

# Populism and Trade: The Institutional Roots of the Anti-Trade Backlash

Judith Goldstein and Robert Gulotty<sup>1</sup>

## Introduction

In no time since WWII has the economic landscape appeared so uncertain. For most of the 20th century, memory of inter-war beggar-thy-neighbor policies, which brought economic dislocation and ultimately a catastrophic war, fueled cooperation among the major economies. But economic interdependence has run into hard political times. In the face of rising populism and a new nationalist fervor, states are increasingly eschewing the existing order.

While it may be premature to declare the liberal international order as part of the ‘ash heap of history’ it is obvious that much of what we assumed was ‘settled’ scholarship about the cause and effect of trade liberalization has begun to unravel. Scholars have long argued about the particulars of post WWII trade liberalization, but there is fundamental agreement on at least two central tenets. At the pinnacle is the consensus of the need for some country, often the largest economy, to provide the collective good of trade openness; and while America may have been slow to take on the mantle of international leadership, US policy ultimately invigorated post WWII growth and facilitated the ensuing long peace (Kindleberger 1973, Krasner 1976, Lake 2018, Ikenberry 2011). Second, and expanding upon the first, scholars assume a Panaglosian view of the long run benefits of trade and its political sustainability, that is, once consumers enjoy a range of goods, exporters expand into new markets and import competing producers adjust, it is expected that the governments will need to do less to address the negative effects of trade (Blachard 2007).

Recent events suggest that both of these pillars of liberal trade have been undermined. The

---

<sup>1</sup>Stanford University and University of Chicago

2016 US presidential election revealed a pool of Americans willing to be mobilized against open trade policy and then candidate Trump loudly stated to the world that he was unwilling for the US to provide any international public goods. Most indicative of this new zero-sum international commercial strategy in practice was the US use of Section 232 tariffs, temporary barriers designed to protecting US security interests but now aimed at the nation's closest allies. Rising populism, however, is not a uniquely American phenomena. England, Italy and Brazil all have large anti-globalist political movements. This is not a political environment favorable to deeper integration and trade.

What has lead to this disenchantment with trade policy? Our explanation begins with the almost banal observation that the rise of anti-trade attitudes is a reflection of the underlying opacity of the policy's benefits to the public at large. This should be unsurprising. The idea of comparative advantage is one of the most difficult and counter-intuitive ideas to come out of economics. Efforts to communicate this counter-intuitive idea has led to a communication strategy that has done little to build support for trade. As Robert Driskill has observed, economists, who are trained to ask questions of trade-offs, treat the promises of free trade "akin to a zealous prosecutor's advocacy of a point of view" (2012, pg 3). Driskill suggests a fundamental disconnect between theory and reality, and he is not alone in making this observation. Dani Rodrik has regularly reminded fellow economists to be wary of overselling the benefits of globalization. The reason is that while open markets may be good in the aggregate, that is, for the nation as a whole, global forces are not kind to every individual, and adjustment cannot be taken for granted (Rodrik, 1997, 2018).

Over the last ten years, economic studies have provided empirical support for these distributional effects. Estimates of the effect of China's entry into the WTO show that trade has produced a discontinuous shift in global production patterns and is a major cause of subnational labor displacement in the United States and elsewhere.<sup>2</sup> Moreover, it appears that people are less likely to relocate to areas of growth than had been previously assumed (Autor, Dorn and Hanson, 2016). This absence of mobility may partially explain some of the geographically

---

<sup>2</sup>See Pierce and Schott (2016); Autor, Dorn and Hanson (2016); Scheve and Slaughter (2004).

unequal effects from open market policies.

Other scholars have focused on economic inequality as fueling distrust for trade. While global competition is widely expected to encourage worker skills upgrading, scholars have suggested that there will be large numbers of workers who will be persistently under-employed. This is not only because of the distance between their prior skill level and the new job opportunities, but also because the largest and most productive firms can use foreign affiliates to substitute away from a particular labor market (Scheve, 2004 and 2018). In short, the ‘lumpy’ regional effects of Chinese trade, a lack of labor mobility and insufficient retraining has created a challenge even for economists who argue in favor of ‘liberal’ trade policies.

This unequal support for trade liberalization is more than reminiscent of prior historical moments familiar to scholars of political science.<sup>3</sup> In the US, the fear of inequitable benefits and thus political resistance post-Smoot Hawley is the traditional explanation for the institutional design created in the interwar years that remains in force today. This institutional design was explicitly adopted to mobilize pro-trade exporters and to shield elected officials from pressures from the import competing groups who would lose from trade liberalization. The rationale for congressional delegation of tariff setting authority offered in testimony and the later analysis of the success for the reciprocal trading program was a response to who had political voice. American institutional structures were explicitly created to undercut the political power of those who would face competition from foreign producers. This was done by increasing the ‘collective action’ costs for import competing groups (Bailey, Goldstein and Weingast, 1997; Barton et al., 2007; Goldstein and Gulotty, 2014).

While the US trade program was based on delegation, the process of market liberalization was international as well. This process encouraged hand-tying by central decision makers via a process of creating “bundled treaties.” These agreements were favored by a majority with little attention or voice to the minority who were adversely effected by market forces. This is in part because these treaties had both an economic and security logic (Davis and Pratt, 2019),

---

<sup>3</sup>See Rogowski (1987) on how the easing of market restrictions can influence domestic political alliance; see also Stolper and Samuelson (1941).

but also because the process was designed to foreclose some voices. Both motives drove the trade treaties based liberalization toward procedures and outcomes that were fundamentally ‘illiberal,’ insulating policy from popular pressures. Trade institutions never valued transparency, a role envisioned for international institutions in Robert Keohane’s (1984) path breaking book. Instead, trade institutions were built to foster secrecy and to obscure the distributional aspects of a final accord (Goldstein and Gulotty, 2014). From the perspective of negotiators, the success of a trade treaty was thought to vary inversely with the democratic character of the negotiating process.<sup>4</sup> Too much foreknowledge of the details of the treaty would unravel the coalition.

We argue that the source of current malaise among the public with liberal trade can be found in a problem engendered by these ‘illiberal’ agreements. While functional in the early days of trade liberalization, illiberal institutions had an Achilles heel. The institutional design adopted post WWII aimed to undercut protectionist pressures by raising the costs of collective action. But while undermining collective action in the early years of trade liberalization enabled deeper commitments, over time, the absence of voice from disadvantaged groups forestalled, and in some cases directly undermined, the development of social policies, which could later facilitate adjustment to international pressures. As global forces led to increasingly more dislocation, there was no institutional facility to respond to the growing number of ‘losers’ from trade. Although unintentional, the lack of mediating policies eventually encouraged collective action targeted not on remediation but at the evisceration of the entire program of open borders. Thus by insulating commercial policy from protectionist forces, illiberal trade institutions enabled governments to sidestep the needs of, and demand from, the “losers” from trade; because of this insulation, governments failed to build up policy tools with which to ease market adjustments and to respond to the claims that trade is unfair. In short, politicians today face a conundrum—anti-trade attitudes are both the reason for, and are fueled by, institutional design.

To illustrate the sources and effects of this conundrum, we focus our investigation around three central questions. First, we take up Driskill’s (2012) critique of economic thought and ask

---

<sup>4</sup>The failed ITO, for example, was brought before Congress for ratification and failed to garner majority support; comparatively, the GATT became the backbone of the trade regime, legitimated only by executive order. From the start, democracy and trade liberalization appeared to be incompatible.

whether or not the benefits of free trade were oversold. We suggest that while economists might have been united in support of free trade, the voting public was never part of the conversation. As result, trade liberalization was always an elite project and the negative aspects of market liberalization were finessed at best and at times, ignored. Because of this, the policy never attained a ‘shared legitimacy’(Ruggie 1982).

Second, as result of this lack of a shared public understanding of the virtues of open markets, we argue that institutions were created so as to distance international negotiations from partisan conflict. Logically, we might have expected that trade liberalization would occur in a gradual and uniform way, so as to smooth out the disruptive effects and reduce the incentive to backslide (Staiger, 1995). In practice however, early liberalization was ‘lumpy’ and was oriented toward the protection of policy makers from regional and/or particularistic interests. While driven by political necessity, this strategy began to fail after the Tokyo Round and the move to increased autonomy of national executives on product selection. Even as market pressures grew and regional labor markets festered, policymakers insulated few sectors, although some, such as agriculture, remained in a special class. As foreign competition grew, so too did opposition to trade agreements. Instead of addressing this criticism directly, elected leaders chose to “patch up” but not ameliorate the effects of market dislocation.<sup>5</sup>

Third, we ask whether or not there are institutional features of the GATT/WTO that fed this populist backlash. We answer in the affirmative. To show how and why, we focus on the shift from the GATT to the WTO and argue that the shift in rules made the international organization itself, and member nations, more impervious to the voices of discontent (Goldstein and Martin, 2000). At the international level, WTO members internalized what is sometimes referred to as the ‘bicycle theory’ of trade liberalization, that is, if you stop moving forward, the edifice would fall apart (see, e.g., Bergsten, 1973). While the GATT’s founders understood that liberalization

---

<sup>5</sup>While liberalization both in the early years and following Chinese accession to the WTO did have significant effects on the US market, most of the adjustment pains felt by US labor today reflect technological change and not a trade deficit. This is a conclusion shared by mainstream economists as well as the Congressional Research Service. For ex., in a recent report they find that given the composition of the US economy, the trade deficit is a function of macroeconomic policy, that is, demand for capital is greater than gross saving. As a result, exchange rates rise and capital flows in, facilitating the deficit. CRS *In Focus*, July 18, 2018.

was a political process and that members would need to periodically renege in response to market shocks by acting outside the legal order, the WTO sought to incorporate these escape valves into the WTO legal apparatus so as to curtail member state autonomy (Trachtman, 2007; Barton et al., 2007; Pelc, 2016). The system pitted protecting and deepening trade liberalization directly against social costs and leveraged the dispute settlement system to adjudicate.

In sum, we look both backward and forward so as to offer a long needed critical examination of the “underbelly” of trade liberalization. Who benefits and why? How were institutions designed so as to ignore the ‘losers’ from trade competition, and what does this tell us about the analysis of trade treaties and the future of open markets. Our empirical examples are often from the US case, but we feel that this policy was part and parcel of trade liberalization around the globe.

## **The Ideology of Free Trade**

By the close of the Eisenhower administration, both major US parties had endorsed the liberalization of the US market. While the Democratic Party had traditionally favored low tariffs, the Republican Party’s acquiescence to tariff reform reflected changes in their constituency and the then association between open markets and security interests. This is not to say there were no critics. By the 1970s, both the AFL-CIO and the UAW were raising questions about the effects of increasing competition from low wage nations and the loss of productive capacity in the US. Still, there was little attention among the voting public of trade treaties and on the whole, the economy grew so rapidly that the affects of competition from abroad was muted. If we look at Americans’ views of foreign trade we see basically positive responses. When Trump took office, Gallop reported a record 72 percent responding that trade was an opportunity for US growth. This is 14 points higher than what they found under President Obama. Pew, however, gives us a different picture of preferences on trade. In July 2018 they reported that only 40 percent of respondents said that tariffs were good for the US, but with large differences between parties. About seven in ten Republicans said that increased tariffs are a good thing; about the

same percent of democrats said that tariffs were a bad thing.<sup>6</sup>

How do we explain the divergence in these polls? From our data below, it appears that the US is undergoing a re-politicization of trade, post-Great Recession, magnified by the Trump campaign. Figure one is the response to a trade prompt in 2007; figure two is the response by the same people, and the same prompt in 2016. We organize both figures by political position in 2016. What we see is that the data in 2007 supports the conventional wisdom, that is, opposition and support for trade is poorly predicted by partisanship. In 2016, however, that conventional wisdom is upended: far from being stable, the electorate has polarized. This polarization may be a result the global recession and economic hardship but it is the explanation offered for that economic downturn that we believe changed opinion. Instead of seeing the issue as a banking crisis, the electorate was told that it was a trade crisis, a result of failed trade agreements. The credit for this shift goes to elite cueing, from leaders on the left and the right. As result, by 2016, we see that those who are anti-trade have become Trump supporters.

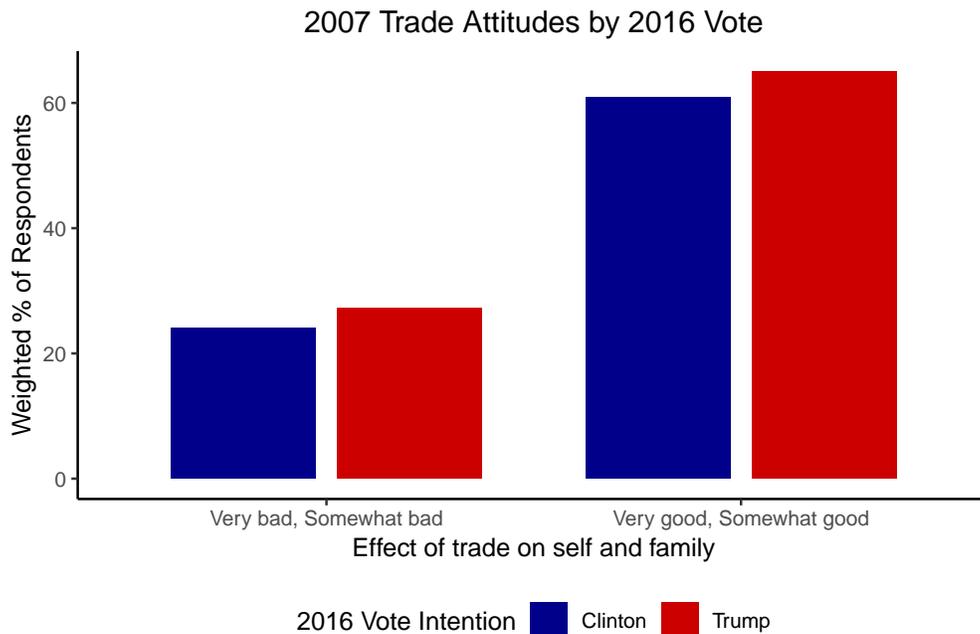


Figure 1: *Polarization of US Trade Attitudes in 2007.* (Do you think that increasing/decreasing trade between the U.S. and other countries makes you and your family better or worse off? (Trade is very good-very bad with DK))

<sup>6</sup>John LaLoggia, “As new tariffs take hold, more see negative than positive impact for the U.S.” July 19, 2018

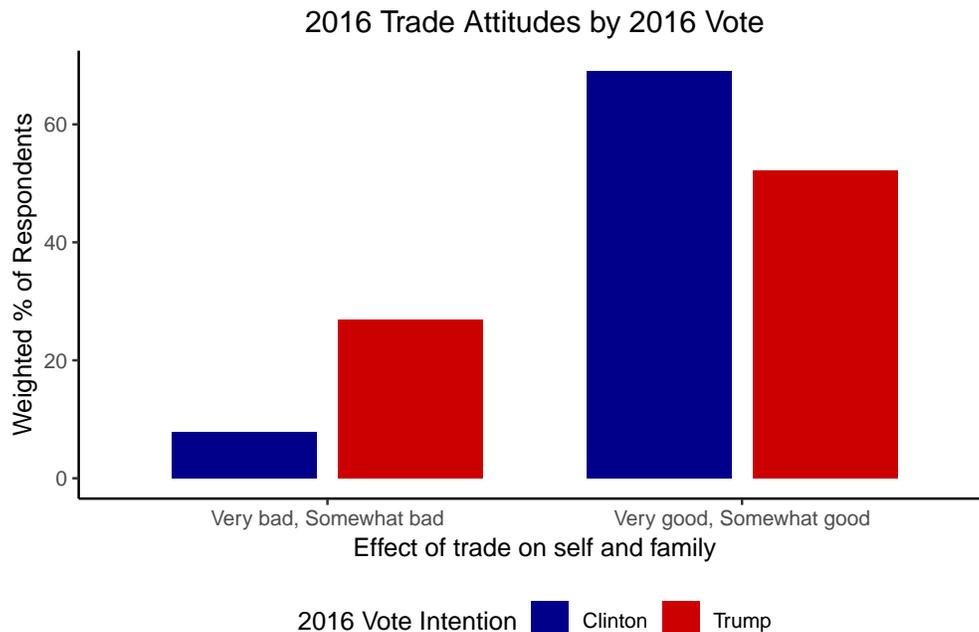


Figure 2: *Polarization of US Trade Attitudes in 2016.*

While we can document this re-politicization of trade in the US (and see it elsewhere), we still need to better understand why the public is so vulnerable to this cuing. We offer two possible reasons, returning to Driskill’s observations about the divergence between economic thought on trade policy by the economics profession and the more general public.

First, as Driskill points out, it is not at all intuitive to the mass public that open trade is the best policy for a government to pursue. Paul Samuelson was once asked to name an economic proposition that is true but not obvious. His choice was the Ricardian theory of comparative advantage, which shows, so he explained, that against all logic, there are mutual gains from trade even if one nation is better than another at producing everything. This underlying logic is totally counter-intuitive to the public; why would it be reasonable for one nation, that does everything more efficiently than a trading partner, to stop producing a product when the result is lost jobs? Comparative advantage is an idea that is hard to explain in the classroom and even harder to explain to the average voter.<sup>7</sup>

<sup>7</sup>A number of studies have tried to explain variation among the public on free trade views. Hainmueller and Hiscox (2007), suggested that individuals who take economics courses may finish the course having internalized a pro-open market perspective more than those who do not enroll in economics classes. Since data shows that women are less likely to end up in an economics course, Hainmueller conjectures that this may explain the enduring

Second, the effects of specialization are asymmetrically legible. The negative effects are obvious, while the positive aspects can be quite opaque. Economic theory predicts that trade openness benefits all consumers by providing more varied, and cheaper, products. The benefits of a greater variety of products, however, are difficult for consumers to value prospectively. Even large improvements in the variety of goods accrue for any given consumer over years, the benefits of lower prices are similarly marginal and accrue over time. The losses are, by contrast, acute. On the production side, integration into world markets will inherently favor one sector, the more productive one, over another, not taking into consideration region and/or politics. The gain will be unequal and untethered from political districts.

The political implications of specialization has not been ignored by all economists. While mainstream economists continue to support Ricardian logic, some in the field have questioned the implications of mobile production. Thomas Palley, for example, calls the ability to move abroad with ease an aspect of the new “barge economics.” “Factories float between countries to take advantage of lower costs. A legal and policy infrastructure has been built to support off-shore production that is then imported to the capital-exporting country.”<sup>8</sup> The effect of this mobility has been a systematic weakening of the political voice of workers. According to Skidelsky, “the ability of companies to allocate jobs globally changes the nature of the discussion about the “gains from trade.” In fact, there are no longer guaranteed gains, even in the long run, to those countries that export technology and jobs.”<sup>9</sup>

Putting these observations together, we should not be surprised that protectionism would be a policy that a political actor could use to motivate voters. While the expectation is that growth will occur in the aggregate, it is the case that some producers, some workers and some regions, will only see the downside of the policy. Understanding the logic of comparative advantage will do little to assuage these losses.

The logic of trade agreements is similarly counter-intuitive to most voters. Trump has re-

---

finding that women are less free trade oriented than men. The more general point in this work is that shared elite education may be one reason for support for open trade among educated individuals rather than the more often touted explanation of material benefits.

<sup>8</sup>Skidelsky, Project Syndicate, August 14, 2018.

<sup>9</sup>Skidelsky, Project Syndicate, August 14, 2018.

peatedly criticized our trading partners for having different tariffs on the same products. He asks, for example, why shouldn't the US and the EU have the exact same tariff on autos? Likewise, Trump often fumes over the fact that the US has a number of bilateral trade imbalances, claiming they result from 'bad' trade treaties. Neither make sense from the perspective of comparative advantage but for the majority of the electorate, the logic is compelling.

Among economists, this rising anti-trade treaty populism is a bit of a mystery. Didn't trade agreements bring cheaper and better products, increasing welfare around the globe? In a recent paper, Mattoo and Staiger (2019) attempt an explanation from the vantage point of the economics academy, which generally has adopted Bagwell and Staiger's (1999, 2002) explanation for the function of trade agreements, that is, trade treaties solve a terms-of-trade prisoners dilemma. This is not how the Trump Administration sees the world. Instead, from his more populist perspective, trade policy exists as a zero sum bargaining game of chicken. Mattoo and Staiger reconcile these two perspectives; they tell us that if we assume that the world has achieved most of the possible efficiency gains from negotiated trade agreements and that the United States is sitting somewhere on the efficiency frontier, any further opening is by definition, a reallocation among nations for the benefits of globalisation. By design, the world of trade has become zero sum. Instead of moving to the efficiency frontier, we are now moving along the frontier and the Trump policy could well induce movement that were previously foreclosed.<sup>10</sup> This is far from a defense of the policy; instead of other nations reducing rates to the US, the outcome could well be higher world tariffs. It is however recognition that politics challenges the assumption that trade agreements always make both sides better off.

Most generally, we see that in the absences of an easy logic, demagogue's around the globe have offered quick and wrong explanations for economic malaise, often blaming outside agents and 'bad' trade deals.<sup>11</sup> Politicians face a collective problem, that is, it is difficult to defend a

---

<sup>10</sup>Mattoo and Staiger make a second observation, trying to better understand the Trump focus on bilateral trade imbalances. They note that given the current trading environment of long supply chains, it is possible that three nations, A, B, and C may all run positive balances with only one of the three and negative balances with the other two. This could still be optimal, even though we don't see trade in all directions. The lack of trade, however, between two of the nations, makes them vulnerable in a political sense, even though everyone has signed onto the same agreements and everyone is receiving optimal benefits.

<sup>11</sup>Even Larry Kudlow, Trump's economic advisor seems to understand that protectionism is problematic: "You

policy of globalization in the face of the negative effects of specialization. One response that we have seen, especially in nations with large social welfare states, is to rely on the social safety net and/or job retraining as a means of re-distributing some of the aggregate gain. Another strategy not yet seen is to attempt to organize the winners, such as consumer groups, retailers and/or importers who rely on foreign goods as inputs to production to defend openness. But the gains from trade will always be less obvious, and job losses will always be acute and legible to the public. This bias forces elected leaders to fear the effects of an asymmetry of voices on the issue of commercial policy. Those who are the losers from trade create a shadow political force, whose potential to organize is and should be a worry for political leaders who for whatever set of reasons, choose to endorse open borders.

In the absence of strong public endorsement, free trade policy in a nation with short election cycles and small districts creates a dilemma for elected officials. Policy occurs in the shadow of potential protectionist resistance. From the vantage point of those who are committed to a deeply interdependent world economy, these voices are worrisome. To combat that potential, rational leaders create institutions to undermine those voices.

## **Why illiberal institutions?**

US tariff reform is commonly understood as a reaction to failed policy, that is, the economic downturn that occurred after passage of the Smoot-Hawley Act in 1930 (e.g.Haggard, 1987). The Smoot-Hawley Act was notorious for both its height and its timing. Whether or not the Depression was “caused” by US tariffs is debatable; what is less open for discussion is that the Depression ended the era of control by the pro-protection Republican Party (Irwin, 2017). Returning to the majority, the Democratic Party moved to implement its traditional platform of tariff reductions, a policy they had advocated since the antebellum period. Yet, the policy they advanced was not the same one they had pursued 35 years earlier. By the 1930s, the Democratic Party had become more urban, blue collar and immigrant. Trade policy was now more divisive

---

know who gets hurt most by tariff taxes? The middle class, paying much higher prices for daily living needs. All manner of businesses also suffer, as imports are choked by tariffs and quotas.” January 6th, 2018; “Tariff hikes are prosperity killers. They always have been, they always will be.” March 2, 2018.

than when the party backbone was made up of Southern primary product exporters. Reflective of the variation in interests of this new coalition, the Trade Act that congress took up in 1934 did not stipulate any individual tariffs for reduction but rather, focused on the procedures by which rates would be set.

What changed? 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 percent if he received reciprocal reductions in a partner's tariff. The authority required no ex post Congressional vote. While earlier tariffs were subject to a direct and transparent democratic process whereby members of both chambers voted on specific tariff lines, post 1934, the procedures were more opaque, less democratic and overall, created distance between tariff reductions and individual officials. Henceforth, legislators were able to mandate tariff reductions behind a veil of ignorance of exactly which products would be offered up for a tariff swap.

To be clear, this was not abdication by congress. The need to renew trade negotiating authority remained a shadow over Presidential authority. Negotiators from the executive branch were well aware of who would be hurt in what districts and this was always a consideration in crafting trade deals. Trade policy was always political; what was changing was that it was becoming increasingly less partisan. Reflectively, by the late 1950s, trade liberalization was integrated into both parties' platforms.

How did institutions change so as to have tariffs go so thoroughly out of vogue? A review of the procedures for setting trade policy, before and after 1934, illuminates how this was accomplished. First, the 1934 Act and subsequent renewals stipulated that in place of congress vetting producer interests directly, the President forced producers to turn to his administrative agencies. In particular, the Committee for Reciprocity Information was created and tasked with giving interested parties the opportunity to present views. As mandated, 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 replaced by the "public" list, which signaled all items that were under consideration in any

negotiation. Since congress was not directly setting tariff rates, pressure from producer groups was reoriented toward the executive.<sup>12</sup> But the agencies did not make collective action easy. Increasingly long lists of goods and a lack of visibility as to the particular products in the treaty undermined the benefits of collective action. Thus by the time of the GATT's creation, the costs of political activity on the part of import competing producer groups had increased, and their presence in the halls of the legislature had declined precipitously.

Second, the 1934 Act dictated a particular form of tariff-setting. All agreements were bilateral but their effect extended beyond the two signatories because of most favored nation provisions.<sup>13</sup> The effect was that once the US lowered rates for one nation as part of a bilateral process, others with whom it had a MFN agreement benefited immediately from the lower rate. The treaty process in the GATT would become multilateral in essentially the same way. Although not its intent, trade expansion via a MFN clause also undermined group resistance by increasing uncertainty about the effects of tariff agreements.

Third, the 1934 Act mandated that the Executive was to negotiate reciprocal agreements, meaning that import access necessitated an immediate and monetarily equal export gain. The logic of reciprocity extended as well to parties withdrawing from a treaty. Reciprocity changed the complexion of trade policy making by bringing new groups to Washington – exporters now balanced the power of import competing groups dislodged by cheaper foreign goods.

Finally, the products on which the reciprocal agreements centered were those to which the trading partner was the “principal supplier.” Governments initiated negotiations with a declaration of a set of products they sought access for in the foreign market. Each partner 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 and would concentrate negotiations on the members with the most at stake. The president knew which products and thus which districts would be affected by a tariff reduction; these procedures allowed him to

---

<sup>12</sup>The most visible evidence of the effect of this institutional shift is the vast reduction in congressional testimony post-1930. Where 1000s of groups came to testify in defense of their interests, the numbers reduced to a trickle until the 1980s.

<sup>13</sup>In 1923, the US became bound by Executive Order to grant Most Favored Nation (MFN) privileges to nations with whom it signed a trade agreement. See Goldstein 1993 for the historical origins of this decision.

finesse resistance by excluding politically problematic districts.

The institutional innovations of 1934 were not delegation itself but a resultant shift in the incentives of congress via the creation of a shield between them and constituent resistance. Presidents understood that congress was constrained by constituents and that they needed to garner approval for the trade program. For a strategic president, one that wanted to open up the US market, 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. These were the “tools” he used to assure that congress would be able to continue to support trade openings.

Looking back at treaties and product negotiations in the early years of the program, we see that presidents were careful about mobilizing anti-trade forces. Negotiators tended to stay away from the most highly protected products and those that were highly concentrated in particular districts. The principal supplier rule allowed negotiators to predict the effect of a particular treaty and they ignored nations with politically charged import patterns. And as necessary, negotiators appear to have regularly removed sensitive products from consideration by re-classification of the tariff schedule.

But while the 1934 Act created a mechanism that ensured a congressional majority in favor of tariff reform, it was poorly suited to solve a set of policy problems that would ensue in later years. By the late 1970s, organized labor had become critics of further market liberalization. By the turn of the century, the problem of wage stagnation became more central. In the first decade of the 21st century, Chinese trade overwhelmed traditional US manufacturers. Economic analysis of employment trends found the US market to be bifurcating, between those who benefited from globalization and less educated workers whose wages had not kept up with inflation. The US response was muted. In the area of adjustment assistance, programs were small and more symbolic than real. Even more problematic, over time, the US changed its negotiating strategy, moving to across the board tariff reductions which further undermined collective action on the part of producers and made it increasingly more difficult for them to have voice. What did

Congress give to those hurt by the liberalization program?

*The changing role of Congress* Over time, instead of becoming more sensitive to the voices of those hurt by internationalization, administrations increasingly supported tariff reductions. Rather than smoothing market disruptions, negotiators increasingly ignored potential problems. This was done in two ways. First, as the negotiations moved to new areas, the relationship between domestic groups and the negotiating process became increasingly attenuated. Second, Congress found itself bound by international precedent when other countries began to appeal to the justifications used by Congress to protect their own producers.

Under the RTAA, Congress delegated negotiating authority to the President with specific limits on the amount a specific tariff eligible for reductions. Pre-authorization of tariff setting authority did not extend to non-tariff issues, something the Executive discovered after the Kennedy Round when they overstepped authority by agreeing to changes in the American Selling Price system.<sup>14</sup> As the administration geared up for what would be the Tokyo Round of trade talks, they asked Congress for the freedom to change domestic laws on a variety of commercial practices via ex ante congressional authorization. What Nixon proposed was that Congress could veto executive implementation if they disliked a provision but only within 90 days of the close of the Round. Congress rejected the Nixon proposal but offered a compromise, which came to be known as 'fast track.' Under this proposal, the president would negotiate concessions *in consultation* with relevant congressional committees. Then, at least 90 days prior, he would give notice of intent to enter into an agreement over non-tariff barriers (NTBs). Both Houses of Congress would be required to act within 60 days of his submitting the implementing legislation. In return for consultations, Congress would vote under a closed rule.

In practice, this compromise worked because it kept politics bottled up in free trade oriented committees. As part of consultation, the administration invited relevant members of Congress to Geneva and via informal sessions, allowed the committees to write the legislation that went to the floor. As a result, instead of arguing over tariff and NTB levels, the Congress-

---

<sup>14</sup>The American Selling Price system set tariffs on chemicals, and was rejected.

sional debate on trade policy increasingly focused on re-authorization of fast authority, that is, the debate became less about economics and more about constraining the President. The 1974 fast track authority was renewed in 1979 for eight years, again in 1988 in order to negotiate the Uruguay Round and then in 1994 to implement the Round. Thereafter, as relations between the branches deteriorated, delegation became less popular. The revolt on the floor should have been anticipated. For 20 years after the original fast track authority was granted, free trade policy was a shared goal among members of the House Ways and Means Committee and the Senate Finance Committee. While the floor median was moving away from support for further liberalization, these committees were structured so as to assure a membership that supported open trade. Reforms in the 1990s, changed the power of committee chairs and the membership began to look more like the floor. The result was not to end fast track authority, now called trade promotion authority, but rather, to make it an increasingly costly request by the administration. While congress could not find a majority to halt presidential authority, they could act to slow it down.

Throughout these years, Congress did signal some limits to their willingness to go along, perhaps best evidenced in farm legislation never being centralized within the trading program. Because the US had a well established farm subsidy program (which included automatic price stabilizers which mandated import controls), congress specifically mandated the President to keep agricultural products off the negotiating table. Further, the ability of the US to keep these subsidies was blessed in 1954 via a formal exception in the GATT; in fact, the European Common Agricultural Policy in 1962 was legislated under this GATT exception. The unintended effect of both the US policy and then the exception, was that it gave a green light to trading partners to also protect their domestic producers. The result was that agriculture exporters faced far higher tariffs than other sectors of the economy. When the US attempted in the later part of the 20th century to re-introduce agriculture into GATT/WTO talks, they faced an uphill battle, far greater than in other sectors.<sup>15</sup>

---

<sup>15</sup>The Trump politicization of soybean exports is a good example of both the importance of agriculture and the problems that ensued because of the separation of agriculture from manufacturing during negotiations. Eight of the 10 soybean growing states were won by Trump in 2016 so it is unsurprising that he would focus on this crop. Exports have been increasingly dependent on Chinese demand: China imports over half of the US crop, and

*Adjusting to trade* While congress had lost much of its ability to stop the trend toward trade liberalization, they also failed to join it with concomitant domestic adjustment. After 1962, all trade liberalization bills were 'balanced' by a mostly symbolic funding of programs to help workers adjust to market pressures. Such programs introduced a welfare component into trade policy, via compensations to those employed in uncompetitive sectors. The idea of compensation was first supported by David J. McDonald, then president of the United Steel Workers, in a paper he wrote for the Randall Commission.<sup>16</sup> McDonald had suggested using federal financial aid in place of escape clause aid to injured workers, firms and communities (Mitchell, 1976, pg 36).

Although clearly not so intended, the Trade Adjustment Assistance (TAA) program became one more mechanism that served to forestall collective action against congressional trade policy. The administration of the program was handled by relatively sympathetic agencies, who actively encouraged groups to use the petition process, and not directly pressure congress, as a redress for job losses<sup>17</sup>. Given the low level of funding, these petitions, even when successful, distributed small amounts of money. While the results were small, the process of petitioning and being granted even small incremental amounts of aid served as a vent for criticism.

The TAA part of the trade bills, when first introduced, were not popular; the initial allocation in 1962 passed by one vote and although advocated by the Kennedy administration, they were surprised that it had passed at all (Goldstein 1993). Over time, however, it became an increasingly popular part of the trade package. After 1962, similar provisions appeared regularly in trade bills, including, among others, the Canadian-American Auto Agreement, the 1974 Trade Act, and in NAFTA. In the early years, the rules for getting aid were a high bar but that bar

---

has a 15 percent tariff on agricultural products. After the Trump use of 232 authority to put a tariff on Steel and Aluminum, China increased the rate to 25 percent for the US. while reducing the tariff on five other importing nations. Soybeans make up about 9 percent by value of *all* US exports. The US also exports to Europe, as does the other major exporter, Brazil and some of the glut will be bought, at a reduced price, by Europe. In response, the administration announced new programs to compensate farmers in an attempt to keep them in the coalition. Most of the money will go to large farmers.

<sup>16</sup>Randall Commission was a blue ribbon committee established by President Eisenhower to make a recommendation about future US trade policy

<sup>17</sup>In the early years, the department of labor actually hired people to stand outside factories that were closing or losing workers in order to hand out petition applications

came down as the US trade imbalance increased. In 1962, TAA's very limited eligibility meant that almost no one was granted aid; numbers increased significantly after implementation of the 1974 trade bill.<sup>18</sup> By the 1980's, TAA was assumed to be part of all legislation although most program money was funneled into an extension of unemployment benefits.

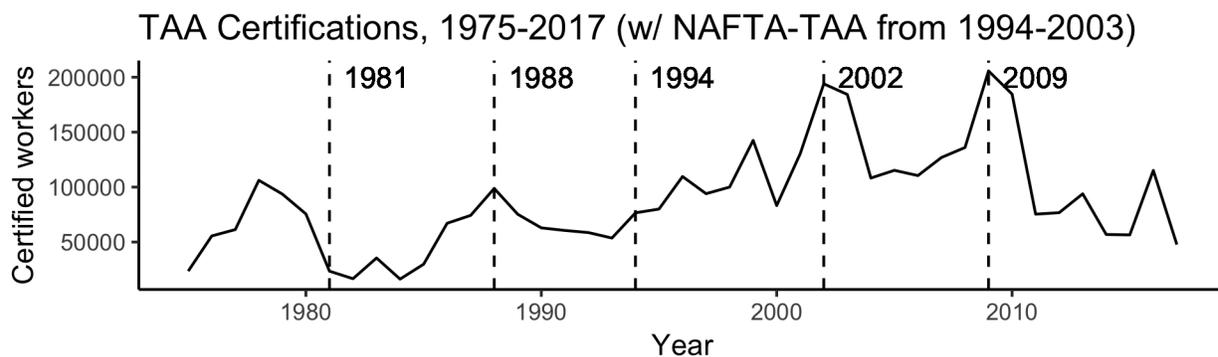
Still, the program never did more than allow congress to have a talking point to show constituents that they were aiding in re-adjustment. As figure 3 suggests, the program did increase its range in terms of workers as eligibility eased over time. But given the radical change in the US economy, these numbers are tiny. Even if not intentional, the real success of the program was to undermine other forms of collective action and to push workers into specific programs to diffuse potential resistance.

Could the program have been more successful? The option of long term wage subsidization was never a political option. Instead, the program put resources into retraining—a worker who lost a job because of a plant closure could obtain funds to cover all the costs for up to two years of classes plus a weekly stipend. Yet, in a recent study by the Ohio Department of Jobs and Family Services, only about 30 percent of those who could enroll did. For many workers, the modernization of their skills was beyond them.<sup>19</sup> For others, even if trained, leaving aging family members foreclosed moving to other locations that may have had better job prospects. As result, those who stay in place often take low paying jobs, and quickly move out of the middle class. While economists support retraining programs and congress see them as ideologically consistent with their mandate, on the ground, the barriers for blue-collar workers to learn new skills are very high. As result, many in the American manufacturing heartland are under-employed and politically dissatisfied.

---

<sup>18</sup>The program was initially endorsed by the AFL-CIO as necessary for their support of the bill in 1962. But, by the time the administration sent the bill to congress, it had watered down the aid provisions making it difficult to prove eligibility (since the criteria was that the petitioner needed to show that injury was in 'a major part' due to a trade concession). For a more detailed history, See Goldstein, 1993.

<sup>19</sup>In a Washinton Post article, 3/6/2019, they follow a group of workers. One, who does enroll at age 58, explained that, "The instructor told us to put in the flash drive. My skills are so bad, I had to ask him how to do that." He last one week in the class.



Source: Office of Trade Adjustment Assistance

- 1981: Funding benefits reduced, eligibility tightened
- 1988: Funding benefits increased, training required
- 1994-2003: NAFTA-TAA Benefits temporarily expanded, eligibility broadened
- 2002: Benefits increased, eligibility broadened
- 2009: Increased funding, extended eligibility to service sector and public sector workers

Figure 3: Number of Workers certified by the TAA from 1975-2017

## International institutions fuel backlash

The democratic deficit that was hard wired into America’s post 1934 trade policy making institutions were exported into the GATT/WTO.<sup>20</sup> Over time, however, resistance started ‘leaking’ out. We make two general points about how and why the trade regime eventually failed to undercut social resistance to open markets, even as wealth increased among member nations. First, the rules adopted by the WTO, attempting to depoliticize trade, actually exacerbated problems that had been finessed during the GATT years. Instead of becoming more sensitive to the voices of those hurt by internationalization, administrations increasingly supported tariff reductions irrespective of the varieties of domestic resistance. Second, the underlying ideology of trade liberalization via trade negotiations created the expectation that any back tracking would be a slippery slope toward closure.

*Structuring the trade regime* Although the specific targets for market opening have changed over time, the structure of interactions between participants has been similar between dyads and over time. Beginning with early tariff talks, participants would simultaneously provide each other with a list of products open for negotiations and a preferred reduction amount. After

<sup>20</sup>On the democratic deficit, see, eg. Moravcsik (2004).

receiving the product list from each nation, countries would respond with a list of bilateral offers. Offers were followed by bilateral negotiations. The offers were not binding in any respect and changed over the course of talks. The swaps were monetized in terms of value and they needed to be reciprocal.

Over time, this form of negotiation proved to be slow and thought to be overly protective of favored sectors. In order to liberalize these sectors, negotiators adopted generalized tariff reduction strategies. With formulas, negotiators could increasingly finesse potential problems. Sectional differences were not totally ignored but became muted in line with a reduction in the role of congress: the economy was growing, the Cold War was afoot, and congress had become used to taking a backseat in tariff negotiations. The Executive branch told congress that protectionism would lead to catastrophe and that they needed to continue to move the US into world markets.<sup>21</sup>

The benefits of formulas, however, are also their costs: formulas make targeting protection more difficult. Formulas provide a far quicker method of lowering rates both at home and abroad. Formulas often target the higher end of tariff schedule, which created greater insulation between producer groups and negotiators than was the case with product by product swaps. Being able to finesse opposition was not necessarily a good thing and lower rates did not ameliorate the underlying cause of those higher rates. Often, returning with a proposal that included deep cuts in the upper end of the schedule required even more obscuring of the events in Geneva than during earlier Rounds. Most clearly, the use of formulas meant that the last means of control by Congress and/or parliaments, that is, the authorization of sectors, would be traded off for speed and convenience. Elected representatives traded off the ability to provide particularistic protection with the right for access; instead of fighting over tariffs, they focused on internal control of trade policy making.

Looking back at the GATT Rounds, the move to formula-based negotiations was a tem-

---

<sup>21</sup>George Schultz, secretary of the treasury under Nixon, defended the 1974 act by explaining that “the goal of the trade bill must be to improve the efficiency of the US economy... we must not allow new protectionism to lead to a breakdown of multilateral and non discriminatory trading arrangements of the post war period.” Testimony before the House on Trade Reform Act of 1974, 74th congress, 2nd session, p. 163.

porary solution to the problem of social resistance. The first attempts were limited: the 1962 Kennedy negotiations adopted a linear rate of reduction for several sectors, but at the same time chose carve-outs. The linear rate of reduction had the effect of leaving very high tariffs intact. Moreover, governments could designate a list of goods as “sensitive products” to be exempt from the formula. The US used this authority to limit exceptions for textile products from the Southern states among other cut outs. The conclusion of the Kennedy Round saw products that were highly protected, still highly protected.<sup>22</sup>

To address these highly protected individual products, the Tokyo Round (1973-1979) negotiators modified the formula to increase cuts on the formerly protected products. The Tokyo Round formula was not a permanent solution, and negotiators turned back to using a linear approach in the Uruguay Round to address remaining sectors. It was in that Round that GATT negotiators turned their attention to the last excluded sectors: textiles, clothing and agriculture. While the far reaching goal was not reached, producers found themselves with far fewer ways to shield themselves from import pressures and particular protections for vulnerable states were removed.

*The long term effects of GATT/WTO institutional choices* The features that explain early success in the GATT became the Achilles heel of the later WTO. Shifting patterns in both the direction and the type of world trade had the unanticipated effect of generating political challenges for the organization. What was good for the domestic politics of the creators became counterproductive as the organization grew. Why?

First, the GATT and the WTO varied on the specificity of regime rules and compliance expectations. The GATT’s founders sought “thin” and ambiguous rules; imprecision created space for countries to placate powerful domestic groups, when necessary, without endangering their general commitment to the regime. For the first 40 years, disputes were most often

---

<sup>22</sup>The Swiss Formula would have harmonized tariffs by the following formula:

$$T_1 = A * \frac{T_0}{A+T_0} \quad T_0 = \text{initial tariff rate (also called base rate)}$$

$A$  = the maximum tariff, called the coefficient.

$T_1$  = the resulting lower tariff rate which will constitute the new final bound tariff.

Suppose there are three tariffs, with rates equal to 10%, 30%, 150%. If  $A$  were 10, the new tariff rates would be 5%, 7.5 %, and 9.375%. This has the advantage of reducing the top rates, smoothing the overall schedule.

settled without formal procedures, a reflection of a shared vision of the purposes of the organization. The GATT was purposefully a “member driven” organization with a small and ineffectual secretariat—centralization and authority at the center of the regime was not what the founders wanted.

Over time, flexibility became a problem. It granted new members license to ignore the spirit of the rules. It encouraged “grey area” responses to problems and the fundamental rules of the system became rife with exceptions. The response to this perception of national “shirking” was to re-legislate in order to more clearly specify rules and then relatedly, make it more difficult to break an agreement. From the perspective of the reformists, and in particular, the US, Canada, and the EU, it was the other members of the regime who were out of compliance, not them. As a result, there was consensus among the larger nations of the need for a more robust organization and the WTO treaty was, in fact, more specific, stricter and mandated universal adherence. But there was an unanticipated effect. Even the early supporters found themselves in court over rule violations and rule specificity and mandatory dispute settlement created a fear of signing onto any new agreements. Legislating trade liberalization ground to a halt.

Second, as a result of the success of prior agreements, international trade developed in its sophistication, un-bundling production and moving from manufacturing items to services, and from anonymous commercial transactions to those mediated by affiliates of multinationals (Baldwin 2016). This change in the form and location of production had unanticipated effects. One was to give voice to a new set of actors. Non-governmental actors, such as labor and environmental groups, concerned with rising multinational activity, turned their focus on trade policy-making by their home governments and in Geneva. NGO political activity made it increasingly difficult to craft consensus among the voting members of the GATT/WTO, even around technical issues. Over time, the WTO was increasingly asked to respond to petitions from a range of issue specific NGOs who wanted not only to participate in dispute cases but wanted a seat at the negotiating table.

Changing production patterns exacerbated what was already a growing rift in the

GATT/WTO along North-South lines, especially with regulatory harmonization after 1995. Rules agreed to at the close of the Uruguay Round demanded fundamental changes in the domestic legal and regulatory regimes of the developing member states and these quickly became unpopular. And as the rules became more demanding, so did compliance expectations, in part because the end of the Cold War fueled ideological fervor in those who supported free markets. This expanded commitment to open markets then made salient the counter to the pro-trade argument that harmonization was leading to a “race to the bottom.”<sup>23</sup> By the end of the century, most of the developing South, as well as labor and environmental groups, had turned against the WTO. From the perspective of leaders in national capitals, the WTO appeared to have turned a “deaf ear” to the changing political landscape they faced at home.

*An ideational flaw* From the start, parties to the GATT needed to believe in the underlying goal of universalizing trade deals, even though they sought reciprocal swaps during negotiations. As a negotiating system, the use of reciprocity for most of the 20th century was based on a mercantile notion of trade, that is, trade deals were bilateral and composed of equal swaps. Specific reciprocity and balanced bilateral trade is not a concept that adheres to basic notions of comparative advantage. Reciprocity with MFN, however, is diffuse—with the MFN rule, one’s partners may be viewed as a group and there is less of an emphasis on equivalence. (Keohane, 1986, pg 4). This belief in MFN began to stumble, especially around issues of development.<sup>24</sup> At the request of the emerging market nations, Part IV of the GATT was legislated in the 1960s, and a subset of nations claimed a need for differential and special access to other members’ markets, greater than that given to other regime members. But, even in the absence of a “revolt” over the development issue, MFN would have become problematic as the organization moved into the realm of domestic regulatory harmonization. If nations harmonized on strict standards, the developing world balked; if there was standardization at lower levels, there was a cry of race to the bottom. As we moved into the 21st century, underlying support for the regime and its underlying principals were increasingly found only among the political elite.

---

<sup>23</sup>Although, see Mosley (2010) on how labor rights in particular do not decline with multinational production.

<sup>24</sup>See Gowa on the elite nature of the original trading system.

Looking back, there was an ideational flaw in the system, not in the negotiating logic but in how the negotiators themselves understood the political nature of trade. The fundamental goal of the trade regime is to increase the flow of goods and services across borders. To achieve that goal, members focused on regularizing and minimizing border restrictions. Legislating such policies, however, became increasingly difficult as the membership expanded to include nations with quite divergent interests. Since the GATT/WTO had operated with a consensus norm, the absence of new initiatives should not have been surprising; yet, the lack of forward movement created cognitive dissonance among the WTO professionals. These professionals, in national capitals and in the halls of Geneva, believed that in the absence of legislated agreements, nations would return to the era of beggar-thy-neighbor policies and high protective barriers. In 1973, C. Fred Bergsten offered a name for this thinking, calling it the bicycle theory of trade liberalization. Bergsten declared trade policy to be '*dynamically unstable*', making 'maintenance of the status quo . . . untenable.... Steady movement toward trade liberalization is necessary,' he explained, 'to halt the acceleration of the trend toward increasing trade restrictions' (Bergsten, 1973). This is the hypothesis of *dynamically unstable trade policy* and it holds that the trade regime either moves forward toward liberalization or backward toward protection, and that multilateral trade negotiation helps the trade policy *bicycle* keep its forward-moving momentum. According to the "bicycle theory," trade policy must move ahead or it will topple (Bergsten and Cline, 1982, pg 18, 71).

Although widely believed, this notion that trade policy was an unstable "status quo" is inconsistent with the actions of the signatories to trade agreements and pernicious in its affects on politicians. Looking at the post-war history of trade agreements, we find great stability in compliance with trade agreements. The notion that you need to be making ever deeper cuts into border restrictions so as to maintain past agreements has no basis in theory or history. The 'bicycle theory' was pernicious because elites came to believe that the only correct policy was the one that supported increasingly deeper cuts, especially in regulatory regimes. In a world of relatively open borders, new deep cuts would engender far reaching dislocation for workers and producers. To support those cuts and keep political support would have required states to be in

the business of funding adjustment costs, that is, retraining efforts, unemployment benefits and relocation supports. None of this was feasible. By the early 1980s, many governments were suffering from a host of fiscal problems, a result of demographic shifts that increased demand for welfare services simultaneous with a popular revolt against high taxes.

Did business groups demand more access? Some did in the face of the rise of Chinese competition. But for most producers, the trade regime was valued less as a forum for increasing the depth of trade agreements and more because it stabilized prices, access and did oversight of rules. Unpredictability is a far greater problem than a known border barrier—producers can always internalize a 'tax' into the prices they charge. What is more difficult is to produce products when that rate and/or a regulation is in flux.

From the perspective of those engaged with the WTO, the organization itself is at a watershed moment. Granted, this is not the first moment that we have observed such criticism. In 2015, echoing the bicycle theory of trade openness, the then US Trade Representative Michael Froman inked an op-ed that argued that the WTO was on the brink of irrelevance and would become inconsequential if the Doha agenda was not attended to. But as one ambassador to the WTO explained, “There is a growing awareness that this time is different. Either the US is going to leave or it is going to flout the rules.”<sup>25</sup> Defending US policy, the US’ Trade Representative Robert Lighthizer has said that the WTO has failed because first, it cannot address Chinese trade and second, because of judicial overreach, and thus the US is unwilling to appoint Appellate Body members.<sup>26</sup> Instead, the US turned to unilateral actions: Section 232 and 301 tariffs.<sup>27</sup> There is something almost prophetic about this US decision, given that it was US action in the 1980s under Section 301 that was the impetus for the dispute settlement reforms that the Trump administration so despises. Overall, these are issues that challenge our understanding of the relationship between domestic and international organizations; here, the question is how

---

<sup>25</sup>Inside Trade, July 30, 2018

<sup>26</sup>Lighthizer (2018).

<sup>27</sup>The trade regime has an open ended security exception which allowed the Trump administration to claim a legal right to put 232 tariffs on Steel and Aluminum products. Article XXI of the GATT has been interpreted so that, “every country must be the judge in the last resort on questions relating to its own security.” Further, Article XXI is not constrained by Article I or the need to be non-discriminatory. GATT Analytic Index, Volume 1: 600

domestic adjustment to trade has and will be aided or undermined by the authority of the WTO.

## **Concluding Thoughts**

The internationalization of world markets was an explicitly political act, guided by ideological beliefs about the efficiency benefits of specialization. Understanding that the policy was dependent on sustaining a majority coalition, elected leaders sought institutional solutions to limit the short-term threat of domestic opposition. As the negotiations progressed and tariffs declined, it appeared as if the liberalization program, once the height of partisan disagreement, had become a consensus. This was hubris on the part of leaders. Instead of agreeing on the benefits of open markets, those hurt from trade merely found the organizational costs of voice too steep. And rather than adopt either meaningful limits on trade liberalization or compensating mechanisms, state officials discouraged organized resistance by first, distancing representative institutions from particularistic decisions about the level of border taxes and second, by incorporating the administration and enforcement of those lower rates into an international trade regime.

From its earliest days, the liberal trade regime was premised on the belief that popular sovereignty, and the populist protectionism that emerges during downturns, generates international economic and political crisis. Believing that resistance was inevitable, the regime, both at home and in Geneva, deployed two strategies to create a stable commercial order: insulation and redirection. Insulation by encouraging central governments to make decisions about what tariffs to cut in Geneva apart from their home legislatures. Redirection in that the architects of the GATT empowered diplomats, lawyers and bureaucrats in the executive office to make decisions about border policies. But unintentionally, moving from legislatures to bureaucrats at both the domestic and international level ensured that trade policy making would be fragile and paradoxically insensitive to publics while still being held accountable for the negative outcomes from trade.

This view of the trading system is more critical than often found in the conventional ren-

derings of the origins and workings of the liberal international order. John Ruggie, for example, has positively characterized the post-war commercial order as a fusion of power and legitimate social purpose. For Ruggie, the trade regime is an example of embedded liberalism, that is, a multilateral order “predicated on domestic interventionism”. For both Ruggie and his intellectual predecessor, Karl Polanyi, market economies have an underbelly. For Polanyi, unfettered markets, in particular the Gold Standard, altered and destroyed the social fabric of England.<sup>28</sup> Embedded liberalism, as described by Ruggie forty years later, picked up on Polanyi’s critique but argued that there was a middle path, that is, a compromise between the benefits that ensued from free market interactions and the need to ease domestic adjustment to market forces. Ruggie’s answer was the autonomous state. Nations, he explained, could and should pursue autonomous policies oriented toward ‘smoothing’ market forces in order to increase social welfare.

Some of what Ruggie describes can be found in the GATT/WTO regime. From the start, a number of exemptions were baked into the system, such as quantitative restrictions to safeguard the balance of payment pressures from full employment policies and the allowances for emergency actions in the case of injury. All these exceptions were said to indicate the “shared legitimacy of a set of social objectives to which the industrial world had moved, unevenly but ‘as a single entity’”. When the US began using these provisions against Japanese Steel in the late 1970s, Ruggie argued that the “new protectionism was not an aberration from the norm of postwar liberalization, but an integral feature of it.” In the 1980s, when restrictions increased and “would affect some 3-5 percent of world trade”, he wrote that this was not any sort of threat to “the whole fabric of postwar cooperation in international policy” (1982, p.412 n.100). For Ruggie, the mistake of the WTO was to eliminate these valuable concessions to embedded liberalism, leading to challenges to the liberal order today.

But Ruggie was far too optimistic that market forces could be tempered via national legislatures. While it is true that marginal protection is no threat to the system, it is also no bulwark against market forces and the ensuing social upheaval. Lacking a better mechanism for adjust-

---

<sup>28</sup>See Eichengreen (1992) on the Gold Standard and Polanyi (1945) on the rise of labor’s resistance.

ment, the regime never attained social acceptance in the eyes of producers and workers who lost to foreign competition. Liberalization occurred as reciprocal reductions between targeted partners abroad and bureaucratized politics at home, with little public buy in. Rising costs of social adjustment were finessed but not addressed. As result, it became a festering problem throughout the Western world. It is unsurprising, then, that the proponents of the GATT/WTO system are constantly worrying that the system is about to fail; their response, however, against all logic, has been that only by initiating, negotiating and ratifying the next round of cuts can liberalism be sustained.<sup>29</sup>

We agree with Ruggie and Polanyi before him that there are many vagaries in the combination of democratic governance and unfettered markets. Elected leaders can face almost whiplash changes in international prices that cause serious disruptions among the voting public. These issues predate the creation of the WTO in 1994 or even the 1973 failure of the Bretton Woods system and are fundamental to governance in market based nations. But most starkly, we do not see the trade regime as having internalized these pressures so as to be credited with being an example of 'embedded liberalism.' In the case of commercial policy, embedded liberalism is better read as a normative claim and not a description of the trade regime. Instead of assuring redress from market forces, the GATT/WTO served as a political device to insulate politicians from the demands of the people for compensation. In the early years of the trade regime, growth facilitated the re-employment of factors of production without government assistance. Assuming none was necessary, none were created. Over time, growth ebbed. Eventually, politicians faced unexpected trade offs among constituents, regions and producers. With a limited tool kit, they had little to offer and the result were increasing differences in growth rates. It was foreseeable that politicians today would face a backlash to the open trading system and to the international institutions of cooperation. With no outlet for demands for reform, today's voices are more likely to be more populist, less likely to support cooperative international agreements and more likely to be willing to consider autarkic policies.

---

<sup>29</sup>The notion that the GATT is in crisis, sclerosis or decline has long been a popular topic of GATT experts Jackson (1978); de Saint Phalle (1979); Finger (1991). In 1993, Patrick Low, a former GATT official, discussed "the weakening of a multilateral approach to trade relations" and "the creeping demise of GATT," cited in James (1999).

## References

- Autor, David H, David Dorn and Gordon H Hanson. 2016. "The china shock: Learning from labor-market adjustment to large changes in trade." *Annual Review of Economics* 8:205–240.
- Bailey, Michael, Judith Goldstein and Barry R. Weingast. 1997. "The Institutional Roots of American Trade Policy: Politics, Coalitions, and International Trade." *World Politics* 49(3):309–338.
- Barton, John H, Judith L Goldstein, Timothy E Josling and Richard H Steinberg. 2007. "The Evolution of the Trade Regime: Politics, Law, and Economics of the GATT and the WTO." *Princeton University Press*. pp. 169–170.
- Bergsten, C Fred. 1973. "The threat from the Third World." *Foreign Policy* (11):102–124.
- Bergsten, C Fred and William R Cline. 1982. *Trade Policy in the 1980s*. Number 3 Peterson Institute.
- Davis, Christina L and Tyler Pratt. 2019. *The Forces of Attraction: How Security Interests Shape Membership in Economic Institutions*. Technical report Working Paper.
- de Saint Phalle, Thibaut. 1979. "The Masochism of American Trade: GATT and the Tokyo Round." *The Washington Quarterly* 2(3):23–33.
- Eichengreen, Barry. 1992. "Golden fetters."
- Finger, J Michael. 1991. "That old GATT magic no more casts its spell (how the Uruguay round failed)." *J. World Trade* 25:19.
- Goldstein, Judith L. and Lisa L. Martin. 2000. "Legalization, Trade Liberalization, and Domestic Politics: A Cautionary Note." *International Organization* 54(3):pp. 603–632.
- Goldstein, Judith and Robert Gulotty. 2014. "America and Trade Liberalization: The Limits of Institutional Reform." *International Organization* 68(02):263–295.
- Hainmueller, Jens and Michael J Hiscox. 2007. "Educated preferences: Explaining attitudes toward immigration in Europe." *International Organization* 61(02):399–442.
- Irwin, Douglas A. 2017. *Clashing over Commerce: A History of US Trade Policy*. University of Chicago Press.
- Jackson, John H. 1978. "Crumbling Institutions of the Liberal Trade System, The." *J. World Trade* L. 12:93.
- James, Harold. 1999. "Is liberalization reversible?" *Finance and Development* 36(4):11.
- Keohane, Robert O. 1986. "Reciprocity in International Relations." *International Organization* 40(1):pp. 1–27.
- Mitchell, Daniel J. B. 1976. *Labor issues of American international trade and investment*. Baltimore: Johns Hopkins University Press.

- Moravcsik, Andrew. 2004. "Is there a 'democratic deficit' in world politics? A framework for analysis." *Government and opposition* 39(2):336–363.
- Mosley, Layna. 2010. *Labor rights and multinational production*. Cambridge University Press.
- Pelc, K.J. 2016. *Making and Bending International Rules: The Design of Exceptions and Escape Clauses in Trade Law*. Cambridge University Press.
- Pierce, Justin R and Peter K Schott. 2016. "The surprisingly swift decline of US manufacturing employment." *American Economic Review* 106(7):1632–62.
- Polanyi, Karl. 1945. *Origins of our time: The great transformation*. Gollancz.
- Rogowski, Ronald. 1987. "Political Cleavages and Changing Exposure to Trade." *The American Political Science Review* 81(4):1121–1137.
- Scheve, Kenneth and Matthew J. Slaughter. 2004. "Economic insecurity and the globalization of production." *American Journal of Political Science* 48(4):662–674.
- Staiger, Robert W. 1995. A Theory of Gradual Trade Liberalization. In *New Directions in Trade Theory*, The University of Michigan Press: Ann Arbor. Citeseer.
- Stolper, Wolfgang F and Paul A Samuelson. 1941. "Protection and real wages." *The Review of Economic Studies* 9(1):58–73.
- Trachtman, Joel P. 2007. "The WTO cathedral." *Stan. J. Int'l L.* 43:127.