Helen Milner, "Trading Places: Industries for Free Trade," *World Politics*, April 1988

Headline: Increased international economic interdependence since WWII was a major reason why protectionism did not spread widely in the U.S. in the 1970s and 1980s, as it had during the similar economic decline of the 1920s. Interdependence and internationalization altered many U.S. firms' trade policy preferences and mitigated protectionist sentiments.

Summary

Both the 1920s and 1970s were times of very similar economic distress and instability in the United States. In the 1970s, the U.S.' economic hegemony eroded, as America's share of world trade, exports, and productivity declined significantly – just as they had in the 1920s. Given these similarities, many analysts expected U.S. trade policy in the 1970s and 1980s to mirror to the massive protectionism of the 1920s. While trade barriers did increase somewhat in the 1970s, however, U.S. protectionism never reached anything near the levels of the 1920s. Milner seeks to explain this difference in U.S. trade policy in two nearly identical economic situations.

Milner first presents and rejects three alternative explanations for the relative lack of protectionism in the 1970s:

1) *Hegemonic decline* – U.S. hegemony had not declined fully. Therefore, protectionist pressures were limited. <u>Problems</u>: a) incorrectly links military power and trade policy; b) U.S. relative economic position in 1920s was weaker than in 1970s.

2) *International trade regime* – GATT system partially mitigated protectionist sentiments, whereas lack of regime in 1920s led to huge trade wars and Depression. <u>Problems</u>: regimes only play an intermediate role – need to supplement with analyses of other domestic/international forces.

3) *Domestic policy-making structure* – Shift in tariff-making authority from Congress to President, norms shaped by Great Depression's lessons, and/or changing ways of making trade policy within the executive branch have limited protectionism. <u>Problems</u>: U.S. does not have a single, coherent "national" trade policy – need to look across industries, firms, and government agencies to really understand how structure determines policy outcomes.

Milner puts forth a new argument: increased international economic interdependence after WWII gradually altered the domestic economic policy preferences of many U.S. actors. In particular, U.S. firms became increasingly internationalized (more exports, more imports of raw materials, intrafirm trade, multinational production) and were less active in lobbying for trade protectionism during the economic decline of the 1970s. Milner puts forth five reasons why internationalized firms will resist calls for protectionism, even when faced with increased competition from foreign producers:

1) Firms that export or produce abroad will fear foreign tariff retaliation and its costs
2) Protection in one market may hurt a firm's exports to third markets as exporters divert trade
3) Firms producing globally view trade barriers as costs undermining competitiveness
4) Import-dependent firms will see higher costs from protectionism
5) Intra-industry rivalries create opposition to protectionism (domestic-focused firms become relatively more competitive)

Milner presents several case studies focusing on those industries that saw the greatest increase in import competition, high unemployment, and other economic difficulties in the 1920s and 1970s (e.g., footwear, semiconductors, and machine tools in the 1970s, woolens, fertilizer, watches in the 1920s). Overall, she concludes that **the more integrated a firm was into the international economy, the less likely it was to seek import restraints even when imports rose significantly.** For example, fertilizer producers (1920s) and semiconductor companies (1970s) avoided protection because of their high degree of internationalization, whereas woolen (1920s) and footwear producers (1970s) demanded increased protection. Since many more industries and U.S. firms were internationally interdependent in the 1970s than in the 1920s, overall calls for trade barriers were significantly less powerful and U.S. trade policy was consequently less protectionist.

Qualifications to Milner's argument: Within industries, divisions persisted in each period, as multinationals shunned protection and domestically focused smaller firms demanded it. Where industries were divided, their effect on trade policy outcomes was reduced. Finally, industries' preferences did not always translate directly into policy – there appears to have been a general bias against trade protection in the 1970s as government agencies and firms learned the lessons of the Great Depression era, when prohibitive tariffs led to economic disaster.

Ultimately, Milner claims her domestic politics argument is superior to the previous explanations since it can better account for differences in trade policy preferences among industries at any one time and over time. She does, however, believe her explanation to be complementary to the other approaches.