Protection for Free:

The Political Economy of U. S. Tariff Suspensions

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Abstract

This paper studies the political and economic determinants of tariff suspensions granted on specific products by the United States Congress. Hundreds of bills are submitted to Congress every year at the behest of U.S. firms seeking temporary relief from duties on imported intermediate inputs. These tariff suspensions constitute a significant source of variation in tariff schedules between negotiating rounds. We focus on the roles of information and lobbying expenditures in the determination of tariff suspensions. We develop a model that incorporates strategic information transmission into an otherwise standard “protection for sale" framework, and show that “cheap talk” by import-competing firms is effective in defeating suspension bills in some circumstances, while money is necessary in others. Using data on tariff suspension bills from 1999-2006 (roughly 1400 items) combined with firm-level data on lobbying expenditures, we find that indeed lobbying expenditures by both proponent and opponent firms sway (in opposite directions) the probability that a suspension is granted. In addition, verbal opposition by import-competing firms, with no lobbying expenditures, significantly reduces the probability of a suspension as well.