

Trump's proposed tariffs could aid steelworkers at expense of others

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President Donald Trump's move to impose tariffs on imported steel is meant to protect an industry that employs about 140,000 Americans. Yet by raising the price of steel, those same tariffs stand to hurt a far larger group of U.S. workers: the 6.5 million who work in industries that buy steel — from automakers to aircraft manufacturers to suppliers of building materials.

Trump has vowed to impose 25 percent tariffs next week on imported steel and 10 percent on aluminum, which he says pose a threat to America's national security. By building barriers to imported metal, the tariffs would allow U.S. steel companies to expand production and charge higher prices than they could without broader competition. Those higher prices, in turn, would squeeze the companies that use the materials and potentially the consumers who buy the finished goods.

Some economists warn that if consumers must pay more for cars or businesses more for heavy equipment, the resulting slowdown in spending could hamper the economy.

“Higher prices for consumers could eventually lead to slower U.S. economic growth and result in reduced (overall) factory employment,” Moody's Investors Service cautioned in a report.

The tariffs and the prospect they will ignite a conflict with America's trading partners has rattled Wall Street: The Dow Jones industrial average plunged 420 points on Thursday and an additional 71 points Friday.

Commerce Secretary Wilbur Ross went on CNBC to dismiss as overblown any fears that steel-consuming companies stand to suffer in any meaningful way.

“It's trivial,” Ross said.

The commerce secretary argued that the tariffs would add only about \$175 to the cost of a \$35,000 car — one half of 1 percent.

Trump has built a deep connection to the steel industry, rooted in promises he made on the campaign trail in 2016. At rally after rally, Trump blamed past trade deals and Chinese dumping for closing U.S. steel plants. He vowed to revive the industry and to “put American-produced steel back into the backbone of the country.”

“We are going to put the miners and the factory workers and the steelworkers back to work,” he told a rally in Scranton, Pennsylvania, the day before the election.

On Friday, the president tweeted: “Our steel industry is in bad shape. IF YOU DON’T HAVE STEEL, YOU DON’T HAVE A COUNTRY!”

As it happens, America’s steel industry has received government protection from foreign competition for decades. Washington has muscled other countries into agreeing to limit how much of their steel could enter the United States or has accused them of dumping steel at unfairly low prices.

“You had voluntary import restraints under Reagan, quotas under Carter, anti-dumping (cases) under Bush 1,” said Dan Ikenson, director of the libertarian Cato Institute’s Center for Trade Policy Studies.

In 2002, President George W. Bush imposed tariffs on steel imports to help a struggling steel industry. A study sponsored by steel-consuming companies found that those tariffs cost 200,000 American jobs by driving up the costs for companies that buy steel and forcing them to lay off employees.

As of mid-2017, the U.S. government was imposing 149 different restrictions on steel imports.

Trump’s trade team is stocked with veterans of battles over the steel trade. As a trade lawyer, U.S. Trade Rep. Robert Lighthizer represented steel companies. As a private investor, Commerce Secretary Ross bought and revived troubled steel companies.

Yet previous trade sanctions have failed to stop a steady drop in America’s steel jobs. When the 2002 tariffs were imposed, for example, U.S. steel companies employed 169,000 workers. They’ve since lost 32,000 jobs, a 19 percent drop.

“The steel tariffs and quotas have never done much to protect the industry in the long run,” said Kent Jones, an economist at Babson College and the author of “Politics vs. Economics in World Steel Trade.” “Employment in the industry has declined constantly.”

The culprit might not be foreign competition. A bigger threat is technology. Allan Collard-Wexler of Duke University and Jan De Loecker of Princeton have found that steel jobs vanished because of the rise of a new technology: super-efficient mini-mills that make steel largely from scrap metal.

Nonetheless, there’s widespread agreement that overproduction by China has flooded world markets with steel and hurt steel-makers by depressing prices. But Trump’s tariffs wouldn’t likely do much to solve that problem. Thanks to trade barriers, China is only America’s 11th-biggest supplier of imported steel. Unless the administration decides to exempt countries from his tariffs — unclear for now — the sanctions would fall hardest on a staunch ally, Canada, which ranks No. 1, accounting for 16 percent of America’s steel imports.

Trump has brought a little-used weapon to his fight to protect steelworkers: Section 232 of the Trade Expansion Act of 1962. This provision authorizes the president to restrict imports and impose unlimited tariffs on national security grounds.

“It’s an unconventional approach,” said Dean Pinkert, a partner at Hughes Hubbard & Reed and a former commissioner on the U.S. International Trade Commission.

Since the United States joined the World Trade Organization in 1995, it has pursued only two such investigations. On both occasions — a 1999 case involving oil imports and a 2001 case concerning iron ore and steel imports — Commerce declined to recommend sanctions.

The thinking is that a healthy industrial base is crucial to the nation's military. But to many trade analysts, the administration's case looks weak: The Pentagon says just 3 percent of U.S. steel production goes toward defense and worries that across-the-board, the tariffs will antagonize U.S. allies.

Still, the WTO gives countries broad leeway to define their own national security interests and could prove reluctant to declare Trump's steel tariffs a violation of global rules. If so, other countries might go outside the WTO and retaliate against the United States, perhaps by using national security as a justification for imposing their own tariffs.

"Nobody wins a trade war," said Babson's Jones.