HOW STEEL QUOTAS PUNISH THE CONSUMER

By a 3 to 2 vote on July 11, the International Trade Commission (ITC) recommended that President Reagan adopt quotas and tariffs to protect the U.S. steel industry from alleged damage by foreign competition. This followed a June 12 ITC finding of damage, also by a 3 to 2 vote, in response to a petition by Bethlehem Steel and the United Steelworkers Union for relief under Section 201 of the 1974 Trade Act. If approved by the President, the ITC recommendation will cost the American consumer billions of dollars and could spark even more costly and economically destructive protectionism, as other industries seek similar protection and prompt foreign countries to retaliate.

President Reagan must decide by September 24 whether to accept the ITC solution, offer his own solution, or do nothing. If he takes no action, Congress can impose its own solution. There are currently steel quota bills before Congress (S. 2380 and H.R. 5081) which enjoy wide support. The White House opposes these bills. Despite the skillful election year timing of these protectionist moves, the President should put the consumer and the economy first by rejecting the ITC recommendation.

The U.S. steel industry is slowly recovering from the recession. Currently the huge integrated producers are operating at a little above half capacity. They employed 289,400 workers in 1983, up from 242,700 in 1982, but down from around 450,000 in the last half of the 1970s. In recent years the industry has lost billions of dollars.

Restricting the supply of foreign steel will allow U.S. steel companies to raise their prices and thus gain billions of extra dollars in revenue. Estimates of the cost to consumers of such price hikes vary depending on which of the complex proposals before Congress might be passed. Donald H. Trautlain, Chairman of Bethlehem Steel, admits that a pricing plan similar to those that would be possible under the legislation would allow U.S. steelmakers to increase prices by 10 percent and gain an extra $2 billion. Eric A. Hanushek of the Congressional Budget Office calculates that the House bill by 1989 would cost the U.S. consumer approximately $7.7 billion. Estimates have yet to be made for the ITC recommendation, but the costs would certainly be in the billions. These higher steel costs would, of course, be paid ultimately by the consumer in higher prices for such goods as automobiles and major appliances.

The U.S. steel industry argues that trade restrictions are needed for two reasons: 1) unfair foreign competition is the primary cause of the industry's problems; and 2) to gain "breathing space" for the industry to reorganize and raise the capital needed to become more competitive.

Both arguments are highly questionable. ITC Chairman Paula Stern says in her dissenting opinion that "Imports are not the most critical problem facing the American steel industry." The real problem is high production costs compared with typical U.S. levels. Vice Chairman Susan Liebeler, the other ITC dissenter, points out that steel workers receive "average compensation in excess of $20 per hour. This is at least 60 percent more than the compensation the average factory worker in this country is receiving." U.S. Trade Representative William E. Brock notes that "for most of the 1970's wages and salaries rose far faster than gains in productivity" for U.S. integrated producers of steel. By spending on high wages rather than investing in modernization, U.S. producers became less able to compete with foreign steel firms.

Protectionist policies will not create a more efficient U.S. steel industry. Instead, they will allow firms to increase prices rather than restructure or improve efficiency. And even if there were a case for protection, quotas would be a particularly bad way to accomplish it. Imported steel prices would rise--as have quota-controlled Japanese auto prices --and windfall profits would flow from U.S. consumers to foreign producers.

Rather than seeking billions of dollars from U.S. consumers for belated modernization, U.S. steel producers should cut wages for overpaid steel workers. ITC Commisioner Liebeler suggests a 20 percent wage cut. The industry might offer the workers equity in the companies in return for such cuts, so that workers had an incentive to improve efficiency. The steelmakers could also issue more stock or seek bank loans. If they are correct that more capital will make them profitable, surely the banks would be anxious to extend more assistance.

While the integrated U.S. producers of steel have had a difficult time in recent years, other steel firms are in good shape. Specialty steel producers have not fared as poorly, for instance, and the so-called mini-mills are prospering. Moreover, metal working producers employ 20 times more Americans than the integrated producers and account for nearly 10 times the share of GNP. They and their workers would be harmed seriously by the price increases for raw steel resulting from quotas.

Protectionist policies could undermine the recovery. Automobiles, textiles, footwear and other industries would demand protection similar to that given to steel. Higher prices for these goods would be paid by the consumer, while a new international trade war would be probable. Canada and the Europeans have threatened retaliation already against steel quotas. And if Brazil's substantial steel exports to the U.S. are cut, it would not be able to service its $100 billion foreign debt.

In the last decade, 20 million new jobs have been created in the U.S. due to reduced inflation and improved productivity. Continued progress is threatened by calls for special protection by inefficient companies and overpaid union members. President Reagan should make it clear that he will adopt no ITC plan, and sign no bill, that invites worldwide protectionism, threatens the recovery, and hurts the American consumer.

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For further information:

Donald F. Barnett and Louis Schorsch, Steel: Upheaval In a Basic Industry (Cambridge: Ballinger Publishing Co., 1983).
Kent Jones, "Saving the Steel Industry," Heritage Backgrounder No. 354, May 21, 1984.