

Subsidizing rent-seeking: Antidumping protection and the Byrd Amendment

Kara M. Reynolds *

American University, Department of Economics, 4400 Massachusetts Avenue, NW, Washington, DC 20016, USA

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Abstract

This paper argues that a recent U.S. law, which distributes the tariff revenue resulting from successful antidumping petitions to firms that supported the petitions, increases the amount of antidumping protection requested by U.S. firms in two ways. First, by increasing the total benefits accruing to industries filing successful petitions, the law subsidizes rent-seeking. Second, by awarding these subsidies only to those firms that actively support the petition, it mitigates the free rider problem traditionally associated with collective actions. Empirical results provide strong evidence that industries have filed more antidumping petitions under the new law. Moreover, the average proportion of firms in the industry filing these petitions increased under the law, suggesting that the law at least partially alleviates free riding incentives.

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1. Introduction

In the fall of 2000, Congress passed the “Continued Dumping and Subsidy Offset Act,” more commonly known as the Byrd Amendment. Under this law, firms that actively support successful antidumping petitions can be awarded with a portion of the tariff revenue that results from the

* Tel.: +1 202 885 3768; fax: +1 202 885 3790.

E-mail address: reynolds@american.edu.

petition.¹ I argue that the Byrd Amendment will increase the number of antidumping petitions filed in the United States in two important ways. First, by increasing the total benefits accruing to the industry due to a successful antidumping petition, it subsidizes rent-seeking on the part of firms. Second, by awarding these subsidies only to those firms that actively support the antidumping petition, it provides benefits to firms that choose to participate in filing the petitions, thus helping to alleviate the free rider problem traditionally associated with collective actions.

Not surprisingly, previous studies have found that increasing the firm-specific benefits of filing antidumping petitions will increase the level of trade protection in an economy. For example, using simulations of a model of firm participation in antidumping petitions, [Olson \(2004\)](#) concludes that increasing the benefits to firms filing successful antidumping petitions by 10% will increase the average proportion of the industry filing antidumping petitions nearly 4% and the number of petitions filed by 9.3%. This research expands upon [Olson \(2004\)](#) by specifically testing whether the Byrd Amendment has significantly increased the number of firms filing antidumping petitions in the first 3 years of the law's existence.

I decompose this general query into two separate but important issues: (1) has the Byrd Amendment increased the number of petitions filed by industries and (2) conditional on filing a petition, has the Byrd Amendment increased the number of firms actively participating in these petitions. I find strong evidence that industries have chosen to lobby for more tariff protection, or filed more antidumping petitions, under the Byrd Amendment. Moreover, the average proportion of firms in the industry filing these petitions increased under the law. The results suggest that the Byrd Amendment at least partially alleviates free riding incentives.

The paper is organized as follows. In the next section, I provide a brief description of theoretical models of collective actions, as well as how the Byrd Amendment could increase rent-seeking by alleviating free riding incentives. Section 3 discusses the data used in this analysis. Sections 4 and 5, respectively, present the results from the econometric models used to test for evidence that the Byrd Amendment has increased the number of petitions filed and the proportion of the industries filing petitions. Section 6 concludes.

2. Collective actions and the Byrd Amendment

Because all firms within an industry will benefit from the imposition of a tariff, tariffs are, in a sense, a public good. The decision of an industry to lobby for tariff protection or file an antidumping petition is thus confounded by the problems facing all collective actions. [Olson's \(1965\)](#) seminal work sets forth a model of collective actions in which firms participate in a collective action only if the benefits the firm receives exceed the cost of participating in the action. A collective action will be undertaken only if a subset of firms derive positive net benefits from funding the collective action on their own.

However, the ability of a group to undertake a collective action may be further hampered by free riders; when the benefit of the action is non-excludable like the benefits the industry gets from the imposition of a tariff, many firms will fail to contribute because they could reap the benefits for free after their rival firms have paid the cost of lobbying for protection. Because of the free rider problem associated with lobbying for tariffs, research has shown that the level of rent-

¹ If an antidumping petition is successful, tariffs are imposed upon products from specific countries that are found to be selling products in the United States at prices below the average cost of production or the domestic price in the targeted country. [Baldwin and Moore \(1991\)](#), among others, provide a more thorough description of U.S. antidumping law.

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