

gains from trade available, those who are winners in the process should compensate the losers. Unfortunately, in practice, direct compensation is almost impossible to organize and, hence, does not occur.

Governments have three basic policy approaches to the problems created by declining competitiveness. First, they can ignore the problem. Unemployed workers must rely on the social welfare system and bear most of the costs of adjustment themselves. Second, the government can provide retraining, moving assistance, and other adjustment packages for displaced workers. Both of these courses of action may require considerable government expenditures. The third option is to attempt to prevent the industry's decline by erecting trade barriers against foreign competitors. Costs are imposed on consumers of the protected goods, but budgetary expenditures are not required unless the protection is temporary and combined with a government restructuring package.

It is often difficult for politicians to ignore the concerns of vested interests. To the extent that declining industries are geographically concentrated, locally elected members of legislative bodies may have to promise expensive adjustment packages or protection to ensure re-election. However, delivering on protectionist packages promised to local constituents may be difficult for individual politicians because they represent only one voice in a larger process of government with national concerns as its priority. For example, in the United States, with its system of divisions of powers, the administration (with its national focus) tends to be *free-trade* oriented while Congress (with locally elected members) is more *protectionist*. To improve their effectiveness, members of Congress or Parliament must form strategic voting alliances (log rolling) with members who represent other industries in separate geographic locations seeking protection. These "I'll vote to protect your industry if you'll vote to protect mine" tactics can lead to protectionism being a major political force.

#### SIDEBAR BOX A SHOULD BE INSERTED NEAR HERE

Of course, there may be compelling reasons for not wanting certain industries, or types of industries, to disappear from a nation's economy. Domestic production of strategic military goods—parts for jet aircraft, specialized lubricants, communications