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**Michael J. Hiscox: International Trade and Political Conflict**

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## CHAPTER ONE

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### Trade, Distribution, and Factor Mobility

The expansion of international trade has been a powerful engine driving economic growth in Western nations over the last two centuries. At the same time, since trade has had disparate effects on different sets of individuals within each economy, it has provoked an enormous amount of internal political conflict. Although such conflict between winners and losers has been a constant in trade politics over the years, the character of the political coalitions that have fought these battles—the nature of the societal cleavages that the trade issue has created—appears to have differed significantly across time and place. Most importantly, the extent to which conflict over trade policy has led to clashes between broad class-based coalitions has varied across historical settings.

As a consequence, the literature on the political economy of trade has developed something of a split personality. Many scholars following in the grand tradition of E. E. Schattschneider (1935) have focused on the political role of narrow industry groups, or “special interests,” in the policymaking process. This approach, which emphasizes the competition between coalitions of business and labor groups positioned on both sides of the debate over trade, has been prominently adopted by Peter Gourevitch (1986) and Jeffrey Frieden (1991) and is common to quantitative studies of trade barriers inspired by the endogenous policy literature in economics.<sup>1</sup> In contrast, Ronald Rogowski (1989) has examined broad factorial or class coalitions in a range of historical contexts, highlighting political conflicts between owners of land, labor, and capital over the direction of trade policy. Other analysts, drawing distinctions between owners of multinational and other types of capital or between skilled and unskilled labor, have made similar assumptions about the centrality of class cleavages in trade politics (Hel-leiner 1977; Midford 1993).

Empirical evidence suggests support for both approaches. The lobbying free-for-all among industry groups that led to the U.S. Smoot-Hawley Tariff Act in 1930 lives in infamy, and most accounts of contemporary U.S. trade politics indicate that such groups have played a prominent role in recent battles over the North American Free Trade Agreement (NAFTA) and the General Agreement on Tariffs and Trade (GATT). Historical accounts of trade politics in a variety of nations—particularly France during the nineteenth century—reveal that these kinds of industry-based cleavages have a

<sup>1</sup> For examples, see Anderson 1980, Lavergne 1983, and Baldwin 1985.

long and robust ancestry.<sup>2</sup> However, examples of broader class-based cleavages are also familiar. Perhaps most famously, workers in nineteenth-century Britain, taking on the ruling Tories and the landed elite, aligned with capitalists to provide mass support for freer trade and the Anti-Corn Law League. A similar contest developed in the United States after the Civil War—this time between pro-trade farmers and protectionist urban classes—and led to a Republican tariff in 1890 that was denounced by Democrats as the “culminating atrocity of class legislation.”<sup>3</sup>

That both class and group approaches have found empirical support in a variety of contexts demonstrates the need for a way to bridge the gulf between them that would specify the conditions under which one is more appropriate than the other. This need is fundamental on both theoretical and substantive levels. Coalitions are the manifestation of conflicts of interests among individuals in society over the direction of policy. As such, they lie at the very heart of politics. Yet, in the past, scholars examining the political origins of trade and other forms of economic policy have been largely content to make opposing general assumptions about the nature of these conflicts of interest—assuming that individuals will take different positions in disputes over trade and other policies depending on their economic class or on the industry or sector of the economy in which they are employed.

These assumptions are the very building blocks of positive political economy, and their relative appropriateness, an issue rarely addressed directly, is a central concern for all engaged in explaining and predicting the evolution of economic policy. By better accounting for the types of coalitions generated by trade and other economic policy issues, analysts will also be better able to assess the degree to which these cleavages and other types of political divisions within a political system map onto one another and thus whether they are compounding or cross-cutting. For instance, class divisions over the trade issue appear to have complemented and thus intensified the broad conflict between urban and rural coalitions over electoral reform in Britain in the nineteenth century, and the conflict over remonetization of silver in the United States in the 1880s and 1890s. Narrower, industry-based divisions over trade, however, tend to cut across and thus mitigate class antagonisms over other policy issues.

In this book I apply the standard economic theory of trade to provide a solution to the problem by focusing on interindustry factor mobility—that is, the ease with which owners of factors of production (land, labor, and capital) can move between industries in the domestic economy. If factors are mobile between industries, the effects of trade on incomes divide individuals along class lines, setting owners of different factors (such as labor and capital) at odds with each other regardless of the industry in which they are employed. If factors are immobile between industries, the effects of trade divide individuals along industry lines, setting owners of the same factor in

<sup>2</sup> On the French case, see Smith 1980.

<sup>3</sup> See *Congressional Record*, September 15, 1949, 12902.

different industries (labor in the steel and aircraft industries, for example) at odds with each other over policy.

This book presents the first systematic evidence on levels of interindustry factor mobility, examining six Western economies (the United States, Britain, France, Sweden, Canada, and Australia) during the nineteenth and twentieth centuries.<sup>4</sup> The data indicate that substantial variation in factor mobility coincides with different stages of industrialization and different amounts of regulation in these economies. The patterns in this variation, and their anticipated effects, are shown to fit broadly with the development of trade politics in these nations during different historical eras. I examine trade cleavages in each nation since the 1820s, emphasizing the effects of such cleavages on the behavior of political parties and peak associations and the lobbying efforts of major industry groups. I also provide a detailed statistical analysis of the effects of changing cleavages on congressional voting on trade legislation in the United States between 1824 and 1994. The results indicate that broad class-based conflict is more likely when levels of factor mobility are relatively high, and narrow industry-based conflict is more likely when levels of mobility are relatively low.

The findings reported here have important implications for the analysis of trade politics and the politics of economic policy more generally. They suggest that the types of political coalitions that take shape in society and organize to influence economic policy making largely depend on one basic feature of the economic environment that may vary over time (and across nations): the extent to which factors of production are mobile between industries within the economy. Put simply, the stakes that individuals have in policies that affect the industry in which they are employed or invested will vary greatly depending on how easy it is for them to move their assets elsewhere. Thus, interindustry mobility is crucial for understanding the political-economic origins of a vast range of trade, monetary, industrial, and regulatory policies that affect the relative fortunes of different industries or mediate the effects of other exogenous changes upon them. The extent to which these policy issues generate class conflict, rather than industry-based rent-seeking, will hinge critically on levels of factor mobility in the economy.

Class conflict can be a tumultuous and disruptive force in politics, of course, producing sharp fluctuations in economic policy as first one side then another gains control of government. But broad-based class coalitions are also more encompassing of society as a whole, as Olson (1982) famously noted, and thus they are more likely than narrow industry groups to take an interest in expanding the size of the whole economic pie rather than just snatching the largest piece of it they can. If politics devolves into a free-for-all contest among industry-based lobby groups, a large portion of an

<sup>4</sup> These nations are particularly attractive candidates for close study since they have long histories of democratic government and the political disputes over trade in each have been well documented.

economy's resources may end up devoted to zero-sum distributive battles rather than to productive economic activities (Bhagwati 1982).<sup>5</sup> If a stable pattern of compromise can be established between broad class coalitions, providing for efficiency-enhancing types of economic policies and methods of compensation, class cleavages seem far more appealing (for reasons of efficiency quite apart from issues of equality). This is essentially the model crafted by the Swedish economists who shaped Social Democratic policies in the 1950s and 1960s, and they recognized that maintaining such a broad-based compromise required programs that discouraged industry rent-seeking by supporting and promoting high levels of interindustry mobility among owners of labor and capital. In the end, a very strong case emerges for extensive forms of adjustment assistance to workers and firms (allowances for retraining, relocation, and reinvestment) that would enable them to respond to changes in the international economy in more efficient, nonpolitical ways, while at the same time mitigating the costs imposed upon particular groups by such exogenous shocks.

### 1.1 THE EXISTING LITERATURE

Explaining differences in the types of cleavages that emerge in trade politics is a task that generally has been set aside in past research on the political economy of trade. The dominant tendency has been to assume one type of coalition exists, usually in order to explain particular policy outcomes, and ignore the problem entirely. Rogowski (1989) explicitly assumes class-based coalitions, for instance, while Gourevitch (1986) focuses on industries. Frieden (1991) adopts a sectoral or industry-based approach when outlining his theory but allows that class coalitions have actually emerged as more important political entities in some of the economies he examined.

When the coalition issue has been addressed in the broader political science literature, attention has focused primarily on the effects of electoral and policymaking institutions. Political organizations geared to representing broad types of coalitions are more likely when the franchise is extended more widely among society (see Duverger 1954; LaPalombara and Weiner 1966; Cox 1987). Some types of electoral systems that encourage intraparty competition and the development of a "personal vote" may be more conducive to group "rent-seeking" than alternative systems.<sup>6</sup> Along these lines, Rogowski (1998) has argued that whether proportional representation encourages politicians to appeal to broader or more particularistic interests actually depends on how attached voters are to the parties (that is, how easily they can be "bought").

Policymaking institutions may also have profound effects on coalitions,

<sup>5</sup> This is the portrait of political ossification usually painted of France in the late middle ages (North and Thomas 1973).

<sup>6</sup> The point has been made most clearly with reference to systems with multi-member districts and single, nontransferable voting. See Carey and Shugart 1992 and Katz 1986.

although since they are more malleable, the degree to which they can be considered exogenous to the coalitions themselves is more troublesome. James Alt and Michael Gilligan (1994) have suggested that rules under which policy is made by a small group of legislators and that allow more access and influence for lobbying groups (for example, during hearings by legislative committees) are less likely to encourage formation of broad class coalitions than more “majoritarian” alternatives. Daniel Verdier (1994) makes a similar argument, but attempts to endogenize such policymaking institutions by reference to the salience and divisiveness of the trade issue among voters.<sup>7</sup> Though wonderfully provocative, Verdier’s study does not attempt to test this argument empirically and encounters some real problems. His argument treats voter preferences over trade policy as exogenous, for instance, ignoring their origins and treating them as separate from the preferences of firms and labor groups.<sup>8</sup>

These various institutional arguments warrant more empirical investigation aimed specifically at making sense of trade politics. It is highly unlikely, however, that they can explain all the variation we see in cleavages over trade policy. The broad urban-rural conflict that defined U.S. trade politics in the 1880s and 1890s, for instance (discussed in detail in chapter 4), developed within the same institutional structure that allowed the infamous lobbying free-for-all over the Smoot-Hawley bill in 1930. In Britain, intense Left-Right partisanship on trade in the 1920s gave way to internal bickering among groups and party factions at both ends of the spectrum by the 1960s, without a major change in institutions (see chapter 5).<sup>9</sup>

Electoral and policymaking rules undoubtedly have important effects on trade politics. But the evidence presented in this book suggests that cleavages are powerfully shaped by economic forces. The next step should be to specify just how cleavages and institutions interact to produce patterns in trade politics. That, however, is a topic for another book.

## 1.2 TRADE THEORY, COALITIONS, AND FACTOR MOBILITY

According to the Stolper-Samuelson theorem (1941), trade increases real returns for owners of the factor of production with which the economy is

<sup>7</sup> If the trade issue is salient and divisive among voters, Verdier claims, politicians will respond with rules that favor partisanship aimed at generating electoral support from broad class constituencies. If the issue is not salient politicians prefer to create a policymaking process that encourages group lobbying; and if the issue is salient but not divisive, he expects the delegation of policymaking authority to an executive agent and coalitions drop out of the political picture.

<sup>8</sup> For an alternative argument (focusing on the origins of the U.S. Reciprocal Trade Agreements Act of 1934) about how coalitions can shape policymaking institutions, see Hiscox 1999.

<sup>9</sup> See chapters 10 and 11 for detailed discussions of how several institutional arguments fare in explaining evidence from each of the six nations discussed above, and particularly for the U.S. case.

relatively abundantly endowed, while it reduces real returns for owners of the scarce factor of production. The result depends critically on the assumption that factors of production, though immobile internationally, are perfectly mobile within the domestic economy.<sup>10</sup> The logic is straightforward: increased trade lowers the price of the imported good, leading to a reduction in its domestic production and freeing up more of the factor it uses relatively intensively (the scarce factor) than is demanded elsewhere in the economy at existing prices. When factor prices adjust to maintain full employment, returns to the scarce factor fall even further than the price of the imported good. Meanwhile, returns to the abundant factor increase more than the price of the exported good. In this model, the perfect mobility of the factors assures that trade affects owners of each factor in the same way no matter where they are employed in the economy. The implication is that all owners of the same factor share the same preferences with respect to trade policy. It is this insight that encouraged Rogowski (1989) to argue that political coalitions form in the shape of factor-owning classes and to anticipate broad-based conflict among owners of land, labor, and capital in trade politics.<sup>11</sup>

Alternative models of the income effects of trade (often referred to as Ricardo-Viner models), in which one or more factors of production are regarded as completely “specific” or immobile between industries, generate very different results (see Jones 1971; Mussa 1974, 1982).<sup>12</sup> In these models, the returns to factors are tied closely to the fortunes of the industries in which they are employed. Factors specific to export industries receive a real increase in returns due to trade, whereas those employed in import-competing industries lose in real terms.<sup>13</sup> Under these conditions, factor specificity can drive a wedge between members of the same class employed in different

<sup>10</sup> Factors are identified as broad categories of productive inputs and include at least labor and capital. Traditional Heckscher-Ohlin studies of trade focus on land, labor, and capital, and I have relied on that basic framework in the following chapters. Leamer (1984), by contrast, has defined eleven separate factors: capital, three types of labor (professional, semiskilled, unskilled), four types of land (tropical, temperate, dry, and forested), coal, minerals, and oil. More complicated classifications of factors begin to blur the distinction between mobile and specific factors that is critical to the theory here, however, so I have generally maintained the simpler, traditional definitions.

<sup>11</sup> Classes are defined here simply in terms of factor ownership. Each class comprises those individuals well endowed with a factor relative to the economy as a whole, so that ownership of that factor accounts for the largest share of their income. This definition allows for the fact that individuals often own a mix of factors. See Mayer 1984.

<sup>12</sup> The original model was introduced independently by Jones (1971) and Samuelson (1971): the former christened it the “specific-factors” model, while the latter named it the “Ricardo-Viner” model.

<sup>13</sup> Again, the logic is straightforward: a decrease in the domestic production of an imported good releases any mobile factors for employment elsewhere in the economy and thus renders factors specific to the import-competing industry less productive, driving down their real returns. Returns to the mobile factor rise relative to the price of the imported good, but fall relative to the price of exports, so that the income effects of trade for owners of this factor depend on patterns of consumption.

industries since they can now be affected quite differently by trade. The implication is that political coalitions form along industry lines. This notion has guided work by Frieden (1991) and much of the empirical analysis in the endogenous trade policy literature, which relates variation in import barriers across industries to the incentives and capacities of industry groups to organize.<sup>14</sup>

### 1.3 THE ARGUMENT AND EVIDENCE

Both Stolper-Samuelson and Ricardo-Viner models examine extreme, or polar, cases in which productive factors are assumed to be either perfectly mobile or completely specific.<sup>15</sup> This is a modeling convenience, of course. Factor mobility is regarded more appropriately as a continuous variable affected by a range of economic, technological, and political conditions. Allowing that factors can have varying degrees of mobility, the simple prediction is that broad class-based political coalitions are more likely where factor mobility is high, whereas narrow industry-based coalitions are more likely where mobility is low. The trade issue should divide a society along very different lines when substantial variation exists in general levels of factor mobility.<sup>16</sup> (Appendix A develops this argument mathematically.)

To date, there have been no attempts made to measure general levels of interindustry factor mobility over any span of time or across countries. I have gathered data on interindustry differentials in wages and profits in the manufacturing sectors of six economies during the nineteenth and twentieth centuries (see chapter 2). These measures, along with other indicators of factor mobility, paint a compelling picture. Levels of interindustry mobility appear to be strongly related to industrialization. Early stages of develop-

<sup>14</sup> For example, see Anderson 1980, and Lavergne 1983.

<sup>15</sup> In the economics literature, the bifurcation is considered unproblematic since specific-factors effects are generally regarded as important in the short term but not the long term. See Mussa 1974, Caves, Frankel, and Jones 1990, 146–49, and Krugman and Obstfeld 1988, 81. It is simply assumed that, over time, all factors are perfectly mobile. The problem with this view lies in its neglect of politics: Factor owners not only choose between accepting lower returns in one industry or moving to another, they can also organize politically to influence policy and alter relative prices. When moving between industries is very costly, so that the time horizon for financing it is long, it is less likely that the discounted future benefits from such adjustment will exceed the gains immediately available via political action.

<sup>16</sup> This possibility was discussed briefly by Magee 1980. In a recent paper, Brawley (1997) has made a different type of argument, suggesting that factors might have both specific and nonspecific components that would complicate the cleavage patterns in trade politics. It is not exactly clear how these different components might be cleanly separated for analysis, however, and accurately predicting the preferences for each component may be problematic. (Brawley argues that nonspecific components of abundant factors would benefit unambiguously from free trade, but existing general equilibrium models would suggest otherwise.) Regardless, even in this type of framework, we can predict that class-based cleavages will be more important relative to industry-based cleavages when factor specificity is less prevalent. That is the basic argument I am advancing here.

ment have typically produced a sharp rise in interindustry mobility, as innovations in transportation lowered the costs of factor movement and innovations in production gave rise to the factory system and increased demand for unskilled workers and basic forms of physical capital. Later stages of development, however, have generally been associated with a decline in interindustry mobility, as new innovations have generated more specific forms of human and physical capital and far greater complementarity between technology and labor skills.

This analysis of mobility levels is combined with an extensive study of cleavages in trade politics in each of the six economies since the early 1800s. To date, discussions of coalitions and cleavages over trade policy have tended to ignore the question of how we should specify these phenomena in empirical terms. I address the problem by tracing the observable consequences of different coalition patterns in the behavior of political parties, peak associations, and industry groups. Specifically, I reason that class-based political parties and peak associations will be more internally unified on the trade issue when class coalitions are stronger, while lobby groups will take a more active, competitive role in policy making when industry coalitions are stronger. These linkages are mapped out in chapter 3.

The investigation of trade politics in each nation, presented in part 2, reveals a strong correlation between general levels of interindustry factor mobility and coalition formation. The analysis relies on qualitative evidence on the behavior of parties, peak associations, and groups, combined with quantitative measures of party unity in legislative votes taken on trade bills and measures of the activity of industry groups lobbying official committees deliberating on trade policy. The evidence reveals substantial variation, across nations and over time, in the cleavages that form over the trade issue. This variation corresponds in anticipated fashion with temporal and spatial variation in levels of interindustry factor mobility. In the United States and Britain, for instance, class conflict over trade appears to have peaked late in the nineteenth century, when major parties and peak associations were internally unified on the trade issue, pitting urban against rural coalitions. Since then, industry-based cleavages have grown in importance and lobbying by industry-based groups has increased markedly. Change has been less pronounced in France and Canada, by contrast, where the trade issue has rarely been the focus of broad-based class conflict and group lobbying has been more influential in shaping policy throughout most of the last two centuries. In Sweden and Australia, trade politics was rapidly transformed by sharp class cleavages early in the twentieth century, and these broad coalitions proved quite durable as parties and peak associations held fast to coherent positions on the trade issue at least until the 1980s. In Sweden, urban classes that favored trade openness dominated politics and shaped trade policy from the 1930s onward; in Australia, urban classes favored protectionism and held firm control of the direction of policy after 1919.

As an alternative way of testing the argument, in part 3 of this book I

focus on trade policy making in the U.S. Congress since the 1820s. I present an analysis of congressional voting on 30 major pieces of trade legislation between 1824 and 1994. Using data on the importance of different factor classes and different industry groups in separate electoral districts, the statistical analysis tests for signs of change in coalition patterns (and the relative utility of class and group-based models) over time. The results indicate that voting decisions by members of Congress more clearly reflect class cleavages when levels of factor mobility are relatively high, but are more consistent with a group model when levels of mobility are relatively low.

#### 1.4 THE ORGANIZATION OF THE BOOK

The following chapter discusses alternative measures of interindustry factor mobility, and presents detailed evidence on interindustry variation in wages and profits in the six selected economies over the last two centuries. Chapter 3 discusses ways to measure cleavages in trade politics, focusing on the major organizational channels through which political coalitions operate: political parties, peak associations, and industry groups.

Part 2 provides the historical core of the book. Chapters 4 through 9 survey evidence on trade cleavages and coalitions in each nation during different historical eras. I have arranged this analysis chronologically for each nation, rather than separating it into discussions of each historical period. Unlike other studies of similar scope that are structured by era,<sup>17</sup> the goal here is not to evaluate how each nation responded to common historical-economic shocks. The evidence indicates that levels of factor mobility actually vary considerably from nation to nation in each period. Although there are some common trends associated with the effects of industrialization, the timing of these shifts is not uniform across nations. Telling the story separately for each nation has the added benefit of preserving the flow of the historical narrative. Chapter 10 summarizes the findings from the case studies and shifts the focus from historical change within the nations to cross-national comparisons.

Part 3 focuses on quantitative evidence of cleavages and coalition patterns in the U.S. Congress. Chapter 11 describes trends over time in partisan positions on trade in congressional voting and examines trends in the lobbying activity of industry groups in hearings held by congressional committees. Chapter 12 presents the statistical analysis of congressional voting on major pieces of trade legislation. Chapter 13 concludes by discussing implications of the findings for the study of trade politics and the analysis of trade policy, and for the field of political economy more generally. I also consider qualifications and alternative hypotheses. At the end I suggest several possible avenues for future research.

<sup>17</sup> For examples, see Gourevitch 1986, and Rogowski 1989.