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## **Bike Protectionism**

by  
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The Canadian Bicycle Manufacturers Association (CBMA) wants a tariff on bikes imported from Asia and priced at \$400 or less. Last week, the Canadian International Trade Tribunal (CITT), a bureaucratic kangaroo court, ruled that the government should impose such a tariff during three years: 30% the first year, 25% the second, and 20% the third. The angelic hope is that the “surtax” would then disappear – ever heard that sort of thing?

CBMA represents only two manufacturers, Groupe Procycle Inc. and Raleigh Canada Limited. The other Canadian bicycle manufacturers have not joined the protectionist drive. As for the consumers, they have voted with their dollars: In 2004, they bought 481,000 bikes manufactured (in fact, often just assembled) in Canada, compared with 1.1 million imported into the country, giving an estimated market share of 30% to domestic bikes, down from 58% in 2000.

According to CITT’s snapshot of the industry, the domestic producers’ consolidated profits have been negative for the last five years.

The special interests asking for government protection represent 637 employed persons, out of a total Canadian labour force of 17 million, as well as the few shareholders of two small, non-listed companies. It is because this group is so small and has such concentrated interests that it can organize efficiently to lobby the state. A major part of the incomes of this group’s members is at stake.

Against these small, concentrated interests are the general bike consumers, who have much more important, but widely dispersed, interests. A 25% duty FOB would only add about \$45 to the retail price of the typical bike. Even for a large, bike-loving family that would purchase one new bike every year, this is a small price increase. It is true that, at the margin, this small price increase will prevent some consumers from

buying bikes, but no consumer will go and demonstrate in Ottawa for \$45.

Who will win the political battle between politically efficient bike producers and politically inefficient bike consumers? Public choice theory – that is, the economic analysis of politics – forecasts that the producers will win. Notwithstanding Alexis de Tocqueville, democracy is often the tyranny of the minority.

Before the CITT, Costco, Wal-Mart, Zellers, as well as many smaller retailers, sided with the consumer, presumably because the value of their sales increases when they sell bikes at lower prices (suggesting an elasticity of demand larger than one). In fact, 35 companies or groups (domestic and foreign) intervened against CBMA, whose only support came from a trade union, the Syndicat des Métallos. But we can't expect retailers to spend much resources on this sort of collective action: Either they are small, or else bicycles make up only a small part of their sales.

A tariff on bicycle imports and the consequent price increase will reduce quantity demanded, presently estimated at 1.5 million bikes. Assuming that the elasticity of demand for bikes is 1.1, a 25% tariff FOB that translates into a 14% retail price increase will cut quantity demanded by roughly 200,000 bikes a year. Given other reasonable assumptions, the value lost by consumers (technically, the reduction in what economists call the "consumer surplus") would be about \$66-million every year, or \$100,000 per Canadian job protected. Since a job in the domestic bicycle industry now earns an average salary of \$19,000 per year, the consumers would sacrifice \$66-million in order to save jobs worth \$12-million.

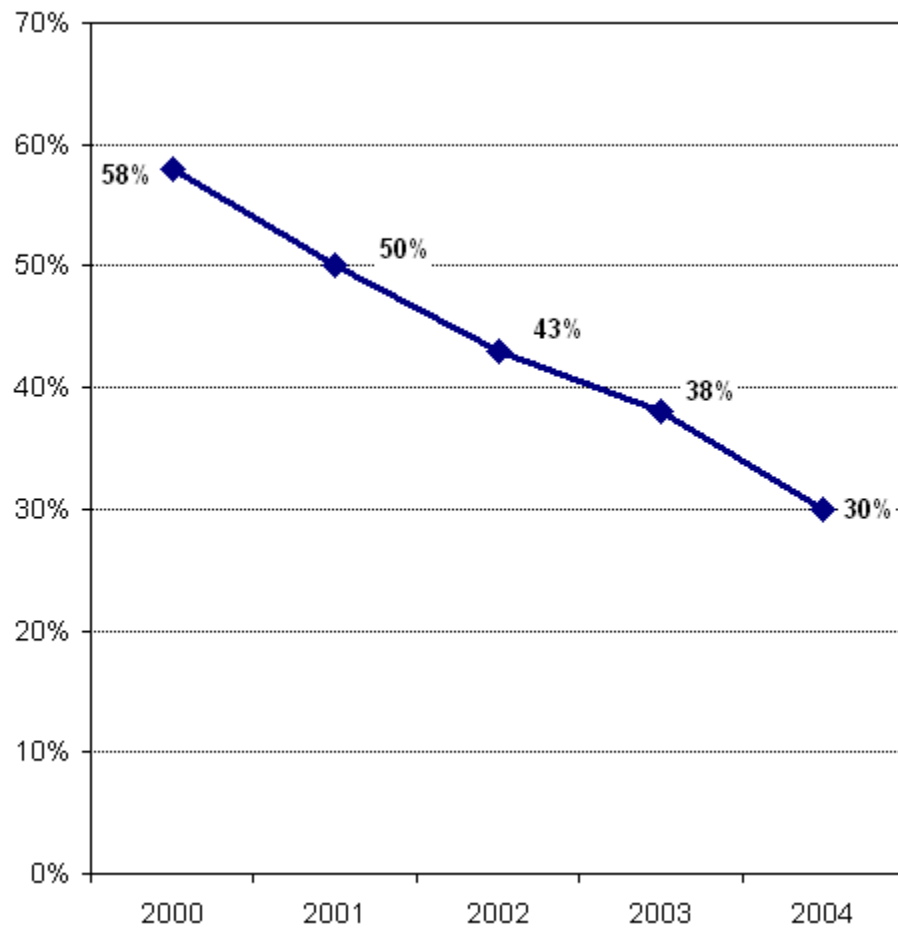
More generally, cost-benefit analysis shows that protectionism costs more to consumers than it benefits producers and the public treasury. And whatever methodological criticism can be raised against cost-benefit analysis, it remains that the interests harmed are more important than the interests protected.

The special interest groups that want to keep inexpensive bikes out of consumers' hands include the Syndicat des Métallos, which doesn't like competition from countries where labour gets relatively lower wages (because of underdevelopment). The trade union wants to protect its members' and officers' salaries at the expense of poor foreign workers. Where is the unions' socialist altruism?

From the point of view of economic efficiency, the solution is simple: Let anyone buy the bike he wants from whomever he chooses to buy from; and let the Canadian government ignore the CITT's protectionist recommendations. Unfortunately, political efficiency requires another rule: give the most politically powerful the right to produce the bikes and

screw the consumer.

**Domestically produced bicycles as a share of "apparent market"  
(according to CITT)**



SOURCE: NATIONAL POST WITH DATA FROM CANADIAN  
INTERNATIONAL TRADE TRIBUNAL.