Tim McKeown, "Firms and Tariff Regime Change: Explaining the Demand for Protection," *World Politics*, Vol. 36, pp. 215-233.

In short
Firms have different preferences with respect to tariff regimes, based on the degree to which they rely upon exports and the degree to which they face competition from imports. The strength of these preferences may vary with the degree of economic prosperity. The pattern of these preferences ultimately translates into government policy on tariffs.

Central Question
How can we explain government tariff policy?

Central Hypotheses
In a government responsive to societal demands, the underlying pattern of firm preferences for higher or lower tariffs will determine the prevailing tariff regime. The pattern of firm preferences depends upon the degree to which specific firms are import-competitive, export-oriented, or mixed-interest, and upon the degree of prosperity or economic crisis.

How he makes his argument
McKeown assumes that the government must either raise all tariffs or lower all tariffs. He characterizes four different levels of profit that a state can gain with respect to other states in the international system. In a system of high tariffs around the world that are mirrored by high tariffs in the state being considered, there are neither exports nor imports. In a world of low tariffs that are mirrored by low tariffs in the state, there are both exports and imports. In a world of high tariffs in which the state maintains low tariffs, there are very few exports from the state, and firms face losses due to imports. Finally, in a world of low tariffs in which the state maintains high tariffs, firms export with competition from imports, but face increased production costs from inputs. McKeown moves on to characterize three different types of firms—import-competitive firms that export little and prefer high domestic and foreign tariffs, export-oriented firms facing little import competition that most prefer low domestic and foreign tariffs, and mixed-interest firms, which export while facing import competition, which most prefer high domestic tariffs and low foreign tariffs.

McKeown uses his typology to illustrate that even without the diffuse interests argument, it is possible that forces favoring low tariffs will have greater trouble mobilizing in favor of their preferences. He asserts that there is greater variance in the payoffs associated with low tariffs, which decreases the expected utility of low tariffs for these firms. Using this logic, he concedes that it is difficult to explain away tariff decreases, so he tries to relax some of his assumptions. First, he recognizes that all product tariffs do not necessarily go in the same direction, and that some industries can take advantage of "conditions of local superiority" to get their desired reductions (220). Secondly, he notes that especially during periods of prosperity, government officials who, for some reason, prefer lower tariffs can enact those preferences at minimal electoral cost.

McKeown next turns to another factor that will determine the willingness of a firm to agitate in favor of one policy or another—the inclination of a firm to satisfice. As he puts it, "when aspirations are satisfied, efforts to attain more of a given good are reduced," (221). With respect to international politics in general, he argues that getting to a particular equilibrium requires much more distinct environmental conditions than does maintaining that equilibrium. This applies to tariff regimes in the following manner—"once the tariff-supported price exceeds that required to induce the firm to operate at full capacity, the owners of the firm derive sharply diminished marginal revenues from a given increment in price," (223). Because profit levels change with the business cycle, the expected utility of policy outcomes also shift, which means that rather than adjusting expected profit, firms may change their preferences with respect to certain tariff levels. More specifically, McKeowns advances several propositions. First, as implied above, firms will generally be indifferent to tariff levels in times of prosperity, when they are meeting their targeted profit levels anyway. Indifference also occurs when there is no possibility that any firm will achieve its desired profit level. As the probability that foreign tariffs will rise increases, so, too, does that likelihood that export-oriented and mixed-interest firms will prefer higher domestic tariffs. If export-oriented and mixed-interest firms cannot gain their desired profit level in a world of high tariffs, regardless of the level of domestic tariffs, they will prefer low tariffs as long as foreign markets can somehow punish them (with lower profits, rather than higher tariffs). Import-competing firms that can meet their desired profit level only where there are high domestic and foreign tariffs, or if they can meet their desired profit level only where there are high domestic tariffs, regardless of the level of foreign tariffs, they will naturally prefer high domestic tariffs (in the latter case, any possibility of retaliation is required). Mixed-interest firms whose only possibility of reaching desired profit levels occurs in a world of low tariffs with high domestic tariffs will prefer high domestic tariffs as long as foreign retaliation is uncertain. Export-oriented firms who cannot achieve their desired profit level in a world of high tariffs, and where there is a high domestic tariff and low foreign tariffs will prefer low domestic tariffs as long as there is a possibility that foreign tariffs will not go up.

More concisely, import-competitive firms generally prefer high domestic tariffs, a preference that is weakened only when foreign tariffs will not change in the face of domestic tariff increases. Export-oriented firms will prefer low tariffs as long as they are below their preferred level of profit in a closed system, a preference that is intensified by increases in the probability that foreign tariffs will decline with domestic tariffs and that foreign tariffs will raise tariffs in retaliation for increased domestic tariffs. Mixed-interest firms are more sensitive to foreign reciprocity. McKeown believes that the incorporation of satisficing behavior does not exclude tariff decreases the way that maximization theory does. He concludes by comparing the period between 1848 and 1914 to the post-World War II era, arguing that governments were less constrained by societal interests in the former period, and that the present proliferation of foreign direct investment and prospect of capital mobility should dampen all firms' sensitivity to tariff fluctuations.