

Cato Institute Policy Analysis No. 140: The Collision Course on Textile Quotas

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Executive Summary

The U.S. Senate recently passed a bill that would further restrict imports of textiles, and a House vote on that bill is expected this fall. To attract more congressional votes, provisions were added that would restrict shoe imports and increase the textile quotas of countries that buy more U.S. agricultural products. The stated purpose of the bill is to protect the jobs of Americans currently employed in those industries. The main feature of the bill is a set of global import quotas that would separate the American and world markets for textiles and shoes. It would preserve a share of the U.S. market for domestic producers regardless of the relative costs of imported and domestic products. Since market shares would be determined by politicians and bureaucrats rather than consumers and producers, the bill would further diminish the influence of private competitive markets for textile products.

If implemented, the bill would protect the jobs of some textile workers. However, it would also increase the price of imported products and all domestically produced products that compete with imports. All final consumers of textile and apparel products would be harmed by the higher prices, and business firms that use textiles and apparel as intermediate products would be adversely affected by the bill. As a result of higher costs, those firms would reduce their output and employment. Examples of businesses that would be harmed by import restrictions are automobiles, furniture, housing, and a broad class of wholesale and retail stores.

In addition to the direct costs of the bill, there would be indirect costs in the form of greater restrictions imposed by other countries on U.S. exports. Unilateral imposition of tighter import restrictions by the United States is likely to provoke retaliation, particularly by countries that are currently exempt from quotas on textile and apparel imports. It would also make it difficult for American negotiators at the Uruguay Round of multilateral trade negotiations to persuade other governments to lower their current restrictions on U.S. exports. The top priorities of the Bush administration in the negotiations are liberalization of agricultural trade and broader enforcement of intellectual property rights. If the textile quota bill becomes law, neither goal is likely to be achieved, and the entire Uruguay Round may collapse.

The timing of the textile import bill that would replace market forces with central planning is important, because the Uruguay Round negotiations are scheduled to conclude in December 1990, and ironic in view of recent events in Eastern Europe. Governments that had been firmly committed to planning industries and entire economies have acknowledged the failure of managed trade. All over Eastern Europe, including the Soviet Union, people have rediscovered the virtues of the "invisible hand" of competition. A graphic example is the opening of East German state monopolies to competition from West Germany and the European Community. The East Germans have accepted competition knowing that many workers will lose their old jobs. One has to wonder whether there is now stronger support for capitalistic competition in Eastern Europe than in the U.S. Senate. If competition is beneficial to an entire country, why is it not beneficial to textile trade?

This paper is an analysis of the textile import bill and the case for textile protection in general. Textile trade restrictions already cost American consumers \$20.3 billion a year (as of 1986), or \$238 annually for every American household.[1] The bill and the continuation of the Multifiber Arrangement (MFA) that governs world textile trade would result in net costs for the United States and the world economy. The world textile industry would be more efficient if market shares were determined by the forces of competition, not political considerations. The industry's proposal would tighten quotas and extend them indefinitely, but consumer interests would be best served by abolishing quotas immediately. A compromise would be to announce a terminal date for quotas and phase them out gradually.

A Brief History of U.S. Textile Protection

One argument that has been offered in support of the bill is that the U.S. textile industry needs temporary protection to allow it to respond to the competition of lower cost imports. That argument ignores the history of U.S. textile trade policy. The U.S. industry has benefited from extraordinary levels of protection from imports for more than 30 years. If 30 years is not enough time to prepare for international competition, will 50 be? In addition to being subject to a tariff that is much higher than the average U.S. tariff, textile imports have been restricted by quotas since 1957.

When quotas began in 1957, they applied only to cotton textiles imported from Japan. Coverage of the quotas gradually expanded until all natural and man-made fibers were included. Labor-abundant developing countries displaced Japan as the major suppliers of imports, and country coverage expanded until nearly all developing countries were subject to quotas. The textile quotas violated the rules of the General Agreement on Tariffs and Trade, but an exception was made that evolved into the MFA. The MFA allows GATT members to impose bilateral import quotas on suppliers of textiles. It was originally considered a temporary exception to GATT rules, but MFA-I (1974- 77) eventually became MFA-IV, which will expire in July 1991.

Under the MFA the United States has negotiated "voluntary" quotas with more than 40 exporting countries, all of which, except Japan, are developing countries. All the other developed countries have exempted the others' products from the quotas. Hundreds of product categories have been established, and quotas are expressed in physical units. A typical quota is for men's and boys' cotton knit shirts from Taiwan. Product categories, countries subject to quotas, and the size of quotas change over time. A large bureaucracy has developed to manage the quota system, and regulators are subject to lobbying. Knowledge of the regulatory process is valuable, and bureaucrats are sometimes hired by the firms they have been regulating. According to one observer, "Not infrequently, this involves advising exporters on how to take advantage of a quota system they have themselves been responsible for creating." [2] An example of a politically inspired quota change occurred after the invasion of Kuwait by Iraq. Secretary of State James A. Baker III offered Turkey a larger textile quota if Ankara would stop passage of Iraqi oil through Turkey.[3]

The MFA textile quotas have two features that are more harmful to Americans than are ordinary import quotas. First, they discriminate by country of origin. Because they are country specific, quotas sometimes prevent importers from buying from the lowest cost source. Second, to make the quotas appear voluntary they are administered by the exporting countries rather than the United States. Since textile firms in each exporting country must collude to satisfy their country's quota in the U.S. market, the firms also find it expedient to collude on the price they charge in the restricted U.S. market. Because of the quota-induced shortage, firms are able to charge a premium price in the United States. The extra earnings are called quota rents, and they partly compensate exporters for accepting the restrictions. The licenses that entitle exporters to sell in the United States have been openly traded in Hong Kong, and the money value of the licenses reflects the premium price received in the United States. The U.S. government could repatriate quota rents either by auctioning import licenses or by imposing equivalent tariffs.

Table 1						
U.S. Textile and Apparel Trade (Million Dollars)						
	Textiles			Apparel		
Year	Imports	Exports	Balance	Imports	Exports	Balance
1980	2,676	3,632	956	6,849	1,202	-5,647
1981	3,250	3,619	369	8,008	1,232	-6,776

1982	3,000	2,784	-216	8,703	953	-7,750
1983	3,460	2,368	-1,092	10,292	818	-9,474
1984	4,874	2,382	-2,492	14,513	807	-13,706
1985	5,274	2,366	-2,908	15,056	755	-15,301
1986	6,151	2,570	-3,581	18,554	900	-17,654
1987	6,918	2,900	-4,018	21,960	1,132	-20,828
1988	6,748	3,651	-3,097	22,877	1,575	-21,302
1989	6,417	3,897	-2,520	26,026	2,087	-23,939

Source: American Textile Manufacturer's Institute, Textile Hi-Lights (Washington: ATMI, June 1990).

In spite of the MFA quotas, imports of textiles and apparel into the United States continue to increase (see Table 1). Total imports of textiles plus apparel increased every year in the 1980s. However, combining textiles and apparel conceals an important difference between the products. Most of the imports are of apparel. In 1989 net imports of textiles were \$2,520 million, and net imports of apparel were \$23,939 million. Not only are the relative amounts different, so are the trends. Apparel imports increased every year in the 1980s, but textile imports did not. After reaching their peak in 1987, net textile imports decreased in both 1988 and 1989. The recent decline in net textile imports reflected both a decrease in imports and an increase in exports. Moreover, U.S. textile exports increased every year from 1986 through 1989.

Representatives of the domestic industry have argued that the system of country quotas, which exempts certain supplier countries, does not provide adequate protection for U.S. producers. At the request of the industry, Congress passed more restrictive import bills in 1985 and 1988, but both were vetoed by President Reagan and the vetoes were sustained. The important innovation in the 1990 Senate bill is the imposition of global quotas. Because the national quotas exempt products from certain countries, there are "leaks" in the protective system, and the damage done to buyers of textiles and apparel by the quotas is mitigated by the exemptions. Global quotas would help plug the leaks, thereby raising the costs ultimately borne by textile and apparel buyers. One of the few redeeming features of the Senate bill is a provision for auctioning import quotas.

Even without the 1990 import bill, the textile and apparel industry is already one of the most heavily protected sectors of the U.S. economy, and it has received extraordinary levels of protection for decades. Trade in textiles and apparel was excluded from all previous GATT rounds of trade negotiations, because the subject was considered too sensitive in the United States. In addition, when the United States offered lower tariffs on products from developing countries as part of the General System of Preferences, textile imports were declared ineligible for the program. Thus, Congress and a series of presidents from both parties have been extraordinarily generous to the industry for many years. And American buyers of textile and apparel products have had to pay tens of billions of dollars in additional costs as a consequence of those policies.

The Textile and Apparel Industry

Although textiles and apparel are often treated as a single industry, the differences between them may be more important than the similarities. The products and the basic technologies of both industries are old. As a consequence, world production has gradually moved toward cheaper sources of labor. Production moved from England during the Industrial Revolution to New England, to the American Southeast, to Japan, to poorer countries in Asia. Many developing countries become textile and apparel exporters at a certain stage in their development. Both industries are labor intensive and both use unskilled labor. As production has moved to developing countries, textile and apparel employment has declined in the United States (see Table 2), Western Europe, and Japan. However, the decreases have been greater in Europe and Japan than in the United States. From 1973 through 1983 the following declines occurred: Netherlands, 64 percent; United Kingdom, 55 percent; France, 53 percent; Germany, 47 percent; Japan, 30 percent; United States, 19 percent; and Italy, 15 percent.[4]

Table 2

Employment in the U.S. Textile and Apparel Industry (Thousand)		
Year	Textiles	Apparel
1980	864	1,297
1981	823	1,244
1982	750	1,164
1983	744	1,169
1984	746	1,185
1985	704	1,125
1986	709	1,115
1987	726	1,099
1988	729	1,092
1989	726	1,092

Source: U.S. Department of Labor, Monthly Labor Review (Washington: USDOL), various issues.

Another development common to textiles and apparel is the increase in output that has accompanied the decline in industry employment in the United States. The associated increase in labor productivity is a result of technological innovation. Since the productivity gains are unrelated to imports, it is inaccurate to attribute all the decrease in employment to international trade. A secular decline in employment would have occurred in the absence of imports.

There are, however, important economic differences between the textile and the apparel industries. Textiles have been more amenable to technical change than has apparel. Technical change has produced man-made fibers and improved the characteristics of fibers. Since the production of man-made fibers has been associated with the chemical industry, it has favored developed countries such as the United States. The United States tends to have a comparative advantage in new products or old products made with new technologies. The U.S. competitive position in textiles is more favorable than it is in apparel.

Textile production is less labor intensive than is apparel production, and textile wages are higher. Although wages in both sectors have traditionally been among the lowest in U.S. manufacturing, average hourly textile wages were \$7.68 (79 percent of the average for all manufacturing) in 1989, whereas average hourly apparel wages were only \$6.36 (66 percent of the manufacturing average).

The trade performance of textiles appears to be stronger than that of apparel. Imports of apparel exceeded exports every year in the 1980s, and net imports increased every year. Textiles do not exhibit the same simple pattern. The United States was a net exporter of textiles as recently as 1982. Imports began to exceed exports in 1983, and net imports of textiles reached their peak in 1987. Net textile imports declined in both 1988 and 1989. Moreover, the textile trade deficit in 1989 was much smaller than the apparel deficit.

With respect to inputs other than labor, the existence of a strong domestic chemical industry is important for man-made textiles. Access to the latest imported textile machinery also seems to be a significant cost factor. The use of imported machinery places lobbyists for the textile industry in the awkward position of requesting free trade in textile machinery but protection from imports of textile products. As a buyer of cotton, the U.S. textile industry has been harmed by government farm policies that have occasionally resulted in a U.S. cotton price that is higher than the price in the rest of the world.

A fundamental conflict between the textile and the apparel sectors arises because textiles are an input to apparel production. It follows that tariffs and import quotas on textiles are harmful to apparel producers, but import restrictions on apparel are not harmful to textile firms. Barriers to textile imports increase the costs of apparel producers, which results in some combination of reduced output and employment and increased clothing prices.

Import quotas on textiles reduce apparel producers' choices of quality, variety, reliability, and timely delivery. Timing is particularly important for apparel, an industry in which large and rapid changes in fashion occur. American apparel producers have complained recently about the ability of domestic textile producers to deliver the kinds of products they want at the proper time. Some claim that foreign firms have delivered products more quickly in spite of a transport time disadvantage. A leading newspaper reports that "the apparel industry has become globalized as never before. Cost is just part of it. They're also going offshore for variety and quality." [5] Thus, apparel producers would benefit from freer trade in fabric just as textile producers benefit from free access to imported textile machinery. It is noteworthy that the American Apparel Manufacturers Association did not support the bill passed by the Senate. Member firms would prefer to have the issues resolved in the Uruguay Round negotiations.

The immediate demand for apparel comes from wholesale distributors and the retail sector. Quotas reduce the choices of those firms and increase their costs. As they do in any competitive market, higher costs result in some combination of higher retail prices and lower output and employment. Employment in the retail sector is not insignificant. In 1989 employment in apparel and accessory stores was 1.2 million, and employment in general merchandise stores was 2.5 million. Thus, a large number of retail jobs could be threatened by restrictions on textile imports. As one would expect, the retailers' association (Retail Industry Trade Action Coalition) opposes the Senate bill. The wages of retail employees are similar to those of textile and apparel workers. In 1989 average earnings of retail employees were \$6.54 per hour, just below earnings in textiles (\$7.68) and just above earnings in apparel (\$6.36). All three groups are among the lowest paid workers in the United States.

Direct Effects of More Severe Import Restrictions

The effects of existing tariffs and quotas on textiles have already been analyzed in some detail. [6] The precise numerical results vary by study, but a consistent finding of all the published studies is that the costs of textile protection far exceed the benefits to protected workers. A typical result is that consumer costs per job saved by import restrictions are more than seven times the earnings per worker whose job is saved. [7] If the welfare of those workers is the goal of the import restrictions, it can be improved at a much lower cost. If free trade were accepted, consumer benefits would be large enough to enable consumers to pay displaced workers several dollars for each dollar of lost earnings indefinitely, whether the workers obtained alternative employment or not. Both consumers and textile workers could be better off than they are with import barriers.

By increasing the severity of import restrictions, the Senate bill would increase the net costs to Americans. The effect on consumption depends on the severity of import quotas and their effect on the prices of imported products. The effect also depends on the response of the price of domestically produced products to the higher price of imports. Since domestic products are not perfect substitutes for imports, each 1 percent increase in the price of imports would increase the price of domestic products by less than 1 percent. As a result of higher prices for both imported and domestic textiles, buyers would switch some of their purchases to relatively cheaper goods. Thus, the net result for buyers would be higher prices for each unit of imported and domestic textiles purchased when quotas were in effect. In addition there would be a loss of benefit due to the substitution of inferior products.

Because many of the buyers are business firms rather than final consumers, the adjustment process may be complex. For example, retail firms will try to pass their higher costs on to final consumers by raising prices. Higher prices of textiles will increase the costs of automobile upholstery, furniture covering, and household items (carpets, drapery, etc.), and firms that sell those items will try to shift their higher costs to consumers. In a competitive market the result will be some combination of price increases for final products and decreases in the quantities sold. Any decrease in output would reduce employment by firms purchasing textiles and apparel. The effect of import quotas on domestic production of textiles depends on the increase in domestic producer prices and the response of U.S. industries that use textiles as inputs to the price increase. An increase in production and employment in textiles and apparel and in companies that supply inputs would be expected. For example, the industry would purchase more chemicals for use in man-made fabric and more dyes as a result of import quotas. There would also be an increase in the demand for cotton and wool.

A study by Linda C. Hunter [8] estimated the adverse effects of textile quotas on employment in the automobile, furniture, housing, and construction industries and wholesale and retail trade in 1984. She concluded that trade policy

had no net effect on employment in the economy as a whole. Import quotas change relative prices, and they shift production and employment among industries. However, for each job created in textiles and apparel, a job was lost in some other sector. The industries gaining employment in 1984 were textile mill products, apparel, and chemicals. The offsetting decreases in employment were spread fairly evenly among industries, and the main losers were services, wholesale and retail trade, the government sector, construction, motor vehicles, and furniture.[9]

To determine the effect of import restrictions on the economy as a whole, the costs to consumers must be compared with the benefits to textile and apparel workers who keep their jobs. One approach to estimating the benefits is to assume that workers displaced by textile imports will be unemployed indefinitely. That assumption is inconsistent with labor market data on the duration of unemployment, and it produces an upward bias in the benefits of import quotas. Nevertheless, it simplifies calculations and produces an upper bound on the benefits of quotas. Using that assumption, the annual benefits of protection can be measured as the number of jobs saved times the average annual earnings of textile and apparel workers. For example, Cline's estimates for 1986[10] were 20,700 jobs saved in textiles and 214,200 in apparel. Average annual earnings of workers were \$13,600 in textiles and \$11,180 in apparel. When benefits to workers are valued that way, the annual consumer costs are more than seven times the annual benefits to those workers.

That approach to the duration of unemployment is charitable to the case for protection. If a textile worker could immediately find another job at \$13,600 a year, the benefit of protection to the worker would be zero. If he could immediately find a job paying \$12,600, the net benefit would be \$1,000 a year, not \$13,600. If he could find a job paying \$13,600 one year after losing his textile job, the benefit would be \$13,600 for the first year and zero for subsequent years.

A more accurate assessment would acknowledge the fact that few displaced workers remain unemployed forever. That implies that the benefits from saving jobs are temporary, whereas the consumer costs are incurred for as long as import barriers remain in effect. In 1986 the average duration of unemployment was 13.3 weeks for textile workers and 24.8 weeks for apparel workers. When the average duration of unemployment is taken into account, the benefits of protection are reduced to avoiding unemployment for less than one-fourth of a year for textile workers and less than half a year for apparel workers. Consumer costs remain the same as in previous calculations. Since costs and benefits occur at different times, both series must be converted into present values. When an interest rate of 10 percent is used to discount both costs and benefits, the present value of costs is more than 25 times the present value of benefits.[11]

The above calculations show the effects on employment in textiles and apparel without taking into account jobs saved indirectly, for example, in the chemical industry. A complete economic analysis should also include jobs destroyed indirectly, for example, in services, automobiles, furniture, and housing. Instead of considering the indirect effect of quotas on jobs both created and destroyed, Cline calculated it only for those jobs indirectly created. That approach adds to the total dollar value of the benefits of protection, but the costs of protection were still found to be more than three times the benefits.[12] The major message from a series of empirical studies is that textile policy protects special interests at an extremely high cost to the general public.

U.S. Textile Policy, the GATT, and the Uruguay Round

The Senate bill is in sharp conflict with the goals of the United States in the Uruguay Round negotiations. The U.S. government was the leading promoter of the Uruguay Round, and benefits to Americans are expected from liberalization of trade in many commodities, especially agricultural products and intellectual property rights. To persuade other countries to reduce barriers against U.S. products, Americans must make concessions, and textiles are a prime candidate. A consensus is emerging among negotiating countries that textile trade should be returned to the general rules of the GATT, and the MFA should be abolished. Country and global import quotas would be replaced by nondiscriminatory tariffs, and tariff rates would have binding upper limits, subject to the GATT negotiating process.

The Senate bill conflicts with that consensus view by imposing global quotas that preserve a market share for domestic firms into the indefinite future. It is more restrictive than current U.S. bilateral quotas because it would eliminate the current exemption for the European Community and other developed countries that are suppliers. Unilateral action by the United States encourages unilateral action by other countries, which might include restrictions on U.S. exports.

It is possible to reach a compromise between the protective stance of the U.S. Senate and the desire for immediate abolition of all import quotas. The Bush administration's textile proposal to the GATT is a compromise between those extremes, and it has been influenced by a number of proposals by economists outside the U.S. government.[13] The basic idea is to gradually increase quotas until they are no longer binding on traders. At that point, nondiscriminatory tariffs would become the only barriers to textile trade. The U.S. proposal to the GATT includes a 10-year transition period, but the length of the transition is negotiable. The United States has had import quotas on textiles for 33 years, and the Senate bill would tighten and extend them indefinitely.

During the transition period, quotas would be progressively relaxed. One approach to relaxation is to simply increase the MFA country-specific quotas over time. That alternative is favored by the exporting developing countries that belong to the International Clothing and Textile Bureau. It would allow them to retain quota rents during the transition period.

A more promising approach for the United States during the transition period is to impose auction quotas. Auction quotas reveal information about the effect of quotas, because the auction price can be interpreted as the tariff equivalent of the quota. It is logical to use auction quotas in the transition period between ordinary quotas and pure tariffs. Country-specific quotas could be combined with global quotas following the suggestions of several analysts.[14] Country-specific quotas would decrease by 10 percent per year from their current levels. At the same time, global quotas would increase by 6 percent per year. Countries whose specific quotas were decreased could bid for a share of the growing global quotas and thus continue exporting to the United States. The result would be a gradual transformation of country quotas into global quotas.

An advantage of global quotas is that importers would be permitted to buy from the country producing at the lowest cost. An important feature of the proposal is that countries currently exempt from country quotas would retain their exemptions from global quotas. That feature would prevent an increase in protection during the transition, and it would also help to avoid a major confrontation with the European Community. However, the existence of exempt countries would mean that the quotas would not be completely global. A final feature is that the U.S. government would sell global quotas in a competitive auction, which would transfer the quota rent to the U.S. Treasury. An auction provision is contained in the Senate bill and can be interpreted as the price paid by exporting countries for trade liberalization. The essential feature of the proposal is the determination and announcement of a definite termination date for quotas. A transition period shorter than 10 years would benefit consumers, but an extremely short transition would cause more serious adjustment problems for the industry.

Tariff quotas are an alternative mechanism that would also phase out quotas.[15] With a tariff quota there is a zero tariff on the first specified amount imported and some penalty tariff on imports above that amount. It is like a quota in the sense that there is no government revenue for the first units, but it is less rigid than a quota in that greater amounts are permitted at a price. The initial value could be set to duplicate the current national quotas. There would be no global quotas, and exemptions would be preserved for all countries that now have them. Another feature that distinguishes tariff quotas from auction quotas is that exporting countries would retain the quota rent. However, the need to determine correct tariff rates is a technical disadvantage of tariff quotas.

Spokesmen for the U.S. textile and apparel industry tend to overlook the potential for additional exports, especially of man-made textiles, under multilateral trade liberalization. Asia has the fastest rate of economic growth in the world as well as the largest population. Many Asian countries that currently export apparel have stringent import restrictions on textiles. With freer trade some of the Asian countries could follow the example of Hong Kong, which imports textiles and exports apparel. U.S. negotiators could make liberalization by developing countries a condition for phasing out MFA import quotas. That would raise world income, whereas the MFA and (even more so) the U.S. Senate bill would reduce world income.

Regional Effects of Textile and Apparel Trade

Political support for the extraordinarily high levels of protection for textiles in the last 30 years has had a regional base. Political leadership has come from the South Atlantic states where production is concentrated. The task of constructing and maintaining a successful political coalition is simpler if the benefits of protection are geographically

concentrated but the costs are spread evenly among the remaining states. Another implication of geographic concentration is that displaced textile workers would have longer spells of unemployment when production is concentrated than when it is dispersed. The Senate bill sponsored by Senator Hollings of South Carolina has strong regional support from members of both parties.

However, the regional concentration of production and employment is much greater for textile mill products than for apparel. Most of the country's textiles (60 percent) are produced in the Carolinas and Georgia. Apparel production is much less concentrated; the two largest producing states are California and New York (see Table 3). Moreover, the more concentrated industry, textiles, is in a stronger competitive position. It is less labor intensive and has greater possibilities for technical change. Man-made fabrics have been associated with innovations in the chemical industry. The greater competitive strength of the textile sector shows up in its greater resistance to imports and the recent increase in textile exports. Thus, the sector with the greater geographic concentration is also the one with the greater potential for success in a more competitive environment.

The burden of adjusting to freer trade in the South Atlantic region will be lessened if textile and apparel workers have good alternative job opportunities. The South Atlantic has been one of the faster growing regions in the nation, and recently the average unemployment rate for the region has been consistently below the national average. In March 1990 the unemployment rate in North Carolina was 3.6 percent and the rate in South Carolina was 4.3 percent, when the national average rate was 5.2 percent. Job opportunities have grown rapidly at the same time employment in textiles and apparel has declined. The region has been the recipient of immigrating labor from other states as well as investment from other states and countries.

Table 3 U.S. Textile and Apparel Employment in Selected States: 1986-89				
State	Textile Mills	Percentage of U.S. Total(a)	Apparel	Percentage of U.S. Total(a)
North Carolina	219,300	30.2	82,800	7.6
Georgia	111,200	15.3	63,800	5.8
South Carolina	106,300	14.6	44,500	4.1
California	17,000	2.3	130,200	11.9
New York	25,200	3.5	119,100	10.9
Pennsylvania	29,400	4.0	79,600	7.3
Tennessee	22,500	3.1	65,000	6.0
Texas	3,900	0.5	56,900	5.2

Source: American Textile Manufacturer's Institute, Textile Hi-Lights (Washington: ATMI, June 1990).

(a)Total U.S. employment in textile mills was 726,000, and in apparel it was 1,091,000 in 1986-89.

A final point is that regions change in response to new economic situations. (The textile industry was not always located in the South Atlantic states.) Two important industries in the region, apparel and furniture, are harmed by higher costs of textile products. When the costs of those two sectors are added to the consumer costs and the costs to the housing and the retail sectors, textile protection may not even be in the narrow interests of residents of the South Atlantic region. Perhaps the voters in the South Carolina presidential primary of 1988 realized that textile protection may not be good for the region. They rejected Robert Dole and Pat Robertson, who openly advocated textile protection, for George Bush, who opposed the 1988 textile import bill.

Weak Foundations of the Case for Protection

Proponents of protection are fond of saying that free trade is acceptable only if it is fair trade. Senator Hollings and other cosponsors of the Senate bill have said that they only seek a "level playing field" for American textile producers. They maintain that the global quotas of the bill are necessary to offset the unfair advantage of foreign producers. That rationale for protection is based on two major fallacies. The first is that there are no net gains from trade. The second is that people can improve their economic welfare by refusing to trade with others whose costs are different from their own.

The analogy between international trade and games played on level playing fields is inappropriate. In a game, for each winner there is a loser, and the net win for all participants is zero. An individual participant can improve his own winning percentage only by lowering someone else's percentage. Conversely, voluntary trade among individuals, business firms, or countries results in net benefits for all participants. Trade does not simply redistribute wealth, it creates new wealth. The process of wealth creation based on specialization is being rediscovered in Eastern Europe, but apparently it is not well understood in the U.S. Senate. Business firms involved in international trade are not playing zero-sum games. When a government imposes import quotas, total wealth is reduced and residents of all trading countries are net losers.

The second fallacy ignores the fact that most trade is a direct result of cost differences. Cost differences may be caused by differences in climate, geography, relative abundance of labor, soil quality, technology, or laws, but they do not justify interfering with trade to protect higher cost producers. For example, differences in many of those factors explain why Central American countries have lower production costs for bananas and coffee and the United States has lower production costs for wheat and corn. It would be economic folly to try to provide potential U.S. banana and coffee producers with a level playing field in the production of those products. For the same reasons, it would be wasteful for Central Americans to exclude U.S. wheat and corn because their producers face a cost disadvantage. Imposing trade barriers to level the playing field is an example of the discredited notion of a "scientific tariff" that is just high enough to eliminate cost differences. The problem is that such a tariff also eliminates the basis of mutually profitable trade. How would the Senate proponents of level playing fields react if Asian governments excluded U.S. tobacco exports because the soil and climate in the Carolinas and Virginia are better for growing tobacco?

Wage differences among countries can be large, and they can be the basis of trade. In some countries of Asia, Latin America, and Africa, average wages are below the legal minimum wage in the United States. If labor productivity in low-wage countries is high enough, wage differences can be the basis of mutually profitable trade. Import restrictions to create a level playing field for the high-wage country would make no more sense than restricting imports to offset differences in climate or soil.

It is well known that production of many U.S. exports requires both large amounts of capital per worker and advanced technology. That is evidenced by the relatively large numbers of scientists and engineers employed by U.S. exporting firms. If foreign governments attempted to level the playing field for capital-intensive or high-technology products by restricting imports, it would be harmful to them and to Americans. Action by the U.S. Senate to offset international labor cost differences invites foreign governments to restrict U.S. exports of such products on the grounds of leveling the playing field.

The fallacy of restricting trade to a level playing field is most obvious in the case of trade among the states. Wages in the Carolinas and Georgia are among the lowest in the country. It would not be prudent, even if it were legal, to restrict imports from those states into the higher wage states of Massachusetts, New York, and Illinois. Indeed, if textile firms in all states were required to pay wages that equaled the Massachusetts average, the industry probably would never have left New England.

There is a sense in which the notions of fair trade and level playing fields have legitimacy, but it has nothing to do with wage differences. The United States and other members of the GATT have agreed that certain actions, such as dumping (selling below cost) and subsidizing exports are improper. If violations of the rules can be verified, appropriate remedies are prescribed by the GATT. However, the proper forum for redressing grievances is the GATT, not the U.S. Congress. There is also a case for expecting developing countries that belong to the GATT (for example, South Korea) to open their markets for textiles, apparel, and other products the same way developed countries do. Again, multilateral negotiations are the proper forum for deciding how that is to be done.

Another fundamental weakness in the protectionist argument is the assumption that economic failure should be rewarded. Spokesmen for the industry and senators cosponsoring the bill have produced abundant data purporting to show economic failure, although some of it exaggerates the problems. Data on plant closings, relative costs, employment, and import shares leave the impression that some firms cannot compete successfully in a competitive market. In a market economy, those symptoms indicate that consumers are not being satisfied by the domestic industry and that changes are required. Rewarding an industry that is not satisfying consumers is what one would expect in a centrally planned economy, and it is what happened regularly in the Soviet Union and Eastern Europe under communist regimes. Does the Senate propose to endorse the same anti-consumer bias in the U.S. economy that was practiced by the communist regimes? It is ironic that senators from South Atlantic states, who usually consider themselves staunch defenders of capitalism, advocate the determination of market shares in textiles and apparel by politicians and bureaucrats in Washington.

A final weakness in the protectionist argument is that the link between imports and problems in the domestic textile industry has been overstated. Industry spokesmen have been saying for decades that if an import quota bill did not become law, the U.S. textile and apparel industry would disappear. It has not disappeared, output continues to rise, and more than 1.8 million people remain employed in textiles and apparel. Problems remain, but certain sectors are exhibiting new strength.

Some industry problems have little to do with imports, and they would persist even in the presence of tighter import quotas. Part of the secular decline in industry employment is a result of growth in output per worker, which is independent of trade policy. Major restructuring of the industry associated with takeovers, acquisitions, and leveraged buyouts has left many major firms with debt levels that cannot be blamed on imports. Government regulations covering the health and safety of factory workers also raise industry costs, but they are not closely related to imports.

An Alternative to the Senate Bill

The textile bill is special interest legislation with costs that far exceed its benefits. If the House passes the bill, the president would be wise to veto it. In general, Congress would be well advised to stop setting tariffs or import quotas on particular products, a policy it has usually followed since the Trade Agreements Act of 1934. Instead, the president could negotiate an end to the MFA in the Uruguay Round. In addition to benefits to users of textiles and apparel, Americans would gain from greater access to world markets for U.S. exports.

In the Uruguay Round a termination date for MFA country-specific quotas could be established. Current quotas could be phased out over a period not to exceed 10 years. Country-specific quotas could be gradually converted into global quotas through annual increases in global quotas and decreases in country quotas. Countries exempt from current country quotas would retain their exemptions. The U.S. government would sell quotas in competitive auctions. As a condition for phasing out the MFA, developing countries would be expected to liberalize their imports of textiles and apparel.

American producers of textiles and apparel would be protected against dumping and export subsidies by the same GATT rules that protect firms in other industries. A case can be made for strengthening the GATT safeguards code. Trade adjustment assistance would be available, but only those textile and apparel workers employed at the time liberalization begins would be eligible. Although trade liberalization may also harm shareholders, managers, and certain bureaucrats, they would not be eligible for compensation.

Conclusion

The U.S. textile and apparel industry has been granted extraordinary levels of protection from international competition for more than three decades. Now the U.S. Senate has proposed to move further in the direction of central planning for textiles. The Senate bill would preserve a share of the American market for domestic firms even if their products are vastly inferior to imports in price, quality, variety, and timeliness.

Proponents claim that the bill would create jobs, but it would only transfer jobs to textiles and apparel from other sectors. At the same time, it would destroy jobs in sectors that use textiles and apparel. The apparel industry would be

harm by the higher cost of textiles. The additional industry jobs would cost consumers several dollars for every dollar of additional earnings of textile workers.

If instead of moving toward central planning, the United States and the rest of the world moved toward greater competition in international textile markets, all parties would benefit. That could be accomplished by phasing out the MFA. A transition period of up to 10 years would provide some protection for the domestic industry. The world textile industry would benefit from its own perestroika, or radical restructuring. It would be unfortunate if a reactionary U.S. Congress were to forgo an opportunity to reform the textile industry and instead made a stronger commitment to central planning.

Notes

[1] William Cline, *The Future of World Trade in Textiles and Apparel* (Washington: Institute for International Economics, 1987), chap. 8.

[2] Martin Wolf, "How to Cut the Textile Knot: Alternative Paths to Liberalization of the MFA," Seminar Paper no. 453, Institute for International Economic Studies, Stockholm, October 1989, p. 7.

[3] *Wall Street Journal*, July 13, 1990, p. A10.

[4] Cline, Table 5.3.

[5] *Wall Street Journal*.

[6] Thomas Grennes, "The Multifiber Arrangement and the Management of International Textile Trade," *Cato Journal* 9, no. 1 (Spring/Summer 1989): 107-31; and Cline.

[7] Cline, chap. 8.

[8] Linda C. Hunter, "U.S. Trade Protection: Effects on the Industrial and Regional Composition of Employment," *Federal Reserve Bank of Dallas Economic Review*, January 1990, pp. 1-13.

[9] *Ibid.*, p.4.

[10] Cline, chap. 8.

[11] *Ibid.*

[12] *Ibid.*

[13] Thomas Grennes, "International Trade in Textiles and Apparel: A Bibliography," Working Paper, Department of Economics and Business, North Carolina State University, Raleigh, October 1989; and Grennes, "The Multifiber Arrangement."

[14] G. C. Hufbauer and Jeffrey Schott, *Trading for Growth: The Next Round of Trade Negotiations* (Washington: Institute for International Economics, 1985); and C. Fred Bergsten, Kimberly Ann Elliott, Jeffrey Schott, and Wendy Takacs, *Auction Quotas and United States Trade Policy* (Washington: Institute for International Economics, 1987).

[15] Cline, chap. 8.