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The political economy of antidumping: A survey

Douglas Nelson *

Murphy Institute of Political Economy, Tulane University, New Orleans 70118 USA
Leverhulme Centre for Research on Globalisation and Economic Policy, University of Nottingham, University Park, Nottingham NG7 2RD, UK

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Abstract

Contrary to the implicit assumption motivating much of the work on the political economy of protection, antidumping, along with other forms of administered protection, is the primary form of discretionary protection for most countries. A sizable literature on the political economy of antidumping has developed in the last two decades that is distinctive in its explicit focus on institutional aspects of the granting and implementation of protection via the administrative mechanism. This paper provides an analytical overview of this literature.

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1. Introduction

A simple summary of research on dumping and antidumping would be that: dumping appears not to be much of a problem; but antidumping is a much worse problem than its small coverage and marginal contribution to aggregate protection would imply. With respect to the first, most trade that satisfies the legal definition of dumping has no harmful effects and, for those few instances that might be generally harmful, the existing legal frameworks that could be applied are more disciplined with respect to market consistency. The antidumping mechanism, by contrast, is really about neither fairness nor predation. It is, instead, about protection and, both because it wraps itself in the mantle of fairness and because it is obscure and because its details permit greater protection to be delivered than would be the case with simple legislated

* Murphy Institute of Political Economy, Tulane University, New Orleans 70118, USA.
E-mail address: dnelson@tulane.edu.

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protection, antidumping protection is particularly bad protection.[1] This is a classic "political economy problem": a policy this bad cannot be the product of rational *social-welfare maximizing* policy making; it must be the product of a process distorted by politics. However, standard models of the political economy of protection are of only limited use to the study of the political economy of administered protection under fixed institutions. Before turning to the political economy of antidumping enforcement, it might be useful to comment on why this is the case.

There are two broad classes of political economy model: voting models and lobbying models. Within the first class, there are two sub-classes: referendum models and models of electoral competition. If one is looking for a simple, reduced-form political economy to generate a preference-induced *macro*-political economic equilibrium, the referendum model is perfect.[2] However, it is in the nature of the implementation of antidumping, as with domestic regulation, that each sector is treated separately. That is, antidumping implementation is an example of *micro* political economy. Furthermore, as we shall see, most of the action is in institutional details, from which referendum models consciously abstract. Models of electoral competition, when they seek to do something other than motivate Black's median voter result as an equilibrium, generally seek to explain aggregate shifts in propensity to protect that vary with party.[3] While there is plenty of evidence of partisan effects at the level of aggregate propensity to protect, there is very little evidence of partisan effects in the implementation of trade policy. When we turn to models of lobbying, whether involving a passive register state or a politically active state, strategies are allocations of resources to politics that are balanced at the margin against what those resources could have produced in directly productive activity.[4] The politics of antidumping enforcement is primarily about lobbying of a very focused kind. Simplifying somewhat, lobbying within the antidumping mechanism involves paying (primarily to lawyers) a relatively small fixed fee for access to an administrative system whose result will either be a duty, a price agreement, withdrawal (often with a negotiated agreement with the Foreign firms), or nothing. Most of the action has to do not with expenditure of resources on politics, but with what firms do once in the system.[5]

With this as motivation, political economy research on antidumping focuses primarily on two broad issues: the ways that firms distort their economic behavior in expectation of participating in the antidumping mechanism (indirect lobbying); and the strategies of firms within the mechanism (direct lobbying). For most of this work, the only active agents are profit-maximizing firms (always Home firms, sometimes Foreign firms). This work is essentially micro political-economic. This survey begins with the micro political-economy of antidumping enforcement — focusing specifically on the

[1] More or less exactly these arguments can be found, for example, in Finger (1992) or Lindsey (2000), but a strong flavor of this argument runs throughout this literature. For example, the excellent survey by Blonigen and Prusa (2003) is essentially organized around these arguments.

[2] The classic reference here is Mayer (1984), who uses the referendum model to very good effect in exactly this way.

[3] The standard reference here is Magee, Brock and Young (1989). Also very useful is Mayer (1998). Some work, e.g. Grossman and Helpman (1994) and Rosendorff (1996) uses electoral competition to motivate a particular form of government objective function, but this competition is inessential to the analysis of trade policy.

[4] The classic references here are Findlay and Wellisz (1982) for the passive state/active agents case, Hillman (1982) for the active state/passive agents case, and Grossman and Helpman (1994) who unify these approaches by allowing for a politically active state and politically active agents.

[5] There are two major exceptions to this judgment. First, standard lobbying models will apply to the politics of setting the rules under which the antidumping law will be administered. We treat this issue below. Second, and more directly relevant to implementation, firms that are seeking not a duty but a more political outcome, such as a VER, will certainly conceive of the political process more broadly. However, this case, while spectacular when it occurs (e.g. steel or autos) is rather rare, and more often than not starts with mechanisms other than antidumping.