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Chapter Title: Introduction to Part III: Trade Policies to Facilitate Domestic Adjustment, Promote Developing Country Exports, and Meet Strategic Concerns

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PART

III Trade Policies to Facilitate Domestic Adjustment, Promote Developing Country Exports, and Meet Strategic Concerns

Introduction

The three papers in Part III focus on the use of trade policies to assist workers in adjusting to increased import competition and to promote certain foreign policy goals of the United States. The first appraises U.S. efforts to deal with the worker adjustment problems associated with injurious import increases by granting financial and retraining assistance rather than greater import protection to those in injured industries. The second analyzes the U.S. Generalized System of Preferences (GSP) under which exporters from developing countries are favored in tariff terms over those from other developed nations. The last paper in this section considers the desirability of the U.S. government holding "strategic reserves" of oil.

As Aho and Bayard point out, there are efficiency, equity, and political grounds for the government's involvement in the Trade Adjustment Assistance (TAA) program. Efficient adjustment under free market conditions may be impeded by the existence of market imperfections; losers from economic change in the highly uncertain foreign sector deserve to be compensated for their income losses, especially when the government's action in lowering protection is the reason for the losses; and socially beneficial trade liberalization will be blocked politically by those who lose from this liberalization unless they are compensated for their losses.

Drawing upon several empirical studies of the TAA program, they point out that the scheme has not encouraged very much labor market adjustment and has actually led to longer durations of unemployment. Furthermore, while permanently displaced TAA recipients suffered significantly higher wage losses than other permanently displaced workers, this group tended to be a fairly small subgroup of all TAA recipients. Most TAA recipients in the late 1970s returned to their old positions in industries paying wages above the national average. Nevertheless, Aho and Bayard conclude that on balance the TAA program has probably been economically beneficial because of the national welfare gains resulting from the liberalization that otherwise might never have materialized because of political opposition from those compensated by the program.

Instead of dealing with the usual problem of trying to determine how successful an import policy has been in restricting trade, Sapir and Lundberg measure the import-increasing effects of a particular trade policy. Specifically, they estimate the trade and employment effect of the U.S. GSP scheme introduced in 1976. Their methodology is to include the actual margin of tariff preferences granted different products and countries as one determinant (among such others as physical capital/labor ratios and measures of human capital) of post-GSP changes in U.S. import shares by product and country groups. They find that the program has increased trade flows for products that have enjoyed large preference margins and has also raised imports from beneficiaries that were already important suppliers before 1976. More specifically, they estimate that by 1979 exports from developing country beneficiaries had increased by 15 percent or $930 million. About 30 percent of this amount represented trade that was diverted from nonbeneficiary exporters to the United States. The U.S. loss in employment from the net export increase is placed at 43,000 jobs.

Given the uncertain energy outlook, the subject studied by Eaton and Eckstein, namely, the desirability of U.S. government oil inventories, is an important issue for U.S. import policy strategy. They first review the history of the government's petroleum reserve and then develop an analytical model for appraising the effects of such a policy. Basically, they conclude from their analysis that the case for government inventories is a limited one. For example, in the absence of externalities, they find no argument for public inventories in competitive markets under either certainty or uncertainty. If oil suppliers are competitive but U.S. imports are large enough to affect price, there is an appropriate optimum tariff but still no welfare-improvement role for inventories. Even in a strategic setting where suppliers and users both possess market power, imposing optimum tariffs is the first-best means for the consuming country to exploit its market power. However, since a threat to impose tariffs may not be credible, adopting a stockpiling policy is a second-best alternative to optimal tariff policy. They note that maintaining a government inventory of oil can also be justified as a means of reducing U.S. vulnerability to the threat of an embargo.