

A CONSUMER PERSPECTIVE ON THE TOKYO ROUND

*Clinton Warne**

I. HISTORICAL BACKGROUND

In the prosperous post-World War II period, the typical American consumer paid little attention to the major issues involved in international trade discussion. Given widespread approval of the general theories of laissez-faire market process, discussion of any aspect of international trade naturally assumed that unrestrained trade was ideal. Certainly consumers understood that competitive forces would mean that some customers or suppliers were at all times in the process of being eliminated in the market struggle. Nonetheless, it was felt that the free exercise of supply and demand in competitive situations would lead to lower prices, better quality of goods and better international relations for all.

In fact, however, the normal laissez-faire relations between supply and demand were not dominating international market activity. Insofar as the supply consisted of basic, nondiscriminatory resources which had been developed, or of capital invested for war or other nationalistic reasons (in many cases with technology and capital previously supplied by multinational corporations), the facilities were more than adequate for the market. Thus, each good could be treated as offered in an elastic market. In this market, all producers attempted to utilize their fixed capital to its fullest extent to enjoy the advantages of decreasing costs, so long as the market price for the product covered the variable costs. Each attempt by an individual supplier to increase his particular market share tended to be matched by that of other suppliers, resulting in minimal prices. Consequently, demand for these standardized products was the dominant factor in the market relationship. The supplier was forced to face competitive pressure while those on the demand side of the market equation enjoyed a period of good bargain/purchasing power.

Over time, the blind assumption of post-World War II American consumers that laissez-faire economic forces in the world market place would forever be translated into economic advantages for the American market, proved to be neither accurate nor possible. Multinational economic policy, responding to nationalistic activi-

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ties and economic realities, inordinately modified the short run advantage. In the long run, producing facilities must be closed when full costs are not being met.

In this same post-war period, workers in the supply end of the market place began to improve their real wage levels. These workers then fulfilled Engel's law and sought for themselves and their families more than minimal subsistence levels of goods and services, which in turn increased local demand. The emergence of these economically viable market factors meant that additional world demand had become effective, exerting upward pressure on the prices of world products. As the economic relationships were brought back into balance, the resultant readjustment forced the American consumer to recognize a significant interest in the resolution of major issues regarding international trade. The spectacular rise in the price of such basic materials as oil, coffee, cocoa, along with products such as steel, textiles, television sets and automobiles (to name a few internationally traded items), has become of basic economic and general conversational concern.

No longer can an American worker assume that decreased costs of production will improve his standard of living without a corresponding increase in his productivity. In fact, the American consumer has begun to experience Engel's law in reverse: as real incomes fall, more income will be spent on necessities. Households have discovered that price increases in the domestic market tend to parallel those occurring in the international market. In fact, demand for items at the middle of the scale of wants is apparently rising faster than that for items which generally appeal to the luxury and optional purchase sectors of the economy. Decreases in effective demand have also affected the pattern of the luxury market at the same time that newly effective world markets have compounded the demand for middle level necessities. Therefore, while the American consumer has conscientiously cut back on his budget, real and growing pressure on that budget has not been relieved.

II. THE TOKYO ROUND

As this consumer interest in international trade emerged, negotiators representing 99 nations labored on what was called the Tokyo Round of International Trade Agreements, aimed at liberalizing world commerce and modifying the tendency toward protectionism in signatory countries. After five years of negotiations,

the parties reached a preliminary position agreement which was initialed on April 12, 1979.** Pursuant to the Trade Act of 1974, Congress will either vote "yes" or "no" without amendments when the Tokyo Round implementing legislation is presented for ratification.

A. *Tariff Reduction and the Effect of Tariffs
on Consumer Interests*

As has been true in past trade agreements, one of the key aspects of the Tokyo Round is the percentage of rise or fall in the general tariff rates contained in the agreement, or the amount of protection (or lack of it) that is to be enjoyed by specific industries. The Tokyo Round continued the tradition of tariff reduction initiated by the last major revision, the General Agreement on Tariffs and Trade of 1947 (GATT), which had reduced tariff levels by an announced average of about 35 percent. This provision was included in part because such tariff reduction is easily identifiable, as well as quantifiable. The average reduction for the thousands of items involved might be 35 to 38 percent scaled in over the next eight years with a check at the end of five years. But it should be noted that this is a reduction beyond the 35 percent reduction contained in the GATT agreement. Therefore, the second 35 percent is in actual dollar terms considerably less than a full 35 percent of some original base tariff barrier. The 35 percent reduction will be honored between the 22 industrial countries, and there will be smaller cuts for developing nations who decide to sign the agreement. For those nations which do not sign, the most-favored-nation status enjoyed under GATT will no longer be effective.

In the context of laissez-faire economic analysis, tariff reductions affect the domestic consumer by lowering the price of imported goods. In turn, domestic goods prices must respond to the increased supply available in the market. The new equilibrium of price and quantity available can be expected to be of indisputable benefit to the consumer.

But the analysis cannot end with the effect of tariffs on the price mechanism. At the same time that the consumer faces high prices as a result of tariffs, he is also being taxed to support the present government bureaucracy needed to enforce existing tariff rules and regulations (a problem which will, unfortunately, be increased by the Tokyo Round agreements).

** See Graham, *Results of the Tokyo Round*, at 153 *supra*.

Not only do tariffs on any level harm the general consumer; they are also a serious problem for the businesses involved. Cost control may prove difficult for a firm protected by tariff barriers since there is little pressure to force better economic behavior. Sloppy management, padded wages, wasted resources, and inefficient use of capital become acceptable practices for company operation. If profits are low, the International Trade Commission and members of Congress can again be solicited with supporting documents to raise tariff barriers by an additional amount. Powerful supporting groups form to lobby for this result. Management, labor and capital representatives gather in an attempt to influence the outcome. Senators and Representatives are inundated with input from these sources and soon are caught in a very difficult position. The tariff bills resulting when the various pressure groups have been appeased have, not inappropriately, been called "Christmas Trees." Relying on a tariff barrier becomes a way of life for some of its recipients and supporters.

The lowering of tariff barriers will affect all industries to a degree, but it should affect the import sensitive fields the most. For industries such as automobiles, textiles and rubber, where international alternatives are available, import tariff reductions will have a serious impact on jobs and investment. The relaxation by the United States of tariff restrictions on Canadian automotive goods in the early 1970's profoundly affected the pattern and use of automobile facilities within the United States. The whiskey industry has already started considering the impact of the new agreement on the location of whiskey bottlers.

B. *Subsidies*

The opposite economic effect can be shown for the over 800 non-tariff barriers for which the Tokyo Round considered and developed codes.† In this context an alternative product for the international market is fostered by some artificial financial or administrative support, usually by the host governmental units. Among these devices is the practice of many countries in granting internal subsidies to vital, basic domestic firms. In many of these cases, the subsidy is a make-work situation. It keeps facilities operating and men employed which would otherwise be idle. In some respects it is the continuation of the concept of a short run international price for a basic supply that does not reflect the full

† *Id.* at 153.

cost of the product. With a subsidy equal to the fixed costs, the firm can bid internationally to cover its variable costs and thus offer lower prices. The consumers of the receiving nation are then able in time to lower their cost of living.

The codes contained in the Tokyo Round are expected to limit the international aspect of these subsidies, but marginal cases will certainly develop and will need to be referred for rulings to the improved GATT settlement procedures. Among these problem areas will be the issues of nationalized companies in countries with centralized governments, regional development companies in economically depressed areas, government credit schemes to assist in countervailing activities for recessions, and "infant industries." In each of these cases, the domestic subsidy is granted to give a firm economic support for a short period so that it can grow domestically. It is assumed that each producer offers a product that will enable it to increase its market penetration and achieve a profitable position, and that at some point in time the subsidy will be dropped. However, as the industry becomes a viable unit, it will begin to enter the international market. Disputes will develop on the manner of distinguishing legitimate domestic subsidies from illegal international subsidies. The present GATT list of prohibited export subsidies is not all-inclusive and is badly out of date. Additionally, the issue of indirect taxes levied within countries (as used by the EEC) will remain controversial.

C. Removal of Barriers to Trade in Agricultural Products

The Tokyo Round has also resulted in an agreement to lower barriers in foreign markets to American food producers. This will introduce the world pricing system into the American agricultural market. Domestic agricultural supports, while costly, have created excessive supplies which in the domestic market have generally led to lower overall market prices. The resulting high standard of living has been a matter of pride for all Americans. As the foreign barriers are removed from American agricultural products such as turkey parts, table grapes, canned fruit, and orange juice, the average price in the American food market will climb considerably.

D. Government Procurement

The Tokyo Round has succeeded in opening some portions of governmental procurement procedures so that specific items are

up for bidding by foreign suppliers, breaking new ground not specifically covered in GATT. Although the specific standards are presently under negotiation, and Japan has been publicly mentioned as officially protesting the attempt to open its tele-communications field for foreign bids, the concept of alternative bids as a way of holding down the end price of contracts has great appeal for both consumers and taxpayers. At the present time, this modification of bidding procedure is expected to open up about \$10 billion of the \$79 billion in American federal government contracts to foreign suppliers.

E. *Standards and Customs Valuation*

Parallel to the issue of governmental purchasing are the agreements reached in the Tokyo Round to permit the setting of common standards and to simplify customs procedures and administration. The utilization of artificial barriers such as excessive standards testing, unrealistic safety tests, impossible labeling requirements, import licensing procedures, bureaucratic delays, and "uplifting" valuation standards for customs duties (especially the "American Selling Price" system of evaluation) will be eliminated. It is therefore hoped that the flow of economically viable products will be assisted, to the benefit of consumers. Nevertheless, it should be pointed out that the Kennedy Round of the 1960's included some of these same provisions, which were then found unacceptable to the United States Congress.

III. CONCLUSION

The tariff reductions and regulation of nontariff barriers purportedly achieved by the Tokyo Round should result in a more effective utilization of the factors of American production. This in turn, to the benefit of consumers, will improve the overall status of the economy.

On balance, the agreements progress toward, but fall short of, adequate measures to reduce trade barriers. They include little if any control over the actions of multinational corporations whose price, quantity and allocation policies increasingly tend to invalidate the laissez-faire underpinnings of international trade law. Furthermore, the dissatisfaction of developing countries and the elimination of most-favored-nation status for nonsignatories may well result in the division of the world into competing trade groups, a development which could erode the efficiency measures

achieved by the Tokyo Round. From the consumer point of view, considerable vigilance and additional work must precede any truly satisfactory international mechanism for the elimination of trade barriers.

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