Dumping

Dumping should be encouraged. It is a gift from the nation which provides the products. Dumping reduces inflation for the buyer. It permits the same money to buy more. But dumping is never intended to be a gift. It is, in fact, a realistic and often superior business strategy.

No one ever invested in added capacity in order to sell more output below cost. Therefore, dumping occurs only when the buyer gets a lower price and the seller makes more profit on the same transaction.

Dumping may be the sale of temporary excess capacity at marginal cost. Such over capacity can exist only temporarily except in dying industries. Consequently, supplies will inherently be intermittent. Available quantities will inevitably be limited. Such spot sales can be made only in markets where prices are not permitted to respond to the normal forces of supply and demand for some reason.

Dumping can continue forever and be profitable to the seller if the seller is the lowest cost producer. It is immaterial and irrelevant that the selling price in some markets may be lower than it is in the country of origin. The lowest cost producer's prices should be set to meet and better the local competition. Similar segmentation pricing is the basis for competition in the whole universe of business from fashion goods to airline fares to automotive options.

Dumping can be a deliberate investment to buy market share and reduce future costs. It should be done wherever it will accomplish that purpose sufficiently well. Such investments in the future are the basis for lower prices in the future as well as the present. Every product, every business and every industry requires ever increasing investment until its growth slows. Rare indeed is the business that generates more cash internally than its reinvestment rate as long as financial growth continues. Investment in higher market share and lower cost may be a prerequisite for future competitive capability. The consumer is always the beneficiary. That competitor who misjudges the return on the investment in penetration pricing subsidizes the consumer with his own losses.

The principal victims of dumping are those competitors who attempt to stabilize price levels instead of responding to marketplace supply and demand. Such artificially stabilized prices avoid the extremes in highs and lows inherent in market sensitive commodities. However, stabilized prices lead to cyclical shortages and periodic allocations. They require prices high enough to support and protect the inefficient competitors. On average they make both prices and costs higher then they otherwise would be. Such pricing policies by any industry are a major handicap, perhaps a fatal handicap, to effective competition in products with international markets.

The appropriate response to dumping is to respond in kind. Sell at marginal cost into the markets of competitors who are dumping into your markets. The dumping will stop! If other things are equal, the low cost competitor will survive and prosper regardless of the country of origin. However, this kind of competition requires national government support in equalizing any barriers to trade. Effective competition of this kind also requires a recognition and acceptance of the inherent price volatility of a free marketplace.

The world must be a free marketplace without artificial barriers if we are to achieve our potential for productivity. The alternatives are not attractive. Increasing government regulation and intervention into the marketplace has always led to nationalization of the industry in the past. Perhaps that is inevitable. But, nationalized industries seem to lead to major degradation of productivity based on the record of most past experience.

The existence of dumping as a political issue is a measure of the barriers to world trade and the extent to which government regulation and intervention prevent effective competition.

Bruce D. Henderson

© The Boston Consulting Group, Inc. 1978