

social welfare costs are more prone to opt for the *cheap* option of raising trade barriers. Many of the trade barriers that have existed between developed countries in the second half of the twentieth century arose out of the Great Depression of the 1930s, when desperate governments initiated a host of protectionist measures in vain attempts to isolate domestic jobs from the worldwide economic decline. The result was a retaliatory *beggar-thy-neighbor* spiral that both deepened and lengthened the Great Depression. One can view the entire period from the end of World War II until the start of the Uruguay Round of trade negotiations in 1986 as a long, torturous process focused on removing the trade barriers enacted largely on manufactured goods in the 1930s. While in the Uruguay Round the focus of trade negotiations shifted to new issues such as trade in services, international protection for intellectual property, and rules for foreign investment, there was still considerable effort put into reducing trade barriers first erected almost half a century before.

Managed trade implies rules for international commerce. If imports are going to be limited or prohibited, there must be rules that firms engaged in international commerce can follow. Governments like to have very flexible systems so that they can react to protectionist pressures easily. Businesses engaged in international commerce, which often requires large investments, desire protection from capricious—and unanticipated—acts by governments. An American firm that has made a large investment in exploiting export potential wants to be sure that the Canadian government cannot act to curtail imports once that investment is made. It is not much consolation to the U.S. investors that the U.S. government could retaliate against Canadian exports of some unrelated product; their investment is still lost. Of course, Canadian exporters to the United States are seeking the same assurances. To protect the interests of their exporters, governments are forced to enter into discussions with other governments regarding rules for trade: under what circumstances countries can raise tariffs or impose import quotas, how they will be calculated, how often they can be changed. Firms often engage in international commercial relationships in a number of countries. For them, a common set of rules provides an advantage: they do not have to learn, monitor, and possibly alter their production practices to comply with, regulations of many countries. As a result, multinational rules for the conduct of trade are sought.