



KEY POINTS:

“STEEL TRAP: How Subsidies and Protectionism Weaken the U.S. Steel Industry” by Dan Ikenson, Trade Briefing Paper no. 14, March 1, 2002
(<http://www.free-trade.org/pubs/briefs/tbp-014es.html>)

If only we were all as coddled as steel producers. The past three decades have seen U.S. steel producers shielded from foreign competition by quotas; voluntary export restraints; minimum price undertakings; hundreds of antidumping, countervailing duty, and safeguard measures; federally subsidized loan guarantees; pension bailouts; and “Buy American” preferences. Yet in 2002 producers demanded even more protection under Section 201 of the Trade Act of 1974.

The Section 201 statute has nothing to do with *unfair trade*. Section 201 does not require any finding of unfair trade – only that a rising level of imports has caused injury to the domestic industry. The tendency of steel executives and union officials to refer to imports as “illegal” or “unfair” or “dumped” is a public relations ploy that only distorts the truth. When bringing a case under this statute, the domestic industry formally acknowledges that its problems are not necessarily a result of unfair or predatory foreign practices.

The verdict of the marketplace is unambiguous: the U.S. steel industry suffers from excessive, uneconomic capacity. The proof lies in the number of steel producers now in bankruptcy. The steelmakers’ response to this excess is to call for more subsidies and protection, but any student of Economics 101 knows that when you subsidize something, you get more of it. Allowing chronic money-losers to permanently shut down will do more for the health of the steel industry than any reality-deferring protectionism possibly can.

The many barriers-to-exit. The ongoing spate of antidumping and countervailing duty cases, the federal bankruptcy process, which many producers treat as a strategic makeover, and the United Steelworkers of America resisting plant closings are all barriers-to-exit that result in excess capacity.

“Enronesque” legacy costs. Any moves the domestic steel industry may make toward consolidation are stymied by the issue of legacy costs – health care and benefits owed to retired, unionized steelworkers. Legacy costs, which are estimated to be about \$13 billion, are the product of an intransigent union and a management confident that the government would bail them out of obligations they could not meet.

Protectionism punishes steel consumers and U.S. exporters. For every person employed in steel production, there are 57 employed in steel consuming industries. For every dollar steel producers contribute to GDP, steel users contribute \$10. It is bad enough to punish one sector for the failures of another; it is downright foolish to do so when the punished sector is of overwhelmingly greater economic significance. In addition, protectionism makes it easier for other countries to adopt similar policies – policies that deprive U.S. exporters of sales opportunities.

The national security canard. The steel industry claims exception as an industry of vital national security, yet in 2000 the U.S. military accounted for only 0.03% of steel industry deliveries. Military shipments during the Gulf War in 1991 were only 0.1% of total industry deliveries. U.S. steel capacity and production so exceed military demand that even massive production cutbacks have no security implications.

It's not all gloom for the American steel industry. Electric-arc furnace operations, or mini-mills, are smaller, nimbler and relatively new creations that account for about half of total U.S. steel shipments. Seven times more efficient than integrated producers in terms of labor productivity, and consistently more profitable than the older, larger, integrated mills, only 5 of the 23 steel mills that entered bankruptcy since 1998 were mini-mills.