

FREEDOM TO TRADE

STEEL: THE OTHER SIDE OF THE STORY

by *Brink Lindsey*

Brink Lindsey
is director of
the *Cato*
Institute's
Center for
Trade Policy
Studies.

With all of the heated demands recently for action against “unfair” steel imports, it’s useful to review some facts. A major American industry is in trouble. Worldwide excess supply has driven prices down to record lows. Major producers posted sharply reduced earnings or outright losses for the fourth quarter of 1998. Tens of thousands of jobs have already been lost, and more are in jeopardy unless the situation reverses.

I’m talking, of course, about the U.S. oil industry. So where are the thirty-second TV spots and full-page ads urging America to “stand up for oil”? Where are the proposals coming out of the Congressional Oil Caucus for sharp restrictions on imports of foreign crude? I think the answer is obvious. Ordinary Americans can see the impact of oil prices directly—at the gas pump and in their heating bills—and they would be up in arms if anyone proposed that they should be taxed in order to bail out the oil companies.

Changes in steel prices, on the other hand, are invisible to ordinary Americans. Those changes show up, eventually, in the price of an automobile, or a plane ticket, or rental space in an office building. The causal connections, though, are complex and subtle. The effect of a tax on foreign steel doesn’t register in the average family’s budget in any direct or immediate way. As a result, steel producers are free to equate their interest with the national interest

without generating much in the way of grass-roots opposition.

The campaign for steel protectionism thus highlights a classic problem of political economy known as concentrated benefits and dispersed costs. The benefits of restrictions on foreign steel are concentrated in the relatively small steel-producing sector, while the costs are dispersed throughout the entire economy. Steel producers therefore have a very clear and powerful incentive to lobby for protectionism, while most of the rest of us who stand to lose don’t have a big or clear enough stake to oppose them with any vigor.

That’s politics. What about economics? To judge the impact of proposed trade restrictions on the overall U.S. economy, it helps to focus on those businesses that do have a clear and sizeable stake in access to imported steel—namely, the industries that are heavy steel users. American steel-using industries dwarf steel producers in terms of both employment and value-added. The major steel-using industries—fabricated metal products, industrial machinery and equipment, transportation equipment, and construction—employ over forty times as many people as U.S. steel mills, and produce over twenty times as much value-added.

Focusing on steel-using industries reminds us that import restrictions on steel don’t just penalize foreigners; they penalize Americans as well. Furthermore,

paying attention to steel users makes us realize that protectionism isn’t just a matter of helping producers at the expense of consumers; protectionism helps some American producers at the expense of other American producers.

Worldwide economic developments—notably, the Asian financial crises and the resulting collapse in demand for steel in Asia—have combined to produce conditions that at present are unfavorable for U.S. steel producers and favorable for American steel users. In such a circumstance, it is not the business of the U.S. government to intervene in the marketplace and favor one U.S. industry at the expense of other U.S. industries. In particular, it makes no sense to penalize the industries that in terms of employment and value-added are of much greater significance to the overall national economy.

When assessing the steel industry’s calls for protection, think about whether you’d support taxes on foreign oil and higher gasoline prices in order to help out the oil companies. Not interested? Why should the steel industry get better treatment just because the costs of a bailout are better hidden? Focus on the steel-using industries that bear the brunt of those costs—the other, forgotten side of the steel imports story—and you’ll see steel protectionism for the unjustifiable corporate welfare that it truly is.

WHOSE LIFE IS IT ANYWAY?

WHO DECIDES IF CHILDREN ARE VACCINATED?

by Sue Blevins

Sue Blevins is president of the Institute for Health Freedom.

The U.S. Center for Disease Control has recommended that all infants and children ages eleven to twelve be vaccinated for Hepatitis B. According to CDC experts, Hepatitis B is transmitted via blood and body fluids. Those at risk for contracting the disease include intravenous drug users, sexually active individuals, blood transfusion recipients, and health care workers.

Why then, if those are the groups most at risk, is the government pushing for all children to be vaccinated against Hepatitis B? Why are newborns being injected before leaving the hospital; and why are children being kicked out of public school for refusing the Hepatitis B vaccine?

The reason: Because the government's public health officials cannot effectively vaccinate intravenous drug users and prostitutes. So they're forcing all children—even those not at risk—to be vaccinated. The CDC's web site explains: "While most HBV [Hepatitis B virus] infections occur among older adolescents and young adults, vaccination of persons in high risk groups has generally not been a successful public health strategy." In other words, the government couldn't force adults in the high-risk behavior groups to accept the Hepatitis B vaccine, so they're going after newborns and young children—the groups least likely to contract or transmit the disease.

Currently, a Hepatitis B vaccine is required for children in thirty-five states, with medical exemptions in all states, religious

exemptions in all but two states, and philosophical exemptions in sixteen states.

Public health advocates argue that the benefits outweigh the risks, so parents should vaccinate their children. However, it is necessary to raise the important question: Who should be making this decision in the first place? Why should Johnny be vaccinated against his will if he's not at risk for contracting or transmitting Hepatitis B? And why should Johnny's parents be forced by government to vaccinate their child for Hepatitis B when Johnny poses no threat to himself or to other students?

Some parents have refused to have their children vaccinated for fear of unknown long-term side effects. The CDC's web site assures Americans that the Hepatitis B vaccine has been shown to be very safe when given to infants, children, and adults. Yet, the *Physicians Desk Reference*, an important standard reference book, tells another story. It lists a host of serious side effects that occur with less than one percent of injections. That number sounds small, but when one considers that there are over 70 million American children, that means as many as 700,000 children could suffer serious adverse effects. That's more than the approximately 30,000 infants and children the CDC claims were infected per year before routine Hepatitis B immunization began!

Many individuals are challenging the Hepatitis B vaccine policy. In March 1998, an Illinois student testified before the Springfield

Board of Health public hearing on vaccinations. He explained that he was kicked out of college in the middle of the semester for his refusal to be vaccinated. In France, the Ministry of Health suspended Hepatitis B vaccination in French schools because of the public's concern about long-term side effects. Meanwhile, concerned parents in Manitoba, Canada recently went to court asking the government to stop Hepatitis B vaccinations from going forward on up to eighteen thousand fourth-grade students of that province.

Despite public resistance to the Hepatitis B vaccine, the World Health Organization strongly encourages all countries already administering it in their national immunization programs to continue to do so. WHO also urges countries not yet using the vaccine to begin to do so as soon as possible.

But why should the United States follow world health policy? International public health advocates would argue that it is for the good of society. But Americans need to remember that the role of our government is to protect individual rights, not to run individual lives. Our country was founded on the principle of individual liberty. Times change, technologies change, and we see new health care advances every day. But one thing remains the same: Americans have an inherent desire for freedom of choice. The United States should set the world standard for freedom by refusing to force mandatory Hepatitis B vaccinations, leaving that choice to parents.

ADVISORY OPINION

THE WOBURN CONTROVERSY: WHAT WE KNOW by Timothy Lynch

Timothy Lynch
is associate
director of the
Cato Institute's
Center for
Constitutional
Studies.

John Travolta's new movie, "A Civil Action," dramatizes an environmental trial that took place in Woburn, Massachusetts in 1986. The thrust of the story is that corporate titans Beatrice Foods, Inc. and W.R. Grace Corp. polluted the drinking water of a small town and caused the death of several children.

While many moviegoers will learn about the Woburn case, few will realize that they are not seeing a fair and accurate portrayal of the relevant events. Some of the movie's harshest critics say that an ambulance-chasing lawyer used junk science to shake down reputable companies. That may be an overstatement, but the movie does convert a complex tale into a simplistic story of callous corporate polluters. It is thus useful to review the facts of the actual case lest we be bamboozled by the interested parties.

We know that there were an unusual number of leukemia cases in Woburn between 1965 and 1980—triple the national norm. Two of the city's water wells were shut down in 1979 because they were contaminated with trichloroethylene (TCE), a toxic industrial solvent. In 1982 a number of families filed a lawsuit against Beatrice and Grace, claiming that the companies' negligent dumping of toxic chemicals contaminated Woburn's water supply and eventually caused their children to die.

After four years of negotiations and legal wrangling, the case went to trial. The trial judge divided the proceeding into three phases. In the first phase, the jury would deter-

mine whether the companies polluted the wells. The second and third phases, if needed, would be devoted to causation and damages respectively. After the first phase, the jury found insufficient evidence to hold Beatrice liable. But when the families learned that Beatrice had failed to disclose some damaging information during pre-trial discovery, they demanded a new trial. Although the judge characterized Beatrice's discovery violation as deliberate misconduct, he nonetheless denied the motion for a new trial.

Grace did not get off that easily. The jury found that Grace had contaminated the wells with TCE and tetrachloroethylene (perc). But before the case could proceed to the next phase, Grace demanded a new trial—and that motion was granted. Shortly thereafter, Grace settled with the families for eight million dollars.

We know that the EPA began investigating illegal dumping in Woburn during the mid-1980s. Grace, in fact, pleaded guilty to two felony counts of lying to government investigators about its activities in Woburn. And in 1990, federal and state authorities reached a \$69.45 million settlement with Grace, Beatrice, and other companies for the cleanup of contaminated properties.

Against that backdrop, the case against the companies seems damning. But there's more to this story. It is important to recall that the trial never reached the causation phase. The law of personal injury requires every plaintiff to prove a causal connection between

his injury and the defendant's conduct. The companies might have been able to absolve themselves of responsibility for the leukemia deaths at this crucial stage of the trial. That's because scientific studies cast considerable doubt on the notion that the chemicals dumped by Grace and Beatrice could have caused leukemia.

Finally, there is a glaring omission in "A Civil Action" that distorts its version of the Woburn case. The culpability of the city government in the affair receives no attention whatsoever. In 1958 a city-hired engineer reported that the ground waters of the Aberjona River Valley were "too polluted to be used for a public water supply." (That is important because Grace did not even begin operations in Woburn until 1960.) A few years later, the city inexplicably dug two wells in that valley. Woburn families complained for years about the foul-tasting water. But city officials repeatedly assured the residents that the water had been tested and there was no cause for concern. When the wells were finally shut down in 1979, city officials (and the press) let the business firms shoulder all of the blame.

Woburn is a sad story. Eleven children died of leukemia. Were those deaths caused by TCE and perc—or does sound science suggest other causal factors? Were Beatrice and Grace the only culprits—or were they scapegoats for negligent city government? All we know for sure is that "A Civil Action" skates over inconvenient facts and issues.

BELLY OF THE BEAST

SENDING TRUCKERS DOWN A SLIPPERY SLOPE

by Frank N. Wilner

Frank N. Wilner is former chief of staff to Vice Chairman Gus A. Owen, Surface Transportation Board.

Were I to choose to have a narcotic—say, Percoset, marijuana, cocaine, crack, or heroin—its availability is near universal in my town and yours. Supply equals demand because free markets work efficiently, not because central planners in the Department of Agriculture, Commerce, or Transportation demand production numbers, publish reports, and issue regulations.

Indeed, in 1980 after Congress instructed the Interstate Commerce Commission to stop interfering in the activities of commercial trucking, prices for transporting freight went south, service quality soared, and American industry reported annual savings in transportation and warehousing exceeding \$15 billion. So why is the Department of Transportation, which inherited residual trucking regulation from the ICC, attempting to subvert the intent of Congress by demanding that trucking companies again devote scarce resources to report what each trucker does and how he or she does it?

DOT's Bureau of Transportation Statistics is demanding that, four times each year, trucking companies provide it with their most confidential financial information. The BTS wants to know salaries, wages, fuel costs, tire prices, insurance premiums, data-processing expenses, debt charges, types of equipment purchased and employee qualifications. The BTS said it would "consider," but not promise, to keep the information private. DOT officials said there is a "need" for the information,

but trucking executives cannot imagine it being used for anything but glossy reports, centralized planning, and the undermining of competitive advantage.

Moreover, DOT's Federal Highway Administration is demanding access to cyber-data from truckers who utilize advanced satellite location technology to trace their tractor-trailers and freight. The FHWA wants the data to help it snare truckers who violate maximum allowable driving times.

Cornhusker Motor Lines President Edward R. Trout calls it "overzealous enforcement" and warns that such access will create a "disincentive" for future investment in tracking systems that would improve safety, efficiency, and productivity.

As for the BTS' demand for confidential data, a motor carrier executive asking not to be identified, said, "Once government forces truckers to supply more information, federal officials place us on a slippery slope whose next two stops are increased regulation and license revocation. For almost one hundred years the ICC—may it not rest in peace—used registration, regulation, and threats of license revocation to protect the inefficient at the expense of the efficient." He added "When most trucking regulation was abolished, almost every well-known name in trucking went bankrupt and tens of thousands of new, highly efficient motor carriers sprang into existence."

Surface transportation deregulation permitted truckers and railroads to enter into confidential

contracts with their customers and eliminated the requirement that every shipper, regardless of individual competitive factors, have access to the same rates and service.

Washington, D.C. transportation attorney John Bagileo said that even if the detailed breakdown of revenue and expenses sought by BTS could be kept confidential, the compliance costs of reporting that data would be suffocating. "No two motor carriers have the information in a format as is being required," said Bagileo. "This data is so sensitive that it is provided only to lenders."

Two decades ago, President Carter capped an anti-inflation speech by promising a new attempt at reducing costly rules. Timothy Clark enquired in the 4 November 1978, *National Journal*, "Can agencies whose business is the regulation of American industry do an adequate job of regulating themselves?"

Congress responded with a resounding "No!" It deregulated airlines, railroads, and trucking. The Civil Aeronautics Board and the ICC were consigned to the dustbin of history. The Reagan and Bush administrations kept the remaining bureaucrats at bay. But whatever it is that Bill Clinton does in his Oval Office, it is not keeping a short leash on DOT. Under its proposals American consumers, the real beneficiary of transportation deregulation, again would become victims of paper shuffling job-market desperados calling themselves public servants.

THE LAUGH'S ON U.S.

PLAYING HOOKIE by Sheldon Richman

Sheldon Richman is the editor of *The Freeman* published by the Foundation for Economic Education.

After an intrepid spasm of investigative reporting, I unearthed the following confidential memo from the CEO of a big tobacco company. The names have been blotted out to protect my chance at collecting Social Security benefits.

MEMORANDUM

To: XXXX, Vice President for Research and XXXX, Vice President for Product Development

From: XXX, CEO

Re: The Settlement

You idiots! It is now obvious that all the research we have done on nicotine—all the resources we have sunk into creating the Ultimate Cigarette with maximum addictive power—has just been money down the drain. I should fire you both and shut down that sorry excuse for a laboratory you guys run.

Do you gentlemen read the papers? Well, I do, and I read that the government estimates that our 45-cent-a-pack price increase will significantly cut the demand for our product. Is that true?

If it is, I want an explanation and I want it now.

What kind of addiction can be cured with four and a half dimes? Is that the best the boys in the lab could come up with?

I thought we had an understanding about this. Forgive my naivete, but isn't the point to protect our bottom line and our stockholders

by making it at least extremely tough for our customers to resist our product? Doesn't that mean a demand more or less impervious to price? And now I read that forty-five cents is an irresistible argument against smoking?

Hello? Is anyone home?

For years you guys have been assuring me that by pumping up the nicotine content of our product we would maintain a secure supply of life-long smokers. Does anyone want to explain why we evidently have failed to accomplish that objective?

I had been slightly suspicious of your assurances because the number of former smokers is about equal to the number of active smokers. But I was willing to give you guys the benefit of the doubt. That's impossible now.

Let's talk about teenagers, shall we? We've always known that if we don't get to the teenaged segment of the population we have no future in this business. So aside from juicing the product, we have emphasized in our advertising how glamorous, cool, and even sexy smoking is. We even decided that the mandatory health warnings were a *good* thing. Teenagers *like* danger. We all have kids, and we know that the surest way to get them to do something is to tell them it's dangerous. That's why that money we've secretly been putting into the antismoking crusade was some of the best money we ever spent.

Or so I thought. What do we have to show for it? A bunch of

kids who are going to give up cigarettes—or not even start with them—because of a measly forty-five pennies. You guys are just great. I know kids more firmly hooked on video games and “Nutrageous” bars.

Okay. That's the past. We have to look ahead. If we lose customers because of the higher price we need to charge in order to pay the states their \$206 billion, what are we going to do? We certainly can't raise the price again.

We have to find the revenue to pay all those attorneys general who are all running for governor. And we need money to pay their lawyers. Those folks made out pretty good on this settlement, didn't they? I hope they appreciate what our customers and we are doing for them. I guess it would have been more honest for those Medicaid bureaucrats to have simply refused to pay for the smokers' treatment. But the bureaucrats would have found their asses in a sling had they pulled a stunt like that. I've got to hand it to them for the clever way they're trying to funnel the poor smokers' money through us.

Here's an idea: We *slash* the price of cigarettes, hold on to our customers, and capture new ones. The stockholders won't be happy, but it will work for a while. Maybe by then, the hysteria will have passed. If not, then let's shift some money into that old marijuana project that's been on the drawing board.