BOOK REVIEWS

The Political Economy of the GATT
Peter Moser
Grusch, Switzerland: Verlag Ruegger, 1990, 141 pp.

According to Peter Moser, "The main purpose of international trade negotiations is not to trade off divergent interests between countries, but to modify the rules of interactions in the domestic political process." From this insight, Moser has made a major contribution to the growing literature on constitional political economy, among the first to be applied to international agreements.

Moser addresses the following questions, among others:

- What leads a national government to make trade agreements?
- What is the characteristic content of these agreements?
- How are such agreements enforced in the absence of a world government or some other common enforcement authority?
- What leads to the erosion of these agreements?
- What have been the effects of these agreements?
- What led Congress to authorize the president to make substantial reductions in tariffs in the Reciprocal Trade Agreements Act of 1934?

Part I of this monograph develops a general theory of the international economic order and then applies this theory to explain the characteristics of the General Agreement on Tariffs and Trade (GATT). Moser interprets trade agreements as serving the same objective as national constitutions—to restrain the domestic political process from actions that reduce the "general welfare" within each nation. Specifically, trade agreements are an exchange of commitments that attempt to constrain national policies that reduce access to foreign markets. In that sense, trade agreements become part of the effective economic constitution of each participating government. He argues convincingly that an open international economic order is not dependent on international enforcement but will emerge if national governments protect certain basic rights and if international contracts are enforced in the national courts. The observed pattern of trade restraints is the result of an *intra*national "prisoners' dilemma"

Cato Journal, Vol. 10, No. 1 (Spring/Summer 1990).

and not from divergent interests across countries. And, on the basis of the insight of the late Jan Tumlir, Moser concludes that the problems of the international economic order in this century are primarily a consequence of the erosion of the effective economic constitutions of the national governments.

Part II develops a model of the political equilibrium tariff rate and then tests this model with the history of U.S. tariffs from 1900 through 1986. The primary conclusion of this model is that unilateral tariff setting will lead to higher equilibrium tariffs than would result from a trade agreement. The model, however, does not lead to an unambiguous conclusion that national governments will seek a trade agreement. My only quibble with this model is that it assumes that a flow of mobile factors into the import-competing industries will increase the return in these industries; this increase would happen only if the mobile factors are complements, not substitutes, to the factors already employed in these industries. In the one case of an increase in a foreign tariff, the interests of labor and capital in the import-competing industries are likely to be different. It is not clear, however, that a different assumption in this case would change the primary conclusions of this model.

The empirical tests are generally supportive of the results of this model. From 1900 through 1939, average U.S. tariffs were strongly countercyclical, increased during a Republican presidency, and declined during World War I, but were not significantly affected by the Trade Act of 1934. During the GATT period through 1986, average tariffs were much lower and only weakly countercyclical but they increased strongly in response to the terms of trade; in addition, average tariffs were reduced substantially in response to the Trade Act of 1974 and the Kennedy and Tokyo Rounds, and were independent of the president's party. The more disturbing finding is that the number of affirmative decisions on antidumping petitions increased sharply in response to the decline in average tariffs.

Part III develops a model of congressional decisions on trade issues and then tests this model on the decision to approve the Reciprocal Trade Agreement Act of 1934. The model, based on the analysis by Barry Weingast, focuses on the critical role of the key congressional committees in providing durability to congressional decisions. The 1934 Act, however, does not provide a sufficient test of this model, because several political changes were consistent with the single fact of the approval of this Act: specifically, the election of a Democratic president, the election of a Democratic Senate, and the selection of members of the Senate Finance Committee who were more supportive of freer trade than was the median senator. A better test of this model would require an analysis of all of the major trade acts and trade agreements from 1934 through 1988.

On reading this monograph, I was most surprised to learn this is Moser's dissertation. It is a model dissertation and reflects much more maturity than is characteristic of doctoral candidates. The combination of serious institutional analysis, enough mathematics to demonstrate his technical skills, careful empirical analysis, and clear writing (in Moser's second language) is most impressive. This monograph deserves a broad readership and should alert all of us to watch for Moser's future contributions.

William A. Niskanen