

America and Trade Liberalization: A Revisionist Account

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Introduction

Few political events elicited the level of scholarly attention and debate that followed the 1934 congressional delegation of tariff setting authority to the president. Congress rarely gives up its branch prerogatives; even more rarely is government re-organization credited with good policy. Scholars, in turn, filled pages of journals with explanations of the why and how of this delegation. Some authors focused on the role played by the association between the Great Depression, Smoot Hawley, and the rise of America's presence in the world¹, others on the democratic realignment that gave unchecked power to the Democrats², and still others on the fact that post Smoot-Hawley, tariffs became a 'hot potato' issue³. While the explanations for the impetus for delegation vary widely, the effect is less contested. All analysts agree that granting tariff-setting authority to the president was a requisite for the opening of the US economy. The 1934 Act is said to have insulated congress from pro-protection interest groups, either by mobilizing a counter weight exporter lobby or more simply, by undermining the ability of social actors to get access to the locus of decision-making.⁴

Given this degree of scholarly attention, it is surprising that there has been no detailed analysis of how, and what, products protected pre-delegation became subject to tariff reductions, post-delegation. What data has been offered has been highly aggregated, making it difficult to differentiate among the multiple tariff lines in industry groupings. Given the level of attention IR scholars have paid to the rise of US power in the post-WWII years and the pride of place given to the expansion of the Executive Office in that explanation, understanding *how* the US opened up may be as important as is the fact that the market did ultimately open up.

Below, we address this lacunae through a detailed analysis of US tariff levels between 1928 and 1964. We examine data at the level of the tariff product, providing information on what products were reduced when and with whom. We focus on a sub-set of products, those that were highly protected, since these were both the logical focus of tariff reductions and the producer groups previously most successful in gaining tariff protection. Our analysis leads us to re-consider the conventional wisdom on the effects of delegation and the political foundations of America's market liberalization.

First, we find that industries that had enjoyed protection prior to, and in the Smoot Hawley tariff, retained their high tariffs, post delegation. If we believe that delegation insulated congress from having to heed to the needs of powerful industries, we should expect, at minimum, to see tariff reductions on highly protected industries at least as deep as those on other products. We do not find

¹ For example, Irwin (2011)

² For example, Hiscox (1999)

³ For example, Fiorina on retrospective voting (1978, 1989, 2002)

⁴ Gilligin (1997)

this. Instead, the bulk of tariff concessions were made from industries that had relatively lower tariffs and presumably less clout in congress. Given this finding, it does not appear that the 1934 trade Act undermined the traditional relationship between congress and producer groups.

Second, we find that delegation may not have insulated congress from societal pressure, but it did change the politics of tariff setting, less because of congressional abdication than a new ability of presidents to structure congressional choice. Post delegation, Congress remained as active in setting trade policy as pre-delegation, repeatedly requiring Presidents to ask for a renewal of tariff setting authority. In that shadow, the Executive Office used agenda control to choose when, with whom and what products were subject to a trade treaty. Presidents understood that domestic interest groups encounter costs for a sustained campaign to influence congress; given the deleterious effect these groups had on congress, Presidents preferred, *ceteris paribus*, concessions that limited this mobilization. Strategic presidents did not ignore congress but instead, used their authority to assure enough support to continually renew the trade agreements program.

Our explanation of the opening of the US market focuses on institutional rules that allowed forward-looking Presidents to undermine the creation of a majority in congress opposed to continued delegation and thus trade liberalization. Tariff reductions had been mandated to be both reciprocal and based on a principal supplier rule. In fact, Congress had asked for a statement of the principal importer of products in their district, pre-1934 delegation. Representatives knew who would be hurt by market competition. But, treaties were done serially and congress did not know of the offers made during negotiations, by either the US or a trading partner. Negotiators had significant latitude to choose both among products and between possible treaty partners, understanding not only what products would be subject to competition but in whose district the products were being produced most intensely. Highly sensitive products were ignored; countries importing such products were not sought as treaty partners.

We argue below that President's succeeded in opening up the US market, in part, because the form of tariff setting created uncertainty among both groups and representatives, not about whether or not products in their district would suffer from competition but whether or not their products were in the tariff 'bundle.' This lack of information undercut the incentive of Congress to organize. Previous studies have focused on the collective action issues that groups faced post 1934; below, we turn attention to congress and suggest that the president sought to undermine collective action in the legislature as well, thereby assuring continued support for his trade authority.

Theoretical Background

From the perspective of economics, a nation with open trade borders is neither problematic nor interesting -- economic theory suggests that a country maximizes

welfare under a free trade regime. Tariffs and other barriers to trade are inefficient and so famously, 1000+ economists petitioned congress against passage of what mandated the highest tariffs of the 20th century, the Smoot-Hawley legislation. Accordingly, international agreements are unnecessary because nations have a unilateral incentive to keep barriers to trade low. There are exceptions, however. Economists understand that rent-seeking groups may capture and distort government policy; even more problematic, large nations who can affect the world price of an imported product have an incentive to shift some of the cost of a tariff onto foreign producers and garner extra government revenue. Trade treaties in both cases may be necessary, either to constrain the provision of 'pork' or to allow price-setting nations to engage in reciprocal agreements that constrain policies oriented toward improving their terms of trade. (Bagwell and Staiger, 2002)

Political scientists are far less sanguine that governments will favor open trade borders and much attention has focused on the US case where there has been significant variation in commercial policy. Some have argued that openness after WWII should be associated, either as cause or effect, with rising US power. In a classic paper Krasner (1976) suggests that it is in a hegemonic nation's interest to facilitate world trade because they reap the majority of the economic and security gain. Others have focused on the role of international institutions, which can facilitate free-trade deals by lowering the transactions costs of making cooperative agreements (See Keohane for classic statement, 1982). In these accounts, nations are interested in open markets, either because of some national welfare function that government's maximize or because of the structure of international power.

Other scholars, however, find the notion of an aggregated 'interest' difficult to reconcile with domestic politics. Instead, those who study US government have traditionally emphasized the importance of groups, regions, and institutional structures as explanations for government policy. Often, trade policy is used as the quintessential example of such a political process. Interest groups, mostly on the producer side, are often powerful supporters of elected officials and have been able to assure a trade policy to their liking. Whatever the party in control, the specific benefits of the tariff outweigh its diffuse costs, especially in congress where districts are relatively small. Voting rules, district size and electoral competition are argued to be better predictors of tariffs than is either economic or national interests (for example, McGillivray, 1997)

Given the long history of producer involvement in U.S. tariff setting, it is not surprising that the opening of the US market after 1934 became a research puzzle for scholars. While most analysts agree that delegation of congressional authority to set tariffs to the Executive branch facilitated trade liberalization, there is less agreement about why that occurred, the extent of congressional oversight and the role of international treaties and/or delegation, in this process. Unpacking causality is difficult because a large party majority, delegation and a change in tariff setting processes occurred simultaneously. Scholars vary on which of these changes was the most important. Gilligan (1997), for example, focused attention on how export

groups balanced the rent seeking behavior of import competing groups. Bailey, et al (1997) argued that reciprocal treaties mobilized those exporters in particular congressional district; Goldstein and Martin (2001) suggested that dispute settlement procedures in the GATT were key to maintaining congressional support. The debate has been lively and long lasting, in good part because adjudicating among competing explanations for how the US shifted to an open trade policy is difficult.

We offer a new metric for the evaluation of the pattern of tariff reduction. In a domestic oriented explanation for tariff reductions, we would expect delegation to have undermined the position of strong interest groups; in an international oriented explanation, tariff changes should reflect larger US interests, in terms of treaty partners and import patterns. In the first, we would expect trade reductions to be deepest on the most privileged goods; in the second, we expect reductions to vary with the depth and number of treaties. We find fault with both. And while not totally satisfying, the pattern of tariff reduction for the most highly protected goods casts light on what exactly occurred with delegation first to the president and then to the GATT.

Empirical Background

Although Congress passed high tariff legislation throughout the 19th century, the Smoot Hawley tariff in 1930 was notorious, not only because it raised overall customs duties to over 50% ad valorem (an amount not uncommon in the previous century) but because of its timing. After passage of the income tax in 1913 tariff revenue had diminished in importance; after WWI, the US international footprint grew rapidly and the dollar was increasingly used as a world currency. Thus, the decision to return to the previous era of high tariffs was met by universal criticism and what many argue was retaliatory tariffs by trading partners causing or at least aggravating what would become the Great Depression. The height of the tariff wall was not the only source of criticism. For the next generation of scholars and policy makers, the process of passage became the epitome of how interest group involvement and congressional log rolling can undermine the policy process.

High tariffs and the onset of the depression led to new majorities in Congress and the re-legislation of the tariff. The new Act, however, changed the process of setting rates and not the rates themselves. Sidestepping Article 2 of the Constitution, the Reciprocal Trade Agreements Act of 1934 (RTAA) granted the president new authority to lower rates by up to 50%, if he received reciprocal reductions in a partner's tariff. The authority required no *ex post* Congressional vote. Between 1934 and 1947, when the GATT came into force, the President used this authority to conclude thirty-two such agreements with twenty-eight countries. This authority required regular congressional renewal and both Democratic and Republican party majorities re-authorized the program.⁵ When the GATT went into force on January

⁵ The RTAA program was renewed in, 1937, 1949, 1943, and 1945.

1st 1948, congress continued to grant negotiating authority.⁶ By 1962, trade was no longer a partisan issue and both parties had platforms that endorsed the trade liberalization program.⁷

Trade policy making throughout this period was regulated by essentially the same rules and procedures.⁸ The 1934 Act and subsequent renewals stipulated that the President needed to seek advice from the Tariff Commission, the Departments of State, Agriculture and Commerce and from all other appropriate sources before lowering a tariff. To accommodate this mandate a series of committees, the Trade Agreements Committee, country-specific committees and the Committee for Reciprocity Information, were assembled to give interested parties the opportunity to present views. They took briefs and held public hearings. Until 1937, a formal announcement of intent to negotiate was accompanied by a list of the principal producers who could potentially get a tariff cut; afterward, this was later replaced by the 'public' list, which signaled all items that were under consideration in any negotiation.

The 1934 Act also dictated the form of tariff setting. All agreements were bilateral with some foreign government and although treaties had only two signatories, their effect extended beyond the two nations. After 1923, the US was bound by Executive Order to grant Most Favored Nation privileges to our trading partners. Once the US lowered rates for one nation as part of a bilateral process, others with whom we had a MFN agreement benefited immediately from the lower rate. The treaty process in the GATT was multilateral in essentially the same way. Negotiations occurred between dyads but all members of the organization benefited because of the MFN agreement that accrued from signing onto the GATT itself.⁹ Twenty-three

⁶ GATT participation was authorized in 1948, 1949, 1951, 1954, 1955, 1958 and 1962.

⁷ As well as both parties endorsing 'free' trade, by the Kennedy Round, open markets were controlled in the House by the chair of the Ways and Means committee, Wilbur Mills, who "would not let a Democrat on Ways and Means unless he was for the trade program, against cutting the oil depletion allowance and for Medicare." Given that the one example of this recruitment process not working perfectly on trade was that Aime Forand from Rhode Island was on the committee, "it was nearly perfect, as shown by the voting record of the Committee Democrats through the 1957-1967 period." Manley (26). By the time the 1962 Act was signed by Kennedy (10/11/62) he would declare that, "this act is, therefore, an important new weapon to advance the cause of freedom."

⁸ GATT and RTAA comparison show more evolution than revolution in treaty rules. The changes were few and included: a new prohibition against preferences on all articles (not the particular ones in the bilateral agreements); export taxes were prohibited; national treatment was extended to imported articles; there were more narrow rules on antidumping and countervailing duties (an injury criteria was included); there was an expansion of the details on nullification and the escape clause; there were new exceptions: for balance of payments reasons, to create customs unions, and economic development.

⁹ Non-GATT participating nations with whom the US had a bilateral agreement benefited from these changes in the US schedule as well since all the bilateral agreements included MFN provisions. By this time, the US had MFN agreements with XXX nations outside of the GATT.

nations, some of who already had bilateral agreements with the US, participated in the initial GATT negotiation.¹⁰

The Executive was bound by law to negotiate *reciprocal* agreements, meaning that import access necessitated an immediate and monetarily equal export gain. Reciprocity extended to parties withdrawing from the treaty. When this occurred the nation that was losing access had the right to demand compensation, either in the form of a changed tariff in another product or an increase in their own tariff schedule up to the lost revenue. The products on which the reciprocal agreements were initially made were those to which the trading partner was the 'principal supplier.' Nations initiated negotiations with a declaration of a set of products they sought access for in the foreign market. Nations would look at the list of 'demands' and make counter 'offers.' The process thus focused reductions on products that represented considerable importance in their markets. Smaller producers could 'free ride' on a tariff concession but they were never able to affect the change themselves, something that the developing world would complain about in ensuing years

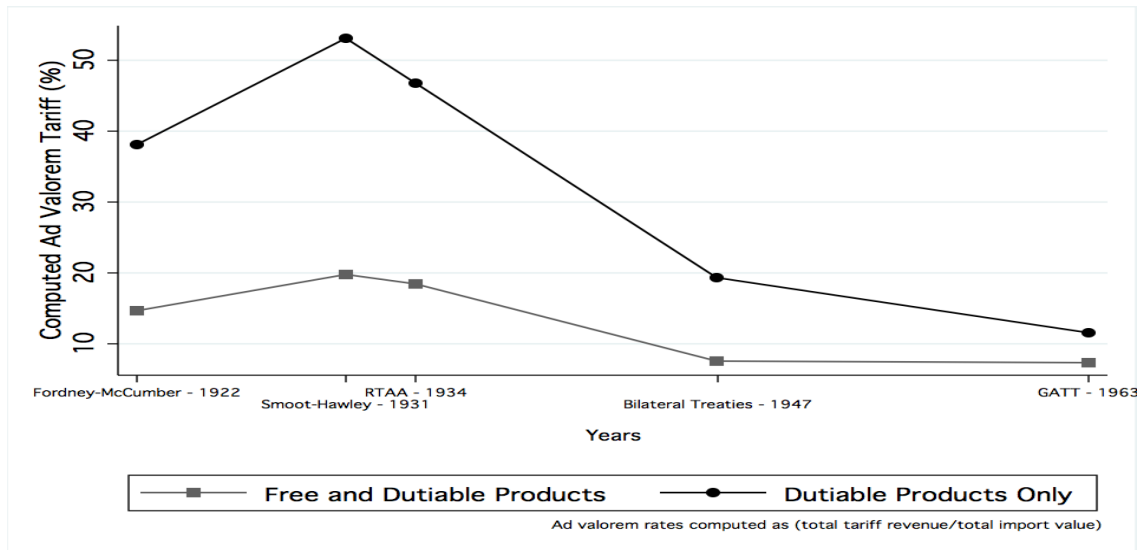
The downward effect on tariffs of these treaties is illustrated in figure one. The trend is evident if we measure duties on free and dutied products or only on products with a duty. There is an increase in tariffs in 1931 that declines after 1934. Following the literature, the data presented in this figure is computed from customs

receipts.¹¹

¹⁰ New treaty partners in the GATT included: Australia, Burma, Ceylon, Chile, India, Pakistan, Lebanon, New Zealand, Norway, Southern Rhodesia, Syria, Union of South Africa.

¹¹ Data is derived from Historical Statistics of the US, series No. XXX.

Figure 1: US Tariffs, 1922-1963



If we want to assess congressional intent, a better measure of changes in tariff policy is necessary since the measure above is sensitive to a variety of economic events exogenous to the tariff rate and is highly aggregated. The better measure of congressional policy is the tariff itself. Thus, to better understand the liberalization process we collected *legislated tariffs* for the years between 1928 and 1963. These were transition years for US policy; it starts with the US advocating high tariff barriers and ends with the US offering free trade as part of a cohesive vision of anti-communism. Given the size of the tariff schedule and the number of industries that were on the 'free list', we focused data collection on industries that had obtained relatively high tariffs during these years. The act of reducing a tariff on a product with a low rate, already facing foreign competition is far less difficult than for producers who have existed under a high tariff barrier. Our interest was in unpacking the data to analyze not all products but those that were privileged under the system in which congress controlled the tariff schedule.

Our data set of highly protected products includes all products that had the equivalent of a 50% ad valorem tariff in the Smoot-Hawley Act. Although we used a computed ad valorem equivalent in order to select our products, we collected tariff levels as legislated, that is, as either a specific rate, an ad valorem rate or as some combination. Once in the data set, we coded the tariff level on our products back to 1928 (pre-Smoot-Hawley level) and forward through the beginning of the Kennedy Round of trade negotiations (when the form of negotiation switched to the use of formulas). In part a result of the liberalization process, our data set grew from the original 585 tariff product lines to over 800 tariff lines because of splits in the tariff schedule of products into more specific categories. Our original products represented about 25% of all imports by value in 1938 so they were a substantial group of products. As overall imports rose, their importance declined although the aggregate value of these imports went up (See figure 2).

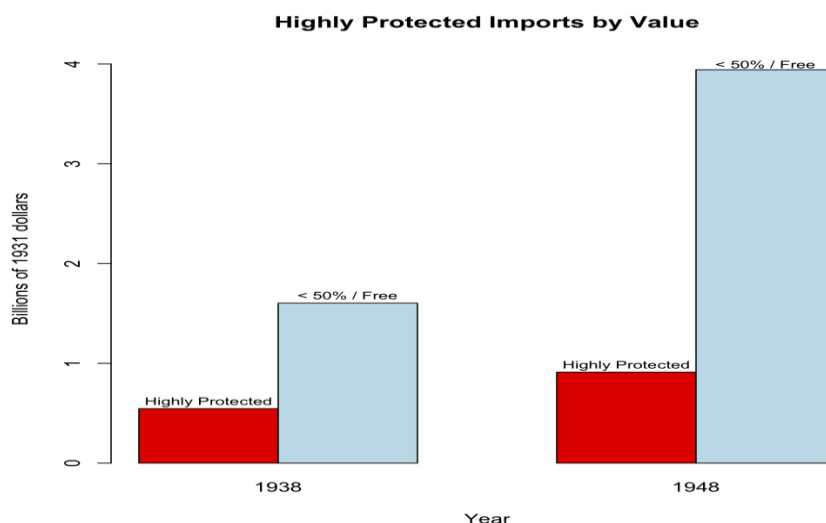


Figure 2

Because we did not sample all industries, many of our conclusions are comparative between these products although we can compare this group with the overall customs revenue data. We chose these products, even given this sampling constraint, for a number of reasons. First, we thought that the general pattern of tariff reductions might overestimate the level of openness in the US by averaging rates. Looking at the most protected, we have the ‘hardest’ case for the liberalization of the US economy. Second, theories of interest group pressure would not inform cases in which products were not traditionally protected or producers were not interested in protection. Selecting highly protected industries allows us to assume that the producers overcame some collective action costs in order to gain protection. Third, by selecting all industries with over a 50% tariff in Smoot-Hawley but collecting data on rates pre-1929, we were able to distinguish products that were ‘long term’ protected from those whose tariffs rose in 1930 because of the idiosyncrasy of the passage of that Act.¹² Given the political history of passage of the Smoot-Hawley Act, we assume that some industries were log rolled into the final bill that had not been traditionally well positioned in congress.

What Happened to Highly Protected Products?

We measure tariff change in two ways. The first looks at breadth within an industry; the second depth of a particular tariff line. The implications of a change in each may be different. In the first, the issue is how products fared given that they often covered a number of different tariff categories. Since tariffs were negotiated as bundles of tariff lines, the number of lines covered in a treaty in any particular

¹² Our choice of 50% to demarcate highly protected goods follows the designation of these goods in government reports. See, *Economic Analysis of Foreign Trade of the United States in Relation to the Tariff*, a report presented to the Senate in S Res. 325, 72nd congress, 2nd session.

product classification can be a good measure of product specific protectionism. The depth of cut is the alternative and more often used measure of tariff policy changes; however, in the absence of knowing demand elasticities, the effect of these cuts is difficult to assess. As we will suggest below, the number of products in a tariff bundle may be the better measure for interest group involvement.

Although tariff rate, computed as an average of *all* rates, fell precipitously under the trade agreements program, tariffs on the products in our data declined more slowly. If we use 1932 as the high point of US tariffs as measured by *total* duties collected (59% average tariff), US tariffs declined 57% under the RTAA program. From the rates starting in 1946, the GATT rounds reduced the average tariff by 54%, amounting to a total of an 80% reduction from the Smoot-Hawley high. These averages can be compared to the reduction in rates among the products in our data set *that had some reduction* in this period (See table one).

Table 1:

Rate of Tariff Reduction of Highly Protected Products

Years	Ad Valorem Rate Reduction	Ad Valorem Lines Reduced	Specific Rate Reduction	Specific Lines Reduced
1930-1946	-19.5	217	-64.3	127
1947-1963	-13.5	440	-31.9	342
1930-1963	-15.4	527	-39.3	410

Note: Products can appear more than one time since the count is of a reduction in either AV or specific rates. If either occurred, they were counted; if both occurred, the product appears twice. While some industries were not cut, others were reduced multiple times

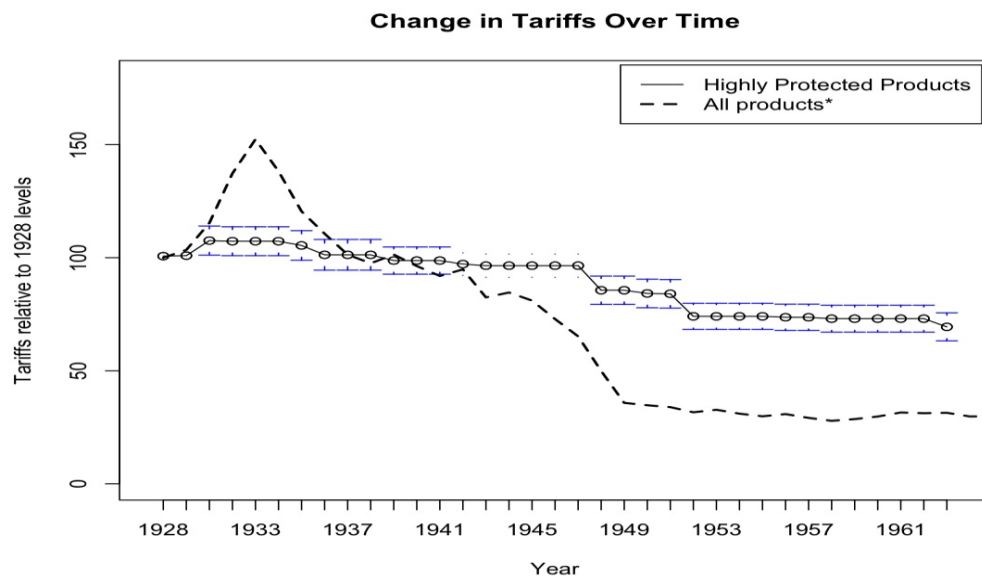
Although the tariff rates on our products declined slowly, and many products were excluded from reductions, many of our products did eventually become part of some tariff package. Including additional product lines created from tariff reclassifications, 41% of these products were part of a bilateral treaty and an additional 22% were reduced in GATT⁴⁷. By the start of the Kennedy Round, 88% of the product lines had some reduction.¹³ Of those products whose tariff rate in 1963 was the same as in 1930, 8% were never split nor reduced and 48 products were created out of splits in order to maintain that higher tariff rate. Since in total

¹³Only four tariff lines moved to the 'free list' during this period: certain champagne products, some precious metals, cotton gloves and wool tapestries of a particular size.

there were 164 products that were reclassified in these years, about $\frac{1}{4}$ of the time a product was split, that division left part of the tariff intact.¹⁴

Figure three looks at the depth of cuts over time, illustrating significant variation between the rate of tariff reduction for our highly protected products and other products. Tariffs are indexed for comparison, allowing us to use both specific and ad valorem rate changes.¹⁵

Figure 3



Since we are interested in the effect of delegation, we divide our data into pre and post GATT years. Of those products with ad valorem rates, there were 216 pre

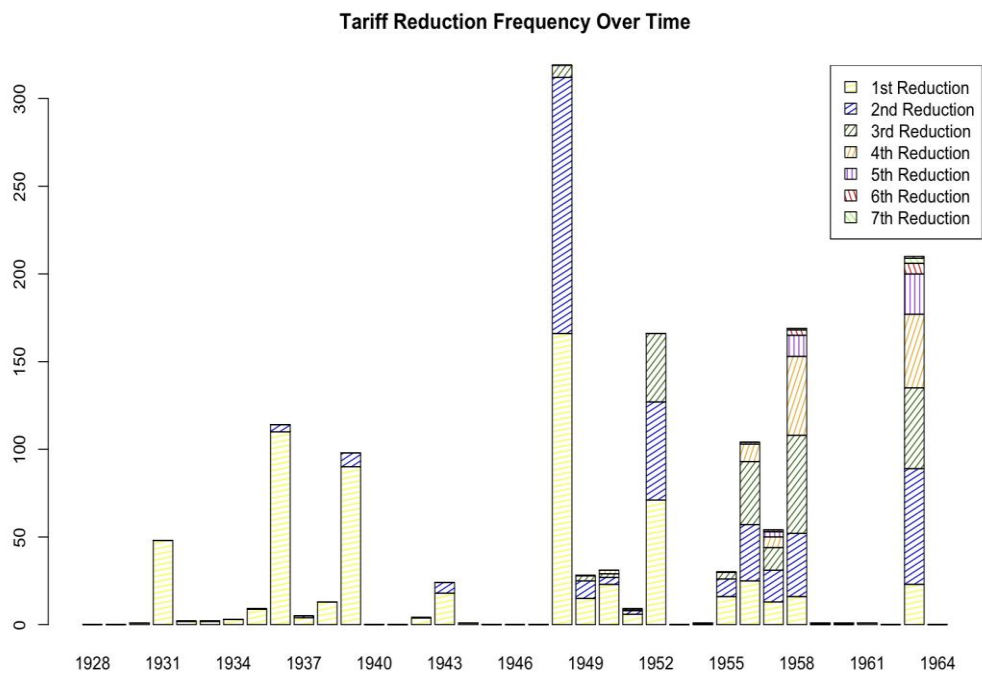
¹⁴ The dimensions of the data set changed over this time period, a result of repeated reclassifications of our original products and then further reclassification of those products. In total, there were 164 times in which a product in the data set was subject to a division and that reclassification created 376 products, some of which themselves were moved into other product lines. When a product was divided, the original tariff classification disappears from the US schedule and we drop it from the data set.

¹⁵ The slope coefficients of post Smoot-Hawley tariff levels regressed on time are -1.1 and -3.8 for highly protected products and all products respectively, with a t-statistic of 10.29 and 31 degrees of freedom.

GATT product cuts and 268 post GATT initial tariff cuts. Comparing these two groups, the initial cut for a product was almost identical: 20 percent in the bilateral years and 19 percent in the GATT years. For items with specific tariff rates, the average cut for the 124 lines negotiated during the RTAA bilateral treaties was 65 percent. For the 200 lines reduced during the initial GATT years, the average change was only 48 percent.¹⁶ For products with specific duties, the bilateral treaty period was one of deeper initial cuts, in good part a reflection of price changes that resulted from the 1933 devaluation of the dollar. Figure 4 illustrates the history of reductions in our products. While the cuts were about the same in the two periods, we see that the GATT facilitated a process of repeated reductions of the same product, something we do not see in the bilateral years.

Figure 4

¹⁶ While the average reduction in specific tariffs is clearly lower in the GATT era (p value<.0001), ad valorem tariffs changed less.



Although we often think about the GATT as having a revolutionary role in tariff reform, the data suggests otherwise. Comparing the bilateral and the GATT periods, they are more alike than different in terms of effectiveness in overall tariff reductions, and they appear to have focused on the same products. This is not surprising. Until the Kennedy Round moves to linear cuts, the GATT process was not different from that followed with RTAA treaties—both legislated dyadic item-by-item negotiations and results of each agreement universalized to nations with MFN status.¹⁷

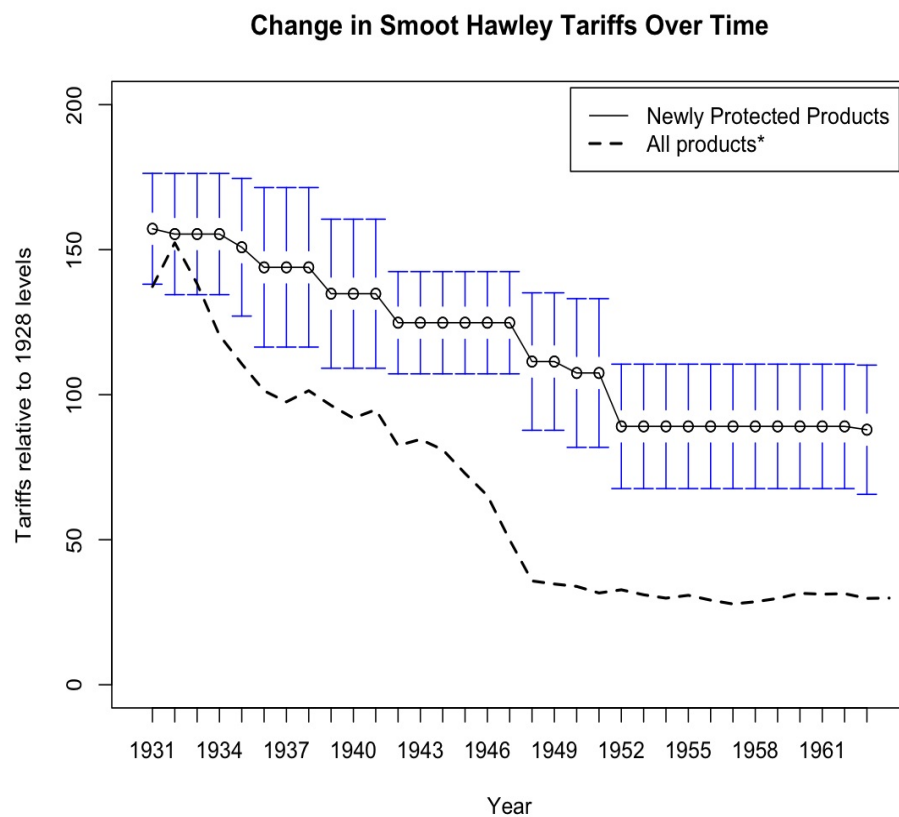
Newly Protected Products

The Smoot-Hawley tariff act was infamous not only for its height but because of the level of logrolling that expanded the number of products highly protected. These “log rolled” products came from industries that did not previously enjoy protection. Logic suggests that they would be less entrenched in congress and given the change in party control, would be more likely to be reduced than those products not included as part of the logroll. To test this, figure 5 shows the division of our

¹⁷ The GATT’s supporters in the US argued in 1945 that the president should go to congress and get support for the GATT to function as after 1962, that is, to use linear across the board reductions. The administration, however, refused to bring forward such legislation, fearing protectionists would veto the act, leaving the president with no support at all for his trade program. As a compromise, they endorsed the GATT but only to orchestrate treaties that were akin to the RTAA treaties. This required no new legislation but merely renewal of existing legislation. Oral History Interview with John Leddy (Truman Library: 1973).

products by whether or not the tariff in 1931 was a result of the Smoot Hawley log roll or reflected more long standing tariff policy. We define the log rolled group as any product whose tariff increased 150% in the Smoot-Hawley bill. What we see is that the slope of the decline for this group is more similar to the all products line although as with our other products, the tariff cuts were less than for other products.¹⁸ Looking at each group, products that were ‘newly’ protected in Smoot-Hawley saw their tariff rates decline about 28% before the GATT talks and then about 15% in the early GATT Rounds. Products that were highly protected before 1930 had a smaller, 12% reduction pre-GATT and a similar, 17% reduction post GATT.

Figure 5



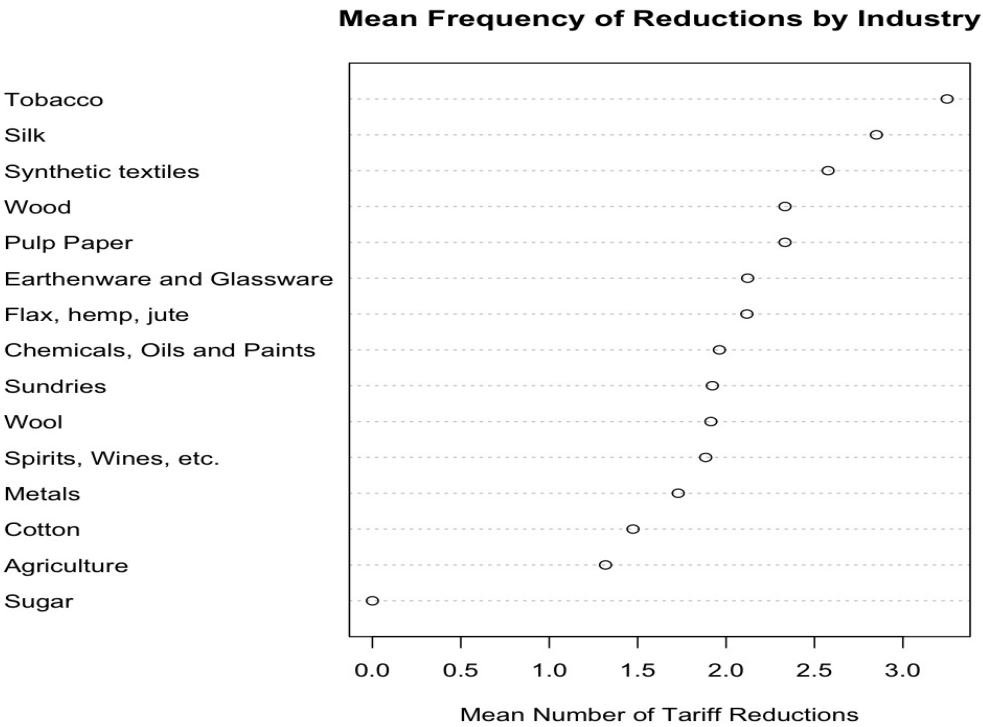
Two patterns are now obvious from both the newly and traditionally protected products. First, much of the tariff changes we associate with this period occurred outside of our products. What reductions occurred were more likely to have been made to the newly protected products. Second, there was no substantial change in

¹⁸ The slope coefficients of post Smoot-Hawley tariff levels regressed on time are -1.7 and -3.8 for newly protected products and all products respectively, with a t-statistic of 2.95 and 31 degrees of freedom.

tariff reduction trends with the creation of the GATT in 1948. Is this pattern of tariff changes better explained by traditional theories of interest group activity?

To assess the role of articulated interest, we coded products by tariff schedule categories and then correlated that with interest group mobilization. Figure 6 organizes our products into those sectors and uses a count of the average number of reductions in each category. Cuts varied by sector. For example, silk and tobacco products were liberalized; sugar and metals less. Figure 7 then reports the test of whether or not testimony in congress predicted tariff cut. Each product representative who presented testimony was coded by sector and whether or not they supported renewal.

Figure 6



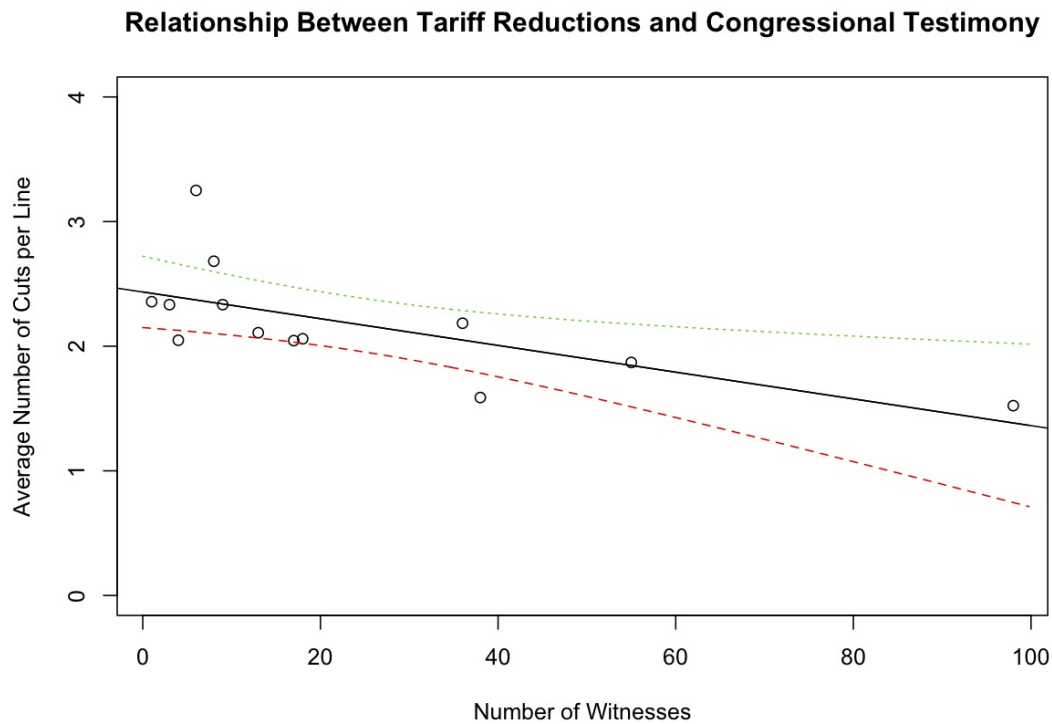


Figure 7

Somewhat surprising, we find a continuing relationship, post-delegation, between interest group activity in congress and tariff rate, suggesting that interest group activity remained an important predictor of protectionism.¹⁹ Thus, for example, consistent with what representatives stated to be industry interest in testimony, tobacco, the most effected by the program, was supportive of tariff cuts while sugar producers, barely touched by liberalization, uniformly fought any and all reductions.²⁰ We conclude that delegation in 1934 did not fundamentally undermine the pressure felt by representatives from powerful producers; it was not a magic bullet that opened up trade in all products.²¹

¹⁹ Regression of number of witnesses on the average number of cuts per line indicates that sectors with 10 additional witnesses have their products reduced 5 percent less often (significant at a level of .014).

²⁰ For example, Millard Brown, President of Continental Mills, came to the House in 1940 and testified that the tobacco industry was dependent upon export markets for 40% of their crop. He argued to lower high import duties and therefore improve foreign trade relationships as a way to aid tobacco producers. Comparatively, in 1949, C.J. Bourg of the American Sugar Cane League was one of a steady stream of spokespeople who came to the House and argued that tariff cuts on sugar hurt domestic producers and that they were in business only because of the quota system.

²¹ See Hiscox, 1999 on the notion of the Magic Bullet.

Explaining Liberalization

If the effect of delegation was not a more shielded congress, what then explains tariff reductions? Any explanation must take into account an activist congress; interest groups continued to pressure representatives and congress did regular and thorough oversight of the trade program. If we look at legislative history, we find that the bilateral treaty format never strayed from the template set by congress in the original 1934 authorization; later proposals by the State Department, which would have changed the nature of negotiations, were rejected, due to an inability to get passed Congress.²² The President and the State Department understood that congress would renew but they would not restructure, even when asked. Thus as more nations negotiated under the GATT umbrella, they were constrained to use the item-by-item approach.²³ Congress forced the publication of, and public hearings on, products in a potential tariff “bundle.” As the number of nations at trade talks grew, the published list of products went from the original three pages, to twenty, and eventually, most of the tariff schedule.

Given repeated congressional oversight (10 renewals before the Kennedy Round was complete), how did the President orchestrate the opening of the US border without endangering his renewal of negotiating authority? For a strategic president, the fear of interest group pressures on congress remained a constant concern. He did, however, have agenda control: he could choose *when* to negotiate, *who* to negotiate with and *what products* to place in a tariff bundle. We hypothesize that he used these ‘tools’ so as to undermine congressional mobilization. We test this through a close examination of the timing, depth and breadth of tariff cuts.

How Did Presidents Assure Congressional Renewal?

We would expect that presidents would be most worried about industry support at renewal time, especially when asking for additional tariff cutting authority, as he did in 1945, 1958 and 1962. This could be manifest in a slowing down of treaty negotiations or a change in the type of products offered by negotiators. For example, the president would probably not expand the number of products cut directly before an authorization for that would increase the possible members of a pro-protection movement. On the other hand, the president had something akin to a ‘hard’ budget constraint, that is, he could only reduce tariffs to a specific level before asking congress to reset the base of tariff reductions. He needed to use up the authority to justify more.

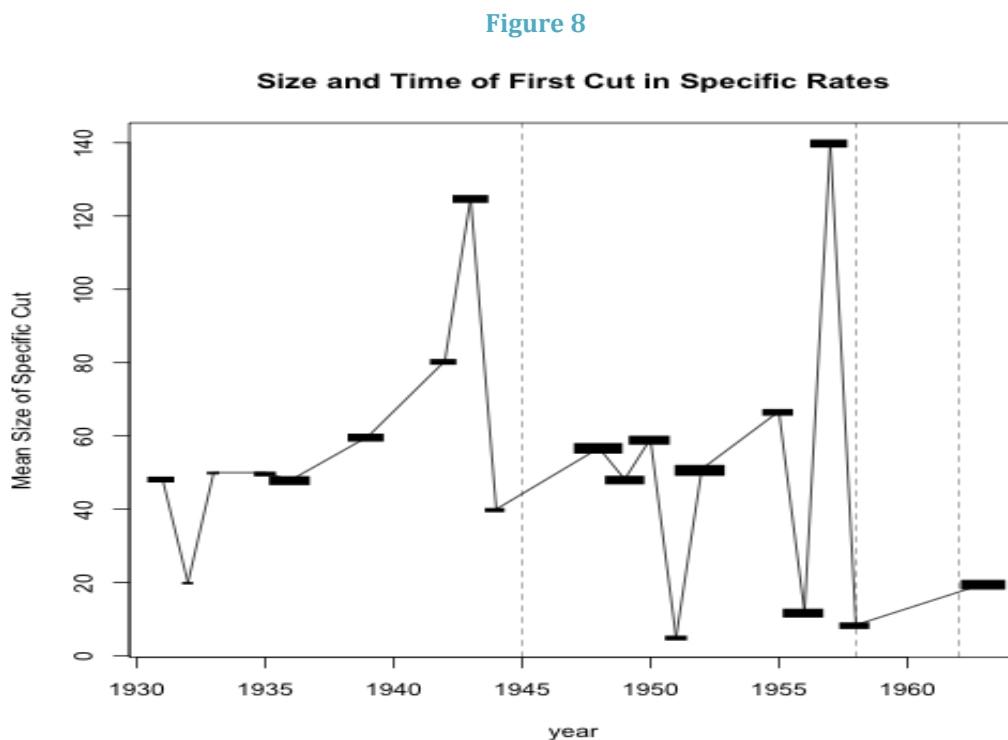
These observations lead us to expect the following from a strategic president.

²² See the oral history of John M. Leddy for insight into administration preferences. Truman Library, Interview by Richard McKinzie, June 15, 1973.

²³ Having everyone at the table to simultaneously negotiate was the Canadian response to the US constraint of needing item-by-item negotiations. They called it: the nuclear approach.

- First, new products would less likely be cut during the period in which congress is considering the re-authorization of an existing tariff reduction level. The logic is that the president would not want to increase mobilization of groups whose interest would undercut his ability to get congressional assent.
- Second, although we should see fewer industries before renewal, we should see bigger cuts. The logic here is that tariff-cutting authority was a fixed constraint the president could not ignore. When he entered a bill asking for an increase in authority, he would have to show that he had negotiated up to the previous limit. But given the first hypothesis, the cuts should be on industries that have already had some reduction in rates.

To assess these hypotheses, we begin by looking at the timing of initial cuts to our highly protected industries. Figure 8 compiles changes in tariff height and number of industries with specific tariffs.²⁴ The years of congressional action are on the X-axis, with 1945, 1958 and 1962 marked as years in which the renewal was not only for negotiating authority but to expand the amount of tariff cutting the president was allowed. The width of the bar represents the number of products cut.



The pattern of cuts appears to be consistent with our hypotheses. The two biggest spikes of cuts precede the president asking for more tariff-setting authority, that is

²⁴ AV rates have the same pattern although less often cut (because they were less often used for our products. The Y-axis measures the actual cut in the rate, not the negotiating year, which always preceded the rate change.

in 1945 and again before the Dillon and Kennedy Rounds. There is variability in the number of products reduced in each period as well.

Figure 9 looks more directly at the size of the tariff packages seen in figure 8, disaggregating the data and grouping them by whether the tariff was cut before, during or post a renewal of authorization. The pattern now is clear: the number of products reduced as part of a trade agreement appears to go down during a period of congressional renewal.

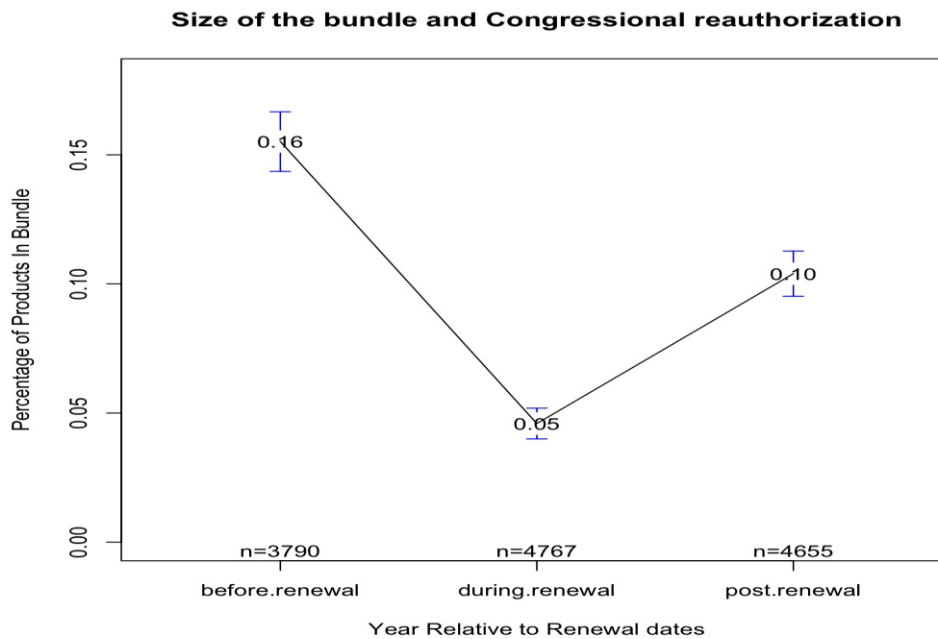


Figure 9

Did the products in the tariff bundle vary with renewal activity? The congressional record suggests that extensions were far less problematic to presidents than were renewals of authority for deeper cuts. If we look at House votes, for example, the 1937 renewal obtained a 75% majority in favor. By 1945, delegation of increased tariff cutting authority could muster only a 61% majority (while the 1943 renewal had 84% of those present voting yes). Figure 10 examines what products were in the tariff bundles, and shows that presidents may have avoided increasing the pro-protection coalition by focusing more on repeat cuts than new cuts in periods before coming to congress with the request for new and deeper tariff cutting authority.

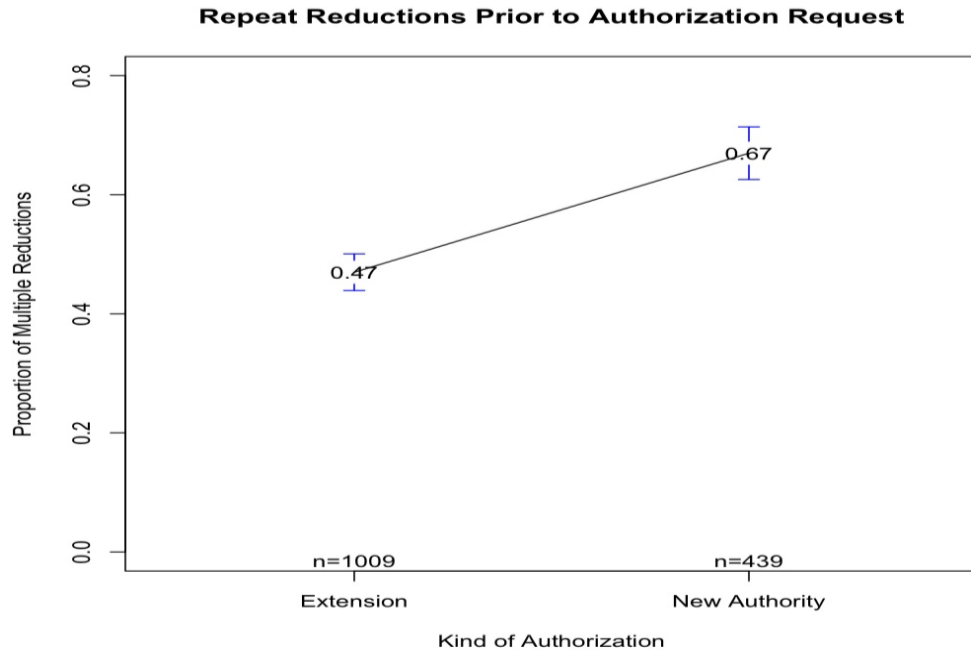


Figure 10

Selecting a Negotiating Partner

In both the RTAA and GATT years, US negotiators were able to choose products and partners, with the knowledge of which districts would feel import pressures. Given congressional oversight, we would expect presidents to pick partners in part, based on what products they exported and as found above, their production concentration. This assumption contradicts the idea that treaties were focused on products in nations with market power. If presidents so chose treaty partners, this would contradict our notion of congressional pressure.

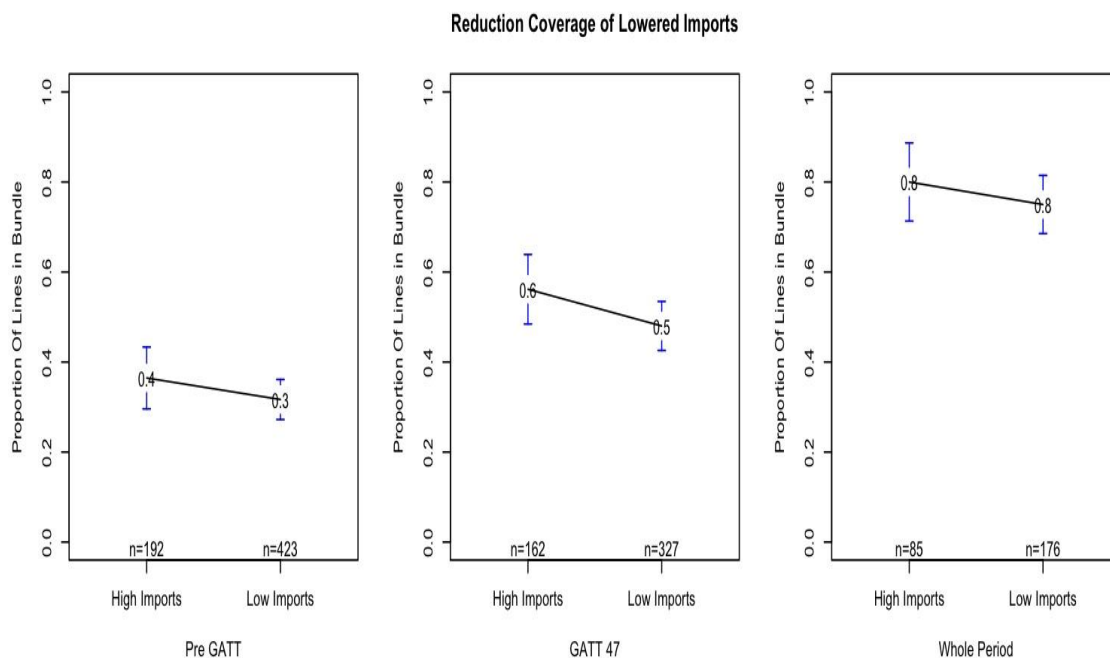
We first test the alternative, ie, that the US selected treaty partners in order to discourage the use of optimal tariffs (Bagwell and Staiger 2002). Given data constraints, there is no price data on our products and/or reliable estimates of elasticities of demand.²⁵ The U.S. tariff commission, however, provides data that can be used as a proxy. In 1934, they reported import data for all of our highly protected products, as well as for the previous three years. The commission data allows us to identify those products whose tariff was so high as to close off imports, measured as less than 5 per cent of domestic production in a given year, and those that did not. We use the 5 percent cut off to define a tariff so restrictive that it closes the market to any exporter of that product. Since optimal tariffs are designed to obtain better prices for imported products and increase tariff revenues, we can divide our tariffs into those that the rate was so high as to cut off trade and those

²⁵ Price data at this level of analysis is not available over this time period for this large range of products.

that allow trade and thus revenue and could be an optimal tariff. Our test is to compare these two groups; we hypothesize that the first group of products, those that were not optimal tariffs, should be treated differently than the second group. Of our products, 48 per cent had negligible imports, and according to economic theory, have no "terms of trade" externality to solve with a trade agreement.

Figure 11 presents the data for our two groups. We look at the number of products reduced and whether or not the product could potentially have been set for terms of trade reasons.

Figure 11



Looking at the reduction history of these two groups, we find no substantial difference between the tariff concessions on the products with potential terms of trade motivations and those with only domestic political economy motivations. Whether we compare tariff cuts within each treaty period or across the two treaty regimes, we find no significant difference in the reduction of tariffs in the two groups.²⁶ Although we use a proxy, there appears no reason to see treaties as a response to terms of trade tariffs.

We return to the alternative hypothesis, that is, that treaties were oriented toward a domestic audience. There is reason to believe this is the case. Treaties were structured around item-by-item negotiation, providing an opportunity to protect sensitive producers. From the earliest years of the trade agreements program,

²⁶ Pre-GATT: $t = 0.2011$, $df = 612.446$, $p\text{-value} = 0.8407$; GATT47: $t = 0.9348$, $df = 482.589$, $p\text{-value} = 0.3504$; whole period: $t = -0.8058$, $df = 258.29$, $p\text{-value} = 0.4211$

Congress had mandated that the Executive office produce lists of potential targets of a tariff reduction negotiation and allow interested parties time to appeal their placement on that list. Thus information was available to both the industry and to congressional representatives of the potential outcome of an upcoming negotiation on a particular producer. Of course, there was uncertainty about whether or not the product would be in a tariff-cutting bundle. Still, producers who feared competition could articulate their interest and negotiators appear to have responded as suggested above.

To examine whether or not treaties served a domestic audience, we begin by reviewing import patterns at the time of delegation. US imports of our highly protected products in 1934 were skewed toward a small range of nations (See figure 12)²⁷. Some, but not all of these nations would participate in the bilateral program; some of those treaties covered many products and others did not.²⁸ At the start of the liberalization process, the treaty that would have elicited the biggest problem for Congress was with Germany, who since the turn of the century had pursued an aggressive export oriented strategy of growth and by the end of the 1920s, had become the principal supplier of more of our highly protected products than any other nation. While the US could have approached Germany as a treaty partner through the 1930s, they chose not to; after that time, larger foreign policy dictates foreclosed such an agreement. Given that Germany was the principal supplier of so many US imports, a simple explanation for continued congressional support may just be that the President made sure that the program left a large number of their constituents untouched. Those who competed with German products had little incentive to expend any private costs to lobby their representative—they were never in danger of a tariff reduction.²⁹

²⁷The figure is organized by number of tariff lines. If done by relative value of the products imported into the US, the order by value would be: Germany, 10.1%, Italy, 9.57%, Argentina, 9.54%, Greece, 8.54%, France, 8.51%, Australia, 7.76%, Uruguay 5.21%. Although the UK represented the second largest number of products in our data set after Germany, the value of these products was only 4.99% of the total value of all highly protected goods.

²⁸ The US concluded bilateral treaties with: Belgium, Brazil, Canada, Cuba, Czechoslovakia, France, Luxembourg, The Netherlands, United Kingdom, Argentina, Columbia, Costa Rica, Ecuador, El Salvador, Finland, Guatemala, Haiti, Honduras, Iceland, Iran, Mexico, Nicaragua, Paraguay, Peru, Sweden, Switzerland, Turkey, Uruguay, Venezuela,

²⁹ West Germany only entered the trading system in 1948 when they were awarded MFN treatment. They entered the GATT in 1951 but substantial negotiations did not occur under 1958 for their products on the US market.

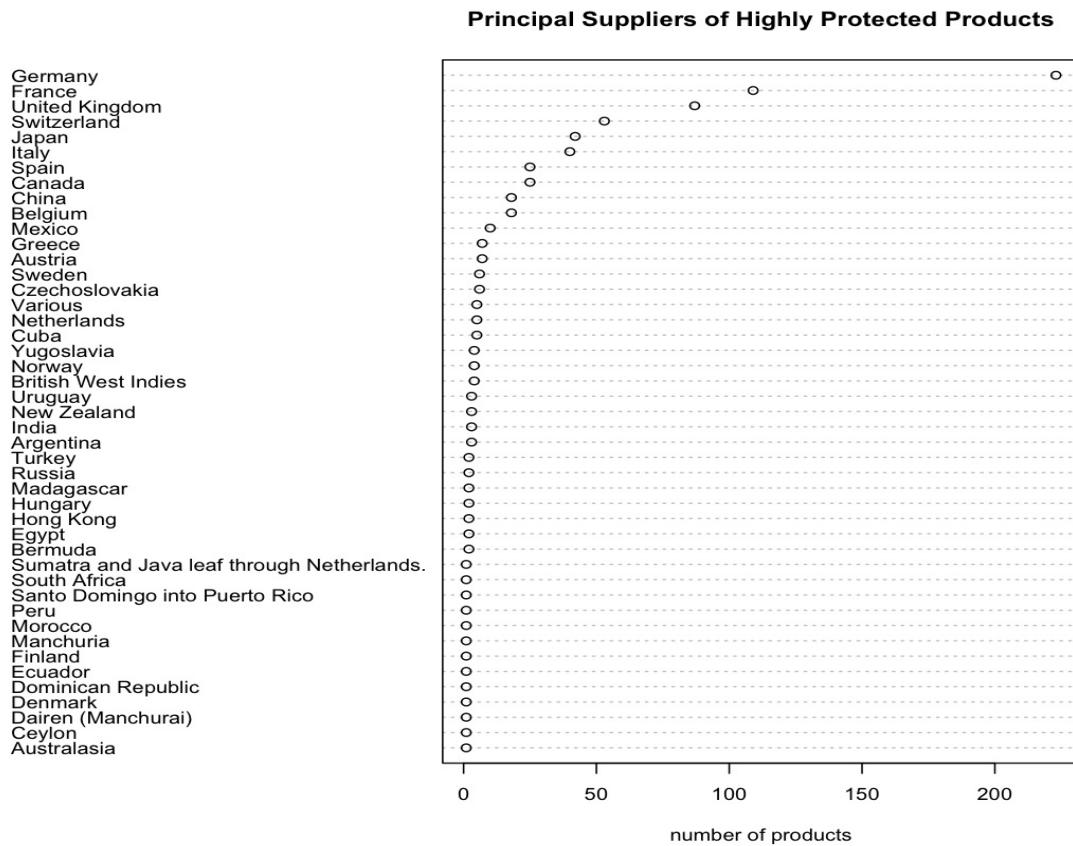


Figure 12

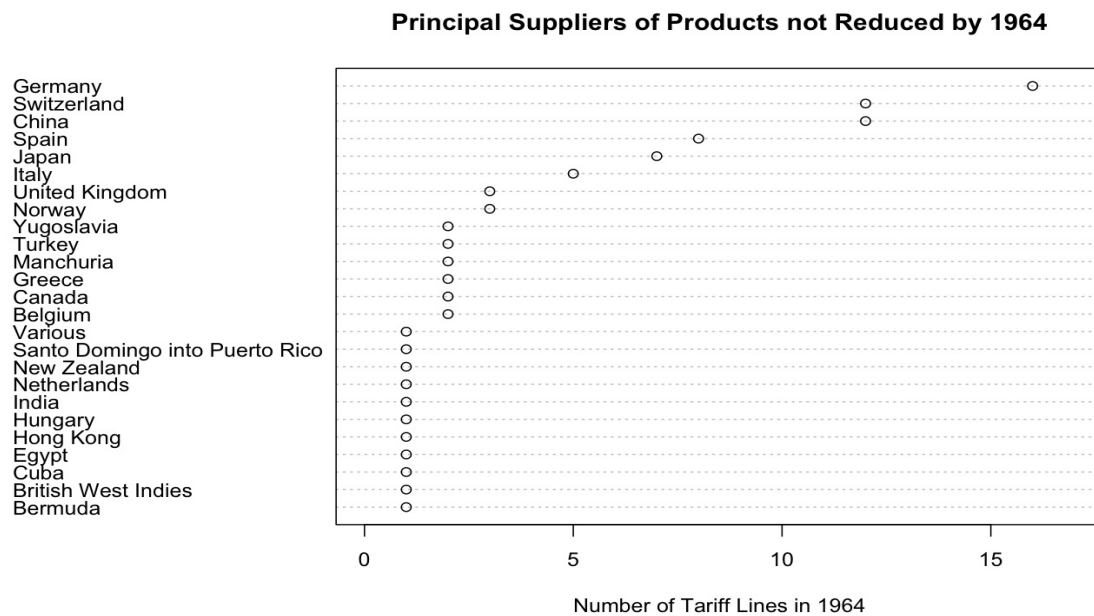


Figure 13

While figure 12 looked at the products at the start of the RTAA process, Figure 13 looks at the import origin of products untouched by liberalization. Consistent with treaty partner, German products were most likely to retain their 1929 tariff rate.

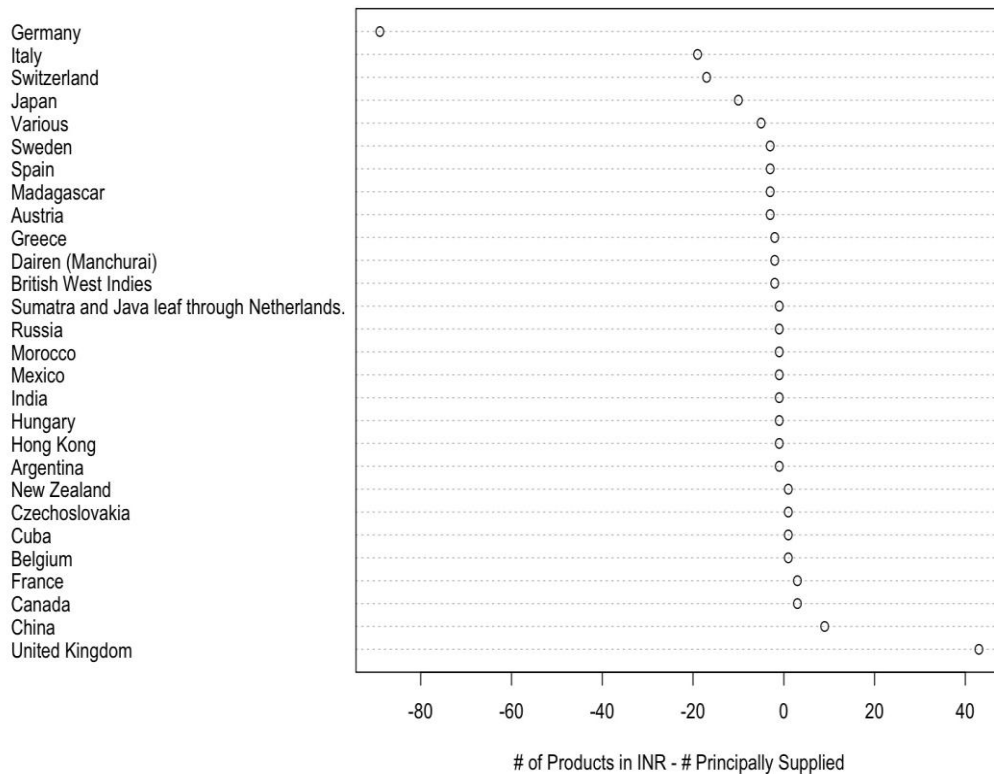
Was the principal supplier rule so intended, that is, to provide clarity about who would and would not be affected by liberalization? In both testimony and practice, it appears that this was the intent of congress. Figure 14 illustrates the norm in practice. For just about all products, the principal supplier of the good in 1931 predicts the treaty partner and the good in question. The one exception is that the UK negotiated on products that were previously supplied by Germany but by 1947, were supplied by Britain.

Legislators well understood the implications of the principal supplier rule. When congress entertained the original bill sponsored by the State Department that allowed the president to negotiate to open the US market, members of the Ways and Means committee balked at treaties, less because it gave the president a new authority (treaties were always in the President's domain) but because the treaties would be shared with others via MFN agreements. The committee worried about free riding on the part of nations who did not give reciprocal access. Hull's response was to explain the notion of a 'chief supplier' and he promised a treaty would only be on a product with a nation that was the low cost producer. Explaining that the world economy was tied into a 'hard knot,' the procedure he said was at best limited, "operating by singling out a leading commodity we buy from one country and ascertaining whether we can enter into, not hurtful relations in trade arrangements that would be a loss to us, but arrangements that would be equally profitable to us and other countries"³⁰ This logic was accepted by congress and became the norm for future trade agreements. The unintended affect of the method was to allow strategic presidents to choose partners as well as products as a means to induce congressional acquiescence with the treaty process. The war made this convenient—some set of products were able to exist under high tariffs for an extended time period.

³⁰ Hearings before the committee on ways and means, reciprocal trade agreements Act, 73rd congress, second session, no. 1, March 8, 1934 (15).

Figure 14

Principal Supplier vs Initial Negotiating Rights in 1947 GATT Negotiations



In sum, strategic presidents could control congressional dissent by choosing with whom to negotiate. All treaties were bilateral and reciprocal. If a product was not on a 'demand' list, it could retain its tariff rate, at least until the US in the 1960s moved to formula reductions. Negotiations focused only on products to which there were each other's principal suppliers. To predict who needed to worry about tariff changes, the average congressman needed only to look at the import pattern of products in his district.

Germany's exclusion was part strategy and part fortuna. It is hard to know what level of opposition would have attended a German-US trade treaty had that been possible. But, the case illustrates the more general importance of a focus on trade partners. Presidents made overtures to nations through 1946 and then with the GATT could choose how to respond to requests for access. Although earlier scholars have focused on the mobilization of exporters as explanation for congressional support, a simpler explanation may be that Presidents could and did strategize on what nations and what products would more likely lead to congressional pressures. Exporters were important but undermining the potential power of interest group opposition remains part of the explanation for how the US opened up its markets.

Selecting Products for Reductions

The most direct tool in the President's arsenal to control congressional dissent was the choice of products to reduce. We hypothesized above that presidents would choose products based on where they were produced. In particular, we assume that the more concentrated was production, the less likely the product would appear on a reduction list. Concentration should both spur individual congressional activity and create the potential of a cross district logroll.

To examine this hypothesis, we examine tariff levels and production patterns more closely. To evaluate the extent to which industry geography matters, we use manufacturing census data to evaluate the spread of production workers in 4 digit industries across nine American regions. The Census of Manufactures provides the number of production workers in each of the 4-digit industries in each region. For example, the "bookbinding" sector employed 14,339 production workers nationwide in 1939.³¹ The share of production in each region is used to calculate a Herfindahl-Hirschman Index, which is a standard formula for determining industry concentration. We calculate the HHI by dividing each industry-region's number of workers by the sum of all workers in the industry, creating a "share" of each industry in each region. We then take the sum of squares of each of these shares, akin to a variance and normalize between 0 and 1. This is our best proxy for congressional district interest, given data constraints.

Figure 15 displays the relationship between tariff cut and concentration of production.³² As we hypothesized, the more concentrated the industry, the less the reduction. This suggests that industries that produced in many locations were more likely to experience reductions as compared to those industries concentrated in a single region. This is broadly consistent with industry pressure, as more concentrated industries should have lower collective action costs.

³¹ Unfortunately, while the trade data includes both manufactures and agriculture, we lack agricultural product specific production data. Excluding these sectors is somewhat problematic, as some of the agricultural sectors, like cotton, are highly concentrated in particular census regions in the U.S., and may be in areas that are less politically competitive.

³² When the tariff change is regressed on the measure of concentration, we get a coefficient of 13 with a p value of .09. Our concentration measure, a HHI, is measured from 0-1, with a mean of .25, meaning that more concentrated industries (overall) are associated with less reduction.

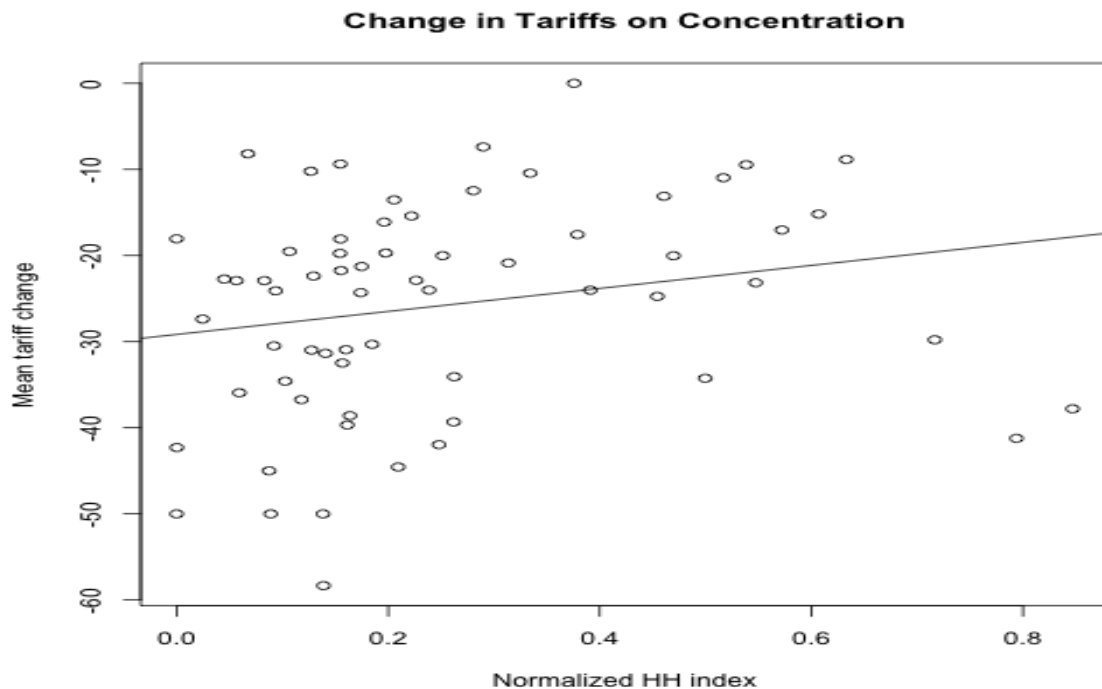


Figure 15

Tariff cuts appear to vary with industry concentration. What was the effect of the partisan content of the district in which a product was produced? Using our data from the Census of Manufacturers, we can also see which party represented those industries that the President targeted for tariff reduction, and more importantly, whether production of liberalized products occurred in areas with subsequently more competitive elections. In short, our interest is to determine whether or not reductions in the tariffs of an industry correspond to a change in Democratic Party representation in the areas in which the product is produced. Before the election, a negative association between Democratic Party representation and protection would correspond to changes in tariffs targeted to at-risk political constituencies. On the other hand, if changes in Democratic Party representation are positively associated with protection, either it is the case that tariff reductions increased the competitiveness of the House seat, or, perhaps more plausibly, tariff reductions occurred in regions of weaker party control.

To do this analysis, we use our index of tariff changes, which includes both ad valorem and specific tariff rates. We then create an industry average using the 4 digit TSUSA categorization.³³ For the manufactured products, we transform the number of production workers per region into a share of production occurring in

³³ The aggregation is necessary to combine the tariff data used in the rest of the paper with production data from the U.S. Census of Manufactures, as well as House election outcome data from historical statistics. Unfortunately, production data is coarse relative to the tariff line data available in the schedules, only at the level of the 4-digit industry, and disaggregated into at most 9 regions as defined by the Census.

each region, and then use this as a weight in determining the partisan makeup.³⁴ The proportion of House members affiliated with the Democratic Party by state is averaged for each region, which is then weighed by the above production vector for each sector in the same year. We then look at the change in Democratic representation and ask whether the baseline proportion of Democratic house members that represent an industry is positively associated with protection, and further whether those regions that had democratic gains or that fewer democratic losses are associated with protection.

The results displayed in table 2 suggest that partisanship has effects in some circumstances. First, manufactures that were disproportionately found in Democratic districts in 1939 were **not** more, **nor** less, likely to maintain protection in the years before the GATT. Overall, the party of your House member does not appear to influence whether or not your tariff is reduced. What does matter, as above, is that the industries most likely to have higher protection, that is, less cuts, are highly concentrated. Concentration, no matter if the party of your elected representative, seems to protect you against a tariff change. Perhaps most interesting, however, is that when we control for the baseline democratic representation of an industry, we do find that regions that maintained or gained Democratic seats were associated with less tariff reduction. It is possible that production in a 'marginal' as opposed to a safe Democratic or Republican district provided some protection from the potential of a tariff cut. None of these results, however, hold for the period after the GATT.

Table 2
Partisanship and Tariff Cuts

Change in the Average Protection	1931 < t < 1947	t ≥ 1947	1931 < t
% Democratic 1939	1.23 (1.25)	-0.38 (1.00)	0.45 (0.82)
Δ Democratic ('39, '47)	6.38 (2.58)	-2.06 (2.10)	2.81 (1.69)
ln(Production Workers)	0.48 (0.26)	-0.23 (0.21)	0.18 (0.17)
HH Index	2.38 (1.15)	0.51 (0.92)	1.39 (0.75)
Constant	-6.35 (2.73)	-0.31 (2.18)	-3.68 (1.79)
Adj. R-squared 4-Digit Sectors (TSUSA)	0.09	-0.01	0.03
	83	83	83

³⁴ Partisanship comes from the database developed by Swift et al. (2009).

Strategic presidents had one other way to finesse congressional pressure on his trade program. The Executive branch held a unique authority in tariff setting -- the power to reclassify products on the tariff schedule. Negotiators had the ability to manipulate tariff categories and therefore, keep part or even most of an industry protected. Figure 16 shows the timing of these reclassifications, which increased under GATT but had occurred from the earliest negotiations.

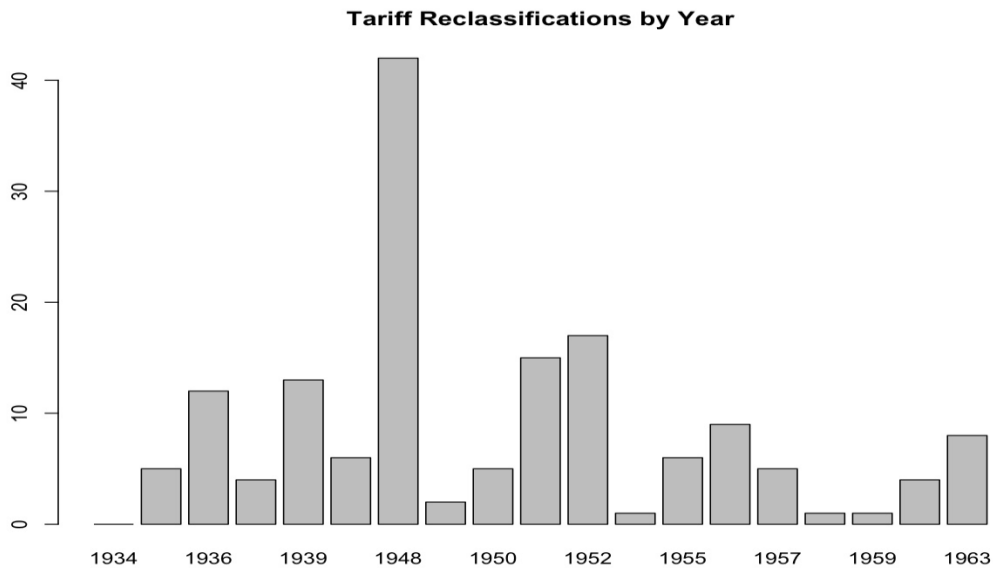


Figure 16

The reclassification of products occurred when a product was difficult to reduce because of its sensitivity. In such circumstances, the part of industry that was unable to tolerate the competition was re-assigned to a new tariff group. Each group would receive a different tariff reduction. By 1963, 164 products (about 20%) from our data set went through some reclassification, often multiple times, creating over 300 new product lines. The division of the products yielded different rates for each group, although both were usually subject to reductions.³⁵ On average, for our products with a specific tariff, the 'new' product with the lower tariff was on average 41% lower than the tariff of its 'parent', while the piece of the product that was given the higher tariff was 19% lower than its parent on average. Ad valorem tariffs tell a similar story, with the most affected 'new' product experiencing a tariff 50% lower than their parent, while the more protected new product, a 22% lower rate than its parent.

³⁵ Ninety-four tariffs remained constant over this time period, although 49 of these were only partial products from that listed on the 1930 schedule. Of the great majority that were reduced after a division, the difference in the two new categories was 26% for those with specific rates and 37% for those with ad valorem rates.

Did these splitting of the tariff products undermine the opening of the US market? To some extent, reclassification allowed negotiators to fine tune import patterns, thereby allocating import access in very specific ways. Since all agreements were monetized swaps, however, and other nations were vigilant in demanding reciprocal treatment, it would be wrong to conclude that somehow the spreading of the 'pain' of market liberalization was undermining the process. For the most part, products that were split were still reduced. There were exceptions of course; forty-four products were neither cut nor reclassified and 49 products were created from a split that peeled them off from any reduction. This process of moving producers around in this manner may be better viewed as another 'tool' in the toolkit of negotiators who understood that congressional representatives were under constituent pressure. These product categories remind us that American liberalization was less about finding the most efficient mode of tariff reduction than in assuring that reductions would not undermine support for open markets.

Reflections

Among scholars, delegation of power to the president in 1934 is widely believed to have been a necessary condition for US tariff reductions in ensuing years. The remaking of commercial policy in the 1930s has been said to have 'fixed' a structural bias created by the Constitution's granting of tariff authority to the House of Representatives. According to the conventional wisdom, delegation to the president sheltered congress from constituent pressure thereby facilitating the opening of the US economy and the emergence of US as a world power.

Our study looked at this transition of US policy through an examination of changes in the US tariff schedule, focusing on highly protected products. We looked at which products were subject to market forces and at what time. Our findings were somewhat counter intuitive, given the extant literature on this subject.

When we disaggregated tariff rates we found that the historical bias toward particular industries remained throughout our period of study. Instead of trade reductions focusing on the high tariff industries, we found the reverse: the deep reductions occurred in products with lower tariff rates. Further, tariff reductions, when they occurred, were not in those product groups predicted by those who assume that treaties products and partners were selected because they were 'optimal tariffs'. Instead, interest group testimony remained the best predictor of tariff height.

Instead of focusing on delegation as a means to remove congress and interest groups from tariff setting, we argued instead that trade policy setting worked through a smaller institutional change that is, granting the President agenda control. We tested this proposition by asking a series of questions about what products were reduced, with whom and when, assessing whether or not the Executive office considered congressional preferences. We came to three conclusions.

First, we looked at moments in which the president needed to renew his delegated authority. These moments created conflicting interests for the Executive office: he needed to show progress in cutting tariffs but he did not want to cut rates so as to mobilize groups and endanger legislation. We found that, as expected, at renewal time highly protected products were less likely to be cut. Instead, in order to get additional authority to lower rates, the President turned to reductions in what we classified as the “easier” product cuts, that is, those that had already been subject to a cut in a previous treaty.

Second, we argued that the principal supplier rule provided information to congress about who was likely to be cut in a particular dyadic treaty and that information influenced treaty choice. The principal supplier rule had been a compromise offered by then Secretary of State Hull to congress as a way to assure continued support of MFN inclusion in the treaties. While Hull did get agreement to universalize agreements by including MFN language, the compromise meant that products from particular countries were protected far longer than were like products from other nations. Some producers were excluded from the liberalization forces simply because they competed with a nation with whom the US did not enact a trade treaty. And at the start of US liberalization, the largest number of products with high tariffs came from Germany; the result of the rule was that a significant number of highly protected products were untouched until the 1960s. We suggest that the absence of these products in tariff bundles increased support in congress for liberalization by dampening interest group mobilization.

Third, we argued that the most direct way negotiators protected congress from pressure was to remove products from consideration by re-classification of the tariff schedule or by not reducing products that were highly concentrated. Treaty partners often targeted sensitive products. The response was to shield the product by re-classification or exclusion, which lowered the effective change in the original product. Strategic presidents worried about mobilizing a majority against his program. His interest was in increasing the cost of group mobilization. Instead of thinking about finding a majority in support of further liberalization, presidents were thinking about ‘negative’ logrolls, that is, making sure the pain of adjustment fell in such a way as to forestall the creation of an anti-free trade majority.

Most of the products that were highly protected under Smoot-Hawley did face foreign competition by the close of the Kennedy Round. Why didn’t congress balk then? In part, preferences were changing in congress and by 1960, the national party platforms suggest that both parties had come to view trade openness positively. As important, however, is the speed with which the US economy was growing. Whatever your party affiliation, representatives must respond to constituent fear that low cost imports could lead to lost jobs and/or declining profits. Such fears were especially evident after the war with the return to a more normal economy. History shows, however, that the US never suffered the expected slump. Job growth never slowed and the US economy expanded rapidly, in part

because of a lack of competition from our traditional rivals.³⁶ By the time the economy had slowed, few elected leaders questioned the need to keep the US market open. Smoot-Hawley had become anathema.

Policy reform is difficult in the American system of government and congressional oversight is most often synonymous with stalemate than policy creativity. Even when the President's party controls both houses of Congress, he may find himself severely constrained. Roosevelt came to office with near universal support, yet he too found that it was near impossible to ignore the relationship between congress and powerful interest groups, a relationship that perseveres no matter the political party. Delegation to the president and later to the GATT may have granted agenda control to an agent but the principal here, congress, held veto power, given that they were able to so mobilize. Rational Presidents oriented their policy to undercutting that mobilization. Power was shared between congress and the president, both of whom worried about policy mobilizing dissent. In essence, power here should be seen as the ability to **not** be forced to adjust to market pressures. On this dimension, US industries varieties dramatically

In sum, our review of the details of tariff history suggests not that congress abdicated its role in tariff setting but rather, that congressional oversight existed and continued to be the major influence on commercial policy. Trade liberalization then, and now, occurs under the shadow of Congress. Delegation was no more abdication in 1934 than it is today.

³⁶ The most direct metric for constituent pressure on elected officials for trade treaties may well be is unemployment. In 1934, the unemployment rate was still high, at 22%. By the time of the 1945 renewal, it was at 1.8%. Unemployment rose in the 1950s but remained on average below 5%, creeping up slowly by the time congress legislated the Kennedy Round.