

One example of these attempts to open up foreign markets was the Semiconductor Accord of 1986. Here the U.S. persuaded Japan to stop what was alleged to be dumping in third country markets, and also to increase the U.S. share of the Japanese domestic market for computer chips. This second half of the agreement, then, was intended to remove what were perceived to be barriers to the U.S. penetration of the Japanese market and, if successful, would have demonstrated the ability of U.S. trade policy to negotiate the opening of foreign markets. Unfortunately, as it turned out the increased share of the Japanese market was not achieved, and the U.S. proceeded in 1987 to impose sanctions against a variety of imports from Japan. There has still not been much progress in this area, and it remains the case that this policy, which was avowedly intended to expand trade, has had the effect of contracting it.

II. Trade Volumes

As a first step in assessing the trade policies of the Reagan years, I look at trade itself. There are obviously a great many factors that can influence the volume of trade other than the stance of trade policy, and it would therefore be inappropriate to conclude that trade policies have been, say, restrictive just because trade has not grown, or vice versa. Nonetheless, the volume of trade surely provides the first piece of evidence that one must look at, since it constitutes the backdrop against which other indicators of trade policy must be viewed.

Table 2 therefore reports the volume of exports and imports of the United States for the years 1973 through 1987. Both merchandise trade and total trade are reported, as well as the trade balance (net exports) based on total trade. Because both exports and imports might reasonably be expected to expand and contract with the level of overall economic activity in the economy, and also to abstract from the considerable changes in prices that occurred over the period, the table reports all of these values as percentages of U.S. GNP. It appears from the table that, as fractions of GNP, exports have grown only slightly while imports have grown considerably over the last fifteen years. Consequently, the trade balance, which has been in deficit over most of this period, has grown steadily worse.

It is somewhat difficult from the table to discern any further patterns in these data. Figure 1 therefore illustrates the data by graphing total exports and imports as a function of time. From this graph it is evident that while exports and imports both grew during the 1970s, the level of exports then fell off in the 1980s while the level of imports remained approximately constant. Thus the Reagan years have been marked by a decline in total exports and roughly constant total imports. This is hardly the record one might expect of a regime of liberal trade.

Of course the performance of exports and imports in the 1980s has been very much associated with the behavior of the U.S. exchange rate. The considerable appreciation of the dollar in the early 1980s was notorious for stimulating U.S. imports and depressing exports, while the subsequent depreciation was expected to have the opposite effects. The effective value (trade weighted) of the U.S. dollar is therefore also reported in Table 2 and in Figure 1, to assist in interpreting what occurred.

From Figure 1 it appears that, while the effect of the dollar appreciation in retarding exports is evident, the presumed effect of the appreciation in expanding imports is not. Total imports reached their peak in 1980, before the appreciation had begun, and remained approximately level thereafter. Thus if the appreciation did have its presumed effect in stimulating imports, then there must have been something else happening that offset this effect. This supports the presumption that other trade policies may have been becoming more restrictive.

I should point out, however, that merchandise imports did behave somewhat differently from total imports. As is shown in Table 2, merchandise imports grew from 4.6 percent of GNP in 1980 to 7.0 percent of GNP in 1987. Much of this increase can indeed be attributed to the rising dollar. Evidently, then, the failure of total imports to grow over this period was due to a substantial decline in non-manufacturing imports.

To check, therefore, on the sectoral performance of U.S. trade, Table 3 reports exports, imports, and trade balances for selected years broken down by sector. From this it is clear that primary product imports did indeed decline substantially from 1980 to 1987, and that virtually all of that decline occurred in the fuels sector. Thus, the message given by the performance of total trade in Figure 1 may be misleading. Looking instead only at manufacturing trade in Figure 2, the message is much more neutral. Exports fell and imports rose after 1980 in a manner that can perhaps reasonably be attributed to the appreciation of the dollar.

III. Formal Trade Barriers

I turn now to an investigation of the formal trade barriers that the U.S. has maintained against imports. While one might expect that an investigation of the openness of U.S. trade policy would be primarily concerned with such formal barriers, it turns out that they are not very useful indicators. The reason is that tariffs, on the one hand, have played only a rather minor role in trade policy in recent years, while other barriers to trade are singularly difficult to get information about. Nonetheless, an examination of U.S. trade policies would be incomplete without at least looking at the information that does exist.

Tariffs

Tariff levels were bound by the members of General Agreement on Tariffs and Trade (GATT) at the time of its formation. Since then tariffs in all GATT members have been reduced substantially, mostly through a succession of rounds of trade negotiations. The levels of U.S. tariffs are therefore almost entirely reflective of these negotiations. Since the last completed negotiation, the Tokyo Round, was completed in 1979, the behavior of tariffs in the 1980s reflects decisions that were made in the preceding decade. They are relevant for understanding the trade policies of the 1980s only to the extent that any previously negotiated changes in tariffs may have posed difficulties of adjustment during the 1980s as the negotiated reductions were put in place.

Table 4 reports the levels of Pre- and Post-Tokyo Round tariffs for the U.S. and for an import-weighted average of seventeen other major industrialized countries. Since the Tokyo Round tariff reductions were phased in over the eight years beginning in 1980, these figures accurately reflect the performance of tariffs over the Reagan years.

As can be seen, tariffs have been highly uneven across sectors, even at the rather aggregated level of the mostly 3-digit ISIC industries reported in the table. Even before the Tokyo Round, sectoral tariff levels in the U.S. ranged from a low of 0.5% in Paper and Paper Products, to a high of 27.8% in Wearing Apparel. The range of tariff levels reported for the other industrialized countries was somewhat smaller, though this is undoubtedly because of the averaging across countries. The average tariff levels in these other countries were noticeably higher than in the U.S.

A result of the Tokyo Round was to reduce tariffs in virtually all sectors and countries.[8] The U.S. average tariff fell from 4.5% to 3.1%, while that of the other industrialized countries fell from 7.1% to 5.5%. However, the pattern of tariffs across industries remained roughly as it had before, and there does not seem to have been any tendency to make very large reductions in tariffs of individual sectors, either in the U.S. or elsewhere. It does not seem likely, therefore, that the Tokyo Round tariff cuts were large enough to have caused noticeable dislocation in individual industries that would have created a need for other policies to assist in the adjustment.[9] On the contrary, one can conclude that tariffs were largely irrelevant to the performance of trade policy in the Reagan years.

Nontariff Barriers

In view of the low levels of tariffs in the industrialized countries, it is generally regarded that other trade restricting measures, so-called nontariff barriers or NTBs, constitute today the more important impediments to trade.[10] These can in principle include any and all policies other than tariffs that can impact on trade, but the main forms of NTBs that get attention are import quotas and voluntary export restraints (VERs). Unfortunately even these fairly well-defined forms of NTB are notoriously difficult to quantify, and other forms of NTB are often difficult even to document.[11]

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[8]The Tokyo Round also had a number of other important results, many involving nontariff barriers. See Deardorff and Stern (1983).

[9]This conclusion has been confirmed by Deardorff and Stern (1983) and others who have used computable general equilibrium models to evaluate the employment and other adjustment effects of the Tokyo Round.

[10]See Deardorff (1987) for other reasons why nontariff barriers are used.

[11]See Deardorff and Stern (1985) for a discussion of these difficulties.

Therefore most investigators of NTBs have had to make do with an admittedly very poor and often misleading measure of the presence of NTBs: the percent of trade that appears to be covered by them. The accuracy of this measure is itself suspect since, on the one hand, the presence of many NTBs is difficult to ascertain, and, on the other hand, other NTBs that are known to be present, such as quotas, may well be redundant and hence have no effects on trade. Furthermore, even if measured accurately, this means of quantifying of NTBs can be misleading. The more restrictive a particular NTB may be, and hence the smaller is the volume of trade that it permits, the smaller will be the percent of trade that it appears to cover. In the extreme, a complete import prohibition would not show up at all in such a measure of trade coverage.

Nonetheless, there does not exist any other generally available method for measuring NTBs, and I therefore report in Table 5 some limited information of this sort about NTBs in the U.S. and elsewhere. Unfortunately the only data available are for the years 1973 and 1983, which do a rather poor job of characterizing the behavior of NTBs in the Reagan years.

What appears from the table is, first, that the overall trade coverage of NTBs did not change much over that ten year stretch. The trade coverage by NTBs in the U.S. did fall, but only slightly, from 22.3% to 19.3%. Given the inaccuracy of the measure being used, that is hardly a significant change. Furthermore, by this measure the coverage by NTBs in the other industrialized countries actually rose a tiny bit.[12] Therefore by this measure it does not appear that nontariff barriers either increased or decreased significantly during the second half of the 1970s and early 80s.

There do appear, however, to have been noticeable changes in NTBs in a few particular sectors. The trade coverage by NTBs declined substantially, for example, in the food, apparel, footwear, and printing and publishing industries, while it increased

[12]Because the source for these data did not happen to include the Common Agricultural Policy of the European Economic Community in 1973, but did include it in 1983, I have excluded European agriculture completely from the calculation.

substantially in wood products, metal products, and transportation equipment. Thus there is evidence, if not of protectionism, at least of activism in the use of nontariff trade barriers.

It is unfortunate that these data, poor as they are, do not extend through the remainder of the Reagan years. One can only speculate on what these trade coverage measures would look like today. I noted in Table 1 a number of NTBs that were instituted after 1983, including the expansion of the coverage of the VER on steel, the VER on machine tools, and the semiconductor accord. Also, in its 1986 renewal the multifiber arrangement was extended and tightened. At the same time, I am not aware of any important NTBs that have been removed since 1983, except for the lapsing of the VER on automobiles from Japan that has nonetheless been extended by Japan voluntarily. Therefore it appears that when data comparable to Table 5 do become available for a more recent year, they will probably show an expansion, not a contraction, of the trade coverage of NTBs during the Reagan years.

IV. Administered Protection

It is sometimes argued (notably by Canada) that the most pernicious barriers to U.S. imports are not the formal barriers that exist for long periods of time, but rather the administrative and legal arrangements that we have for interfering with trade on a short-term basis whenever another country exports to us too successfully. These arrangements are sometimes concocted informally (as in the VERs on autos and steel discussed above), but most of them arise during the often very active administration of U.S. trade law. It may therefore be instructive to examine the record of trade actions under U.S. law to see whether this avenue for protection has been used more frequently and/or more successfully during the Reagan years.

Table 6 reports the numbers of cases filed and successful under each of five sections of the Trade Acts of 1974 and 1979. These numbers are taken from a computerized inventory of trade actions that has been assembled and maintained by my colleague, John H. Jackson. For the purpose of the table I have sorted the completed cases by the latest date for which any action was taken, excluding dates of any court challenges, and I have omitted any cases that were still pending. Cases are classified as successful only if all relevant agencies made affirmative determinations and if some form of import relief was thereafter provided. For sections of the law in which there is presidential discretion, then, the successful cases include only those for which the president did provide some relief.[13] The tabulation includes filings under the escape clause[14] (section 201 of

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[13]If a case was decided negatively by the agencies but nonetheless led to some form of relief by the president, as was the case with autos in 1981, then the case has been counted as unsuccessful. This biases the number of successful cases downward somewhat, though such cases are unusual.

[14]The escape clause is the U.S. implementation of the safeguard clause, Artlicle XIX, of the GATT. It permits firms and workers in industries that are injured by imports to seek temporary protection from those imports. There is no presumption in an escape clause action that the foreign importers are behaving unfairly.

the 1974 Trade Act) and the two major statutes involving unfair trade[15] (sections 301 and 337) from 1975 onward. It includes filings of countervailing duty cases[16] and anti-dumping duty cases[17] (sections 701 and 731 of the 1979 Trade Act) only since 1980, due to the fact that these sections of the law were substantially modified in the 1979 Act.

The numbers convey a mixed message. Certainly the flow of cases has been substantially greater during the 1980s than before. This increase is exaggerated in the table by the fact that pre-1980 filings of countervailing duty and anti-dumping cases are excluded. However, the revision of the law in 1979 had the effect of shifting many of what would have been escape clause actions to these latter two categories, so that the total is not as misleading as it may at first appear.

The percentage of successful cases overall has also gone up. As indicated in the lower right of the Table, 29% of the cases filed during the Reagan years were successful, while only 22% were successful during the 1975–80 period.

On the other hand, much of this shift is also accounted for by the shift to use of the countervailing duty and anti-dumping statutes. The percentage of successful cases under each of the first three statutes actually fell during the Reagan years. Thus one could argue that the Administration has in fact been more stringent in deciding and acting upon trade cases of particular types, and that it has only been the changing composition of the cases that has caused the success rate to increase.

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[15]Section 301 is a broad statute that permits industries to seek government action when foreign governments engage in unfair trade practices, usually against U.S. exports. Section 337 is a much more specific statute, usually used to deal with foreign infringement of U.S. patent and other intellectual property rights.

[16]Countervailing duties are the tools, permitted by the GATT, for retaliating against foreign government subsidies that affect trade. Industries that can establish that they are competing with subsidized imports can seek tariff protection equal to the subsidy under Section 701.

[17]Dumping is defined as exporting for a price that is either below the home market price or below cost. Industries can file for protection from such dumping, in the form of an anti-dumping duty equal to such price differential, under Section 731.

Nor can one necessarily ascribe any increase in either cases filed or cases successful to the actions of the administration. In 1979 the Congress made deliberate changes in the requirements for getting trade relief under the law, with the intent of making that relief more easy to get. Judging from the numbers in Table 6, those changes in the law were quite successful in achieving their objective.

Whoever may deserve the credit or the blame for these results, the fact remains that during the 1980s petitioners have had a better than one in three chance of getting relief from trade competition by filing under the U.S. trade laws. Considering the low cost to the petitioner of such a filing in comparison to the benefit that may accrue if protection is granted, these odds must provide quite an incentive to make use of the system. I would conclude that objections to the U.S. system of administered protection are well founded.

V. Fear of Trade Intervention

Often international trade can be hampered as much by traders' fears of future trade intervention as by actual trade actions that have already occurred. To the extent that such trade actions are written formally into law, this is the concern about administered protection that was just discussed. But a protectionist environment can also give rise to pressures to create new forms of protection, and traders are well aware that securing a share of the U.S. market is no guarantee that access to that market will be continued. On the contrary, import competing firms are often adept at using the political process to promote special measures of trade protection that are in their own interests. And knowledge that this may happen, even though the exact mechanism of that protection may not be known in advance, must enter the decision of a foreign exporter as to whether to attempt to penetrate the market or not. Therefore it is important, in evaluating the trade policies of the Reagan years, also to consider what the political atmosphere was as it pertained to trade, and therefore whether trade may have been deterred by fears of new protection.

Unfortunately, I know of no feasible way to get a handle on the possible protectionist atmosphere that may have prevailed. Precisely because the focus is actions that did *not* occur, but were only feared, there probably can be no objective measure of what those fears were.

On the other hand, there were at least two "non-events" of the 1980s that suggest that protectionist sentiments may have been at a high ebb. The first was the push for domestic content legislation in the automobile industry in the early 1980s. This was ultimately defeated, but the same sentiments that propelled that legislation certainly contributed to the decision to impose a VER on Japanese exports. Furthermore, it appears that the fear of such legislation, along with the VER itself, has been an important factor in leading Japanese auto companies to invest in production facilities in the United States.

The second non-event was the Gephardt amendment. This amendment to the Omnibus Trade Act of 1988 was ultimately defeated, but not before it had propelled Gephardt himself into the political limelight. The perception that a country's bilateral trade surplus with the U.S. may ultimately lead the U.S. to restrict imports from that country has surely not faded away completely, judging from the efforts that a number of exporting countries have taken to try to restrict their exports to the U.S. If governments continue to be concerned about a future protectionist response to these trade imbalances, then surely the firms within those countries who contemplate exporting must share these concerns and take them into account in their decisions.

As the background of the Gephardt amendment suggests, one of the major causes of protectionist feelings in the 1980s has been the aggregate trade deficit. The trade deficit has fostered the perception that foreign exporters were somehow "beating us" at the game of trade, as well as the rationalization that they were beating us by playing unfairly. The trade deficit itself was accompanied, in the first half of the decade, by the tremendous appreciation of the dollar that priced many American goods out of world markets, and this too made the pressures of import competition more acute and added to the clamor for protection. After 1985, as shown in Figure 1, the dollar did decline, and this made it easier for U.S. firms to compete and should have eased the pressure for protection. But the fact that the aggregate trade deficit did not improve with this depreciation, at least initially, may have strengthened the hand of the protectionists even further. For they could argue that the foreign companies and governments were somehow not allowing market forces to work.

Now this is not the place to explain or criticize the policies that may have led to the heightened U.S. trade deficit, or to these two large movements in the value of the dollar. These are issues better left to others who will evaluate the macroeconomic policies of the Reagan years. Suffice it to say only that the trade balance and the exchange rate are both reflections of macroeconomic policies, not of trade policies at the micro level.

However, while the causes of the deficit and the exchange rate movements are macroeconomic, their effects certainly extend into the determination of the level of trade. The role of the exchange rate itself in determining exports and imports has already been discussed. But what is important here is the additional effect that both the deficit and the exchange rate may have in contributing to a protectionist environment. And this environment is in turn a deterrent to trade.

I conclude this section of the paper by looking at the one objective indicator of fears of protection, albeit a very limited one, that I was able to assemble. This is the flow of foreign direct investment (FDI) into the United States. Because the U.S. has permitted a relatively free flow of foreign investment throughout the postwar period, foreign firms that have feared that access to our domestic market through trade might be denied have had the option of investing in that market directly. There are of course many other motives for FDI other than fear of protection, but it is nonetheless worth having a look to see whether the inflow of FDI may have increased during the Reagan years.

Table 7, therefore, presents the data for FDI for the period 1973–1987. It does appear that total FDI into the U.S. attained new highs in the 1980s, especially in the last few years. This is especially true for total investment, though it is also true to a lesser extent for investment in manufacturing alone. The patterns of these data are more easily seen graphically, and I have therefore graphed them over time in Figure 3. Once again, as a simple way of normalizing for growth in both prices and overall economic activity, the data are graphed in Figure 3 as a percent of U.S. GNP.

The message here is that FDI into the U.S. has certainly increased, though not at all smoothly. A peak was reached already in 1981, and this was not surpassed until 1987. To what extent this increase in FDI was motivated by fears of protection is, of course, impossible to determine here.

I would conclude, however, that fears of protection have in fact been substantial during the Reagan years. This conclusion is based, admittedly, as much on memory of the tone of press reports and public policy discussions during the period as on any hard evidence. But the experience with the Gephardt amendment is also strongly suggestive that protectionism, if it could be called by a different name, was a popular cause. And the behavior of foreign direct investment during the period is at least consistent with that conclusion.

VI. Assessing Responsibility

I do not believe that there is any very clear-cut conclusion to be drawn from the evidence presented in this paper. At each stage, the evidence I have found has been at best weak, and often contradictory. The volume of total trade, for example, seemed to stagnate during the Reagan years, while the volume of manufacturing trade did not. Trade barriers in the form of tariffs declined over the period, but solely as a result of the Tokyo Round that had been negotiated in the 1970s. Trade barriers in other forms do not seem to have increased in their trade coverage, at least as of 1983, though they did change their sectoral incidence and it does seem likely that the coverage may have increased after 1983. Filings under the various sections of the U.S. trade acts, whereby industries can seek relief from foreign competition for various reasons, did increase substantially after 1980. However the increase also reflected a shift away from use of the escape clause and the unfair trade statutes and towards the countervailing duty and anti-dumping statutes that had been revised by Congress in 1979. Therefore the increase in filings seems to reflect that change in law, and not necessarily any policy of the Reagan years, and this is supported by the fact that there was not any particular increase in the success rate of petitions under the statutes that had not been revised. Finally, there is anecdotal evidence that the 1980s saw an increase in protectionist pressures, and therefore perhaps in the fears of protection by potential foreign exporters, and this is consistent with the admittedly sporadic increase in the inflow of foreign direct investment that occurred. But this is not hard evidence, and the inflow of FDI can as easily be ascribed to a variety of other causes, many of which would reflect positively on the Reagan administration.

Therefore, in answer to the question of "how well" the Reagan administration performed in the area of trade policy, I can only say that the evidence is mixed. As an enthusiastic advocate of free trade myself, I would certainly not say that the record of the Reagan years was the answer to my prayers. But on the other hand I find it difficult to see the basis for the view quoted in the introduction that Reagan was the most protectionist president since Hoover. I am forced, however reluctantly, to agree more or less with the administration's own self evaluation: that the record was largely similar to that of previous administrations.

Like previous administrations, the Reagan administration did take the lead — with eventual though not immediate success — in initiating a new round of multilateral trade negotiations, and this round promises to expand the province of liberal trade. At the same time the administration gave in more frequently than one might like to pressures for protection in particular sectors. The most distinctive contributions to liberalizing trade that were made by the Reagan administration took the form of bilateral agreements that, while they are almost certainly beneficial, are not an unmixed blessing because of their discriminatory nature. At the same time a number of the administration's trade actions that were most deplored by prophets of liberal trade, such as the semiconductor pact with Japan, were taken with the avowed purpose of opening foreign markets. Thus, again, the trade policies of the Reagan years were a contradictory lot, but this is hardly a novelty among recent administrations in the United States.

There remains the question of assessing who should bear responsibility for this mixed bag of trade policies. It is tempting for his critics to say that the president himself should bear full responsibility for both the good and the bad, since it is his job to lead the Congress and the public (and some would say even the world) onto the high road of liberal trade. It must be equally tempting for members of the Reagan administration itself to seek credit for those policies that did succeed in opening markets, while blaming the Democratic Congress, the self-interested public, or under-handed foreigners for creating situations that forced the administration to choose among the lesser of various protectionist evils.

It is not hard to muster sympathy for the latter view. Robert Baldwin (1982) (who probably would not share this view) has aptly described the formation of trade policy as being the result of an interaction between a supply of protection and a demand for protection. In this view, the administration has the power to supply protection to those who request it, but is reluctant to use that power except when the pressure on it is very strong. It is various private interests within the economy, typically import competing industries, that are the principal demanders of protection, and they make their demands known through lobbyists and through their elected representatives in the Congress who act as market intermediaries, supplying protection that they have in turn demanded from the administration. Demanders of protection pay a price for it in the form of political action, while the suppliers of protection benefit from that political action in furthering other political objectives such as reelection.

In this view, then, the equilibrium level of protection is the outcome of the interaction between both supply and demand, and changes in protection cannot be automatically attributed to either one alone. An increase in protection, for example, could be the result of an outward shift of the demand for protection, and hence be the "fault" of the protectionist forces that impinge on the administration. Or it could be the result of an outward shift in supply of protection, and hence be the "fault" of an administration that has gone soft in resisting otherwise unchanged protectionist pressures.

Thus even if we grant that protection did increase during the Reagan years (which as I've argued is not necessarily the case), we could still absolve the Reagan administration itself from responsibility for that increase by noting that the 1980s were marked by protectionist pressures that were unprecedented in the post-war period. That these pressures did exist, I think, there can be no doubt.

However, I would conclude by pointing out that Baldwin's neat analogy of trade policy formation to price formation in the analysis of a market can also suggest extending that analysis to a general equilibrium system. In general equilibrium it is not enough to explain a change just by noting a shift in supply or demand; one must also examine why the shift took place and how it may have reflected other shifts in other markets.

In the context of the Reagan-years trade policy, what this suggests is that one ask *why* there may have been a shift to greater demands for protection during the 1980s. And I have already alluded to the answer to that: the increased aggregate trade deficit and the accompanying changes in the value of the dollar implied tremendous pressure on many of the industries in tradable sectors of the U.S. economy, and they responded to that pressure by seeking protection.

Thus, while I would not suggest that the Reagan administration was more accommodating to protectionist interests than previous administrations, I would not hold the Reagan administration blameless for the increased demands for protection that occurred. For these were the indirect byproduct of other policies that contributed to the U.S. trade deficit and the appreciation of the dollar. These latter policies are rightly the subject of other contributions to this conference. But it is worth noting in closing that less damage may have been done to the liberal trading system of the world by some of the more egregious protectionist acts of the Reagan administration, such as the proliferation of VERs, than by the macroeconomic policies of the Reagan administration that were not, on their face, intended to effect trade at all.

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Table 1

Calendar of Major Trade Policy Events of the Reagan Years

Year	Event	Description
1981	Renewal of MFA	The second renewal of the Multi-Fiber Arrangement (MFA III) was negotiated, continuing a trend toward tightening its restrictions that had begun with MFA II.
1981	Auto VER	The U.S. negotiated with Japan to limit automobile exports to the U.S.
1981	Sugar Quotas	The existing system of sugar price supports was facillitated by means of a system of quotas.
1982	GATT Ministerial	A GATT Ministerial Meeting was held in Geneva but failed to make any major breakthroughs and did not succeed in launching a new of trade negotiations.
1982	Steel VER with Europe	The U.S. negotiated a comprehensive quota on steel imports from each country of Europe. Further restrictions and agreements regarding steel followed.
1983	Caribbean Basin Initiative	The U.S. extended preferential access to countries in the Caribbean Basin.
1984	Steel VER	An ITC recommendation for quotas on steel was rejected, and instead VERs were negotiated with all major suppliers except Canada.
1984	Trade and Tariff Act of 1984	Renewed Generalized System of Preferences. Reduced tariffs on about 100 products. Strengthened authority to retaliate against unfair trade practices. Broadened criteria for injury in escape clause cases. Provided authority to establish bilateral free trade areas.
1985	US-Israel FTA	A free trade agreement was negotiated between Israel and the U.S.

Table 1 (continued)

Year	Event	Description
1986	Machine tool VER	Negotiated voluntary export restraints on tool imports from four countries.
1986	Renewal of MFA	The third renewal of the Multi-Fiber Arrangement (MFA IV) was negotiated, extending it for five years. At U.S. insistence, the restrictions on textile trade were extended and tightened.
1986	Semiconductor Accord	Japan agreed to stop dumping chips in third country markets and to increase the U.S. of the Japanese chip market.
1986	GATT Ministerial	Approval of agenda to launch the Uruguay Round of Multilateral Trade Negotiations.
1987	Semiconductor Sanctions	The U.S. imposed sanctions against certain imports from Japan in response to violations of the 1986 accord.
1987	Uruguay Round	The Uruguay Round of Multilateral Trade Negotiations was begun.
1988	US-Canada FTA	Negotiations (begun in 1986) for a free trade agreement between the U.S. and Canada were completed.
1988	Omnibus Trade and Competitiveness Act	Provided authority for Uruguay Round trade negotiations. Shifted authority for some aspects of trade policy to the U.S. Trade Representative. Made retaliation against some unfair trade practices mandatory.

Sources: Aho and Aronson (1985), Cline (1987), Niskanen (1988), Tarr (1989), Thompson (1989), and various issues of the *Wall Street Journal.*

Table 2

U.S. Trade and Exchange Rates, 1973–1987

Year	Trade as Percent of GNP					Effective Exchange Rate
	Merchandise Exports	Merchandise Imports	Total Exports	Total Imports	Net Exports	
1973	3.2	3.3	5.2	5.4	−0.2	98.8
1974	4.2	3.8	6.5	6.9	−0.4	99.2
1975	4.3	3.3	6.5	6.1	0.4	93.9
1976	4.2	3.5	6.2	6.8	−0.6	97.3
1977	3.9	3.8	5.8	7.4	−1.7	93.1
1978	4.1	4.3	6.1	7.7	−1.5	84.2
1979	4.6	4.5	6.9	8.8	−1.9	83.2
1980	5.1	4.6	7.8	9.3	−1.5	84.4
1981	5.0	4.7	7.4	8.9	−1.5	100.8
1982	4.4	4.6	6.5	8.0	−1.5	111.7
1983	3.8	4.8	5.7	7.9	−2.2	117.3
1984	3.9	6.0	5.7	9.0	−3.3	128.5
1985	3.7	6.3	5.3	8.9	−3.7	132.0
1986	3.7	6.8	5.1	9.0	−3.9	103.3
1987	4.0	7.0	5.4	9.3	−3.9	90.6

Source: Adapted from GATT, *International Trade*, selected issues, and *Economic Report of the President, 1989*.

Table 3

Total Merchandise Exports, Imports, and Trade Balances By Commodity Groups for the United States, Selected Years, 1973-1987, Billions of Dollars

Commodity Group	Year	Exports	Imports	Trade Balance
Primary products				
Food	1973	16.6	9.6	7.0
	1978	28.0	16.3	11.6
	1980	38.8	20.6	18.3
	1983	34.7	21.0	13.7
	1987	29.3	27.4	1.9
Raw materials	1973	4.0	3.3	0.7
	1978	6.8	5.8	1.0
	1980	10.9	6.4	4.6
	1983	8.6	6.8	1.8
	1987	11.9	8.9	3.0
Ores and other minerals	1973	1.5	1.7	−0.2
	1978	2.6	2.9	−0.3
	1980	5.7	4.1	1.6
	1983	3.3	2.7	0.6
	1987	4.1	2.9	1.2
Fuels	1973	1.7	8.2	−6.5
	1978	3.9	42.1	−38.2
	1980	8.0	86.0	−78.1
	1983	9.6	60.0	−50.4
	1987	7.8	46.7	−39.0
Non ferrous metals	1973	1.1	2.5	−1.4
	1978	1.5	5.1	−3.6
	1980	5.2	7.8	−2.6
	1983	2.3	7.6	−5.3
	1987	2.5	8.2	−5.7
Total primary products	1973	24.7	25.1	−0.4
	1978	42.7	72.2	−29.5
	1980	68.6	124.8	−56.2
	1983	58.4	98.1	−39.7
	1987	55.8	94.1	−38.4

Table 3 (continued)

Commodity Group	Year	Exports	Imports	Trade Balance
Manufactures				
Iron and Steel	1973	3.3	3.0	0.3
	1978	1.7	7.3	−5.5
	1980	3.1	8.2	−5.0
	1983	1.5	7.4	−5.9
	1987	1.5	9.8	−8.3
Chemicals	1973	6.2	2.6	3.6
	1978	14.7	7.3	7.5
	1980	22.7	10.4	12.2
	1983	21.4	12.9	8.5
	1987	28.2	18.6	9.6
Other semimanufactures	1973	2.4	4.4	−2.0
	1978	4.5	8.8	−4.3
	1980	6.9	10.8	−3.9
	1983	6.1	12.6	−6.5
	1987	8.7	21.5	−12.8
Engineering products:				
Machinery for specialized industries	1973	7.8	3.0	4.8
	1978	16.7	7.5	9.2
	1980	24.7	10.9	13.9
	1983	18.1	11.5	6.6
	1987	20.0	25.6	−5.6
Office and telecommunications equipment	1973	4.0	2.4	1.6
	1978	8.1	6.0	2.1
	1980	14.7	9.3	5.4
	1983	19.1	17.0	2.1
	1987	30.3	34.6	−4.2
Road-motor vehicles	1973	6.0	10.1	−4.1
	1978	13.0	21.9	−9.0
	1980	14.3	27.1	−12.8
	1983	14.2	37.0	−22.9
	1987	24.0	73.6	−49.5
Other machinery and transportation equipment	1973	10.6	5.6	5.0
	1978	22.7	11.5	11.2
	1980	37.7	16.8	20.9
	1983	38.3	21.6	16.7
	1987	50.6	45.6	4.9

Table 3 (continued)

Commodity Group	Year	Exports	Imports	Trade Balance
Household appliances	1973	1.1	3.2	−2.2
	1978	2.3	7.3	−5.0
	1980	3.1	7.8	−4.7
	1983	2.5	11.4	−9.0
	1987	3.3	21.3	−18.1
Total engineering products	1973	29.4	24.3	5.1
	1978	62.8	54.2	8.6
	1980	94.5	71.7	22.7
	1983	92.1	98.6	−6.5
	1987	128.1	200.7	−72.5
Textiles	1973	1.2	1.6	−0.4
	1978	2.2	2.1	0.1
	1980	3.6	2.5	1.1
	1983	2.4	3.3	−0.9
	1987	3.1	6.5	−3.4
Clothing	1973	0.3	2.2	−1.9
	1978	0.7	5.5	−4.8
	1980	1.2	6.9	−5.7
	1983	0.9	10.4	−9.5
	1987	1.2	22.1	−20.9
Other consumer goods	1973	1.9	4.5	−2.6
	1978	4.3	10.7	−6.5
	1980	7.5	14.5	−7.0
	1983	6.3	18.9	−12.6
	1987	9.1	38.3	−29.1
Total manufactures	1973	42.7	42.5	0.2
	1978	90.9	95.8	−5.0
	1980	139.5	125.1	14.4
	1983	130.7	164.1	−33.4
	1987	179.4	317.5	−138.1
Total Merchandise Trade	1973	68.6	69.5	−0.9
	1978	135.5	171.1	−35.6
	1980	212.9	254.3	−41.4
	1983	194.6	268.0	−73.4
	1987	243.6	422.4	−178.8

Note: Totals may not agree due to rounding; exports f.o.b.; imports c.i.f.

Source: Adapted from GATT, *International Trade, 1980/81*, *1983/84*, and *1987/88.*

Table 4

Tariff Levels of the U.S. and Other Industrialized Countries[a]
Pre- and Post-Tokyo Round, Percent

Industry	ISIC	Pre-Tokyo Round (1979)		Post-Tokyo Round (1988)	
		U.S.	Other Industrialized	U.S.	Other Industrialized
Agr., For., & Fishing	1	2.2	8.9	1.8	9.2
Food, Bev., & Tobacco	310	6.3	13.6	4.7	12.3
Textiles	321	14.4	10.6	9.2	8.4
Wearing Apparel	322	27.8	18.7	22.7	15.5
Leather Products	323	5.6	4.3	4.2	3.0
Footwear	324	8.8	14.4	8.8	13.3
Wood Products	331	3.6	2.6	1.7	2.5
Furniture & Fixtures	332	8.1	10.3	4.1	7.4
Paper & Paper Products	341	0.5	7.3	0.2	5.3
Printing & Publishing	342	1.1	3.1	0.7	1.7
Chemicals	35A	3.8	9.8	2.4	7.0
Petrol. & Rel. Prod.	35B	1.4	1.5	1.4	1.4
Rubber Products	355	3.6	6.4	2.5	4.4
Nonmetallic Min. Prod.	36A	9.1	5.3	5.3	3.8
Glass & Glass Products	362	10.7	10.4	6.2	8.1
Iron & Steel	371	4.7	5.9	3.6	4.4
Nonferrous Metals	372	1.2	2.2	0.7	1.9
Metal Products	381	7.5	9.3	4.8	6.2
Nonelectric Machinery	382	5.0	7.0	3.3	4.8
Electric Machinery	383	6.6	10.5	4.4	7.8
Transportation Equip.	384	3.3	8.9	2.5	7.5
Miscellaneous Manufac.	38A	7.8	7.7	4.2	4.9
Total Traded		4.5	7.1	3.1	5.5

[a]Other industrialized countries are: Australia, Austria, Canada, Finland, Japan, New Zealand, Norway, Sweden, Switzerland, and the European Economic Community (Belgium-Luxembourg, Denmark, France, Germany, Ireland, Italy, Netherlands, and the United Kingdom)

Source: Based on data supplied by the Office of the U.S. Trade Representative

Table 5

Percent of Trade Covered by Nontariff Barriers in the U.S. and Other Industrialized Countries[a] 1973 and 1983

Industry	ISIC	1973 U.S.	1973 Other Industrialized	1983 U.S.	1983 Other Industrialized
Agr., For., & Fishing[b]	1	1.4	43.9	2.9	18.4
Food, Bev., & Tobacco	310	45.4	19.6	31.1	63.2
Textiles	321	41.3	28.1	43.5	38.1
Wearing Apparel	322	66.1	41.2	4.1	56.9
Leather Products	323	0.0	1.3	0.0	12.5
Footwear	324	51.2	29.1	25.2	10.8
Wood Products	331	0.0	0.0	59.3	6.6
Furniture & Fixtures	332	0.0	0.0	0.0	7.9
Paper & Paper Products	341	0.0	0.8	0.6	8.9
Printing & Publishing	342	60.6	4.4	4.6	2.0
Chemicals	35A	0.0	4.6	1.6	7.5
Petrol. & Rel. Prod.	35B	56.2	45.1	39.1	15.4
Rubber Products	355	0.0	4.0	3.5	8.5
Nonmetallic Min. Prod.	36A	0.0	9.8	4.0	10.3
Glass & Glass Products	362	0.0	0.0	5.1	2.3
Iron & Steel	371	10.0	7.7	9.8	25.0
Nonferrous Metals	372	0.0	8.5	0.5	4.2
Metal Products	381	0.0	3.1	13.9	4.2
Nonelectric Machinery	382	0.0	2.2	1.9	4.4
Electric Machinery	383	8.3	6.7	4.0	13.1
Transportation Equip.	384	1.8	13.4	5.7	28.2
Miscellaneous Manufac.	38A	0.5	3.4	5.4	9.1
Total Traded		22.3	18.6	19.3	18.7

[a]Other industrialized countries are: Australia, Austria, Canada, Finland, Japan, New Zealand, Norway, Sweden, Switzerland, and the European Economic Community (Belgium-Luxembourg, Denmark, France, Germany, Ireland, Italy, Netherlands, and the United Kingdom)

[b]Coverage for agriculture excludes the European Economic Community due to lack of data on the Common Agricultural Policy.

Source: World Bank tape.

Table 6

Trade Actions Filed and Successful, 1975–1988

Trade Action (Section)	Year														Subtotals		Total
	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1975-1980	1981-1988	
ESCAPE CLAUSE (201)																	
Cases Filed	3	12	11	10	2	5	2	1	2	5	2	4			43	16	59
Successful	0	1	2	3	1	2	0	0	2	1	0	0			9	3	12
% Successful	0	8	18	30	50	40	0	0	100	20	0	0			21	19	20
UNFAIR TRADE (301)																	
Cases Filed	1	2	3	1	1	8	2	8	1	7	4	4	3	6	16	35	51
Successful	0	2	3	0	1	7	1	1	0	5	3	4	3	3	13	20	33
% Successful	0	100	100	0	100	88	50	13	0	71	75	100	100	50	81	57	65
UNFAIR TRADE (337)																	
Cases Filed	2	18	10	9	22	16	19	20	22	37	40	17	21	16	77	192	269
Successful	2	2	3	2	9	5	5	5	3	9	10	3	3	3	23	41	64
% Successful	100	11	30	22	41	31	26	25	14	24	25	18	14	19	30	21	24
COUNTERVAILING DUTIES (701)																	
Cases Filed						67	17	100	20	12	36	16	14	2	67	217	284
Successful						1	1	6	14	5	7	7	7	1	1	48	49
% Successful						1	6	6	70	42	19	44	50	50	1	22	17
ANTI-DUMPING (731)																	
Cases Filed						31	13	53	41	37	78	65	52	12	31	351	382
Successful						6	5	4	17	16	11	30	31	7	6	121	127
% Successful						19	38	8	41	43	14	46	60	58	19	34	33
TOTAL																	
Cases Filed	6	32	24	20	25	127	53	182	86	98	160	106	90	36	234	811	1045
Successful	2	5	8	5	11	21	12	16	36	36	31	44	44	14	52	233	285
% Successful	33	16	33	25	44	17	23	9	42	37	19	42	49	39	22	29	27

Source: From a trade action database maintained by John H. Jackson.

Table 7

Foreign Direct Investment into the United States, 1973–1987, Millions of Dollars

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Total	2656	3695	1414	2687	3728	7897	11877	16918	25195	13792	11946	25359	19022	34091	41977
Manufacturing	1120	1646	593	625	1414	3197	3672	5755	7445	2742	3542	3992	8049	11865	20443
Selected Industries															
Agriculture								189	146	83	50	−9	−29	111	233
Dairy Products								12	48	31	30	1	127	199	10
Ferrous Metals								29	138	−187	−290	284	−289	208	98
Textiles and Apparel								2	72	1	−4	47	36	270	247
Lumber and Wood Products[a]								40	−19	11	−7	−43			59
Motor Vehicles and Equipment								222	−35	315	300	99	235	362	217

[a]Data for 1985,86 suppressed to avoid disclosure for individual companies.

Source: *Survey of Current Business*, various issues

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Figure 1

U.S. Trade as Percent of GNP

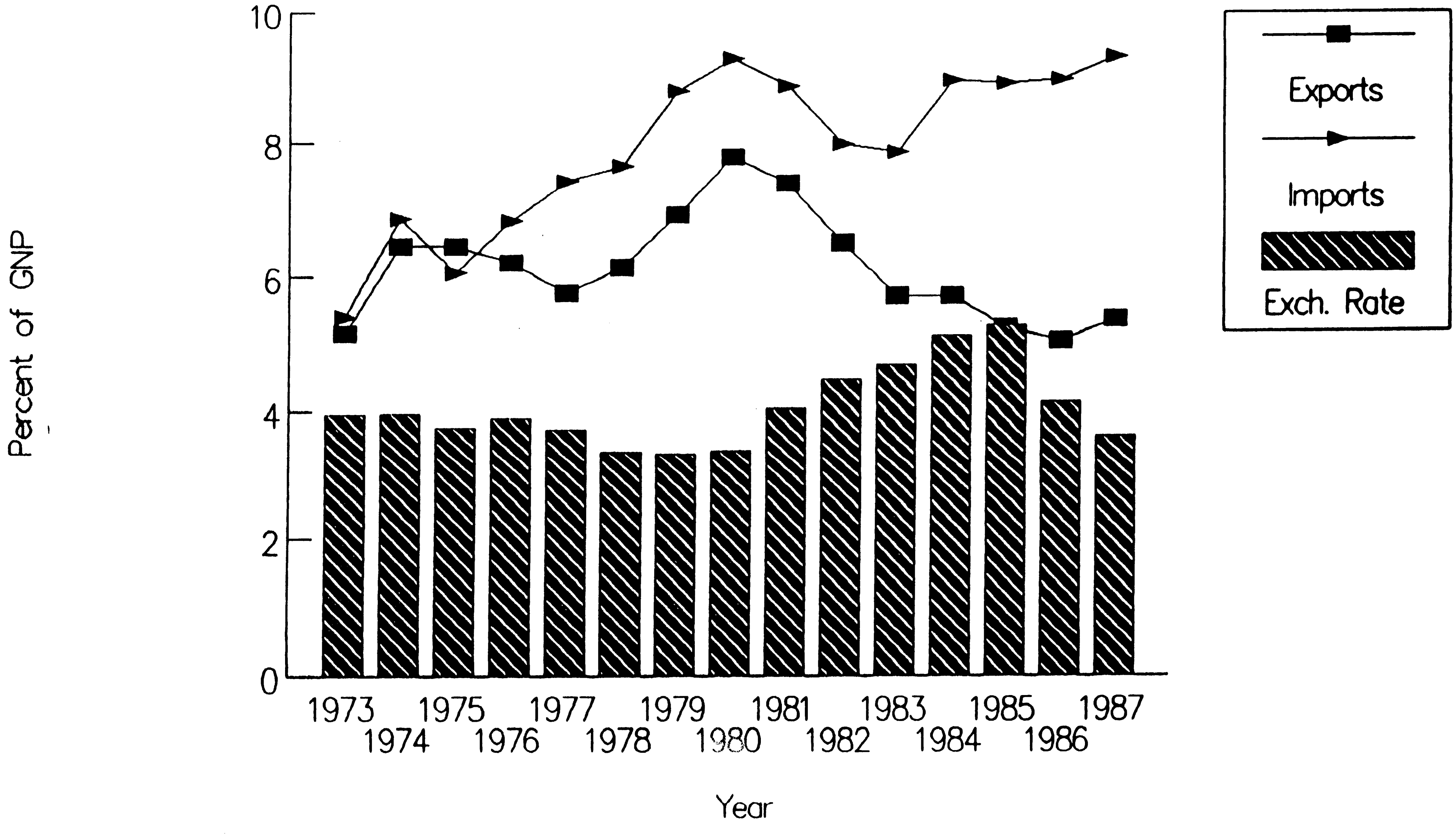

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Figure 2

Manufacturing Trade as Percent of GNP

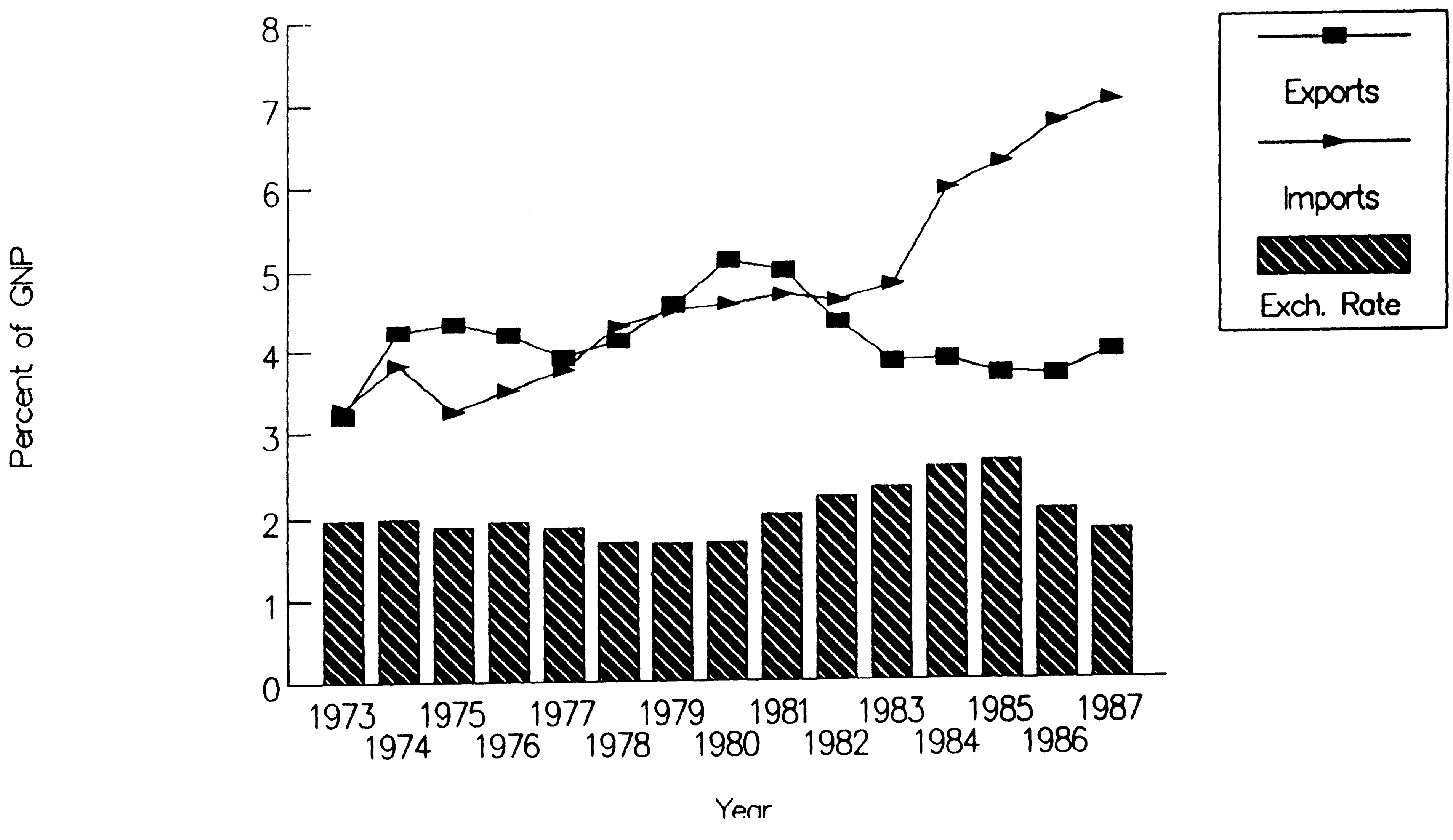

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Figure 3

Foreign Direct Investment in the U.S.