Protectionist policies as the regulation of international industry*

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1. Introduction

Protectionist policies can be viewed as one manifestation of the regulation of industry for political advantage within the framework expositied by George Stigler (1971) and Sam Peltzman (1976). With amendment to account for particular characteristics of the choice between free trade and protection (Hillman, 1982), the Stigler-Peltzman perspective on the regulation of industry provides an account of the endogenous determination of international trade policy as chosen to maximize political support. Within this framework, a national perspective has been prominent. National interest groups associated with domestic import-competing industries have been portrayed as seeking protectionist responses from their own country's policymakers, who in turn optimize by formulating policy decisions in response to the political influence of the domestic gainers and losers from protection.

Industries however transcend national boundaries. Yet the national perspective on the determination of trade policy limits the interest of producers in protection to the scope for regulation by their home governments. This paper presents a view of protectionist policies that recognizes the common interest in regulation of producers in different national jurisdictions and which demonstrates how a number of protectionist policies facilitate this objective. A unifying perspective is presented on recent literature which has been concerned with protectionist policies as regulating international industry. First, however, I present for comparison a brief review of the national perspective on protectionist policies.

2. Political discretion and trade policy

The theory of international trade policy, in particular in the course of its development in the 1960s and 1970s, has emphasized the effects of different

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protectionist policies on domestic production and consumption decisions. The notion of distortions has been prominent in the analysis of policy choice, with attention being directed towards identification of second-best (and beyond) policies when first-best optima are unattainable.

More recently, the range of questions addressed by the theory has expanded to include a concern for why departures from free trade take place, and why protectionist policies take different forms in different circumstances. (See my survey, Hillman, 1989). In the models developed in this literature, protectionist policies have been 'endogenously' explained, rather than exogenously presupposed to be in place.

Expositions of the endogenous determination of international trade policy have focused on agents in the one political jurisdiction. Under representative democracy the agents who have successfully contested political office, and thereby have policy discretion, mediate between domestic gainers and losers from protection who seek opposing policy outcomes. Or, in the context of political competition, rival candidates for political office formulate policies with the objective of maximizing probabilities of election by securing support from their domestic constituencies. The gainers from protection have been identified with domestic import competing industries, the losers as domestic consumers of the protected industry’s output or, alternatively, the undiversified owners of factors specific to other than the import-competing industry seeking protection.

Since there can be administrative discretion in interpreting laws and regulations, bureaucrats as well as politicians have been recognized to have a role in the endogenous determination of trade policy. Anti-dumping regulations can leave open substantial discretion in interpretation of technical criteria. Or establishing whether escape-clause provisions apply requires a determination whether imports or domestic market conditions have been the cause of 'injury' to a domestic import-competing industry. Interpretations can differ. For example, Gene Grossman (1986) has applied econometric analysis to an investigation of whether administratively determined protection was justified for the U.S. steel industry and concludes that under the criteria set out in the trade laws protection granted the industry was not warranted.

3. International conflict and trade policy

The exercise of political discretion in enacting trade laws, and of administrative discretion in interpreting policy decisions, is often presupposed to bring different countries' policymakers into conflict regarding trade policies to be adopted. The conflict arises when, in mercantilist fashion, trade policy is directed at protecting domestic producers in their home markets, while at the