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Dumping, Anti-dumping and Efficiency

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ABSTRACT

Along with a host of other non-tariff barriers to trade, anti-dumping actions have proliferated in recent years. This form of protection is increasingly used by the developed market economies against developing nations. This paper reviews the efficiency and welfare effects of various concepts of dumping, including international price discrimination, predatory pricing, and surplus dumping. While a limited case can be made on the efficiency and welfare basis for taking anti-dumping actions, the difficulty of restraining undesirable pricing behavior without thwarting competitive behavior is shown to be formidable. An alternative explanation of anti-dumping policies relying on a special interest or rent-seeking approach reveals the cartelizing effects of the types of broad-based actions actually taken.

1. INTRODUCTION

Following the sharp increase in real interest rates after 1978, the world recession of 1980-82, and continued weakness in commodity prices worldwide, developing countries took action to control imports, expand exports, and ration foreign exchange.[1] In response to the same economic forces, industrialized countries yielded frequently to protectionist pressures and sought to reduce imports and investments abroad. Current account imbalances worsened, growth in world trade declined, and trade barriers proliferated.[2]

The shifts in trade policy of the 1980s have eroded some of the gains achieved through the multilateral reductions in tariff rates that occurred following repeated meetings of the General Agreement on Trade and Tariffs (GATT) since 1947. But higher tariffs and their expanded coverage of commodities are no longer the chief impediment to maintaining a liberal trade order. Non-tariff barriers (NTBs) are the culprit.[3] And among the NTBs, anti-dumping actions have become a growth industry, especially across the developed market economies. From 1979-1982, 669

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1. For a discussion and assessment of the current outlook for developing countries, see International Monetary Fund, **World Economic Outlook, April 1987**, Washington: International Monetary Fund, 1987, pp. 64-89.

2. For a discussion of this, see Gottfried Haberler, "The World Economy: Its Performance and Prospects, with Emphasis on Trade Liberalization and Protection," in Phillip Cagen, ed., **Essays in Contemporary Economic Problems: The Impact of the Reagan Program**, Washington: American Enterprise Institute, 1986, pp. 325-362.

3. These nontariff restraints have been the focus of much analysis. See for example, Edward John Ray, "The Determinants of Tariff and Nontariff Trade Restrictions in the United States," **Journal of Political Economy**, Vol. 89, 1981, pp. 105-121 and Jan Tumlir, **Protectionism and**

anti-dumping actions were initiated in the developed market economies, with 1982 marking a 40 percent increase over the number of cases recorded in the previous ten years and with half of the increase occurring in 1982 alone.[4]

Growth in the use of anti-dumping actions has been particularly rapid in the United States, which is still the largest market for internationally traded goods, and in Canada. In the U.S., petitions for relief under anti-dumping legislation have increased ten-fold in as many years. In 1977, just 12 dumping complaints were investigated by the U.S. International Trade Commission. By 1985, that number had jumped to 129 complaints.[5] The number of anti-dumping actions in Canada increased by over 300 percent from 1979 to 1982. Anti-dumping actions also are taken increasingly against developing countries. Exporters in developing countries were the target in 17.3 percent of anti-dumping actions in 1979, 36.6 percent in 1980, and 25.8 percent in 1981.[6]

In 1986, developing countries were the targets for one-half of U.S. anti-dumping cases, which involved a diversity of products including natural bristle paint brushes, wax candles, cookware, television tubes, photo albums, and fire extinguishers. Even with the diversity observed in the U.S., the product groups most frequently subject to anti-dumping

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Trade Policy in Democratic Societies, Washington, D.C.: American Enterprise Institute, 1985.

4. See report by the United Nations Conference on Trade and Development, "Protectionism and Structural Adjustment: Anti-dumping and Countervailing Duty Practices," New York: UNCTAD Secretariat, TD/B/979, January 1984, p. 4-5.

5. Annual Report of the United States International Trade Commission, 1977-1985, Washington, D.C.: U.S. Government Printing Office.

6. See UNCTAD Report, op. cit., p. 4.

action are steel and other basic metal products, which accounted for 42 percent of anti-dumping actions in the developed market economies from 1979 to 1982, and chemicals, which accounted for 22 percent of the actions. Although this pattern is alike for both developed and developing economies, steel products dominate anti-dumping complaints even more in the U.S., while chemicals are the primary product group in actions in Europe.[7]

Economic theory predicts anti-dumping actions will increase when other protective barriers are reduced, since the supply of political responses to political demands is continuous. Multilateral reductions of tariffs leave politically strong economic sectors exposed to world competition, and the rules of GATT, which frown on tariffs, allow room for anti-dumping actions.[8] Substitution of one form of protection for another is to be expected.

But the changing world economy of the late 1970s and early 1980s cannot alone explain the increased use of anti-dumping actions. The roots of change reach back to legislation passed by industrialized countries in the 1970s and even farther. For example, in the late 1970s, the four economies accounting for 99 percent of all anti-dumping actions between 1979 and 1982, the United States, Australia, Canada and the

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7. Ibid., p. 8.

8. While the specified objective in the preamble of the GATT Anti-Dumping Code is that "anti-dumping actions should not constitute an unjustifiable impediment to international trade," the Code ironically legitimizes such actions by establishing specific procedures for determining dumping and injury. Some nations, in fact, have no specific national anti-dumping legislation but instead rely exclusively on the GATT Code. See Organisation for Economic Cooperation and Development, Competition and Trade Policies: Their Interaction, Paris: O.E.C.D., 1984, p. 111.

European Community, relaxed the standards for making a determination of dumping. Further substantive and procedural changes were made in the U.S. under the Trade Agreements Act of 1979 and in Australia under the 1982, 1983, and 1984 amendments to the Customs Tariff (Anti-Dumping) Act of 1975.

Definitions of dumping, arguments for and against it, and the associated analytical tools have changed over the years. In short, dumping and anti-dumping actions are dynamic concepts. How and why that is so is the rationale for this paper.

The paper is organized as follows: In the next section, we review and discuss dumping, what it is and how dumping and anti-dumping actions have been analyzed. The focus here is on economic efficiency and the presumption that government authorities seek to promote the general welfare. The second section continues the efficiency theme and discusses the risks associated with taking anti-dumping actions. All along questions are raised about the efficiency assumption, pointing out that protection, not efficiency, may be the goal of government authorities.

The third major section of the article addresses a special interest theory of anti-dumping actions and shows how those actions can lead to cartelization of domestic and international trade. A final section provides a brief summary and conclusion.

2. THE WHAT AND WHY OF DUMPING AND ANTI-DUMPING

The Price Discrimination Story

The term "dumping" is used to refer to a wide variety of trade practices. However, it has a fairly specific meaning in anti-dumping laws. These cover cases in which a foreign producer sells a product in one country for less than it sells the product in the home market or for less than the cost of production. In either case, dumping is another name for international price discrimination. A number of wealth-maximizing models have been developed to explain why a producer would engage in such practices.[9]

In these models, dumped imports are like any other low-priced imports that provide consumer benefits in the importing country, which simply receives a supply of lower priced goods. Although domestic producers may have to adjust their output and investment decisions, established trade theory leads to the conclusion that all consumers taken together will gain by the accompanying specialization.

The preconditions for dumping are the preconditions for price discrimination. The foreign producer is assumed at least to have monopoly power in the home market, if not in the world market. In the first case, the monopoly firm maximizes profit at home and expands sales in world markets so long as price is greater than marginal cost. In the case of

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9. The traditional model of a price-discriminating monopolist developed by Jacob Viner, **Dumping: A Problem in International Trade**, Chicago: University of Chicago Press, 1923 has been refined to incorporate the effects of uncertainty. See Stephan W. Davies and Anthony J. McGuiness, "Dumping at Less Than Marginal Cost," **Journal of International Economics**, Vol. 12, 1982, pp.169-182; Dan Bernhardt, "Dumping, Adjustment Costs and Uncertainty," **Journal of Economic Dynamics and Control**, Vol. 8, 1984, pp. 349-370; and Roger D. Blair and Leonard Cheng, "On Dumping," **Southern Economic Journal**, Vol. 50, 1984, pp. 859-865. Dumping can also emerge in competitive markets due to sluggish factor adjustment. See Wilfred J. Ethier, "Dumping," **Journal of Political Economy**, Vol. 90, 1982, pp. 487-506.

the world monopolist, the firm simply prices down the world demand curve, maximizing total profits that can be obtained worldwide.[10]

Generally speaking, expansions of supply lead to improvements in human well-being, whether the increased volume of goods comes from price-discriminating monopolists or competitive producers. The supporting logic for the simplest case is straightforward: Price discrimination is price cutting, and consumers gain from lower prices. Further, price-discriminating monopolists generally expand production, especially in an international setting. Output expansions lead inevitably to more consumption and a higher level of well-being. Generally, international price discrimination, that is dumping, is beneficial and should be rewarded, certainly not punished.

However, several cases can be described where price discrimination reduces welfare. A firm that has gained monopoly status in the home country may find it advantageous to raise price even higher there and then export more to world markets. Overall, average price increases for all units sold, and no additional output is offered on the market. In this case, consumer welfare falls in the home country and rises in world markets. Of course, it is possible that the gains and losses balance out. It is also possible that losses will be greater than gains, since transportation costs are incurred for units that could have been sold in the home market.

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10. While this may conjure up negative visions to some, the social effects are very similar to those obtained through grants and charitable donations to lower income countries. When hard grains are given to other countries, yet sold in the domestic country, the donating party is accomodating a price discrimination scheme. The donated goods may be viewed as having been "dumped" by private sector producers in the receiving country.

Another potentially welfare-reducing case is seen when the monopolistic seller expends resources for the purpose of separating markets so that different prices can be maintained for the same commodity. It is possible that the monopolist would spend more to gain market separation than will be gained socially from the incremental goods provided in world markets.[11] That kind of activity leads to a social loss, with the burden imposed on the monopolist's own country, not on the importing country. However, transportation costs alone are arguably sufficient to solve the market separation problem. The problem of rent-seeking monopolists is therefore a domestic policy issue in the monopolist's home country, not an anti-dumping issue.

There are yet other arguments against dumping or international price discrimination. These contemplate a situation where a firm cuts the price of its goods in a foreign market and drives foreign producers out of business. We expect such adjustments to occur in any market. But if the price cut is temporary, perhaps due to a cyclical downturn in the foreign firm's home market, the affected economy will have to sustain the costs associated with reentry of the earlier producers who vacated the market. An evaluation of the relative merits of favoring dumping under these circumstances requires a comparison of the temporary gains from consuming more goods, which are lower in price, with the social costs generated by the process employed when firms exit and reenter markets.

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11. The seminal article that identifies this potential cost to society is Gordon Tullock, "The Welfare Costs of Tariffs, Monopolies, and Theft," **Western Economic Journal**, Vol. 5, June 1967, pp. 224-232. Also, see Anne O. Krueger, "The Political Economy of the Rent-seeking Society," **American Economic Review**, Vol. 64, No. 3, 1974, pp. 291-303, and J.N. Bhagwati and T.N. Srinivasan, "DUP Activities and Economic Theory," David C. Colander, ed., **Neoclassical Political Economy**, Cambridge, Mass.: Ballinger Publishing Company, 1984.

Just how costly this might be is an important element in thinking about this argument against dumping. Firms that use highly specialized resources--capital equipment that cannot be used elsewhere in the economy--will delay a long time before leaving the market, continuing to operate as long as variable costs are covered. Temporary dumping hurts profits, but does not induce exit and reentry. Firms that use nonspecialized resources will vacate quickly when facing severe price competition. But the cost of reentry for these firms is low. In any case, the fact that temporary dumping occurs in certain industries will be taken into account by investors. A risk premium will be earned to adjust for the associated higher operating costs. The cost that may fall on labor is yet another consideration, one that requires focus on the mobility of the workforce, and the degree to which investments have been made in specialized human capital, which often reflects the degree to which an economy has become specialized.

The temporary dumping problem may not be as severe as it first appears, and there is no reason to think that the social costs that spring from international dumping are any greater than those that emerge when domestic producers disturb their competitors by dumping excess inventories in domestic markets. In the domestic case, the benefits and the costs are contained in the domestic market, while in the international case, the foreign producer gains and the receiving economy experiences a combination of gains and losses.

Dumping that is simply price discrimination is not likely to impose serious harm to the general welfare, though additional competition of any form can be harmful to the welfare of special interest groups. Nor is systematic international price discrimination likely to persist in today's markets, since that requires world monopoly power. A deeper and more general concern about dumping must therefore be based on other grounds.

The Predatory Pricing Story

Unlike the simpler price discrimination story, the predatory pricing theory assumes the successful international dumper will charge a higher price at home, expand its output, using excess capacity to do so, wipe out foreign producers for the avowed purpose of extending its monopoly, and then contract, leaving its excess capacity underutilized. Although the theory offers no explanation as to why the predator has excess capacity available to it and what will be done to pay for it later, still another feature is added to the simple price discrimination model: Differential pricing is a temporary and strategic activity.

While considering international predatory pricing, it is important to call attention to the difficult underlying expectation of monopoly power in world markets. For the assumption to be a credible description of reality, one must find a case where a single firm or domestic cartel has the potential power to secure and defend market power in major world markets. The pre-World War I German chemical cartels are sometimes thought to provide an example of this extraordinary condition. Patents, trade secrets, and domestic cartelization through government provided the international advantage. However, in today's highly developed world, it is difficult to find a comparable example.[12]

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12. Although predatory pricing has been alleged in many cases processed under U.S. anti-dumping laws, none of the cases seems genuinely to have involved predation. See John J. Barcelo, "The Antidumping Law: Repeal It or Revise It," in **Antidumping Law: Policy and Implementation**, Michigan Yearbook of International Legal Studies, Ann Arbor: The University of Michigan Press, 1979, pp. 92.

Analysis of alleged domestic predatory behavior by McGee suggests that predatory pricing generally is irrational, and he offers alternative strategies that are more efficient for all parties to predation, including the predator's victim.[13] First, predatory pricing is an expensive strategy compared with one of acquisition once a rival firm has entered the market. Price wars erode wealth. Predation reduces the value of all firms involved in the contest.

An alternative strategy, which is preferable, is for the incumbent firm and its rival to retain independence but reach an understanding that results in higher profits than the non-cooperative solution. After all, if the predator is to achieve monopoly power through its pricing practices, it can collude with the victim, adjust price and share larger gains than would exist otherwise.

In spite of these arguments based on domestic market behavior, and overlooking the basic problem of a firm's becoming a monopolist in world competition, predatory pricing may be logical in an internaticnal setting where many alternatives for extending markets are eliminated by government action. For example, governments routinely limit the acquisition of domestic firms by foreign competitors. In the absence of government cartelization, collusive agreements are also more difficult to maintain in an international setting, although the success of voluntary export restraints negotiated with government involvement suggests that cooperative solutions may be possible, even in an international setting.

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13. See John S. McGee, "Predatory Price Cutting: The Standard Oil (N.J.) Case," Journal of Law and Economics, Vol. 1, October 1958, pp. 137-169.

The theoretical possibility of predatory dumping is also revived by contemporary literature challenging McGee conclusions.[14] In these cases, the dumping firm has a market footing and seeks to maintain its dominant position. Dumping to deter entry may be an optimal strategy when information is incomplete or asymmetric. Predatory pricing may be used to establish a reputation for price cutting or to provide false signals about the profitability in a market.

Since there is a theoretical case for predatory pricing in international markets, there may be justification of some kind of anti-dumping policy.[15] However, it is not an adequate justification for the broad-based anti-dumping actions that are currently undertaken worldwide.

If predation were the real issue, legislation aimed specifically at predatory behavior would be more effective if it replaced action against the low-priced imports with action against the ultimately excessively priced imports, the allegedly true concern of anti-dumping legislation. There is a precedent for such action in the U.S. Shipping Act of 1916 under which discriminatory prices are allowed so long as they are "not increased before a reasonable period." Another possible protection

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14. See David Kreps and Robert Wilson, "Reputation and Imperfect Information," Journal of Economic Theory, Vol. 27, 1982, pp. 253-279, Paul Milgrom and John Roberts, "Predation, Reputation and Entry Deterrence," Journal of Economic Theory, Vol. 27, 1982, pp. 280-312, and David Easley, R.T. Masson and R.J. Reynolds, "A Dynamic Analysis of Predatory Pricing with Rational Expectations," Cornell University Department of Economics Working Paper No. 250, 1981.

15. Concern with predatory pricing was the focus of debate over the first anti-dumping legislation in the United States. See William A. Wares, The Theory of Dumping and American Commercial Policy, Lexington, Mass.: D.C. Heath and Company, 1977, p. 15-20.

against predation would be an anti-dumping policy with an injury standard targetted at predatory pricing.[16]

3. THE RISKINESS OF ANTI-DUMPING ACTIONS

The Type One-Type Two Error Problem

There is clearly a limited welfare-enhancing case to be made for taking actions against predatory dumping. However, if those actions are truly to be welfare-enhancing, the authorities must be able to discriminate between real predatory producers and others that either have lower production costs or temporary surpluses. In addition, the authority must be able to distinquish between simple price discrimination, which is likely to be welfare-improving, and predatory price discrimination, which is not. Put simply, the authority faces a type one-type two error problem. If the predation test is too severe, innocent efficient producers will be punished. The general welfare will fall. If too loose, predators will escape unpunished, again reducing welfare. The problem is quite complex and the decision making process is extremely hazardous.

In a similar situation, courts of law generally seek to minimize the probability that innocent people will be punished. Rules of law therefore increase the probability that the guilty will go unpunished. Taking a similar tack here calls for very lax anti-dumping policies.

A perfect anti-dumping action will identify the long-run competitive domestic price, determine the expected long-run production costs of the alleged predatory firm, and demonstrate that the predator is pricing below cost. Every dimension of the problem is difficult.

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16. See Richard Dale, Anti-Dumping Law in a Liberal Trade Order, New York: St. Martin's Press, 1980, p. 196-197.

Consider producers that for good reason expect to achieve large production economies when producing at a high rate. Both anticipated learning effects and technical production features contribute to their expectations. Using target pricing, the firm offers its product in world markets, producing initially at a rather low rate, where average costs are higher than price. Pricing below the average costs of production may be sufficient to prompt an anti-dumping petition in the most important importing countries.

If the authority obtains the actual production cost incurred by the foreign producer, it may conclude that sales were made below cost in this case, i.e. that the foreign producer was dumping. But that knowledge is insufficient for making a welfare-enhancing dumping determination. The determination of dumping based on current actual costs would be an error, since the firm was pricing on the basis of expected *long-run cost*. An anti-dumping action would reduce social welfare and delay the movement of domestic resources to production based on comparative advantage.

Yet other perplexing cases come to mind. The prices for agricultural commodities are commonly supported worldwide through government purchases and other support systems. Which price will the authority consider when considering an anti-dumping petition? Will the artificial domestic price be used, or will the generally lower world commodity price become the basis for comparison. Commodity price supports generally maintain a larger, higher cost industry and lead to increases in land rents that erode producer profits. Similar support systems are observed for industrial commodities. When the authority considers an anti-dumping petition it may have to travel without an economic compass. Domestic prices and costs may be distorted. Again, an anti-dumping action could reduce welfare. It is practically impossible to distinguish the real predator from a true competitor.

Government export subsidies as well as production by nationalized industries that operate in an economic hot house further complicate decisions about anti-dumping for public interest regulators. At some point, theoretically sound arguments become so difficult to construct that logic gives way to pragamatism. If one country's population wishes to subsidize the consumption of another's population, so be it. Or if one government wishes to maintain a vulnerable and noneconomic sector, then cost and price comparisons will be made on the basis of artificial markets. When that kind of reactionary logic takes hold, welfare economics moves to the back seat. Anti-dumping actions become all the more risky.

To avoid the type one-type two error problem, a welfare maximizing government could simply avoid taking anti-dumping actions altogether, expecting that the benefits and costs of such a stance would at worst be balanced. However the risks of such a hands off policy rise as a country closes its harbors to trade. Competition is the ultimate disciplining device for countries that seek to reduce the inherent risks that go with trade regulation. Maintaining open harbors assures substitutes in supply and limits the predation-born monopolist from behaving like one. But of course, maintaining open harbors invites competition.

Is the Welfare Maximizing Premise Valid?

The fact that anti-dumping activities are proliferating cannot be explained on the basis of welfare-maximizing public policy. For that to be done, comfort would have to be found in accepting one or some of the following beliefs:

1. The number of producers worldwide with the potential for becoming global monopolists has expanded since the 1970s.

2. More countries are systematically protecting domestic firms from the entry of domestic competition and those firms have world-class excess capacity.

3. A few producers in some countries have lower average production costs than can be achieved anywhere else, which is to say comparative advantage has shifted significantly and peculiarly.

4. There has been a significant increase in chaotic dumping, where domestic producers incur unexpected exit and reentry costs.

We cannot muster the facts to support any of these assertions, nor do we believe that anti-dumping laws have the attainment of general economic efficiency as their motivating purpose. Indeed, we doubt that international trade authorities have reason to be concerned about the type one-type two error problem. Instead, our review of anti-dumping legislation and practices suggests those actions are at best intended to protect domestic firms from foreign competition and at worst are devices for forming international cartels.[17] Our conclusion is based partly on empirical work we have reviewed and partly on changes in anti-dumping legislation in the U.S. and elsewhere that have relaxed substantially the requirement that petitioners show that goods are being sold below cost or for the purpose of eliminating competition and later raising price.[18]

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17. For an in-depth discussion of this point, see Elizabeth M. Young, "Does ITC Stand for International Trade Cartelizer?" Department of Economics, Clemson University, a paper presented at the Western Economic Association meetings, July 1987.

18. Anti-dumping actions are taken on the basis on "unfair" pricing practices that impose "damage" on domestic industries. A recent note in The Wall Street Journal illustrates the point. The U.S. International Trade Commission ruled under the Antidumping Act that U.S. producers of brass sheet and strip were injured by foreign producers in South Korea, West Germany, France, Italy, Sweden, Canada, and Brazil who were selling sheet and strip to U.S. buyers at "unfairly low prices--generally below those charged in the home market." In the same report, a final anti-dumping ruling by the ITC was announced against China, Brazil, and India for selling iron manhole covers and other castings in violation of the statute. See "ITC Rules Against Imports of Brass from 7 Countries," The Wall Street Journal, April 21, 1986, p. 17.

3. ANTI-DUMPING AS ANTI-COMPETITIVE ACTION

Domestic Protection and Cartel Management

Depending on the country involved, anti-dumping action is enabled by legislation or by administrative procedures.[19] In general, the action is based on an industry petition. To be successful, the petitioning industry becomes organized, gathers data, describes its costs and prices to government authorities, and works to influence decision makers. Former domestic competitors become colleagues in a political-economic contest directed against the only competition that then really matters: Foreign competition.

The act of organizing a petition itself induces domestic cartelization. Further, the process provides political authorities with valuable opportunities to exchange favors for future political support. After all, protection brings profits that can be shared with the provider of protection, the cartel managers.

When anti-dumping actions bring protection along with higher costs--those incurred in the political process, domestic prices will rise, which induces entry of more foreign goods and therefore more anti-dumping petitions. Protection begats protection. The international trade authorities become more firmly entrenched as cartel managers, perhaps unwittingly.

The International Connection

Foreign parties to anti-dumping procedures must also organize at the industry level and provide a response. The process induces coop-

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19. For a review of institutions across developed countries and some discussion of developing countries, see O.E.C.D Report, op. cit., pp. 103-118.

eration among former competitors and their government, unless they were already cartelized. The forces of cartelization become extended internationally.

Anti-dumping actions are ideal for forming and managing cartels. Unlike other protective devices that tend only to impose costs on foreign producers, anti-dumping sanctions often set prices and quantities to be abided by the guilty parties. Foreign and domestic producers restrict output, raise price, and earn higher profits, all under the aegis of government. If the dumping firms that triggered the process were indeed monopolists in their home country, anti-dumping ratifies that and contributes monopoly power internationally. If the triggering action had come from predatory pricing, the predator gains what was sought. Private interests are rewarded. The general welfare suffers, both at home and abroad.

A smoothly functioning anti-dumping cartel will yield excess capacity in the affected industries, but that feature of the industry will not be as visible as the higher price to investors in other countries who search for new opportunities. The cartel will induce entry from new quarters, which now have an incentive to alter production plans in the direction of higher priced goods. Production frontiers that outline achievable levels of well-being become distorted, and the process is not costless. In other words, later elimination of trade cartels will not replace the resources that were dedicated to cartel formation and to the production of goods in distorted markets. Mankind's search for higher levels of welfare takes a once-and-for-all step backward. Progress begins again from a lower level.

The Evidence

The dramatic increase in the number and incidence of anti-dumping complaints and affirmative decisions since 1974 is indirect evidence of successful efforts of special interest groups to gain more power to cartelize domestic producers. It could be argued that the increase in the case load is actually a result of a dramatic increase in the incidence of dumping, strictly interpreted. But empirical evidence does not support that hypothesis.

An investigation by J.M. Finger finds affirmative anti-dumping decisions to be significantly related to slow growth industries, those that arguably value protection the most.[20] Herander and Schwartz find increases in import penetration to be significantly related to the likelihood that a U.S. industry will file a dumping complaint.[21] And the same researchers find that anti-dumping actions occur systematically for industries with a smaller number of firms and where labor is organized.[22] These and other findings support a special interest theory of anti-dumping, not a general welfare argument.

There is additional evidence that provides a vision of international cartelization through anti-dumping. Several U.S. examples illustrate the point. In 1977, anti-dumping actions were used to limit imports of melamine crystal from Japan. Just three years later, in 1980, dumping

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20. See J.M. Finger, "The Industry-Country Incidence of 'Less Than Fair Value' Cases in U.S. Import Trade," Quarterly Review of Economics and Business, Vol. 21, Summer 1981, pp. 260-279.

21. See Mark G. Herander and J. Brad Schwartz, "An Empirical Test of the Threat of U.S. Trade Policy: The Case of Anti-dumping Duties," Southern Economic Journal, Vol. 51, July 1984, pp. 59-79.

22. Herander and Schwartz, op. cit., p. 67.

complaints were filed against Austria, the Netherlands and Italy. Action was again protective. Further dumping complaints were filed against Brazil in 1983. Across the six-year period, anti-dumping action reached the highly industrialized economies, attracted new competition and then enveloped those sources of production.

A ruling in 1978 involving rayon staple from Belgium was followed by cases against France, Finland, and Italy in 1979, with yet another case against Italy in 1985. The anti-dumping mechanism enveloped producers as they entered the protected market and then served as a cartel-monitoring device.

A similar pattern emerges in other cases. Protection against imports of dumped bike tires and tubes from Korea in 1979 was followed by a complaint of dumping against Taiwan in 1982. Germany and Italy were blocked from dumping barium carbonate in 1981. By 1984, an additional case was investigated involving China. A 1976 affirmative ITC anti-dumping action against acrylic sheet from Japan was followed by a 1983 case against Tiawan.

The anecdotal evidence supports the argument that protection encourages entry from developing economices, which then requires additional anti-dumping actions.

5. SUMMARY AND CONCLUSION

Dumping is a term used by international competitors who find they cannot compete successfully and comfortably against another producer's products. Whether based on price discrimination, predatory action, or cyclical sales of surplus goods, anti-dumping tends to protect competitors, not competition and the general welfare. Trade regulators who seek to maximize the general welfare therefore face an almost impossible task. Taking an anti-dumping action may impose more costs on society than not taking an action.

The special interest regulator has a much simpler task. He must seek to provide protection to politically important groups, while arguing publicly that predatory pricing and other unfair trade practices can be harmful to the general welfare.

Unfortunately, anti-dumping actions appear to be more than just habit forming. They are cartel-forming. Once such procedures are available, the notions of competition become turned on their head. Individual entrepreneurs, who previously struggled to minimize costs, improve products, and expand output in competition with others, think less about increasing productivity and finding ways to satisfy consumers. They think more about the state of their industry and how collectively--the weak and strong--can fend off competition. The mainspring of competition become weaker.

Undoubtedly, complaints about dumping will decline when the economies of the world strengthen and world trade expands. ˉhen, developed countries will be more tolerant of import competition and apparent developing countries will have less concern about debt service and control of foreign exchange. But the anti-dumping mechanisms will still be in place, and the cartels formed when last they were used will still have had negative effects on human welfare.

Anti-dumping actions are more than just potholes in the highway leading to a liberal order of international trade. They are major barriers, detours that preclude progress toward that destination.

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