

Why do countries place restrictions on international trade? What are tariffs and import quotas? How effective are tariffs and import quotas in restricting trade? What are the arguments for and against protective tariffs?

Countries place restrictions on international trade due to how economics relates to politics. Even though the costs affect a small group (businesses) and are less than the benefits to consumers; in the U.S. particularly, politicians listen to the small groups affected by those costs, and implement trade restrictions to protect those affected by the costs of international trade.

A tariff is a tax placed on an imported commodity (Hunt & Colander, 2008, p. 441). Tariffs serve two general purposes: to raise revenue and protect the domestic industry market by keeping out products from foreign competitors. Tariffs can be specific, such as when they are levied as a fixed charge per barrel or yard; or they can be value-added, such as when they are levied as a percentage of the value of a commodity. Import quotas are limits placed on the quantity or the value of a commodity that can be brought into a country in a given period of time (Hunt & Colander, 2008, p. 443). Both tariffs and quotas are a control device to restrict international trade.

Both tariffs and quotas reduce the amount of foreign imports into the U.S. However, keeping foreign products out of the U.S. would raise no revenue at all (in the case of tariffs). Generally, U.S. tariffs are low enough that they do not completely restrict imports and do raise some revenue. Hunt and Colander suggest that tariffs should remain low enough not to discourage import, and if possible, tariffs should be levied only on commodities that cannot be produced in the U.S. (2008, p. 441). Quotas are imposed to keep out foreign goods for the benefit of domestic producers, and to limit payments to foreign countries in order to conserve limited supply of foreign currency (Hunt & Colander, 2008, p. 443). Quotas restrict trade but bring in no revenue like tariffs. Quotas are easier to utilize since no special legislation is needed for implementation. Quotas are more effective than tariffs since they have a fixed and definite amount of how much of a commodity will be imported. Additionally, quotas can be adjusted based on the economic concerns over a particular industry and product being imported into the U.S. (i.e. 1970s, Japanese automakers exportation of cars to the U.S.).

There are various arguments for and against protective tariffs. There are four arguments for protective tariffs: Home-market argument, High-wages argument, Infant-industry argument, and Self-sufficiency argument (Hunt & Colander, 2008, pp. 441-442). Protectionists, individuals who support protective tariffs, assert that there are advantages to each argument. The Home-market argument maintains that protective tariffs will increase the market for U.S. goods, thereby, increasing home profits and employment. The High-wages argument maintains that protective tariffs assist in maintaining the U.S. wage level and the U.S. standard of living by protecting our workers from having to compete with cheap foreign labor. The Infant-industry argument asserts that protective tariffs assist un-established industries (that would otherwise not be able to survive) compete against established industries overseas. After a period of time, the industry becomes more efficient than the foreign competition and can provide goods at reduced prices and will no longer need tariff protection. Finally, the Self-sufficiency argument asserts that protective tariffs make countries more self-sufficient and less dependent on foreign countries for essential commodities during times of war.

Each of the four arguments for protective tariffs has disadvantages or a counter-argument. Protective tariffs as a means of maintaining a home-market is efficient at the expense of losing foreign markets. Foreign countries will raise their tariffs in retaliation to our tariffs resulting in U.S. consumers paying higher prices and/or receiving inferior products. The higher-wage argument for protective tariffs only benefits one group while reducing the purchasing power and standard of living of many others who must buy the products.

Ultimately, higher wages result in producers having to sell products at a higher price. According to Hunt and Colander (2008, p. 442), the infant-industry argument has yet to produce any examples of being successfully applied. Finally, Hunt and Colander (2008, pp. 442-443) assert that the self-sufficient argument is great in theory but is impractical in practice. The U.S. is still dependent on supplies of vital materials that we cannot get elsewhere. Additionally, keeping products out does not necessarily result in a building up of home production. In order to avoid shortages of strategic materials is to consider stockpiling (at the taxpayer's expense) of raw materials/minerals such as oil.