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Dumping and tub-thumping

Throwing up tariffs is a counterproductive response to economic weakness

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IT WAS a flood of cheap steel from an intimidating new economic power that prompted the passage of the world's first anti-dumping law. In 1904 Canada's parliament, angered by soaring imports of cut-price steel from America, imposed punitive tariffs. America is now on the other side of a similar trade dispute. Last year China exported over 100m tonnes of steel—more than the entire output of all America's mills. Only 3% of that went to America, but American steelmakers squealed all the same and in March the government announced plans to impose an anti-dumping tariff on steel imports from China (and a handful of other countries) of up to 266%. The instinct behind such measures is understandable, but no good will come of them.



Dumping is the practice of selling goods in foreign markets at an unfairly low price—typically, one lower than the going rate in the exporter's home market. Anti-dumping measures are intended to prevent a company from selling goods below cost in order to drive competitors out of business, before using the resulting market power to gouge customers.

The threat was all too real when Canada adopted its pioneering law. The American corporate monopolies of the day were more than willing to manipulate markets in order to put rivals out of business. American lawmakers eventually took aim at their “predatory pricing”, creating the first modern competition laws. Such laws usually bar firms from selling their wares below the cost of production. Anti-dumping rules, in contrast, tend to set a lower bar: they can be invoked if the price in one market is lower than in others. That makes it easy for firms seeking to shelter themselves from foreign competition to abuse them.

Competition is not the only concern of those who argue for anti-dumping measures. In Britain, where rock-bottom global steel prices now threaten Tata Steel, the owner of the country's biggest

surviving mill, proponents of tariffs argue that it is important to preserve domestic steelmaking to ensure supplies for the defence industry, among others. But it is hard to see how the use of French steel in British submarines harms Britain's security (its pride is another matter). For manufacturers of all sorts, most notably carmakers, cheap steel is a boon.

Weighing against these shaky benefits are a heap of costs. Economic analyses suggest that temporary anti-dumping tariffs are actually more damaging than run-of-the-mill protectionism. Anti-dumping rules, like other trade barriers, cause economic harm by shrinking markets and excluding efficient producers, thereby raising prices for consumers. But anti-dumping measures do additional harm, because big global firms know how to game them. Should their rivals attempt to cut prices to gain market share, they file anti-dumping petitions against them. That encourages everyone to keep margins plump, in effect creating an unspoken cartel. Such tacit collusion inhibits innovation and creative destruction, and holds back growth. One recent analysis suggests that America's anti-dumping policy reduces American consumption by 3%—an effect equivalent to a uniform tariff of 7%.

Nonetheless, anti-dumping rules have been enshrined in global trade treaties, which outline when and how such duties can be applied and provide a forum in which they can be challenged. Some economists suggest that they could actually provide a boost to globalisation, by making trade liberalisation seem more palatable to those whose livelihoods it threatens. Broad reductions in trade barriers may look less alarming if governments retain the right to impede the most disruptive imports.

Greg Mankiw, an economist at Harvard University, recently used a similar argument to defend the anti-dumping tariffs that America placed on steel imports in 2002, when he was advising George W. Bush, the president at the time. Mr Mankiw claims the tariffs were part of a calculated political strategy to push for trade liberalisation. By imposing them, he says, Mr Bush helped persuade Congress to grant him "trade promotion authority"—the right to negotiate trade deals which Congress cannot amend, but only approve or reject. Later, Mr Mankiw writes, that authority was used to secure the approval of a free-trade agreement with the countries of Central America.

At the moment, however, it is hard to justify anti-dumping tariffs as a calculated sop to the opponents of liberalisation. Progress on multilateral trade deals has stalled; the fate of regional agreements also hangs in the balance thanks to the protectionist mood seizing Western voters.

A movable glut

Cheap exports from China reflect overcapacity that has developed as the Chinese economy has slowed. The resulting "dumping" is not proof that China is on the verge of vanquishing all rivals,

but rather a reflection of its manufacturers' weakness.

That weakness is now being exported. Cheap exports depress prices in foreign markets, most of which are already experiencing worryingly low inflation. Central banks have little room to respond using conventional tools: interest rates are already at historic lows. In the 1930s economies that were unable to respond vigorously enough to headwinds blowing in from abroad (in that case, because of the gold standard, which constrained monetary policy) were the most likely to resort to protectionist tariffs.

Yet the impulse to raise tariffs, if understandable, should be avoided. Once one country gives in to it, the imports that prompted the move are diverted to another country, which naturally follows suit, setting off a chain reaction. As Tata Steel teeters, Britons are rethinking their opposition to anti-dumping tariffs. Yet Tata itself was a target of the American tariffs imposed in March. Politicians are keen to get their economies growing again; tariffs are a poor way to manage it.

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