



Protectionism in America: Watch Your Wallet

A Report Prepared for

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Executive Summary

- Consumers pay a tax for protectionism that is completely hidden. It is not itemized on the price tag of the goods we buy. It does not get added to the receipt by the cash register. But it is there nonetheless, imbedded in the prices we pay for a wide range of products. It is, in effect, a hidden national sales tax.
- Policy makers, often at the behest of U.S. producers of uncompetitive products, have elected to impose tariffs, quotas and other forms of protectionism on certain imports. This protectionism raises the prices of *both* imported and U.S.-made goods above what they would be in a freely competitive market. Consumers cannot avoid paying the “protection tax” by only buying U.S.-made goods.
- We estimate that the hidden “protection tax” paid unwittingly by every American consumer is equivalent to a national sales tax of more than 6 percent. This hidden sales tax rate exceeds that imposed by 30 U.S. states on goods consumers buy. Consumers pay this “protection tax” in addition to any state and local sales taxes levied on protected goods they buy.
- Because different types of households have different spending patterns, the tax falls more heavily on some than on others. This means that some households pay much more than the equivalent of a 6 percent national sales tax faced by the average household. For example, the national sales tax equivalent for single-parent families is 7.5 percent. For minority households, it is 6.9 percent.
- The biggest contributors to this hidden “protection tax” are U.S. quotas and tariffs affecting apparel. They equate to a national sales tax of 17.2 percent on apparel purchases. The hidden “protection tax” on leather luggage is also large, 13.4 percent. Hidden footwear “protection taxes” amount to an equivalent national sales tax of 7.3 percent. Hidden “protection taxes” affecting food products range from less than 1 percent to more than 4 percent. But hidden “protection taxes” affecting plates, glasses and cutlery range from 4 to over 11 percent.
- Who gets the “protection tax” proceeds? In some cases the U.S. Treasury benefits. In all cases, U.S. producers get some of it in the form of higher prices for their goods. Sometimes, foreign producers and foreign governments get a piece as well, because they realize higher prices for their U.S. sales. And then there is a large “chunk” that no one gets – it is lost because of less than optimal use of available American resources.
- As a consumer, you should know what you are paying, and to whom, so you can decide if the tax is worth paying. You need to know that “repeal” of protectionism affecting household goods would amount to a tax cut for the average American household of more than \$200 a year.

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If asked what is covered by the \$45 you paid for a wool sweater to give your sister on her birthday, you probably would say it includes the cost of the wool yarn and dyes and labor used to make the sweater, as well as related costs of selling the sweater (e.g., the salaries of the sales clerk and her manager, rent, electricity, advertising). On top of the \$45 to the retailer, you paid a state sales tax of, say, 5 percent, so the state government got something, too.¹

What you probably didn't know is that you also paid a tidy sum for protectionism: that \$45 sweater included the cost of a tariff – a tax – imposed by the U.S. Government on the sweater when it was imported, and a “quota cost” resulting from a Government-imposed limit on the number of sweaters that could be imported. In fact, that protectionism represents quite a large chunk of the \$45 you paid for the sweater. Even if the sweater was labeled “Made in the USA,” its price was higher because of protectionism (more on this later).

In addition to the sweater, you face these hidden costs of protectionism on a huge number of products you buy every week. In every case, the costs of protectionism aren't disclosed to you, not on the price tag, or in the newspaper ads, or company Internet sites, or even buried in company financial filings. But these costs are taxes, every bit as much as sales taxes are taxes. As a consumer, you have a right to know what you are paying, and to whom, and for what. You *need* to know this so you can decide whether you *ought* to pay this much to whomever, for whatever.

In this study we explore the causes and effects of protectionism as public policy. Is it worth the extra “protection tax” you currently, and probably unwittingly, pay? Do you want someone's hand on your wallet in this anonymous way? And just who gets your money, anyway?

Protectionism represents a hidden tax on many goods consumers buy. Most consumers are unaware they pay it every time they buy a product affected by import protection.

What Is Protectionism?

The aim of protectionism, whether advocates admit it or not, is to raise prices. Several trade tools are available to achieve the desired results.

It's no secret that America imports a lot of consumer goods, more than any other country in the world. Whether it's salmon from Chile or cameras from Japan, imported products stock U.S. retail shelves and consumers like them. However, some U.S. producers and/or their employees are not equally fond of competition from imports. As a result, since the founding of the country, policy makers have sought ways to protect U.S. producers from unwanted import competition.

The United States protects domestic industries from import competition (hence, the term "protectionism") with a variety of trade barriers applied to imports of products purchased by American consumers. The decision to impose trade barriers is largely a political one (even though arguments in support of protectionism are generally made on economic grounds) because the industries that succeed in getting protection tend to have strong ties to political leaders making the policy decisions. Consumers, in stark contrast, so far lack similar ties. This system flourishes because the bulk of Americans don't know they are being taxed.

It is impossible to discuss protectionism and to disclose its hidden costs to consumers without using words like "tariff," "quota" and, worse still, "tariff-rate quota." We offer here a very general description of these terms because they are essential to an understanding of the hidden costs of protectionism.

A **tariff** (also called a duty) is essentially a tax imposed on the volume or value of the good when it is imported. For example, if the tariff is 20 percent, and the imported product, a pair of Adidas men's Ultrastar shoes, is valued at \$54 at the U.S. border, the importer must pay the U.S. government \$11 before he or she can take possession of the shoes and sell them to American consumers. The real cost to the importer of the shoes is now actually \$65, rather than the \$54 it would be if there were no tariff. By forcing up the cost of the imported product, policy makers who think the tariff is a good way to help U.S. shoe producers are hoping that this gives higher-cost U.S. shoe producers an \$11 cushion to compete with the imported shoes. Now, instead of having a choice between paying \$54 for imported shoes and, say, \$60 for U.S.-made shoes, your choice has been eliminated: both pairs of shoes will likely be sold for \$65.² As a consumer, you must pay more than you need to for the shoes. (Note that the price of the

U.S.-made shoe is also higher than it would be without the tariff on the imported shoe.)

A **quota** operates somewhat differently, but has a similar impact on the price of the imported and domestically produced products sold to American consumers. A quota is a limit on the quantity of a particular good that may be imported. For example, suppose policy makers, again to protect U.S. producers from import competition, decide to limit the number of suits that can be imported to 1,000. Importers can import up to 1,000 suits in any given year; after that, they can import no more. The whole idea behind a quota is to set the limit at a low enough level that importers are unable to meet domestic consumer demand for suits entirely with imported suits. This drives up the price of the 1,000 suits that may be imported. Thus, an imported suit that would cost \$100 if freely available from a large number of foreign suppliers might cost, say \$120 if a quota limits the number of suits everyone can buy from foreign suppliers. Again, U.S. producers benefit because they know they need only compete against 1,000 foreign suits that will cost \$120. Once those suits are sold, they can boost their prices to more than \$120 per suit.

Protectionism raises prices of the imported product and the comparable U.S.-produced product.

Sometimes, tariffs and quotas are applied to imports of the same product. For example, all imports of dresses are assessed a tariff of 15 percent, and only 2,000 dresses may be imported in any one year.

A **tariff-rate quota** (often referred to as a “TRQ”) is a combination of a tariff and a quota. Policy makers will tell importers they can import up to 1,000 suits without paying any special tariffs; after that, they must pay a tariff of 40 percent. Alternatively, policy makers may decide that up to 1,000 suits may be imported at a tariff rate of 20 percent, and anything imported over that amount must pay a tariff of 40 percent.

In the case of many agricultural products (sugar and dairy products are key examples, but there are others), U.S. policy makers frequently combine import barriers (typically, TRQs) with domestic **price support programs**. They are designed to prevent increasing imports from causing U.S. prices to fall below a specified level. While taxes are not applied directly to imports at the border in this scheme, they force up the prices consumers pay for U.S.-made as well as imported products by artificially restricting the supply of goods.

So where do all the hidden “protection tax” proceeds go? With a tariff, the U.S. Government gets some of the extra

Who benefits? U.S. producers get some of the tax proceeds, sometimes the U.S. Government gets money in the form of tariff revenue. Who loses? Consumers who must pay higher prices.

money consumers pay for imported goods – but not all of it. Others with their hand in the till include U.S. producers (remember, they get to charge higher prices).³

In the case of a quota, the U.S. producers get some of the hidden “protection tax” proceeds, but the U.S. Government gets nothing. Instead, what would have gone to the government in the form of tariff revenue instead goes to foreign producers, who can charge higher prices for their exports as a result of the quota. Sometimes foreign governments get money, when they sell exporters licences to export goods within the quota limits. For example, local Chinese governments get large sums of money, from the higher prices paid by American consumers, to issue export licenses for apparel destined for the U.S. market.

Needless to say, tariff-rate quota “protection taxes” entail a mix of winners: the U.S. Government and the U.S. producers. Consumers and the economy generally lose.

The benefits of price support programs — cash grants to U.S. producers from the Government — come straight out of the U.S. Treasury, which is of course funded by income taxes. The U.S. Government is not reimbursed in any way for this drain.

Where Did Protectionism Come From?

Most of the tariffs currently imposed by the U.S. government on imports into the United States have been in effect for centuries, since the formation of the country. Originally imposed to raise government revenues (there was no income tax), they have become less important to raising government revenues over the decades as income taxes have taken over that function. Indeed, since the formation of the General Agreement on Tariffs and Trade, later the World Trade Organization, it has become a violation of international trade rules for member countries to raise existing tariffs rates or impose new ones, except in special prescribed circumstances. Quotas, as well, have for the most part been around for decades and are restricted by the same international trade rules. Consequently, policy makers and the American public generally pays them little attention, and many may even have forgotten that they are on the books.

Regularly, however, policy makers are asked by some U.S. producers to consider new tariffs and quotas to address job losses in the United States that they believe are tied to import competition. They believe, incorrectly, that protection from imports will stem the loss of U.S. jobs in their industry. In fact, job losses in manufacturing are a long-term trend. Industries that have succeeded in winning stringent tariff and non-tariff protection from imports have not managed to stem the tide of domestic job losses.

What Does Protectionism Mean for Consumers?

Government policy makers choose to impose protection on a wide variety of imported consumer goods. A stroll around your home reveals that you paid a hidden tax on, for example, products you eat, wear, drive and walk in and on. Very high tariffs affect pickup and other light trucks, clothes, shoes, food, forks and knives, even sheets and carpeting. Quotas add to the tax, affecting prices of clothes, certain food, and sheets.

Protectionism impacts American consumers in several ways. As detailed in the previous section, it raises the prices of both U.S.-made *and* imported products. It reduces the quantity of products available for purchase. It limits your choice of products.⁴ Many protectionist policies make a few people rich while they make all Americans a little poorer.

Protectionism has very much the same impact as a sales tax, with which most consumers are quite familiar. The primary difference is that the “protection tax” is hidden – you don’t know you are paying it. This study sheds light on the hidden tax we all pay.

Protectionism hits people differently, depending on the mix of products they buy. Some of us pay more than others, because some of us buy more of the protected products than others.⁵ Table 1 details the characteristics of five types of households and shows that, relative to the average household, spending patterns on products subject to the hidden tax can vary significantly:

- High income households and families of four earn and spend well in excess of the average for all households, retiree households and single-parent families earn and spend considerably less than the average.

Protectionist policies pad some pockets, but by digging into all consumers' wallets.

Table 1
Characteristics of Types of Households Paying the “Protection Tax”

	Average Household	Retirees	Family of Four	Single Parent Families	High Income Households*	Minority Households
No. of persons in household	2.5	1.7	4.0	3.0	3.1	3.0
Male head of household**	51%	46%	55%	14%	63%	44%
Female head of household**	49%	54%	45%	86%	37%	56%
Number of children under 18	0.7	0.1	1.6	1.8	0.9	1.0
Number of earners	1.4	0.2	2.0	1.1	2.1	1.4
Number of vehicles	1.9	1.5	2.6	1.1	2.9	1.4
Homeowner	66%	80%	75%	39%	87%	48%
Renter	34%	20%	25%	61%	13%	52%
Average “income before taxes”***	\$47,507	\$24,637	\$66,158	\$25,908	\$113,978	\$34,641
Average annual expenditures	\$39,518	\$26,843	\$54,395	\$29,634	\$76,124	\$31,196
Spending on food at home****	8.0%	9.4%	8.2%	11.0%	6.2%	10.1%
Spending on clothing and footwear****	4.3%	3.4%	4.8%	6.9%	4.4%	5.6%
Household furnishings & equip. ****	3.9%	3.6%	3.6%	3.2%	4.4%	3.7%
Vehicle purchases****	9.2%	7.6%	9.7%	6.5%	8.7%	8.7%

* Income of \$70,000 per year and higher

** The sex of the person who signed the lease or whose name is on the mortgage or title to the home.

*** “Income before taxes” is income from wages and salaries, self-employment, Social Security and retirement funds, pensions and annuities, interest, dividends, rental and other property income, unemployment and workers compensation, public assistance, child support, and other similar income types.

**** Share of total expenditures.

Source: U.S. Department of Labor, Consumer Expenditure Survey, 2001.

- A greater share of the expenditures of single-parent households and minority households, which tend to be headed by women, goes toward food and clothing, compared to the average of all households. In contrast, high-income households spend less of their total expenditures on food than average households, but more on household furnishings and equipment and clothing. Families of four are closest in spending patterns to the average household. Retiree households spend more than the average on food, but less than the average on all other goods.

It warrants repeating: protectionism raises prices. It raises prices of U.S.-made *and* imported goods. To measure the impact of the hidden “protection tax” on American consumer purchases, we need to know just what this price increase is for each of the products subject to protectionism, and how much consumers spent on those products, be they imported or domestically produced.

We can derive the answer from U.S. Government data⁶ and government, “think tank” and other private sector studies.⁷ This report focuses on consumer products that include many that families need every day – food – as well as others they use every day, but buy every few years – bicycles.

We detail the results for five groups of American consumers. Relative to average American households, we compare the hidden protection taxes paid by retirees, families of four, single-parent families, high-income households, and minority households.

The estimates we provide in this study represent the tip of the iceberg.

A Caveat: The “Protection Taxes” Reported in this Study Are Too Small

In this report, we focus on the products subject to the *most* import protection, rather than *every* product facing import protection. Many more products are subject to “protection taxes” than we could possibly include in this study. ***Thus, the estimates we present in this study of the impact of protectionism on consumers’ pocketbooks are too small.*** We would have liked to include, but could not:

- (1) *All* of the products on which consumers pay a tariff protection tax. Instead, we look at consumer products for which the tariff rate is especially high. However, there are thousands of other imported consumer products that face tariffs at the border that are lower than those we consider. We did not include the whole universe of these products.
- (2) Products subject to special tariffs, called “anti-dumping duties” and “countervailing duties.” These are taxes applied to imports of certain products (many of them consumer products) that the U.S. Government has determined are sold in the United States at “unfair prices.” The Government offsets those “unfair prices” with often very high penalty duties (see Table 2). Because of data limitations, we do not include estimates of the impacts on consumer purchases of those penalty duties in this study. But you should know that, for example, every time you buy pencils from China, the price includes a tax of 123.1 percent. And Table 3 shows that the duties can really add up. That table shows that millions of dollars of “taxes” are collected by the Government every time the products listed are imported because

Table 2
Hidden “Dumping/Subsidy” Taxes You Pay on Selected Consumer Goods*
 (Percent)

Frozen red raspberries from Chile	6.3%
Honey from China	193.8
Honey from Argentina	35.8
Frozen concentrated orange juice from Brazil	2.0
Non-frozen apple juice concentrate from China	51.7
Preserved mushrooms from India or Indonesia	11.3
Preserved mushrooms from China	198.6
Preserved mushrooms from Chile	148.5
Fresh Atlantic salmon from Chile	5.2
Fresh and chilled Atlantic salmon from Norway	2.3-23.8
Crawfish tail meat from China	201.6
Pasta from Italy	3.9-11.3
Pasta from Turkey	51.5
Canned pineapple from Thailand	24.6
Fresh garlic from China	376.7
Sugar from Germany	121.0
Sugar from France	102.0
Sugar from Belgium	103.0
Aspirin from China	144.0
Aspirin from Turkey	33.0
Lawn & garden fence posts from China	15.6
Folding metal tables and chairs from China	70.7
Folding gift boxes from China	164.8
Cased pencils from China	123.1
Paper clips from China	126.9
Sparklers from China	93.5
Stainless steel cooking ware from Taiwan	2.1
Stainless steel cooking ware from Korea	8.1
Porcelain-covered cooking ware from Taiwan	22.6
Petroleum wax candles from China	54.2
Natural bristle paint brushes from China	351.9

* The Commerce Department calculates several antidumping/countervailing duty (tax) rates. There are rates that apply to imports from specific companies that the Commerce Department investigated, and then there is an “all other” rate that is the average of these investigated company rates and which is applied to imports from “all other” companies. The rates shown in this table are the “all other” rates. It is important to note that the tax rates that apply to investigated exporters from the indicated country may be higher or lower than the “all other” rate, and likely represent a greater share of the total exports from the country because the investigated companies tend to be the largest exporters from the country. But for purposes of simplification, and because the “all other” rate is an average of the investigated company rates, we present that rate in this table to provide you with a general indication of the level of antidumping/countervailing duty tax rates.

Source: The Trade Partnership, Washington, DC

importers must pay antidumping or countervailing duties associated with each product. Ultimately, consumers pay when the taxes are passed along the supply chain.

- (3) Products subject to special “safeguard” tariffs, especially steel products. While technically steel and other raw materials are not purchased in stores by consumers, products made from steel certainly are. The higher cost of steel caused by special “safeguard” tariffs often finds its way into the prices consumers pay for products made from steel. This of course goes as well for any raw material on which a tariff is placed.
- (4) Products for which the Government did not report detailed spending patterns, like leather gloves (affected by high tariffs).
- (5) Consumer products - bread - made from raw materials that face protectionism - wheat gluten.

Table 3
Antidumping/Countervailing Duty “Taxes” Collected by
the U.S. Government on Imports of Consumer and Food
Items, 2002

Consumer Products	\$86,198,046
Petroleum wax candles	69,536,244
Television receivers	9,016,052
Cookware	3,135,070
Cased pencils	2,738,136
Sparklers	895,772
Natural bristle paint brushes	689,338
Paper clips	107,471
Hand tools	79,964
Food Products	\$19,823,526
Crawfish tail meat	7,468,892
Pasta	7,214,887
Preserved mushrooms	2,617,609
Frozen concentrated orange juice	1,175,453
Garlic, fresh	535,685
Canned pineapple	530,693
Salmon	261,675
Sugar	17,276
Non-frozen apple juice concentrate	1,355

Source: The Trade Partnership from U.S. Customs Service data.

So How Big Is the “Protection Tax”?

A tour around your home reveals a number of important products that have the hidden “protection tax” embedded in the price you paid for those goods.

Despite data limitations, the alarming conclusion of this report is that the hidden “protection tax” is something consumers should be concerned about. It affects a wide range of products you use every day, starting with the clothes on your back and the sheets you slept on last night. A tour around your home is instructive.

In Your Closet

The United States imposes both tariffs and quotas on apparel imports. The tariffs are some of the highest in the U.S. system. For example, the United States imposes a tariff – remember, a tax – of 28.4 percent on every imported woman’s wool-blend coat. Tariffs on other apparel products are also quite high, even higher: a man’s cotton knit shirt, 19.8 percent; a girl’s polyester knit shirt, 32.3 percent; a boy’s T-shirt, 32.2 percent; that wool sweater, 16.1 percent, and pantyhose, 16.1 percent.

At the same time, more than 850 individual apparel and textile products face quotas when imported from 55 countries.⁸ For example, the U.S. Government tells importers that in 2003 they may import only 31,084 women’s or girls’ wool trousers from Bulgaria; 3,292,932 cotton sweaters from Korea; 3,430,044 pairs of underwear from Taiwan; and 4,137,300 dresses from Nepal. Once these levels are reached – and it often doesn’t take that long when you realize there are 288.4 million people in the American market – the market is shut to further imports this year of those products from those countries.

The U.S. Government also applies some of the highest U.S. tariffs to imports of footwear. In 2003, tariffs on some types of footwear reached 37.5 to 48.0 percent in 2003 (rubber boots, rubber or plastic “flip flops,” and low-priced tennis shoes to name just a few).⁹

The United States imposes high tariffs on imports of leather luggage, leather handbags, leather gloves, watches, clocks and costume jewelry. Tariffs on leather luggage and handbags, according to the U.S. International Trade Commission (ITC), average 12.9 percent,¹⁰ tariffs on leather gloves range up to 14.0 percent. Imported watches and clocks face a trade-weighted duty rate of 6.7-6.8 percent. Costume jewelry tariffs reach as high as 11.0 percent.

The ITC estimated that these tariffs and quotas raise the prices paid by consumers of both imported and U.S.-produced apparel, luggage and handbags, footwear, leather gloves, watches and clocks, and costume jewelry. Table 4 shows how much higher, on average, the ITC estimates prices are because of protectionism. Table 4 thus reports the hidden “protection tax” rate for the products listed.¹¹

The hidden “protection tax” on apparel and accessories in your closet range from 2 to 17 percent!

The hidden “protection tax” that consumers pay amounts to a significant piece of consumers’ spending on these products.¹² In 2001, the average household spent more than \$1,793 on apparel and accessories that were subject to the “protection tax” (see Table 5).¹³ Of that, more than \$226 represented the price of protectionism. This amounts to, in effect, a national sales tax on apparel and accessories bought by the average household of 14.4 percent.

Some households have to pay a higher tax than others, because more of their spending is focused on apparel and accessories relative to other products. For examples, the hidden “protection tax” assessed on apparel and accessory purchases by retiree households is 15.0 percent. It is also higher than the average for families of four (14.6 percent), and for minority households (14.5 percent).

In Your Bedroom and Bathroom

Out of the closet and into the bedroom and bathroom: if your cotton sheets and pillowcases have edging and were imported, their cost included a tariff of 13.1-21.2 percent. The cost of your imported cotton bath towel was boosted by a 9.3 percent tariff, and the area rug in the bathroom likely bore a tariff of 6.2-6.8 percent. The ceramic wall and floor tile in the bathroom, if imported, has a tariff cost embedded in it of as much as 11 percent.

Quotas further increased the costs of each of the textile products. The United States limits the number of cotton pillowcases that may be imported from three countries to a total

Apparel	17.2%
Leather luggage, handbags, etc.	13.4%
Footwear	7.3%
Leather gloves	6.5%
Watches, clocks, etc.	4.5%
Costume jewelry	1.9%

Source: U.S. International Trade Commission, *The Economic Effects of Significant U.S. Import Restraints, Third Update 2002*, Inv. No. 332-325, Pub. No. 3519, June 2002, Tables 3-6, 6-6, 6-14, and 6-16.

Table 5
Protectionism Attacks Your Wallet: Apparel and Accessories

What Different Households Spent on *Apparel* in 2001

	Average Household	Retirees	Family of Four	Single Parent Families	High Income Households	Minority Households
What They Spent	\$1,373	\$753	\$2,065	\$1,527	\$2,749	\$1,296
The Protection Tax	\$201	\$111	\$303	\$224	\$403	\$190
What They <i>Could</i> Have Spent	\$1,172	\$642	\$1,762	\$1,303	\$2,346	\$1,106

What Different Households Spent on *Footwear* in 2001

	Average Household	Retirees	Family of Four	Single Parent Families	High Income Households	Minority Households
What They Spent	\$328	\$149	\$529	\$520	\$579	\$437
The Protection Tax	\$22	\$10	\$36	\$35	\$39	\$30
What They <i>Could</i> Have Spent	\$306	\$139	\$493	\$485	\$540	\$407

What Different Households Spent on *Other Accessories (Luggage, watches, clocks, costume jewelry)* in 2001

	Average Household	Retirees	Family of Four	Single Parent Families	High Income Households	Minority Households
What They Spent	\$92	\$39	\$106	\$58	\$223	\$45
The Protection Tax	\$3	\$2	\$4	\$2	\$7	\$3
What They <i>Could</i> Have Spent	\$89	\$37	\$102	\$56	\$216	\$42

Total: Apparel and Accessories

	Average Household	Retirees	Family of Four	Single Parent Families	High Income Households	Minority Households
What They Spent	\$1,793	\$941	\$2,700	\$2,105	\$3,551	\$1,778
The Protection Tax	\$226	\$123	\$343	\$261	\$449	\$222
What They <i>Could</i> Have Spent	\$1,567	\$818	\$2,357	\$1,844	\$3,102	\$1,556
Total "Protection Tax" Rate	14.4%	15.0%	14.6%	14.2%	14.5%	14.3%

Note: Columns may not add to totals shown due to rounding.

Source: Bureau of Labor Statistics and The Trade Partnership, Washington, DC.

of 20,294,094. It limits the number of sheets that can be imported from seven countries to 27,844,441. It is more generous in the number of towels that can be imported from 10 countries: a total of 305,459,211 (this still amounts to just over one per person in the United States).

The International Trade Commission estimates that these tariffs and quotas increase the prices consumers pay for household textiles, carpets and rugs and ceramic tiles (see Table 6). As explained above, these price increases represent the hidden "protection tax" rates consumers unknowingly paid

for domestic and imported textile products and ceramic wall and floor tiles.

The hidden “protection tax” represents a significant share of consumers spending on these products. In 2001, the average household spent \$169 on products in their bedrooms and bathrooms that were subject to the “protection tax” (see Table 7).¹⁴ Of that, \$5 represented the price of protectionism, equivalent to a national sales tax rate of 3.0 percent. Some households paid more than that average, however, because more of their total purchases went toward these items than the average household. For example, the hidden protection tax rate paid by single-parent households was 3.3 percent.

In the Kitchen

Now let’s go to the kitchen. The United States applies TRQs to imports of butter, powdered milk products, cheese, fluid milk and cream, infant formula, chocolate, ice cream, sugar, peanuts, lamb meat and canned tuna. For example, the United States restricts the amount of cheddar cheese that may be imported at a 10 percent rate of duty to 29.2 million pounds – the equivalent of 1.6 ounces for every man, woman and child in the United States; any cheddar imported over that amount

Hidden “protection taxes” applied to products in your bathroom and on your bed range from 1 to 7 percent.

Table 6
Hidden “Protection Tax” Rates: In Your Bed and Bath Rooms

Ceramic wall and floor tile	6.9%
Household textiles*	4.0%
Carpets and rugs	0.6%

* Bed sheets, towels, curtains, etc.

Source: U.S. International Trade Commission, *The Economic Effects of Significant U.S. Import Restraints, Third Update 2002*, Inv. No. 332-325, Pub. No. 3519, June 2002, Tables 3-6, 6-8.

Table 7
Protectionism Attacks Your Wallet: Items in Your Bed and Bathrooms*

	Average Household	Retirees	Family of Four	Single Parent Families	High Income Households	Minority Households
What They Spent	\$169	\$134	\$208	\$95	\$445	\$117
The Protectionist Tax	\$5	\$4	\$6	\$3	\$14	\$3
What They <i>Could</i> Have Spent	164	\$130	\$202	\$92	\$431	\$114
Total “Protection Tax” Rate	3.0%	3.1%	3.0%	3.3%	3.2%	2.6%

* Does not include spending on ceramic tiles and therefore understates consumers spending on bed and bath products.

Source: Bureau of Labor Statistics and The Trade Partnership, Washington, DC.

is charged 97 cents per pound. Milk imports of 1,768,777 gallons get charged an import duty of 3.2 cents per liter; anything over that is charged 77.2 cents per liter. The sugar TRQ, applied to imports of raw sugar, processed sugar, and sugar-containing products, raises the prices of products made from sugar, like soda and candy. The United States applies high tariffs to imports of frozen fruits, fruit juices and vegetables.

In addition, the United States imposes high tariffs on imported flatware, glassware and ceramic dinnerware. Tariffs on flatware range up to 15.8 percent plus 0.9 cents each (the cheaper the flatware, the higher the tariff¹⁵). Tariffs on glassware range up to 38 percent (again, higher rates are imposed on cheaper glasses). Ceramic plates and mugs are taxed as much as 10 percent when imported.

Tariffs and TRQs applied to imports of food products and ceramic dishes raised the prices consumers paid for those products – whether they were imported or domestically-produced. Table 8 shows how much more American consumers paid for items in their kitchen because of protectionism. These

price increases represent the hidden “protection tax” *rate* – or equivalent national sales tax — for the products listed.

The hidden “protection tax” imposed on items in the kitchen falls heaviest on the utensils, glasses and dishes in the cupboards. Direct trade barriers – restrictions on imports – affecting food products have actually declined significantly as a result of international trade negotiations conducted by the World Trade Organization and its predecessor, the General Agreement on Tariffs and Trade. That said, however, it should be noted that the tax rates

Table 8
Hidden Protection Tax Rates: Items in the Kitchen

Peanuts	4.4%
Canned tuna	3.6%
Lamb meat	3.4%
Butter	up to 3.6%
Frozen fruits, fruit juices and vegetables	1.3%
Cheese	up to 1.6%
Ceramic or earthen table and kitchenware	4.3%
Flatware	4.9%
Glassware	11.4%

Tax rates for some other food items not itemized above include dry/condensed milk, 0.1%; ice cream, frozen desserts, 0.1%; sugar-containing processed foods, 0.1%; cigarettes and other tobacco products, 0.1%; fluid milk, less than 0.05%.

Sources: U.S. International Trade Commission, *The Economic Effects of Significant U.S. Import Restraints, Third Update 2002*, Inv. No. 332-325, Pub. No. 3519, June 2002, Tables 4-3, 4-5, 4-9, 4-15, 4-18, 4-26, 6-4, 6-10; and The Trade Partnership, Washington, DC

estimated by the International Trade Commission do not reflect the higher prices resulting from other U.S. agricultural programs that artificially boost U.S. food prices. And as already noted, they do not include the impact of the antidumping/ countervailing protection taxes applicable to food items. As Table 3 shows, the value of those taxes can be quite large, almost \$20 million in 2002.

In general, in 2001, the average household spent \$1,312 on products in their kitchens that were subject to the “protection tax” (see Table 9).¹⁶ Of that, \$6 represented the price of protectionism, equivalent to a national sales tax rate of 0.5 percent.

It's not much better in the kitchen, where goods contain hidden "protection tax" assessments ranging up to 11 percent.

Table 9
Protectionism Attacks Your Wallet: Items in Your Kitchen

What Different Households Spent on *Food Items in Table 7** in 2001

	Average Household	Retirees	Family of Four	Single Parent Families	High Income Households	Minority Households
What They Spent	\$1,274	\$937	\$1,764	\$1,274	\$1,758	\$1,060
The Protectionist Tax	\$4	\$3	\$6	\$4	\$6	\$4
What They <i>Could</i> Have Spent	\$1,269	\$933	\$1,759	\$1,270	\$1,752	\$1,056

What Different Households Spent on *Tableware, Flatware, and Glassware* in 2001

	Average Household	Retirees	Family of Four	Single Parent Families	High Income Households	Minority Households
What They Spent	\$38	\$20	\$44	\$5	\$91	\$32
The Protectionist Tax	\$2	\$1	\$3	**	\$5	\$2
What They <i>Could</i> Have Spent	\$35	\$19	\$42	\$5	\$86	\$31

Total: Kitchen Items

	Average Household	Retirees	Family of Four	Single Parent Families	High Income Households	Minority Households
What They Spent	\$1,312	\$957	\$1,808	\$1,279	\$1,849	\$1,092
The Protectionist Tax	\$6	\$4	\$9	\$4	\$11	\$6
What They <i>Could</i> Have Spent	\$1,304	\$952	\$1,801	\$1,275	\$1,838	\$1,087
Total “Protection Tax” Rate	0.5%	0.4%	0.5%	0.3	0.6%	0.6%

* Not included are peanuts and dry/condensed milk because the Bureau of Labor Statistics does not report consumer spending for these products. Therefore, the totals presented in this table are understated.

** Less than \$0.05.

Source: Bureau of Labor Statistics and The Trade Partnership, Washington, DC.

In the Driveway

If you or your children ride a bicycle to school or work, you paid a hidden “protection tax” of over 5 percent.

Your transportation vehicle of choice also costs more because of protectionism. Imported cars bear a tariff of 2.5 percent. But if you prefer an imported pickup truck, the tariff was a whopping 25 percent. Even if you ride a bike to work or school, if it was imported it cost more because of an 11 percent tariff. Again, remember that if you insist on driving an American-made vehicle, you indirectly paid a hidden “protection tax” as the U.S.-made car’s price was higher because of the costs of its imported competition was inflated by tariffs.

The Trade Partnership estimated that the tariffs on trucks and bicycles boosted the prices consumers paid for those prod-

ucts only slightly, in the case of trucks, but the equivalent of a national sales tax of 5.4 percent for bicycles (see Table 10). The impact of the 25 percent tariff rate is low, overall, because very few trucks subject to it are imported. Instead, truck retailers are taking strong advantage of tariff-free options afforded by such trade agree-

ments as the North American Free Trade Agreement to save consumers from having to pay the onerous 25 percent tariff.

Table 11 shows that single-parent families pay three times the average household for protectionism affecting the prices of trucks and bicycles. Minority households pay double the average tax

Table 10
Hidden Protection Tax Rates: Items in the Driveway

Bicycles	5.4%
Trucks	0.01%

Source: The Trade Partnership, Washington, DC

Table 11
Protectionism Attacks Your Wallet: Items in Your Driveway

	Average Household	Retirees	Family of Four	Single Parent Families	High Income Households	Minority Households
What They Spent	\$842	\$439	\$1,384	\$365	\$1,843	\$601
The Protectionist Tax	\$1	*	\$1	\$1	\$1	\$1
What They <i>Could</i> Have Spent	\$841	\$439	\$1,383	\$363	\$1,843	\$600
Total “Protection Tax” Rate	0.1%	0%	0.1%	0.3%	0.1%	0.2%

* Less than \$0.50

Note: Columns may not add to totals shown due to rounding.

Source: Bureau of Labor Statistics and The Trade Partnership, Washington, DC.

Conclusion: It All Adds Up

While the costs of protectionism varies widely from product to product, by the time you add it all up, you are talking about sums of money per household that exceed those advocated by some policy makers as the level of tax cut needed to stimulate consumer spending and, thus, the economy. For all consumer goods items for which data were available, the typical household pays \$238 in higher prices to protect U.S. producers from import competition. (Note again that this estimate is quite understated.) This amounts to a national sales tax of at least 6.1 percent (see Table 12).

Some households get hit with a higher tax because more of their day-to-day expenditures include items for which the individual hidden “protection taxes” are quite high. The national sales tax equivalent for single-parent households is 7.5 percent, and for minority households, 6.9 percent. Retirees, however, do better than the average, paying a national sales tax equivalent of “just” 5.6 percent.

Consumers should know that you pay this tax. You need to know how big it is. Then, you need to decide if it is fair that you pay it, if you support the transfer of money out of your wallets and into those of U.S. and foreign producers, the U.S. treasury, and no one in particular through economic inefficiency. You also need to confront the fact that some households pay more than others, and decide if this is fair. Finally, you should consider whether a “tax cut” that eliminates the hidden “protection tax” but adds minimally to the U.S. budget deficit¹⁷ would be an appropriate policy path to pursue.

On average, households spend an extra \$238 a year because of the hidden “protection tax.” This represents more than 6 percent of the value of the goods they buy that are subject to the tax.

Table 12
Protectionism in Your Wallet: Summary - What Different Households Spent on Products Subject to Protectionism in 2001

	Average Household	Retirees	Family of Four	Single Parent Families	High Income Households	Minority Households
What They Spent	\$4,116	\$2,471	\$6,100	\$3,844	\$7,688	\$3,588
The Protectionist Tax	\$238	\$131	\$359	\$269	\$475	\$232
What They <i>Could</i> Have Spent	\$3,878	\$2,340	\$5,741	\$3,575	\$7,213	\$3,356
Total “Protection Tax” Rate	6.1%	5.6%	6.3%	7.5%	6.6%	6.9%

Source: The Trade Partnership, Washington, DC

Technical Appendix

We used a partial equilibrium model¹⁸ to estimate the impact on domestic and imported prices (combined) for four high-tariff products not included in the U.S. International Trade Commission study that is the basis for most of the estimates in this study. The four products were light trucks (24.9 percent average duty on imports subject to the duty), bicycles (10.5 percent average duty on imports subject to the duty), flatware (7.1 percent duty on imports subject to the duty) and glassware (14.3 percent average duty on imports subject to the duty).

The global simulation model (GSIM) permits us to evaluate the impact on the prices of imported and U.S.-made products of the elimination of an import tariff applied to imports from U.S. trading partners who are not beneficiaries of a special trade agreement or program with the United States.¹⁹ We assume that the imported products and the U.S.-produced products are imperfect substitutes for each other. In the model, using bicycles as an example, the imposition of a tariff leads to an increase in the price of bicycle imports affected by it, and a decrease in sales of those bicycles in the United States. The higher consumer price paid for the imported bicycles in the United States leads to an increase in the demand for U.S.-made bicycles and bicycles made by countries not subject to import duties (such as those with free trade agreements with the United States). Consumers substitute away from the higher-priced imported bicycles and towards the lower-priced U.S. bicycles and imported bicycles not subject to tariffs. These demand shifts, along with supply responses to the higher demand, lead to an increase in U.S. bicycle production and imports not subject to the tariffs. The magnitude of these shifts is determined by the degree of sensitivity to price changes, as measured by the demand elasticity, supply elasticity, and the degree of substitutability between domestic and imported goods.

Import and domestic shipments data for the studied products were obtained from the Census Bureau. Elasticities came from the Global Trade Analysis Project (elasticities of demand); substitution elasticities are from Michael P. Galloway, Christine A. McDaniel, and Sandra A. Rivera, "Industry-Level Estimates of U.S. Armington Elasticities," U.S. International Trade Commission, Office of Economics Working Paper, No. 2000-09-A, September 2000.

ENDNOTES

¹ That \$45 also covered a lot of other costs associated with getting the sweater to the retailer: transportation from the production plant to the retailer, the staffs of the various companies along the route, bankers, advertisers, and many other folks involved in what is in fact a very complicated process of getting any consumer good to the ultimate purchasers.

² For the sake of simplifying the discussion, we ignore the details of mark-up along the distribution channel that covers such costs as transportation, warehousing, advertising, financing, and other important costs associated with bringing goods into stores. We assume here that an importer sells directly to consumers and does not attempt to recover any of his overhead by increasing the cost of the imported product beyond the tariff rate. Technically, the importer is unlikely to be the entity that would sell the imported product directly to the consumer. More likely, an importer sells imported products (reflecting his mark-up) to retailers who then sell them (with a retail mark-up), along with U.S.-made goods retailers purchased from U.S. producers or others who sell U.S.-made goods, to consumers. Sometimes, retailers do their own importing.

In addition, depending on the market, consumers may not have to pay the full 20 percent of the tariff. They may pay something less than that if importers or retailers need to absorb any of the higher cost in order to sell the imported shoe.

³ In fact, consumers pay more for a tariff than what it distributed to the government and to producers: the rest goes to no one in particular, and represents a net loss to the economy. The same holds true for a quota. These additional pots of money that consumers pay that are distributed to no one represent the cost of economic inefficiencies that protectionism generates.

⁴ For example, when faced with a quota, to make the most money an exporter will insist on selling U.S. importers his more expensive adult-sized sweaters, rather than lower-cost children's sweaters, because both would count equally

against the quota level. As far as the quota goes, a sweater is a sweater, no matter how much it is worth. Children lose with quotas.

⁵ An excellent expose of how protectionism hits the poor the hardest, because remarkably barriers like tariffs tend to be higher on lower-cost versions of certain products than on higher-cost versions of the same product, can be found in "Toughest on the Poor: Tariffs, Taxes, and the Single Mom," by Edward Gresser, Progressive Policy Institute Policy Report, September 2002.

⁶ The Bureau of Labor Statistics publishes detailed consumer spending data in its "Consumer Expenditure Survey." The most recent detailed survey reflects spending in 2001.

⁷ The most comprehensive and recent U.S. government study is U.S. International Trade Commission, *The Economic Effects of Significant U.S. Import Restraints, Third Update 2002*, Inv. No. 332-325, Pub. No. 3519, June 2002.

⁸ It is important to note that after many decades, apparel and textile product quotas are scheduled to be eliminated on January 1, 2005. But until then, consumers pay the higher prices for apparel and textile products the quotas cause.

⁹ Unless otherwise noted, all tariff rates cited are from the *Harmonized Tariff Schedule of the United States (2003)*, published by the U.S. International Trade Commission, USITC Pub. No. 3564.

¹⁰ U.S. International Trade Commission, *The Economic Effects of Significant U.S. Import Restraints, Third Update 2002*, Inv. No. 332-325, Pub. No. 3519, June 2002, Table 3-3.

¹¹ The hidden "protection tax" rates are lower than the tariff (or import tax) rates noted in preceding paragraphs because they reflect a blend of U.S.-made as well as imported products. U.S. product prices are higher than they otherwise would be because imported product prices are

higher; the combination of the two effects is presented by the ITC estimates.

¹² Government data for consumer spending on accessory products is spotty. We only know, for example, that in 2001 the average household spent \$1,793 on apparel, footwear, luggage, watches, clocks, and costume jewelry; no data exist for consumer spending on leather gloves or handbags. In addition, the data for jewelry does not distinguish between costume jewelry and precious metal jewelry: we assumed that half the value reported (and included in the \$1,793 reported above) was for costume jewelry.

¹³ We could not estimate the impact on consumer spending of leather gloves because the Government does not detail how much consumers spent on such products. Thus, the total estimates provided in Table 4 are *too small*. In fact, consumers paid more than what we report as the value of protectionism in Table 4.

¹⁴ We could not estimate the impact on ceramic tiles because consumer spending on these items is not detailed by the Labor Department data.

¹⁵ Again, see Edward Gresser, "Toughest on the Poor: Tariffs, Taxes and the Single Mom," Progressive Policy Institute Policy Report, September 2002.

¹⁶ This estimate is grossly understated because we could not include consumer spending on food products away from home. The Labor Department details consumers spending in restaurants, even school cafeterias; however, it does not tell us anything more about the details of that spending: how much of it was for butter, milk, lamb meat, for example. Therefore, we were forced to exclude all consumer spending on "food away from home." In addition, consumer spending data on peanuts, and dry/condensed milk were not available.

¹⁷ Elimination of tariff protection taxes would cost the U.S. treasury some amount of tariff revenue.

¹⁸ Joseph Francois and H. Keith Hall, "Global Simulation Analysis of Industry-Level Trade Policy," Version 3.0, May 1, 2003.

¹⁹ For each of the products studied, various U.S. import programs permit importers to source some of these products duty-free from specified countries. These programs include the North American Free Trade Agreement (NAFTA) and other FTAs, and the U.S. Generalized System of Preferences (GSP) program. Thus, imports from countries with access to these programs are not assessed tariffs; products imported from other countries are subject to the tariffs.