

FEDERAL TRADE COMMISSION
Washington, DC 20580

BUREAU OF ECONOMICS

April 18, 1989

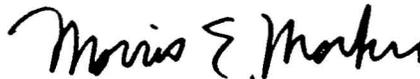
Mr. Kenneth R. Mason
Secretary
U.S. International Trade Commission
Washington, D.C. 20436

Dear Mr. Mason:

Re: Investigation 332-62, The Economic Effects
of Significant U.S. Import Restraints

In connection with the above-referenced investigation, the Federal Trade Commission respectfully submits an original and fourteen copies of the enclosed posthearing statement prepared by the Bureau of Economics.

Sincerely,



Morris E. Morkre
Senior Economist

**POSTHEARING SUBMISSION TO UNITED STATES
INTERNATIONAL TRADE COMMISSION**

The Economic Effects of)
Significant U.S. Import)
Restrains)
_____)

**Investigation
No. 332-262**

**EFFECTS OF U.S. IMPORT RESTRAINTS
ON MANUFACTURED PRODUCTS:
GENERAL EQUILIBRIUM RESULTS**

**BY STAFF OF THE BUREAU OF ECONOMICS
FEDERAL TRADE COMMISSION**

April 19, 1989

POSTHEARING SUBMISSION REGARDING
EFFECTS OF U.S. IMPORT RESTRAINTS
ON MANUFACTURED PRODUCTS:
GENERAL EQUILIBRIUM RESULTS¹

Regarding our submission to the International Trade Commission ("ITC") on March 31, 1989, ITC staff has raised several questions.

"In your submission (at 21) you state that

In the case of steel, for instance, the domestic industry is currently seeking to extend the QRs beyond their current expiration date of September 30, 1989. A domestic industry would not seek protection if it had no effect. In addition, domestic steel users have recently organized to oppose extension of the steel QRs. This opposition can be explained by the perception of these firms that the steel QRs have resulted in higher prices in recent years. Indeed, according to one study, a significant portion of the estimated 15 percent increase in steel prices in 1987 and 1988 is attributable to the steel QRs.

Since the quotas were virtually unfilled for every type of steel from every VRA-exporting country in 1988, could you explain:

- 1) What type of protection might quotas offer an industry when they are non-binding? Could you also provide suggestions on how to estimate the effect of this type of protection? How would these estimates fit into your CGE model?
- 2) How might non-binding quotas affect the price of steel? How would you model the affect of non-binding quotas on the price of steel? Would such an approach be adaptable to the model you present in your submission?
- 3) From the estimates you provide in your submission, can you infer what portion of the '15 percent increase in steel prices in; 1987 and 1988' is attributable to the steel QR."

¹ These comments are the views of the staff of the Bureau of Economics of the Federal Trade Commission. They are not necessarily the views of the Federal Trade Commission or of any individual Commissioner. Please contact Morris Morkre at (202) 326-3365 if there are any questions regarding this posthearing submission.

In response to these questions we note, first, that our submission does not present estimates of the current degree of restrictiveness of the steel QRs nor do we have current information on this issue. Instead, we provide estimates of what the welfare and employment effects would be assuming different hypothetical degrees of restrictiveness in 1984. We observed, however (in footnote 19 on page 21 of our submission), that it is our understanding that the ITC is attempting to estimate the degree to which QRs currently restrict imports. If the ITC develops such estimates, we can use them in the FTC general equilibrium model to determine the welfare and employment effects that they cause.²

We also note that if it is determined that the steel QRs are not binding, then in the context of our model they would have no effect. Our model is designed to compare two situations: where QRs restrict imports and where they do not. If the QRs are not binding (i.e., zero restriction of imports), these two situations are the same.

² Note that the FTC model is benchmarked to the year 1984, before the current steel QRs were introduced. If we were supplied with estimates for the degree to which the steel QRs currently restrict imports, say for the year 1988, we can use this information in our model to calculate their welfare and employment effects in terms of 1984 conditions. Alternatively, to calculate the welfare and employment effects in terms of 1988 conditions we would need to recalibrate our model to obtain a 1988 benchmark. Recalibration of the model would be a substantial undertaking since an entirely new data set for 1988 would need to be assembled.