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RESEARCH SUMMARY

Unexpected Beneficiaries of Import Restrictions: How Import Duties and CEO Pay Go Hand in Hand

Proponents of tariffs and other import restrictions claim that they benefit domestic businesses and workers. In fact, however, they have a more likely—and more unexpected—beneficiary: corporate CEOs. In "Executive Incentives, Import Restrictions, and Competition: Empirical Analysis of Antidumping and Countervailing Duty Orders," Brian Blank argues that import restrictions and higher executive pay go hand in hand—and that this happens regardless of industry or company performance.

In his study, Blank focuses on two types of exceptionally large import restrictions:

1) *Antidumping duties*. These are used by a government when it believes imports are being priced below market value and it fears the negative impact this will have on domestic producers. Antidumping duties raise the cost of imports, making it easier for domestic products to compete against foreign-made goods.
2) *Countervailing duties*. If a country is heavily subsidizing its exports in order to compete in foreign markets, other countries may seek to "level the playing field" by using countervailing duties to hike up the cost of subsidized foreign goods.

DECISIVE FACTOR IN COMPENSATION—IMPORT DUTIES, NOT COMPANY PROFITS

Blank studied the performance of more than 1,000 firms from 1994 to 2015, including firms in iron and steel, plastics, textiles, pharmaceuticals, and many other industries. He found the following:

- *Rising compensation*. As duties were levied, CEO compensation consistently increased. For the average firm, compensation levels rose by 17 percent.
- *Predictors of CEO salary*. The most consistent predictors are the size of the company and the existence of an import restriction.
- *Higher salaries and bonuses*. CEOs received approximately $150,000 more in cash compensation after an antidumping or countervailing duty order had been put in place, in addition to the $500,000 increase in equity and incentive-based compensation.
- *Compensation not based on performance*. For CEOs, most compensation generally comes in the form of equity (i.e., company shares) and other noncash incentives. Because cash compensation goes up in the presence of import restrictions, it is unlikely to result from company or CEO performance. Cash compensation is higher even after considering the size and performance of firms.

KEY TAKEAWAY

Import restrictions can have unintended consequences. Research shows that import duties such as tariffs consistently cause hikes in executive pay that cannot be explained by company or CEO performance.