

Tilburg University

[Review of the book *A General Equilibrium Analysis of US Foreign Trade Policy*, J. de Melo, D.G. Tarr, 1992]

Huizinga, H.P.

Published in:
Journal of Economic Literature

Publication date:
1993

[Link to publication in Tilburg University Research Portal](#)

Citation for published version (APA):

Huizinga, H. P. (1993). [Review of the book *A General Equilibrium Analysis of US Foreign Trade Policy*, J. de Melo, D.G. Tarr, 1992]. *Journal of Economic Literature*, 31(3), 1459-1460.

General rights

Copyright and moral rights for the publications made accessible in the public portal are retained by the authors and/or other copyright owners and it is a condition of accessing publications that users recognise and abide by the legal requirements associated with these rights.

- Users may download and print one copy of any publication from the public portal for the purpose of private study or research.
- You may not further distribute the material or use it for any profit-making activity or commercial gain
- You may freely distribute the URL identifying the publication in the public portal

Take down policy

If you believe that this document breaches copyright please contact us providing details, and we will remove access to the work immediately and investigate your claim.

isted in the form of the Multifiber Agreement, the United States negotiated a voluntary export restraint (VER) on car imports from Japan in the Spring of 1981, and a series of separate VERs on steel imports in 1984 and 1985. This book offers a thorough study, using applied general equilibrium modeling, of the welfare and sectoral employment consequences of these quantitative import restrictions for the case of the United States. The model is disaggregated into ten manufacturing sectors, at the exclusion of agriculture and services. The outputs of each of the ten sectors are used as final products in consumption and as intermediate products in the other nine sectors, and are differentiated from foreign production in the same sector. The model is closed by assuming that the U.S. is a small country, or alternatively that it has some international market power. The static nature of the model precludes any current account implications of trade policy. The welfare loss of quantitative import restrictions is generally divided into the quota rents accruing to foreigners, and welfare losses due to distortions. Overall, the welfare loss to the United States of all quotas are estimated to be in the neighborhood of \$25–29 billion for 1984, not the least because the quota rents mainly accrue to foreigners. The authors conclude that the surge in quantitative import restrictions has taken the U.S. economy back to pre-World War II overall levels of protection.

The introductory chapter stresses the need for general equilibrium analysis to assess trade policy, and it states the authors' objective to render general equilibrium analysis transparent. To this end, they first set out a one-sector model in Chapter 2, before providing a lucid description of the multisector model in Chapter 3. Clearly, the overall costs of quantitative trade protection to the U.S. are very sensitive to who is judged to receive the quota rents. Chapter 4 describes the authors' selection of the relevant quota premia for car and textiles imports from the available evidence. Estimates of the costs of quantitative protection for the benchmark model are provided in Chapter 5. The welfare gains of a removal of textile quotas and of the VER on auto imports are estimated at around \$10.4 and \$9.8 billion, respectively. The VERs for steel imports signed around 1984, instead, are estimated to cost about \$0.9 billion

A general equilibrium analysis of U.S. foreign trade policy. By JAIME DE MELO AND DAVID TARR. Cambridge and London: MIT Press, 1992. Pp. xviii, 289. \$40.00. ISBN 0-262-04122-7. JEL 92-1446

Tariff rate reductions under the auspices of the GATT in the postwar era have been accompanied by increased reliance on quantitative trade restrictions, at least by the United States. While import quotas for textiles have long ex-

a year. Additional estimates are provided for alternative high and low elasticity model calibrations.

Chapter 6 extends the benchmark model to allow for an endogenous labor supply, for wage distortions due, in part, to union behavior, and for international capital mobility. A main insight is that the removal of the auto VER can be considerably more beneficial in the presence of unions, as the elimination of the VER may induce unions to lower the union wage premium. Somewhat puzzlingly, the removal of textile quotas can be less beneficial with international capital mobility than without it, as the international rental cost of capital is thought to exceed the social product of capital in the U.S. economy.

Chapter 7, instead, extends the benchmark model to include imperfect competition and economies of scale that are important in, especially, the auto industry. With increasing returns to scale, the cost of quantitative import restrictions depends on whether they induce additional firm entry that prevents the existing competitors from realizing economies of scale. In Chapter 8, the focus shifts to assessing the welfare costs of raising government revenue through either import tariffs or excise taxes on crude oil and petroleum products. Excise taxes are shown to be less costly than import tariffs, even though the government optimally uses excise taxes and tariffs in combination to meet a certain revenue objective.

The model underlying the simulation exercises in this volume has been designed to assess the overall welfare costs to the U.S. economy of trade restrictions. The book establishes that the costs of quantitative import restrictions have been considerable, and it is instructive to learn that these costs exceed the costs of the remaining tariff barriers. The analysis is very timely, as the elimination of the Multifiber Agreement is currently under negotiation in the Uruguay round. The elimination of U.S. textile quotas will be important for the developing countries as well as for the United States.

The book's focus on overall U.S. welfare is its main merit as well as its main limitation, as it precludes an assessment of the national and international income distributional aspects of trade policy. In particular, the consequences

for non-U.S. welfare of the trade policies analyzed in this text are not considered. The authors defend their purely U.S. focus by stating that a truly multicountry model cannot allow for a sufficient level of sectoral disaggregation to reliably assess the welfare costs of trade restrictions. The volume further bypasses the implications of trade policy for the distribution of income between labor and capital, even though Chapter 5 does indicate how real wages are affected by the main trade policy experiments. The assumption that labor and capital are intersectorally mobile further implies that there are no intersectoral income shifts. At the same time, the focus on the manufacturing sector means it is unclear how other sectors of the economy are affected. The discussion of the taxation of the energy sector in Chapter 8 also only addresses the overall efficiency aspects of taxation in a representative agent framework. The overall focus on efficiency implies that the present volume cannot explain why detrimental trade policy is enacted, or what would be the road to eliminating it, even if it convincingly states that the overall costs of trade restrictions have been large.

HARRY HUIZINGA

Tilburg University