THE COST OF PROTECTIONISM: SHOULD THE LAW FAVOR PRODUCERS OR CONSUMERS?

Robert W. McGee*

I. INTRODUCTION

There is no doubt that protectionism costs. But it is less clear exactly how much it costs and who pays.¹ And while protectionism results in a deadweight loss—there are more losers than winners—some individuals and groups gain from protectionism. And it is those who stand to gain who have the ear of the legislature, at least for the most part.

Part II of this article provides an overview of protectionism and the costs associated with it. Part III examines the monetary costs of protectionism, with emphasis on the costs of protectionism in the auto, steel, textile and agricultural industries. Part IV discusses the nonmonetary costs associated with protectionism, such as unemployment, reduction in social harmony, reduced choice and rights violations. Part V concludes that protectionism is a bad policy, whether viewed from a utilitarian or rights perspective, and recommends that laws that support protectionism should be repealed because protectionism is not in the public interest.

II. OVERVIEW

Protectionism can take several forms. Protectionism in the form of quotas limits the number of units of the foreign product that can come into the country. Tariffs are another form of protectionism, which can be used to raise the price to consumers, thereby reducing the price competition on domestic producers that would otherwise result. One study estimates that trade restrictions raise the cost of imported goods by 20%, on average, and

---

* Robert W. McGee is a professor at the South Orange, New Jersey campus of Seton Hall University. He has authored or edited more than 30 books and monographs and has written more than 300 articles and reviews for a variety of scholarly and professional journals. The author would like to thank Vivian Lugo and John Tortora for helping to gather data for this article.

¹ One informative treatment of this question is by Tracey Horton and Hal Colebatch, Who Pays for Protection, AUSTL. INST. FOR PUB. POL’Y, Policy Paper No. 13 (1988).
raise the price of comparable domestically produced goods by 10% to 14% because of the reduced price competition. Curiously, slapping quotas on foreign producers gives them an incentive to upgrade the quality of the units they can send into the country and encourages them to build plants in the United States, thus increasing competition with the very companies the government is trying to protect.

A study of 203 International Trade Commission investigations in five industries between 1972-82 concluded that protection is not an effective way to stimulate domestic output because the reactions of users tend to offset the actions of producers. Other studies have reached similar conclusions. This evidence makes it difficult to justify even the most plausible excuse for protectionism—the infant industry argument.

Baldwin and Green found that trade policy changes that enable industries to get import protection sooner and easier than before make it easier for foreign suppliers to avoid reducing exports to the protected market. Governments find it easier to place quantitative restrictions on imports from a few foreign suppliers rather than from all foreign suppliers. But restrictions lead to quality upgrades, a shifting of production to noncontrolled countries, and a rise in exports by suppliers that are not controlled, all of which tend to offset the purpose of the protection—to expand domestic output. When government defines an industry narrowly in order to show serious injury from imports, users and foreign suppliers shift to substitute items, which defeats the purpose of the protection.

Another problem with protectionism is that temporary measures, designed to help an ailing industry strengthen itself to compete in international markets, tend to become permanent. Industries that are relieved of the

---


6 Baldwin & Green, *supra* note 4, at 223-24.
pressures of competition sometimes choose to use their resources to convince the legislature to renew protection of their industry rather than investing in cost reduction because the profits from protectionism might be higher and more sure than the profits from competition.  

Granting subsidies is also a form of protectionism, in the broad sense, because it reduces a domestic producer's risk and/or increases profits. Regulations can reduce competition and protect domestic producers from foreign competition if the regulation has the effect of raising barriers to market entry. According to one estimate, regulation costs Americans between $400-$500 billion annually—about $4,000 to $5,000 per household—in addition to the costs that appear in the government budget.  

Not all regulations can be classified as protectionist, however, although many of them do have a protectionist effect. Sometimes two or more of these forms of protectionism may be used in conjunction with each other, which makes it difficult to calculate the exact cost and benefit of each policy. One study estimated that the annual cost of protection in industries with trade volumes exceeding $100 million in the mid-1980s was $65 billion. William Niskanen also estimates that trade protection cost American consumers about $65 billion in 1986, which represents almost a 100% increase since 1980. Another study estimated that trade protectionism cost consumers $80 billion in 1988. But these studies understate the true cost of protectionism, because they exclude the effect that the filing of antidumping petitions have on prices. The mere filing of an antidumping petition, or the threat of filing, induces firms to raise their prices, which costs consumers. There is tremendous incentive—and no downside risk—to file such a petition because it is a tool (weapon) that a company can use to force a competitor to raise its prices without any cost to the firm that files, because

---

the federal government pays the cost of prosecution.\textsuperscript{12}

Another factor that is often overlooked is the disparate impact that protectionism has on subgroups. Trade restrictions on automobiles, clothing, and sugar cost consumers $14 billion in 1984, which amounted to a 23\% income tax surcharge for families that had less than $10,000 in income, but amounted to only 3\% for families with incomes over $60,000.\textsuperscript{13} Protection in the textile industry alone has been estimated to cost poor families almost 9\% of their disposable income.\textsuperscript{14} Another study found that textile quotas cost the poorest fifth of the U.S. population 3.6\% of their incomes, compared to 0.3\% for the top fifth.\textsuperscript{15} Protectionist trade policies also tend to harm developing countries more than developed countries. One study found the average tariff on manufactured products coming into the United States from developed countries to be 2.9\%, whereas the rate for products coming from developing countries averaged 7.6\%.\textsuperscript{16}

"Costs" of protectionism include not only direct costs, such as higher prices, but many indirect costs as well. Protectionism destroys more jobs than it creates, so there is the employment cost.\textsuperscript{17} Quality may also decline, if higher quality products become less available or totally unavailable as a result of protectionism. In addition, there are losses of individual rights, since consumers and producers—buyers and sellers—are less free to enter into contracts. There is also a cost involved in administering the various protectionist schemes, which must be paid for by taxpayers and consumers. Finally, since protectionism raises prices, reduces quality and incurs administrative costs, it reduces the general standard of living.

\textsuperscript{12} Thomas J. Prusa, Why Are So Many Antidumping Petitions Withdrawn?, 33 J. INT'L ECON. 1, 4-5 (1992).


\textsuperscript{15} Oliver, supra note 5, at 7 (citing Peter Passell, The Victim Has a Blue Collar, But Free Trade Has an Alibi, N.Y. TIMES, Aug. 16, 1992, at E4). For a detailed breakdown of how textile protectionism affects different income groups, see William R. Cline, The Future of World Trade in Textiles and Apparel 201-06 (1990).

\textsuperscript{16} Oliver, supra note 5, at 7 (citing J. Michael Finger & Patrick A. Messerlin, The Effects of Industrial Countries' Policies on Developing Countries 7 (1989)).

\textsuperscript{17} This point will be discussed below.
III. MONETARY COSTS

The next few paragraphs summarize the cost of protectionism in various major industries.

A. Autos

According to a Brookings Institution study, voluntary export restrictions on autos cost consumers about $14 billion in 1984, while auto manufacturers gained $9 billion in profits, for a deadweight loss of $5 billion.\(^{18}\) Because the quantity of foreign autos coming into the United States was crimped, unit prices rose by nearly a third, according to one estimate.\(^{19}\) Also, because foreign auto prices were higher than would be the case in a free market, domestic auto manufacturers were able to raise their prices because of reduced price competition from imports.\(^{20}\) Other sources report the mid-1980s figure at $17 billion.\(^{21}\) This figure includes the increased cost of new foreign and domestic cars as a result of quotas.\(^{22}\) More recent studies have estimated the U.S. deadweight loss attributable to quotas to be between

\(^{18}\) Clifford Winston et al., Blind Intersection? Policy and the Automobile Industry 65-66 (1987). This study is summarized in Hopkins, supra note 8, at B8-9.

\(^{19}\) Elias Dinopoulos & Mordechai E. Kreinin, Effects of the U.S.-Japan Auto VER on European Prices and on U.S. Welfare, 70 R. Econ. & Stat. 484, 484-91 (1988). The authors also found that the U.S. welfare loss to Europe exceeded its loss to Japan.

\(^{20}\) Id. at 485. The authors found that the European auto manufacturers that sold cars in the United States raised their prices at the same time that the United States placed import quotas on Japanese cars.


\(^{22}\) One factor these studies often do not consider is the effect upgrading has on consumer welfare. For example, in response to quotas, Japan increased the size, horsepower and luxury equipment of the autos it sent to the United States. These changes added $1,500 to the cost of the average Japanese car, but some studies ignored this factor when estimating the cost of quotas. Robert C. Feenstra, How Costly is Protectionism?, 6 J. Econ. Persp. 159, 167 (1992) [hereinafter Feenstra, How Costly]; Robert C. Feenstra, Quality Change Under Trade Restraints in Japanese Autos, 103 Q. J. Econ. 131, 131-46 (1988) [hereinafter Feenstra, Quality Change]. It has been estimated that upgrading from basic steel to specialty steel as a result of quotas caused as much consumer loss as did the conventional deadweight loss. Randi Boorstein & Robert C. Feenstra, Quality Upgrading and Its Welfare Cost in U.S. Steel Imports, 1969-74, in INTERNATIONAL TRADE AND TRADE POLICY 167, 167-86 (Elhanan Helpman & Assaf Razin eds., 1991).
$200 million and $1.2 billion. Quota rents—the amount by which foreign
sellers can raise prices because of the quota—have been estimated to be
between $2.2 billion and $7.9 billion a year.

The foreign deadweight loss of U.S. auto quotas has been estimated to be
somewhere between zero and $3 billion. It is reasonable to expect that
some foreign deadweight loss will occur, since the quantity they can sell will
be reduced by quotas, even though they may be able to charge a higher unit
price for the units they are able to sell. But these deadweight losses may be
on the conservative side because they do not take other inefficiency factors
into account. For example, when a company chooses what to export, it
might tend to choose to produce the product it can make most efficiently.
But when a quota causes a manufacturer to upgrade, as is the case with auto
and steel products, the company will have to shift its production from what
it can do most efficiently to something else which, by definition, it must do
less efficiently. These efficiency losses are difficult to estimate, but
probably exist.

Various other studies have also calculated the cost of protection in the
U.S. auto industry from different perspectives. The annual cost of tariffs on
vans and two- and four-door sports/utility vehicles has been estimated to be
$250 million. Japan's voluntary quotas on exports to the United States
were estimated to cost consumers $16.75 billion annually a few years ago.
Another study estimated the annual cost of Japanese export quotas to exceed

23 Jaime de Melo & David Tarr, Welfare Costs of U.S. Quotas in Textiles, Steel and
Autos, 72 REV. ECON. & STAT. 489, 489-97 (1990). Also reported in Feenstra, How Costly,
supra note 22, at 163.
24 De Melo & Tarr, supra note 23; C. Fred Bergsten et al., Auction Quotas and
26 Carlos A. Rodriguez, The Quality of Imports and the Differential Welfare Effects of
Tariffs, Quotas, and Quality Controls as Protective Devices, 12 CAN. J. ECON. 439, 439-49
(1979); Feenstra, How Costly, supra note 22, at 168.
27 American Int'l Auto Dealers' Ass'n, Auto Import Groups Call Reclassification
of Multi-Purpose Vehicles a "Consumer Rip-Off" (1989); American Int'l Auto
Dealers' Ass'n, Import Dealers See Continuing Fight Over MPV Tariffs: Demand
28 Charles Collyns & Steven Dunaway, International Monetary Fund, The
Cost of Trade Restraints: The Case of Japanese Automobile Exports to the
United States 150-75 (1987). This study covered the period 1981 to 1984.
$1.1 billion.29

On a cost per auto basis, one study estimated that import quotas added an average of $2,400 to the price of an average Japanese car.30 A different study found the figure to be between $750 and $1,000.31 One study determined that the annual cost of quotas was $241,235 per auto job saved.32 Another study put the estimate at between $181,000 and $188,000, depending on the year.33 A study of the effect that the voluntary export restraint (VER) program had on Japanese cars for 1983 estimated the cost per job saved to be at least $1,444,267.34 But even if the annual cost of saving one job in the auto industry is only $100,000, it would still pay, in
terms of overall welfare, to remove the blockages to free trade and compensate each displaced auto worker $40,000 or $50,000 a year for a while,35 until they can find another job. One study of import restraints in the European auto industry concludes that: "The effects of quantitative import restrictions on the behavior of firms in a market as imperfectly competitive as the car market seem likely to be of sufficient magnitude to make such restrictions an expensive and inefficient form of policy intervention."36

B. Steel

A study of the pre-1985 restraint agreement with the European Community estimated that the induced increase in the price of imported steel was 30%.37 This study also estimated that the induced increase in the price of domestic steel resulting from this agreement was 12%.38 Various studies39 have estimated the cost of restraints to U.S. consumers to be $1.1 billion,40 $2.0 billion,41 or from $4.3 billion to $5.9 billion.42

Studies have estimated the U.S. deadweight loss due to import protection to be between $100 million and $300 million a year.43 Quota rents from steel industry protection have been estimated to be somewhere between $700 million and $2 billion a year.44 The annual foreign deadweight loss has

35 Average annual compensation in the auto industry for the years in question was about $35,000.
37 HUFBAUER, supra note 9, at 178-79. This figure represents a 5% tariff and a 25% scarcity premium that resulted from the pre-1985 restraint agreement with the European Community and the informal understanding with Japan.
38 Id. This estimate was based on the price rise associated with the crimp in supply that resulted from restraint agreements.
39 For a summary of these studies, see id. at 179.
40 TARR AND MORKRE, supra note 29, at 25. This figure is for 1983.
41 Hickok, supra note 13, at 8. This figure is for 1984.
42 HUFBAUER, supra note 9, at 179. These figures are for 1983 and are based on a U.S. Congressional Budget Office study that reflected the projected additional cost of the 15% quota under the proposed Fair Trade in Steel Act.
43 de Melo and Tarr, supra note 23; Hufbauer, Berliner and Elliott, supra note 9. These studies were also cited by Feenstra, How Costly, supra note 22, at 163.
44 de Melo and Tarr, supra note 23; BERGSTEN ET. AL., supra note 24, at 42.
been estimated to be $100 million.\textsuperscript{45}

Another cost, although more difficult to trace, is the cost protection in one industry has on other industries. For example, if the steel industry receives protection, steel-using industries have to pay more for their steel. A government study of the effect of voluntary restraint agreements on steel consuming industries estimated that the agreements caused sales in these industries to decline by as much as $1.9 billion in 1985, $5 billion in 1986, $4.8 billion in 1987 and $0.6 billion in 1988.\textsuperscript{46} Foreign companies willing to sell steel for lower prices are forced to raise their prices as a condition of doing business in the United States. U.S. trade policies sometimes actually increase the profits of foreign companies because the reduced quantity they can sell is more than offset by the higher price they can charge. Korean steel companies would actually make less profit if the United States removed its trade restrictions,\textsuperscript{47} which puts the U.S. Congress in the curious position of helping foreign companies competing with domestic producers.

Another phenomenon that occurs is the market mix shifts when a tariff or quota places restraints on one product or another. For example, when quotas were placed on the importation of basic steel, foreign producers increased their shipments of specialty steel.\textsuperscript{48} Users of specialty steel had to keep larger than usual inventories of specialty steel at the start of each quota period because foreign suppliers surged to fill their country quota.\textsuperscript{49} Thus, quotas increased users' holding costs because they were not able to manage their inventories at optimum levels.


\textsuperscript{48} Quality upgrading is a common phenomenon when a tariff or quota is placed on certain items. For a study on quality upgrading as applied to the steel industry, see Randi Boorstein and Robert C. Feenstra, \textit{Quality Upgrading and Its Welfare Cost in U.S. Steel Imports}, 1969-74, in \textit{International Trade and Trade Policy} 168-86 (Elhanan Helpman & Assaf Razin eds., 1991).

\textsuperscript{49} Baldwin and Green, \textit{supra} note 4, at 212.
Interindustry shifts can occur as well. For example, if government restricts steel imports, the price of steel will rise. Domestic consumers will then tend to buy foreign-made autos, machinery, and equipment made with lower-cost foreign steel. Business will thus be taken away from domestic producers of these items.50

C. Textiles51

One study conducted a few years ago estimated the induced increase in the price of textiles to be 21%.52 A more recent study estimated the price increase to be 28%.53 For apparel, various studies have estimated the cost increase attributable to protectionism to be 39%,54 50%,55 46% to 76%,56 and 53%.57 The induced increase in the price of domestic goods has been estimated to be between 3%58 and 17%59 for textiles and 19%,60 31%,61 or 46%62 for apparel. Figures differ among the studies because of differing methodologies, assumptions, sample populations and years, but the findings are consistent in their conclusions that protectionism results in higher prices.

Various studies have placed the cost of restraints to U.S. consumers at between $8.5 billion to $12.0 billion,63 $18 billion64 for apparel, and

50 See Crandall, supra note 30, at 272.
51 Some of the studies cited in this section are summarized in HUFBAUER, supra note 9, at 146-48.
52 Id. at 146.
54 HUFBAUER, supra note 9, at 146.
55 CARL HAMILTON, AN ASSESSMENT OF VOLUNTARY RESTRAINTS ON HONG KONG EXPORTS TO EUROPE AND THE U.S.A. 8 (1985). A similar paper was published by Carl Hamilton under the same title in 53 ECONOMICA 339-50 (1986).
56 Hickok, supra note 13, at 6.
57 CLINE, supra note 53, at 15.
58 Id. at 191.
59 HUFBAUER, supra note 9, at 146.
60 CLINE, supra note 53, at 191.
61 HUFBAUER, supra note 9, at 146.
63 Hickok, supra note 13, at 18-19.
between $2.8 billion and $9 billion for textiles. The annual welfare cost of restraints to the United States has been estimated to be $650 million for textiles and $6 billion for apparel. A more recent study estimated that the annual welfare gains to be reaped by removing quantitative restrictions on textiles and apparel will be $11.92 billion. The same study estimated foreign capture rents to be more than $6 billion. A study of trade in fourteen key textile and apparel categories involving three developed and thirty-four developing countries estimated the annual global gains to be had by eliminating quotas and tariffs on developed country textile and apparel imports will be approximately $23 billion, of which approximately $12.3 billion would accrue to the United States. The distortional effect of the Multi-Fiber Arrangement, which has been in place since 1974, is estimated to be between $4-$6 billion a year. Protectionism costs between $50,000 and $134,686 a year for each textile job saved and between $39,000 and $81,973 for each apparel job saved.

Textile protection also results in deadweight losses to foreign producers because quotas prevent them from selling the quantity that would be possible to sell in a free market. One study estimates developing countries suffer $8 billion in losses because of the quotas and tariffs that the industrialized countries place on textiles. About half of this loss is attributable to the

64 HUFBAUER, supra note 9, at 148. Cline also estimated the cost to be about $18 billion, but at wholesale—which could understake the true (retail) cost by as much as 100%. CLINE, supra note 53, at 192.
65 CLINE, supra note 53, at 192. Again, Cline estimates the wholesale cost.
66 HUFBAUER, supra note 9, at 148.
67 Id. at 149.
68 Id.
69 de Melo and Tarr, supra note 23, at 493.
70 Irene Trela and John Whalley, Global Effects of Developed Country Trade Restrictions on Textiles and Apparel, 100 ECON. J. 1190, 1194 (1990). This paper is a revised and shortened version of Do Developing Countries Lose from the MFA? (National Bureau of Economic Research Working Paper No. 2618, 1988), and both papers are discussed in Feenstra, How Costly, supra note 22, at 167.
71 Feenstra, How Costly, supra note 22, at 164.
72 HUFBAUER, supra note 9, at 149.
73 CLINE, supra note 53, at 191.
74 HUFBAUER, supra note 9, at 149.
75 CLINE, supra note 53, at 191.
76 Feenstra, How Costly, supra note 22, at 167.
D. Agricultural Products

Although the various farm commodity programs had an annual deadweight loss, according to one estimate, of about $6 billion in 1987, some did gain from the programs. While consumers lost $4.8 billion and taxpayers lost $17.7 billion, producers gained $16.6 billion. About $4.1 billion of the $4.8 billion consumer loss represents income redistribution as the result of regulation. Another study estimated the subsidies to farm programs, and peripheral programs such as the food stamp program, had an annual net deadweight loss of $31 billion as of the mid-1980s. These programs cost consumers and taxpayers $6.9 billion and $32.1 billion, respectively, and resulted in producer gains of $8.0 billion.

1. Dairy

Milk marketing order programs in the United States redistribute about $500 million a year from consumers to producers. However, the deadweight loss is smaller than that because there are some producer gains that partially offset the cost. Exact estimates are difficult because of the cross effect of import quotas and price supports, which are estimated to produce $1.3 billion in annual producer gains, while costing consumers and taxpayers $1.2 billion and $800 million a year, respectively.

One study of the dairy industry estimated the annual U.S. deadweight loss caused by protectionism to be $1.4 billion. Another study estimated that the quota rents in the dairy industry cost $250 million a year. A study from the mid-1980s found that there is a small amount of foreign deadweight loss.
loss from U.S. dairy industry protectionism.  

2. Peanuts

One study concluded that peanut marketing quotas result in the transfer of $140 million a year from American consumers to producers. Another study put the cost of restraints to U.S. consumers at $200 million, which amounts to $1,000 per acre. The price of both domestic and imported peanuts is 28% higher than would be the case without quotas.

3. Sugar

This “infant industry” has been protected by the United States government since 1816 which, one would think, would be a sufficient amount of time for the industry to become competitive. Instead, protection has allowed the sugar industry to charge up to four times the world sugar price for domestically produced sugar. Restrictions on the importation of sugar in 1987 cost American consumers between $2.1 and $3 billion. The benefit to domestic sugar producers was $1.7 billion. But because the sugar restrictions stimulated corn sweeteners, there was an additional annual cost to consumers of $1 billion, for a deadweight loss of $1.4 billion. The price of sugar became so high that both Coke and Pepsi decided to switch to high fructose corn syrup, which caused U.S. sugar consumption to drop by more than 500,000 tons a year, an amount that is equal to the entire quotas of 25 of the 42 countries that are allowed to sell sugar in the United


84 Gardner, supra note 78, at 49-50.

85 HUFBAUER, supra note 9, at 319.

86 Id. at 318.


88 Gardner, supra note 78, estimated the cost to be $2.1 billion. A Commerce Department study estimated the cost to be $3 billion. RALPH IVES & JOHN HURLEY, U.S. DEPARTMENT OF COMMERCE v (1988). This latter study was cited by BOVARD, supra note 87, at 72.

89 Since 1980, the U.S. sugar program has cost taxpayers and consumers more than $2 million for each domestic sugar producer. BOVARD, supra note 87, at 71.

90 Gardner, supra note 78, at 47.
Another study estimated that protectionism causes the price of both domestic and imported sugar to increase by 30%.92 The cost of constraints to U.S. consumers has also been estimated to be $660 million (1978), $1 billion (1981 quotas), $1.7 billion (1980 tariffs), $2.4 billion (FY1983), $1.88 billion (FY1983), $735 million (1983), $1 billion (1984), $3 billion (1984), $2.4 billion (FY1983), $1.88 billion (FY1983), $1 billion (1984), $1.7 billion (1980 quotas), and $3 billion plus (1988).93 The quota rents that foreigners reap from sugar protectionism has been estimated to be between $410 million94 and $1.3 billion.95

Trade barriers in the sugar industry cause other economic distortions as well. For example, some sugar farmers in the Caribbean and other third world countries switched to growing marijuana because U.S. trade barriers

91 Bovard, supra note 87, at 72-73.
92 Hufbauer, supra note 9, at 294.
98 Tarr & Morkre, supra note 29, at 76. Hufbauer, supra note 9, at 297, points out that this is a conservative estimate because it is based on a long-run analysis in which the world sugar price is assumed to be 15 cents per pound, when in fact the 1983 world price was 9.4 cents per pound.
99 Hickok, supra note 13, at 7.
100 Estimated cost of import quotas and price supports to consumers, according to Paul Mirsky, president of Sugar Refiners, Inc., Sugar Refiners Criticize Policy on Quotas, Prices, J. Comm., May 21, 1985, at A15.
102 Bergsten et al., supra note 24, at 42.
103 Gwo-Jiun M. Leu et al., Gains and Losses of Sugar Program Policy Options, 69 Am. J. Agric. Econ. 591, 597. These authors also estimated the annual foreign deadweight loss to be $200 million. Id. at 596.
prevented them from selling sugar in the United States. So it might be valid to add a portion of the costs of policing U.S. borders to keep out marijuana to the more direct costs of subsidizing the domestic sugar industry in the U.S. In addition, domestic sugar refineries are hurt because they are not able to buy cheaper foreign raw sugar. Those refineries that can survive in this environment by being more efficient than their competitors are able to increase their market share by buying up the refineries that go bankrupt because of U.S. sugar policy, thus making the refinery end of the business more monopolistic and less competitive. Between 1980 and mid-1989, ten of the twenty-two U.S. sugar cane refineries have gone out of business.

4. Tobacco

One study estimated that tobacco marketing quotas results in $600 million in annual producer gains and $600 million in consumer losses—$400 million for U.S. consumers and $200 million for foreign consumers.

The point of citing all these statistics is not to show that different economists arrive at different numbers, or that the numbers change from one year to the next, but to illustrate that there is clear and convincing evidence to show that protectionism costs, and costs plenty, in monetary terms. But protectionism involves more than just monetary costs.

IV. Nonmonetary Costs

A. Employment Costs

Protectionist policies can save jobs. In fact, one of the main reasons why advocates of protectionism support protection is because jobs will be lost in the absence of protection. That is what is seen. But what is not seen is the jobs that will be destroyed or the jobs that will never be created as the result of some protectionist policy. If auto imports are restricted, the people who

---

104 Paul Magnusson, U.S. Shoots Self in the Foot in Tariff Skirmish, DET. FREE PRESS, May 24, 1987, at F1, F7, cited in Oliver, supra note 5, at 8. BOVARD, supra note 87, at 74, also mentions this point.


106 Gardner, supra note 78, at 50.

107 The authors of these studies used a number of different techniques, methodologies, assumptions, data, and demand and supply elasticities to arrive at their conclusions.
depend on auto imports for their livelihood, such as importers, foreign car dealers and their employees, and so forth, may be thrown into the unemployment lines. But the effects on these groups are often ignored when computing the number of jobs to be saved by a particular protectionist policy.

One of the problems with protectionism is that protectionists look at only one side of the coin—the jobs that will be saved by adopting a particular protectionist policy. It is more difficult to see the jobs that will be destroyed or the jobs that will never be created by adopting the policy. Adopting the correct policy is also complicated by the fact that the special interest groups—the auto companies and auto unions, or whatever—have much to gain or lose, and so are willing to expend more time, energy and resources to get their policies adopted, than the average consumer, who may not even be aware that a particular policy might cost a few hundred or a few thousand dollars. The special interest groups are organized, whereas consumers are not. Thus, the special interests have a built-in advantage. The special interests can organize to get government to pass protectionist policies that will benefit them at the expense of the general public. Public Choice economists call this behavior rent-seeking, which they define as seeking special privileges from government or getting others to pay for one sector's benefits.108

It makes sense to expect that if consumers have to spend an extra $2,000 for an automobile, they will have $2,000 less to spend for other things. If they have to pay more for autos, the industries that would otherwise receive their $2,000 will receive less. If Jane has to spend $14,000 for a car instead of $12,000, she will not be able to spend $2,000 on a vacation. So the airline, hotel and restaurants that would otherwise get a portion of the $2,000 will be poorer as a result of the policy protecting the automobile industry from foreign competition. And Jane will be $2,000 poorer too, because, instead of having a car and a vacation, she has just a car.

It is impossible to predict which non-auto industries will be injured by the protectionist policy, and it is unlikely that the average worker in the airline, hotel or restaurant business will even be aware that they are being hurt by the auto interests. But it is reasonable to expect that they are being hurt,

108 For more on rent-seeking, see Gordon Tullock, THE ECONOMICS OF SPECIAL PRIVILEGE AND RENT SEEKING (1989); THE POLITICAL ECONOMY OF RENT-SEEKING (Charles K. Rowley et al., eds., 1988); TOWARDS A THEORY OF A RENT-SEEKING SOCIETY (James M. Buchanan, et al., eds., 1980).
because the loss to these and other industries is substantial when one multiplies the $2,000 welfare loss by the number of autos that are sold. Billions of dollars that would otherwise be available to these other industries becomes unavailable. As a result, these other industries will not expand as rapidly—and thus will not create as many jobs—and may even have to fire some employees because of reduced demand for their products and services.

Do the employment gains exceed the employment losses? Will a protectionist policy save more jobs than it destroys? In the absence of intervention, it is reasonable to expect that resources will gravitate to their most productive uses. The price system is known for doing exactly that. An intervention in the market process, such as the adoption of a protectionist policy, distorts this flow into less productive areas, so it is reasonable to expect that there will be some deadweight loss. The studies that have been done confirm this expectation. For example, one study found that a particular protectionist policy would save 36,000 apparel manufacturing jobs but cause 58,000 apparel retailing jobs to be lost, for a loss/gain ratio of more than 1.6 to 1. That figure is conservative, since it does not measure the job losses that would occur in other industries as a result of the protectionist policy. Other studies found that imposing "voluntary" export restraints in the steel industry actually destroyed more jobs than it saved. One study found that 16,900 jobs in the steel industry were gained as a result of the 1984 voluntary restraints on steel imports, but 52,400 jobs were destroyed in the industries that use steel, for a loss/gain ratio of 3.1 to 1. Another study estimated that 27,072 jobs would be saved and 40,927 jobs would be lost, for a ratio of slightly more than 1.5 to 1. Another study estimated that a 15% import quota in the steel industry would save 26,000 jobs in the steel industry but destroy 93,000 jobs in steel-importing industries, for a loss/gain ration of 3.6 to 1. A recent study that estimated the effects voluntary restraint agreements have had on 75 steel-using industries concluded that the agreements destroyed 170,825 more jobs than

were saved.\textsuperscript{113} The job gains occurred in industries that had lower value added per worker. The industries that gained jobs had an average added value of $32,400 per worker. The industries that lost jobs averaged $61,825 in added value, nearly twice as much.\textsuperscript{114} So protectionism in the steel industry is destroying relatively high quality jobs and replacing them with relatively low quality jobs, which is just the opposite of what the protectionists would have us believe. Rather than blaming free trade for turning Americans into a country of broom pushers and hamburger flippers,\textsuperscript{115} it is protectionist policies that are causing high paying jobs to be replaced with low paying jobs.

The Cline study\textsuperscript{116} estimated that the various protectionist policies in the United States such as tariffs & quotas preserve 214,200 direct jobs in the apparel industry and 20,700 jobs in the textile industry, at an annual cost of $17.6 billion for apparel and $2.8 billion for textiles.\textsuperscript{117} That means it costs about $82,000 to save one job in the apparel industry for one year and $135,000 to save a textile job. That amounts to $238 per household per year, or 0.72% of household disposable income.\textsuperscript{118}

The statistics in the sugar industry are especially shocking. Since 1980, sugar quotas have destroyed more jobs than the total number of sugar

\textsuperscript{113} ARTHUR DENZAU, THE UNLEVEL PLAYING FIELD: HOW HIGH STEEL PRICES AND TRADE PROTECTION HELP DEINDUSTRIALIZE AMERICA, 20 (Washington University Center for the Study of American Business Working Paper No. 128, 1989). Industries that gained from steel protection were: mining/petroleum, 13,569 jobs; wholesale/retail, 16,712; other, 7,523. Industries that lost jobs were: manufacturing (nondurables), 128,813; manufacturing (durables), 128,813; construction, 50,607; services, 14,313.

\textsuperscript{114} Id. at 22.

\textsuperscript{115} Presidential candidate Walter Mondale, among others, warned that, unless America adopts protectionist measures, the only jobs Americans will be able to get will be flipping hamburgers at McDonald’s or sweeping up around Japanese computers. JAGDISH BHAGWATI, PROTECTIONISM 64 (1988).

\textsuperscript{116} CLINE, supra note 53, at 15.

\textsuperscript{117} Id. at 193. It should be pointed out that the Cline figures are based on wholesale prices. If these figures were converted to retail prices, the numbers could be as much as 100% higher, since the markup in the retail end of the business is about 100%. Whether these numbers should be doubled, though, depends on what percentage of the profit margin can be passed on to consumers, since, in the absence of protection, the increased competition might force some sellers to reduce their profit margins in order to compete. It would be reasonable to expect that the actual numbers, at retail, would be somewhat higher than the wholesale numbers that Cline reports, but perhaps not 100% higher.

\textsuperscript{118} Id. at 15, 193.
farmers in the United States. According to a Commerce Department estimate, high sugar prices destroyed nearly 9,000 jobs in the food manufacturing industry since 1981. One company—Brach Candy Company—announced plans to close its candy factory in Chicago and move 3,000 jobs to Canada because of the high cost of U.S. sugar. Ten sugar refineries had to close in recent years—thus destroying 7,000 refinery jobs—because of cutbacks in sugar imports. But the United States has just 11,000 sugar farmers, who received an average of more than $2 million each in price supports and subsidies since 1980.

In the next few paragraphs, I will attempt to estimate the cost of protectionist trade policies in terms of the net number of jobs lost. These estimates are based on an expansion and extrapolation of the studies reported by Hufbauer, Berliner and Elliott, who looked at 31 cases of protectionism in industries having at least $100 million in annual trade volume. In cases where they conducted more than one study of the same industry, I will use the statistics from their most recent study.

Employment losses are conservative for several reasons. For one, only industries with volume of at least $100 million are included; smaller industries are excluded. Also, in cases where the cost per job saved was expressed by Hufbauer, Berliner and Elliott in terms such as “over one million,” as was the case for benzenoid chemicals, my computations were based on the figure at the low end of the spectrum ($1 million). Finally, in computing the number of jobs lost in each category, I used the more conservative 1.6 to 1 ratio from the Baughman and Emrich study rather than the much larger 3.1 to 1 ratio cited in the Denzau paper.

Table 1 estimates the jobs saved by protectionism. Statistics for the total cost to consumers and cost per job saved were taken from Hufbauer, Berliner and Elliott. Jobs saved was computed by dividing cost to consumers by cost per job saved.

Table 2 estimates the jobs lost by protectionism and the deadweight loss. The “jobs saved” and “cost per job saved” columns are taken from Table 1. The column showing the ratio of jobs lost to jobs saved was taken from the Baughman and Emrich study. Jobs lost is computed by multiplying “jobs saved” by the ratio of jobs lost to jobs saved. “Deadweight Loss” is

<table>
<thead>
<tr>
<th>Year</th>
<th>Jobs Saved</th>
<th>Cost Per Job Saved</th>
<th>Jobs Lost</th>
<th>Deadweight Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>11,000</td>
<td>$1 million</td>
<td>18,000</td>
<td>$3 million</td>
</tr>
</tbody>
</table>

119 Bovard, supra note 87, at 75.
120 Id. at 75-76.
121 Id. at 71.
122 Hufbauer, supra note 9, at 14-15.
computed by subtracting jobs saved from jobs lost.

### Table 1
Jobs Saved by Protectionism

<table>
<thead>
<tr>
<th>Industry</th>
<th>Cost to Consumers ($ millions)</th>
<th>Cost per Job Saved</th>
<th>Jobs Saved</th>
</tr>
</thead>
<tbody>
<tr>
<td>Book Manufacturing</td>
<td>$500</td>
<td>$100,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Benzenoid Chemicals</td>
<td>2,650 $1,000,000+</td>
<td></td>
<td>2,650</td>
</tr>
<tr>
<td>Glassware</td>
<td>200 200,000</td>
<td></td>
<td>1,000</td>
</tr>
<tr>
<td>Rubber Footwear</td>
<td>230 30,000</td>
<td></td>
<td>7,667</td>
</tr>
<tr>
<td>Ceramic Articles</td>
<td>95 47,500</td>
<td></td>
<td>2,000</td>
</tr>
<tr>
<td>Ceramic Tiles</td>
<td>116 135,000</td>
<td></td>
<td>859</td>
</tr>
<tr>
<td>Orange Juice</td>
<td>525 240,000</td>
<td></td>
<td>2,187</td>
</tr>
<tr>
<td>Canned Tuna</td>
<td>91 76,000</td>
<td></td>
<td>1,197</td>
</tr>
<tr>
<td>Textiles &amp; Apparel</td>
<td>27,000 42,000</td>
<td>642,857</td>
<td></td>
</tr>
<tr>
<td>Carbon Steel</td>
<td>6,800 750,000</td>
<td></td>
<td>9,067</td>
</tr>
<tr>
<td>Ball Bearings</td>
<td>45 90,000</td>
<td></td>
<td>500</td>
</tr>
<tr>
<td>Specialty Steel</td>
<td>520 1,000,000</td>
<td></td>
<td>520</td>
</tr>
<tr>
<td>Nonrubber Footwear</td>
<td>700 55,000</td>
<td>12,727</td>
<td></td>
</tr>
<tr>
<td>Color Televisions</td>
<td>420 420,000</td>
<td></td>
<td>1,000</td>
</tr>
<tr>
<td>CB Radios</td>
<td>55 93,000</td>
<td></td>
<td>591</td>
</tr>
<tr>
<td>Bolts, Nuts, Large Screws</td>
<td>110 550,000</td>
<td></td>
<td>200</td>
</tr>
<tr>
<td>Prepared Mushrooms</td>
<td>35 117,000</td>
<td></td>
<td>299</td>
</tr>
<tr>
<td>Automobiles</td>
<td>5,800 105,000</td>
<td></td>
<td>55,238</td>
</tr>
<tr>
<td>Motorcycles</td>
<td>104 150,000</td>
<td></td>
<td>693</td>
</tr>
<tr>
<td>Maritime Industries</td>
<td>3,000 270,000</td>
<td></td>
<td>11,111</td>
</tr>
<tr>
<td>Sugar</td>
<td>930 60,000</td>
<td></td>
<td>15,500</td>
</tr>
<tr>
<td>Dairy Products</td>
<td>5,500 220,000</td>
<td></td>
<td>25,000</td>
</tr>
<tr>
<td>Meat</td>
<td>1,800 160,000</td>
<td></td>
<td>11,250</td>
</tr>
<tr>
<td>Fish</td>
<td>560 21,000</td>
<td></td>
<td>26,667</td>
</tr>
<tr>
<td>Petroleum</td>
<td>6,900 160,000</td>
<td></td>
<td>43,125</td>
</tr>
<tr>
<td>Lead and Zinc</td>
<td>67 30,000</td>
<td></td>
<td>2,233</td>
</tr>
</tbody>
</table>

\(^{123}\text{Id.}\)<br>\(^{124}\text{Id.}\)
One point comes to mind immediately when looking at Table 1. When looking at the "Cost Per Job Saved" column, it becomes immediately clear that the cost of saving jobs in some industries is extremely high. In the benzenoid chemical industry, for example, protectionism costs more than $1 million per job saved, whereas wages per employee averaged only about $14.90 per hour for the period under study. That's about $29,800 a year, based on a 2,000 hour work year. So if it costs exactly $1 million to save a $29,800 job, it seems that it would be a better use of resources just to pay laid-off workers their full $29,800 wage and forget about implementing some protectionist measure.

The ratio of cost per job saved to average annual wage in the carbon steel industry would lead a rational policymaker to reach the same conclusion. Each job saved in this industry costs $750,000, and the average hourly wage is $22.21 or $44,420 for a 2,000 hour work year. This conclusion does not change at the lower end of the spectrum. For example, in the rubber footwear industry, it costs $30,000 a year to save a job that pays only $11,460 a year, based on a 2,000 hour work year. Likewise, each job saved in the lead and zinc industry cost $30,000 a year at a time when the average wage was $3.28 an hour, or $6,560 for a 2,000 hour work year.

I am not saying that the government (taxpayers) should pay people not to work, because that would be unfair to those who do work, but it is an interesting comparison.

125 *Id.* at 59.
126 *Id.* at 177.
127 *Id.* at 75. The cost per job saved in the fish industry was even lower—$21,000. The annual or hourly wage for employees in this industry was not reported.
128 *Id.* at 358.
## Table 2
Jobs Lost by Protectionism

<table>
<thead>
<tr>
<th>Industry</th>
<th>Jobs Saved&lt;sup&gt;139&lt;/sup&gt;</th>
<th>Cost per Job Saved&lt;sup&gt;131&lt;/sup&gt;</th>
<th>Ratio of&lt;sup&gt;129&lt;/sup&gt; Jobs Lost to Jobs Saved</th>
<th>Jobs Lost&lt;sup&gt;132&lt;/sup&gt;</th>
<th>Deadweight Loss&lt;sup&gt;133&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Book Manufacturing</td>
<td>5,000</td>
<td>$100,000</td>
<td>1.6 to 1</td>
<td>8,000</td>
<td>3,000</td>
</tr>
<tr>
<td>Benzenoid Chemicals</td>
<td>2,650</td>
<td>1,000,000+</td>
<td></td>
<td>4,240</td>
<td>1,590</td>
</tr>
<tr>
<td>Glassware</td>
<td>1,000</td>
<td>200,000</td>
<td></td>
<td>1,600</td>
<td>600</td>
</tr>
<tr>
<td>Rubber Footwear</td>
<td>7,667</td>
<td>30,000</td>
<td></td>
<td>12,267</td>
<td>4,600</td>
</tr>
<tr>
<td>Ceramic Articles</td>
<td>2,000</td>
<td>47,500</td>
<td></td>
<td>3,200</td>
<td>1,200</td>
</tr>
<tr>
<td>Ceramic Tiles</td>
<td>859</td>
<td>135,000</td>
<td></td>
<td>1,374</td>
<td>515</td>
</tr>
<tr>
<td>Orange Juice</td>
<td>2,187</td>
<td>240,000</td>
<td></td>
<td>3,499</td>
<td>1,312</td>
</tr>
<tr>
<td>Canned Tuna</td>
<td>1,197</td>
<td>76,000</td>
<td></td>
<td>1,915</td>
<td>718</td>
</tr>
<tr>
<td>Textiles &amp; Apparel</td>
<td>642,857</td>
<td>42,000</td>
<td>1,028,571</td>
<td>385,714</td>
<td></td>
</tr>
<tr>
<td>Carbon Steel</td>
<td>9,067</td>
<td>750,000</td>
<td>14,507</td>
<td>5,440</td>
<td></td>
</tr>
<tr>
<td>Ball Bearings</td>
<td>500</td>
<td>90,000</td>
<td></td>
<td>800</td>
<td>300</td>
</tr>
<tr>
<td>Specialty Steel</td>
<td>520</td>
<td>1,000,000</td>
<td></td>
<td>832</td>
<td>312</td>
</tr>
<tr>
<td>Nonrubber Footwear</td>
<td>12,727</td>
<td>55,000</td>
<td></td>
<td>20,363</td>
<td>7,636</td>
</tr>
<tr>
<td>Color Televisions</td>
<td>1,000</td>
<td>420,000</td>
<td></td>
<td>1,600</td>
<td>600</td>
</tr>
<tr>
<td>CB Radios</td>
<td>591</td>
<td>93,000</td>
<td></td>
<td>946</td>
<td>355</td>
</tr>
<tr>
<td>Bolts, Nuts, Large Screws</td>
<td>200</td>
<td>550,000</td>
<td></td>
<td>320</td>
<td>120</td>
</tr>
<tr>
<td>Prepared Mushrooms</td>
<td>299</td>
<td>117,000</td>
<td></td>
<td>478</td>
<td>179</td>
</tr>
<tr>
<td>Automobiles</td>
<td>55,238</td>
<td>105,000</td>
<td></td>
<td>88,381</td>
<td>33,143</td>
</tr>
<tr>
<td>Motorcycles</td>
<td>693</td>
<td>150,000</td>
<td></td>
<td>1,109</td>
<td>416</td>
</tr>
<tr>
<td>Maritime Industries</td>
<td>111,111</td>
<td>270,000</td>
<td></td>
<td>177,777</td>
<td>66,667</td>
</tr>
<tr>
<td>Sugar</td>
<td>15,500</td>
<td>60,000</td>
<td></td>
<td>24,800</td>
<td>9,300</td>
</tr>
<tr>
<td>Dairy Products</td>
<td>25,000</td>
<td>220,000</td>
<td></td>
<td>40,000</td>
<td>15,000</td>
</tr>
<tr>
<td>Meat</td>
<td>11,250</td>
<td>160,000</td>
<td></td>
<td>18,000</td>
<td>6,750</td>
</tr>
<tr>
<td>Fish</td>
<td>26,667</td>
<td>21,000</td>
<td></td>
<td>42,667</td>
<td>16,000</td>
</tr>
<tr>
<td>Petroleum</td>
<td>43,125</td>
<td>160,000</td>
<td></td>
<td>69,000</td>
<td>25,875</td>
</tr>
<tr>
<td>Lead and Zinc</td>
<td>2,233</td>
<td>30,000</td>
<td></td>
<td>3,573</td>
<td>1,340</td>
</tr>
</tbody>
</table>

Totals                   | 981,138                   |                                  | 1,569,819                                     |                          | 588,681                      |

Total net employment losses as a result of protectionism<sup>134</sup>
I used the more conservative 1.6 to 1 ratio from the Baughman and Emrich study rather than the much larger 3.1 to 1 ratio cited in the Denzau (1987) paper.

From Table 1.

Computed by subtracting jobs lost from jobs saved.

The difference between jobs saved (981,138) and jobs lost (1,569,819).
Thus, protectionism destroys at least 588,681 more jobs than it creates each year. However, this figure is conservative because it includes only direct job losses and ignores secondary losses. It also excludes industries that have less than $100 million in annual volume. Also, the job loss/gain ratio might be higher than the 1.6 to 1 used to compute net employment losses in this example. Had we used the 3.1 to 1 ratio from the Denzau paper, the number of jobs lost would have been 3,041,528 and the deadweight loss would have been 2,060,390. So it is reasonable to expect the real net loss to be somewhat higher than 588,681.

B. Social Harmony Costs

Protectionism has a social harmony cost. It is a version of class conflict, but rather than pitting the proletariat against the bourgeoisie, it is a conflict of producers versus consumers. The producers seem to be winning, in the sense that they are able to get their protectionist policies adopted by the legislature, which is elected by the consumers.

But the situation is not hopeless. Although the special interest groups are well financed and influential with the legislature, and the average consumer is disinterested and powerless, in recent years various special interest groups that stand to be harmed by protectionist measures have surfaced to do battle with the special interest groups that are asking government for protection. For example, in the auto industry, various auto dealerships which depend on all or a substantial portion of their business from foreign imports banded together to oppose a domestic content bill in 1982 and 1983. This group can exercise substantial influence if organized, and they were organized, by manufacturer (Toyota, etc.). In 1982, there were 4,000 dealerships that sold only imports, and there were 7,250 dealers that sold imports as well as domestically made cars—11,250 in all—compared to 14,450 dealerships that sold only domestic cars. The American International Auto Dealers Association (AIADA) also joined in the fight against domestic content legislation.

Other counterbalancing groups at times assert their views when special interests call for protection. The International Longshoremen’s Association

---

135 Jobs lost = $981,138 \times 3.1$ (jobs saved) = 3,041,528; Deadweight loss = 3,041,528 - 981,138 = 2,060,390.
136 Destler & Odell, supra note 109, at 53.
137 Id.
opposed sugar quotas in the late 1970s. Other groups that stand to lose by restrictions on sugar imports, such as soft drink bottlers, ice cream makers, and the Coalition to Resist Inflated Sugar Prices, have also been vocal. Importers, represented by the American Association of Exporters and Importers, have also made their views known. Destler and Odell conducted a major study to determine which groups fought various protectionist measures the hardest for a number of protectionist pieces of legislation. The most vigorous opponents in these areas were:

**Autos**
American Honda Motor Co.
American International Auto Dealers Association
Auto Importers of America
Chamber of Commerce
Coalition of 22 associations
National Auto Dealers Association
Nissan Motor Corp., USA
Toyota Motor Sales USA Inc.

**Copper**
Chile, government of
National Electrical Manufacturers Association

**Footwear**
European Community
Footwear Retailers of America
South Korea, government of
Volume Footwear Retailers of America

**Steel**
Canada, government of
Caterpillar Tractor
European Community
South Korea, government of

---

138 *Id.* at 50.
139 *Id.* at 46.
140 *Id.* at 50.
141 *Id.* at 143-74.
Another negative aspect of protectionism, which reduces social harmony, is the possibility of retaliation by a trading partner that feels it is being punished or treated unfairly. Retaliation resulting from the Smoot-Hawley Tariff Act caused the 1930s depression in the United States to deepen, and the threat of retaliation still rears its ugly head from time to time.142

C. Reduced Choice

Another nonmonetary cost is the reduction in choice that results from protectionist policies. Although this cost is intangible, it is a cost nonetheless. If consumers have to settle for their second or third choice, they lose utility. The measure of this loss is the difference between what they would have chosen had they been able to make their first choice, and the product or service they must settle for because their first choice is unavailable, due to some quota or tariff or other restriction.

D. Rights Violations

An often overlooked nonmonetary cost of protectionism is the reduction in political and economic freedom that results when a government makes a policy that results in reducing the number of contracts consenting adults are able to enter into, or raising the cost of entering into such contracts. For

example, if the price of a certain foreign auto is $2,000 more than it would be in a free market, then government is forcing consumers to transfer $2,000 of their wealth to someone else, either to a domestic or a foreign producer, as a condition of entering into a contract to purchase an auto. If an import quota prevents consumers from even obtaining the automobile of their choice, a property right is also violated, since property rights include the right to trade the fruits of one’s labor.

The ethics of this form of redistribution (as with any form of forced redistribution) are also questionable. Tariffs and quotas are hidden forms of redistribution. At least with a direct subsidy, the amount is disclosed in the federal budget (unless it is an off-budget item). The extent to which the consumers are subsidizing some special interest can be put in terms of dollars and cents. Public servants who cry out for full disclosure in any number of other areas say nothing about the morality of hiding the cost of their protectionist actions from the voting public. They even go so far as to argue that their actions are in the public interest, to save jobs, etc.

V. CONCLUSION

Protectionism costs; it has both gainers and losers. Studies done in this area are consistent in their conclusions that the losses exceed the gains, that there is a deadweight loss, not only in terms of reduced standard of living but in terms of employment as well. More jobs are lost than gained by adopting a protectionist policy.

There are other costs as well. Besides the economic costs of higher prices, reduced quality and choice, and lost jobs, protectionism also reduces social harmony and results in property rights violations. Yet the United States and other countries consistently adopt protectionist policies, usually at the behest of the special interest groups that stand to gain by such policies, even though the general population loses. Unless some good reason can be found for adopting a protectionist policy, the logical conclusion seems to be that protectionist policies should never be adopted because the losses exceed the gains.

This is the conclusion that would be reached from a utilitarian perspective—the greatest good for the greatest number. It can probably be said

---

143 See generally, Bertrand de Jouvenel, The Ethics of Redistribution (1952).
144 For one of the classic works on this topic, see John Stuart Mill, Utilitarianism and Other Writings (1962).
that the majority of economists are utilitarians. But some are not. Some, like Murray Rothbard, reject utilitarianism on moral grounds because utilitarianism sometimes results in rights violations. For rights theorists like Rothbard, "the greatest good for the greatest number" is an irrelevant argument. Rights theorists take the position that a particular policy is acceptable, from a public policy perspective, if no one's rights are violated and unacceptable in all other cases. So the fact that a quota prevents consenting adults from entering into contracts is a violation of rights. If the sole purpose of government is to protect life, liberty and property, then any policy that disparages any of these rights is illegitimate. Since a quota law disparages both property rights and the right to enter into contracts, quotas are illegitimate abuses of governmental power. The fact that the societal benefits may exceed the societal losses is irrelevant.

Another weakness of the utilitarian position is that utility is impossible to measure. In the case of a protectionist policy, for example, the few special interest groups—auto or textile manufacturers, etc.—benefit much, while the vast majority of consumers are harmed a little. But there is no way to measure individual gains and losses in terms of utility, so it is not possible to determine whether the total gains from a particular policy exceed

---


146 For an example of how a utilitarian and a rights theorist might reach different conclusions for the same fact situation, let's examine the following scenario. Let's say that John was just released from prison after ten years of incarceration. John has been a sex maniac since he was eight years old and has not had sex since he went to prison. While walking down a deserted street on his first night of freedom, he comes upon a prostitute who is in a drunken stupor and rapes her. Because of her condition, she barely perceives what he is doing, but she does manage to mumble that he should stop. For John, the experience was the best thing that happened to him in ten years. For the prostitute, the experience was barely perceived, and she actually fell asleep while it was in process. A utilitarian might conclude that "society" benefits by the rape because John's benefit outweighs the prostitute's loss. A rights theorist would argue that "societal" benefits and losses are completely irrelevant and the only thing that matters is whether anyone's rights have been violated. Since the prostitute's rights have been violated, the rape is not to be condoned even if John's benefit was immense and the prostitute's detriment was minor.

147 Some philosophers would argue that the purpose of government should not be limited to the defense of life, liberty and property, but should also extend to redistribution, taking some people's property and giving it to others. For a moral critique of this view, see generally De Jouvenel, supra note 143.

148 See Rothbard, supra note 145, at 260-68.
the total losses.

In the case of protectionism, it does not matter whether one takes the utilitarian or natural rights approach, because the conclusion is the same, although for different reasons. A policy that costs $135,000 a year for each $12,000 job saved is a bad policy, even from a utilitarian perspective.\textsuperscript{149} The policy is also bad from a natural rights perspective because the policy violates the rights to property and freedom to contract. Thus, the only conclusion to be drawn, from either a utilitarian or rights perspective, is that protectionist policies are bad. Protectionism is not in the public interest and any laws that support protectionism should be repealed, the sooner the better. The law should favor neither producers nor consumers but should respect property and contract rights.

---

\textsuperscript{149} According to Cline, supra note 53, at 194, it costs $134,686 annually to save a job in the textile industry that pays $12,000 a year.