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Trump's Carrier claims revisited

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President-elect Donald Trump has claimed victory in his effort to preserve employment for Carrier workers in Indiana. Assisted by $7 million in tax incentives provided by the State of Indiana, Trump persuaded the company not to move 800 furnace manufacturing jobs to Monterrey, Mexico. This works out to a taxpayer-funded subsidy of $8,750 per job.

Another 1,300 Carrier jobs still will move to Mexico between now and 2019. Published reports have indicated that the company anticipated cost savings of some $65 million per year from moving all 2100 positions to Monterrey. So Carrier is taking at least a partial step toward maintaining its global competiveness, while at least partially appeasing the incoming president.

Carrier's February announcement of the decision said that it was due to "ongoing cost and pricing pressures driven, in part, by new regulatory requirements."

Carrier has been manufacturing products in Monterrey for some years. The company certainly has a clear understanding of why moving production of some air conditioning units makes business sense. It would not be wise for them to explain their reasoning in public because such proprietary knowledge would be of great interest to their competitors.

Some commentators have opined that the decision was driven largely by lower labor costs. Carrier's expenses for employee salary and benefits average about $34 per hour in Indiana, while those costs in Mexico are only around $6 per hour. It's possible the move was prompted primarily by labor cost savings, although my analysis of data compiled by The Conference Board suggests otherwise. The value generated by an hour worked in the United States has risen by 40 percent over the past 22 years of NAFTA. In Mexico, the gain has been only 10.5 percent. Productivity has grown faster in the United States, so the incentive to shift production to Mexico today ought to be weaker than it was 10 or 20 years ago.

It may be helpful to look at steel trade remedies in a broader perspective. Downstream manufacturers that use steel as an input are a much larger factor in the U.S. economy than are steel producers. Department of Commerce statistics indicate that "primary metal manufacturing," which includes steel, copper, aluminum, magnesium, etc., added about $60 billion of value to the economy in 2014. Downstream manufacturers that utilize steel as an input generate value added of $990 billion, more than 16 times larger. Employment by primary metal manufacturers was 400,000, while downstream manufacturers employed 6.5 million, also 16 times greater.

Steel import restrictions have made the United States a high-priced island in an ocean of low-priced steel. U.S. prices are high enough to give imported manufactured goods an advantage when competing in the U.S. market against domestic firms. How many of the 6.5 million workers employed by value-added manufacturers are vulnerable to import competition from foreign companies that have access to world-price steel? It's not clear. What is clear is that if only 2 percent of those workers (130,000 people) lose their jobs, more people would be unemployed due to steel import duties than are now employed in the entire U.S. steel mill workforce.

Will the new administration be interested in reforming AD/CVD laws so that an action intended to help one industry does not inadvertently damage another? If so, it should pursue legislation that would balance the potential help provided by such measures against the potential harm they might do. Trade remedy measures should be prevented from going into place whenever quantitative analysis shows that they would have an overall negative effect on the U.S. economy. Although this approach makes great sense, it may not be welcomed by members of the incoming administration's transition team.

One unfortunate aspect of the president-elect's foray into Carrier's business decisions is that he missed the opportunity to focus the public's attention on the need to improve the U.S. business climate. Government policies play important roles in determining whether firms can remain competitive. Non-competitive companies aren't able to thrive, grow, or hire more workers. The incoming administration would do well to focus on reforming poorly conceived U.S. laws and regulations that make it unnecessarily difficult to conduct business in this country.

Daniel Pearson joined the Cato Institute after serving for 10 years on the U.S. International Trade Commission, the federal agency that, among other responsibilities, oversees the U.S. trade remedy laws.