

'Protection' you'll pay for

Cost of restricting Chinese textiles will show up at American cash registers

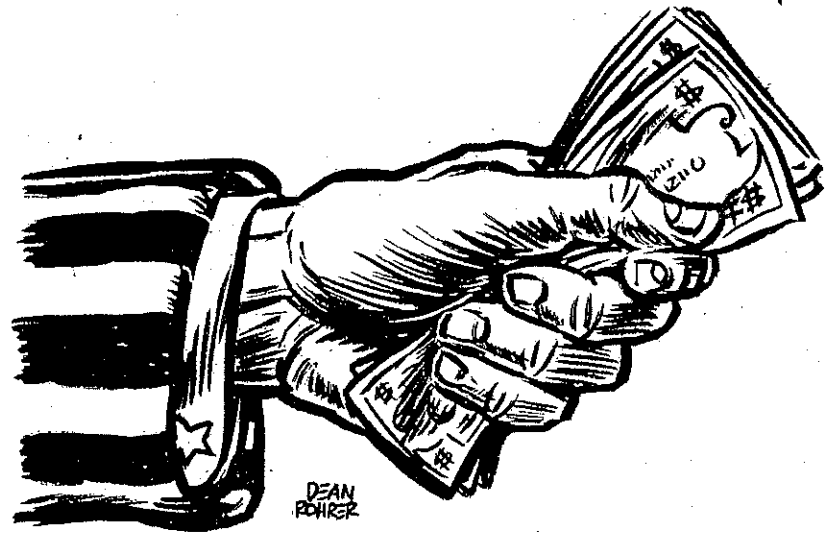
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SPECIAL TO THE TRIBUNE

Economists have understood the benefits of free trade since Adam Smith published the *Wealth of Nations* in 1776. Yet, special interest groups still claim that protectionism is in America's best interest. Following a surge in Chinese imports, the latest calls for protection come from U.S. apparel and textile industries. Unfortunately, the Bush administration appears to agree, and is considering "safeguard" quotas to protect these industries. If imposed, these restrictions will harm consumers and fail to protect America's total number of jobs.

The 30-year-old Multi-Fiber Agreement (MFA), which placed quotas limiting textile imports to the U.S. from other countries, was finally abolished this January. In response, textile and apparel imports from China rose by 39 percent from their December levels. In February over \$650 million in apparel was imported from China — an increase of 147 percent from a year ago. The surge prompted the usual calls for protection. Cass Johnson, president of the National Coalition of Textile Organizations said, "now is the time for the government to act quickly and save our workers' jobs." Similarly, Bruce Raynor, president of Unite Here, a U.S. apparel and textile workers union, claimed, "without the quick imposition of safeguards, tens of thousands more jobs will disappear soon."

Despite these claims, protecting textiles will not impact the total number of jobs in the U.S. International trade increased substantially over the post WWII years without harming America's total number of jobs. Over these years total U.S. employment has been a function of the size of the labor force — not trade policies.

Protecting textiles would protect some jobs at the expense of others. When textile jobs are lost, other jobs are created in downstream industries that expand because of cheaper textile goods as well as in U.S. export industries where Chinese firms spend their increased foreign exchange. In the process, labor and capital get reallocated to the new areas where we are relatively more productive. The process is not instantaneous and workers often



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need to get retrained, but protecting an industry does not save jobs, on net.

Unfortunately, the Bush administration ignored 200 years of economic theory when it announced plans for an "early warning system" to monitor Chinese textile imports along with possible "safeguard" quotas. According to Commerce Secretary Carlos Gutierrez, "this action demonstrates the commitment of this administration to . . . level the playing field to support our domestic textile and apparel industry."

If "safeguards" are imposed, they will likely limit Chinese textile imports to a 7.5 percent increase in any 12-month period — a major restriction from the latest 12-month increase of 147 percent. Although the World Trade Organization rules allow these restrictions for up to three years, they will still have negative consequences for the U.S. economy. If Chinese competition is restricted, U.S. consumers will face higher prices. Retail executives have claimed that by

restricting imports and forcing manufacturers to divert production to many countries the MFA agreement actually added 23 percent to the cost of textile goods sold in the U.S.

With the end of the MFA, and a surge in imports, consumers are already beginning to see benefits. The overall consumer price index increased by 3 percent over the last 12 months while men's and boys' apparel prices fell 0.9 percent and women's and girls' apparel prices fell 0.2 percent. The potential benefits for consumers are even greater. A survey of major textile importers by Goldman Sachs found that their costs would decline by 5 to 15 percent without quotas. Wall Street analysts predict retail clothing prices will drop by 5 to 11 percent with an end to the MFA if no new restrictions are imposed.

In their first term the Bush administration wavered on free trade policy with U.S. steel. Now it should make a serious commitment to free trade instead of pandering to textile interest groups. Imposing restrictions would cost jobs in textile-using industries and other export industries, harm U.S. consumers, and make the U.S. less productive. With economic policies such as this, it's no wonder that *The Economist* magazine referred to the administration's economic staff as "Bush league."

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