

decline in the value of the U.S. dollar will help U.S. trade, as will a reduction of the U.S. budget deficit and better financial management. But we are, I believe, witnessing a long-term movement towards the administration of trade, driven by fundamental changes in the global balance of economic forces.

Recent studies suggest that the United States merchandise trade deficit in 1990 will still be in the \$100 billion range, down from \$170 billion this year. The steel, automobile, textile and machine tool sectors will continue to decline, with devastating effects on regional and local economies. At one point during the current year, the United States recorded a net deficit in agricultural trade for the first time in its history. There is now a consensus among economists and administrators that global market conditions require a contraction in American agricultural production. And perhaps most worrying of all, there is continuing uncertainty as to whether America can compete with Japan in semi-conductors and more generally in the next generation of high-tech products.

These economic changes are reflected in the political arena. In earlier decades, the Democrats, the farmers, the unions and the consumers formed the basic free-trade coalition. The Democrats have changed their stance, as have the unions and, increasingly, the farmers. The old coalition has shattered. At the same time, the Republicans tended to pick up the banner of free trade, as the international counterpart of their free-market philosophy. The significance of this development should not be underestimated. As last month's Congressional elections have demonstrated yet again, the Democrats remain, generally speaking, the majority legislative party in spite of President Reagan's phenomenal personal popularity. And the Democrats' electoral base -- the northeast, the south, the minorities, and labour -- is likely to continue the political pressures on the party in the direction of protectionism.

But I do not want to make too much of this relative change in the positions of the parties. Because the pressures for protectionism are driven by objective economic forces, the trend is essentially bipartisan. The Republican advocacy of free trade is now almost invariably qualified by the demand that it be "fair" as well as "free". At the same time, some strong Democratic voices are still to be heard among the free-traders.

Special interests -- including regional, sectoral, failing enterprises, and individual unions -- tend to benefit from protectionism, while the whole of society pays the costs, often out of all proportion to the benefits bestowed on the protected groups. The American system of government, with its division of powers and lack of party discipline in the Congress, is more susceptible to the influence of special interests than is the parliamentary system. Under the Constitution, the Commerce power, which includes power over