CHAPTER 14
DEVELOPMENTS IN DOMESTIC AND INTERNATIONAL TRADE, 1950 TO THE PRESENT

DOMESTIC TRADE

During the meat crisis in the spring of 1973 and the explosion of coffee prices in 1975, consumers and press articles frequently blamed "middlemen" for the rising prices. In fact, highly visible intermediaries have frequently been convenient scapegoats. Yet today, just as they have for centuries, intermediaries in domestic trade raise real incomes by reducing the transactions costs that accompany market exchanges.

In the postwar period the trade and service sectors grew relative to agriculture and industry. As Figure 14.1 shows, retail trade employment as a percent of total nonagricultural employment rose from 14.92 percent to 17.94 percent between 1950 and 1990, while service employment—excluding employment in finance, insurance, real estate, and all governments—rose from 11.85 percent to 25.57 percent. If we include employment in finance, insurance, and real estate, the percent of the total labor force rose from 26.7 percent to 49.0 percent between 1950 and 1990. Finally, including all government employees raises the percentages to 36.4 percent in 1950 and 63.7 percent in 1990.

The share of GNP originating in the wholesale and retail trade sectors declined from 17.9 to 16.0 percent, while the proportion of GNP originating in the service sector rose from 8.4 to 17.9 percent between 1950 and 1988. "By the end of the 1980s McDonald's employed more people than the United States Steel Corporation."[1] During the 1970s and 1980s about 70 percent of all new jobs created were involved the distribution, marketing, and maintenance of consumer products and providing consumer services.

Shopping Centers

One of the dominant trends since the end of the Second World War has been the rise of shopping centers as retail business migrated from the central business districts (CBDs) toward the suburban areas of the cities in pursuit of the population which was moving there. In 1950 there were only about 100 shopping centers, but that number swelled to around 20,000 by 1980 and over 32,000 by 1988.[2] By the 1980s it was not uncommon for a single large regional shopping center to handle more retail sales in a year than all retail stores in that region's CBD.

Through the 1950s most of the shopping centers followed the model of Kansas City's Country Club Plaza. Stores were laid out along or around a central plaza with abundant free parking surrounding the shopping center, and the center was anchored by several large department stores.[3] These typically paid little or no rent but were expected to engage in continuous, extensive advertising, which drew customers to the malls. The smaller specialty stores benefited from the foot traffic and paid rents to the owner(s) of the shopping center.

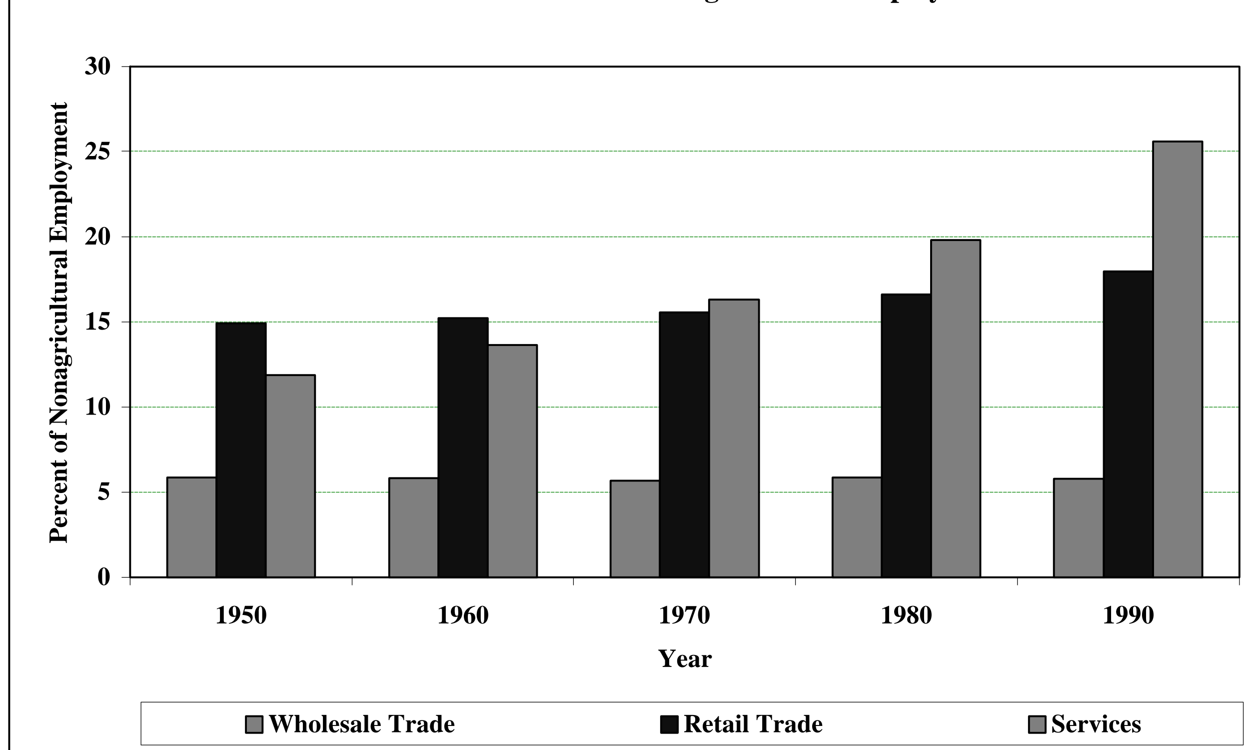
The early malls were generally unenclosed, but by the late 1960s the malls being built were generally enclosed and climante controlled. In the 1970s and 1980s most of the older, unenclosed malls undertook extensive remodeling to better compete with the newer, enclosed ones, while super regional shopping malls of 2,000,000 or more square feet were constructed. As the American landscape was "malled," competition between shopping centers, as well as changes in design began to lead to the revitalization of existing shopping centers.[4]

In the 1980s, in an attempt to revive the CBD of some large cities, downtown enclosed malls with attached parking were constructed.[5] By the late 1980s strip malls were redirecting some retail business away from the shopping mall complexes. These were generally built as a line of stores along a major street with parking in front of the stores. The investment was less, and rents were lower, allowing the stores to
price their merchandise lower than comparable stores in the shopping malls. The development of outlet malls in the 1980s provided additional competition for the regional shopping centers.

Supermarkets

The supermarkets were well placed to dominate the retail food industry in the postwar period. They had 10 percent of the food business in 1940, 30 percent in 1949, and 70 percent by 1959.[6] The size of the stores increased from an average of 10,000 square feet at the end of the 1930s to 15,000 square feet by the beginning of the 1950s, and 33,000 square feet by 1980. In the mid-1950s some supermarkets began offering trading stamps to gain a competitive advantage, and their use spread until it was nearly universal, eliminating the competitive advantages. The use of trading stamps peaked in 1965 and fell off rapidly and by 1970 had nearly disappeared.

New equipment raised the efficiency of the stores. For example, new open display shelf, self-



defrosting freezer cases were more convenient for shoppers and easier to maintain and clean. Self-service meat departments with precut and wrapped meats lowered labor costs. Rollers and mechanical conveyors to move merchandise from the trucks to the store and within store areas also were more efficient and lowered operating costs.[7]

On May 2, 1972, the Universal Product Code (UPC) was finalized and published for industrywide use.[8] The UPC could be read by digital scanners at the checkout counters when totaling shoppers' bills. The standard machine-readable code for the source, or producer, marking of merchandise allowed for better inventory control, closer control of financial transactions, more current information, and opportunities to assess more quickly and accurately changes in promotional and pricing strategies. When adopted, no longer did the unit price have to be marked on each food item, further reducing labor costs. Supermarkets began introducing electronic scanners to read the UPC at checkout in the mid-1970s.[9] By the mid-1980s electronic scanners were in nearly universal use in supermarkets and were widely used by many other retail businesses.

Another development in food retailing was the chain convenience store.[10] These were generally only 5 to 10 percent as large as supermarkets, carried fewer items and product lines usually did not carry fresh meat or produce, and sold at premium prices, sometimes as much as 15 percent higher than at supermarkets. They were located in residential areas, and many customers were willing to pay higher prices for their close convenience and quick checkout.

Department, Speciality, and Chain Stores

By 1950 most large city department stores were in department store groups. These relied on a structure built around one very large flagship department store in the center of the city, where, it was generally felt, the department store had a competitive advantage.[11] The increasing shift of retail business to suburban areas and, particularly, suburban shopping centers forced the old-line department stores to rethink their reliance on this concept.

Malcolm McNair and Eleanor May report that into the 1950s generally accepted marketing concepts argued that merchandise in department stores consisted of "shopping goods." These more expensive durable goods were purchased by consumers who compared the varieties and values among stores carrying a wide selection of stock. Suburban locations were for "convenience goods" which were less expensive with a more rapid turnover. "Only in centrally located downtown stores was it possible to draw on a sufficiently large market

to justify the necessary large inventories."[12] However, the management of the department stores found that it was possible to carry a relatively complete line of products in stores about one third to one quarter the size of the flagship downtown stores. Over time the relative size of the suburban stores also grew so that the discrepancy in size between them and the flagship store diminished.

Perhaps more difficult was the change in management that a true chain of department stores required. The original department stores were organized vertically, with the managers of the different departments responsible for both the purchasing of the department's lines as well as retail sales. However, true chains were managed differently. Purchasing and selling were separated. To take advantage of scale economies and maintain consistency between the different stores, purchasing was centralized by the management of the chain "with highly integrated merchandise distribution systems operating between offices, warehouses, and individual stores."[13] The department managers in each of the stores in the chain were responsible only for the selling of the lines in the department.

Competitive forces pushed the department stores to adopt these changes to survive.[14] Over time the percentage of sales made by the downtown flagship stores fell, and in many cases the downtown flagship stores were closed. Catalog sales divisions also declined.[15] In the late 1940s several chains were commonly referred to as "junior department stores."[16] These chains generally had more limited lines and concentrated on soft goods rather than hardware, however, they and the full-line department stores faced similar changes.

Throughout this period chain stores, and the closely related franchise stores, came to dominate retailing, especially in department, variety, grocery, clothing, shoe, and drug stores. Franchising proved to be a popular method of expansion. In a chain, each store is owned by the corporation, and the managers of each store are salaried employees of the corporate chain. In a franchise, the store is owned by individual entrpreneurs who are often from the area where the franchised store is located. By contracting with the national corporation, the franchise store is allowed to use its products, name, and corporate image, providing instant recognition to consumers. The franchisee agrees to "sell only the specified products, pay an initial fee for the franchise, and return the franchiser a percentage of the sales."[17] For the small entrepreneur franchising reduces the risks and start-up costs of establishing an identity for the firm. In the postwar period, franchises became common in many retail lines such as casual restaurants, electronics, bookstores, handicrafts, toys, and many other product lines and services.[18]

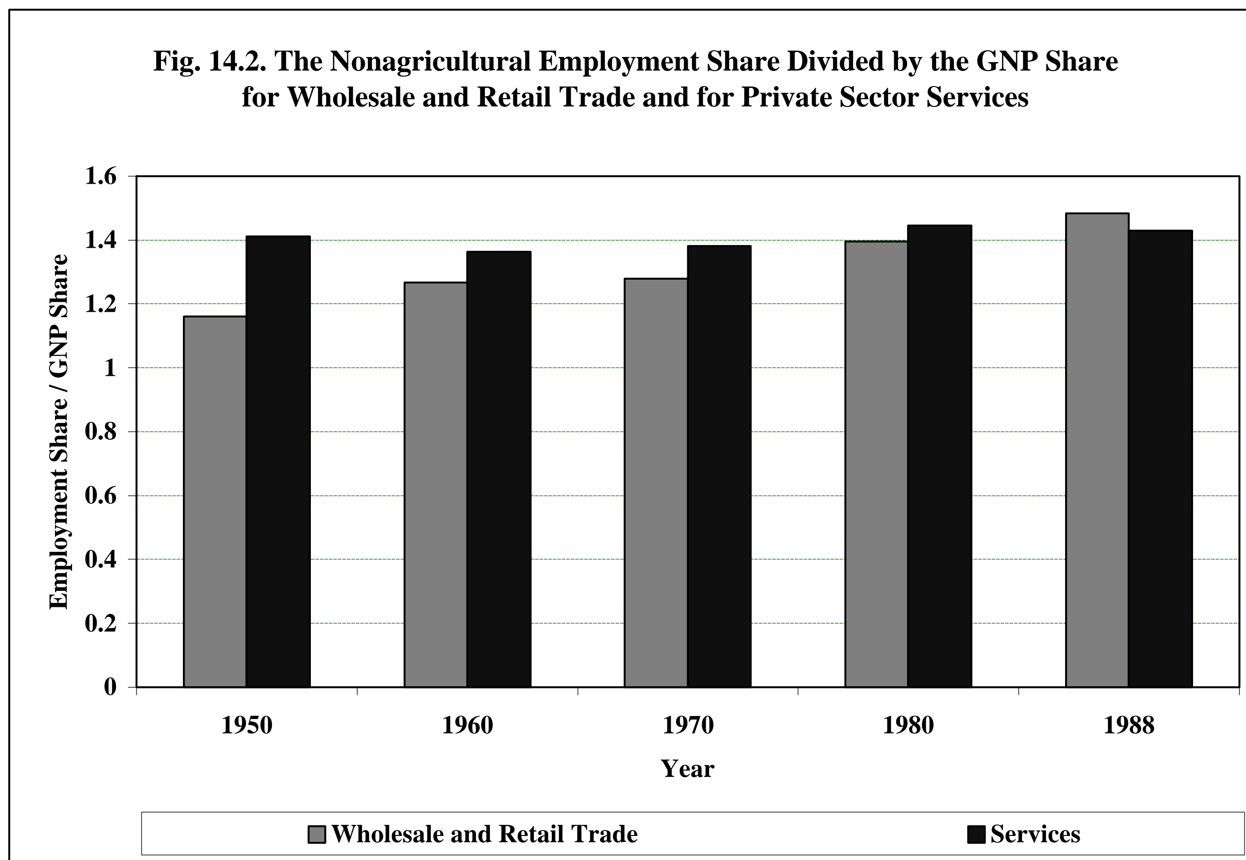
Discount Stores

Beginning in the 1950s, there was an explosive growth of discount stores. The two roots of this were the demise of the so-called fair trade laws and the retailing developments pioneered by the supermarkets. The 1937 Miller-Tydings Act had allowed states to pass fair trade and minimum markup laws. Typically a retailer would sign a contract with a manufacturer, agreeing to sell at the manufacturer's suggested retail price. The fair trade laws made such contracts legal and frequently included a "nonsigners' clause requiring even retail firms which did not sign the contract to abide by the manufacturer's suggested retail price.

"Allegedly, such tactics confused consumers as to the real value of the brand and destroyed the interest of other retailers to carry and promote it, causing the manufacturer the loss of the goodwill that he had obtained at the cost of much effort."[19] As a practical matter, the most vocal lobbyists for the bill were the small retailers and their associations, which believed that such a law would destroy the large chains' ability to sell at lower prices and therefore protect the small retailers.

The enforcement of such laws was generally left to the manufacturers. In large cities it was difficult to monitor all sales, so although 45 states had such laws by 1941 some discounting began to appear and after the war this increased as exclusive membership stores sold at discount prices. Becoming bolder, the discounters opened stores to the general public and began advertising their reduced prices.[20] In 1951 the Supreme Court ruled that the nonsigner provision was unconstitutional because the Miller-Tydings Act did not explicitly provide for it. Though Congress tried to patch up the legislation, the door had been opened, and with the onset of a flood of discounters states began rescinding the legislation. By 1970 only 17 states still had such legislation.[21]

The discount stores were unabashedly self-service in nature, with open displays, low prices, shopping carts, and a line of checkout counters at the front of the store. All of these concepts had already been developed by the supermarkets. In the 1970s, when the supermarkets pioneered the use of the Universal Product Code and automated checkout, it was the discount stores that were among the first to follow their lead and adopt the use of scanners. The discount stores generally followed a common pattern. Located in suburban areas on major thoroughfares, they opened up as independent stores, not as a part of a regional shopping center, and provided large amounts of free parking.



In the 1980s a new development occurred with the opening of factory outlet discount malls, in which the stores were operated directly by the manufacturers. These malls were generally opened in fringe areas to reduce competition with the retail stores carrying merchandise from the same manufacturers.[22] Commonly prices were presented as 40 percent below regular retail prices, though some argued that discounts were often closer to 25 percent.

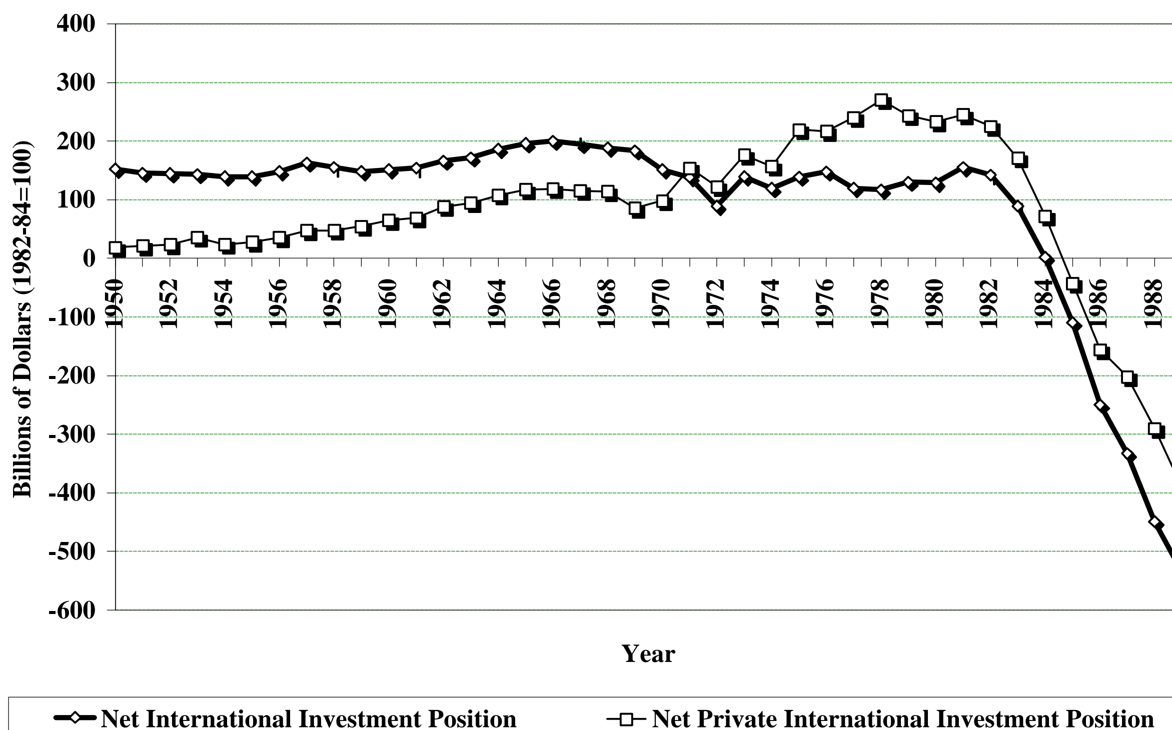
Developments in Domestic Trade in the Postwar American Economy

Developments in domestic trade have continued to lower the costs of distributing goods to consumers. Retail stores have followed consumers to the suburbs to facilitate shopping access. Led by supermarkets and discounters, new techniques were developed to reduce the resources used in retail distribution and lower transactions costs. Competitive pressures induced retail firms to adopt cost-reducing techniques.

Earlier we examined productivity in American manufacturing during the postwar period and found that productivity it had grown faster than in other sectors because manufacturing's share of nonagricultural employment declined faster than its share of GNP. We can similarly examine productivity changes for domestic trade and private sector services, and this is shown in Figure 14.2. Though we have discussed a number of productivity enhancing changes in retail trade, it is clear that labor productivity in this sector did not rise as fast as in manufacturing or even in private sector services (excluding finance, insurance, and real estate). The employment share relative to the GNP share rose from 1950 through 1988. In contrast, though private sector services expanded rapidly in the postwar period, productivity rose almost as fast because the ratio of the employment share to GNP rose only slightly between 1950 and 1988. These measures are extremely crude and do no more than suggest trends, but they do imply that the much-maligned service sector has seen more productivity gains than is commonly presumed and that retail and wholesale trade continues to lag behind the other sectors in productivity-enhancing developments.

International Trade

There are several distinct episodes in the postwar international trade experience of the United States. From 1945 to the late 1950s, there was a dollar shortage as other countries demanded more dollars than were available to them. From the late 1950s to 1971, there was a growing glut of dollars worldwide, and other countries began exchanging some of their



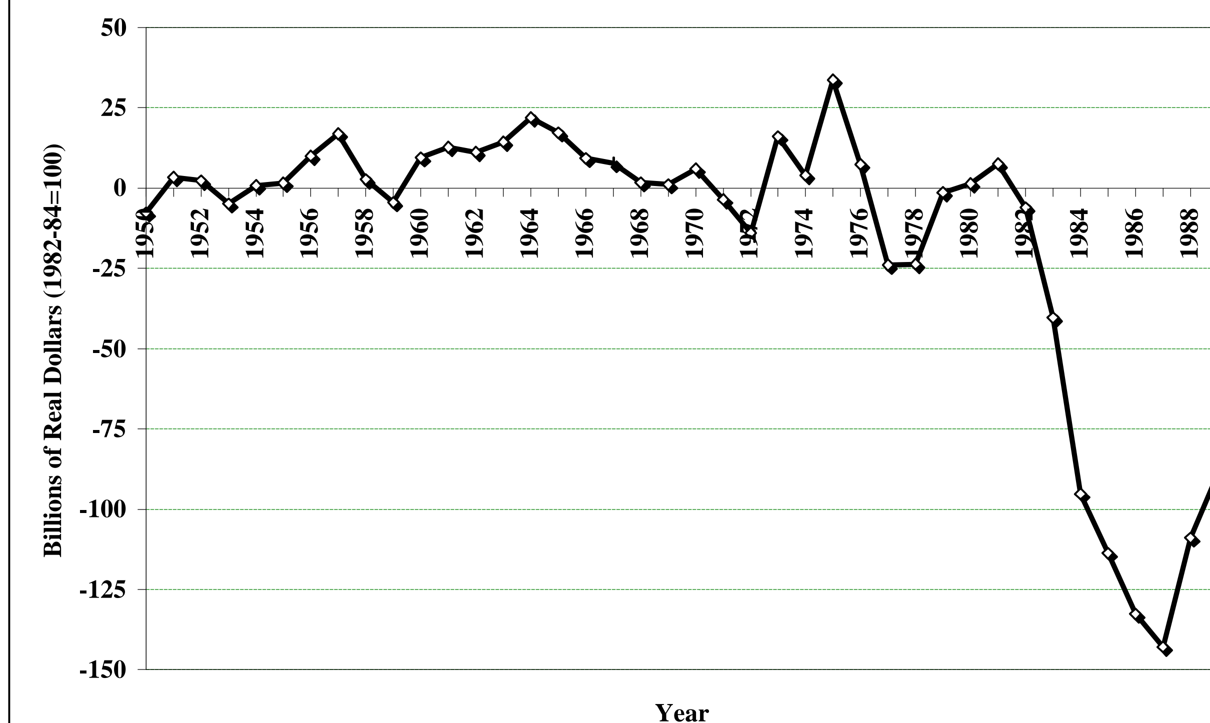
dollars for the gold that the United States held to back up its currency. In August, 1971, the United States devalued the dollar and by early 1973 had moved the world to floating, rather than fixed, exchange rates. Finally, in the 1980s, the United States began running huge current account deficits and quickly moved from being a net creditor to a net debtor with respect to the rest of the world.

From 1945 to 1971, the U.S. dollar was firmly anchored in a fixed exchange rate of 35 dollars for an ounce of gold and was the primary currency in which noncommunist countries undertook international transactions. A growing volume of world trade required larger and larger foreign balances of U.S. dollars. During most of this period, the United States exported more merchandise and services than it imported; thus, demanding rather than supplying dollars to other countries. There were two methods by which this was offset. First, the U.S. government undertook various aid programs that sent dollars out of the United States to those countries eligible for official aid. More importantly, private firms and financial institutions in the United States undertook foreign investments, which supplied dollars to the foreign owners of assets purchased by domestic firms. These net exports of capital were primarily responsible for supplying dollars to the rest of the world.

Government aid largely went to the developing countries, determined primarily by what was considered tactically necessary to combat communist influences. Private foreign investment primarily went to the already developed countries, particularly those in Western Europe. By the 1960s some European countries, especially France, were worried about the growing U.S. investment and began to complain about the Americanization of their countries. As the accumulation of dollars in the foreign reserves of European countries increased, some of the American dollars were exchanged for gold. The outflow of gold, along with the large foreign holdings of American dollars, began to weaken confidence in the American dollar and raise questions about whether the United States would be able to continue to support the dollar at its current fixed exchange rate.

In August, 1971, President Nixon devalued the dollar and began the process that a little more than a year and a half later would place the United States dollar on a floating exchange rate, ending the Bretton Woods fixed exchange rate system. At about the same time, the declining surpluses in the current account balances began to turn to deficits as imports climbed, particularly imports of crude petroleum. Through the 1970s these deficits remained relatively small. In the 1980s the deficits in the current account

Fig. 14.4. The United States' Real Current Account Balance



balance rose dramatically. Because there has to be offsetting monetary flows to bring about a balance in the overall international payments, capital began to be exported out of the United States. As can be seen in Figure 14.3 in 1982 the U.S. net creditor position was $141.8 billion, but this had virtually disappeared by 1984 and moved to a net debtor position of $109.9 billion in 1985, from which it has continued to grow.[23]

There was a wide range of foreign investment in the United States. Japanese automobile companies built manufacturing facilities in the United States and became joint partners in other ventures with domestic automobile firms. Existing manufacturing facilities to produce such disparate products as television sets, ball bearings, and soy sauce were purchased by foreign firms. Golf courses and farmland were also favored purchases by foreign firms and individuals. In addition, the United States exported a large volume of federal government debt and private sector stocks and bonds.

In the face of the huge current account deficits and increasing foreign ownership of assets in the United States, protectionist fervor rose, and the U.S. government began repeatedly threatening to raise its protectionist barriers if other countries, particularly Japan, did not lower their trade barriers.

Merchandise and Service Trade

Public discussion of the United States' trade surpluses or deficits almost always focuses on the current account balance. (See figure 14.4.) Though the current account is dominated by the exports and imports of merchandise, there are a several other categories in this account. Investment income reports the income earned on foreign real and financial investments by domestic firms and the domestic income exported to the foreign owners of real and financial assets in the United States. In the 1950s investment income receipts averaged only 22 percent of merchandise exports, while investment income payments averaged only 5.93 percent of merchandise imports. In the 1980s investment income receipts averaged 36.84 percent of merchandise exports, while investment income payments averaged 21.62 percent of merchandise imports. Thus, investment income has been playing a more important role in current account transactions. (See Figure 14.5.)

Though generally positive, the real balance on the current account was small until 1982. By 1987 the real deficit was $142.88 billion from which it shrank to $88.73 billion by 1989. From 1976 through 1989, merchandise imports consistently exceeded merchandise exports, but the difference grew sharply after 1982. Through 1982 the surplus of investment income receipts over investment income payments

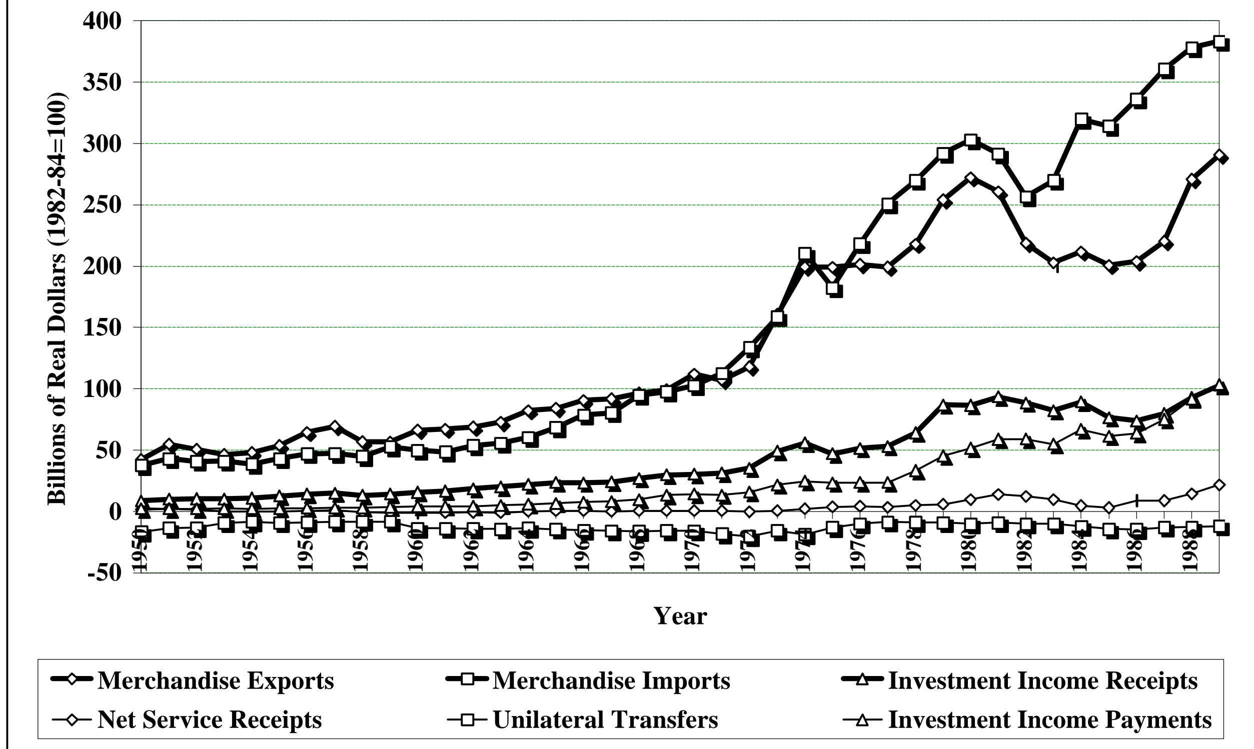


Fig. 14.5. Selected United States Real Current Account International Transactions

helped keep the current account balance generally positive, but the growing merchandise deficit and diminishing investment income differential caused the current account deficit to balloon after 1982.

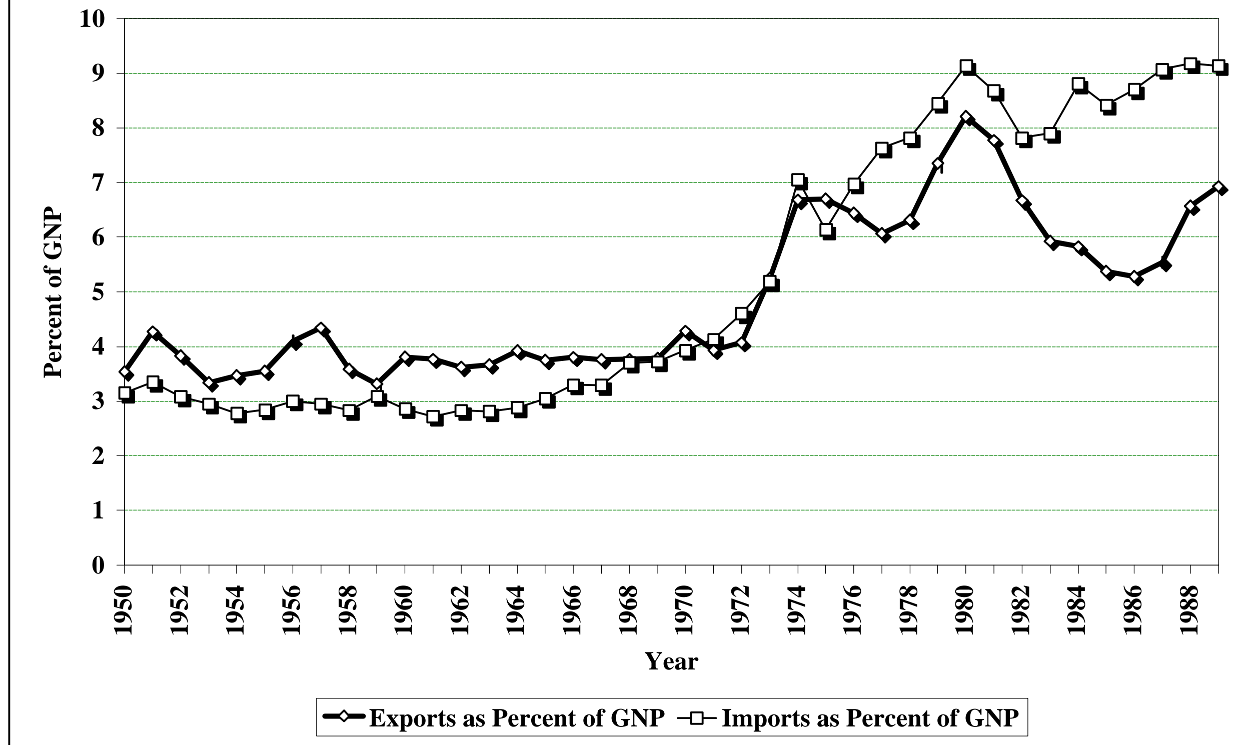
Unlike many other developed and developing countries during the 1950s and 1960s, international trade in goods, services, and assets was a relatively small proportion of economic activity in the United States. (See Figure 14.6.) In the 1970s and 1980s these activities became much more important in overall economic activity. By 1980 merchandise imports exceeded 9 percent of GNP, while merchandise exports exceeded 8 percent of GNP. The deficit in merchandise trade grew in the 1980s as exports fell.

Our international trade in the postwar period has been dominated by Canada. This should hardly be surprising, given that Canada shares a lengthy border, language, and level of development with the United States. Exports from the United States to other Western Hemisphere nations have declined over the period. The share of American exports to Europe remained above 33 percent from 1955 through 1970, but then dropped to around 28 percent in the 1980s. Our exports to Japan and other Asian countries rose from 4.1 to 11.8 percent for Japan and from 10.9 to 19.4 percent for other Asian nations. There was a sharp jump in exports to other Asian nations in the early 1970s coincident with the sharp rise in world petroleum prices and the increase in U.S. imports of crude petroleum.

The share of our imports coming from Western Hemisphere countries other than Canada dropped from 35.1 percent in 1950 to 11.6 percent in 1988, whereas the share originating in Europe rose from 1950 to 1970 and has since declined. The most dramatic increase has been in imports from Japan and other Asian nations. For other Asian nations, this relative rise in exports to the United States is dominated by the rising value and quantity of crude petroleum after 1970; the Japanese increase covers a broad array of merchandise and capital goods.

Exchange Rates

The international monetary arrangements fashioned at Bretton Woods, New Hampshire, in 1944 were the clear statement of the belief that national governments could control and direct overall economic activity, including prices, employment, and economic growth. The arrangements mandated fixed exchange rates to facilitate international trade and investment but tied these to the U.S. dollar, the strongest currency in the world at the time. The U.S. dollar was fixed in terms of gold; all other currencies were fixed in their exchange rates with the dollar. The United States was to stand ready to redeem its



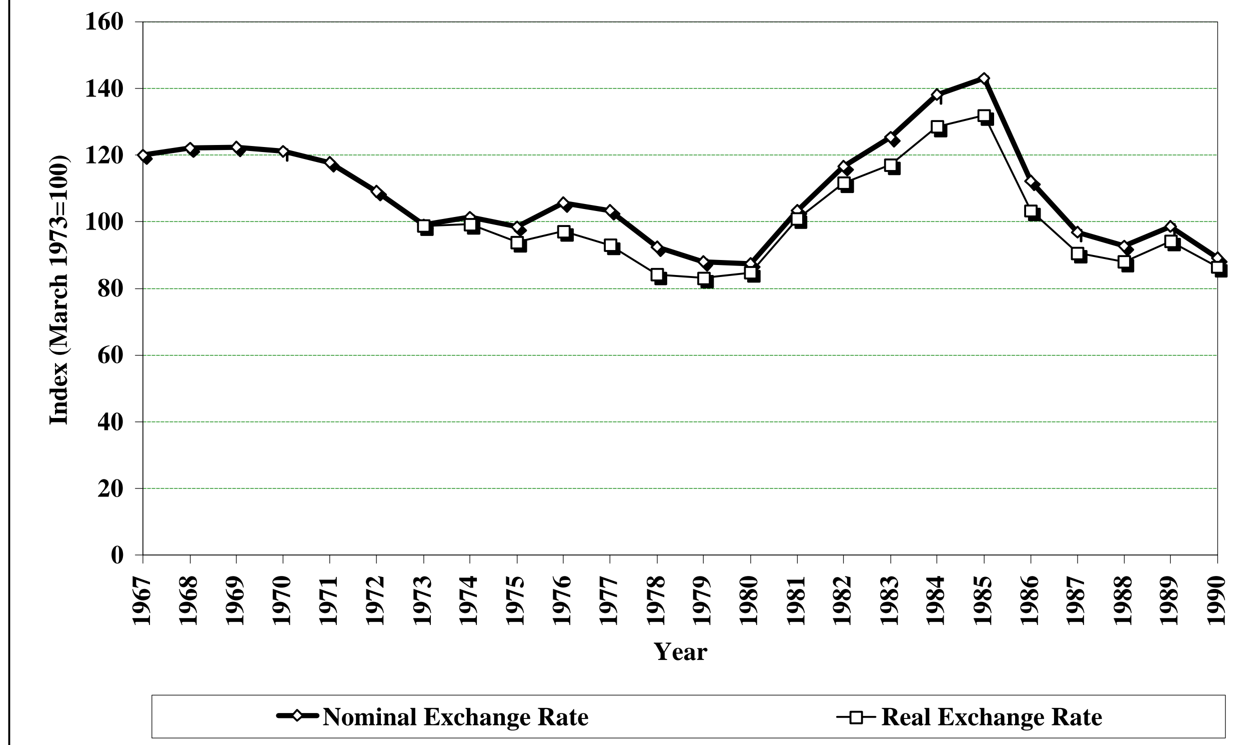
dollars for gold as demanded by other central banks. Because other countries did not tie their currencies to gold, they were free to develop their domestic economies as they saw fit, subject to maintaining balance-of-payments discipline through the fixed currency relationships. Robert Roosa has argued that, contrary to common caricatures, the architects of the Bretton Woods system recognized that there would be variations in the real growth of the countries.[24] However, they expected that only moderate changes in the fixed exchange rates would be necessary. Changes in foreign exchange reserves would signal the need to modify "domestic policies affecting the prices, interest rates, production, employment, and short-term capital flows of each country."[25] Therefore, alterations in exchange rates would be neither frequent nor large.

In practice, such was not the case. Countries with strong currencies that were gaining international reserves were reluctant to appreciate their currencies and threaten export-led booms, and the Bretton Woods system had little leverage to induce them to do this. Between 1946 and 1971, there were only four parity increases. However, countries with weak currencies that were losing reserves depreciated their currencies over 100 times during this period.[26] Countries also were reluctant to undertake domestic policy changes that presumably would have lessened the problems if these were expected to have adverse domestic economic or political consequences. Most importantly, the linchpin of the Bretton Woods system, the fixed dollar price of gold and redeemability of dollars for gold, also weakened and ultimately failed.

Through 1957 the Bretton Woods system seemed to work relatively well. Though the United States supplied dollars to the rest of the world, other countries were content to retain these dollars, and the stock of gold in the United States was as large in 1957 as it was in 1950. Following 1957, American private overseas investment boomed rising from 15 percent of merchandise exports to 25 percent—an amount significantly larger than the current account surplus.[27] With the development of a dollar glut overseas countries began to exchange dollars for gold. Between 1957 and 1970 the United States' gold stock fell from $22.9 billion to $11.1 billion, and in 1970 alone the gold stock fell almost 7 percent. In 1971 the gold stock fell below $10 billion, and there were serious questions as to the ability of the United States to honor its commitment to redeem its dollars held by foreigners for gold at $35 an ounce.

In August of 1971, President Richard Nixon, in a surprise move, temporarily halted the redemption of dollars held by foreign central banks for gold, and allowed the dollar to depreciate. To further aid the

Fig. 14.7. The Multilateral Trade-Weighted Value of the United States Dollar



current account balance, a temporary 10 percent surcharge on imports was levied. In December of 1971, the dollar was repegged at $38 an ounce. However, the deficit on the current account balance did not improve, and in February of 1973, the dollar was further devalued to $42.22 an ounce. Finally in March of 1973, the United States moved to a floating exchange rate by ceasing to exchange gold for dollars held by foreign central banks. This effectively ended the Bretton Woods system.

Robert Roosa has argued that the Bretton Woods system of fixed exchange rates would have been unsustainable even if the United States had moved more quickly and aggressively to adjust its gold price. First, there was too wide a variation in countries' economic growth, given the Bretton Woods system's methods of adjusting to these variations. Second, with the development of the process whereby dollars could be created offshore through the Eurodollar market, it became impossible for the United States to provide the rest of the world with a controlled supply of reserve currency. Third, "capital flows among nations, and among national currencies in the newly emerging extraterritorial markets, became at times so large as to overwhelm the influence of goods and services transactions upon the market exchange rates of the major countries."[28]

The floating exchange rates that were created were not left completely to free market forces. At times the central banks of various nations, including the United States, have intervened by buying or selling currencies to ease the depreciation or appreciation of particular currencies. However, these attempts have been sporadic and not particularly successful for more than short periods of time due to the power of the international flows of commodities and capital.

The broadest indicator of the exchange rate is the index of the multilateral trade-weighted value of the U.S. dollar, shown in Figure 14.7.[29] Because the United States officially adopted floating exchange rates in 1973, the index has been calculated in real as well as nominal terms. Between 1969 and 1973 the dollar depreciated by a sharp 21.1 percent. In real terms it continued to depreciate or weaken during the 1970s, falling by 15.3 percent from 1973 to 1980. Between 1980 and 1985 the dollar underwent a remarkable appreciation or strengthening of 44.2 percent and then fell almost as rapidly from 1985 to 1990.

The great variability in exchange rates in the 1980s is usually conceded to have been a disruptive influence, and proposals have been made to modify the procedures determining exchange rates to provide greater rate stability. Generally these involve

requiring more active intervention by central banks to keep rates within some specific range, often one determined by purchasing power parity between currencies.[30] However, many argue that floating exchange rates have not been excessively volatile but have simply reflected the underlying volatility of the real forces determining the rates. For the United States in the 1980s, it appears that capital movements were the force that primarily determined exchange rate movements, even though capital movements were smaller than commodity and service exports or imports.[31]

Beginning in 1981 the federal government's budget deficits grew dramatically and real *ex post* interest rates rose sharply as government borrowing expanded. The American economy embarked on a long expansion after the end of the 1981-82 recession. These forces also initiated a great boom in the securities market from 1982 through 1987. The strength of the American economy, as well as falling rates of price inflation and rising real interest rates, made investment in real and financial assets in the United States very desirable. To obtain the U.S. dollars necessary for the purchase of American assets, foreign firms and individuals bid up the price of the dollar in terms of their currencies. The rising foreign exchange value of the dollar made U.S. exports more expensive in foreign countries and imports into the U.S. less expensive in U.S. dollars, resulting in a sharply increased deficit in the current account balance and a growing amount of U.S. dollars that foreigners could use to purchase U.S. real and financial assets. Because of lags due to contractual arrangements, the largest current account deficit occurred two years after the peak in the appreciation of the dollar. Since 1987 the current account deficit has declined, while the dollar has continued to depreciate.

Trade Policies

The postwar period has seen a general trend in U.S. trade policies toward freer trade or, as it is often called, liberalization of trade. Tariff rates have been successfully reduced during a series of 30 bilateral agreements and 8 multilateral negotiations engineered by GATT, the General Agreement on Tariffs and Trade.[32] Prior to 1947, tariff reductions were bilateral agreements on an item-by-item approach. GATT was created in 1947 as a mechanism to bring about multilateral bargaining and faster tariff reductions.

The first GATT conference was held in Geneva, Switzerland, in 1947 and resulted in an average cut in import duties of 21.1 percent. The next four GATT conferences—Annecy, France, in 1949; Torquay, England, in 1951; Geneva in 1956; and Geneva in 1962—are generally judged not to have been as successful.[33] The sixth (or Kennedy) round, held in Geneva from 1964 to 1967, resulted in average cuts of 36 percent and is considered to have been much more successful, though it had little success at reducing the barrier to trade in agricultural products.[34]

The Tokyo Round from 1974 to 1979 was relatively successful and reduced import duties on average by 29.6 percent, though the U.S. cuts were much smaller. The act provided for easier and more generous treatment of claims for relief by firms suffering from import competition, and for import restrictions if it was felt that imports threatened to impair the national security, came from countries that unreasonably or unjustifiably discriminated against U.S. exports, were subsidized by foreign governments, or were dumped. The most recent round, which began in Uruguay in 1986, had an ambitious agenda but has had little success.[35]

Much of the protectionist pressure of the last several decades has came from three basic import competing industries, textiles, steel, and autos, while our agricultural policies have complicated negotiations to further reduce trade barriers.

Agriculture Agricultural policies have became one of the stumbling blocks in moves toward freer trade. Beginning in the mid-1930s, the United States developed agricultural policies to support many produce prices. Such policies raised domestic prices above world prices and required barriers to the importation of agricultural produce that would compete with domestic price-supported produce. In addition, the U.S. government developed policies to subsidize, when necessary, U.S. farm exports to sell some of the surplus domestic production. In the postwar period the countries in the European Common Market (EEC), Japan, and some other countries have developed similar agricultural policies.

The U.S. has subsidized exports of grain to foreign countries through programs such as Public Law 480, Commodity Credit Corporation subsidized sales, or government subsidized credit, though the percentage of agricultural exports subsidized fell through the early 1980s.[36] The Export Enhancement Program created in the 1980s was designed to combat the subsidized commodities exported from EEC countries. Under this program, exporters could receive CCC grain stocks to compensate them for export sales at prices lower than domestic support prices.[37] These export subsidies, as well as barriers to the imports of other agricultural products such as sugar and cheese, have been a stumbling block in reducing trade barriers.

DRAM Computer Chips The first miniaturized computer memory chips were created in the United States in 1971, and into the late 1970s U.S. producers dominated the market. In the early 1980s Japanese producers of DRAMs (Dynamic Random Access Memory computer chips) expanded production. By 1985, there was a worldwide glut of DRAM chips, and prices fell dramatically. U.S. producers brought charges of dumping by Japanese producers of DRAM chips, alleging that they were selling at prices less than production costs. Facing the threat of punitive duties, the Japanese government and U.S. trade representatives negotiated a deal in July of 1986. Production controls were imposed, price floors established, and 20 percent of the Japanese market for computer chips was reserved for U.S. and other producers. By 1988 there was a worldwide shortage of DRAM chips, and prices rose dramatically. Japanese DRAM producers and the few U.S. producers left received windfall profits, and computer manufacturers and computer purchasers ended up paying much higher prices. The governments liked this arrangement so much that in 1991, in altered form, the agreement was continued another five years.

Textiles and Apparel The textile and apparel industry has a long history of nontariff trade barriers.[38] In the postwar period Japanese exports of cotton textiles and apparel to the U.S. grew.[39] Japan joined GATT in 1955, and to compensate for reduced U.S. tariffs, in 1957 a new Voluntary Export Restraint (VER) agreement was negotiated. With Japanese exports to the U.S. reduced, producers in other countries stepped up their exports, and by 1960 a new arrangement covering other countries was required. Between 1961 and 1973 there were arrangements on cotton textile trade which departed from GATT rules by allowing the United States to unilaterally and selectively impose import restrctions.[40]

Once again substitutes eroded the agreement. This time the limitations on imports of cotton textiles and apparel led producers in foreign countries to expand the production of textiles and apparel using synthetic fibers.[41] In response, as a part of GATT negotiations, a Multifiber Agreement which restricted the growth of textile and apparel exports to the United States, was reached with some 50 governments in December of 1973. The agreement was extended into the 1980s, when new quotas were bilaterally negotiated. In 1986 congressional pressure led to sharp reductions in the quotas on the growth of imported textiles and apparel. These agreements depressed textile and apparel imports into the U.S. by 28 percent in 1981. An estimated 150,000 jobs in textile production and 390,000 jobs in apparel production were saved in that same year, but the cost to domestic consumers of textiles and apparel was around $37,000 per job.[42]

Steel Through the 1950s the American steel industry faced little competition from imported steel.[43] By the beginning of the 1960s, the rebuilt and technologically advanced steel industries in Europe and Japan were able to begin exporting steel. The U.S. steel industries, facing little foreign competition in the 1950s and escalating union wage demands, had been raising wages and passing these on as higher prices.[44] As profit rates in steel began declining, there were increasing calls for protection from imported steel, and in 1968 the government negotiated Voluntary Restraint Agreements (VRAs) to reduce steel imports.[45] In 1974 and 1975 the steel industry intensified its lobbying for protection and used a new tactic; charges of dumping by foreign steel firms.[46]

A flurry of dumping suits from the steel industry threatened to overwhelm the U.S. government and create a trade conflict with the EEC. The government had to calculate complex constructed values of the steel in each case to determine whether the prices were below costs.[47] The Carter administration responded by proposing a Trigger Price Mechanism (TPM), whereby if prices for a country's imported steel dropped below the benchmark price of Japanese steel, protective duties would automatically be triggered.[48] In 1977 the Carter administration agreed to implement this as long as the steel firms did not file dumping lawsuits. But, in 1980 it fell apart when the U. S. Steel Corporation filed a dumping suit. This "brought concessions in the area of foreign trade—a more restrictive TPM—but also promises of relief, as well as some action, in such unrelated areas as taxation and environmental standards."[49] The Trigger Price Mechanism was not fully satisfactory, and in 1982 it collapsed. Since then, Voluntary Restraint Agreements have again been the primary method of limiting steel imports to protect the American steel industry. By 1985 the number of VRAs had increased to 15, covering 80 percent of the U.S. market. As a consequence, U.S. prices consistently remained above foreign export prices by about 15 to 20 percent in the 1970s and about 40 percent by the mid-1980s.[50]

Autos From the late 1950s through 1970, small car imports continued to rise. By 1970 sales of imports reached 15 percent of all new car sales in the U.S. GM, Ford, and Chrysler and the United Auto Worders union began to increase the frequency of their complaints. On May 1, 1981, the Reagan administration announced a Voluntary Export Restraint agreement with the Japanese government to reduce the exports of Japanese automobiles to the

United States for three years. The Japanese agreed because it was clear that if no "voluntary" agreement was reached, quotas and/or tariffs would be imposed. In 1985 the Japanese government refused to renew the VER, but the Japanese automobile manufacturers continued to voluntarily hold down their exports to the United States. A Voluntary Export Restraint was employed due to previous experience with this in textiles and steel and because "voluntary" agreements did not violate GATT rules.

Like the steel firms a decade earlier, the automobile companies argued that the import relief would give them breathing room to produce competitive new models. They also used the reduction in imports to sharply raise the prices of domestic cars. Japanese producers initially increased the exports of vans and light trucks, but this loophole was soon closed. Facing absolute limits on the number of automobiles that could be exported to the U.S., Japanese companies began to export only the larger, better-equipped, and more expensive automobiles and to design larger cars to compete directly in the important mid-size market that American companies dominated. By the end of the 1980s, Japanese companies were producing a full range of car lines. Seeing future trade barriers to cars imported from Japanese factories, the Japanese companies began the process of developing manufacturing and assembling plants in the United States. By the end of the 1980s, half of Japanese nameplate cars (and all of some models) were manufactured in the United States.

The price increases associated with the introduction of the VER were dramatic. Robert C. Feenstra estimates that between 1980 and 1981 the average price of Japanese imports rose nearly 20 percent, of which two thirds was due to the importation of higher quality cars while one third was a pure price increase due to excess demand. Domestic large car prices rose 16.8 percent, whereas domestic small car prices rose 11.4 percent.[51] Barry Eichengreen suggests that this understates the price effects as other studies found that prices were generally 25 percent higher. In 1979-80, prior to the VER, American consumers paid about $500 more than Japanese consumers for the same vehicle, but in 1985 the difference was $3000. Adjusting for transportation and preparation, this suggests a rise of $2,500 in price due to the VER.[52] Clearly American consumers paid dearly to raise the profits of the American automobile companies and preserve UAW employment.

Developments in International Trade in the Postwar American Economy

As previously discussed, the postwar changes in the United States' international trade have been pronounced. The United States gradually moved from being a net exporter to a net importer of merchandise and from being a net purchaser to a net seller of capital assets. The net flow of dollars out of the United States eroded confidence in the dollar, forcing the Bretton Woods system of fixed exchange rates based on the dollar to give way to floating exchange rates. The energy crises of the 1970s contributed to rising imports and exports as foreign trade became much more important to the American economy. The increasing competition from foreign firms in the 1970s and 1980s was difficult for domestic producers, though many became more efficient and the quality of American manufactures increased. The rising competition and, in the 1980s, growing deficit in the current account led to increasing calls for greater protection of domestic producers. Though tariffs generally were not raised, quotas were sometimes used, and threats of increased U.S. trade barriers led foreign governments to impose "voluntary" quotas (or export restraints) on their exporting firms. By the beginning of the 1990s protectionist pressures were increasing.[53]

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Notes

1. Keith L. Bryant, Jr. and Henry C. Dethloff, *A History of American Business*, 2d ed. (Englewood Cliffs, NJ: Prentice-Hall, 1990), 321.

2. J. Dennis Lord, “The Malling of the American Landscape,” in John A. Dawson and J. Dennis Lord, eds., *Shopping Centre Development: Policies and Prospects* (New York: Nichols Publishing Company, 1985), 209; and *Statistical Abstract of the United States* (Washington, D.C.: U.S. Government Printing Office, 1990).

3. Bryant and Dethloff, *A History of American Business*, 328.

4. J. Dennis Lord, “Revitalization of Shopping Centers,”in Dawson and Lord, eds., *Shopping Centre Development: Policies and Prospects* (New York: Nichols Publishing Company, 1985), 209.

5. For a discussion of this see, “Section III: Appraising the Central City Option,” in George Sternlieb and James W. Hughes, eds., *Shopping Centers: U.S.A.* (Piscataway, NJ: Center for Urban Policy Research, Rutgers, the State University of New Jersey, 1981).

6. Hugh S. Peak and Ellen F. Peak, *Supermarket Merchandising and Management* (Englewood Cliffs, NJ: Prentice-Hall, 1977), 23-24.

7. Ibid., 22.

8. Ibid., 43.

9. Richard K. Robinson and Frederick W. Langrehr, “Supermarket Scanner Checkouts: A View from the Consumer Side of the Counter,” in Robert F. Lusch and Paul H. Zinszer, eds., *Contemporary Issues in Marketing Channels* (Norman OK: The University of Oklahoma, 1979), 141.

10. Philip Kotler, “The Convenience Store: Past Developments and Future Prospects,” in Terence Nevett and Ronald A. Fullerton, eds., *Historical Perspectives in Marketing* (Lexington, MA: Lexington Books, 1988).

11. Most of the discussion in this section is drawn from this source and from Louis P. Bucklin, *Competition and Evolution in the Distributive Trades* (Englewood Cliffs, NJ: Prentice-Hall, 1972).

12. Malcolm P. McNair and Eleanor G. May, *The Evolution of Retail Institutions in the United States* (Cambridge, MA: The Marketing Science Institute, 1976), 41.

13. Ibid., 42.

14. Ibid., 20. Some of these chains in 1948 were financial chains. The figures also include Sears and Wards, which makes the percentages much higher.

15. Ralph Shaffer, “A Catalog That Can Be Remade to Order,” *The Wall Street Journal*, 16 September, 1991.

16. These included the W. T. Grant, Belk Brothers, and J. C. Penney store chains.

17. Keith L. Bryant, Jr., and Henry C. Dethloff, *A History of American Business*, 2d ed. (Englewood Cliffs, NJ: Prentice-Hall, 1990), 335.

18. Ibid.

19. Bucklin, *Competition and Evolution in the Distributive Trades*, 151.

20. Ibid., 88.

21. Ibid., 155.

22. Kay Murphy Nolan, “Outlet Malls: Driving a Hard Bargain: Consumers Will Travel Miles for Brand Names, Outlet Prices,” *Waukesha County Freeman*, 2 November, 1991.

23. The net international investment position includes U.S. official reserve assets and other U.S. government assets held abroad and foreign official government assets held in the United States. The net private international investment position excludes all U.S. and foreign government assets to include only U.S. and foreign private assets.

24. Robert V. Roosa, “Exchange Rate Arrangements in the Eighties,” *The International Monetary System: Forty Years After Bretton Woods*, proceedings of a conference held at Bretton Woods, New Hampshire (Boston: Federal Reserve Bank of Boston, May 1984), 105.

25. Ibid., 105.

26. Ibid., 106.

27. Edward M. Bernstein, “Reflections on Bretton Woods,” *The International Monetary System: Forty Years After Bretton Woods*, 19.

28. Roosa, “Exchange Rate Arrangements in the Eighties,” 106.

29. The multilateral trade-weighted indexes are measures of the nominal and real value of the U.S. dollar in terms of a basket of 15 industrial country currencies. The currencies are weighted by their share of trade with the United States. An increase is a dollar appreciation; a decrease a dollar depreciation.

30. For example, see Roosa, “Exchange Rate Arrangements in the Eighties.” The theory of purchasing power parity states that the exchange rate between two countries’ currencies will equal the ratio of the two countries’ price levels. For a discussion of this, see an intermediate level International Economics textbook, for example, Paul R. Krugman and Maurice Obstfeld, *International Economics: Theory and Policy*, 2d ed. (New York: Harper Collins, 1991), 380-83.

31. Henry C. Wallich, “Capital Movements—The Tail That Wags the Dog,” *The International Monetary System: Forty Years After Bretton Woods*, 179.

32. Robert E. Baldwin, “The Changing Nature of U.S. Trade Policy Since the Second World War,” in Robert E. Baldwin and Anne O. Krueger, eds., *The Structure and Evolution of Recent U.S. Trade Policy* (Chicago: The University of Chicago Press for the National Bureau of Economic Research, 1984), 5.

33. The average duty cuts were 1.9, 3.0, 3.5, and 2.4 percent, respectively. Dennis R. Appleyard and Alfred J. Field, Jr., *International Economics* (Homewood, IL: R. D. Irwin, Inc., 1992), 418-23.

34. Ibid., 419.

35. Ibid., 422.

36. Bruce L. Gardner, “International Competition in Agriculture and U.S. Farm Policy,” in Martin Feldstein, ed., *The United States in the World Economy* (Chicago: University of Chicago Press for the NBER, 1988), table 7.8, p. 452.

37. Ibid., 448-49.

38. This section draws upon three studies: Barry Eichengreen, “International Competition in the Products of U.S. Basic Industries,” in Feldstein, ed., *The United States in the World Economy*, 320-322; Joseph Pelzman, “The Textile Industry,” in J. Michael Finger and Thomas D. Willett, eds., *The Internationalization of the American Economy*, *The Annals of the American Academy of Political and Social Science*, 460 (March, 1982): 92-100, and “The Multifiber Arrangement and Its Effect on the Profit Performance of the U.S. Textile Industry,” in Baldwin and Krueger, eds., *The Structure and Evolution of Recent U.S. Trade Policy*, 111-141.

39. Joseph Pelzman, “The Textile Industry,” 93.

40. Barry Eichengreen, “International Competition in the Products of U.S. Basic Industries,” 320.

41. Joseph Pelzman, “The Textile Industry,” 95.

42. Barry Eichengreen, “International Competition in the Products of U.S. Basic Industries,” 322.

43. This section is based on the following studies. Hans G. Mueller, “The Steel Industry,” in Finger and Willett, eds., *The Internationalization of the American Economy*, 73-82; Barry Eichengreen and Hans van der Ven, “U.S. Antidumping Policies: The Case of Steel,” in Baldwin and Krueger, eds., *The Structure and Evolution of Recent U.S. Trade Policy*, 67-103; Barry Eichengreen, “International Competition in the Products of U.S. Basic Industries,” 322-25.

44. Steel prices rose twice as fast as wholesale prices from 1945 to 1960. Hans G. Mueller, “The Steel Industry,” 74.

45. Ibid., 75.

46. Ibid., 76. Originally *dumping* had been defined as price discrimination between the markets in the exporting foreign country and the United States.

47. Eichengreen and van der Ven, "U.S. Antidumping Policies: The Case of Steel," 70.

48. Japan was judged to have the most efficient steel industry in the world, and therefore its constructed value was to be calculated and used as the benchmark. This eliminated the necessity to construct values for steel from all of the other exporting countries. If the prices of imported steel products dropped below the constructed value trigger price of Japanese steel products adjusted for extras and transport charges, an investigation would commence that could result in countervailing duties.

49. Hans G. Mueller, "The Steel Industry," 76.

50. Barry Eichengreen, "International Competition in the Products of U.S. Basic Industries," 324-25.

51. Feenstra, "Voluntary Export Restrain in U.S. Autos, 1980-81: Quality, Employment, and Welfare Effects," in Baldwin and Krueger, eds., *The Structure and Evolution of Recent U.S. Trade Policy*, table 2.2, pp. 45 and 56-57. See also Norman S. Fieleke, "The Automobile Industry," in Finger and Willett, eds., *The Internationalization of the American Economy*.

52. Eichengreen, "International Competition in the Products of U.S. Basic Industries," 327.

53. In 1992 the United States threatened to impose prohibitive duties on European white wine unless France reduced its barriers to the importation of U.S. soybean oil and other agricultural exports. A North American Free Trade Agreement between Canada, the United States, and Mexico was negotiated, but growing opposition to the agreement raised serious questions as to whether Congress would approve the agreement. For example, see Bob Davis, "Fighting 'Nafta': Free-Trade Pact Spurs A Diverse Coalition of Grass-Roots Foes: They Link Forces to Protect Jobs, Clean Air, Dolphins, Mexican Quality of Life," *The Wall Street Journal*, 23 December, 1992.