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“Bananas did not build America. Steel did. The only practical solution to the steel import crisis is to make H.R. 975 into law.” (Mr. Kucinich, Ohio).

“Stand up America. Are you not tired of being Dumped on? Vote for H.R. 975.” (Mr. Mascara, Pennsylvania).

“If we had a situation where these were our constituents and someone was breaking in their house and raping and robbing and pillaging them, we would want to send in a policeman to do something. In this instance, they are just coming in and taking their future, they are taking their jobs, they are taking all of their dreams away. ... We must stand up for the people of this nation. We must stand up with a force of steel and with a backbone of steel.” (Mr. Klink, Pennsylvania).

“... the bill before the Senate is a job killer, a trade war starter, and it is a bill that will destroy 40 jobs in steel-using industries for every one job it saves in steel producing.” Mr. Gramm, Texas).

“...this is one heck of a corrosive proposal, and I rise in steely opposition to it.” (Mr. Crane, Illinois).

‘Steeling’ House Votes at Low Prices for the Steel Import Quota Bill of 1999*

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Abstract

Robert Crandall in the March 19, 1999 Wall Street Journal wrote, “On Wednesday the House passed one of the most blatantly protectionist pieces of legislation since the 1930s. Reacting to the anguished cries from the steel industry and its rapidly declining unionized workforce, the House voted to impose quotas on imported steel for three years. Crandall was referring to the “Bipartisan Steel Recovery Act” of 1999. We summarize and evaluate the congressional debate on the bill. Then we use logit analysis to explore whether campaign contributions to Representatives by the steel industry (excluding steel unions), steel unions and the steel using automobile industry had any impact on voting patterns on the bill. We also check whether in-state and out-of state contributions from the steel industry affect voting behavior differentially.

* Fisher completed the initial draft of this paper including the data collection, calculations and write up during his senior year at Duke, with Tower’s encouragement. All three authors have worked to refine the original study. We are grateful for the generous help of Christof Galli, Ryan Gibbs, Jaewa Lee, Ken Reinker and Dalene Stangl, and for comments from George Fane and other contributors to the volume.

1. Introduction

Robert Crandall in the March 19, 1999 Wall Street Journal wrote, “On Wednesday the House passed one of the most blatantly protectionist pieces of legislation since the 1930s. Reacting to the anguished cries from the steel industry and its rapidly declining unionized workforce, the House voted to impose quotas on imported steel for three years. Crandall was referring to the “Bipartisan Steel Recovery Act” of 1999. His strong words and those of others attracted our interest. So we decided to see if we could explain congressional voting on the issue. We summarize and evaluate the congressional debate. Then we use logit analysis to explore whether campaign contributions to Representatives by the steel industry (excluding steel unions), steel unions and the steel-using automobile industry had any impact on voting patterns on the bill. We also check whether in-state and out-of-state contributions affect voting behavior differentially.

We find that contributions from the steel industry and steel unions increase the probability of a yes vote on the bill, and contributions from the auto industry decrease it. However the impact of contributions from unions is smaller in magnitude and not significant. We also find no significant difference between in-state and out-of-state contributions from the steel industry, leading us to conclude steel money is equally effective regardless of where it originates.

On March 17, 1999 the title of the bill, H.R. 975 was read by the Clerk of the House. Its title is the “Bipartisan Steel Recovery Act.” It was designed 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. Debate and a vote on the bill followed the same day. The bill passed the House with 289 yeas and 141 nays (better than a 2/3 majority). But in June 1999, nearly sixty percent of the Senate voted down a motion to proceed to consider the same bill, so mercifully it did not become law. Data for political action committees related to the steel industry shows a significant amount of contribution activity in the months prior to the House vote on H.R. 975. Analysis of these contributions reveals that the total dollar amounts contributed were impressively small and steel industry contributions were impressively effective.

H.R. 975 attracted considerable attention in the months prior to the House vote and afterwards, which made us curious to scrutinize the motivations for the voting patterns on the bill. Commerce Secretary William Daley would later comment that cabinet secretaries spent a greater portion of their time analyzing steel imports than any other issue (Cooper 1999a). It also attracted the attention of Gary Hufbauer (1999) who in June 1999, estimated the effects of the steel-quota bill in compelling terms. He estimated that only 1,700 steel jobs would be saved at a staggering annual cost to American consumers of \$800,000. This analysis suggests that Representatives’ constituents’ interests were against the bill, which would have cost households an average of \$14 annually.

2. A Short History

The steel industry in the United States has always maintained a high-profile relationship with the U.S. government. (See Irwin, 2000.) Early in the twentieth century regulations were designed to restrict company size and grow competitiveness in the industry. President Truman attempted to nationalize steel in 1952. And ten years later, President Kennedy imposed *de facto* price controls on the American steel industry.

Recently, the American steel industry has vigorously sought legislative protection from the pressures of growing foreign steel supplies. The steel industry in 1999 sought restrictions on imported steel to complement the relief provided by a rash of “anti-dumping” suits filed against foreign producers of steel products (Burnham, 1999). Now, more than ever the familiar cry for protective legislation for steel threatens to burden the American economy with import restrictions.

3. The Bill

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

[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 (semifinished, plates, sheets and strips, wire rods, wire and wire products, rail type products, bars, structural shapes and units, pipes and tubes, iron ore, and coke products) during any month does not exceed the average volume of imported steel for the 36-month period preceding July 1997. Directs the Secretaries of the Treasury and of Commerce to implement a program for administering and enforcing the restraints on such imports. Authorizes the Customs Service to refuse entry into the U.S. customs territory for a three-year period of any steel products that exceed the allowable levels of such products. Directs the Secretary of Commerce to establish and implement a steel import notification and monitoring program. Requires any person who intends to import steel products into the United States to first obtain an import notification certificate. Sets forth specified import notification certificate requirements. Directs the Secretary of Commerce to publish on a weekly basis through the Internet certain information obtained from steel import notification certificate applications regarding imported steel, including country of origin, the port of entry, quantity, value of steel imported, single producer or exporter countries, and whether such imports are entered into a bonded warehouse or foreign trade zone. Authorizes the Secretary of Commerce to charge reasonable fees to defray the costs of carrying out this Act.

The full text of the bill appears in Appendix II.

4. The House Debate

The debate is instructive. It is interesting to see what was included and what was left out. Page numbers in what follows refer to the Congressional Record for 1999. The indented

portions (except for the bold italics) are quotes. In a few instances we could not resist incorporating our own comments, which we do *in bold italics*.

5. The Case for the Bill in the House

1. Steel imports cause lost jobs and bankruptcies.

However, it is abundantly clear that our steelworkers and companies have suffered immense harm, including as many as 10,000 jobs lost, severe production cutbacks, and several companies have gone into bankruptcy as a result of the import surge over the last year. (Mr. Rangel, New York, H1350). ***But how about those industries which suffer due to negative effective protection and the Lerner symmetry theorem?***

2. Foreign prices are distorted.

I want to emphasize to my colleagues that what happened with the surge was not globalization. That is here to stay. But it was manipulation of the market by those countries selling below their cost. It was not competition. It was distortion. (Mr. Levin, Michigan, H1351). ***But not a distortion from the perspective of maximizing the American welfare.***

3. Steel deserves decent prices.

America's steel producers and steel-workers played by the rules. They made hard sacrifices in the 1980s to make this the most competitive, efficient and unsubsidized steel industry in the world. It is only because of illegal and unfair trading practices that our industry is being undercut here at home. (Mr. Visclosky, Indiana, H1352). ***But here is an irony. If the rest of the American economy is monopolistic and only steel is competitive, we have excessive resources in steel, which implies that even a small import tax is welfare shrinking. In fact, if one accepts Kreinin's (1984) argument that unionization in steel has artificially boosted steel costs, one has an argument for protecting steel, an argument that no one chose to make in the debate. However, with steel highly unionized, protection that stabilizes employment encourages unions to be pushier. If unions adjust wage demands to stabilize employment the only effect of more protection would be to transfer income from consumers to unions and the recipients of the quota rents. See de Melo and Tarr (1992).***

4. Trade must be fair.

This legislation is not about setting up trade barriers, it is about fighting unfair trade practices. It is about trying to prevent our trading partners from cheating; about preventing our trading partners from dumping, dumping thousands of tons of steel on our domestic market. (Mr. Mollohan, West Virginia, H1352).

We do not need protection. We need fairness. Our foreign trading partners cannot compete with American workers so they resort to illegal means like subsidizing and dumping. (Mr. Mascara, Pennsylvania, H1354).

Finger has commented that if U.S. antidumping regulations were applied to U.S. domestic transactions, most Sunday morning garage sales would be declared illegal. He also suggests that the pragmatic definition of dumping is the following: (1993,p.viii) “dumping is whatever you can get the government to act against under the antidumping law.” Blonigen and Prusa (2002,p.7) write “...of course, we must reiterate that the increase in antidumping activity is no way means that there has been an increase in unfair trade or, in fact, that there has been any unfair trading at all. The ongoing tinkering with the antidumping statutes has weakened the law sufficiently that little real evidence of injuries dumping is required before duties are levied....” Further they remark (p. 20) “... in antidumping cases the steel industry fares remarkably well. After controlling for industry size, employment, changes in profit, changes in trade volume, oversight representation, etc., study after study finds that U.S. steel cases are about 30% more likely to receive protection than non-steel cases. This could be due to the fact that steel industry files so many cases and has learned what arguments work better, or perhaps steel firms simply hire better legal counsel. The finding is also surely due to numerous provisions the steel industry has managed to get incorporated into the antidumping statutes that apply to essentially steel alone...”

5. Foreign policy makers are ‘naked mercantilists.’

America has the most efficient steel sector on earth. But in the current trade climate, our steel producers are at risk because of the predatory trade practices of our competitors. In the face of naked mercantilism, American steel needs help. (Mr. Crane, Illinois, H1353). *But a foreign export subsidy on one sector is equivalent to a foreign export tax on all other sectors combined with a foreign import subsidy on all other sectors (McKinnon 1966), and under a flexible exchange rate it does not lead to the accumulation of specie. It is hard to see how subsidizing politically powerful losers promotes the national advantage.*

6. Steel protection protects our national security interests, and that is WTO consistent. (Ms. Jackson Lee, Texas, H1353).

As has been said by others, we cannot sustain our nation’s armed forces, their equipment and weapons using styrofoam and plastic. We have to have steel, particularly and preferably steel that comes from our own industry and our own workers, a known product, not from steel produced in foreign lands and dumped on our shores. (Mr. Rahall, West Virginia, H1357).

7. Steel is just an example of what will happen to other industries.

But this steel dumping problem is just the tip of the iceberg. Wait until other industries, including farming, feel the wrath of the unbridled world economy, an economy lead by the World Trade Organization. (Mr. Mascara, Pennsylvania, H1354). *This argument might be convincing in a world of fixed exchange rates and inflexible downward wages, but with flexible exchange rates and flexible real wages international competition does not cause unemployment.*

8. American Steel is the most efficient in the world.

Let us face it, we have the most efficient steel industry in the world. Our steelworkers are the most productive in the world. All that needs to be done is to enforce our trade laws. (Mr. Mascara, H1354). ***A confusion between comparative and absolute advantage.***

9. The trade deficit matters.

Yet the opponents of H.R. 975 are telling us the trade deficit doesn't matter. ... Well an unemployed steel or textile worker will tell you the trade deficit does matter. The booming economy is bypassing the American worker. (Mr. Brown, Ohio, H1355).

Economists agree that while the U.S. economy continues to prosper and grow, a ballooning current account deficit could prompt a correction in stock prices, a weaker dollar and possibly even a recession. In other words our unprecedented record of high growth—while keeping inflation and unemployment low—is jeopardized by import surges. (Mr. Ford, Tennessee, E480). ***Under fixed exchange rates a trade deficit may require deflationary macro policy to restore competitiveness, but under flexible exchange rates there is no such mechanism. Any incipient recession can be balanced by expansionary macro policy. See Temin (1991).***

10. We must protect against foreign subsidies and cartels.

The United States has the only true open market in the world. But it is being forced to compete against countries whose steel producers are heavily subsidized or which work in cartels. (Mr. Cardin, Maryland, H1357). ***A cartel raises price. A subsidy lowers price. Which is the problem? Perhaps the point is that cartels are better at lobbying than competitors. (Pincus, 1977.)***

11. The steel industry's intermediate inputs are threatened, and foreign steel is dirty.

I have been contacted by quarry workers who are threatened by the steel crisis because lime is used to purify the steel in the production process.

U.S. steel companies are “among the very cleanest, if not the cleanest, in the world.” ... “If you want to reduce global emissions from steel making, make more steel in America.” ... A vote for H.R. 975 will not only support the American steel mills, it will support our global environmental goals. (Ms. McCarthy, Missouri, H1366). ***But to the extent that pollution is local, the issue is whether American steel is less polluting than other American sectors.***

12. Other countries protect their steel.

Last year, when the European Union felt the steel crisis blowing their way, they quickly sealed their borders to protect their industry and its employees. Yet, American steelworkers were left to twist in the wind ... (Mr. Ortiz, Texas, H1368). ***Why should we be influenced by welfare-shrinking European policies?***

13. Ricardo's theory of comparative advantage still makes sense if all you care about is economic theory.

I went to Congress a free trader, embracing Ricardo's Theory of Comparative Advantage—a very valid economic theory which states essentially that the industries of each nation should produce that which they produce most efficiently and trade those products with other nations that produce other goods more efficiently. His theory still makes economic sense—if all you care about is economic theory. But ... his theory has two fundamental flaws. First, [other] governments don't let pure economic competition decide what products their industries will produce, export or import. Nations decide to subsidize certain products because they deem it in their national interest for a variety of reasons: to protect vital industries, create jobs, and achieve national pride, to name just a few. Second... [u]nemployment carries enormous costs, direct and indirect. Welfare, unemployment compensation, retirement contributions and the agonizing destruction of families which are torn asunder from the ravages of the inability to support their families, are societal costs that go far beyond economic measure. ... Simplistic 19th century free trade solutions no longer serve our country well. (Mr. Shuster, Pennsylvania, E469). ***This sounds like confusion between absolute and comparative advantage. Moreover, that foreign political systems attach a premium to steel production doesn't mean we should as well. Finally Ricardo's theory of comparative advantage has nothing to do with maximizing the national advantage, so it brings to bear economic theory that addresses the wrong issue—global efficiency rather than the national advantage.***

14. Steel is not Bananas.

Though the Administration is ineffective in preserving the American steel industry, the Administration is actively defending the American banana industry in a trade dispute with Europe. But does the banana industry employ 160,000 American workers? No. Does nearly every state in the Northeast and Southeast and Southwest have a banana industry? No. These facts have not stopped the Administration from pulling out every stop to protect a banana industry that does not exist in America.

Bananas did not build America. Steel did. The only practical solution to the steel import crisis is to make H.R. 975 into law. (Mr. Kucinich, Ohio, E841). ***But elimination of European banana restrictions raises American welfare whereas steel import quotas lower them.***

15. The demand for steel is vertical, or else the supply of domestic steel is flat.

The impacts of this steel import crisis cannot be overstated. Every single ton of dumped steel displaces a ton of domestic production. (Mr. Regula, Ohio, H2556). ***Is this not overstatement? In fact doesn't the supply of American steel slope upward and the American demand for steel slope downward?***

6. The Case Against the Bill in the House

Here are some arguments made against the bill.

1. Protectionism contributed to the great depression.
Need I remind the Members that Smoot-Hawley passed in the late 1920s, contributed mightily if did not cause the great worldwide depression. (Mr. Archer, Texas).
2. This bill is not WTO legal and there are better ways to deal with the problem.
Quotas imposed outside of the World Trade Organization (WTO) consistent procedures contained in our trade laws (section 201 safeguards law or the quota suspension agreement provisions in our antidumping and countervailing duty laws) violate our international trade obligations. ... In addition, when the orderly and thorough procedures mandated by our trade laws are followed, we can take into account the full range of U.S. industry and worker concerns and fashion remedies that do not result in additional market distortions, import shortages, excessive price hikes or retaliation that could harm U.S. export industries and customers. (Letter to Mr. Archer from John Podesta, White House chief of staff, H1350).
3. Other industries are also hurting.
I know full well of the problems plaguing our oil industry, which has lost many, many more jobs than the steel industry. (Mr. Archer, H1350).
4. Protection hurts downstream industries and might result in negative effective protection for industries that are essential to national security.
American workers in these steel-using industries, transportation equipment, industrial machinery, metal products, and construction, outnumber employment in steel producer companies by 40 to 1. In fact, I am deeply concerned and I do not say this lightly, that this bill might threaten national security, because quotas will reduce steel products needed for military supply. (Mr. Archer, H1350).
5. Some specialty-imported-steel does not compete with domestic steel, and limits on its imports would just provide negative effective protection for American industry.
Quality Tubing Incorporated ... buys roughly 70 percent of its hot-rolled steel from Japan. Why? Because U.S. industry simply does not manufacture the very specialized product that QTI needs. This bill would be a double whammy for QTI. First it tells QTI it cannot go expand its business because it cannot get more of this specialty product than it did in 1997. Second, it would raise operating costs because prices for this steel product will undoubtedly soar. ... This bill works like a sledgehammer, providing no exception for companies like QTI. (Mr. Archer, H1350).
6. The U.S. needs to set an example for other countries.

In addition, we would set a terrible example for countries in real economic trouble, countries whose leaders are under tremendous pressure to retaliate against American made products. (Mr. Archer, H1350).

7. The Economy is at Full Employment.

But keep in mind that we are at full employment, and we have now increased the number of jobs nationwide last year by 2.5 million, 2.5 million new jobs, and we are at full employment. (Mr. Visclosky, Indiana, H1352).

8. Protection raises prices.

The Congressional Budget Office, as this chart indicates, estimates that this bill will result in higher steel prices that will cost the private sector nearly \$1 billion, \$1 billion, over the next 3 years. (Mr. Visclosky, H1352).

I rise in strong opposition to H.R. 975. When I was running for Congress last year, not one of my constituents asked me to vote to raise the prices of the goods they buy. I doubt that any of my colleagues' constituents did either. Yet that is exactly what we are asked to do today with H.R. 975. Quotas have only one effect.—higher prices for consumers, our constituents. ... H.R. 975 benefits a few, at the expense of many. (Mrs. Biggert, Iowa, H1369).

9. Steel protection will shrink some exports.

I have ... an insightful letter talking about what the damage, the overwhelming damage, could be to Caterpillar's ability to produce and to export in the world markets if we, sad to say, went along with this well-intentioned but misguided legislation. (Mr. Visclosky, H1352). *While a number of debaters have pointed to the idea that protecting steel will provide negative effective protection for steel using industries, no one points to the McKinnon (1966) extension of the Lerner Symmetry Theorem, which argues that an import tariff on steel has the same effect as a subsidy on all other imports combined with a tax on all exports. Of course in this case, there would have been a transfer of rents to foreigners, which would have necessitated increased exports to pay for it.*

10. Competition is what makes the American steel industry efficient and facilitates economic growth, and imports fill the gap between American supply and demand.

Protectionism not only stunts this country's growth but also hurts the very industries it tries to protect. Steel is no exception to that rule. America's steel industry leads the world in productivity and quality today because of competition, not protection. Since 1982, the amount of man-hours it takes to produce a ton of steel in America has dropped from over 10 hours to less than 4 hours. America's steel companies still supply nearly three-quarters of the steel consumed in America. Even if they produce steel at full capacity, we would still have to import steel in order to meet America's needs. (Mr. DeLay, Texas, H1354).

11. Steel protection could start a trade war.

All nations and all consumers are losers in trade wars. ... If we close our markets, the markets of the world are then closed to us. No doubt such anti-trade developments are the real threat to our economy and to thousands of American jobs. Protectionism hurts American workers. (Mr. DeLay, H1354). *Perpetuates Scitovsky's (1942) fallacy that all countries lose from a trade war and ignores Kaldor's (1940) insight, formalized by Johnson (1953-4), that one combatant may win in a trade war. But then, perhaps Mr. DeLay is right, since as this debate demonstrates, improving the terms of trade is not the typical source of a trade war. Or perhaps he is implicitly referring to the result of Rodriguez (1974) and Tower (1975) that quota wars end in universally welfare reducing autarky!*

12. Protectionism is an obstacle to our freedom.

[W]e should have no barrier to American ingenuity and no obstacles to American prosperity. Simply put, protectionism is an obstacle to our freedom. We cannot close ourselves off from the world. Trade is not a four-letter word. It is a fact of life. ... [N]o nation was ever ruined by free trade, but many nations have collapsed because of failing trade. I urge my colleagues to vote against this anti-trade bill. (Mr. DeLay, Texas, H1354).

13. Protecting steel will cost us high paying union jobs.

I fought hard for voluntary restraint agreements for machine tools. ... But this is madness. We pass this and the very next day a steel [using] company in my district closes. Two hundred sixty high-paying UAW jobs will be gone in spite of the fact that this company invested \$50 million in the recent past to modernize their equipment because they are dependent on a single source of raw carbon and alloy steel in Europe.

They had even given money to American steel companies to try to get the same quality steel produced in America. They have not succeeded. They have one source. It is foreign.

And furthermore, they cannot tell me how many jobs will go under within two weeks after my shop closes because they cannot get the product my shop makes. (Mrs. Johnson, Connecticut, H1354).

14. This bill makes no exception for short American supply and relates maximum imports not to an historical maximum, but to an historical average.

This is irresponsible. We are going to undermine American manufacturing with this bill more aggressively than we have with any other action this floor has ever taken. (Mrs. Johnson, H1354).

15. This bill rewards countries that engage in unfair trade practices.

[Caterpillar] strongly opposes the legislation because it not only would hurt our competitiveness in overseas markets, but would lead to direct retaliation against Cat exports. It also would establish a system that rewards countries that engage in unfair trade practices, undermines the international trading system and jeopardizes the global economic recovery.

Regrettably, the Quota Bill is structured in a way that could actually reward countries that engage in unfair trade practices. Unlike trade remedy laws that attempt to neutralize the effects of dumping or subsidies, this legislation would reward countries with a guaranteed share of a restricted U.S. market. As a result, much of the quota “rent” generated by higher prices would go to foreign steel producers. . . . [W]e urge you to support initiatives aimed at improving the competitiveness of the U.S. steel industry. That way, the steel industry, American manufacturers, and U.S. workers and consumers all win. (letter from Caterpillar, Inc. to Mr. Crane, Illinois, H1458).

16. The best response to dumping is to say thank you. These import restrictions are a tax on American consumers and the American economy.

Mr. Speaker, this is one heck of a corrosive proposal, and I rise in steely opposition to it. The notion that we are victims of predatory and illegal dumping is a corrosive idea. We are told that the only way that this practice is going to cease is if we limit or ban imports to some kind of an arbitrary level set in 1994, and that is very rusty logic for a number of reasons.

[T]he remedies designed to deal with the sudden import surge, Section 201 wasn't even utilized by the industry. They did not even bother to file a case. Instead, the big steel bosses spent an unknown amount of money lobbying Congress for special protection.

[D]umping is not inherently wrong. A product that is dumped is sold in the United States for less than it is sold in the home market or less than the cost of production. This means that foreign producers are selling steel to the United States at a great price, and that helps users of steel in this country. That is not inherently evil, but in order to protect certain industries dumping is not allowed under our trade laws.

By the way, U.S. steel companies dump steel abroad all the time. In fact, there are duties in place against 10 U.S. steel companies for dumping overseas. Believe me, foreign steel companies are watching this vote today. If his bill passes, if it became law, hey are really going to ask their governments very quickly for Visclosky-type bans on U.S. steel.

This is not a free vote! A 1995 study found that U.S. antidumping and countervailing duties affected only 1.8 percent of U.S. merchandise imports. Yet the cost to our economy? \$1.59 billion dollars! The Congressional Budget office estimates the Visclosky ban will cost one billion dollars over the next three years!

An aye vote today is a vote for a billion dollar tax on the American consumer. (Mr. Kolbe, Arizona, H1359).

17. Some steel producers are also steel importers.

What is not well known is that U.S. steel producers—the very ones who are laying off steel workers and asking for quotas—are themselves purchasing imported steel. On average, our domestic steel producers purchase 20 to 25 percent of all steel imports to satisfy their own accounts. Our own steel industry benefits from the lower prices brought on by imports. (Mrs. Biggert, Iowa, H1369).

7. The Best House Rhetoric

1. We must not stand by the wayside and watch the American steel industry exported out of business. This country was built with American steel and this country needs American steel. (Mr. Dingell, Michigan, H1352).
2. Stand up America. Are you not tired of being Dumped on? Vote for H.R. 975. (Mr. Mascara, Pennsylvania, H1354).
3. The issue is not over the hurt. The issue is how to cure the hurt. It seems to me from my experience that this bill has a heart but does it have a head. What do I mean by that? First of all, it is not going to go anyplace. Even if it did, it is WTO illegal. Furthermore, the most important thing is we have sort of a reverse golden rule. We are doing onto others what we do not want others to do unto us. (Mr. Houghton, New York, H1355).
4. If we had a situation where these were our constituents and someone was breaking in their house and raping and robbing and pillaging them, we would want to send in a policeman to do something. In this instance, they are just coming in and taking their future, they are taking their jobs, they are taking all of their dreams away. ... We must stand up for the people of this nation. We must stand up with a force of steel and with a backbone of steel. (Mr. Klink, Pennsylvania, H1356).
5. I had a Beth[lehem] Steel manager in my office last week who said that just as the levels for Russian steel imports began to decrease, the levels of Chinese dumped steel took its place. It's like that boardwalk game "Whack-A-Mole". You hit one, and another pops up. (Mr. Cardin, Maryland, H1356).

8. The Case for the Bill in the Senate

1. I have heard from some of the speakers—incredibly so—that somehow or another this was good for American jobs; we create American jobs when people illegally, against our trade laws, being subsidized by foreign governments, dump product into this country—that somehow that is good for America. (Mr. Santorum, Pennsylvania, S7404).

9. The Case Against the Bill in the Senate

1. Increased labor productivity in steel is what is causing steel jobs to fall, and protecting steel does not pass a cost/benefit test.
Fewer steel workers are producing more steel today than they were 10 years ago.
... Using the logic behind this quota legislation, the more efficient our steel

industry becomes, the more it requires protection from foreign imports. But in fact, the opposite is true. The more protection an industry gets, the more inefficient it becomes. That is not good for our economy, or for American consumers.

According to the Institute for International Economics: ... The annual costs to American households for each steel job saved would exceed \$800,000. But steel workers would receive less than 20 percent of this huge sum; lucky firms would collect more than 80 percent of the jackpot....Quotas will enrich lucky steel importers (often those with the best political connections) and efficient steel producers (they are doing well enough already—11 of the 13 largest mills earned more than \$1 billion in 1998)....

In 1930, 1,000 of the nation's leading economists signed a letter urging the President and the Congress to not enact the infamous legislation we now know as the Smoot-Hawley Tariff. They were ignored. Politics carried the day. America paid a steep price. Let us not repeat the mistakes of the seventy-first Congress. The quota bill is bad trade policy. It is bad for agriculture [because of likely retaliation]. It is bad for America. (Mr. Grassley, Iowa, S7323).

2. Quota rents going to foreigners would be substantial, and they are financed by an implicit regressive tax.

According to a study by the Institute for International Economics, this bill would raise steel import prices by about \$29 a ton. This represents a windfall of \$800 million to the lucky foreign producers who get their goods into the United States under the quota, with the price tag being paid by the American people.

By raising the average price of products made with steel, the quota constitutes an artificial tax on ordinary Americans regardless of wealth or income. (Mr. Roth, Delaware, S7393-4).

3. Protection causes war.

If you want a short list of the causes of the Second World War, ...[the Smoot-Hawley Tariff Act] was one. (Mr. Moynihan, New York, S7394).

4. Protection will export jobs.

Quotas could completely deny American companies access to those special types of steel, forcing them to reduce the quality of their products or move their production overseas.

Finally, by making a critical raw material more expensive, steel quotas will put many of our products at a world market disadvantage. (Mr. Murkowski, Alaska, S7396).

5. I have defended the steel industry in other ways, but oppose this bill.

In May 1992, I attended the opening of the U.S. Steel/Kobe Blast Furnace in Lorain, Ohio—a \$100 million investment with 2,800 jobs that almost didn't happen. The EPA was going to halt the project, but I went straight to the White House and let them know that what the EPA was proposing in Ohio was ridiculous.

Last year, a building where state agencies were going to be located was built, and foreign steel was used in place of domestic steel in violation of state law. State law called for a fine of \$3,000, but I insisted that the entity responsible for building this facility pay \$50,000. (Mr. Voinovich, Ohio, S7398).

6. A steel import quota will export recession, which will make future import surges all the more likely.

No one has more to lose from quotas than America's farmers, who grow more and export more than any farmers in the world. More broadly, the repercussions could be serious, for both our economy as a whole and the economies of other countries just now beginning to recover from last year's financial crises. In fact, by weakening rather than strengthening the international economy the quota bill will make future import surges, in steel and other industry, more, not less, likely. An international economic recovery, on the other hand, will not only help avoid import surges in other industries, it will also help revive worldwide demand for steel. (*Washington Times* article by William Daley, Secretary of Commerce, introduced by Mr. Nickles, Oklahoma, S7402).

7. A particularly nice piece of rhetoric:

Though the bill before the Senate may be well intended, the bill before the Senate is a job killer, a trade war starter, and it is a bill that will destroy 40 jobs in steel-using industries for every one job it saves in steel producing. ...

If we want to [continue to] create 7,500 jobs a day, we have to have the courage to stand up and defend the system that creates those jobs.

I urge my colleagues to resist the siren song of well-organized groups that have their special interests and look at the general interest of America. When we are creating more jobs than the rest of the world combined, more jobs than in all of Europe, Japan, China, and every developing country in the world combined, why should we be attacking the very system that created those jobs?

I urge my colleagues to reject this bill. (Mr. Gramm, Texas, S7403). ***The fact that there are 40 jobs in steel-using industries for every job in steel producing does not justify the comment in the first paragraph. (See Mr. Archer's House statement against the bill.)***

10. Logit Analysis of The Politics of Protection

This paper examines the effects of political action committee contributions on U.S. congressional voting behavior in the House on a bill that sought to protect the American steel industry. This analysis uses the votes of representatives on H.R. 975 as the dependent variable (VOTE), where votes were counted for (yes = 1) or against (no = 0).

Due to the limits on the values that the dependent variable may take, logit analysis was used rather than linear regression. Logit analysis allows the model to obtain the

probability of a yes vote as a function of the independent economic and political variables. The analysis uses a logit function, which makes the probability of a yes vote, **VOTE**=1, a function of a vector of constants, β , times a vector of values for the independent variables according to:¹

$$\text{Prob}(\text{VOTE} = 1) = \frac{e^{\beta x}}{1 + e^{\beta x}}.$$

As βx varies from minus infinity to plus infinity $\text{Prob}(\text{VOTE}=1)$ varies from 0 to 1. A maximum likelihood estimation procedure is used by the program LIMDEP to select the values of β .

More specifically, this paper's objective is to determine the effects of PAC contributions, auto and steel employment, and party affiliation on how representatives in the House Voted on H.R. 975. Protection of domestic steel production leads to a focus on political action committees in three groups directly affected by steel prices: the primary steel producing firms, the unions of steel workers and steel consumers. For the last group, auto industry PACs represent the largest steel consuming industry and are therefore selected to represent steel consumer interests.² Steel producers are selected to represent steel manufacturing company interests.³ Steel labor serves as a third PAC group of interest.⁴

The variable, **STEEL**, is contributions from the steel producers. **AUTO**, similarly, is total auto PAC contributions made to each representative. **UNION** is steel union PAC contributions made to each representative. It is predicted that **STEEL** and **UNION** should positively influence the probability of a YES vote and that **AUTO** should negatively influence it. All contributions variables cover the period from January 1, 1998 through March 17, 1999 inclusive and are measured in thousands of dollars.

¹ For details, see Greene (2000), pp. 811-818.

² Both the Center for Responsive Politics and the Federal Elections Commission served as sources for information on auto 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.

³ Both the Center for Responsive Politics and the Federal Elections Commission served as sources for information on steel PAC contributions. 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, Wheeling-Pittsburgh Steel.

⁴The only significant labor PAC contributions came from the United Steelworkers of America, the single large national steel union. The USWA PAC contributed only to democrats. Its contributions constitute our variable, **UNION**.

A political variable, **PARTY**, a dummy variable, which takes on a value of 1 for a Republican and 0 for a Democrat is included in the model estimated. Consistent with party agendas, we expect that Democrats would align with the interests of organized labor and that Republicans would align with free-trade consumer interests. Hence, it is predicted that being Republican (**PARTY**=1) negatively affects the probability of a yes vote (**VOTE** = 1) on H.R. 975.

The variable **STEEL-workers**, a dummy variable, which takes on a value of 1 for a representative who is from a state with less than 1,000 workers employed in steel manufacturing sector. **AUTO-workers**, similarly, is a dummy variable, which takes on a value of 1 for a representative who is from a state with more than 40,000 workers employed in auto manufacturing sector. It is predicted that both **STEEL-workers** and **AUTO-workers** should negatively influence the probability of a YES vote.⁵

In each logit table, we measure contributions in thousands of dollars. This means that the figures in the table indicate the increase in the probability measured in percentage points per thousand dollars increase in campaign contributions.

11. Do Contributions from Constituents Motivate Voting More Effectively than from Non-Constituents?

Table 1 summarizes the information on campaign contributions.

Table 1 Summary of Contributions January 1, 1998 through March 17, 1999

	Total Steel Contributions	Total Auto Contributions	Total Union Contributions	Number of Representatives	Yes Votes	No Votes
All Members	\$186,900	\$1,340,050	\$684,862	430	289	141
Financed Members (from steel, union or autos)	\$186,900	\$1,340,050	\$684,862	359	236	123
Democrats	\$87,550	\$379,510	\$684,862	210	197	13
Republicans	\$99,350	\$960,540	\$0	220	92	128

Our first experiment is a logit analysis where the vote was explained using three variables, **STEEL-out**, **STEEL-in** and **PARTY**. **STEEL-out** is contributions from steel firms located out of the state of the legislator, **STEEL-in** is contributions from steel firms located in the state of the legislator. Table I.1's Model 1 presents the results of the logit analysis. All of the coefficients of the variables have the expected signs (positive for **STEEL-out** and **STEEL-in** and negative for **PARTY**). The point estimate for **STEEL-in** is 0.43 times the point estimate for **STEEL-out**. But neither coefficient is significantly different from zero at the 10% level, and the difference between these two coefficients is less than the smaller standard error of the two.

⁵ Number of workers employed in 4-digit sectors of 3361, 3362, and 3362 are considered for **AUTO-workers**, and in 4-digit sectors of 3311 is considered for **STEEL-workers**, where data are from the 1998 census.

When the variable, **AUTO**, is added to the model, as Model 2 in Table I.1 indicates, again the signs are as predicted (with a negative coefficient for **AUTO**). Here **STEEL-out** becomes significantly different from zero at the 10% level, and **STEEL-in** is not significantly different from zero at the 10% level. In this case the coefficient for **STEEL-in** is 0.55 times the coefficient for **STEEL-out**. Again, the difference between the two coefficients is less than the smaller standard error of the two coefficients. Thus, we are unable to detect any significant difference between the influences of in-state and out-of-state contributions from the steel industry. Moreover, according to our point estimates out-of-state contributions have more impact than in-state contributions. This is surprising, because representatives receiving in-state contributions will also be serving constituent interests by voting for the bill. Thus, we would expect in-state contributions to be proxies for constituent interests in favor of protection. Consequently, we had expected to find larger coefficients for in-state contributions. **We take this finding to show that constituent interests are small influences relative to paying off contributors to congressional campaigns.**

We felt that Representatives from states with lots of steel employment and little auto employment would be more likely to favor the bill. Consequently, we added the two dummy variables for employment in these sectors. Table I.2 presents the results of the logit analysis using **STEEL**, **UNION**, **AUTO**, **STEEL-workers**, **AUTO-workers**, and **PARTY** as our explanatory variables. (The previous section convinced us that it is not fruitful to distinguish between in-state and out-of-state contributions, so **STEEL** is the aggregate of both types of contribution.) All coefficients have the predicted signs. However, **UNION** and **AUTO-workers** are not significantly different from zero at the 5% level. The others are significantly different from zero at the 5% level.

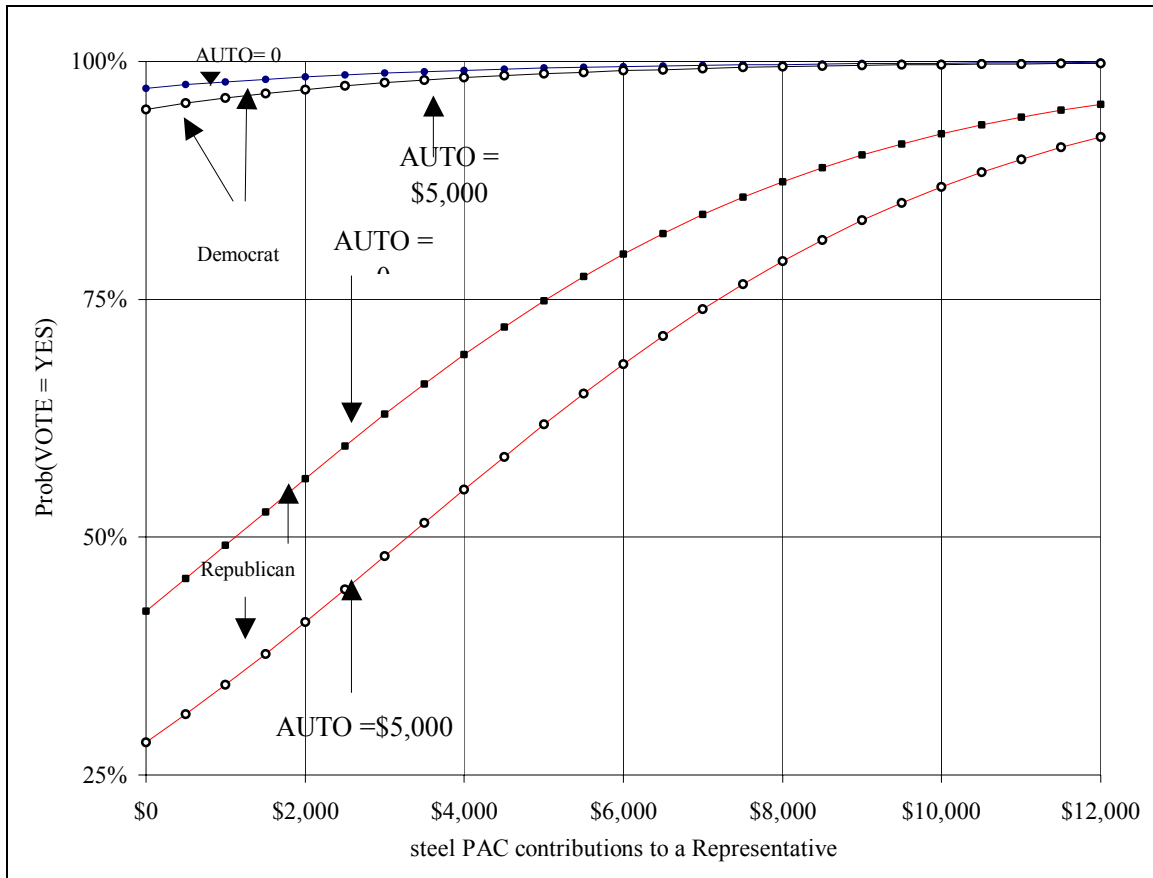
For completeness, we present the marginal effects. These show the derivatives of the probability of a yes vote (at the mean values of the independent variables) with respect to the independent variables. For instance, the effect of ‘more than 1,000 steel workers’ on the probability is 18.2%. This is somewhat silly since **PARTY** is a dummy, which never takes on its mean value, but it is a standard way of presenting logit analysis. (See Tosini and Tower (1987).) The last third of the table shows that the model correctly predicts 347 of the 430 votes, for an 81% accuracy rate.

12. Results to Remember

The story is told in Figures 1 and 2. These figures show the probability of a yes vote as a function of contributions from autos or steel to Democrats or Republicans from a state with less than 1,000 steel workers and less than 40,000 auto workers, holding contributions from the other sector constant at either zero or roughly the average for those receiving campaign contributions from that sector: \$2000 for steel and \$5,000 for autos. (The precise average for steel is \$1,988, and for autos, it is \$4,527). We see from Figure 1 that the probability of a Democratic yes vote always exceeds 91%, and for a Republican whose **AUTO** is \$5,000, the probability of yes can be brought up from 28.4% to 50.1%

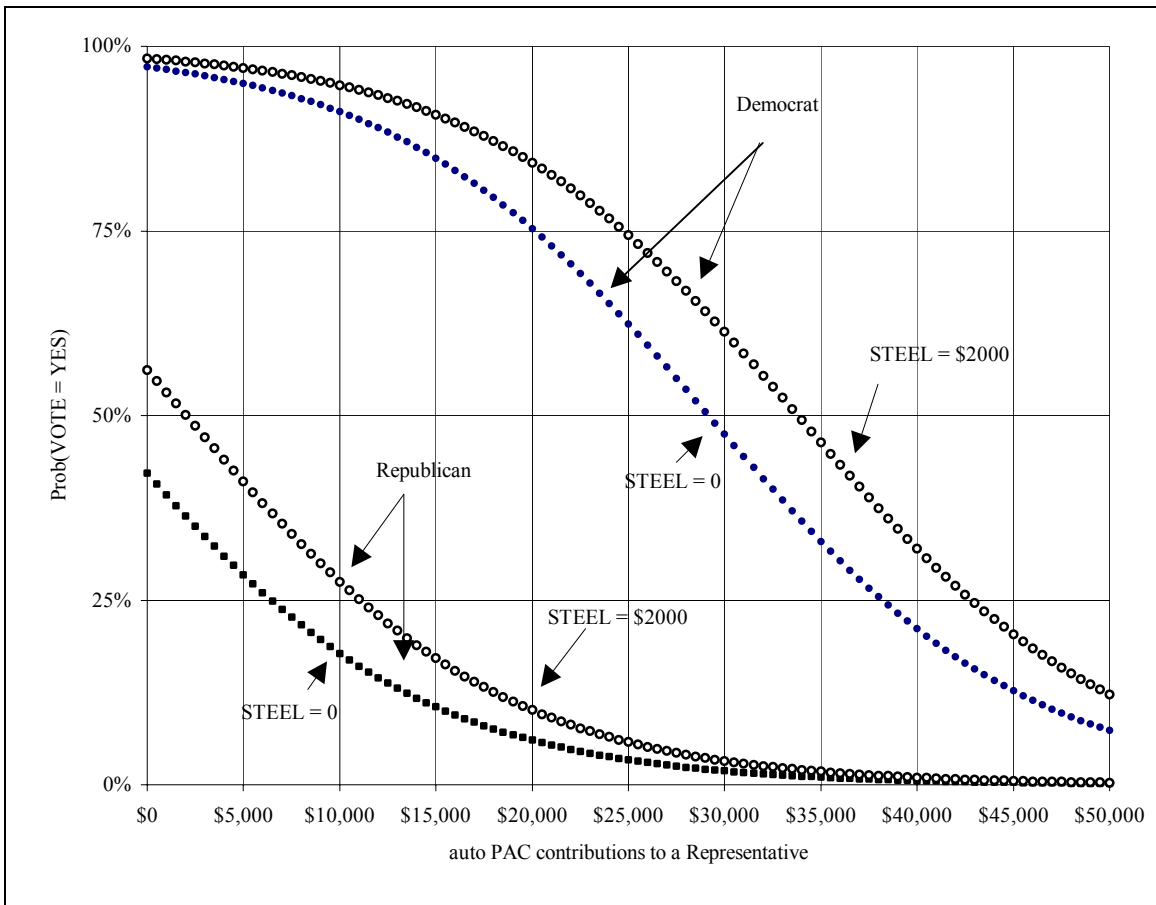
by raising the Steel PAC contribution from 0\$ to \$3,300. Similarly, for a Republican whose **AUTO** is zero, the probability of yes can be brought up from 42.2% to 50.1% by raising the Steel PAC contribution from 0\$ to only \$1,130.

Figure 1 Effect of steel PAC contributions on predicted probabilities



We see from Figure 2, that it takes a whopping \$29,500 from Auto PACs to reduce the probability of a Democrat voting yes to 49.5% if he is receiving nothing from Steel PACs. That figure rises to \$33,950 for a Democrat who is receiving \$2,000 in contributions from Steel PACs.

Figure 2 Effect of auto PAC contributions on predicted probabilities



For the much less protectionist Republicans (receiving \$2,000 from Steel PACs) the probabilities are reduced to 49.5% by an **AUTO** of \$2,200.

Table 2 provides some numbers to accompany these figures.

Table 2 What Contributions Buy: The Increase in the Probability of a YES vote (in percentage points) due to the contribution of an additional \$1000, holding the other sector's contribution constant

Contributor:	Other PAC's contribution	Contribution to:	
		<u>Democrat</u>	<u>Republican</u>
Steel Industry	AUTO = 0	0.7	7.0
	AUTO = \$5000	1.2	6.0
Auto industry	STEEL = 0	-0.4	-2.9
	STEEL = \$2000	-0.2	-3.0

For Steel, contributions are subject to diminishing returns in increasing the probability of a YES vote. For Autos, the same is true for Republicans in decreasing the probability of a YES vote. However, for Democrats Auto PAC contributions initially yield increasing returns and then diminishing returns; maximum marginal returns are reached at an Auto PAC contribution of around \$20,000-\$25,000.

13. Conclusion

Our major results are summarized in the previous section. When Suzanne Tosini and Tower submitted their paper showing that campaign contributions powerfully influenced voting on the textile bill of 1985 to *Public Choice*, the editor, Gordon Tullock, responded with a letter that said (as near as Tower can recall) “Dear Professors Tosini and Tower, unfortunately your result is not surprising, but your paper is short, so I will accept it.” Subsequently, Dudley Wallace remarked that “nothing surprising” means that economic theory is confirmed, which is a good reason to accept a paper. Is there anything surprising here?

We were intrigued by our finding that votes for protection can be bought so cheaply: One thousand dollars from Steel PACs paid to a republican who is initially receiving no contributions raises the probability that he votes in favor of steel import quotas by 7.0 percentage points. We were also interested to confirm Harper and Aldrich’s (1991) finding that contributions from a down-stream industry can work against protection. The auto industry had to pay substantially for Democratic votes against the bill, but perhaps Representatives felt that auto industry interests were not as sensitive to the bill as steel industry interests were, and that the auto industry was in fact paying for something else.

Similarly, the sensitivity of the vote to steel union contributions was much less than we had anticipated. This reflects the result that all union money went to Democrats, the vast majority of which voted YES on the bill. It also may reflect a fear on the part of unions that import quotas are a license to an oligopolistic US steel industry to raise prices further than the import quotas raise them by cutting back on domestic production and employment. It may also reflect Hufbauer and Wada’s (1999) estimate that only 20% of the benefits to the steel sector of the proposed quota accrue to steel labor.

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Appendix I. Estimates of the Logit Models

Table I.1 Estimates of β for the Logit Models

	Estimate	Standard error	z-statistic	Probability (as a fraction, two tails)
<u>Model 1: In-state versus out-of-state steel contributions</u>				
Constant	2.6569	0.2877	9.236	0.000
STEEL-out	0.2729	0.1967	0.165	0.165
STEEL-in	0.1177	0.1909	0.617	0.537
PARTY	-3.0820	0.3190	-9.660	0.000
<u>Model 2: In-state versus out-of-state steel contributions with AUTO</u>				
Constant	2.9657	0.3116	9.518	0.000
STEEL-out	0.4526	0.2331	1.941	0.052
STEEL-in	0.2494	0.2048	1.218	0.223
AUTO	-0.1350	0.0329	-4.107	0.000
PARTY	-2.9126	0.3244	8.977	0.000

Table 1.2 Logit Model Maximum Likelihood Estimates

	Estimate	Standard Error	z-statistic	Probability (as a fraction, two tails)
<u>Coefficients</u>				
Constant	3.547	0.470	7.548	0.000
STEEL-money	0.281	0.138	2.032	0.042
UNION-money	0.095	0.089	1.053	0.292
AUTO-money	-0.122	0.034	3.578	0.000
STEEL-workers <1,000	-1.074	0.314	3.417	0.001
AUTO-workers >40,000	-0.437	0.341	1.282	0.200
PARTY: Republican	-2.788	0.399	6.986	0.000
<u>Marginal Effects (at the mean values of the independent variables)</u>				
STEEL-money	0.048	0.023	2.039	0.041
UNION-money	0.016	0.015	1.074	0.283
AUTO-money	-0.021	0.006	3.537	0.000
STEEL-workers <1,000	-0.182	0.053	3.426	0.001
AUTO-workers >40,000	-0.074	0.057	1.291	0.197
PARTY: Republican	-0.472	0.066	7.161	0.000
<u>Frequencies of actual and predicted outcomes</u>				
		Predicted		
		Vote = yes	Vote = no	Total
Actual	Vote = yes	108	33	141
	Vote = no	50	239	289
	Total	168	262	430

Appendix II. The Text of the Bill

Calendar No. 66 106th Congress First Session
H.R. 975

IN THE SENATE OF THE UNITED STATES
MARCH 18, 1999
Received and read the first time

MARCH 19, 1999
Read the second time and placed on the calendar

AN ACT

To provide for a reduction in the volume of steel imports, and to establish a steel import notification and monitoring program.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. REDUCTION IN VOLUME OF STEEL IMPORTS.

(a) **REDUCTION.**—Notwithstanding any other provision of law, within 60 days after the date of the enactment of this Act, the President shall take the necessary steps, by imposing quotas, tariff surcharges, negotiated enforceable voluntary export restraint agreements, or otherwise, to ensure that the volume of steel products imported into the United States during any month does not exceed the average volume of steel products that was imported monthly into the United States during the 36-month period preceding July 1997.

(b) **ENFORCEMENT AUTHORITY.**—Within 60 days after the date of the enactment of this Act, the Secretary of the Treasury, through the United States Customs Service, and the Secretary of Commerce shall implement a program for administering and enforcing the restraints on imports under subsection (a). The Customs Service is authorized to refuse entry into the customs territory of the United States of any steel products that exceed the allowable levels of imports of such products.

(c) **APPLICABILITY.**—

(1) **CATEGORIES.**—This section shall apply to the following categories of steel products: semifinished, plates, sheets and strips, wire rods, wire and wire products, rail type products, bars, structural shapes and units, pipes and tubes, iron ore, and coke products.

(2) **VOLUME.**—Volume of steel products for purposes of this section shall be determined on the basis of tonnage of such products.

(d) EXPIRATION.—This section shall expire at the end of the 3-year period beginning 60 days after the date of the enactment of this Act.

SECTION 2. STEEL IMPORT NOTIFICATION AND MONITORING PROGRAM.

(a) IN GENERAL.—Not later than 30 days after the date of the enactment of this Act, the Secretary of Commerce, in consultation with the Secretary of the Treasury, shall establish and implement a steel import notification and monitoring program. The program shall include a requirement that any person importing a product classified under chapter 72 or 73 of the Harmonized Tariff Schedule of the United States obtain an import notification certificate before such products are entered into the United States.

(b) STEEL IMPORT NOTIFICATION CERTIFICATES.—

(1) IN GENERAL.—In order to obtain a steel import notification certificate, an importer shall submit to the Secretary of Commerce an application containing—

- (A) The importer's name and address;
- (B) The name and address of the supplier of the goods to be imported;
- (C) The name and address of the producer of the goods to be imported;
- (D) The country of origin of the goods;
- (E) The country from which the goods are to be imported;
- (F) The United States Customs port of entry where the goods will be entered;
- (G) The expected date of entry of the goods into the United States;
- (H) A description of the goods, including the classification of such goods under the Harmonized Tariff Schedule of the United States;
- (I) The quantity (in kilograms and net tons) of the goods to be imported;
- (J) The cost insurance freight (CIF) and free alongside ship (FAS) values of the goods to be entered;
- (K) Whether the goods are being entered for consumption or for entry into a bonded warehouse or foreign trade zone;
- (L) A certification that the information furnished in the certificate application is correct;
- (M) Any other information the Secretary of Commerce determines to be necessary and appropriate.

(2) ENTRY INTO CUSTOMS TERRITORY.—In the case of merchandise classified under chapter 72 or 73 of the Harmonized Tariff Schedule of the United States that is initially entered into a bonded warehouse or foreign trade zone, a steel import notification certificate shall be required before the merchandise is entered into the customs territory of the United States.

(3) ISSUANCE OF STEEL IMPORT NOTIFICATION CERTIFICATE.

--The Secretary of Commerce shall issue a steel import notification certificate to any person who files an application that meets the requirements of this section. Such certificate shall be valid for a period of 30 days from the date of issuance.

(c) STATISTICAL INFORMATION.—

(1) IN GENERAL.—The secretary of Commerce shall compile and publish on a weekly basis information described in paragraph (2).

(2) INFORMATION DESCRIBED.—Information described in this paragraph means information obtained from steel import notification certificate applications concerning steel imported into the United States and includes with respect to such imports the Harmonized Tariff Schedule of the United States classification (to the tenth digit), the country of origin, the port of entry, quantity, value of steel imported, and whether the imports are entered for consumption or are entered into a bonded warehouse or foreign trade zone. Such information shall also be compiled in aggregate form and made publicly available by the Secretary of Commerce on a weekly basis by public posting through an Internet website. The information provided under this section shall be in addition to any information otherwise required by law.

(d) FEES.—The Secretary of Commerce may prescribe reasonable fees and charges to defray the costs of carrying out the provisions of this section, including a fee for issuing a certificate under this section.

(e) SINGLE PRODUCER AND EXPORTER COUNTRIES.—Notwithstanding any other provision of law, the Secretary of Commerce shall make publicly available all information required to be released pursuant to subsection (c), including information obtained regarding imports from a foreign producer or exporter that is the only producer or exporter of goods subject to this section from a foreign country.

(f) REGULATIONS.—The Secretary of Commerce may prescribe such rules and regulations relating to the steel import notification and monitoring program as may be necessary to carry the provisions of this section.

Passed the House of Representatives on March 17, 1999. Vote on the motion to proceed to the consideration of H.R. 975 was defeated in the Senate 57-42 on June 22, 1999 (Cooper, 1999b).