Volume Title: The Structure and Evolution of Recent U.S. Trade Policy

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Volume Publisher: University of Chicago Press

Volume ISBN: 0-226-03604-9

Volume URL: http://www.nber.org/books/bald84-1

Publication Date: 1984

Chapter Title: Introduction to Part II: Industry-Specific Nontariff Trade Barriers

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Chapter URL: http://www.nber.org/chapters/c5829

Chapter pages in book: (p. 33 - 34)

PART

II Industry-Specific Nontariff Trade Barriers

Introduction

This section analyzes three nontariff measures aimed at easing the competitive problems of particular U.S. industries. They are the agreement by the Japanese to limit their exports of automobiles to the United States, the dumping problems of the U.S. steel industry and the resulting Trigger Price Mechanism for steel imports, and the Multifiber Arrangement for quantitative import restrictions covering textile and apparel products.

Feenstra focuses on the quality, employment, and welfare effects of the Japanese voluntary export restraint agreement (VER) in automobiles. Using hedonic regressions to determine changes in the quality-adjusted prices of U.S. and Japanese cars, he concludes that two-thirds of the inflation-adjusted 8.4 percent rise in the price of imported cars in the two years following the VER is due to quality improvements and one-third to an increase in the quality-adjusted price of Japanese cars. Consequently, there was about a 3 percent rise in price for which consumers were not compensated by improved quality. Under the assumption that a reduction of (say) $1 million spent on Japanese imports due to a price change leads to an extra $1 million spent on American cars, Feenstra then estimates that the increased employment resulting from the VER amounted only to between 5,000 and 22,000 workers. As he notes, these figures compare with indefinite layoffs in the auto industry of over 200,000 workers in early 1982.

Eichengreen and van der Ven concentrate on the U.S. steel industry in analyzing dumping from both a theoretical and empirical point of view. Using the Trigger Price Mechanism (TPM) introduced by the U.S. government in 1978 as an illustration, they show how trade policies often

evolve that make good sense politically but not economically. They then develop a model of dumping that emphasizes the existence of imperfect competition in both domestic and foreign markets and utilize it to estimate the effects of the TPM in 1979. In raising the price of imported steel by, in effect, establishing a minimum import price, the TPM increased the income of U.S. steel producers but reduced the economic welfare of consumers. However, as Eichengreen and van der Ven demonstrate, it is possible for total welfare to increase as a result of the TPM because of the initial distortion associated with imperfectly competitive domestic markets. Their welfare estimates vary from a net gain of $6 billion to a net loss of $.03 billion. Of course, as they note, if antidumping policies can be welfare improving because of distortions in domestic markets, first-best policies aimed at promoting competition can raise welfare even more.

Pelzman traces the long and complicated history of international regulation of textile and apparel imports and indicates how the structure of the U.S. textile industry has changed since World War II. He then tries to ascertain empirically whether the Multifiber Arrangement (MFA) had a positive effect on the industry's profit rates. Using the percentage of imports subject to quantitative restrictions to proxy for the MFA and controlling for such factors as the degree of market concentration, the growth of domestic demand, and the extent of import penetration, Pelzman finds evidence that the MFA did indeed appear to raise profit rates by limiting domestic competition.