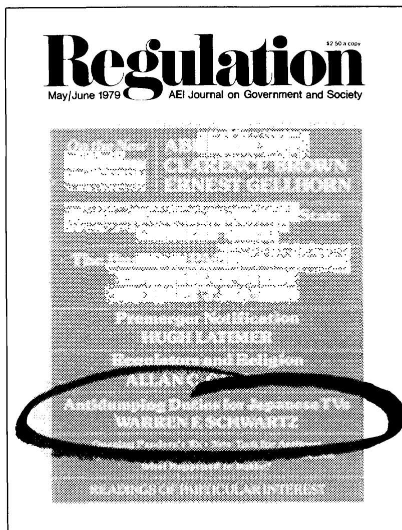
# Letters

*We welcome letters from readers, particularly commentaries that reflect upon or take issue with material we have published. The writer's name, affiliation, address, and telephone number should be included. Because of space limitations, letters are subject to abridgment.*




## Antidumping

TO THE EDITOR:

In your May/June issue, Warren F. Schwartz ("Antidumping Duties for Japanese TVs") bitterly denounced the antidumping act in general and that statute's application to Japanese television sets in particular. He concluded his article with a challenge: "It would seem reasonable . . . to ask those holding a contrary view to demonstrate not only that there is in principle something to be said for the law, but also that its objectives can be secured at a cost that makes their attainment worthwhile."

I accept that challenge.

The article is grounded upon the proposition that discriminatory pricing (that is, dumping) is good for the economy. Says Professor Schwartz: "The question why a duty should be imposed and consumers denied an opportunity to purchase goods at prices freely offered by foreign suppliers has not been addressed by Congress in a long, long time. I believe, moreover, that it is a question with no good answer. The law . . . appears to have been passed in response to perceived evils that would now be regarded by many scholars as nonexistent. . . ."

Scholars perhaps. But certainly not anyone who has to deal with the real world.

In the real world, American producers are forced to compete for the U.S. market against foreign companies which are not only exempt from the antitrust laws but are not bound by the disciplines of a free market economy. Japanese firms, for example, need not worry about *attracting* equity capital in most circumstances; because of the semi-socialized structure of their industrial sector, they can borrow what they need despite 80–20 debt-equity ratios. The Japanese government encourages rationalization of production (which is, by definition, anticompetitive) to ensure maximum output and employment. In turn, that government virtually guarantees the continuing existence of firms that would have long since been bankrupt in a free market.

The situation is roughly the same in almost every industrial country in the world. British Steel Corporation, for example, loses over $2 million *every day* but continues to sell its products in the United States at a fraction of their price in the United Kingdom. No matter how efficient, productive, or skillfully managed an American company might be, it simply cannot compete successfully against firms whose losses are underwritten by foreign taxpayers—or foreign consumers.

This is the premise of the antidumping act. In most countries, home markets are protected by a plethora of tariff and nontariff barriers which effectively deny entry of import competition (just *try* to sell a Pinto in Tokyo: price $17,000+). Foreign consumers (or taxpayers) are gouged to enable otherwise noncompetitive products to be sold at cut-rate prices abroad. Why? Because most of our trading partners place production (*not* productivity) above profits in the scale of importance. *Jobs,* even make-work jobs, are a political objective. Further, many countries like Japan are almost totally dependent upon exports to maintain their economies.

Well now, says Professor Schwartz, perhaps all that is true. Why shouldn't American consumers benefit if foreign taxpayers want to underwrite low inflation in this country? The reason is that consumers are also taxpayers, and jobholders. Only some of them aren't holding jobs anymore.

Rather than agonize over the costs of enforcing the antidumping act, Schwartz should view the costs of *not* enforcing the act. Last year, $7 million was spent in administering this law. In the same period, $277 million was spent in federal funds to aid workers who lost their jobs owing to unfair import competition, and millions more for unemployment compensation for their workers. In addition, billions in tax revenues were lost because American companies folded their tents in response to rapacious foreign pricing policies.

All right, already, intones Professor Schwartz (following the dictates of the Lewis Carroll School of Economics), but *consumers* still have saved money as consumers, even if they had to pay back their savings in increased taxes. And besides, "import penetration [of television sets] has been far too minor to pose a significant threat to the viability of the domestic TV industry."

I am rarely at a loss for words, but this statement leaves me almost speechless. Let's look at the facts. Last year, imports captured over 85 percent of the American market for black and white television and over 25 percent of the color television market. And these figures do *not* reflect the fact that most of the so-called "American-made" television sets are primarily fabricated abroad. One simply cannot buy a totally American-made television set today.

In sum, Schwartz is wrong in his facts and wrong in his judgment of public policy. More important, he does not understand the costs—including the social anguish—that results from corporate bankruptcy or

plant closings. He does not realize that low-priced Japanese TVs are purchased at the cost of ruin to families in Albion, Michigan, or Horseheads, New York, or Sioux City, Iowa. The window in his ivory tower is a very narrow one, indeed.

*Donald E. deKieffer,*
*Attorney at Law,*
*Washington, D.C.*

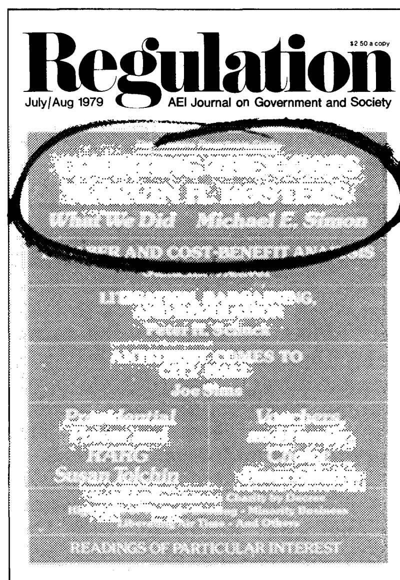
WARREN SCHWARTZ responds:

Mr. deKieffer's letter illustrates the principal point of my article. The letter contains a litany of complaints about foreign regulation and support of firms engaging in export sales to the United States. These include inadequacies in foreign antitrust laws, government debt financing of export firms, government support of industrial "rationalization," government subsidization of firms that would otherwise go into bankruptcy, and protection of the home industry against U.S. exports.

In addition, deKieffer refers to the decrease in the share of the American TV market supplied domestically and the associated reduction in the number of plants and employees engaged in TV production. He does not, however, specify the casual relationship between the various activities of the foreign governments and firms and the increase in imports.

It's clear that his objections to the behavior of foreign governments and firms (whatever their factual accuracy or justification on policy grounds may be) did not form the basis for the passage of the antidumping laws. It would seem, moreover, that if these objections are accepted, far more direct and drastic measures would be required to provide the relief to which U.S. firms and labor unions are entitled. The antidumping laws surely constitute a costly and inadequate response to the posited evils.

It is true that I personally believe there is considerable reason to doubt whether more fundamental economic forces are not really at work rather than the diabolical efforts of foreign countries to increase exports (deKieffer does not specify to what level) to which Mr. deKieffer attributes the increase in imports. He does note that U.S. firms are importing more and more component parts. And this does suggest lower costs of manufacture abroad—the classic reason for the occurrence of international trade. But it may be, of course, that both things are happening. Perhaps there is something "bad" about the way foreign governments, through action and inaction, are encouraging exports and the way foreign firms are responding to the incentives offered. What I called for is a precise specification of what it is that is undesirable about the activity of the foreign government and firms and how enforcement of the antidumping laws improves the situation, taking into account the costs of enforcement. (By costs, I of course mean social costs, not just direct administrative costs as deKieffer construes my remarks.) At most deKieffer's reply indicates that much is wrong in the way foreign rivals behave and therefore any program which leads to reduced imports must be desirable. I would simply ask the proponents of the antidumping laws to specify their grievances and spell out the ways in which the antidumping laws and the alternative forms of U.S. government action respond to them.




## Costs and Benefits

TO THE EDITOR:

As both Marvin Kosters and Michael Simon correctly point out in their articles on the Business Roundtable study ["Counting the Costs" and "What We Did," respectively, *Regulation*, July/August], affixing accurate price tags to the cost of government regulations is extremely difficult. Measuring the benefits of regulations is even tougher—and at least as important. At the Environmental Protection Agency we have to weigh both costs and benefits for all our regulatory programs.

The Business Roundtable's "Cost of Government Regulation Study" is a commendable attempt to quantify some of the costs. The study's strength rests on the use of a consistent methodology, based on the concept of incremental costs, which is applied across six regulatory programs and forty-eight companies. The result is a rigorous and professional analysis.

Both Kosters and Simon acknowledge, however, that the study is necessarily limited. Ignoring both indirect costs and the overall benefits of regulation, it counts only direct compliance costs. Substantial judgment is required to pin down even those more easily measured costs.

These unavoidable limitations, together with some methodological faults, yield a misleading finding. The study tags EPA with responsibility for more than three-quarters of the total costs for the six regulatory programs. Costs that the study ignores, like those stemming from price regulation and restrictions on competition, are probably lower for the Environmental Protection Agency than for other regulatory programs. In addition during 1977, the year of the study, companies experienced unusually large pollution control expenditures because they were making long-term investments required by the clean air and water acts. Yet the study fails to spread these costs out over the useful life of the investments. The net result of these weaknesses is to exaggerate EPA's share of the regulatory burden.

At EPA we always take a careful look at those costs when we regulate and then we actively work to reduce the burden of our regulations—without sacrificing our commitment to a cleaner environment. We have found that we can improve our regulations by assessing their economic impact, evaluating alternatives, and promoting public participation.

Most important, EPA is designing new regulatory programs that reduce pollution control costs, encourage technological innovation, and maximize opportunities for economic growth. As an alternative to "command and control" regulatory approaches that have been criticized as inflexible and inefficient, we are exploring reforms that rely on economic incentives to channel private behavior in environmentally sound ways. For example, one re-

form, the bubble concept, gives the plant manager discretion to choose how much to control each individual process, provided the plant stays within an overall emission limit.

We are constantly exploring the potential for regulatory reforms and we appreciate the constructive input that studies such as the Business Roundtable study provide to regulatory decisions.

*Douglas Costle, Administrator, Environmental Protection Agency*

TO THE EDITOR:

As chief financial officer of one of the forty-eight companies that participated in the Business Roundtable's study of regulatory costs, I read with special interest the Kosters and Simon articles.

General Electric shares Marvin Kosters's view that the goals of many federal regulatory programs are desirable. We also believe the private sector must supply credible leadership in its arguments against unnecessary or untimely regulations —no easy task given the monumental complexity of analyzing the direct and indirect costs of such government intervention.

Kosters indicates that a "considerable amount of judgment" was required to determine what companies might have done in the absence of regulation. In our experience, this was not so. For the large majority of projects, once they were identified, it required less judgment than one would have expected to determine to what extent they would have been undertaken in the absence of regulations. For the few projects in the gray area, we leaned deliberately toward exclusion of doubtful items.

In addition, Kosters raises the question of the treatment of expenditures for capital equipment. It is certainly correct that the incremental costs disclosed by the study were not prepared in the conventional accounting sense but reflect the timing of disbursements rather than the timing of their depreciation for tax purpose. This approach does reflect, however, an accurate picture of resource allocation, which we feel provides a meaningful measure of the incremental impact of federal regulations.

Without question, the study would have been much more valuable if it had also included representatives of medium- and smaller-size companies. As Michael Simon rightly points out, for example, it was this imbalance in the size of the participants that made it impossible to extrapolate the study's results to the economy as a whole.

Interested readers who share our conviction about the utility of broader participation may well want to pursue this natural follow-on to the initial Roundtable effort. Such participation would not only serve the interest of the private sector as a whole, but would provide an important payoff to all smaller firms whose operations, we intuitively suspect, are probably affected relatively more by federal regulation than those of larger companies—for the latter are likely to be better equipped to handle the regulatory flood.

*A. O. Way, Senior Vice President, Finance, General Electric Company*

TO THE EDITOR:

. . . As Marvin Kosters points out, the utility of the Business Roundtable's study is limited by its narrow focus on the incremental costs of regulation (as reflected in firms' business records). Important categories in the regulatory cost calculus are overlooked and the question of offsetting benefits is ignored entirely.

In fairness the study's author, Arthur Andersen and Co., makes very modest claims about the importance of its contribution to the science of regulatory cost measurement. (See Michael Simon's discussion, "What We Did," in the same issue.) However, Kosters's critique demonstrates plainly that we need to know much more about regulatory costs and benefits than the Andersen methodology can tell us.

Categorizing regulatory costs is a tricky business. Kosters explains his own cost taxonomy with the clarity and brevity of a first-class teacher, providing a critical perspective on other measurement methodologies and sharpening our thinking on the measurement problem in general. It should be noted, however, that Kosters's own approach also fails to comprehend important aspects of the overall effect of regulation—that is, regulatory impacts apart from costs. Examples of such impacts include shifts in income distribution, changes in outputs, increases or decreases in productivity, and changes in the geographic distribution of economic activity. Empirically speaking, we have hardly begun to

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scratch the surface of the non–cost impact issue.

Also, we need to remember that refining our ability to assess regulatory costs and benefits is only part of what must be done to bring order and balance to the regulatory system. In this regard, a number of important measures have recently been taken to improve regulatory management—for example, establishment of the Regulatory Council and the Regulatory Analysis Review Group, development of the Regulatory Calendar, the proposing of the Regulation Reform Act, and the Commerce Department's own work on a regulatory budget. While the government has always been mindful of the problems regulation is intended to solve, it has now become a great deal more sensitive to the problems that regulation creates.

*Lucy Falcone, Acting Assistant Secretary for Policy, Department of Commerce*

TO THE EDITOR:

In our 1979 annual report on the economy, the Joint Economic Committee of the Congress made two important recommendations for cutting the waste and inefficiency out of federal regulatory programs.

First, it should be required that all major government regulations be cost-effective. As amazing as it may seem, the laws that created our various regulatory programs seldom require that costs be examined, and there are even instances where the law actually prohibits any consideration of costs when regulations are being developed. . . . Second, the federal government should adopt a regulatory budget—not right away, but in the future as the technical problems of this device are resolved. Whereas the budget used to give a fair picture of government's impact on the economy, this is no longer true: regulation now is a major way in which the government commands private resources for public purposes outside the budget. . . .

Both of these recommendations—which were unanimously endorsed by the committee's Democratic and Republican members—would work to cut the unnecessary and wasteful costs that we find today in many regulatory programs. . . .

The Business Roundtable's "Cost of Government Regulation" study has contributed to a heightened interest in cost-effectiveness by defusing an important concern of those who oppose our attempts to control excessive regulatory costs—the concern that regulatory costs cannot be measured accurately enough to make informed choices among alternatives or to be included in a regulatory budget.

Of the four types of regulatory costs identified by Dr. Marvin Kosters in "Counting the Costs" in your July/August issue—administrative, compliance, transfer, and inefficiency—the only ones we could readily measure until recently were the administrative costs, which appeared in the federal budget. The others were elusive. The Business Roundtable study has helped change that by improving our ability to measure compliance costs. . . . Building on the work of that study and others, I believe we can develop a reasonable methodology for measuring compliance costs accurately enough for cost-effectiveness and regulatory budget uses, and I think Congress and the administration should get to work on this as soon as possible.

The fact remains that we cannot and probably will never be able to measure transfer and inefficiency costs. Nevertheless, we should not let this be used as a smokescreen to block meaningful regulatory reform. Virtually all federal government programs—and not just regulatory programs—involve transfer and inefficiency costs that are often large and unmeasurable. Yet we have never hesitated to undertake a necessary government program simply because we couldn't measure its indirect effect on the economy's efficiency or the distribution of income. . . .

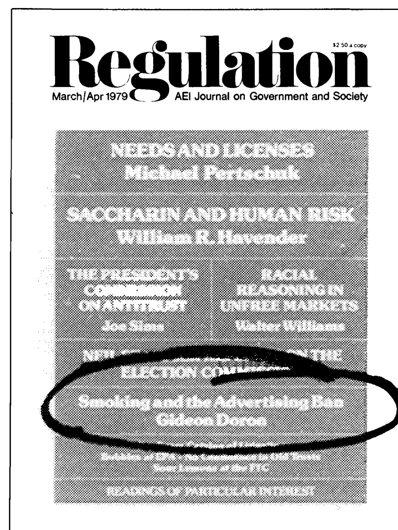
We should get on with the job of developing the fairly straightforward techniques needed for measuring compliance costs in order to ensure timely implementation of a cost-effectiveness requirement and, eventually, a regulatory budget, and not wait for what Dr. Kosters calls the "more complex and sophisticated methods of economic analysis" needed for measuring transfer and inefficiency costs. Further delay will mean more and more wasteful and inefficient regulations, higher costs, and, ultimately, more inflation.

*Lloyd Bentsen, Chairman, Joint Economic Committee of the United States Senate*

## More on Cigarette Advertising

GIDEON DORON responds:

Since I am currently in Israel where smoking is not regulated but postal services are, I received your invitation to respond to the Tobacco Institute's letter on my article far too late to make the deadline. [See Doron's "How Smoking Increased When TV Advertising Was Banned," *Regulation*, March/April 1979, and letter to the editor from William Kloepfer, Jr., July/August.] The points raised in that letter are interesting.




It is true that during the heyday of the antismoking commercials, 1968–1970, the declining trend for cigarette consumption was not uniform. But the results of my statistical research (see *The Smoking Paradox*, Abt Books, 1979) show clearly that the antismoking commercials were the cause of the reduction in the level of consumption during these years. While the commercials lost some of their potency by 1970 (when industry sales did go up), they still had a detrimental effect on *per capita* cigarette consumption in that year. It seems to me that per capita consumption, not total industry sales, is the proper measure for the policy maker to use in this case.

It is also true that there were some cigarette price increases in the relevant years. But my tests show clearly that the Fairness Doctrine, a single factor, was the most influential in cutting the margins of the smoking population. It was not price increases, although they do affect consumption negatively, even in the cigarette market. Again, the antismoking commercials gave the regulator his biggest "bang" for a "buck."

Third, Mr. Kloepfer's point regarding the relevant age group to

be used in calculating cigarette consumption—fourteen years and over, as I suggested, or eighteen years and over, as employed by "conventional measurements"—is insignificant. I conducted tests on both age groups, employing data gathered by the U.S. government and the industry itself, and found virtually no differences in their aggregate patterns of consumption over time. The correlation coefficient between the two groups consistently stands at 0.98. I also think that, regardless of one's interest or position, there is no reason to doubt the integrity of the American Cancer Society surveyors.

Finally, Mr. Kloepfer's main objection appears to be to the last line of my article: "One finds a certain sympathy for the FTC." He apparently missed the sarcasm in that line. I do not think that the FTC has the responsibility to bring about a reduction in cigarette consumption. I do believe in "freedom of choice" and, preferably, informed choice.

## Vouchers and Government Control

TO THE EDITOR:

Peter Skerry's book review of *Education by Choice: The Case for Family Control* by John E. Coons and Stephen D. Sugarman correctly points out that educational vouchers might not ease the burden of regulation on schools (*Regulation*, July/August 1979). I am convinced that any sort of voucher system that is at all likely to be implemented will greatly increase the degree of government control and enforced uniformity—all in the name of "free choice." The very premise of the voucher scheme is that education is solely the responsibility of the state, which exacts the necessary funds through taxation and then doles out vouchers to parents.

If free choice in education is desirable not only as an ideal but also as a workable improvement on the present system—and libertarians would argue that it is—then the only way to accomplish this is through direct *tax credits* for education. Not only parents, but also anyone else who spent money to educate a child, should be allowed to deduct a substantial portion of the cost of that education from their tax obligations.

Education tax credits would, with one sweep, put government and non-government schools on an equal footing, and would also stimulate innovation, maximize free choice, encourage private aid to families who might not otherwise be able to afford alternative schooling, and restrict government's ability to impose regulations on education. Equally important, tax credits rest on the premise that the money belongs to the individual, not the government, and that education is properly the responsibility of the individual.

*Chris Hocker,*
*National Director,*
*Libertarian Party*

PETER SKERRY responds:

I am pleased that Chris Hocker agrees with my assessment of Coons and Sugarman, but I feel compelled to disagree with him strongly on particulars. First, I do not share his optimism that tuition tax credits represent a realistic alternative to vouchers as a means of avoiding government regulation. Certainly, the Supreme Court's recent decision in *Byrne* v. *Public Funds for Public Schools*, in which a New Jersey tuition tax program was ruled unconstitutional, offers little basis for hope. And it would seem that Mr. Hocker's argument for tuition tax credits has already been seriously undermined by their most prominent proponent, Senator Daniel P. Moynihan (Democrat-New York), who has argued that tax credits do indeed represent state aid and that, contrary to prevailing interpretations of the First Amendment, religious schools are constitutionally eligible to receive it.

As I emphasized at the end of my review, I believe that vouchers "remain an attractive alternative to the present system." Unlike Mr. Hocker I am not convinced that vouchers will necessarily lead to increased governmental control of schools, though this is a real possibility. And certainly more of the same would be bad enough. I do think those concerned to promote choice and diversity in education must assume that either of the schemes mentioned—vouchers or tuition tax credits—will lead to demand for public accountability for what will be considered public funds. The next step then, which I attempted to take in my review, is to weigh these kinds of disadvantages of the specific proposals being made against the much more frequently discussed advantages of those proposals. ■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