Protectionist policies as the regulation of international industry*

ARYE L. HILLMAN

Department of Economics and Business Administration, Bar-Ilan University, Ramat Gan, IL-52900, Israel

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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 exposited 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.1 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 presup-
posed 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 po-
litical 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 pro-
tection.

Since there can be administrative discretion in interpreting laws and regula-
tions, 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 ex-
ample, Gene Grossman (1986) has applied econometric analysis to an investi-
gation 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 dif-
ferent 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