Helen V. Milner. Trading Places: Industries for Free Trade. *World Politics,* vol. 40, no. 3 (April, 1988), pp. 350-376.

This article compares U.S. foreign policy in the 1920s and 1970s (which Milner argues look very similar on measures of economic distress and instability) and concludes that differences between the two periods can be explained by the internationalization of firms. Specifically, the increased internationalization of firms in the 1970s reduced their interest in protection even in times of economic difficulty and thus helped the U.S. resist protectionism in the 1970s whereas it was highly protectionist in the 1920s.

Both the 1920s and 1970s are marked by…

(1) relatively high unemployment and sizable agricultural and industrial overcapacity
(2) a declining world hegemon
(3) similar relative international position of the U.S. (especially as compared to the 1950s and 60s)

There were differences. Namely…

(1) in the 1920s, the U.S. was a rising hegemon and in the 1970s it was a declining hegemon
(2) there was a difference in the monetary systems operation (from flexible to fixed gold standard in the 1920s and from fixed to flexible in the 1970s)
(3) the level of exchange rates (undervalued in the early 1920s and 1970s, overvalued in the late 1920s and early 1980s)

But none of these differences have a clear theoretical explanation for the foreign policy differences between the periods.

There are also other explanations of the differences in protectionism (which Milner claims are at different levels of analysis, of which her explanation is at the most basic level of analysis)…

(1) Hegemonic stability arguments, which can be subdivided into three explanations:
    a. Military power-based American hegemony has not declined enough
    b. Trade-related U.S. hegemony has not declined enough
    c. Different configurations of states in terms of their relative economic power lead to different trade policy outcomes
(2) International trade regime arguments – existence of GATT after WWII have been partly responsible for the maintenance of a relatively open international economy
(3) Domestic structure arguments – changes in the way foreign economic policy is made (specifically, the insulation of policy makers from Congress) made it easier to resist protectionist pressures in the 1970s

Milner's argument…

(1) International economic interdependence (in the form of exports, imports of critical inputs, multinational production and intra-firm trade) has greatly increased in the post-WWII era
(2) Firms with greater international ties in the form of exports, multinationality and global intra-firm trade will be less interested in protection than firms that are more domestically-oriented, for 5 reasons
    a. Firms that export or produce abroad will be concerned about foreign retaliation and its costs

b. Protection in one market may hurt a firm's exports to third markets as other exporters divert their products to these markets to compensate for closure elsewhere
c. Firms with a global web of production and trade will view trade barriers, even at home, as a new cost
d. For firms dependent on imports, new trade barriers will increase costs and erode competitiveness
e. Intra-industry rivalries will create opposition to protectionism – trade barriers put internationally-oriented firms at a disadvantage compared to domestically-oriented competitors

Milner's method…
Case studies of a set of industries and their firms. Specifically, industries experiencing the greatest growth in competition among those already having high levels of import competition. These are "hard" cases because industries facing import penetration should be those most likely to support protection. Milner evaluates the level of integration into the world economy and trade policy preferences. (See Table 2, pp. 366-7 for a list of industries, integration and policy preferences)

What else this tells us…
Intra-industry variation makes developing an industry-wide stand difficult. Within an industry some firms – usually the largest – have become international, while the smaller ones have often remained dependent on the domestic market. In addition, the attempt to create an industry position in a divided industry may lead to the fashioning of compromises that are not as protectionist as the majority of firms may prefer.