

## ON MEASURING PROTECTION : A METHODOLOGICAL ENQUIRY

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SINCE the late sixties, this question has continued to engage the attention of the leading international trade theorists and empirical researchers. It has led to two distinct enquiries :

1. How to trace resource allocation effects of a Restricted Regime ?
2. How to measure its economic costs ?

Two separate schools have distinctly centred round each of these questions. While the concept of effective protective rate (EPR) was designed to answer the first question, the concept of domestic resource cost (DRC) sought to deal with the second. The first is a positive question while the second is a normative one.

### *The EPR Approach*

The tariff question has a long tradition of extensive debate. That tariffs caused a shift in relative price structure inducing favourable production and adverse consumption effects was long recognised. The partial equilibrium implications of a single tariff were also clearly known. But a systematic answer to the first question raised above (i.e. output changes and resource allocation) was for the first time found, within the general equilibrium framework of a traditional two-commodity, two-factor model, by Stolper and Samuelson (14) subject to modifications by Metzler (12). The major drawback of this approach was that it talked in terms of nominal tariffs on final goods and original factors of production. Obviously this formulation implies that an entire production process of each commodity is vertically integrated whose end product appears in the form of final good and where intermediate goods do not enter the production process. These assumptions are undoubtedly at variance with reality.

In such a world, like the closed economy outcome, the value of total output is equal to the total value-added in the economy. This macro-identity remains intact so long as intermediate inputs entering the production process are produced at home with the help of primary and other home-produced intermediate inputs. If, however, some intermediate inputs come from abroad and those produced at home need the import of some others, the identity noted above breaks down. But normally this is the situation which we are confronted in