



Mischiefs of Faction: The Political Economy of Voluntary Export Restraints for Selected U.S. Industries, 1969 to 1989

Citation

Benson, Mark Eric. 2011. Mischiefs of Faction: The Political Economy of Voluntary Export Restraints for Selected U.S. Industries, 1969 to 1989. Master's thesis, Harvard University, Extension School.

Permanent link

<https://nrs.harvard.edu/URN-3:HUL.INSTREPOS:37367512>

Terms of Use

This article was downloaded from Harvard University's DASH repository, and is made available under the terms and conditions applicable to Other Posted Material, as set forth at <http://nrs.harvard.edu/urn-3:HUL.InstRepos:dash.current.terms-of-use#LAA>

Share Your Story

The Harvard community has made this article openly available. Please share how this access benefits you. [Submit a story](#).

[Accessibility](#)

Mischiefs of Faction: The Political Economy of Voluntary Export Restraints for Selected
U.S. Industries, 1969 to 1989

Mark Benson

A Thesis in the Field of Government
for the Degree of Master of Liberal Arts in Extension Studies

Harvard University

May 2011



Abstract

This thesis examines why U.S. manufacturing industries received trade protection from federal elected officials in the form of Voluntary Export Restraints between 1969 and 1989. Three reasons emerged from political economy theory: factor specificity, collective action, and the role that key constituencies play in electing officials who adopt a policy of trade protection. After outlining the theory behind the three reasons, eleven case studies were examined. The case studies were focused on four of the five industries for which Voluntary Export Restraints were negotiated in the post World War II era in America, specifically, steel, shoes, televisions and autos. In each of these industries, a labor-management political coalition consistent with the Ricardo-Viner model lobbied for trade protection.

The viewpoint that actuated the labor-management political coalitions in the eleven case studies was more developed than a simple plea for trade protection. When a political coalition filed a petition with the U.S. Trade Commission, the political coalition alleged that there was an injury to the industry seeking protection pursuant to the Escape Clause of Section 201 of the Trade Act of 1974. This was true for the labor-management coalitions who pressed for the Ford specialty steel quotas, the Carter OMAs for shoes and televisions, the Reagan steel quota in 1984 and the Bush steel quota in 1989. Additional views actuating the political coalitions in each of the eleven cases were made known to the federal elected officials who were asked to adopt trade protection policy. In the steel cases and the two auto cases, the labor-management political coalition was also actuated

by a critique of foreign government subsidies given to trading partners. In the Reagan steel quota decision of 1982 and the two auto cases, the additional view actuating the labor-management political coalition was the idea that a strong dollar made foreign goods expressed in foreign currencies cheaper than U.S. manufactured goods.

Presidential election victories sometimes followed when Presidents selected trade protection to benefit a key political constituency. Nixon's reelection in 1972 was helped by the steel workers decision to sit out the election, and Ford appears to have won the Republican Primary in Ohio in 1976 on the basis of his decision to implement specialty steel quotas. Election success appears to be the result of Reagan's auto quota of 1981, the steel quotas Reagan negotiated in 1982 and the Bush steel quota in 1989.

Other themes that emerged in the cases included Quota Rents and Quid Pro Quo DFI. The theme of Quota Rents was present in all eleven cases because foreign nations and firms in the industries impacted by the VER arrangement received the extra profit from import sales in the U.S. in return for limiting their supply. However, a strong connection could not be demonstrated between the firms earning quota rents and their Political Action Committee donations to Presidents who implemented trade protection. Quid Pro Quo DFI is the term that explains how foreign firms from Japan, South Korea and Taiwan located their television manufacturing plants in the U.S. to neutralize the lobbying pressure of organized labor. Quid Pro Quo DFI also explains why in the auto industry, both labor and a firm, General Motors, were persuaded to drop demands for trade protection.

Acknowledgements

The author would like to thank many people who had a direct role in the completion of this thesis. Professor Michael Hiscox was the person responsible for the thesis concept. Jeffry Frieden, my Thesis Director, carefully guided me through the stages of research through completion of the final work.

At the conceptual stage of this thesis, I suffered an aortic dissection. I am grateful for the help of the surgical team that spent almost the entire day on December 30, 2008 saving my life. In particular, I would like to thank Dr. Cary Akins, the surgeon at Mass General Hospital who led a team of 20 medical staff through my successful operation. Without his expertise, I would not have had the opportunity to thrive and write this thesis.

This thesis would not have been possible without the help and support of my family. My parents, Charles and Marcia Benson, offered kind encouragement every day. My brothers John Benson and Robert Benson, their wives Sarah and Elizabeth, and their new children Anna and Bea were a constant reminder to “Uncle Mark” of how precious life is.

Table of Contents

Acknowledgements.....	v
Table of Contents.....	vi
List of Tables.....	viii
I. Introduction.....	1
Common Attributes of the Eleven Cases to be Studied in this Thesis.....	7
Immobile and Specific Workers.....	8
Coordination in Lobbying.....	9
Key Constituencies in National Elections.....	10
II. Theoretical Section: The Political Economy of Trade Protection.....	12
The Factions: Labor and Capital.....	12
The Faction Interactions: Stolper-Samuelson and Ricardo-Viner.....	16
Stolper-Samuelson: Labor Lobbying for Protection.....	16
Stolper-Samuelson: Capital Lobbying for Protection.....	18
Ricardo-Viner: Labor Unions and Firms Lobbying Together.....	19
The Role of Federal Elected Officials in Trade Protection.....	22
The Economic Principles Underpinning VERs.....	26
Why Industries Get Protection?.....	28
Factor Specificity.....	28
Collective Action.....	31
Key Constituencies.....	34

	Interest Group Matrix.....	37
III.	Prologue: the Protectionist Congress of 1967-68.....	39
IV.	Eleven Case Studies	
	Case 1: Johnson Steel VRAs, January 1969.....	52
	Case 2: Nixon Steel VRAs, May 1972.....	70
	Case 3: Ford Specialty Steel Quotas, June 1976.....	92
	Case 4: Carter OMAs for Footwear, April 1977.....	110
	Case 5: Carter OMAs for Color Televisions, May 1977.....	134
	Case 6: Carter OMAs for Color Televisions, January 1979.....	160
	Case 7: Reagan Auto VER, May 1981.....	179
	Case 8: Reagan Steel VRA, October 1982.....	205
	Case 9: Reagan Steel VRAs, December 1984.....	225
	Case 10: Reagan Auto VER, May 1985.....	249
	Case 11: Bush Steel VRA, July 1989.....	271
V.	Conclusion: Noteworthy Themes in the Eleven Cases.....	296
	Factor Specificity.....	299
	Labor-Management Coalitions.....	301
	Key Constituencies/National Elections.....	305
	Quota Rents.....	308
	Quid Pro Quo DFI.....	310
	Rising Strength of Consumers as an Interest Group in the Steel Cases.....	312
	Bibliography.....	314

List of Tables

Table 1: Voluntary Export Restraints, 1956-1989.....	3
Table 2: The Role of VERs and Trade Protection in Improving the U.S. Employment Outlook, 1969-1989.....	9
Table 3: U.S. Shoe Production, before and during the Bilateral VERs.....	131
Table 4: U.S. Color Television Production by Japanese Firm, 1976-1980.....	155
Table 5: U.S. Color Television Receiver Production, 1971-1979.....	169
Table 6: U.S. Factory Production of Color Television Receivers.....	175
Table 7: Political Action Committee Donations to Presidents from the Steel Industry, 1984.....	222
Table 8: Limits on Steel in the Fair Trade in Steel Act of 1984.....	234
Table 9: Political Action Committee Donations to Presidents from the Auto Industry, 1984.....	256
Table 10: Political Action Committee Donations to Presidents from the Steel Industry, 1988.....	275
Table 11: USITC Claims in Steel, Shoe, TV and Auto Cases, 1976-1989.....	303
Table 12: Labor and Management Coordination for Trade Protection.....	304

Table 13: Congressional Pressures Producing the Eleven VERs.....306

Chapter I

Introduction

This thesis is an examination of the era dating from the late 1960s to 1989, when Presidents from both political parties responded to the lobbying of political coalitions and members of Congress and implemented Voluntary Export Restraints (VERs) in four U.S. manufacturing industries: steel, shoes, autos and TVs.¹ To political economists, the political coalitions lobbying for trade protection can take one of three forms. Did organized labor, working in opposition to capital interests managed by the owners of firms, successfully petition the government for trade protection? Was it the firm's owners, contested by organized labor, who persuaded the government to take protectionist action? Or did labor unions and executives from firms in the same industry cooperate in their lobbying positions in order to insulate their industry from cheaper imports and foster domestic production and employment? In this thesis, I will argue in the era from the late 1960s to 1990, the third form of political coalition, labor unions and firm management lobbying together, successfully cooperated to secure trade protection from federal elected officials in the form of VERs.

Demands for trade protection by manufacturing interests are a source of faction. When interest groups converge to lobby federal elected officials, and federal elected officials adopt trade protection policy in response, this is an example of a mischief of

¹ The VERs for autos are not bilateral, but they will be described as such in this thesis. Japan entered the VERs on the basis of a calculation of its relationship with consumers in the U.S. market. Japan wanted its auto firms to earn quota rents by charging U.S. consumers higher prices for Japanese auto imports. In this sense, there is a two nation aspect to the auto VERs.

faction. A mischief of faction is a policy outcome that James Madison promised in Federalist 10 would not come from the American form of government.

...[T]he most common and durable source of factions has been the various and unequal distribution of property.... A landed interest, a manufacturing interest, a mercantile interest, a moneyed interest with many lesser interests, grow up of necessity in civilized nations, and divide them into different classes, actuated by different sentiments and views. The regulation of these various and interfering interests forms the principle task of modern legislation.... A pure democracycan admit no cure for the mischiefs of faction.... A republic, by which I mean a government in which the scheme of representation takes place, opens a different prospect and promises the cure for which we are seeking.²

Madison claimed two aspects of the new republic would curtail attempts by manufacturing interests to set trade policy for the nation. One aspect was the sphere under the control of the federal government. Since the federal government presided over a large sphere incorporating demands from many interest groups, this would reduce the power of a manufacturing interest from a particular state to dictate national policy. The other aspect was the national perspective which federal elected officials were expected to uphold. Federal elected officials were expected to make decisions that satisfied the actor or actors representing the national interest. Representatives would avoid satisfying state-level interests out of concern for the greater good of the nation as a whole. Despite Madison's reassurances to the contrary, the U.S. government has granted trade protection throughout U.S. history. This thesis examines VERs negotiated by the U.S. federal government in response to lobbying by state-level interests from the Administration of President Lyndon Johnson to the four-year term of George H. W. Bush.

² Alexander Hamilton, James Madison and John Jay, *The Federalist Papers*, edited by Charles R. Kessler and Clinton Rossiter (New York: Mentor Books, 1999), 48.

VERs are a trade arrangement in which a nation limits the amount of goods it will export. There are two types of VERs examined in this thesis: bilateral VERs and unilateral VERs. Bilateral VERs exist in the nine cases involving steel, shoes and televisions. Bilateral VERs are instances where a foreign nation agrees to limit the amount of goods its firms can export from a particular industry to a second nation. Unilateral VERs exist in the two auto cases. They depend on the willingness of an exporting nation to limit imports from a particular industry destined to a second nation. Both are quotas. By design, VERs help an industry in the nation receiving the reduced number of imports. It is a way for the industry to better manage the effects of the inflow of cheaper foreign goods, specifically, a slowdown in production leading to worker layoffs. Both Democratic and Republican Presidents have negotiated VERs. The complete list of bilateral VERs that the U.S. negotiated in the post-World War II era are shown below:

Table 1: Voluntary Export Restraints, 1956-1989

Commodity	President	Year Entered
Textiles	Dwight Eisenhower	1956
	Richard Nixon	1970
Steel	Lyndon Johnson	1969
	Richard Nixon	1972
	Gerald Ford	1976
	Ronald Reagan	1982
	Ronald Reagan	1984
Shoes	George Bush	1989
	Jimmy Carter	1977
	Jimmy Carter	1977
TVs	Jimmy Carter	1977
	Jimmy Carter	1979
Autos	Ronald Reagan	1981
	Ronald Reagan	1985

Table Source: Compiled by Author.

Although the VERs for textiles will be mentioned briefly in this thesis, the focus will be the VERs entered between 1969 and 1989 in steel, shoes, TVs and autos. Textiles are a more complicated case because there were bilateral VERs and multilateral VERs in place in this industry. The multilateral VERs for textiles include the Short and Long Term Arrangements signed by President John Kennedy in 1961 and 1962, and the Multifiber Arrangements signed by several Presidents between 1974 and 1994. In this thesis, the mischiefs of faction that produced VERs for steel, shoes, TVs and autos will be presented chronologically by President, rather than by commodity.

What are the mischiefs of faction that produce trade protection policy in the era under examination? They begin with the coordinated lobbying of labor unions and firms. This seems counterintuitive. Labor unions and the management of firms are typically economic class antagonists. Workers and owners usually pursue competing interests rather than shared interests. However, it was a prerequisite for all of the VERs described in this thesis that labor unions and firms shared the same goal: trade protection for their industry to foster domestic production and employment. Through collective action, labor unions and firm management petition the government, which takes action to safeguard worker jobs and ensure the continued use of capital equipment in U.S. industries where there is competition from imports manufactured by cheaper labor. The combined efforts of these interests from the U.S. manufacturing industry help generate a property right in the form of trade protection.

While trade protection helps the workers and the owners of their firms, it denies the majority of American consumers the benefits of trade according to comparative

advantage. Comparative advantage is the economic principle which suggests that the U.S. should import goods that foreign firms manufacture at a lower cost as compared to U.S. firms. Given the available skill sets of labor and the state of technology of capital, foreign firms make comparable goods cheaper. When the U.S. abandoned comparative advantage and adopted the policy of trade protection, U.S. consumers paid higher prices for manufactured goods. There were also limits on the choices of manufactured goods that American consumers could purchase in the U.S. market.

The consumer's right to cheaper prices and varied choices appear to be the type of national interests Madison expected federal elected representatives in republican government would ensure. This thesis does not tell that story. Instead, it is the story of how manufacturing interests working with Presidents and other federal elected officials, prevailed over the interests of U.S. consumers and implemented VERs to protect four U.S. manufacturing industries from cheaper imports: steel, shoes, TVs and autos. Ronald Rogowski, author of *Commerce and Coalitions*, locates the pivot point of the transformation in 1973-74. At that point, Rogowski said, labor and labor-intensive economic sectors "turned sharply protectionist."³ Cooperation between labor unions and firm management actually occurs earlier. In 1955, there are interest groups representing labor and capital that lobby the Eisenhower Administration for quotas for textiles. In 1967, when this thesis begins, there is lobbying for trade protection by the steel industry, specifically by the United Steel Workers and the American Iron and Steel Institute.

³ Ronald Rogowski, *Commerce and Coalitions* (Princeton: Princeton University Press 1989), 120.

Each instance when VERs were negotiated by Presidents for steel, shoes, TVs and autos are the product of successful cooperation between labor unions and firms in the same industry. The successful lobbying coalition was based on the Ricardo-Viner model of trade protection, whereby industries collaborate and take collective action to petition for trade protection. The idea that labor and firms are opposed in seeking protection is what drives another theory of trade protection, the Stolper-Samuelson Theorem. However, in each of the cases to be described in this thesis, labor unions and firms were not opposed. Instead they cooperated and coordinated lobbying efforts aimed at securing trade protection for their industries. Organized labor presented its lobbying pitch either through the American Federation of Labor-Council of Industrial Organizations (AFL-CIO), or as one of its member organizations, like the United Steel Workers and the United Auto Workers. The firms coalesced in industry groups with these names: the American Iron and Steel Institute (AISI), the Tool and Stainless Steel Industry Committee for Import Control, the American Footwear Industries of America (AFIA) and the Committee Organized to Preserve American Color Television (COMPACT). In the case of autos, the lobbying was performed by the four U.S. automakers: American Motors, Chrysler, Ford and General Motors.

Another remarkable feature of this history is that federal elected officials from the two major political parties in the U.S., the Democrats and the Republicans, both made commitments to protect the interests of U.S. manufacturing industries. It was an end to the liberal consensus in favor of free trade that was established with original Reciprocal Trade Agreement Act of 1934 (RTAA). Protection-seeking manufacturing interests from

specific states could influence both Democrats and Republicans in the Executive Branch to favor their industry. The authority for Presidents to negotiate VERs was granted in 1955, in a revision to the original RTAA. A Republican President, Dwight Eisenhower, relied on the revised RTAA in 1956 insulate U.S. textile interests from foreign competition. In the period under examination in this thesis, Democratic Presidents, Johnson and Jimmy Carter, negotiated VERs, as did Republican Presidents Richard Nixon, Gerald Ford, Ronald Reagan and Bush. They did so for two reasons. All wanted to avoid codifying trade protection in U.S. trade laws. They also hoped to capitalize politically on the positive benefits that trade protection would provide to voters. This was the understanding between Presidents and the lobbying interests on the meaning of the VERs. Members of Congress representing factions from the manufacturing industry put pressure on Presidents with the understanding that there was a political quid pro quo: a policy of trade protection in return for political support in the form of votes.

Common Attributes in the Eleven Case Studies Examined in this Thesis

The eleven case studies examined in this thesis are instances where organized labor and firm management from a particular industry was successful in getting trade protection in the form of VERs. There are common attributes that emerge in each of these cases. One is the demand by immobile and specific workers for trade protection. Another is the important role of collective action, specifically, lobbying in a coordinated fashion by labor and firm management for trade protection. The third attribute is the role of key constituencies in obtaining trade protection and voting for Presidential candidates.

Immobile and Specific Workers

Specialization and immobility are two reasons why labor and capital are specific. Specialization describes workers with highly refined skills that are not easily transferrable to other industries at the same wage. Immobility relates to the inability of non-specialized workers to find alternative employment without relocating. Most U.S. manufacturing workers who are unemployed are immobile. Very few workers or job categories in any of these industries appear to be so highly specialized that they are not easily transferable to other industries at a similar wage. An exception is tool and die maker, a job category in the steel, auto and TV manufacturing industries. Tool and die makers, like other specialized workers, have college educations. Most U.S. manufacturing workers are semi-specialized. The rest are non-specialized. When specialized, semi-specialized and non-specialized workers are unemployed due to import competition, they may be immobile. Immobile workers cannot easily transfer to similar jobs in the same industry because a similar job is unavailable. Jobs are unavailable because there are no other firms in its industry that are located in the same geographic area. Immobility may also exist when there are other firms located in the same area, but they do not need additional hires. Trade protection keeps people in jobs who would otherwise be laid off from productive employment and collecting unemployment assistance. As shown in Table 2, thousands of immobile and specific workers had their jobs saved by trade protection in each of the eleven cases discussed in this thesis.

Table 2: The Role of Trade Protection, 1969-1989

Case Involving Trade Protection	Number of Jobs Saved	National Unemployment
Johnson Steel VER, Jan-69	65,000-70,000	2,817,000/3.5%
Nixon Steel VERs, May-72	65,000-70,000	4,882,000/5.6%
Ford Specialty Steel Quotas, June-76	26,000	7,019,534/7.3%
Carter OMAs for Shoes, April-77	25,000	7,227,584/7.3%
Carter OMAs for TVs, May-77	65,000	7,227,584/7.3%
Carter OMAs for TVs, Jan-79	65,000	6,202,000/6.1%
Reagan Auto VERs, May-81	200,000	8,273,000/7.6%
Reagan Steel VER, Oct-82	76,000	10,678,000/9.7%
Reagan Steel VERs, Dec-84	200,000	8,539,000/7.5%
Reagan Auto VER, May-85	200,000	8,312,000/7.2%
Bush Steel VERs, June-89	Unknown	6,258,000/5.3%

Table Source: Compiled by Author.

While unemployment in the manufacturing sector may have been greater at any of these intervals, we see that the ability of President's to protect sectors of the U.S. manufacturing industry had a measurable impact on the national unemployment figure. President Carter's OMA for shoes had the lowest measurable impact, cutting into the national unemployment figure of 7.3 percent by nearly half of a tenth of percentage point, .036. The trade protection policy implementations with the greatest impact on the national unemployment rate are the steel quota that Johnson negotiated with the EEC and Japan in January 1969 and the auto VER that President Reagan negotiated with Japan in May 1981. In each of these cases, the national unemployment rate was improved by nearly 2.5 of a percent.

Coordination in Lobbying

The eleven cases described in this thesis describe coordination by labor unions and firm management in securing trade protection through lobbying. Coordination is a

form of collective action, which is explicit cooperation between two actors. Coordination occurs when the labor union and the firms in the same industry make the same choices in seeking trade protection from the federal government and subsequently have no incentive not to comply. The lobbying may take several forms: letters to the President, a meeting with the President or a member of his Administration, a claim filed with the USITC for trade protection, testimony at a Congressional hearing, public speeches, or a Political Action Committee donation to a president. When the view of the interest groups are the same, the lobbying position of the labor union and firm management is said to be coordinated. When coordinated, the labor union and the management of the firms are taking collective action.

Key Constituencies in National Elections

The eleven cases in this thesis describe instances where Presidential election results were connected to the actions of interest groups in lobbying for trade protection. By protecting manufacturing workers, Presidents hoped to gain their favor as voters. That key constituency may have been important in a prior election. This was true for the steel workers whom Johnson helped in 1969, the shoe and television workers whom Carter helped in 1977, the auto workers whom Reagan promised to rescue from import competition in 1980, and the steel workers whom Bush offered to save during the 1988 Presidential campaign. Providing trade protection for a key constituency may have been important in a future Presidential election. Nixon and Ford relied on the United Steel Workers to not endorse the Democratic candidate for President in 1972 and 1976 in

return for trade protection. Carter hoped to accomplish the same goal with the TV manufacturers in the 1980 election. Reagan's decisions to help the steel industry in 1982 and 1984 may have helped him gain the votes of steel workers in his 1984 re-election bid.

Chapter II

Theoretical Discussion: The Political Economy of Trade Protection

Trade protection is a policy that is best explained by political economy theory. Two class-based interest groups, labor and capital, work either independently or together to get trade protection. What was noteworthy about the era from 1969 to 1989 was that the political coalitions for trade protection did not form with labor and capital in antagonistic stances, but instead united factions from labor and management. Mischief of faction occurred when organized labor and firm management from the same industrial sector lobbied for trade protection from federal elected officials. According to political economy theory, the factor specificity of these labor-management coalitions were a reason why trade protection was granted in the form of VERs. Collective action in lobbying was another variable upon which trade protection depended. In addition, trade protection was possible because the President who granted trade protection believed that it would satisfy a key voter constituency that would favor the President with a positive result at the ballot box. This section describes theory of the factions, and the faction interactions, that produced the trade protection that will be described in the eleven case studies included in this thesis.

The Factions: Labor Unions and Firms

The two political factions that pressure the government for trade protection are labor unions and firms. Both are class-based interest groups. Labor unions represent the

workers employed at manufacturing companies. The term firms describe the owners and top executive managers of the capital that companies utilize in their production processes.

Labor unions can be placed in one of three categories: product-based labor unions, trade-based labor unions, or amalgam labor unions, which are combinations of product-based and/or trade-based labor unions. The three categories of labor unions – product, trade and amalgam – describe labor unions that are also members of the American Federation of Labor-Council of Industrial Organizations (AFL-CIO).

It should be emphasized that a product-based, trade-based or amalgam labor union does not necessarily represent all of the workers in a manufacturing sector in a Ricardo-Viner style political coalition. Either the AFL-CIO or a product-based, trade-based or amalgam labor union in the AFL-CIO's membership may be the union spokesperson for workers in a particular manufacturing sector. When the shoe industry lobbied for trade protection from President Carter, the AFL-CIO and its President, George Meany, spoke on behalf of the workers in the shoe manufacturing sector, rather than the product-based unions in the AFL-CIO's membership, the Boot and Shoe Workers Union and the United Shoe Workers. The AFL-CIO also lobbied on behalf of the product-based, trade-based, and amalgam labor unions that represented workers in the TV manufacturing industry.

Labor unions based on product include the aforementioned Boot and Shoe Workers Union, and the United Shoe Workers, who represent portions of the unionized workers from a specific manufacturing sector. The closest equivalent to a definition of a manufacturing sector or industry as it will be used in this thesis is in the Harmonized

Tariff Schedule (HTS), which lists the categories of goods that have import tariffs.⁴ Industrial codes for Industry Groups also exist in the Standard Industrial Code (SIC), which was created in 1934 pursuant to the National Recovery Act, and the North American Industry Classification System (NAICS), the industrial nomenclature system that replaced the SIC in 1987.⁵ However, designations in the SIC and the NAICS are not the same as the categories of products in the HTS. For example, in the SIC and NAICS, shoe manufacture is grouped under Leather and Allied Products. The shoe industry, which is referenced in the HTS, is the goods producing industry or manufacturing sector.

Labor unions can also be based on trade. The International Brotherhood of Electrical Workers is an example of this type of union, whose members work in different industries but all practice the same trade. The IBEW was one of the trade-based labor unions in the AFL-CIO coalition that lobbied for trade protection for color televisions from President Carter.

Labor unions can also be amalgams of classifications. The remainder of the unions to be discussed in this thesis is amalgams. The United Steel Workers Union is an amalgam because it includes members who make different products or belong to different trades. The USW is an amalgam because it includes these product-based and trade-based labor unions: the Aluminum Workers of America (industry added June 1944), Mine, Mill and Smelter Workers (trades added June 1967); United Stone and Allied Products

⁴ U.S. International Trade Commission, Harmonized Tariff Schedule of the United States, Revision 2, effective August 1, 2010, available at <http://www.usitc.gov/publications/docs/tata/hts/bychapter/1002htsa.pdf>.

⁵ U.S. Census Bureau, North American Industry Classification System, available at <http://www.census.gov/eos/www/naics/index.html>.

Workers (industry added January 1971), Upholsterers International Union (trade added October 1985), Aluminum, Brick and Glass Workers Union (industries and trades added December 1996), 80 percent of the American Flint and Glass Union (industry added June 2003); and the Paper, Allied Industrial, Chemical and Energy Workers (industries added April 2005). The United Auto Workers is an amalgam labor union because it represents workers in multiple sectors. The UAW represents workers in the auto industry, as well as workers in the aerospace industry and agricultural machine industry.

Firms are typically classified as a business or a small business based on the number of workers they employ. Over the years, the U.S. Small Business Association (SBA) has defined a small business with a number of employees that has varied from 250 employees to 500 employees to 1,000 employees.⁶ The current SBA benchmark for manufacturing firms, called the anchor size standard, is 500 employees or less. That will be the distinction between business and small business used in this thesis. However, when describing the collective action of firms, it is the owners of the capital that these businesses or small businesses utilize in their manufacturing processes, not the employees, that speak on behalf of firms. Presidents and Chief Executive Officers speak on behalf of firms when lobbying for trade protection. Trade associations that represents the Presidents and CEOs of firms in a particular manufacturing industry, also do the petitioning for trade protection on behalf of firms. Firms do hire lobbying concerns to act

⁶ In its first decade, the SBA standard for manufacturing depended on the applicable SBA program: 250 to 1,000 employees for manufacturing firms seeking SBA financing, 500 employees for manufacturing firms that wanted to apply for SBA status in federal procurement contracts. From 1963 to 1984, the standard changed to 750 to 1,000 manufacturing employees. In 1984, the standard was reduced to 500 employees. "SBA Size Standards and Methodology," Size Standards Division, U.S. Office of Government Contracting and Business Development, April 2009.

on their behalf. However, for the purposes of this thesis, the lobbying concerns that these businesses employ will be described as the activity of the owners and top executive management of the firms.

The Faction Interactions: Stolper-Samuelson and Ricardo-Viner

Political economy identifies three types of coalitions that lobby for trade protection. Two are described by the Stolper-Samuelson Theorem, which posits that protection will favor the scarce factor of production, which can be either labor or capital. The third is the Ricardo-Viner Thesis, which suggests that trade protection will be pursued together by labor and capital interests in the same sector. In the absence of any of these three protectionist coalitions, collective action problems may exist. Political economists define a collective action problem as a situation when one interest that should be lobbying for protection does not do so because it assumes that other interest groups will assume the costs. This is also known as the free rider problem. In theory, when a collective action problem exists, trade protection may be unlikely. In the paragraphs that follow, I will describe the three political coalitions: labor against capital, capital against labor, and labor and capital in the same industry cooperating.

Stolper-Samuelson: Labor Lobbying for Protection

The Stolper-Samuelson model of trade protection with scarce labor lobbying for trade protection was first presented in a 1941 article by Wolfgang Stolper and Paul Samuelson. They demonstrated that trade lowers the wage of the scarce factor of

production, making trade protection an option for the scarce factor to pursue to recover its loss of income.⁷ In *International Political Economy*, Thomas Oatley argues when a labor trade coalition forms according the Stolper-Samuelson model, the goal of the labor-led coalition is to prevent a decline in all wages, which is opposed by owners of capital.⁸

The Stolper-Samuelson Theorem is based on certain assumptions about the economy. Labor and capital in the Stolper-Samuelson economy are not specialized in their uses and are completely mobile. The Stolper-Samuelson economy is a full employment economy in which all of the factors of production are put to productive use. None of the labor is unemployed and none of the capital goes unutilized. Trade in the Stolper-Samuelson economy follows patterns outlined in the principle of comparative advantage and the Hecksher-Ohlin Trade Theorem.

Comparative advantage suggests that countries manufacture the goods that make the most efficient use of its available resources in labor and capital. Hecksher-Ohlin suggests that countries should import those goods that make intensive use of the scarce factor of production, as it is inefficient to produce them domestically. If trade were to continue according to comparative advantage, and labor is the scarce factor of production in the country, labor would move to the efficient industry. However, due to the additional supply of workers, the firms in the efficient industry can pay a lower wage. The additional supply of workers drives down the rate of pay that the firm is required to

⁷ Wolfgang F. Stolper and Paul A. Samuelson, "Protection and Real Wages," *The Review of Economic Studies* 9, no. 1 (November 1941): 65-66.

⁸ Thomas Oatley, *International Political Economy* (New York: Longman, 2010), 74.

make to keep all of its labor employed. Since labor in the inefficient industry expects this loss in earning power, it lobbies for trade protection to avoid those outcomes.

Stolper-Samuelson: Capital Lobbying for Protection

In this version of the Stolper-Samuelson model, interests representing capital lobby for protection to deal with the effects of international trade on capital equipment. This, too, is a full employment economy with all available labor and capital in productive use. Labor and capital are assumed to be mobile and not specialized. But capital is scarce. Financial capital is locked into capital equipment that is hard to replace because it is unavailable to domestic firms. When two countries trade according to the principle of comparative advantage, production is shifted from inefficient industries to efficient ones. When that shift takes place, the capital of the firms in the inefficient industries is in jeopardy of being transferred to an alternative use. To preserve the scarce capital equipment and financial capital in its current inefficient industries, firms lobby for protection. The firms in the inefficient industries seeking trade protection are not opposed by the firms in the efficient industries. However, they are opposed by labor. It is a rare case when all of these conditions are met in U.S. trade policy.⁹ Capital is assumed to be abundant, not scarce, which makes preserving capital equipment and

⁹ One instance where it was argued that a form of Stolper-Samuelson favoring capital occurred is in connection with lobbying for trade protection by the tobacco industry in the Trade Act of 1974. In this instance the Tobacco Institute lobbied for trade protection on behalf of its firms and the Tobacco International Workers Union advocated a free trade position. However, it should be noted that capital in the U.S. is considered to be abundant, making this instance of lobbying for trade protection by capital not completely satisfactory as an explanation of Stolper-Samuelson with protection favoring capital. Stephen P. Magee, William A. Brock, and Leslie Young, *Black Hole Tariffs and Endogenous Policy Theory* (Cambridge: Cambridge University Press, 1989), 108.

financial capital in an inefficient industry an unlikely scenario because capital is easily transferable to other more productive uses.

Ricardo-Viner: Labor Unions and Firms Lobbying Together

Most trade coalitions are examples of labor unions and firms in the same industry lobbying together for trade protection. International trade has rendered their sector inefficient relative to foreign firms manufacturing cheaper substitutes. The labor and capital from the sector unite, relying on the argument from Jacob Viner that they must get trade protection to keep their jobs intact and their industry in operation:

The modern protectionist urges the importance of restricting the imports of foreign goods of a kind that can be produced at home in order that the domestic production and employment may be fostered.¹⁰

Cooperation between labor unions and firms from the same sector is a requirement for this trade coalition to be successful in getting trade protection for an industry. Trade protection is intended to foster production and employment in an industry that is suffering from losses to import competition. The losses to import competition may be a result of comparative advantage, when the factor endowments of two trading partners give a trading partner an edge over the U.S. in manufacturing a product for sale. The losses to import competition may be due to market timing, such as happens when there is a steel strike and foreign suppliers flood the market with product while U.S. supply is low. The losses to import competition may also be caused by an artificial stimulus, like a

¹⁰ Jacob Viner, *Studies in the Theory of International Trade* (New York: Harper Brothers, 1950), 73.

foreign government subsidy to promote the sale of a foreign industry's good at a lower price in the U.S. market.

Unlike Stolper-Samuelson political coalitions, labor and capital in Ricardo-Viner political coalitions are specific, because they are specialized and/or immobile. Labor employed in an inefficient sector is unable to easily shift to more efficient sectors. As Oatley explains:

The combination of specific skills, logistical problems and attachments to an established community means that labor cannot always move from one industry to another.¹¹

Skilled manufacturing workers may be best suited to a particular industry because they are specialized. The skills needed to do some manufacturing work are so refined that it is impossible for labor to be re-employed in a similar job at a similar wage in another sector. Over time, workers develop deep knowledge, learning the intricacies of detailed plans and processes necessary to perform their jobs. They will lose income if they are forced to switch to another industry. Manufacturing workers in a particular industry may also be immobile. Oatley also describes how the lack of mobility of labor may make it difficult for workers to relocate to another job in another industry.

Logistical obstacles to physical relocation can be physically insurmountable. A worker may not be able to sell his house because the decline in the local industry has contributed to a more general economic decline in his community. Complex social and psychological factors also intervene, as it is difficult to abandon the network of social relations that one has developed over many years.¹²

¹¹ Oatley, 77.

¹² Oatley, 77.

This is one type of immobility, the loss of income that a worker would suffer by selling his home in a depressed manufacturing economy. Another type of immobility may occur when a worker living in a small, one industry town has no other job to take, because other employment options do not exist. Workers may also be immobile when they cannot shift to another job in their industry because there is a lack of demand for the goods that industry produces. There may be more than one firm in a manufacturing industry in a particular geographic area, but none of the firms are hiring due to the lack of demand.

Capital can be specialized and/or immobile in Ricardo-Viner political coalitions. The capital equipment that is used to manufacture goods in one sector may be tailored to that sector and not be easily shifted to manufacture goods in another sector. David Ricardo acknowledged this truth about comparative advantage in *The Principles of Political Economy and Taxation*. “It is often impossible to divert the machinery which may have been erected for one manufacture for the purpose of another....”¹³ Capital may be immobile because a firm does not have the financial resources to relocate to a plant that is more efficient or a site that affords cost savings in labor or supplies. In Ricardo-Viner coalitions, labor unions representing one factor of production, labor, unite with the executives of firms in the industry representing the other factor of production, capital, to cooperatively seek trade protection.

¹³ David Ricardo, *The Principles of Political Economy and Taxation* (Mineola, NY: Dover Publications, 2004), 117.

The Role of Federal Elected Officials in Trade Protection

What role do federal elected officials have in the granting of trade protection to U.S. manufacturing industries? As Jeffrey Frieden explained in his article “Actors and Preferences in International Relations,” the U.S. elected officials involved in the necessary and ordinary operations of government collect the sentiments and views of interest groups and rank them as preferences. The action the elected official takes -- a Congressman voting on a trade bill, or a President deciding whether to impose tariffs, countervailing duties or quotas – is an expression of that state actor’s strategy. Strategy is “[the actor’s] attempt to come as close as possible to the outcome it most prefers.¹⁴”

There is a finite list of the fiscal policy options available to federal elected officials to execute a strategy to help industries that are losing market share to cheaper imported goods. They include jawboning, tax depreciation allowances, export expansion, trade adjustment assistance and trade protection.

Jawboning describes when federal elected officials persuade labor and firms in the affected industries to lower their demands for wage and price increases to make their goods more competitive in the marketplace. An example of jawboning occurred in Spring 1962, when President John Kennedy encouraged the United Steel Workers Union and top officials at U.S. Steel involved in collective bargaining to accept lower wages and lower price increases than they expected. Presidents Johnson and Nixon also jawboned

¹⁴ Jeffrey A. Frieden, “Actors and Preferences in International Relations,” in David Lake and Robert Powell, eds., *Strategic Choice and International Relations* (Princeton: Princeton University Press, 1999), 41.

with firms in the steel industry to try to persuade them to reduce or eliminate planned price increases.

Tax depreciation allowances for capital equipment were available to firms at the inception of the corporate income tax in 1909, but in 1962 and 1970, Kennedy and Richard Nixon authorized changes to the system so that U.S. manufacturing firms could deduct greater and greater percentages of their capital investment from their tax liability.¹⁵ In this way, these Presidents gave manufacturing industries a subsidy to improve their financial status relative to their foreign competitors.

Federal elected officials have also encouraged firms to sell their products in foreign markets through export promotion programs. Export promotion programs include trade fairs and trade shows where U.S. government officials encourage foreign buyers to purchase the goods that Americans manufacture or harvest, usually with U.S.-government backed financing on the loans.

Trade adjustment assistance describes the payments made to workers who have lost their jobs due to a decline in demand for their industry's products. The decline in demand is caused by import competition. Import competition may be the result of comparative advantage, foreign firms satisfying demand when supply is low and workers

¹⁵ David W. Brazell, Lowell Dworkin, and Michael Walsh, "A History of Federal Tax Depreciation Policy," Office of Tax Analysis, U.S. Treasury Department, OTA Paper 64, May 1989, 1-77. Starting in 1954, the IRS gave taxpayers the option of what capital allowance to use on their taxes: a straight-line method or a declining balance method. Firms opted for the declining balance method to accelerate their depreciation and be in a better financial position to buy new capital equipment.. There were improvements to the Treasury Department-issued guidelines in 1962 and 1971. In 1962, the Depreciation Guidelines and Rules had a ratio reserve test that was difficult for most U.S. manufacturing firms to pass. In 1971, the Treasury Department authorized an Asset Depreciation Ratio System that gave U.S. manufacturing firms the option of deducting capital equipment at 20% less than the Departments asset guideline or 20% greater than the Departments asset guideline. Firms wanting to respond to technological changes in capital equipment chose the faster depreciation method at 20% greater than the asset guideline.

are on strike, or dumped foreign product in the U.S. market attributable to subsidies by foreign governments. Pursuant to the trade adjustment assistance provisions in the Trade Expansion Act of 1962, there are three types of trade adjustment assistance available: unemployment assistance, vocational education/retraining, and financial help to relocate to a part of the country where jobs are more plentiful.¹⁶ Trade adjustment assistance was provided in response to the dislocations caused by import competition in the steel, shoe, TV and auto industries.

Trade protection is another policy that may be adopted by federal elected officials. Domestically, there are two ways in which federal elected officials can execute a strategy of trade protection policy. One way is to aggregate the demands of interest groups lobbying for trade protection into a range of choices available to the President. Some evidence of the ranking of interest group demands exists in all of the eleven cases discussed in this thesis. The other way that strategy is executed is when federal elected officials aggregate the demands of the interest groups lobbying for protection into votes for trade protection on Congressional legislation. This occurred in some of the eleven cases discussed in this thesis. Internationally, the President can aggregate domestic interest group demands by imposing tariffs, countervailing duties or quotas on foreign countries and their firms, or conduct negotiations with foreign countries or foreign firms to lower imports with bilateral VERs and unilateral VERs. This is consistent with the domestic societal explanation for international policy actions like trade protection

¹⁶ [John F. Kennedy] "Text of [President John] Kennedy's Message to Congress Asking for New Tariff Bargaining Powers," *The New York Times*, 26 January, 1962: 10, in James E. McCarthy, *Trade Adjustment Assistance: A Case Study of the Shoe Industry in Massachusetts* (Boston: Federal Reserve Bank of Boston, 1975), 16. The Trade Adjustment Assistance provisions in the Trade Expansion Act of 1962 were updated in the Trade Act of 1974.

between two nations. This thesis will focus on the efforts by Presidents to aggregate the demands of interest groups and conduct negotiations to lower imports with VERs for the steel, shoe, TV and auto industries.

Congress and the President share the agenda control for initiating trade protection policy. Congress can pass protectionist legislation. To be successful, Congress must vote to pass a protectionist trade bill by a 2/3rd majority so that it will not be blocked by a Presidential veto. In response to a positive ruling by the USITC, the President has a set of legal options available. He can impose tariffs, countervailing duties or quotas on foreign countries. If he fails to do so, Congress has a legal check on the President. Congress can override the President with a 2/3 majority vote in both the Senate and the House. The threat of Congressional override of President who fails to authorize the remedy selected by the USITC is a recurring theme in this thesis.

What is the authority under which a President can negotiate bilateral or multilateral VERs? This is not a right granted under the original Reciprocal Trade Agreement Act of 1934, but instead under the Reciprocal Trade Agreement Extension Act of 1955. The relevant language in the revised statute reads as follows:

Section 1351. Foreign Trade Agreements

(a) Authority of President; modification and decrease of duties; altering import restrictions.

(1)...the President, whenever he finds as fact that any existing duties or other import restrictions of the United States or any foreign country are unduly burdening and restricting the foreign trade of the United States....is authorized from time to time—

(A) To enter into foreign trade agreements with foreign governments or instrumentalities thereof....¹⁷

The language in the revised RTAA statute made it possible for the Executive Branch to act on behalf of the American manufacturing interests that were lobbying for trade protection. The President had a statutory authority upon which to rest its decisions to implement trade protection for U.S. manufacturing industries.

Both the Congress and the President have incentives to take action to protect industries. If members of Congress or the President protect workers who are also voters, then those workers/voters may be convinced to re-elect them. This applies to members of Congress who are up for re-election either every two years (House) or six years (Senate), and the President, if he is in the first of his first two terms in office. PAC Donations are another incentive that may convince federal elected officials to take protectionist action. Protecting workers who belong to unions may convince those unions to make PAC donations to the campaigns of members of Congress or Presidents who acted to protect union jobs. Protecting firms who risk losing their market share to foreign competition may convince those firms to make PAC donations to the campaigns of members of Congress or Presidents who voted to protect them.

The Economic Principles Underpinning VERs

What is a quota? What is a VER? Quotas and VERs are restrictions on the property rights of countries or foreign firms, limiting the quantity of goods they can

¹⁷ 19 U.S.C. Chapter 4, Subtitle II, Part III, Section 1351, available at http://www.law.cornell.edu/uscode/uscode19/usc_sec_19_00001351----000.html.

import.¹⁸ Quotas and VERs differ from tariffs, because, in the case of a tariff, the U.S. government gets some of the revenue generated. The change in supply and demand resulting from a quota or VER creates a net loss for U.S. consumers, who must buy goods at a higher price than would be available if market forces were not restricted. Consumers lose because they would be better off if labor and firms manufactured goods on the basis of comparative advantage. When countries manufacture goods according to comparative advantage, factors of production are employed in their most efficient uses and create goods at the lowest possible price for consumers to buy. Who gains from a quota or VER? Both U.S. labor and firms gain. Labor gains because it can maintain its wage. Firms can charge a higher price for the goods they manufacture than would be allowed in a free market, allowing them to return to labor a higher wage. Firms gain because they can manufacture goods with scarce factors of production and sell their goods at a higher price than would be allowed in an unrestricted market.

Another beneficiary of quotas and VERs can be a foreign firm in the protected industry. When a quota or VER is implemented, the price of the good is elevated to a price higher than would be available in free trade. Although a foreign firm is restricted in the number of goods it can sell, a quota or VER allows foreign firms to generate a higher return on the goods it does sell at the artificially higher price. Even though these foreign firms will sell fewer goods under the quota or VER arrangement, the goods they sell will be sold at a higher price, generating more revenue than would have been the case under free trade. This additional revenue is a rent, which provides foreign firms with an

¹⁸ Paul R. Krugman and Maurice Obsterfeld, *International Economics* (New York: HarperCollins Publishers, 1991), 195-196 (quotas) and 198-200 (VERs).

incentive to enter into a quota or VER arrangement. It was a reason why foreign firms agreed to accept the VERs on U.S. goods in the steel, shoe, TV and auto industries.

Why Industries Get Trade Protection

Why do U.S. manufacturing industries get trade protection in the form of bilateral VERs? How do we explain the trade protection obtained in the form of bilateral VERs for steel, shoes, TVs and autos? It depends on the characteristics and actions of the interest groups as well as the corresponding reactions by federal elected officials, given their range of policy options. To political economists, there are three important characteristics and actions of interest groups that generate a trade protection policy. They are factor specificity, collective action and belonging to a key constituency.

Factor Specificity

Factor specificity describes two possible characteristics of labor and capital. One characteristic is specialization, the degree to which labor or capital is tailored to a specific industry. The losses associated with switching specialized labor or capital to another industry are too great, convincing workers and owners to keep the labor or capital in its current use. The other characteristic is mobility, the capacity of labor or capital to transfer to alternative employment or relocate from one geographic location to another. This relates to the capacity to find alternative opportunities available in the economy. In this thesis, I will evaluate the labor and capital in four industries--steel, shoes, TVs and

autos--and describe when they are specialized, when they are immobile, and when they are specialized and/or immobile.

In what ways are labor and capital specialized and specific to their industry? For labor, education and experience performing the job are the attributes that make a worker specialized and specific in his industry. In *Wealth of Nations*, Adam Smith explains how labor is specialized and specific to the industry in which it is employed. “A man [is] educated at the expense of much labor and time to any of those employments which require incredible dexterity and skill.”¹⁹ The apprenticeship process, and the later honing of skills and knowledge on the job over time, describe specialized and specific labor. Capital is specialized and specific when it meets the definition provided by the British economist Alfred Marshall:

Whenever capital has been designed for use in one trade there is difficulty diverting it to another; if this difficulty is great the capital is Specialized, if not great the capital is Non-Specialized.²⁰

The degree of difficulty in diverting capital equipment from one use to another is due to the degree that the machinery is tailored to its industry. Machines are outfitted with the forms and designs of the subcomponent parts of the good to be assembled in the industry. These unique forms and designs are embedded in the machine. Firms have secured loans to purchase these machines, making the financial capital of the firm tied to its equipment. To the extent that machines in one industry are not useful in another, it would cause an economic loss to convert the machines to another use. In this way, both capital

¹⁹ Adam Smith, *Wealth of Nations* (Amherst, New York: Prometheus Books, 1991), 107.

²⁰ Alfred Marshall and Mary Paley Marshall, *The Economics of Industry* (Bristol: Thoemmes Press, 1991), 20.

equipment and the financial capital used to pay for the capital equipment are specialized and specific.

The ability of labor and capital to relocate describes its relative mobility. Labor is immobile and specific when a worker cannot easily move from one location to another to take up work in his industry or another industry. Oatley provides two reasons for this intransigence: the inability of a worker to sell his house at a fair market value and the network of personal and business ties that a worker has developed in his community. In this thesis, I will examine another reason for factor immobility and specificity for labor. It is the lack of available alternative employment options for workers. In a small, one industry town, when there is a threat that a plant will be closed, workers have no other way to earn a living and are forced to accept unemployment insurance. This also occurs in areas where an U.S. industry is hurt by import competition and has no available employment opportunities due to a decline in demand for domestic production. Constraints also exist on the mobility of capital. The firms in an industry might not have the resources to purchase new plant and equipment to replace what has become outmoded. The firms in an industry also may not be able to afford the new equipment necessary to open facilities in states where labor costs or supplies are cheaper.

Workers and firms may find interest groups who will lobby on their behalf. Labor unions fight to protect worker wages and keep them employed in their current jobs. Unions typically lobby federal elected officials urging that these workers maintain the security of employment in their own industry. Unions may argue that they are interested in avoiding the risk of relocation to another industry in which they would lack

specialization and thus earn a lower income. Unions may also argue that their workers are immobile, and cannot find alternative employment without selling their home at a loss or due to a lack of available job opportunities in their industry. The firms that employ these workers may also want relief. Firms may not be able to easily shift their capital equipment into another industry or use. Firms may not be able to afford new capital equipment or be able to take advantage of cheaper labor costs in another state. As a result, firms may want to use some of the funds that they earn as revenue to lobby to protect their existing capital. Some political economists describe this practice by firms to be a gray hole, an instance “when nontrivial levels of resources are wasted in a redistributive conflict.”²¹ That redistributive conflict occurs when labor-management coalitions undertake collective action for trade protection.

Collective Action

Collective action describes the lobbying activity that leads federal elected officials to choose trade protection as the way in which the U.S. government will intervene in the economy to help industries improve their standing relative to foreign competitors. What are the forms of lobbying that can result in trade protection? There are four forms of lobbying that will be examined in this thesis. One is direct contact by interest groups with federal elected officials involved in making trade protection policy. The direct contact may be in the form of a letter or a person-to-person meeting. The second is a petition for trade protection by interest groups made to the USITC and the President of

²¹ Magee, Brock, and Young, 225.

the United States. The third is testimony in support of protectionist legislation made to a Congressional Committee. The fourth are donations made by interest groups through Political Action Committees (PACs) to candidates who supported trade protection.

The interest groups who practice these four forms of lobbying are said to be organized and active.

The privileged and intermediate groups often triumph over the numerically superior forces in the latent or large groups because the former are generally organized and active while the latter are normally unorganized and inactive.²²

If the interest groups directly contact federal elected officials urging a new trade protection policy, this is an instance when they are organized and active. If they file a petition with the USITC for trade protection from the President, this is another instance when interest groups are organized and active. If they testify before Congress in favor of trade protection, this, too, is an instance when interest groups are organized and active. If they make PAC donations to candidates who supported trade protection, this is a final instance when they are organized and active. If interest groups do not undertake any of these forms of lobbying, then the interest group is not organized and inactive. If interest groups undertake some forms of lobbying and not others, this may be due to a collective action problem, which is also known as free riding. Free riding is the action when interest groups assume that someone else will take on the costs of lobbying on their behalf.²³

²² Mancur Olson, *The Logic of Collective Action* (Cambridge, MA: Harvard University Press, 1971), 128.

²³ The definition of collective action problem is adapted from Jeffrey Frieden, David Lake, and Kenneth Schultz, *World Politics* (New York: W.W. Norton, 2010), 56. “Obstacles to cooperation that

Collective action is explicit cooperation between actors. This is a definition provided by Jeffrey Frieden, David Lake and Kenneth Schultz, given their use of the term interactions rather than collective action to describe the actions taken by interest groups that lead to policy action. Interactions are the ways in which the choices of two or more actors combine to produce political outcomes.²⁴ Frieden, Lake and Schultz later divide the universe of interactions into two categories: cooperation and bargaining.²⁵ Cooperation is an interaction in which two or more actors adopt policies that make one actor better off relative to the status quo without making the other actors worse off.²⁶ Cooperation describes the activity of both styles of political coalitions in lobbying for trade protection. In a Stolper-Samuelson style coalition in which labor is the scarce factor of production, labor is opposed to capital but it cooperates with federal elected officials to get trade protection, making labor better off relative to the status quo without making the government worse off. In a Stolper-Samuelson style political coalition with capital as the scarce factor, capital is opposed to labor and capital is made better off relative to the status quo without making the government worse off. In a Ricardo-Viner style political coalition, labor unions and firms cooperate with federal elected officials to obtain trade protection, making the labor unions and firms better off without making the government worse off.

occur when actors have incentives to collaborate but each acts in anticipation that others will pay the costs of cooperation.”

²⁴ Frieden, Lake, and Schultz, xxiii.

²⁵ Frieden, Lake, and Schultz, 50.

²⁶ Frieden, Lake, and Schultz, 50.

Frieden uses the term coordination to describe the cooperative interactions between interest groups in a Ricardo-Viner style political coalition that leads to the adoption of trade protection for industries. Coordination is a cooperative interaction in which all actors benefit from making the same choices and subsequently have no incentive not to comply.²⁷ Coordination takes place between labor unions and firms when they lobby successfully for trade protection according to the Ricardo-Viner political coalition model. Labor unions and firms coordinate when they both petition the President or a member of Congress on the same legislation or protectionist policy action for their industry. Labor unions and firms coordinate when they both provide testimony to Congress in favor of trade protection legislation for their industry. Labor unions and firms coordinate when they both give PAC donations to candidates of the party who decided to take action to protect their industry. This thesis will examine instances where coordinated, cooperative actions by labor and firms were successful in getting trade protection. In particular, it will describe the instances when the labor and management coalitions in the four U.S. industries that received trade protection made the same choices in lobbying federal elected officials both in written form and person-to-person meetings.

Key Constituencies

The concept of belonging to key constituencies is adapted from a commentary by Rogowski on the U.S. political system's propensity toward trade protection. Rogowski explained the attributes of U.S. politics that make protectionism more likely:

²⁷ Frieden, Lake, and Schultz, 54.

At one extreme we may see a system like that of the United States: decentralized institutions, weak parties, a powerful legislature, and direct election of representatives from 435 districts and 50 states mean that even trivially small interests – dairy or sugar farmers, a motorcycle or department store firm, textile or lumber workers – can, by promises of votes or campaign funds, reasonably hope to affect legislation and policy.²⁸

With the promise of future votes, workers and firm owners in protected industries provide federal elected officials with an incentive to take protectionist action. With the promise of campaign funds from workers and firm owners, federal elected officials will be better positioned in re-election campaigns, so they will have an incentive to take protectionist action.

When the President is involved in making trade protection policy, he is aware that trade protection will positively impact key constituencies. A particular state that was important for him in a past election, or is important to him or his party in a future re-election bid, may be home to a manufacturing plant for the industry that will be protected. According to this theory, a President will offer trade protection to an industry in order to reward its workers for their votes in a past election or incentivize them to vote for him or his political party in a future election. The voters may also be rewarded with trade protection for their industry in return for authorizing a PAC donation made to him or his party in the past or to encourage the industries to give to him or his party's re-election fund in the future.

The need to show a national or near national impact for trade protection for an industry drives the theory of key constituencies in the Congress. Sponsors of trade

²⁸ Rogowski, 173.

protection legislation must build support from members in states where the industry is a significant economic force. If the sponsors of the trade protection legislation have the support of members from states that will be positively impacted by the trade protection, then the sponsors will get votes in favor of their legislation. There is another reason why it is important to build Congressional support for trade protection with federal elected officials who have industries to be protected in their state or district. Congressional support for trade protection can help convince reluctant President to adopt trade protection as a policy. If Congressional support for trade protection is strong, then a President may decide a veto override is likely and will favor an industry with protection.

As stated earlier, federal elected officials in Congress may be rewarded by a future PAC donation to his fund in return for adopting trade protection. In this thesis, PAC spending will be examined for the years for which we have data from the U.S. Federal Elections Commission, 1984 to 2006. What is striking about this data is the lack of coordination between labor unions and firms in making PAC donations to the political campaign funds of the Presidents who adopted trade protection. One would expect that labor and management from a protected industry would give PAC donations to a President who voted for trade protection. However, the data shows that labor unions never gave PAC donations to Presidents who negotiated VERs. The data also shows that firm management usually did not incentivize Presidents who decided to adopt a protectionist policy on behalf of their manufacturing industry.

Interest Group Matrix

In Sections III and IV of this thesis, I will analyze quotas and VERs for steel, shoes, TVs and autos in the modern era. It will be possible to conclude from my analysis whether Stolper-Samuelson or Ricardo-Viner describes the behavior of the interest groups representing labor and capital. For all years, I will organize the interest groups who lobbied for protection according to an Interest Group Matrix, like the sample below, which is similar to one used by Stephen Magee et al.²⁹

		Firms	
		Protection	Free Trade
Labor	Protection	Ricardo-Viner Trade Protection	Stolper-Samuelson Trade Protection (labor scarce)
	Free Trade	Stolper-Samuelson Trade Protection (capital scarce)	Ricardo-Viner Free Trade

If labor is opposed to capital and is for protection, Stolper Samuelson with labor lobbying for protection describes the political coalition. If capital is opposed to labor and is for

²⁹ Magee, Brock, and Young, 108.

protection, Stolper-Samuelson with capital lobbying for protection describes the political coalition. If labor and firms from the same industry coordinate their activities together or otherwise cooperate, Ricardo-Viner applies. Labor and capital from the same industry can coordinate their views for either trade protection or free trade. The absence of any of the three coalitions reveals that a collective action problem impeded the efforts by interest groups to obtain trade protection for industries.

This thesis will reveal how mischiefs of faction occurred when labor and capital in import-competing industries were actuated by the same view, trade protection, and this view convinced federal elected officials to negotiate VERs. Each of the eleven case studies tells a story about one VER, detailing the specific events that took place in the creation of the Ricardo-Viner style political coalitions who coordinated their lobbying for trade protection. The specific interactions by and between labor unions and firm management from the same U.S. manufacturing industry are described in historical detail. These labor-management political coalitions all generated a bilateral VER or a unilateral VER that restricted imports into the U.S. to foster domestic production and employment by the American manufacturing industry impacted by the trade protection.

Chapter III

Prologue: The Protectionist Congress of 1967-68

In the 1967-68 legislative session, members of Congress advocated for trade protection for several U.S. manufacturing industries, including textiles, steel, shoes and electronics.³⁰ What distinguished these activities was how they involved collaboration between members of the Democratic and Republican Parties in support of protectionist policy. This was a distinct break from the free trade consensus between the two major American political parties that had characterized U.S. trade policy since the Reciprocal Trade Agreements Act of 1934. The Senate textile quota bill in 1967 was co-sponsored by a Democrat, Ernest Hollings (D-SC) and a Republican, Strom Thurmond (R-SC). That same year, the Ranking Republican Minority Leader, Everett Dirksen of Illinois, diverged from recent tradition when he co-sponsored the Iron and Steel Orderly Trade Act with Vance Hartke (D-IN). From these Congressional efforts to legislate quotas for

³⁰ On October 16, 1967, on the same day that the Hartke-Dirksen Bill was introduced, two bills were announced to protect the electronics and footwear industries. The first, S. 2539, was titled “a bill to provide for an equitable sharing of the U.S. market by electronic articles of domestic and of foreign origin” with these nine co-sponsors: Ed Brooke (R-MA), Birch Bayh (D-IN), Joseph Clark (D-PA), Carl Curtis (R-NE), Roman Hruska (R-NE), Edward Kennedy (D-MA), Karl Mundt (R-SD) and Thurmond (R-SC). The second was S. 2450, a bill to provide for orderly trade in footwear, co-sponsored by Ed Muskie (D-ME), Norris Cotton (R-NH), Dirksen (R-IL), Sam Ervin (D-NC), Daniel Inouye (D-HI), Thomas McIntyre (D-NH), Margaret Chase Smith (R-ME), Thurmond (R-SC) and Brooke (R-MA). *Congressional Record*, October 18, 1967, 29210.

On October 18, three new bills were announced that placed quotas on U.S. manufactures. S. 2551 was titled “a bill to impose annual quotas on the quantity of potassium chloride or muriate of potash which may be imported into the United States. Its sponsor was Joseph Montoya (D-NM). S. 2552 was sponsored by Abraham Ribicoff and was concerned with providing orderly trade in antifriction ball and roller bearings and parts thereof. Four co-sponsors were announced for S. 2554, a bill to provide for the orderly marketing of flat glass imported into the United States. The four Senators were Jennings Randolph (D-WV), Robert Byrd (D-WV), Frank Lausche (D-OH) and Hugh Scott (D-PA).

The next day, on October 19, 1967, Ribicoff was the announced co-sponsor of a new bill to provide for orderly trade in stainless steel flatware.

textiles and steel emerged a new bipartisan protectionist consensus on trade protection for U.S. manufacturing industries. It was also the genesis of the modern arguments in favor of trade protection by federal elected officials.

Prior to 1967-68, both Republican and Democratic Presidents took limited steps to protect textiles. In 1956, President Dwight Eisenhower shielded the U.S. industry from a surge in cotton and wool textile imports. Eisenhower noticed this surge in imports from Japan, whose industry the U.S. helped rebuild after World War II. The Eisenhower Administration negotiated a VER with Japan to limit cotton textiles for four years. Eisenhower also protected the manufacturers of wool textiles in the U.S., slapping a tariff quota on imports in excess of five percent of domestic production.³¹ Eisenhower's successor, Kennedy, renewed the quota for cotton textiles with the Short Term Arrangement of 1961 and the Long Term Arrangement (LTA) of 1962.

In the 1964 Presidential election, Democrats and Republicans disagreed on whether the Executive Branch should intervene into the economy on behalf of the steel industry. Johnson, the Democratic candidate, tried to end unemployment threats in the steel industry through his support of price controls for steel firms. By putting price controls on American steel products, Johnson hoped to reduce the demand for higher wages by steel workers. The Republicans countered by promoting a hands-off, laissez-faire policy toward the steel industry. Under the platform plank, "Failures at Home: Retarding Enterprises," the GOP aired its critique of Johnson:

This Administration has violently thrust Federal power into the free

³¹ John Pastore, "The Textile Industry," *Congressional Record*, March 1, 1967, 4955-4956.

market in such areas as steel prices, thus establishing precedents which in future years could critically wound free enterprise in the United States.³²

American voters rejected this argument. Johnson prevailed in a landslide victory in the electoral college count, 486 to 52, fortifying the Johnson Administration with a mandate to govern from 1964 to 1969.³³

The Johnson Administration relied on jawboning to manage the steel industry. After Johnson's election, he authorized his Council of Economic Advisors to conduct a study on the steel industry and present him with a perspective on the industry's future productivity based on its recent performance. What the data showed was no price increases were immediately necessary. Johnson used this information to his advantage in a September 1965 steel labor dispute. Jawboning with U.S. Steel Chairman Roger Blough, Johnson did not budge from his demand to steel firms that they not make concession on wages that would also raise steel prices. "No price increase. None. Zero," Johnson told his aide Joseph Califano would be his Administration's position.³⁴ Johnson's jawboning settled the dispute. In a nationally televised address on September 3, 1964, Johnson proclaimed why the settlement was significant:

To the steel workers it means continued uninterrupted work. It means a steadily improving life for all the families of these steelworkers.

To the steel companies, it means continued production and growth and

³² [Republican National Committee], "Republican Party Platform of 1964," July 13, 1964, John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.

³³ [Democratic National Committee], "The Election of 1964," John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.

³⁴ Joseph Califano quoted in Robert Dallek, *Flawed Giant* (New York: Oxford University Press, 1998), 305.

reasonable profits.

To the American people, it means a continued rise in the production which is the greatest foundation upon which this Nation is based. It means abundance in our history....

The steel industry is a great industry. It has raised great cities, it has brought forth abundance beyond belief. It has forged the weapons of war as well as the products of peace. Its achievements are the marvel and the model of all the world. But I believe that in all of its long history it has never had a prouder moment than this.³⁵

Johnson fulfilled his vision wage and price stability to curb inflationary pressures. He hoped it would carry over to the rest of the U.S. economy.

Despite Johnson's good intentions, the U.S. economy did not completely respond to his anti-inflationary policies. Jawboning on steel firm prices could not insulate the textile and steel industries from their new threat: cheaper foreign imports. Lower-priced foreign textiles and steel flooded the U.S. market. American consumer demand changed. Americans purchased cheaper foreign textiles and steel, and this translated into a reduction in the number of workers needed to manufacture textiles and steel at U.S. firms. In response, Johnson negotiated an international anti-dumping treaty in connection with the Kennedy Round of the General Agreement on Tariffs and Trade (GATT). However, protectionist federal elected officials in Congress pushed forward for quotas for textiles and steel.

The textile quota bill came first. On May 17, 1967, Hollings introduced a bill in which textile quotas were requested on the three classes of textiles: cottons, wools and

³⁵ Lyndon Johnson, "Televised Statement by the President Announcing the Settlement of the Steel Strike," September 3, 1965, John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.

man-made fibers.³⁶ Hollings was upset that U.S. negotiators involved in the Kennedy Round of the GATT were lowering import tariffs on all three classes of textiles. Hollings claimed that job losses in the cotton textile subindustry reached 15,000 in 1966, and would not be curtailed unless the tariff reductions in the GATT negotiations were replaced by new quotas. Hollings's argument persuaded the Republican Senator from South Carolina, Thurmond, to sign on as a co-sponsor of the legislation. To Thurmond, the Hollings Bill was particularly important for their home state, since, as Hollings stated, "75 percent of the people working in industrial jobs are working in textile or textile related industries."³⁷ Hollings also had support for his initiative in the House of Representatives. On July 19, 1967, three textile quota bills were placed into the hopper.³⁸ Two of the bills were authored by the "leaders of the Southern textile bloc," Phil Landrum (D-GA) and W.J. Bryan Dorn (D-SC).³⁹ The third was written by Wilbur Mills (D-AR). Typically a free trader, Mills, and the appearance of his textile bill, placed the future of the two House bills from the leaders of the Southern textile bloc in doubt.

To defeat free traders like Mills, Hollings and Thurmond tried to join with Senators from other states with sizable textile industries. On October 20, 1967, Hollings gave testimony in favor of textile quotas at a hearing of the Senate Finance Committee

³⁶ Ernest Hollings, *Congressional Record*, May 17, 1967, 12944.

³⁷ Hollings, *Congressional Record*, 12944.

³⁸ *Congressional Record*, July 19, 1967, 19524.

³⁹ James K. Batten, "Mills Strengthens New Campaign to Impose Textile Quotas," *Washington Post*, July 30, 1967, F1.

along with Senator Sam Ervin (D-NC).⁴⁰ Joining them were Halbert Jones of the American Textile Manufacturers Institute, Michael Daniels, Wool Producers Group, American Importers Association, and Mike Masaoka, Association of Japanese Textile Imports. This lobbying coalition did not include one of the textile unions. It was a significant omission. Industry and union coordination is a condition that must exist for a Ricardo-Viner style political coalition to be successful. Since no textile union testified, it is not surprising that Hollings's textile quota bill was not enacted in 1967.

Hollings tried again in 1968. He co-sponsored a textile quota amendment with Republican Norris Cotton of New Hampshire. Hopes were high when Hollings gave his testimony before the House Ways and Means Committee, which held a series of hearings from June 4, 1968 to July 3, 1968. However, the efforts of Hollings and Norris were thwarted when their amendment was returned to Mills and the House Ways and Means Committee for final approval. In his memoirs, Hollings describes the effort as a near success, were it not for powerful members of Congress with a free trade outlook.

Members of the Finance Committee, sycophants to big business and blind followers of the corporate mantra about the virtues of “free trade,” were caught off guard. But after my amendment passed and was returned to the House to be ‘conferenced’ – the system by which the two chambers iron out the differences between their two versions of the measure—the free trade crowd had an ace in the hole: Representative Wilbur Mills of Arkansas, the powerful chairman of the Ways and Means Committee. Working with the Finance Committee conferees, Mills promptly dropped my amendment.⁴¹

⁴⁰ “Import Quotas,” *Congressional Record-Daily Digest*, October 20, 1967, D538.

⁴¹ Ernest Hollings, *Making Government Work* (Columbia: University of South Carolina Press, 2008), 130.

Mischiefs of faction motivated both Democratic and Republican Senators in their pursuit of legislation to protect textile workers. Senators from both parties were working to advance the protectionist view that actuated the manufacturing interests in their states. The non-interventionist philosophy of the Republican Party in the 1964 election was giving way to a new GOP perspective in 1967-68. There was a shared sense by two Republican Congressmen, Thurmond and Norris, that government action was needed to protect the textile firms in their states from import competition.

When the first steel quota bill was introduced in the Senate on October 16, 1967, Democratic and Republican sponsors took turns arguing its merits. The Democratic argument was advanced by Vance Hartke (D-IN), the Republican argument was made by Clifford Hansen (R-WY). Hartke, stated that he introduced the Iron and Steel Orderly Trade Act of 1967 to implement quotas that would better insulate U.S. steel workers from the threat of cheap imports.

Our steelworkers earned an average of \$4.63 per hour last year, including fringe benefits. In the European Coal and Steel Community [ECSC] the average wage in the steel industry was equivalent to \$1.75 an hour and in Japan the average was just over \$1. While we probably have the most efficient and productive workers in the world, our steelworkers are not four times as productive as the Japanese steel industry with their new plants and equipment. The low wage rates abroad give the foreign manufacturers an unbeatable advantage – the only real advantage they have over our steelmakers.⁴²

Wage disparities between U.S. and foreign workers complicated the jawboning process. In Hartke's view, it was why the Johnson Administration could no longer jawbone the interest groups from the steel industry to generate lower wages and prices for U.S. steel.

⁴² Vance Hartke, "The Iron and Steel Orderly Trade Act of 1967," *Congressional Record*, October 16, 1967, 28923.

The difference in the U.S. steel price versus the price charged by some foreign competition was too great. Hartke claimed that the sale of imported steel in the U.S. meant the loss of 83,000 jobs -- 69,000 jobs in the basic steel industry and 14,000 jobs in supporting activities.

The Republican co-sponsor, Hansen, spoke next. Hansen argued that a new U.S. steel quota would level the playing field, because foreign steel industries were subsidized by their governments.

How can this foreign steel be sold at such low prices if it is not produced efficiently? There are several answers to that, but the main one is: through subsidies or other help from their governments.⁴³

Hansen concluded his remarks by stating that the U.S. steel industry asked the U.S. government for relief from these unequal trading conditions. If “steel trade cannot be free, let it at least be fair,” Hansen reasoned⁴⁴ It was an important moment in the history of the Protectionist Congress of 1967-68. Hansen’s commentary is the origin of the modern protectionist’s battle cry, “fair trade, not free trade.”

Hansen’s cry for fair trade, not free trade was not the only Republican voice clamoring for a steel quota. Dirksen (R-IL), the Senate Minority Leader and co-sponsor of the Iron and Steel Orderly Trade Act of 1967 with Hartke, also declared steel quotas were necessary. The weekend before Hartke introduced their steel quota bill, Dirksen described for the listeners of his weekly radio and TV report how the dumping of foreign steel was having a negative impact on employment in the steel industry.

⁴³ Cliff Hansen, *Congressional Record*, October 16, 1967, 28926.

⁴⁴ Hansen, *Congressional Record*, 28926.

When an organization like the United States Steel Company becomes a little bit fearful about the future and about the American market, then you very well know that there is something wrong with the trade policy. What has happened over a period of years, the importation of steel has gone up to eleven million tons a year. That's equal to 70,000 jobs in the steel industry.⁴⁵

Job loss was not all that Dirksen discussed. He also fretted along with the steel industry about its competitiveness over the long term:

But what frightens them [the steel industry] even more is the building of a new steel capacity in countries like Japan and Germany, Sweden, the Soviet Union and if that happens, if Japan's steel output jumps from fifty to eighty million tons a year, you know that that's intended in large part for the American market. No wonder then, that a producer of such size and dimension as the U.S. Steel Corporation is beginning to look down the road of years into the future with some deep concern.⁴⁶

These three elements were the basis of the Republican position on steel quotas: subsidies, job loss, and the decline in American competitiveness.

The Iron and Steel Orderly Trade Act had 38 co-sponsors, and 14 of them were Republicans. Besides Dirksen and Hansen, the Republican co-sponsors were: James Boggs (R-DE), Ed Brooke (R-MA), Frank Carlson (R-KS), Carl Curtis (R-NE), Paul Fannin (R-AZ), Bourke Hickenlooper (R-IA), Thomas Kuchel (R-CA), Clarence Miller (R-OH), Karl Mundt (R-SD), George Murphy (R-CA), James Pearson (R-KS), Winston Prouty (R-VT), Hugh Scott (R-PA), and Thurmond (R-SC). The number of Republican co-sponsors on the Hartke-Dirksen Bill marks a decided shift away from the non-interventionist stance taken by the Republicans in the 1964 Presidential election.

⁴⁵ Everett Dirksen, "The Looming Quota Fight," Radio TV Weekly Report, October 9-15, 1967, Remarks and Releases, Everett Dirksen Papers, The Dirksen Congressional Center.

⁴⁶ Dirksen, "The Looming Quota Fight."

Democratic support of Hartke-Dirksen contradicted the commitment to free trade that had been the position of the Democratic Party since the RTAA was signed in 1934. By 1967, both Democrats and Republicans began to see the benefits in protecting a U.S. manufacturing industries against foreign competition.

Hartke-Dirksen enjoyed support from both labor and management in the steel sector. On October 20, 1967, the steel industry's amalgam labor union, the United Steel Workers, and its trade association, the American Iron and Steel Institute, coordinated their testimony on behalf of steel quotas before the Senate Finance Committee. John P. Roche spoke for the AISI, representing 70 steel firms in 37 states, applauded the bill in his remarks. Roche detailed four reasons why cheaper imports had penetrated the U.S. market:

- (1) the availability of unused steel capacity and the policy of dumping that product in the U.S. market at prices below the market price;
- (2) labor costs in foreign countries were well below those for U.S. steelworkers;
- (3) due to lower labor costs, foreign firms could charge lower prices;
- (4) subsidies to support a national steel industry by foreign governments.⁴⁷

That same day, Joseph Molony of the United Steel Workers testified before the Senate Finance Committee, arguing that the practice by foreign firms to dump steel in the U.S. marketplace was changing the balance of trade situation for U.S. steel.

⁴⁷ John Herlong, "Providing for Orderly Trade in Iron and Steel Products," *Congressional Record*, November 2, 1967, 31001.

Since 1957, there has been a complete reversal in the import-export picture. At that time, imports represented less than 2% of consumption. Today, imports are about 11% and account for almost eleven million tons of steel products. In 1957, we exported about 7% of net industry shipments; today we export less than 2% of our shipments.⁴⁸

Molony noted that foreign dumping in the U.S. market took place around the time that labor and firms were involved in collective bargaining on wage and price increases for the coming year. Steel consumers would buy foreign steel as a hedge against a strike so that their inventories would not be depleted if and when steelworkers joined picket lines. The USW supported steel quotas to prevent the practice of buying foreign steel as a strike hedge to negatively impact its members in labor negotiations. This coordinated effort by the AISI and the USW was necessary to give the Hartke-Dirksen Amendment a chance of succeeding.

During the presidential election of 1968, both candidates supported quotas for U.S. industries. While the Republican candidate, Richard Nixon, voiced his support for quotas in the textile industry, it was his opponent, Hubert Humphrey who supported steel quotas. On the campaign trail in the summer of 1968, Humphrey told an audience at a meeting of the American Iron and Steel Institute that he was “educable” on the issue of steel quotas.⁴⁹ This marked the beginning of what the *New York Times* called a “bipartisan spirit of protectionism” in presidential politics.⁵⁰ Meanwhile, Hartke, argued that his steel quota bill would be a way to prevent further steel layoffs. On the floor of

⁴⁸ Vance Hartke, “Steelworkers Testimony on Quota Bill,” *Congressional Record*, November 7, 1967, 31563.

⁴⁹ “The Campaign: Trade Policy,” *New York Times*, October 5, 1968, 34

⁵⁰ “The Campaign: Trade Policy,” 34.

the Senate, on October 10, 1968, Hartke made a plea for stopping the effects of cheaper foreign steel on employment, arguing that the sale of 11 million tons of foreign steel in the U.S. meant the export of some 69,000 jobs in basic steel and 14,000 jobs in supporting industries.⁵¹ He cited an article in that morning's edition of the *Wall Street Journal* which made the dire prediction that U.S. steel output, 22 percent below the level it was in 1967, could create layoffs in steel of 100,000.

No steel quota bill would pass in Congress in the 1967-68 legislative session. When the Senate Finance Committee tabled the Hartke-Dirksen Bill on July 9, 1968, the Johnson Administration's attempt to negotiate bilateral VERs was given as the reason why no action was taken. This was Hartke's goal. As Hartke explained in his 1970 book, *You and Your Senator*, he hoped that Congressional efforts to push protectionist legislation would lead to bilateral VERs.

Often a bill is introduced because its sponsor wants it to be available and used as a last-resort device, should other measures, short of legislation, fail to achieve the results he seeks. A case in point is the legislation I submitted to effect a reduction in the quantity of steel we import from countries which subsidize their steel industries and whose steel industries, therefore, unfairly compete with our own.... The measure was a defensive one. I hoped that our government would be able to work out, in a friendly way, arrangements with the countries involved that would induce them to voluntarily to restrict their imports.⁵²

What the history of the protectionist Congress of 1967-68 shows is that Senators representing factional interests in the textile and steel industries were uniting in coalitions designed to take care of workers. Rather than offer retraining opportunities, these

⁵¹ Vance Hartke, "Steel Layoffs Indicate the Need for Quotas," *Congressional Record*, October 10, 1968, 30432.

⁵² Vance Hartke, *You and Your Senator* (New York: Coward-McCann, 1970), 147.

Senators promoted trade protection. Workers were considered specific to their industry, and members of Congress efforts wanted quota legislation to keep them in their current employment. At first, Johnson was opposed to these aims and the legislated mandatory quotas. After years of lobbying pressure from the steel industry, Johnson finally arrived at a compromise solution. It was the compromise solution Hartke hoped would result from the Hartke-Dirksen Bill: bilateral VERs to protect the steel industry.

Chapter IV

Case Study One: Johnson Steel Voluntary Restraint Agreements, January 1969

In the Fall of 1967, Johnson was opposed to import quotas for the steel industry. He opposed Hartke-Dirksen and threatened to use his veto pen if Dirksen made good on his promise to attach an across-the-board quota amendment to a Social Security Bill. Johnson tried to make a convincing case to the nation on the benefits of free trade in a series of speeches, culminating with his presentation of the President's Economic Report to Congress in February 1968. However, by July 1968, his Administration was willing to concede that some action had to be taken with regard to steel imports. Johnson recognized that the U.S. steel industry had to be insulated from foreign trade to foster domestic production and employment. Steelworkers were mostly immobile, a factor specificity that encouraged them to get trade protection. Coordinated lobbying by a Ricardo-Viner style political coalition of an amalgam union representing steel workers and a trade association persuaded Johnson to compromise on free trade. The labor-management coalition uniting the United Steel Workers and the American Iron and Steel Institute (AISI) was actuated by the same view. Together they lobbied for quota restrictions on foreign steel that was dumped in the U.S. market when American steelworkers were on strike. Johnson paid attention to this instance of mischiefs of faction. However, rather than allow Hartke-Dirksen to be enacted, Johnson instead opted for a less aggressive trade policy, entering into Voluntary Restraint Agreements with

firms from Japan and the EEC. These agreements were announced on January 7, 1969, one of Johnson's last acts in office.

Johnson mobilized the members of his Administration in opposition to the Protectionist Congress of 1967-68. On the day that Hartke-Dirksen was introduced, five members of his Administration, led by Secretary of State Dean Rusk, testified before the Senate Finance Committee that Hartke-Dirksen was contrary to U.S. economic interests. It was a rare appearance by a Secretary of State before a Congressional committee. The State Department issued a statement as to the importance of Rusk's presence:

[it] underlines the seriousness of the current protectionist threat to the continued prosperity of the American people and of the foreign relations of the United States.⁵³

Alexander Trowbridge, Johnson's Secretary of Commerce, refused to admit that the steel industry's loss of market share in imports warranted corrective action in the form of trade protection. "A high ratio of imports to consumption, he argued, isn't by and of itself sufficient grounds for import quotas," Trowbridge reportedly said.⁵⁴ Although he was not present at the hearings, William Roth, the Special Trade Representative, was already on the record against Congressional protectionism. Speaking to an audience in Cincinnati, OH, Roth said if Congress passed quota legislation, it "could restore the chaos in international trade that we knew during the depression of the 1930s."⁵⁵ In a subsequent speech, Roth added that the protectionist bills constituted a "new crisis."

⁵³ Frank C. Porter, "LBJ Moves to Save Trade Law," *Washington Post*, October 17, 1967, A1.

⁵⁴ Eric Wentworth, "Import Quota Protection Not Needed, Senators Told," *Washington Post*, October 19, 1967, C9.

⁵⁵ Frank C. Porter, "Import Plan Gets Wide Support," *Washington Post*, October 12, 1967, A2.

This is the first major concerted protectionist drive in many, many years. We are faced with not only the undermining of the Kennedy Round of tariff reductions, but with the destruction of our whole trade policy.⁵⁶

According to Roth, the protectionist drive for quotas in Congress in 1967-68 was as dangerous to international trade as the Congressional logrolling for tariff increases that produced the Smoot-Hawley Tariffs of 1930. Many historians at the time of Roth's speech identified Smoot-Hawley as the policy that pushed the U.S. into an economic depression. Roth was concerned that the protectionist drive for quotas in would precipitate another U.S. economic depression in 1967-68.

Hartke-Dirksen was not the only quota measure that the Johnson knew he had to confront. Hollings's textile quota bill was still active, as were the other proposed quota bills by various U.S. Senators. Johnson could track the progress of these bills, because he received daily summaries of Congressional activities at his bedside.⁵⁷ Johnson also learned of Dirksen's threat to attach an across the board quota amendment to new Social Security legislation which Johnson expected to sign. Dirksen's tactic was designed to force Johnson to make an economic concession in order to get one of his Great Society programs passed. Russell Long (D-LA) had performed a similar maneuver the previous

⁵⁶ John D. Morris, "Drive to Cut Imports Gains in Congress," *New York Times*, October 13, 1967: 1.

⁵⁷ "He began and ended each day by reading a substantial amount of material related to the Congress. The Congressional Record, clipped and summarized, appeared by his bed at 7:15AM. Placed at his bedside at 11pm each night were memos from the staff, which described in detail each of the legislative contacts they had made that day, reported noteworthy conversations with particular members and called attention to special problems." Doris Kearns, *Lyndon Johnson and the American Dream* (New York: Harper & Row Publishers, 1976), 233.

year, adding a campaign finance amendment to another piece of legislation that Johnson was expected to sign.⁵⁸

However, Johnson vowed to veto the Social Security legislation rather than sign a bill into law with quota protection for all U.S. industries. Johnson's support for the free trade position was clear. Speaking to the delegates of the Consumer Assembly in Washington, DC, on November 2, 1967, Johnson was committed to preventing mischiefs of faction in Congress from undermining U.S. trade policy.

Protectionism is rearing its head in the form of certain quota bills now before the Congress trying to take care of each Congressman's district. And when we begin to think more of our district that we think of the country, we are likely to get into trouble.⁵⁹

Johnson continued, identifying the negative impacts of the quotas on world trade – retaliatory trade barriers, rising prices and limited choices for U.S. consumers:

The proposed quotas would invite massive retaliation from our trading partners throughout the world. Just the little publicity that has been spread around the globe has them all concerned and up in arms. Prices would rise. Our world market would shrink. And so would the range of goods which Americans consumers choose when they buy.⁶⁰

Johnson closed by asking the consumers to oppose protectionism:

I think that those protectionist's bills just must not become law. And they are not going to become law so long as I am President and can help it. So I plead with you consumers. I plead with all Americans. I urge you to

⁵⁸ "Protectionist "Christmas Tree,"" *New York Times*, October 17, 1967, 46.

⁵⁹ Lyndon Johnson, "Remarks to the Delegates of the Consumer Assembly," November 2, 1967, in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.

⁶⁰ Johnson, "Remarks to the Delegates of the Consumer Assembly."

make yourselves heard, to exercise your rights, to fulfill your duties both as consumers, and more important, as citizens.⁶¹

Johnson was unwilling to concede on free trade and favor mischiefs of faction involving manufacturing interest groups and members of Congress pursuing quotas. Johnson tried to animate an interest group, the consumers, to rise in opposition.

The negative exchanges between the Executive Branch and the Congress continued. On the day Johnson spoke with the Consumer Assembly, he was immediately challenged by Dirksen. At a press conference, Dirksen promised that he had the votes for a Congressional override.⁶² Four days later, on November 6, 1967, Johnson tried to counter Dirksen's new threat by delivering a speech to the Business Council, another interest group concerned with protectionism. The Business Council was comprised of 100 financial and industrial executives who served as economic consultants to Johnson's Treasury Department. Johnson pledged to help U.S. manufacturers with export promotion, a policy option Johnson could rely upon instead of trade protection:

I hope you will take this message back to the board rooms of America: Get going on exports. We in government have helped you to promote and finance your sales to other markets abroad. We hope to do so even more in the future.⁶³

⁶¹ Johnson, "Remarks to the Delegates of the Consumer Assembly."

⁶² Marjorie Hunter, "Dirksen Defiant on Import Curbs," *New York Times*, November 4, 1967, 1.

⁶³ Lyndon Johnson, "Remarks at a Meeting of the Business Council," November 6, 1967, in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.

Export promotion was another policy that would foster domestic production and employment. Johnson hoped that this would be a preferable alternative to trade protection. Then, Johnson urged those in attendance who supported protectionist quotas for U.S. industries to reconsider:

But I ask business to remember this: Trade must be a two-way street. Trade must be a fair and competitive race. You cannot win this race confined by the quotas or high tariff walls that protectionists demand. Those walls have always been barriers to profits. You will win the race with time-tested American business methods: efficiency, better products, lower costs and prices.⁶⁴

Johnson hoped that his message to the leading financiers and industrialists would sway them to accept export promotion strategies and not ask for trade protection. It had the desired effect. Johnson convinced the Coordinating Council on International Trade Policy to mobilize against the protectionist legislation that Congress was reviewing. Moreover, the organizer of the Council, Charles Taft, stated that he had assurances from George Meany, President of the AFL-CIO, that 110 unions supported free trade while “10 to 15 were out and out protectionist.”⁶⁵

Other members of Congress tried to nudge the Johnson Administration toward the protectionist position, but they were met with resistance in the Executive Branch. On November 17, 1967, Roth rejected the Congressional protectionist position advanced in a letter by Congressman Charles Vanik (D-OH). Roth’s response to Vanik began by refuting Hartke’s argument in support of steel quotas. When Hartke introduced his bill, he argued that U.S. steel prices could not be reduced because labor costs in the U.S. could

⁶⁴ Johnson, “Remarks at a Meeting of the Business Council.”

⁶⁵ “New Liberal Trade Council Is Formed,” *Washington Post*, December 20, 1967, D7.

not possibly go any lower to match Japanese or European wage levels. Hartke's argument was a way to suggest that the capital of firms in the steel industry was immobile, because these firms could not find any location within the U.S. where wages would be cheaper. Roth countered that planned improvements to capital equipment would lower the operating costs of U.S. firms, allowing them to charge lower prices for their product.

Despite the large sums of money it is spending for new equipment, the industry would have the public -- and its stockholders -- believe that this is purely defensive and no cost advantage will materialize.... It defies belief given the established lower costs of oxygen furnaces, for example, that bringing U.S. utilization of this technique up to the levels now in operation abroad would not make an appreciable difference. Similarly, it is difficult to accept that the adoption of continuous casting in such large volume production runs as are possible in the world's largest mills would not make a difference.⁶⁶

Roth's argument undercut the claim that Hartke made that U.S. steel workers could not squeeze out any more efficiencies from plant and capital. Steel firms had the ability to invest in new capital and equipment, so they were not immobile. Capital improvements in progress at steel firms would help to lower prices for U.S. steel and lower its price point closer to cheaper imported steel. Roth also addressed Hansen's argument in favor of Hartke-Dirksen regarding price dumping in the U.S. market.

Antidumping laws and procedures exist to test such an allegation. The industry has brought some such cases in the past and won several. None have been filed in recent years.⁶⁷

⁶⁶ Memorandum by William Roth to Charles Vanik, 17 November 1967, Box TA 6 Steel, White House Central Files, Lyndon Johnson Presidential Papers.

⁶⁷ Roth Memorandum to Vanik.

By the end of his letter to Vanik, Roth had rebutted both the Democratic and Republican arguments for steel quotas presented in October 1967 with Hartke-Dirksen. Roth had dismissed arguments that capital in the steel industry was immobile. No agreement appeared possible.

However, lobbyists for the industry position were persistent. An industry-labor political coalition was gaining strength. On January 16, 1968, the *Wall Street Journal* published a story praising the labor agreement reached between the steel firms and the USW, titled, “Statesmanship, Bacon and Steelworkers.” Later that day, I.W. Abel, President of the USW, contacted the Johnson Administration to discuss the contents of the article. W. Marvin Watson, Special Assistant to Johnson, fielded the phone call, then delivered a copy of the article to Johnson, noting that Abel wanted the President to read it. According to the article, Abel committed to binding arbitration rather than going forward with a strike because he feared the inflow of foreign steel imports into the U.S. market during a strike would lower demand for U.S. manufactured steel and put steel workers out of a job:

While the union hasn’t shown any sign of subscribing to the industry’s sweeping generalization that 80,000 jobs have been lost to imports, the USW has said that 65,000 to 70,000 jobs have been lost, pinning the losses particularly on times when steel business plunges for one reason or another.⁶⁸

The reason why U.S. steel firms and Abel wanted to avoid a strike was the fear of the new relationships that would be forged with foreign firms:

⁶⁸ George A. Nikolieff, “Statesmanship, Bacon and Steelworkers,” *Wall Street Journal*, January 16, 1968.

Whenever customers turn to imports in a strike threat year, they tend to hang onto some of these foreign sources. They become more familiar with them, and the foreign producers extract long-term buying commitments in return for helping out in the current pinch.⁶⁹

After reading the article, Johnson understood that the relationship between steel firms and the USW had changed. Johnson saw that steel firms and the steel workers were coordinating action, lobbying together for trade protection according to the Ricardo-Viner model. Both the firms in the steel industry and its labor union were making a choice – lobbying for trade protection – that would benefit all actors. Johnson had to consider whether he could convince labor to abandon its new coalition with steel firms. Based on the theory of coordination, the United Steel Workers and the AISI would have no incentives not to comply in the future and thus would unite to pursue collective action for trade protection.

Meanwhile, the free trading President and the protectionists in Congress were at an impasse. On February 1, 1968, when Johnson delivered the President's Economic Report to Congress, he remained opposed to legislated quotas. Johnson opened his remarks on trade with praise for the successful elimination of protectionist barriers in the Kennedy Round negotiations of the GATT:

The Kennedy Round was completed on June 30, [1967], the most successful multilateral agreement on tariff reduction ever negotiated. Four years of hard negotiating were required – but the ultimate success was worth it. A fair bargain was struck. Our farmers and businessmen will get major benefits as new markets are opened to them.⁷⁰

⁶⁹ Nikolieff, "Statesmanship, Bacon and Steelworkers."

⁷⁰ Lyndon Johnson, "Annual Message to Congress: The Economic Report of the President," February 1, 1968, in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.

Since the Kennedy Round was successful in opening markets by reducing trade barriers, Johnson urged those seeking protectionist quotas to consider the free trade position instead:

Some would throw away the gains from three decades of liberal trade policy, retreating into shortsighted protectionism. Mandatory quotas on American imports would meet prompt retaliation abroad. All Americans would pay a higher price for the benefit of a few. Protectionism is no answer to our balance-of-payments problem. Its solution depends on expanding world trade.⁷¹

Johnson concluded by revealing his plans to expand world trade, not restrict it with import quotas.

The Government stands ready to help the few that may be hurt by rising imports – but in ways that expand trade, strengthen our economy, and improve our international relations. Accordingly, I will shortly send to the Congress legislation which will

- provide an extension of unused tariff-reducing authority;
- liberalize the criteria for adjustment assistance to firms and workers; and
- eliminate the American selling price system of customs valuation.⁷²

These were the policies that Johnson said would help U.S. manufacturers: continued tariff reductions and adjustment assistance from the U.S. government to unemployed manufacturing workers.

Export promotion was not on President Johnson's agenda. Nor was trade protection. Adjustment assistance was the basis of Johnson's offer of help to manufacturing workers facing layoff. Meanwhile, Hartke refused to abandon the idea that quotas were needed to curb steel imports. In a speech to the Senate on April 29,

⁷¹ Johnson, "Annual Message to Congress: The Economic Report of the President."

⁷² Johnson, "Annual Message to Congress: The Economic Report of the President."

1968, Hartke noted that America's balance of trade and balance of payments deficits were the consequence of unchecked steel imports.

The continuing growth of steel imports has contributed significantly to the deficit we suddenly face in our balance of trade, and has, of course, contributed concomitantly to our continuing and growing balance of payments deficit.⁷³

Johnson was flustered. He realized that Hartke and the protectionists in Congress would not stop until he took some protectionist action on steel imports.

Johnson reviewed his options. He was firmly opposed to Congressional quota bills. But he had to find some middle ground that would not reverse America's commitment to free trade, most recently expressed in the successful negotiations for the Kennedy Round of the GATT. Johnson resolved his dilemma by adopting a policy option used only sparingly in the past: Voluntary Export Restraints. Eisenhower and Kennedy had adopted bilateral VERs as a policy tool to protect U.S. cotton and wool textile producers. It would not be a legal quota. A bilateral VER also would not disrupt free trade with all countries in the way that quotas would. Bilateral VERs only directly impact trade with the nation that signed the bilateral VER with the U.S. There were drawbacks to VERs. U.S. steel consumers would still be disadvantaged. Bilateral VERs generate quota rents that foreign producers realize. Foreign producers in Japan and the EEC generate greater return on steel they can sell in the U.S. market at the inflated price made possible by the bilateral VERs. Johnson reflected on the speech he gave to consumers, but had to give into the protectionist pressures. Johnson asked his assistant, Tony Solomon, to negotiate voluntary trade restrictions with Japan and the Europeans.

⁷³ Vance Hartke, "The U.S. Trade Balance," *Congressional Record*, April 29, 1968, 10887.

The Johnson Administration was optimistic that the Mills hearings would not generate protectionist legislation of any kind from Congress. In a July 11, 1968 memorandum, Johnson's aide Califano advised the President that the hearings would result in a "Mexican standoff – no trade bill and no quotas." Califano's reasoning was as follows:

Mills starts executive sessions next week – but hasn't tipped his hand as to whether he expects to report out a bill. Roth thinks he won't unless he thinks he can get a clean one. Barefoot [Congressional Liaison Harold "Barefoot" Sanders Jr.] says the Rules Committee would be hostile – and Mills might be reluctant to by-pass them.⁷⁴

After Califano reassured Johnson that no quota bills would move forward, he advised that Solomon's steel negotiations might be successful in avoiding the appearance of protectionism:

The major victory on the quota front is in steel. Tony Solomon negotiated an agreement with the Japanese to voluntarily restrict steel exports to the U.S. to a 7% annual increase. He will seek an understanding with the EEC and the UK not to take advantage of this restraint by increasing their own exports to us. Tuesday [July 9, 1968], the Senate Finance Committee – with sub rosa collaboration from Mills – announced that they would defer any consideration of steel quotas.⁷⁵

Johnson was making his new offer to the Ricardo-Viner political coalition. Would the voluntary restraint agreements with Japan and Europe satisfy steel firms and the steel workers that quotas were no longer necessary?

The firms in the steel industry responded first. They expressed their displeasure with Solomon's agreement with Japan. Califano informed the President of the industry's

⁷⁴ Memorandum by Joseph Califano to Lyndon Johnson, 11 July 1968, Box TA6 Steel, White House Central Files, Lyndon Johnson Presidential Papers.

⁷⁵ Califano Memorandum to Johnson, 11 July 1968.

position in an August 1, 1968 memorandum:

The U.S. steel industry (acting through the U.S. Steel Institute) is pleased with the European action but not with the Japanese restraint. Accordingly, they have asked Tony Solomon to try to get the Japanese to agree to the more restrictive European formula.⁷⁶

Europe was willing to make greater concessions than the Japanese were. The Japanese Iron and Steel Federation agreed to voluntary restrictions on steel imports that would restrict Japanese steel exports in the first year of the agreement to a 40% increase above the total for 1967, and in subsequent years, no more than a 7% increase above the level from the previous year. Since the Europeans agreed to deeper cuts, the AISI wanted the Johnson Administration to push for a better deal from Japan.

Five days later, Califano sounded out the steel workers. The steel workers could claim that they were specialized and/or immobile. If the specialized steel workers were no longer employed in the steel industry, they may have found work in another U.S. manufacturing industry, albeit at a lower wage. The majority of the steel workers were semi-specialized, immobile and specific. Absent a job in the steel industry, they would not have alternative employment options. All of these workers were seeking a way to avoid job losses in response to foreign competition during strikes. Upon speaking with Meyer Bernstein at the White House, Califano recorded the notes of his conversation:

He [Bernstein] said that they [the USW] can't accept the tentative agreement – the base period and the 7% growth factor would permit imports to rise to an intolerable level. In their judgment, the tentative agreement is 'worse than nothing.'⁷⁷

⁷⁶ Memorandum by Joseph Califano to Lyndon Johnson, 1 August 1968, Box TA 6, White House Central Files, Lyndon Johnson Presidential Papers,

⁷⁷ Memorandum by Joseph Califano to the File, 6 August 1968, Box TA6 Steel, White House Central Files, Lyndon Johnson Presidential Papers.

What was promising about the meeting with Bernstein was that he approved in principle what Johnson asked Solomon to do. Bernstein agreed with the concept of negotiating with foreign firms to voluntarily reduce imports into the U.S. market. Rather than bilateral VERs, Bernstein wanted a multilateral agreement like the LTA for cotton textiles in effect after 1962:

However, they [the United Steel Workers] do support the concept of negotiations. Bernstein feels voluntary restraints are the only possibility of heading off a rigid quota bill. His preference would be a multi-lateral agreement like the cotton LTA.⁷⁸

Califano emphasized that the change in Bernstein's superior in the USW, Abel, was a sign of things to come for other unions in other U.S. industries:

Bernstein thinks one of the risks of the current situation is that Abel is on the verge of becoming a full-fledged protectionist. He points out that he is a rising power in the AFL-CIO and that a commitment to protectionism would have a profound effect on future union policy. He is afraid (and rightly so) that a change of AFL-CIO sentiment on trade policy would make it impossible for us to head off quota bills for all major U.S. industry.⁷⁹

This was an important realization. The voluntary restraints negotiations could be viewed as a way to deal with the present and future demands of organized labor. In November 1967, most of the unions of the AFL-CIO were committed to free trade, a strength that Johnson and the Coordinating Council on International Trade Policy relied upon to stop the progress of steel quota legislation. In August 1968, Califano recognized that other unions might follow the example of the steel workers and similarly lobby the U.S.

⁷⁸ Califano, Memorandum to the File.

⁷⁹ Califano Memorandum to the File.

government to negotiate voluntary export restraints with foreign firms. Both steel firms and steel workers were in favor of bilateral VERs as a way to save U.S. jobs threatened by foreign imports during a labor strike. Striking American steel workers would not risk permanent layoff because the steel they produced for U.S. firms was not replaced by foreign suppliers.

After a series of negotiations by Solomon, including one in Los Angeles on September 23, 1968, one in Rome on October 31, 1968, the Japanese and Europeans agreed in principle to the final formula for the import restrictions. The final formula stipulated that the U.S. market would receive no more than 14 million tons of imported steel from all sources in 1969, and would allow five percent increases in that total in both 1970 and 1971. In a December 18, 1968 letter to Rusk, the steel producers of the European Coal and Steel Community agreed to limit their imports of steel products to 5,750,000 tons in 1969, a five percent increase over 5,750,000 tons in 1970 and a five percent increase over 6,037,500 tons for 1971.⁸⁰ In a December 23, 1968 letter to Rusk, the Japanese Iron and Steel Exporters Association said that its steel firm members would limit imports to the same levels as the Europeans.⁸¹

Johnson had to decide whether to accept this agreement after receiving a January 3, 1969, memorandum from DeVier Pierson. Pierson was less than sanguine about the reaction from the USW.

Unfortunately, we will not get a friendly pat on the back from the United

⁸⁰ Vance Hartke, "The Japanese and ECSC Voluntary Steel Import Limits-Some Reservations," *Congressional Record*, January 14, 1969, 609.

⁸¹ Hartke, *Congressional Record*, 609.

Steel Workers. Abel has his own political problems and will oppose the agreement as inadequate. (George Weaver at Labor has talked with him today and confirmed this.)⁸²

However, Pierson also encouraged Johnson. Pierson predicted a positive reaction by the AISI, and foresaw the end of the Ricardo-Viner political coalition in support of quotas in Congress connected to Hartke-Dirksen:

On the other hand, the American Iron and Steel Institute will give us grudging praise – and will curtail their legislative efforts for quotas. It seems unlikely that a quota push could be successful with the disintegration of the industry-labor coalition. This action has the strong support of Mills – who believes it is the best thing we can do to stop the quota drive. Dirksen and Hartke have also told Tony [Solomon] that they favor the plan – although they would feel compelled to also state their continuing support for quotas.⁸³

But Pierson expressed misgivings to Johnson about the legality of the quotas:

Under this plan, no opinion would be requested from the Attorney General and no specific commitment would be made. The foreign producers must rely on the implication that we do not object to the agreement – because it was passed along to Congress and made public.⁸⁴

Johnson paused. He probably reflected on his speech to the Consumer Assembly in 1967. How would consumers react to the voluntary restraints? Would they feel betrayed by Johnson's move to protect the steel industry, limit consumer choice and the availability of the lowest cost option for sale in the U.S. market? He also had to have concerns about his export promotion policy. That had the promise of fostering production and employment at steel firms. Had he not given that policy enough of a chance to succeed?

⁸² Memorandum by DeVier Pierson to Lyndon Johnson, 3 January 1969, Box TA6 Steel, White House Central Files, Lyndon Johnson Presidential Papers.

⁸³ Pierson Memorandum to Johnson.

⁸⁴ Pierson Memorandum to Johnson.

Ultimately, Johnson decided that the voluntary restraints were best for the country. The coordinated lobbying by the USW and the AISI for quota protection was a success. The bilateral VER agreements with Japan and the EEC were announced by Johnson on January 7, 1969, then presented on the floor of the Senate by Hartke on January 14, 1969. Long and Mills reportedly approved the agreements, describing it “a welcome and necessary step.”⁸⁵ Dirksen decided not to press on with steel quota legislation. *Iron Age*, the journal of record for U.S. steel firms, reported that Dirksen contacted Hartke to inform him that he would not co-sponsor quota legislation with him in 1969.

Apparently, the voluntary restraint program entered into by the Japanese and European steel producers has cooled Sen. Dirksen’s enthusiasm for the quota measure.⁸⁶

Meanwhile, Hartke would take a wait-and-see approach. “I want to watch and see what the full effect of the voluntary program will be before deciding on whether or not to [re]introduce the bill,” Hartke said.⁸⁷ Roth decried the voluntary steel agreements. “The United States must reject the quota or market sharing approach as a general response to the pressures of world competition,” Roth said in his final report as Special Trade Representative.⁸⁸ In November 1967, Roth was the member of the Administration who rebutted the Democratic and Republican arguments for trade protection. Roth argued that

⁸⁵ “Steel: Bar to Imports,” *Time*, January 24, 1969.

⁸⁶ K.A. Kaufman and W.J. Kalb, “Steel Loses Congressional Backing,” *Iron Age*, January 23, 1969, 54.

⁸⁷ “Will Senator Hartke Back Quota Bill?” *Iron Age*, January 23, 1969, 55.

⁸⁸ Albert L. Kraus, “Voluntary Quotas,” *New York Times*, January 22, 1969, 57.

capital in the steel industry was not immobile, and thus not a candidate for trade protection. A year and three months later, Roth was left to wonder what happened to Johnson's free trade stance. In January 1969, Roth mulled the same concern that Califano noted after speaking with Bernstein of the United Steel Workers in August 1968. Would the bilateral VERs for steel convince other industries to lobby the U.S. government to negotiate voluntary restraints to insulate them from foreign competition so that domestic production and employment would be fostered? If yes, would they behave in a cooperative manner like the USW and the AISI did to coordinate their lobbying to the President and ask that he take action to adopt trade protection?

		Firms	
		Protection	Free Trade
Labor	Protection	United Steel Workers and the American Iron and Steel Institute	
	Free Trade		

Chapter IV

Case Study Two: Nixon's Extension of the Voluntary Restraint Agreements for Steel, 1972

When President Nixon finally announced the renewal of the bilateral VERs for steel on May 7, 1972, he convinced I.W. Abel, President of the United Steel Workers, to encourage his 1.2 million union members to “sit out” the 1972 Presidential election. Nixon would earn a landslide victory in 1972, which was the product of careful coalition building. Nixon made an approach to organized labor early in his presidency, sending George Meany, Abel’s boss as President of the AFL-CIO, a promise of the Nixon Administration’s interest in working on job creation. Later, the steel industry reached out to Nixon, particularly the President of United States Steel. R. Heath Larry, and the Chairman of the American Iron and Steel Institute, George Stinson. Working with the members of Nixon’s Council of Economic Advisors, the steel industry pressured Nixon to renew the bilateral VERs that President Johnson signed in 1969. The lobbying took place in the spring and summer of 1970. Labor and capital in the steel industry were immobile. The AISI was organized and active on behalf of the Ricardo-Viner style political coalition forged with the United Steel Workers. The AISI communicated with the Nixon Administration on extending trade protection for the steel industry. In this instance of mischiefs of faction, the labor-management coalition was actuated by the view that the steel industry would not raise its prices in response to a quota, and the steelworkers would not make excessive demands for a wage increase in response to a

quota. The President's foreign policy team, led by Deputy Under Secretary of State Nathaniel Samuels, formed the arguments that persuaded Nixon to renew the bilateral VERs with Japan and the EEC on December 11, 1970. The timing of Nixon's announcement of the bilateral VERs in May 1972 gave a boost to his Presidential ambitions. It encouraged a key constituency, organized labor, not to support the Democratic Party candidate, Senator George McGovern (D-SD).

Early in his Presidency, Nixon made an overture to organized labor to reassure them that any inflation cutting measures by his administration would not be at the expense of jobs. On February 21, 1969, Nixon sent his Secretary of Labor, George Schultz, to an AFL-CIO meeting in Bal Harbour, FL, with a letter carrying such reassurances. Schultz met with the President of the AFL-CIO, Meany, and the President of the United Steel Workers, Abel, to show the willingness of the Nixon Administration to work with these labor unions. A month earlier, Abel had received help from President Johnson in the form of trade protection for the steel industry. The bilateral VERs signed with Japan and the EEC would save 65,000 to 70,000 jobs. Most of these steel workers were immobile and specific. A tiny fraction were specialized, like the tool and die makers, who could find work in another manufacturing industry, albeit at a lower wage. Absent a job in the steel plant where they worked, they had no other options for employment in the steel industry. Nixon's letter to the labor leaders indicated that any price-cutting that Nixon planned to do would not cause job loss for their union members:

We must find ways to curb inflation, which robs working men and women and their families of hard-earned gains. And we must do this without asking the wage earners to pay for the cost of stability with their jobs.⁸⁹

Nixon said that any deflationary actions would help workers have greater take-home pay, not take away their positions at the steel mill.

However, Nixon was interested in seeing moderate wage and price increases in the annual collective bargaining between labor unions and firms in the steel industry. At a September 26, 1969 press conference, Nixon articulated how he hoped both sides would approach these subjects:

I am not jawboning [labor and management] and telling them to reform themselves, when we refuse to reform ourselves. But I do say this: that labor and management, labor that asks for exorbitant price increases, management that raises prices too high, will be pricing themselves out of the market.⁹⁰

The following month, Nixon repeated this position in a letter written to business and labor leaders in anticipation of the next round of collective bargaining for labor and management. On October 18, 1969, Nixon wrote:

It is in the interest of every union leader and workingman to avoid wage demands that will reduce the purchasing power of his dollar and reduce the number of job opportunities.⁹¹

In the last round of collective bargaining in 1968-69, the United Steel Workers agreed with the position of the firms in the industry and supported trade protection in the form of

⁸⁹ Damon Stetson, "President Tells Labor of Intent to Protect Jobs," *New York Times*, February 22, 1969, 1.

⁹⁰ Richard Nixon, "The President's Press Conference," September 26, 1969, in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.

⁹¹ Freeman Bishop, "Houthakker Reviews U.S. Policy on Prices," *American Metal Market*, February 25, 1970.

bilateral VERs. Abel had not changed his view. He was, to quote his associate Myer Bernstein, becoming a “full fledged protectionist.”⁹² By remaining a full-fledged protectionist, the USW was coordinating its position with the firms in the steel industry.

One of the firms in the steel industry, U.S. Steel Corporation, managing geographically immobile and specific capital resources, lobbied the Nixon Administration in praise of the way that the bilateral VERs ended product dumping. Dr. Hendrik Houthakker, a member of Nixon’s Council of Economic Advisors, stated in a February 26, 1970 article in *American Metal Market* that he was planning a study of the import control policy on steel and its effect on international steel prices.⁹³ On March 23, 1970, R. Heath Larry, Vice Chairman of the U.S. Steel Corporation, wrote Houthakker a four-page letter to explain why the bilateral VERs with Japan and the EEC successfully addressed the problem of steel product dumping in the U.S. market.

During all but the last year of the 1960s world prices for steel products in both home markets and third countries were badly depressed. Within the European Community and Japan, steel prices generally declined from 1960 until the latter part of 1968.... In 1969, a degree of sanity was restored to steel pricing.⁹⁴

Larry was hopeful that the trend in the international steel market would continue.

There is no real sign that price increases by these foreign producers are about to stop. Most foreign steel producers are faced with a continuation of rising costs and more pressure for still higher prices. The Japanese steel

⁹² Richard Nixon, “Letter to Business and Labor Leaders on the Rising Cost of Living,” October 18, 1969, in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>

⁹³ Califano Memorandum to the File, 6 August 1968.

⁹⁴ R. Heath Larry, Vice Chairman, U.S. Steel Corporation, to Dr. Hendrik S. Houthakker, Council of Economic Advisors, 23 March 1970, in the Dr. Hendrik Houthakker Papers, Box 44, Steel Imports, Folder 2 of 3, Richard Nixon Presidential Library.

union wants an 18% increase in wages. Prices of coking coal, scrap and pig iron have risen sharply in both Europe and Japan and are still heading upward.⁹⁵

Japanese steel workers were now able to demand higher wages because the firms that employed them were now charging higher prices pursuant to the bilateral VER. The additional quota rents that Japanese firms could generate through the bilateral VERs afforded these firms the opportunity to pay higher steel worker wages.

The American Iron and Steel Institute also joined in the lobbying effort on behalf of renewing the bilateral VERs. George Stinson, President of the AISI, wrote a May 13, 1970 letter to the Nixon Administration articulating his trade association's position on the continuation of the bilateral VERs. Stinson's letter expressed a complementary position to Larry. According to Stinson, rising steel industry costs resulted in the 6.7 percent increase in steel prices since the bilateral VERs took effect.

It is true, of course, that steel prices in the U.S. have gone up since the voluntary quotas took effect but so also have copper prices, nickel prices, aluminum prices, scrap prices, hospital costs, prices of food and clothing, and virtually everything else in the cost-of-living index. No one would relate all of these other price increases to the fact of a voluntary quota undertaking in steel. To do so in the case of steel itself is to ignore the fact that companies in the steel industry experience all of the cost pressures and demand factors that other industries do, and are affected by them.⁹⁶

Stinson's letter was circulated to Secretary of Labor Schultz, Secretary of Commerce Maurice Stans, Chairman of the CEA Paul McCracken, Peter Flanigan, Special Trade

⁹⁵ Larry to Houthakker.

⁹⁶ George Stinson, American Iron and Steel Institute, to Nathaniel Samuels, Deputy Under Secretary of State for Economic Affairs, 13 May 1970, in the Dr. Hendrik Houthakker Papers, Box 44, Steel Imports, Folder 2 of 3, Richard Nixon Presidential Library.

Negotiator, Carl Gilbert, Special Trade Representative and to the U.S. Department of Justice.⁹⁷

Meanwhile in Congress, the steel industry was pushing for something more permanent than the bilateral VERs, specifically, mandatory legislated quotas. Both the United Steel Workers and the American Iron and Steel Institute supported the mandatory quotas in the Hartke-Dirksen Bill during the Protectionist Congress of 1967-68. The concept of mandatory quotas was revived in 1969-70 in connection with proposed protectionist legislation sponsored by House Ways and Means Chairman Wilbur Mills. Mandatory quotas held an appeal for the interests in the steel industry. Even though in theory bilateral VERs had the same effects on the economy that quotas do, there was a sense in the steel industry that there needed to be more than voluntary targets. In particular, the more enforceable import targets in mandatory legislated quotas were preferred to the stated commitment not to import in bilateral VERs.

In a study prepared for the CEA's McCracken, Saul Nelson wrote about the steel industry's continued pursuit of quotas with members of Congress. Nelson noted how the AISI's Stinson planned to speak before the House Ways and Means Committee to discuss adding steel quotas to the quotas for textiles and shoes that were in the Mills Bill, H.R. 18970. Nelson believed that one of the pros to continuing the bilateral VERs was that the industry could be convinced that they were a viable alternative to quotas.

The current agreement does seem to have greatly reduced the pressure for mandatory quotas. Though the industry initially expressed strong

⁹⁷ Memorandum by Nathaniel Samuels, 15 May 1970, in the Dr. Hendrik Houthakker Papers, Box 44, Steel Imports, Folder 2 of 3, Richard Nixon Presidential Library.

reservations regarding the adequacy of the voluntary quotas, they seem more willing now to accept them as a tolerable solution.⁹⁸

Nelson advised that an early extension of the bilateral VERs by the Nixon Administration would be both beneficial and harmful. The benefit would be to eliminate the need for legislated quotas. The harm would be that it would eliminate the use of the bilateral VERs as a bargaining chip in encouraging the steel industry to accept moderate wage and price increases in the next round of collective bargaining in 1971.

If it is decided not to seek an early extension, pressure for legislation will intensify and there would presumably be efforts to add steel to the Mills Bill, when and as it gets to the floor.... As noted, a principal argument for early extension is the desire to remove imports as a factor in next year's labor negotiations. It is far from clear that this would be in the general interest. The threat of a renewed surge of imports may, in fact, be an important restraining factor on both sides.⁹⁹

If the bilateral VER was already extended, the threat of a steel strike and a surge in foreign steel imports in 1971 would no longer be present. Nelson suggested that these threats would be in the general national interest to ensure that steel wages and prices were not increased by an excessive amount in collective bargaining.

When Stinson testified before the Mills Committee on June 1, 1970, he spoke in favor of the bilateral VERs for steel. In his opening statement, Stinson said that "the steel industry supports and urges negotiations to extend and improve the Voluntary Restraint Program."¹⁰⁰ Stinson said that he was in agreement with a future voluntary restraint

⁹⁸ Memorandum by Saul Nelson to Paul McCracken, 22 May 1970, in the Dr. Hendrik Houthakker Papers, Box 44, Steel Imports, Folder 2 of 3, Richard Nixon Presidential Library.

⁹⁹ Nelson Memorandum to McCracken.

¹⁰⁰ Draft Memorandum by Jules Katz, "The Steel Voluntary Restraint Agreement," n.d., attached to a 18 September 1970 Memorandum from Arthur A. Hartman, Staff Director, NSC Under Secretaries

program so long as it included a five percent annual growth rate in the quota amount, and “firm commitments” as to the product mix covered by the agreement.¹⁰¹ These statements from Stinson were encouraging. They held out a ray of hope to the Nixon Administration, which wanted to avert the mandatory legislated quotas that the industry was seeking in the Mills Bill.

Two months later, to the delight of the Nixon Administration officials who did not want mandatory legislated quotas, the AISI directly petitioned the Nixon Administration for a continuation of the bilateral VERs. The AISI was hedging its bets. If the AISI was not successful in getting steel quotas added to the Mills Bill, it still wanted to pursue an extension of the bilateral VERs with the Nixon Administration. The AISI made its lobbying pitch to the Nixon Administration in a lengthy July 17, 1970 memorandum. The AISI provided the Nixon Administration four justifications why there should be a two-year extension of the bilateral VERs through December 1973. The four justifications were: (1) the bilateral VERs addressed steel product dumping, (2) U.S. steel firms would not increase prices by exorbitant amounts, (3) U.S. labor would not ask for exorbitant wage increases, (4) the bilateral VERs did not violate American law.

First, the AISI argued that the bilateral VERs successfully addressed the issue of steel product dumping. Firms in the AISI feared that the anticipated expiration of the voluntary restraints in the bilateral VERs would encourage foreign steel producers to dump product in the U.S. market.

Committee, in the Dr. Hendrik Houthakker Papers, Box 44, Steel Imports, Folder 3 of 3, Richard Nixon Presidential Library.

¹⁰¹ Katz, “The Steel Voluntary Restraint Agreement.”

European and Japanese steel producers will be far more likely to exceed the voluntary limitations during 1971 if the new limitations are set to expire at the end of that year than if they have been previously renewed through 1973, because expiration might create the impression that there is little concern about steel imports and that therefore, the agreement could be broken in 1971 with little risk of unilateral action to impose mandatory limits or extraordinary duties on steel imports.¹⁰²

Action was needed to extend the bilateral VERs in 1970. In the absence of steel quotas or tariffs to replace the stated import limits in the bilateral VERs, foreign steel producers would not be discouraged from dumping cheap foreign steel for sale in the U.S. market.

The AISI's July 17, 1970 memorandum offered a second reason why the bilateral VERs should be extended by President Nixon: U.S. steel firms would not increase their prices by inappropriate amounts. During the 1960s, firms did not factor exorbitant price increases into the sales of steel goods, and did not do so the first year the bilateral VERs were in effect. The AISI's argument was based on its analysis of costs and profit data. In 1968, total costs were \$17,688,000,000. When a profit margin of 5.3 percent was added, steel revenues were \$18,680,000,000.¹⁰³ In 1969, total costs were \$18,719,000,000, but steel firms charged a lower profit margin, 4.3 percent, to generate revenues of \$19,569,000,000.¹⁰⁴ Since the steel firms in 1969 factored in profit at a percentage point lower than in 1968, the AISI argued that the steel industry would follow this same practice in 1970 and 1971, the final two years the bilateral VERs were in place.

¹⁰² Memorandum by the American Iron and Steel Institute, 17 July 1970, in the Dr. Hendrik Houthakker Papers, Box 44 Steel Imports, Folder 3 of 3, Richard Nixon Presidential Library.

¹⁰³ American Iron and Steel Institute Memorandum.

¹⁰⁴ American Iron and Steel Institute Memorandum.

The third reason the AISI gave as to why the bilateral VERs should be extended was that American steel workers would not use the existence of a new bilateral VER to request larger wage increases. Speaking on behalf of the United Steel Workers, the AISI argued that the wage increase sought was due to settlements in other industrial sectors and the level of inflation generally.

The evidence shows, however, that the steelworkers union felt impelled to insist upon a settlement bearing close relationship to the settlements reached in the can industry, the aluminum industry and other major industries not so apparently impacted by imports. On reflection, it might reasonably be concluded that the full employment policies of the government which were quite strongly evident at that time taken together with other inflationary forces, affected the climate determining the possible level of settlement....¹⁰⁵

This was the evidence of a Ricardo-Viner style political coalition in favor of trade protection for the steel industry. The AISI expressed the viewpoint of the United Steel Workers. In this way the Ricardo-Viner political coalition was coordinated as well as organized and active.

The fourth reason that the AISI gave as to why the bilateral VERs should be extended was that the bilateral VERs did not violate U.S. antitrust policy. Citing precedent in U.S. federal case law, the AISI explained that the actions of the government in negotiating the bilateral VERs, the actions of the steel industry in lobbying for the bilateral VERs, and the actions of the Japanese and EEC firms, all conformed to American legal custom. When the AISI met with Paul McCracken on August 31, 1970 to discuss the extension of the bilateral VERs, he had the following message to deliver in

¹⁰⁵ American Iron and Steel Institute Memorandum.

response: “Justice strongly opposes agreements of this type.”¹⁰⁶ Contrary to the AISI’s argument, the Nixon Administration’s Department of Justice looked unfavorably on bilateral VERs.

The July 17, 1970 memorandum from the AISI recommended corrections be made to the VRAs that the Johnson Administration entered. If the bilateral VERs were to be extended, the AISI asked that they have certain provisions built into them. One was a reduction in the annual import growth, from 5 percent to 2 percent, to better approximate the change in domestic demand for new product.

...the actual growth rate in domestic consumption over the last four years has approximated only 2%, and any new arrangement should provide for annual import growth at this more realistic rate.¹⁰⁷

The other was product mix. The AISI wanted to deal with the surge in the shipment of higher priced foreign steel products into the U.S. market.

Marked changes have occurred since the limitations have been in effect to shift import tonnage to higher-value steel products -- which generally have significance to the national security. Despite the 22% overall decrease in import tonnage, a net increase in specialty steel imports occurred during 1969. During the first quarter of 1970, stainless steel imports were almost 49% above the voluntary limitation level set for this year, while tool steels were 44% above.¹⁰⁸

These were the views that actuated the Ricardo-Viner style political coalition from the steel industry. The July 17, 1970 memorandum was the basis for the discussions that the

¹⁰⁶ Memorandum by Saul Nelson to Paul McCracken, “Meeting with the Steel Industry,” 28 August 1970, in the Dr. Hendrik Houthakker Papers, Box 44, Steel Imports, Folder 3 of 3, Richard Nixon Presidential Library.

¹⁰⁷ American Iron and Steel Institute Memorandum.

¹⁰⁸ American Iron and Steel Institute Memorandum.

AISI would have with McCracken and the Council of Economic Advisors on August 31, 1970.

Nearly a week later, on September 9, 1970, Nathaniel Samuels, Deputy Under Secretary of State for Economic Affairs, convened a meeting of all Nixon Administration officials who had some responsibility for the decision whether to extend the bilateral VERs. Houthakker attended in place of McCracken for the CEA. The Departments of Labor and Commerce were informed of the meeting as was Special Trade Representative Carl Gilbert and James Schlesinger, the Assistant Director of the Office of Management and Budget. Given the significance of steel to the national defense, other attendees came from the Nixon Administration's national security structure: the Deputy Secretary of Defense, the Assistant to the President for National Security Affairs, the Director of Central Intelligence, the Chairman of the Joint Chiefs of Staff and the Director of the Office of Emergency Preparedness.

The topics to be discussed at the meeting were summarized in a September 4, 1970 memorandum from Samuels. Samuels specified the two available options: to renew, or not to renew, the bilateral VERs. Then Samuels explained why the U.S. might not want to intervene to extend the voluntary restraints for steel. It would encourage steel firms to raise prices. It would encourage other industries to seek bilateral VERs from the government for themselves. It would be an anti-free trade policy.

- a) The VRA is a serious restraint on competition in steel and gives the U.S. steel industry considerably more scope for raising prices than would be the case otherwise.
- b) Any extension of the VRA will whet the appetites of other industries for similar "voluntary" arrangements.

c) The fact that the U.S. Government is inevitably associated with the VRA detracts substantially from our posture as an advocate of freer international trade.¹⁰⁹

Samuels also suggested that the interests of the EEC and Japan be considered, because they were expected to resist extension of the bilateral VERs. Then, Samuels gave the opinions from the Nixon Administration that supported why the bilateral VERs should be extended. The first opinion was that the bilateral VERs were needed to avoid legislated mandatory quotas by Congress. The second opinion was that steel was important to national security. The third opinion concerned the immobility of plant and equipment in the steel industry. The bilateral VERs would give the steel industry time to modernize their aging plant and equipment to become more competitive in the world marketplace.

As Samuels explained:

The industry case is not without merit. Even if it is true that in the past the industry failed to modernize sufficiently rapidly, there is nevertheless the argument to be made that a reasonable period of time is needed to bring the U.S. plant and equipment up to a reasonably competitive level and to permit the results of advanced technology in heavy industry to manifest themselves.¹¹⁰

Steel industry plant and equipment was outmoded and not easily replaced in a short time frame. Extension of the bilateral VERs would give the steel industry an opportunity to improve for the future.

At the conclusion of the September 9, 1970 meeting of the NSC Under Secretaries Committee, Samuels went back to his office and proceeded to incorporate the comments

¹⁰⁹ “Steel the Voluntary Arrangement,” Attachment to a Memorandum from Arthur Hartman, Staff Director, NSC Under Secretaries Committee, 4 September 1970 in the Dr. Hendrik Houthakker Papers, Box 44, Steel Imports, Folder 3 of 3, Richard Nixon Presidential Library.

¹¹⁰ Hartman, “Steel: The Voluntary Arrangement.”

he received at the meeting. The result of that effort was a memorandum to President Nixon. The memorandum recommended that the President adopt a policy of trade protection, specifically, to renew the bilateral VERs for an additional two years with a five percent annual increase.¹¹¹ Samuels explained why the Committee recommended that a five percent increase be used rather than a 2.5 percent increase:

....the Committee considered that retention of a 5 per cent growth factor was important in order to permit exports to exert a reasonable constraint upon domestic steel prices. Although upward movements of domestic steel prices in 1969 and 1970 had primarily reflected cost factors which had led to similar upward movements in prices abroad, they had probably been facilitated by the existence of the VRA. While extension of the VRA seems desirable, retention of the 5 per cent growth factor is essential to minimize its possible inflationary influence.¹¹²

The logic behind a 5 percent growth factor in the VER would have appealed to Nixon. Curbing inflation was a goal of his Administration. Nixon promised Meany and Abel in 1969 that curbing inflation would not cost union jobs. With the extension of the bilateral VERs, the 65,000 to 70,000 jobs in the steel industry would be preserved. However, the 5 percent annual increase in imports would constrain the steel workers and the steel firms. The 5 percent increase would limit the steel workers to moderate wage increases and the steel firms to moderate price increases.

Attached to this memorandum to the President was a paper comprising the CEA's analysis of the question. One issue raised was the timing of Nixon's announcement on the renewal of the bilateral VERs for steel. In early 1971, steel workers and steel firms

¹¹¹ Draft Memorandum by the NSC Under Secretaries Committee to the President, "Voluntary Restraint Arrangement on Foreign Producers' Exports of Steel to the United States," attached to an 18 September 1970 Memorandum by Arthur Hartman, in the Dr. Hendrik Houthakker Papers, Box 44, Steel Imports, Folder 3 of 3, Richard Nixon Presidential Library.

¹¹² Hartman Draft Memorandum for the President.

would be prepared to offer their proposals for annual wage and price increases. If Nixon waited to make his announcement on the bilateral VERs to a time after the negotiations concluded, there was a greater chance that wage and price increases would be moderate and a strike would be avoided.

Should a decision be reached to seek extension, the question of timing is highly important. The U.S. industry and the labor union would like to have announcement of a two-year extension prior to the last quarter of 1970. They fear that in the absence of such an announcement, the arrangement will break down in the face of a very strong demand to build inventories in the face of a strike threat during the second half of 1971. A question thus arises whether the industry and union should be permitted to plan for an extended strike, freed from the pressure of imports.¹¹³

Nixon took all of these pieces of advice under consideration. A final memorandum, and attachments from Samuels dated October 7, 1970, were reviewed by Nixon in the final three months of 1970.

During his deliberations, Nixon expressed his Administration's position on inflation and the role of U.S. industry in the economy. It was the same position he had articulated upon becoming president in 1969. In a December 6, 1970 speech to the National Association of Manufacturers, Nixon explained that he was interested in controlling inflation, but not at the expense of putting American labor out of work.

The inflation psychology when we took office in January of 1969 was more powerful than anyone knew. But the dangerously rising momentum of inflation was arrested by late 1969; the rate of inflation has been gradually moving downward in 1970. The progress is not as fast as we would want, and we can expect some reverses along the way. But the worst of inflation is over. The lowered rise in the consumer price index, the much lower rise in wholesale prices, and lower interest rates indicate that there will be further decline of the rate of inflation during the year ahead. Unemployment is now at the level of the first half of the 1960s,

¹¹³ Katz, "The Steel Voluntary Restraint Agreement."

before the Vietnam buildup began. I believe we can and must do better and we can and must do better without war.¹¹⁴

Sensing that action was needed to stimulate job growth, Nixon was ready to take a chance. He would loosen his control of inflation by granting trade protection that would foster production and employment in the U.S. steel industry.

Nixon had reached his decision on trade protection. In a December 11, 1970 memorandum from his Staff Secretary, Jeanne W. Davis, President Nixon authorized Samuels to conduct negotiations with the Japan and the EEC to extend the VRAs and negotiate similar arrangements with other countries when possible. Nixon's authorization was based on certain conditions. There should be broader negotiations with other steel producing states. Provisions should be made about the types of steel goods that are imported, so that high priced foreign specialty steel and tool steel do not predominate imports into the U.S. A five percent annual import growth factor should be negotiated.

The Department should seek inclusion, to the extent possible, of producers in the United Kingdom, Canada, Austria and Sweden. It should obtain firmer and more precise commitments from foreign producers with regard to the product mix and the geographical distribution of their shipments, but should seek not seek a reduction in the five percent annual growth factor contained in the present arrangement.¹¹⁵

Nixon opted not to officially announce that he had authorized Samuels to conduct these negotiations. An announcement would not come until after the extension of the bilateral

¹¹⁴ Richard Nixon, "Remarks at the Annual Meeting of the National Association of Manufacturers," December 4, 1970, in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.

¹¹⁵ Memornadum by Jeanne W. Davis, Staff Secretary, Richard Nixon, to Mr. Theodore L. Eliot, Jr., Executive Secretary, Department of State, 11 December 1970, in the Dr. Hendrik Houthakker Papers, Box 44, Steel Imports, Folder 3 of 3, Richard Nixon Presidential Library.

VERs was finalized, which was a year and a half later on May 7, 1972. However, the steel firms were aware of the decision to move forward with the pact.

In January 1971, Nixon decided to interrupt negotiations for the bilateral VER extension when the steel industry began its new collective bargaining round with a high price increase. On January 11, 1971, Bethlehem Steel, the second largest steel producer in the U.S., announced that it planned a 12 percent price increase on a line of steel goods.¹¹⁶ Nixon reacted to this announcement with a statement that he was “deeply concerned” because the price increase was “enormous.”¹¹⁷ Nixon’s Press Secretary, Ron Ziegler, said that the President might abandon the negotiations with Japan and the EEC over the extension of the bilateral VERs in response to the Bethlehem Steel price increase.

We’re not saying we would take this action. But there was a feeling that they [the companies] should be aware that the Government is conducting this review.¹¹⁸

The steel industry initially did not waver its position. The steel industry claimed that President Nixon was not well briefed by his staff on the need for the steel price increases. Lukens Steel announced its a plan for a 12.5 percent increase in its steel prices.¹¹⁹ Bethlehem Steel refused to acknowledge the President’s “deep concern” by standing by

¹¹⁶ Robert Walker, “Bethlehem Steel Raises Prices 12% on Building Items,” *New York Times*, January 12, 1971, 1.

¹¹⁷ Robert B. Semple, “Nixon Condemns Increase in Bethlehem Steel Price and Hints at Import Rise,” *New York Times*, January 13, 1971, 1.

¹¹⁸ Semple, “Nixon Condemns,” 1.

¹¹⁹ “Steel Executives Believe Nixon Wasn’t Well Briefed on Rises,” *New York Times*, January 13, 1971, 61.

its price increase. Then Nixon took stronger action. He cancelled the next negotiating session planned with the EEC on January 24, 1970 to discuss the extension of the bilateral VERs.¹²⁰ Bethlehem Steel responded, and slashed its planned price increase to 6.8 percent.¹²¹ This was the same percentage that the leading American steel producer, U.S. Steel, was offering for its price increase.¹²² Nixon had successfully used the cancellation of a meeting on the extension of the bilateral VER with the EEC as a negotiating tactic in suppressing price increases for steel. This served his goal of curbing inflation while promoting jobs in the steel industry.

Negotiations with the EEC, Japan and the United Kingdom continued in the next months of 1971. These were the three foreign trading partners most willing to enter into bilateral VERs. The talks did not proceed without interruption. In late June 1971, there were difficulties in collective bargaining in the steel industry, specifically, a wage increase for the United Steel Workers. In response, Nixon used his negotiating tactic of suspending negotiations on the bilateral VERs as a bargaining chip to lower the wage expectations of the steel workers. On June 30, 1971, Nixon met with representatives of the United Steel Workers and steel firms at the White House. At this labor-management conference, Nixon said it was unacceptable to request wage increases, because they would lead to a renewed call for price increases.

¹²⁰ Edwin Dale, Jr., "Nixon Steel Tactic: Put Off Import Talks," *New York Times*, January 18, 1971, 1.

¹²¹ Edwin L. Dale, Jr., "Bethlehem Cuts Its Steel Price Rise to 6.8 Percent," *New York Times*, January 18, 1971, 1.

¹²² Dale, Jr., "Bethlehem Cuts Its Steel Price Rise to 6.8 Percent," 1.

The Administration has repeatedly warned that excessive increases in steel wages and steel prices would severely retard efforts to control inflation. Hints have been dropped that import quotas that protect domestic steel from foreign competition will be eased or lifted if prices go too high.¹²³

The meeting was successful from Nixon's perspective. Wages for the steel workers were settled prior to the August 1, 1970 deadline, but not at levels leading to any new requests for price increases by U.S. steel firms.

The announcement of the Voluntary Restraints with Japan, the EEC and the United Kingdom, came in May 1972. President Nixon was pleased to report that the agreements would extend for three years until 1974.

The Deputy Under Secretary of State for Economic Affairs, Nathaniel Samuels, undertook discussions with the Japanese and European steel producers with respect to their renewal – on improved terms – of the voluntary restraints on steel exports. After more than a year's effort, Mr. Samuels has succeeded in this important endeavor. The Secretary of State has advised me that he has received communications from the steel producers in these countries in which they pledge a three-year restraint—with improved terms—of their voluntary limits on their steel exports to the United States.¹²⁴

Details of the agreement were disclosed to the media. The annual increase in tonnage was not the 5 percent originally offered, but instead a 2.5 percent annual increase.¹²⁵ A 2.5 percent increase is what the industry sought in its petition to the Administration. The agreements also placed limitations on specialty and tool steel, in order to block foreign

¹²³ Philip Shabecoff, "President Calls Steel and Labor to the White House," *New York Times*, July 1, 1971, 1.

¹²⁴ Richard Nixon, "Statement About Voluntary Restraints by Foreign Steel Producers to Limit Exports to the United States," May 6, 1972, in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.

¹²⁵ Richard Halloran, "Exports of Steel to U.S. to Be Cut for Three Years," *New York Times*, May 7, 1972, 1.

firms from importing higher-priced steels into the U.S.¹²⁶ This was another point that the AISI sought in its lobbying efforts with the Administration, and with which Nixon agreed. There were other added benefits. The foreign steel producers promised not to focus shipments on the Atlantic and Pacific Coast markets for steel, but more widely disperse their steel imports into the U.S.¹²⁷ There were also quotas limiting imports of fabricated structural steel and cold steel bars.¹²⁸ These were the details of the agreement to be in effect for calendar years 1972, 1973 and 1974.

Nixon's announcement had potential ramifications for his re-election chances. By helping organized labor, specifically the United Steel Workers, preserve their jobs with trade protection. Nixon incentivized these workers to vote for him, or to refrain from casting a vote for Nixon's Democratic challenger, McGovern. In July 1972, the AFL-CIO pledged its neutrality in the 1972 election. Meany, Abel and the other thirty members of the AFL-CIO's Executive Council voted unanimously, 27-3, to refrain from campaigning for either Presidential candidate.¹²⁹ For the 1.2 million members of the United Steel Workers living and working around the nation came this directive from Abel: "sit out" the 1972 Presidential election.¹³⁰ The impact was felt at the Democratic

¹²⁶ Halloran, "Exports of Steel," 1.

¹²⁷ Halloran, "Exports of Steel," 1.

¹²⁸ Halloran, "Exports of Steel," 1.

¹²⁹ Hobart Rowan, "Meany's Last Hurrah," *Washington Post*, July 27, 1972, A19.

¹³⁰ Rowan, *The Washington Post*, A19.

National Convention held in Miami, FL. The AFL-CIO's *Free Trade Union News* reported the scene:

In contrast to other Democratic conventions, labor's influence in Miami was practically nil. Trade unionists have complained that the labor movement was regarded with contempt—a contempt in expressions like 'big labor bosses,' 'power brokers,' and so forth.¹³¹

The non-endorsement of McGovern was a part of a successful political coalition building strategy by President Nixon. He won every state except Massachusetts in the Electoral College count, and won the popular vote by nearly 18 million votes, 47,169,911 to 29,170,383.¹³²

The Nixon Administration showed its willingness to work with organized labor and the steel industry to foster domestic production and employment. The AISI spoke on behalf of the geographically immobile and specific capital interests of the firms, and the mostly geographically immobile and specific steel workers. The USW and the AISI coordinated their positions on trade protection. Both the amalgam union and the trade association were in favor of the bilateral VERs. The AISI spoke on behalf of the USW. Initially, the AISI tried to move Congress to enact quota legislation. Then, the AISI focused on the Executive Branch, and lobbied for the extension of the bilateral VERs. In its July 17, 1970 memorandum, the AISI articulated what the extension should be – a 2.5 percent increase in annual growth and provisions to limit high priced specialty steel and tool steel imports. Ultimately, the Nixon Administration met these conditions in

¹³¹ "Why No AFL-CIO Endorsement in the Presidential Election," *AFL-CIO Free Trade Union News* 27, no. 10 (October 1972): 4.

¹³² Congressional Quarterly, *Presidential Elections, 1789-2008* (Washington, DC: CQ Press, 2010) 162.

Voluntary Restraint Arrangements with Japan, the EEC and the United Kingdom. In managing the economy, Nixon was careful to balance inflation and unemployment. He used the power of the bilateral VERs to jawbone with steel firms to lower their prices. However, Nixon was committed to increasing production and employment opportunities for U.S. steel workers. The United Steel Workers and the AFL-CIO rewarded Nixon for his efforts by encouraging their union members not to vote in the 1972 Presidential election. By providing help with this key constituency, the USW and the AFL-CIO did much to ensure Nixon's landslide victory in the 1972 Presidential election.

		Firms	
		Protection	Free Trade
Labor	Protection	United Steel Workers and the American Iron and Steel Institute	
	Free Trade		

Chapter IV

Case Study Three: Ford Specialty Steel Quotas, June 1976

On Tuesday, March 16, 1976, President Gerald Ford announced the success of a Ricardo-Viner style political coalition in achieving trade protection.¹³³ The successful lobbying was performed by the United Steel Workers and the Tool and Stainless Steel Industry Committee for Import Relief (TSSIC). Eight months earlier, the USW and the TSSIC filed a petition with the USITC, claiming that foreign manufacturers of stainless and alloy tool steel injured U.S. specialty steel manufacturers. In the prior year, 26,000 specialty steel workers were unemployed, 40 percent of the 65,000 in production jobs in the industry.¹³⁴ The USITC complaint was an example of collective action by the specialty steel industry, specifically, explicit cooperation between two actors who are typically opposed: an amalgam labor union representing mostly immobile and specific specialty steel workers and the owners of specialty steel firms. This instance of mischief of faction was the first time that the USITC approved a remedy in a case made pursuant to the Escape Clause in Section 201 of the Trade Act of 1974. On June 7, 1976, President Ford endorsed the USITC finding and approved quotas in the form of voluntary export restraints that were negotiated by his Administration. The next day, June 8, 1976, Ford campaigned for the Republican Party's nomination in Ohio, proudly sharing with a

¹³³ Gerald Ford, Memorandum for the Special Representative for Trade Negotiations, 16 March 1976, in United States International Trade Commission, *United States International Trade Commission Report on Imports of Certain Stainless Steel and Alloy Tool Steel Products and their impact on Domestic Industry*, January 16, 1976 in American Society of International Law, *International Legal Materials*, vol. 15, no. 2 (March 1976): 379.

¹³⁴ Gene Smith, "Specialty Steels Will Face Quotas," *New York Times*, June 8, 1976, 69.

campaign audience news of his special intervention into the economy on behalf of local specialty steel industry workers. This appeal to a key constituency was successful. It appears that Ford secured Ohio's delegates in the Republican Presidential Primary on the strength of his specialty steel quotas.

The USW was organized and active, as was the TSSIC. Initially, five firms in the TSSIC coalesced as the spokespersons for the specialty steel industry: Cyclops Corporation, Jessop Steel Company, Crucible Materials Group of Colt Industries, Latrobe Steel Company and Allegheny Ludlum Steel Corporation.¹³⁵ In time, Allegheny Ludlum's President Richard Simmons emerged as the main lobbyist for the entire specialty steel industry. The firms in the TSSIC were barraged by a torrent of foreign steel that flowed into the U.S. market:

Intense import-price pressure reappeared in late 1974 and became more serious in January-September 1975. Lost sales and a sharp decline in market share cut domestic shipments and profits sharply.¹³⁶

The TSSIC did not merely suffer all of those ill effects and fail to take action. At the same time, the USW was unwilling to allow a decline in market share to negatively impact its members in the specialty steel industry. Specialty steel production requires more manpower than carbon steel does.¹³⁷ As a result, a decline in the amount of steel sold would more adversely impact employment in the specialty steel industry than would be the case for the carbon steel industry. Such conditions existed in late 1974 and early

¹³⁵ "Call for Quotas Elates Statesmen," *New York Times*, January 18, 1976, 36.

¹³⁶ U.S. International Trade Commission, 342.

¹³⁷ "Many Specialty Steels Produced in Minimills," *Washington Post*, September 16, 1975, D10.

1975. Of the 65,000 workers employed in the U.S. specialty steel industry, up to 40 percent lost work due to the sharp decline in domestic steel sold.¹³⁸ On February 27, 1975, Allegheny Ludlum put 1,200 persons working in its Dunkirk, NY, facility on indefinite layoff.¹³⁹ Nearly four months later, on July 16, 1975, in the midst of the January-September import-price pressure, the USW joined together with members of the TSSIC to file a petition for import relief from the USITC. Filing a petition was an instance of collective action, specifically, explicit cooperation between the USW and the TSSIC. Organizational strength was crucial to the filing of the USITC claim, as well as the capacity of the USW and the TSSIC to take immediate action in response to adverse conditions in the specialty steel industry.

The workers and firms in the specialty steel industry were lobbying based on the understanding that the USITC and the President would recognize that they were mostly immobile and specific. A tiny fraction of the specialty steel workers were so highly skilled that they were specialized and able to find work in another manufacturing industry, albeit at a lower wage. Specialty steel workers living in the area of Allegheny Ludlum's Dunkirk, NY, facility and at other Allegheny Ludlum plants in Pennsylvania and Ohio were considered geographically immobile, stuck in their homes without

¹³⁸ The total number of workers in the specialty steel industry varies according to the source cited. Rowe placed the figure at 21,000 in his article James I. Rowe, "Quotas Are Urged on Steel Imports," *Washington Post*, January 18, 1976, 1. The figure was revised by Rowe in March 4, 1976, citing I.W. Abel, USW, as s source. James L. Rowe, "Steel Imports Plan Hit by Task Force," *Washington Post*, March 4, 1976. I am using the March 4, 1976 article as the definitive figure since it is from the USW itself. Regardless of which figure is correct, the number of workers in the specialty steel industry was a fraction of the 13,052,000 manufacturing workers employed in the U.S. in 1976.

¹³⁹ "Allegheny Ludlum Sets Closing of a Plant in Western New York," *New York Times*, February 27, 1975, 76.

alternative employment when the specialty steel plant laid them off. Lack of available employment at other firms in the U.S. steel manufacturing industry rendered these workers geographically immobile and specific. The plant and equipment these workers used on their jobs were considered geographically immobile as well. These firms were not capable of relocating their facilities to another part of the U.S. or the world in order to take advantage of cheaper labor or supplies.

Mischief of faction produced the labor-management political coalition in the specialty steel industry that filed the petition with the USITC. It was a requirement under the law that petitions to the USITC had to be initiated by a recognized entity. A recognized entity included “a trade association, firm, certified or recognized union or a group of workers which is representative of a domestic industry.”¹⁴⁰ On July 16, 1975, the United Steel Workers and the TSSIC jointly filed a petition for trade protection relief with the USITC.¹⁴¹ As a certified or recognized union, the USW qualified as a recognized entity, and the TSSIC also constituted a recognized entity because it was a trade association. The petition for relief by the USW and the TSSIC had to meet the requirements under the Escape Clause of the Trade Act of 1974 and prove “increased imports” were the substantial cause of “serious injury” in the specialty steel industry.¹⁴² By filing the petition pursuant to the Escape Clause, the United Steel Workers and the TSSIC were actuated by the view that increased imports were the substantial cause of

¹⁴⁰ 19 U.S.C. Chapter 12, Subchapter II, Part 1, Section 2252(a) (1), available at http://www.law.cornell.edu/uscode/uscode_19/usc_sec_19_00002252----000.html.

¹⁴¹ United States International Trade Commission, 333.

¹⁴² 19 U.S.C. Chapter 12, Subchapter II, Part 1, Section 2252(b) (1) (A). available at http://www.law.cornell.edu/uscode/uscode_19/usc_sec_19_00002252----000.html.

serious injury to the specialty steel industry. The serious injury could be idle manufacturing capacity in response to increased imports, loss of profits due to increased imports, or unemployment related to increased imports.

Before making a final ruling, the USITC was required to conduct an investigation to determine whether these claims had any merit. The USITC launched its investigation on August 5, 1975. In the midst of the USITC investigation, the USW and the TSSIC narrowed their focus, and this had an impact of their image as an organized lobby. On October 3, 1975, the USW and the TSSIC asked the USITC to drop silicon electrical steel from its investigation.¹⁴³ By the time that the USW and the TSSIC participated in the public hearing at the USITC's Washington, D.C. courtroom, held from October 28 to October 31, 1975, stainless steel and alloy tool steel were the two specialty steels that were the subject of the claim. This was how the USW and TSSIC presented their cases in the USITC's Washington, D.C. courtroom from October 28 through 31, 1976. A determination as to whether increased imports were the substantial cause of serious injury would be reached within 120 days of the date of the petition, 180 days if "critical circumstances" complicating the case existed.¹⁴⁴ In this case, the determination was reached 180 days after the filing of the petition.

The USITC's decision to grant trade protection to the specialty steel industry was reached on January 16, 1976, but not released until March 8, 1976. After reviewing all of the available evidence, the USITC ruled in a 4-1 decision that corrective quotas were

¹⁴³ United States International Trade Commission, 333.

¹⁴⁴ 19 U.S.C. Chapter 12, Subchapter II, Part 1, Section 2252(b) (1) (B). available at http://www.law.cornell.edu/uscode/uscode_19/usc_sec_19_00002252----000.html.

needed for the specialty steel industry. The judges of the USITC rendered separate opinions justifying the rationale why quotas were needed. Judges George Moore and Catherine Bedell identified the increase in imports, then the serious injury to the specialty steel market, a 10 percent fall in market share.

Imports of stainless steel and alloy tool steel increased from about 50,000 tons in 1964 to 151,000 tons in 1974. During January-September 1975, imports increased to 120,000 tons, compared with 95,000 tons in the corresponding period of 1974. Between 1973 and the present, the share of the U.S. market supplied by imports doubled and the share of the U.S. market supplied by U.S. producers fell from 90 percent to 80 percent.¹⁴⁵

All of the USITC judges divided the specialty steel market into four categories: stainless-steel bars and wire rods; stainless-steel plates; stainless-steel sheet and strip, not cut, not pressed, and not stamped to nonrectangular shape; and alloy tool steel.¹⁴⁶ Moore and Bedell argued that from 1973 to 1975, the shift in demand led to an idling of productive specialty steel mill operations. For stainless steel-bars and wire rods, 69% of the mills capacity was utilized, the same figure for alloy tool steel manufacturing capacity.¹⁴⁷ Only 57% of the plant and equipment of the mills were in use for the other two categories of specialty steel – stainless steel plates and sheet and strip.¹⁴⁸ This fall off in capacity utilization had an impact on employment in the specialty steel industry. By 1975, the

¹⁴⁵ United States International Trade Commission, 341.

¹⁴⁶ The fourth judge voting with the majority, Daniel Minchew, said that two of the four categories of products manufactured by the specialty steel industry were negatively impacted. Minchew examined the net profits earned in stainless-steel bars and wire rods, stainless-steel plates, stainless-steel sheet and strip and alloy tool steel. Minchew found that imports injured profits in steel wire rods and alloy tool steel. United States International Trade Commission, 368-369.

¹⁴⁷ United States International Trade Commission, 369.

¹⁴⁸ United States International Trade Commission, 369.

number of unemployed specialty steel workers was 15% lower than the employment levels enjoyed by the industry only five years earlier in 1970.¹⁴⁹

Judge Will Leonard stated that the bilateral VERs in place for steel from 1969 to 1974 had a negative impact on the domestic specialty steel industry due to the types of imports that foreign firms were selling in the U.S. market. Leonard said that Johnson's bilateral VERs were a problem because they were not specific enough.

The first restraint agreement, in effect during the years 1969-71, set one tonnage limit for all types of basic steel products without regard to type or the value of the product. This first agreement led to pronounced shifts in the product mix of exports from the nations party to the informal agreement as they shifted within their total tonnage from exporting lower priced carbon steels to exporting higher valued specialty steels, including stainless-steel sheet and strip.¹⁵⁰

Leonard said that the second bilateral VERs implemented by President Nixon attempted to correct this problem of increased exports from foreign countries of more expensive stainless steel sheet and strip. However, when Nixon's bilateral VERs placed new tonnage limitations on stainless steel sheet and strip, foreign nations exporting steel to the U.S. adjusted to the prices in the domestic market, and sold the type of steel which was more expensive, stainless bar and wire rod.¹⁵¹ After Nixon's bilateral VERs concluded in 1974, the U.S. market changed again. During the period from January to September 1975, foreign imports of stainless steel sheet and strip increased by 10,580 tons over the level of imports experienced in a comparable period the prior year.¹⁵² As Leonard

¹⁴⁹ United States International Trade Commission, 369.

¹⁵⁰ United States International Trade Commission, 349.

¹⁵¹ United States International Trade Commission, 349.

demonstrated, there was demonstrable import injury, both for stainless steel sheet and strip and for stainless bar and wire rod in the 1970s. The USW and the TSSIC had proven their case.

However, there was a counterargument to the claims of import injury by the USITC judges. As an editorial in the *Washington Post* acidly explained, the appearance of an increase in imports actually masked the real problem. There was a significant decline in U.S. domestic demand for specialty steel.

American production in these specialties last year fell to barely half the previous year's level. In the first nine months of 1975, it was down 483,000 tons from the figure from the year before. The reasons were three: American consumption was down 400,000 tons, American exports to other countries were down 59,000 tons and foreign imports were up 24,000 tons. So which of the three was the major reason for distress? If you answered imports, you score 100 percent on the brief quiz being administrated by the steel trade association and labor unions to various prominent public officials. You will be glad to know that the International Trade Commission passed that quiz with flying colors.¹⁵³

The sharp decline in the specialty steel demanded by domestic firms, down 483,000 tons, was a more significant impact than the increase in the level of imports flowing into the U.S. market, up 24,000 more tons than the previous period. Based on this analysis, it was the *Washington Post's* view that the decline in U.S. specialty steel mill operating capacity was the result of a drop in U.S. demand for new product. This was an economics argument, one that the USW and the TSSIC could ignore in making their case pursuant to the Escape Clause in the Trade Act of 1974. In Escape Clause cases, the

¹⁵² United States International Trade Commission, 350.

¹⁵³ "Steel, Shoes and the Consumer," *Washington Post*, February 7, 1976, A14.

coordinated interest groups had to show that it was increased imports that caused serious injury to the U.S. specialty steel industry. Declining U.S. demand was not relevant.

With the January 16, 1976 USITC decision came a recommendation to President Ford on the appropriate remedy. It was to limit the total amount of imports in all categories of specialty steel in 1976 to an amount no greater than 146,000 tons. The remedy of a 146,000 ton quota limit for 1976 was subdivided into the following product limits: sheet and strip, 79,000 tons; plate: 13,900 tons; bar, 19,600 tons; rod, 16,000 tons; and alloy tool steel, 18,400 tons.¹⁵⁴ In subsequent years, from 1977 to 1980, a different rationale for the quotas was given. It would be “an amount for each calendar year equivalent to the following percentages of apparent U.S. consumption for the preceding calendar year,” but not less than these percentages of the figures for the limits set for 1976. This translated into the following amounts: 13% of the limit for sheet and strip, 15% of the limit for plate, 13% of the limit for bar, 52% of the limit for rod and 18% of the limit for alloy tool steel.¹⁵⁵

After the decision was released, the USW and the TSSIC issued a joint statement. It was another instance of collective action, the explicit cooperation between the USW and the TSSIC. Together they claimed, like Hansen did on the floor of the Senate in 1967, that foreign steel firms were subsidized, and fair trade, not free trade, was needed.

[They placed blame on the] predatory price-cutting practices of the foreign specialty steel producers whose facilities are owned, directed or heavily subsidized by their governments.¹⁵⁶

¹⁵⁴ United States International Trade Commission, 335.

¹⁵⁵ United States International Trade Commission, 335.

¹⁵⁶ “Call for Quotas Elates Statesmen,” 36.

President Ford responded by convening a special task force to examine the specialty steel quotas, picking his Special Trade Negotiator, Dent, as Chairman. When the Task Force rejected the quotas, Abel sounded off publicly about the Ford Administration's treatment of specialty steel workers. "[Americans] let steel come in so we can sell soybeans someplace."¹⁵⁷ Abel was angered that specialty steel imports were allowed to hurt U.S. manufacturers so that U.S. soybean farmers could profit in overseas markets. The trade policies of the U.S. government favored soybean farmers at the expense of specialty steel workers. Abel wanted to change that. So did the TSSIC.

The USW and the TSSIC directly lobbied Ford for the quotas. On March 10, spokespersons for the USW and the TSSIC met at the White House with Ford from 4:30pm to 5:20pm to discuss the quota recommendation by the USITC.¹⁵⁸ Attending the meeting were Simmons of Allegheny Ludlum and Abel of the USW. Simmons was now the chief lobbyist on behalf of the firms in the TSSIC. The meeting topic was on the subject of whether the President should impose quotas on specialty steel, and whether these should be in effect for five years, as requested by the USITC in its decision. Simmons and Abel entered the meeting aware that the President's Task Force Report from Dent urged Ford not to implement quotas for any period of time.¹⁵⁹ Simmons presented their case to the President for preserving jobs in Pennsylvania, Ohio and New York, as he had in a February 12, 1976 letter:

¹⁵⁷ "Italian Shoes, Japanese Steel," *Washington Post*, March 8, 1976, A18.

¹⁵⁸ Gerald Ford, Presidential Diary Entry for March 10, 1976, available online at the Gerald Ford Presidential Library, <http://www.fordlibrarymuseum.gov/library/document/diary/pdd760310.pdf>.

¹⁵⁹ James L. Rowe, "Steel Imports Plan Hit by Task Force," *New York Times*, March 4, 1976, G13.

Approximately 80% of all the specialty steel in the United States is produced in the state of Pennsylvania with the balance being produced in Ohio and New York State. The unemployment caused in the many small communities throughout these three states... has been gravely felt and remains a serious problem.¹⁶⁰

Simmons and Abel had additional support from 23 Senators and Representatives, who met with Ford the following day to discuss the specialty steel quotas.¹⁶¹ The 23 members of Congress were primarily from three states -- New York, Ohio and Pennsylvania. The political party representation was decidedly Republican: 18 of the 23 members of Congress belonged to the GOP, and one was a Conservative Party member, Senator James Buckley of New York. The names of the 18 Republican Senators and Congressmen who met with Ford on March 11, 1976, are: Senators Robert Griffin (R-MI), Richard Schweiker (R-PA), Hugh Scott (R-PA), and Robert Taft, Jr. (R-OH); Representatives John Ashbrook (R-OH), Hamilton Fish, Jr. (R-NY), Benjamin Gilman (R-NY), William Harsha (R-OH), Frank Horton (R-NY), Norman Lent (R-NY), Robert McEwen (R-NY), Clarence Miller (R-OH), Donald Mitchell (R-NY), Gary Myers (R-PA), Peter Peyser (R-NY), Ralph Regula (R-OH), William Walsh (R-NY), and Richard Schultze (R-PA).

This was a strong showing of support from the lobbying interests and the Congressmen. Ford weighed the implications along with a new viewpoint from his Administration. On March 11, 1976, Ford received a memorandum from his Deputy Assistant for Economic Affairs, William Gorog. Gorog warned Ford against testing

¹⁶⁰ Richard Simmons, Allegheny Ludlum Steel Corporation, to President Gerald Ford, 12 February 1976, in Gerald Ford Presidential Papers, White House Central Name File, Richard Simmons, Box 2921.

¹⁶¹ Gerald Ford, Presidential Diary Entry for March 11, 1976, available online at the Gerald Ford Presidential Library, <http://www.fordlibrarymuseum.gov/library/document/diary/pdd760311.pdf>.

Congressional resolve for a veto override if the President did not agree with the USITC's remedy:

Congressional interest and pressure is strongly in favor of the relief proposed by ITC and views this as a test of Executive conformance to the spirit of the Trade Act of 1974. STR [Frederick Dent] and the Trade Policy Committee believe that Congressional override is likely if your decision varies significantly from the ITC's.¹⁶²

Ford had an alternative. If the President negotiated bilateral VERs, and the bilateral VERs contained the same limits on imports established in the USITC's remedy, this would avoid the appearance of protectionism but satisfy the demands of the lobbying interests.

A major consideration, however, is the nature and extent of possible foreign retaliation or U.S. payment compensation resulting from action granting import relief. This can be avoided by attempts to negotiate orderly marketing agreements.¹⁶³

Gorog's arguments helped persuade Ford what the next step in the process should be: negotiate bilateral VERs for specialty steel to foster domestic production and employment.

Six days later, on March 16, 1976, Ford announced his decision to implement quotas through voluntary arrangements to be negotiated with Japan, the EEC and Sweden. This decision was reached despite the objections of Dent and another member of his staff, Clayton Yeutter, the Deputy Special Trade Representative. Nevertheless, Alan Wolff, one of the three Special Representatives for Trade Negotiations stationed

¹⁶² Memorandum for the President by William F. Gorog, 11 March 1976, L. William Seidman Files, Box 82, Gerald Ford Presidential Library.

¹⁶³ Gorog Memorandum to Ford.

outside the United States, reached an agreement with Japan. Wolf and the Japanese negotiators made the pact after a series of meetings held from May 18 to May 21, 1976. The EEC and Sweden refused to negotiate bilateral VERs.

On June 5, 1976, Ford was presented two recommendations for policy action in a memorandum from William Seidman, Assistant to the President for Economic Affairs.¹⁶⁴ The recommendations reflected the successes and failures of Wolff's negotiations. Option 1 was a 147,000 ton quota limit, 1,000 above what was recommended by the USITC, with these additional tonnage restrictions: Japan, 66.4 thousand tons; EEC, 32.0 thousand tons; Sweden, 24.0 thousand tons; Canada, 12.6 thousand tons; and all other countries, 12.0 thousand tons. Wolf agreed with Option 1, as did Secretary of Commerce Elliot Richardson and Secretary of Labor W.J. Usery, Jr. Option 2 was a 149,000 ton quota limit, 3,000 above what was recommended by the USITC, with these additional tonnage restrictions: Japan, 67.3 thousand tons; EEC, 32.0 thousand tons; Sweden, 24.0 thousand tons; Canada, 12.6 thousand tons; all other countries, 13.1 thousand tons. Brent Scowcroft of the National Security Council agreed with Option 2, as did Treasury Secretary William Simon, Secretary of State Henry Kissinger, and Ford's Council of Economic Advisors. Ford decided on Option 1, a quota limit of 147,000 tons for 1976, a year cycle that would begin on June 14, 1976.

The Ford Administration still was not in complete agreement on the utility of the specialty steel quotas. Ford was advised that he might want to use the quotas in a

¹⁶⁴ Memorandum by L. William Seidman to President Gerald Ford, 5 June 1976, L. William Seidman Papers, Box 101, Special Trade Representative-Specialty Steel, June-November 1976, Gerald Ford Presidential Library.

campaign speech as a way to promote his ability to generate jobs in a recessionary economy. Yeutter disagreed. In a note to Seidman, Yeutter argued against the political usefulness of the quotas in an important 1976 Republican Presidential Primary in Ohio:

Beyond the question of timing, their proposal is a real loser in domestic political terms. It certainly will not gain the President one additional delegate between now and Convention time, and it could lose him some. Nor will it gain him any votes in the general election, and it could lose him some – aside from the loss in political prestige that would be suffered if we were to get a Congressional override. In a nutshell, their proposal should be vigorously rejected.¹⁶⁵

Ford did not share Yeutter's view. Instead, Ford expected to present the specialty steel quotas as an incentive for Ohio voters to select him instead of Ronald Reagan for the Republican Party's Presidential nomination. This was the bargain that the lobbying interest groups understood about the bilateral VER. A show of political support at the ballot box was expected for Ford, the person who authorized that the bilateral VERs be negotiated.

On June 8, 1976, the day of the Republican Primary, Ford made several planned campaign stops in Ohio. One was in Middletown, home of Armco, a producer of specialty steel. Ford proudly informed the crowd assembled to see him in Middletown that he was asking for their vote. He touted his policy decision to provide relief to local Armco steel workers, which was based on the lobbying on March 11, 1976 from Ohio Senator Robert Taft Jr.:

Let me tell you why I think I deserve your vote and why I will do what is good for this community, for this state and this country in the months

¹⁶⁵ Memorandum by Clayton Yeutter to L. William Seidman, 7 June 1976, L. William Seidman Papers, Box 101, Special Trade Representative-Specialty Steel, June-November 1976, Gerald Ford Presidential Library.

ahead. First we want to talk about jobs. I want to thank Bob Taft ... and the others for consulting with me and urging that I impose a quota system on stainless steel so there will be more jobs at the Armco plants in this community.¹⁶⁶

Ford followed this positive news with more details:

Let me make an announcement, if it hasn't been announced already. Yesterday, before I took off to come to Ohio, I signed the necessary document that imposes the import quota on stainless steel, and it will go into effect, period.¹⁶⁷

Then, Ford described how the specialty steel quotas were part of his Administration's program to boost employment in the U.S. economy.

In the last year from the depths of recession, we have increased total employment in this country 3,600,000 more jobs, 300,000 more jobs in the last month. It was announced by the Department of Labor just last Friday that 87,000,000 people have jobs in America, an all-time high. And we're going to do better than that in the months ahead. Let me make this commitment to you. I will not be satisfied as your President until every person who wants a job has a job in America.¹⁶⁸

Ford reminded voters that his policy on specialty steel import quotas was a decidedly improved Republican approach to intervention into the economy. "We do not want a repetition of the debacle that took place in 1964," Ford said. Ford's statement highlights how the Republican Party in 1976 kept people employed through trade protection, contrary to the non-interventionist government position the GOP promoted in its 1964 national platform.¹⁶⁹

¹⁶⁶ Gerald Ford, "Remarks in Middletown, Ohio," June 8, 1976, in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.

¹⁶⁷ Ford, "Remarks in Middletown, Ohio."

¹⁶⁸ Ford, "Remarks in Middletown, Ohio."

It is impossible to know how many Ohio Republicans cast a ballot for Ford because of his speech at this Middletown, Ohio campaign stop on June 8, 1976. However, his words may have made the difference in a close final tally. Once all of the votes were counted, Ford prevailed over Reagan by just ten thousand, 516,111 to 506,347.¹⁷⁰ Given this close margin, the specialty steel quotas may have helped Ford claim the Ohio delegates in a crucial primary prior to the Republican National Convention. This was a result Ford anticipated. But it was contrary to the opinion given by Yeutter in his note to Seidman. Ford, relying on his own political instincts, positioned himself to be a direct beneficiary of the mischiefs of faction that produced the specialty steel quota decision. He answered Taft's call for trade protection for Ohio specialty steel workers. Ford realized that he needed all the votes in Ohio that he could get to ensure that he would win the Republican nomination over Reagan in 1976.

Dent announced the specialty steel quotas in a June 11, 1976, press release.¹⁷¹ The quotas would be in effect for three years, like the Johnson and Nixon bilateral VERs were. In the first year, from June 14, 1976 to June 13, 1977, the tonnage limit was 147,000. In 1977-78, the limit was 151,500 tons. For 1978-79, the quota was 155,900 tons. To industry analysts, it was obvious that specialty steel quotas would have an impact. In the first four months of 1976, specialty steel imports flowed into the U.S. at a

¹⁶⁹ Ford, "Remarks in Middletown, Ohio."

¹⁷⁰ Republican Primary Results, June 8, 1976, available from the Ohio Secretary of State at <http://www.sos.state.oh.us/SOS/elections/electResultsMain/1970-1979 OfficialElectionResults/RepPrimary 60876.aspx>.

¹⁷¹ Memorandum by Frederick Dent, "U.S. Signs Specialty Steel Import Agreement with Japan; President Sets Quotas for Other Suppliers," 11 June 1976, L. William Seidman Papers, Box 101, Special Trade Representative-Specialty Steel, June-November 1976, Gerald Ford Presidential Library.

rate that would bring the final total to 168,900 tons.¹⁷² This was 14-15 percent higher than the rate needed to stay within the quota limit of 147,000 to begin for the period which began on June 14, 1976. Given this analysis, the quotas would better control the inflow of foreign specialty steel.

Although the specialty steel quotas may have secured the Ohio Republican delegates for Ford, they did not later ensure a win against his Democratic Presidential challenger Jimmy Carter. Carter won the state of Ohio and the national electoral vote count, 297 to 240. However, Ford and Carter were competitive in Ohio. Ford narrowly lost in the popular vote in Ohio by a margin of 11,616, 2,011,621 to 2,000,505.¹⁷³ In U.S. politics, there is a legend that political observers consider a victory in Ohio a key to a Presidential election victory. Only one President has lost the vote in Ohio and proceeded to win enough electoral votes to secure the Presidency. That was John Kennedy in 1960.¹⁷⁴ Using this measurement tool, the political math reveals that Ford lost Ohio and the Presidency by only eleven thousand votes.

Despite Ford's loss in the general election, victory in the Ohio Republican Primary may be attributed to the specialty steel quota policy. It was the product of a successful Ricardo-Viner style political coalition. The USW cooperated with specialty steel firms in the TSSIC to file a claim with the USITC to insulate their industry from foreign imports and foster domestic production and employment. In this instance of

¹⁷² Edwin L. Dale, Jr., "Import Quotas Put on Specialty Steels; Shipments from Japan to be Curtailed," *New York Times*, June 12, 1976, 44.

¹⁷³ Congressional Quarterly, *Presidential Elections, 1789-2008*, 163.

¹⁷⁴ "As Ohio Goes, So Goes the Nation. Sometimes," *Washington Post*, March 6, 2008.

mischiefs of faction, a labor-management coalition was actuated by the view that the specialty steel industry was injured by foreign imports. After the USW and Allegheny-Ludlum lobbied the President on March 10, 1976, 18 Republican Congressmen tried to convince Ford to ignore the naysayers in the Administration and use the quotas to his political advantage in Ohio. The announcement of the specialty steel quotas may have given Ford the margin of victory he needed to defeat his Republican primary challenger. It may have also contributed to a narrow loss to Carter in Ohio in the general election. The USW was an important part of the winning lobbying coalition. Ford understood this. In one of his final acts before leaving office, Ford acknowledged what this amalgam labor union did on behalf of the specialty steel workers in its ranks by honoring Abel with the Presidential Medal of Freedom.¹⁷⁵

¹⁷⁵ “21 Named by Ford to Receive Medal of Freedom,” *New York Times*, January 2, 1977, 44.

Firms

Protection

Free Trade

Protection

United Steel Workers
and the Tool and
Specialty Steel Industry
Committee for Import
Relief

Labor

Free Trade

Chapter IV

Case Study Four: Carter Orderly Marketing Arrangements in Footwear, April 1977

The coordinated lobbying of shoe industry interests convinced newly elected President Jimmy Carter to make an exception to America's free trade position. The Boot and Shoe Workers Union and the United Shoe Workers, two product-based unions, relied on the strength of their connections to the AFL-CIO and its President, George Meany, to cooperate with an industry group, the American Footwear Industries Association (AFIA), to secure bilateral VERs from Taiwan and South Korea. The shoe workers and their firms were immobile and specific. The coordinated interests from the shoe industry were organized and active. In response to prompting by the Senate Finance Committee, the judges of the USITC rendered a 6-0 finding that there was import injury to the shoe industry that should be remedied by tariff quotas. As Carter considered the implications of the USITC's remedy, he was directly petitioned by the shoe industry interests, as well as a contingent of 43 Congressmen. After thorough consideration the lobbying messages he received, and the choices of remedies his Administration identified, Carter decided to implement bilateral VERs with Taiwan and Korea for three years. Although the bilateral VERs placed quotas on imported shoes to insulate U.S. firms from foreign competition, the shoe industry had a mixed reaction to the decision. It was a case where the economic benefits of bilateral VERs did not extend to all of the workers and owners in the successful lobbying coalition.

Carter's presidential election was the product of a voter coalition that included organized labor and the firms in the shoe industry. In July 1976, the AFL-CIO's Executive Council pledged its support to the Carter-Mondale ticket.¹⁷⁶ The following month, on August 31, 1976, George Meany gave a rousing speech in favor of Carter-Mondale to the membership of the AFL-CIO's General Board:

We are here to elect Governor Carter and Senator Mondale. (Applause.) They are determined to get America back to work. They can and will lead this country with firm resolve, vision, compassion. America needs them; we need them and we are going to help them in any way we can. (Applause.)¹⁷⁷

Meany's speech to the AFL-CIO's General Board occurred a week after Carter met privately with a group of 20 shoe manufacturers in a campaign stop in Los Angeles. The 20 shoe manufacturers were organized as the AFIA. The spokesperson for the shoe manufacturers was Seymour Fabrick, President, Vogue Shoe, who met with Carter for 20 minutes to discuss the state of the shoe industry. Fabrick reportedly asked Carter about President Ford's decision not to follow the advice of the USITC and impose tariff-rate quotas on shoes. Ford instead offered shoe workers who were unemployed by imports payments in the form of adjustment assistance. Carter stressed the difference between a future Carter Administration and the Ford Administration. If he was elected President, Carter told Fabrick that he would give the shoe manufacturers a fair hearing. Fabrick recalled the conversation, in which Carter said he would give the shoe industry its turn "at bat."

¹⁷⁶ "AFL-CIO Executive Council Endorses Carter and Mondale," *AFL-CIO Free Trade Union News* 31, no. 7 (July 1976): 1.

¹⁷⁷ "We've Had Enough," *AFL-CIO Free Trade Union News* 31, no. 10 (October 1976): 1.

‘He said he couldn’t promise that we would get a hit, but that we would get a piece of the ball.’ Fabrick said. “I told him that I was a baseball player, and that if I got up to bat, I would get a hit,’ Fabrick continued.¹⁷⁸

Carter received a copy of a *Footwear News* article on this encounter with a typewritten note from the AFIA on the first working day of his administration, January 21, 1977.¹⁷⁹

Sending a message to the President early in his new Administration was a sign of how organized and active the lobbying interests from the shoe industry were. Now that he was in office, Fabrick’s question for Carter was, would Carter give Fabrick a turn at bat and provide trade protection for the shoe industry?

Fabrick’s January 21, 1977 letter to Robert Lipschutz also attached a copy of a joint press statement by the AFIA and the AFL-CIO on the USITC’s latest decision. On January 8, 1977, the USITC ruled unanimously, 6-0, that the shoe injury had indeed been injured by foreign imports. However, the shoe industry did not agree with the remedy recommended by the USITC. The USITC recommended a five-year tariff quota, with a 40% tariff on imports over 265.6 million pairs of shoes the first three years, a 30% tariff on shoes in excess of 256.6 million pairs in the fourth year, followed by a 20% quota on shoes in excess of 256.6 million pairs in the fifth year. Instead of a tariff quota, the shoe industry advocated for straight import quotas. The joint press statement from the AFIA and the AFL-CIO made their position known:

The ITC recommendation, which is the same type of import relief proposed by several major retail groups, is neither what the manufacturers and unions requested nor is it consistent with the degree of serious injury

¹⁷⁸ “Carter, Shoemen Confer,” *Footwear News*, August 30, 1976.

¹⁷⁹ Seymour Fabrick, American Footwear Industries Association, to Robert Lipschutz, Counsel to the President, 21 January 1977, in Tariffs, Box TA 4-12, White House Central Files, Jimmy Carter Presidential Library.

from imports voted unanimously by the Commission twice in less than a year. We still maintain that import quotas are the best answer to the serious problems created by the rising tide of imports which have done such severe damage to our industry, our jobs and our communities. Indeed, the tariff rate quotas would provide significantly fewer jobs than the remedy we proposed.¹⁸⁰

The shoe industry sought a quota limiting imports into the U.S. to just 287 million pairs. The lobbying interests from the shoe industry applied direct pressure to Carter and his National Security Advisor, Zbignew Brzezinski. In separate letters dated February 2, 1977, Mark Richardson of the AFIA wrote to Carter and Brzezinski asking that they consider its position on import quotas articulated in its joint statement with the AFL-CIO.¹⁸¹ Richardson reminded Carter and Brzezinski of their request for the 287 million pair quota limit. However, they simultaneously agreed to accept a modified tariff-rate quota. The modified tariff-rate quota was a 50% tariff on shoes exceeding the 265 million pair limit, no scaling down of the tariff percentage in subsequent years, and no exclusions to any type of non-rubber footwear from trade restrictions.¹⁸² The modification in the position of the shoe industry on the remedy was a sign that it was not organized.

The Carter Administration mobilized to deal with the USITC's decision. Carter had a fixed amount of time in which he could either accept the tariff-rate quota or reject

¹⁸⁰ Fabrick to Lipschutz.

¹⁸¹ Mark Richardson, AFIA, to President Jimmy Carter, 2 February 1977, in Tariffs Box 4-12, White House Central Files, Jimmy Carter Presidential Library. Mark Richardson, AFIA, to Zbignew Brzezinski, 2 February 1977, in Tariffs Box 4-12, White House Central Files, Jimmy Carter Presidential Library.

¹⁸² Richardson Letter to President Carter; Richardson Letter to Brzezinski.

the remedy. Alan Wolff, Carter's Deputy Special Trade Representative, authored a February 4, 1977 memorandum which spelled out the possible options. Although Strauss had yet to be nominated as Special Trade Representative, Wolff was already at work on the USITC's decision.

Within two months, the President will be required to decide whether or not to impose restrictions on footwear imports. This is the largest claim for import relief ever filed, covering \$1.45 billion in imports. The footwear industry clearly meets the statutory criterion of being injured by increased imports.¹⁸³

Wolff added that Congress may be interested in exercising its new authority to override the President if he does not vote with the Congressional majority in favor of some action.

There is substantial sentiment in Congress that import relief is warranted for this declining industry. In fact, representatives of the last Administration [Gerald Ford] promised such relief to ease passage of the Trade Act, but it was denied last April. Under the Trade Act, Congress has the authority to override the President's decision by simple majority vote in both the Senate and the House. Due to a gap in the coverage of the law, this was not possible last year. To prevent that problem from recurring, the Congress amended that provision in September.¹⁸⁴

Based on Wolff's explanation, action was necessary by the President. At this point in the memorandum, the question nagging Carter was about the type of action he might choose. Would it be the chosen remedy of the USITC? One of the two remedies advocated by the shoe industry? Adjustment assistance like Ford provided? Or another solution?

¹⁸³ Memorandum by Alan Wolff, Special Trade Representative, to the Vice President, the Secretary of State, the Secretary of the Treasury, the Secretary of Commerce, the Secretary of Labor, the Director of the Office of Management and Budget, the Chairman of the Council of Economic Advisors, the National Security Advisor, the Assistant to the President for Domestic Affairs and Policy, the Secretary of the Cabinet, 4 February 1977, in Tariffs, Box TA 4-12, White House Central Files, Jimmy Carter Presidential Library.

¹⁸⁴ Wolff Memorandum to the Vice President.

Carter received Wolff's memorandum and underlined notable passages. His pencil was a guide as to his thoughts about the way a decision to favor trade protection for shoes would be received. What would consumers think? Consumers would be hurt by any type of trade restriction.

The impact on consumers of any import restrictions on a product that makes up nearly half of the supply of a basic consumer item, such as shoes and which accounts for 1.4 percent of the Consumer Price Index is a key factor.¹⁸⁵

What would America's trade partners think? They would be hurt. They may ask Carter for an offsetting relaxation of existing tariffs on other goods, or retaliate with new protection for their sensitive industries, threatening the possibility of a trade war.

[Another key factor] is the impact on exporters in Taiwan, Italy, Spain, Brazil, Korea and a number of smaller suppliers. Shoes are a major export for many countries experiencing serious balance of payments problems, combined in some cases with political difficulties. Moreover, countries affected by our restrictions have the right under international agreement to retaliate against our exports, or may seek compensation in the form of reduced restrictions on some of their other exports to the U.S. market. There is also the danger that other countries may use this as justification for giving new protection to their sensitive industries or maintaining restrictions we are currently protesting.¹⁸⁶

These negative impacts of trade protection for American consumers and trading partners had to be considered carefully along with the positives: an improved production and employment outlook. Unemployment in the shoe industry was at 13 percent, mainly in

¹⁸⁵ Wolff Memorandum to the Vice President.

¹⁸⁶ Wolff Memorandum to the Vice President.

New England.¹⁸⁷ Would Congress override a decision that was not deemed fair to those workers? Wolff's answer was a qualified yes.

The risk of a Congressional override is a new factor which must be seriously considered in evaluating alternatives to the Commission recommendation. The industry does not have the power of steel or textiles on the Hill but it is well organized, has labor support, and has gained widespread Congressional sympathy for its cause.¹⁸⁸

Congressional override was a possibility. But, even if Carter decided to protect the shoe industry, he would still have opposition. Carter would be challenged by American consumers, retailers and proponents of a free trade policy for the U.S.¹⁸⁹

Wolff ticked off several different options for action. The first was adjustment assistance, a policy that Ford used instead of the USITC recommended tariff-rate quota.

Wolff said that option would be unsatisfactory to the lobbying constituencies.

Unfortunately, there is widespread and not unfounded conviction that expeditious adjustment assistance is an ineffective and inadequate remedy. It would result in considerable dissatisfaction and a possible Congressional override.¹⁹⁰

The next three options were the USITC recommended tariff-rate quota, modifications to the tariff quota recommended by the USITC, and the import quota recommended by the shoe industry. The fifth option was Orderly Marketing Agreements. Wolff explained the pluses and minuses of the final option:

This option would have the advantage of reducing or eliminating compensation or retaliation. Although the Europeans would be unwilling

¹⁸⁷ Wolff Memorandum to the Vice President.

¹⁸⁸ Wolff Memorandum to the Vice President.

¹⁸⁹ Wolff Memorandum to the Vice President.

¹⁹⁰ Wolff Memorandum to the Vice President.

to negotiate an OMA, Korea, the third largest supplier, has indicated a willingness to negotiate, and Taiwan would also agree, as it did in the previous shoe case. These two countries account for over half of U.S. imports.¹⁹¹

This was the option that the President ultimately chose. However, it was not chosen immediately after he read Wolff's memorandum. Carter needed more time to consider the impact of his decision on the U.S. economy.

Then, George Meany made his viewpoint known to Carter. Meany wrote the President on Valentine's Day, February 14, to ask his support for a trade policy to improve the lives of union shoe workers.

The AFL-CIO urges you to save the jobs of thousands of American shoe workers by acting immediately to curb the flood of imported shoes now destroying U.S. jobs and production.¹⁹²

Meany described the impact the flood of shoe imports was having on his members.

Shoe imports have risen from over 21% of the U.S. market in 1968 to about 50% in 1977. During this period alone, about 70,000 jobs in the shoe industry have been lost. The specific job losses and plant shutdowns have affected hundreds of communities in various parts of the nation – more than 100 in the past two years.¹⁹³

Meany closed by advocating the remedy that the shoe industry cooperatively sought, import quotas:

...the AFL-CIO is concerned that the International Trade Commission did not grant the union request for quotas on imports. That would be the most effective and least expensive remedy for workers, employers, consumers and taxpayers.¹⁹⁴

¹⁹¹ Wolff Memorandum to the Vice President.

¹⁹² George Meany to the President, 14 February 1977, in Tariffs Box TA 4-12, White House Central Files, Jimmy Carter Presidential Library.

¹⁹³ Meany to the President.

The AFL-CIO was actively pursuing the shoe industry's position with the President. Meany would not allow Carter to choose the USITC's remedy of tariff-rate quotas, not without making a case again for a quota on imports above 287 million pairs of shoes. If there had to be tariffs-rate quotas, it would be the revised tariff-rate quotas recommended on February 2, 1977, in the joint position statement by the shoe industry.

Meany had support in Congress. Mischief of faction in the State of New Hampshire compelled Senator Thomas McIntyre (D-NH) to write to President Carter on behalf of the shoe industry coalition. In a February 22, 1977 letter, McIntyre explained that shoe production in New Hampshire was hurting due to the influx of imports.

In my own state, production has dropped more than 55 percent since 1968, and so has employment. This means that more than 9,000 jobs lost in less than ten years in a small state with only 800,000 population. We have had twenty-four plant closings since 1968, and many of these were the only major employers in their respective communities.¹⁹⁵

Intervention into the economy with an import quota or tariff-rate quota was needed to preserve employment in rural areas like New Hampshire's small factory towns. These workers were immobile, unable to find alternative employment to shoe manufacturing in their small factory towns.

...[I]n the case of footwear, we are not talking about creating jobs. We are talking about preserving existing jobs, jobs which are largely in rural areas and are held by older workers, 60 percent of them women. These are the people most vulnerable to unemployment and these jobs are the most difficult to replace.¹⁹⁶

¹⁹⁴ Meany to the President.

¹⁹⁵ Thomas McIntyre to the President, 22 February 1977, Tariffs, Box TA-12, White House Central Files, Jimmy Carter Presidential Library.

¹⁹⁶ McIntyre to the President.

Employees at Knapp Shoe, located in Derry, NH, would be collecting unemployment assistance if they lost their job at the Knapp Shoe factory.¹⁹⁷ This was also the case for the unskilled and semi-skilled workers at Shaer Shoe Corp of Manchester, NH.¹⁹⁸ The New Hampshire shoe towns of Hampton and Salem would also be hard hit by unemployment.¹⁹⁹ Capital at these shoe firms was geographically immobile and specific. McIntyre then discussed the impact that a program to preserve employment in rural areas would have on the U.S. economy as a whole: \$10 billion in net national income.

These jobs also have comparatively greater economic impact. It is estimated that the multiplier effect of the shoe industry, because it is in rural areas, is three; as opposed to a multiplier effect of two in urban areas. Thus \$3.4 billion in 1976 domestic factory shipments generated about \$10 billion in net national income.²⁰⁰

If Carter protected the shoe industry, New Hampshire workers and voters would benefit. It was the right policy for one of the immobile factors of production, specifically, the shoe industry workers, who were at risk of becoming unemployed.

On March 7, the representatives for the shoe industry interest groups and a contingent of eight Senators led by McIntyre converged at the White House to lobby for

¹⁹⁷ Interview with Charles Benson, Former Knapp Shoe Employee, March 19, 2011.

¹⁹⁸ United States International Trade Commission Complaint, Shaer Shoe, Manchester, NH, Inv. TEA-W-261.

¹⁹⁹ New York New England Extensions (NYNEX) Information for Derry, NH, page 405, NYNEX Information Portsmouth, Exeter, NH, page 22, located in Phone Fiche at Boston College Thomas P. O'Neill Library.

²⁰⁰ McIntyre to the President.

something more than adjustment assistance.²⁰¹ It was a lengthy presentation. According to Carter's Daily Diary, the meeting lasted two hours, from 8:05AM to 10:0AM.²⁰²

Robert Hormats summarized the nature of the presentation:

There were no surprises; all argued strongly for protection. The Senators left no doubt that if the Administration failed to provide import relief, there would be trouble on the Hill.²⁰³

Fabrick had a separate meeting with Presidential Advisor Bob Ginsburg the following week. He emphasized that the industry would prefer a quota of 265 million pair per year, which was less than the 278 million figure that the industry sought from the USITC. It was the third different acceptable solution that the shoe industry presented to Carter. Fabrick explained the logic of the new figure for the import quota limit in a fact sheet he provided to Ginsburg.

By using the quota of 265 million pairs per year, the domestic shoe industry can create a total of 40,000 shoe factory jobs and 25,000 allied shoe factory jobs for a total of 65,000 jobs at no cost to the government and no cost to the consumer.²⁰⁴

Ginsburg advised Stuart Eizenstat that Fabrick's claim was not grounded in reality.

Fabrick is, however, way off in his claims for the benefits and the costs of his suggestion – the benefits in terms of jobs created would be much less and the suggestion of zero costs to consumers is preposterous.²⁰⁵

²⁰¹ Memorandum by Robert Hormats to Zbigniew Brzezinski, Re: Proposed Reply to Senator McIntyre, 10 March 1977, Tariffs, Box TA4-12, White House Central Files, Jimmy Carter Presidential Library.

²⁰² Jimmy Carter, Daily Diary, March 7, 1977, available at <http://www.jimmycarterlibrary.gov/documents/diary/1977/d030777t.pdf>.

²⁰³ Hormats Memorandum to Brzezinski.

²⁰⁴ Memorandum by Bob Ginsburg to Stuart Eizenstat, 22 March 1977, Tariffs TA4-12, White House Central Files, Jimmy Carter Presidential Library.

²⁰⁵ Ginsburg Memorandum to Eizenstat.

Fabrick's claim that consumers would not be hurt by an import quota as opposed to a tariff-rate quota defied the laws of economics. Consumers would have to pay higher prices for foreign shoes under a quota system. The elevated quota price was higher than what the market would yield if the laws of supply and demand were followed. The same flawed argument was made by Meany in his February 14, 1977 letter to Carter. If a quota is imposed instead of a tariff, there are still additional costs that consumers must bear. Quotas are not costless to consumers.

However, several U.S. senators were willing to ignore consumers in order to foster domestic production and employment through trade protection. McIntyre and 42 other Senators wrote a March 18, 1977 letter to the President asking him to do something besides offer adjustment assistance to displaced shoe industry workers. They argued that trade protection for shoe workers was sound policy in keeping the lowest educated workers in the U.S. workforce on the job and gainfully employed.

...[W]e strongly believe that import relief for footwear is an appropriate part of this Administration's economic policy. That policy has shown concern for the unemployed. In this context we think it is reasonable that constructive action be taken to preserve a quarter of a million existing jobs. Many of these are entry-level jobs, and thus are even more important in our national employment policy because they give work to unskilled and semi-skilled workers.²⁰⁶

The factor specificity argument here was immobility. These were workers who had a skill that was useful in a line of manufacturing work. Their skills as shoe workers should be rewarded with continued employment. Even though many jobs in the shoe industry

²⁰⁶ Thomas McIntyre, et al, to The President, 18 March 1977, Received 28 March 1977, Tariffs, TA 4-12, White House Central Files, Jimmy Carter Presidential Library.

were entry-level jobs, these workers were also vulnerable. If shoe workers were not allowed to keep their jobs, their options were non-existent. The lack of options made shoe workers immobile, because they did not have an alternative job to take instead. Keeping them employed as shoe workers was better than allowing these workers to add to the number of unemployed citizens in the U.S. On March 28, 1977, the day that the Carter Administration received the letter from McIntyre and the 42 Senators, that number was 7.3 percent of the total U.S. adult population. On that same day, the Special Trade Representative, Robert Strauss, told the attendees of the Economic Planning Group that Carter may want to consider granting OMAs and adjustment assistance.²⁰⁷

OMAs and adjustment assistance would address all shoe industry workers. The OMAs with Taiwan and South Korea would address imports of shoes that were in the lower-end price category. However, not all shoe plants manufactured low-end products. Those that made higher-priced products were competing with European imports from Spain and Italy, countries that would not be restricted by the bilateral VERs that the Carter Administration was considering. OMAs were one part of a comprehensive solution for the shoe industry along with adjustment assistance.

Once Strauss made his proposal, the Carter Administration was now in a position to make a decision. The prompt came in the form of a March 29, 1977 memorandum from Eizenstat and Ginsburg. They presented three options. The first was an expanded adjustment assistance program. The benefits of this approach to consumers were

²⁰⁷ Memorandum by Stuart Eizenstat to President Carter, 30 March 1977, White House Central Files, Tariffs, Box TA4-12, Jimmy Carter Presidential Library.

underlined. The first option would be “without any restrictions on imports.”²⁰⁸ Workers would be the beneficiaries of the next two options presented to Carter. One was a tariff-rate quota formula devised by the Special Trade Representative’s Office.

The proposal developed by the STR would modify the ITC recommendation by providing, among other things, for a higher quota level (322 million versus 265 million [sic 256.6 million] pairs of shoes, a more limited duration (3 year vs. 5 years), a price break at \$2.50 per pair which would force foreign suppliers to continue to provide a fixed proportion of low-priced shoes (compared with no price break in the ITC recommendation).²⁰⁹

The third option was OMAs and adjustment assistance. This is what Strauss presented the day before at the Economic Policy Group meeting.

An announcement that you intend to negotiate orderly marketing arrangements (OMAs) with foreign suppliers as well as provide some form of expanded adjustment to the domestic industry.²¹⁰

The third option was the one Eizenstat and Ginsburg recommended. It was also the option that President Carter chose.

Carter was persuaded by the reasons Eizenstat and Ginsburg provided. They noted that there was widespread sympathy for the shoe industry’s loss of market share to cheaper foreign imports.

The ITC has twice found, and Congress and the public would generally agree, that the domestic shoe industry has been injured by imports.²¹¹

²⁰⁸ Memorandum by Stu Eizenstat and Bob Ginsburg, for the President, 29 March 1977, White House Central Files, Tariffs, Box TA 4-12, Jimmy Carter Presidential Library.

²⁰⁹ Eizenstat and Ginsburg Memorandum to the President.

²¹⁰ Eizenstat and Ginsburg Memorandum to the President.

²¹¹ Eizenstat and Ginsburg Memorandum to the President.

They described what a national debate over adjustment assistance versus trade protection for the shoe industry would look like:

The issue in such a battle will be perceived not as a major Administration effort against inflation or in favor of international trade but whether the President is willing to protect a declining American industry against cheap labor imports from Taiwan and Korea.²¹²

The timing was right, Eisenstat and Ginsburg concluded, to choose the second or third option they presented:

...[W]e believe that our objective should be to devise an import relief remedy which will be (and will be perceived to be) as inexpensive as possible for our own consumers yet sufficiently beneficial to the domestic industry to enable us to avoid a major battle in Congress.²¹³

Carter approved the third option. But there was a matter for discussion. Would these be called OMAs or voluntary restraints?²¹⁴ Johnson and Nixon had used the term voluntary restraints to describe the bilateral VERs. When Carter informed the public of his first major decision in international trade on April 1, 1977, Carter's choice was OMAs.

Carter made a set of public statements on April 1, 1977. He informed Americans that he had sent a message to Strauss, authorizing him to negotiate the OMAs. Then, in a separate letter to Congress, Carter explained the rationale for not approving the USITC remedy. His first consideration was the burden that a tariff quota would place on American consumers.

The [USITC] remedy would be highly inflationary and add to substantially to consumer costs, particularly low and middle income purchasers of

²¹² Eisenstat and Ginsburg Memorandum to the President.

²¹³ Eisenstat and Ginsburg Memorandum to the President.

²¹⁴ Memorandum by Jack Watson, to the President, 30 March 1977, Tariffs, TA 4-12, White House Central Files, Jimmy Carter Presidential Library.

footwear. While some jobs would be saved and some new jobs generated, the consumer cost per job would be excessive under the Commission remedy.²¹⁵

Carter also told Congress that he found fault with tariff quotas in that they invited retaliation from U.S. trading partners.

The Commission's allocation of a tariff rate quota among supplying countries is inequitable and would be particularly burdensome on developing countries. Adversely affected countries would have the right to impose retaliatory restrictions against U.S. exports.²¹⁶

Carter added that a trade war might emerge from the retaliatory tariffs, affecting the lives and livelihoods of workers in other industries besides the shoe industry.

Retaliation is normally avoided by granting compensatory U.S. tariff cuts on products of trade interest to the countries affected. But this means other domestic industries and workers would pay a large bill for the high level of relief given to the shoe industry.²¹⁷

While Carter was willing to help one industry, he was not going to hurt other industries to the detriment of the U.S. economy as a whole. It was now Strauss's task to negotiate bilateral VERs with Taiwan and South Korea.

Industry reactions to the President's April 1, 1977 message were mixed. Different members of the industry spoke and gave different opinions. The organizational

²¹⁵ Jimmy Carter, "American Non-Rubber Footwear Industry Message to the Congress Transmitting a Report," April 1, 1977, in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.

²¹⁶ Carter, "American Non-Rubber Footwear Industry Message to the Congress Transmitting a Report."

²¹⁷ Carter, "American Non-Rubber Footwear Industry Message to the Congress Transmitting a Report."

discipline of the AFIA was wavering. Philip Barach, Chairman of U.S. Shoe Corporation, said he was “terribly disappointed.”²¹⁸

It [the decision] doesn’t come to grips with the need for a balanced approach to get and keep jobs in towns with 5,000 and under population where most of the shoe jobs are.²¹⁹

Barach was familiar with the economic fact that shoe industry workers were immobile because they lived and worked in small one-industry towns with no other alternatives for employment. If these small one-industry towns made high-end shoes, then OMAs with Taiwan and South Korea that insulated the U.S. market from lower quality shoes would not help them. Barach’s colleague, Francis Rooney of Thom McAn Shoes, was more hopeful about the Carter’s OMAs:

[The policy] could turn out to be better or worse than the International Trade Commission’s recommendation. We’ve just got to wait and see what is negotiated in an Orderly Marketing Agreement.²²⁰

This was an answer that was better grounded in the economic principles underlying OMAs and bilateral VERs. It may have also reflected the fact that Thom McAn sold shoes in the same price range as Taiwanese and South Korean imports covered by the OMAs.

Organized labor’s reaction was like that of Barach, not Rooney. Organized labor did not see OMAs as having the same economic benefit that import quotas would. They instead railed at the failure of the President to take on either their import quota or tariff

²¹⁸ “Chief of U.S. Shoe Disappointed,” *New York Times*, April 2, 1977, 30.

²¹⁹ “Chief of U.S. Shoe Disappointed,” 30.

²²⁰ “Chief of U.S. Shoe Disappointed,” 30.

quota remedies. On April 5, 1977, Lane Kirkland reminded Carter of the AFL-CIO's decision to back the Carter-Mondale ticket and labeled the OMAs as a capitulation to the interests of big business.

A central theme of that campaign was a repeated commitment to the proposition that with a new Administration would come a new spirit, governed by the needs, the problems and the aspirations of plain people – specifically working people. The recent signs and portents lead us to wonder if our support was not just another triumph of hope over experience. Whether the winds blow right or left, cold war or détente, Republican or Democrat, big business adapts and comes to winning terms.²²¹

Kirkland's reaction to the OMAs also introduced a new argument for trade protection.

Some U.S. competitors rely on underpaid and overworked labor.

[Carter's decision to negotiate OMAs was based on the] emerging principle of consumer sovereignty as it affects trade issues—that is, the proposition that the consumer has an inalienable, top priority right to \$4 Korean shoes, regardless of the conditions under which they are made; the human, social and economic cost of lost American jobs and of who really gets the \$4.²²²

Organized labor tried to convince American consumers to avoid the shoes that were limited by the OMAs. They hoped for a more comprehensive quota system that would include both high end and low-end priced shoes.

Carter's Secretary of Labor Ray Marshall broke the Administration's silence. "If we can't get voluntary reductions, I would recommend we go to a tariff[-rate] quota system."²²³ It was hoped that these words from the Labor Secretary might reassure

²²¹ Philip Shabecoff, "Labor Official Denounces Carter," *New York Times*, April 6, 1977, 12.

²²² A.H. Raskin, "Labor's Fight with Carter for Restrictions on Imports," *New York Times*, April 13, 1977, 88.

organized labor. Meany met with Carter at the White House on April 6, 1977. They were scheduled to talk about changes in labor law. Instead, Meany used the opportunity to remind Carter of organized labor's support of his Presidential victory in 1976.²²⁴ He also emphasized the same message that Kirkland did the previous day – the AFL-CIO was concerned that the Carter Administration not befriend big business.²²⁵ Meany met again with Carter on April 14, 1977. They had another exchange of ideas on jobs and the economic outlook for AFL-CIO workers. Robert Strauss attended that meeting. It was hoped that Strauss could provide some reassurances about the OMAs he was set to negotiate with Taiwan and South Korea. Strauss was reported in *The New York Times* on his response to the latest lobbying effort: “It is one of those occasional meetings where there is no heat generated but a considerable amount of new light shed,” Strauss said.

Strauss negotiated OMAs with Taiwan and South Korea that restricted imports to 13.6 million pairs, which was 17% below the 1976 import level.²²⁶ The Office of the Special Trade Representative estimated that the agreements with Taiwan and South Korea could create 25,000 jobs by 1978.²²⁷ This was the product of a successful Ricardo-Viner coalition involving the AFIA and the AFL-CIO. The shoe workers and the firms for which they worked were immobile and specific. The AFIA and AFL-CIO were

²²³ “Labor Aide to Push Rise in Shoe Tariffs if Carter Plan Fails,” *New York Times*, April 6, 1977, 79.

²²⁴ “Tough Talk’ Reported between Carter and Labor,” *New York Times*, April 7, 1977, 22.

²²⁵ “‘Tough Talk’ Reported between Carter and Labor,” 22.

²²⁶ Memorandum by W. Michael Blumenthal, Chairman, Economic Policy Group, to the President, 31 May 1977, Tariffs, Box TA 4-12, White House Central Files, Jimmy Carter Presidential Library.

²²⁷ Blumenthal Memorandum to the President.

organized and active in their lobbying efforts. They engaged in several forms of collective action. They wrote letters to the Carter Administration and met with members of the Administration in person. But the lobbying interest groups from the shoe industry were not pleased with the final result, the bilateral VERs with Taiwan and South Korea.

Why? The types of shoes covered by the quotas produced a positive result only for some firms in the U.S. shoe industry. U.S. firms that manufactured low-end shoes, like Thom McAn, benefitted from the OMAs. Shoe plants that manufactured high-end priced shoes were not helped by the import restraints in the bilateral VERs. Organized labor recognized this. The AFL-CIO continued to insist upon across-the-board import quotas or tariff-rate quotas that would deal with all types of imported shoe products. Carter's decision to announce a three-year, \$56 million adjustment assistance program for the shoe industry was helpful. But the failure to do more than offer adjustment assistance to workers at high-end shoe facilities was a reason why all firms and the AFL-CIO did not support the bilateral VERs. If the AFL-CIO shoe workers in New England were making products that competed against imports from Taiwan and South Korea, then the OMAs fostered production and employment at their firms. If not, then adjustment assistance was all they received.

Carter's 1976 Presidential voter coalition included makers of high-end shoes like Fabrick, who hoped he would receive a turn at bat in a Carter Administration. Due to the limited nature of the agreement with Taiwan and South Korea, Fabrick did not get a hit for his own firm. But he did influence Carter to take action on behalf of shoe makers like Thom McAn who were battling for their survival against imports from Taiwan and South

Korea and needed insulation from foreign competition from firms in those countries. Of the states that were impacted by the import quotas, domestic production and employment in low-priced shoes was fostered in two states, Maine and Ohio. These states experienced an increase in the number of thousands of pairs of shoes produced in the last year for which there was production data, 1973, and the second and third years the quota was in effect. From 1973 to 1979-80, Maine increased its shoe output from by 17 million pair, from 31,741,000 in 1973 to 48,375,000 pair in the 1979, and to 46,375,000 in 1980. During the same time frame, Ohio increased its output of lower priced shoes, by over one million pair, from 15,662,000 in 1973 to 16,763,000 in 1979 and 18,383,000 in 1980. These two states clearly benefitted from the import quota.

Table 3: U.S. Shoe Production, before and during the Bilateral VER

State	1973	1979	1980	Increase/Decrease
MA	48,073,000	31,146,000	27,549,000	Decrease
ME	31,741,000	48,056,000	46,375,000	Increase
NH	25,364,000	24,803,000	18,559,000	Decrease
NY	50,928,000	33,298,000	25,565,000	Decrease
NJ	14,565,000	11,983,000	12,053,000	Decrease
PA	66,363,000	37,401,000	38,200,000	Decrease
OH	15,662,000	16,763,000	18,383,000	Increase
IL	18,616,000	7,195,000	6,086,000	Decrease
MO	49,410,000	42,769,000	44,423,000	Decrease
TN	38,198,000	29,811,000	33,165,000	Decrease
WI	14,779,000	8,844,000	8,296,000	Decrease
AK	20,249,000	18,461,000	18,672,000	Decrease
Other	94,378,000	88,342,000	99,525,000	Increase
Totals	488,326,000	398,872,000	396,851,000	

Table Source: AFIA 1981 Footwear Manual, New York, NY, 1981.

Low-priced shoe manufacturers in the U.S. were helped by the strategy that Taiwan and South Korea followed. Firms in Taiwan and South Korea increased the prices of low-priced shoes that were imported by the U.S. They did so to take in the profits or quota rents that were available at the higher prices their national firms could be charge under the quota. David Yoffie explains the strategy in his book, *Power and Protectionism*:

Both governments encouraged producers to increase prices. Prices would soon start rising in the United States if retailers anticipated a shortage of low priced shoes. By hiking the price tags themselves on existing product lines, Korea and Taiwan could absorb most of the potential scarcity rents.²²⁸

This explains how the VER made it possible for U.S. producers of low-priced shoes to increase production and employment. The U.S. producers were manufacturing goods that were more competitively priced relative to the low-priced shoes sold in the U.S. by Taiwan and South Korea. Taiwan and South Korea were selling fewer shoes, but the shoes they did sell were at a greater profit. Since the U.S. could manufacture more of this line of shoe at a low price, it could hire the shoe workers needed to make those shoes for sale.

The positive results for Maine and Ohio were a credit to the Senators who pressured Carter for trade protection for the shoe industry, William Hathaway (D-ME), Edmund Muskie (D-ME), and John Glenn (D-OH). These three Senators were among the 43 who signed Senator McIntyre's March 18, 1977 letter asking for support from the Carter Administration to foster domestic production and employment on behalf of the Ricardo-Viner political coalition of shoe manufacturers and the AFL-CIO.

²²⁸ David B. Yoffie, *Power and Protectionism* (New York: Columbia University Press, 1983), 180.

Firms

Protection

Free Trade

Protection

The Boot and Shoe Workers Union and the United Shoe Workers of the AFL-CIO and the American Footwear Industries Association	

Labor

Free Trade

Chapter IV

Case Study Five: Carter OMAs for Televisions, 1977

Two months prior to the 1976 Presidential election, on September 22, 1976, COMPACT, the Committee to Preserve American Color Television, filed a petition with the USITC that 65,000 jobs would be lost to Asian imports if the U.S. government failed to protect them. COMPACT was a Ricardo-Viner style political coalition, co-chaired by labor unions from the television manufacturing sector under the aegis of the AFL-CIO and a firm from the same industry, Corning Glass Works. This was a mostly immobile and specific coalition that was also organized and active. By filing the USITC complaint, organized labor and the firms in the color television manufacturing industry were coordinated. In this instance of mischiefs of faction, the labor-management coalition was actuated by the view that the color television industry had been injured by foreign imports pursuant to the Escape Clause in Section 201 of the Trade Act of 1974. The USITC decided unanimously that COMPACT deserved a remedy for its lost market share, but did not agree whether the remedy should be tariffs or quotas.

Taking protectionist action to save 65,000 jobs had its appeal. It would insulate the firms in the COMPACT and their workers from the foreign competition that was having a negative impact on their livelihoods. The newly elected President was aware that AFL-CIO support was critical to his victory over Ford in a close Presidential election. Yet, Carter worried that protectionist action on behalf of COMPACT would not be without its negative costs to American consumers. Carter opted to endorse the USITC

decision and asked his Special Trade Representative, Strauss, to negotiate voluntary restrictions with Japan. The policy had a significant impact on the future of the world color television industry. Japanese TV manufacturers increased their foreign direct investment in U.S., locating manufacturing facilities in America and employing American labor to do the work.

COMPACT was “an organization of labor unions and domestic manufacturers,” uniting five firms that made TVs or subcomponent parts of a particular brand of television sets.²²⁹ The two TV brands were GTE Sylvania and Wells Gardner Electronics (WGE). Its subcomponent parts producers were Corning, Owens-Illinois and Sprague Electric Co. GTE Sylvania and WGE were part of a battle for survival with other U.S. firms, who were offering price incentives to customers to move their product out of warehouses and into American homes. In 1960, 27 firms manufactured TVs in the U.S. At the time the complaint was filed by COMPACT, just 12 companies manufactured TVs in the U.S. Of those 12 firms, four were foreign firms: Magnavox, the property of Philips of the Netherlands, Quasar (formerly Motorola), now owned by a Japanese-based Matsushita Electrical Industrial Co., Sony Corporation, and Warwick Electronics, now owned by Sanyo Electric Inc, which was also based in Japan.²³⁰ The eight U.S. firms that still produced in America in 1976 were the two market leaders, RCA and Zenith, as well

²²⁹ Nancy L. Ross, “TV Price War,” *Washington Post*, January 10, 1977, D9.

²³⁰ U.S. International Trade Commission, *Television Receivers, Color and Monochrome, Assembled or Not Assembled, Finished or Not Finished and Subassemblies Thereof*, Report to the President on Investigation No. TA-201-19, under Section 201(b) of the Trade Act of 1974, USITC Publication 808 (March 1977): A-8 to A-9.

as GTE Sylvania, WGE, Admiral Group, Andrea Radio Corp., Curtis Mathies Manufacturing Co. and General Electric.²³¹

The competition for the U.S. market was fierce. Some termed it a war. On January 10, 1977, the *Washington Post* reported that the two leading U.S. manufacturers, RCA and Zenith, slashed their prices with retailers who were official distributors of RCA and Zenith products.

Price cutting is normal during the slow six months after Christmas and before the introduction of new models. However, what escalates this into a war is the very slow market, which lacks major new technological innovations like the Sony Betamax video recorder to spark sales, as well as high inventories.²³²

U.S. firms were less innovative than Sony Corporation, which had just introduced videocassette recorders along with its color televisions as a market differentiating new product. RCA responded to its loss of innovation leadership by cutting prices to attract customers. Instead, GTE Sylvania and WGE lobbied for trade protection from the USITC along with 11 with labor unions representing the 65,000 U.S. workers in that industry. Zenith later joined in support of GTE Sylvania and WGE.²³³ In its complaint to the USITC, GTE Sylvania, WGE and Zenith did not focus on its loss of innovation leadership to Sony, but instead concentrated on the other Japanese firms who were allegedly dumping product in the U.S. market.

²³¹ U.S. International Trade Commission, *Television Receivers, Color and Monochrome, Assembled or Not Assembled, Finished or Not Finished and Subassemblies Thereof*, A-8 to A-9.

²³² Ross, "TV Price War," D9.

²³³ "Corporation Affairs: Zenith Changes Stand and Backs Quotas on Color TV Set Imports," *New York Times*, January 12, 1977, 72.

Workers in the color TV manufacturing industry were focused in a few U.S. states. Four firms had their principal facilities in Chicago, Illinois: Admiral Group, Quasar Electronics, WGE and Zenith. The other eight firms had principal plants located in eight different states: Andrea Radio Corp, Long Island, NY; Curtis Mathies Manufacturing Co., Dallas, TX; General Electric, Portsmouth, VA; GTE Sylvania, Smithfield, NC; Magnovox, Jefferson City, TN; RCA, Bloomington, IN; Sony, San Diego, CA; and Warwick Electronics, Forrest City, AR. These firms were free riding on the collective action of the COMPACT and its USITC claim. Of the firms in the COMPACT, Corning was located in Corning, NY, Owens-Illinois in Chicago, IL, and Sprague Electric in North Adams MA. Any mischiefs of faction that produced trade protection for the U.S. color television industry would be on behalf of the workers and voters living the states where these firms were located. Three such states were Illinois, Massachusetts and New York. Illinois was home to three of the claimants in the COMPACT, Owens-Illinois, WGE and Zenith. Massachusetts was the home state of Sprague Electric. New York was home to Corning Glass Works.

COMPACT brought together the labor unions associated with all aspects of the assembly of U.S. television sets. All were unions that belonged to the AFL-CIO. The AFL-CIO member unions who were part of COMPACT were listed individually in the complaint filed with the USITC. Some were product-based labor unions, like the United Furniture Workers. Others were trade-based labor unions. The trade-based labor unions included the Communications Workers of America, Independent Radionic Workers of America, International Association of Machinists, International Brotherhood of Electrical

Workers, and International Union of Electrical, Radio and Machine Workers. The rest were amalgam unions, which included the American Flint Glass Workers Union of North America, Allied Industrial Workers of America, and Glass Bottle Blowers' Association of the United States and Canada and United Steel Workers. What these unions all had in common is that they represented the workers in the same sector manufacturing U.S. color television sets.

Television manufacturing interests were actuated by the view that trade protection was necessary from the Executive Branch of the U.S. government. Jacob Clayman, Secretary Treasurer of the Industrial Union Department of the AFL-CIO spoke on behalf of all of the unions in this sector. "Some 65,000 jobs are at stake in this petition, and many have already been lost to color television imports."²³⁴ Between 1967 and 1976, the amount of color television receivers imported into the U.S. increased tenfold, from 318,000 in 1967 to 3.2 million in 1976.²³⁵ The workers who were at risk of losing their jobs were mostly semi-specialized, immobile and specific. Just a tiny fraction of these workers were so highly skilled that they were specialized and able to find work in other manufacturing industries, albeit at a lower wage. Most color TV manufacturing workers had only one job option, which was the one at the plant where they assembled televisions or manufactured subcomponent parts of televisions. Absent a job in TV manufacturing, they would be laid off and collecting unemployment insurance. Corning Glass Works employees located in Corning, NY, who were without a job at Corning plant were

²³⁴ "Quotas Asked on Imports of Color TV Sets," *Washington Post*, January 12, 1977, D13.

²³⁵ U.S. International Trade Commission, *Television Receivers, Color and Monochrome, Assembled or Not Assembled, Finished or Not Finished and Subassemblies Thereof*, A-90.

geographically immobile. So were the semi-specialized employees of Owens-Illinois, Sprague Electric GTE Sylvania and WGE.

Cooperating with Clayman in his lobbying efforts was Allen Dawson of Corning, who made a dire prediction if the import trend was allowed to continue. “The color television industry in the U.S. is in danger of extinction unless action is taken quickly.”²³⁶ The goal of this Ricardo-Viner political coalition from the color TV sector was a positive finding by the USITC in their anti-dumping petition made pursuant to Section 201 of the Trade Act of 1974. By filing its petition, COMPACT was organized and active, taking collective action to address the unemployment that would result from the loss of market share. It was a coordinated, cooperative endeavor in which organized labor and firms benefitted from making the same choices, and would subsequently have no incentive no to comply.

COMPACT faced challenges in its effort to get trade protection. The American Retail Federation strongly opposed COMPACT and supported the consumers who shop at its member’s retail stores. “[Trade protection] will cost the U.S. consumer several billion dollars and further fuel inflation.”²³⁷ Consumers would lose out on the opportunity to buy cheaper imports, or, get the advantages of the price cutting that RCA and Zenith attempted to make their goods more competitive with cheaper imports. The Carter Administration also opposed trade protection for the color TV industry. Testifying before the USITC was a member of the Carter Administration’s Council on

²³⁶ U.S. International Trade Commission, *Television Receivers, Color and Monochrome, Assembled or Not Assembled, Finished or Not Finished and Subassemblies Thereof*, A-90.

²³⁷ James Rowe, “Imported Color TVs Injurious to U.S. Industry, ITC Rules,” *Washington Post*, March 9, 1977, E1.

Wage and Price Stability, who contended that barring color television imports from Asia would cost American consumers between \$200 million and \$300 million a year.²³⁸

On March 8, 1977, the USITC ruled unanimously, 6-0, in favor of trade protection for the color TV industry. On the same day, the USITC offered its opinion that that the President should reduce sugar imports by one third in response to price dumping.²³⁹ In the color TV decision, all six judges determined that there was a domestic industry that was injured by imports, and that the increased imports were the substantial cause of the injury. Only one of the judges, Italo Ablondi, advocated for import quotas to be the President's remedy.

Three of the judges – Daniel Minchew, Will E. Leonard and George Moore – defined the U.S. industry as a TV manufacturing industry manufacturing both color and monochrome (black and white) television receivers. This U.S. TV manufacturing industry experienced an 188% increase in color and monochrome TV imports, from 2.7 million units in 1968 to 7.8 million units in 1976.²⁴⁰ The burden on the petitioners in the COMPACT was to show that a serious injury had been sustained by the manufacturers of color and black and white TV sets. Minchew, Leonard and Moore gave three examples of a serious injury. First, they noted how American TV plants operated at 5% to 15% below the capacity of all U.S. manufacturing plants between 1971 and September 1976.

²³⁸ Rowe, "Imported Color TVs Injurious to U.S. Industry," E1.

²³⁹ Paul Lewis, "Tariff is Urged for TV Imports by Trade Body," *New York Times*, March 15, 1977, 1.

²⁴⁰ U.S. International Trade Commission, *Television Receivers, Color and Monochrome, Assembled or Not Assembled, Finished or Not Finished and Subassemblies Thereof*, 11.

The three judges revealed another example of a serious injury with the annual decline in the ratio of net operating profit before taxes to sales between 1971 and September 1976. They showed a third example of a serious injury with the number of job losses. The average number of workers employed at U.S. TV manufacturers dropped from 42,920 in 1971 to a nadir of 28,446 in 1975. On the issue of whether imports were the substantial cause of the three injuries they cited, Minchew, Leonard and Moore saw merit in the argument that the two market leaders, RCA and Zenith, may have acted as a cartel to injure the other U.S. manufacturers. This described the price wars in the U.S. television market in January 1977. However, the three judges validated the COMPACT's petition and said that increased imports were the substantial cause of the serious injury to the U.S. television manufacturing industry.²⁴¹ As a remedy, Minchew, Leonard and Moore recommended that five years of duties be placed on imports of color and black and white television sets. In the first year two years, the duties would be 20% of the cost of the assembled or unassembled color or monochrome product. In the third and fourth years, the duties would fall to 15%, then to 10% in year five.

Two of the USITC judges, Joseph Parker and Catherine Bedell, defined the TV manufacturing industry differently. Parker and Bedell said that the industry included both completed color TV receivers and unassembled color receivers, and noted how the ratio of imports to units and subunits produced in the U.S. increased by 23% in 1973, 33% in

²⁴¹ U.S. International Trade Commission, *Television Receivers, Color and Monochrome, Assembled or Not Assembled, Finished or Not Finished and Subassemblies Thereof*, 18.

1975 and 50% in 1976.²⁴² Then, Parker and Bedell assessed three examples of import injury: the ratio of domestic production to imports, the ratio of net profits before tax to net sales, and unemployment. Parker and Bedell noted that the recent recession in the U.S. did not slow imports, but the sales of domestic producers were down 2.2 million units in 1974 and 1975 as compared with 1973. They remarked that net profit to net sales ratio dipped from 8.7% in 1971 to a loss of 1.2% in 1974. On the subject of unemployment, Parker and Bedell offered this reasoning:

The number of man hours worked by production and related workers has declined steadily since 1972 and continued to decline during 1976. While there has been some reduction in employment by reason of solid state construction, automation and other improvements in productivity, the most significant threat of an adverse impact on employment is from increased imports.²⁴³

After they determined that imports were the substantial cause of injury, Parker and Bedell recommended five years of tariffs as the remedy. It was a different formula than the one prescribed by Minchew, Leonard and Moore. Parker and Bedell asked that a tariff of 25% of the cost of the imports be the duty for the first two years, followed by a tariff of 20% for the next two years and 15% in the final year.²⁴⁴

The sixth judge, Ablondi, defined the increase in imports in the TV manufacturing industry strictly by the number of finished color television receivers imported over the

²⁴² U.S. International Trade Commission, *Television Receivers, Color and Monochrome, Assembled or Not Assembled, Finished or Not Finished and Subassemblies Thereof*, 38-39.

²⁴³ U.S. International Trade Commission, *Television Receivers, Color and Monochrome, Assembled or Not Assembled, Finished or Not Finished and Subassemblies Thereof*, 40.

²⁴⁴ U.S. International Trade Commission, *Television Receivers, Color and Monochrome, Assembled or Not Assembled, Finished or Not Finished and Subassemblies Thereof*, 43.

prior ten years.²⁴⁵ In particular, the ratio of U.S. imports of color TVs to domestic units produced soared between 1971 and September 1976, jumping from a ratio of 21.6% in 1971 to 41.5 % for the first nine months in 1976.²⁴⁶ Ablondi then studied the possible serious injuries that resulted from increased imports: significant idling of productive facilities, inability to operate at a reasonable level of profit and significant unemployment. On the idling of productive facilities, Ablondi stated that capacity utilization was at 82% in 1973, but did not exceed 70% in any subsequent year.²⁴⁷ With regard to the inability to operate at a reasonable level of profit, Ablondi argued that most U.S. firms could not do so beginning in 1974, which led some to accept buy out offers by foreign firms.²⁴⁸ Since Ablondi focused on color receivers only, he did not have data on color receiver employment in particular. Instead, he had the employment figures for manufacturers of color and monochrome sets. By studying the figures he did have, Ablondi concluded that the number of workers declined each year from 1971 to 1975.²⁴⁹ Where Ablondi differed was in the recommended remedy: he asked that quotas be imposed on color receiver imports. For year one of his quota regime, Ablondi wanted a

²⁴⁵ U.S. International Trade Commission, *Television Receivers, Color and Monochrome, Assembled or Not Assembled, Finished or Not Finished and Subassemblies Thereof*, 48-49.

²⁴⁶ U.S. International Trade Commission, *Television Receivers, Color and Monochrome, Assembled or Not Assembled, Finished or Not Finished and Subassemblies Thereof*, 49.

²⁴⁷ U.S. International Trade Commission, *Television Receivers, Color and Monochrome, Assembled or Not Assembled, Finished or Not Finished and Subassemblies Thereof*, 51.

²⁴⁸ U.S. International Trade Commission, *Television Receivers, Color and Monochrome, Assembled or Not Assembled, Finished or Not Finished and Subassemblies Thereof*, 52.

²⁴⁹ U.S. International Trade Commission, *Television Receivers, Color and Monochrome, Assembled or Not Assembled, Finished or Not Finished and Subassemblies Thereof*, 52.

final import total no greater than 1.272 million units, but would allow five percent yearly increases in the total for each additional year the quota policy was in effect.²⁵⁰

The USITC presented Carter with the choice of tariffs, quotas or the rejection of their proposed trade protection remedies. A thoughtful man, Carter did not come to his decision without serious consideration of the interests involved. Foremost in his considerations was the AFL-CIO, the labor union that was a spokesperson for COMPACT. The AFL-CIO was actuated by the view that trade protection was necessary for the television manufacturing industry. For mischiefs of faction to take hold, Carter would need to agree with the AFL-CIO that protection was necessary as well.

The AFL-CIO endorsed the Carter-Mondale ticket in 1976. It was an important source of Democratic votes that helped win a close election. On August 31, 1976, George Meany of the AFL-CIO launched his campaign for Carter in a Washington, D.C. speech. Initially, Meany expressed disgust with the Nixon-Ford record:

We've had enough of government policies that increase unemployment, feed inflation, cause recessions and create misery and hardship.²⁵¹

Meany then built to a crescendo, praising the Democrat for his commitment to the future economic health of workers.

We are convinced that the American people want government that works, and Jimmy Carter is pledged to make government work for all of the people. (Applause.) The American people want jobs and Jimmy Carter is pledged to make jobs his Number One concern. (Applause.)²⁵²

²⁵⁰ U.S. International Trade Commission, *Television Receivers, Color and Monochrome, Assembled or Not Assembled, Finished or Not Finished and Subassemblies Thereof*, 56.

²⁵¹ "We've Had Enough," *AFL-CIO Free Trade Union News* 31, no. 10 (October 1976): 1.

²⁵² "We've Had Enough," 3.

The day after the speech, James Reston of the *New York Times* outlined the Carter-Meany strategy for the 1976 election:

Mr. Carter will hold the South, and Mr. Meany will use the power of the labor unions of the AFL-CIO to deliver the electoral votes of most of the big industrial states from Massachusetts, New York and New Jersey to Pennsylvania, Ohio and Illinois.²⁵³

Five months into Carter's tenure as President, Carter had the opportunity to repay Meany and his AFL-CIO by providing job security in the form of trade protection. Of the states that were the AFL-CIO's responsibility to deliver was Illinois, home to three of the claimants in the COMPACT, which would address all of the unions in the AFL-CIO part of the management-labor coalition. Carter lost this Illinois in the 1976 Presidential election, 2,364,269 to 2,271,295, but relied on union votes there.²⁵⁴ Meany arguably helped deliver Massachusetts for Carter, 1,429,475 to 1,030,276.²⁵⁵ Sprague Electric workers in North Adams belonged to the International Brotherhood of Electrical Workers and the International Union of Electrical, Radio and Machine Workers in the AFL-CIO. Meany may have helped deliver New York, where Carter won decisively, 3,389,558 to 3,100,791.²⁵⁶ New York was home to Corning Glass Works and union members in the American Flint Glass Workers Union of North America.

The Carter Administration cautioned Carter to proceed carefully and avoid allowing Congress take up the issue of trade protection. Carter read with interest the

²⁵³ James Reston, "Carter and Labor," *New York Times*, September 3, 1976, 33.

²⁵⁴ Congressional Quarterly, *Presidential Elections, 1789-2008*, 163.

²⁵⁵ Congressional Quarterly, *Presidential Elections, 1789-2008*, 163.

²⁵⁶ Congressional Quarterly, *Presidential Elections, 1789-2008*, 163.

confidential National Security Briefing from Robert Hormats sent to his National Security Advisor Zbigniew Brzezinski. Hormats noted the USITC's unanimous decision in favor of color TV protection, then reminded the President of how it would appear to the world community.

The decision comes as no great surprise in view of the marked increase in U.S. imports of TVs in 1976. Nonetheless, it will be seen abroad as evidence of rising U.S. protectionism, coming as it does on the heels of earlier adverse finding[s] of shoes, sugar and mushrooms.²⁵⁷

Carter underscored the sentence about the perception that the U.S. was becoming protectionist. Hormats closed by stating that the issue would surface on March 21, and March 22, 1977, when Carter planned to meet with Japanese Prime Minister Takeo Fukuda. Carter's Treasury Secretary, W. Michael Blumenthal, had already advised Carter to handle the matter himself. Blumenthal did not want the U.S. to engage in a war of words with Japan about the reasons for the import surge in color TVs. Blumenthal said that Japanese export subsidies were not to blame for the increase in color TV imports into the U.S. market.²⁵⁸ However, Blumenthal's Department advised that the President, not Congress, should manage the issue.

There are obvious risks in opening up the subject of imports of Japanese electronic products, including television sets, to Congressional scrutiny at this time.²⁵⁹

²⁵⁷ Confidential Memorandum by Robert Hormats to Zbigniew Brzezinski, "Economics: Evening Report," 9 March 1977, in Tariffs, Box TA 4-12, White House Central Files, Jimmy Carter Presidential Library.

²⁵⁸ Rowland Evans and Robert Novak, "Strauss as Top Trade Talker," *Washington Post*, May 4, 1977, A17.

²⁵⁹ Evans and Novak, "Strauss as Top Trade Talker," A17; Blumenthal to Mondale, February 9, 1977.

The columnists Rowland Evans and Robert Novak reported in the *Washington Post* that President Carter allegedly mishandled the initial attempt at negotiating color TV import quotas with Fukuda. Carter offered a quota limit of 2.5 million imports, which was twice the amount recommended in the USITC's agreement, 1.3 million.²⁶⁰

Even though Carter fumbled this initial offer, it does reflect that Carter was willing to take action himself to get some kind of trade protection for the color television industry. On March 28, 1977, Stuart Eizenstat, Carter's Assistant, argued that these negotiations were helpful to his efforts in the Administration of "trying to keep the President from totally falling out of line with the basic constituencies that elected us."²⁶¹

Those basic constituencies that elected Carter, particularly organized labor, wanted to know what he planned to do about the economy. Meany and the AFL-CIO delivered several Northern states for Carter in the 1976 election. They wanted to be rewarded for their votes. When Carter delivered the opening of his Administration's Anti-Inflation Program Statement on April 15, 1977, the President seemed attentive to the needs of both consumers and workers:

Today, I am announcing a series of measures aimed at controlling and reducing inflation. This program embraces the following elements... Using international trade policies to help assure competitive prices while taking into account the legitimate needs of particular American industries and workers.²⁶²

²⁶⁰ Evans and Novak, "Strauss as Top Trade Talker," A17.

²⁶¹ Memorandum by Stuart Eizenstat and Bob Ginsburg, to President Carter, 28 March 1977, Box FG92, White House Central Files, Jimmy Carter Library, in Steve Dryden, *Trade Warriors* (New York: Oxford University Press, 1995), 211.

²⁶² Jimmy Carter, "Anti-Inflation Program Statement Outlining Administration Actions," April 15, 1977, in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.

Later in the speech, Carter rejected using trade protection to help save worker jobs.

We get the benefit of lower prices and greater productivity when we expand our production in those industries where we have a competitive advantage compared to other countries, while trading for those goods we find costly to produce. Tariff and quota protections may sometimes result in foreign retaliation against our own products. They cause our export industries to lose sales and employment and consumers to pay higher prices.²⁶³

Here, Carter voiced some of the same reservations that the Council on Wage and Price Stability did in its testimony against trade protection for the color TV manufacturing industry in the USITC's courtroom. Consumers benefit from trade according to comparative advantage. Consumers lose lower cost options for retail purchase if workers are protected in their jobs. In his Anti-Inflation Program Statement, Carter clearly heeded the message in Hormats's confidential memorandum. He wanted to avoid the U.S. appearing overtly protectionist in his public statements. If there would be a quota on color TVs, the quota would be negotiated quietly with Japanese firms.

Meany noticed Carter's criticism of tariffs and quotas. The AFL-CIO President criticized Carter on the same day that Carter gave his Anti-Inflation Program Statement. "We most certainly do not share President Carter's contention that the economy is now suddenly on the road to recovery," Meany said.²⁶⁴ Meany also wondered aloud what Carter was going to do about jobs. Meany told his audience that there had been no change in the unemployment number since Carter became President. The figure was at 7.3 percent unemployment when Ford left office in January 1977 and it remained at 7.3

²⁶³ Carter, "Anti-Inflation Program Statement Outlining Administration Actions."

²⁶⁴ "Meany Rebutts Carter on Rise in Economy," *New York Times*, April 16, 1977, 11.

percent in May 1977.²⁶⁵ Trade protection would lower that figure by fostering domestic production and employment. Meany added that his labor union members were willing to go to work. He stated that twenty percent of industrial capacity in the U.S. was idle. Meany again blasted the President for inaction in securing more manufacturing employment in a May 5, 1977, *New York Times* article. Meany explained that Carter had “done a lot of talking” but it had resulted in “very little action.”²⁶⁶

Meanwhile, mischiefs of faction motivated two key Senators to press for protection for the television manufacturing industry. The Senators were John Sparkman, the Chairman of the Senate Foreign Relations Committee, and Daniel Patrick Moynihan of New York. The initial approach was from Sparkman, whose committee membership included Charles Percy of Illinois, home three of the claimants in the COMPACT, WGE, Zenith and Owens-Illinois. Sparkman wrote Carter a note on April 19, 1977 revealing that Sparkman had been lobbied to take action on television receivers.

Representatives of the television manufacturing industry have been in touch with me to encourage a quota for Japanese imports of TV sets not to exceed 1.1 million. I feel strongly that something must be done to save this and several other affected industries including shoe manufacturing and apparel makers.²⁶⁷

A more focused letter followed from Moynihan. Moynihan reminded Carter of the plight of New York State television industry workers who voted for the President in great numbers in the 1976 Presidential election.

²⁶⁵ “Meany Rebuts Carter on Rise in Economy,” 11.

²⁶⁶ Damon Stetson, “Labor Disappointed with Carter So Far,” *New York Times*, May 5, 1977, A21.

²⁶⁷ John Sparkman to the President, 19 April 1977, Tariffs, Box 4-9, White House Central Files, the Jimmy Carter Presidential Library.

As you know, the International Trade Commission by an unusual, unanimous vote, has found the domestic television industry is being injured or threatened with injury by imports, mainly from Japan. This is a painful reality in New York State, where the economy of several small communities was near to obliterated by plant closings this past winter, and with a number of others directly threatened.²⁶⁸

Moynihan's use of the imagery of obliteration from plant closure meant that he understood that these were communities where the only available employment was a color TV manufacturing facility. These were immobile workers, without alternatives besides collecting unemployment if they were not at work assembling color televisions or their subcomponent parts. This included the workers at Corning Glass Works, located in the small town of Corning in New York state. Corning Glass Works was also the spokesman for the COMPACT firms. GTE Sylvania, another firm in the COMPACT, also had 1,216 workers who were dislocated by foreign imports in plants located in Batavia and Seneca Falls, NY.²⁶⁹ The payment of adjustment assistance to TV manufacturing workers further demonstrated their immobility. Moynihan claimed that there was a unified coalition of workers and management in the color television industry who believed it was hurt by Japanese imports and called for action by President Carter to ensure its survival.

...[I]t seems to me we have no choice but to respond appropriately to actions such as that of the Japanese, who for example, choose to double their share of the American color television market last year. Our people – workers and management, of every political description –are unanimous in

²⁶⁸ Daniel Patrick Moynihan to the President, 21 April 1977, Tariffs, Box 4-9, White House Central Files, the Jimmy Carter Presidential Library.

²⁶⁹ Donald Boetler, U.S. Department of Labor, to Thomas Maxens, USITC, 3 March 1980, in U.S. International Trade Commission, *Color Television Receivers and Subassemblies Thereof*, USITC Publication 1068, May 1980, E-4 to E-14.

feeling that it just isn't fair, that our trading partners aren't playing by the rules. They fear that if you don't act, they won't survive.²⁷⁰

The fervor for free trade Carter expressed in his April 15th Anti-Inflation Program Statement was matched by passionate pleas for trade protection by Meany, Sparkman and Moynihan.

Ultimately, Carter heeded the messages from Meany, Sparkman Moynihan that jobs had to be saved for U.S. workers in the television manufacturing industry. Nearly sixty days after the USITC ruled in favor of trade protection for color TV imports, Carter was ready to announce his decision. At a press conference on May 17, 1977, a reporter asked Carter about his relationship with Meany and the AFL-CIO:

...you talked about providing jobs. Why aren't you able to please George Meany? What's the problem there?²⁷¹

Carter's answer reflected his anger at Meany's impatience with the speed of the President's progress.

Mr. Meany feels that my level of minimum wage is too low. He feels that the \$4 billion public works proposal that Congress has already approved is too little. He feels that I should have put tight constraints on the importation of color television sets, sugar, shoes. I think I've worked out a good balance on those proposals.²⁷²

This was the first word from Carter that he had decided upon trade protection for color TV sets. Carter had publicly abandoned the anti-protectionist stance in his April 15, 1977 Anti-Inflation Program Statement. It was evidence of mischiefs of faction, the

²⁷⁰ Boetler Letter to Maxens.

²⁷¹ Jimmy Carter, "The President's News Conference," May 17, 1977, in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.

²⁷² Carter, "The President's News Conference."

convergence of manufacturing interests seeking trade protection and a federal elected official who wanted to adopt trade protection as national policy. Carter could only wonder if his promise to help the television manufacturing industry would be enough for Meany to stop criticizing him.

Two days later, on May 19, 1977, Carter officially informed the Speaker of the House and President of the Senate by letter of his intentions to enter into a trade agreement with Japan on color TV receivers. Strauss and the Japanese Ambassador Fumihiko Togo agreed to limit Japanese color TV imports to 1.75 million for the next three years, 1978, 1979 and 1980.²⁷³ The limit was divided into two categories of products, completed and incomplete receivers. Within each year, from July 1, through June 30, the U.S. would allow 1.56 million completed receivers and 190 thousand incomplete receivers for manufacturing in the U.S.²⁷⁴ The two countries also signed a side agreement. The Japanese Ministry of International Trade and Industry was obligated to ensure that new Japanese television plants in the U.S. would hire U.S. workers to perform the same amount of assembly as would be required in Japanese facilities.²⁷⁵ This

²⁷³ Memorandum by Robert Strauss to President Carter, 17 May 1977, Tariffs Box 4-9, White House Central Files, Jimmy Carter Presidential Library. The agreement was reached prior to May 20, 1977, but was finalized and signed by Strauss and the Ambassador of Japan on that date.

²⁷⁴ Annex B, Fumihiko Togo to Robert Strauss, 20 May 1977, in U.S. International Trade Commission, *Color Television Receivers and Subassemblies Thereof*, C-37.

²⁷⁵ The actual text of the stipulation reads as follows. "I have the honor to confirm the intention of the Ministry of International Trade and Industry that it will guide Japanese firms which plan to make direct investment into the United States in color television receiver production during the effective period of the Notes exchanged, to adopt such production processes as add no less labor content in the United States than the Japanese affiliated color television receiver manufacturers which are operating commercially in the United States at the time when the Notes exchanged enter into force." Fumihiko Togo, Ambassador to Japan, Letter to Robert Strauss, Robert Strauss, Special Trade Ambassador, 20 May 1977, in U.S.

meant that U.S. workers would be hired to perform labor to finish unassembled televisions for Japanese firms. The orderly marketing agreements that established these limits would be arranged with Japanese firms. Carter reserved his right to include other nations in the future.

With an eye toward his Anti-Inflation Program Statement, Carter explained why OMAs were negotiated as opposed to the tariffs recommended by five of the six judges of the USITC.

Consumer costs for an across-the-board tariff increase are unacceptable at a time when covering the rate of inflation is essential. In the particular circumstances of the color television industry, this purpose is better achieved with an orderly marketing arrangement than with tariffs.²⁷⁶

The OMAs were intended to help struggling U.S. firms avoid the urge to relocate to Taiwan and Mexico and modernize their U.S. facilities:

Expected higher sales and profits should encourage American companies to expand production here and to invest in the latest available machinery.²⁷⁷

Carter added that another goal for transforming the color TV industry in the U.S. with the OMAs was that Japanese firms would continue to thrive in the U.S.:

The orderly marketing agreement will also encourage decisions to move foreign production into the United States or to expand existing production facilities here, thus improving the prospects for increased domestic

International Trade Commission, *Color Television Receivers and Subassemblies Thereof*, USITC Publication 1068, May 1980, C-29.

²⁷⁶ Jimmy Carter, "American Television Industry Letter to the Speaker of the House and to the President of the Senate Transmitting a Report," May 19, 1977, in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.

²⁷⁷ Jimmy Carter, "American Television Industry Letter to the Speaker of the House and to the President of the Senate Transmitting a Report."

employment in the domestic color television industry beyond the time frame of temporary relief under the escape clause.²⁷⁸

For Meany and the AFL-CIO, this was decisive action. Carter was fulfilling Meany's pledge to make manufacturing jobs his number one priority. Carter protected jobs in the shoe industry and now was providing employment in the color TV industry. In Proclamation 4511, Carter announced that the OMAs with Japan would be in effect from June 30, 1977 to June 30, 1980.²⁷⁹

The trend of Japanese firms relocating to the U.S. would continue. These firms employed American union labor to perform the final assembly needed to make televisions ready for sale. After the color TV import was imposed in 1977, the market changed. Japanese firms dramatically increased their foreign direct investment into U.S.-based manufacturing plants. More Japanese firms were producing sets in the U.S. As shown in Table 4 below, color television production by Japanese firms in the U.S. climbed from 1.77 million in 1978, to 2.27 million in 1979, and 3.21 million in 1980. The Matsushita factory was relying on union workers living in the vicinity of its Chicago, Illinois plant.²⁸⁰ So were the other Japanese firms that established finishing facilities for color TV sets in the U.S. By using U.S. workers to produce their sets, Matsushita and the

²⁷⁸ Carter, "American Television Industry Letter to the Speaker of the House and to the President of the Senate Transmitting a Report."

²⁷⁹ Jimmy Carter, Proclamation 4511, Implementation of Orderly Marketing Agreement on Certain Color Television Receivers, June 24, 1977 in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.

²⁸⁰ Tracy Dahlby, "Japan to Lift Output of Color Sets in U.S.," *New York Times*, February 19, 1979, D1.

other Japanese firms were changing the industry. The import surges of Japanese imports that prompted the COMPACT complaint to the USITC were no longer a problem.

Table 4: U.S. Color Television Production by Japanese Firms, 1976-1980

Plant Owner	1976	1977	1978	1979	1980
Sony	370,000	400,000	450,000	475,000	700,000
Matsushita	400,000	460,000	600,000	700,000	750,000
Sanyo		300,000	600,000	680,000	800,000
Toshiba			60,000	175,000	360,000
Mitsubishi			60,000	120,000	150,000
Hitachi				20,000	120,000
Sharp				100,000	330,000
Totals	770,000	1,100,000	1,770,000	2,270,000	3,210,000

Table Source: F.N. Burton and F.H. Salens, "Trade Barriers and Japanese Foreign Direct Investment in the Color Television Industry," in *Managerial and Decision Economics* 8, no. 4 (December 1987): 288.

Japanese firms hired U.S. workers to produce for them. This was a better situation for AFL-CIO member unions. They were no longer losing employment opportunities due to the inflow of Japanese-made products. U.S. workers were helping to produce Japanese sets. This was a positive result from the bilateral VER that Carter signed with Japan in 1977. The USITC's May 16, 1980 investigation report affirmed that the OMA with Japan should be terminated because of "the commitment of Japanese producers to a relocation of their manufacturing facilities in the United States."²⁸¹ No longer were Japanese imports a detriment to employment in the U.S. Japanese firms were employing U.S. workers at Japanese plants in the U.S. to make Japanese brand sets. Given this change in the production and employment practices within the color television manufacturing industry, Carter allowed the OMA with Japan to expire on June 30, 1980.

²⁸¹ U.S. International Trade Commission, *Color Television Receivers and Subassemblies Thereof*, USITC Publication 1068, May 1980, 11.

Through its foreign direct investment in the U.S., Japan could diffuse the threat of the COMPACT. Japanese firms decided to assemble color televisions in the U.S. with American workers performing the labor. This was a way to reduce the pressure from organized labor on the U.S. federal government for trade protection. With the increase in FDI, the labor unions in the COMPACT would be less likely to coordinate with firms in the COMPACT and lobby for trade protection. This is a condition that Jagdish Bhagwati describes as quid pro quo foreign investment. In a 1992 article, Bhagwati, Elias Dinopoulos and Kar-Yiu Wong explain the dual purposes of quid pro quo foreign investment. One is to reduce the U.S. government's willingness to adopt trade protection, and the other is to weaken the interest on the part of organized labor to lobby for trade protection:

The Japanese government may encourage DFI in the United States with a view to buying goodwill from the U.S. government and reducing the probability that it will grant protection to the to the lobbies seeking it.... [T]he quid pro quo DFI may co-opt the labor unions and weaken their incentive to lobby for protection to "save jobs."²⁸²

The increase in Japanese FDI in the U.S. also meant that the Japanese-branded material made on U.S. soil would not be subject to the quota. The color televisions that the Japanese manufactured with American labor at U.S. assembly plants were U.S. goods, not imports subject to the quota.

This was not the only benefit that Japanese firms would realize from the quota. Japanese firms also enjoyed the additional profit they could earn at the higher quota price. With a quota forcing up the cost of Japanese imports, Japanese firms sold fewer

²⁸² Jagdish N. Bhagwati, Elias Dinopoulos and Kar-Yiu Wong, "Quid Pro Quo Foreign Investment," *The American Economic Review* 82, no. 2 (May 1982): 187.

color televisions, but earned more money in profit on the color televisions they did sell by recovering the quota rents. This is the benefit to the exporting nation in a bilateral or unilateral VER. The trading partner that is restricted in the amount of its imports earns more on the imports it does sell. The quota price exceeds what consumers would pay for the good if the laws of supply and demand were not curtailed by the trade protection.

COMPACT was successful in petitioning the USITC and President Carter to take action to insulate the U.S. television manufacturing industry from foreign competition. It was another successful instance of mischiefs of faction involving manufacturing interests and federal elected officials agreeing that trade protection was needed for a U.S. manufacturing industry. The workers in the TV manufacturing industry were immobile and specific. If they were laid off from their jobs at the TV manufacturing plant, they were eligible for trade adjustment assistance from the U.S. government. By filing the USITC claim, COMPACT demonstrated that it was organized and active, as well as willing to take coordinated, cooperative collective action. Cooperation by a combination of the product-based, trade-based and amalgam unions of the AFL-CIO and firms in the color television manufacturing industry produced an audience with the USITC, where they were able to prove that there was injury to their industry from Japanese imports. The AFL-CIO was a strong supporter of Carter in the 1976 Presidential election. Meany was credited by Reston of the *New York Times* for getting out the labor vote for Carter-Mondale in Illinois, Massachusetts and New York. In April and May 1977, Meany reminded Carter that he had to take action on creating jobs for American workers. He criticized Carter's speed in making a decision on the USITC's remedy. Meany also did

not like the emphasis on free trade in Carter's April 15, 1977 Anti-Inflation Program Statement. Carter responded by saving union jobs in Illinois, Massachusetts and New York, three states with significant labor turnout in the 1976 Presidential election. Trade protection stemmed the flow of TV imports from Japan, but it led to an increase in foreign direct investment by Japanese firms, who set up manufacturing plants in the U.S. This case is an instance where trade protection gave foreign firms an incentive to relocate the U.S., and mobile foreign capital accommodated an immobile sector of the U.S. workforce.

Firms

Protection

Free Trade

<p>Protection</p>	<p>COMPACT (Communications Workers of America, Independent Radionic Workers of America, International Association of Machinists, International Brotherhood of Electrical Workers, and International Union of Electrical, Radio and Machine Workers of the AFL-CIO and Corning Glass Works, GTE Sylvania, Owens-Illinois, Sprague Electric Wells Gardner Electronics)</p>	
<p>Labor</p> <p>Free Trade</p>		

Chapter IV

Case Study Six: OMAs for TVs from Taiwan and South Korea, 1979-1982

With Proclamation 4634, President Carter implemented two new OMAs to address the increase in color TV imports from Taiwan and South Korea. On January 26, 1979, Carter stated that the new OMAs were necessary because increased imports from Taiwan and South Korea were undermining the OMA the Carter Administration signed in 1977 to limit color TV imports from Japan. The OMAs with Japan, Taiwan and South Korea were all designed to help mostly immobile television manufacturing workers who were without alternatives if they lost their jobs in TV manufacturing. On December 17, 1979, the members of the COMPACT petitioned the USITC and the President to extend the OMA for all three countries. It was an instance of mischiefs of faction, where a Ricardo-Viner style political coalition was taking collective action, actuated by the view that imports from Japan, South Korea and Taiwan were injuring the U.S. color television industry. Carter agreed in part. When Carter agreed to extend the OMAs for Taiwan and South Korea that were initiated in Proclamation 4634, he was helping immobile and specific manufacturing workers. Carter was already providing them with Temporary Adjustment Assistance, but decided that he would also use the trade protection offered by the OMAs to foster domestic production and employment. Television manufacturing workers were a key constituency for Carter in the 1980 election. However, the votes that these protected manufacturing workers may have provided to Carter did not help him against his two opponents, Reagan and Representative John Anderson (D-IL).

At the time of Proclamation 4634, the trend in U.S. imports of color television receivers had changed dramatically. Taiwan and South Korea were emerging as import threats to the U.S. color television industry. This was not apparent at the time of the original television OMA with Japan. In 1976, nearly 90 percent of all television imports came from Japan.²⁸³ Together, Taiwan and South Korea accounted for less than 5 percent of all imports.²⁸⁴ Then, in response to the OMA that the Carter Administration negotiated, Japan adjusted its import share in 1977. That year, Japanese imports into the U.S. declined by ten percent. The ten percent that Japan was no longer shipping to the U.S. market was replaced by imports from Taiwan and South Korea. By 1978, this change in the source of Asian imports was more pronounced. Japan was the source of just 60 percent of all color TV imports, but, Taiwan and South Korea had increased their shares.²⁸⁵ In 1978, 20 percent of imports were from Taiwan and 15 percent were from South Korea.²⁸⁶ To address the impact that this 35 percent share of import sales was having on U.S. production, Carter decided to have his Special Trade Representative Robert Strauss negotiate two new OMAs with South Korea and Taiwan. Strauss sent

²⁸³ U.S. International Trade Commission, *Color Television Receivers and Subassemblies Thereof*, A-11.

²⁸⁴ U.S. International Trade Commission, *Color Television Receivers and Subassemblies Thereof*, A-11.

²⁸⁵ U.S. International Trade Commission, *Color Television Receivers and Subassemblies Thereof*, A-11.

²⁸⁶ U.S. International Trade Commission, *Color Television Receivers and Subassemblies Thereof*, A-11.

Stephen Lande to conduct the negotiations on behalf of the Office of Special Trade Representative in November and December of 1978.²⁸⁷

Proclamation 4636 was announced on January 26, 1979 to augment the OMA negotiated with Japan in 1977. In a memo to President Carter, Special Trade Representative Robert Strauss identified that the OMAs with Taiwan and South Korea to be announced in Proclamation 4636 were a necessary response to the growing evidence that there was a new surge of imports from Taiwan and South Korea undermining the effectiveness of the OMA with Japan.

This action was taken because imports of color televisions from Taiwan and Korea were causing an earlier agreement that we had negotiated with Japan to become ineffective. This earlier agreement was concluded on May 20, 1977, following a finding by the U.S. International Trade Commission that import competition was injuring the domestic color television industry... The Proclamation by which you implemented the Japanese agreement delegated to me authority to determine that imports from third countries were causing the agreement to be ineffective, and upon such a determination to take appropriate action including the negotiation of additional orderly marketing agreements with other countries. It was in these circumstances that we negotiated the agreements with Taiwan and Korea in December.²⁸⁸

Carter's Assistant for Domestic Affairs and Policy Stuart Eizenstat recommended that Carter agree with Strauss.²⁸⁹ Proclamation 4636 was required to address the damage that imports of color TVs from Taiwan and South Korea were having on production and employment in the U.S. Carter concurred.

²⁸⁷ "Seoul Rebuffs Latest Try to Curb Imports," *New York Times*, November 23, 1978, D1.

²⁸⁸ Memorandum by Robert Strauss for the President, 23 January 1979, Federal Government Box 6-15, White House Central Files, Jimmy Carter Presidential Library.

²⁸⁹ Memorandum by Stuart Eizenstat for the President, 25 January 1979, Federal Government Box 6-15, White House Central Files, Jimmy Carter Presidential Library.

The OMAs described in Proclamation 4636 differed in scope. With Taiwan, the Carter Administration negotiated an OMA that placed limits on both completed and incomplete receivers. From February 1, 1979 through June 30, 1979, Taiwan could import only 127,000 completed sets.²⁹⁰ The amount increased for the subsequent period. From July 1, 1979 to December 31, 1979, the limit of completed sets from Taiwan was 186,500.²⁹¹ There were separate quotas for incomplete receivers from Taiwan. Between February 1, 1979 and June 30, 1979, 270,000 incomplete receivers were allowed from Taiwan.²⁹² The quota level increased for the period from July 1, 1979 and December 31, 1979, to 324,000 incomplete TV sets.²⁹³ The agreements with South Korea had different quota limits. For the period from February 1, 1979 through June 30, 1979, South Korea could ship 153,000 complete and incomplete sets to the U.S.²⁹⁴ From July 1, 1979 to December 31, 1979, the South Koreans were restricted to 34,000 complete and incomplete TVs.²⁹⁵

Meanwhile, COMPACT wanted to continue enjoying the trade protection provided by the 1977 OMA and two OMAs in Proclamation 4636. COMPACT was the

²⁹⁰ “Color Television Receivers,” U.S. International Trade Commission, *Color Television Receivers and Subassemblies Thereof*, USITC Publication 1068, May 1980, A-6.

²⁹¹ U.S. International Trade Commission, *Color Television Receivers and Subassemblies Thereof*, A-6.

²⁹² U.S. International Trade Commission, *Color Television Receivers and Subassemblies Thereof*, A-6.

²⁹³ U.S. International Trade Commission, *Color Television Receivers and Subassemblies Thereof*, A-6.

²⁹⁴ U.S. International Trade Commission, *Color Television Receivers and Subassemblies Thereof*, A-6.

²⁹⁵ U.S. International Trade Commission, *Color Television Receivers and Subassemblies Thereof*, A-6.

combination of labor unions and firms from the television manufacturing industry that filed the original petition with the USITC on September 22, 1976, claiming that 65,000 jobs could be lost to Asian imports if the U.S. government failed to protect domestic production and employment with barriers to foreign imports. On December 17, 1979, the COMPACT, with its 10 unions in the AFL-CIO and five firms that made TVs or subcomponent parts of a particular brand of television sets, tried to extend the OMAs with Japan, Taiwan and South Korea. The petition filed by the COMPACT was an example of coordination between labor and management. The AFL-CIO member unions who were part of COMPACT were listed individually in the petition filed with the USITC. Some were product-based labor unions, like the United Furniture Workers. Others were trade-based labor unions. The trade-based unions included the Communications Workers of America, Independent Radionic Workers of America, International Association of Machinists, International Brotherhood of Electrical Workers, and International Union of Electrical, Radio and Machine Workers. The rest were amalgam unions, including the American Flint Glass Workers Union of North America, Allied Industrial Workers of America, and Glass Bottle Blowers' Association of the United States and Canada and the United Steel Workers. What these unions all had in common is that they represented the workers in the same sector manufacturing U.S. color television sets. The two TV brands in the COMPACT were GTE Sylvania and Wells Gardner Electronics (WGE). GTE Sylvania had a facility in Batavia, NY, Wells Gardner in Chicago, IL. Subcomponent parts producers were Corning, based in the town of Corning, NY, Owens-Illinois based in Chicago, IL, and Sprague Electric Co. in Adams,

MA. The rest of the firms in the industry were free riding on the petition that the firms in the COMPACT made to the USITC. They hoped to benefit from this collective action without paying any of the costs to pursue lobbying for trade protection.

When the workers at these firms were threatened with job loss, few were so highly skilled and specialized that they could find similar work in another industry, albeit at a lower wage. Most of these workers were semi-skilled, immobile and specific. Absent a job at their color TV manufacturing plant, they would be geographically immobile and without an option except collecting unemployment assistance.

Thanks to the TV OMAs, foreign color TV imports were in decline. There was a 32 percent decline in the adjusted value of imports of complete and incomplete TV receivers from Japan between 1976 and 1979, a drop in sales from \$560 million to 379 million.²⁹⁶ A similar decline had occurred in trade with Taiwan in response to the OMAs announced in Proclamation 4636, from \$210 million in trade in 1978 to 30 percent less, \$147 million, in 1979.²⁹⁷ The adjusted value of South Korean imports also declined between 1978 and 1979 from \$78 million to \$63 million.²⁹⁸

Not everyone was sympathetic to the petition by the COMPACT. In a *New York Times* editorial, the newspaper attacked the COMPACT for making another request for trade protection. The editorial spoke in the voice of a general citizen. Trade protection

²⁹⁶ U.S. International Trade Commission, *Color Television Receivers and Subassemblies Thereof*, A-10.

²⁹⁷ U.S. International Trade Commission, *Color Television Receivers and Subassemblies Thereof*, A-10.

²⁹⁸ U.S. International Trade Commission, *Color Television Receivers and Subassemblies Thereof*, A-10.

was not the way the U.S. economy should deal with the effects of foreign competition. Economic security for the COMPACT should not be considered a right or guarantee in a free market system.

Everyone wants economic security, but insecurity is what free enterprise is all about. Whenever someone invents a new product or a cheaper way to make an old one, someone else gets driven out of business. But when people are faced with this harsh reality, they forget the speeches they may have made about the virtues of competition and run to the government for protection.²⁹⁹

The editorial writer then described what typically happens when an industry is protected. Accustomed to getting government protection, the industry comes to rely on it and expects more protection.

There is always talk about using a period of protection to restructure an industry so it can become competitive, but it almost never happens.... Color TV set manufacturers got three years of protection from the Carter Administration. Now they are right back asking for more.³⁰⁰

These were the arguments raised against extending the OMAs with Japan, Taiwan and South Korea.

The USITC took action to address the petition from the COMPACT. On January 9, 1980, the USITC published notice of its investigation into COMPACT's petition in the Federal Register. In that same notice, the USITC announced that it would hold hearings on March 5 and March 6, 1980 to review the COMPACT position. Jacob Clayman was the spokesperson for the unions of the AFL-CIO, and Alan Corning of Corning Glass Works presented on behalf of the five firms in the COMPACT. There were three U.S.

²⁹⁹ "Dumping Protection on Ourselves," *New York Times*, December 29, 1979, 20.

³⁰⁰ "Dumping Protection on Ourselves," 20.

based firms that stood to benefit from the collective action of the COMPACT. General Electric, based in Portsmouth, VA, RCA Corp., of Bloomington, IN, and Zenith, of Chicago, IL and Springfield, MO.³⁰¹ Most of the workers employed at these plants were semi-specialized, immobile and specific. Absent their job in the color TV manufacturing plant, most would have no other employment options. Very few color TV workers were so specialized that they could transfer to another industry and earn income, albeit at a reduced rate. On May 13, 1980, the USITC ruled 4-0 in favor of extending the OMAs for South Korea and Taiwan, but said that the OMA signed in 1977 with Japan should expire and not be renewed. It was now the responsibility of President Carter to decide whether to agree with this finding.

Carter paused to reflect. The key constituencies in Congress that pursued trade protection with the COMPACT in 1977 were John Talmadge and Daniel Patrick Moynihan. They were not writing the President in May 1980 to ask his help in this decision on whether to extend the OMAs with Japan, Taiwan and South Korea. However, Carter was planning to run for re-election as U.S. President in 1980. The states that were home to workers in the COMPACT were Illinois, Massachusetts and New York. Carter could recall a letter he sent to House Speaker Thomas P. O'Neill (D-MA) on the subject of U.S. trade policy in which he discussed changes to be made to the international trading rules. Carter said that he wanted to accomplish the goal of establishing a better international trading framework:

³⁰¹ U.S. International Trade Commission, *Color Television Receivers and Subassemblies Thereof*, A-16.

Agreements to improve the international trading framework will tighten the handling of international trade disputes, respond to the needs of developing countries in a fair and balanced manner, modernize the international rules applicable to trade measures taken in response to balance-of-payments emergencies, and provide a basis for examining the existing international rules on export and import restraints, while currently strengthening those rules through improvements in the dispute-settlement procedures.³⁰²

O'Neill was from a state where workers may support Carter in return for trade protection. Carter had to consider this possibility, along with the other issues involving the extension of OMAs. Was it right to consider extending the OMA with Japan? Would extending the OMA with Japan continue to limit imports from Japan and help increase domestic production by U.S. and Japanese firms located in the U.S.? Should the two new OMAs announced in Proclamation 4636 be extended? Would quotas on Taiwanese and South Korean imports of color TVs continue to help the American Television industry survive? Or would discontinuing the quotas altogether be an appropriate response? As the *New York Times* editorial suggested, trade protection policy contributes to a repeated requests for assurances from the government to shield U.S. firms from their rivals.

While Carter deliberated, he had a luncheon meeting at the White House with Lane Kirkland, the President of the AFL-CIO. The meeting was held on May 12, 1980.³⁰³ Kirkland visited the White House to discuss jobs with Carter. The latest unemployment figure for the nation was 7 percent.³⁰⁴ Kirkland wanted to discuss how

³⁰² Jimmy Carter to Speaker of the House Thomas P. O'Neill, 4 January 1979, in Federal Government Box 34, White House Central Files, Jimmy Carter Presidential Library.

³⁰³ Jimmy Carter, Daily Diary, May 12, 1980, available at <http://www.jimmycarterlibrary.gov/documents/diary/1977/d030777t.pdf>

³⁰⁴ Art Pine, "Jobless Rate Jumped Sharply in April," *Washington Post*, May 3, 1980, A1.

his union members could get additional jobs and lower that rate. One way to do so would be for Carter to preserve jobs in the American television industry and support the AFL-CIO unions who were petitioners in the COMPACT.

As he formulated answers to these questions in his mind, Carter could consider the data obtained in the USITC's investigation report, which was sent to the President on May 16, 1980. Did the quotas in the OMA with Japan help improve U.S. production? Carter could see from the statistics compiled by the USITC that production and employment were fostered by the quotas on Japan. From 1977 to 1979, U.S. color TV production increased by 44 percent. In the final year before quotas were implemented, American color TV manufacturers made 5.87 million sets. By the close of 1979, the annual total had soared to 9.012 million sets. The quotas were giving U.S. color TV production workers additional production opportunities to keep their jobs at American or Japanese owned plants.

Table 5: U.S. Color Television Receiver Production, 1971-79

Year	Total	Annual Percentage Change
1971	5,398,000	N/A
1972	6,816,000	21%
1973	7,801,000	13%
1974	6,813,000	-13%
1975	5,597,000	-18%
1976	5,870,000	5%
1977	7,005,000	19%
1978	8,282,000	16%
1979	9,012,000	9%

Table Source: United States International Trade Commission, Color Television Receivers and Subassemblies Thereof, USITC Publication 1068, May 1980, A-20.

This was why President Carter was able to allow the OMA with Japan to expire on June 30, 1980.

What would Carter do about the OMAs with Taiwan and South Korea? Carter read with interest the USITC's position on whether to continue the quotas on Taiwan and South Korea:

We have concluded that there would be an adverse economic impact from termination of the OMA with Taiwan and Korea. Unlike the recent trend in U.S. imports of complete receivers from Japan, such imports from Taiwan and Korea have remained close to quota levels. It is likely that termination of these restraints would lead to rapidly increasing levels of imports from these countries.³⁰⁵

In recommending that the quotas be continued, the USITC cited the evidence of Taiwan and Korea dumping excess television capacity.

Prior to the restraints, imports from Taiwan and Korea were increasing rapidly. Both countries possess substantial excess color television capacity. Korea, in fact, has no domestic market for color televisions. And the United States has traditionally been the largest and most open market for color televisions.³⁰⁶

However, the USITC left open the possibility that the OMA on Taiwan might be lifted if they continued the process of locating their assembly plants in the U.S.

Two producers from Taiwan have invested in production facilities for assembly in the United States (no producer from Korea has made such a step). Therefore, it may be advisable to review Taiwan's quotas if the process continues to the point that, like Japan, it is no longer a serious problem for the domestic based industry.³⁰⁷

³⁰⁵ U.S. International Trade Commission, *Color Television Receivers and Subassemblies Thereof*, 12-13.

³⁰⁶ U.S. International Trade Commission, *Color Television Receivers and Subassemblies Thereof*, 13.

³⁰⁷ U.S. International Trade Commission, *Color Television Receivers and Subassemblies Thereof*, 13.

Taiwan was not yet producing TVs in substantial quantities at Taiwanese facilities located on U.S. soil. South Korea had no manufacturing facilities in the U.S. In response to this situation, the USITC argued that the Taiwan OMA and the South Korea OMA be renewed by President Carter.

Carter was prepared to take steps to encourage Taiwanese and South Korean firms to establish manufacturing facilities in the U.S. On May 15, 1980, Carter attempted to set the stage for a better relationship with Taiwan. Since Taiwan had not met its quota on the number of subassemblies it was allowed import, the U.S. was prepared to boost the total allowed for the remainder to the OMA through June 30, 1980. Boosting the total would encourage more Taiwanese-brand TV sets to be made on U.S. soil. The previous day, Rick Hutcheson, Carter's Staff Secretary, provided him with a memorandum on modifications to be made in the remaining month of the Taiwan OMA. Hutcheson attached a note about the Office of Management and Budget's approval of the modifications:

According to OMB, the proclamation accomplishes the following: 'The change, which would respond to a request from the Taiwanese, would gain Taiwan's acceptance of the restraint program and improve the climate for other negotiations with them.'³⁰⁸

Carter was informed that the following advisors approved the change: Assistant to the President for Domestic Affairs and Policy Stuart Eizenstat, White House Counsel Lloyd Cutler, National Security Advisor Zbigniew Brzezinski, Office of Management and Budget Associate Director Edward R. Jayne, II, and all other Cabinet Agencies. Carter

³⁰⁸ Memorandum by Rick Hutcheson to President Jimmy Carter, 14 May 1980, Federal Government Box 6-15, White House Central Files, Jimmy Carter Presidential Library.

hoped that the modifications might encourage Taiwanese color television firms to move their operations to the U.S. If there were some flexibility given on the subassemblies that Taiwan was allowed to ship to the U.S., it may encourage them to complete those subassemblies with American labor. Carter hoped that this encouragement would also help convince Korean color TV manufacturers to likewise move their final assembly plants to the U.S., where they could rely on U.S. television manufacturing workers to make their completed sets.

With this goal in mind, Carter decided to affirm the USITC decision and limit the number of completed television receivers from Taiwan and South Korea. On June 17, 1980, Carter informed his U.S. Trade Representative, Reubin O'D Askew, of his decision to extend the OMAs with Taiwan and South Korea.³⁰⁹ Askew got immediate assurances from the Taiwanese and South Korean representatives. Taiwan agreed to limit imports of color televisions to the U.S. to 400,000 completed sets in 1980-81 and 425,000 completed sets in 1981-82.³¹⁰ South Korea said that it would restrict its completed color TV set imports to 385,000 in 1981 and 575,000 in 1981-82.³¹¹ With these amounts approved by Carter's Trade Policy Group, Askew proceeded to prepare a draft copy of Proclamation 4769 for the President's signature on June 27, 1980. Carter did not formally announce Proclamation 4769 until June 30, 1980, after the agreements with Taiwan and South Korea had been formalized on June 28, 1980. It was a successful

³⁰⁹ Memorandum by Reubin O'D Askew, to the President, 27 June 1980, Federal Government Box 6-15, White House Central Files, Jimmy Carter Presidential Library and Museum.

³¹⁰ Askew Memorandum to the President.

³¹¹ Askew Memorandum to the President.

instance where mischiefs of faction involving the convergence of U.S. manufacturing interests and federal elected officials resulted in trade protection.

On June 30, 1980, President Carter was in the midst of a re-election campaign against Republican challenger Ronald Reagan. Reagan was the Republican Party's favorite after hopeful George H.W. Bush dropped out of the race on May 26, 1980.³¹² Carter faced a difficult Democratic Primary challenge from Senator Edward Kennedy (D-MA). Robert Strauss, who moved from the STR position to manage President Carter's re-election campaign, held off on setting up the Democratic Party's Platform until Carter secured the necessary 1,666 delegates to claim victory over Kennedy.³¹³ When Carter finished the campaign ahead of Kennedy, with 1,959 delegates to 1,170 delegates, Strauss said that victory was secured. "It's over. We have a minimum 600 more delegates than Kennedy and we're thinking about the fall campaign."³¹⁴ Courting Massachusetts voters who supported their Senator was a possible consideration for Carter when he decided to help Sprague Electronics workers in the COMPACT with trade protection against imports from Taiwan and South Korea on June 30, 1980. Carter also had to contemplate whether Illinois television manufacturing workers and voters might defect from the Democratic Party and align with their Congressman, John Anderson, who was running an independent campaign for President in 1980. Although the provision of quotas helped

³¹² Bill Peterson, "Bush Ends 2-Year Quest, Concedes Republican Nomination to Reagan," *The Washington Post*, May 27, 1980, A1.

³¹³ Martin Schram, "Carter Campaign Strategists Postpone Platform Hearings," *Washington Post*, May 29, 1980, A3.

³¹⁴ David Broder, "Kennedy Vows He'll Press On," *Washington Post*, June 4, 1980, A1.

voters in Massachusetts and Illinois, Carter could not accumulate hundreds of thousands of votes he needed to defeat Reagan in the final electoral tally.

Reagan won in the general election in both states, as well as the third state with workers and firms in the COMPACT, New York. Reagan won Massachusetts by a narrow margin, just 3,829 votes ahead of Carter, 1,057,631 to 1,053,802.³¹⁵ However, the 382,539 Massachusetts voters for Anderson did not help Carter's chances.³¹⁶ Carter lost Illinois to Reagan by 376,636 votes, 2,358,049 to 1,981,413.³¹⁷ Carter's deficit in votes to Reagan was 29,882 more than the number of Illinois voters who cast their ballot for Anderson, 346,754.³¹⁸ The number of television workers in Illinois who could vote for Carter could not overcome these vote totals. In New York, the Anderson vote was again a problem for the incumbent President. Reagan won the state with 2,893,831 votes, trailed by Carter at 2,278,372 and Anderson at 467,801.³¹⁹

The decision to extend the OMAs with Taiwan and South Korea had an impact of U.S. color television production. The Electronics Industry Association compiled statistics on all of the color televisions produced in the U.S. the years the quota was in effect, 1979 to 1982. This includes table top models, portable models and consoles. In 1979, domestic production of these color television goods declined by 6 percent, from 10,674,000 to 10,042,000.

³¹⁵ Congressional Quarterly, *Presidential Elections, 1789-2008*, 164.

³¹⁶ Congressional Quarterly, *Presidential Elections, 1789-2008*, 164.

³¹⁷ Congressional Quarterly, *Presidential Elections, 1789-2008*, 164.

³¹⁸ Congressional Quarterly, *Presidential Elections, 1789-2008*, 164.

³¹⁹ Congressional Quarterly, *Presidential Elections, 1789-2008*, 164.

Table 6: U.S. Factory Production of Color Television Receivers
Table, Portable and Console Sets Annual Percentage

Year	Produced	Change
1974	8,411,000	N/A
1975	6,219,000	-35%
1976	8,194,000	24%
1977	9,341,000	14%
1978	10,674,000	14%
1979	10,042,000	-6%
1980	11,803,000	18%
1981	12,423,000	5%
1982	11,484,000	-8%
1983	14,034,000	22%
1984	17,190,000	23%

Table Source: Electronics Industries Association, *Consumer Electronics Annual Review*, Washington, D.C., 1985, 16.

In the following two years, 1980 and 1981, color television goods produced in U.S.-based facilities rose by 23% percent, to 11,803,000 in 1980 and to 12,423,000 in 1981. In the final year the quota was in effect, 1982, there was a slight decline in color TV production to 11,484,000. These are annual figures, not covering the same time frame as the OMAs. However, the OMAs did not curtail production in subsequent years, 1983 and 1984. In those years, production soared by 45%. The COMPACT to preserve jobs for U.S. workers in the television manufacturing industry did enjoy a measure of success in boosting output.

Through its foreign direct investment in the U.S., Taiwan and South Korea partially diffused the threat of the COMPACT. Increasingly, Taiwanese and South Korean firms decided to assemble color televisions in the U.S. with American workers performing the labor. This was a way to reduce the pressure on the U.S. federal government for trade protection. With the increase in FDI, the labor unions in the

COMPACT would be less likely to coordinate with firms in the COMPACT and lobby for trade protection. This is a condition that Jagdish Bhagwati describes as quid pro quo foreign investment. In a 1992 article, Bhagwati, Elias Dinopoulos and Kar-Yiu Wong explain the dual purposes of quid pro quo foreign investment – to reduce the U.S. government’s willingness to adopt trade protection and the desire on the part of organized labor to lobby for trade protection:

The [foreign] government may encourage DFI in the United States with a view to buying goodwill from the U.S. government and reducing the probability that it will grant protection to the to the lobbies seeking it... [T]he quid pro quo DFI may co-opt the labor unions and weaken their incentive to lobby for protection to “save jobs.”³²⁰

The increase in Taiwanese and South Korean FDI in the U.S. also meant that the foreign-branded material made on U.S. soil would not be subject to the quota. The color televisions that the Taiwanese and South Korean firms manufactured with American labor at U.S. assembly plants were U.S. goods, not imports subject to the quota.

This was not the only benefit that Taiwanese and South Korean firms would realize from the quota. These foreign firms also enjoyed the additional profit they could earn at the higher quota price. With a quota forcing up the cost of Taiwanese and South Korean imports, these foreign firms sold fewer color televisions, but earned more money in profit on the color televisions they did sell by recovering the quota rents. This is the benefit to the exporting nation in a bilateral or unilateral VER. The trading partner that is restricted in the amount of its imports earns more on the imports it does sell. The quota

³²⁰ Jagdish N. Bhagwati, Elias Dinopoulos and Kar-Yiu Wong, “Quid Pro Quo Foreign Investment,” *The American Economic Review* 82, no. 2 (May 1982): 187.

price exceeds what the good would cost if the laws of supply and demand were not curtailed by the trade protection.

The decision to protect color television manufacturing workers with two new OMAs in Proclamation 4636 in January 1979 was designed to improve their employment outlook. Taiwanese and South Korean imports of color television receivers increased in 1978, replacing the share that was once Japan's before the original TV OMA was implemented in 1977. Carter and Strauss recognized that Taiwanese and South Korean imports were undermining the effectiveness of the 1977 OMA with Japan and took action. In response to the COMPACT's coordinated, cooperative collective action with the USITC, Carter revisited Proclamation 4636. The COMPACT was comprised of product-based, trade-based and amalgam labor unions and two TV manufacturers, GTE Sylvania and WGE. COMPACT was the labor-management coalition representing color television manufacturing interests that was actuated by the view that trade protection was necessary for the color television manufacturing industry. All other firms in the industry were free riders. Carter had to respond to the employment conditions that immobile manufacturing workers in this industry faced. Carter hoped to encourage the Taiwanese and South Koreans to manufacture TV sets in the U.S. Foreign brand names were appearing on store shelves – AOC International, Sampo and Tatung for Taiwan, Daewoo, Gold Star and Samsung for South Korea – and could be manufactured in the U.S. with American labor. The increased output of U.S. color television manufacturers in 1983 and 1984 was a sign that the American color television industry was still thriving. While the help given to color TV manufacturing workers did not generate Carter enough votes in

the 1980 election, he could point to the increasing production figures in 1980 and 1981 as evidence that the OMAs were successful. It was the second time that the same Ricardo-Viner style political coalition, COMPACT, successfully lobbied Carter for bilateral VERs.

		Firms	
		Protection	Free Trade
Labor	Protection	COMPACT (Communications Workers of America, Independent Radionic Workers of America, International Association of Machinists, International Brotherhood of Electrical Workers, and International Union of Electrical, Radio and Machine Workers of the AFL-CIO and Corning Glass Works, GTE Sylvania, Owens-Illinois, Sprague Electric Wells Gardner Electronics)	
	Free Trade		

Chapter IV

Case Study Seven: Reagan Auto VER, May 1981

The U.S. auto industry was in crisis in 1980. Japanese firms like Datsun, Honda, Nissan and Toyota were making fuel-efficient cars and trucks that American consumers wanted to buy to deal with rising gasoline costs. There were 200,000 laid off auto workers who manufactured goods with parts and technologies that were outmoded relative to what Japanese firms had. In June 1980, these unemployed auto workers, who were mostly semi-specialized, immobile and specific, joined with their amalgam labor union, the UAW, to file a petition with the USITC for relief from Japanese imports. The Ford Motor Company, one of the four major U.S. auto manufacturers, joined the petition. When GM insisted that it was not imports that were hurting the U.S. auto industry, there was a breakdown in lobbying coordination by auto industry firms that led to the failure of the UAW-Ford coalition.

When President Jimmy Carter lost his re-election bid, he deferred a decision on relief for the U.S. auto industry to his successor, Ronald Reagan. Reagan created an Auto Task Force in his Administration to debate the issue. At that time, members of Congress were pursuing legislative quotas in response to the lobbying of the U.S. auto industry. American Motors, Chrysler, Ford and GM all coordinated their lobbying positions with the UAW and pressed Reagan for an auto quota. In response to these mischiefs of faction, President Reagan decided to urge the Japanese to commit to voluntary restrictions on Japanese imports into the U.S. Reagan suggested to the

Japanese Prime Minister that his nation adopt the policy of voluntary import reductions. A month and a half later, on May 1, 1981, Japan announced that it would voluntarily restrict auto shipments into the U.S. for the next four years. Meanwhile, Japanese firms increasingly began to locate plant and equipment on U.S. soil to better manage their trade differences with America. It is an example of what Jagdish Bhagwati calls quid pro quo foreign investment. Japanese firms decided to assemble cars in the U.S. with American autoworkers performing the labor in order co-opt the labor unions and weaken their incentive to lobby for protection to save jobs.

In 1980, the U.S. auto industry was losing market share to foreign firms that manufactured cheaper and more technologically advanced imports. Many of these firms were located in Japan, the nation of origin for small, fuel-efficient imports by brand names such as Datsun, Honda, Nissan and Toyota. Fuel efficiency was critically important to the American consumer because gasoline prices were much higher due to the decision by the Organization of Petroleum Exporting Countries (OPEC) to raise prices in response to the political crisis in Iran. In the U.S. auto industry, the factor specificity of labor was specialized and/or immobile. The specialized auto workers included the tool and die makers, who were a small fraction of the overall labor force. The tool and die makers would have difficulty transferring their skills to another industry while still commanding the same salary as they did in the auto industry. However, most auto workers were semi-specialized and immobile. Some of these workers were immobile due to the geographic isolation of auto industry plants in the U.S that were forced to close. Similar facilities in their industry were not available to offer jobs to these

displaced workers. However, there was immobility even in Detroit, MI, home to all four auto manufacturers. There was a lack of available jobs at any firm in the U.S. auto industry because of declining demand for U.S. cars. Since imports were satisfying demand, none of the four U.S. auto manufacturers in Detroit would need to hire new workers to make more cars. An estimated 200,000 U.S. autoworkers were unemployed in 1980. In response, the United Auto Workers decided to petition the USITC for relief. Then, members of Congress moved to create a national policy for the auto industry.

In the middle of June 1980, both the UAW and 81 U.S. senators took action to save the U.S. auto industry from the adverse effects of competition with Japanese imports. On June 12, 1980, the UAW filed a petition with the USITC, seeking a determination pursuant to the Escape Clause in Section 201 of the Trade Act of 1974 that there had been injury to the U.S. auto industry as the result of the inflow of imports from Japan. The USITC was aware of the damage that had already been done to the Big Three automakers. Between January 1979 and June 1980, both Ford and Chrysler had closed two U.S. assembly plants, and GM had shuttered five of them.³²¹ On June 18, 1980, 81 Senators opened the body's morning business with a Concurrent Resolution 101, aimed at forming a national policy to deal with the same problem. According the Senator who introduced Concurrent Resolution 101, Donald Riegle (D-MI), Japanese imports were at 23.3 percent of all sales, and 50 percent in the small car market.³²² He stated that it was

³²¹ U.S. International Trade Commission, *Certain Motor Vehicles and Certain Chassis and Bodies Therefor*, USITC Publication 110, December 1980, A-15.

³²² Donald Riegle, "Competition of U.S. Industry in World Automobile and Truck Market," *Congressional Record*, June 18, 1980, 15202.

intended to send a message to Japan about America's interest in maintaining a U.S. auto industry:

Adoption of this resolution should also be an unmistakable signal to Japanese auto and truck producers that existing trade penetration into the U.S. market is damaging America and must be moderated. I believe it is a clear sign that further Japanese efforts to increase their U.S. market share will not be tolerated and should not be attempted.³²³

Import penetration by Japan was the reason that action was considered to be necessary on the part of Riegle and the other 80 U.S. Senators filing Concurrent Resolution 101.

Other Senators in the 81 member coalition in favor of Concurrent Resolution 101 expressed opinions as to what should happen in future U.S. trade relations concerning autos. Modernizing obsolete plant and equipment in American auto industry facilities had to be encouraged. Senator Carl Levin (D-MI) noted that the U.S. auto industry was in the process of retooling its American plant and equipment to become more competitive in the small car market.

Our auto companies have undertaken a massive capital investment program to retool for the production of fuel efficient, high quality, economical vehicles – the vehicles which will be a match for those produced anywhere else in the world. Our responsibility, in the words of this resolution, is to “produce a climate” in which this conversion of facilities can take place as rapidly and as efficiently as possible.³²⁴

Senator Howard Metzenbaum (D-OH) wanted to discourage U.S. auto manufacturers from relocating to Mexico in search of cheaper labor to manufacture cars. The capital mobility of the auto industry in some of its subassembly work was Metzenbaum's target.

³²³ Riegle, *The Congressional Record*, 15202.

³²⁴ Carl Levin, “Competition of U.S. Industry in World Automobile and Truck Market,” *Congressional Record*, June 18, 1980, 15204.

To compound the unemployment problem in my home state, the Ford Motor Co. has recently confirmed a fact that I revealed earlier this year. Although Ford originally denied my accusation, they have now announced that they will begin construction of a massive \$350 million engine plant in Mexico, drawing on more than 10,000 jobs from the Brook Park engine plants in Cleveland.³²⁵

Senator John Glenn (D-OH) suggested that orderly marketing arrangements be signed with Japan and West Germany while the U.S. auto industry was retooling.

...I favor a temporary, partial backout of Japanese, German and other foreign imports, through the negotiation of orderly marketing agreements between our Government and the other governments involved. This would be a limited, 3-year measure to allow our industry a fair opportunity to complete its retooling efforts.³²⁶

In the coming months, these opinions would be discussed by policymakers and industry petitioners for trade protection. The issue was no less than what the U.S. auto industry should look like in the future. It was hoped that the views of these Senators might influence the Reagan Administration to adopt trade protection for the auto industry.

While the Senators were applying pressure with Concurrent Resolution 101, the Reagan Administration was lobbied by a coordinated labor-management political coalition. On August 4, 1980, Ford created a Ricardo-Viner style political coalition with the UAW when it decided to join the UAW's petition with the USITC. Ford was one of the four automakers in the U.S. market along with American Motors, Chrysler and General Motors. By coordinating its lobbying action with the UAW, Ford was taking collective action to further its interest in limiting the auto industry's exposure to foreign

³²⁵ Howard Metzenbaum, "Competition of U.S. Industry in World Automobile and Truck Market," *Congressional Record*, June 18, 1980, 15205.

³²⁶ John Glenn, "Competition of U.S. Industry in World Automobile and Truck Market," *Congressional Record*, June 18, 1980, 15206.

imports. Ford requested that the USITC consider a quota be imposed on all foreign imports, limiting cars to 1.7 million and light trucks to 260,000.³²⁷ Douglas A. Fraser, President of the UAW, and Philip Caldwell, the President of Ford, testified before the USITC on October 8 and 9, 1980, to explain their mutual position. The UAW presented first. Fraser gave the opinion that the industry needed time to automate and the government should pursue a Voluntary Export Restraint agreement with Japan to encourage them to build cars in the U.S. with UAW labor:

The autoworkers claim the industry needs relief from imports until 1985 so they can retool their plants and produce more small cars to compete effectively with foreign models. The autoworkers also said that they would prefer that the Japanese voluntarily restrain exports to the United States or build plants here.³²⁸

Ford was committed to lowering imports as well. On behalf of Ford, Caldwell argued that there should be permanent quotas on foreign imports. He mentioned that Britain, Italy and France all had informal quotas limiting Japanese automobiles and trucks from entering their borders.³²⁹ Caldwell testified that these restrictions on the part of the Europeans were evidence that free trade was merely a “buzzword.”³³⁰ This Ricardo-Viner style political coalition was actuated by the same view on limits for imports that Senator Glenn was. The testimony at the USITC also demonstrated that this labor-

³²⁷ Peter Behr, “Ford Asks ITC to Put Sharp Import Limits on Japan Cars,” *Washington Post*, August 5, 1980, D7.

³²⁸ Jane Seaberry, “UAW Blames Imports for Industry Problems,” *Washington Post*, October 9, 1980, D11.

³²⁹ Clyde H. Farnsworth, “Ford Chief Bids U.S. Cut Imports,” *New York Times*, October 10, 1980, D3.

³³⁰ Farnsworth, “Ford Chief Bids U.S. Cut Imports,” D3.

management coalition was organized and active in pursuit of trade protection and mischiefs of faction.

Meanwhile, on the Presidential campaign trail, the candidates for the two major parties give their views on the trade imbalance facing the U.S. auto industry. There was agreement between the candidates as to what the next steps should be. Reagan, the Republican candidate for the Presidency, made a campaign promise in Detroit, MI on September 2, 1980 and promised to help the auto industry push back foreign imports.

The *Washington Post* reported Reagan's remarks:

In a departure from his usual free trade advocacy, Reagan said he would attempt to convince the Japanese that it was in their own best interests to slow down the sale of cars in this country 'until our industry gets back on its feet.'³³¹

With this campaign promise, Reagan was aligning himself with the Ricardo-Viner political coalition requesting import relief from the USITC. He hoped that this key constituency would choose him at the ballot box. However, Carter held a similar position on trade protection. In an October 1, 1980 town meeting in Flint, MI, Carter explained how he hoped to limit Japanese imports and encourage Japan to manufacture cars in the U.S.

...We're trying to encourage the Japanese to restrict their shipment of automobiles to this country this year.... In addition, we are encouraging Japanese who are going to sell their cars in this country to put their manufacturing plants or assembly plants in the United States, to employ American workers to make Japanese cars.³³²

³³¹ Lou Cannon and David S. Broder, "Reagan Vows to Try to Halt 'Deluge' of Japanese Autos," *Washington Post*, September 3, 1980, A2.

³³² Jimmy Carter, "Flint, Michigan Remarks and a Question and Answer Session at a Town hall Meeting," in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.

Carter continued by citing the example of Volkswagen of America as the model for what he hoped Japan would do with its automobile production in the future:

When I got to the airport this morning in Detroit, there was a Volkswagen there, manufactured in this country. And the man who represented Volkswagen-America told me that 70 percent of all Volkswagens sold in this country are manufactured in the United States with American workers. The only two things they import from Germany now is the transmission and the motor itself.³³³

A month later, Reagan defeated Carter in the Electoral College by an overwhelming amount, 489 to 49. Given the similarity in the candidates's positions on the auto industry, the result on Election Day had no effect on the course of U.S. trade policy. It is an instance of a bipartisan consensus on trade protection. Both Carter and Reagan pledged to provide labor and capital in the U.S. auto industry some relief from Japanese imports.

Despite the consensus in the positions of the major party Presidential candidates, the USITC squashed the chance of the Ricardo-Viner political coalition to gain some import relief. On November 10, 1980, the USITC declared that the auto industry was not injured by foreign imports from Japan. One of the USITC judges, Paula Stern, explained that the decision was based on her recognition that changing American consumer demand was the true cause for the losses that the auto industry was sustaining:

After the two great oil crises of the last seven years and the perceived quality deficiencies of domestic autos, the U.S. market changed significantly, and these imports were in a position to benefit.³³⁴

³³³ Carter, "Flint, Michigan Remarks and a Question and Answer Session at a Town hall Meeting."

³³⁴ Clyde H. Farnsworth, "U.S. Rejects Limits on Japanese Autos," *New York Times*, November 11, 1980, A1.

The USITC's decision reflected a free trade philosophy. U.S. manufacturers were making large, fuel inefficient cars after demand had changed to a desire for smaller, fuel-efficient cars. The U.S. auto industry lacked recognition of changing consumer tastes and thus were outsold by Japanese auto manufacturing firms.

The testimony of GM also led to a breakdown of the strength of the industry coalition between the UAW and Ford. On October 9, 1980, the UAW and Ford testified to the USITC that the U.S. needed auto quotas. However, General Motors Vice President David Potter offered a viewpoint contrary to Ford's position. Potter said that the U.S. auto industry was in dire straits because of the shift in consumer preferences, the effect of the economic recession on American spending habits, and excessive government regulation. Upon hearing GM's answer, a USITC judge reminded Potter that he did not say imports were a reason why the industry was injured. Potter answered that the USITC judge had heard him correctly.³³⁵ This disconnect in the lobbying positions of the two U.S. auto manufacturers testifying at the USITC likely undermined the effectiveness of the Ford-UAW coalition. GM was not coordinated with Ford. GM did not request trade protection from the USITC while Ford did.

This would soon change. By February 1981, all of the firms in the auto industry would be coordinated in their lobbying for trade protection from the Reagan Administration.

In January 1981, Chrysler joined the Ricardo-Viner political coalition with UAW and Ford. Specifically, Chrysler recommended to the incoming Reagan Administration

³³⁵ Seaberry, "UAW Blames Imports for Industry Problems."

that there should be a bilateral VER negotiated between the U.S. and Japan. Chrysler made its lobbying pitch in a January 12, 1981 letter from Chairman Lee Iacocca to James A. Baker III, Reagan's Chief of Staff Designate. The bilateral VER was part of Iacocca's proposed National Automotive Recovery Act. Iacocca explained what a bilateral VER would do for the U.S. auto industry:

Negotiate a gentleman's agreement with the Japanese to stop for two years the shipment of imports into the U.S. that are built on overtime. The agreement will not cause a single layoff in Japan, and it would not create a tariff war. It would give the U.S. industry temporary relief while it converts its plants to the production of an entire fleet of smaller, fuel-efficient automobiles, and gets its employees back to work.³³⁶

Iacocca detailed how the Japanese auto industry used overtime labor to generate more goods for sale in the U.S. market.

In 1965, there was only one car for every 45 persons in Japan. By 1975 there was one car for every seven persons. Since then, as domestic demand has leveled off, capacity has shifted to export production. The Japanese have found such a ready export market – principally in the U.S. – that in 1979 they produced 1.1 million units on overtime. Overtime production may now be at or near the 1.4 million unit per year level. In the meantime, thousands of U.S. auto workers have been laid off, and states and the federal government are paying billions of dollars in unemployment and TRA benefits.³³⁷

The use of overtime labor by the Japanese helped underscore why Chrysler wanted a bilateral VER with Japan to level the competitive playing field. It was a matter to which Reagan wanted to devote additional study and debate.

³³⁶ Lee Iacocca, Chairman of the Board, Chrysler, to James A. Baker III, Chief of Staff Designate, 12 January 1981, in Box 45, Business and Economics 003-15, White House Central Files, Ronald Reagan Presidential Papers.

³³⁷ Iacocca to Baker.

Appointees to the incoming Reagan Administration were also committed to evaluating whether trade protection was possible for the U.S. auto industry. At the confirmation hearing for Secretary of Commerce Malcolm Baldrige, he spoke about the problems of the U.S. auto industry and what he would recommend that President Reagan do in response.

‘There is no question about the importance of the auto industry, Baldrige said. It’s one of the very largest with housing and agriculture.’ The problems of the reasons our economy ‘is not going to go sideways in the first quarter, it’s going to go down.... ‘I recommend that the president talk to the Japanese and see if we can’t work out something so the industry can get back on its feet.’³³⁸

Congress was interested in President Reagan’s ability to undertake these kind of talks. On January 13, and 14, 1981, the Senate Finance Committee held hearings to invite members of the auto sector to provide their views on the problems facing the U.S. auto industry. John Danforth (R-MO) was the Chairman of the Senate Finance Committee’s International Trade Subcommittee that sponsored the hearings. Potter from GM spoke, as did William Scott of the Ford Motor Company, Pierre Gagnier of the Chrysler Corporation, as well as representatives of the United Auto Workers and the AFL-CIO.³³⁹ There was greater coordination on the part of the auto industry. Chrysler’s Gagnier requested that the government reach a gentlemen’s agreement with the Japanese to limit imports into the U.S.³⁴⁰ Chrysler was explicitly cooperating with Ford and the UAW,

³³⁸ Jane Seaberry, “Baldrige Urges Reagan-Japan Talks on Cars,” *Washington Post*, January 7, 1981, D7.

³³⁹ *Congressional Record – Daily Digest*, January 15, 1981, D13-D14.

³⁴⁰ Jane Seaberry, “Auto Import Bill Expected Today,” *Washington Post*, February 3, 1981, F10.

who were also lobbying Congress for controls on imports. Of the Big Four U.S. automakers, only GM was not coordinated with the other members of the industry.

When President Reagan received a February 3, 1981 letter from the Motor Vehicle Manufacturers Association, it was a milestone in the auto industry's lobbying effort. GM was no longer opposed to trade protection. All of the firms in the auto industry were now seeking protection from Japanese imports from President Reagan. The Motor Vehicle Manufacturers Association (MVMA) was an industry group comprised of the four U.S. automakers as well as truck manufacturing companies such as Freightliner Corporation, International Harvester, and Mack Trucks. The MVMA also included the U.S. affiliate of West Germany's Volkswagen, Volkswagen of America. These firms all pressed Reagan to implement a quota arrangement with Japan. Specifically, the MVMA urged Reagan to:

...undertake initiatives to persuade the government of Japan to demonstrate responsible international behavior by taking action which would result in a voluntary, immediate and substantial reduction in passenger car exports to the United States for a meaningful period of time.³⁴¹

The MVMA explained that the goal of the quota arrangement over time was to encourage Japanese foreign direct investment in building plants in the U.S.

For the long run, the Japanese government should actively encourage its auto companies to make the necessary investments to contribute jobs, taxes and capital to the U.S. economy in view of the sales benefits they expect to obtain here.³⁴²

³⁴¹ Motor Vehicles Manufacturers Association of the United States, to The President, 3 February 1981, in Box 45, Business and Economics 003-15, White House Central Files, Ronald Reagan Presidential Papers.

³⁴² MVMA to the President.

One member of the MVMA, Volkswagen of America, was an example of the type of foreign investment that the U.S. auto industry expected from Japan. It was a goal to have Japanese firms open U.S. affiliates and build plant on U.S. soil to foster production and employment in the U.S., as well as share some of the federal government's tax obligations for U.S. businesses.

On February 5, 1981, Danforth and colleague Lloyd Bentsen (D-TX) increased the pressure on President Reagan by co-sponsoring Senate Bill 396. S. 396 was legislation designed to place mandatory quotas on automobile imports from Japan.³⁴³ The mandatory quotas in S. 396 would cut off Japanese imports at 1.6 million units for the next three years. In explaining the rationale for S. 396, Bentsen said that continuing free trade would be too costly in terms of American jobs:

There are very few nations in the world....that would accept 200,000 unemployed as a price of maintaining a commitment to open markets. Can anyone seriously suggest that the Government of Japan, which practices predatory trade policies and protects groups like citrus growers and cattlemen with a vengeance, would stand idly by and watch 200,000 workers enter the rolls of the unemployed as evidence of their commitment to free trade?³⁴⁴

Here, Bentsen, a Democrat, introduced a rationale that was similar to what a Republican, Hansen, used in 1967 when criticizing steel imports from Japan. Japan was subsidizing its auto industry and fair trade by the U.S., not free trade, was needed to correct the Japanese subsidy practice. It was the responsibility of the Reagan Administration to

³⁴³ John Danforth, "Quota on Automobile Imports from Japan," *Congressional Record*, February 5, 1981, 1786.

³⁴⁴ Lloyd Bentsen, *Congressional Record*, February 5, 1981, 1787.

decide whether to allow the Congress to attack subsidies with legislated quotas, instead of seeking a voluntary arrangement with Japan.

Another approach emerged. That approach was to allow Reagan's economic growth program time to flourish and take care of the auto industry's loss of market share to Japan. In a February 5, 1981 speech, Reagan explained how it was crucial to give U.S. manufacturing industry the time to modernize so that workers would be more productive and the rate of inflation would go down. It was the nation's introduction to Reagan's economic philosophies. Reagan argued that foreign trade partners in Japan were doing a better job than the U.S. was doing in realizing gains in productivity from new plant and equipment.

Today this once proud industrial giant of ours has the lowest rate of gain in productivity of virtually all the industrial nations with whom we must compete in the world market. We can't even hold our own market here in America against foreign automobiles, steel and a number of other products. Japanese production of automobiles is almost twice as great per worker as it is in America. Japanese steelworkers outproduce their American counterparts by about 25 percent. Now, this isn't because they are better workers. I'll match the American working man or woman against anyone in the world. But we have to give them the tools and equipment that workers in the other industrialized nations have.³⁴⁵

Five days later, Fraser of the United Auto Workers met with Reagan at the White House to lobby for quotas, arguing that they would give the U.S. auto industry time to improve its capital equipment. Reagan jotted down his reaction to Fraser in his diaries.³⁴⁶

³⁴⁵ Ronald Reagan, "Address to the Nation on the Economy," February 5, 1981, in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.

³⁴⁶ Ronald Reagan, *The Daily Diary of President Ronald Reagan*, February 10, 1981, at <https://www.reaganfoundation.org/white-house-diary.aspx>.

[Fraser] said the union agrees there's a need for the auto industry to raise new capital and that the union would be willing to help if an appropriate aid package is drafted by the government.³⁴⁷

At this point, labor and capital were a united manufacturing interest. The Ricardo-Viner style labor-management political coalition was actuated by the same view that a quota was needed to foster domestic production and employment. With the lobbying by the UAW, the options available to Reagan were becoming clearer. Would there be legislated quotas by Congress? A bilateral VER or gentleman's agreement between the U.S. and Japan? A VER that Japan would undertake on its own? Or would the Reagan Administration pursue none of these options and allow its economic program time to address the problems in the U.S. auto industry?

Reagan assigned an Auto Task Force the responsibility of coming up with a plan to deal with foreign auto imports into the U.S. market. On March 3, 1981, Reagan held the first meeting of the Auto Task Force at the White House.³⁴⁸ The chairman of the Auto Task Force was Secretary of Transportation Drew Lewis. At that meeting, Reagan learned there were members of his Administration who were for trade protection in the form of a bilateral VER and those who opposed such a step. Three days later, in response to a question at a news conference from the *Chicago Tribune's* Steve Neal, Reagan would inform the nation that the Auto Task Force was in deliberation.

³⁴⁷ Jane Seaberry, "Japanese, U.S. Officials to Meet on Auto Imports," *Washington Post*, February 11, 1981, E1.

³⁴⁸ Ronald Reagan, *The Daily Diary of President Ronald Reagan*, March 3, 1981, at <https://www.reaganfoundation.org/white-house-diary.aspx>.

- Q. Mr. President, there appears to be a debate within your administration over whether to have mandatory or voluntary limits on Japanese auto imports. Have you decided which you would recommend going with?
- A. We haven't reached a decision on this. We have a task force under Secretary of Transportation Drew Lewis. We've had one meeting with the task force, a Cabinet meeting, and the second meeting is scheduled for next week. And until then, no decisions have been made.³⁴⁹

It was the Auto Task Force's responsibility to have debate and give the President information so he would have an opportunity to consider what his position should be. Would it be mandatory quotas? Would it be voluntary restraints of some kind? Or would President Reagan take no action and allow his economic program to flourish?

Earlier in the day on March 6, 1981, Reagan met at the White House with a contingent of eight governors who urged him to negotiate voluntary restraints with Japan.³⁵⁰ The eight governors represented states that were sustaining heavy losses due to the layoffs by the U.S. auto industry. They were all Republicans: Christopher "Kit" Bond (Missouri), Lee Dreyfus (Wisconsin), Pete DuPont (Delaware), Bill Milliken (Michigan), Bob Orr (Indiana), Jim Rhodes (Ohio), Jim Thompson (Illinois), Dick Thornburgh (Pennsylvania). The eight governors presented Reagan with a letter recommending solutions for the auto industry's woes, including accelerated appreciation allowances, research and development tax credits and voluntary export restraints. On the subject of voluntary export restraints, the eight governors wrote:

³⁴⁹ Ronald Reagan, "The President's News Conference," March 6, 1981, in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.

³⁵⁰ Francis X. Clines, "8 States Urge Talks with Japan on Autos," *New York Times*, March 7, 1981, 30.

...[I]n any discussion dealing with the current plight of the auto industry, the issue of Japanese imports must be addressed. The domestic auto producers need an opportunity to earn a larger share of the domestic auto market. There is substantial precedent for voluntary trade agreements between the Japanese and the United States. These agreements would provide the necessary competitive environment.³⁵¹

To make the argument for a U.S.-Japanese bilateral VER more compelling, the eight governors proceeded to explain how Britain, France and Japan all had import restraint agreements in place with Japan. The eight governors argued that the U.S. had to adopt a similar practice in order to give the American auto industry time to make competitive compact cars again.

Within the Auto Task Force, there was public disagreement over the position that Reagan should take on quotas. Three members of the Auto Task Force were in favor of bilateral VERs: Lewis, Baldrige and Secretary of Labor Ray Donovan.³⁵² Lewis, the chairman of the Auto Task Force, made his position known at the joint press conference with the eight governors.

I feel the present level of Japanese imports is unacceptable. It's realistic to say that, if there is any recommendation on import restraint, they will be voluntary restrictions and negotiated.³⁵³

Three members of the Reagan Administration opposed the use of voluntary restrictions: Director of the Office of Management and Budget David Stockman, Secretary of the Treasury Donald Regan and Chairman of the Council of Economic Advisers Murray

³⁵¹ Milliken, William G., Robert D. Orr, Christopher S. Bond, James A. Rhodes, Lee S. Dreyfus, James R. Thompson, Pierre DuPont IV, Richard Thornburgh, to President Ronald Reagan, 6 March 1981, in Box 45, Business and Economics 003-15, White House Central Files, Ronald Reagan Presidential Papers.

³⁵² Peter Behr, "Auto Imports Test 'Reagan Economics,'" *Washington Post*, March 12, 1981, A1.

³⁵³ Clines, "8 States Urge Talks with Japan on Autos," 30.

Weidenbaum. Stockman, Regan and Weidenbaum all believed that economic growth would address the needs of the U.S. auto industry.

Stockman, Regan and Weidenbaum reportedly insist that the economic growth they expect will improve auto sales from last year's level of 9 million cars to 10.5-11 million. That would lift Ford and Chrysler with the rest of the industry. In that environment, Ford can borrow investment funds it needs, as long as the financial markets have confidence in its management.³⁵⁴

This argument was that the economy, if allowed to do what it was projected to do, would resolve the problems the U.S. auto industry was facing. This was an argument based on a belief in the power of the free market to address the problem. The future economic growth in the U.S. auto industry, not trade protection, would foster domestic production and employment. These three men were trying to take a stand against U.S. government subsidies for the manufacturing industry.

At this point in the debate, another auto industry firm, General Motors, publicly announced that it wanted the Reagan Administration to negotiate voluntary restraints on Japanese auto imports. On March 15, 1981, Roger Smith, the new Chairman of General Motors, appeared the CBS-TV news show *Face the Nation* to broadcast the new position of his firm. Specifically, he urged the Reagan Administration to overcome its difference of opinion on bilateral VERs and request Japan to limit its auto imports by 300,000 to 500,000.³⁵⁵ This was a dramatic change in GM's public position. When GM's Potter testified in the USITC's courtroom on October 9, 1980, he did not cite imports as a cause

³⁵⁴ Behr, "Auto Imports Test 'Reagan Economics,'" A1.

³⁵⁵ Art Pine, "GM Chairman Favors Asking Voluntary Japanese Auto-Export Limit," *Washington Post*, March 16, 1981, B3.

of injury to the U.S. auto industry. With Smith's appearance on *Face the Nation*, Smith and GM were now organized and active in coordinating their lobbying position with Ford, Chrysler and the UAW. Smith's appearance on *Face the Nation* strengthened the message of the February 3, 1981 letter from the MVMA to President Reagan, which he himself signed. It was also an important boost to the clout of the Ricardo-Viner style political coalition lobbying for trade protection, because GM was the largest U.S. auto producer in sales volume.³⁵⁶

The final two meetings of President Reagan's Auto Task Force were scheduled for March 17 and March 19, 1981. Debate continued between the members who were for bilateral VERs and those who saw economic growth as the answer. On March 17, Lewis pressed for a bilateral VER that would restrict Japanese imports to 1.5 to 1.6 million cars per year for the next three years.³⁵⁷ In that same meeting, Stockman, Regan and Weidenbaum said the normal course of economic growth would alleviate the auto industry's problems. On March 19, Vice President George Bush provided the opinion that helped Reagan see the validity of a unilateral VER that Japan would undertake on its own. Reagan recounted the moment in his autobiography:

As I listened to the debate, I wondered if there might be a way in which we could maintain the integrity of our position in favor of free trade while at the same time doing something to help Detroit and ease the plight of its thousands of laid-off assembly line workers. ...I didn't want to start an all out trade war, so I asked if anyone had suggestions for striking a balance between the two positions. George Bush spoke up: 'We're all for free enterprise, but would any of us find fault if Japan announced without any

³⁵⁶ Pine, "GM Chairman Favors Asking Voluntary Japanese Auto-Export Limit," B3.

³⁵⁷ Jane Seaberry and Lou Cannon, "Voluntary Auto Import Limit Gains," *Washington Post*, March 18, 1981, A1.

request from us that they were going to voluntarily reduce their export of autos to America?³⁵⁸

Reagan decided what his course of action should be: recommend that Japan adopt a unilateral VER.

...I liked George's idea and told the cabinet that I'd heard enough... After the meeting, I met privately with Secretary of State Al Haig and told him to call our ambassador in Tokyo, Mike Mansfield, and have him pass the word informally to Japanese Foreign Minister Masayoshi Ito, who was scheduled to make a visit to Washington in a few days, that pressure was building in Congress for passage of a bill establishing mandatory quotas. I told him to suggest that an announcement of a voluntary cutback by Japan might head it off.³⁵⁹

Reagan believed that his recommendation would carry more weight if it was made along with a comment on U.S. Congressional pressures to impose mandatory quotas.

The President had the opportunity to make his recommendation on March 24, 1981, when Ito visited the White House. In his daily diary, Reagan recalled what he discussed during this meeting:

Foreign Minister Ito of Japan is here scouting for the PMs visit in May. I made it plain that we don't want to set a quota on Japan auto imports to help us over the Auto Crisis but if Japan voluntary reduction took place it could head off bills to impose quotas now before Congress. I think he gets the point – I hope so.³⁶⁰

Ito did get the point. The Japanese government considered undertaking a unilateral VER with the U.S. on auto imports. It likely took this position once it recognized the increase in profits that would come from the quota, which made Japanese imports higher priced

³⁵⁸ Ronald Reagan, *An American Life: The Autobiography* (New York: Simon and Schuster, 1990), 253-254.

³⁵⁹ Reagan, *An American Life: The Autobiography*, 253-254.

³⁶⁰ Ronald Reagan, Written Daily Diary Entry for March 24, 1981, available at <https://www.reaganfoundation.org/white-house-diary.aspx>.

than would be the case in a free market. After hosting Reagan's Trade Representative, Bill Brock, for a meeting in late April, the Japanese Prime Minister Zenko Suzuki announced on May 1, 1981 that Japan would limit its car shipments to the U.S. to 1.68 million from April 1, 1981 to March 31, 1982 and 1.82 million from April 1, 1982 to March 31, 1983. The permissible level of imports was not disclosed for April 1, 1983 to March 31, 1984.³⁶¹ Both Senator Danforth and Senator Bentsen were satisfied with this result. They reported that they would no longer be seeking passage of S. 396, the mandatory quota legislation they co-sponsored to bar Japanese autos at 1.6 million units. In particular, Danforth said:

Although I personally think that greater concessions should have been made, I believe the Japanese plan is an important step in the right direction.³⁶²

The Ricardo-Viner style political coalition with American Motors, Chrysler, Ford, GM and the United Auto Workers also accepted the unilateral VER, albeit with some reservations. GM's Chairman, Roger Smith, claimed that "in a 10 million car market, a decline of 140,000 vehicles [the 1.68 million quota less the actual total of 1.833 million vehicles sold] will have little immediate impact."³⁶³ Fraser and the UAW had a similar reaction.³⁶⁴ On a March 22, 1981 episode of the NBC News Program, *Meet the Press*,

³⁶¹ Peter Behr, "American Producers Only Mildly Happy," *Washington Post*, May 2, 1981, A1.

³⁶² Behr, "American Producers Only Mildly Happy," A1.

³⁶³ *United Press International*, May 2, 1981, in Steven Berry, James Levinsohn and Ariel Pakes, "Voluntary Export Restraints on Automobiles: Evaluating a Trade Policy," *The American Economic Review*, vol. 89, no. 3 (June 1999): FN401-402.

³⁶⁴ *United Press International* in Berry, Levinson and Pakes, FN401-402.

Fraser said that a restraint of 1.5 million cars was preferable, calling the lower figure a “‘giant step in the right direction’ toward easing problems for American auto workers.”³⁶⁵

The quota limit in the third year of the bilateral VER was established in an agreement reached on February 12, 1983. The Japanese Minister of International Trade and Industry Sadanori Yamanaka informed the U.S. Trade Representative, William Brock, during a visit to Japan that the quota limit would also be 1.68 million cars for the period from April 1, 1983 to March 31, 1984.³⁶⁶ Japan’s actions were taken nine days after Senator Gary Hart (D-CO) introduced a Senate Joint Resolution to promote the extension of the Japanese auto restraint agreement.³⁶⁷ After Japan made its concession on February 12, 1983, Brock immediately pressed Yamanaka for an extension of the agreement to 1985. Brock cited pressures in the U.S. Congress as a reason why Japan had to extend the voluntary arrangement. On November 1, 1983, prior to a state visit by President Reagan, the Japanese agreed to limit autos for an additional year at 1.85 million cars, from April 1, 1984 to March 31, 1985.³⁶⁸

The three year bilateral VER and the one year bilateral VER extension had an impact on the U.S. market for automobiles. Japanese firms began locating plant and equipment in the U.S. and hired U.S. autoworkers to complete the assembly of their

³⁶⁵ Clyde H. Farnsworth, U.S.-Japan Trade Ties on Agenda,” *New York Times*, March 23, 1981, D1.

³⁶⁶ Shieghiko Togo, “Japan to Restrain Auto Imports for a Third Year,” *Washington Post*, February 13, 1983, A22.

³⁶⁷ *Congressional Record*, February 3, 1983, 1624.

³⁶⁸ *Congressional Record*, 1624.

vehicles. Honda put a Honda plant in Marysville, OH.³⁶⁹ Nissan produced cars and subcompact trucks at its Smyrna, TN facility.³⁷⁰ In a joint venture, GM and Toyota opened a plant in Fremont, CA, that was designed to manufacture new Chevy Novas with Toyota equipment in an effort to bring GM's line of compact cars up to date.³⁷¹ The opening of Japanese manufacturing plants in the U.S. was a way for Japan to produce cars to sell in the U.S. market that were not the types of Japanese imports limited by the bilateral VER.

Through its foreign direct investment in the U.S., Japan could diffuse the threat of the United Auto Workers. Japanese firms decided to assemble cars in the U.S. with American autoworkers performing the labor. This was a way to reduce the pressure on the U.S. federal government for trade protection. With the increase in FDI, the amalgam labor union, the UAW, would be less likely to coordinate with firms in MVMA and lobby for trade protection. This is a condition that Jagdish Bhagwati describes as quid pro quo foreign investment. In a 1992 article, Bhagwati, Elias Dinopoulos and Kar-Yiu Wong explain the dual purposes of quid pro quo foreign investment – to reduce the U.S. government's willingness to adopt trade protection and the desire on the part of organized labor to lobby for trade protection:

The Japanese government may encourage DFI in the United States with a view to buying goodwill from the U.S. government and reducing the probability that it will grant protection to the to the lobbies seeking it....

³⁶⁹ Warren Brown, "GM-Toyota Venture Gets Rolling," *Washington Post*, December 19, 1984, 35.

³⁷⁰ Brown, "GM-Toyota Venture Gets Rolling," 35.

³⁷¹ Brown, "GM-Toyota Venture Gets Rolling," 35.

[T]he quid pro quo DFI may co-opt the labor unions and weaken their incentive to lobby for protection to “save jobs.”³⁷²

The increase in Japanese FDI in the U.S. also meant that the Japanese-branded material made on U.S. soil would not be subject to the quota. The autos that the Japanese manufactured with American labor at U.S. assembly plants were U.S. goods, not imports subject to the quota.

This was not the only benefit that Japanese firms would realize from the quota. Japanese firms also enjoyed the additional profit they could earn at the higher quota price. With a quota forcing up the cost of Japanese imports, Japanese firms sold fewer autos, but earned more money in profit on the autos they did sell by recovering the quota rents. This is the benefit to the exporting nation in a bilateral or unilateral VER. The trading partner that is restricted in the amount of its imports earns more on the imports it does sell. The quota price exceeds what the good would cost if the laws of supply and demand were not curtailed by the trade protection.

However, not all perspectives on the quotas were positive. Toward the end of the final year of the three-year VER, Robert Feenstra summarized the impact of the quota in a *New York Times* editorial.

The Reagan Administration’s four year ‘voluntary’ import restrictions on Japanese autos have created higher prices, restricted consumers’ choices and given Japanese producers a golden opportunity to penetrate the highly profitable luxury car market.³⁷³

³⁷² Jagdish N. Bhagwati, Elias Dinopoulos and Kar-Yiu Wong, “Quid Pro Quo Foreign Investment,” *The American Economic Review* 82, no. 2 (May 1982): 187.

³⁷³ Robert C. Feenstra, “End Voluntary Trade Quotas,” *New York Times*, December 26, 1984, A31.

Higher prices, limited choices, and Japanese competition in the manufacture of luxury cars were the negative impacts of the three year VER and one year extension. The American consumer had to bear this burden.

There were 200,000 mostly semi-specialized, immobile and specific workers in the U.S. auto industry who were collecting unemployment assistance in response to the changing conditions of the U.S. auto market in 1980. To arrive at the auto VER agreement Reagan entered in May 1981, there had to be complete coordination on the part of the members of the Ricardo-Viner style political coalition. In October 1980, when the United Auto Workers and Ford petitioned the USITC and President Carter for trade protection, GM took a contrarian position. For GM, it was not a rise in Japanese imports that caused the injury to the U.S. auto industry, but other reasons, namely, the shift in consumer preferences, the effect of the economic recession on American spending habits, and excessive government regulation. When GM changed its position, the entire auto industry was actuated by the same view and mischiefs of faction would soon arise. The MVMA authored a February 3, 1981 letter to Reagan asking for a quota restraint on Japanese cars and an increase of Japanese foreign direct investment in the U.S. for auto manufacturing. Later in February 1981, the UAW's President, Fraser, coordinated with the MVMA and lobbied President Reagan directly for quotas. When GM's Chairman, Roger Smith spoke publicly about voluntary restraints on March 1981, the firms and the amalgam labor union in the Ricardo-Viner style political coalition were at their peak strength. Both Carter and Reagan were of the opinion that the U.S. auto industry needed relief from U.S. imports, but it was not until Reagan took office and appointed his Auto

Task Force that a policy was made. When Reagan decided that his Vice President, George Bush, made the right point about the solution to the import problem faced by the U.S. auto industry, he cited Congressional pressure as leverage in his negotiations with Japan to secure the unilateral VER. The Japanese did not set their limit as low as the 1.6 million sought in S. 396, but instead limited imports to 1.85 million for two years. This decision was based on the understanding that Japanese firms would increase their profits with limits on the supply of the cars that Americans wanted to buy.

		Firms	
		Protection	Free Trade
Labor	Protection	United Auto Workers and the Motor Vehicle Manufacturers Association of the United States	
	Free Trade		

Chapter IV

Case Study Eight: Reagan Steel VRAs, October 1982

In late 1981 and early 1982, U.S. Secretary of Commerce Malcolm Baldrige contacted the member states of the EEC to discuss their willingness to enter bilateral VERs. U.S. firms were interested in the course of these negotiations. There were 76,000 unemployed steel workers, most of them semi-specialized, immobile and specific who were idle due to two changes in world steel market conditions that allowed steel from the EEC to enter the U.S. at cheaper prices. The two conditions were a strong dollar, which made EEC currencies and goods relatively cheaper, and government subsidies, which gave EEC firms the ability to dump steel in the U.S. market at prices below the cost to produce it. The trigger price mechanism policy implemented by President Carter provided opportunities for steel firms to file complaints with the Department of Commerce to address foreign firms who were dumping steel. On January 11, 1982, seven steel firms filed complaints concurrently with the Department of Commerce and the USITC, claiming that they were injured by EEC imports that were dumped in 1981. While the complaints by the seven steel companies proceeded through Commerce and the USITC, Senators in Congress introduced anti-dumping legislation that was based on the principle of reciprocity in trade relations. The combined pressures of the industry complaints and Congressional legislative action prompted the Reagan Administration to attempt to implement trade protection. In June 1982, Baldrige convinced the EEC to make an initial concession on a bilateral VER arrangement. It was the start of a

negotiation process that culminated five months later. In October 1982, when the USITC was expected to rule in favor of injury due to product dumping, Baldrige extracted his greatest concessions yet from the EEC. Once the seven U.S. steel firms and the amalgam labor union agreed that this proposal was sufficient, Baldrige finalized the bilateral VERs and Reagan announced them to the nation on October 21, 1982.

In June of 1981, trade analysts noticed a new trend in the U.S. steel market. Foreign steel imported from the EEC was more competitively priced than U.S. manufactured steel. Between March and April 1981, U.S. purchasers of steel bought 1.761 million tons of imported steel, which was a 60 percent increase in import sales over the March figure of 1.142 million.³⁷⁴ Most of this surge was attributed to steel goods originating from the states of the EEC. Some analysts cited a strong dollar as the reason driving down the prices of EEC goods. According to this logic, the rate of exchange of European currencies with the dollar gave U.S. firms holding dollars an advantage when purchasing European steel. Since the dollar was stronger relative to the European currencies, dollars had greater purchasing power when converted to European currency to purchase European goods. A similar surge occurred between July and August of 1981, when imports of foreign steel increased from 1.663 million to 2.226 million tons.³⁷⁵ C. Fred Bergsten, former Assistant Treasury Secretary for International Affairs, predicted that the exchange rate difference might lead to retaliation by the U.S. that could escalate

³⁷⁴ Jane Seaberry, "Steel Industry Again Builds Its Case for Import Curbs," *Washington Post*, October 25, 1981, F1.

³⁷⁵ Seaberry, "Steel Industry Again Builds Its Case for Import Curbs," F1.

into a trade war. “It would be a tragedy if these exchange rate fluctuations were permitted to explode into a trade war with Europe,” Bergsten said.³⁷⁶

However, contrary to this perspective on exchange rates, U.S. steel firms were assembling evidence that it was not exchange rate fluctuations but foreign dumping that was causing the surge in imports. Dumping was a cause of action for U.S. firms in its traditional venue, the USITC, and also with the Department of Commerce. Under President Carter, the U.S. implemented a trigger price mechanism policy that permitted dumping complaints by industry. The trigger price mechanism policy was designed to call attention to instances when foreign firms sold product below cost in the U.S. market. In response to a positive finding of dumping, the Department of Commerce would assess countervailing duties on the foreign firms that sold steel in the U.S. market below the actual cost to produce it. In late 1981, steel firms were discussing the possibility of filing such claims with members of the Congressional Steel Caucus. The Congressional Steel Caucus, led by Representative Joseph Gaydos of Pennsylvania, listened as Bethlehem Steel Chairman Donald H. Trautlein and Republic Steel Chairman William DeLancey explained these possible antidumping actions in a meeting with executives from the U.S. Steel Corporation, Bethlehem Steel, Republic Steel and the American Iron and Steel Institute.³⁷⁷ On November 2, 1981, Baldrige testified before the House Ways and Means Committee that he and the Commerce Department were “willing and ready” to

³⁷⁶ Clyde H. Farnsworth, “U.S. Steel Plans Move of Imports,” *New York Times*, October 9, 1981, D1.

³⁷⁷ Farnsworth, “U.S. Steel Plans Move of Imports,” D1; Jane Seaberry, “Commerce Willing to Charge Dumping,” *Washington Post*, November 3, 1981, D6.

receive evidence from the industry that they have been injured by dumping.³⁷⁸ Baldrige stated “as soon as they [the steel companies] can tell us they can prove injury, we will self initiate” countervailing duty and dumping cases against the trading partners who dumped the steel goods on the U.S. market.³⁷⁹ On November 13, 1981, the Commerce Department “self-initiated” claims on behalf of the American Iron and Steel Institute against five countries accused of dumping, including two members of the EEC, Belgium and France.³⁸⁰

After self-initiating the dumping claims, Baldrige was in communication with the EEC in December 1981 about a possible resolution to the problem: bilateral VERs. This was the result of a meeting between President Reagan and the heads of three major U.S. steel firms. David Roderick, President of U.S. Steel, Donald Trautlein, Chairman of Bethlehem Steel, and William DeLancey, Chairman of Republic Steel, all met Reagan at the White House at 2:35 PM for a half-hour meeting on December 4, 1981.³⁸¹ The three steel firm heads were joined by Robert Peabody, President of the American Iron and Steel Institute.³⁸² During the meeting, Reagan said that he would ask Baldrige to negotiate voluntary export restraints with the EEC. According to Press Secretary Larry

³⁷⁸ Seaberry, “Commerce Willing to Charge Dumping.” D6.

³⁷⁹ Seaberry, “Commerce Willing to Charge Dumping.” D6.

³⁸⁰ Jane Seaberry, “U.S. Names 5 Countries as Targets of Steel Suits,” *Washington Post*, November 14, 1981, D9.

³⁸¹ Jane Seaberry, “U.S. to Ask EEC Curb on Steel,” *Washington Post*, December 5, 1981, D9.

³⁸² Seaberry, “U.S. to Ask EEC Curb on Steel,” D9; Ronald Reagan, Daily Calendar, December 4, 1981, available at <http://www.reaganfoundation.org/white-house-diary.aspx>.

Speakes, Baldrige's task would be "working out an accommodation on steel imports."³⁸³

This was a successful effort by the steel industry in securing a concession on trade protection policy. The AISI and the three steel firms, U.S. Steel, Bethlehem Steel and Republic Steel, all lobbied for the trade protection from the Reagan Administration and were successful in encouraging the President to implement a bilateral VER.

The following week, Baldrige told European trade representatives that the industries in the U.S. and Europe were both hurting and the EEC had to come up with a solution that would insulate the U.S. from cheap European imported steel.

You can't cure a sick European steel industry by bleeding off of a sick American industry, and since the Europeans were the ones that violated the system, it's up to them to fix it.³⁸⁴

However, Baldrige admitted that the European trade representatives with whom he spoke were not interested in bilateral VERs:

The only indication we have is they feel that they would like to see the TPM [Trigger Price Mechanism] continued. How they're going to convince the U.S. industry is their problem.³⁸⁵

Baldrige and the Commerce Department were receptive to the steel industry and were interested in determining how they could best help the U.S. steel industry. However, Baldrige continued to find that the EEC was unwilling to agree to bilateral VERs.

Facing this challenge, the U.S. steel industry took a significant step toward improving the U.S. negotiating position with the EEC. On January 11, 1982, seven firms in the U.S. steel industry filed dumping complaints with the Commerce Department and

³⁸³ Seaberry, "U.S. to Ask EEC Curb on Steel," D9.

³⁸⁴ Jane Seaberry, "Baldrige: It's Up to the EEC," *Washington Post*, December 16, 1981, D9.

³⁸⁵ Seaberry, "Baldrige: It's Up to the EEC," D9.

the USITC. Each filing was an example of collective action by the seven firms, explicit cooperation in lobbying for trade protection. The sheer strength of this industry coalition made an impression. Trucks delivered 1,000 boxes of legal documents to the Department of Commerce and the USITC to initiate actions on the dumping by EEC firms selling steel in the U.S. market.³⁸⁶ The seven steel firms were U.S. Steel, Bethlehem Steel, Republic Steel, the Inland Steel Company, Jones and Laughlin, the National Steel Corporation and Cyclops Corporation. Located within the 1,000 boxes of documents was evidence of dumping by EEC firms. EEC firms sold steel at \$300 a ton below production costs because they were receiving subsidies from EEC governments as high as \$533 per ton.³⁸⁷

The United Steel Workers were not a party to these actions, but were sympathetic to the cause of helping the 76,000 American steel workers put out of work by cheaper foreign steel.³⁸⁸ In the steel industry, the factor specificity of labor was specialized and/or immobile. The specialized steel workers included the tool and die makers, who were a small fraction of the overall labor force. The tool and die makers would have difficulty transferring their skills to another industry while still commanding the same salary as they did as steel workers. Most steel workers were semi-specialized, immobile and specific. In some cases, these workers were immobile due to the closing of the only operating steel plant in the area where they lived. By May 1982, the United Steel

³⁸⁶ Clyde H. Farnsworth, "7 U.S. Steel Companies File for Import Relief," *New York Times*, January 12, 1982, D5.

³⁸⁷ Farnsworth, "7 U.S. Steel Companies File for Import Relief," D5.

³⁸⁸ Farnsworth, "7 U.S. Steel Companies File for Import Relief," D5.

Workers union was handing out free bread, milk and canned goods to 7,000 laid off steel workers in Homestead, PA.³⁸⁹ Workers in Homestead were geographically immobile. They had no other option but to work in their hometown U.S. Steel plant. The steel workers did have political help. To their benefit, they were located in the home district of Gaydos, Chairman of the Congressional Steel Caucus, who was holding hearings in the House Ways and Means Committee on the state of the steel industry. The steelworkers were also helped by the seven firms who filed the concurrent actions with Commerce and the USITC. The steel workers were not opposed to the actions of the seven steel firms. They were a free rider in a Ricardo-Viner style political coalition with steel firm management. These seven firms were organized and active on behalf of both labor and management. The manufacturing interests representing labor and capital were actuated by the same views, which were expressed in the complaints for trade protection filed with Commerce and the USITC.

Meanwhile, Senators were attempting to move the process along toward the negotiation of bilateral VERs by filing a trade bill demanding reciprocity. On February 4, 1982, John Heinz (R-PA) introduced Senate Bill S. 2071, the “Reciprocity in Trade, Services and Investment Act of 1982.” The aim of the bill was to strengthen the President’s authority to initiate complaints about trade subsidies in the GATT enforcement process. According to Heinz, the U.S. had to force trading partners to eliminate their trade subsidies.

Free trade means the operation of the system according to free market principles and the law of comparative advantage. It implies a rejection of

³⁸⁹ “Steel Union Giving Away Food to Jobless Workers,” *New York Times*, May 6, 1982, A20.

subsidies and artificial incentives that give one nation's industries an advantage over others, even though they might be less efficient or productive.... Unfortunately, some analysts choose to ignore this second half of the equation and define free trade only in terms of the United States removing its barriers. The result of that position is a world in which our doors are open and everyone else's are closed; where we struggle to export while other nations dump their less efficiently produced good here....³⁹⁰

By giving the Executive Branch the power to demand reciprocity in the mutual elimination of trade subsidies, Heinz and his Senate bill co-sponsors were helping the U.S. steel industry in its efforts to deal with foreign subsidies. One co-sponsor with Heinz was Arlen Specter (R-PA), another Senator from Pennsylvania, a state with a significant number of steel firms. Heinz's bill was an example of a mischief of faction, as manufacturing interests from Pennsylvania's steel industry were served by its two Senators, and were putting pressure on President Reagan to adopt trade protection as his policy.

The states of the EEC had cause for concern about the future of steel imports into the U.S. The Commerce Department was investigating industry claims about EEC steel dumping and subsidies. The USITC was investigating whether EEC imports had injured the U.S. steel industry. The U.S. Senate was considering a reciprocity bill that would give greater discretionary powers to the Executive Branch to retaliate against evidence of EEC trade violations.

Meanwhile, President Reagan was concerned with the growth of the U.S. money supply and its impact on production and employment. On February 10, 1982, Reagan delivered his "Message to Congress Transmitting the Annual Economic Report of the

³⁹⁰ John Danforth, "S. 2094 – Reciprocal Trade and Investment Act of 1982," *Congressional Record*, February 10, 1982, 1480.

President.” In that speech, Reagan faulted past policies for creating the economic suffering that was being felt in the U.S. manufacturing industry and the economy as a whole.

In the 6 months preceding this Administration’s taking office, interest rates had risen sharply, reflecting excessively fast monetary growth. Since late summer, however, short and long term interest rates have, on average, moved down somewhat in response to an response to anti-inflationary economic policies. Unfortunately, the high and volatile money growth of the past and the high inflation and interest rates which accompanied it, were instrumental in bringing about the poor and highly uneven economic performance of 1980 and 1981, culminating in a sharp fall in output and a rise in unemployment in the latter months of 1981.³⁹¹

By tightening the money supply, Carter and Reagan were able to keep interest rates down, but this contributed to a period of decline in output and employment that the economy was experiencing in February 1982. The tight money supply was noted in the steel market in the U.S. late 1981. The exchange rate for the dollar was strong relative to European currencies, making goods sold in European currencies less expensive to American purchasers.

The need to deal with the differences in exchange rates between the U.S. and the EEC was a topic for discussion at the Versailles Economic Summit in early June 1982. The joint Communiqué issued at the end of the Summit contained seven points about the exchange rate policies of the U.S. and the EEC. The fourth point and seventh point addressed the exchange rate problem that was at issue in the U.S. steel market:

4. We rule out the use of our exchange rates to gain unfair competitive advantage....

³⁹¹ Ronald Reagan, Message to the Congress Transmitting the Annual Economic Report of the President,” February 10, 1982, in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.

7. We are all convinced that greater monetary stability will assist freer flows of goods, services and capital. We are determined to see that greater monetary stability and freer flows of trade and capital reinforce one another in the interest of economic growth and employment.³⁹²

With a strong dollar, European steel firms could sell goods in the U.S. market at lower prices, giving these European steel firms a competitive advantage relative to U.S. steel firms. By ruling out the use of exchange rate policies to gain this unfair advantage, European states were agreeing not to take advantage of a strong dollar. They were agreeing not to adopt an expansionary monetary policy, printing more money to make European steel less expensive in terms of its relative price. This was a positive development for the U.S. steel industry.

During the week leading up to the Versailles Summit, the EEC made a tentative offer to the U.S. for a bilateral VER arrangement. Baldrige announced on June 3, 1982, that he was conducting secret negotiations with the EEC on bilateral VERs. The EEC had made an initial offer to limit its flat-rolled steel imports in the U.S. market to a 4.95 percent share of the total sold.³⁹³ The Americans made a counter offer that the share of flat-rolled steel be limited to a 4.3 percent share of the U.S. market.³⁹⁴ An agreement was not imminent.

³⁹² Ronald Reagan, et al. "Communiqué Issued at the Conclusion of the Versailles Conference in France," June 6, 1982, in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.

³⁹³ Clyde H. Farnsworth, "Import Tax on Steel Expected," *New York Times*, June 11, 1982, D1.

³⁹⁴ Farnsworth, "Import Tax on Steel Expected," D1.

Then, on June 11, 1982, Baldrige and the Commerce Department rendered its opinion on several of the antidumping and subsidy cases that the industry brought for a judgment. Several states in the EEC would be charged countervailing duties by the U.S. to make up for the difference between the true selling price of the good at cost and the price at which it was originally sold. Britain, France, Italy and Belgium were found to be giving significant subsidies to its steel firms that allowed them to sell goods in the U.S. market below cost. British Steel Corporation had the most significant government subsidy at 40 percent of the selling price.³⁹⁵ In France, the firm Sacilor was identified as the recipient of a 30 percent subsidy from the French government, allowing Sacilor to dump product in the U.S.³⁹⁶ A strong reaction to the U.S. government's intentions came from the EEC's Commissioner for Industry, Viscount Etienne Davignon. Davignon noted that the EEC's steel industries were in decline and needed subsidies, but they were planned for a phase out by 1985. The duties that the U.S. planned were not respectful of this planned process of obsolescence.

It's a very bad business, politically, in business terms and economically....
The U.S. appears to be passing judgment on our restructuring program in a way that could threaten it. This is the most absurd paradox.³⁹⁷

In retaliation, Davignon planned on making a public list of the tax subsidies that the U.S. government gives to its steel industry. In particular, he was referring to the accelerated

³⁹⁵ Clyde H. Farnsworth, "U.S. Plans Penalty on Steel Imports," *New York Times*, June 12, 1982, 1.

³⁹⁶ Farnsworth, "U.S. Plans Penalty on Steel Imports," 1.

³⁹⁷ Paul Lewis, "E.E.C. Outlines Possible Retaliation," *New York Times*, June 12, 1982, 45.

tax allowances that Presidents Kennedy, Johnson and Nixon provided to steel firms under the U.S. business tax code.

To cut through this tension, on July 26, 1982, the U.S. and the EEC agreed to attempt to negotiate a bilateral VER to limit EEC imports into the U.S before the countervailing duties penalty would take effect on August 24, 1982.³⁹⁸ The initial offer by the EEC of a 4.95 share of the flat-rolled steel imports was too limited and unacceptable to the U.S. The concession by the EEC coincided with Reagan's meeting with Peter Eritano, President of the Local 1211 of the United Steel Workers.³⁹⁹ Reagan met with the labor leader to discuss the state of the Aliquippa, PA, plant of Jones & Loughlin.⁴⁰⁰ It was an effort to save the 8,000 jobs at that plant. Steel workers at the plant were mostly semi-specialized, immobile and specific. Absent a job in the Jones & Loughlin plant, they would have no other employment options and be forced to collect unemployment assistance. By getting a concession on a bilateral VER with the EEC on July 26, 1982, Reagan was taking a policy action to save these workers from unemployment, and fostering domestic employment and production.

On August 6, 1982, the U.S. and the EEC extended the terms of the bilateral VER agreement, covering eleven product areas and reducing imports on all by 10 percent, to

³⁹⁸ Kirk Johnson, "Europeans to Continue Steel Talks with U.S.," *New York Times*, July 26, 1982, D2.

³⁹⁹ Ronald Reagan, Daily Calendar, July 26, 1982, available at <http://www.reaganfoundation.org/white-house-diary.aspx>.

⁴⁰⁰ Barnaby Feder, "Struggle to Survive in Town that Steel Forgot," *New York Times*, April 27, 1993.

5.754 percent of the U.S. steel market in 1981.⁴⁰¹ The agreement, was reached with Davignon and EEC External Affairs Commissioner Wilhelm Haferkamp. Haferkamp stated at the time that the U.S. steel industry would be requested to give final approval. “The future will show whether the American government has overestimated its persuasive powers or not,” Haferkamp said.⁴⁰² The U.S. steel industry was opposed to the offer. David Roderick of U.S. Steel said that the offer was “neither fair nor equitable” and not the end result the industry expected from its lobbying efforts.

He hoped that the United States Government and the European representatives would ‘continue to explore other alternatives for a fair and equitable solution that will allow us to withdraw our dumping and countervailing duty petitions.’⁴⁰³

On August 9, 1982, Lionel Olmer, the person who was conducting the negotiations on behalf of the U.S. government and was Baldrige’s Under Secretary of Commerce for International Trade, said that the EEC’s offer might be the best that the U.S. steel industry could expect.

The arrangement...was an intricate package of concessions, representing a good-faith offer by the Europeans, and at this point we have no plans to work for any sweeteners. We have to let the dust settle.⁴⁰⁴

Given the August 25, 1982 deadline, suspending the negotiations meant that penalties would be implemented before a deal was reached.

⁴⁰¹ Clyde H. Farnsworth, “Steel Accord Reached; U.S. Companies Reject It,” *New York Times*, August 7, 1982, 33.

⁴⁰² Jane Seaberry, “New Steel Dumping Findings Expected,” *Washington Post*, August 10, 1982, D10.

⁴⁰³ Seaberry, “New Steel Dumping Findings Expected,” D10.

⁴⁰⁴ Clyde H. Farnsworth, “U.S. Won’t Ask Better Steel Offer,” *New York Times*, August 10, 1982, D1.

Then, on August 25, 1982, the Commerce Department reduced the intensity of the claims of dumping and subsidies by the EEC in what was reported to be a move to make the U.S. steel industry accept the August 6, 1982 offer. The margin of the subsidies on countries was corrected by the U.S. The British subsidy was reduced from 40 percent to 20 percent above cost.⁴⁰⁵ The U.S. steel industry reacted strongly to the change in opinion, claiming that the Commerce Department's desire to make a deal with the EEC was the cause. Roderick said:

The disparity reflects the pressures that are undoubtedly being brought to bear on the Administration from E.C. countries. The results of the Commerce Department findings appear to be an effort to bail their European steel industry out of the difficulties that it created by its unfair trade practices in this country.⁴⁰⁶

Baldrige disagreed with Roderick.

[The bilateral VERs agreed to on August 6, 1982] would provide the United States industry with greater stability than would be the case with incessant litigation.⁴⁰⁷

Baldrige told the members of the Congressional Steel Caucus like Heinz, Specter and Gaydos that no further negotiation was possible. "We can't go back to the table," Baldrige said. "We've been at this four to five months. There comes a time when both sides say enough is enough."⁴⁰⁸ This is where the negotiations stood for the remainder of August and September.

⁴⁰⁵ Clyde H. Farnsworth, "U.S. Softens Its Charges on E.E.C. Steel," *New York Times*, August 26, 1982, D3.

⁴⁰⁶ Farnsworth, "U.S. Softens Its Charges on E.E.C. Steel," D3.

⁴⁰⁷ Farnsworth, "U.S. Softens Its Charges on E.E.C. Steel," D3.

In early October, a new offer from the EEC arrived to restart the negotiations. The EEC was willing to lower its limit from its offer on August 6, 1982. On October 7, 1982, the EEC and the U.S. agreed that the EEC would forgo shipments of 11 types of steel products beyond a 5.12 percent share of the U.S. market.⁴⁰⁹ The reason why the EEC moved was that the USITC was expected to make a negative finding against the EEC. On October 15, 1982, the USITC found that Belgium, Britain, France, Italy, Luxembourg and West Germany all subsidized sales of steel by their nation's firms.⁴¹⁰ To pre-empt this ruling, the EEC made an offer on October 7, 1982 of a 5.12 percent quota limit. Since members of the U.S. steel industry praised the October 7, 1982 offer, the tariffs that the USITC requested on October 15, 1982 were a moot point. The October 7, 1982 offer was the basis for the final bilateral VER agreement with the EEC. "The domestic industry has looked at it and agreed," said an unnamed U.S. government official quoted in the October 20, 1982 edition of the *New York Times*.⁴¹¹ It was a victory for the U.S. steel industry. By holding out for a better agreement than the August 6, 1982 EEC offer, the U.S. steel industry was able to prevail in the negotiation.

President Reagan announced the agreement at a bill signing ceremony on October 21, 1982. After executing his signature on the Surplus Agricultural Commodities

⁴⁰⁸ Jane Seaberry, "Baldrige: No Administration Plans to Reopen Steel Import Negotiations," *Washington Post*, August 12, 1982, C1.

⁴⁰⁹ Clyde H. Farnsworth, "Europe U.S. Accord Expected," *New York Times*, October 8, 1982, D1; Lou Cannon and Stuart Auerbach, "Accord Is Reached with Europeans on Steel Exports," *Washington Post*, October 22, 1982, A1.

⁴¹⁰ Stuart Auerbach, "ITC Rules for U.S. Steel," *Washington Post*, October 16, 1982, A1.

⁴¹¹ Clyde H. Farnsworth, "Steel Pact with Europe Near If Bonn Approves," *New York Times*, October 20, 1982, D1.

Disposal Act of 1982, Reagan proceeded to describe the economic impact of the bilateral VER that the U.S. and EEC had concluded.

...I'm pleased to announce what I think is a good piece of news for the American steel industry and the many thousands of American workers and their families who depend on the steel industry for their livelihood. And it's good news for the economy. Commerce Secretary Baldrige and Vice Presidents Haferkamp and Davignon of the Commission of Economic Communities have successfully ended negotiations for an agreement, an arrangement that will restrain European steel exports to the United States for the next 3 years.⁴¹²

Reagan proceeded to provide more of the specifics of the bilateral VER:

These revisions of the Steel Trade Agreement, concluded last August 5th, cover 90 percent of steel imports from Europe and will relieve our domestic steel industry from the unfair competition of subsidized foreign products. And that in turn will mean more and lasting jobs in the steel industry, which will translate into good news on the employment front. In return for the agreement on imports, the American steel industry will drop its countervailing duty and dumping suits against over 40 European companies.⁴¹³

The bilateral VERs were a boost to production and employment in the U.S. economy. This was the economic growth that was not possible in late 1981 in the steel industry, when a tight monetary policy led to an economic slowdown. The U.S. steel industry could manufacture its steel and sell it in the American market at sufficient quantities to improve employment prospects for steel workers.

⁴¹² Ronald Reagan, "Remarks on Signing the Surplus Agricultural Commodities and Disposal Act of 1982 and Announcing the European Communities Steel Export Arrangement," in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.

⁴¹³ Reagan, "Remarks on Signing the Surplus Agricultural Commodities and Disposal Act of 1982 and Announcing the European Communities Steel Export Arrangement."

The President of the United Steel Workers, Lloyd McBride, said the union was “gratified” by the settlement.⁴¹⁴ The settlement was a positive development for the USW. In May 1982, the steel workers union was handing out free bread, milk and canned goods to 7,000 laid off steel workers in Homestead, PA.⁴¹⁵ The trade protection policy adopted by the U.S. in October 1982 would return these workers to their jobs at the steel plant. This settlement also benefitted the Pennsylvania manufacturing interests who were working with the Congressional Steel Caucus and Senators Heinz and Specter to implement trade protection. Subsidized EEC steel would no longer be dumped in the U.S. market.

By taking care of these Pennsylvania manufacturing interests, Reagan hoped that this would translate into political support for his re-election campaign. In 1984, President Reagan was challenged by the Democratic Presidential candidate, Mondale, in Pennsylvania, where 25 electoral votes were at stake. Reagan prevailed easily in the popular vote, by more than 350 thousand votes, 2,584,323 to 2,228,131.⁴¹⁶ This was an astute vote on the part of steelworkers. They benefitted from the decision by President Reagan in 1982 to implement trade protection for the steel industry. It might have been expected that members of the Ricardo-Viner style political coalition who were helped by the October 1982 bilateral VER for steel might give their financial support to Reagan. However, the data show otherwise. None of the seven firms who were members of the

⁴¹⁴ Clyde H. Farnsworth, “Europeans Plan to Curb Exports of Steel to the U.S.,” *New York Times*, October 22, 1982, A1.

⁴¹⁵ “Steel Union Giving Away Food to Jobless Workers,” A20.

⁴¹⁶ Congressional Quarterly, *Presidential Elections, 1789-2008*, 165.

Table 7: Political Action Committee Donations to Presidents from the Steel Industry, 1984

PAC Source	RNC – President	DNC – President
Bethlehem Steel	\$0.00	\$20,000.00
Jones & Laughlin	\$0.00	\$1,000.00
Lone Star Steel	\$2,000.00	\$0.00
National Steel	\$0.00	\$0.00
U.S. Steel Corporation	\$0.00	\$0.00
United Steel Workers – National	\$0.00	\$5,000.00
United Steel Workers – Local 420	\$0.00	\$0.00

Table Source: U.S. Federal Election Commission, PACSum Data Files, 1984.

winning coalition donated to the Republican National Committee for Reagan’s re-election campaign. The only steel firm that did was Lone Star Steel, which gave Reagan and the RNC \$2,000. The Democratic candidate, Mondale, received \$20,000 from Bethlehem Steel, \$1,000 from Jones and Laughlin, and \$5,000 from the United Steel Workers national union. These findings are contrary to what we would expect in theory. In theory, we would expect that PAC donations from steel firms and the USW would be given to the candidate who takes a protectionist policy stance on the industry’s behalf. Only Lone Star Steel from the steel industry gave to Reagan. Lone Star Steel was not one of the members of the seven firm coalition, but it did benefit from Reagan’s decision to restrict steel imports. The seven steel firms in the Ricardo-Viner style political coalition were free riders on the \$2,000 donation to Reagan by Lone Star Steel.

Seven steel firms explicitly cooperated in response to conditions in the world steel market which made EEC steel less expensive relative to U.S. steel in the American market. EEC steel was cheaper due to a strong dollar which made imports less expensive and evidence of EEC firms dumping product below cost. In January 1982, seven steel firms, acting on their own behalf and for the 76,000 unemployed, mostly immobile and

specific steel workers in the United Steel Workers, filed complaints with the Department of Commerce and the USITC. This was an instance of mischief of faction when the amalgam labor union in this Ricardo-Viner style political coalition, the United Steel Workers, was a free rider on the collective action by the seven steel firms who filed complaints with Commerce and the USITC. The President was already in negotiations with the EEC to enter into a bilateral VER. Reagan assigned the task to his Secretary of Commerce Baldrige, after an influential December 4, 1981, meeting at the White House with three steel firms and the President of the American Iron and Steel Institute. In February 1982, Pennsylvania's Senators Heinz and Specter co-sponsored reciprocity legislation aimed at strengthening American laws against dumping by foreign firms. Senators Heinz and Specter were acting on behalf of Pennsylvania's steel firms and the Congressional Steel Caucus. Action to address the conditions in the steel market did not occur until June 1982, when the U.S. and EEC agreed at the Versailles Summit not to use exchange rate differences to gain a competitive advantage and the EEC made its first offer of a bilateral VER to the U.S. More negotiations would take place as the seven cooperating firms learned the results of their legal actions. In June 1982, the Department of Commerce decided that Britain, France, Italy and Belgium all subsidized their nation's steel firms so they could dump product in the U.S. market. Then, on August 6, 1982, the U.S. and EEC reached a compromise in which the two sides agreed to limit 11 product lines to 5.745 percent of the U.S. market. In early October 1982, with the USITC prepared to rule that the EEC caused import injury, the U.S. and EEC reached an agreement with a lower limit, 5.12 percent of the U.S. market in all 11 product lines.

Two years later, in the 1984 election, Reagan won the state of Pennsylvania. This was an astute vote on the part of Pennsylvania steel workers. The steel workers benefitted from Reagan's decision to implement trade protection in October 1982. However, it is interesting to note that none of the seven firms conducting the collective action on behalf of the steel industry were donors to President Reagan's Presidential campaign fund.

		Firms	
		Protection	Free Trade
Labor	Protection	United Steel Workers and the American Iron and Steel Institute	
	Free Trade		

Chapter IV

Case Study Nine: Reagan Steel VERs, December 1984

On December 21, 1984, President Reagan announced that the U.S. would apply surge controls on seven nations in order to better manage imports into the American market from the foreign steel firms that these seven nations subsidized. This announcement was made pursuant to a decision that Reagan reached earlier, on September 18, 1984, to reduce foreign imports from nations that subsidized their steel articles sold in the U.S. market. The decision on September 18, 1984, was prompted by a USITC claim by a Ricardo-Viner style political coalition involving the amalgam labor union from the steel industry, the United Steel Workers, and a firm from the steel industry, Bethlehem Steel. This labor-management political coalition representing steel manufacturing interests was actuated by the view that trade protection was necessary for the steel industry. The 200,000 U.S. steel workers who were out of work due to increased steel imports were mostly semi-specialized, immobile and specific. The U.S. Congress, specifically Congressmen from the state of Pennsylvania, attempted to pass legislation with a 15 percent quota on all foreign imports to help the steel workers. The Reagan Administration was sympathetic to the idea of creating an import cartel. However, it wanted to set the quota higher, at 18 percent. The United Steel Workers, Bethlehem Steel and the U.S. Steel Corporation all endorsed the Democratic candidate, Walter Mondale, who pledged to lower all steel import shares to 17 percent. However, Reagan would ultimately prevail. He negotiated bilateral VERs with an 18.5 percent

quota, higher than Mondale pledged, and secured the 1984 Presidential election, defeating Mondale in Pennsylvania and nationally.

Bethlehem Steel made its initial pitch to the Reagan Administration for trade protection in a September 30, 1983, letter from Donald Trautlein, Chairman of Bethlehem Steel. Trautlein wanted to direct the Reagan Administration's attention to a transcript of his testimony earlier that month before the Subcommittee on International Economic Policy and Trade of the House Committee on Foreign Relations. In addressing the Subcommittee, Trautlein called for a "Comprehensive American Steel Policy." He informed the Committee that imports from the Third World comprised 8.8 percent of the U.S. steel market, part of a 22.22 percent import share.⁴¹⁷ Then he identified the damage that Third World imports were causing to the U.S. steel industry:

Ever increasing levels of imports have denied American steel producers the opportunity to share in the growth of the domestic market. This in turn has limited the funds available to support investment in the necessary world-class facilities. Foreign producers, despite large continuing financial losses, have continued to increase their share of our market. There is no free market defense to these policies of other nations.⁴¹⁸

Rather than a free market defense, Trautlein asked the Subcommittee to consider taking action against foreign steel imports. Specifically, Trautlein wanted a 15 percent across the board quota on imported steel.

We need to establish a temporary global limitation on imports to permit the revitalization process to proceed. The domestic steel industry is in a period of radical adjustment and is attempting to deal with the massive problems of such an adjustment wisely, humanely, but realistically. This

⁴¹⁷ Donald Trautlein, Chairman, Bethlehem Steel, to Edwin Meese III, Counselor to the President, September 30, 1984 in BE 03-010 Metals Industries, White House Central Files, Ronald Reagan Presidential Papers.

⁴¹⁸ Trautlein to Meese.

is a classic scenario for temporary quantitative measures. We advocate limiting steel imports, product by product, and country by country, to a total of no more than 15% of apparent domestic consumption.⁴¹⁹

The quota limitation that Trautlein asked the Subcommittee and the Reagan Administration to consider would create an import cartel for imported steel in the U.S. steel market. Shares would be assigned on an article by article basis with each importing nation.

The Reagan Administration was asked to consider whether such a cartel arrangement would be beneficial to the U.S. steel industry. It had to consider whether this aid to the steel industry was worth the added price that imported steel would cost the American consumer with this proposed import cartel.

Trautlein's presentation revealed the U.S. steel industry was in crisis. Plant and equipment were in drastic need of updates. Workers were no longer able to keep a job. Bethlehem Steel had facilities located in Bethlehem, PA, as well as in Birmingham, AL, Baltimore, MD, Cleveland, Toledo and Youngstown, OH, Chicago, IL, Lackawanna and Johnstown, NY, and Pittsburgh, PA.⁴²⁰ A small fraction of the workers were specialized, highly skilled tool and die makers who would not be able to command the same wage if they transferred to another industry. Most workers were semi-specialized, immobile and specific. Since Bethlehem Steel was the only steel plant in Bethlehem, PA, the workers for Bethlehem Steel were immobile and specific. No other job options were available

⁴¹⁹ Trautlein to Meese.

⁴²⁰ Sharon Ann Holt, "Around the World with Bethlehem Steel," undated, Historical Society of Pennsylvania web site, www.hsp.org; Mark Reutter, "Shadow of Steel's Lost Empire," *Baltimore Sun*, October 19, 2001; The United Steel Workers of America and Bethlehem Steel Corporation, Press Release, 11AM Tuesday, January 24, 1984, in BE 03-010 Metals Industries, White House Central Files, Ronald Reagan Presidential Papers.

when demand for Bethlehem-brand steel dropped off. In theory, laid off Bethlehem Steel workers in Pittsburgh had other steel plants where they could work. In practice, this was not the case. If Pittsburghers were laid off at Bethlehem Steel due to a decline in demand for American-made steel, it is likely that no other domestic firm or facility was taking up this drop in demand. Other steel firms would not be hiring the laid off Bethlehem Steel workers. As a result, Bethlehem Steel workers in Pittsburgh were immobile and had no other employment options, like the Bethlehem Steel workers in Birmingham, Baltimore, Cleveland, Toledo, Youngstown, Chicago, Lackawanna and Johnstown.

Bethlehem Steel was not the only U.S. steel firm that was taking a public stance on the need for trade protection to defend against the inflow of foreign imports. David Roderick, the President of the U.S. Steel Corporation and the American Iron and Steel Institute, delivered a November 10, 1983 speech to the National Press Club that was critical of the level of imported steel entering the U.S. market. Roderick said that the level of imports in the U.S. market had risen to 20 percent, and 43 percent of those imports originated from developing countries. Roderick blamed the surge in developing country imports on the international banking agencies, like the International Monetary Fund and the World Bank. The IMF and the World Bank gave loans to countries like Argentina, Brazil and Mexico, who were attempting to build a steel industry as part of an export-oriented industrialization strategy.

International lending agencies have made it easy – too easy – for Third World Nations especially, to get loans to build steel mills and other industrial complexes, whether market demand is there or not, or whether the project is economically viable. The mechanism of the marketplace is

ignored and sensible lending practices are suspended. The decisions to lend are often more political than economic.⁴²¹

These countries were unable to support their own industries through domestic purchases and looked to the U.S. as an available market to sell their goods. To export their goods for sale in the U.S., these nations subsidized the cost of the goods their national firms produced. Roderick added that the USITC was a venue for the U.S. Steel Corporation to file suits against these foreign firms with subsidized goods.

We are filing a countervailing duty suit against Brazil covering plate and hot and cold rolled sheet that charges a weighted average margin of subsidy to be around 50 percent. In addition, an antidumping suit charging the sale of below-cost hot and cold rolled sheet estimates the margin of subsidy at 80 percent.⁴²²

These legal petitions were ways for the U.S. Steel Corporation to get its lobbying position known to federal policymakers so that they would implement trade protection for the steel industry. In these instances of collective action, U.S. Steel Corporation had the approval of the United Steel Workers, an amalgam union that was vitally interested in improving U.S. market conditions so that steel workers could return to work.

In addition, the Congressional Steel Caucus was pursuing legislative action in the form of quotas. On November 16, 1983, the Chairman of the Congressional Steel Caucus, Joseph Gaydos, introduced a bill that was targeted at addressing foreign steel subsidies through the use of quotas. Gaydos explained that the quotas had the support of the entire steel industry, both its steel union and its steel firms.

⁴²¹ David Roderick, "A Most Ingenious Paradox," *U.S. Steel Corporation Pamphlet*, November 11, 1983, 3.

⁴²² Roderick, "A Most Ingenious Paradox," 5.

At time in the recent past both the United Steelworkers of America and steel management have endorsed the concept of quotas—quotas to stabilize a market that is targeted, plundered by subsidy, and dumped on.... That labor and management this year have endorsed the concept of quotas, an act they have long resisted, is a measure of the situation's increasing gravity. Even now in the so-called recovery, we have 95,000 steelworkers laid off.⁴²³

To foster domestic employment and production for the steel industry, the quota limit established in this legislation was for 15 percent of the U.S. market. The 15% quota was designed to allow the U.S. steel industry a sufficient profit margin so that its \$7.7 billion modernization plan could be implemented. This figure was based on the calculation that the imports into the U.S. market totaled 15% in the 1970s, when the steel companies were still profitable.

Then, the USW and Bethlehem Steel filed a petition with the USITC on January 24, 1984, calling for a 15% quota on all imported steel for the next five years. By taking this collective action, the amalgam labor union and the steel firm were coordinated and organized and active. At a joint press conference, Lynn Williams, Acting President of the USW, and Trautlein, of Bethlehem Steel, explained why a five-year 15% quota was necessary:

The USWA and Bethlehem believe that the present steel crisis represents exactly the type of situation Congress had in mind when it enacted Section 201 of the Trade Act of 1974. There can be no doubt that the surge of imports into the United States has been and is a substantial cause of injury to the domestic industry and its employees.⁴²⁴

⁴²³ Joseph Gaydos, "Time to Fish or Cut Bait on Steel, Targeted Goods," *Congressional Record* 16 November 1983: 33165.

⁴²⁴ The United Steel Workers of America and Bethlehem Steel Corporation Press Release, January 24, 1984.

The timing of the complaint was opportune. It would force a decision by the President in September 1984, in the midst of his re-election campaign. The need for the collective action was pressing. The day after filing the petition for trade protection with the USITC, Bethlehem Steel reported a loss of \$27.4 million for the fourth quarter of 1983 and a loss of \$163.5 million for the entire year of 1983.⁴²⁵ This translated into worker layoffs, as Williams explained.

[F]oreign steel has captured 22.3 percent of the U.S. market in the last five months.... The result is record levels of unemployment among steelworkers and devastation in steel communities across the land. The tragedy is deeply affecting the lives of families in Lackawanna, Johnstown, Pittsburgh, Youngstown, Chicago, Birmingham, and countless other steel centers. In short, American trade policies are pushing the steel industry toward extinction.⁴²⁶

The mostly immobile and specific steel workers laid off from these Bethlehem Steel locations needed the coordinated efforts of the United Steel Workers and Bethlehem to be successful. If these steel workers were protected, by a quota, they might become a key constituency who would vote for Reagan in his re-election bid in November 1984.

However, Reagan did not initially embrace trade protection for the steel industry. When the President delivered his Annual Economic Report to Congress, he was against the idea of protectionist policy action to address the growing trade deficit in manufactured goods.

The decline in U.S. exports and the substantial rise in our imports has resulted in record trade deficits in 1982 and 1983. The trade deficit has been temporarily exacerbated by the international debt problems and by

⁴²⁵ "Bethlehem Posts Loss, Asks Steel Import Curb," *Washington Post*, January 26, 1984, E1.

⁴²⁶ The United Steel Workers of America and Bethlehem Steel Corporation Press Release, January 24, 1984.

the more advanced stage of recovery in the United States than the world at large. Despite these problems, I remain committed to the principle of free trade as the best way to bring the benefits of competition to American consumers and businesses. It would be totally inappropriate to respond by erecting trade barriers or by using taxpayer dollars to subsidize exports.⁴²⁷

However, Reagan did not leave out the possibility that the U.S. might need to take corrective action to address trade barriers that foreign trade partners had erected.

Instead, we must work with the other nations of the world to reduce export subsidies and import barriers that currently hurt U.S. farmers, businesses, and workers.⁴²⁸

This carefully worded sentence allowed that Reagan might have to take action in response to evidence that foreign firms were subsidized by their governments in their steel imports to the U.S.

However, not all interest groups were interested in seeing Reagan adopt protectionist trade policy in response to subsidized foreign steel imports. The appealing lower price of imported steel sold by foreign firms was hard for U.S. purchasers to resist. Fernand Lamesh, President of TradeArbed, and President of the American Institute for Imported Steel, explained that his firm and his organization would be hurt by quotas.

With quotas there would be Government meddling in every aspect of the business.... Countries like Korea and Brazil could have shipped larger quantities but have held back for fear of unfair trade lawsuits and other protectionist actions by the U.S.⁴²⁹

⁴²⁷ Ronald Reagan, "Message to Congress Transmitting the Annual Economic Report of the President," February 2, 1984, in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.

⁴²⁸ Reagan, "Message to Congress Transmitting the Annual Economic Report of the President."

⁴²⁹ Steven Greenhouse, "Pressures on Steel Imports," *Washington Post*, February 6, 1984, D1.

One of the purchasers that Lamesh supported through the American Institute for Imported Steel was William Helm, President of Riverside Steel Construction in California. Helm explained the positive aspect of buying imported steel.

The delivered price is at least \$100 ton cheaper when I buy from abroad. If we weren't buying imports, we couldn't remain competitive because everyone else is buying imports.⁴³⁰

The steel industry's firms and its amalgam labor union had a rival in the American Institute for Imported Steel. It was still to be determined which interest would prevail in getting its policy adopted by the federal government. Would it be the steel industry, with the combined force of labor, the USW, and capital, Bethlehem Steel, U.S. Steel and the American Iron and Steel Institute all pressing for trade protection in the form of quotas? Or would it be the American Institute for Imported Steel who prevailed on behalf of the steel consumer in the U.S. market who wanted to buy foreign steel available at low prices?

In March 1984, members of the Senate and House issued versions of the Fair Trade in Steel Act of 1984. The Senate moved first. On March 1, 1984, Senator Heinz (R-PA) introduced Senate Bill 2380, a comprehensive approach to quotas for all carbon steel, alloy steel and specialty steel articles sold in the U.S. market. Total steel imports were set at 15%, but there were individual quotas as shown in Table 8.

⁴³⁰ Greenhouse, "Pressures on Steel Imports," D1.

**Table 8: Limits on Steel Articles in the Fair Trade in Steel Act of 1984, Senate Bill 2380
Carbon Steel and Alloy Steel Articles**

Type	Quota Percent
Semifinished products	15.8
Carbon wire rod/Alloy wire rod	20.1/85
Structurals	24.6
Steel piling (sheet H)	26.3
Plate/Rails	15/16
Rail and track accessories	8
Wheel and axles/Rebars	20.1/1.6
Barshapes under 3 inches	10.6
Hot rolled bars – carbon	6.9
Hot rolled bars-alloy	5
Standard pipe	33
Structural pipe and tubing	39.9
Line pipe	31.4
Oil country tubular goods	31.7
Mechanical tubing	8.9
Pressure tubing	37.6
Other pipe and tubing	88.8
Round and flat wire	17.8
Bale ties	0.3
Galvanized wire fence	7.4
Wire nails	55.9
Barbed wire	21.1
Black plate	15.7
Tin free steel/Tinplate	5.1/6.6
Hot rolled sheet and strip	12.1
Cold rolled sheet	9.8
Coated sheet (including terne plate)	6.6
Cold rolled strip	5.1
Electric sheet and strip	4.3
Specialty Steel Articles	
Stainless sheet and strip	5.9
Stainless plate/Stainless bar	2.7/13.6
Tool steel (all forms)	16.7
Stainless pipe and tubing	41.5
Stainless round wire under .0060-inch diameter	20
Stainless round wire greater than .060-inch diameter	7.1

Table Source: S. 2380, *The Congressional Record*, March 1, 1984, 4169.

For the next five years, these were the quantities of steel imports that would be allowed into the U.S. from all countries.

The quotas were designed to address two concerns of the interest groups representing the steel industry: modernization and import subsidies. Heinz stated that a purpose of the Fair Trade in Steel Act of 1984 was to allow the industry time to modernize its plant and equipment. This was a provision that the United Steel Workers asked Heinz to write into S. 2380.

...I have joined Lynn Williams, President of the United Steelworkers in insisting on a strong reinvestment provision to insure that the benefits this bill provides the industry will be used for the direct benefit of steel production and steel jobs. My legislation insures that the economic benefits from quotas flow back into productive investment in the domestic industry. If this bill passes we will not see another Marathon Oil purchase [by the U.S. Steel Corporation] with steel earnings.⁴³¹

Another purpose of the legislation was to address subsidized steel imports.

It is important to recognize that this legislation is principally directed ultimately at those countries that are subsidizing and, as a result, selling their steel here both below cost and in contravention of the countervailing duty laws we have on the books and the General Agreement on Tariffs and Trade. Those countries are almost universal in having their steel companies 100 percent government owned.⁴³²

The Senate co-sponsors for S. 2380 included the other Senator from Pennsylvania, Arlen Specter, as well as other Senators from steel producing states, including Robert Byrd and Jennings Randolph (West Virginia), Jeremiah Denton and Howell Heflin (Alabama), Wendell Ford and Walter Huddleston (Kentucky), Rudy Boschwitz and Dave Durenberger (Minnesota), and Orrin Hatch (Utah).

Meanwhile in the House, Gaydos and members sympathetic to the Congressional Steel Caucus introduced a House of Representatives version of the Fair Trade in Steel

⁴³¹ John Heinz, "Fair Trade in Steel Act of 1984," *Congressional Record*, March 1, 1984, 4166.

⁴³² Heinz, "Fair Trade in Steel Act of 1984," *Congressional Record*, 4166.

Act of 1984. After a speech by Gaydos, Congressman Alan Mollohan of West Virginia explained how the House Bill would re-organize the U.S. market:

It is a quota bill. It allows 15 percent penetration of the American market, and that to me, is a very fair share to allow Europe, Japan and the developing nations to have.... [I]n January 1984, we had 26 percent foreign steel consumed in this country, a dramatic increase. If that is allowed to continue there is no question ... we will not have a steel industry in the future as we had in the past.⁴³³

This quota was a way to establish a cartel of steel importers at the direction of the U.S. government. By assigning a quota share of imports to all nations, the U.S. would be directing the amount of steel each nation could sell in the U.S. market. The assignment of import shares would control the amount of profits available to U.S. firms, as well as to all of the foreign firms whose nations were subject to the 15% quota. It was a new approach to the steel import issue. Not only would the U.S. restrict goods from one or two nations that subsidized their steel imports, it would also allow the U.S. to take a role in organizing the entire U.S. market. When the House Trade Subcommittee held hearings on the steel bill starting on April 26, 1984, there were 141 Congressional co-sponsors of the steel industry's proposal to cartelize foreign steel importers relying on government subsidies.⁴³⁴

In April 1984, Walter Mondale took the opportunity afforded by campaign stops in Pennsylvania to explain the differences in his campaign from another Democratic Presidential candidate, Gary Hart. Mondale said that he, unlike Hart, supported the

⁴³³ Alan Mollohan, *Congressional Record*, March 13, 1984, 5227.

⁴³⁴ Stuart Auerbach, "Steel Industry Opens Drive for Quotas," *Washington Post*, April 27, 1984, D11.

program of federal loan guarantees for a distressed Pennsylvania steel firm, Wheeling-Pittsburgh Steel Corp. He also supported the idea of a bailout for basic industries, like he did as Vice President in 1980 when Carter gave \$2 billion in warrants and loans to Chrysler Corporation. It was a way to counter the campaign commercial that Hart was running on the air. In the advertisement, Hart was shown telling a group of unemployed steel workers:

We've got to have somebody with a vision for this country's future, who has an idea, not only of how to modernize steel mills so we are competitive in the world, but also to diversify and bring in new industries.⁴³⁵

Mondale's support for the policy of giving loan guarantees to Wheeling-Pittsburgh Steel also had appeal to steelworkers who were considering whether to vote for Reagan or Mondale in November of that year. On May 23, 1984, Roderick endorsed Mondale. He explained why:

[The Reagan Administration] is quite insensitive to the problems of our industry. I don't think that they can, with any degree of truthfulness, point to what they have done to help the industry.⁴³⁶

President Reagan would yet have an opportunity to act. He was awaiting the verdict from the USITC in the petition by the United Steel Workers and Bethlehem.

Meanwhile, Senator Heinz was actively working to garner support for a 15% quota on all foreign steel imports into the U.S. On May 9, 1984, Heinz testified at the USITC on behalf of the steel industry. Heinz, the co-sponsor of the Fair Trade in Steel

⁴³⁵ Bill Peterson, "Hart Aims to Win Industrial Policy Fight in Ohio," *Washington Post*, May 5, 1984, A4.

⁴³⁶ Warren Brown, "U.S. Steel Chief Favors Mondale," *Washington Post*, May 24, 1984, C12.

Act of 1984, made a passionate plea on why he supported the 15% quota on all steel imports:

The domestic steel industry lost more than \$6 billion and 200,000 jobs in the past two years, largely because of imports. I can assure you that anyone representing steel-producing communities in an elected capacity has to be painfully aware of the devastating impact of the relentless surge of foreign steel imports on our domestic steel industry, its workers and their communities.⁴³⁷

The unemployment figure that Heinz cited was over the previous two years. As Gaydos stated when he introduced the Fair Trade in Steel Act of 1984 in the House, 95,000 workers were laid off in 1983-84. On June 9, 1984, Heinz spoke on behalf of the steel industry during hearings held by the Senate Finance Committee. When addressing two witnesses to US Trade Representative Brock and Under Secretary of Commerce Lionel Olmer, Heinz criticized the Reagan Administration for taking action to protect autos with voluntary export restraints but not the steel industry.

[The U.S. auto industry is sitting high and pretty while the steel industry is going down the tube. You protected a less competitive industry.⁴³⁸

In making this point, Heinz showed he was receptive to the idea of quotas for the steel industry. Heinz's position was shared by others who testified before the Senate Finance Committee that day on behalf of the American Iron and Steel Institute, including U.S. Steel's Roderick, Bethlehem's Trautlein, James Chenault of Lone Star Steel, and Adolph Lena of A1 Tech Specialty Steel. The United Steel Workers, who were explicitly cooperating with the American Iron and Steel Institute in lobbying for a comprehensive

⁴³⁷ Warren Brown, "Steel Makers, Officials Argue Case for Quotas," *Washington Post*, May 10, 1984, D1.

⁴³⁸ Stuart Auerbach, "Senators Argue for Steel Quotas," *Washington Post*, June 9, 1984, C1.

quota, sent Williams and Leon Lynch to give testimony to the Senate Finance Committee.

In a separate lobbying effort by a Ricardo-Viner style political coalition from the steel industry, the USITC complaint filed jointly by Bethlehem Steel and the United Steel Workers reached a final verdict. In a 3-2 decision, the USITC ruled on June 12, 1984, that imports were a cause of injury to the U.S. steel industry pursuant to the Escape Clause in Section 201 of the Trade Act of 1974. The recommendation by the three judges that voted in the affirmative was for a mixture of tariffs and quotas and tariff-rate quotas on carbon steel, alloy steel and specialty steel shipments into the U.S. It was not the 15% quota that the steel industry requested. In a dissenting opinion, USITC Judge Paula Stern said that increased foreign steel imports were not the most significant cause of the steel industry's woes.

Imports were not close to being the most important cause of injuries. Imports are important, but this industry faces other, more critical problems which cannot be ignored.... If import relief is the sole focus for solving the steel industry's problems, this industry and nation are marching down the road to industrial obsolescence.⁴³⁹

For Stern, declining demand was the top reason why U.S. steel was losing market share to foreign imports. "Imports do not come close to being the most important problem for the steel industry.' Number 1 is 'a general decline in demand.'"⁴⁴⁰ Critics of the Escape Clause process often cited declining demand as the real reason why an industry was injured, the real reason why an industry could no longer sell its goods in the U.S. market.

⁴³⁹ Stuart Auerbach, "ITC Ruling Hits Foreign Steel Firms," *Washington Post*, June 13, 1984, A1.

⁴⁴⁰ Clyde H. Farnsworth, "Panel Asks Protection for Steel," *New York Times*, June 13, 1984, D9.

Another dissenting view came from USITC Vice Chairman Susan Liebeler. Liebeler argued that the problem with U.S. steel sales could be attributed to steelworker wages driving up the prices of steel articles sold. Liebeler recommended that the American steel industry slash steelworker pay immediately by 20 percent to make U.S. steel articles more competitive on price.⁴⁴¹ Both Stern and Liebeler gave opinions in this case that were consistent with the traditional positions of American consumer advocates.

While Reagan would have until September 24, 1984 to make his opinion known, Mondale immediately supported the three judges who ruled in favor of an import injury. “I welcome the thrust of today’s ITC Decision,” Mondale said. “It is long overdue. It is high time we start fighting back against unfair trade practices.”⁴⁴²

The lobbying activities of the interest groups pressing for trade protection for the steel industry intensified after the USITC rendered its decision. It was important that they make the case for the USITC’s remedy of tariffs, quotas and tariff-quotas. At the G-7 Meeting in London on June 9, 1984, Reagan and the other leaders of the advanced industrial democracies pledged to avoid protectionism, and to do so with trading partners in the developing world. The specific language in the London Economic Summit Declaration on these points is provided here:

We have therefore agreed... to urge all trading countries, industrialized and developing alike, to resist continuing protectionist pressures, to reduce barriers to trade and to make renewed efforts to liberalize and expand international trade in manufactures, commodities and services.⁴⁴³

⁴⁴¹ Farnsworth, “Panel Asks Protection for Steel,” D9.

⁴⁴² Farnsworth, “Panel Asks Protection for Steel,” D9.

To convince Reagan to consider the trade protection recommended by the USITC, Trautlein of Bethlehem Steel met with Chief of Staff James Baker III at the White House.⁴⁴⁴ Roderick convened with Commerce Department officials Baldrige and Olmer for the same purpose. Meanwhile, the United Steel Workers were discussing the electoral math for the 1984 Presidential election.⁴⁴⁵ The nine largest steel producing states accounted for 225 of the 270 electoral votes that Reagan or Mondale needed to win the Presidency.⁴⁴⁶ Republican members of Congress from one of those nine states, Pennsylvania, visited Reagan at the White House to discuss the need for a 15% comprehensive quota on all steel imports. Heinz spoke to the President on behalf of the Steel Caucus. Representative Don Ritter (R-PA) also made a pitch to the President, and summarized his position with Pennsylvania's voters:

Most of our people feel the president is not going to let them down, which is why he is still popular with many of them. But if he does let them down, those feelings could change overnight.⁴⁴⁷

On September 17, Mondale tried to make trade protection a campaign issue in his battle with Reagan for the Presidency. Mondale stated that the President ought to restrict steel imports into the U.S. to 17% of the American market for five years.⁴⁴⁸

⁴⁴³ Ronald Reagan, "London Economic Summit Conference Declaration," June 9, 1984, in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.

⁴⁴⁴ Stuart Auerbach, "President's Dilemma on Steel," *The Washington Post*, August 19, 1984, 155.

⁴⁴⁵ Auerbach, "President's Dilemma on Steel," 155.

⁴⁴⁶ Auerbach, "President's Dilemma on Steel," 155.

⁴⁴⁷ Warren Brown, "GOP Legislators Put Steel Case to Reagan," *Washington Post*, September 12, 1984, D8.

The next day, President Reagan was in a position to respond to Mondale and the steel industry. He announced in a letter to the Speaker of the House of Representatives and the President of the Senate his intention to reject the remedy recommended by the USITC in the claim filed by Bethlehem Steel and United Steel Workers, and instead pursue bilateral VERs. Reagan deemed the protectionist solution of tariffs, quotas and tariff-quotas recommended by the USITC to be inappropriate trade policy for the U.S.

In responding to this pressing import problem, we must do all we can to avoid protectionism, to keep our market open to free and fair competition, and to provide certainty of access for our trading partners. This Administration has repeatedly and most recently at the London Economic Summit, committed itself to 'resist continuing protectionist pressures, to reduce barriers to trade, and to make renewed efforts to liberalize and expand trade in manufactures, commodities and services.'⁴⁴⁹

What the Reagan Administration planned to do instead was negotiate bilateral VERs. Reagan noted that a bilateral VER was in place with the EEC, one signed in 1982. He also noted that in May 1984, Mexico and South Africa had unilaterally agreed to restrain imports into the U.S. in 1984 in order to resolve dumping complaints filed at the USITC against these nations by the U.S. Steel Corporation.⁴⁵⁰ These existing agreements would be incorporated into a new government policy for the steel industry, which was to allow

⁴⁴⁸ Stuart Auerbach, "President Rules Out Steel Quotas," *Washington Post*, September 19, 1984, A1.

⁴⁴⁹ Ronald Reagan, "Letter to the Speaker of the House and the President of the Senate on the Denial of Import Relief for the Steel Industry," September 18, 1984, in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.

⁴⁵⁰ Reagan, "Letter to the Speaker of the House and the President of the Senate on the Denial of Import Relief for the Steel Industry."

entry to all foreign firms who traded fairly. In particular, Reagan would place ‘surge controls’ on foreign firms who dump subsidized steel in the U.S. market.

The United States Trade Representative will negotiate ‘surge control’ arrangements or understandings and where appropriate, suspension agreements with countries whose exports to the United States have increased significantly in recent years to the detriment of our national economy. He will negotiate additional such arrangements and understandings, if necessary, to control new surges of imports that result from subsidizing, dumping or other unfair or restrictive trade practices during the next five years.⁴⁵¹

The surge controls were closer to the quota on imports that the steel industry was seeking in its petition to the USITC and in pursuing legislation with the Congressional Steel Caucus. However, unlike legislated quotas, the bilateral VERs were not considered to be a trade barrier, but instead a voluntary arrangement between two trading partners that would have the same effect as legislated quotas.

On his Saturday morning radio address to the nation, Reagan discussed in greater detail how the surge controls would be of benefit to the U.S. steel industry in dealing with surges of foreign imports. Reagan began by outlining the nature of the problem.

The American steel industry, as you know, has been struggling through hard times in recent years. The steel companies and their workers have been trying hard to save their industry by cutting costs and modernizing their aging plants and equipment.... The industry has been hurt by foreign subsidies and an overproduction of steel worldwide, with foreign imports biting into the U.S. steel industry’s share of our domestic market, making the United States a kind of steel dump for the rest of the world.⁴⁵²

⁴⁵¹ Reagan, “Letter to the Speaker of the House and the President of the Senate on the Denial of Import Relief for the Steel Industry.”

⁴⁵² Ronald Reagan, “Radio Address to the Nation on the Agricultural and Steel Industries,” September 22, 1984, in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.

To provide a solution for these problems, Reagan said that he was instructing his U.S. Trade Representative to negotiate agreements that would limit the ability of foreign firms from using the United States as a steel dumping ground.

I've instructed Ambassador Bill Brock, our international trade representative, to meet with representatives of these nations dumping steel and to seek their agreement to stop such practices. And I've made it clear that, as necessary, we'll initiate strong counteractions to defend American firms and workers from predatory practices of other nations. Taken together, these actions can be expected to bring down the percentage of steel imports from its current 26 percent to about 18½ percent, excluding semifinished products.⁴⁵³

The percentage of the reduction, 18.5 percent, was not as significant as the reduction to 17 percent that Mondale recommended on September 17, 1984. It was also three and a half percentage points higher than the 15% figure that Bethlehem Steel and the United Steel Workers asked for in their petition to the USITC.

Reagan's decision to limit all steel imports to 18.5 percent of the U.S. market was met with a mixed response from the Ricardo-Viner style political coalition that filed the complaint with the USITC. Bethlehem Steel and the United Steel Workers previously held joint press conferences and cooperated in making statements to the press and the public about its call for a steel quota at 15% of the market. After Reagan announced his plan for the steel industry, the reactions were not uniform. Trautlein of Bethlehem Steel praised the Reagan action as much needed help for the U.S. steel industry.

The program should provide the temporary relief required by the industry. Until the program is fully in place the industry and its workers continue to be jeopardized by the flood of unfairly traded imports.⁴⁵⁴

⁴⁵³ Reagan, "Radio Address to the Nation on the Agricultural and Steel Industries."

The United Steel Workers wanted more. Williams, the President of the United Steel Workers, made this point clearly:

[The surge protections were] ‘weak and uncertain promises ‘ that are an ‘unacceptable substitute’ for the hard-and-fast quotas the joint industry-labor trade petition called for. He [Williams] said these promises are likely to evaporate after the [November 1984 Presidential] election.⁴⁵⁵

In response to Regan, the political coalition of the United Steel Workers and Bethlehem Steel was no longer cooperating or coordinating their views. It remained to be seen what effect this divided reaction would have on the 1984 Presidential election.

In mid-October 1984, USTR Brock commenced the negotiations with the nations who were subsidizing their firms dumping of steel articles in the U.S. The chief negotiators were Deputy U.S. Trade Representatives Robert Lighthizer and Michael Smith and the USTR’s steel trade specialist, Charles Blum.⁴⁵⁶ Lighthizer, Smith and Blum met with officials in Argentina, Brazil and Spain to bargain for a quantitative restriction for each nation. They also took the opportunity to meet with Japanese and South Korean officials. Meanwhile, on the campaign trail, Mondale was critical of the President’s 18.5 percent quota for the steel industry. “Under Mr. Reagan, the steel industry hasn’t just gone into decline, it’s plunged into crisis.”⁴⁵⁷ Mondale, who had the

⁴⁵⁴ James Sterngold, “Steel Action Wins Backing,” *New York Times*, September 19, 1984, D5.

⁴⁵⁵ Stuart Auerbach, “Japanese Charge U.S. Protectionism,” *Washington Post*, September 20, 1984, D1.

⁴⁵⁶ Susan Rasky, “The Experts Who Will Forge the New Quotas,” *New York Times*, September 30, 1984, F6.

⁴⁵⁷ Hedrick Smith, “Reagan-Mondale Clashes May Foreshadow the First Debate,” *New York Times*, October 7, 1984, 30.

support of the United Steel Workers federated union, the AFL-CIO, made a pointed comment about Reagan's economic program in their televised debate on October 9, 1984 in Louisville, KY.

Our growth is a little over 3 percent now, many people a predicting a recession, and the flow of imports into this country is swamping the American people. We've got to deal with this problem....⁴⁵⁸

This message may have resonated with workers in the steel producing states like Pennsylvania, among the nine states who were part of the United Steel Worker's tally of 225 electoral votes of the 270 electoral votes needed to win. Would the steel workers select Mondale? The United Steel Workers national political action committee gave \$5,000 the Democratic Presidential campaign fund in a show of its union support for Mondale.⁴⁵⁹ Would Bethlehem Steel employees, as Republican Congressman Don Ritter suggested might happen, feel let down by an 18.5 percent import restriction for the U.S. market? Bethlehem Steel's PAC provided \$20,000 to the Democrats to elect Mondale. In this way, the steel workers and the steel firm were coordinating action. Would this have an impact on the 1984 Presidential election vote results? There was no demonstrable negative effect from Reagan's trade position on the outcome on election night. Reagan won the state of Pennsylvania by over 356,000 votes, 2,584,323 to 2,228,131.⁴⁶⁰

⁴⁵⁸ "Transcript of Louisville Debate Between Reagan and Mondale," *New York Times*, October 8, 1984, B4.

⁴⁵⁹ PACSUM84 Data File, U.S. Federal Election Commission, available at www.fec.gov.

⁴⁶⁰ Congressional Quarterly, *Presidential Elections, 1789-2008*, 165.

After Reagan's re-election, he continued the effort of negotiating bilateral VERs with nations that subsidized steel firm dumping in the U.S. market. The list of nations that were in active negotiations included Japan, Korea, Brazil, Mexico, Spain, Australia and South Africa. On October 30, 1984, President Reagan signed into law the Trade and Tariff Act of 1984, which included an Enforcement Authority for the Congress. It called for the President to restore the share of imported carbon and alloy steel to approximately 17 percent. It also said that it was the sense of the Congress that it would take legislative actions to stabilize the conditions with foreign imports into the U.S. market if the President did not negotiate bilateral VERs in a reasonable period of time. To avoid the legislative action of actual quotas, the Reagan Administration was able to secure from seven trading partners agreements to limit steel imports. According to Lighthizer, the agreements, when taken with the bilateral VER signed in 1982 with the EEC, covered 75 percent of all U.S. steel imports.⁴⁶¹

Subsidies of foreign firm steel imports were the reason why the amalgam labor union, the United Steel Workers, and a steel industry firm, Bethlehem Steel took collective action to convince President Reagan to adopt trade protection policy. From a factor specificity standpoint, most of these workers were semi-specialized, immobile and specific. The steel subsidies of foreign governments were attacked by this Ricardo-Viner coalition, and were the prompt that gave Reagan the motivation to establish a national policy for steel. Reagan's policy created a cartel of foreign steel importers, assigning their share of imports into the U.S. market. The cartel arrangement was needed to give

⁴⁶¹ Stuart Auerbach, "Steel Imports to Be Cut 30%, White House Announces," *Washington Post*, December 20, 1984, D1.

steel firms that opportunity to modernize their plant and equipment while still making reasonable profit. Pennsylvania Congressmen attempted to file quota legislation to lower the import share to 15 percent. However, President Reagan would agree to a higher limit, 18.5 percent of all imports, which was unacceptable to the United Steel Workers but not to Bethlehem Steel. Neither the USW nor Bethlehem Steel gave PAC donations to Reagan in his re-election bid in 1984. They made those donations in a coordinated effort to elect Mondale. Nevertheless, Reagan won the state of Pennsylvania and the national election over Mondale.

		Firms	
		Protection	Free Trade
Labor	Protection	United Steel Workers and Bethlehem Steel	
	Free Trade		

Chapter IV

Case Study Ten: Reagan Auto VER, April 1985

In October 1984, in the midst of the 1984 Presidential election, the United Auto Workers, American Motors, Chrysler and Ford all wrote to President Reagan to ask that he extend the auto VER for an additional period. These letters were instances of coordinated lobbying by an organized and active Ricardo-Viner style political coalition in the auto industry. It combined an amalgam labor union, the UAW, and three U.S. auto firms, American Motors, Chrysler and Ford. There were 200,000 mostly semi-specialized, immobile and specific autoworkers who would be unemployed if the market conditions did not change to their benefit. In 1984, Reagan did not take a position in favor of limiting Japanese imports as he did during the 1980 Presidential campaign. It was discouraging to voters from a key constituency, the American autoworker. Still, Reagan won the state of Michigan and a resounding victory over his Democratic challenger on election night in 1984, taking 525 out of a possible 538 Electoral College votes.

After his re-election, Reagan continued to be unresponsive to spokespersons for the auto industry. He rejected the concern expressed in Chrysler's petition regarding the strength of the U.S. exchange rate relative to the dollar. In December 1984, Reagan said that he would not modify the U.S. exchange rate in an effort to make Japanese goods less inexpensive relative to U.S. goods. In February 1985, Representative John Dingell (D-MI) introduced legislation calling for a quota limit to cap the inflow of Japanese auto

imports. Quota limits were also the viewpoint that actuated the mischiefs of faction in the Ricardo-Viner political coalition. However, Reagan would not be influenced. His Cabinet Council on Commerce and Trade recommended that he let the VER with Japan expire. Although Reagan did not ask the Japanese to extend the VER, the Japanese did so, increasing the quota limit to 2.3 million autos. This limit was in effect until 1991, when it was lowered to 1.65 million autos for an additional two years. The auto VER accelerated the inflow of foreign direct investment into the U.S. These Japanese plants employed American autoworkers in an effort to reduce the UAW's pressure on the federal government for trade protection. In another example of what Jagdish Bhagwati calls quid pro quo direct foreign investment, a Japanese firm, Toyota, decided to enter into a joint investment with a U.S. firm, GM, to co-opt GM and convince it to refrain from lobbying for trade protection.

There were 200,000 specialized and/or immobile auto workers in 1984. Only a tiny fraction were specialized, like the tool and die makers who would lose income if they moved from the auto industry to a job in another industry. The majority were semi-specialized, immobile and specific. There were no more available jobs in the auto industry to workers who were laid off at their auto plant. In 1984, the U.S. auto industry was undergoing a modernization program to update its factories. It was hoped that the retooled plant and equipment would be used to build small, fuel-efficient vehicles for the U.S. consumer. Loss of import share to Japan was affecting the U.S. auto industry. This loss of import share hit the U.S. autoworkers hard. The decrease in the demand for the larger vehicles that the American automakers were producing rendered U.S. autoworkers

unemployed. There were many calls for a new industrial policy for America to confront this situation in the auto industry.

On May 15, 1984, Chrysler's Chairman, Lee Iacocca, was invited to speak at the national convention of the League of Women Voters in Detroit, MI, on the subject of industrial policy. Iacocca used the opportunity to explain why the unilateral VER with Japan was effective at helping Chrysler realize gains in efficiency and why President Reagan should continue the policy.

Chrysler didn't get healthy (and I didn't get rich) because we jacked up prices while protected by a shield against Japanese products. We got healthy because we got efficient; we built good products and the market improved. Period! For the record, Chrysler's prices (Equipment adjusted) in the subcompact, small specialty and compact segments...where the Japanese do 94 percent of their volume...went up during the first three year restraint period by three percent. Three percent! Over three years! (McDonald's hamburgers went up 9 percent during that period!)⁴⁶²

Chrysler did not use the unilateral VER with Japan as an excuse to charge high prices. The price of subcompact, small specialty and compact Chrysler cars only increased by three percent. Chrysler cars were competitively priced. But Iacocca claimed that Japanese cars were still outselling Chryslers because they were \$1,600 cheaper. The two reasons that Iacocca said caused this \$1,600 price difference for Japanese models were the difference in U.S.-Japanese exchange rates and Japanese government subsidies.

...[T]he Japanese yen is under valued by at least 15 percent (and everybody agrees on that). That alone gives every Japanese car an automatic cost advantage of at least nine hundred dollars.... [W]hen a Japanese car is put on a boat for the U.S., the Japanese Government

⁴⁶² Bob Perkins, Chrysler Corp., to James A. Baker III, 15 May 1984, in Box 49, Business and Economics 003-15, White House Central Files, in the Ronald Reagan Presidential Papers.

rebates the commodity tax to the manufacturer: that's about another seven-hundred dollar advantage for every car.⁴⁶³

To effectively attack these market inequities, Iacocca asked that government policymakers continue the industrial policy to promote U.S. auto manufacture by placing limits on Japanese car imports. In an effort to make a strong impression on President Reagan, Bob Perkins, a top Chrysler executive, sent a copy of the text of Iacocca's speech to James A. Baker III, the new Treasury Secretary.⁴⁶⁴

Later in May, the Reagan Administration was lobbied again by a representative of the auto industry seeking a renewal of the unilateral VERs for autos. Ford was coordinating its position with Chrysler. Bill Timmons, President of the lobbying firm Timmons & Company, sent a note and attachment to Reagan's Chief of Staff Craig Fuller in late May 1984 with the note, "Ford is in agreement with Chrysler."⁴⁶⁵ Attached to the note was a copy of a speech delivered by Ford Chairman Philip Caldwell on May 4, 1984, in which the firm expressed its interest in renewing the unilateral VER for autos. Caldwell explained how the first unilateral VER and the one year extension in effect from April 1981 to March 1985 were effective in helping Ford recover from its slump due to competition from Japanese imports.

Restraints have played a part and we have used the period of restraint to good effect. At Ford we have invested \$10 billion in new machinery and \$7 million in R&D to insure our longer term future despite three years of losses in 1980, 1981 and 1982. All our employees have joined in a total

⁴⁶³ Perkins to Baker.

⁴⁶⁴ Perkins to Baker.

⁴⁶⁵ Bill Timmons, Timmons & Company to Craig Fuller, Chief of Staff, May 1984, in Box 49, Business and Economics 003-15 Transportation, White House Central Files, in Ronald Reagan Presidential Papers.

effort. The quality of our cars is up by 55 percent and our operating costs have been cut by \$4 billion a year.⁴⁶⁶

The unilateral VER provided Ford the chance to spend money modernizing its equipment and developing cars that were more appealing to the American consumer who wanted a smaller, more fuel efficient vehicle. Caldwell argued why the policy should be continued after the unilateral VER was set to expire on March 31, 1985. It was to avoid the urge to go offshore with manufacturing plant and equipment and jobs.

To promote the same of more Japanese cars, needlessly, at a time when our trade deficit is in our present condition will inevitably bring about a fundamental change in the way U.S. auto companies do their business. If it is not possible to be competitive in the United States, our industry – and many others as well – will be forced to go overseas and join the import business.⁴⁶⁷

This was a new argument on the part of the auto industry. Ford was claiming that there was a risk that it might use its capital mobility to establish manufacturing plants outside the U.S. to try to profit from the cheaper labor that was available in foreign nations.

In these May 1984 speeches, Chrysler and Ford coordinated action in lobbying for a continuation of the unilateral VER with Japan. Both firms took the position that the unilateral VER had helped them improve. Chrysler said that it was now producing and selling vehicles in the subcompact, small specialty and compact segments that were priced at three percent over cost. Ford said that its efficiency in production was 55 percent better, thanks to a \$10 billion investment in new plant and equipment and the skill of Ford workers. The two auto makers would petition Reagan again in October

⁴⁶⁶ Timmons to Fuller.

⁴⁶⁷ Timmons to Fuller.

1984, a month before the Presidential election, calling upon him to extend the auto import restrictions for a fifth year. Chrysler's Iacocca penned his own letter to Reagan dated October 5, 1984. Ford wrote Reagan in the same letter with the United Auto Workers. Chrysler was coordinated with the UAW and Ford. The UAW and Ford were explicitly cooperating and were coordinated with Chrysler. American Motors Corporation also authored a letter to Reagan in October 1984, asking Reagan to continue the auto limits with Japan.⁴⁶⁸ In this way, the auto industry had its coordinated Ricardo-Viner style labor-management political coalition, with the United Auto Workers, American Motors, Chrysler and Ford united in some form of coordination.

Only GM was not explicitly coordinating its position with the other members of its industry. Instead, GM was organized and active in promoting the end to the unilateral VER. GM was in a partnership with Isuzu and Suzuki of Japan to import small cars, so a quota restriction would interfere with that business venture.⁴⁶⁹ This is an instance where an American auto firm was anti-protectionist rather than actuated by the view that trade protection would help its industry. The additional quota rents that would be available to Isuzu and Suzuki with the continuation of the VER would cut into the profits that GM could make in the resale of Japanese autos. It was better from GM's profit standpoint to lobby for no trade protection so that it would not have to buy Isuzus and Suzukis at the price inflated by the quota rents pursuant to the auto VER with Japan.

⁴⁶⁸ Warren Brown, "Extension Sought on Auto Quotas," *Washington Post*, October 23, 1984, D1.

⁴⁶⁹ Brown, "Extension Sought on Auto Quotas," D1.

On the political campaign trail, President Reagan expressed sympathy for extending the unilateral VER for autos. On October 1, 1984, at a campaign stop at the Economic Club in Detroit, MI, Reagan was asked whether he would work to continue the unilateral VER for autos with Japan, given that the problems with a strong dollar persisted. He did not answer the question directly yes or no.

...with regard to the voluntary restraints, they were put on by the Japanese industry itself, and believe me, totally voluntarily. Their Minister Abe had come here and we met in the Oval Office and talked, and I told him our situation as frankly as I could, and what we were up against and he went back and very shortly they announced their willingness to have a voluntary restraint on imports. We never at any time asked for that. And we've since made great progress with Prime Minister Nakasone, who I believe is sincerely dedicated.⁴⁷⁰

This was a less specific answer than Reagan gave on September 2, 1980 in Detroit when he was campaigning for the Presidency for the first time. On that occasion, Reagan said that he would do something to control the flow of Japanese imports into the U.S. that were hurting domestic production and employment. In contrast, in 1984, Reagan said that the matter was in the hands of the Japanese, and depended on their willingness to voluntarily restrict imports.

PAC donations from the auto industry did not incentivize President Reagan to work on behalf of the Ricardo-Viner political coalition pursuing the continuation of the unilateral VER. The four proponents of extending the unilateral VER for a fifth year –

⁴⁷⁰ Ronald Regan, "Remarks at a Question-and-Answer Session at the Economic Club of Detroit, Michigan," October 1, 1984, in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.

American Motors, Chrysler, Ford and the United Auto Workers, all made contributions to Reagan’s 1984 Democratic opponent for the Presidency, Mondale.

Table 9: Political Action Committee Donations to Presidents from the Auto Industry, 1984

PAC Source	RNC – President	DNC – President
American Motors Corporation	\$0.00	\$4,033.00
Chrysler Corporation	\$0.00	\$1,000.00
Ford Motor Company	\$0.00	\$1,000.00
General Motors	\$5,000.00	\$0.00
United Auto Workers	\$0.00	\$9,500.00

Table Source: U.S. Federal Election Commission, PAC Sum Data Files, 1984.

AMC provided the Democratic National Committee’s Presidential Fund with \$4,033, Chrysler and Ford added another \$1,000 apiece, and the UAW contributed nearly ten thousand dollars. The three firms supported Mondale because he was part of the Carter-Mondale team that bailed out the Chrysler Corporation in 1979. This was a decision that President Reagan opposed.⁴⁷¹ Owen Bieber, the President of the United Auto Workers, made campaign appearances in Michigan and Illinois on behalf of Mondale.⁴⁷² Mondale was a favorite of the autoworkers labor union because he had pledged his support for Congressional legislation to ensure local U.S. content in American autos. A Congressional bill with this Domestic Content Provision passed in the House of Representatives by a narrow margin in November 1983. GM was the only member of the auto industry who gave to President Reagan’s re-election fund. By this payment, GM was signaling that it hoped Reagan might discontinue the auto quota when it was due to

⁴⁷¹ Bernard Weintraub, “Mondale Pleads for Votes in the Midwest,” *New York Times*, November 4, 1984, 2.

⁴⁷² Denise Radcliffe, “Troupier Mondale,” *Washington Post*, November 2, 1984: C1; Kathy Sawyer, “Labor Odyssey for Mondale,” *Washington Post*, October 28, 1984, A3.

expire on March 31, 1985. GM wanted to continue to import Isuzu and Suzuki vehicles made in Japan, so it was opposed to the continuation of the quota. The quota added to the price of the vehicles it wanted to import, making it a less profitable enterprise than it would be if the laws of supply and demand were allowed to control U.S.-Japanese trade. GM was also co-opted by Toyota in 1984, after agreeing to establish a joint GM-Toyota facility in Fremont, CA. This may be another reason why GM made a PAC donation to President Reagan in 1984. Reagan was interested in ending the auto VERs and GM wanted to end the auto VERs to protect its relationship with Toyota in building cars in Fremont, CA.

The 1984 Presidential election was a lopsided victory favoring President Reagan. Reagan prevailed in Michigan, 2,251,571 to 1,529,638, and took 525 of a possible 538 Electoral College votes.⁴⁷³ Mondale only won his home state of Minnesota and the District of Columbia. The electorate provided Reagan with a mandate to govern.

President Reagan was hesitant to modify exchange rates in response to Iacocca's complaint that they were driving down the price of Japanese cars. In a December 28, 1984 response to a Japanese journalist, Reagan stated that he was aware of the criticisms in the world community about U.S. exchange rates.

There has been much criticism of the strength of the dollar by many of our allies. Critics have charged that the dollar is substantially overvalued because of high U.S. interest rates resulting from large budget deficits. They contend the high dollar threatens the global recovery and the U.S.

⁴⁷³ Congressional Quarterly, *Presidential Elections, 1789-2008*, 255.

must 'correct' its value. These arguments are not supported by the facts.⁴⁷⁴

Reagan disagreed that the exchange rate position of the dollar relative to the Japanese yen required intervention on his part.

While the levels of interest rates have periodically played an important role in determining exchange rates, this has not been generally the case during this administration. The improved U.S. business climate and the sharp drop in inflation are probably the key to the dollar's performance. I am sympathetic to the view that the value of the dollar is high, but I disagree that it is 'overvalued.' Such a view implies that we can calculate the 'right' rate independent of market forces. I believe that we cannot do so.⁴⁷⁵

With this statement, Reagan shut the door on the possibility that he might rely on exchange rate depreciation to make Japanese goods less inexpensive in U.S. currency. Since exchange rates were high for the dollar, a strong dollar could command greater shares of goods expressed in Japanese dollars and prices. The complaint by Iacocca that Japanese autos were cheaper due to a strong dollar would not be addressed through exchange rate manipulation by President Reagan. With this decision made, Reagan would now have to decide whether to pursue the continuation of the unilateral VER for autos.

The Japanese auto industry was taking steps to deal with the complaints by U.S. auto workers about losing jobs to foreign competition. On November 30, 1984, Mazda Motor Corporation announced that it was preparing to build a \$450 million assembly

⁴⁷⁴ Ronald Reagan, "Written Responses to Questions Submitted by Yomiuri Shimbun of Tokyo, Japan," December 28, 1984, in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.

⁴⁷⁵ Reagan, "Written Responses to Questions Submitted by Yomiuri Shimbun of Tokyo, Japan."

plant in Flint Rock, MI.⁴⁷⁶ The plant would manufacture a Japanese brand of car. However, the labor used in the assembly process would be U.S. workers who belonged to the United Auto Workers union. Designs for the plant revealed that it would be able to manufacture 240,000 cars per year in the U.S. by 1987.⁴⁷⁷ Mazda was not the only Japanese firm that was using its capital mobility in a way that would foster production and employment in the U.S. Honda Motor Company was manufacturing cars in Marysville, OH, Nissan was constructing cars and light trucks in Smyrna, TN, and GM and Toyota were poised to launch a joint venture in Fremont, CA. These were instances where the Japanese auto industry responded to the auto VERs by deciding to locate plants in the U.S. where they could hire U.S. labor to do the work. Rather than have their market in the U.S. limited by the quotas, these firms sought to use capital in a creative way to address the concerns of American politicians and workers about losing jobs to Japanese firms. These Japanese firms were now hiring United Auto Workers union members who once complained about their loss of employment opportunities to the inflow of Japanese imports. These were instances where quid pro quo direct foreign investment was intended to reduce the pressure on the federal government from the United Auto Workers.

Despite these Japanese decisions to locate plants on American soil, U.S. Congressmen were pressuring Reagan to take action against Japanese imports. Richard Lugar (R-IN), the new Chairman of the Senate Foreign Relations committee, said that he

⁴⁷⁶ Susan Chira, "For Mazda, It's a Car Plant," *New York Times*, December 1, 1984, 31.

⁴⁷⁷ Chira, "For Mazda, It's a Car Plant," 31.

would push for the extension of the auto VER with Japan to a fifth year. Lugar's reasoning for taking this position on the continuing the auto quota was based on a realization that the dollar-to-yen exchange rate was high, making Japanese goods expressed in yen much cheaper.⁴⁷⁸ "Our best bet is to keep things exactly as they are," Lugar said, before correcting himself to say that the amount of the auto quota should be "slightly higher."⁴⁷⁹ One member of the Reagan Administration questioned Lugar's position. U.S. Trade Representative Brock said that the renewal of the bilateral VER with Japan was not assured. "I continue to question the value of restraints," Brock said.⁴⁸⁰ The United Auto Workers rejected the Reagan Administration's position. Bieber, the UAW President, said in response to Brock that the U.S. still had to take action to control Japanese auto production.

The industry in Japan has the capacity to produce an additional 2 million cars a year or more. Any suggestion that the Japanese auto makers would be unable to exceed 2.5 million is totally unfounded.⁴⁸¹

According to the UAW, limitations were needed on Japanese auto imports to ensure that autoworkers would be productive and employed. The flood of imports from Japan had to be stemmed so that it would not negatively impact the U.S. auto industry.

Representative John Dingell's Made in America Act was an attempt to force the President to impose import quotas on the Japanese after the expiration of the auto VER

⁴⁷⁸ Stuart Auerbach, "Lugar Endorses Car Import Quotas," *Washington Post*, January 25, 1985, D1.

⁴⁷⁹ Auerbach, "Lugar Endorses Car Import Quotas," D1.

⁴⁸⁰ Auerbach, "Lugar Endorses Car Import Quotas," D1.

⁴⁸¹ Auerbach, "Lugar Endorses Car Import Quotas," D1.

on March 31, 1985. Dingell, whose home state of Michigan was the location of the U.S. headquarters of all four U.S. auto manufacturers, wanted to restrict Japanese imports to 15 percent of the combined total number of autos manufactured by foreign and domestic producers in the previous year. Dingell claimed that the United Auto Workers and U.S. auto firms both supported his bill.⁴⁸² His reasoning was based on a view that the rules of free trade were not being followed and trading partners were discriminating against U.S. autos.

Since 1981, the U.S. auto trade deficit has more than doubled, from \$11 billion to \$27 billion. Automobile imports have expanded from \$19 billion to \$32 billion, while American automobile exports have declined from \$8 billion a year to \$5 billion a year. One of the reasons for that is our goods are being discriminated against in every nation in the world.⁴⁸³

Dingell made the same arguments as Iacocca of Chrysler about the problems associated the \$1,600 advantage Japan gives its automakers with a depreciated yen and tax subsidies from the Japanese government.

The [dollar relative to the] yen is overvalued by as much as 15 percent, which results in a \$900-per-car advantage to Japanese automakers. Forgiveness by the Japanese government of its commodity tax on exported vehicles saves Japanese automakers an additional \$600 to \$700 per vehicle.⁴⁸⁴

The exchange rate differences and the government subsidies had to be counteracted with the quota restriction in Dingell's Made in America Act.

Meanwhile GM was working to address its lack of small, fuel-efficient cars. On January 8, 1985, GM's Chairman, Roger Smith, described his company's intention to

⁴⁸² John Dingell, "Made in America Act," *Congressional Record*, February 7, 1985, 2264.

⁴⁸³ Dingell, "Made in America Act," *Congressional Record*, 2264.

⁴⁸⁴ Dingell, "Made in America Act," *Congressional Record*, 2264.

invest \$5 billion over the next three to five years in Saturn. Saturn was a GM division that was funded with research and development dollars to build subcompact cars. The target vehicle number for the Saturn division of GM was 450,000.⁴⁸⁵ Saturns would be outfitted with a four cylinder, 1.9 liter engine. According to Smith, the Saturn was to help GM deal with Japanese manufacturers who were able to build small cars with a high quality standard at costs \$1,500 to \$2,000 below what GM could.⁴⁸⁶ The United Auto Workers praised the announcement, describing the need for a small car from GM that is cost effective and high quality to be “critical.”⁴⁸⁷ In January 1985, GM was distinguishing itself from the other three U.S. automakers in pursuing quality improvements but not lobbying for trade protection from the U.S. government.

On February 19, 1985, the Cabinet Council on Commerce and Trade recommended that Reagan not ask Japan to continue the auto quotas. An unnamed Senior Administration official specified what the Cabinet Council said to the President. “The recommendation was to let the quotas expire, to do nothing,” he said. Larry Speakes, President Reagan’s Press Secretary, elaborated on the meaning of the recommendation. “We’re not required to take a decision because it’s voluntary on the part of the Japanese,” Speakes said.⁴⁸⁸ However, Reagan would not actively encourage

⁴⁸⁵ Warren Brown, “GM Will Spend \$5 Billion on New Subcompact Line,” *Washington Post*, January 9, 1985, A1.

⁴⁸⁶ Brown, “GM Will Spend \$5 Billion on New Subcompact Line,” A1.

⁴⁸⁷ Brown, “GM Will Spend \$5 Billion on New Subcompact Line,” A1.

⁴⁸⁸ Brown, “GM Will Spend \$5 Billion on New Subcompact Line,” A1.

Japan to undertake the auto quotas for another year. In a February 20, 1985 question and answer session with reporters, Reagan said that he had not reached a decision.

Q. Is it true that you're going to drop the quotas on the autos – Japanese?

A. No decision to be announced on that yet.⁴⁸⁹

With the quotas set to expire only a month later, this answer did not encourage the auto industry that Reagan would try to negotiate with Japan before the expiration of the auto VER.

There was some momentum in the popular press for ending the auto VER. In a February 24, 1985 column, “Good Riddance to the Car Quotas,” Hobart Rowan of the *Washington Post* outlined reasons why the policy was ineffective. The first reason he cited was the way in which auto buyers were subsidizing high-wage earning auto workers. Due to the quota price, Japanese and U.S. autos were more expensive than they would be under free trade. He quoted New York University economist Yoshi Tsurumi on this point:

The VRA has forced American consumers who earned \$10 an hour to subsidize \$30-an-hour auto workers and their expensive executives.⁴⁹⁰

The American consumer was in an unfair situation. In order to help the immobile and specific labor in the auto industry, consumers had to pay higher prices for autos to pay for the salaries of autoworkers making more per hour than they did.

⁴⁸⁹ Ronald Reagan, “Informal Exchange with Reporters Prior to a Meeting with Prime Minister Margaret Thatcher of the United Kingdom, February 20, 1985, in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.

⁴⁹⁰ Hobart Rowan, “Good Riddance to the Car Quotas,” *Washington Post*, February 24, 1985, G1.

To counteract the momentum against the continuation of the auto VER, Ford and Chrysler petitioned Congress for trade protection. On February 28, 1985, top executives from Ford and Chrysler testified before the Trade Subcommittee of the House Ways and Means Committee that the auto quotas with Japan were a boost for the U.S. auto industry. In his statement to the Trade Subcommittee, David Mackinnon, Vice President and Controller of Ford, stated that he could answer two questions about the effectiveness of the bilateral VERs.

First, has the restraint worked? It is working. As the economy and car demand recover, [the] restraint is helping ensure that most of the increase in production, sales and jobs benefit American workers rather than Japanese workers, putting 100,000 Americans back on the job in the last year alone.... Second, have the U.S. producers used the restraint period effectively? Yes, the facts speak for themselves. Between 1980 and 1984 when total earnings amounted to only \$1.5 billion, Ford invested \$23 billion on new products and facilities and research and development.⁴⁹¹

Chrysler also made a statement on February 28, 1985, incredulous that the government was unwilling to bargain with something as useful as the quota on Japanese autos.

Chrysler's stance all along has been that we believe our government is not applying good poker sense in the area of international trade, and we applaud the efforts of the members of Congress who have led the fight to do something to improve our trade situation – notably... Chairman Dingell who has introduced HR 1050 [The Made in America Act]. We are baffled, frankly, by the Administration's apparent willingness to give up a bargaining chip worth alone, and perhaps more in double that in succeeding years, while not so much as making a dent in Japanese trade barriers, or moving one step closer towards realizing our national goal of \$10 billion to \$12 billion in increased trade in value-added goods in Japan.⁴⁹²

⁴⁹¹ U.S. Congress, Committee on Ways and Means, Subcommittee on Trade, "Japanese Voluntary Restraints on Auto Exports to the United States," February 28, 1985 and March 4, 1985, 48-49.

⁴⁹² U.S. Congress, Committee on Ways, Subcommittee on Trade, "Japanese Voluntary Restraints on Auto Exports to the United States, 74.

Chrysler also claimed that the number of jobs saved by the import quota was higher than the 100,000 figure cited by Ford. Instead, Chrysler said that 750,000 jobs were saved in the auto industry and related industries because the U.S. government was cutting off Japanese imports. These petitions to Congress by Ford and Chrysler were powerful arguments to Reagan as he deliberated what his trade policy should be.

On March 1, 1985, Reagan finally announced he had reached a decision on whether to extend the auto VER with Japan. The U.S. trade deficit with Japan was at \$37 billion, and help for the auto industry would be welcome. However, Reagan opted not to try to negotiate a fifth year extension of the quotas. Reagan's Chief of Staff Donald Regan provided the rationale:

This is now doing what we've long thought we should be the right way to do things—leave it up to free market choice, leave it up to the consumer.⁴⁹³

President Reagan had to feel some satisfaction. Long an opponent of protectionism in his speeches, Reagan had to see the appeal in the idea that the free market would dictate the terms of the trade relationship with Japan in autos. The trade protection provided by the VER was needed only as a temporary measure to help the auto industry rebound. Chief of Staff Regan added that the auto industry would win over the American consumer if it would provide what the American consumer wanted in terms of products.⁴⁹⁴

The members of the Ricardo-Viner style political coalition were decidedly opposed to Reagan's decision not to negotiate for the extension of the auto import quotas

⁴⁹³ Stuart Auerbach, "Reagan Won't Ask Japan to Renew Quotas on Autos," *Washington Post*, March 2, 1985, A1.

⁴⁹⁴ Auerbach, "Reagan Won't Ask Japan to Renew Quotas on Autos," A1.

for another year. Bieber and the United Auto Workers claimed that the failure to renew the bilateral VER with Japan would put 200,000 U.S. auto workers on a layoff.⁴⁹⁵ American Motors, Chrysler and Ford also wanted the quota policy to continue. Chrysler's Lee Iacocca spoke on behalf of the labor-management coalition and his firm.

This is a sad day for America, American workers and American jobs. We expected this decision and Chrysler is ready. We will play by the new rules and be competitive and profitable.⁴⁹⁶

Only GM opposed the continuation of the quotas. Instead of coordinating its lobbying with the other automakers, GM would rely on its investment in a joint U.S.-Japanese manufacturing facility in Fremont, CA, and its plans for the new Saturn subcompact as ways to make its products more competitive with the Japanese.

However, the Japanese reconsidered. The Japanese announced a new year of auto quotas to extend the existing arrangement. Japan was taking this action voluntarily. The quota limit was increased from 1.85 million autos to 2.3 million autos.⁴⁹⁷ This was a 25 percent increase in the quota limit. The Japanese likely made this decision to continue the VERs for autos because of the pressure of interest groups on the Congress. The testimony by Ford and Chrysler on February 28, 1985, about their industry's interest in extending the quotas was compelling to the Japanese. However, the primary reason why Japan voluntarily entered the VER for another year was for the quota rent that would be generated. With a quota on Japanese imports, Japanese firms could charge a higher price

⁴⁹⁵ Auerbach, "Reagan Won't Ask Japan to Renew Quotas on Autos," A1.

⁴⁹⁶ Warren Brown, "Quota Decision Could Lower Prices, Analysts Say," *Washington Post*, March 2, 1985, D1.

⁴⁹⁷ Leonard Silk, "Touting the U.S. Horse," *New York Times*, March 29, 1985, D2.

than would be possible if the laws of supply and demand were allowed to take effect. This higher quota price would be paid by U.S. consumers and would be returned to Japanese automakers in the form of profit. Given this relationship between the quota price and continued profit, the VER was continued by Japan.

The Japanese government continued the policy of auto VERs until March 31, 1994. From 1985 to 1991, the figure for the auto limit was set at 2.3 million units. For the final two years of the agreement, the quota limit was lowered to 1.65 million.⁴⁹⁸ What was the impact of the 1985 auto VER? It accelerated the flow of foreign direct investment into the U.S., where Japanese firms built assembly plants to manufacture cars under their own brands with American autoworkers performing the labor. Between 1982 and 1989, Honda, Nissan, Toyota, Mazda and Mitsubishi and Isuzu all opened manufacturing facilities in the U.S. By 1989, the top selling U.S. car was the Honda Accord. Nearly 60 percent of the Honda Accords sold in the U.S. were built at its Marysville, OH, facility.⁴⁹⁹ As the *New York Times* reported in 1994, Japanese automakers also shifted to making luxury cars to take advantage of the higher prices that could be charged under the quota and the restrictions on the number of cars sold.⁵⁰⁰ As a result, Toyota manufactured Lexus in America, and Honda made a premium model called the Infinity to sell to U.S. consumers.

⁴⁹⁸ Andrew Pollack, "Japan to End Restraints on Auto Imports to U.S.," *New York Times*, March 29, 1994.

⁴⁹⁹ *Miami Herald*, January 6, 1990, in Mira Wilkins, "Japanese Multinationals in the U.S.: Continuity and Change, 1879-1990," in *Business History Review* 64, No. 4 (Winter 1990): 586.

⁵⁰⁰ Pollack, "Japan to End Restraints."

Through its foreign direct investment in the U.S., Japan diffused the threat of GM and ensured that it would not lobby for trade protection in 1984-1985. By making an investment to build at a GM-Toyota facility in Fremont, CA, Toyota was using a strategy that Jagdish Bhagwati, Elias Dinopoulos and Kar-Yiu Wong describe as quid pro quo Direct Foreign Investment.

The quid pro quo DFI may co-opt the U.S. firms that seek to lobby for trade protection against Japanese rivals. For example, the Toyota-General Motors joint venture in 1984 was followed by General Motors breaking ranks in 1985 when the rest of the auto industry sought renewal of the VER restraint on Japanese autos.⁵⁰¹

The autos built at the GM-Toyota assembly plant in Fremont, CA, relied on Japanese capital technology. Pursuit of the continuation of the quota by GM was an impediment to firm-to-firm coordination.

Japanese automakers also enjoyed the additional profit they could earn at the higher quota price. Japan made sure that it increased the quota limit from 1.85 million to 2.3 million so it could import additional cars at the higher quota price. While a quota forced up the cost of Japanese imports, Japanese firms sold more cars than they could in the previous year. This is the benefit to the exporting nation in a bilateral or unilateral VER. The quota price exceeds what the good would cost if the laws of supply and demand were not curtailed by the trade protection.

Some 200,000 mostly semi-specialized, immobile and specific autoworkers in the U.S. were able to secure trade protection through a Ricardo-Viner style political coalition uniting labor and management from the auto industry. In this instance of mischiefs of

⁵⁰¹ Jagdish N. Bhagwati, Elias Dinopoulos and Kar-Yiu Wong, "Quid Pro Quo Foreign Investment," *The American Economic Review* 82, no. 2 (May 1982): 187.

faction, the autoworkers and the executives at three U.S. auto manufacturers were actuated by the viewpoint that a quota or VER was needed to stabilize the U.S. auto market. In March 1985, Japan voluntarily adopted the policy of limiting its auto imports to 2.3 million for the next year. This was a practice Japan would repeat for several more years until March 1994. Interest group pressures in the United States, specifically from the United Auto Workers, American Motors, Chrysler and Ford were a reason why the Japanese adopted this policy. However, Japan was also interested in allowing its firms to capture the quota rents available when its firms built cars and sold them in the U.S. market under the VER. This was also the desired policy outcome from the coordinated lobbying position of the auto industry's amalgam labor unions and three of its manufacturing firms.

President Reagan did not express the view that auto imports should be protected in his re-election campaign in 1984. Unlike the first auto quota implemented in May 1981, Reagan did not try to address a key constituency, specifically, autoworkers. At no point during 1984 or 1985 did President Reagan recommend that the Japanese undertake a VER. Consequently, none of the members of the Ricardo-Viner political coalition seeking trade protection made any PAC donations to Reagan's re-election fund. Japan implemented the VER based on its calculation that American interest groups wanted to foster domestic production and employment, and, its calculation that it would benefit from additional revenue for its firms so long as the quotas were in effect. Japan did accelerate its foreign direct investment in the U.S., building sizable manufacturing facilities on U.S. soil. However, that was part of a greater strategy of maximizing profit

opportunities with the American consumer's acquiescence in buying Japanese autos both made in the U.S. and in Japan. The U.S. autoworkers who were employed at Japanese firms and American firms located on U.S. soil both benefitted from the quota. These 200,000 immobile and specific workers were rendered unemployed due to market conditions favoring autos manufactured solely in Japan.

		Firms	
		Protection	Free Trade
Labor	Protection	United Auto Workers and American Motors, Chrysler and Ford	
	Free Trade		

Chapter IV

Case Study Eleven: Bush Steel VRAs, June 1989

Four days before the 1988 Presidential election, George Bush promised Pennsylvania voters that he would provide trade protection for the steel industry if elected. He made a similar commitment to Republican Pennsylvania Senator John Heinz, offering to put into place a program to end the unfair trade practices of foreign governments who subsidized their steel firms in order to gain an advantage in the U.S. market. Bush won the state of Pennsylvania in a landslide. Upon becoming President, he had to decide whether he would fulfill this campaign promise to the steel industry. Members of the U.S. steel industry pressured Bush for trade protection by filing a set of claims with the USITC. This was a Ricardo-Viner style political coalition because the United Steel Workers were sympathetic to these claims by firms in the steel industry. These firms included Armco, Bethlehem Steel, Inland Steel, LTV Steel Co, National Steel Co. and U.S. Steel. Each of these firms coordinated their lobbying action with the USITC. Of these firms, only LTV Steel gave a Political Action Committee donation to Bush in 1988. The other firms were free riders on the LTV Steel donation to Bush.

The steel industry had a rival in its quest to continue the steel VRAs for an additional five years. The Coalition of American Steel Using Manufacturers, a lobby of over 300 U.S. firms, directly petitioned Bush in a series of letters. In letters dated March 16, 1989, Bush was influenced by 22 Senators who supported the Coalition. In a May 6, 1989 letter, Bush was lobbied by a group of 20 members of Congress who supported the

Coalition. In a June 26, 1989 letter, Bush was lobbied by the Coalition directly. The Coalition's counsel, Frank Farenkopf, Jr., asked that Bush put limitations into the steel VRAs to be extended, limitations on the duration of the agreement, the need for increased quota levels to allow the market to adjust, and a provision allowing for a relaxation of the quota during steel shortages. All of these elements were included in the instructions that Bush gave to his U.S. Trade Representative, Carla Hills, on June 25, 1989. It was an instance where the mischiefs of faction by the manufacturing interests in the steel industry were met with resistance, resistance that came from a consumer's interest group, the Coalition of American Steel Using Manufacturers.

In the 1988 election, the Presidential nominees for the Democratic and Republican parties both expressed a commitment to extending the steel quotas. Michael Dukakis, the Democratic Presidential aspirant, spoke in Pennsylvania in July 1988. In a campaign speech touting his economic plans for the nation, Dukakis said that he would renew the import quotas the Reagan Administration had negotiated with 29 steel-exporting nations.⁵⁰² When Vice Presidential nominee Dan Quayle visited Pennsylvania in September 1988, he committed the Bush Administration to extending the quotas as well.⁵⁰³ Bush later firmed up his commitment to steel quotas. Writing to Pennsylvania Senator John Heinz before the Presidential election, Bush favored implementing trade protection to help the steel industry.

⁵⁰² Clyde H. Farnsworth, "The Nation: The Politics of Protectionism," *New York Times*, October 9, 1988, E4.

⁵⁰³ Farnsworth, "The Nation: The Politics of Protectionism," E4.

One of the key trade policy goals of a Bush Administration will be to achieve an international consensus on eliminating these practices [of government subsidies and dumping of steel], and pending that, I can assure you of my intention to continue the voluntary restraint program.⁵⁰⁴

In this letter to Heinz, Bush gave the reason why he supported the voluntary restraints. He was opposed to foreign steel firms getting government subsidies so that they could dump cheap steel in the U.S. market for sale. It is noteworthy that Bush and Dukakis both wanted to extend the steel quotas. It is another instance when there was a bipartisan consensus on trade protection.

Bush made one last campaign swing through Pennsylvania in the moments leading up to the 1988 election. He was interested in connecting with Pennsylvania voters who might choose him at the polling booth. He decided to offer the Pennsylvanian voter something that would show he was considering their economic security. He offered trade protection to the U.S. steel industry. The *New York Times* would later explain the significance of what Bush pledged.

Just four days before his election, George Bush promised that he would continue to protect the steel industry against imports. The political motive was clear: He was worried about Rust Belt votes.⁵⁰⁵

Bush believed manufacturing workers in Pennsylvania were crucial to his election in 1988. A full commitment to trade protection for the steel industry was a way to push the steel workers deliberating between Bush and Dukakis to accept Bush as their selection as President.

⁵⁰⁴ Stuart Auerbach, "Steelmakers Launch Bid to Extend Import Curbs," *Washington Post*, February 9, 1989: E1.

⁵⁰⁵ "Steel's Costly Crutch," *New York Times*, March 27, 1989: A16.

There were not any reported layoffs by the steel industry, or estimates as to how many workers would be laid off if the quotas were allowed to expire. There were 35,000 specialty steel workers and the United Steel Workers had a membership of 1.2 million. These workers, if they were unemployed, would be specialized and/or immobile. The tiny fraction of specialized workers would include the steelworkers who were employed as tool and die makers. These were highly skilled workers who would lose income if forced to transfer from the steel industry to employment in another industry. The majority of the steelworkers were semi-specialized, immobile and specific. These workers had some skills, but were not highly skilled like the tool and die makers. In some cases, they were employed at the only steel facility in their area. In other cases, they were employed near other steel firm facilities, but would not be hired because of the decline in demand for new steel articles. The steelworkers were considered a key constituency for both Presidential candidates in the 1988 Presidential election. The workers in the steel industry needed to hear that Bush was committed to trade protection in order to cast a ballot for his election as President.

The Political Action Committee donations to the candidates reveal the level of support that the amalgam labor union and the firms in the steel industry gave to each candidate. Which candidate was incentivized by PAC donations to select trade protection on behalf of the steel industry? Based on the records of the Federal Election Commission, we know the choice made by the amalgam labor union, the United Steel Workers, and four firms in the steel industry. It was Dukakis. The United Steel Workers gave \$1,200 to Dukakis, and coordinated their donation to the Democratic Presidential

candidate with Bethlehem Steel, LTV Steel and Weirton Steel. Two firms in the industry gave to Bush and the Republican National Party's Presidential fund: LTV Steel and Standard Steel. LTV was the only firm to give to both candidates.

Table 10: Political Action Committee Donations to Presidents from the Steel Industry, 1988

PAC Source	RNC – President	DNC – President
Bethlehem Steel	\$0.00	\$50,000.00
Jones & Laughlin/LTV Steel	\$20,000.00	\$5,000.00
Lone Star Steel	\$0.00	\$0.00
Standard Steel	\$1,500.00	\$0.00
U.S. Steel Corporation	\$0.00	\$0.00
Weirton Steel	\$0.00	\$250.00
United Steel Workers – National	\$0.00	\$1,200.00

Table Source: U.S. Federal Election Commission, PAC Sum Data Files, 1988.

This made sense, because both candidates were for trade protection for the steel industry. LTV Steel gave more money to the Republican Bush, \$20,000.00, than it did to the Democratic challenger Dukakis, \$5,000.00. LTV's Steel's decision to give to both candidates ensured that regardless of the victor, the next President would be incentivized to adopt trade protection as a policy for the U.S. steel industry. It was also a tactic of the members of the steel industry petitioning the USITC to rely on the \$20,000 donation to Bush by LTV Steel. The other firms were free riders on the donation by LTV Steel. LTV Steel was taking action to encourage Bush to choose trade protection, and this action was taken on behalf of the all of the firms in the steel industry that Wolff was representing in his import injury cases to be heard by the USITC. It remained to be seen whether the steel industry's PAC donation decisions would have an impact on Bush's decision-making process.

On election night in November 1988, Bush would defeat Dukakis in Pennsylvania and in the national election tally. Bush won Pennsylvania by 105 thousand votes, 2,300,087 to 2,194,944.⁵⁰⁶ He took the 25 Electoral College votes in Pennsylvania in a landslide victory with a combined 426 Electoral College votes to 111 for Dukakis.⁵⁰⁷ Bush's victory in Pennsylvania was associated with the promise of help for the steel industry in the form of trade protection. Would Bush fulfill this promise? When would he do so? How would he do so? These were the questions that came with Bush's election to the Presidency in November 1988.

The first interest group to directly petition the incoming President was a Ricardo-Viner style political coalition from the specialty steel industry. The labor management coalition was the amalgam labor union from the specialty steel industry, the United Steel Workers, and Specialty Steel Industry of the United States (SSIUS), an industry group representing the firms in that portion of the steel industry. The USW and the SSIUS wrote the President on January 31, 1989. The authors were Lynn Williams, President, USW, and Richard Simmons, Chairman and Chief Executive Officer, Allegheny Ludlum. In their letter, Williams and Simmons revealed that they were explicitly cooperating and coordinated in their position that trade protection would benefit the 35,000 "highly skilled" workers in the specialty steel industry.⁵⁰⁸

⁵⁰⁶ Congressional Quarterly, *Presidential Elections, 1789-2008*, 166.

⁵⁰⁷ Congressional Quarterly, *Presidential Elections, 1789-2008*, 256.

⁵⁰⁸ Richard Simmons, Chairman and CEO, Allegheny Ludlum, Lynn Williams, President, United Steelworkers, to the President, 31 January 1989, Box CM007, White House Central Files, George H. W. Bush Presidential Library.

...[T]he specialty steel industry remains a hostage to external factors over which it has no control. The industry remains at the mercy of less efficient, subsidized foreign producers who have the financial strength of their governments behind them in efforts to capture large portions of the U.S. market.⁵⁰⁹

These industry interest groups were beneficiaries of the specialty steel voluntary restraints that were implemented by President Reagan in 1983. These restraints were the ones set to expire at the end of September 1989. The other steel arrangements that were executed in December 1984 were also set to expire in September 1989.

In February 1989, the rest of the steel industry was not standing by idly while the specialty steel industry made its lobbying pitch. Alan Wolff, a former Deputy Trade Representative in the Ford and Carter Administrations, was filing claims at the USITC on behalf of six steel industry firms who picked his law firm as counsel. The name of Wolff's law firm was Dewey, Ballentine, Bushby, Palmer & Woods. The list of the six firms that were making these petitions included Armco, Bethlehem Steel, Inland Steel, LTV Steel Co, National Steel Co. and U.S. Steel.⁵¹⁰ The target countries of the suits included the following nations: all 12 members of the EEC, Sweden, Austria, Turkey, South Korea, Taiwan, Brazil, Argentina, and Venezuela.⁵¹¹ What was the reasoning motivating the filing of these complaints? An article in the *Washington Post* explained it:

...[T]he wedge for the import relief is the hundreds of unfair trade complaints, which accuse all major steel-producing nations of either

⁵⁰⁹ Simmons and Williams to the President.

⁵¹⁰ Auerbach, "Steelmakers Launch Bid To Extend Import Curbs," E1.

⁵¹¹ Auerbach, "Steelmakers Launch Bid," E1.

‘dumping’ their products at prices below the cost of production or heavily subsidizing their steelmakers with government funds.⁵¹²

The dual problems of dumping and subsidies were the issue in the complaints that Wolff was bringing to the USITC on behalf of his clients. He hoped that it would help President Bush to consider fulfilling his campaign promise to provide trade protection to the U.S. steel industry.

Bush was in the process of assembling his trade policy team. It included Robert Mossbacher, his designated Secretary of Commerce, and Carla Hills, his nominee for the position of U.S. Trade Representative. Mossbacher and Hills were sympathetic to using trade protection to make trade conditions fair for American business. At his swearing in ceremony, Mossbacher articulated his vision for his tenure at Commerce was based on the concept of free and fair trade.

[I]t’s a mission—and a major objective of ours at this Department to promote our economic growth and competitiveness. We must ensure that trade is a two-way street for American business by expanding overseas markets for top U.S. good and services while ensuring fair competition through enforcement of our trade laws.⁵¹³

Hills was a forceful advocate for U.S. business and said so upon her nomination for the USTR post on February 6, 1989.

We will seek to open markets, not close them, and we will fight protectionism, not give into it. You can be certain—absolutely certain,

⁵¹² Auerbach, “Steelmakers Launch Bid,” E1.

⁵¹³ George H.W. Bush, “Remarks at the Swearing in Ceremony for Robert Mossbacher as Secretary of Commerce, February 3, 1989, in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.

Mr. President, that those are the goals of the Office of the U.S. Trade Representative.⁵¹⁴

During her confirmation hearings, Hills said that her policy as USTR would include efforts to make credible threats of trade protection as retaliation for the unfairness in the trading practices of foreign nations.

The credible threat of retaliation provides essential leverage in our market-opening efforts. Thus, actual retaliation will be used, albeit reluctantly, to preserve the credibility of that threat.⁵¹⁵

For the U.S. steel industry, Hills's statement was encouraging to hear. Her testimony before the Senate Finance Committee portrayed her into be an advocate for trade protection against foreign nations who subsidized and dumped steel in the U.S. market. That was what the United Steel Workers, the Specialty Steel Industry of the United States and the six firms in the steel industry filing USITC claims all wanted her to convince President Bush to adopt as his trade policy.

However, not all interest groups were committed to the idea that trade protection would benefit the U.S. economy. The Coalition of American Steel Using Manufacturers was opposed to the continuation of the steel quotas. Among them was Caterpillar, a manufacturer of heavy construction equipment. Caterpillar charged that since the beginning of 1988, U.S. steel firms increased their prices by eight to 30 percent.⁵¹⁶ This was, Caterpillar claimed, a by-product of the quotas, and the increases would have been

⁵¹⁴ George H.W. Bush, "Remarks at the Swearing-in Ceremony for Carla A. Hills as United States Trade Representative," February 6, 1989, in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.

⁵¹⁵ Hobart Rowan, "And Now, Tough Talk on Trade," *Washington Post*, February 19, 1989, H1.

⁵¹⁶ Hobart Rowan, "Drop the Steel Quotas," *Washington Post*, February 23, 1989, A19.

four to eight percent in the absence of the quotas.⁵¹⁷ The price increases were possible because foreign nations importing steel into the U.S. were using an inflated price for the steel they were selling in the U.S. market. Due to the fact that foreign firms were taking advantage of the rents available in a quota arrangement, U.S. firms also could liberally increase their prices. A quota that was designed to foster production and employment in the U.S. steel industry was creating a negative outcome for American steel consumers like Caterpillar. Caterpillar was forced to pay higher prices for domestic and imported steel it needed as raw materials in production.

The Coalition of American Steel Using Manufacturers was organized and active. The Coalition of American Steel Using Manufacturers coordinated with other member firms and lobbied members of the Senate to take a stand against the continuation of the steel quotas. In a letter dated March 16, 1989, 21 Senators wrote to President Bush urging him to refrain from continuing the Voluntary Restraint Agreements. The 21 Senators explained why:

Steel represents a large portion of the production costs for hundreds of American manufacturers, including producers of home appliances, construction and farm machinery, industrial equipment and components, oilfield equipment, auto parts, food equipment, wire, fasteners, ships and trucks.... In the experience of many of these manufacturers, steel VRAs have caused higher prices and shortages of some steel products, and are undermining their ability to compete in international markets.... We are confident that your Administration and the Congress can work together in 1989 to develop a new steel policy that eliminates the burden of the VRAs on American manufacturers.⁵¹⁸

⁵¹⁷ Rowan, "Drop the Steel Quotas," A19

⁵¹⁸ Cranston, Alan, Bob Packwood, John Chafee, Pete Wilson, Conrad Burns, Herb Kohl, Strom Thurmond, Rudy Boschwitz, Connie Mack, Larry Pressler, Steve Symms, Brock Adams, Slade Gorton, Jim McClure, Gordon Humphrey, Robert Kasten, Malcolm Wallop, Nancy Landon Kassebaum, Thad Cochran,

The Senators were Alan Cranston and Pete Wilson of California, Thad Cochran and Trent Lott of Mississippi, Slade Gorton and Brock Adams of Washington, Robert Kasten and Herb Kohl of Wisconsin, Rudy Boschwitz (R-MN) Conrad Burns (R-MT), John Chafee (R-RI), Gordon Humphrey (R-NH), Nancy Kassebaum (R-KS), Herb Kohl, Connie Mack (R-FL), Bob Packwood (R-OR), Larry Pressler, (R-SD) Steve Symms (R-ID), Strom Thurmond (R-SC), Malcolm Wallop (R-WY) and John Warner (R-VA). Phil Gramm (R-TX) expressed similar sentiments in a separate letter dated March 16, 1988. Gramm also tried to cajole the President to siding with steel consumers:

....[T]here will be Senators, myself included, joined by the consumers of America who are hurt by steel quotas, who will stand with you should you decide to oppose the renewal of this expensive protectionist program.⁵¹⁹

These 22 Senators were giving voice to the natural opponents of trade protection, steel consumers. These Senators wanted to convince President Bush to renege on his campaign promise to adopt quotas for the U.S. steel industry.

The Coalition of American Steel Using Manufacturers was not the only voice publicly opposed to the continuation of the steel quotas. In a March 18, 1989 editorial in the *New York Times*, Paula Stern, the former USITC Judge, explained why the steel quotas were no longer necessary.

Today, our steel industry is competitive and healthy. Indeed, steel can no longer claim it is an injured industry. Cost cutting, robust demand and the declining dollar have made it one of the world's most efficient producers.

John Warner, Trent Lott, to President George Bush, 16 March 1989, in Box CM007, White House Central Files, George H. W. Bush Presidential Library.

⁵¹⁹ Phil Gramm, United States Senator, to President George Bush, 16 March 1989, in Box CM007, White House Central Files, George H. W. Bush Presidential Library.

Profits are high—roughly \$2.2 billion in 1988 – and mills are running at full capacity.⁵²⁰

She continued by arguing that the quotas were leading to inflated prices for some U.S. steel consumers.

Big Steel's largest users, such as the automobile industry, have long-term contracts that protect them from major price hikes and ensure reliable delivery. Other companies, however, are at the mercy of the steel industry. Prices for them have gone up as much as 40 percent, and shortages disrupt their production schedules. As soaring steel costs eat away at their profits, their ability to modernize and export is stifled.⁵²¹

The numbers of jobs saved by the steel quotas was another point that Stern wanted to dispute. Stern referenced a 1987 study that showed how the steel quotas saved just 17,000 jobs, not the 76,000 or 200,000 that others had claimed in 1982 and 1984.⁵²² The same study also revealed how the steel quotas cost 52,400 jobs in other industries.⁵²³

To defend the position for trade protection for the steel industry, Heinz and his Congressional colleague, Representative John Murtha (D-PA), the Chairman of the Congressional Steel Caucus, authored an article in the March 18, 1989 edition of the *New York Times*. Heinz and Murtha discussed the ways in which the steel VRAs announced by the U.S. in December 1984 gave the U.S. steel manufacturing industry the opportunity to become more competitive.

⁵²⁰ Paula Stern, "They Make Us Uncompetitive," *New York Times*, March 18, 1989, 27.

⁵²¹ Stern, "They Make Us Uncompetitive," 27.

⁵²² Stern, "They Make Us Uncompetitive," 27.

⁵²³ Stern, "They Make Us Uncompetitive," 27.

The restraints have helped reduce import market share from the 30 percent level of late 1984 to under 21 percent today. In so doing, they have been a major factor in the industry's ongoing progress.⁵²⁴

Heinz and Murtha refuted the claim that the steel industry used the steel quotas to inflate the prices of domestically produced steel.

Critics won't tell you until pressed, but average prices actually declined from 1984 to 1986 (the program's first two years.) While prices have risen in the U.S. and other steel markets since mid-1988...they still averaged about only 4 percent higher in the third quarter of 1988 than when the program was implemented in 1984....By one estimate, auto companies pay about \$100 per ton less on average for domestic steel that Toyota pays for steel in Japan.⁵²⁵

Heinz and Murtha did not address one of the arguments of Stern and the Coalition of American Steel Using Manufacturers about the favorable deals available to the auto companies while others had to pay nearly 40 percent higher prices for American made steel. Instead, Heinz and Murtha provided data points that the U.S. steel industry wanted President Bush to consider. Heinz and Murtha's data showed where the steel quota program was working, and why they wanted him to continue it.

The responsibility for the policy was debated by the Trade Policy Staff Committee in the Bush Administration. The Trade Policy Staff Committee included both Hills and Mossbacher. As Hills explained, the Trade Policy Staff Committee was interested in the views of all interest groups with a stake in the steel quota policy. "The Trade Policy Staff Committee has been reviewing written public comments and has met

⁵²⁴ John Heinz and John Murtha, "They Saved the Industry," *New York Times*, March 18, 1989, 27.

⁵²⁵ Heinz and Murtha, "They Saved the Industry," 27.

with representatives of both producers and consumers,” Hills said.⁵²⁶ On April 26, 1989, Mossbacher went public with his comments on the way that Bush was thinking about the issue. His comments were part of his testimony before the House Ways and Means Committee and were reported in the *Washington Post*:

Mossbacher said that international agreement was beyond the Bush Administration’s reach right now, although it remains a “long run” goal. In the short term, he said, the President would continue the quotas. Under questioning by representatives of steel producing states on the House Ways and Means Committee, he declined to commit the administration to a major objective of the American steel industry—a continuation of the quota for another five years.⁵²⁷

This was the first public news that President Bush was considering to fulfill his campaign promise to Pennsylvania voters. It was not the complete fulfillment of all the industry requested, since there was no five-year commitment. However, Mossbacher’s comments were a clear sign that the Bush Administration would recommend that the steel quotas be extended.

Members of the House of Representatives decided that a forceful show of support for the Coalition of American Steel Using Manufacturers was needed. There were 20 members of the House who co-signed a letter to President Bush asking that he consider the needs of the U.S. steel consumers when planning for the steel VRA extension.

A number of our manufacturers have had trouble obtaining certain types of steel as a result of the quotas during the past several years, and have also been faced with a number of significant price increases due to

⁵²⁶ Carla A. Hills to Senator Phil Gramm, 27 April 1989, in Box CM007, White House Central Files, George H. W. Bush Presidential Library.

⁵²⁷ Stuart Auerbach, “Mossbacher Signals That Bush Will Continue Steel Quotas,” *Washington Post*, April 27, 1989, E4.

shortages of supply. The result has been delays in production and reduced competitiveness in the world market.⁵²⁸

The 20 members of Congress also provided a list of conditions that they wanted as part of the negotiation process for future steel VRAs.

We are...hopeful that any recommendation for extended VRAs will point the way toward elimination of quotas in some reasonable period of time, with increasing overall quota levels during the phaseout period. In the meantime, it should exempt from quotas those countries which trade fairly in steel, and it should include substantial flexibility—for example, flexibility to change the treatment of products in short supply or of countries that alter their own steel policies.⁵²⁹

These conditions were aimed at limiting the scope of the VRAs. Increasing quota limits during the program's phaseout would limit the agreement's scope, as would assurances that the U.S. government would not approach nations who trade fairly in steel. That was intended to stop the cartelization of the U.S. steel import market. It remained to be seen whether these goals would be incorporated into the new agreements for the steel VRAs. However, these 20 members of Congress believed the goal was achievable: Robert Michel (R-IL), House Minority Leader, Bill Archer (R-TX), Minority Leader, House Ways and Means Committee, Philip Crane (R-IL), Minority Leader, Subcommittee on Trade, House Ways and Means Committee, Newt Gingrich (R-GA), Minority Whip, Dick Armey (R-TX), Rod Chandler (R-WA), Bill Frenzel (R-MN), Willis Gradison (R-OH), Nancy Johnson (R-CT), Edward Madigan, Lynn Martin (R-IL), Thomas Petri, (R-

⁵²⁸ Michel, Robert H., Thomas E. Petri, Bill Archer, Philip M. Crane, Newt Gingrich, Bill Frenzel, Willis Gradison, Nancy L. Johnson, Patricia Salki, F. James Sensenbrenner, Dana Rohrabacher, Christopher Shays, Edward Madigan, J. Dennis Hastert, Fred Upton, Rod Chandler, Richard Armey, Carl D. Pursell, Guy Vander Jagt, Lynn Martin, to President George Bush, 3 May 1989, in Box CM007, White House Central Files, George H. W. Bush Presidential Library.

⁵²⁹ Michel, Robert et al to President George Bush.

WI), Carl Pursell (R-MI), Dana Rohrabacher (R-CA), Patricia Saiki (R-HI), F. James Sensenbrenner (R-WI), Christopher Shays (R-CT), Frederick Upton (R-MI), and Guy Vander Jagt (R-MI).

Meanwhile, there were interest groups pursuing an extension of the steel VRAs for as long as possible. On May 8, 1989, David Hartquist, counsel for the Specialty Steel Industry of the United States, lobbied the Bush Administration for the inclusion of its specialty steel articles in the VRAs to be considered for renewal in September 1989.

We are hearing persistent rumors that serious consideration is being given within the Bush Administration to dropping specialty steel products from a renewal of the President's Steel VRA Program. This would be disastrous to the specialty steel industry, because foreign producers would immediately shift exports from carbon steel products into the much higher-valued specialty steel products.⁵³⁰

In his comments on behalf of the SSIUS, Hartquist noted how the first bilateral VER signed by the Johnson Administration in 1969 excluded specialty steel articles, which allowed foreign producers of specialty steels to obviate the agreement in effect from 1969 to 1972. "...[A] VRA extension which excludes specialty steel...would invite the same deluge of imports, much of it unfairly traded," Harquist wrote.⁵³¹ To take advantage of this loophole in the VRA for specialty steel articles, foreign firms making carbon steel could convert their operations to the manufacture of specialty steel.

The diversion from carbon to specialty steel production is possible technically because much of the equipment used to make carbon steel can also be used to make specialty steel. For example, electric furnaces are

⁵³⁰ David A. Hartquist, Counsel, Specialty Steel Industry of the United States, to Roger Porter, Special Assistant to the President, 8 May 1989, in Box CM007, White House Central Files, George H. W. Bush Presidential Library.

⁵³¹ Hartquist to Porter.

used in the initial melting process for both steels, and the same rolling mills can be used to produce both carbon and specialty steel products. The only additional equipment needed to produce commodity specialty steel flat rolled products are enhanced annealing capacity and argon-oxygen decarburization vessels....⁵³²

Harquist added that this new equipment could be added for a price of \$80 million. Whether foreign firms could afford to make this switch to specialty steel production was an issue that the Bush Administration would need to carefully review.

The Bush Administration would also have to consider the views of the members of the American Iron and Steel Institute. When the AISI held its annual meeting in Washington, D.C. on May 18, 1989, there was agreement that the steel quotas should be extended. Six AISI member firms, specifically, Armco, Bethlehem Steel, Inland Steel, LTV Steel Co, National Steel Co. and U.S. Steel, had filed complaints with the USITC in February 1989, seeking relief from foreign steel imports. These six firms were committed to the idea that extending trade protection for the steel industry for an additional five years was needed to foster domestic production and employment for the steel industry. The United Steel Workers were free riders on these complaints. The amalgam labor union was actuated by the same protectionist view that was driving these claims, but was not expending its resources in lobbying for the position by coordinating claims of their own with the six industry firms. The USW was instead joined to the Specialty Steel Industry of the United States and its lobbying pitch to the Bush Administration.

⁵³² Hartquist to Porter.

However, a dispute at the AISI annual meeting was affecting the trade protection view that actuated the firms in this Ricardo-Viner style political coalition. Some firms wanted to include semi-finished steel products in the VRA extension, others did not. Lone Star Steel was a company that wanted to include semifinished steel products, like the steel pipe used by the oil and gas industries. The U.S. Steel Corporation, now USX Corporation after its purchase of Marathon Oil in the early 1980s, was not interested in seeing the price of semifinished steel rise. “For us, this does nothing but make our cost of materials go up,” said Thomas Graham, Chairman of USX, and the Chairman of the AISI.⁵³³ It was a hypocritical stance. U.S. Steel was asking the members of the Coalition of American Steel Using Manufacturers to accept the higher prices that would exist with a quota, but complained that its subsidiary, Marathon Oil, should not have to pay those higher prices for steel oil pipe. It can be said that the Bush Administration read this dispute as a weakness in the strength of argument by the firms from the steel industry seeking trade protection. Graham’s statement about not wanting to raise the material costs for Marathon Oil with a quota on semi-finished steel resonated with the basic argument by the members of the Coalition of American Steel Using Manufacturers. Graham, the Chairman of the AISI was acknowledging that the members of the Coalition of American Steel Using Manufacturers had a valid gripe in wanting the steel quota ended. Paying a higher quota price for semi-finished steel was costly for Marathon Oil and the steel purchases made by 300 firms that were part of the Coalition of American Steel Using Manufacturers.

⁵³³ Jonathan Hicks, “A Steel Quota Divides the Industry,” *New York Times*, May 19, 1988, D1.

In June 1989, the Coalition of American Steel Using Manufacturers made one last attempt to persuade the Bush Administration to take a position other than a five year extension of the steel quotas. In a letter dated June 20, 1989, Frank Farenkopf, Jr., counsel at Hogan & Hartson, wrote to Bush's Chief of Staff John Sununu on behalf of the Coalition. Farenkopf raised arguments that the Bush Administration had to consider regarding its policy implementation. In particular, he stated that the steel quotas encouraged, rather than discouraged, foreign government subsidies.

Announce a date certain (no more than 2 years) on which steel quotas will end and U.S. trade laws will be enforced. As long as foreign producers have an exemption from U.S. unfair trade laws and a guaranteed share of the U.S. market, as they do under the current system, there is no real incentive to come to grips with subsidies and other trade distorting practices in their steel industries. Knowing that they will lose that exemption on a date certain is critical to successful negotiations.⁵³⁴

To eliminate these foreign government subsidies and trade distorting practices, Farenkopf said that President Bush should do as he suggested in his letter to Heinz in the 1988 election and hold international negotiations.⁵³⁵ While negotiations were taking place, Farenkopf urged the Bush Administration to increase the amount of the quota incrementally to allow the market to adjust.

Phase out the quotas during the duration of the negotiating period with increasing quota levels over that period.... Quota levels should increase immediately and increase further over time thereby introducing greater competition in the U.S. market.⁵³⁶

⁵³⁴ Frank Farenkopf, Jr., Hogan & Harston, to John Sununu, Chief of Staff, 20 June 1989, in Box CM007, White House Central Files, George H. W. Bush Presidential Library.

⁵³⁵ Farenkopf to Sununu.

⁵³⁶ Farenkopf to Sununu.

In addition, the counsel for the Coalition of American Steel Using Manufacturers asked that some flexibility be incorporated into the extension of the steel VRAs. In particular, he said that the agreement should allow for short supply procedures. Short supply procedures are needed at times when steel using manufacturers have a business need to purchase certain steel articles but those particular articles are unavailable in the market due to the existence of the quota restrictions. In such cases, the foreign import quotas would be relaxed to allow for the purchase of the necessary articles of steel.

In June and July 1989, President Bush studied the issue of trade protection for the steel industry. Although Bush offered to help the steel industry in his 1988 Presidential campaign, he was pressured to make the policy short-lived. His Administration's stated position was that the quotas would continue until the trade distorting subsidies that gave an advantage to foreign steel producers were eliminated by foreign governments.⁵³⁷ Bush decided that he could not go back on his campaign promise to provide trade protection for the steel industry. But the choices that Bush made on the characteristics of the trade protection his Administration would provide were greatly influenced by the consumer's lobby, the Coalition of American Steel Using Manufacturers, which was helped by the advocacy of the Senators and members of Congress who supported the Coalition.

On July 25, 1989, Bush made his position on the steel VRA extension official in a memorandum he wrote to USTR Carla Hills that outlined the parts of his Steel Trade

⁵³⁷ S. Linn Williams, Deputy U.S. Trade Representative, to the Honorable Hank Brown, 27 June 1989, in Box CM007, White House Central Files, George H. W. Bush Presidential Library

Liberalization Program.⁵³⁸ As the Coalition of Steel Using Manufacturers requested in its June 26, 1989 letter from Farenkopf, the period of the extension was two and a half years, not the five years that the steel industry requested. In response to another request from Farenkopf, Bush asked that the quotas be increased by a percentage point each year the plan was in effect.⁵³⁹ In another nod to the demands of the Coalition of American Steel Using Manufacturers, Bush instructed Hills to “liberalize and streamline” the existing short supply mechanism in the renewed VRA to help U.S. consumers when there were future shortages caused by the VRA.⁵⁴⁰ Finally, Bush added a statement asking Hills to negotiate a Multilateral Steel Agreement.

The United States Trade Representative shall seek to negotiate an international consensus to provide for both fair and open trade in steel. This consensus, which should be pursued through the Uruguay Round of Multilateral Trade Negotiations and complementary bilateral agreements, will provide effective disciplines over trade distorting subsidies, as well as reductions in tariff and non-tariff barriers to international steel trade.⁵⁴¹

As the Coalition of American Steel Using Manufacturers requested, Bush also put an expiration date for the quotas in his memorandum: March 31, 1992.

Bush’s statement on this memorandum to Hills reflected the concerns of the Coalition of American Steel Using Manufacturers. “I am mindful of the need to improve the availability of steel in the United States and to promote price competition,” Bush

⁵³⁸ George Bush, “Memorandum on Steel Imports and Exports,” June 25, 1989, in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.

⁵³⁹ Bush, “Memorandum on Steel Imports and Exports.”

⁵⁴⁰ Bush, “Memorandum on Steel Imports and Exports.”

⁵⁴¹ Bush, “Memorandum on Steel Imports and Exports.”

said.⁵⁴² The members of the Ricardo-Viner style political coalition favoring trade protection were not completely pleased with the Bush memorandum. Williams, the President of the United Steel Workers, criticized the President's Steel Program.

Our members have already made deep concessions to help the industry survive. But we have found the Government to be unwilling to respond to a systematic malaise of unfair steel practices.⁵⁴³

The American Iron and Steel Institute said the Steel Program as Bush explained it in his memorandum to Hills generated "great concern and disappointment."⁵⁴⁴ The duration of the program, two and a half years rather than the five years for which it lobbied, was the source of the AISI's unease.

We believe this reduced term does not allow enough time to complete the difficult and complex negotiations needed to achieve an international steel consensus.⁵⁴⁵

The reaction of the Coalition of American Steel Using Manufacturers was decidedly more upbeat. "[The Steel Program was] a positive step away from protection and toward a more competitive steel market in the United States that rewards fair trade," said John Jensen, a spokesperson for the Coalition.⁵⁴⁶

Bush's Steel Program did not lead to an end of foreign government subsidies. Hills made an attempt to negotiate a Multilateral Steel Agreement with 36 nations to

⁵⁴² Clyde H. Farnsworth, "Steel Import Quotas Extended While U.S. Seeks Subsidy Curbs," *New York Times*, July 16, 1989, A1.

⁵⁴³ Farnsworth, "Steel Import Quotas Extended," A1.

⁵⁴⁴ Farnsworth, "Steel Import Quotas Extended," A1.

⁵⁴⁵ Stuart Auerbach, "Bush Signs Steel Quota Extension," *Washington Post*, July 26, 1989, D1.

⁵⁴⁶ Auerbach, "Bush Signs Steel Quota Extension," D1.

eliminate the problem of foreign government subsidies for steel. These talks broke down on the final day the VRA was in effect, March 31, 1992. The sticking points were subsidies made for environmental improvements to plant and equipment and training assistance to workers who would be out of work due to a decline in steel production.⁵⁴⁷ These talks would be revived at various points in the 1990s and 2000s. To date, no agreement has been reached.

In the 1988 Presidential election, the specialized and potentially immobile steel workers in Pennsylvania were a key constituency for George H. W. Bush. He promised these voters that he would provide them trade protection if elected. When Bush won in a landslide, expectations were that he would fulfill this campaign promise. In February 1989, there were six U.S. steel manufacturers who filed a set of complaints with the USITC hoping that Bush would favor their industry with trade protection. This industry effort did not go unopposed. Steel consumers got organized, and created a Coalition of American Steel Using Manufacturers to rise in opposition to the steel industry and its call for trade protection for another five years. The Coalition of American Steel Producing Manufacturers had to compete against the claims of six steel firms as well as the joint petition by the United Steel Workers and the Specialty Steel Industry of the United States. The Coalition of American Steel Using Manufacturers was able to limit Bush's promise of trade protection. It was evident in the case of U.S. Steel that it was a hypocritical stance. U.S. Steel wanted other manufacturing firms to accept higher prices

⁵⁴⁷ Keith Bradsher, "International Talks on Steel Break Down," *New York Times*, April 1, 1992, D6.

for steel under the steel VRA extension, but was unwilling to do this for the steel oil pipes to be purchased for its subsidiary Marathon Oil. The Coalition, strengthened by the lobbying efforts of Senators and members of Congress in March and May 1989, limited the steel VRA extension to two and a half years rather than the five years requested by the steel industry. The steel VRA extension also had incremental increases to allow the market to adjust to the time when the quotas were to expire. The steel VRA extension also included a promise to negotiate an international multilateral agreement to eliminate foreign government subsidies of steel industries. The case of the Bush steel VRAs was one in which steel consumers were organized and active. The Coalition of American Steel Using Manufacturers successfully challenged the trade protection view that actuated the Ricardo-Viner style political coalition from the steel industry. By mounting this successful challenge, American consumers were finally able to overpower the combined force of a protectionist labor-management lobby and the willingness of a President to take policy action on behalf of a declining U.S. manufacturing industry.

Firms

Protection

Free Trade

Protection

United Steel Workers and Corporation and Armco, Bethlehem Steel, Inland Steel, LTV Steel Co, National Steel Co., U.S. Steel and the Specialty Steel Industry of the United States

Labor

Free Trade

Chapter V

Conclusion: Noteworthy Themes in the Eleven Cases

A U.S. manufacturing industry will get trade protection when three conditions exist. The first condition concerns the factor specificity of labor and capital in the affected industry. Labor and capital must be immobile and specific. The second condition relates to the lobbying by interest groups from the affected industry. Coordinated, collective action must be taken by a labor-management coalition from the affected industry. The labor-management coalition must be organized and active in pursuing trade protection from federal elected officials. The third condition is the existence of a key constituency who wants trade protection and will vote for the federal elected official who adopts trade protection as national policy. When these conditions exist, manufacturing interests and federal elected officials practice mischiefs of faction and implement trade policy for the affected industry.

Certain views actuated the manufacturing interests that wanted to get trade protection policy adopted by the federal government in the eleven cases. When manufacturing interests filed a petition with the U.S. Trade Commission, these manufacturing interests were actuated by the view that increased imports were the substantial cause of a serious injury to their industry pursuant to the Escape Clause of Section 201 of the Trade Act of 1974. This was the view that actuated several Ricardo-Viner style political coalitions, starting with the labor-management coalition of the United Steel Workers and Tool and Specialty Steel Industry Committee for Import Relief

who pressured the Ford Administration for specialty steel quotas. The view that imports were causing serious injury to an American manufacturing industry were the motivation that pushed for the Carter OMAs for shoes and televisions, the Reagan steel quota in 1984 and the Bush steel quota in 1989. To satisfy these protectionist demands, Presidents decided to implement trade protection in the form of a VER. When challenged, as President Reagan was with the auto VER in 1981, the President could say that it was an agreement that the foreign country entered voluntarily.

Additional views actuating the manufacturing interests in each of the eleven cases were made known to the federal elected officials who were asked to adopt trade protection policy. In some of the steel cases and the two auto cases, the additional view actuating the labor-management political coalition was a critique of foreign government subsidies given to trading partners. This was the source of the fair trade, not free trade argument. In the Reagan steel quota decision of 1982 and the two auto cases, the additional view actuating the labor-management political coalition was the strength of the dollar in exchange rate differences between the U.S. and a trading partner. A strong dollar caused foreign goods expressed in foreign to be cheaper than U.S. manufactured goods.

There is not an iron-clad connection between adopting trade protection as policy and success in future Presidential elections. Nixon and Ford appeared to be successful in getting steel workers to vote in their favor in response to their decision to implement bilateral VERs. Nixon's reelection in 1972 was helped by the steel workers decision to sit out the election, and Ford appears to have won the Republican Primary in Ohio in

1976 on the basis of his decision to implement steel quotas. Election success appears to have occurred in the case of Reagan's auto quota of 1981, for the steel quotas Reagan negotiated in 1982 and the Bush steel quota in 1989. However, the past history of the adoption of VERs by Presidents does not generate complete confidence that making protectionist trade policy guarantees success in a national election. For example, Carter helped TV industries with trade protection while in office but did not generate enough votes from the policy to win the 1980 Presidential election.

From 1969 to 1989, federal elected officials from the two major U.S. political parties made commitments to protect the interests of U.S. manufacturing industries. Both Democrats and Republicans favored protection for certain U.S. manufacturing industries. It was an end to the liberal consensus in favor of free trade that was established with original RTAA. Protection-seeking manufacturing interests from specific states could influence both Democrats and Republicans in the Executive Branch to favor their industry. In the period under examination in this thesis, Democratic Presidents, Lyndon Johnson and Jimmy Carter, negotiated VERs, as did Republican Presidents Richard Nixon, Gerald Ford, Ronald Reagan and George H. W. Bush. They did so for two reasons. All of these Presidents wanted to avoid making trade protection a permanent part of U.S. trade laws. All of these Presidents hoped to capitalize politically on the positive benefits that trade protection would provide to voters. Moreover, as seen in the Prologue on the Protectionist Congress of 1967-68, Democrats and Republicans in Congress were favoring trade protection as an answer to the decline in U.S.

manufacturing sectors. These federal elected officials also sought votes in return for their advocacy for trade protection.

No President has attempted to negotiate a bilateral VER since the Bush Administration did so in 1989. The last VER in the auto industry expired in 1994. This is a policy that a future president can use to activate an interest group to elect him in a future election. It requires that an industry have three conditions that it can meet, specifically, factor specificity, collective action, and the votes of a key constituency. The last steel cases show that there may be opposition to mischiefs of faction from the natural opponent of trade protection, consumers. Nevertheless, we know from the eleven cases examined in this thesis that foreign nations and firms are more than willing to undertake bilateral and unilateral VERs. When a VER offers an exporting country increased profit in the form of quota rents, the U.S. President has a potential willing partner to undertake trade protection to foster American production and employment

Factor Specificity

In each of the eleven cases, labor and capital in the industry receiving trade protection were immobile and specific. There was a tiny fraction of unemployed workers who were specialized through training and experience. Such workers were capable of moving to another industry to become employed, albeit at a reduced income. This was the situation for the tool and die makers in the steel, TV and auto manufacturing industries. Most of the workers who were threatened by layoffs were semi-specialized, immobile and specific. These workers were geographically immobile. These workers

were living in towns where their local steel plant, shoe plant, TV plant, or auto plant was the only place where they could find gainful employment. In instances where workers lived in the vicinity of other plants in their industry, those plants were not hiring new workers. The need for more steel, shoes, TVs or autos was not being satisfied by a plant in their vicinity.

The condition that most workers were in – semi-specialized, immobile and specific – existed over the short and medium run in economic terms. The bilateral VERs that Presidents negotiated for shoes, specialty steel and TVs addressed a short run condition of three years. Labor in the shoe, specialty steel and TV industries were mostly semi-specialized, immobile and specific. Absent a job in their local plant, these workers were collecting unemployment assistance from the government. Thanks to the bilateral VERs, labor in the shoe, specialty steel and TV industries could become re-employed at their place of work. The VERs for steel and autos addressed Ricardo-Viner conditions that existed over the medium run. Steel industry workers were helped by a VRA for six years, from 1969 to 1974, and ten years, from 1982 to 1992. Auto industry firms benefitted from the unilateral VERs that Japan entered for 13 years, from 1981 to 1994. These medium run VERs fostered domestic production and employment for semi-specialized, immobile and specific workers. These workers were in a tenuous condition that was not just momentary. Steel and auto manufacturing workers in the U.S. were in a semi-specialized, immobile and specific condition for more time than the short run. Longer term VER arrangements were needed to keep these particular workers productive and employed.

Labor-Management Coordination

Labor and management, typically class antagonists that operate in opposition to each other's position, coordinated their lobbying for trade protection in each of the eleven cases. Manufacturing labor in the steel, shoe, TV and auto industries was interested in enriching itself through its productive use of the specific capital equipment upon which it relied to do its job at the firm. Firm management, the owners of the capital equipment used by labor in production, had to decide what it would keep as profit and what it would pay as wages. The conflict over what the firm would keep as profit and what it would pay as wages was the source of a basic antagonism between labor and capital. What labor and firm management were able to do in the eleven cases was see a shared interest in getting trade protection from the government for their industry. Labor needed trade protection in order to remain employed because it lacked other alternatives for employment in its geographic area. Firm management needed trade protection so it could make profitable use of the capital equipment it owned.

In the first two cases, involving the VRAs negotiated by Presidents Johnson and Nixon, labor made a concession to firm management on trade protection to secure a new labor contract. In January 1968, I.W. Abel, the President of the United Steel Workers, agreed to endorse the trade protection view that actuated firm management. The USW decided to favor trade protection in an effort to negotiate a wage increase that would be acceptable to the management of steel firms. Both sides were hoping to avoid a labor strike. Since foreign firms tended to dump cheap steel in the U.S. market during a labor strike, labor hoped that firm management would make a concession on wages. To

prevent the loss of market share to foreign firms during a labor strike, steel firm management was expected to be more willing to pay a higher wage to the steel workers to avoid a labor strike from occurring. Abel was actuated by a protectionist view to help him get better wage contracts for the United Steel Workers in collective bargaining negotiations between labor and management that occurred in 1968, 1969, 1970 and 1971.

In eight of the remaining nine cases, the coordination on trade protection involved filing a claim for import relief with the USITC. These claims were made pursuant to the Escape Clause in Section 201 of the Trade Act of 1974. To get trade protection, it was necessary to prove that an industry had been injured, the injury was serious, and that increased imports were the substantial cause of the serious injury. Both labor and management hoped to prove that their industry had been so injured, so that the USITC judges would recommend to the President that trade protection was the appropriate next step to remedy the injury found. The USITC claim gave the labor-management political coalition the leverage it needed to get a concession from the President on trade protection. The eight labor-management coalitions who filed claims for relief pursuant to the Trade Act of 1974 in the eight cases are listed in Table 11 below. In six of the eight cases, the President received a judgment from the USITC that favored trade protection for the injured industry before implementing a VER. The President's response in these cases was to negotiate a bilateral VER with the nations that were the source of the imports that injured the U.S. manufacturing industry. This was what happened in the specialty steel case, the shoe case, the two TV cases, and the steel cases in 1982 and 1984. In the auto case, the USITC claim failed, and the President was instead persuaded by direct petitions

for trade protection. One direct petition was a February 3, 1981 letter to President Reagan from the Motor Vehicle Manufacturers Association. The other direct petition occurred when President Reagan met with the United Auto Worker's Douglas Fraser in February 1981. In the steel case in 1989, President Bush took action on steel even though a decision from the USITC did not prompt the adoption of protectionist trade policy.

Table 11: USITC Claims in Steel, Shoe, TV and Auto Cases, 1976-1989

Industry	Labor	Management
Specialty Steel, 1976	United Steel Workers	Tool and Specialty Steel Industry Committee for Import Relief
Shoes, 1977	The Boot and Shoe Workers Union and the United Shoe Workers of the AFL-CIO	American Footwear Industries Association
TVs, 1977	Communications Workers of America, Independent Radionic Workers of America, International Brotherhood of Machinists, International Brotherhood of Electrical Workers, International Union of Electrical, Radio and Machine Workers of the AFL-CIO	Corning Glass Works, GTE Sylvania, Owens-Illinois, Sprague Electric, Wells-Gardner Electronics
TVs, 1979	Communications Workers of America, Independent Radionic Workers of America, International Brotherhood of Machinists, International Brotherhood of Electrical Workers, International Union of Electrical, Radio and Machine Workers of the AFL-CIO	Corning Glass Works, GTE Sylvania, Owens-Illinois, Sprague Electric, Wells-Gardner Electronics
Autos, 1981	United Auto Workers	Ford
Steel, 1982	United Steel Workers (free riders)	U.S. Steel, Bethlehem Steel, Republic Steel, the Inland Steel Company, Jones and Laughlin, National Steel, Cyclops Corporation
Steel, 1984	United Steel Workers	Bethlehem Steel
Steel, 1989	United Steel Workers (free riders)	Armco, Bethlehem Steel, Inland Steel, LTV Steel Co, National Steel Co., U.S. Steel

Table Source: Compiled by Author

The idea that a Ricardo-Viner style political coalition coordinates lobbying should be clarified. The lobbying may be performed by one or both of the partners in the labor-

management coalition. Free riding occurs when one of the interest groups in the labor-management political coalition takes collective action on behalf of all members of the coalition. There were five types of lobbying that occurred in the eleven cases: USITC claims, direct petitioning to the President in the form of a letter, direct petitioning in the form of a meeting, testimony for protection made before Congress, and Political Action Committee donations. Table 12 summarizes the five types of lobbying that occurred in the eleven cases, and notes whether the five instances of lobbying involved the labor union (L) and/or firm management (K).

Table 12: Labor and Management Coordination for Trade Protection

Case	USITC Claim	Direct Petition, Letter	Direct Petition, Meeting	Testimony to Congress	PAC Donations
Johnson Steel VRA, 1969		L, K	L, K	L, K	
Nixon Steel VRAs, 1972		K	L, K	K	
Ford Steel Quotas, 1976	L, K	K	L, K		
Carter Shoes OMAs, 1977	L, K	L, K	L, K		
Carter OMAs for TVs, 1977	L, K		L		
Carter OMAs for TVs, 1979	L, K		L		
Reagan Auto VERs, 1981	L, K	K	L		
Reagan Steel VRAs, 1982	K		L, K		K
Reagan Steel VRAs, 1984	L, K			K	K
Reagan Auto VER, 1985		L, K		K	
Bush Steel VRA, 1989	K	L, K			K

Table Source: Compiled by the Author

These were the patterns of lobbying that occurred over the eleven cases. In the instances where only labor or capital are listed, the evidence revealed that the other interest group was free riding on the collective action taken by the interest groups that actually lobbied.

Key Constituencies/National Elections

Mischief of faction occurred when interest groups representing labor and management were actuated by the view that trade protection was necessary for their firm and industry then lobbied federal elected officials in order to achieve that policy goal. Labor was a key constituency for federal elected officials to satisfy with trade protection. The workers at a firm in an industry favored by trade protection might vote for a federal elected official who supported their view that a quota or VER was necessary to foster domestic production and employment.

In each of the eleven cases examined in this thesis, some form of Congressional pressure motivated the President to take action and implement trade protection. The Congressional pressure included attempts at enacting quotas through legislation as well as direct petitions made to the President in the form of letters or personal meetings at the White House. The Congressional pressure was a means by which the views of interest groups in the states could express their views. These members of Congress believed that the actions listed in Table 13 would motivate a federal elected official to take action on behalf of their constituents.

Table 13: Congressional Pressures Producing the Eleven VERs

Case	Instances of Congressional Pressure
Johnson Steel VRA, 1969	Hartke-Dirksen Bill; Christmas Tree Amendment to Social Security Legislation; 1967 letter from Charles Vanik (D-OH); 1968 Mills Hearings.
Nixon Steel VRAs, 1972	Mills Bill
Ford Steel Quotas, 1976	23 members of Congress from NY, OH and PA meet with President Ford on March 11, 1976
Carter Shoes OMAS, 1977	February 22, 1977 letter from Thomas McIntyre (D-NH); March 7, 1977 meeting between eight U.S. Senators and Carter at the White House; March 18, 1977 letter from McIntyre and 42 other U.S. Senators in favor of trade protection.
Carter OMAS for TVs, 1977	April 19, 1977 letter from John Sparkman (D-AL); April 21, 1977 letter from Daniel P. Moynihan (D-NY).
Carter OMAS for TVs, 1979	January 4, 1979 letter from Jimmy Carter to Congressman Thomas P. O'Neill (D-MA)
Reagan Auto VERs, 1981	Concurrent Resolution 101, supported by 81 U.S. Senators
Reagan Steel VRAs, 1982	Reciprocity in Trade Services and Investment Act of 1982, co-sponsored by John Heinz and Arlen Specter (R-PA)
Reagan Steel VRAs, 1984	September 1983 hearings, Fair Trade in Steel Act of 1983, Fair Trade in Steel Act of 1984
Reagan Auto VER, 1985	Made in America Act sponsored by John Dingell (D-MI); February 28, 1985 Hearings on the Auto Industry.
Bush Steel VRA, 1989	March 16, 1989 letter from 21 Senators on Behalf of the Coalition of American Steel Using Manufacturers; May 3, 1989 letter from 20 members of Congress on behalf of the Coalition.

Table Source: Compiled by Author

Most of the cases involving steel and autos involved some form of Congressional legislation or a resolution that organized supporters of mischiefs of faction. In the case of specialty steel, it was a meeting with President Ford at the White House that pressured him into implementing trade protection in the form of bilateral VERs. In the cases for shoes and TVs, Congress also had to directly petition the President, but did so in writing, addressing the President Carter on behalf of the manufacturing interests in their state who

were actuated by the view that trade protection was necessary for their manufacturing industry.

The Presidents who implemented trade protection did so in order to reward or enlist the political support of U.S. manufacturing workers. In some cases, trade protection was implemented by Presidents to reward voters who elected them as President in a previous election. This was the political calculation that motivated President Johnson to take action in 1969, President Carter to help the shoe and TV industries in 1977, President Reagan's suggestion of a VER to Japan for the auto industry in 1981, and President Bush protecting the steel industry in 1989. In some of these instances, there may have been a promise of support for a future trade protection policy given by the Presidential aspirant during the successful campaign. This was true for Carter and the shoe industry in the 1976 Presidential election, Reagan and the auto industry in the 1980 election, and Bush and the steel industry in the 1988 election. Presidents also implemented trade protection in order to use it in a calculated way to encourage a key constituency to vote for them in a future election. This was the case of President Nixon's VRA extension in 1972, President Ford's specialty steel quotas in 1976, the President Carter's OMAs for TVs in 1980 and President Reagan's decision to help the steel industry in 1982 and 1984. By helping keep these workers productive and employed in their manufacturing industry, these Presidents hoped that they would be able to enlist their support as voters at the ballot box. This was a tactic helped secure victory for Nixon in the 1972 general election, Ford in the 1976 Republican Presidential Primary, and Reagan in his landslide win over Mondale in 1984.

Quota Rents

In each of the eleven cases, foreign firms received quota rents in return for restricting the supply of imports in the U.S. market. The quota rents were the profits that foreign firms received for their imported articles above what these imports would cost if the laws of supply and demand determined the equilibrium price. Foreign firms charged a higher price for the manufactured goods that U.S. consumers imported. Foreign firms were able to charge a higher price than the supply and demand equilibrium price because the quota reduced the quantity of the articles foreign firms could supply. As a result, U.S. consumers were forced to pay a higher price in order to ensure that the articles they desired would be made available for sale by foreign firms.

The quota rents that foreign firms earned allowed lower priced options in the U.S. to become more competitive relative to imports. This situation was important in the shoe VER case. The shoe VER made it possible for U.S. producers of low-priced shoes to increase production and employment. The U.S. producers were manufacturing goods that were more competitively priced relative to the low-priced shoes sold in the U.S. by Taiwan and South Korea. Taiwan and South Korea were selling fewer shoes, but the shoes they did sell were at a greater profit. This allowed certain U.S. shoe firms to sell and manufacture more low priced shoes. This was a way in which the quota rents earned by foreign firms fostered domestic production and employment.

In none of the cases did the U.S. auction rights to the foreign firms to import into the U.S. under the VERs. Permission to import into the U.S. under the bilateral VERs was given to foreign firms without any compensation requested in return by the U.S.

government. Permission could have been sold to firms, but it was not made an explicit condition of the bilateral VERs. Foreign firms may have been willing to pay for the rights to profit from the quota rents available under the bilateral VERs. However, none of the bilateral VER arrangements in steel, shoes or TVs included an auction by the U.S. government for a payment in return for the right to the quota rents. This was also the case for the annual unilateral VERs that Japan entered in the auto industry. There was no payment to the U.S. government in return for the quota rents that Japanese auto firms would receive under the unilateral VER.

Some view PAC Donations as a payment by U.S. firms in the industry protected by the VER for future quota rents. Like foreign firms, domestic firms may charge a higher price than would be the case if the laws of supply and demand generated the market equilibrium price. Some view the benefit to domestic firms as the incentive behind PAC donations to politicians. In return for the “right” to charge higher prices in the future, domestic firms will make a PAC donation to the campaign fund of the candidate who will vote for trade protection.

Based on the data from the Federal Election Commission, Democratic candidates in 1984 and 1988 received a greater financial incentive to favor protectionist policy for the steel and auto industries. The Democratic candidates in 1984 and 1988, Walter Mondale and Michael Dukakis, received donations from the steel industry in amounts greater than what the Republican candidates received. In 1984, Mondale received a total of \$26,000 in PAC donations from steel firm PACs, while Reagan received only one donation for \$2,000 from Lone Star Steel. In 1988, the Democratic challenger Dukakis, a

supporter of trade protection, received \$56,450 in PAC donations from steel firm PACs while his opponent, Bush, received \$21,500, for taking the same position in favor of trade protection. The disparity also held true for the auto industry in 1984. The auto firms gave greater amounts to Mondale, \$15,533 than they did to Reagan, \$5,000. Contrary to the theory of PAC Donations as payments for future rents, this paper suggests that GM gave Reagan \$5,000 in 1984 because Reagan was not taking a protectionist stance in 1984. GM was incentivizing Reagan to take a non-protectionist stance. GM wanted to end the quotas so it could earn more profit on the Isuzu and Suzuki vehicles it wanted to import from Japan for sale in the U.S. market. The quotas inflated the price of the cars that GM wanted to resell. The quota also interfered with the GM-Toyota joint venture.

Quid Pro Quo DFI

In the cases involving TVs and autos, quid pro quo direct foreign investment occurred. Foreign firms decided to locate manufacturing plants on American soil, and hire U.S. color TV manufacturing workers and auto workers to perform the assembly work. These instances of foreign direct investment were what scholars of political economy label quid pro quo DFI because organized labor and firms in these industries were co-opted by the investment and abandoned the view that trade protection was needed to control the inflow of imports from a particular nation. When Japanese color TV manufacturers accelerated the process of locating plants in the U.S., the OMA entered with Japan by President Carter in 1977 was having a positive effect. U.S. color TV manufacturing workers who were threatened by layoffs due to the inflow of Japanese

color TVs were hired by Japanese firms to assemble Japanese-branded merchandise in the U.S. By hiring these workers, Japanese TV manufacturers hoped to eliminate the calls for trade protection by color TV manufacturing workers in the AFL-CIO. That was the exchange in the quid pro quo: a new job at a Japanese plant in return for an end to demands for trade protection action against Japanese color TV manufacturers.

Quid pro quo DFI also occurred after President Carter entered the TV OMA in 1979, but the nations who located plants in the U.S. were from Taiwan and South Korea. In the cases involving the auto VERs, both organized labor and a firm were both co-opted by quid pro quo DFI. Members of the United Auto Workers were co-opted by Japanese firms making autos on the U.S. soil, and thus did not make as loud a call for trade protection against Japanese imports. GM was co-opted by Toyota in 1984, agreeing to establish a joint GM-Toyota facility in Fremont, CA. This may be another reason why GM made a PAC donation to President Reagan in 1984. Since Reagan was interested in ending the auto VERs, GM wanted to do so as well to protect its relationship with Toyota in building cars in Fremont, CA. This is an instance where the incentive given to a politician was not for trade protection, but instead against trade protection. It calls into question the idea that when there is trade protection, a PAC donation is for the right to earn quota profits. The PAC donation may be for another reason, namely, to incentivize the President for taking an action to help the industry that did not involve trade protection. That was the remarkable feature of the instance of GM's PAC donation to President Reagan in the 1984 Presidential election.

Rising Strength of Consumers as an Interest Group in the Steel Cases

In the final two cases involving steel, the labor-management coalition seeking trade protection was contested by groups representing steel consumers. The American Institute for Imported Steel attempted to block President Reagan from adopting trade protection for the steel industry in 1984. The Coalition of American Steel Using Manufacturers successfully put limits on the trade protection policy that President Bush adopted in 1989. These two consumer groups rose in opposition to the changed market conditions that the VER created. Both consumer groups were opposed to the higher prices that domestic firms could charge pursuant to the VER. Both consumer groups complained that consumer choices would be limited because cheaper foreign steel would no longer be available for purchase in the U.S. market under the VER arrangement.

An organized consumer group in opposition to trade protection did not exist when President Johnson announced the original steel VER in 1969. This situation changed in 1972 when Nixon announced the VERs had been extended. Consumer's Union, the group that publishes the pro-consumer buying guide *Consumer's Report*, filed suit in 1972 against the federal government to challenge the legality of the VER arrangement. The federal court that heard the case on appeal upheld the VERs.⁵⁴⁸ When Consumer's Union lost its case, it became clear that a lobbying pitch to the Executive Branch, rather than litigation, was the means for achieving fairness for steel consumers. The American Institute for Imported Steel spoke out in opposition to the protectionist view of the Ricardo-Viner style political coalition joining the United Steel Workers and Bethlehem

⁵⁴⁸ *Consumers Union of U.S. Inc. V. Henry A Kissinger, Secretary of State, et al.* 506 F 2d 136; 165 U.S. App. D.C. 75.

Steel. The Coalition of American Steel Using Manufacturers directly petitioned President Bush by letter and through the lobbying efforts of sympathetic Senators and members of Congress. By making a direct petition to the President, the Coalition of American Steel Using Manufacturers was able to express the consumer's right to cheaper prices and varied choices. In this case, the consumer's rights were heeded and modified the grant of trade protection to the steel industry. It is the lone case where the consumer's group had any measure of success in limiting the trade protection secured by a U.S. manufacturing industry from the Executive Branch. The manufacturing interests sought a five year grant of trade protection, and the lobby for the steel consumer was able to limit it to 30 months, with other modifications that were contrary to the interests of the steel industry. At least in the case of the Bush steel VRA, it can be said that the consumer did prevail somewhat.

Bibliography

- 19 U.S.C. Chapter 4, Subtitle II, Part III, Section 1351, available at http://www.law.cornell.edu/uscode/uscode19/usc_sec_19_00001351----000-.html.
- 19 U.S.C. Chapter 12, Subchapter II, Part 1, Section 2252, available at http://www.law.cornell.edu/uscode/uscode19/usc_sec_19_00002252----000-.html.
- “AFL-CIO Executive Council Endorses Carter and Mondale,” *AFL-CIO Free Trade Union News* 31, no. 7 (July 1976).
- American Footwear Industries Association. *AFIA 1981 Footwear Manual*. AFIA: New York, NY, 1981.
- Auerbach, Stuart. “Bush Signs Steel Quota Extension.” *Washington Post*, July 26, 1989.
- Auerbach, Stuart. “ITC Rules for U.S. Steel.” *Washington Post*, October 16, 1982.
- Auerbach, Stuart. “ITC Ruling Hits Foreign Steel Firms.” *Washington Post*, June 13, 1984.
- Auerbach, Stuart. “Japanese Charge U.S. Protectionism.” *Washington Post*, September 20, 1984.
- Auerbach, Stuart. “Lugar Endorses Car Import Quotas.” *Washington Post*, January 25, 1985.
- Auerbach, Stuart. “Mossbacher Signals That Bush Will Continue Steel Quotas.” *Washington Post*, April 27, 1989.
- Auerbach, Stuart. “President’s Dilemma on Steel.” *Washington Post*, August 19, 1984.
- Auerbach, Stuart. “President Rules Out Steel Quotas.” *Washington Post*, September 19, 1984.
- Auerbach, Stuart. “Reagan Won’t Ask Japan to Renew Quotas on Autos.” *Washington Post*, March 2, 1985.
- Auerbach, Stuart. “Senators Argue for Steel Quotas.” *Washington Post*, June 9, 1984.

- Auerbach, Stuart. "Steel Imports to Be Cut 30%, White House Announces." *Washington Post*, December 20, 1984.
- Auerbach, Stuart. "Steel Industry Opens Drive for Quotas." *Washington Post*, April 27, 1984.
- Auerbach, Stuart. "Steelmakers Launch Bid to Extend Import Curbs." *Washington Post*, February 9, 1989.
- Batten, James K. "Mills Strengthens New Campaign to Impose Textile Quotas." *Washington Post*, July 30, 1967.
- Behr, Peter. "American Producers Only Mildly Happy." *Washington Post*, May 2, 1981.
- Behr, Peter. "Auto Imports Test 'Reagan Economics.'" *Washington Post*, March 12, 1981.
- Behr, Peter. "Ford Asks ITC to Put Sharp Import Limits on Japan Cars." *Washington Post*, August 5, 1980.
- Benson, Charles, Interview with Former Knapp Shoe Employee, March 19, 2011.
- Bentsen, Lloyd, *Congressional Record*, February 5, 1981, 1787.
- Bhagwati, Jagdish, Elias Dinopoulos and Kar-Yiu Wong, "Quid Pro Quo Foreign Investment," *American Economic Review* 82, no. 2 (May 1982): 187.
- Bishop, Freeman. "Houthakker Reviews U.S. Policy on Prices." *American Metal Market*, February 25, 1970.
- Boetler, Donald, U.S. Department of Labor, Letter to Thomas Maxens, USITC, March 3, 1980, in United States International Trade Commission, *Television Receivers, Color and Monochrome, Assembled or Not Assembled, Finished or Not Finished and Subassemblies Thereof*, Report to the President on Investigation No. TA-201-19, under Section 201(b) of the Trade Act of 1974, USITC Publication 808, March 1977.
- Bradsher, Keith. "International Talks on Steel Break Down." *New York Times*, April 1, 1992.
- Brazell, David W. Lowell Dworkin, and Michael Walsh, "A History of Federal Tax Depreciation Policy," Office of Tax Analysis, U.S. Treasury Department, OTA Paper 64, May 1989, 1-77.

- Broder, David. "Kennedy Vows He'll Press On." *Washington Post*, June 4, 1980.
- Brown, Warren. "Extension Sought on Auto Quotas." *Washington Post*, October 23, 1984.
- Brown, Warren. "GM Will Spend \$5 Billion on New Subcompact Line." *Washington Post*, January 9, 1985.
- Brown, Warren. "GM-Toyota Venture Gets Rolling." *Washington Post*, December 19, 1984.
- Brown, Warren. "GOP Legislators Put Steel Case to Reagan." *Washington Post*, September 12, 1984.
- Brown, Warren. "Quota Decision Could Lower Prices, Analysts Say." *Washington Post*, March 2, 1985.
- Brown, Warren. "Steel Makers, Officials Argue Case for Quotas." *Washington Post*, May 10, 1984.
- Brown, Warren. "U.S. Steel Chief Favors Mondale." *Washington Post*, May 24, 1984.
- Burton, F. N. and F. H. Salens, "Trade Barriers and Japanese Foreign Direct Investment in the Color Television Industry," in *Managerial and Decision Economics* 8, no. 4 (December 1987): 288.
- Bush, George H.W. "Memorandum on Steel Imports and Exports," June 25, 1989, in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.
- Bush, George H. W. "Remarks at the Swearing in Ceremony for Robert Mossbacher as Secretary of Commerce, February 3, 1989, in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.
- Bush, George H. W. "Remarks at the Swearing-in Ceremony for Carla A. Hills as United States Trade Representative," February 6, 1989, in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.
- Bush, George H. W. White House Central Files, George H.W. Bush Presidential Library.

- Cannon, Lou and David S. Broder. "Reagan Vows to Try to Halt 'Deluge' of Japanese Autos." *Washington Post*, September 3, 1980.
- Cannon, Lou and Stuart Auerbach. "Accord Is Reached with Europeans on Steel Exports." *Washington Post*, October 22, 1982.
- Carter, Jimmy, "American Non-Rubber Footwear Industry Message to the Congress Transmitting a Report," April 1, 1977, in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.
- Carter, Jimmy, "American Television Industry Letter to the Speaker of the House and to the President of the Senate Transmitting a Report," May 19, 1977, in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.
- Carter, Jimmy, "Anti-Inflation Program Statement Outlining Administration Actions," April 15, 1977, in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.
- Carter, Jimmy, Daily Diary, March 7, 1977, available at the Jimmy Carter Library at <http://www.jimmycarterlibrary.gov/documents/diary/1977/d030777t.pdf>.
- Carter, Jimmy, Daily Diary, May 12, 1980, available at the Jimmy Carter Library at <http://www.jimmycarterlibrary.gov/documents/diary/1977/d030777t.pdf>
- Carter, Jimmy, "Flint, Michigan Remarks and a Question and Answer Session at a Town hall Meeting," in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.
- Carter, Jimmy, "The President's News Conference," May 17, 1977, in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.
- Carter, Jimmy, "Proclamation 4511, Implementation of Orderly Marketing Agreement on Certain Color Television Receivers," June 24, 1977 in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.
- Carter, Jimmy, White House Central Files, Jimmy Carter Presidential Library.
- Chira, Susan. "For Mazda, It's a Car Plant." *New York Times*, December 1, 1984.

Clines, Francis X. "8 States Urge Talks with Japan on Autos." *New York Times*, March 7, 1981.

Congressional Record, July 19, 1967, 19524.

Congressional Record, October 18, 1967, 29210.

Congressional Record, February 3, 1983, 1624.

Congressional Record - Daily Digest, January 15, 1981, D13-D14.

Congressional Record - Daily Digest, "Import Quotas," October 20, 1967, D538.

Consumers Union of U.S. Inc. v. Henry A Kissinger, Secretary of State, et al. 506 F 2d 136; 165 U.S. App. D.C. 75.

Dahlby, Tracy. "Japan to Lift Output of Color Sets in U.S." *New York Times*, February 19, 1979.

Dale, Jr., Edwin L. "Bethlehem Cuts Its Steel Price Rise to 6.8 Percent." *New York Times*, January 18, 1971.

Dale, Jr., Edwin L. "Import Quotas Put on Specialty Steels; Shipments from Japan to Be Curtailed." *New York Times*, June 12, 1976, 44.

Dale, Jr., Edwin L. "Nixon Steel Tactic: Put Off Import Talks." *New York Times*, January 18, 1971.

Dallek, Robert. *Flawed Giant*. New York: Oxford University Press, 1998.

Danforth, John, "Quota on Automobile Imports from Japan," *Congressional Record*, February 5, 1981, 1786.

Danforth, John, "S. 2094 – Reciprocal Trade and Investment Act of 1982," *Congressional Record*, February 10, 1982, 1480.

[Democratic National Committee], "The Election of 1964," John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.

Dingell, John, "Made in America Act," *Congressional Record*, February 7, 1985, 2264.

- Dirksen, Everett. "The Looming Quota Fight," Radio TV Weekly Report, October 9-15, 1967, Remarks and Releases, Everett Dirksen Papers, The Dirksen Congressional Center.
- Eizenstat, Stuart, and Bob Ginsburg Memorandum to President Carter, March 28, 1977, Box FG92, White House Central Files, Jimmy Carter Library, in Steve Dryden, *Trade Warriors*, New York: Oxford University Press, 1995, 211.
- Electronics Industries Association. *Consumer Electronics Annual Review*. EIA: Washington, D.C., 1985.
- Evans, Rowland and Robert Novak. "Strauss As Top Trade Talker." *Washington Post*, May 4, 1977.
- Farnsworth, Clyde H. "7 U.S. Steel Companies File for Import Relief." *New York Times*, January 12, 1982.
- Farnsworth, Clyde H. "Europe U.S. Accord Expected." *New York Times*, October 8, 1982.
- Farnsworth, Clyde H. "Europeans Plan to Curb Exports of Steel to the U.S." *New York Times*, October 22, 1982.
- Farnsworth, Clyde H. "Ford Chief Bids U.S. Cut Imports." *New York Times*, October 10, 1980.
- Farnsworth, Clyde H. "Import Tax on Steel Expected." *New York Times*, June 11, 1982.
- Farnsworth, Clyde H. "The Nation: The Politics of Protectionism." *New York Times*, October 9, 1988.
- Farnsworth, Clyde H. "Panel Asks Protection for Steel." *New York Times*, June 13, 1984.
- Farnsworth, Clyde H. "Steel Accord Reach; U.S. Companies Reject It." *New York Times*, August 7, 1982, 33.
- Farnsworth, Clyde H. "Steel Import Quotas Extended While U.S. Seeks Subsidy Curbs." *New York Times*, July 26, 1989.
- Farnsworth, Clyde H. "Steel Pact with Europe Near if Bonn Approves." *New York Times*, October 20, 1982.

- Farnsworth, Clyde H. "U.S. Plans Penalty on Steel Imports." *New York Times*, June 12, 1982.
- Farnsworth, Clyde H. "U.S. Rejects Limits on Japanese Autos." *New York Times*, November 11, 1980.
- Farnsworth, Clyde H. "U.S. Softens Its Charges on E.E.C. Steel." *New York Times*, August 26, 1982.
- Farnsworth, Clyde H. "U.S. Steel Plans Move of Imports." *New York Times*, October 9, 1981.
- Farnsworth, Clyde H. "U.S. Won't Ask Better Steel Offer." *New York Times*, August 10, 1982.
- Farnsworth, Clyde H. "U.S.-Japan Trade Ties on Agenda." *New York Times*, March 23, 1981.
- Feder, Barnaby. "Struggle to Survive in Town that Steel Forgot." *New York Times*, April 27, 1993.
- Feenstra, Robert C. "End Voluntary Trade Quotas." *New York Times*, December 26, 1984.
- Footwear News*, "Carter, Shoemen Confer," August 30, 1976.
- Ford, Gerald, Presidential Diary Entry for March 10, 1976, available at the Gerald Ford Presidential Library, <http://www.fordlibrarymuseum.gov/library/document/diary/pdd760310.pdf>.
- Ford, Gerald, Presidential Diary Entry for March 11, 1976, available at the Gerald Ford Presidential Library, <http://www.fordlibrarymuseum.gov/library/document/diary/pdd760311.pdf>.
- Ford, Gerald. "Memorandum for the Special Representative for Trade Negotiations, March 16, 1976," in U.S. International Trade Commission, *United States International Trade Commission Report on Imports of Certain Stainless Steel and Alloy Tool Steel Products and their impact on Domestic Industry*, January 16, 1976 in American Society of International Law, *International Legal Materials*, 15, no. 2 (March 1976).
- Ford, Gerald. Remarks in Middletown, Ohio, June 8, 1976, in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.

- Ford, Gerald. White House Central Files, The Gerald Ford Presidential Library.
- Frieden, Jeffrey A. "Actors and Preferences in International Relations," in David Lake and Robert Powell, eds., *Strategic Choice and International Relations*. Princeton: Princeton University Press, 1999.
- Frieden, Jeffrey David Lake, and Kenneth Schultz. *World Politics*. New York: W.W. Norton, 2010.
- Gaydos, Joseph, "Time to Fish or Cut Bait on Steel, Targeted Goods," *Congressional Record*, November 16, 1983, 33165.
- Glenn, John, "Competition of U.S. Industry in World Automobile and Truck Market," *Congressional Record*, June 18, 1980, 15206.
- Greenhouse, Steven. "Pressures on Steel Imports." *Washington Post*, February 6, 1984, D1.
- Halloran, Richard. "Exports of Steel to U.S. to Be Cut for Three Years." *New York Times*, May 7, 1972.
- Hamilton, Alexander, James Madison and John Jay, *The Federalist Papers*, edited by Charles R. Kessler and Clinton Rossiter. New York: Mentor Books, 1999.
- Hansen, Cliff, *Congressional Record*, October 16, 1967, 28926.
- Hartke, Vance, "The Iron and Steel Orderly Trade Act of 1967," *Congressional Record*, October 16, 1967, 28923.
- Hartke, Vance, "The Japanese and ECSC Voluntary Steel Import Limits-Some Reservations," *Congressional Record*, January 14, 1969, 609.
- Hartke, Vance, "Steel Layoffs Indicate the Need for Quotas," *Congressional Record*. October 10, 1968, 30432.
- Hartke, Vance, "Steelworkers Testimony on Quota Bill," *Congressional Record*, November 7, 1967, 31563.
- Hartke, Vance, "The U.S. Trade Balance," *Congressional Record*, April 29, 1968, 10887.
- Hartke, Vance. *You and Your Senator*. New York: Coward-McCann, 1970.

- Heinz, John, "Fair Trade in Steel Act of 1984," *Congressional Record*, March 1, 1984, 4166 .
- Heinz, John and John Murtha. "They Saved the Industry." *New York Times*, March 18, 1989.
- Herlong, John, "Providing for Orderly Trade in Iron and Steel Products," *Congressional Record*, November 2, 1967, 31001.
- Hicks, Jonathan. "A Steel Quota Divides the Industry." *New York Times*, May 19, 1988.
- Hollings, Ernest, *Congressional Record*, May 17, 1967, 12944.
- Hollings, Ernest. *Making Government Work*. Columbia: University of South Carolina Press, 2008.
- Holt, Sharon Ann. "Around the World with Bethlehem Steel," undated, Historical Society of Pennsylvania web site, www.hsp.org.
- Houthakker, Dr. Hendrik. Personal Papers. Richard Nixon Presidential Library.
- Hunter, Marjorie. "Dirksen Defiant on Import Curbs." *New York Times*, November 4, 1967.
- Iron Age*, "Will Senator Hartke Back Quota Bill?" January 23, 1969.
- Johnson, Lyndon. "Annual Message to Congress: The Economic Report of the President," February 1, 1968, in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.
- Johnson, Lyndon. "Remarks at a Meeting of the Business Council," November 6, 1967, in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.
- Johnson, Lyndon. "Remarks to the Delegates of the Consumer Assembly, November 2, 1967," in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.
- Johnson, Lyndon. "Televised Statement by the President Announcing the Settlement of the Steel Strike," September 3, 1965, John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.

- Johnson, Lyndon. White House Central Files, Lyndon Johnson Presidential Library.
- Johnson, Kirk. "Europeans to Continue Steel Talks with U.S." *New York Times*, July 26, 1982.
- Kaufman, K.A. and W.J. Kalb. "Steel Loses Congressional Backing." *Iron Age*, January 23, 1969.
- [Kennedy, John F.] "Text of [President John] Kennedy's Message to Congress Asking for New Tariff Bargaining Powers," *The New York Times*, January 26, 1962, 10, in James E. McCarthy, *Trade Adjustment Assistance: A Case Study of the Shoe Industry in Massachusetts*. Boston: Federal Reserve Bank of Boston, 1975.
- Kearns, Doris. *Lyndon Johnson and the American Dream*. New York: Harper & Row Publishers, 1976.
- Kesler, Charles B. and Clinton Rossiter, editors. Alexander Hamilton, James Madison and John Jay. *The Federalist Papers*. New York: Mentor Books, 1999.
- Kraus, Albert L. "Voluntary Quotas." *New York Times*, January 22, 1969.
- Krugman, Paul R. and Maurice Obstfeld. *International Economics*. New York: HarperCollins Publishers, 1991.
- Levin, Carl, "Competition of U.S. Industry in World Automobile and Truck Market," *Congressional Record*, June 18, 1980, 15204.
- Lewis, Paul. "E.E.C. Outlines Possible Retaliation." *New York Times*, June 12, 1982, 45.
- Lewis, Paul. "Tariff is Urged for TV Imports by Trade Body." *New York Times*, March 15, 1977.
- Magee, Stephen P. William A. Brock, and Leslie Young. *Black Hole Tariffs and Endogenous Policy Theory*. Cambridge: Cambridge University Press, 1989.
- Marshall, Alfred and Mary Paley Marshall. *The Economics of Industry*. Bristol: Thoemmes Press, 1991.
- Metzenbaum, Howard, "Competition of U.S. Industry in World Automobile and Truck Market," *Congressional Record*, June 18, 1980, 15205.

Miami Herald, January 6, 1990, in Mira Wilkins, "Japanese Multinationals in the U.S.: Continuity and Change, 1879-1990," in *Business History Review*, Vol. 64, No. 4, Winter 1990, 586.

Michel, Robert H., Thomas E. Petri, Bill Archer, Philip M. Crane, Newt Gingrich, Bill Frenzel, Willis Gradison, Nancy L. Johnson, Patricia Salki, F. James Sensenbrenner, Dana Rohrbacher, Christopher Shays, Edward Madigan, J. Dennis Hastert, Fred Upton, Rod Chandler, Richard Armev, Carl D. Pursell, Guy Vander Jagt, Lynn Martin, Letter to President George Bush May 3, 1989, in Box CM007, White House Central Files, George H. W. Bush Presidential Library.

Mollohan, Alan, *Congressional Record*, March 13, 1984, 5227.

Morris, John D. "Drive to Cut Imports Gains in Congress." *New York Times*, October 13, 1967.

New York New England Extensions (NYNEX) Information for Derry, NH, in *Phone Fiche* at Boston College Thomas P. O'Neill Library.

New York New England Extensions (NYNEX) Information Portsmouth, Exeter, NH, located in *Phone Fiche* at Boston College Thomas P. O'Neill Library.

New York Times, "21 Named by Ford to Receive Medal of Freedom," January 2, 1977.

New York Times, "Allegheny Ludlum Sets Closing of a Plant in Western New York," February 27, 1975.

New York Times, "Call for Quotas Elates Statesmen," January 18, 1976.

New York Times, "The Campaign: Trade Policy," October 5, 1968.

New York Times, "Chief of U.S. Shoe Disappointed," April 2, 1977, 30.

New York Times, "Corporation Affairs: Zenith Changes Stand and Backs Quotas on Color TV Set Imports," January 12, 1977, 72.

New York Times, "Dumping Protection on Ourselves," December 29, 1979.

New York Times, "Labor Aide to Push Rise in Shoe Tariffs if Carter Plan Fails," April 6, 1977.

New York Times, "Meany Rebutts Carter on Rise in Economy," April 16, 1977.

- New York Times*, "Protectionist "Christmas Tree,"" October 17, 1967.
- New York Times*, "Seoul Rebuffs Latest Try to Curb Imports," November 23, 1978.
- New York Times*, "Steel Executives Believe Nixon Wasn't Well Briefed on Rises," January 13, 1971.
- New York Times*, "Steel Union Giving Away Food to Jobless Workers," May 6, 1982.
- New York Times*, "Steel's Costly Crutch," March 27, 1989.
- New York Times*, "Transcript of Louisville Debate between Reagan and Mondale," October 8, 1984.
- New York Times*, "Tough Talk' Reported Between Carter and Labor." April 7, 1977.
- Nikolieff, George A. "Statesmanship, Bacon and Steelworkers." *The Wall Street Journal*, January 16, 1968.
- Nixon, Richard. "Letter to Business and Labor Leaders on the Rising Cost of Living," October 18, 1969, in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>
- Nixon, Richard. "The President's Press Conference, September 26, 1969," in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.
- Nixon, Richard. "Remarks at the Annual Meeting of the National Association of Manufacturers," December 4, 1970, in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.
- Nixon, Richard. "Statement About Voluntary Restraints by Foreign Steel Producers to Limit Exports to the United States," May 6, 1972, in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.
- Nixon, Richard. White House Central Files, Richard Nixon Presidential Library.
- Oatley, Thomas. *International Political Economy*. New York: Longman, 2010.

- Ohio Secretary of State, Republican Primary Results, June 8, 1976, available at <http://www.sos.state.oh.us/SOS/elections/electResults Main/ 1970-1979 Official Election Results/RepPrimary060876.aspx>.
- Olson, Mancur. *The Logic of Collective Action*. Cambridge, MA: Harvard University Press, 1971.
- Pastore, John, "The Textile Industry," *Congressional Record*, March 1, 1967, 4955-4956.
- Peterson, Bill. "Bush Ends 2-Year Quest, Concedes Republican Nomination to Reagan," *Washington Post*, May 27, 1980.
- Peterson, Bill. "Hart Aims to Win Industrial Policy Fight in Ohio." *Washington Post*, May 5, 1984.
- Pine, Art. "GM Chairman Favors Asking Voluntary Japanese Auto-Export Limit." *Washington Post*, March 16, 1981.
- Pine, Art. "Jobless Rate Jumped Sharply in April." *Washington Post*, May 3, 1980, A1.
- Pollack, Andrew. "Japan to End Restraints on Auto Imports to U.S." *New York Times*, March 29, 1994.
- Porter, Frank C. "Import Plan Gets Wide Support." *Washington Post*, October 12, 1967.
- Porter, Frank C. "LBJ Moves to Save Trade Law." *Washington Post*, October 17, 1967.
- Radcliffe, Denise. "Trouper Mondale." *Washington Post*, November 2, 1984.
- Raskin, A.H. "Labor's Fight with Carter for Restrictions on Imports." *New York Times*, April 13, 1977.
- Rasky, Susan. "The Experts Who Will Forge the New Quotas." *New York Times*, September 30, 1984.
- Reagan, Ronald, "Address to the Nation on the Economy," February 5, 1981, in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.
- Reagan, Ronald. *An American Life: The Autobiography*. New York: Simon and Schuster, 1990.

- Reagan, Ronald, et al. "Communiqué Issued at the Conclusion of the Versailles Conference in France," June 6, 1982, in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.
- Reagan, Ronald, Daily Calendar, December 4, 1981, available at the Ronald Reagan Library at <http://www.reaganfoundation.org/white-house-diary.aspx>.
- Reagan, Ronald, Daily Calendar, July 26, 1982, available at the Ronald Reagan Library at <http://www.reaganfoundation.org/white-house-diary.aspx>.
- Reagan, Ronald, "Informal Exchange with Reporters Prior to a Meeting with Prime Minister Margaret Thatcher of the United Kingdom, February 20, 1985, in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.
- Reagan, Ronald, "Letter to the Speaker of the House and the President of the Senate on the Denial of Import Relief for the Steel Industry," September 18, 1984, in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.
- Ronald Reagan, "London Economic Summit Conference Declaration," June 9, 1984, in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.
- Reagan, Ronald, "Message to Congress Transmitting the Annual Economic Report of the President," February 2, 1984, in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.
- Reagan, Ronald, "Message to the Congress Transmitting the Annual Economic Report of the President," February 10, 1982, in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.
- Reagan, Ronald, "Radio Address to the Nation on the Agricultural and Steel Industries," September 22, 1984, in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.
- Reagan, Ronald, "Remarks at a Question-and-Answer Session at the Economic Club of Detroit, Michigan," October 1, 1984, in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.

- Reagan, Ronald, "Remarks on Signing the Surplus Agricultural Commodities and Disposal Act of 1982 and Announcing the European Communities Steel Export Arrangement," in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.
- Reagan, Ronald. White House Central Files, Ronald Reagan Presidential Library.
- Reagan, Ronald. Written Daily Diary of President Ronald Reagan, February 10, 1981, at <https://www.reaganfoundation.org/white-house-diary.aspx>.
- Reagan, Ronald. Written Daily Diary of President Ronald Reagan, March 3, 1981, at <https://www.reaganfoundation.org/white-house-diary.aspx>.
- Reagan, Ronald, Written Daily Diary Entry for March 24, 1981, available at <https://www.reaganfoundation.org/white-house-diary.aspx>.
- Reagan, Ronald, "Written Responses to Questions Submitted by Yomiuri Shimbun of Tokyo, Japan," December 28, 1984, in John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.
- [Republican National Committee], "Republican Party Platform of 1964," July 13, 1964, John T. Woolley and Gerhard Peters, *The American Presidency Project*. Santa Barbara, CA, available at <http://www.presidency.ucsb.edu>.
- Reston, James. "Carter and Labor." *New York Times*, September 1, 1976.
- Reutter, Mark. "Shadow of Steel's Lost Empire." *Baltimore Sun*, October 19, 2001.
- Ricardo, David. *The Principles of Political Economy and Taxation*. Mineola, New York: Dover Publications, 2004.
- Roderick, David. "A Most Ingenious Paradox," U.S. Steel Corporation Pamphlet, November 11, 1983.
- Rogowski, Ronald. *Commerce and Coalitions*. Princeton: Princeton University Press, 1989.
- Ross, Nancy L. "TV Price War." *Washington Post*, January 10, 1977, D9.
- Rowan, Hobart. "And Now, Tough Talk on Trade." *Washington Post*, February 19, 1989.

- Rowan, Hobart. "Drop the Steel Quotas." *Washington Post*, February 23, 1989.
- Rowan, Hobart. "Good Riddance to the Car Quotas." *Washington Post*, February 24, 1985.
- Rowan, Hobart. "Meany's Last Hurrah." *Washington Post*, July 27, 1972.
- Rowe, James L. "Imported Color TVs Injurious to U.S. Industry, ITC Rules." *The Washington Post*, March 9, 1977.
- Rowe, James L. "Quotas Are Urged on Steel Imports." *Washington Post*, January 18, 1976.
- Rowe, James L. "Steel Imports Plan Hit by Task Force." *Washington Post*, March 4, 1976.
- Sawyer, Kathy. "Labor Odyssey for Mondale." *Washington Post*, October 28, 1984.
- Schram, Martin. "Carter Campaign Strategists Postpone Platform Hearings." *Washington Post*, May 29, 1980.
- Seaberry, Jane. "Baldrige: It's Up to the EEC." *Washington Post*, December 16, 1981.
- Seaberry, Jane. "Baldrige: No Administration Plans to Reopen Steel Import Negotiations." *Washington Post*, August 12, 1982.
- Seaberry, Jane. "Commerce Willing to Charge Dumping." *Washington Post*, November 3, 1981.
- Seaberry, Jane. "New Steel Dumping Findings Expected." *Washington Post*, August 10, 1982.
- Seaberry, Jane. "Steel Industry Again Builds Its Case for Import Curbs." *Washington Post*, October 25, 1981.
- Seaberry, Jane. "U.S. Names 5 Countries as Targets of Steel Suits." *Washington Post*, November 14, 1981.
- Seaberry, Jane. "U.S. to Ask EEC Curb on Steel." *Washington Post*, December 5, 1981.
- Seidman, L. William. Personal Papers. Gerald Ford Presidential Library.

- Semple, Robert B. "Nixon Condemns Increase in Bethlehem Steel Price and Hints at Import Rise." *New York Times*, January 13, 1971.
- Shabecoff, Philip. "Labor Official Denounces Carter." *New York Times*, April 6, 1977.
- Shabecoff, Philip. "President Calls Steel and Labor to the White House." *New York Times*, July 1, 1971.
- Silk, Leonard. "Touting the U.S. Horse." *New York Times*, March 29, 1985.
- Smith, Adam. *Wealth of Nations*. Amherst, New York: Prometheus Books, 1991.
- Smith, Gene. "Specialty Steels Will Face Quotas." *New York Times*, June 8, 1976.
- Smith, Hedrick. "Reagan-Mondale Clashes May Foreshadow the First Debate." *New York Times*, October 7, 1984.
- Stern, Paula. "They Make Us Uncompetitive." *New York Times*, March 18, 1989.
- Sterngold, James. "Steel Action Wins Backing." *New York Times*, September 19, 1984.
- Stetson, Damon. "Labor Disappointed with Carter So Far." *New York Times*, May 5, 1977.
- Stetson, Damon. "President Tells Labor of Intent to Protect Jobs." *New York Times*, February 22, 1969.
- Stolper, Wolfgang F. and Paul A. Samuelson, "Protection and Real Wages," *Review of Economic Studies* 9, no. 1 (November 1941): 58-73.
- Time*, "Steel: Bar to Imports," January 24, 1969.
- Togo, Fumihiko Letter to Robert Strauss, May 20, 1997, Annex B, U.S. International Trade Commission, *Television Receivers, Color and Monochrome, Assembled or Not Assembled, Finished or Not Finished and Subassemblies Thereof*, Report to the President on Investigation No. TA-201-19, under Section 201(b) of the Trade Act of 1974, USITC Publication 808, March 1977.
- Togo, Shieghiko, "Japan to Restrain Auto Imports for a Third Year." *Washington Post*, February 13, 1983.

- United Press International*, May 2, 1981, in Steven Berry, James Levinsohn and Ariel Pakes, “Voluntary Export Restraints on Automobiles: Evaluating a Trade Policy,” *American Economic Review* 89, no. 3 (June 1999).
- U.S. Census Bureau, North American Industry Classification System, available at <http://www.census.gov/eos/www/naics/index.html>.
- U.S. Congress, Committee on Ways and Means, Subcommittee on Trade, “Japanese Voluntary Restraints on Auto Exports to the United States,” February 28, 1985 and March 4, 1985.
- U.S. Federal Election Commission, PACSUM84 Data File, available at <http://www.fec.gov>.
- U.S. Federal Election Commission, PACSUM88 Data File, available at <http://www.fec.gov>.
- U.S. International Trade Commission, Harmonized Tariff Schedule of the United States, Revision 2, effective August 1, 2010, available at <http://www.usitc.gov/publications/docs/tata/hts/bychapter/1002htsa.pdf>.
- U.S. International Trade Commission, *Color Television Receivers and Subassemblies Thereof*, USITC Publication 1068, May 1980.
- U.S. International Trade Commission, Complaint, Shaer Shoe, Manchester, NH, Inv. TEA-W-261.
- U.S. International Trade Commission, *United States International Trade Commission Report on Imports of Certain Stainless Steel and Alloy Tool Steel Products and their Impact on Domestic Industry*, January 16, 1976 in American Society of International Law, *International Legal Materials*, vol. 15, no. 2, March 1976.
- U.S. International Trade Commission, *Certain Motor Vehicles and Certain Chassis and Bodies Therefor*, USITC Publication 110, December 1980.
- U.S. International Trade Commission, *Television Receivers, Color and Monochrome, Assembled or Not Assembled, Finished or Not Finished and Subassemblies Thereof*, Report to the President on Investigation No. TA-201-19, under Section 201(b) of the Trade Act of 1974, USITC Publication 808, March 1977.
- U.S. Office of Government Contracting and Business Development, “SBA Size Standards and Methodology,” Size Standards Division, April 2009.

- Viner, Jacob. *Studies in the Theory of International Trade*. New York: Harper Brothers, 1950.
- Walker, Robert. "Bethlehem Steel Raises Prices 12% on Building Items." *New York Times*, January 12, 1971.
- Washington Post*, "As Ohio Goes, So Goes the Nation. Sometimes," March 6, 2008.
- Washington Post*, "Bethlehem Posts Loss, Asks Steel Import Curb," January 26, 1984.
- Washington Post*, "Italian Shoes, Japanese Steel," March 8, 1976.
- Washington Post*, "Many Specialty Steels Produced in Minimills," September 16, 1975.
- Washington Post*, "New Liberal Trade Council Is Formed," December 20, 1967.
- Washington Post*, "Quotas Asked on Imports of Color TV Sets," January 12, 1977.
- Washington Post*, "Steel, Shoes and the Consumer," February 7, 1976.
- Weintraub, Bernard. "Mondale Pleads for Votes in the Midwest." *New York Times*, November 4, 1984.
- Wentworth, Eric. "Import Quota Protection Not Needed, Senators Told." *Washington Post*, October 19, 1967.
- "We've Had Enough." *AFL-CIO Free Trade Union News* 31, no. 10 (October 1976).
- "Why No AFL-CIO Endorsement in the Presidential Election." *AFL-CIO Free Trade Union News* 27, no. 10 (October 1972).
- Yoffie, David B. *Power and Protectionism*. New York: Columbia University Press, 1983.