MarketWatch

Trump would further damage U.S. manufacturing if he restricts steel imports

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President Trump has asked the Department of Commerce to conduct a seldom-used Section 232 investigation to determine whether steel imports are harming U.S. national security. And although statute allows the study to be conducted over 270 days, Secretary Wilbur Ross's stated intention is to complete the report by the end of June. The president then would have 90 days in which to decide whether and how to "adjust the imports."

How would those adjustments look? In a recent hearing on the investigation, Secretary Ross made clear that highly protectionist measures are under consideration. What Ross didn't address is whether additional steel import restrictions would harm the U.S. economy.

Unfortunately, they certainly would. Our country may be only weeks away from presidential action that would further damage the competitiveness of the broad manufacturing sector.

Five points are particularly relevant:

First, it's not clear there is any legitimate national security justification for invoking Section 232. There is no doubt that much U.S. military equipment requires steel. The key question is how best to obtain specific types of steel needed for various national-security applications.

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Most steel used by the military comes from domestic suppliers, such as United States Steel Corp. X, -0.02% , AK Steel Holding Corp. AKS, +1.62% and Nucor Corp. NUE, +1.66% or from countries with which the United States has amicable relations. Keeping the U.S. market open to steel imports would assure that the military will have access to both foreign and domestic steel products needed to maintain national security. If the Pentagon wishes to ensure domestic sources for some products, it could establish long-term contracts with U.S. mills—no import controls are required.

Second, potential Section 232 restrictions must be viewed in the context of the existing U.S. steel marketplace. Roughly 200 antidumping or countervailing duty measures already are in place on steel products, making steel one of the country's most protected sectors. As a result, U.S. prices for many steel products are significantly higher than world prices, greatly disadvantaging American manufacturers that require steel as an input.

Third, any additional import restrictions would do far more harm to steel-using manufacturers than any benefit that could accrue to steel mills. That is simply due to the raw numbers. Steel mills employ just 140,000 workers. Manufacturers that use steel as an input employ 6.5 million, 46 times more. Steel mills account for a rather narrow slice of the overall U.S. economy: $36 billion in 2015, equaling only 0.2% of U.S. gross domestic product (GDP). By contrast, the economic value added by firms that use steel as an input was $1.04 trillion – 29 times more – or 5.8% of GDP.

Any government action to drive steel prices even higher by further restricting imports will hurt steel-consuming manufacturers. Their costs will rise, thus reducing their competitiveness relative to companies in other countries. Carrier, the company that in December said it wouldn't shift 800 jobs from Indianapolis to Mexico after all, is hardly the only firm that could reduce its steel costs by shifting production overseas.

Fourth, other nations likely would retaliate. When a foreign power acts arbitrarily to curtail its imports, negatively affected exporting countries aren't amused. Since the United States is only a minor exporter of steel, retaliation likely would be focused on innocent, export-competitive sectors. The United States is the world's largest exporter of military equipment, so those firms may be targeted. The United States also is the world's largest agricultural exporter; farm and food products would be vulnerable across the board.

Fifth, a country that imposes import restrictions always reduces its own economic welfare. This is true even if other countries don't retaliate. Economists have understood since the work of David Ricardo that it is unwise to try to be self-sufficient when others are able to provide products at lower costs. Import restrictions lead to inefficient resource use, lowering national economic welfare in the process. In other words, consumers are hurt more than protected industries are helped.

The Section 232 process may be intended to inflict pain on foreign nations by curtailing their exports. We can't be sure whether U.S. import restrictions will hurt other countries, but we can be certain that restrictions will hurt America. Limiting steel imports creates a genuine threat to economic growth and prosperity. It is very difficult to build a stronger national defense when the economy is getting weaker.

But shouldn't something be done to help steel mills and their workers as they deal with import competition? The Department of Commerce should think seriously about proposing enhanced economic adjustment assistance. It would be good public policy to encourage this historically protected industry to restructure and adapt to free trade in steel.

Secretary Ross should resist the temptation to use the Section 232 report to recommend more protection for the steel market. Instead, he should advocate that President Trump seek removal of all U.S. import restrictions on steel. This would build a firm foundation for a vibrant and growing manufacturing economy that is essential to America's national security.

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