"A Statesman is the animal who works with phrases instead of with the burglar's jimmy."

"Why form a party when you can as well form a pressure group?"

"Politicians are like bad horsemen who are so preoccupied with keeping in the saddle that they can't bother about where they go."

--Some of Joseph A. Shumpeter's aphorisms drawn from Swedberg (1991).

Is Talk Cheap?

Buying Congressional Testimony with Campaign Contributions*

Ryan Gibbs,[a] Omer Gokcekus[b] and Edward Tower[a]
[a]*Duke University and* [b]*North Carolina Central University*

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Abstract: For the steel import quota bill of 1999, our answer to the question posed in the title is that each word in the Congressional Record costs $39 in campaign contributions from the steel industry. Consequently, our answer is "Yes."

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* The authors' emails are respectively **zotch812@yahoo.com**, **ogokceku@wpo.nccu.edu**, and **tower@econ.duke.edu**. For Correspondence: **Omer Gokcekus**, School of Business, North Carolina Central University, Durham, NC 27707; Telephone: 919-530-7393, or **Edward Tower**, Duke University, Department of Economics, Durham, NC 27708; Telephone: 919-660-1818.

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1 INTRODUCTION

Gordon Tullock (1967), in his marvelously insightful, elegantly simple and delightfully written essay "The Welfare Cost of Tariffs, Monopoly and Theft," argues that in addition to the resource allocation costs of tariffs, one must consider the costs of lobbying to acquire tariffs and the costs of lobbying to prevent them from rising higher. This line of inquiry has been further pursued by Krueger (1974), Bhagwati (1982), Becker (1983), Dixit, Grossman and Helpman (1997) and others. The welfare cost of directly unproductive activities, such as efforts to influence policy hinges on a microeconomic specification of how these activities occur, along with knowledge of the shadow prices of the resources used up in these activities. Krueger provides some insightful microeconomic stories about the cost of rent seeking and presents some estimates of the cost of rent seeking. Also, a number of studies have explored how campaign contributions influence voting on trade policy: e.g. Baldwin (1985), Kaempfer and Marks (1993), Kang (1999), and the papers cited in Kaempfer, Tower and Willett (2002). But these studies consider only a few aspects of the microeconomics of rent seeking. In order to more fully draw out the implications of rent seeking behavior, we need to enrich our sense of the microeconomics of rent seeking.

In this paper, we make a modest foray in looking at one additional aspect of rent seeking. Fisher, Gokcekus and Tower (2002) explore how campaign contributions to members of the U.S. House of Representatives affected their votes on a steel import quota bill, the "Bipartisan Steel Recovery Act" of 1999, H.R. 975. In the process they gathered almost all of the data necessary for us to ask two further interesting questions. Drawing on the *Congressional Record*, which presents a verbatum record of the debate, we ask "Did campaign contributions buy testimony on the House floor?" and "How much did each word of testimony cost?"

2 THE BILL

The digest of the bill, which summarizes its content, is available on Lexis-Nexis from the Congressional Research Service. It reads:

> [The bill] Directs the President to impose quotas, tariff surcharges, or negotiate enforceable voluntary export restraint agreements in order to ensure that the volume of imported steel products … during any month does not exceed the average volume of imported steel for the 36-month period preceding July 1997. …

Robert Crandall in the March 19, 1999 *Wall Street Journal* labeled it "one of the most blatantly protectionist pieces of legislation since the 1930s." The House debate was on May 22-23, 1999, and the vote was on May 25, 1999. The bill passed the house 250-150, but debate was never closed in the Senate, so it never became law. For more detail and some quotes from the debate, see FGT (2002).

3 THE MODEL

Harper and Aldrich (1990) discovered that U.S. Senators who receive large campaign contributions from sugar producers or have a large presence of sugar producers in their states tend to vote in favor of the U.S. sugar subsidy program. Symmetrically, they found that campaign contributions by sugar users, like candy makers, or a large presence of sugar users in senators' states tend to stimulate them to vote against it. Similarly, we figured that Representatives receiving substantial contributions from steel or who have a constituency with a large representation of steel producers would be likely to offer more voluminous testimony in favor of the bill. And, we supposed that Representatives who received substantial contributions from steel users, like autos, or had a constituency with a large representation of steel users would be likely to offer more voluminous testimony against it. Accordingly, we have the following *ad hoc* model:

Lines = f (PARTY, Auto$, Steel$, UAW$, SWA$, AW, SW).

The dependent variable is **Lines,** the net number of lines in the *Congressional Record* each Representative adds to the balance of testimony. **Lines** carries a positive or negative sign depending on whether the testimony is for or against the bill.

There are several independent variables. Our most important set of variables is campaign contributions to Representatives during the period January 1, 1998 through March 17, 1999, measured in thousands of dollars. These are contributions from the auto industry to Members of the U.S. House of Representatives: **Auto$**; from the steel industry: **Steel$**; from the one major steel workers' union: **SWA$**; and from the one major auto workers' union: **UAW$**.[1]

PARTY takes on a value of 1 if the Representative is a Republican and 0 if a Democrat.

From the 2000 Census we have data on the number of workers employed in the steel and automobile industries, by state, measured in thousands of workers. These variables are labeled **SW** and **AW**, respectively.[2]

We recognize that the causality between campaign contributions and talk runs both ways. This problem cries out for a time-series analysis. Ours is a simple first pass at the problem. We attempted to duck the problem of talk causing campaign contributions by using campaign contributions from one period to explain subsequent talk.

4 THE REGRESSION

The following is the OLS estimation of the model.

Lines =	6.74	- 1.50**Auto$**	+ 3.19**Steel$**	+ 0.10**SWA$**	- 0.51**UAW$**	+ 0.02AW	+ 0.58SW	- 6.99**PARTY**
		(3.34)[3]	(2.32)	(0.14)	(0.77)	(0.58)	(2.16)	(1.65)

Adjusted-R^2 = 0.07
F-Statistic = 5.36
Degrees of freedom = 422

[1] Both the Center for Responsive Politics and the Federal Elections Commission served as sources for information on auto and steel PAC contributions. The largest PAC contributors in the auto industry were Daimler-Chrysler, Ford Motor Co, General Motors and Americans for Free International Trade. These plus Caterpillar (CAT) constitute the (AUTO) group. CAT was included because it is major steel consumer, and because of its vocal stance against H.R. 975. The steel PAC group analyzed consisted of all contributions from Acme Metals, AK Steel Corp, Allegheny Teledyne Inc., American Iron and Steel Institute, Armco Inc., LTV Steel, Lukens Inc., National Steel Corp., Standard Steel, Steel Service Center Institute, Texas Industries, WCI Steel, Weirton Steel Corp, and Wheeling-Pittsburgh Steel. The only substantial steel and auto labor PAC contributions came from the United Steelworkers of America and the United Auto Workers, the single large national steel and unions. The USWA PAC contributed only to democrats. Its contributions constitute our variable, SWA$. Their contributions constitute our variables SWA$ and UAW$. These contributions are all available on the web.

[2] The number of workers employed in sector 3311 constitutes steelworkers (SW), and the number of workers in sectors 3361, 3362, and 3363 constitutes autoworkers (AW).

[3] Numbers in parentheses are absolute t-values.

Lines is an increasing function of contributions from the steel industry and the steelworkers' union and a decreasing function of contributions from the auto industry and the united autoworkers' union. It is also higher for Democrats. It rises with the number of steelworkers in the state and (anomalously) it rises with the number of autoworkers in the state, but the latter coefficient is very close to zero and insignificant. All variables are significant at the ten percent level on a two-tailed test except for the number of autoworkers and contributions from both the United Steel Workers of America and the United Autoworkers.

Each dollar contributed by the steel industry is more effective than each dollar contributed by the USWA. One reason for this may be that if the steel industry is characterized as an oligopoly or monopoly, import restrictions may lower steel employment as firms opt to raise prices at the cost of production, so protection may be against the interests of steel workers. Similarly UAW contributions are less effective than auto industry contributions. So perhaps the major winners and losers from protection are the corporations rather than workers.

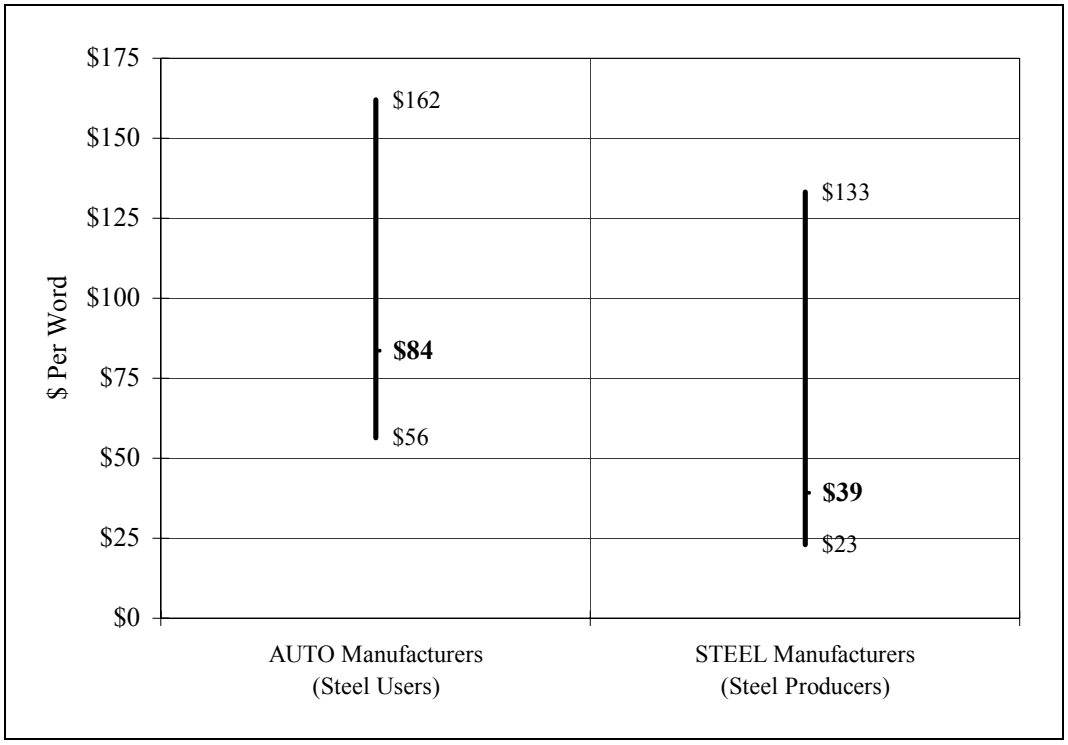
The automobile sector is only one of many steel-using sectors. Steel is not a huge proportion of the cost of an automobile and to some extent higher steel costs can be passed onto the auto consumer. Consequently, we would expect steel import quotas to affect steel profits more profoundly than auto profits. Therefore, we are not surprised to find that contributions from autos have a smaller absolute effect than contributions from steel do.

5 IS TALK CHEAP?

Now we answer the question posed by the title of the paper. Each line in the Congressional Record consists of an average of 8 words. Using this conversion factor, and the estimated coefficients, we calculate that each $39 contributed by the steel industry buys one more word in favor of the bill or shrinks testimony against the bill by one word. Symmetrically, each $84 contributed by the auto industry buys one more word against the bill. Figure 1 presents the confidence intervals both for auto and steel industries' contributions per word at the ten percent level. The probability that the true

values of the cost/word lie within the indicated intervals is ninety percent. (The ranges are not symmetric about the point estimates because cost/word is proportional to the reciprocal of the estimated coefficients.)

Figure 1 The confidence intervals for auto and steel manufacturers' contributions per word



6 SHOULD CAMPAIGN CONTRIBUTIONS BE OUTLAWED?

We have demonstrated how campaign contributions affect congressional testimony. Lobbying is illegal in many developing countries. Does this prohibition foster better economic policy? Becker (1983) argues that lobbying tends to generate efficient policy outcomes, because lobbies will spend the greatest amount of resources in support of policies which support the largest welfare gains. But, as Kaempfer and Willett (1989) argue, this rests on the idea that all interested parties find it equally easy to mobilize

lobbying resources. And much protection and other special interest legislation rests on the unwillingness and inability of consumers and a multitude of disparate special interests to lobby against protection, leaving the balance of lobbying in favor of concentrated special interests.

If lobbying is outlawed, we fear that much of it will be driven underground. Conspiracies are tricky to keep secret, so illegal activities are easier for monopolies to manage than for large organizations of small players to organize. Consequently, we believe outlawing campaign contributions is likely to raise the political power of monopolies over competitive players and further sway the political process toward protecting monopolies at the cost of competitors and consumers. Moreover, underground lobbying is harder to detect and makes the political system less transparent (and an article like this one impossible to write!). Finally, campaign contributions to some extent fund useful activities like information flows and are likely to be more socially productive than other forms of purchasing influence. A better policy than outlawing campaign contributions, we believe, is to require that any protectionism meet an economy-wide or world-wide cost benefit-test, which in practice would amount to prohibiting it.

7 CONCLUSION

Bhagwati (1988, p. 85) articulates what he calls the Dracula effect. Just as Dracula shrivels into nothingness when the morning sunlight hits him, "exposing evil to sunlight helps to destroy it." He goes on to argue that clear analysis of the consequences of protectionism should help to destroy this evil. We believe that in a similar way, illuminating how money causes protection should help to destroy it. In this paper we have documented yet another way in which money from narrow special interests affects legislation: through buying debate. This we hope will strip from the case for steel protectionism a bit more of its mask of intellectual legitimacy.

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