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How Trump-style tariffs benefit the shareholder class

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Americans are vigorously debating what might happen if Donald Trump became president and imposed sharp new tariffs on imports from China, Mexico and other low-cost countries, as he has promised to do. But some real-life case studies already reveal what happens when imports to the United States get hit with stiff tariffs—and the biggest winners aren't ordinary workers.

In May, the Commerce Department finalized a rule slapping a whopping tariff of 513% on cold-rolled steel products imported from China to the United States. You read that right: The Obama administration, generally friendly to free trade, imposed a draconian tariff raising the cost of every $1 of Chinese steel to $6.13. And it will be in place for at least five years. The tariff came after five domestic producers complained about China dumping steel into the US economy at below-market prices, a charge the US government upheld in imposing the duties.

In theory, when foreign imports get more expensive, as Chinese steel just did, it encourages more domestic production and boosts US employment. That's the argument Trump, the likely GOP presidential nominee, makes when he vows to "put America first" and hike tariffs on cheap imports. In reality, however, steep tariffs on steel may do little to create American jobs, because there's already an oversupply of steel on global markets and no additional production is needed right now.

The new tariffs did produce a quick windfall for some other lucky folks, however: investors who own shares in American steel companies. On March 1, the Commerce Department released the preliminary findings it finalized in May – the first indication of a big ruling favoring domestic steel producers. During the next week, shares of AK Steel (AKS) soared by 38%, with US Steel (X) up 48%. Those stocks got another bump when the March findings were finalized in mid-May. The shares of two other American producers, Nucor (NUE) and Steel Dynamics (STLD), rose by less, bull all four companies have thoroughly outperformed the S&P 500 index this year, as this chart shows (with the S&P 500 index in yellow):

Trade protections aren't designed to benefit shareholders, who tend to be the elites many working-class voters have been rebelling against. They're supposed to protect employees and prevent jobs from leaving the country. It's possible the new tariffs will allow American steel producers to hire more workers, or at least prevent layoffs that might have occurred if Chinese steel prices had continued to undercut the domestics. But the tariffs won't change the basic supply-and-demand mismatch that's been hammering the steel industry during the last few years.

Since 2014, steel production in China has more than doubled, while China's own demand for steel has plummeted on account of overbuilding and a sharp slowdown in Chinese construction. Many Chinese steel producers are state-owned enterprises able to operate at a loss to keep their own workers employed. But they have to sell their steel somewhere, and that has led to the flood of cheap Chinese steel on global markets.

US employment in the steel industry has dropped by about 9% since the beginning of 2015, to 140,000 workers. That decline may be due, in part, to the glut of cheap Chinese steel. The new tariffs might help turn around that decline, but they might also depress hiring in other industries, because steel just got more expensive for a lot of manufacturers that build cars, appliances, industrial equipment, oil pipelines and many other things. Since March 1, for instance, a key index of steel prices has risen nearly 50%. Eventually, price hikes of that magnitude tend to hit consumers and generate inflation.

If those newfound steel profits stayed inside the US economy, they might, arguably, be a net positive for workers. But it's almost impossible to control how companies and investors deploy their capital these days. With cheap Chinese steel locked out of the United States, some analysts worry that China will use the discounted steel to make more finished goods itself, perhaps undercutting American producers further down the supply chain.

Higher material costs in the United States could also lead some manufacturers to relocate facilities to other countries, in part to take advantage of cheaper labor but also to get the cheapest steel. Daniel Pearson of the conservative Cato Institute suggests the search for cheaper steel may have been one factor behind Carrier's unpopular decision earlier this year to move 2,100 air-conditioner jobs from Indiana to Mexico. That decision occurred before the steel ruling from the Commerce Department, but the government's investigation was well under way by then and known throughout the manufacturing industry.

None of this means tariffs such as those Trump favors are completely ineffective at protecting domestic jobs or bolstering living standards. But the consequences of protectionism are often quite different than anticipated, and it's hard to force American companies to keep costly workers on the payroll if they are determined to cut costs. Since the wealthy, by definition, are those who control capital, anything that creates financial winners is likely to benefit them first. And Americans are sick of waiting for the benefits to trickle down to the rest.