11350 Random Hills Road, Suite 800, Fairfax, Virginia 22030 Phone (703) 934-6101 Fax (703) 352-3678

fff@fff.org www.fff.org

Protectionist Welfare for Steel

by James Bovard

On March 5, President Bush announced that he was slapping high tariffs on steel imports. Bush began the announcement by declaring,

"Free trade is an important engine of economic growth and a cornerstone of my economic agenda.... To open even more markets to American products, I have urged the Senate to grant me the trade promotion authority I need to create jobs and greater opportunities for U.S. workers and farmers."

He then explained,

"An integral part of our commitment to free trade is our commitment to enforcing trade laws to make sure that America's industries and workers compete on a level playing field. Free trade should not mean lax enforcement.... Today I am announcing my decision to impose temporary safeguards to help give America's steel industry and its workers the chance to adapt to the large influx of foreign steel."

Bush's sleight-of-hand was sufficient to fool most of the press. He first invoked U.S. fair trade laws and the "level playing field" — and then announced that he was providing special relief to steel producers that had nothing to do with laws that provide U.S. companies with relief from allegedly unfair imports. He proclaimed,

"I take this action to give our domestic steel industry an opportunity to adjust to surges in foreign imports, recognizing the harm from 50 years of foreign government intervention in the global steel market."

He concluded,

"The U.S. steel industry must use the temporary help today's action provides to restructure and ensure its long-term competitiveness."

Bush behaved as if neither he nor any of his advisors had any awareness of the history of U.S. restrictions on steel imports. His action is simply another chapter in the sorry history of federal favoritism to one laggard industry.

The federal government has repeatedly succeeded in turning steel into a chokepoint on the American economy. Although steel-using industries account for 46 percent of U.S. exports, federal steel policy has perennially sacrificed the users of the basic industry material to protect an industry and its workers from their own complacency and greed.

Behind high protective tariffs, Andrew Carnegie engineered the steel trust, which became legendary for selling steel overseas at a far lower price than it charged in the U.S. market. U.S. Steel got a black eye when President Theodore Roosevelt bought U.S.-made steel for the Panama Canal in Central America for 40 percent less than it was selling in Pittsburgh.

In the first decade after World War II, the U.S. steel industry reigned supreme, largely because the steel industries of other industrialized nations had been razed by wartime bombing. The U.S. industry made little effort to adopt new technology.

Many U.S. plants were built at the turn of the century. Rather than modernize their plants, steel companies invested in home-building, chemical production, and other areas. The industry was notorious for its oligopolistic pricing methods, obediently following the pricing leads of U.S. Steel.

Between 1946 and 1966, steel prices increased more than twice as fast as all other prices. As foreign steel producers surpassed American companies in competitiveness and quality, steel imports increased in the 1960s.

In 1968, the steel lobby launched a political drive to shackle its foreign competition, ready to fight the surge of imports to their customers' last dollar. In June 1968, I.W. Abel, president of the United Steel Workers, bluntly informed the members of the House Ways and Means Committee, "We are becoming very annoyed by the so-called advocates of the free-trade market."

Sen. Vance Hartke (D-Ind.) announced, "I believe that quotas are necessary in the short term now, in order to force free and fair trade in the long term." Foreign steel was then between 15 and 20 percent cheaper than American steel.

In January 1969, President Lyndon Johnson announced that foreign governments had agreed to "voluntarily" restrict their steel exports to the United States. The quotas were to be temporary, lasting only three years. The U.S. steel industry responded to the quotas by sharply boosting U.S. steel workers' wages and making major concessions to the United Steel Workers on work rules that reduced labor productivity. In January 1972, the voluntary-restraint agreements (VRAs) were extended for three more years.

In 1976, President Ford took a break from his "Whip Inflation Now" crusade to impose quotas on specialty steel products from Sweden, the EC, and Japan.

In 1977, the steel industry flooded Washington with petitions accusing foreign companies of dumping — accusations based on a new definition of dumping that the steel industry had railroaded through Congress in 1974.

President Carter's Council on Wage and Price Stability concluded that the steel industry was "a source of serious inflationary pressures on the American economy" and that more quotas would not significantly improve the industry's economic position.

The Carter administration wanted to avoid a major confrontation with European allies; instead of imposing new quotas, it established the Trigger Price Mechanism (TPM) to set minimum prices for steel in the U.S. market. The Brookings Institution's Robert Crandall estimated that the TPM reduced steel imports by 40 percent.

In 1982, the steel industry launched a new barrage of petitions alleging that foreign steel producers were heavily subsidized. The Department of Commerce investigated and found that Europe's most efficient steel producers — the Germans and the Dutch — received minimal subsidies, and several other nations had extremely low subsidy rates.

Yet the EC was forced to reduce its steel exports to the United States by 15 percent. The resulting import quotas had no relation to the amount of subsidy each European company received, effectively rewarding European governments that subsidized their steel and penalizing European governments with no subsidies. Upon announcing the agreement, President Reagan declared that the quotas, "will mean more and lasting jobs in the steel industry." (Steel employment declined sharply in subsequent years.)

Nine months later, when the European Community refused to restrict exports of stainless steel (not covered by the October 1982 quotas), Reagan unilaterally imposed quotas and higher duties on European exports. When he announced the quotas on specialty-steel imports in July 1983, he declared that the program "is tailored to the needs of the industry as well as the objective of trade liberalization." He did not explain how the new quotas would help liberalize trade.

In early 1984, when the U.S. steel industry launched another deluge of unfair trade cases against imports, prices for cold-rolled sheet steel in the United States were nearly 40 percent higher than prices in other markets. Reagan announced on September 18, 1984, that he had decided that "import relief is not in the national economic interest" and that "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."

So much for the first half of his message, which was crafted to numb free traders and industries reliant on steel. Then, almost as an afterthought, he added, "However, I have decided to establish a government policy for the steel industry" — a new set of controls on imports that sought to limit foreign steel to 18.5 percent of the U.S. market.

The 1984 quota agreements make edifying reading. Many of the official voluntary-restraint arrangements began "The purpose of the Arrangement is to create a period of stability in steel trade between the United States of America and" the foreign country.

The fine print revealed that "stability" could be achieved only by severe reductions in imports.

The arrangement with Trinidad and Tobago decreed that total tons shipped fall from 91,875 in 1985 to 55,125 in 1989.

Venezuelan and Mexican steel exports were forcibly reduced by 62 percent.

Japan was allowed the following shares of the American market: plate, 0.60 percent; bar, 1.50 percent; cold-finished bar, 4.54 percent; and wire rod, 6.71 percent.

Finland was allowed only 0.16 percent of the sheet and strip market, and 0.044 percent of the wire rod and bar market.

Steel trade restrictions bushwhacked American industry. International Trade Commission chairman Paula Stern noted,

"Inflated U.S. steel prices were an important factor in the erosion of U.S. manufacturing preeminence and employment from the 1960s to the mid 1980s."

The Institute for International Economics estimated that steel quotas cost U.S. consumers $6.8 billion a year. Steel shortages had had even more devastating impacts on American manufacturers than higher steel prices.

Even General Motors was hurt by quotas: GM Vice President James D. Johnston complained to the White House that steel shortages "have jeopardized vehicle assembly at the company."

Steel quotas destroyed far more jobs than they saved. Caterpillar led the fight against the extension of steel quotas in 1989 with buttons proclaiming, "Steel VRAs Steal Jobs." Hans Mueller, professor of economics at Middle Tennessee State University, estimated that the quotas resulted in 13 jobs lost in steel-using industries for each steel-worker's job saved.

The Institute for International Economics estimated that quotas were costing the equivalent of $750,000 a year for each steel job "saved." A 1984 Federal Trade Commission study estimated that steel quotas cost the U.S. economy $25 for each additional dollar of profit of American steel producers.

On July 25, 1989, President George H.W. Bush extended steel import quotas for another two and a half years. He labeled the quota extension a "Steel Trade Liberalization Program" — as if free-market rhetoric could magically transform the nature of a protectionist act.

Bush's 1989 announcement sounded much like Reagan's 1984 announcement, raising suspicions that White House speech-writers were recycling the same doubletalk every few years. A goal of Bush's program was "to end government interference in global trade in steel" — though maintaining U.S. government controls over steel imports was a peculiar way to achieve that goal.

President George W. Bush's response to the pressure for steel import restric tions was one of the most decisive tests of his presidency. Unfortunately, he appears to be simply another one of a long line of protectionist politicians who have "learned nothing and forgotten nothing." The debacle of the steel import restrictions will unfold over the coming years — with evidence mounting of U.S. manufacturers sabotaged, of foreigners pointlessly shafted, and of multiplying retaliation against U.S. exports around the globe.

James Bovard is the author of **Feeling Your Pain: The Explosion and Abuse of Government Power in the Clinton-Gore Years** *(St. Martin's Press, August 2000). This article is adapted from an essay published by The Future of Freedom Foundation in Fairfax, Va.*