

Paying a Price for Steel Tariffs

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Steel prices have risen by 30 percent to 50 percent since President Bush announced the imposition of special tariffs on steel imports in March. Steel consumers — firms that process steel for specific applications and manufacturers who use steel to make machines, equipment and consumer products — report supply shortages, lost contracts and production cutbacks.

Mr. Bush was relentlessly lobbied by domestic steelmakers and the United Steelworkers of America to impose the tariffs — which range from 8 percent to 30 percent on various forms of steel — in order to shield domestic industry from foreign competition and save American jobs.

But as demonstrated in an aptly named hearing before the House Small Business Committee on the "Unintended Consequences of Increased Steel Tariffs on American Manufacturers," the tariffs are making U.S. manufacturers less competitive in world markets and threaten the loss of manufacturing jobs — including those of members of the United Steelworkers of America.

While employment in the steel mills has been shrinking for decades, between 1995 and 2001 steel-consuming employers added 1.2 million jobs. Workers in steel-consuming industries outnumber workers employed in the steel industry by more than 55 to 1.

Among those testifying was Lester Trilla of Trilla Steel Drum of Chicago, Ill., a family-owned business that employs 70 people and manufactures 55 gallon steel drums used to transport hazardous materials. Mr. Trilla can't find imported steel of the necessary quality, and the domestic steel it must buy has increased by more than 54 percent since the imposition of the steel tariffs. That equates to around a 20 percent increase in the cost of a drum.

Another family-owned company that testified, A.J. Rose, makes after-market auto parts and employs 250 members of the steel workers' union. Robert Herrman, a machine technician at Rose, asked the committee: "So why do the steel mills deserve to stay in business more than A.J. Rose? And why are jobs at steel mills more important than the 250 jobs of the union associates who work at A.J. Rose?"

Cold Metal Products of Swickley, Pa., employs more than 400 workers and manufactures strip steel used for precision automotive parts and other goods. Its production workers are members of the United Steelworkers. The price of the steel it processes has risen 30 percent, suppliers are rationing steel and deliveries run late half the time. According to John Grove, head of procurement, one of its longstanding customers, Stanley Tool, is now purchasing lower-cost products from England and plans to buy additional products from China.

Finally, Merle Emery, of G.R. Spring & Stamping, reported that the company lost a longstanding contract to a Canadian company that now pays steel prices 30 percent lower than U.S. steel users pay.

Economist Laura Baughman, who has studied the steel industry for 20 years, testified that 8 times as many jobs will be lost in steel-consuming businesses as may be saved among steel producers. She predicts job losses in the middle range of projections in a study she coauthored with economist Joseph Francois for the Consuming Industries Trade Action Coalition, a group of steel consumers.

Miss Baughman and Mr. Francois estimated that 5,000 to 9,000 steel industry jobs might be saved by the tariffs, but cost around 36,000 to 74,000 other jobs — including 15,000 to 30,000 jobs in manufacturing. They estimate the economic loss of each job saved in the steel industry at more than \$400,000.

Although economists predicted negative consequences from the tariffs, they were surprised at how quickly markets reacted. In a few weeks, for example, hot-rolled steel prices rose to about \$300 a ton, compared to \$210 late last year, and prices for some other types of steel have risen by 50 percent from a year ago.

Steel users also reacted quickly, seeking relief from the tariffs. The Office of the U.S. Trade Representative was swamped by more than 1,000 requests for exemptions by April 12, and extended the period for processing the applications until Aug. 31. By the end of July, the trade office had granted tariff waivers covering 261 steel-product categories accounting for about 6 percent of imported steel products, and just under 800 exclusion requests were waiting.

Other countries were also quick to react, and the European Union, which threatens retaliatory tariffs on such U.S. imports as Florida orange juice, textiles, frozen vegetables and paper products, is negotiating exemptions for steel especially important to EU countries.

Intended or not, the consequences of the steel tariffs will be borne by workers, retirees, investors and consumers. The cost won't be as high as the notorious Smoot-Hawley Tariff Act that helped spark a 50 percent plunge in U.S. trade in 1930, but they set a dangerous precedent for other industries clamoring for protection.

Finally, the tariffs undermine President Bush's arguments for increased global trade, with limits on subsidies and tariffs worldwide. However, we can hope other countries will learn an unintended lesson from the steel tariff debacle: that protectionism is the economic equivalent of shooting yourself in the foot.

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