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## Rejoinder to Professor Gold

by Joel B. Dirlam and Hans Mueller

Professor Gold scarcely mentions, much less attempts to refute, our major point: by use of the protectionist devices of the VRA, the TPM, and recourse to the ITC, the major integrated U.S. steel producers have not only retarded their own competitive adjustments, but have gravely handicapped their steel-using customers. We are unable to find any indication that Professor Gold has considered the economics of determining an optimum size for the U.S. steel industry. Throughout his discussion, his overriding consideration is the welfare of the integrated steel producers, not the U.S. economy. Echoing the views of spokesmen for the steel industry, he identifies predatory competition with pricing "below cost" (Gold, at 4 and 6), and he would "discourage" imports except at periods when domestic capacity is insufficient to satisfy demand (Gold, at 8). Professor Gold's program intensifies the stagflation problem, and will not, in the long run, result in a healthy U.S. steel industry.

Although he fails to join issue with the main point of our article, we nevertheless feel obliged to correct the most glaring factual errors in Professor Gold's comments. Failure to do so may mislead the less knowledgeable readers with respect to the validity of our conclusions.

### I. IMPORT INJURY, SUBSIDIES, AND PREDATORY COMPETITION

According to Professor Gold, imports from Western Europe are the major cause of the difficulties of the U.S. steel industry. Yet these imports accounted for only 38 percent of all U.S. steel imports in 1981, and 7.5 percent of total supplies in the U.S. market. The West European share of total U.S. steel imports has declined steadily from more than one-half in 1968 to about one-third in the 1980-1981 period.<sup>1</sup> Because total steel imports moved along a somewhat uneven plateau during this period in both volume and share of U.S. consumption—Western European steel imports have also declined in absolute terms (i.e., in tonnage). The long-term trend of the import share of the U.S. steel market has been almost stationary at a level of about 15.5 percent of domestic consump-

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<sup>1</sup> AISI, *Annual Statistical Report*, at 46-47 (1968); AISI, *Imports of Iron and Steel Products by Countries of Origin, 1981*, released in February 1982.

tion since 1968.<sup>2</sup> Those West European steel industries that have received substantial amounts of government aid in recent years account for less than one-third of this total.<sup>3</sup>

Professor Gold hypothesizes that "the enormous displacement of domestic workers by the imports . . . might easily account for 75,000 of the decrease of 167,000 steel workers between 1965 and 1980" (Gold, at 5). Leaving aside the fact that the industry experienced a boom at the beginning and a recession at the end of the stated period, and that most of the decline was the result of rising labor productivity,<sup>4</sup> let us focus our attention on the import-employment relationship. In 1980, the United States imported 5,108 tons more steel than in 1965.<sup>5</sup> At the current output rate of about 300 annual tons of finished steel products per production worker,<sup>6</sup> this means that imports replaced 15,324 workers and not 75,000 workers. However, imports from the European Community, Professor Gold's chief target, were actually 1,024 tons lower in 1980 than in 1965. Can we assume that this drop restored more than three thousand steel workers' jobs?

European steel producers lack market power in both their home markets and in the U.S. market. Indeed, their predicament is precisely that they have been unable to cooperate or collude to maintain price stability in a recession.<sup>7</sup> Even the simplest form of oligopolistic collusion, price leadership (a long-established tradition among the U.S. integrated firms), would probably have enabled the European steel firms to avoid the fierce price competition that has prevailed in their markets in the prolonged recession beginning in 1974.<sup>8</sup>

If price competition has been troublesome to the Europeans, it has in

<sup>2</sup> Calculated from Table 1 *supra*, original article.

<sup>3</sup> This includes all steel imports from Western Europe minus those from Germany, the Netherlands, and Switzerland. These three industries have received zero or significant amounts of public financial assistance. For Germany and the Netherlands, see British Iron and Steel Consumers' Council, *Cost Competitiveness in ECSC Steel Industries, The Effects of Government Policies*, (1981), at 5, 8-9. Only very small quantities of steel have been imported from Switzerland. To the best of our knowledge, none of the 10 small steel firms operating in that country have been recipients of public financial aid.

<sup>4</sup> Between 1965 and 1979, two years in which demand for steel was strong in the United States, the number of production workers declined by 116,600 in the U.S. steel industry. This fall in employment occurred due to the fact that industry shipments in 1979 exceeded those by 1965 by 7.6 million tons. The decline in employment by 50,400 workers from 1979 to 1980 can hardly be attributed to imports, as the latter experienced a drop of over two million tons during this period (see Tables 1 and 3 *supra*).

<sup>5</sup> Table 1, *supra*, original article.

<sup>6</sup> According to Table 2, *supra*, output per worker ranged from 290 annual tons in 1979 to 311 annual tons in 1981, or approximately 300 tons in the 1979-1981 period.

<sup>7</sup> Klaus Stegemann, *Price Competition and Output Adjustment in the European Steel Market*, at 103-113 (1977).

<sup>8</sup> ADAMS & MUELLER, *supra* note 6, at 103-105 in original article.

recent years also become a problem to the integrated U.S. producers.<sup>9</sup> The problem would be far greater if the Japanese—who possess sufficient unutilized capacity to increase their exports to the United States by a factor of six—did not exercise restraint by maintaining their prices above those of most other imports.<sup>10</sup>

Low-price leaders in the U.S. market have often been the South Africans, South Koreans, and for some products, Canadian firms as well as the American minimills.<sup>11</sup> It is questionable that elimination of the European influence would permit the restoration of full-cost pricing, the only method Professor Gold would accept as fair and nonpredatory. Only a firm wall of tight quota barriers could achieve that. Unlike Professor Gold, we have strong misgivings of the consequences of such a solution on the future vitality of the American steel-consuming sector.

According to Professor Gold, subsidies to European steel producers account for their willingness and ability to introduce intense price competition into the U.S. market (Gold, at 7). To the best of our knowledge, the only systematic attempt that has been undertaken to gather and evaluate information on financial assistance received by foreign steel industries was made by the Federal Trade Commission in its steel study of 1977.<sup>12</sup> The conclusions of that study showed that, until 1976, public financial assistance to steel companies in the European Community did not, except in the case of the British Steel Corporation, reduce the production costs of recipient companies by a significant margin.<sup>13</sup> Subsequently, a collapse of the price structure in both home and export markets brought many European steel firms to the brink of bankruptcy.<sup>14</sup> Initially, several governments provided aid by writing off past loans and, when this accounting maneuver proved inadequate, they made available considerable amounts of cash and actually took possession of the companies.<sup>15</sup> We did not, as Professor Gold contends, state “. . . that such subsidies have been largely devoted to training and relocation purposes” (Gold, at 2). We did mention various applications of public financial assistance that would not distort trade patterns, and then stated that whether assistance would en-

<sup>9</sup> METAL INTELLIGENCE INTERNATIONAL, *supra* note 6, in original article.

<sup>10</sup> Kawahito, *Japanese Steel in the American Market: Conflict and Causes*, 4 WORLD ECON. 229, 234, 247-248, *supra* note 14, in original article.

<sup>11</sup> U.S. INT'L TRADE COMM., *supra* note 46, in original article, at A-38, and Pub. No. 1221, Determination of the Commission in Investigations Nos. 701-TA-6 through 144, 701-TA-146, and 701-TA-14 (Preliminary) at III-26, IV-29, and V-25.

<sup>12</sup> *Supra* note 15, in original article, Chapter 6.

<sup>13</sup> *Supra* note 15, in original article, at 369.

<sup>14</sup> ADAMS & MUELLER, *supra* note 6 at 103-105; P. Marcus, *supra* note 24, in original article.

<sup>15</sup> British Iron and Steel Consumers Council, *op. cit. supra* note 3, this rejoinder at 1-10.

able a particular firm to sell at lower prices could only be revealed by a case-by-case study. Professor Gold has not made such a study. Merely lifting a list of alleged subsidies [as he does in his Appendix A] from countervailing duty petitions, is not a substitute for informed economic analysis.

Although Professor Gold admits that Japanese producers are far more efficient than their U.S. counterparts, he attributes this in part to active participation by the Japanese government "in enabling its steel producers to acquire massive investments on patently less than commercial terms . . ." (Gold, at 2). From 1961 through 1975, loans by Japanese government agencies to steel companies amounted to \$334.4 million or 1.5 percent of total investment expenditures made by the Japanese steel industry during this period.<sup>16</sup> This hardly represents a massive scale of financial assistance.

Subsidization of, or at least unfair favoritism to foreign producers exists, according to Professor Gold, because they enjoy more favorable depreciation rules, and less stringent environmental regulations (Gold, at 7). Until the recent change in American tax laws, the depreciation rules for steel companies in the United States were no more unfavorable than those in Japan or Germany. Aggregate cost recovery for the first taxable year was 35 percent of assets in the United States, 31 percent in Japan, and 25 percent in Germany. For the first three taxable years, allowed cost recovery was 57 percent, 55 percent, and 58 percent respectively in the same three countries.<sup>17</sup> There is no evidence that U.S. anti-pollution standards are higher than those enforced in Japan and in major European countries.<sup>18</sup> During most years of the 1970's, the Japanese steel industry's capital expenditures for environmental control exceeded those of the U.S. industry.<sup>19</sup> Little information seems to be available on such expenditures by other major steel industries. If Professor Gold has access to relevant

<sup>16</sup> FED. BUREAU OF ECON. TRADE COMMISSION, *supra* note 15, at 382.

<sup>17</sup> OTA Report 1980, *supra* note 4, at 59 in original article.

<sup>18</sup> Table 4 *supra*, original article.

<sup>19</sup> For individual years, expenditures for environmental control by the steel industries of the United States and Japan were as follows (in million dollars and percent of total investment):

	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970
U.S.	\$511	\$651	\$458	\$535	\$489	\$453	\$199	\$100	\$202	\$162	\$183
Japan	\$180	\$321	\$304	\$444	\$920	\$684	\$536	\$368	\$284	\$219	\$NA
U.S.	15.4%	19.3%	18.0%	19.7%	15.0%	14.3%	12.6%	7.2%	17.2%	11.3%	10.5%
Japan	6.3%	11.5%	10.9%	15.2%	20.6%	18.4%	18.6%	17.3%	13.4%	8.9%	NA

Sources: AISI *Annual Statistical Report*, various years; TeKKO Tokei Yoran, various years. Total environmental expenditures for the period from 1971-1908 were \$3,760 million dollars for the U.S. industry and \$4,280 million for the Japanese industry.

comparative data, he should cite them to support his statement.

In short, steel importers from West Europe in the U.S. market have not engaged in predatory competition according to any definition generally accepted by economists. Even taken as a group, and disregarding their intensely competitive behavior, West European steel exporters possess no significant market power in the United States; they are not enlarging their modest market share, and they can not conceivably raise their prices to monopolistic levels.

## II. COST ESTIMATION AND COST COMPETITIVENESS

Professor Gold alleges that we evaded what he calls "the central issue" of relative efficiency and cost competitiveness of the major steel exporters "by consistently discussing them as a group instead of recognizing the substantial differences among them" (Gold, at 1). Professor Mueller has published several cost analyses,<sup>20</sup> in Section V of our paper we compared capital and labor efficiencies, and in our Table—we provided a survey of comparative technological efficiency. In both cases we gave separate estimates for at least two groups of exporters, those from Japan and those from the European Community.

It is curious that Professor Gold himself, in spite of his "field visits, discussions and evaluations of relevant data in Western Europe" (Gold, at 3), failed to draw on his own experience to give us an independent and enlightening estimate of relative efficiency and cost competitiveness. Professor Gold's Tables 1 and 2, reproductions of tables in a statement prepared by Mr. James Collins on behalf of the American Iron and Steel Institute,<sup>21</sup> do not explain how the presumably full "costs" were derived. Moreover, we are puzzled by the use of 1979-1980 exchange rates, which result in unusually high European costs. And, although a publication by Peter Marcus is listed as one source for Table 1, estimates by Marcus and Kirsis show Japanese costs to be \$60.30 and German costs \$86.10 *lower* than U.S. costs per metric ton shipped.<sup>22</sup>

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<sup>20</sup> For comparative cost analyses prepared by Mueller, see in original article, ADAMS & MUELLER, *supra* note 6, at 120-21; *supra* note 38, at 27-28; H. MUELLER & K. KAWAHITO, *supra* note 85, ch. 2.

<sup>21</sup> Statement submitted by James Collins, to Subcommittee on Oversight and Investigations of the House of Representatives Committee on Energy and Commerce, March, 1982.

<sup>22</sup> See Marcus & Kirsis, *supra* note 5, Table 5, original article. Marcus and Kirsis, however, underestimate the cost differentials. They underestimate labor productivity for both Japanese and German steel industries, at least when compared with another (and highly reliable) source, the U.S. Department of Labor. Marcus and Kirsis also underestimate the capacity-utilization rates of these two industries which, as we understand their method, would raise their cost estimates. For example, with Japanese shipments in 1981 at 98 million tons, Marcus and Kirsis assume a utilization rate of 64 percent. This would attribute to the Japanese industry's finished product capacity of 156 million tons, which is at a minimum 15

Finally, Mr. Collins adds freight charges and duties to his estimated production costs for the foreign producers, apparently to make them comparable with American costs f.o.b. plant. As we explained in our article, freight charges to some important regional markets are less for foreign exporters than for domestic mills located in the Chicago-Pittsburgh area.<sup>23</sup>

### III. CONCLUSION

We regret that Professor Gold, who has close contacts with both domestic and foreign producers, confined himself largely to arguing that foreign countries have been more reprehensible in their trade policies than has the United States. As he knows, the adoption of uneconomic measures by foreign nations, at the expense of their taxpayers, cannot justify the United States in following the same path. It would have been useful if Professor Gold had extended his horizon to give us at least a sketch of an international policy for steel that would satisfy welfare tests, while taking into account the profound structural changes now underway in Europe, the United States, Japan, and the Third World.

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percent higher than the actually attainable output of that industry.

<sup>23</sup> See *supra* note 57, in original article.