

CHAPTER VI

THE QUESTION OF COSTS

In this chapter we address the issue of who benefits from the restraints on trade sanctioned by the system of contingency protection, what are the various costs of such protection, and on whom they are imposed. There is an extensive literature on this aspect of the debate over trade policy, beginning with the insights of Adam Smith. Rather more recently, in parallel with the development of the system of contingent protection, there have appeared a significant number of studies, focussing on surrogates for action under Article XIX, which make clear that such restrictive arrangements as the various bilaterally negotiated restraints on textile and textile product exports impose significant costs on users in the importing country, that the benefits to competing producers in the importing country are purchased at a high price — when calculated on a per job basis, and that adjustment assistance rather than import relief is likely to be less costly, though more visible. We note below the more important of these recent studies, and then address, in qualitative rather than quantitative terms, the issue of the costs of the anti-competitive impact of the devices endorsed by the contingency protection system, and, going beyond the purely economic calculus, the issue of the impact on political structure of the emerging system.

The term "impact on political structures" is intended to direct attention to the difference, in terms of the operation of the democratic political process, between a "tariff-centered" system and a system in which the emphasis is on the exercise of administrative discretion, on litigation, on the imposition of discriminatory quantitative controls and the negotiation of undertakings by foreign producers, or their governments, as to prices or quantities. This aspect of the system of contingency protection has not received great attention from the numerous economists who have been calculating costs and benefits of alternative commercial policy devices.

It is not, as a practical matter, necessary to review or recapitulate all the statements which have been made about the costs of protection and about the various ways in which costs and benefits are distributed; we concentrate on a few important studies that have been occasioned by, or at least coincided with, the development of the present day system.

It is a central proposition of the economic theory of international trade since the publication of The Wealth of Nations that measures of protection impose costs; these costs can be identified, in the first instance, in terms of the higher prices that consumers must pay for the protected article, and, in the second instance, the losses in efficiency due to the diversion of resources to production of the protected goods. This reduction in efficiency affects the production of other categories of goods, including production for export.