

FREEDOM TO TRADE

TRADE POLICY IN THE DUMPS

by *Brink Lindsey*

Brink Lindsey
is director of
the Cato
Institute's
Center for
Trade Policy
Studies.

Two recent government reports tell very different stories about American antidumping law. Together, they shed unflattering light on an otherwise dark corner of trade policy.

Antidumping law, for those unfamiliar with its convoluted mysteries, imposes special and often punishingly steep duties on “unfairly” low-priced imports. Depending on the circumstances, import prices are compared with prices in the producer’s home market, or in a third country, or to artificial prices supposedly equal to the producer’s cost plus some amount for profit. If those benchmarks of “fair value” indicate that American consumers are getting too good a deal and if the imports in question are found to be “injuring” a competing American industry, then consumers are taxed to protect that industry.

A Congressional Budget Office study released in July calls that protectionist spade a spade. “Antidumping law,” the report states, “has become a form of general trade protection, which harms the overall economy.” Although antidumping laws have become increasingly common around the world in recent years, the CBO identifies the United States as the world’s most aggressive user of the trade-restrictive weapon:

- The United States imposes antidumping duties more frequently than any other country. As of the end of 1995, the United States had 294 antidumping measures in effect—35 percent of the world total.

- U.S. duty rates are among the highest in the world. In investigations conducted during 1991-1995, the mean rate imposed was 57 percent, compared to 36 percent in Canada and 30 percent in the European Union.

- U.S. antidumping measures last longer than those in other countries. For measures terminated during 1991-1995, the mean duration of U.S. antidumping protection was nine years, compared to six years in Canada and the EU.

While the bad news is that the United States leads the world in antidumping abuses, the worse news is that the rest of the world is catching up. Until a decade or so ago, antidumping was basically a rich country sin; now dozens of developing countries have added U.S.-style laws to their protectionist arsenal. And American exports are increasingly caught in the crossfire: research by World Bank chief economist Joseph Stiglitz shows that the United States is now the number one target of antidumping actions worldwide.

So what’s the reaction of the U.S. Trade Representative, charged with negotiating reductions in trade barriers around the world? In a July submission to a World Trade Organization working group, it staunchly defended antidumping laws against criticisms that they are anti-competitive.

The USTR report offers a grab

bag of excuses. In particular, it argues that antidumping duties are needed to offset the trade-distorting effects of foreign governments’ industrial policies and to compensate for competitive disadvantages faced by American firms because of differences in national economic systems. Putting aside the question of whether those rationales are even theoretically defensible, the glaring practical hole in the USTR’s argument is that findings of distortive government policies or economic structural differences in other countries are not needed to prove “dumping.” All that is needed is a finding that import prices are below some arbitrary “fair value” standard. The USTR’s defense of the antidumping law boils down to post hoc rationalizations having nothing to do with the actual circumstances under which protection is granted.

The conflict between the CBO and the USTR reveals the mess that is U.S. trade policy in this area. As the CBO study shows, antidumping abuses represent a major violation of the United States’ free-trade principles—a violation that is encouraging other countries to follow our bad example. Yet USTR, the government agency responsible for upholding the American commitment to free trade, chooses to stonewall on behalf of protectionist special interests at home, even if it means acquiescing in proliferating trade barriers elsewhere. So much for American international leadership.