The Heritage Foundation Backgrounder UPDATE

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ABOLISH AMERICA'S COSTLY ANTI-DUMPING LAWS

(Updating *Backgrounder* No. 906, "A Guide to Antidumping Laws: America's Unfair Trade Practice," July 21, 1992.)

America's nearly century-old anti-dumping trade laws have outlived their usefulness. Anti-dumping and countervailing duty laws, which prevent the import of low-priced and subsidized foreign goods, have become the protectionist weapon of choice. The U.S. government should not be enforcing laws that impose higher prices on American consumers. Nor should the U.S. be taking steps that undermine the competitiveness of some of America's largest exporters.

But that is exactly what the federal government is doing when it demands that special duties be placed on imports that supposedly are priced "too low." U.S. Trade Representative (USTR) Mickey Kantor in June 1993 asked the U.S. International Trade Commission (ITC) to conduct a study of America's anti-dumping and countervailing duty laws. The ITC study, published in June 1995, found that the overall cost of anti-dumping and countervailing duties to the U.S. economy far outweighs any benefits.[1] For example, the ITC discovered that anti-dumping and countervailing duty protection cost the U.S. economy $1.59 billion in lost gross domestic product (GDP). Moreover, the study concluded that when anti-dumping and countervailing duties are imposed on imports, prices for those products, and for their domestically produced counterparts, increase. As a result, the U.S. consumer has to pay more for all these goods, regardless of whether they are imported or produced in the U.S.

Findings of the ITC Study. The International Trade Commission has conducted the most comprehensive study ever undertaken on the economic effects of anti-dumping and countervailing duty laws.[2] The ITC reviewed all cases initiated between 1980 and 1993, conducted detailed case studies of eight representative domestic industries that won anti-dumping or countervailing duty rulings against foreign competitors, and assessed the overall impact of all anti-dumping and countervailing duties on the U.S. economy. The study found that:

- Anti-dumping and countervailing duties caused a net loss of $1.59 billion in U.S. gross domestic product in 1991;

1 U.S. International Trade Commission, *The Economic Effects of Antidumping and Countervailing Duty Orders and Suspension Agreements*, Investigation No. 332-344, Publication 2900, Washington, D.C., June 1995.

2 For a discussion of the methodology, see *ibid.*, pp. 3-7, 4-3 to 4-8, and 5-9 to 5-19.

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- ☞ While domestic companies and their workers receiving anti-dumping and countervailing duty protection earned $658 million more in profits and wages, terminating this protection would have increased overall American business profits and wages by $1.85 billion in industries that were not receiving such protection;
- ☞ When these duties were applied to the items examined in the study, U.S. prices for those goods rose. For example, solid urea fertilizer prices increased by 19 percent, lamb meat prices went up by 10 percent, and domestic steel pipe and tube prices rose by 10 percent.[3]
- ☞ While protected firms and their workers may benefit from anti-dumping and countervailing duties, their benefits come at the expense of consumers, other American firms, and their workers. In 1987, for example, U.S. consumers paid $138 million more for ball bearings because of anti-dumping laws. The overall cost to the economy was $70 million. In 1985, U.S. consumers paid $23 million more for brass sheet and strip, for a net cost to the economy of $19 million. In the 1984-1985 crop year, U.S. consumers paid $11 million in higher prices for frozen orange juice concentrate, while the net cost to the economy was $8 million.

These findings demonstrate conclusively that the anti-dumping and countervailing duty cure is far worse than the disease. While these laws may protect some jobs and provide some higher profits for selected businesses, they cost far more overall in higher consumer prices, lower production, and lost jobs in other industries. The ITC's findings support the case for abolishing these laws. There is no rational economic case for the claim that selling at below cost is an unfair practice; in a free market, prices are determined by what consumers are willing to pay for a product, not by what producers spent on making a product.

Proponents contend that anti-dumping law protects American consumers from the "predatory" tactics of foreign firms. (Predatory pricing is an illegal scheme in which one firm seeks to drive its rivals out of business by pricing its product substantially below production costs for a long period of time.) However, U.S. antitrust law allows domestic firms to sell their products at below-cost prices. U.S. firms actually can sell their products at less than the historical production costs to liquidate obsolete, deteriorating, or unpopular products, to maintain production and sales during a recession or seasonal downturn in demand, or to introduce new products to the market.

Why should U.S. law declare this type of pricing behavior legal if performed by a domestic firm but illegal if undertaken by a foreign competitor?

The U.S. government's war on low prices is not justified. Anti-dumping and countervailing duty laws benefit a select few companies while doing significant damage to the entire U.S. economy. The U.S. should end these practices. It should:

❶ **Repeal the U.S. anti-dumping law.** This law is found in Title VII of the Tariff Act of 1930, as amended. Repealing it would protect American companies dependent on imported components from costly import duties.

❷ **Repeal the U.S. countervailing duty law.** This law also is found in Title VII of the Tariff Act of 1930, as amended. Some countries will continue to subsidize their businesses. In such cases, the U.S. should use the World Trade Organization's Dispute Settlement Mechanism to enforce the agreement limiting government subsidies. This agreement, part of the recently concluded Uruguay Round, over time reduces the subsidies government may provide to various industries. If a signatory country contin-

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3 These price increases are based on a comparison of prices for the items before they received protection and the prices for the same items after import restrictions were applied.

ues to provide subsidies beyond the limits set in the agreement, other member countries can initiate an investigation, after which special duties can be applied to the guilty country's exports.

CONCLUSION

One of the principal government agencies in charge of implementing America's anti-dumping and countervailing duty laws, the International Trade Commission, has found that these antiquated laws do more harm than good. They should be scrapped. Doing so would save American consumers billions of dollars in lower prices and and would cause the entire U.S. economy to grow. This is a good deal for the majority of Americans. It is essential for the U.S. economy.

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