

Institutional Incentives for Protection: The American Use of Voluntary Export Restraints

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Liberalism has dominated American trade policy since the 1930s. Freer, more liberal trade has generally been the desired course. As a consequence, when American industries hurt by import competition have pleaded for protection, the United States government has rejected petitions for trade barriers more often than it has accepted them. When the United States government has chosen to assist an ill industry, however, the most common prescription has been a peculiar form of nontariff barrier, known by such names as "voluntary" export restraints (VERs), orderly marketing agreements (OMAs), and voluntary restraint agreements.

Why the United States (as well as Europe) has relied so heavily on VERs, as they are most commonly known, remains something of a mystery. VERs are complicated, negotiated agreements, not covered by any set of international rules. To implement a VER, the United States must negotiate with an exporting government to limit the exporter's shipment of some particular good, usually for three to five years. Furthermore, VERs are rarely airtight agreements: they are often circumvented by exporters, and periodic renegotiations over terms, definitions, and duration are necessary.

For obvious reasons, most economists argue that traditional forms of protection, such as quotas and tariffs, would be preferable. Tariffs, in particular, are simple tools that are economically more efficient and subject to relatively clear international rules. According to the 1947 General Agreement on Tariffs and Trade (GATT), when an industry is hurt by international competition, an importing government is allowed to raise tariffs (article XIX). The major provisos are that tariffs be imposed on a "most-favored-nation" basis—i.e., to every member equally—and that the country imposing protection compensate its trading partners with concessions in other industries or allow its trading partners to retaliate.

Despite the economic appeal of tariffs as the best (or least worst) alternative to free trade, they have been used sparingly and VERs have been used extensively by the United States in the 1970s and 1980s. The United States has negotiated VERs in industries ranging from textiles and apparel to footwear, automobiles, steel, machine tools, and color televisions. And, ironically, almost no one likes VERs: not only are they viewed as suboptimal in terms of efficiency, but those industries protected by VERs often complain that VERs are the worst trade barriers for reducing import competition. Workers typically receive few if any long-term benefits from this form of protection. Few would argue that VERs are the best instruments for United States trade policy, yet they persist and grow.

The Institutional Appeal of VERs

Why a country like the United States would want VERs has been a matter of great debate. Many economists have assumed that VERs are an alternative to tariffs that are instigated by industries believing they can extract more protection out of quantitative limits than from the price increases associated with tariffs. They have assumed that the government willingly complies with the demands of these politically powerful groups.

Another school of thought has suggested that the executive branch of government utilizes VERs to satisfy a protectionist legislature while actually promoting trade liberalization. The executive branch realizes that with VERs it can appear to provide protection while providing a weak, porous form of trade restriction that will have little positive impact on the domestic industry, will assuage legislative critics of liberal trade policy, and will serve as a Trojan horse for further liberalization. The implied model here is that industries do not understand which strategy will provide the most protection and that the government has a fair amount of leeway. Rather than a weak-willed response to strong interests, VERs in this view are seen as a subtle and astute demonstration of the flexibility of executive power to pursue its own policy goals.

Traditional explanations of political choices do not help resolve the differences between these competing perspectives. For example, variables like the party in power and election cycles provide no help in explaining the spread of VERs over the past decade. Democratic presidents have chosen VERs as often as Republicans, and VERs have been utilized before, during, and after election years. The type of industry also provides little guidance; the United States has employed VERs to protect capital-intensive (automobiles) and labor-intensive (apparel) businesses, differentiated products (machine tools) and commodities (steel), and concentrated industries (automobiles) as well as fragmented sectors (machine tools).

Part of the reason that scholars have had such a difficult time explaining the rise of VERs is that their implicit or explicit models of government have generally been naive or faulty. Most of these models have assumed that governments either respond to rent-seeking behavior by special interests or act to improve the welfare of their citizens. Yet VERs make no sense under either condition: they are not the

most desirable policy for many rent-seeking groups and they are not optimal for maximizing welfare.

A more institutional perspective may shed light on why VERs have emerged as favored tools of American trade policy. Rather than assuming that government is a rational actor maximizing a set of interests or is simply the vector sum of interest-group pressures, one might conceive of the American government as composed of institutions with "mixed motives."¹ That is, government officials have preferences for free trade and improving consumer welfare, but these preferences are constrained by domestic political pressure for trade barriers. The need for officials to appease some domestic interest groups without violating international commitments and their own values creates mixed motives. With this model of government, VERs become the most desirable protectionist tool precisely because they address the political demands without inflicting high political or economic costs. Although the welfare losses potentially caused by shortages and unpredictable price increases may be greater for consumers than under a tariff, most VERs are in practice very "leaky." While one can usually predict how much tariffs will reduce imports, VERs are so complicated that foreign exporters often find loopholes in the agreements and maintain or increase their exports. Leakiness, then, makes VERs more palatable to government officials with a liberal bias because leaky VERs tend to allow more imports into the country than would a comparable tariff.

Importing countries find VERs to be less costly than tariffs in other ways as well. For instance, foreign-policy costs are lower. First, VERs are negotiated by the importing and exporting governments; tariffs are imposed unilaterally by the importing government. Second, *ceteris paribus*, all protectionism causes domestic prices to rise. Different forms of protectionism, however, allow different participants to benefit from increased prices. In the case of a tariff, the importing government imposes a tax and collects revenue. Foreign nations will usually have to cut their exports or lower their prices and, in either case, lose foreign-exchange earnings. Even though the price ultimately paid for a product may have increased because of the tax, the actual exporter may well have had to cut its prices somewhat to lessen the tariff's full impact. VERs, by contrast, are implemented by the exporting country. As a result, foreign exporters can usually raise their own prices and thereby collect any additional profit generated from protectionism. In the case of VERs, foreign corporations, not the importing government, collect the proceeds from any price increases.

Not only are foreign-policy costs lower with a VER, but the domestic political costs are also lower. From the domestic industry's perspective, quantitative restrictions of any sort are almost always considered more desirable than a tariff rate increase. And while both tariffs and VERs usually cause domestic prices to rise, the effect of a tax is generally transparent to the end users—they know the tariff is raising their costs and they can calculate by how much. However, since the increase in price resulting from VERs usually occurs in the foreign country before the product reaches domestic shores, the inflationary effects of a VER—and whom to blame—are harder for the consumer to identify.

One way to test the value of a mixed-motive model is to consider the alternative: what if government decision makers are relatively indifferent to the inflationary costs of protectionism and believe that trade barriers are legitimate for the purpose of promoting or saving domestic industries (i.e., infant industry protection or income redistribution), with or without an injury test? A government that was not internally divided with mixed motives and placed a high value on its ability to reduce imports would have little incentive to negotiate leaky arrangements that would transfer rent from the domestic consumer to the foreign competitor. This formulation of mixed-motive versus nonmixed-motive governments suggests that some of the most free-trade-oriented governments may be *less* inclined toward GATT-approved tariffs than they are toward VERs, while governments that are institutionally biased toward greater protection are more likely to impose restrictions consistent with the GATT.

Both the United States and the European Economic Community (EEC) could be considered exemplars of the mixed-motive model, and the two have accounted for more than 80 percent of all VERs in the late 1980s.² In the EEC, individual governments that tend to favor protectionism (e.g., France) either act unilaterally or like corporations in the American context by seeking the most stringent protectionist measures from the EEC. The EEC itself, as well as the more free-trade-oriented countries (e.g., Holland, West Germany), represents the counterbalance in the mixed-motive model. The EEC and the other free traders look for trade barriers that will minimally satisfy the protectionists and simultaneously minimize the potential economic and political costs.

The United States, of course, is the prototypical case of the mixed-motive model. To understand why the United States government has mixed motives, one needs to understand why the executive and legislative branches have not been sympathetic to strongly protectionist demands. The executive branch of the American government has a demonstrated commitment to liberal international trade but at the same time is constrained by demands of corporations in distress and some resultant congressional pressure for protectionism. America's shifting and dominant position in the world economy, its foreign-policy concerns as the world's dominant military power, and its leadership interest in solidifying the Western alliance all played a role in moving the executive branch toward a liberal trade position.

Congress is similarly constrained by mixed motives. To understand why Congress—contrary to the picture often painted of an institution thirsting for protectionism—faces this dilemma, one should examine changes in the two major political parties. Up through the 1930s, the Democratic and Republican parties differed sharply on international trade (primarily tariff) issues. In fact, many observers cite foreign trade as the single most consistent and divisive issue dividing the parties through their first century. Moreover, the impact of trade issues—and political discussion of them—penetrated down to the local level and affected the organization of segments of American labor. Thus, since the early nineteenth century the fate of the parties and trade policy have been closely intertwined.

But since World War II party differences on trade issues have eroded signifi-

cantly. One common measure of party voting on an issue is to calculate the percentage of roll-call votes on which a majority of one party opposed a majority of the other party. Using this test, party differences have declined, though not sharply. From 1947 to 1964, 62.1 percent of all trade-related roll calls in the House of Representatives featured a majority of one party against a majority of another party. From 1965 through 1975, the proportion declined to 49.3 percent, and from 1976 to 1986 there was a slight increase to 53.9 percent. (Trade-related votes with overwhelming – 90 percent or more – bipartisan support were eliminated from the analysis.)

This measure masks the significant level of change in the party debate over trade issues. If the cutpoint is moved to 75 percent – i.e., 75 percent or more of one party votes yea while 75 percent of the other party votes nay – 31 percent of all roll-call votes from 1947 to 1967 meet this criterion. From 1965 to 1975 only 8.0 percent find this 75/75 split, and from 1976 to 1986 a mere 4.8 percent of the roll call votes find the parties this sharply divided. These data illustrate that the intensity of the partisan debate over trade issues has diminished sharply. While about half the time after 1965 a majority of one party opposed a majority of another party – about what would be expected randomly – the fact remains that these are thin majorities. Until 1965, one trade vote in three caused intense partisan divisions; after that point, only one vote in twenty raised this level of conflict. And a fair share of these votes in the latter period involved the procedural wrangling that in Congress is sometimes directly related to substance and sometimes to simple disputes over internal power.

Other measures of party division, such as the common Index of Party Dissimilarity, produce much the same results. The IPD runs from 0 (parties vote absolutely the same on every issue in a given period) to 100 (every vote in a particular period is an absolute party line vote). In the days of strong party competition and division over trade issues, IPD scores for individual years in the 70s and 80s were not uncommon. In today's less party-oriented era, an IPD over 50 (the midpoint in the scale) looks wildly partisan. From 1947 to 1964 the IPD exceeded 50 six times, twice hitting the upper 70s; from 1965 to 1986 the IPD never even once topped 50. Only four times in those twenty-one years did it nudge into the 40s.³

The important question is what difference cohesive and distinctive parties make. What does the change in party distinctiveness have to do with VERs? The answer is that the decline in party division allows one to fill out the congressional half of the mixed-motive model. The "politically astute executive" explanation of VERs discussed at the outset seems to imply a legislature that blindly follows the executive and is not quite perceptive enough to understand what the executive is doing when employing VERs.

The mixed-motive model, on the other hand, presupposes a changed legislature, not a dimwitted one. The legislature is one whose incentives may have been altered over time and now mesh together with the president's more firmly than most observers note. The decline in parties is the key part of the change. Parties before the 1930s had every reason to act in the localistic, parochial nature classi-

cally attributed to Congress: they had domain over the trade-policy area and the political fruits (or pits) were essentially fully appropriated by a single party. With party coalitions sharply defined, with specific industrial sectors located firmly in one party or the other, and with the policy power clearly located in the parties, there was a strong tendency to support specific measures (e.g., a tariff) that clearly and openly distinguished between winners and losers. The other party tended to stand firmly and openly with an opposite view of the measure.

Now the parties do not have each other as a foil. As the above data on party voting suggested, no longer can the majority party regularly ram a policy through the Congress. As the parties lost their policy leadership to the executive branch, the interests organized within the parties became much more in flux and less predictable. The parties have to work hard today just to reach internal compromises. And with the coalitions in flux, these internal compromises tend to bring both parties toward the middle on trade issues and methods. Now, both parties are equally likely to be involved in obtaining assistance for a particular industry. An industry trying to get a proposal for a method of relief through the doors of Congress now finds double the doors. Not only is it increasingly difficult to divide the parties by industry, but it is also difficult to divide them by the familiar labor-management standard. Certainly it is still true that labor – at least its leadership – gravitates toward the Democratic party, while business tends to support both parties. But again, the two parties have become much more mixed in their coalitions than they had been. The likelihood that a labor-management split over a trade-policy method will project into a larger party split over the appropriate method is small. Generally, both parties are building coalitions in a way that encourages methods that seem dramatic while perhaps being less sharply disadvantageous on groups not involved in the protection. With parties weaker, it pays less now for groups to remain solidly with one party. With supporters in flux, it pays less now for the parties if the mode of protection might seem to favor one group over another. VERs, with the features described above, fit perfectly into the needs of the weakening parties. Not only do they satisfy a need of the executive, but they also meet the needs of the parties.

Moreover, though the localistic interests of members of Congress still differ from the executive's, the two branches are converging toward common ground – both want a trade-policy instrument to provide some relief for an industry and be relatively limited in its impact on inflation, growth, and related industries. This meeting of the minds has been highly intertwined with the fate of the parties. Concomitant with the decrease in party dissimilarity has been a rise in incumbency, which is now by far a more dominant voting cue for the public than party is in congressional races. Voters see representatives as acting as an intermediary between the bureaucracy and the people. This change has in turn affected what members of Congress want from their institution. Members think there is a need for Congress as an institution to present an image, though “closer to the people,” of an independent, credible agent that is fair-minded and not beholden to special interests. This need has allowed representatives to widen their perspectives: Congress now has

generally the same overriding national concerns about the general welfare of the economy as the executive, while still taking due notice of the needs of local industry. (The three major reform bills of the mid-1970s – budget, trade, and war powers – all sought to provide this new image and wider perspective.) So Congress increasingly faces mixed motives as well; as appealing as the VER is to the president, it also appeals to the Congress. One does not need to assume either clever presidents or dimwitted legislators.

Both branches, then, have interests leading them to favor VERs. But given these interests, why does the United States government ever use tariffs and the GATT? Why not simply negotiate VERs every time an industry meets the requirements for the granting of protectionism (i.e., economic distress and no excessive domestic or foreign-policy costs)? The most important variable distinguishing industries that received tariffs from those that received VERs is *size*: of the industries that were provided protection, all the large industries, as defined by sales and employment, received VERs or OMAs, while all the small industries received tariffs (see table 1).⁴

Size is important because it is a proxy for domestic political and foreign-policy costs. The larger the domestic industry, the higher the political costs of transparent tariffs; similarly, tariffs and quotas on large industries would necessitate higher compensation and more friction with trading partners. Thus, if the industry is large, benefits of VERs offset any transaction costs associated with negotiating the arrangements with individual suppliers. Tariffs on small industries, by contrast, are less likely to provoke retaliation or political backlash at home: *ceteris paribus*, consumers of mushrooms, citizens-band radios, or motorcycles are less

TABLE 1
Business Data for Selected Escape Clause Industries

<i>Industry</i>	<i>Year</i>	<i>Remedy</i>	<i>Sales</i> <i>(1982 \$ mil.)</i>	<i>Production</i> <i>Employment</i>	<i>Import</i> <i>Penetration (%)</i>
Copper	1978	Nothing	\$7,381	13,000	13.0
Copper	1984	Nothing	4,824	6,000	15.5
Bicycles, etc.	1978	Nothing	1,408	2,000	27.7
Household cooking equipment	1977	Nothing	3,583	19,350	8.2
Motorcycles	1982	Tariff	812	2,230	69.0
Mushrooms	1979	Tariff	259	3,022	51.8
Bolts, etc.	1978	Tariff	1,837	13,300	40.9
Citizens-band radios	1977	Tariff	832	2,061	94.4
Textiles	1981	OMA (MFA)	56,708	1,244,000	14.0
Nonrubber footwear	1976	OMA	7,095	144,000	47.0
Color televisions	1976	OMA	3,728	26,957	38.5
Machine tools	1985	VER	3,972	36,400	43.8
Carbon steel	1982	VER	39,181	198,000	21.8
Automobiles	1980	VER	60,056	609,315	34.7

Source: G.C. Hufbauer, D.T. Berliner, and K.A. Elliott, *Trade Protection in the United States: 31 Case Studies* (Washington, D.C.: Institute for International Economics, 1986); various annual issues of U.S. Department of Commerce, *U.S. Industrial Outlook* (Washington, D.C.: Government Printing Office).

of a threat to government policymakers than the potential threat from consumers of shoes, steel, or automobiles. In essence, government officials have fewer mixed motives in dealing with small industries. Therefore, one can hypothesize that the benefits of VERs in small industries are not great enough to offset the diplomatic and political costs (and headaches) of having to negotiate agreements with numerous exporting countries.

The Harley-Davidson motorcycle case of 1982 illustrates the political dynamics of small industries. Initially the government attempted to solve Harley-Davidson's problems by getting Japanese companies to provide direct assistance to it. When that effort failed, and the United States government had to make a trade decision, policymakers showed no hesitation about imposing tariffs on motorcycles. In fact, VERs were never considered during the debate.⁵ Motorcycles would be a natural candidate for VERs: the threat to the United States was perceived to come from Japan, but the American government did not want to restrict the Germans, who were also exporting to the United States. In addition, the executive branch was under severe pressure from Congress to help Harley-Davidson. Yet policymakers expressed little concern about the reaction of trading partners to tariffs because the industry was small, and they viewed the consumers as a small, specialized group.

The 1977 footwear case paints quite another picture. In footwear, policymakers were hamstrung by mixed motives: they faced some political pressure from Congress to help footwear, but they did not want to bear the political costs of promoting higher inflation in a product that affected every American, nor did they want to bear the foreign-policy costs of imposing restraints on trading partners, such as Italy (a member of the EEC) and Brazil (a large debtor country with whom the United States had large trade surpluses). VERs, in this case an orderly marketing agreement, were the politically optimal solution.

Changing Industry Demands for United States Trade Policy

The analysis so far suggests that institutional incentives create a stable equilibrium that should continue to produce somewhat "leaky" VERs for large industries in distress. Such an equilibrium certainly suits the interests of both Congress and the president, but what about the affected industries? Dissatisfied with leaky protection, would they disrupt this equilibrium? Assuming that individual industries will learn over time how to make their own VERs more effective but will not learn from one another's experiences, the answer is "probably not." For instance, even though the textile industry had two decades of experience with protection under VERs, by the time the footwear industry was given a comparable arrangement in 1977, the footwear association made virtually every mistake that the textiles industry had made in 1957. These mistakes included allowing vague custom definitions, which made the agreements easy to circumvent, and covering only two players, which made transshipment simple and kept the market open for alternative suppliers.⁶

But assuming that industries learn only from their own experiences may no longer

be valid. As more and more industries become protected by VERs, two things occur: common patterns emerge, producing an inevitable diffusion of knowledge; and industries that do not feel they have received adequate protection under VERs repeatedly return to the government to request additional trade assistance. In other words, VERs promote political learning and protectionist recidivism. While recidivism has always existed, it was previously limited to a few industries. The textile industry, for instance, has returned to the government for protection every two or three years since the early 1950s. As long as textiles remained isolated, the government could buy the industry off with a new, slightly tighter set of VERs. But the political dynamics have been changing: among larger industries, textiles was virtually the lone recidivist in the 1960s; by the mid-1970s, it was textiles and steel; by the late 1970s, it was textiles, steel, televisions, and footwear; and by 1985, more than sixty separate industry groups had filed at least one petition in two or more years between 1975 and 1985. In fact, most of the increase in demand for protection during the Reagan administration can be traced to recidivists. As table 2 illustrates, the number of new industries filing for protection for the first time is relatively flat after 1979. Except for long-time activists—textiles and steel—most growth in protectionist demand has come from recidivists.⁷

Recidivism is important for the future American use of VERs. Textiles had few incentives to collaborate with steel, and neither had incentives to work with footwear. Thus, it was no surprise that these industries rarely learned from each other. Yet if political learning starts to take place, there may be a snowballing effect: recidivism creates players that learn more sophisticated means to exploit the system and encourages formerly isolated industries to learn from one another and build coalitions to alter the system in favor of greater or tighter protectionism. Recidivists tend to have strong common interests and common complaints: they all feel that

TABLE 2
Recidivism of Industries Filing for Protection, 1979–85

	1979	1980	1981	1982	1983	1984	1985
Number of nonsteel, nontextile industries applying for protection	22	19	18	33	30	31	33
Number of industries filing for the first time	22	17	16	29	26	22	23
Percent of industries filing repeat petitions	0.0	10.5	11.1	12.1	13.3	29.0	30.0

Source: I.M. Destler, *American Trade Politics: System Under Stress* (Washington, D.C.: Institute for International Economics, 1986), 223–334.

Note: Table includes escape clause, countervailing duty, and antidumping petitions. The number of industries filing petitions will not equal the total number of petitions because industries often file the same complaint against several countries in a single year. In this table, such instances are coded as one industry filing one petition. Textiles and steel have been excluded because they have continually filed petitions for thirty years and twenty years respectively. Their inclusion would bias the figures upward and would not indicate a new trend.

the existing system has not adequately protected them. Moreover, unlike newcomers to a nation's capital, recidivists are more likely to know one another. In the United States, they will all have testified before the International Trade Commission many times, utilized the same specialized set of Washington lawyers, or simply lobbied the same committees on Capitol Hill. These networks facilitate increased learning across industries.

The first implication for VERs of political learning across industries is that companies lobbying for protectionism will become more sophisticated in their demands. While they may still accept VERs as the only viable protectionist alternative their government is willing to offer, they may be less likely to accept standard VER categories, definitions, or other features – loopholes – which usually make VERs palatable for exporting nations. (These loopholes include insisting on controlling export licenses, demanding volume restraints versus value limitations, and carefully structuring product definitions, such as rubber versus nonrubber shoes, cars versus trucks, cotton versus synthetic versus natural fibers, and full assemblies versus subassemblies.) If importing industries now understand this game, then the opportunities to create these loopholes will diminish.

The experience of the United States machine-tool industry's appeal for trade barriers is a case in point. The demands for protection by the National Machine Tool Builders' Association in 1983 clearly reflected learning from others' experiences. Like most industries, the association requested global quotas. These quotas, however, had unique characteristics. The original petition outlined annual limits of imports to be a maximum of 17.5 percent of "domestic consumption by *value*." In addition, it specified eighteen separate categories to restrict and told the government that "in establishing and applying the quotas care must be taken to ensure that they cannot be circumvented by the importation of unassembled machine tools or component parts in quantities that would effectively undermine the relief granted." The petition went on to warn that "quotas are expressed in terms of value, instead of units, to prevent foreign producers from effectively increasing their market share by concentrating their shipments to the United States in the highest priced models."⁸ No such specific requests had ever appeared in previous steel, footwear, television, or automobile petitions. While the United States, still operating under the mixed-motive model, decided to set the VERs on units, the industry's demands did affect the structure of the agreements. The various machine-tool agreements specified category restraints, defined how much local content would justify a "Made in U.S.A." label, and established how relevant market shares would be measured.⁹

As political learning increases and sophistication grows, the willingness to accept VERs also diminishes. Instead, political learning is likely to produce substitution; domestic industries, not wanting to fall prey to the drawbacks of VERs, will seek alternative market-sharing arrangements. The United States–Japanese semiconductor industry experience is such an example. In 1985, the United States semiconductor industry filed an unfair trade petition against Japan (under Section 301 of the Trade Expansion Act of 1974), claiming discriminatory access to

the Japanese market. Subsequently, three American companies and then the U.S. Department of Commerce filed antidumping suits. In the ensuing negotiations, Japan sought to reduce the pain of dumping duties (which would have been as high as 108 percent against some companies) by offering a voluntary export restraint on the most sensitive products known as dynamic random access memories (DRAMs).¹⁰ Recognizing the potentially dangerous effects of VERs, America's Semiconductor Industry Association rejected out of hand any Japanese offer of a VER.¹¹ Instead, it insisted on a formula of "foreign market values" that Japan would have to apply to its products in all markets, including non-United States markets. And in this case, the United States government obliged its domestic industry and would not accept the VER offer.

Mitigating some of the consequences of increased sophistication on the part of domestic firms is that exporting countries also learn from their experience with VERs. For instance, when Japan first negotiated a VER in textiles with the United States in 1956, it did not consider the possibility of other countries' filling the gap created by the volume restraint on Japan's exports. As Hong Kong and others gained market share at Japan's expense, Japan complained bitterly to the United States. By the mid-1960s, a new feature began to emerge in all textile agreements: every time Japan (and later Taiwan, South Korea, and Hong Kong) negotiated a deal with the United States or Europe, it insisted that its exporting firms would not be placed at a disadvantage vis-à-vis other countries. In effect, the first country restricted by a VER in a new industry or product classification would agree to the restraint only if the importing country promised to maintain equity by spreading the use of VERs. Such clauses eventually spread beyond textiles to the VERs negotiated with Japan in color televisions and machine tools and with South Korea and Taiwan in footwear as well. The footwear agreement, for instance, had a clause under the heading "Equity," which stated, "In the event of large increases in U.S. imports from other countries . . . the United States will take appropriate remedial action."¹² In each case, the United States sought additional VERs from other suppliers. Even in the semiconductor case, where VERs were not negotiated, the Japanese government responded to the complicated market-sharing agreement in ways reminiscent of Japanese policies for coping with VERs: the Ministry of International Trade and Industry (MITI) forced production cutbacks across the board in an effort to raise prices and alter corporate strategies. Despite dire predictions in Japan about the terrible consequences of the United States-Japan semiconductor agreement, the production cutbacks combined with a boom in personal computer demand allowed Japanese companies to start earning excess profits in semiconductors only ten months later.

A final observation about political learning is that it does not necessarily lead to better or more optimal outcomes. As Hugh Hecló has written, political learning can result in one form of myopia being replaced by other forms of myopia.¹³ Though players (firms or governments) may know that a particular policy like VERs can be problematic, that does not mean that they have "learned" to optimize the outcome.

VERs and the Future of United States Trade Policy

This essay has shown that an institutional perspective on government helps explain why the United States adopts VERs. In addition, one must look at the dynamics of industry behavior and the role of political learning to comprehend how trade policy will vary over time. Defining government as a decision maker with mixed motives was a useful starting point for understanding why VERs are the preferred trade instrument for the United States government policymakers who were motivated by liberal trade values but constrained by domestic and foreign-policy pressures. These officials would find VERs the perfect compromise policy, especially for large industries in distress. Only when industries were small and in distress would the economic benefits of a tariff outweigh the political costs. Political learning by governments and industries in both importing and exporting countries suggests that the use of VERs will become more sophisticated and detailed over time. Initially, learning takes place within individual sectors, but increasingly knowledge diffuses and new industries seeking protection learn from the experience of VERs in industries with longer protectionist histories. Learning produces tighter restraints and substitution by other market-sharing arrangements, as industries reject the solutions of the past.

These two themes of mixed motives and political learning raise the question of what might alter the institutional incentives facing Congress and the president. Some critics argue that bringing VERs under the GATT umbrella would be the best way to change these institutional incentives. According to this argument, incorporating VERs into the GATT would make the arrangements more transparent, raise the costs of imposing VERs, deter countries from defecting from the rules, and produce more liberal trade. Raising the foreign-policy costs of VERs by incorporating them within the GATT would indeed reduce their attractiveness for importing countries with mixed motives, such as the United States. However, since GATT-approved tariffs would still remain costly in the mixed-motive model, restrictions on VERs would not necessarily produce more liberal trade. Just as VERs have been tools for governments with mixed motives trying to circumvent the constraints of GATT-approved tariffs, GATT rules on VERs could have the surprising effect of hastening the substitution toward other tighter market-sharing arrangements like the United States–Japanese semiconductor accord. Therefore, banning or even restricting the use of VERs via new GATT rules is not necessarily the best course for United States trade policy.

Trends in both party distinctiveness and political learning affirm that the GATT solution may be appropriate. As discussed above, overall party distinctiveness on trade issues has diminished over time. From 1982 to 1986, however, this dissimilarity showed a modest increase. From 1970 through 1981, the average yearly Index of Party Dissimilarity was 25.7; from 1982 to 1986 the annual average was 43.0. The rate in 1984 (49.0) was the highest in twenty years. (Even these increased levels are low compared with levels in the late 1940s and 1950s.) It is unclear whether a true shift is occurring or whether there is merely a blip in the data.

If a shift is occurring toward slightly more distinctive parties, that would suggest that moving away from VERs may be risky. If the parties were to begin to polarize over trade issues—and it is by no means certain that they are—the old pattern of solid industrial blocs linked with specific parties might return. In the past, this tendency led parties to opposite sides of trade-policy instruments, indeed preferring methods that made winners and losers very clear. Demands might be made to scrap VERs and move to much more stringent forms of trade restriction. Indeed, when one combines parties that have more to gain by establishing ties to industrial sectors with industries that are increasingly aware of what works and what does not, it becomes highly likely that more stringent restrictions would be the result. The reemergence of this kind of logic, in the face of an executive branch still oriented around liberalism and short-term consumer welfare, could lead to huge and unpredictable battles over trade policy within Congress as well as between the Congress and the president. Removing VERs as a viable instrument may well accelerate this process and lead to highly restrictive trade instruments awarded to industries on a haphazard basis.

Political learning also augurs poorly for the GATT-based solution. While increased learning about the drawbacks of VERs is likely to produce substitution over time, many of these alternative arrangements have much higher transaction costs compared with a typical VER. Hence, one could expect substitution to take place slowly, spreading rapidly only after they become routinized and less costly. But if VERs are suddenly more costly, and if the United States government remains under pressure from sophisticated domestic firms being hurt by international competition, there would be great urgency to seek other protectionist devices that have the advantages of the previously unregulated VERs—i.e., tools that have low transparency, are discriminatory, and do not directly violate GATT. Again, the move to these more stringent devices might well be accelerated by bringing VERs under the purview of GATT. As for the United States's trading partners, who also have demonstrated political learning, new rules for VERs could be a mistake. Since VERs may be less costly to the exporter than most other protectionist alternatives, exporters should not create any international rules that reduce their options, leading to more unilateral measures rather than negotiated outcomes, or raise the costs of VERs without also raising the costs of other, more insidious forms of protection.

Perhaps the most important question for the future of United States trade policy is not whether the government opts for VERs or tariffs but how it will solve the problem of mixed motives. While there are some voices in Congress, in some portions of the executive branch, and in some parts of academia advocating a rethinking of the premises, goals, and implementation of trade policy, any structural sea change appears to lie in the distant future. If there is a change in the goals of American trade policy, the United States might begin a search for positive, effective trade instruments in industries deemed not merely large but strategically important. But as long as there are institutional incentives in Congress and the executive branch that favor short-term consumer welfare and foreign-policy

interests over the concerns of a competitive economy, mixed motives will prevail, and it will be impossible to avoid VERs or greater evils.

NOTES

1. See also Vinod Aggarwal, Robert Keohane, and David Yoffie, "The Dynamics of Negotiated Protectionism," *American Political Science Review* 81 (June 1987): 345-66; and Jagdish Bhagwati, "VERs, Quid Pro Quo DFI and VIEs: Political-Economy Theoretic Analyses," *International Economic Journal* 1 (Spring 1987): 1-14.
2. Michel Kostecki, "Export-Restraint Arrangements and Trade Liberalization," *World Economy* (December 1987): 428.
3. John J. Coleman, "The New Fiscal State and the Decline of Parties, 1932-1986" (Ph.D. diss., Massachusetts Institute of Technology, forthcoming).
4. David B. Yoffie, "Mixed Motives, Bureaucratic Power, and Learning: The Past Appeal and Future Evolution of Voluntary Export Restraints," Working Paper 89-009 (Boston: Harvard Business School, 1989), 15.
5. Interviews with Clyde Prestowitz, acting assistant secretary of commerce, and William Niskanen, chairman of the council of economic advisers at the time of the Harley-Davidson decision, and other United States government officials involved in the decision (April 1988).
6. David B. Yoffie, *Power and Protectionism: Strategies of the Newly Industrializing Countries* (New York: Columbia University Press, 1983), 176-79.
7. Yoffie, "American Trade Policy: An Obsolete Bargain?" in *Can the Government Govern?*, ed. John Chubb and Paul Peterson (Washington, D.C.: Brookings Institution, 1988), 123.
8. U.S. Department of Commerce, "Petition Under the National Security Clause, Section 232 of the Trade Expansion Act of 1962 for Adjustment of Imports of Machine Tools," 3-4 (emphasis added).
9. "Overseas, Reactions Vary to Reagan's Call for Voluntary Restraints on Exports," *American Machinist*, July 1986, 47.
10. John J. Coleman and David B. Yoffie, "The Semiconductor Industry Association and the Trade Dispute with Japan," Harvard Business School case 9-387-205 (Boston: Harvard Business School, 1987), 8.
11. George Scalise, chairman, Public Policy Committee of the Semiconductor Industry Association, Harvard Business School class presentation videotape, 25 Feb. 1988.
12. Yoffie, *Power and Protectionism*, 189.
13. Hugh Hecló, *Modern Social Politics in Britain and Sweden* (New Haven: Yale University Press, 1974).