

There is no basis for assuming that professional commercial policy bureaucrats are unaware of these considerations; it is a mistaken view, which seems implicit in much recent writing, that officials responsible for tariff policy or for the negotiation of such trade arrangements as the MFA are unaware that these arrangements impose costs. Indeed, because they are occupied, on a career basis, on a full-time basis, with such matters, they may be expected to be more aware than others of the costs involved, the minor benefits achieved, the extent to which the pace of adjustment of the economy is slowed, and the manner in which the political process is corrupted by the development of vested interests, both sectorial and bureaucratic, in protection.

The "Cash Cost"

We have already mentioned that one of the pioneer studies directed at the assessment of costs of a protective system was J.H. Young's essay for the Canadian inquiry in the mid-50's into the economic prospects of the country.¹ Young attempted to estimate the "cash cost" of the Canadian tariff, the tariff being the main commercial policy device used by Canada at that time — prior to the evolution of the textile trade system. Young's method was to make a statistical calculation, based on detailed data from various sources, official and otherwise, of the actual differences as between Canadian prices and U.S. prices for products protected by the Canadian tariff. Young's conclusion was that:

The cash cost of the Canadian tariff, omitting government expenditure and making no allowance for the effect of the tariff on distribution costs, amounts to \$0.6 billion or about 3.5% to 4.5% of gross private expenditure net of indirect taxes. The inclusion of government expenditure and retail distribution would raise the estimate considerably, and it is likely that a comprehensive estimate of this kind made for 1956 would be of the order of \$1 billion.²

Young also noted that in a system of preferential tariffs, part of the extra amount paid by consumers accrues, not to Canadian producers, but to producers outside Canada the exports of which enjoy margins of tariff preference. "Since the estimate is concerned with the overall cash cost of the Canadian tariff, no distinction has been made between that part of the extra amount paid by Canadian consumers which accrues to domestic producers, and that part which accrues to producers outside Canada."³

It should be noted that Young's study was an important example of the empirical approach to assessing the impact of protection; it was for that reason welcomed by a number of economists who recognized the distinction between assertions based on a mathematical or geometrical demonstration of the cost of protection and a demonstration based on the accumulation of comparative price data. This distinction continues to be important, because while considerable quantitative and empiric work has been done in regard to tariffs, examination of the costs of other techniques of protection have emphasized mathematical demonstration derived from theoretical assumptions, sometimes in regard to situations in which empirical data were easily available.

Young's study of the "cash cost" of the Canadian tariff provided a point of departure for several key papers on tariff policy by Professor Harry Johnson;