Gary Clyde Hufbauer and Kimberly Ann Elliott, Measuring the Costs of Protection in the United States (Institute for International Economics, Washington, DC, 1994) pp. vi + 125.

Hufbauer and Elliott deserve credit for tackling such an ambitious research project. In this very concise book they attempt to answer one of the most

fundamental questions posed in all standard trade courses: what are the costs and benefits of moving from restricted trade to free trade. Specifically, Hufbauer and Elliott attempt to quantify the gains and losses when all forms of trade protection – tariffs, quotas, administered protection – are eliminated in the United States. The book is well written with the main findings expressed in a straightforward, non-technical fashion. The book is clearly aimed at a policy-oriented audience and the book's format reflects this target audience. The opening chapter summarizes the main results and discusses the policy implications and interpretations of the estimates. There is no discussion of the methodology and calculations in this opening chapter. Details of the partial equilibrium model used to estimate the effects of trade liberalization are found in a short technical chapter. Case studies of selected heavily protected industries are presented in the appendices.

There are several important lessons we can learn from the Hufbauer and Elliott book. First – and probably the more surprising result for many readers – the net cost of protection is quite small, at least in comparison to other policy issues that have dominated the national headlines (such as health care reform). Hufbauer and Elliott estimate that moving to free trade would yield a gain to consumers of about $70 billion (1990 $). After deducting tariff revenues and losses to domestic producers, the *net* welfare gain is only about $11 billion. In other words, the net gain from full and complete trade liberalization is less than 0.2 percent of GDP. Given the attention paid to the ratification of Uruguay Round of the GATT and NAFTA many readers are likely to be surprised by the small benefits from complete trade liberalization.

It should be noted that while Hufbauer and Elliott's estimates are quite small, they are only slightly below comparable estimates found in the large empirical literature measuring the effects of trade liberalization. In fact, one significant shortcoming of the book is the failure to adequately cite the rather large existing partial and general equilibrium literature on trade liberalization. Moreover, while Hufbauer and Elliott's estimates are 'in the ballpark' of those found in most of the existing literature, given the fact that this book is aimed for a policy audience I would have liked to see the authors spend more time putting their estimates into context and explaining more generally the gains from liberalization (i.e., discuss in more detail to what degree their estimates might not capture all the benefits of liberalization).

Second, Hufbauer and Elliott's results highlight the fact that if the objective is to protect (or create) employment, trade intervention is truly a second- or third-best instrument. Given that Hufbauer and Elliott find the net gain from the removal of protection to be quite small, it should not be surprising that they also find that liberalization has a relatively small effect on overall employment levels: liberalization would raise the national unemployment rate by less than 0.5 percentage point. The authors correctly point out, however, that while protection only saves relatively few jobs, the consumer cost per job saved can be quite substantial – over $170,000 per job per year on average. Moreover, jobs protected

by trade intervention in general are not 'good' jobs: two-thirds of the production jobs saved pay wages below the average hourly manufacturing wage. Obviously, any conceivable direct employment adjustment assistance program would Pareto-dominate trade intervention.

Third, the distortions stemming from trade intervention are highly skewed. Almost half of the $70 billion consumer cost from protection is due to the protection in just 21 sectors. Even more startling is the fact that the protection of a single industry (textiles and apparel) costs consumers approximately $24 billion. This is a remarkable figure given that textiles and apparel imports account for only about 6 percent of total U.S. imports. If actually implemented, the textile and apparel liberalization contained in the Uruguay Round agreement should end this sizable distortion.

While Hufbauer and Elliott make a number of important points, I have several reservations about the book. First, as mentioned above, the authors ignore almost all of the large existing literature that estimates the cost of trade distortions. In fact, there is very little new material in this book. Moreover, much of the existing literature employs computational general equilibrium models to estimate the effect of trade distortions, which not only allows better estimates of the free trade prices and quantities but also allows measurements of both direct and indirect effects of protection. For instance, Hufbauer and Elliott are not able to properly estimate the upstream and downstream effect on employment due to liberalization. Even more questionable is the decision to ignore recent advances incorporating increasing returns to scale into empirical models. For instance, Harris (1985) finds that the consumer gains from trade liberalization can be on the order of 8–12 percent of GDP in a model with increasing returns to scale. Second, Hufbauer and Elliott assume that the U.S. trade liberalization has no effect on world prices, i.e., that the U.S. is a small open economy. While this certainly simplifies the task of calculating the post-liberalization prices, this assumption would be more palatable if the authors provided some evidence justifying it. Third, Hufbauer and Elliott too often extrapolate their results from one industry to another industry. The most egregious example of this is their 'rough and ready' estimate of the costs of antidumping and countervailing duty protection. It makes little sense to this reader to make such ad hoc estimates instead of taking advantage of the growing literature estimating the effects of administered protection. In addition, Hufbauer and Elliott 'estimate' the impact of antidumping protection assuming the duties are applied to all imports in the affected categories when in fact such duties are applied only to imports from named countries. The ability of alternative exporters to increase their supply to the U.S. market can significantly offset the distortions caused by antidumping duties.

Despite my reservations I believe this book is valuable since it provides policy-makers easily accessible 'back of the envelope' estimates of cost of protection. Students and policy-makers interested in the broader effects of trade intervention would be well served to consult the larger literature in this area.

References

Harris, Richard, 1985, Applying general equilibrium analysis of small open economies with scale economies and imperfect competition, American Economic Review 74, no. 5, 1016–1032.

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