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## Clothing the world efficiently: The MFA and consumers

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# Kieler Arbeitspapiere

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Working Paper No. 208

Clothing the World Efficiently

- The MFA and Consumers -

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"Pass a law to (the) effect (that no) one shall henceforth be permitted to employ any beams or rafters but such as are produced and fashioned by blunt hatchets ... Whereas at present we give a hundred blows, we shall then give three hundred. The work which we now do in an hour will then require three hours. What a powerful encouragement will thus be given to labor? ... Whoever shall henceforth desire to have a roof to cover him must comply with our exactions, just as at present whoever desires clothes to his back must comply with yours" (Frederic Bastiat on proposal of French Minister of Commerce to raise duty on imported cloth, in: Heilbronner, p. 154).

The sarcasm of Bastiat almost 150 years ago quite aptly and in all seriousness covers a fair share of the arguments raised whenever foreign industries are more competitive than domestic ones. Vested interests, ranging from employers and employees to unions and elected officials, arouse support around the well-known protectionist arguments, among which the employment issue plays a central role. Such is the case with the Multifibre Agreement (MFA), which came into being under the umbrella of GATT, itself (ironically enough) born out of the recognition of the need to ensure full employment and a steadily increasing volume of real income (see GATT Preamble).

In light of the increasing sectoral employment problems in many industrialized countries, already struggling with aggregate unemployment levels which have been ratcheting up over the last decade, and aggregated by the zero-sum world in which we seem to exist, scapegoats are sought and quickly found - outside the country of course. That is, employment in MFA industries in developing countries is sacrificed for employment in industrial countries. Should such reactions not be halted, a new Smoot-Hawley era - this time disguised by doubletalk in the form of "organized free trade", "voluntary restraints" and "multilateral mutual consensus agreements" - would be just around the corner. It is

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Note: The authors would like to thank Juergen B. Donges and Martin Wolf for helpful comments on an earlier version. Nonetheless the usual waiver applies.

thus of crucial importance - and this is the intention of this paper - to delineate certain basic employment issues connected with the ramifications of an agreement like the MFA<sup>1</sup>.

This paper first gives a brief overview of the scope of the problem; attention is then drawn to certain theoretical and policy-based incongruences before moving on to some statistical underpinnings.

### I Background on Trade in Textiles and Clothing

At the crux of the issues which led to the MFA (and its forerunners the STA and LTA)<sup>2</sup> lies the simple fact that to a large extent the textile and clothing industries belong to the classical import substitution and export expansion industries<sup>3</sup>. It can thus hardly be surprising that those countries, industrializing in line with basic neoclassical principles regarding an efficient economic allocation of resources, should develop labour intensive lines of production, among which textiles and clothing play an important role. As it turns out, those developing countries which capture large shares of the world market for textile and clothing (see Table 1) contribute to the well known economic success stories. Others, like India, whose share initially was quite large, failed to remain competitive even regarding labour intensive lines of production and lost out considerably over the years. All in all the developing countries were able to more than double their world market share of manufacturing exports and exports of clothing over the 16 year period; the share of textile products in world trade from these countries, however, remained at roughly the same level. The relatively poor performance of textiles is no doubt due to increased domestic production and downstream processing in the LDCs. The extent to which the developing countries shifted the structure of their exports away from textiles and between textiles and clothing can be seen in Table 2.

These developments caused trade balances particularly for clothing of most of the industrialized countries to exhibit sizeable and even increasing deficits (Table 3). Accordingly imports from

Table 1: Exports of Total Manufactures<sup>a</sup>, Textiles (SITC 65) and Clothing (SITC 84) for Selected Regions and Countries - 1965-1981

	1965			1973			1981 <sup>b</sup>		
	Manufac- tures	Textiles	Clothing	Manufac- tures	Textiles	Clothing	Manufac- tures	Textiles	Clothing
World (Mill.US-\$) of which (%)	103040	8270	2830	349275	23160	12590	1090000	55100	41300
Developed countries	83.26	73.88	68.16	81.77	73.92	54.96	80.06	65.79	44.67
EEC	46.73	47.38	46.17	46.30	47.58	39.00	39.88	38.15	31.38
Germany	15.06	8.05	7.09	16.88	13.13	7.23	13.52	10.05	6.10
United Kingdom	10.39	9.29	4.83	6.96	6.24	3.49	5.98	4.28	4.12
Japan	7.43	13.77	10.14	9.90	10.57	2.93	13.34	10.62	1.40
USA	16.29	6.38	6.12	12.23	5.26	2.22	14.26	6.55	3.05
Developing countries	4.34	18.80	17.52	6.90	17.48	30.34	10.14	23.05	40.68
Developing countries <sup>c</sup> (Mill.US-\$) of which (%)	4480	1555	496	24100	4050	3820	110550	12700	16800
1. Taiwan (5)	4.17	2.97	4.01	15.87	11.50	15.83	17.60	15.92	16.97
2. Korea (9)	2.32	1.69	4.17	11.71	10.76	19.63	12.75	19.29	22.98
3. Hongkong <sup>d</sup> (1)	19.35	1.18	63.00	15.71	11.36	36.39	12.48	7.40	28.15
4. Singapore <sup>d</sup> (11)	1.61	0.70	0.80	4.94	3.54	3.39	8.88	2.68	2.80
5. Brazil (8)	2.48	0.94	-	5.26	5.65	2.32	8.24	5.28	0.77
6. Israel (3)	6.17	1.51	2.80	4.79	1.28	2.25	4.15	0.94	1.43
7. India (2)	18.06	37.33	2.70	6.74	17.03	2.63	3.44	7.18	2.96
8. Malaysia (12)	1.51	0.25	0.18	1.50	0.08	0.54	1.99	1.15	0.81
9. Thailand (15)	0.27	0.21	-	1.10	2.16	0.90	1.63	2.80	1.71
10. Argentina (10)	1.82	0.07	-	3.15	0.53	0.78	1.86	0.31	0.93
11. Mexico <sup>d</sup> (6)	3.70	1.45	0.40	4.76	3.22	1.75	1.48	0.41	1.76
12. Pakistan (4)	4.25	9.73	0.38	2.56	10.95	0.44	1.31	7.72	0.83
13. Philippines (13)	1.47	0.29	5.60	0.95	0.59	0.29	1.13	0.60	1.69
14. Colombia (14)	0.75	0.68	-	1.33	1.34	0.50	0.70	0.87	0.71
15. Egypt (7)	2.74	6.57	0.40	1.22	4.13	0.76	0.25	1.65	0.12

<sup>a</sup>SITC 5 to 8 minus 68 (non-ferrous metals). - <sup>b</sup>EEC includes Greece; for India, Malaysia, Argentina, Thailand and Philippines 1981 values estimated. - <sup>c</sup>Countries ranked by 1981 share in manufacturing exports. The number in ( ) is rank in 1965. - <sup>d</sup>Excluding re-exports.

Sources: Own calculations based on: UN Yearbook of International Trade Statistics, recorded years, supplemented by UN Commodity Trade Statistics, UN Monthly Bulletin of Statistics, UNCTAD Handbook of International Trade and Development Statistics, GATT, International Trade 1982/83, national trade statistics, GATT, Study on Textiles and GATT, Network of World Trade by Areas and Commodity Classes.

Table 2: Textiles (SITC 65) and Clothing (SITC 84) Export Shares (%)<sup>a</sup>  
for Selected Regions and Countries - 1965-81

	1965		1973		1981 <sup>b</sup>	
	Textiles	Clothing	Textiles	Clothing	Textiles	Clothing
World	8.02	2.74	6.63	3.60	5.06	3.79
Developed Countries	7.12	2.24	5.99	2.42	4.15	2.11
EEC	8.14	2.71	6.82	3.03	4.84	2.98
Germany	4.20	1.29	5.09	1.51	3.76	1.71
United Kingdom	7.17	1.27	5.94	1.80	3.62	2.61
Japan	14.87	3.74	7.08	1.06	4.02	0.40
USA	3.14	1.03	2.85	0.65	2.32	0.81
Developing Countries	34.70	11.07	16.80	15.85	11.49	15.20
Taiwan	24.75	10.66	12.68	16.46	10.39	14.65
Korea	25.33	19.94	16.08	27.67	17.38	27.38
Hongkong	21.28	36.04	18.31	40.77	6.81	34.09
Singapore	15.25	5.54	12.54	11.33	3.46	4.79
Brazil	13.24	-	18.81	7.28	7.36	1.43
Israel	8.54	5.03	4.70	7.77	2.62	5.23
India	71.76	1.65	44.20	6.45	23.98	13.09
Malaysia	5.89	1.32	6.78	6.03	6.62	6.17
Thailand	28.09	-	34.37	13.50	5.87	4.73
Argentina	1.35	-	2.95	4.10	1.95	7.59
Mexico	13.69	1.20	11.83	6.09	9.11	0.31
Pakistan	79.60	0.99	74.83	2.86	67.87	9.70
Philippines	6.99	42.24	10.97	5.19	6.11	22.83
Colombia	31.36	-	17.67	6.24	14.21	15.50
Egypt	83.15	1.62	55.13	10.26	76.09	7.25

<sup>a</sup>% of respective exports of manufactures. - <sup>b</sup>EEC includes Greece; for India, Malaysia, Argentina, Thailand and Philippines 1981 values estimated.

Source: Own calculations based on sources in Table 1.

Table 3: Trade Balances in Textiles and Clothing for Selected Regions/Countries and Years  
(Bill. \$)

Region	Textiles			Clothing		
	1963	1973	1981	1963	1973	1981
EEC - Total	0.99	2.02	1.94	0.23	-0.85	-5.02
EFTA	0.28	0.60	0.77	0.10	0.42	1.27
Other industrial countries	0.16	0.48	-0.04	0.13	0.31	0.23
Southern European countries	0.04	0.11	-0.17	-0.01	-0.37	-1.08
Developing countries	0.29	0.11	0.35	-0.01	-0.95	-4.27
Eastern trading area	0.01	0.28	0.37	0.00	-0.25	-0.98
EFTA - Total	-0.30	-0.59	-0.53	-0.12	-0.71	-2.23
EEC	-0.27	-0.57	-0.69	-0.10	-0.45	-1.35
Other industrial countries	-0.03	0.04	-0.02	0.00	0.00	-0.09
Southern European countries	0.00	-0.03	-0.02	-0.01	-0.10	-0.25
Developing countries	0.00	-0.05	0.13	-0.02	-0.17	-0.77
Eastern trading area	-0.01	-0.03	0.01	-0.01	0.00	0.22
USA - Total	-0.19	-0.36	0.54	-0.30	-1.88	-6.86
Industrial countries	-0.15	-0.17	0.19	-0.23	-0.50	-0.30
Southern European countries	-0.02	-0.03	-0.01	-0.01	-0.07	-0.02
Developing countries	-0.08	-0.26	0.06	-0.06	-1.31	-6.01
Eastern trading area	0.00	0.01	0.01	-0.00	-0.02	-0.56
Japan - Total	0.86	1.32	4.22	0.19	-0.20	-1.22
Industrial countries	0.22	0.05	0.42	0.12	0.18	-0.03
Developing countries	0.51	0.99	3.00	0.07	-0.36	-0.97
Eastern trading area	0.02	-0.01	0.39	0.00	-0.04	-0.22

Source: GATT International Trade 1982/83.



developing countries as a percent of apparent consumption moved upward (Table 4), whereby it can hardly be contended that on the average the levels reached by 1976/77 were threatening. Pre-World War II experience to the contrary, more protection was called for and governments developed a finely tuned apparatus of measures to ensure that the constituents (entrepreneurs and workers) were satisfied in the short-run, while preferring not to worry about the longer term problems. Maybe, however, such an approach was not only fooling one's self, but actually creating undesirable expectations among the constituents who assumed that governments would behave similarly in the future.

While it might be assumed for the most successful of developing countries, where the industrialization process is rapidly expanding, that structural shifts are more easily swallowed, rapid interindustry changes in industrialized countries - particularly when lower economic growth rates allow little room for maneuvering - engenders protection. Thus instead of promoting the process of disinvestment in "aging industries" in industrialized countries, it was slowed down or even reversed (mainly by instituting subsidies and other non-tariff barriers).

Further complicating the issue was the fact that in many cases the textile and clothing industries had been able to survive only by having been relocated to peripheral areas with lower wage/production costs as well as by employing marginal workers. Furthermore, defensive capital intensive production methods were introduced, complemented in recent years by the micro-technology revolution. Nonetheless, all these counter measures did not keep exports from developing countries from increasing faster than domestic production in industrial countries.

## II The Debate on the Relation Between Protection and Employment

Mainstream economics contends that foreign trade protection distorts prices as well as the national and international allocation of resources; with protection the social product is said to be lower than it could be without protection. Nevertheless there are

Table 4: Trade as % of Apparent Consumption in the EEC, USA/Canada and Japan - 1968 and 1976/77

	EEC <sup>a</sup>		USA/Canada <sup>a</sup>		Japan	
	1968	1976/77	1968	1976/77	1968	1976/77
Manufactures (bill.\$)	344.0	1067.5	648.8	1391.9	127.4	494.9
Total external imports	5.63	8.86	3.13	5.23	1.88	4.35
Developed Countries	4.06	6.19	2.35	3.39	2.75	2.60
EEC	(7.56)	(14.75)	1.33	1.53	0.72	0.71
USA/Canada	1.87	2.16	(2.23)	(3.29)	1.58	1.31
Japan	0.18	0.72	0.65	1.33	-	-
Developing Countries	1.14	1.80	0.75	1.76	0.87	1.56
Total external exports	7.89	14.96	3.38	5.25	9.93	14.67
Textiles (bill.\$)	19.9	53.7	28.8	51.2	8.9	25.4
Total external imports	3.68	8.36	4.00	4.19	1.54	3.51
Developed Countries	2.22	4.22	2.61	2.30	0.85	1.22
EEC	(8.49)	(15.90)	1.22	1.17	0.61	0.81
USA/Canada	0.69	1.15	(0.66)	(1.17)	0.12	0.23
Japan	0.21	0.29	1.10	0.91	-	-
Developing Countries	1.12	3.33	1.93	1.67	0.55	1.78
Total external exports	8.51	11.02	1.67	3.22	16.20	13.88
Clothing (bill.\$)	13.6	32.4	27.5	47.7	1.7	10.6
Total external imports	4.12	22.45	5.85	14.81	2.85	10.60
Developed Countries	1.74	7.95	3.78	3.98	1.25	2.97
EEC	(7.88)	(24.04)	2.03	2.27	0.84	2.17
USA/Canada	0.33	0.74	(0.29)	(0.63)	0.24	0.45
Japan	0.19	0.29	1.25	0.63	-	-
Developing Countries	1.93	11.50	1.98	10.39	1.16	6.93
Total external exports	8.98	14.49	1.02	1.81	33.62	6.85

<sup>a</sup> The internal trade of EEC and USA/Canada in ( ) - otherwise excluded.

Source: UNCTAD, Supplement 1980 Handbook of International Trade and Development Statistics.

always arguments put forward to justify foreign trade protection of which the following are the most common:

- unfair competition or the burden of imports;
- too high adjustment costs;
- imports rather than domestic parameters determine the level of employments;
- the lack of alternative employment opportunities.

Whereas these arguments are dealt with individually, empirical evidence - because all these points are interconnected - thrusts towards the employment and income effects of an international relocation of MFA industries.

Freedom of choice seems to be an enormously scarce good. If adjustments would take place quickly representatives of the clothing industry or of the respective trade union would not argue about the burden of unemployment created by "unfair" imports; they would rather move into other occupations with less burdens and less unfairness. But the consequences of having such a free choice - namely the job and locational turnover as well as insecurities - are perceived as being too costly. A reason for this may be seen in the price increasing effects of a protectionist policy which reduces competitiveness of foreign suppliers, thereby making it unnecessary for domestic producers and labour to look for new occupations, at least for the meantime; it rather pays them to look for arguments which make governments grant protection. One such argument is that competitors in less developed countries have an unfair cost advantage because of their lower wages. How can the German clothing industry compete successfully with Hongkong or South Korean suppliers if wages are ridiculously low in these countries?

The answer obviously is: it cannot. If it could, it would not invest scarce resources in lobbying activities and would not need such a high degree of protection. The economic question neverthe-

less is whether overall domestic welfare can be increased by a policy which compensates international wage differentials. On the average the national wage level - given the capital stock - corresponds to the national level of labour productivity, but it is the sectoral wage level which matters here. Some MFA-industries exhibit considerably lower productivity than the national average, but if they are forced to pay average wages and there is considerable import competition, their existence is severely endangered. The wages these industries have to pay - to keep labour from moving out or to satisfy trade unions - are thus too high to maintain international competitiveness; but at the same time these wages are too low to give workers an income comparable with other industries - which may partly explain why the share of low skilled or female labour is relatively high in MFA industries<sup>4</sup>.

Granting protection to these industries will keep labour and capital from leaving sectors with inherently low returns. Eliminating foreign competition will not raise the industry's productivity as measured by world market prices and thus not increase competitiveness on world markets. Instead a new burden of foregone clothing imports via protection arises which becomes a burden to consumers (who have to pay higher clothing prices), to unprotected domestic branches including export industries (who have to live with an overvalued exchange rate) and, last but not least, to foreign exporters (who have to depreciate past investments more quickly) and to producers in other clothing importing countries (who will be subjected to increased competition).

A commonly stated argument is that adjustment costs are too high and thus imports should be limited. For this to be true, however, the comparative disadvantages of clothing production must be seen as being only of short-run significance. In the same vein, but more on the non-economic side, is the argument that changes in the structure of production due to comparative disadvantages of production are too "painful" for all factors of production.

According to the first argument international differences in the costs of production are not lasting - it would not be advisable to make the structure of domestic production depend on such a static concept. This is one of the few arguments which may be refuted on a priori grounds: (1) In case the international factor price equalization is prevented through protection the causes of international differences in comparative costs - namely differences in relative factor prices - will remain; evidence of this may be found in the continuous decline of the industrial countries' share of MFA exports (Table 1) despite the MFA. (2) International trade theory tells us that free trade tends to equalize prices for identical factors internationally; this does not imply that comparative advantages are eliminated, but that a further expansion of trade (beyond the status where factor prices are the same internationally) is not of additional benefit to the participants.

Whether the costs of adjusting to an increase in clothing imports must be considered to be too high is basically a question of the view of the social welfare. It may be mentioned that there are other causes of changing levels and structures of production which are often regarded as more important (changes in demand, or exports, or productivity); it may further be argued that economic (as well as any other) progress is quite unthinkable without adjustment (Lorenz, 1980, pp. 35). That is to say every decision of preventing or of only delaying adjustment is also costly. Every economic policy aiming at a certain level and structure of employment restricts structural change and leads to losses in the social product, static as well as dynamic.

When employment problems are seen as stemming from imports rather than from domestic parameters, such as wages, the following specific points are brought forth in connection with textiles and clothing:

- imports are rising too fast (or import shares of specific countries are rising too fast);

- production is of a special regional importance because of its location in economically weak regions;
- production has a unique structure of employment which calls for a certain amount of protection; mostly the high share of female employment or of low skill employment is mentioned in this connection;
- interregional (or international) mobility of the factors of production is relatively low;
- the increasing divisibility of production processes enhances the export of more and more activities, a technical tendency which should be compensated by an increase in the protection of remaining activities.

All these arguments stress the point that it is in the interest of full employment to do something against imports, because they are considered a prime "cause" of unemployment. First, something should be said about the old assignment problem. It does not suffice to demand protection in order to increase (maintain) employment; it should then be explained what wages are for in such a scenario. To put it positively: as long as there is a strong correlation, in theory as well as empirically tested, between wages and employment, one should look for the real causes of unemployment instead of trying to attribute unemployment to imports (too many), exports (too few), productivity (too high) or demand (too low). Whatever trade policy prevails the hypothesis has not been refuted that there is a wage rate change for every tariff increase or for every trade liberalization which ensures full employment. If trade policy is ready and willing to compensate every wage bargain with respect to the employment issue, responsibility of trade unions and employer's organizations would be watered down.

A second point is that if behind the above hypotheses a real humanitarian concern lies, it can be argued that it is inhumanitarian to divide such a concern; i.e. he who raises humanitarian points should raise them in such a way that they are applicable on a universal basis. This would imply that the employment ef-

fects at home as well as in those countries whose imports are hampered should be considered equally and equal. Taking everything into account - including labour intensity of production or alternative employment possibilities - it may be surmised that import restrictions through the MFA have higher employment displacement effects in less developed countries than they have a positive employment effect in industrial countries. In other words: the MFA supporters have yet to demonstrate positive world employment effects.

Third, trade deficits in some industries are to be expected as a consequence of a world in which a national exchange rate is not determined by sectoral trade balances but rather by pecuniary relative costs as well as by non-quantifiable aspects embodied in the economy. Thus, for a given industry the exchange rate may be either over- or undervalued depending on the industry's competitive position. A policy aimed at balancing sectoral trade flows would be pure nonsense.

This argument can be refined by introducing linkages among industries or between imports and exports. A country like the Federal Republic of Germany is highly competitive internationally regarding investment goods. Part of the export success is due to the supply of textile and clothing machinery. Reducing demand by limiting textiles and clothing imports would in the long run inevitably lead to lower exports of textile and clothing machinery. Taking together the whole complex of textiles, clothing and linkages may eventually lead to the question why we do not subsidize clothing imports in order to improve employment in the machinery exporting sector instead of taxing it?

It should, finally, be pointed out that "the main object of economic policy is not to cure unemployment: it is to increase the social dividend. If by curing unemployment that end is accomplished, well and good. If the cure involves measures inimical to the increase of the dividend its desirability is more dubious" (L. Robbins, p. 50)<sup>6</sup>.

A certain asymmetry has recently been pointed out regarding the problem of alternative employment in connection with the two fundamental foreign trade strategies. The protection strategy is, at least in the short run, aimed at securing certain jobs of a certain industry in a certain region. The free trade strategy is more of a benign indeterminacy regarding these certainties<sup>7</sup>. Whereas the first can well define its (admittedly narrow) accomplishments, the latter rests on very abstract reasoning and is really unable to make itself understood by, say, an individual female textile worker, catholic and of old age, with a big family, working in Eastern Bavaria.

The harder it is to make the free trade position understood the more it may be appropriate to rely on a milder form of trade liberalization. This milder version can be put under the heading of gradual adjustments<sup>8</sup>, in the first round renouncing an increase in protection, then decreasing protection gradually over a longer period of time. Much of the employment problem will then be borne noiselessly, by less hiring of new labour and by retirement.

### III Some Statistical Underpinnings

The arguments based on the claim of unfair competition because of low wages in LDCs tell only part of the story, as lower levels of social security and supplementary benefits as well as higher levels of capital utilization (i.e. lower fixed costs/unit output) ensure that the cost advantages increase (see Tables 5a and 5b)<sup>9</sup>.

Knowing that productivity differences between industrialized and industrializing countries for such processes are minimal, Table 5 underlines how large the cost differences actually are: wage costs in developing countries are one fifth on an industrialized country (5a - col. 3). As concerns capital costs/unit output they are up to three times higher in industrial countries as compared with those LDCs which have been particularly successful. Keeping the above information in mind and combining it with data on capi-



Table 5a: Average Hourly Earnings (US-\$) of Production Workers in Wearing Apparel Industry in Selected LDCs and Comparable Earnings in USA - 1970

	Earnings <sup>a</sup> in country (1)	Earnings <sup>a</sup> in USA (2)	(1)/(2) . 100 (3)
British Honduras	0.28	2.11	13.27
Costa Rica	0.34	2.28	14.91
Honduras	0.45	2.27	19.82
Mexico	0.53	2.29	23.14
Trinidad	0.40	2.49	16.06

<sup>a</sup> Includes supplementary compensation.

Source: U.S. Tariff Commission, "Economic Factors Affecting the Use of Items 807.00 and 806.30 of the Tariff Schedules of the United States." Washington, D.C. 1970.

Table 5b: Cotton Spindle and Loom Utilization<sup>a</sup> in Selected Countries 1960 and 1970

	1960		1970	
	Spindle	Loom	Spindle	Loom
EEC (6)	67.04	51.90	70.48	55.11
Germany	61.40	53.17	65.37	58.61
United Kingdom	36.11	42.50	59.60	50.72
Japan	77.00	72.96	85.85	81.96
USA	100.37	103.67	98.02	101.12
S.Korea	96.04	61.00	121.08	108.38
Taiwan	108.36	-	114.63	108.38
Hong Kong	135.48	127.74	135.48	135.48

<sup>a</sup> 100 = 3 shifts = 6200 hrs.

Source: Study on Textiles, GATT, 1972, pp. III-3 + III-9.

tal costs/job in a MFA affected industry in a country like Germany (see Table 6), the argument for an international relocation of such industries is given additional impetus. In reality, however, it is not a matter of relocating an entire industry, but rather one where certain production processes are shifted to an LDC. Such an approach has received attention in recent years e.g. through the establishment of Free Trade Zones (FTZs), which in essence allow firms to profit from the comparative advantages of a given country with only a minimal amount of regulatory interference. Whatever the case, a given absence or drop in investment negatively impacting employment in a country like Germany - given the current parameters - could well be outweighed by a manifold increase in employment in an LDC.

The question is of course immediately raised about the degree to which one can be sure that the ensuing unemployed in an industrial country, due to lags, stickiness and lack of information will actually find their way into adequate jobs. While no 100% assurance can be given here, the experience in other countries shows that only a small share of those out of work have extreme difficulty in finding an appropriate job<sup>10</sup>. As a matter of fact the sooner adjustments take place the more likely labour will be able to find suitable jobs, since the older a worker becomes, the more difficulty he or she has in finding adequate employment.

This leads to the argument about the regional impact of increased imports of textiles and clothing into industrialized countries; i.e. since MFA industries are often located in peripheral areas, where other job opportunities are lacking the burden of adjustment effects is heavily concentrated on these areas. While it can be shown that such industries are generally located in the less prosperous areas of the industrial countries, it is equally true that in LDCs these industries are basically located in the urban areas taking advantage of the agglomeration economies and access to foreign markets (see Table 7). To the extent that protection in industrial countries keeps such industries from expanding production in such a way that neither economies of scale can be

Table 6: Capital Costs per Job in Selected Industries in Germany:  
1962, 1969 and 1977 (DM)

	1962	1969	1977	% change <sup>a</sup>	
				62-69	69-77
<b>Textiles:</b>					
Physical capital	27692	43012	77141	+ <u>55.3</u>	+ <u>79.3</u>
Human capital	6107	9938	21497	+ 62.7	+116.3
Total capital	33799	52950	98638	+ <u>56.7</u>	+ <u>86.3</u>
<b>Clothing:</b>					
Physical capital	9249	13655	22962	+ 47.6	+ <u>68.2</u>
Human capital	5043	7982	17239	+ 58.3	+116.0
Total capital	14292	21637	40201	+ 51.4	+ <u>85.8</u>
<b>Manufacturing:</b>					
Physical capital	32794	49124	76893	+ 49.8	+ 56.5
Human capital	7437	12596	27981	+ 69.4	+122.1
Total capital	40231	61720	104874	+ 53.4	+ 69.9

<sup>a</sup> The underlined figures are above average.

Source: Own calculations of Institute for World Economics.

Table 7 - Regional Development Levels and Concentration of MFA Industries in the Philippines (1977) and Malaysia (1973)

	GDP/Capita US\$-PPP Adj. <sup>a</sup>	% of textile and clothing industry	% share of manufacturing industry
<u>Philippines</u>			
Metro Manila	1516	55.6	51.6
Southern Mindanao	665	2.6	3.3
Western Visayas	651	3.3	5.9
Southern Tagalog	573	10.8	9.6
Northern Mindanao	470	2.4	3.9
Central Visayas	467	2.3	5.1
Central Luzon	429	11.1	7.5
Ilocos	365	3.5	4.1
Cagayan Valloy	355	0.9	1.7
Central Mindanao	332	1.4	2.5
Western Mindanao	324	1.5	1.4
Eastern Visayas	311	1.2	1.3
Bicol	304	3.1	3.2
<u>Malaysia</u>			
Selangor	819	16.6	35.4
Penang	687	36.8	17.0
Perak	683	22.2	14.2
Negri Sembilan	681	0.4	2.8
Pahang	678	1.3	4.2
Johore	626	20.1	14.8
Kedah/Perlis	463	0.1	3.5
Trengganu	412	1.2	1.6
Kelantan	322	1.4	2.8

<sup>a</sup> Purchasing power parities based on Kravis et al., Real GDP Per Capita for More Than One Hundred Countries. In: The Economic Journal, No. 350, June 1978, Vol. 88.

Source: Own calculation based on national statistics.

achieved nor extensive linkages and external economies induced, then a rapid expansion of the income and industrial base is thwarted. Such an expansion is particularly necessary in those LDCs where regional development disparities have led to unacceptable levels of out-migration from peripheral areas. Since the increase in income levels allows governments more room to help provide the necessary preconditions for industrialization in the peripheral areas and the widening of the industrial base as well as the development of linkages help engender the process through which appropriate industries can be spawned in peripheral areas, this process would increase income levels in the outlying areas and thus help to counter the flow of migrants into the urban areas<sup>11</sup>.

Given the increased use of footlose, high-technology methods in industrial countries in setting up alternative businesses in peripheral areas, without suffering from communication or information deficiencies, it should be possible to institute an interfacing of trade liberalization in the MFA industries with a phasing-in of new industries in these areas. Perhaps - if structural rigor mortis is to be overcome - the introduction of some sort of free activity zone regulation in these regions would bring back the type of entrepreneur, who in the past often migrated into the agglomeration areas.

What causes structural rigor mortis in the first place is clearly connected with the perceived connection between imports and employment, as protected markets, from which the inefficient profit at the expense of the efficient, have little need for competition. It might be added that unemployment is rarely seen as being caused by endogeneous ineptitudes - such as a wage policy which has caused wages to exceed the full employment equilibrium long ago. With such reasoning it is hardly surprising to find arguments which point to productivity increases as a major reason for jobs being destroyed. Kierzkowsky and Sampson are a case in point here. After presenting a component breakdown of employment by domestic demand, labour productivity and net trade (Table 8), they note "that as expected international trade had a generally

Table 8: Clothing Industry: Employment Effects of Changes in Demand, Productivity and Net Foreign Trade in Selected EEC Countries - 1970-1976

Countries	Employment (1000s)		% change in employment due to		
	1970	1976	Net trade	Labor productivity	Domestic demand
Italy	207	206	+10.9	-18.7	+7.3
France	322	280	-2.2	-18.7	+8.0
Germany	374	276	-7.8	-19.0	+0.5
United Kingdom	333	291	-9.5	-23.7	+20.6
Belgium	77	70	-15.1	-33.2	+38.6
Netherlands	49	21	-38.3	-37.0	+17.6
Total	1362	1144	-5.6	-21.4	+11.0

Source: Kierzkowski and Sampson, p. 49.

Table 9: RCAs for Textile, Clothing, Total Manufactures and Investment Goods for Germany by Selected Regions - 1962, 1969 and 1977

Region	1962	1969	1977	1962	1969	1977
	Textiles			Clothing		
World	-42	-31	-25	-37	-40	-45
Industrial countries	-42	-30	-21	-34	-33	-25
EEC (6)	-61	-39	-26	-43	-29	-14
North America	8	26	-3	-1	-24	-36
Japan	-91	-58	-13	-99	-92	6
Developing countries	-42	-45	-52	-68	-83	-89
LDCs in C + S America	-43	-28	-76	-73	-33	-95
LDCs in Asia + Oceania	-61	-65	-65	-82	-93	-95
	Total manufactures			Investment goods		
World	6	6	9	52	45	38
Industrial countries	0	0	2	41	36	25
EEC (6)	-4	-1	0	44	42	23
North America	-10	-2	3	19	29	24
Japan	0	0	-1	55	15	-19
Developing countries	36	38	46	99	97	88
LDCs in C + S America	20	17	14	99	97	87
LDCs in Asia + Oceania	49	35	41	98	96	83

Source: K. Breithaupt et al. - Tables A 4-7 ff.

negative impact on the level of employment in the clothing industry ... In general, however, it is apparent that international trade did not constitute the major source of labour displacement, ... productivity increases were by far the most important factors ... 76 thousand jobs (were lost) to the net trade while 290 thousand jobs were lost due to productivity changes (p. 49)". The logical conclusion is obviously to forbid productivity increases or even reduce productivity to increase employment - Bastiat's suggestion with blunt axes fits in well here. Under the same cost conditions this would lead to increased imports unless stopped by higher tariff barriers. The final result of such adjustment would be higher prices and a lower level of real income. The more correct statement to make is that if productivity had not increased and imports were permitted unrestrained entry, employment would have fallen even further, or rather been shifted into more productive activities, in areas where comparative advantages (which aren't owned permanently by any one country) still prevailed.

Obviously the precise delineation of activities which correspond to the comparative advantage of a country is not easy, and at best can be based on information out of the past. Nonetheless a certain insight into the relative success or non-success of products - and hence economic activities - can be gained by using the well-known Revealed Comparative Advantages (RCAs) indicator proposed by Balassa<sup>12</sup>.

Calculating the RCAs for Germany for three periods it can be seen from Table 9 that with respect to all developing country groupings comparative disadvantage in textiles and clothing prevailed and even worsened over the time period. Thereby the largest disadvantage and change therein is exhibited for clothing - the industry where physical capital intensity is second lowest in Germany (lowest: leather manufactures) - and only about one third the average physical capital intensity of the total manufacturing industry (see Table 9). For comparison's sake the RCAs have been included for total manufacture and investment goods. In the latter case the strong competitive position of Germany is revealed as well as the rapid improvement in Japan's position. To summar-

ize: the picture presented here is an essence the same as the one presented in connection with the other more general statistics on clothing and textile trade; namely one in which LDCs performed exceptionally well in the area of clothing.

As is well known these aggregate statistics cover up a wide amount of heterogeneity within the individual categories. To overcome this weakness detailed disaggregation of MFA products for Germany's and the USA's trade with DCs and LDCs in the years 1965 and 1978 (Table 10) is examined. As expected, both within SITC 65 and SITC 84 there are products where the LDCs did better and those where the DCs did better. The success of the LDCs is particularly impressive within the clothing industry (SITC 84). Furthermore, the extent but also the structure of the inroads made into the USA and Germany differs to some degree. This should hardly be surprising as one can assume that even between these two industrialized countries comparative advantages differ. The main point to be brought out here, is that even if free trade existed for MFA products any number of them would be intratraded.

Assuming that the implications about the characteristics of the textile and clothing industry and trade can be accepted, then a liberalization of MFA trade would - in a country like Germany - lead to a greater degree of adjustment problems for the clothing than for the textile industry, whereby of interest in this paper is the impact on employment. Given the production parameters (capital intensity, labour productivity) in DCs and LDCs one would expect MFA liberalization to increase world employment. At the same time capital outlays in LDCs would fall below what DCs would have spent, due to lower capital intensities.

An attempt to find at least a partial substantiation of these assumed interactions was made using data from the MFA industries in Germany and Malaysia, supposing they would serve as proxies for DCs and LDCs respectively. The outcome of this scenario is shown in Table 11 - which is indeed no more than a ballpark estimate of what might happen - clearly shows that for the two countries together both employment and income gains are highly posi-



Table 10a - Development of Disaggregated Textile and Clothing Trade<sup>a</sup> of Germany vis-à-vis World and LDCs: 1965 and 1980

SITC (Revised 2)	1965				1980			
	LDCs' Share of Exports	LDCs' Share of Imports	Trade Balance vis-à-vis World <sup>b</sup>	Trade Balance vis-à-vis LDCs	LDCs' Share of Exports	LDCs' Share of Imports	Trade Balance vis-à-vis World <sup>b</sup>	Trade Balance vis-à-vis LDCs
65	10.2	8.3	-349418	-16138	8.2	19.3	635522	825399
651	15.5	3.3	-162038	14236	7.2	14.2	-34826	124258
651.2	10.4	-	-	-	7.8	10.0	179416	21432
651.4,651.5, 651.6	17.2	0.1	15469	16595	7.7	3.7	-622933	-76457
651.7,651.8	16.9	-	-	-	4.2	1.3	-52268	-6836
652	16.1	4.6	4347	10043	11.3	15.8	-145540	16868
652.1	2.7	9.8	-24507	-2802	0.5	43.9	64695	76270
652.2	17.0	1.6	28854	12845	13.6	5.5	-210235	-79888
653,654,655	6.9	0.9	-70456	14806	7.8	3.5	-285712	-99133
653.1,653.2, 653.4	6.4	-	-	-	7.9	4.0	-145446	-34182
653.5,653.6, 653.8	6.7	0.3	14069	5622	7.7	5.7	-104246	-11671
654.1	-	2.7	-	-	9.1	15.1	42750	7502
654.6	6.4	-	-	-	4.8	-	10796	-1402
655.1,655.2	8.8	0.3	21817	6369	7.0	0.6	-263394	-38321
656	5.9	0.3	-27083	905	10.6	2.3	29974	-8081
657	9.1	1.0	39620	7481	8.6	1.4	216532	-60748
657.2,657.3	6.5	-	-	-	7.6	0.5	-94983	-35650
657.4	7.3	-	-	-	5.0	12.0	-4093	429
657.5	20.2	5.1	2120	937	8.7	7.9	18288	1059
657.6	-	7.1	-	-	3.7	6.3	-808	39
657.7	15.4	-	-	-	11.5	0.5	-63025	-16551
657.9	14.9	-	-	-	15.4	-	-30074	-6545
658	6.5	23.8	-15468	-7541	7.1	32.7	224209	143905
658.1	12.0	57.6	-7543	-5529	23.5	82.0	37484	32607
658.2	11.4	-	-	-	21.9	41.4	13392	11599
659	-	38.0	-	-	7.3	51.2	1063951	708816
659.2	-	96.1	-	-	5.6	92.8	698997	697765
84	4.0	16.1	-223252	-60770	3.7	31.1	5444131	2482858
841	4.0	16.4	-220452	-60879	4.3	34.2	4031492	2030464
842,843,844	2.1	18.8	-92178	-33225	3.6	37.5	2397101	1404048
846.5,847.1	5.2	5.6	-4656	-355	6.3	24.8	84852	48428
847.2	5.4	16.9	-118864	-27828	7.0	37.7	158395	76205
848.1	8.6	7.8	128	64	4.0	45.4	386207	200010
848.3	4.4	9.8	-2800	-512	1.6	20.1	485034	116793
848.4	5.5	1.2	-4678	303	11.0	15.5	59739	10506

<sup>a</sup> For description of SITC groups see Appendix. - <sup>b</sup> 1000 US-\$.

Source: Own calculations based on U.N. Commodity Trade Statistics.

Table 10b - Development of Disaggregated Textile and Clothing Trade<sup>a</sup> of USA vis-à-vis World and LDCs: 1965 and 1980

SITC (Revised 2)	1965				1980 <sup>c</sup>			
	LDCs' Share of Exports	LDCs' Share of Imports	Trade Ba- lance vis-à-vis World <sup>b</sup>	Trade Ba- lance vis- à-vis LDCs	LDCs' Share of Exports	LDCs' Share of Imports	Trade Ba- lance vis-à-vis World <sup>b</sup>	Trade Ba- lance vis- à-vis LDCs
65	32.7	37.6	-270842	-127147	34.9	45.2	-1089581	-119683
651	31.9	10.9	65310	34616	27.9	25.2	-559261	-161005
651.2	-	2.7	-	-	36.8	6.1	15021	2182
651.3	32.1	-	-	-	25.6	56.8	26133	4703
651.4,651.5, 651.6	31.2	-	-	-	28.8	13.4	-487548	-152685
651.7,651.8	41.8	-	-	-	25.8	17.7	-16273	-5555
652	40.0	45.7	-26932	-18521	21.1	65.1	-108983	178120
652.1	28.2	73.5	-47531	-40378	29.6	82.5	227480	216940
652.2	41.4	23.7	20658	21868	20.1	36.8	-336463	-38819
653,654,655	32.8	43.3	-287710	-138879	36.9	35.7	-94729	-45691
653.1,653.2, 653.4	38.0	2.1	18287	17046	40.4	18.0	-322444	-216622
653.5,653.6, 653.8	33.6	2.7	34859	19412	18.8	3.7	-13220	-8684
654.1	37.0	7.6	-27785	-1554	40.7	23.4	78755	17937
654.6	15.6	-	-	-	18.3	17.2	-24339	-4500
655.1,655.2	19.8	-	-	-	24.5	2.7	-49224	-16480
656	27.9	13.1	4594	3735	52.2	32.3	-31485	-24838
657	29.2	33.7	-5694	-4751	41.6	44.2	-240824	-90945
657.2,657.3	24.3	14.3	30269	7929	32.7	16.7	-260147	-108376
657.4	35.3	-	-	-	55.5	4.7	-20272	-12733
657.5	55.0	39.1	-42913	-15863	46.7	84.0	118224	105701
657.6	-	45.0	-	-	-	46.2	21424	9905
657.7	32.8	22.2	2817	1345	71.7	3.3	-73605	-70811
657.9	38.0	-	-	-	58.9	-	-10030	-7771
658	30.7	19.3	16368	9087	45.3	59.5	-34905	24843
658.1	89.3	53.8	3494	3355	63.5	45.8	-12476	-8516
658.2	57.4	-	-	-	53.1	80.5	-1535	590
659	18.5	28.9	-36778	-12433	42.4	44.7	-19394	-168
659.1	9.3	-	-	-	10.7	44.8	-31316	4218
659.2	-	64.6	-	-	-	69.0	165500	114242
84	46.1	35.1	369870	-110634	51.9	83.6	5724719	5174421
841 (Rev. 1)	56.6	35.2	400667	-110773	52.9	84.1	4833249	4346872
842,843,844	53.8	46.9	160103	-71346	60.9	83.7	3187745	2772084
846.5,847.1	47.9	32.0	31554	-7442	86.7	72.8	169177	111842
847.2	56.5	29.0	193501	-48391	37.1	79.1	-14133	12580
848.1	66.4	20.9	41911	-7837	51.8	86.1	593226	344494
848.3	11.8	9.0	-696	139	19.8	68.8	-6895	44071
848.4	42.5	6.6	9185	750	49.8	67.4	78940	58138

<sup>a</sup> For description of SITC groups see Appendix. - <sup>b</sup> 1000 US-\$.  
<sup>c</sup> 1980 figures include Puerto Rico.

Table 11: Ballpark Estimates of Worldwide Employment and Income Effects of a One Million DM Relocation of MFA Industries (per years)

	Textile relocation		Clothing relocation	
	Textiles	All sectors	Clothing	All sectors
Income change (DM)	0	+ 664 000	0	+ 190 000
Employment change	+ 162	+ 206	+ 288	+ 300
With DC's adjustment of type I <sup>a</sup>				
Income change (DM)	+ 667 000	+ 1 609 000	+ 667 000	+ 1 133 000
Employment change	+ 186	+ 253	+ 317	+ 350
With DC's adjustment of type II <sup>b</sup>				
Income change (DM)	+ 900 000	1 939 000	+ 900 000	+ 1 463 000
Employment change	+ 194	+ 269	+ 327	+ 369

<sup>a</sup> It is assumed that 2/3 of labour find immediate reemployment at wage and productivity levels comparable to those in their old occupations. - <sup>b</sup> It is assumed that all employees find new occupations after one year of being unemployed. The costs of unemployment are represented by yearly income in the old occupation. New income levels (after one year unemployment) are the same as before. The social rate of interest is assumed to be 10 p.c.

Source: Glismann, Spinanger (1982), p. 108.

tive<sup>13</sup>. In the case of textiles, the induced employment in Germany is almost as large as the amount of employment considered to have been eliminated; income is considerably higher as labour has been redirected (and retrained) in more productive areas. The impact of relocating the clothing industry induces initial benefits which do not exceed the assumed costs. The result, however, for Malaysia is so positive that the ensuing increased demands for products from Germany would no doubt more than eliminate the initial impact of the relocation. It must also be noted that the sizeable capital savings achieved in clothing are not met in the textile industry. This might well be concluded as pointing to the comparative advantages existing in some areas of textiles in Germany (as seen in the higher RCA values vis-à-vis clothing and also in Table 10).

The establishment of new employment possibilities in a given LDC would tend to be concentrated in agglomeration areas. But those areas of production which lend themselves to small-scale facilities, or are resource (cultural) intensive would spread into less developed areas, particularly if it is ensured that nonconventional input differentials do not hinder such a process. Free trade (or activity) zones, with relatively good access to the outside world, would strengthen the benefits reaped by the agglomerated areas, but their negative impact on the peripheral areas would be dampened to the extent that linkages are established (for experience and impact of such zones in Asia see Spinanger (1984)). Contrary to opposing contentions, such link's are not only possible, it is in this case quite probable if, for instance, the textiles produced in the urban areas are transformed into clothing in the peripheral regions.

It is also important to note that not included in these calculations are positive influences stemming from lower prices on MFA products due to a reduction in tariffs, a more efficient allocation of resources, ensuing economies of scale (not achieved in the past because of tariff barriers) and a higher utilization of production facilities. Adding these to the above calculated benefits it hardly seems likely that the negative costs (including

others not calculated here) could even some close to outweighing the benefits.

#### IV Concluding Remarks

Those "who imagine they can combine a high rate of unemployment with free trade are living in a fool's paradise" (Cable, 1977). Economists are startled by a relationship that does not seem to fit theory: Trade policy seems to be a variable depending on the rate of economic growth and, perhaps, on the degree of macroeconomic capacity utilization. They would prefer protection (liberalization) to be the independent variable as opposed to economic growth (Hobson, 1916; Balassa, 1978).

The fact that protectionism is so often dependent upon the ups and downs of the economy, could be changed if the consumers themselves were given a larger influence in shaping trade policies. As it is now, conflicts between consumers' interests - which are essentially represented by free trade - and other groups' interests have been systematically solved by increasing protection. This has been the salient feature of trade policies in general - and MFA in particular - over the last twenty years. Prior to this time period (i.e. back to the late 1940's) trade policy was very much in favour of consumers. The ideas underlying international arrangements like GATT, agreements to lower tariffs and other trade barriers and the IMF were born even before the guns had been silenced in World War II. They rested on the hopes of creating an economically more efficient system, drawing thereby on the experience made in the Great Depression. It seemed that people had learned that beggar-my neighbour policies and striving for autarky can cause severe troubles, not only of economic nature.

As has been pointed out consumers normally do not have a special interest in foreign trade policies. This is because knowledge is a scarce good and the gathering of information is not costless. Economists used to argue that a sustainable equilibrium is achiev-

ed when marginal costs equal marginal revenues. In view of the high price of information on trade policies<sup>14</sup> and of the small benefits for each consumer to be expected from successfully organizing a free trade lobby and thus improving trade policies, consumers' neglect of protectionistic measures cannot be surprising. A different reasoning applies to producers competing with imports. Their incomes can depend to a large degree on trade protection. It pays them to try to influence trade policies - be it through voting patterns or through lobbying. Empirical analyses indeed indicate that there is some evidence on producers influencing trade policies according to the "adding machine model" (which says that the number, height or intensity of trade barriers depend on the number of producers interested in protection) and to the "interest group model" (which says that organized interests matter)<sup>15</sup>.

Thus it may be argued that consumers' interest in free trade is similar to a public good whereas producers' interests in protection is not: Once free trade is established all consumers (and incidentally, producers as a whole) are better off. On the other hand, protection definitely does not make all producers better off - indeed, discrimination among producers is the very core of effective protection.

So if free trade is a public good consumers are interested in, and if the supply of this good is deemed necessary, then there must be ways to give consumers more weight in the process of shaping policies without having the costs of "participation" exceed benefits. Two possible approaches seem worthwhile stressing: the property rights approach and the compensation model.

Property Rights for Consumers: Protection can be looked at an instrument of redistributing income from consumers and non-protected sectors to protected sectors. In that respect it is similar to theft<sup>16</sup>. Theft is normally declared illegal by society; the same can hardly be achieved regarding certain features of trade policy, be it because the distributional effects of trade

policy are individually less felt or because it does not pay individually to engage in protection prevention. This situation could be changed if the freedom to choose or the freedom to buy from the cheapest source becomes a property right for all people<sup>17</sup>. When a consumer (importer) can sue the government or firms on the ground that his right to consume (i.e. import) Chinese T-shirts has been impinged upon, a protectionist policy will become expensive maybe even very expensive if class action suits are allowed (i.e. the damage to all consumers is a large multiple of the damage to one consumer). The new equilibrium between the demand for and supply of protection will be at a some point much closer to free trade<sup>18</sup>.

The Case for Compensation: Since every protection measure causes injuries, consumers as well as exporting foreign countries and downstream producers should be compensated. In the case of tariffs, for instance, those countries instituting the tariffs could be obliged by GATT rules to transfer tariff revenues to an international "Protection Compensating Authority" which would then compensate exporting countries for damages. In case of quota regulations, a tariff equivalent could be calculated in order to impute the revenue to be transferred. And if a country subsidizes domestic production the proper response would not be anti-dumping duties<sup>19</sup> - as GATT proposes - but rather an equal subsidization of the same production in foreign countries at the expense of the country initiating the subsidy.

Obviously the (international) compensation and transfer of tariff revenues (or their equivalent in cases of quantitative restrictions) does not directly favour the consumers. However, indirectly the compensating mechanism would make consumers better off due to the build-in tendency towards free trade. It would also help to make politicians aware of the damage that protection is inflicting and maybe cause them to deal with the problem at the roots: get rid of protection.

The fact that trade protection is now and then on the agenda of economic policy although, as in the case of heavy smoking, the

positive welfare effects have neither theoretically nor empirically been proved indicate that there is more to protection than economists believe. If people believe protection to be a good thing, then it is a good thing, per definition (Baldwin, 1979). Following this, protection is one of the exogenous variables in the social welfare function, it's first derivative being positive. It may be argued that this can only be the case if people are not as educated as they should be, but this is a very tricky argument. Who knows whether the "educated" voter would be of another opinion? Educated people may look with a greater interest to the welfare of their fellowmen, among which are those who seem to lose their job because of increased imports from less developed countries. Protection would then be regarded as a means of accepting social responsibility. Economically more efficient ways of redistributing income may be considered as inferior to protection in case direct transfers go hand in hand with increased bureaucracy or with humiliation of the recipient. But this also cannot be called paradise, even by a fool.

Remembering that the aim of economic actions, including in particular economic policies, is to increase income, and knowing that both free traders and protectionists claim that each of their (contrary) policies will increase income and employment, what is the difference between the two? Perhaps one major difference between the free-traders and the protectionists is simply the fact that protectionists view the world sectorally or nationally whereas free-traders tackle the problem from a macroeconomic and - in this paper - international standpoint. Looking at MFA industries, hypothetical calculations exhibit that a considerable increase in world employment in this sector could be achieved by re-opening artificial economic frontiers; and what is more, even macroeconomic welfare - as measured by GDP - and macroeconomic employment is positively influenced by an increase in the international division of labour regarding the MFA-industries clothing and textiles.

Taking the reverse of the above observations as an indicator of the possible outcome of increased protection through the MFA the



danger of a vicious circle arises: national economies may move from an erroneous assignment of economic policies to a worsening of economic conditions; these - again misinterpreted - result in more instead of less undue political actions (Mises, 1926, pp. 626).

Unfortunately, however, the present outlook is a pessimistic one, and it probably does not help very much outlining the dismal economic prospects of a protectionist policy. This has been done so often in the past - indeed, almost as long as economic history is recorded we find two choruses each singing their own lines and not listening to the other side's text. Arguments for and against protection (or government intervention, and the like) have been freely exchanged but valued little. It is always the "circumstances", to quote Bert Brecht, rather than insight which produce STAs, LTAs and MFAs and which explain changes in the intensity of applying restrictive measures.

APPENDIX

Description of SITC-Numbers listed in Table 10

DIVISION 65. TEXTILE YARN, FABRICS, MADE-UP  
ARTICLES, N.E.S.; AND RELATED PRODUCTS

- 651 Textile yarn
  - 651.2 Yarn of wool or animal hair (including wool tops)
  - 651.3 Cotton yarn
  - 651.4 Yarn containing 85% or more by weight of synthetic fibres, not put up for retail sale; monofil, strip (artificial straw and the like) and imitation catgut, of synthetic fibre materials
  - 651.5 Yarn containing 85% or more by weight of synthetic fibres, put up for retail sale
  - 651.6 Yarn of discontinuous synthetic fibres, containing less than 85% by weight of such fibres
  - 651.7 Yarn of regenerated fibres, not put up for retail sale; monofil, strip (artificial straw and the like) and imitation catgut, of regenerated fibre materials
  - 651.8 Yarn of regenerated fibres, put up for retail sale
- 652 Cotton fabrics, woven (not including narrow or special fabrics)
  - 652.1 Cotton fabrics, woven, unbleached, not mercerized
  - 652.2 Cotton fabrics, woven, bleached, mercerized, dyed, printed or otherwise finished
- 653 Fabrics, woven, of man-made fibres (not including narrow or special fabrics) 69
  - 653.1 Fabrics, woven, of continuous synthetic textile materials 70
  - 653.2 Fabrics, woven, containing 85% or more by weight of discontinuous synthetic fibres (other than pile and chenille fabrics) 70
  - 653.4 Fabrics, woven, of discontinuous synthetic fibres, containing less than 85% by weight of such fibres (other than pile and chenille fabrics) 70

- 653.5 Fabrics, woven of continuous regenerated textile materials 71
- 653.6 Fabrics, woven, containing 85% or more by weight of discontinuous regenerated fibres (other than pile and chenille fabrics) 71
- 653.8 Fabrics, woven, of discontinuous regenerated fibres, containing less than 85% by weight of such fibres (other than pile and chenille fabrics) 71
- 654 Textile fabrics, woven, other than of cotton or man-made fibres
  - 654.1 Fabrics, woven, of silk or of waste silk
  - 654.6 Fabrics of glass fibre (including narrow fabrics, pile fabrics, tulle, lace, knitted or crocheted fabrics, braids and ornamental trimmings)
- 655 Knitted or crocheted fabrics (including tubular knit fabrics, pile fabrics and open-work fabrics)
  - 655.1 Knitted or crocheted fabrics, not elastic nor rubberized, of synthetic fibres
  - 655.2 Knitted or crocheted fabrics, not elastic nor rubberized, of fibres other than synthetic
- 656 Tulle, lace, embroidery, ribbons, trimmings and other small wares
- 657 Special textile fabrics and related products
  - 657.2 Bonded fibre fabrics, similar bonded yarn fabrics and articles of such fabrics, whether or not impregnated or coated
  - 657.3 Coated or impregnated textile fabrics and products, n.e.s.
  - 657.4 Elastic fabrics and trimmings (other than knitted or crocheted goods) consisting of textile materials combined with rubber threads
  - 657.5 Twine, cordage, ropes and cables, plaited or not thereof (e.g., fishing nets, ropemakers' wares)
  - 657.6 Hat shapes, hat-forms, hat bodies and hoods
  - 657.7 Wadding, wicks, and textile fabrics and articles for use in machinery or plant
  - 657.9 Special products of textile materials
- 658 Made-up articles, wholly or chiefly of textile materials, n.e.s.
  - 658.1 Sacks and bags, of textile materials, of a kind used for the packing of goods
  - 658.2 Tarpaulins, sails, awnings, sunblinds, tents and camping goods of textile fabric

- 659 Floor coverings, etc.
  - 659.1 Linoleum and similar floor coverings
  - 659.2 Carpets, carpeting and rugs, knotted (made up or not)
  
- DIVISION 84. ARTICLES OF APPAREL AND CLOTHING ACCESSORIES
  
- 841 Apparel excluding fur
- 842 Outer garments, men's and boys'. of textile fabrics (other than knitted or crocheted goods) 153
- 843 Outer garments, women's, girls' and infants', of textile fabrics (other than knitted or crocheted goods) 153
- 844 Under garments of textile fabrics (other than knitted or crocheted goods)
  - 846.5 Corsets, corset-belts, suspender-belts, brassiers, braces, suspenders, garters and the like (including such articles of other than knitted or crocheted fabric), whether or not elastic 154
  - 847.1 Clothing accessories, of textile fabrics (other than knitted or crocheted goods)
  - 847.2 Clothing accessories, knitted or crocheted, n.e.s.
  - 848.1 Articles of apparel and clothing accessories, of leather or of composition leather
  - 848.3 For clothing (not including headgear) and other articles made of furskins; artificial fur and articles made thereof
  - 848.4 Headgear and fittings therefore, n.e.s.

Footnotes

- 1 For an in-depth analysis see Keesing and Wolf (1980) and Wolf, Glismann, Pelzman and Spinanger (1984).
- 2 See UNCTAD (1967).
- 3 Although MFA covers both textiles and clothes, the production processes as well as the international structure of protection are quite different (Waelbroeck, 1981).
- 4 Of course the production conditions often allow for a high share of unskilled labour. This is the reason why imports from less developed countries are competitive.
- 5 See F. Richter (1973).
- 6 Lord Robbins continues: "We know perfectly well that a general improverishment would make us all work harder. It is yet to be shown that more work in this sense is in any way desirable". Ibidem.
- 7 To understand the free trade position "it is necessary to have an understanding of general equilibrium economics" (Corden, 1979, p. 8).
- 8 On the other hand, it may be argued that there is no sense in stretching adjustment; if rapid changes do occur the best thing is to let them hit without protection. These views often come with increasing experience regarding adjustment assistance (Kahn, 1979, pp. 5).
- 9 The data in Table 5a are of particular interest because they cover the same type of work done on the same type of goods within the same firm.
- 10 For some detailed analysis of adjustment costs see Gilman, Glenday, Hamilton, Jacobson, Jenkins, Mutti and Bale and Pelzman and Martin. Perhaps it is the paper by Mutti and Bale which aptly covers the position made here.
- 11 All this would mean that the massive problems foreseen by the World Bank with respect to the impact of the rural exodus as well as the financial burden resulting therefrom - for industrial countries as well - would be reduced.
- 12 The range of this indicator extends from -100 = total comparative disadvantage to +100 = total comparative advantage.
- 13 For the details of these calculations see Glismann, Spinanger (1982).

- 14 The formation of international economic unions - like the European Community - seems to have increased costs of information gathering simply by multiplying output of the bureaucratic system. Keeping track of trade policies regarding MFA alone is a task even highly specialized and trained voters can hardly perform.
- 15 See Caves (1976), Pincus (1975); see also the reports recently published by the World Bank on the "Political Economy of Protection" in the framework of a "Market Penetration Research Project".
- 16 See Tullock (1966/67).
- 17 Principally, consumer rights have already been established in most countries regarding public procurement. There is no reason to withhold such rights from private consumers. It may be doubted that private consumers will refrain from exercising their rights to the same extent governments do. It may be argued that this is the very reason why such rights are still withheld from private consumers.
- 18 Even if class action suits are not allowed such a policy would probably be successful, as no sound government would continue to violate clearly defined property rights, once the first law suit was lost.
- 19 Anti-dumping would not be a proper response because the built-in dynamics of the anti-dumping argument can lead to an over-all trade war.

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