The Heritage Foundation Issue Bulletin

No. 125 | The Heritage Foundation • 214 Massachusetts Avenue • N.E. • Washington, D.C. • (202) 546-4400

July 30, 1986

THE TEXTILE AND APPAREL TRADE ACT: SAVING JOBS AT A COST OF $4 MILLION EACH

INTRODUCTION

In light of many months of United States trade deficits, Congress seems set to try to override Ronald Reagan's December 1985 veto of legislation curbing imports of textiles and apparel fibers. This protectionist legislation, known as the Textile and Apparel Trade Enforcement Act of 1985, is based on the so-called Jenkins Bill, introduced in the House (H.R. 1562) by Representative Ed Jenkins (D-GA), and a similar bill sponsored in the Senate (S. 680) by Senators Strom Thurmond (R-SC) and Ernest Hollings (D-SC).

The legislation (H.R. 1562, Amended) would require a further decrease in the import levels of currently restricted textile and apparel products from twelve major foreign suppliers. The bill also would reduce future growth possibilities for all remaining suppliers. Overall, it would reduce total imports of apparel by 7 percent and total textile imports by 8 percent. In vetoing the legislation, Reagan correctly labeled it pure protectionism.

If the veto is overridden, the measure will reduce textile and apparel imports substantially. So doing, it will protect some U.S. jobs in the textile industry. The cost of this to American consumers, however, will be enormous. According to the International Business and Economic Research Corporation (IBERC), the textile and apparel-related provisions of the bill will protect 20,627 textile and apparel jobs. But by raising textile and apparel product prices, the bill will eliminate 20,373 jobs in American retailing. The net number of U.S. jobs saved thus is only 254, and this comes at a cost to consumers of $1.053 billion--a staggering $4 million for each net job saved. Moreover, if foreign countries retaliate, as seems likely, the legislation could result in heavy losses of American jobs in the West and Southwest, where there are disproportionately more export-oriented jobs than in other regions of the U.S. If this happened, then the bill

not only would be costly but would lead to a net loss of jobs for Americans.

The historical record of protectionism is clear. It is not the way to deal with foreign competition. It protects jobs in one part of American industry at the cost of jobs elsewhere while forcing all Americans to pay higher prices for goods. This makes for a less efficient American economy that is less able to compete internationally.

THE "CONSUMER COST" OF EXISTING TEXTILE PROTECTIONISM

Any form of import protection, be it tariffs or quotas, has two immediate impacts: the volume of imports falls and the price of imports rises. Consumers respond by switching some or all of their purchases to the domestic product. This increase in demand for the domestic product, coupled with reduced competition from imports, permits domestic producers to raise their prices. The "consumer cost" of this switching is the extra amount of income that consumers are forced to pay for a smaller range of goods.[1] It is in essence a "tax" on the consumer's income, the proceeds of which go in part to domestic producers and workers, to the U.S. government (in the case of a tariff), or to the foreign suppliers (in the case of most quotas). A part of the consumer cost goes to no one. So-called deadweight loss, it occurs simply because resources are wasted on the production of a good in the U.S. that could be more efficiently produced abroad.

The U.S. currently protects its textile and apparel industries with both quotas and tariffs. Quota limits on the imports of most major suppliers have been in effect since 1961, in one form or another, thanks to the Long-Term Arrangement Regarding International Trade in Cotton Textiles and its successor, the Multilateral Fiber Agreement (MFA). The MFA is the main international agreement governing textile and apparel trade.

MFA quotas are established by bilateral agreements negotiated every three to five years with major suppliers. These agreements set annual limits for specific textile and apparel products. Each agreement typically provides for annual growth in these limits.

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1. This is a very simplified explanation of the term "consumer cost." In reality, the particular dynamics of an individual industry might introduce other factors that would add to, or reduce, the extent of the cost. For example, import quotas might result in the quality upgrading of all imports so that the consumer received a higher value product for the higher price. If a particular consumer were happy to pay more for a higher value product, that consumer would not feel a cost associated with protection. However, another consumer might have preferred the lower cost import; this consumer would pay the cost.

Washington may allow the supplying country to carry forward into the next year a portion of unused quota from the previous year, and to "borrow" a part of next year's quota for the current year. Countries may also switch (or "swing") a certain share of one product category's quota amount to another category. In 1984, two-thirds of U.S. textile and apparel imports were covered by some type of quantitative restriction.[2]

In addition to the MFA quotas, the U.S. textile and apparel industries are protected by tariffs levied on all imports from all suppliers except Israel, whether or not they are also restrained by a quota. The discussion of protectionism in the textile and apparel industries often ignores these substantial tariffs, which are five times higher than average tariffs on all other manufactured goods.

A number of studies quantify the costs of textile and apparel tariff and quota protection; Table 1 summarizes some of the results. Estimates of the total cost (at wholesale prices) of tariffs and quotas on textile and apparel imports run as high as $27 billion a year (in 1984 dollars). The cost to the consumer at retail could be as high as $54 billion a year. Although they use a variety of methodologies, assumptions, and data bases, these studies all arrive at the same general conclusion: the costs of textile and apparel protection far exceed the supposed benefits.[3]

THE COSTS OF THE PROPOSED PROTECTIONISM

Despite existing protection, Congress enacted more in passing the Textile and Apparel Trade Enforcement Act of 1985 (H.R. 1562 and S. 680). And if each House of Congress can mount the two-thirds majority needed to override the Reagan veto, the new legislation will have serious repercussions. For one thing, it will impose quotas unilaterally, which will violate U.S. international obligations under the General Agreement on Tariffs and Trade (GATT) and the MFA. For another, the legislation will invite foreign retaliation against U.S.

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2. U.S. International Trade Commission, "Memorandum to the Committee on Finance of the U.S. Senate on S. 680," August 1985.

3. Measuring the consumer cost of protection is not a straightforward process. Very often economists studying the same protectionist policy and the same industry produce different estimates. The reasons for the divergence can be found in each economist's basic assumptions about the nature of supply and demand in the industry, the time period used as the basis of the analysis, and the amount of empirical information available. Usually, there can be no "correct" estimate because hard-held opinions about the nature of the domestic industry and the competition (if any) it faced from imports can vary radically. Nevertheless, these estimates do provide useful barometers of the magnitude of the costs relative to the benefits. What is certain is that protection is costly and that costs usually exceed the benefits.

TABLE 1
SUMMARY OF ANNUAL CONSUMER COST ESTIMATES OF
EXISTING TEXTILE AND APPAREL IMPORT PROTECTION
(in 1984 dollars)[4]

Source	Instrument	Product	Total Cost to the Consumer
Hufbauer, et al. (1986)[5]	MFA Quotas	Textiles Apparel	$9.00 billion $18.00 billion
Munger (1983)[6]	Tariffs Tariffs	Textiles Apparel	$3.55 billion $13.23 billion
Wolf (1982)[7]	MFA Quotas	Apparel Textiles	$3.57 billion
Morkre & Tarr (1980)[8]	Tariffs	Apparel	$1.82 billion
Keesing & Wolf (1980)[9]	Tariffs	Apparel	$11.29 billion
COWPS (1978)[10]	Tariffs	Apparel	$3.78 billion
Mintz (1973)[11]	Quotas	Textiles	$4.09 billion

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4. The estimates were converted to 1984 dollars by means of the consumer price index for apparel and upkeep.

5. Gary Clyde Hufbauer, Diane T. Berliner, Kimberly Ann Elliott, Trade Protection in the United States: 31 Case Studies (Institute for International Economics, 1986), p. 148.

6. Michael C. Munger, "The Costs of Protectionism: Estimates of the Hidden Tax of Trade Restraint," Center for the Study of American Business, Working Paper Number 80, July 1983, p. 10.

7. Martin Wolf, The New York Times, January 12, 1982, cited by Munger, ibid., p. 14.

8. Morris E. Morkre and David G. Tarr, The Effects of Restrictions on United States Imports: Five Case Studies and Theory, Staff Report of the Bureau of Economics, Federal Trade Commission, 1980.

9. Donald B. Keesing and Martin Wolf, Textile Quotas Against Developing Countries, Thames Essay No. 23 (London: Trade Policy Research Centre, 1980).

10. Council on Wage and Price Stability, Executive Office of the President, A Study of the Textile and Apparel Industries, Including Prices, Wages and Foreign Trade Capacity (Washington, D.C.: 1978).

11. Ilse Mintz, U.S. Import Quotas: Costs and Consequences (Washington, D.C.: American Enterprise Institute, 1973).

exports, jeopardizing thousands of American export jobs. And by limiting the access of developing countries to the U.S. market, the legislation will hold back their growth and foreign exchange earnings, both of which they need to purchase U.S. goods and to pay their debts to U.S. banks.

Proponents of protectionism blame increases in imports for job losses as a justification for increasing protectionist barriers to textile and apparel imports. It is argued, for example, that doubling textile and apparel imports between 1980 and 1984 was responsible for the loss of some 300,000 American textile industry jobs during that period. This argument, however, is refuted by the facts. As Table 2 shows, virtually all of the job losses experienced by the industry occurred prior to 1982. Most of the import growth occurred after 1982--when domestic employment actually increased.

TABLE 2

	Annual Rate of Import Growth	Percent Change in Industry Employment
1980-1982	10.2%	- 200.7%
1982-1984	30.9%	+ 32.1%

Source: U.S. Department of Commerce and Department of Labor.

H.R. 1562 has been portrayed as a means to save thousands of American jobs. The bill's chief sponsor, Congressman Ed Jenkins, maintains that, "the failure to pass our legislation would result in unemployment for not only 947,000 Americans in the textile and apparel industries, but 943,0000 others, in other industries...." The bill's negative job impact has been ignored. Yet the International Business and Economic Research Corporation estimates that, while the final version of H.R. 1562, as amended by the Senate, would retain 20,627 jobs in the textile and apparel manufacturing industries, it would cost 20,373 retail jobs related to textile and apparel consumption.[12] The net gain thus would be just under 254 jobs (see Table 3).

12. Jobs would be lost in the retail sector because the combination of higher prices and reduced availability of textiles and apparel would reduce consumer purchases, and retailers would require fewer sales personnel.

TABLE 3
SUMMARY OF IBERC ESTIMATES OF THE COSTS
AND BENEFITS OF THE LEGISLATION

Textiles and Apparel

Total Annual Cost (at Wholesale)	$1 billion
Manufacturing Jobs Supported	+20,627
Retail Jobs Lost	-20,373
Net Jobs Supported	254
Apparel Import Cutback	7%
Textile Import Cutback	8%

Footwear (for First 4 Years)

Total Cost (at Wholesale)	$5 billion
Manufacturing Jobs Supported	+34,728
Retail Jobs Lost	not calculated
Import Cutback	36%

Source: International Business and Economic Research Corporation.

The cost per net textile or apparel-related job saved amounts to $4,145,669. In effect, consumers would have been assessed a hidden "tax" of $4,145,669 for every textile and apparel manufacturing job allegedly saved by the legislation. Since the average annual salary of a textile worker in 1984 was about $13,000, and that of an apparel worker about $10,000, it would be far cheaper for consumers to be taxed outright to pay each of those 10,000 workers' salaries (and benefits) directly for as long as consumers wished to keep them employed.

Calculations based on the original House version of H.R. 1562[13] indicate that the job gains and losses would not be distributed evenly across the U.S. IBERC's state-by-state analysis of the distribution of employment benefits and losses reveals that at least 35 states would suffer net job losses if the legislation were eventually enacted. While major textile-producing states of North Carolina, South Carolina, and Georgia would be the major beneficiaries of additional quotas, numerous midwestern and southwestern states, as well as California, would be heavy net losers (see Table 4).

13. IBERC estimates that the original H.R. 1562 would have "saved" 71,413 textile jobs at a cost of 61,500 jobs in the retail sector, for a net gain of only 9,905 jobs.

TABLE 4

ESTIMATED DISTRIBUTION OF MANUFACTURING JOBS SUPPORTED AND RETAIL JOBS LOST BY H.R. 1562 BY REGION AND STATE

(Number of Jobs)

	Manuf. Jobs Supported	Retail Jobs Lost
South	**40,067**	**14,126**
Alabama	4,115	816
Delaware	62	195
Dist. of Col.	0	200
Florida	171	3,321
Georgia	7,020	1,576
Kentucky	987	818
Maryland	245	1,316
Mississippi	1,350	509
North Carolina	12,982	1,576
South Carolina	7,214	786
Tennessee	3,002	1,138
Virginia	2,775	1,495
West Virginia	144	380
Northeast	**19,140**	**12,126**
Connecticut	751	N.A.
Maine	615	308
Massachusetts	2,250	1,909
New Hampshire	76	325
New Jersey	2,403	2,078
New York	7,132	4,153
Pennsylvania	5,146	2,949
Rhode Island	681	261
Vermont	86	143
Southwest	**3,622**	**6,861**
Arkansas	545	499
Louisiana	345	1,078
Oklahoma	294	827
Texas	2,438	4,457

	Manuf. Jobs Supported	Retail Jobs Lost
Midwest	**4,043**	**15,555**
Illinois	784	3,039
Indiana	321	1,449
Iowa	143	743
Kansas	147	647
Michigan	526	2,160
Minnesota	259	1,292
Missouri	783	1,315
Nebraska	88	429
North Dakota	0	177
Ohio	656	2,790
South Dakota	0	181
Wisconsin	336	1,333
Mountains	**433**	**3,454**
Arizona	0	859
Colorado	112	983
Idaho	0	228
Montana	0	222
Nevada	0	268
New Mexico	76	360
Utah	245	400
Wyoming	0	134
West	**4,133**	**9,356**
Alaska	0	136
California	3,972	7,033
Hawaii	0	345
Oregon	161	709
Washington	0	1,133

Source: International Business & Economic Research Corporation, revised, derived from unpublished BLS data.

A more detailed IBERC analysis of the impact of the House legislation on Texas shows that the small number of textile jobs supported would be outweighed vastly by job losses in manufacturing and agricultural export industries, including cotton farming, export and import related services, and retailing. Because of its strong export orientation, Texas would be hard hit by the loss of foreign exchange of overseas buyers. It would also bear heavy costs if protectionism led to retaliation. Some 91,300 jobs in Texas in 1981 depended on exports of chemicals, primary and fabricated metal products, and machinery.[14] In addition, Texas is one of the country's top five exporters of agricultural products and a major exporter of raw cotton, making it particularly susceptible to retaliation.

The final version of the legislation is not a significant improvement. The distribution of the job gains and losses would be similar to that shown in Table 4 for the original House bill. While incorporating changes intended to reduce some foreign objections, the final legislation still would violate U.S. obligations under the GATT and the MFA; pose a serious threat to American exports because of foreign retaliation; and create a multibillion dollar burden for the American consumer. Because the overall rollback provisions of the final bill were slightly less restrictive than the original, the total annual cost to the textile and apparel consumer would be somewhat reduced.

The final bill, however, also includes quotas to restrict imports of footwear to 60 percent of the U.S. market. The cost of this to the U.S. economy is estimated by IBERC at over $5 billion (at wholesale) over the first four years of the quotas. Over this same period, 34,728 jobs would be supported, at an average annual cost of $36,088 per job.

Table 5 summarizes the costs associated with existing textile and apparel protection as well as the additional protection provided in the House and Senate legislation. Every American would be "taxed" annually the equivalent of $20 to protect 254 textile and apparel jobs. For large families, therefore, the hidden costs of protection could be very high. These "per American" costs, moreover, are averages, and do not reflect the fact that low-income families spend a larger proportion of their income than others on clothing and footwear. For these consumers, the annual "tax" would be much higher than that shown.

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14. U.S. Department of Commerce, Bureau of the Census, 1981 Annual Survey of Manufacturers, Origin of Exports of Manufactured Products (M81(AS)-5).

TABLE 5
TOTAL ANNUAL RETAIL COST TO CONSUMER OF EXISTING AND PROPOSED TEXTILE AND APPAREL PROTECTION

Product	Existing Tariff and Quota Protection	Additional Cost Based on Senate Bill
Textiles & Apparel ($billions)	$87.6[15]	$2.2[16]
Footwear ($billions)	0	2.5[17]
Cost of protection per American (1984 dollars)	$370	$20

CONCLUSION

The American consumer already pays a significant amount to protect the U.S. textile and apparel industry from imports, and it hardly seems fair to increase that burden. To make matters worse, estimates of the costs and benefits show that such protection is not an effective way to save American jobs overall. To be sure, some U.S. textile and apparel manufacturing jobs would be saved. But as many, and probably more, jobs would be lost in retailing, agriculture, and other export-related industries. In effect, the bill says that a textile or apparel worker's job is more "valuable" than that of a retail or farm worker and is, therefore, more "worth" saving.

Jobs for Americans can be saved. But it takes improved productivity and industry adjustment to the changing conditions of international competition in the textile and apparel industries, not quotas and tariffs. Lower taxes and policies creating a climate conducive to investment and risk taking help create jobs. But increasing protection merely forestalls necessary adjustment to market changes. And protection hinders the restructuring of U.S. textile and

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15. See Table 2, wholesale estimates by Hufbauer, et al. and Munger were converted to retail by assuming that 100 percent of the increase in cost is passed on to consumers.

16. IBERC estimate, converted to retail.

17. Estimated average annual cost based on the estimate for 4 years, converted to retail.

apparel industries into an internationally competitive sector of the U.S. economy.

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