the Southwest ECONOMY

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Trade Protection: Its Effect on the Southwest

Americans are increasingly concerned about the size and persistence of the U.S. trade deficit. The United States, which was the world's largest creditor nine years ago, is now the world's largest debtor. As a result, protectionist sentiment is on the rise. Proponents of trade protection claim that Americans are exporting manufacturing jobs and argue that trade restraints bolster overall employment, particularly in the protected industry.

The intent of trade restraints is to increase the competitiveness of the protected domestic industries. By raising the price or limiting the supply of imported goods, domestic producers gain a greater market share. Benefits also flow to industries that supply the protected sector. Consequently, all these industries experience increased employment. Trade protection, however, imposes costs on the economy as well. Consumers face higher prices because trade restraints increase the domestic price of the protected good and its import substitutes. Higher prices also affect other firms that purchase the protected good as an input. Again, consumers pay higher prices. Higher prices reduce sales and, therefore, employment. The key question is: Does trade protection increase or decrease overall employment?

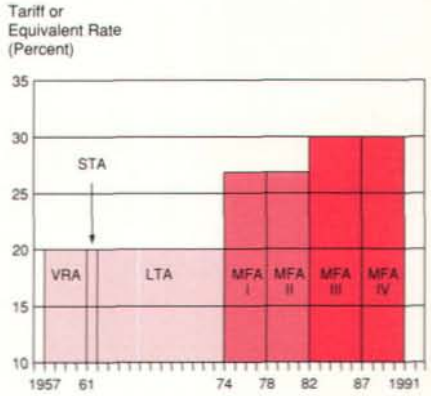
Because the industrial composition of the various U.S. regions differs, the regions may face unequal employment effects. While one region may gain employment, another may lose. The question this article addresses is: What are the employment effects in the Southwest of protective trade policies? I examine three cases of trade protection, textiles and apparel, steel, and automobiles. These are among the largest industries in the United States and are well-known examples of protectionist policies.

Textiles and Apparel

The history of protection in the textiles and apparel industry is long and complicated. Chart 1 lists the trade agreements negotiated over the past 32 years and illustrates how the level of protection has risen.[1]

In a 1957 agreement, Japan voluntar-

Chart 1
Textiles and Apparel:
History of Trade Protection



VRA - Voluntary Restraint Agreement
STA - Short Term Arrangement
LTA - Long Term Arrangement
MFA - Multifiber Arrangement

ily agreed to restrict its exports of fabrics to the United States. As a result, imports from other countries, including Hong Kong, Portugal, Egypt and India, quickly replaced the Japanese goods. In 1961, the United States reached a one-year agreement with other textile exporters, called the "Short Term Arrangement on Cotton Textiles." The succeeding, Long Term Arrangement on Cotton Textiles, broadened product coverage and extended from 1962 through 1973.

Increased production of man-made fibers induced the United States to seek even wider product coverage. In 1974, the United States reached an expanded agreement with its trading partners, known as the "Multifiber Arrangement," which provided an international framework for negotiating bilateral agreements. The Multifiber Arrangement has since been renewed three times, each time covering a wider scope of products and countries. The current agreement, which will extend through 1991, includes 54 developed and developing countries.

The tariff or equivalent rate for imports of textiles and apparel rose from 20 percent in 1957 to 30 percent by 1982. As the level of protection increased, the costs and the benefits of these trade agreements increased as well. These tariff or equivalent rates caused the domestic price of textiles and apparel to increase by 16 percent in 1974 and 24 percent in 1984. An extensive study by Gary Hufbauer, Diane Berlinger and Kimberly Elliott estimates that consumers paid from $9.4 billion in 1974 up to $27 billion in 1984 because of the higher import and domestic prices of textiles and clothing. Domestic producers gained slightly less on average; estimates range from $8.4 billion to $22 billion.[2]

Higher import prices for textiles and apparel enabled American producers to increase their domestic market share. In 1984, U.S. employment in the textile and apparel industry was 640,000 jobs above its free trade level. About 29,600 of those additional jobs were in the Southwest (Arizona, Louisiana, New Mexico, Oklahoma and Texas). Protection also stimulated employment in industries that supply inputs to textiles and apparel production. I estimate that the Multifiber Arrangement III increased employment in the Southwest by 40,800 jobs. This figure includes the increases in both the textiles and apparel industry and its suppliers.

On the other hand, industries using textiles faced higher input prices. As increased costs were passed on to the consumer, sales declined and firms reduced production. In the Southwest, the 24-percent increase in domestic textile prices occurring in 1984 caused a loss of 32,000 jobs. On net, therefore, protection of textiles and apparel meant only 8,800 additional jobs in the Southwest.

Chart 2
Net Change in Employment Resulting from Protection in Textiles and Apparel

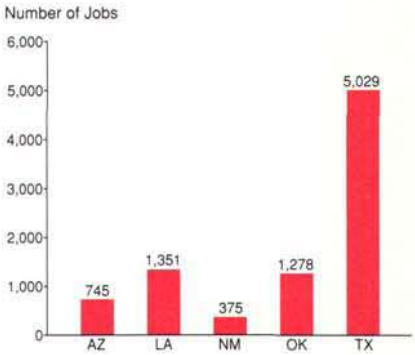


Table 1 lists the net changes in employment in different sectors resulting from trade protection. The first column lists the effects of the Multifiber Arrangement III. Some sectors gained in employment while other sectors lost jobs as a result of trade protection. The textile and apparel industry alone had a net employment gain of 8,800 jobs. The retail trade industry suffered the greatest loss in employment.

Chart 2 shows the net gains in employment for each of the five states. While Texas gained the most in absolute employment, the number of jobs created in Oklahoma was a larger percentage of its total employment. Oklahoma's employment increased by 0.16 percent, while the other four states' employment increased by around 0.1 percent.

Table 1
Net Changes in Southwest Employment Resulting from Trade Protection

Protected Industry:	Textiles and Apparel	Steel	Automobiles
		(Number of Jobs)	
Affected Industry:			
Food and Kindred Products	-54	-103	-6
Textiles and Apparel Products	8,759	-85	-3
Other Nondurables	11	-565	4
Lumber and Wood Products	54	-88	-6
Other Durables	-20	-9,345	-511
Transportation	135	-1,127	-164
Communication and Utilities	103	-858	-28
Wholesale Trade	29	-1,071	-52
Retail Trade	-461	-3,258	-259
Finance, Insurance and Real Estate	261	-798	-50
Services	-39	-3,060	-381
Total	8,778	-20,358	-1,455

Steel

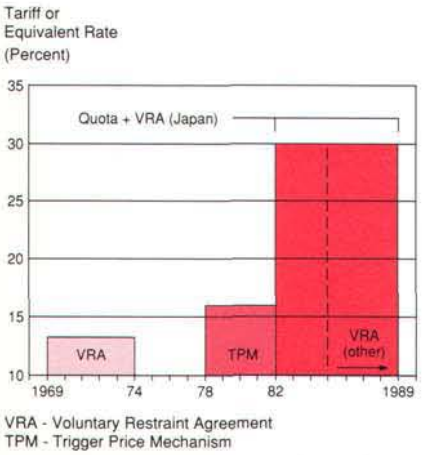
In 1969, in an effort to forestall a bill limiting U.S. imports of steel, Japan and

members of the European Economic Community voluntarily agreed to restrict their exports to the United States. This agreement expired in 1974 and was not renewed (*Chart 3*). In 1978, the United States imposed the Trigger Price Mechanism, which established import reference prices based on estimates of Japanese costs of production, profit margins and transportation costs. Countries exporting steel below the reference price were subjected to expedited antidumping investigations. Countries found dumping steel on the international marketplace—selling steel abroad at a price below their estimated costs of production—faced increased trade barriers.

By January 1982, American steel companies had filed 110 antidumping petitions against 11 countries. In an effort to settle these petitions, the United States negotiated a voluntary restraint agreement with Japan and imposed a quota against the European Economic Community. In 1984 and 1985, other steel exporters also negotiated voluntary restraint agreements with the United States, which were scheduled to expire September 1989. President Bush recently announced that the agreements will be extended into 1992.

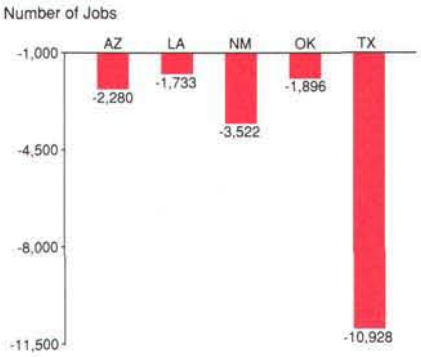
Like clothing and textiles, the level of protection for the U.S. steel industry increased with every new agreement

Chart 3
Carbon Steel:
History of Protection



VRA - Voluntary Restraint Agreement
TPM - Trigger Price Mechanism

Chart 4
Net Change in Employment Resulting from Protection in Steel



reached. In 1974, the tariff or equivalent rate was about 13 percent. It reached 30 percent by 1984. These tariff or equivalent rates caused the price of domestic steel to rise by 5 percent in 1974 and 12 percent in 1984. To American consumers, the estimated annual cost of higher steel prices increased from $2 billion in 1974 to $6.8 billion in 1984. Gains to domestic steel producers increased from $1.3 billion to $3.8 billion over the same period.

The gains in employment caused by steel protection are more limited than those caused by trade restraints in textiles and apparel. The trade restraints in 1984 allowed steel producers to expand their domestic production and, as a result, to increase their employment nationally by 9,000 jobs above the free-trade level. Because the Southwest produces very little steel relative to the rest of the country, import restrictions increased employment by only 400 jobs in the region. My input-output analysis indicates that protection created 1,300 jobs in steel and steel-supplying firms. On the negative side, the Southwest is a large steel user. As a result of the 12-percent increase in domestic steel prices, 21,600 jobs were lost because steel-using firms suddenly faced higher input costs. Consequently, net employment in the Southwest decreased by 20,300 jobs.[3]

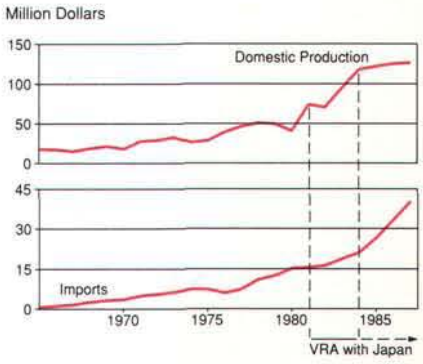
The second column of Table 1 shows the employment effects of protection in steel. Because steel is an input in the production of so many goods, employment decreased in all of the industries listed. The largest loser was the general durable goods category, which includes heavy steel-using industries such as transportation equipment, machinery, and other fabricated metal products. The retail trade and service industries incurred the second and third largest losses in employment.

Chart 4 shows the net losses in employment for each of the five states in the Southwest. Texas incurred the greatest losses in employment. The trade restraints in steel caused a loss of 10,900 jobs in Texas. New Mexico lost 3,500 jobs, while the other three states each lost about 2,000 jobs. New Mexico lost the greatest percentage of jobs—its employment decreased by 1.06 percent. Employment in Louisiana decreased by 0.16 percent, while each of the other three states suffered job reductions of around 0.25 percent.

Automobiles

Although steel import restraints in the mid-1980s hurt the automobile industry, car production was buoyed by its own protection. In April 1981, Americans negotiated a voluntary restraint agreement with Japan to limit Japanese exports to the United States. The restraints on Japanese car imports greatly increased the production of domestic cars, as well as prices and industry profits. From 1980 to 1985, the value of U.S. car production

Chart 5
Automobile Production and Imports



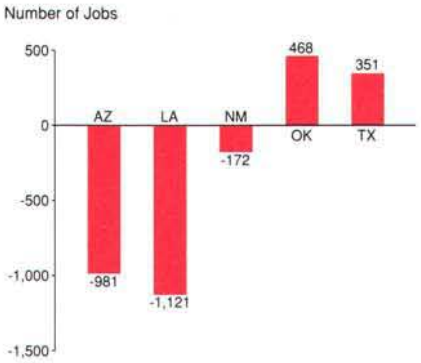
increased almost 200 percent (*Chart 5*). Over the preceeding five years, it increased only 43 percent. When the voluntary restraint agreement expired in April 1985, the United States did not ask Japan to extend it. Since then, however, Japan continues to voluntarily limit car exports to the United States, although at a less restrictive level.

The voluntary restraint agreement with Japan cost American consumers much more in higher prices than domestic producers gained in increased production and profits. The agreement between Japan and the United States caused the price of imported cars to increase by 11 percent. This led to a 4.4-percent increase in the price of domestic automobiles in the United States. Consumers paid $5.8 billion, and producers gained $2.6 billion in 1984 as a result of the higher price of cars.

On a national level, the voluntary restraint agreement with Japan saved 55,000 jobs in the auto industry. This translates into 2,400 jobs in the Southwest. In 1984, the automobile and its supplying industries gained 4,700 jobs in the Southwest. Industries in the Southwest that purchase cars, however, lost about 6,100 jobs. This means that the Southwest incurred a net loss in employment of 1,400 jobs as a result of the voluntary restraint agreement with Japan.

While there was a net loss in employment in the Southwest as a whole, Oklahoma and Texas experienced a net gain in jobs as a result of the voluntary restraint agreement with Japan. As Chart 6 shows, Arizona, Louisiana and New Mexico lost employment. The third column of Table 1 lists the employment changes in different industries as a result of the voluntary restraint agreement with Japan. Most of the industries listed incurred a decline in employment, with the exception of the general nondurable goods category. The durable goods industries lost about 500 jobs. The second and third highest losers in terms of employment were the retail sales and service industries.

Chart 6
Net Change in Employment Resulting from Protection in Automobiles



The single protective phase temporarily improved the automobile industry's profitability. Production increased substantially while the voluntary restraint agreement was in place, and domestic automobile producers seemed to become more efficient in the mid-1980s. In 1988, the three largest U.S. automobile companies marked their highest profits ever. This year, however, sales of Japanese cars are soaring once again, and domestic automobile sales are dropping.[4]

Conclusion

Trade protection produces both winners and losers. Consumers always pay for trade protection in the form of higher import and domestic prices. If the protected good is an input in the production of other goods, those related industries are hurt by the higher cost and limited supply of their input. The protected industry and its suppliers are the only clear winners in the short run.

In the three cases I examined, the net effects of trade protection are, overall, negative for the Southwest. Trade protection in the textile and apparel, steel and automobile industries led to a net loss of 13,000 jobs in the Southwest. The trade restraints in textiles and apparel alone, however, increased employment for the Southwest. Protection in the steel industry is the most harmful to the region. Because steel is used in the production of so many products, steel import restraints negatively affect employment in the region.

The only industry in the Southwest gaining employment from trade protection is textiles and apparel. Durable goods and retail trade industries consistently lost jobs. Contrary to the arguments advanced by proponents of trade protection, trade restraints do not increase overall employment—at least not in the Southwest.

—Linda Hunter

[1] The tariff or equivalent rate refers to the actual tariff rate, or if a quota was imposed, the equivalent tariff that would have led to the same level of imports as the quota.

[2] Consumer cost and producer cost estimates are from Hufbauer, Gary Clyde, Diane T. Berlinger, and Kimberly Ann Elliot, *Trade Protection in the United States: 31 Case Studies*, Washington, D.C.: Institute for International Economics, 1986.

[3] Arthur Denzau also estimates the regional employment effects of protection in the steel industry in his article, "How Import Restraints Reduce Employment," Center for the Study of American Business, Formal Publication Number 80, June 1987.

[4] *Wall Street Journal*, May 23, 1989.