If Trump wins on steel, US manufacturers lose

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President Trump and his trade policymakers have made no secret of their desire to restrict steel imports as part of their focus on US manufacturing. But the broad US manufacturing community will not be well-served by such a move. What those limitations will actually do is increase US steel prices above their already high levels.

Steel is already one of the country's most protected sectors. US law allows special duties to be assessed against imports that are priced at what the Department of Commerce has determined to be unfairly low levels. Over 200 anti-dumping and countervailing duty orders, which are intended to "protect" US producers from so-called unfair competition, currently constrain imports of steel and iron products from a long list of countries. The effect has been to raise US prices well above global levels to the great detriment of the large manufacturing and construction sectors in America that use steel to make higher-value products.

Although it may not be a wise approach to public policy, it's true that governments often pick winners and losers. Policies intended to help one group of constituents usually hurt another. So wouldn't tighter import controls on steel just shift money from steel consumers to steel producers, while having a more-or-less neutral effect on the economy overall? Unfortunately, no. The reason is that the steel-consuming sector is so much larger than the steel-producing sector.

How high do steel prices have to be to make President Trump happy? And how much unemployment is he willing to inflict on workers at steel-consuming firms? For a president who campaigned on a theme of bringing back American industrial jobs, this is a grand irony, indeed.

A July 24, 2017, report from SteelBenchmarker™, a price reporting service serving the steel industry, shows the US price for hot-rolled band (hot-rolled steel in coils) to be $681 per metric ton, 38% above the world export market price of $491. The US price for hot-rolled band is even higher, by 19%, than the $573 price in Western Europe. Restrictive US import policies have forced steel prices to levels much above those enjoyed by manufacturers in a relatively high-cost economy such as Germany.

Steel mills add $36 billion of value to the economy each year, accounting for 0.2% of GDP. Theyemploy 140,000 workers. Taking a conservative approach and looking just at companies that buy steel as an input for further manufacturing, we find a broad industry producing economic value added of just over $1 trillion -- or 5.8% of GDP. Those firms employ 6.5 million workers. So downstream manufacturers are 29 times larger than steel mills in terms of GDP and 46 times larger in terms of employment.

Manufacturers are particularly vulnerable to artificially high steel costs because many of them compete directly with goods produced at lower costs in other countries. It is hard to be a successful producer of automobiles or air conditioners, for instance, if US policies give overseas competitors a built-in cost advantage. Worth noting is that loss of only 2% of jobs at steel-using manufacturers would equal the size of the entire steel-mill workforce.

But manufacturers aren't the only businesses hurt by high steel prices. Construction activities account for 42% of all US steel consumption and employ 6.8 million workers. Raising the cost of steel will mean fewer construction projects started and fewer workers employed, not the best possible approach to rebuilding American infrastructure.

What should the Trump administration do, instead of imposing new import restrictions, to help US manufacturing and construction? Two policy shifts could make a big difference.

The first would be to announce that the national security review has concluded that all existing anti-dumping and countervailing duty measures on steel should be ended. Yes, this would mean that historically protected steel mills would face increased competition from overseas firms. The Department of Commerce should consider how best to facilitate the industry's transition to free trade in steel, a task aided by the general resilience of the US economy.

Ending import controls would be good for the US economy. Gains to the overall manufacturing and construction sectors would far exceed any temporary pain borne by the steel industry.

The second policy change would be to rethink the various adjustment assistance programs intended to help unemployed workers. The federal government simply isn't able to make factory jobs reappear in every town. What it can do, though, is to empower people as they search for opportunities by ensuring they have access to education, vocational training and relocation assistance.

Rather than doubling down on a failed strategy of import protection, the Trump administration should try working with economic forces instead of against them. This would mean embracing the gains to manufacturing and construction that would result from access to competitively priced steel.

The bottom line is clear: America can have either higher steel prices, or more manufacturing and construction jobs. Mr. President, the choice is yours.

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