Can Wilbur Ross engineer a turnaround at Commerce?

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Wilbur Ross has accomplished impressive business turnarounds during his career. His efforts in the steel, textile and automotive parts industries demonstrate a genuine talent for reorganizing failing operations and putting them back onto their feet. When he becomes Secretary of Commerce, Ross may face his greatest turnaround challenge ever.

The Department of Commerce's mission is, among other things, "to promote job creation, economic growth, sustainable development, and improved standards of living for Americans." Under the outgoing administration, Commerce has actively undermined these goals. It has overseen a massive expansion in use of anti-dumping and countervailing duty measures that artificially raise input costs and reduce the global competitiveness of U.S. manufacturers.

If Ross is serious about accomplishing his mission, he needs to find a way to reverse course.

Steel provides the best example. China's expansionary steel policies have made it the world's largest producer and exporter, leading to depressed global prices. In response, U.S. steel mills have sought more than 160 anti-dumping and countervailing duty measures to restrict imports of a wide variety of steel products.

Those extra import duties are intended to offset unfair trade, and there's little doubt that Chinese exports are unfair. Thus, it makes sense to impose anti-dumping and countervailing duties on imports of steel, right?

Not so fast. American steel producers are seeking import restrictions to raise their revenues. But they have been so successful with this strategy that the effective level of steel import protection today is higher than at any time since the Smoot-Hawley Tariff Act of 1930 was being unwound. The United States has become, in essence, a high-priced island in an ocean of low-priced steel.

The problem is that an increase in revenues for steel mills means an increase in costs for the many companies that use steel as an input. More than half of all imports are used as inputs by manufacturers; restricting imports is going to hurt companies that depend on them. Even a relatively modest increase in U.S. manufacturing costs can make American companies uncompetitive against their foreign rivals. Carrier is hardly the only steel-consuming company that could trim its costs by moving production to Mexico.

From the standpoint of the U.S. economy, anti-dumping and countervailing duty measures don't produce a balanced outcome in which gains to steel mills are offset neatly by losses to steel users. The reason has to do with the relative sizes of the two sectors.

Data made available by the Department of Commerce's Bureau of Economic Analysis indicate that value added to the economy by iron and steel mills amounted to $36 billion in 2015. Manufacturers that utilize steel as an input generated value added of $1.04 trillion, almost 29 times larger.

The disparity in employment is even greater. Iron and steel mills employed140,000 workers in 2015, but manufacturers utilizing steel as an input employed 6.5 million, or 46 times more. The difference in size of the sectors means that it would take a loss of only 2 percent in the number of jobs at steel-consuming industries to equal the entire workforce of U.S. steel mills.

Steel production clearly is no small and insignificant industry, but it is a poor policy choice to attempt to protect steel mills in ways that do much greater harm to the substantially larger steel-using sector. This amounts to multiplying the unfairness and shifting it from one sector to another.

Ross knows a lot about steel. In the early 2000s, at a time of widespread industry bankruptcies, he bought Bethlehem Steel, Weirton Steel and LTV Steel to create International Steel Group (ISG). He later sold ISG to Arcelor-Mittal. ISG appears to have benefited from steel import restrictions, so Ross knows that protection can be convenient for U.S. firms.

However, he also has owned multinational businesses, including International Automotive Components Group (IAC), with 20 facilities in nine countries. Thus, he no doubt understands the importance of maintaining global supply chains to serve customers around the world.

These experiences make Ross uniquely qualified to guide a reform of anti-dumping and countervailing duty policies so that they no longer inadvertently damage the U.S. economy. As a leader on trade in the Trump administration, Ross will be in a position to dismantle steel import restrictions that currently are harming the broad manufacturing sector.

He also would have the option of pursuing governmental assistance for the steel industry as it adjusts to open borders. Finally, Ross should push for a change in the law so that future anti-dumping and countervailing measures only could be imposed when economic analysis shows that benefits would outweigh the costs.

By implementing these reforms, Wilbur Ross would bring about a genuine turnaround in U.S. trade policies. He would fulfill Commerce's mission by strengthening the economy while also maximizing employment opportunities in manufacturing. His actions have the potential to transform the department so it no longer serves as a drag on business activity, but instead helps the sector to be globally competitive.

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